

IMPORTANT NOTICE

This offering is available only to investors who are either (1) qualified institutional buyers (as defined below) under Rule 144A under the U.S. Securities Act of 1933, as amended (the Securities Act) or (2) Institutional Accredited Investors (as defined below) or (3) addressees outside of the United States as defined in Regulation S under the Securities Act.

IMPORTANT: You must read the following before continuing. The following applies to the offering memorandum (the “**Offering Memorandum**”) following this page and you are therefore advised to read this notice carefully before reading, accessing or making any other use of the Offering Memorandum. In accessing the Offering Memorandum, 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 Securities Act, and may not be offered or sold within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state or local securities laws.

The Offering Memorandum 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 document 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 pricing supplement and conditions of the securities and the information contained in an offering memorandum that will be distributed to you prior to the closing date and not on the basis of the Offering Memorandum. If you have gained access to this transmission contrary to any 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 the Offering Memorandum or make an investment decision with respect to the securities, investors must be (a) qualified institutional buyers (“**QIBs**”) (within the meaning of Rule 144A under the Securities Act), (b) accredited investors within the meaning of Rule 501(a)(1), (2), (3) or (7) of Regulation D of the Securities Act that are institutions (“**Institutional Accredited Investors**”) or (c) located outside the United States. The Offering Memorandum is being sent at your request and, by accepting the email and accessing the Offering Memorandum, you shall be deemed to have represented to us (i) that you and any customers you represent are (A) QIBs, (B) Institutional Accredited Investors or (C) outside the United States and the electronic mail address that you gave us and to which this e-mail has been delivered is not located in the United States, its territories and possessions (including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands), any state of the United States or the District of Columbia and (ii) that you consent to delivery of such Offering Memorandum by electronic transmission.

The Offering Memorandum has been delivered to you on the basis that you are a person into whose possession the Offering Memorandum 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 Memorandum to us immediately. You must not deliver or disclose the contents of the Offering Memorandum 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.

The Offering Memorandum 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 Perusahaan Penerbit SBSN Indonesia III, the Republic of Indonesia, CIMB Investment Bank Berhad, Citigroup Global Markets Inc., Dubai Islamic Bank PJSC, The Hongkong and Shanghai Banking Corporation Limited, Abu Dhabi Islamic Bank PJSC, the Dealers, the Delegate, the Agents nor any person who controls any of them nor any director, officer, 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 Memorandum distributed to you in electronic format and the hard copy version available to you on request from CIMB Investment Bank Berhad, Citigroup Global Markets Inc., Dubai Islamic Bank PJSC, The Hongkong and Shanghai Banking Corporation Limited, Abu Dhabi Islamic Bank PJSC or the Dealers.

You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

The Offering Memorandum is not an offer to sell these securities and is not a solicitation of an offer to buy these securities in any jurisdiction where such offer or sale is prohibited.

Actions That You May Not Take: You may not purchase or subscribe for any securities by replying to this communication. Any reply e-mail communication that purports to be an order or subscription for securities will be ignored or rejected.



REPUBLIC OF INDONESIA
(THROUGH PERUSAHAAN PENERBIT SBSN INDONESIA III)
U.S.\$25,000,000,000 TRUST CERTIFICATE ISSUANCE PROGRAM

Under the trust certificate issuance program (the “**Program**”) described in this offering memorandum (the “**Offering Memorandum**”), Perusahaan Penerbit SBSN Indonesia III, established in Indonesia under Law No. 19 of 2008 on Sovereign Sukuk (*Surat Berharga Syariah Negara*) and Government Regulation No. 57 of 2011 on the Establishment of Perusahaan Penerbit Surat Berharga Syariah Negara Indonesia III (in its capacity as issuer, the “**Issuer**” or “**PPSI-III**”), subject to compliance with all relevant laws, regulations and directives, may from time to time issue trust certificates (the “**Certificates**”) in *ijara* or *wakala* series (an “**Ijara Series**” or a “**Wakala Series**”, respectively, and each, a “**Series**”) and in any currency agreed between the Issuer and the relevant Dealer (as defined below).

Certificates may only be issued in registered form. The maximum aggregate face amount of all Certificates (“**face amount**”) from time to time outstanding under the Program will not exceed U.S.\$25,000,000,000 (or its equivalent in other currencies calculated as described in the Program Agreement as defined herein), subject to increase as described herein.

The Certificates may be issued on a continuing basis to the Dealers and any additional dealer(s) appointed under the Program from time to time (each, a “**Dealer**” and, together, the “**Dealers**”) pursuant to the terms of an amended and restated program agreement dated August 15, 2014 (as the same may be amended or supplemented from time to time, the “**Program Agreement**”) which appointment may be for a specific issue or on an ongoing basis. References in this Offering Memorandum to the “**relevant Dealer**” shall, in the case of Certificates being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe to such Certificates.

An investment in Certificates issued under the Program involves certain risks. For a discussion of these risks, see “Investment Considerations.”

Each Series of Certificates issued under the Program will be constituted by (i) an amended and restated master declaration of trust (the “**Master Declaration of Trust**”) dated March 13, 2017 entered into between the Issuer, the Trustee, the Republic of Indonesia (the “**Republic**”) and The Bank of New York Mellon (the “**Delegate**”) and (ii) a supplemental declaration of trust (the “**Supplemental Declaration of Trust**”) and, together with the Master Declaration of Trust, the “**Declaration of Trust**”) in relation to the relevant Series. Pursuant to the Declaration of Trust, the Issuer (in its capacity as the trustee for and on behalf of the Certificateholders (as defined herein), the “**Trustee**”) will declare that it will hold the Trust Assets (as defined herein) upon trust absolutely for the holders of the Certificates of the relevant Series *pro rata* according to the face amount of Certificates held by each Certificateholder in accordance with the Declaration of Trust, the terms and conditions of the Certificates (the “**Conditions**”) and the applicable pricing supplement relating to such Series (the “**applicable Pricing Supplement**”). Notice of the aggregate face amount of each Series of Certificates, whether that Series will be an *Ijara* Series or a *Wakala* Series, and any other terms and conditions not contained herein which are applicable to the Series will be set out in the applicable Pricing Supplement.

Application has been made to the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) for permission to deal in and quotation for any Certificates which are agreed at the time of issue thereof to be so listed on the SGX-ST. Such permission will be granted when such Certificates have been admitted to the Official List of the SGX-ST. The SGX-ST takes no responsibility for the correctness of any statements made or opinions expressed herein. An approval-in-principle and the admission of any Certificates to the Official List of the SGX-ST are not to be taken as an indication of the merits of the Issuer, the Republic, the Program or the Certificates. Unlisted Certificates may be issued under the Program. The applicable Pricing Supplement in respect of any Series will specify whether or not such Certificates will be listed and, if so, on which exchange(s) the Certificates are to be listed. There is no assurance that the application to the Official List of the SGX-ST for the listing of the Certificates of any Series will be approved. Each of the Issuer and the Republic is an “**Exempt Offeror**” for the purposes of Article 13(1) of the Markets Law, Dubai International Financial Centre Law No. 1 of 2012 (the “**Markets Law 2012**”) of the Dubai Financial Services Authority (the “**DFSA**”). Accordingly, this Offering Memorandum has not been approved by the DFSA for the purposes of Articles 14 and 15 of the Markets Law 2012. Application has been made to the DFSA for certain Certificates issued under the Program to be admitted to the official list of securities (the “**DFSA Official List**”) maintained by the DFSA and to Nasdaq Dubai for admission to trading on Nasdaq Dubai.

The Certificates will not be registered under the United States Securities Act of 1933, as amended (the “**Securities Act**”) or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered, sold or delivered within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Accordingly, Certificates will be offered, sold or delivered (i) outside the United States in reliance on Regulation S under the Securities Act (“**Regulation S**”) (the “**Regulation S Certificates**”) and (ii) within the United States in reliance on Rule 144A under the Securities Act (Rule 144A) only to persons who are “qualified institutional buyers” (each a “**QIB**”) within the meaning of Rule 144A, acting for their own account or for the account of one or more QIBs (the “**Rule 144A Certificates**”) or to accredited investors as that term is defined in Rule 501(a)(1), (2), (3) or (7) of Regulation D of the Securities Act that are institutions (“**Institutional Accredited Investors**”), acting for their own account or for the account of one or more Institutional Accredited Investors (the “**Definitive IAI Certificates**”). Each purchaser of the Certificates in making its purchase will be deemed to have made certain acknowledgements, representations and agreements. Prospective purchasers are hereby notified that sellers of the Rule 144A Certificates may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. The Certificates are subject to other restrictions on transferability and resale; see “*Plan of Distribution*” and “*Transfer Restrictions*.”

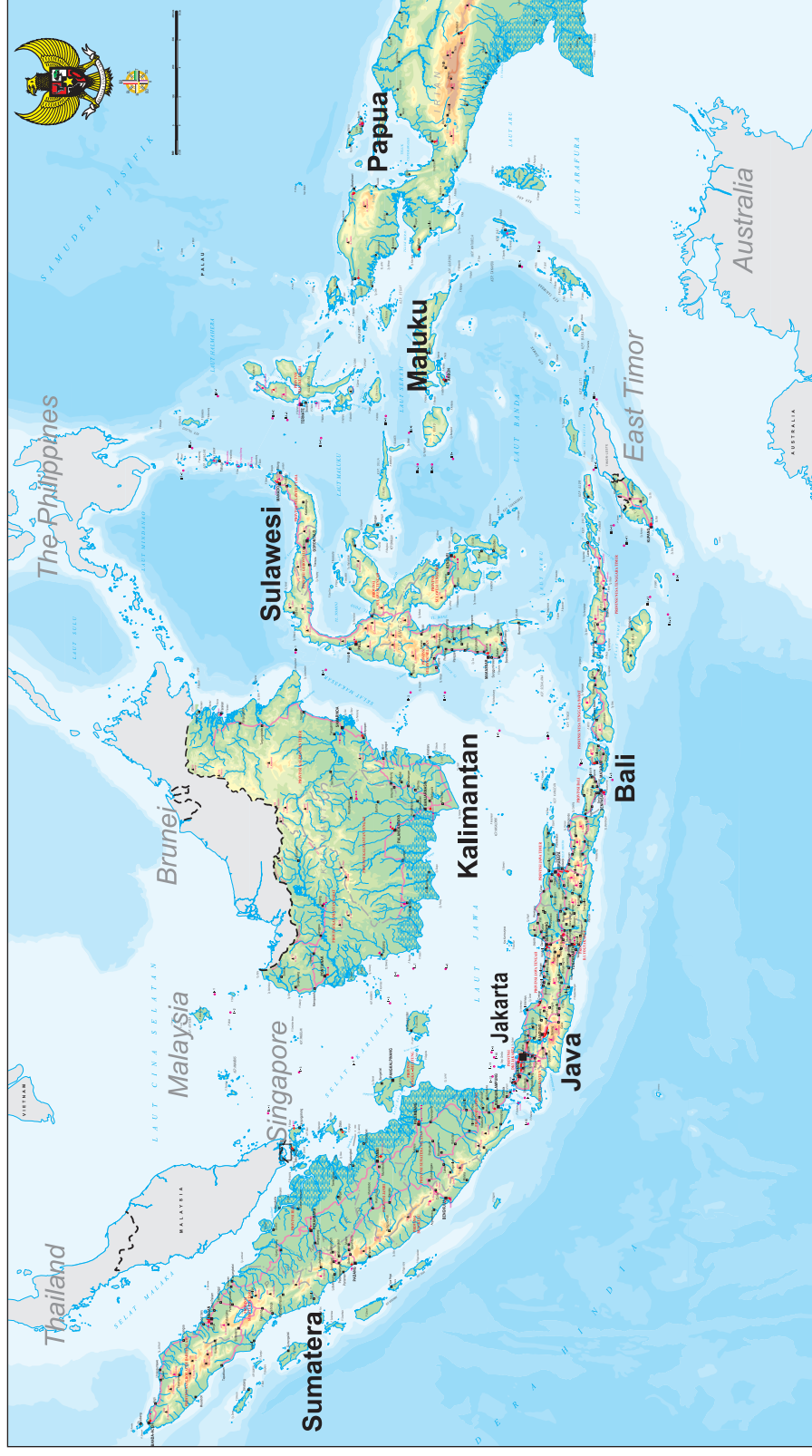
The Certificates will be represented by one or more global certificates in fully registered form which will, unless otherwise specified in the applicable Pricing Supplement, be registered in the name of a nominee of The Depository Trust Company (“**DTC**”) or, in the case of Regulation S Certificates only, may alternatively be registered in the name of a nominee for the common depository for Euroclear Bank SA/NV (“**Euroclear**”) and Clearstream Banking, S.A. (“**Clearstream, Luxembourg**”). It is expected that delivery of the Certificates in book-entry form will be made against payment on the Issue Date (as defined herein) through the book-entry facilities of DTC or Euroclear and Clearstream, Luxembourg, as the case may be.

Beneficial interests in the Certificates will be shown on, and transfers thereof, unless otherwise specified in the applicable Pricing Supplement, will be effected only through, records maintained by DTC and its direct or indirect participants, including Euroclear and Clearstream, Luxembourg, or, in the case of Regulation S Certificates only, Euroclear or Clearstream, Luxembourg. Except as described herein, definitive Certificates will not be issued in exchange for beneficial interests in global certificates.

CIMB	Citigroup	Arrangers	HSBC	ADIB
		Dubai Islamic Bank PJSC		
CIMB	Citigroup	Dealers	HSBC	ADIB
		Dubai Islamic Bank PJSC		

The date of this Offering Memorandum is January 23, 2018

Republic of Indonesia



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

The Issuer and the Republic accept responsibility for the information contained in this Offering Memorandum. To the best of the knowledge of each of the Issuer and the Republic (each having taken all reasonable care to ensure that such is the case), the information contained in this Offering Memorandum is in accordance with the facts subsisting on the date of this Offering Memorandum and does not omit anything likely to affect the import of such information.

This Offering Memorandum should be read and construed together with any amendments or supplements hereto and, in relation to any Series of Certificates, should be read and construed together with the applicable Pricing Supplement.

Copies of the applicable Pricing Supplement will be available from the registered office of the Issuer and the specified office set out below of the Principal Paying Agent (as defined below).

The Issuer has agreed to comply with any undertakings given by it from time to time to the SGX-ST in connection with Certificates 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 Certificates on the SGX-ST or any other relevant stock exchange, so long as any Certificate remains outstanding, prepare a supplement to this Offering Memorandum, or, as the case may be, publish a new offering memorandum, whenever required by the rules of the SGX-ST or any other relevant stock exchange and in any event (i) if the maximum aggregate face amount of the Certificates that may be issued under the Program is increased, (ii) upon the Issuer or the Republic becoming aware that (A) there has been a significant change (including any change to the Conditions of a Series of Certificates to be listed on the SGX-ST) affecting any matter contained in this Offering Memorandum 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 Memorandum if it had arisen before this Offering Memorandum was issued or (iii) if the terms of the Program are modified or amended in a manner which would make this Offering Memorandum, as supplemented, materially inaccurate or misleading. In the event that a supplement to this Offering Memorandum is produced pursuant to such undertakings, a copy of such supplement will accompany this Offering Memorandum. Any such supplement to this Offering Memorandum will also be available from the specified office of the Principal Paying Agent. See “*General Information — Documents Available.*”

None of the Arrangers, the Dealers, the Delegate nor any of the Agents (each as defined herein) has 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 Arrangers, the Dealers, the Delegate or any of the Agents as to the accuracy or completeness of the information contained in or incorporated by reference into this Offering Memorandum or any other information provided by the Issuer or the Republic or any other person in connection with the Program or the Certificates or their distribution. None of the Arrangers, the Dealers, the Delegate nor any of the Agents accepts any liability or responsibility in relation to the information contained in or incorporated by reference into this Offering Memorandum or any other information provided by the Issuer or the Republic in connection with the Program or for any statements made or purported to be made by the Arrangers, the Dealers, the Delegate or the Agents or on its behalf in connection with the Issuer or the Republic or the offering of the Certificates. The Arrangers, the Dealers, the Delegate and the Agents accordingly disclaim all and any liability whether arising in tort or contract or otherwise (save as referred to above) which any of them might otherwise have in respect of this Offering Memorandum or any such statement. The SGX-ST takes no responsibility for the contents of this Offering Memorandum nor does it make any representations as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon any part of the contents of this Offering Memorandum. The statements made in this paragraph are made without prejudice to the responsibility of the Issuer and Republic under the Program.

No person is authorized in connection with the offering of the Certificates to give any information or to make any representation other than as contained in this Offering Memorandum or any other information supplied in connection with the Program or the Certificates, and, if given or made, such information or representation must not be relied upon as having been authorized by the Issuer, the Republic, the Arrangers, the Dealers, the Trustee, the Delegate, the Agents or any other person. Neither the delivery of this Offering Memorandum, any other information supplied in connection with the Program or the Certificates nor any sale of any Certificates shall, under any circumstances, constitute a representation or create any implication that the information contained herein is correct as of any time subsequent to the date hereof or that there has been no change in the affairs of any party mentioned herein since that date.

Neither this Offering Memorandum nor any other information supplied in connection with the Program or the Certificates is intended to provide the basis of any credit or other evaluation or should be considered as a

recommendation by the Issuer, the Republic, the Arrangers, the Dealers, the Trustee, the Delegate or the Agents that any recipient of this Offering Memorandum should purchase any of the Certificates. Each investor contemplating purchasing any Certificates should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and the Republic. None of the Arrangers, the Dealers, the Delegate or the Agents undertakes to review the Issuer's or the Republic's financial condition or affairs during the life of the arrangements contemplated by this Offering Memorandum nor to advise any investor or potential investor in the Certificates of any information relating to the Issuer and the Republic coming to its attention.

Pursuant to the recommendation in the voluntary process guidelines for issuing Green Bonds published by the International Capital Market Association (the “**Green Bond Principles**”) that external assurance is obtained to confirm alignment with the key features of the Green Bond Principles, at the request of the Republic, the Center for International Climate Research (“**CICERO**”) has issued a framework overview and second party opinion dated January 23, 2018 (the “**CICERO Report**”) in relation to the Republic's Green Bond and Green Sukuk Framework (as set out in the appendix to this Offering Memorandum and as may be updated or amended from time to time, the “**Green Bond and Green Sukuk Framework**”). The CICERO Report is not incorporated into, and does not form part of, this Offering Memorandum. None of the Arrangers, the Dealers, the Delegate or the Agents make any representation as to the suitability or content of the Green Bond and Green Sukuk Framework and none of the Republic, the Issuer, the Arrangers, the Dealers, the Delegate or the Agents make any representation as to the suitability of the CICERO Report. The CICERO Report is not a recommendation to buy, sell or hold securities and is only current as of the date it was initially issued. Furthermore, the CICERO Report is for information purposes only and CICERO does not accept any form of liability for its content and/or any liability for loss arising from the use of the CICERO Report and/or the information provided therein.

No comment is made or advice given by the Issuer, the Republic, the Arrangers, the Dealers, the Trustee, the Delegate or the Agents in respect of taxation matters relating to the Certificates or the legality of the purchase of the Certificates by an investor under any applicable law.

EACH PROSPECTIVE INVESTOR IS ADVISED TO CONSULT ITS OWN TAX ADVISOR, LEGAL ADVISOR AND BUSINESS ADVISOR AS TO TAX, LEGAL, BUSINESS AND RELATED MATTERS CONCERNING THE PURCHASE OF THE CERTIFICATES.

This Offering Memorandum does not constitute an offer to sell or the solicitation of an offer to buy any Certificates in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Memorandum and the offer or sale of the Certificates may be restricted by law in certain jurisdictions. None of the Issuer, the Republic, the Arrangers, the Dealers, the Trustee, the Delegate or the Agents represents that this Offering Memorandum may be lawfully distributed, or that any Certificates 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 assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Republic, the Arrangers, the Dealers, the Trustee, the Delegate or the Agents which is intended to permit a public offering of any Certificates or distribution of this Offering Memorandum in any jurisdiction where action for that purpose is required. Accordingly, no Certificates may be offered or sold, directly or indirectly, and neither this Offering Memorandum 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. Persons into whose possession this Offering Memorandum or any Certificates may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Memorandum and the offering and sale of the Certificates. In particular, there are restrictions on the distribution of this Offering Memorandum and the offer or sale of Certificates in the United States, the United Kingdom, the European Economic Area, Hong Kong, Japan, Singapore, Brunei, the United Arab Emirates (excluding the Dubai International Finance Centre), Dubai International Financial Centre, the Kingdom of Saudi Arabia, the State of Qatar, the Kingdom of Bahrain, Kuwait, Malaysia and Switzerland. See “*Plan of Distribution*.”

THE CERTIFICATES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OF CERTIFICATES OR THE ACCURACY OR THE ADEQUACY OF THIS OFFERING MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE IN THE UNITED STATES.

The Certificates have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States. Certificates may not be offered, sold or delivered within the United States, except in transactions exempt from, or in transactions not subject to, the registration requirements of the Securities Act. This Offering Memorandum has been prepared by the Issuer and the Republic for use in connection with the offer and sale of Certificates outside the United States in reliance upon Regulation S and 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 an exemption from the registration requirements of the Securities Act, or (iii) in transactions otherwise exempt from registration. Prospective purchasers are hereby notified that sellers of Certificates 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 Certificates, see “*Plan of Distribution*” and “*Transfer Restrictions*.”

Purchasers of Definitive IAI Certificates will be required to execute and deliver an investor representation letter. Each purchaser or holder of Regulation S Certificates, Rule 144A Certificates and Definitive IAI Certificates, or any Certificates issued in registered form in exchange or substitution therefor will be deemed, by its acceptance or purchase of any such Certificates, to have made certain representations and agreements intended to restrict the resale or other transfer of such Certificates as set out in “*Transfer Restrictions*”. Unless otherwise stated, terms used in this paragraph have the meanings given to them in “*Global Certificates — Form of the Certificates*.”

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

IN CONNECTION WITH THE ISSUE OF CERTIFICATES IN ANY SERIES UNDER THE PROGRAM, SUBSEQUENT TO THE ISSUE OF CERTIFICATES, 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 CERTIFICATES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE CERTIFICATES IN SUCH A SERIES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, STABILIZATION MAY NOT NECESSARILY OCCUR. ANY STABILIZATION ACTION MAY BEGIN ON OR AFTER THE ISSUE DATE AND, IF BEGUN, MAY CEASE AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE CERTIFICATES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE CERTIFICATES. ANY STABILIZATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE RELEVANT STABILIZATION MANAGER(S) (OR PERSONS ACTING ON BEHALF OF ANY STABILIZATION MANAGER(S)) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES. SEE “*PLAN OF DISTRIBUTION*.”

MIFID II PRODUCT GOVERNANCE/TARGET MARKET — The Pricing Supplement in respect of any Certificates may include a legend entitled “MiFID II Product Governance” which will outline the target market assessment in respect of the Certificates and which channels for distribution of the Certificates are appropriate. Any person subsequently offering, selling or recommending the Certificates (a “**distributor**”) should take into consideration the target market assessment; however, a distributor subject to Directive 2014/65/EU (as amended, “**MIFID II**”) is responsible for undertaking its own target market assessment in respect of the Certificates (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the “**MIFID Product Governance Rules**”), any Dealer subscribing for any Certificates is a manufacturer in respect of such Certificates, but otherwise neither the Arrangers nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MIFID Product Governance Rules.

NOTICE TO RESIDENTS OF THE KINGDOM OF SAUDI ARABIA

THIS DOCUMENT MAY NOT BE DISTRIBUTED IN THE KINGDOM EXCEPT TO SUCH PERSONS AS ARE PERMITTED UNDER THE OFFERS OF SECURITIES REGULATIONS ISSUED BY THE CAPITAL MARKET AUTHORITY OF THE KINGDOM OF SAUDI ARABIA (THE “**CAPITAL MARKET AUTHORITY**”).

THE CAPITAL MARKET AUTHORITY DOES NOT MAKE ANY REPRESENTATION AS TO THE ACCURACY OR COMPLETENESS OF THIS DOCUMENT, AND EXPRESSLY DISCLAIMS ANY LIABILITY WHATSOEVER FOR ANY LOSS ARISING FROM, OR INCURRED IN RELIANCE UPON, ANY PART OF THIS DOCUMENT. PROSPECTIVE PURCHASERS OF THE SECURITIES OFFERED HEREBY SHOULD CONDUCT THEIR OWN DUE DILIGENCE ON THE ACCURACY OF THE INFORMATION RELATING TO THE SECURITIES. IF YOU DO NOT UNDERSTAND THE CONTENTS OF THIS DOCUMENT, YOU SHOULD CONSULT AN AUTHORIZED FINANCIAL ADVISOR.

NOTICE TO RESIDENTS OF THE KINGDOM OF BAHRAIN

THIS OFFER IS A PRIVATE PLACEMENT. IT IS NOT SUBJECT TO THE REGULATIONS OF THE CENTRAL BANK OF BAHRAIN THAT APPLY TO PUBLIC OFFERINGS OF SECURITIES AND THE EXTENSIVE DISCLOSURE REQUIREMENTS AND OTHER PROTECTIONS THAT THESE REGULATIONS CONTAIN. THIS OFFERING MEMORANDUM IS THEREFORE INTENDED ONLY FOR “ACCREDITED INVESTORS” AS DEFINED BY THE CENTRAL BANK OF BAHRAIN.

THE FINANCIAL INSTRUMENTS OFFERED PURSUANT TO THIS OFFERING MEMORANDUM MAY ONLY BE OFFERED IN MINIMUM SUBSCRIPTIONS OF U.S.\$200,000 (OR ITS EQUIVALENT IN FOREIGN CURRENCIES).

THE CENTRAL BANK OF BAHRAIN ASSUMES NO RESPONSIBILITY FOR THE ACCURACY AND COMPLETENESS OF THE STATEMENTS AND INFORMATION CONTAINED IN THIS OFFERING MEMORANDUM AND EXPRESSLY DISCLAIMS ANY LIABILITY WHATSOEVER ARISING FROM RELIANCE UPON THE WHOLE OR ANY PART OF THE CONTENTS OF THIS OFFERING MEMORANDUM.

THE BOARD OF DIRECTORS AND THE MANAGEMENT OF THE OFFEROR ACCEPTS RESPONSIBILITY FOR THE INFORMATION CONTAINED IN THIS OFFERING MEMORANDUM. TO THE BEST OF THE KNOWLEDGE AND BELIEF OF THE BOARD OF DIRECTORS AND THE MANAGEMENT, WHO HAVE TAKEN ALL REASONABLE CARE TO ENSURE THAT SUCH IS THE CASE, THE INFORMATION CONTAINED IN THIS OFFERING MEMORANDUM IS IN ACCORDANCE WITH THE FACTS AND DOES NOT OMIT ANYTHING LIKELY TO AFFECT THE RELIABILITY OF SUCH INFORMATION.

THIS OFFERING MEMORANDUM CONTAINS INFORMATION WHICH SHOULD BE READ CAREFULLY BEFORE ANY DECISION IS MADE WITH RESPECT TO THE PROPOSALS CONTAINED THEREIN AND THE INVESTORS ARE RECOMMENDED TO TAKE THEIR OWN FINANCIAL ADVICE IN RESPECT OF ANY OF THE TERMS AND CONDITIONS OF THIS OFFERING MEMORANDUM.

NOTICE TO RESIDENTS OF MALAYSIA

THE CERTIFICATES MAY NOT BE OFFERED FOR SUBSCRIPTION OR PURCHASE AND NO INVITATION TO SUBSCRIBE FOR OR PURCHASE THE CERTIFICATES IN MALAYSIA MAY BE MADE, DIRECTLY OR INDIRECTLY, AND THIS OFFERING MEMORANDUM OR ANY DOCUMENT OR OTHER MATERIALS IN CONNECTION THEREWITH MAY NOT BE DISTRIBUTED IN MALAYSIA OTHER THAN TO PERSONS FALLING WITHIN THE CATEGORIES OF PERSON SPECIFIED UNDER PART 1 OF SCHEDULE 6 OR SECTION 229(1)(B) AND PART 1 OF SCHEDULE 7 OR SECTION 230(1)(B) OF THE CAPITAL MARKETS AND SERVICES ACT 2007 OF MALAYSIA AS AMENDED (“**CMSA**”), READ TOGETHER WITH SCHEDULE 8 OR SECTION 257(1) AND SCHEDULE 9 OR SECTION 257(3) OF THE CMSA.

THE SECURITIES COMMISSION MALAYSIA SHALL NOT BE LIABLE FOR ANY NON-DISCLOSURE ON THE PART OF THE ISSUER OR THE REPUBLIC AND ASSUMES NO RESPONSIBILITY FOR THE CORRECTNESS OF ANY STATEMENTS MADE OR OPINIONS OR REPORTS EXPRESSED IN THIS OFFERING MEMORANDUM.

EXCHANGE RATES

Unless otherwise indicated, all references in this Offering Memorandum 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 “**JP ¥**” are to the lawful currency of Japan, those to “**€**” or “**euro**” are to the currency introduced at the start of the third stage of the European Economic and Monetary Union pursuant to the Treaty Establishing the European Community, as amended, 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 Rp13,330 = U.S.\$1.00 on January 15, 2018. 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 U.S. dollars as of the end of the periods indicated.

	Rupiah per U.S. dollar	
	End of Period	Average
2012	9,638	9,358
2013	12,170	10,445
2014	12,385	11,876
2015	13,785	13,392
2016	13,473	13,305
2017 ^A	13,568	13,385
2018		
January ^B	13,335	13,422

Source: Bank Indonesia

^A As of December 29, 2017.

^B As of January 15, 2018.

Statistical Data

Unless otherwise indicated, all statistical data and figures for 2017 or any part thereof are estimates based upon preliminary data and are subject to review and adjustment.

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 Memorandum may differ from previously published information for a number of reasons, including basis of presentation and ongoing statistical revisions. Also, certain monetary amounts included in this Offering Memorandum 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

Forward-looking statements are statements that are not about historical facts, including statements about the Republic's beliefs and expectations. These statements are based on current plans, estimates and projections, and therefore, you should not place undue reliance on them. Forward-looking statements speak only as of the date they are made. Some of the statements contained in this Offering Memorandum under "Republic of Indonesia" are forward looking. They include statements concerning, among others:

- the Republic's economic, business and political conditions and prospects;
- the Republic's financial stability;
- the depreciation or appreciation of the Rupiah;
- changes in interest rates; and
- governmental, statutory, regulatory or administrative initiatives.

The Republic undertakes no obligation to update publicly any of them in light of new information or future events, including changes in Indonesia's economic policy or budgeted expenditures, or to reflect the occurrence of unanticipated events.

Forward-looking statements involve inherent risks and uncertainties. The Republic cautions you that a number of important factors could cause actual results to differ materially from those expressed in any forward-looking statement. These factors include, but are not limited to:

- adverse external factors, such as high international interest rates and recession or low growth in the Republic's trading partners. High international interest rates could increase the Republic's current account deficit and budgetary expenditures. Recession or low growth in the Republic's trading partners could lead to fewer exports from the Republic and, indirectly, lower growth in the Republic;
- instability or volatility in the international financial markets. This could lead to domestic volatility, making it more difficult for the Government to achieve its macroeconomic goals. This could also lead to declines in foreign direct and portfolio investment inflows;
- adverse domestic factors, such as a decline in domestic savings and investment, increases in domestic inflation, high domestic interest rates and exchange rate volatility. Each of these factors could lead to lower growth or lower international reserves; and
- other adverse factors, such as adverse oil price movements, climatic or seismic events, international or domestic hostilities, political uncertainty and delays in implementing and realizing infrastructure projects and economic policies.

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>. Neither the Republic, nor any of the Arrangers or Dealers accept any responsibility for information included on that website, and its contents are not intended to be incorporated by reference into this Offering Memorandum.

ENFORCEMENT

The Issuer is established by the Republic under Government Regulation No. 57 of 2011 on the Establishment of *Perusahaan Penerbit Surat Berharga Syariah Negara Indonesia III* in conjunction with Law No. 19 of 2008 on Sovereign Sukuk (*Surat Berharga Syariah Negara*) and Government Regulation No. 56 of

2008 on *Perusahaan Penerbit Surat Berharga Syariah Negara* as amended by Government Regulation No. 73 of 2012 on the amendment of Government Regulation No. 56 of 2008 on *Perusahaan Penerbit Surat Berharga Syariah Negara* and is wholly-owned by the Republic. All of the directors of the Issuer reside in the Republic and substantially all of the assets of the Issuer and of such directors are located outside the United States. As a result, it may not be possible for investors to effect service of process outside the Republic upon the Issuer or such persons, or to enforce judgments against them obtained in courts outside the Republic, including any judgment predicated upon United States federal securities laws. The Issuer has been advised by its Indonesian legal counsel that there is doubt as to the enforceability in the Republic in original actions or in actions for enforcement of judgments of United States courts of civil liabilities predicated solely upon the federal securities laws of the United States.

The Republic is a sovereign nation. Consequently, it may be difficult for holders of the Certificates to obtain or enforce judgments against the Republic.

Subject to the following paragraph, to the extent that the Republic may claim for itself or its assets or revenues immunity from jurisdiction, enforcement, prejudgment proceedings, injunctions and all other legal proceedings and relief and to the extent that such immunity (whether or not claimed) may be attributed to it or its assets or revenues, the Republic will agree in the Transaction Documents (as defined herein) not to claim and will irrevocably and unconditionally waive such immunity in relation to any proceedings. Further, the Republic will irrevocably and unconditionally consent to the giving of any relief or the issue of any legal proceedings, including, without limitation, jurisdiction, enforcement, prejudgment proceedings and injunctions in connection with any proceedings.

The Republic's waiver of immunity is a limited and specific waiver for the purposes of the Certificates and the Transaction Documents 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 Certificates or the Transaction Documents. Furthermore, notwithstanding anything to the contrary in the foregoing, no waiver of immunity or consent shall be deemed or interpreted to include any waiver of immunity or consent in respect of:

- actions brought against the Republic arising out of or based upon U.S. federal or state securities laws;
- attachment under Indonesian laws;
- 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,

provided that the foregoing limitations shall not preclude any proceeding to enforce any provision of the relevant Transaction Documents relating to the Assets (as defined herein).

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 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 London as its authorized agent upon whom process may be served in any action arising out of or based on the Certificates or the Declaration of Trust. Such appointment is irrevocable until all amounts in respect of the Certificates have been paid in full 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 Memorandum 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 or “**km**” 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.

The 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**”). ICP is calculated 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 Memorandum is the latest official data publicly available at the date of this Offering Memorandum. Financial data provided in this Offering Memorandum 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 Certificates.

In August 2014, the Republic revised its methodology in compiling balance of payments data, using the sixth edition of Balance of Payments and International Investment Position Manual (“**BPM6**”). This revised methodology was implemented to comply with international best practices. BPM6 will be implemented gradually in Indonesia’s balance of payments (“**BOP**”) statistics. The first phase of implementation, which began in the second quarter of 2014, involves reclassifying existing data components and improving the methodology in accordance with BPM6, using sources of data currently available.

The shift to the new methodology impacts the following data:

- In the goods account, the changes include: (a) reclassifying “goods for processing” as “manufacturing services on physical inputs owned by others” and “repairs on goods” as “maintenance and repair services” in the services account; and (b) incorporating only “goods procured in ports by carriers” and “general merchandise on a balance of payments basis”.
- In the services account, the changes include: (a) combining “information and computer services” and “communication services (excluding postal and couriers)” into “telecommunication, computer and information services”; (b) reclassifying “postal and couriers services” to “transportation services”; and (c) incorporating the “financial intermediation services” section into “indirectly measured estimates” (“**FISIM**”).
- The income account and current transfers account are renamed the primary income account and secondary income account, respectively, to comply with the terms used in the System of National Accounts 2008 and adjustments were made to the accounts after the implementation of FISIM.
- In the financial account, the changes include: (a) the presentation format of direct investment data, which was previously based on the directional principle of investment (direct investments abroad and foreign direct investments in Indonesia) that was based on the principle of assets-liabilities (“direct investments — asset” and “direct investments — liability”). Notwithstanding the change, the net value of direct investments according to BPM6 is the same as that in the fifth edition of Balance of Payments and International Investment Program Manual; and (b) including financial derivative data as an independent component, which is consistent with the information displayed by Indonesia’s International Investment Position Statistics.

- In the current account, the changes include: (a) the calculation of several indicators associated with the account; (b) reclassifying “goods for processing” from goods to services; and (c) recording net values instead of gross values. While the changes resulted in smaller values of imports of goods and services and current account receipts, and larger values of indicators for reserve adequacy and the debt service ratio, the level of the current account remains unchanged from the previous methodology.

The shift to the new methodology does not affect the “net errors and omissions”, “total balance”, and “reserves and related items” values in the current and financial accounts.

In this Offering Memorandum, GDP is shown in both current and constant market prices. GDP at current market prices values a country’s output using the actual prices for each year, while GDP at constant market prices (also referred to as “real” GDP) values output using the prices from a base year, thereby eliminating the distorting effects of inflation and deflation. In 2015, Statistics Indonesia (*Badan Pusat Statistik* or “**BPS**”) adopted the calendar year 2010 as the base year (the “**Base Year**”) for the calculation of Indonesia’s GDP in constant market prices. Unless stated otherwise, all GDP growth rates in this Offering Memorandum (in aggregate or by sector) are based on constant market prices using the Base Year. Percentage shares of Indonesia’s GDP represented by various sectors (unless otherwise noted) use current market prices.

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SUMMARY

Overview

Indonesia is the world's fourth most populous country, with a population of approximately 262 million in 2017. It is a developing nation in Southeast Asia, spread across an archipelago of approximately 17,504 islands.

In recent years, Indonesia has continued its relatively high economic growth and consolidated its transformation 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.

Selected Key Economic Indicators

	For the Year Ended December 31,					
	2013 ^L	2014 ^L	2015 ^L	2016 ^L	2017 ^R	2018 ^B
National account and prices:						
Real GDP growth (period-on-period)	5.6%	5.0%	4.8%	5.0%	5.1%	5.4%
Per capita GDP (in thousands of Rupiah)	38,280	41,809	45,176	47,957	N/A	N/A
Per capita GDP (in U.S. dollars) ⁽¹⁾	3,670	3,531	3,377	3,605	N/A	N/A
Average exchange rate (Rupiah per U.S. dollar) ⁽²⁾	10,445	11,876	13,392	13,305	13,385	13,400
Inflation rate ((year-on-year) change in CPI)	8.4%	8.4%	3.4%	3.0%	3.6%	3.5%
External sector:						
Current account (% of GDP)	(3.2)%	(3.1)%	(2.0)%	(1.8)%	(1.7)% ⁽³⁾	N/A
Fiscal account:						
Budget deficit (% of GDP)	(2.2)%	(2.2)%	(2.6)%	(2.5)%	(2.6)% ⁽⁴⁾	(2.2)%
External debt of the central Government (in trillions of Rupiah)	1,111.6	1,131.0	1,410.0	1,496.3	1,591.8	N/A
Debt service ratio (% of government revenue)	19.0%	23.9%	25.4%	32.5%	37.2%	N/A

Source: BPS, Bank Indonesia and Ministry of Finance

^L LKPP (Central Government Financial Report/Audited).

^R Preliminary realization.

^B 2018 Budget.

(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: Rp9,384 per U.S. dollar for 2012, Rp10,463 per U.S. dollar for 2013, Rp11,868 per U.S. dollar for 2014, Rp13,377 per U.S. dollar for 2015, Rp13,303 per U.S. dollar for 2016. 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.

(2) Official average exchange rate for the relevant period published by Bank Indonesia in its annual report, except for 2017 which was based on Bank Indonesia's calculations.

(3) As published by Bank Indonesia in Indonesia's balance of payments report. Represents figures for the third quarter of 2017.

(4) On January 15, 2018, the Ministry of Finance of the Republic issued a press release revising the preliminary budget deficit for 2017 to 2.5% of GDP.

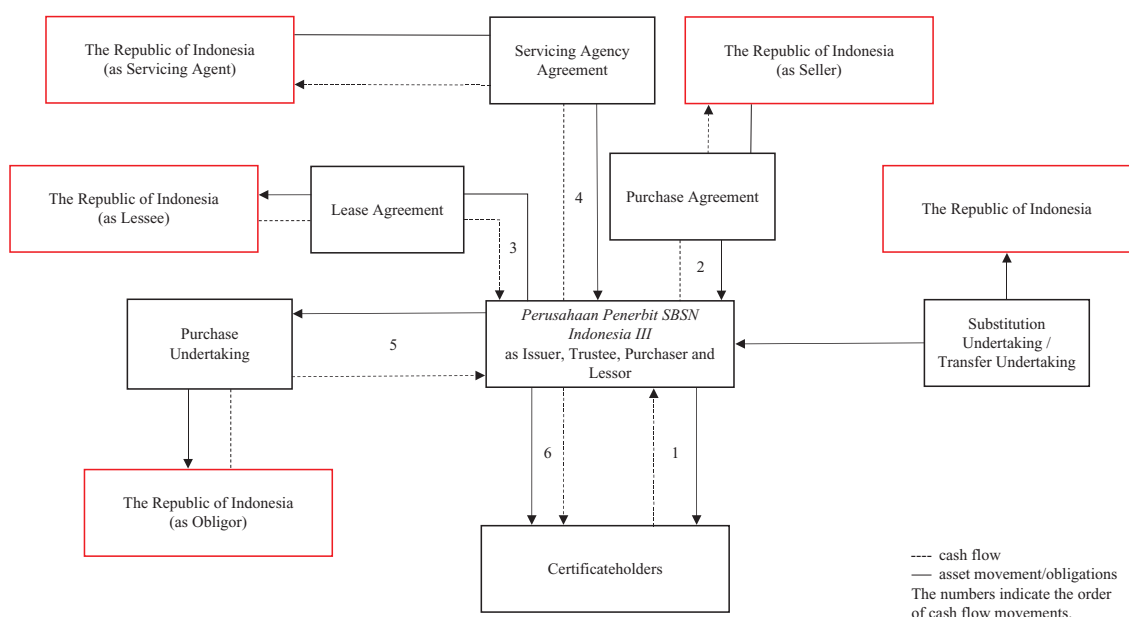
N/A Not available.

STRUCTURE DIAGRAM AND CASH FLOWS

Set out below is a simplified structure diagram and description of the principal cash flows underlying each Ijara Series and Wakala Series. Potential investors are referred to the terms and conditions of the Certificates and the detailed descriptions of the relevant Transaction Documents set out elsewhere in this Offering Memorandum for a fuller description of certain cash flows and for an explanation of the meaning of certain capitalized terms used below.

IJARA SERIES

Structure Diagram



Principal cash flows

Payments by the Certificateholders and the Issuer

On the Issue Date of each Ijara Series, the Certificateholders will pay the Issue Price in respect of the Certificates to PPSI-III and PPSI-III will pay such amount to the Republic as the price payable under the Master Purchase Agreement (as defined herein) as supplemented by a Supplemental Purchase Agreement (as defined herein and together with the Master Purchase Agreement, the “**Purchase Agreement**”) for the purchase of the Ijara Assets identified in the Supplemental Purchase Agreement.

Periodic Payments by the Issuer

On or prior to each Periodic Distribution Date, the Lessee will pay to PPSI-III an amount reflecting the rental due under the Lease Agreement in respect of the Ijara Assets, which is intended to be sufficient to fund the Periodic Distribution Amounts payable by the Issuer under the Certificates and shall be applied by the Issuer for that purpose.

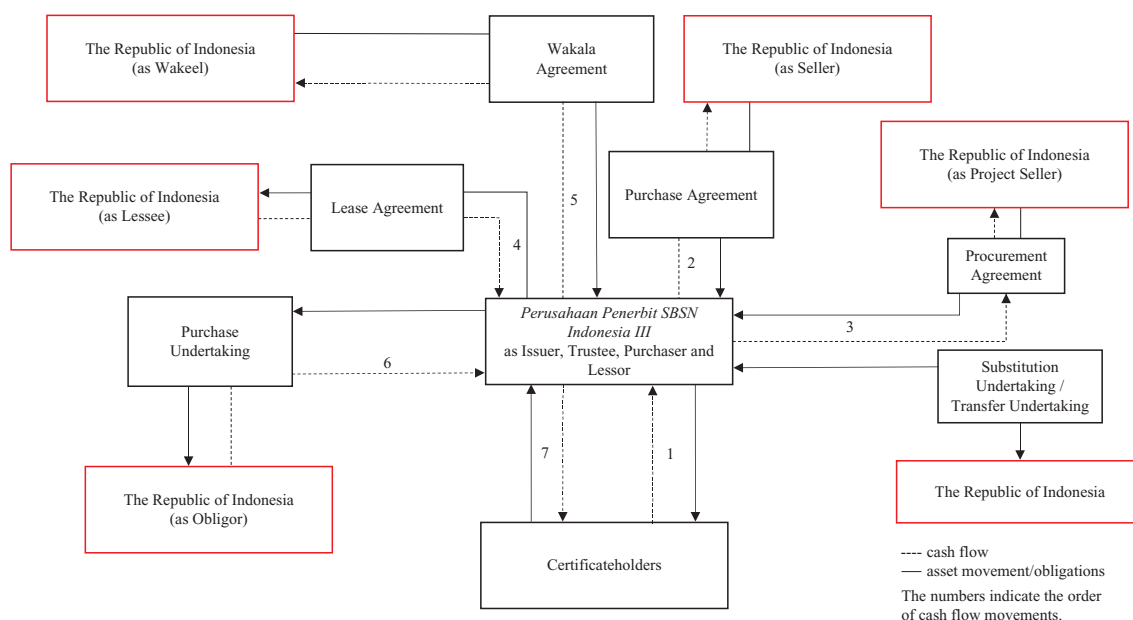
Dissolution Payment by the Republic

On the Scheduled Dissolution Date, PPSI-III will have the right under the Purchase Undertaking (as defined herein) to require the Republic to purchase all of its rights, title, benefits and entitlements in, to and under the Ijara Assets. The Exercise Price (as defined herein) payable by the Republic to the Issuer for such purpose is intended to fund the Dissolution Distribution Amount payable by the Issuer under the Certificates.

The Trust may be dissolved prior to the Scheduled Dissolution Date by reason of redemption following the occurrence of a Dissolution Event (as defined in Condition 12 (*Dissolution Events*)). In such case, the amounts payable by the Issuer on the due date for dissolution will be funded by the Republic purchasing PPSI-III's rights, title, benefits and entitlements in, to and under the Ijara Assets and paying the Exercise Price to (or to the order of) PPSI-III pursuant to the terms of the Purchase Undertaking.

WAKALA SERIES

Structure Diagram



Principal cash flows

Payments by the Certificateholders and the Issuer

On the Issue Date of each Wakala Series, the Certificateholders will pay the Issue Price in respect of the Certificates to PPSI-III and PPSI-III will pay (i) no less than 51.0% of such amount to the Republic as the price payable under the Purchase Agreement for the purchase of the Ijara Assets identified in the Supplemental Purchase Agreement and (ii) not more than 49.0% of such amount to the Republic as the price payable under the Master Procurement Agreement (as defined herein) as supplemented by a Supplemental Procurement Agreement (as defined here and together with the Master Procurement Agreement, the “**Procurement Agreement**”) for the purchase of the Project Assets identified in the Supplemental Procurement Agreement, and the procurement of the construction of the relevant Project Assets and their delivery upon completion.

Periodic Payments by the Issuer

On or prior to each Periodic Distribution Date, the Lessee will pay to PPSI-III an amount reflecting the rental due under the Lease Agreement in respect of the Assets, which is intended to be sufficient to fund the Periodic Distribution Amounts payable by the Issuer under the Certificates and shall be applied by the Issuer for that purpose. The Lessee will further pay to PPSI-III an amount reflecting the rental due in respect of any Project Assets following their completion and delivery.

Dissolution Payment by the Republic

On the Scheduled Dissolution Date, PPSI-III will have the right under the Purchase Undertaking to require the Republic to purchase all of its rights, title, benefits and entitlements in, to and under the Ijara Assets and the Project Assets (as a single portfolio of assets for the relevant Series). The Exercise Price payable by the Republic to the Issuer for such purpose is intended to fund the Dissolution Distribution Amount payable by the Issuer under the Certificates.

The Trust may be dissolved prior to the Scheduled Dissolution Date by reason of redemption following the occurrence of a Dissolution Event. In such case, the amounts payable by the Issuer on the due date for dissolution will be funded by the Republic purchasing PPSI-III's rights, title, benefits and entitlements in, to and under the Ijara Assets and the Project Assets and paying the Exercise Price to (or to the order of) PPSI-III pursuant to the terms of the Purchase Undertaking.

SUMMARY OF THE PROGRAM

The following is an overview of the principal features of the Certificates issued under the Program. This overview should be read as an introduction to, and is qualified in its entirety by reference to, the more detailed information appearing elsewhere in this Offering Memorandum and the applicable Pricing Supplement. This overview may not contain all of the information that prospective investors should consider before deciding to invest in the Certificates. Accordingly, any decision by a prospective investor to invest in the Certificates should be based on a consideration of this Offering Memorandum as a whole and the applicable Pricing Supplement.

Words and expressions defined in “*Terms and Conditions of the Certificates*” shall have the same meanings in this overview. Reference to a “**Condition**” is to a numbered condition of the Terms and Conditions of the Certificates (the “**Conditions**”).

Parties

Issuer Perusahaan Penerbit SBSN Indonesia III (“**PPSI-III**”), a legal entity established in the Republic by the Government under Government Regulation No. 57 of 2011 on the Establishment of *Perusahaan Penerbit Surat Berharga Syariah Negara Indonesia III* in conjunction with Law No. 19 of 2008 on Sovereign Sukuk (*Surat Berharga Syariah Negara*) and Government Regulation No. 56 of 2008 on *Perusahaan Penerbit Surat Berharga Syariah Negara* as amended by Government Regulation No. 73 of 2012 on the amendment of Government Regulation No. 56 of 2008 on *Perusahaan Penerbit Surat Berharga Syariah Negara*. The Issuer has been established solely for the purpose of issuing Sharia compliant securities in foreign currencies in the international markets. In accordance with the Declaration of Trust, PPSI-III will (in its capacity as Trustee) act as trustee in respect of the Trust Assets for the benefit of each Series of Certificateholders (see “— *Trustee*” below).

Ownership of the Issuer The Issuer’s entire issued share capital is held by the Republic.

Seller The Republic (in such capacity, the “**Seller**”).

In respect of each Ijara Series, the Seller will sell to the Issuer pursuant to the Purchase Agreement (to hold as trustee for and on behalf of the Certificateholders) certain Ijara Assets identified in the relevant Supplemental Purchase Agreement.’

In respect of each Wakala Series, the Seller will sell to the Issuer pursuant to:

- (a) the Purchase Agreement (to hold as trustee for and on behalf of the Certificateholders) certain Ijara Assets identified in the relevant Supplemental Purchase Agreement for a purchase price of not less than 51.0% of the Issue Price; and
- (b) the Procurement Agreement (to hold as trustee for and on behalf of the Certificateholders) certain Project Assets identified in the Supplemental Procurement Agreement for a purchase price of not more than 49.0% of the Issue Price, further to which the Project Seller will procure the construction of the relevant Project Assets and deliver such assets upon completion.

Lessor PPSI-III (in such capacity, the “**Lessor**”).

In respect of each Ijara Series, the Lessor will lease to the Lessee and the Lessee will lease from the Lessor pursuant to the Master Lease

Agreement and a Supplemental Lease Agreement (together, the “**Lease Agreement**”), certain Ijara Assets identified in that Supplemental Lease Agreement.

In respect of each Wakala Series, the Lessor will lease to the Lessee and the Lessee will lease from the Lessor pursuant to the Lease Agreement:

- (a) certain Ijara Assets identified in the relevant Supplemental Lease Agreement; and
- (b) following their completion and delivery, certain Project Assets identified in the Supplemental Lease Agreement.

Lessee The Republic (in such capacity, the “**Lessee**”). In respect of each Ijara Series and Wakala Series, and in accordance with the Lease Agreement, the Lessee will lease the Ijara Assets and, in respect of a Wakala Series, following their completion and delivery, the relevant Project Assets, in consideration for rental payable to the Lessor in the amounts and on the dates specified in the Lease Agreement. The rental for the Ijara Assets will be used to fund the Periodic Distribution Amounts payable by PPSI-III (in its capacity as Issuer) in respect of each Ijara Series and Wakala Series.

Obligor The Republic (in such capacity, the “**Obligor**”). In accordance with the Purchase Undertaking, the Republic will, at the option of the Trustee or the Delegate, purchase all of PPSI-III’s rights, title, benefits and entitlements in, to and under the Ijara Assets of an Ijara Series or the Ijara Assets and the Project Assets of a Wakala Series, each as identified in a sale agreement (in the form scheduled to the Purchase Undertaking).

Servicing Agent In respect of an Ijara Series, the Republic (in such capacity, the “**Servicing Agent**”). Under the Lease Agreement, the Lessor will be responsible for insuring the Properties (as defined below) or replacing all of the Properties upon the occurrence of a Total Loss Event (as each such term is defined herein), paying proprietorship taxes and performing major maintenance and structural repair. In accordance with the Servicing Agency Agreement, the Lessor will delegate this responsibility to the Servicing Agent to perform on the Lessor’s behalf.

Wakeel In respect of a Wakala Series, the Republic (in such capacity, the “**Wakeel**”). Under the Lease Agreement, the Lessor will be responsible for insuring the Properties or replacing all of the Properties upon the occurrence of a Total Loss Event (as each such term is defined herein), paying proprietorship taxes and performing major maintenance and structural repair. In accordance with the Wakala Agreement, the Lessor will delegate this responsibility to the Wakeel to perform on the Lessor’s behalf. Pursuant to the Wakala Agreement, the Wakeel will also maintain a separate ledger account which shall be used to record all rental received by the Wakeel pursuant to the Lease Agreement and shall use its best efforts to manage the Properties in respect of each Wakala Series such that the percentage of the Properties of each Wakala Series which are represented by Ijara Assets shall at all times be no less than 51%.

Arrangers CIMB Investment Bank Berhad, Citigroup Global Markets Inc., Dubai Islamic Bank PJSC, The Hongkong and Shanghai Banking Corporation Limited and Abu Dhabi Islamic Bank PJSC.

Dealers	CIMB Investment Bank Berhad, Citigroup Global Markets Inc., Dubai Islamic Bank PJSC, The Hongkong and Shanghai Banking Corporation Limited and Abu Dhabi Islamic Bank PJSC.
Local Co-Managers	PT Bahana Securities, PT Danareksa Sekuritas and PT Trimegah Sekuritas Indonesia Tbk
Trustee	PPSI-III (in such capacity, the “ Trustee ”). In accordance with the Declaration of Trust, the Trustee will act as trustee in respect of the Trust Assets for the benefit of each Series of Certificateholders.
Delegate	The Bank of New York Mellon (the “ Delegate ”). In accordance with the Declaration of Trust, the Trustee will unconditionally and irrevocably delegate to the Delegate certain present and future duties, powers, authorities and discretions vested in the Trustee by certain provisions of the Declaration of Trust.
Principal Paying Agent	The Bank of New York Mellon.
Registrar and Transfer Agent	The Bank of New York Mellon as registrar and transfer agent with respect to Certificates held through DTC. The Bank of New York Mellon SA/NV, Luxembourg Branch as registrar and The Bank of New York Mellon, London Branch as transfer agent with respect to Certificates held through Euroclear and/or Clearstream, Luxembourg.
Calculation Agent	The Bank of New York Mellon.
Summary of the Transaction Structure and Documents	An overview of the structure of the transaction and the principal cash flows is set out under “ <i>Structure Diagram and Cash Flows</i> ” and a description of the principal terms of the significant Transaction Documents is set out under “ <i>Summary of the Principal Transaction Documents.</i> ”
Summary of the Certificates	
Method of Issue	The Certificates may be issued on a syndicated or non-syndicated basis. The Certificates will be issued in series (each a “ Series ”). Each Series will be issued on the relevant Issue Date specified in the applicable Pricing Supplement.
Program Size	Up to U.S.\$25,000,000,000 (or its equivalent in other currencies calculated as described in the Program Agreement) outstanding at any time. The Issuer may increase the amount of the Program in accordance with the terms of the Program Agreement.
Distribution	Certificates may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
Currencies	Subject to any applicable legal or regulatory restrictions, any currency agreed between the Issuer and the relevant Dealer.
Maturities	The Certificates will have such maturities as may be agreed between the Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the Specified Currency (as defined in the applicable Pricing Supplement).

Trust Assets	Each Certificate evidences an undivided ownership interest in the Trust Assets of each Series, subject to the terms of the Transaction Documents. The Trust Assets in respect of each Series consist of: (a) all of the Issuer's rights, title, interest and benefit in, to and under the Ijara Assets, in the case of an Ijara Series, and the Ijara Assets and the Project Assets, in the case of a Wakala Series (as varied from time to time as a result of the exercise of rights granted under the Substitution Undertaking or prior to the completion and delivery of Project Assets as provided in the Procurement Agreement and which, as of any Transfer Date, shall exclude the Transferred Assets); (b) all of the Issuer's rights, title, interest and benefit in, to and under the Transaction Documents (other than in relation to any representations given to the Issuer by the Republic pursuant to the Transaction Documents which relate to that Series); (c) all monies that from time to time are, standing to the credit of the Transaction Account for that Series; and (d) all proceeds of the foregoing.
Issue Price	Certificates may be issued on a fully paid basis and at an issue price which is at par.
Periodic Distributions	Certificateholders are entitled to receive Periodic Distribution Amounts (as defined in the Conditions) calculated on the basis specified in the Pricing Supplement applicable to the relevant Series.
Scheduled Dissolution of the Trust ...	Certificates shall be redeemed on the Scheduled Dissolution Date and at the Dissolution Distribution Amount as may be specified in the applicable Pricing Supplement.
Dissolution Date	The Scheduled Dissolution Date or any earlier date of dissolution of the Trust in accordance with the Conditions.
Early Dissolution of the Trust	Other than as a result of the occurrence of a Dissolution Event, a Total Loss Event, the Trust will not be subject to dissolution, and the Certificates will not be redeemed, prior to the Scheduled Dissolution Date.
Dissolution Events and Republic Events	The Dissolution Events are set out in Condition 12 (<i>Dissolution Events</i>). Following the occurrence of a Dissolution Event which is continuing, the Certificates may be redeemed in full at the Dissolution Distribution Amount. The Exercise Price paid pursuant to the Purchase Undertaking shall be used to fund the Dissolution Distribution Amount. The Dissolution Events include the Republic Events which are certain events relating to the Republic, as set out in the Purchase Undertaking.
Dissolution Distribution Amount	The aggregate outstanding face amount of the Certificates plus all Periodic Distribution Amounts accrued and unpaid (if any) at the Dissolution Date.

Total Loss Event The occurrence of a Total Loss Event in respect of the Assets relating to a particular Series will result in the termination of the relevant Supplemental Lease Agreement(s) in respect of the properties the subject of the Total Loss Event and the redemption of the Certificates of the relevant Series and the consequent dissolution of the Trust, unless the Republic (in its capacity as Servicing Agent or Wakeel, as the case may be) in its sole discretion decides to procure, on the date of occurrence of the Total Loss Event, sufficient new properties that will be made subject to the Lease Agreement in respect of such Series. In such an event the Lessee and the Lessor shall immediately enter into a new Supplemental Lease Agreement in respect of the new properties. The Servicing Agent or the Wakeel, as the case may be, is also responsible for ensuring that, in such an event, all insurance proceeds (if any) in respect thereof are paid in the Specified Currency directly into the Transaction Account in respect of such Series by no later than the close of business in London on the 30th day after the occurrence of the Total Loss Event.

If a Total Loss Event occurs and the relevant provisions of the Servicing Agency Agreement or Wakala Agreement, as the case may be, are not strictly complied with and as a result an amount (if any) less than the aggregate outstanding face amount of the Certificates of such Series is credited to the relevant Transaction Account (the difference between such amount in the Specified Currency and the amount credited to the Transaction Account being the “**Total Loss Shortfall Amount**”), then the Servicing Agent or the Wakeel, as the case may be, is required (unless it proves beyond any doubt that any shortfall in the insurance proceeds is not attributable to its negligence or its failing to comply with the terms of the Servicing Agency Agreement or Wakala Agreement, as the case may be, relating to insurance) to pay (in the Specified Currency in same day, freely transferable, cleared funds) the Total Loss Shortfall Amount directly into the Transaction Account by no later than close of business in London on the 31st day after the Total Loss Event has occurred. The amount standing to the credit of the Transaction Account shall be used to redeem the Certificates of such Series on the Total Loss Dissolution Date. Following such redemption, the Trust shall be dissolved.

Unless the Servicing Agent or the Wakeel, as the case may be, procures new properties that will be subject to the Lease Agreement in respect of such Series, rental under the Lease Agreement will cease automatically with effect from the date on which a Total Loss Event (if any) occurs, and no additional rental payment shall be made in respect of the period between the date on which the Total Loss Event occurred and the date on which the Total Loss Shortfall Amount is paid into the relevant Transaction Account.

“**Total Loss Dissolution Date**” means the earlier of (i) the date notified by the Issuer in a notice given to the Certificateholders, the Delegate and the Principal Paying Agent in accordance with Condition 15 (*Notices*) and (ii) the 31st day following the occurrence of a Total Loss Event following which the Servicing Agent has not procured the full replacement of the Assets.

“**Total Loss Event**” means the total loss or destruction of, or damage to the whole of, the Properties, or any event or occurrence that renders the whole of the Properties permanently unfit for any economic use and (but only after taking into consideration any

insurance or other indemnity granted by any third party in respect of the Properties) the repair or remedial work in respect thereof is wholly uneconomical.

Cancellation of Certificates held by the Republic

The Republic may at any time purchase Certificates at any price in the open market or otherwise. Following any purchase of Certificates, the Republic may at its option hold or resell such Certificates or surrender the Certificates for cancellation by PPSI-III. Should the Republic wish to cancel any Certificates so purchased, it shall deliver a transfer notice (a “**Transfer Notice**”) to PPSI-III (in accordance with the terms of the Transfer Undertaking) whereupon PPSI-III shall, in accordance with the terms of the Transfer Undertaking, be obliged to transfer all of PPSI-III’s rights, title, benefits and entitlements in, to and under the Transferred Assets (as specified in the Transfer Notice) to the Republic in consideration for which the relevant Certificates shall be surrendered to PPSI-III for cancellation.

The transfer of the Transferred Assets will take effect by the Republic and PPSI-III entering into a transfer agreement (in the form scheduled to the Transfer Undertaking). Following the entry into such transfer agreement, PPSI-III shall cancel the relevant Certificates identified in the Transfer Notice on the Transfer Date specified in the Transfer Notice (which shall be a Periodic Distribution Date).

Covenants

The Purchase Undertaking contains a negative pledge given by the Republic. See “*Summary of the Principal Transaction Documents.*”

Role of Delegate

Pursuant to the Declaration of Trust, the Trustee will delegate to the Delegate certain of the present and future duties, powers, trusts, authorities and discretions vested in the Trustee by certain provisions of the Declaration of Trust. In particular, the Delegate shall be entitled to:

- (a) deliver an Exercise Notice to the Republic in accordance with the Purchase Undertaking; and
- (b) following a Dissolution Event, take any enforcement action in the name of the Trustee against the Republic.

Asset Substitution

Pursuant to a Substitution Undertaking entered into by PPSI-III in favor of the Republic, the Republic may, subject to certain conditions, require PPSI-III to accept the substitution of certain new assets (the “**New Assets**”) in replacement of certain existing Ijara Assets or, in the case of a Wakala Series and following the completion and delivery of such Project Assets, Project Assets subject to the Lease Agreement (together, the Replaced Assets) as described in a substitution notice provided by the Republic to PPSI-III, **provided that** the Republic certifies that the New Assets are of a value equal or greater than the value of the Replaced Assets. Upon the Republic giving notice of substitution to PPSI-III, (i) PPSI-III shall enter to a substitution sale agreement (in the form scheduled to the Substitution Undertaking) with the Republic to effect the transfer and conveyance of the Replaced Assets and the New Assets; and (ii) PPSI-III (as Lessor) and the Republic (as Lessee) shall amend the Supplemental Lease Agreement(s) in respect of such Series to reflect the change in composition of the properties that are subject to the Lease. If the value of the Replaced Assets as certified by the Republic is more than

20 per cent. of the aggregate outstanding face amount of the Certificates of such Series then the existing Supplemental Lease Agreement in respect of the relevant Replaced Assets shall be terminated and the Lessee and the Lessor shall immediately enter into a new Supplemental Lease Agreement in respect of the New Assets.

PPSI-III may also replace Project Assets under the Procurement Agreement prior to the completion and delivery of the relevant assets pursuant to the specified Project by the amendment of the schedule to the relevant Supplemental Procurement Agreement specifying such Project Assets.

In addition, the Servicing Agent or the Wakeel, as the case may be, may in accordance with the Servicing Agency Agreement or the Wakala Agreement, as the case may be, upon the occurrence of a Loss Event (as defined in the Lease Agreement), procure new properties with a value not less than the value of the Properties the subject of the Loss Event and shall convey the Beneficial Rights in and to such new properties to PPSI-III, following which PPSI-III (in its capacity as Lessor) and the Republic (in its capacity as Lessee) shall amend the Supplemental Lease Agreement(s) in respect of such Series to reflect the change in the composition of the properties that are the subject of the Lease Agreement.

**Form and Delivery of the
Certificates**

The Certificates will be represented by one or more global certificates in fully registered form which will, unless otherwise specified in the applicable Pricing Supplement, be deposited on or about the Issue Date with a custodian for and registered in the name of a nominee of DTC, except that global certificates representing Regulation S Certificates may, if specified in the applicable Pricing Supplement, be deposited on or about its Issue Date with a common depository for, and registered in the name of a nominee of the common depository for Euroclear and Clearstream, Luxembourg.

It is expected that delivery of the Certificates in book-entry form will be made against payment on the Issue Date through the book-entry facilities of DTC or Euroclear or Clearstream, Luxembourg, as the case may be.

Beneficial interests in the global certificates deposited with DTC will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct or indirect participants, including Euroclear and Clearstream, Luxembourg. Beneficial interests in the global certificates deposited with the common depository for Euroclear and Clearstream, Luxembourg will be shown on, and transfers thereof will be effected only through records maintained by Euroclear and Clearstream, Luxembourg and its direct or indirect participants. See “*Global Certificates*” and “*Clearance and Settlement*”. Except as described herein, definitive Certificates will not be issued in exchange for beneficial interests in global certificates.

Denominations

The Certificates will be issued in such denominations as may be agreed between the Issuer, the Republic and the relevant Dealer save that the minimum denomination of each Certificate will be such amount as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Specified Currency, above, save that the minimum

denomination of each Certificate admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area, in circumstances which require the publication of a prospectus under the Prospectus Directive, will be €100,000 (or, if the Certificates are denominated in a currency other than euro, the equivalent amount in such currency).

Status of the Certificates Each Certificate represents an undivided ownership interest in the Trust Assets of the relevant Series and will rank *pari passu*, without any preference, with the other Certificates of the Series.

Transaction Account The Principal Paying Agent will maintain and operate a separate non-interest bearing transaction account denominated in the Specified Currency for each Series of Certificates in the name of the Issuer (the “**Transaction Account**”) into which, among other things, payments to the Issuer by the Lessee, the Servicing Agent or the Wakeel, as the case may be, and the Republic under the Lease Agreement, the Servicing Agency Agreement or the Wakala Agreement, as the case may be, or the Purchase Undertaking, respectively, will be credited. Periodic Distribution Amounts and the Dissolution Distribution Amount will be paid to holders of the Certificates from funds standing to the credit of the Transaction Account in accordance with the order of priority described under “*Priority of Distributions*” below.

Priority of Distributions On each Periodic Distribution Date, on the relevant Dissolution Date and upon payment of continuing rentals by the Republic following the failure of the Republic to pay the Exercise Price due under the Purchase Undertaking, the Principal Paying Agent shall apply the monies standing to the credit of the relevant Transaction Account in the following order of priority:

- (a) *first*, to the Delegate in respect of all amounts owing to it under the Transaction Documents in its capacity as Delegate;
- (b) *second*, to the Principal Paying Agent for application in or towards payment *pari passu* and ratably of all Periodic Distribution Amounts due but unpaid;
- (c) *third*, only if such payment is made on the Dissolution Date, to the Principal Paying Agent for application in or towards payment *pari passu* and ratably of the Dissolution Amount or amount payable following a Total Loss Event, where the Servicing Agent or the Wakeel, as the case may be, does not procure the full replacement of the Assets in accordance with the Servicing Agency Agreement or the Wakala Agreement, as the case may be;
- (d) *fourth*, only if such payment is made on the Dissolution Date, to the Servicing Agent or the Wakeel, as the case may be, in or towards payment of all outstanding Servicing Agency Expenses or Management Expenses, respectively; and
- (e) *fifth*, only if such payment is made on the Dissolution Date, to the Issuer in payment of any surplus.

Enforcement The Delegate shall not be bound in any circumstances to take any action to enforce or to realize the Assets or take any action against the

Issuer or the Republic under any Transaction Document unless directed or requested to do so (a) by an Extraordinary Resolution or in the absence of an Extraordinary Resolution (b) in writing by the holders of at least 25.0% of the aggregate outstanding face amount of the Certificates and in either case then only if it shall be indemnified and/or secured and/or pre-funded to its satisfaction against all liabilities to which it may thereby render itself liable or which it may incur by so doing. No Certificateholder shall be entitled to proceed directly against the Issuer or the Republic unless (i) the Delegate, having become bound so to proceed, fails to do so within 60 days of becoming so bound and such failure is continuing and (ii) the relevant Certificateholder (or such Certificateholder together with the other Certificateholders) who proposes to proceed directly against the Issuer or the Republic, holds at least 25.0% of the outstanding aggregate face amount of the Certificates. Under no circumstances shall the Delegate or any Certificateholders have any right to cause the sale or other disposition of any of the Assets (other than in accordance with the Purchase Undertaking) and the sole right of the Delegate and the Certificateholders in respect of the Assets shall be to enforce their respective obligations under the Transaction Documents.

Withholding Tax All payments by the Issuer under the Certificates are to be made without withholding or deduction for or on account of taxes, unless the withholding or deduction of the taxes is required by Indonesian law. In such event, the Issuer will be required pursuant to Condition 10 (*Taxation*) to pay such additional amounts as may be necessary to ensure that the full amount which otherwise would have been due and payable under the Certificates is received by the Certificateholders. All payments by each of the Lessee and the Republic to the Issuer under the Transaction Documents are to be made without withholding or deduction for or on account of taxes, unless the withholding or deduction of the taxes is required by Indonesian law. In such event, the relevant payer will be required pursuant to the relevant Transaction Documents to pay to the Issuer such additional amounts as may be necessary to ensure that the Issuer will receive the full amount which otherwise would have been due and payable.

Costs Undertaking The Republic will execute a Costs Undertaking pursuant to which it will agree to reimburse, among others, the Trustee, the Delegate and the Agents for certain expenses incurred by them and indemnify such parties in respect of certain liabilities incurred by them.

Use of Proceeds The proceeds of the issue of the Certificates of each Series will be paid by PPSI-III in its capacity as Purchaser and Issuer on the Issue Date to the Seller as the purchase price for the Assets of such Series.

Listing Application has been made to the SGX-ST for permission to deal in and quotation of any Certificates 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 Certificates are listed on the SGX-ST and the rules of the SGX-ST so require, such Certificates will be traded on the SGX-ST in a minimum board lot size of S\$200,000 (or its equivalent in any other currency). Application has also been made for certain Certificates issued under the Program to be admitted to listing on the DFSA Official List of

securities and to be admitted to trading on Nasdaq Dubai. The Certificates 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 Certificates may also be issued under the Program. The relevant Pricing Supplement will state whether or not the Certificates of a Series will be listed on any exchange(s) and, if so, on which exchange(s) the Certificates are to be listed.

Clearing Systems DTC or Euroclear and/or Clearstream, Luxembourg and, in relation to any Series, such other clearing system as may be agreed between the Republic, the Issuer, the Delegate and the relevant Dealer. See “*Clearance and Settlement*.”

Ratings A Series of Certificates may be rated or unrated. Where a Series of Certificates is to be rated, such rating will be specified in the applicable 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.

Certificateholder Meetings A summary of the provisions for convening meetings of Certificateholders to consider matters relating to their interests is set out in Condition 16 (*Meetings of Certificateholders; Written Resolutions*) and Condition 17 (*Aggregation Agent; Aggregation Procedures*)

Tax Considerations See “*Taxation*” for a description of certain tax considerations applicable to the Certificates.

Transaction Documents The Transaction Documents are the Purchase Agreement, the Lease Agreement, the Procurement Agreement (in the case of a Wakala Series), the Servicing Agency Agreement (in the case of an Ijara Series) or the Wakala Agreement (in the case of a Wakala Series), the Purchase Undertaking, the Transfer Undertaking, any sale agreement, any transfer agreement, the Substitution Undertaking, the Declaration of Trust, the Agency Agreement and the Costs Undertaking.

Governing Law The Purchase Undertaking, the Transfer Undertaking, the Declaration of Trust, the Certificates, the Agency Agreement and the Costs Undertaking will be governed by English law.

The Lease Agreement, the Purchase Agreement, the Procurement Agreement, the Servicing Agency Agreement, the Wakala Agreement and the Substitution Undertaking will be governed by Indonesian law.

Selling Restrictions See “*Plan of Distribution*” for a description of the restrictions on the distribution of this Offering Memorandum and the offer or sale of Certificates in the United States, the United Kingdom, the European Economic Area, Hong Kong, Japan, Singapore, Brunei, the United Arab Emirates, Dubai International Financial Centre, the Kingdom of Saudi Arabia, the State of Qatar, the Kingdom of Bahrain, Kuwait, Malaysia and Switzerland.

Waiver of Immunity Subject to the following paragraph, to the extent that the Republic may claim for itself or its assets or revenues immunity from jurisdiction, enforcement, prejudgment proceedings, injunctions and

all other legal proceedings and relief and to the extent that such immunity (whether or not claimed) may be attributed to it or its assets or revenues, the Republic will agree in the Lease Agreement, Purchase Undertaking, the Transfer Undertaking, Declaration of Trust, Agency Agreement and Costs Undertaking not to claim and will irrevocably and unconditionally waive such immunity in relation to any proceedings. Further, the Republic will irrevocably and unconditionally consent to the giving of any relief or the issue of any legal proceedings, including, without limitation, jurisdiction, enforcement, prejudgment proceedings and injunctions in connection with any proceedings.

Notwithstanding anything to the contrary in the foregoing, no waiver of immunity or consent shall be deemed or interpreted to include any waiver of immunity or consent in respect of (i) actions brought against the Republic arising out of or based upon United States federal or state securities laws, (ii) attachment under Indonesian laws, (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; **provided that** the foregoing limitations shall not preclude any proceeding to enforce any provision of the relevant Transaction Documents relating to the Assets.

INVESTMENT CONSIDERATIONS

An investment in the Certificates involves certain risks. Prospective investors should carefully consider, in the light of their own financial circumstances and investment objectives, the following factors in addition to the matters set forth elsewhere in this Offering Memorandum, prior to investing in the Certificates. Each of the Republic and the Issuer believes that the factors described below represent the principal risks inherent in investing in the Certificates, but the Republic and the Issuer may be unable to pay any amounts on or in connection with any Certificate for other reasons and neither the Republic nor the Issuer represents that the statements below regarding the risks of holding any Certificate are exhaustive or that the statements below relate to any other risks not described therein. There may also be other considerations, including some which may not be presently known to the Republic or the Issuer or which the Republic or the Issuer currently deem immaterial, that may impact on any investment in the Certificates.

Prospective investors should also read the detailed information set out elsewhere in this Offering Memorandum and reach their own views prior to making any investment decision. Words and expressions defined elsewhere in this Offering Memorandum shall have the same meanings in this section.

Investment consideration relating to the Issuer

The Issuer must rely on payments by the Republic.

The Issuer will not engage in any business activity other than the issuance of the Certificates, the acquisition of Ijara Assets and Project Assets as described herein, acting in the capacity as Trustee and other activities incidental or related to the foregoing as required under the Transaction Documents.

The Issuer's only material assets, which will be held in trust for Certificateholders, will be the Trust Assets relating to each Series, including its right to receive payments from the Lessee under the Lease Agreement relating to each Ijara Series and the Wakeel under the Wakala Agreement relating to each Wakala Series, and payment from the Republic of the Exercise Price under the Purchase Undertaking. Therefore, the Issuer is subject to all the risks to which the Republic is subject to the extent that such risks could limit the Republic's ability to satisfy in full and on a timely basis its obligations under the Transaction Documents.

Investors should therefore carefully review the description of the Republic herein under "Republic of Indonesia."

The ability of the Issuer to pay amounts due on the Certificates of each Series will primarily be dependent upon receipt by the Issuer from the Lessee of all amounts due under the Lease Agreement, in the case of an Ijara Series, and from the Wakeel of all amounts due under the Wakala Agreement, in the case of a Wakala Series and from the Republic of the Exercise Price under the Purchase Undertaking. In the event of any shortfall in such amounts, the ability of the Issuer to meet its payment obligations under the Certificates may be adversely affected.

Investment considerations relating to the Certificates

There is currently no secondary market for the Certificates and there may be limited liquidity for Certificateholders.

There is no assurance that a secondary market for the Certificates will develop or, if it does develop, that it will provide the Certificateholders with liquidity of investment or that it will continue for the life of the Certificates. Accordingly, a Certificateholder may not be able to find a buyer to buy its Certificates readily or at prices that will enable the Certificateholder to realize a desired yield. The market value of the Certificates may fluctuate and a lack of liquidity, in particular, can have a material adverse effect on the market value of the Certificates. Accordingly, the purchase of the Certificates is suitable only for investors who can bear the risks associated with a lack of liquidity in the Certificates and the financial and other risks associated with an investment in the Certificates. An investor in the Certificates must be prepared to hold the Certificates for an indefinite period of time or until their maturity.

The Certificates may be subject to restrictions on transfer which may adversely affect the value of the Certificates.

The Certificates have not been and will not be registered under the Securities Act or any United States state securities laws and the Issuer has not undertaken to effect any exchange offer for the Certificates in the future.

The Certificates may not be offered in the United States except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the Securities Act and applicable United States state securities laws, or pursuant to an effective registration statement, in a transaction that will not require the Issuer to register as an investment company under the United States Investment Company Act of 1940, as amended (the “**Investment Company Act**”). The Certificates and the Agency Agreement will contain provisions that will restrict the Certificates from being offered, sold or otherwise transferred except pursuant to the exemptions available pursuant to Rule 144A and Regulation S, or other exemptions, under the Securities Act. Furthermore, the Issuer has not registered the Certificates under any other country’s securities laws. Investors must ensure that their offers and sales of the Certificates within the United States and other countries comply with applicable securities laws. See “*Transfer Restrictions*.”

Credit ratings may not reflect all risks.

A Series of Certificates issued under the Program may or may not be rated. Where a Series is to be rated, one or more independent credit rating agencies may assign credit ratings to the Certificates. The ratings may not reflect the potential impact of all risks related to the transaction structure, the market, the additional factors discussed above or any other factors that may affect the value of the Certificates. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

The Certificates contain collective action clauses under which the terms of any one series of securities and/or multiple series of securities may be modified without the consent of all the holders of the securities of that series or all the holders of any other series of securities being aggregated, as the case may be.

The Conditions of the Certificates contain provisions regarding modifications commonly referred to as “collective action” clauses. Such clauses permit defined majorities to bind all Certificateholders, including Certificateholders who did not attend, Certificateholders who did not vote and Certificateholders who voted in a manner contrary to the defined majority. The relevant provisions also permit, in relation to reserved matters, multiple series of securities (including, without limitation, any trust certificates (such as the Certificates), notes, bonds, debentures or other debt securities issued by the Trustee or the Republic, as the case may be, in one or more series with an original stated maturity of more than one year) to be aggregated for voting purposes (**provided that** each such series also contains the collective action clauses in the terms and conditions of such securities).

The Republic and the Trustee expect that all series of securities issued by the Republic and the Trustee in future will include such collective action clauses, thereby giving the Republic and/or the Trustee the ability to request modifications (including in respect of Reserved Matters (as defined in the Conditions of the Certificates)) across multiple series of securities. This means that a defined majority of the holders of such series of securities (when taken in the aggregate) would be able to bind all holders of securities in all the relevant aggregated series.

Any modification relating to Reserved Matters (as defined in the Conditions of the Certificates), including in respect of payments and other important terms (such as, without limitation, changes to the Scheduled Dissolution Date or any other date for payment of amounts in respect of the Certificates), may be made to the Certificates with the consent of the holders of at least 75% of the aggregate principal amount outstanding of Certificates represented at a meeting, and to multiple series of securities with the consent of either (A) both (i) the holders of at least 66⅔% of the aggregate principal amount of the outstanding securities of all affected series of securities being aggregated (taken in aggregate) and (ii) the holders of more than 50% in aggregate principal amount of the outstanding securities in each affected series of securities capable of being aggregated (taken individually) or (B) the consent of the holders of at least 75% of the aggregate principal amount of the outstanding securities of all affected series of securities being aggregated. For further details, see Condition 16 (*Meetings of Certificateholders; Written Resolutions*).

Any modification proposed by the Republic or the Trustee (as the case may be) may, at the option of the Republic or the Trustee (as the case may be), be made in respect of some series of securities only and, for the avoidance of doubt, the provisions may be used for different groups of two or more series of securities simultaneously. At the time of any proposed modification, the Republic or the Trustee (as the case may be) will be obliged, *inter alia*, to specify which method or methods of aggregation will be used by the Republic or the Trustee (as the case may be).

There is a risk therefore that the Conditions of the Certificates may be modified in circumstances whereby the holders of securities voting in favour of modification may be holders of a different series of securities and, as

such, less than 75% of the holders of the Certificates would have voted in favour of such modification. In addition, there is a risk that the provisions allowing for aggregation across multiple series of securities may make the Certificates less attractive to purchasers in the secondary market on the occurrence of a Dissolution Event or in a distress situation. This risk may be exacerbated should holders of interest-bearing securities pass resolutions pursuant to the multiple series single limb voting mechanism which have the effect of contractually binding holders of the Certificates to modifications that result in the Certificates no longer being Shariah compliant. Further, any such modification in relation to any Certificates may adversely affect their trading price.

The Declaration of Trust may be modified without notice to Certificateholders.

The Declaration of Trust contains provisions permitting the Delegate from time to time and at any time without any consent or sanction of the Certificateholders to make any modification of, or to the waiver or authorisation of any breach or proposed breach of, any provision of the Declaration of Trust or determine, without any such consent or sanction, that any Dissolution Event shall not be treated as such if, in the opinion of the Delegate, (i) such modification is of a formal, minor or technical nature, or (ii) such modification is made to correct a manifest or proven (to the satisfaction of the Delegate) error, or (iii) such modification, waiver, authorisation or determination is not materially prejudicial to the interests of Certificateholders. Unless the Delegate otherwise decides, any such modification shall as soon as practicable thereafter be notified to the Certificateholders and shall in any event be binding upon the Certificateholders.

The United States Internal Revenue Service may treat the Certificates as an interest in a grantor trust for federal income tax purposes, which may result in the Issuer and United States holders being subject to significant penalties.

The Issuer believes that it is appropriate to treat the Certificates as representing debt obligations of the Republic and intends to do so. However, the United States Internal Revenue Service (the “IRS”) may seek to characterize the Certificates as interests in a grantor trust for U.S. federal income tax purposes. Under this characterization, the Issuer and United States holders (as defined in “*Taxation — United States Federal Income Tax Considerations*”) would be required to comply with certain information reporting requirements applicable to foreign trusts, or risk significant penalties. The Issuer does not expect that it will provide information that would allow either itself or United States holders to comply with these requirements if they were determined to be applicable. Should the IRS characterize the Certificates as interests in a grantor trust and should the Issuer be unable to provide the information necessary for itself and for United States holders to comply with the foreign trust information reporting requirements, both the Issuer and United States holders may be subject to significant penalties that may adversely affect the Issuer’s financial position and the returns of United States holders from the Certificates. See “*Taxation — United States Federal Income Tax Considerations — Potential Alternative Characterization.*”

Changes or uncertainty in respect of LIBOR and/or EURIBOR and/or certain benchmarks may affect the value or payment of Periodic Distribution Amounts under the Program, including where LIBOR and/or EURIBOR may not be available

Various rates and other indices which are deemed to be “benchmarks” (including LIBOR and EURIBOR) are the subject of recent national, international and other regulatory guidance and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented, including the majority of the provisions of the EU Benchmark Regulation (Regulation (EU) 2016/1011) (the “**Benchmarks Regulation**”).

The scope of the Benchmarks Regulation is wide and, in addition to so-called “critical benchmark” indices, such as LIBOR or EURIBOR, applies to many interest rates, foreign exchange rate indices and other indices where used to determine the amount payable under or the value or performance of certain financial instruments traded on a trading venue (EU regulated market, EU multilateral trading facility, EU organised trading facility) or via a systematic internaliser, certain financial contracts and investment funds.

It is not possible to predict the further effect of any changes in the methods pursuant to which the LIBOR and/or EURIBOR rates are determined, or any other reforms to or other proposals affecting LIBOR, EURIBOR and any other relevant benchmarks that will be enacted in the United Kingdom, the EU, the US and elsewhere, each of which may adversely affect the trading market for LIBOR, EURIBOR and/or other relevant benchmark-based securities. In addition, any future changes in the method pursuant to which the LIBOR, EURIBOR and/or other relevant benchmarks are determined or the transition to a successor benchmark may result in, among other things, a sudden or prolonged increase or decrease in the reported benchmark rates, a delay in the publication of

any such benchmark rates, trigger changes in the rules or methodologies in certain benchmarks discouraging market participants from continuing to administer or participate in certain benchmarks, and, in certain situations, could result in a benchmark rate no longer being determined and published. Accordingly, in respect of Certificates referencing LIBOR, EURIBOR or any other relevant benchmark, such proposals for reform and changes in applicable regulation could have a material adverse effect on the value or liquidity of, and return on, any Certificates which reference any such benchmark.

Based on the foregoing, investors should be aware that:

- (i) any of the reforms or pressures described above or any other changes to a relevant benchmark (including LIBOR and EURIBOR) could affect the level of the published rate, including to cause it lower and/or more volatile than it would otherwise be; and
- (ii) if LIBOR or EURIBOR or any other relevant benchmark rate is discontinued, then the rate applicable to the Certificates will be determined for the relevant period by the fall-back provisions provided for under Condition 7.3(d) of the Terms and Conditions of the Certificates, although such provisions, being dependent in part upon the provision by major banks of offered quotations for loans to lending European banks, may not operate as intended depending on market circumstances and the availability of rates information at the relevant time and may result, to the extent that other fallback provisions under Condition 7.3 are not applicable, in the effective application of a fixed rate based on the rate which applied in the previous period when LIBOR or EURIBOR or any other relevant benchmark rate was available.

Other investment considerations

The Certificates may not be a suitable investment for all investors.

The Certificates may not be a suitable investment for all investors. Each potential investor in the Certificates must determine the suitability of its investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Certificates, the merits and risks of investing in the Certificates and the information contained in this Offering Memorandum;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Certificates and the impact the Certificates will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Certificates, including where the currency of payment is different from the potential investor's currency;
- understand thoroughly the terms of the Certificates and be familiar with the behavior of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial advisor) possible scenarios for economic and other factors that may affect its investment and its ability to bear the applicable risks.

Where the proceeds of a Series are specified as being used to finance or refinance Eligible Green Projects, as defined under the Green Bond and Green Sukuk Framework, such Certificates may not be suitable for environmentally focused prospective investors.

In connection with a potential issuance of Certificates the proceeds of which will be used by the Republic to finance or refinance Eligible Green Projects, the Republic has (i) adopted the Green Bond and Green Sukuk Framework; (ii) obtained from CICERO a framework overview and second party opinion dated January 23, 2018; and (iii) agreed to certain reporting and use of proceeds obligations. Prospective investors should be aware however that it will not be a Dissolution Event under the Terms and Conditions of the Certificates if the Republic fails to comply with such obligations and the Green Bond and Green Sukuk Framework may be revised by the Republic at any time. No assurance can be given that any Eligible Green Projects financed or refinanced with the proceeds of the issuance of Certificates will fulfill the environmental and sustainability criteria anticipated or required by prospective investors. In addition, a withdrawal of the CICERO Report due to a failure to comply with the reporting requirements stipulated in the Green Bond and Green Sukuk Framework, for example, may affect the value of the Certificates and/or may have consequences for certain investors with portfolio mandates to invest in green assets.

Certificateholders may be adversely affected by the occurrence of a Total Loss Event despite the Issuer's obligation to adequately insure the Properties.

Pursuant to the Master Lease Agreement, the Issuer is required, among other things, to insure the Properties. The Issuer has delegated this obligation to the Republic, as its Servicing Agent, in the case of an Ijara Series, or Wakeel, in the case of a Wakala Series. The Servicing Agent has undertaken in the Servicing Agency Agreement and the Wakeel in the Wakala Agreement, among other things, to insure the Properties in the name of the Issuer, against the occurrence of a Total Loss Event at their full reinstatement value.

Nevertheless, should such an event occur, unless the Servicing Agent or the Wakeel, as the case may be, procures new properties on the date of occurrence of the Total Loss Event that will be made subject to the relevant Lease Agreement, the Lease Agreement will be terminated and the Certificates will be redeemed at an amount equal to the Dissolution Distribution Amount using the insurance proceeds (if any) deposited into, and other monies standing to the credit of, the Transaction Account established in respect of the relevant Series. In connection with this, the Servicing Agency Agreement and the Wakala Agreement provide that the relevant provisions of the Servicing Agency Agreement or Wakala Agreement, as the case may be, are not strictly complied with and as a result sufficient insurance proceeds are not paid into the Transaction Account within 30 days of the occurrence of the Total Loss Event, the Republic, as Servicing Agent or Wakeel, as the case may be, shall have failed in its responsibility to properly insure the Properties and accordingly (unless it proves beyond any doubt that any shortfall in the insurance proceeds is not attributable to its negligence or its failing to comply with the terms of the Servicing Agency Agreement or Wakala Agreement, as the case may be, relating to insurance), the Republic shall be required to pay any shortfall directly to the Transaction Account within 31 days of the occurrence of the Total Loss Event. The Delegate will be entitled to enforce this undertaking against the Republic on behalf of the Certificateholders.

Potential investors should be aware that (i) rental under the Lease Agreement will cease automatically upon the occurrence of a Total Loss Event and accordingly the Periodic Distribution Amounts received by Certificateholders will reflect this fact and (ii) there may be a delay in the Issuer receiving the proceeds of insurance (or shortfall amounts from the Servicing Agent or Wakeel, as the case may be) and therefore in Certificateholders receiving the full Dissolution Distribution Amount in respect of their Certificates, and no additional Periodic Distribution Amounts will be paid in respect of this delay.

Certificateholders may be adversely affected by a change of English law or the laws of Indonesia.

The structure of the issue of the Certificates is based on English law, the laws of Indonesia and administrative practices in effect as at the date of this Offering Memorandum. No assurance can be given as to the impact of any possible change to English law, the laws of Indonesia or administrative practices in either jurisdiction after the date of this Offering Memorandum, nor can any assurance be given as to whether any such change could adversely affect the ability of the Issuer to make payments under the Certificates or of the Republic to comply with its obligations under the Transaction Documents to which it is a party.

Certificateholders will be reliant on the procedures of the clearing systems to exercise certain rights under the Certificates.

The Certificates will be represented on issue by one or more global certificates that will, unless otherwise specified in the applicable Pricing Supplement, be deposited with a custodian for DTC or, in the case of Regulation S Certificates only, may alternatively be deposited with a common depository for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the global certificates and the Conditions, investors will not be entitled to receive Certificates in definitive form. DTC and its direct and indirect participants (including Euroclear and Clearstream, Luxembourg) or, as the case may be, Euroclear and Clearstream, Luxembourg and its direct or indirect participants will maintain records of the beneficial interests in the global certificates. While the Certificates are represented by the global certificates, investors will be able to trade their beneficial interests only through DTC and its respective participants or Euroclear and Clearstream, Luxembourg, and their respective participants as the case may be, unless otherwise specified in the applicable Pricing Supplement.

While the Certificates are represented by the global certificates, the Issuer will discharge its payment obligation under the Certificates by making payments through the relevant clearing systems. A holder of a beneficial interest in a global certificate must rely on the procedures of the relevant clearing system and its participants to receive payments under the relevant Certificates. None of the Issuer, the Delegate nor any of the Agents has any responsibility or liability for the records relating to, or payments made in respect of, beneficial interest in a global certificate.

Holders of beneficial interests in a global certificate will not have a direct right to vote in respect of the relevant Certificates. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

There is no assurance that the Certificates will be deemed Sharia compliant by all Sharia scholars.

CIMB Islamic Bank Berhad, the Shariah Advisory Board of Citi Islamic Investment Bank, the Executive Committee of the Fatwa and Sharia Supervisory Board of Dubai Islamic Bank PJSC and the Central Shariah Committee of HSBC Bank Middle East Limited (each a “**Shariah Advisor**” and, collectively, the “**Shariah Advisors**”) have approved that the structure and mechanism described under the Transaction Documents are Sharia compliant. The National Sharia Board — Indonesian Council of Ulama has provided similar confirmation. However, there can be no assurance that the transaction structure or any issue and trading of any Certificates will be deemed to be Sharia compliant by any other Sharia board or Sharia scholars. None of the Issuer, the Republic, the Arrangers, the Dealers, the Delegate or the Agents makes any representation as to the Sharia compliance of any Series and potential investors are reminded that, as with any Sharia views, differences in opinion are possible. Potential investors should obtain their own independent Sharia advice as to the compliance of the structure and mechanism described under the Transaction Documents and the issue and trading of any Series with Sharia principles.

Certificateholders may be adversely affected by certain exchange rate risks and exchange controls.

The Issuer will make payments to Certificateholders in the Specified Currency set out in the applicable Pricing Supplement. This presents certain risks relating to currency conversions if an investor’s financial activities are denominated principally in a currency or currency unit (the “**Investor’s Currency**”) other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor’s Currency) and the risk that authorities with jurisdiction over the Investor’s Currency may impose or modify exchange controls. An appreciation in the value of the Investor’s Currency relative to the Specified Currency would decrease (i) the Investor’s Currency equivalent yield on the Certificates, (ii) the Investor’s Currency equivalent value of the amounts payable on the Certificates and (iii) the Investor’s Currency equivalent market value of the Certificates. Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, the payments received by investors may be adversely affected.

TERMS AND CONDITIONS OF THE CERTIFICATES

The following is the text of the Terms and Conditions of the Certificates which (subject to modification and except for the text in italics) will be endorsed on each Certificate in definitive form issued under the Program. The applicable Pricing Supplement in relation to any Series of Certificates may specify other terms and conditions which shall, to the extent specified or to the extent inconsistent with the following Terms and Conditions, supplement, replace or modify the following Terms and Conditions for the purpose of such Certificates.

Perusahaan Penerbit SBSN Indonesia III (in its capacity as issuer, the “**Issuer**” and in its capacity as trustee, the “**Trustee**”) has established a program (the “**Program**”) for the issuance of up to U.S.\$25,000,000,000 trust certificates (the “**Certificates**”).

Certificates issued under the Program are issued in ijara or wakala series (an “**Ijara Series**” or a “**Wakala Series**”, respectively, and each a “**Series**”), as specified in the applicable Pricing Supplement. The final terms for each Series are set out in the applicable Pricing Supplement attached to or endorsed on this Certificate which supplement these Terms and Conditions (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 this Certificate. References to the applicable Pricing Supplement are to the pricing supplement (or the relevant provisions thereof) attached to or endorsed on this Certificate.

Each Certificate will represent an undivided ownership interest in the Trust Assets of each Series (as described in Condition 4.1 (*Summary of the Trust*)) which are held by the Trustee on trust (the “**Trust**”) for, *inter alia*, the benefit of the registered holders of the Certificates pursuant to (i) an amended and restated master declaration of trust (the “**Master Declaration of Trust**”) dated March 13, 2017 (the “**Program Update Date**”) and made between the Issuer, the Trustee, the Republic of Indonesia (the “**Republic**”) and The Bank of New York Mellon (the “**Delegate**”) and (ii) a supplemental declaration of trust (the “**Supplemental Declaration of Trust**”) and, together with the Master Declaration of Trust, the “**Declaration of Trust**”) having the details set out in the applicable Pricing Supplement. In these Conditions, references to Certificates shall be references to the Certificates which are the subject of the applicable Pricing Supplement.

Payments relating to the Certificates will be made pursuant to an amended and restated agency agreement dated the Program Update Date (the “**Agency Agreement**”) made between the Issuer, the Republic, The Bank of New York Mellon as principal paying agent (in such capacity, the “**Principal Paying Agent**”), The Bank of New York Mellon, London Branch as paying agent in respect of any Regulation S Certificates held through Euroclear and/or Clearstream, Luxembourg (in such capacity, a “**Paying Agent**” and, together with the Principal Paying Agent and any further or other paying agents appointed from time to time in respect of the Certificates, the “**Paying Agents**”), The Bank of New York Mellon as registrar, and The Bank of New York Mellon SA/NV, Luxembourg Branch as registrar only in respect of any Regulation S Certificates held through Euroclear and/or Clearstream, Luxembourg (each in such capacity, a “**Registrar**”), The Bank of New York Mellon as transfer agent and The Bank of New York Mellon, London Branch as transfer agent in respect of any Regulation S Certificates held through Euroclear and/or Clearstream, Luxembourg (in such capacity, a “**Transfer Agent**” and, together with the Registrars and any further or other transfer agents appointed from time to time in respect of the Certificates, the “**Transfer Agents**”) and The Bank of New York Mellon as calculation agent (in such capacity, a “**Calculation Agent**”). The Paying Agents, Transfer Agents and the Calculation Agent are together referred to in these Conditions as the Agents. References to the “**Agents**” or any of them shall include their successors.

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Transaction Documents (as described in Condition 4.1 (*Summary of the Trust*)). In these Conditions, words and expressions defined and rules of construction and interpretation set out in the Declaration of Trust shall, unless defined herein or the context otherwise requires, have the same meanings herein.

The Certificateholders (as defined in Condition 1.2 (*Title*)) are entitled to the benefit of, are bound by, and are deemed to have notice of the Transaction Documents (copies of which are available for inspection between 9.30am and 3.00pm, Monday to Friday (excluding public holidays) at the specified offices of the Principal Paying Agent) namely:

- (a) the Master Purchase Agreement and the Supplemental Purchase Agreement(s);
- (b) the Master Procurement Agreement and the Supplemental Procurement Agreement(s);
- (c) the Master Lease Agreement and the Supplemental Lease Agreement(s);

- (d) the Servicing Agency Agreement;
- (e) the Wakala Agreement;
- (f) the Purchase Undertaking;
- (g) the Transfer Undertaking;
- (h) the Substitution Undertaking;
- (i) the Master Declaration of Trust and the Supplemental Declaration(s) of Trust;
- (j) the Pricing Supplement;
- (k) the Agency Agreement; and
- (l) the Costs Undertaking,

each as defined herein and as may be amended and restated from time to time.

Each initial Certificateholder, by its acquisition and holding of its interest in a Certificate, shall be deemed to authorize and direct Perusahaan Penerbit SBSN Indonesia III (PPSI-III), on behalf of the Certificateholders, (i) to apply the sums paid by it in respect of its Certificates in acquiring the Trust Assets and (ii) to enter into each Transaction Document to which it is a party, subject to the terms and conditions of the Declaration of Trust and these Conditions.

1. FORM, DENOMINATION AND TITLE

1.1 Form and Denomination

The Certificates are issued in registered form in the Specified Denominations (as defined in respect of each Series in the applicable Pricing Supplement). A certificate will be issued to each Certificateholder in respect of its registered holding of Certificates. Each certificate will be numbered serially with an identifying number which will be recorded on the relevant certificate and in the relevant register of Certificateholders (the Register) which the Issuer will cause to be kept by the relevant Registrar.

Upon issue, unless otherwise specified in the applicable Pricing Supplement, the certificates will be represented by a Global Certificate deposited with a custodian for DTC, or in the case of Certificates issued outside the United States in reliance on Regulation S of the United States Securities Act of 1933, as amended (the Securities Act), the Certificates may be represented by a Global Certificate deposited with a common depository for Euroclear and Clearstream, Luxembourg. The Conditions are modified by certain provisions contained in the Global Certificates. Except in certain limited circumstances, owners of interests in the Global Certificates will not be entitled to receive definitive certificates representing their holdings of Certificates. See "Global Certificates."

1.2 Title

The Issuer will cause the relevant Registrar to maintain the Register in respect of the Certificates in accordance with the provisions of the Agency Agreement. Title to the Certificates passes only by registration in the Register. The registered holder of any Certificate will (except as otherwise required by law) be treated as the absolute owner of the Certificates represented by the Certificate for all purposes (whether or not any payment thereon is overdue and regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Certificate) and no person will be liable for so treating the holder of any Certificate. The registered holder of a Certificate will be recognized by the Issuer as entitled to such Certificate free from any equity, set-off or counterclaim on the part of the Issuer against the original or any intermediate holder of such Certificate. In these Conditions, Certificateholder and (in relation to a Certificate) holder of Certificates have the meanings given thereto in the Master Declaration of Trust.

2. TRANSFERS OF CERTIFICATES

2.1 Transfers

Subject to Conditions 2.4 (*Closed Periods*) and 2.5 (*Regulations*) and to the provisions of the Agency Agreement, a Certificate may be transferred in the Specified Denomination only by depositing the Certificate, with the form of transfer, as set forth in Schedule 2 (*Form of Transfer Certificate pursuant to*

Rule 144A) or Schedule 3 (*Form of Transfer Certificate pursuant to Regulation S*), as applicable, of the Agency Agreement on the back of such Certificate duly completed and signed by the Certificateholder as the transferor, at the specified office of any of the Transfer Agents. No transfer of title to a Certificate will be valid unless and until entered on the Register.

Transfer of interests in the Certificates represented by a Global Certificate will be effected in accordance with the rules of the relevant clearing system through which the interest is held.

2.2 Delivery of New Certificates

Each new Certificate to be issued upon any transfer of Certificates will, within five business days of receipt by the relevant Transfer Agent of the original Certificate and the duly completed form of transfer endorsed on the relevant Certificate (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), be delivered at the specified office of the relevant Transfer Agent or be mailed by uninsured mail at the risk of the holder entitled to the Certificate (free of charge and at the Issuer's expense) to the address specified in the form of transfer. For the purposes of this Condition 2, "**business day**" shall mean a day (other than Saturday or Sunday) on which banks are open for business in the city in which the specified office of the Transfer Agent with whom a Certificate is deposited in connection with a transfer is located.

Where some but not all of the Certificates in respect of which a Certificate is issued are to be transferred, a new Certificate in respect of the Certificates not so transferred will, within five business days of receipt by the relevant Transfer Agent of the original Certificate, be delivered at the specified office of the relevant Transfer Agent or be mailed by uninsured mail at the risk of the holder of the Certificates not so transferred (free of charge and at the Issuer's expense) to the address of such holder appearing on the Register or as specified in the form of transfer.

Except in the limited circumstances described herein (see "The Global Certificates — Registration of Title), owners of interests in the Certificates will not be entitled to receive physical delivery of Certificates. Issues of Certificates upon transfer of Certificates are subject to compliance by the transferor and transferee with the procedures described above and in the Declaration of Trust and, in the case of Rule 144A Certificates and Definitive IAI Certificates, compliance with the legend set forth under "Transfer Restrictions."

2.3 Formalities Free of Charge

Registration of any transfer of Certificates will be effected at the expense of the Issuer and without charge by or on behalf of the Issuer or any Transfer Agent but upon (i) payment (or the giving of such indemnity or security as the Issuer or any Transfer Agent may require) by the transferee in respect of any stamp duty, tax or other governmental charges which may be imposed in relation to such transfer; (ii) the Registrar being satisfied in its absolute discretion with the documents of title and/or the identity of the person making the application; and (iii) the Issuer or the relevant Transfer Agent (after consultation with the Issuer if it so requires) being satisfied that the regulations concerning the Certificates have been complied with.

2.4 Closed Periods

No Certificateholder may require the transfer of a Certificate to be registered during the period of seven days ending on (and including) the due date for any payment of the Dissolution Distribution Amount (as defined in Condition 9.1 (*Scheduled Dissolution*)) or any Periodic Distribution Amount (as defined in Condition 6.2 (*Periodic Distribution Amount*)).

2.5 Regulations

All transfers of Certificates and entries on the Register will be made subject to the detailed regulations concerning transfer of Certificates scheduled to the Master Declaration of Trust. The regulations may be changed by the Issuer from time to time with the prior written approval of the Registrars. A copy of the current regulations will be mailed (free of charge and at the Issuer's expense) by the Registrar to any Certificateholder who requests in writing a copy of such regulations.

The holder of Certificates shall be entitled to receive, in accordance with Condition 2.2 (*Delivery of New Certificates*), only one Certificate in respect of his entire holding of Certificates. In the case of a transfer of a portion of the face amount of a Certificate, a new Certificate in respect of the balance of the Certificates not transferred will be issued to the transferor in accordance with Condition 2.2 (*Delivery of New Certificates*).

3. STATUS

3.1 Status

Each Certificate evidences an undivided ownership interest in the Trust Assets, subject to the terms of the Transaction Documents and these Conditions. Each Certificate ranks *pari passu*, without any preference or priority, with the other Certificates.

3.2 Agreement of Certificateholders

By purchasing Certificates, each Certificateholder is deemed to have agreed that notwithstanding anything to the contrary contained in these Conditions or any Transaction Document:

- (a) prior to the date which is one year and one day after the date on which all amounts owing by the Issuer under the Transaction Documents to which it is a party have been paid in full, it will not institute against, or join with any other person in instituting against, the Issuer or the Trustee any bankruptcy, reorganization, arrangement or liquidation proceedings or other proceedings under any bankruptcy or similar law; and
- (b) no recourse shall be had for the payment of any amount or performance of any obligation hereunder against any director of PPSI-III and no personal liability shall attach to or be incurred by the directors of the Trustee under the Declaration of Trust or other Transaction Documents save in the case of willful default or gross negligence.

4. TRUST

4.1 Summary of the Trust

PPSI-III has entered into an amended and restated master purchase agreement (the “**Master Purchase Agreement**”) dated August 15, 2014 with the Republic (in such capacity, the “**Seller**”), as supplemented by a supplemental purchase agreement dated on or about the Issue Date (as defined in the Pricing Supplement) (the “**Supplemental Purchase Agreement**” and together with the Master Purchase Agreement, the “**Purchase Agreement**”). Pursuant to the Purchase Agreement, the Seller has sold to PPSI-III beneficial rights in and to certain properties (as further described in the Schedule to the Purchase Agreement) (the “**Ijara Assets**”).

In the case of a Wakala Series, PPSI-III has also entered into a master procurement agreement (the “**Master Procurement Agreement**”) dated the August 15, 2014 with the Republic (in such capacity, the “**Project Seller**”), as supplemented by a supplemental procurement agreement dated on or about the Issue Date (the “**Supplemental Procurement Agreement**” and together with the Master Procurement Agreement, the “**Procurement Agreement**”). Pursuant to the Procurement Agreement, the Project Seller has sold to PPSI-III beneficial rights in and to certain assets (as further described in the Schedule to the Procurement Agreement) (the “**Project Assets**”) and has undertaken to procure the construction of the relevant assets (the construction of such assets being, a “**Project**”) pursuant to the specified Project in respect of such Project Assets and deliver such assets to PPSI-III upon completion.

PPSI-III (in its capacity as “**Lessor**”) has leased the Ijara Assets so sold to it by the Republic and, in the case of a Wakala Series, following the completion and delivery of assets pursuant to a specified Project, will lease the relevant Project Assets (together with the Ijara Assets, the “**Assets**”, as modified, where the context requires, to give effect to any substitution by the Republic, the transfer of Transferred Assets (as defined below) to the Republic pursuant to the Transfer Undertaking (as defined below) or procurement of new properties in connection with certain loss events by the Servicing Agent or Wakeel (each as defined below), as the case may be) to the Republic (in such capacity, the “**Lessee**”) pursuant to an amended and restated master lease agreement (the “**Master Lease Agreement**”) dated August 15, 2014, as supplemented by a supplemental lease agreement between PPSI-III and the Republic dated on or about the Issue Date, in the case of the Ijara Assets, and otherwise following the completion and delivery of the relevant assets, in the case of the Project Assets (the “**Supplemental Lease Agreement**” and together with the Master Lease Agreement, the “**Lease Agreement**”).

Under an amended and restated servicing agency agreement (the “**Servicing Agency Agreement**”) dated August 15, 2014, PPSI-III has appointed the Republic as servicing agent (the “**Servicing Agent**”) in respect of the properties underlying the Assets for an Ijara Series. Under a wakala agreement (the “**Wakala Agreement**”) dated August 15, 2014, PPSI-III has appointed the Republic as agent (the “**Wakeel**”) in respect of the properties underlying the Assets (including any Project Assets in respect of which the relevant assets are still to be completed pursuant to the specified Project and delivered) for a Wakala Series.

PPSI-III has executed an amended and restated substitution undertaking (the “**Substitution Undertaking**”) dated August 15, 2014 in favor of the Republic pursuant to which the Republic may, subject to certain conditions, require PPSI-III to accept the substitution of certain new assets (the “**New Assets**”) in replacement of certain existing Assets (the “**Replaced Assets**”) as described in a substitution notice provided by the Republic to PPSI-III (the “**Substitution Notice**”). Upon the Republic giving a Substitution Notice to PPSI-III, to give effect to such substitution, (i) PPSI-III shall enter into a substitution sale agreement (in the form scheduled to the Substitution Undertaking) with the Republic and (ii) PPSI-III (in its capacity as Lessor) and the Republic (in its capacity as Lessee) shall amend the Supplemental Lease Agreement to reflect the change in the composition of the properties that are subject to the Lease Agreement. If the value of the Replaced Assets as certified by the Republic is more than 20 per cent. of the aggregate outstanding face amount of the Certificates of such Series then the existing Supplemental Lease Agreement in respect of the relevant Replaced Assets shall be terminated and the Lessee and the Lessor shall immediately enter into a new Supplemental Lease Agreement in respect of the New Assets. PPSI-III and the Republic may also replace Project Assets under the Procurement Agreement prior to the completion and delivery of the relevant assets pursuant to the specified Project by the amendment of the schedule to the relevant Supplemental Procurement Agreement specifying such Project Assets.

The Republic has executed an amended and restated purchase undertaking (the “**Purchase Undertaking**”) dated August 15, 2014 in favor of, PPSI-III to purchase all of PPSI-III’s rights, title, benefits and entitlements in, to and under the Assets (including any Project Assets which are still to be completed pursuant to the specified Project and delivered) on the Scheduled Dissolution Date (as defined in Condition 9.1 (*Scheduled Dissolution*)) or, if earlier, on the due date for dissolution at an exercise price equal to the aggregate face amount of the Certificates then outstanding plus an amount equal to all accrued and unpaid Periodic Distribution Amounts as of such date (if any) plus any accrued Supplementary Rental (as defined in the Lease Agreement) incurred in connection with the properties underlying the Assets in respect of which an appropriate rental payment has not been made in accordance with the Lease Agreement.

PPSI-III has executed an amended and restated transfer undertaking (the “**Transfer Undertaking**”) dated August 15, 2014 in favor of the Republic. Under the terms of the Transfer Undertaking, if at any time the Republic wishes to cancel any Certificates that it has purchased pursuant to Condition 9.5 (*Purchases*), the Republic may, by exercising its right under the Transfer Undertaking and by serving a transfer notice (the “**Transfer Notice**”) on PPSI-III, require PPSI-III to transfer all of PPSI-III’s rights, title, benefits and entitlements in and to the Transferred Assets (specified in the Transfer Notice) to the Republic in consideration for which the Certificates shall be surrendered for cancellation. The transfer of the Transferred Assets will take effect by the Republic and PPSI-III entering into a transfer agreement (in the form scheduled to the Transfer Undertaking) (the “**Transfer Agreement**”). Following the entry into such Transfer Agreement, PPSI-III shall cancel the relevant Certificates identified for cancellation in the Transfer Notice on the Transfer Date specified in the Transfer Notice (which shall be a Periodic Distribution Date). PPSI-III (in its capacity as “**Lessor**”) and the Republic (in its capacity as “**Lessee**”) shall amend the Supplemental Lease Agreement to reflect the change in the composition of the properties that are subject to the Lease Agreement and, where the Transferred Assets include any Project Assets which are still to be completed pursuant to the specified Project and delivered, PPSI-III and the Republic (in its capacity as the Project Seller) shall amend the Supplemental Procurement Agreement to reflect the change in composition of the Project Assets.

The Republic has executed an amended and restated costs undertaking (the “**Costs Undertaking**”) dated August 15, 2014, whereby it undertakes to pay certain fees and expenses of and indemnify against certain liabilities incurred by, among others, the Delegate and the Agents.

In relation to each Series, the Issuer shall establish a transaction account in the Specified Currency (the “**Transaction Account**”) in the name of the Issuer with the Principal Paying Agent into which the Republic will cause to be deposited all rental payments due under the Lease Agreement, in the case of an Ijara Series, and an amount from such rental payments equal to the Periodic Distribution Amounts payable, in the case of a Wakala Series, and the exercise price payable under the Purchase Undertaking. All other monies (if any) derived from the Trust Assets will be paid into the Transaction Account and payments to be made to holders of Certificates will be made from funds standing to the credit of the Transaction Account.

Pursuant to the Declaration of Trust, the Issuer will declare that it will hold, for each Series, assets (the “**Trust Assets**”) consisting of:

- (a) all of the Issuer’s rights, title, interest and benefit in, to and under the Ijara Assets, in the case of an Ijara Series, and the Ijara Assets and the Project Assets, in the case of a Wakala Series (as varied from time to time as a result of the exercise of rights granted under the Substitution Undertaking or prior to

the completion and delivery of Project Assets as provided in the Procurement Agreement and which, as of any Transfer Date, shall exclude the Transferred Assets (as defined in the Transfer Undertaking));

- (b) all of the Issuer's rights, title, interest and benefit in, to and under the Transaction Documents (other than in relation to any representations given to the Issuer by the Republic pursuant to the Transaction Documents which relate to that Series);
- (c) all monies that from time to time are, standing to the credit of the Transaction Account for that Series; and
- (d) all proceeds of the foregoing,

upon trust absolutely for the holders of the Certificates *pro rata* according to the face amount of Certificates held by each holder in accordance with the Declaration of Trust and these Conditions.

The Purchase Agreement, the Procurement Agreement (in the case of a Wakala Series), the Lease Agreement, the Servicing Agency Agreement (in the case of an Ijara Series) or the Wakala Agreement (in the case of a Wakala Series), the Purchase Undertaking, the Transfer Undertaking, the Substitution Undertaking, the Costs Undertaking, the Declaration of Trust, the Agency Agreement and any other agreements and documents delivered or executed in connection therewith are collectively referred to as the Transaction Documents.

4.2 Application of Proceeds from Trust Assets

Pursuant to the Declaration of Trust, the Trustee holds the Trust Assets for and on behalf of the holders of the Certificates. On each Periodic Distribution Date or on the Dissolution Date, the Principal Paying Agent shall apply the monies standing to the credit of the Transaction Account in the following order of priority:

- (a) *first*, to the Delegate in respect of all amounts owing to it under the Transaction Documents in its capacity as Delegate;
- (b) *second*, to the Principal Paying Agent for application in or towards payment *pari passu* and ratably of all Periodic Distribution Amounts due but unpaid;
- (c) *third*, only if such payment is made on the Dissolution Date, to the Principal Paying Agent for application in or towards payment *pari passu* and ratably of the Dissolution Distribution Amount (as defined in Condition 9 (*Capital Distributions of the Trust*)) or amount payable following a Total Loss Event, where the Servicing Agent or the Wakeel, as the case may be, does not procure the full replacement of the Assets in accordance with the Servicing Agency Agreement or the Wakala Agreement, as the case may be;
- (d) *fourth*, only if such payment is made on the Dissolution Date, to the Servicing Agent or the Wakeel, as the case may be, in or towards payment of all outstanding Servicing Agency Expenses or Management Expenses, as the case may be; and
- (e) *fifth*, only if such payment is made on the Dissolution Date, to the Issuer in payment of any surplus.

5. COVENANTS

The Issuer covenants that, among other things, for so long as any Certificate is outstanding, it shall not:

- (a) incur any indebtedness in respect of borrowed money whatsoever, or give any guarantee or indemnity in respect of any obligation of any person or issue any shares (or rights, warrants or options in respect of shares or securities convertible into or exchangeable for shares) except, in all cases, as contemplated in the Transaction Documents;
- (b) secure any of its present or future indebtedness for borrowed money by any Encumbrance (as defined in the Declaration of Trust) upon any of its present or future assets, properties or revenues (other than those arising by operation of law), except as permitted or provided under the Transaction Documents;
- (c) except as provided in the Declaration of Trust, act as trustee in respect of any trust other than the Trust established in respect of each Series of Certificates issued under the Program or in respect of any parties other than the Certificateholders;
- (d) enter into any contract, transaction, amendment, obligation or liability other than the Transaction Documents to which it is a party or as expressly permitted or required thereunder or engage in any business or activity other than: (i) as provided for or permitted in the Transaction Documents; (ii) the

ownership, management and disposal of the Trust Assets or other trust assets as provided in the Transaction Documents; (iii) as required under Law No. 19 of 2008 on Sovereign Sukuk (*Surat Berharga Syariah Negara*), Government Regulation No. 56 of 2008 on *Perusahaan Penerbit Surat Berharga Syariah Negara* as amended by Government Regulation No. 73 of 2012 on the Amendment of Government Regulation No. 56 of 2008 on *Perusahaan Penerbit Surat Berharga Syariah Negara* and Government Regulation No. 57 of 2011 on the Establishment of *Perusahaan Penerbit Surat Berharga Syariah Negara Indonesia III* and (iv) such other matters which are incidental thereto;

- (e) sell, lease, transfer, assign, participate, exchange or otherwise dispose of, or Encumber (as defined in the Declaration of Trust) (by security interest, lien (statutory or otherwise), preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever or otherwise) (or permit such to occur or suffer such to exist), any part of its interests in any of the Trust Assets of any Series except pursuant to the Transaction Documents;
- (f) amend or agree to any amendment of any Transaction Document to which it is a party (other than in accordance with the terms thereof), in each case in a manner which is materially prejudicial to the rights of the holders of the Certificates, without the approval of Certificateholders by way of Extraordinary Resolution;
- (g) exercise its option under the Purchase Undertaking except in its capacity as Trustee;
- (h) have any subsidiaries or employees;
- (i) redeem any of its capital or pay any dividend or make any other distribution to its shareholders;
- (j) use the proceeds of the issue of the Certificates of any Series for any purpose other than as stated in the Transaction Documents; or
- (k) prior to the date which is one year and one day after the date on which all amounts owing by the Issuer under the Transaction Documents to which it is a party have been paid in full, put to its directors or shareholders any resolution for, or appoint any liquidator for, its winding up or any resolution for the commencement of any other bankruptcy or insolvency proceeding with respect to it.

6. FIXED PERIODIC DISTRIBUTION PROVISIONS

6.1 Application

This Condition 6 is applicable to the Certificates only if the Fixed Periodic Distribution Provisions are specified in the applicable Pricing Supplement as being applicable.

6.2 Periodic Distribution Amount

A Periodic Distribution Amount representing a defined share of the income of the Assets for each Series of Certificates will be payable in respect of the Certificates and be distributable by the Issuer to the Certificateholders in accordance with these Conditions.

6.3 Determination of Periodic Distribution Amount

Except as provided in the applicable Pricing Supplement, the Periodic Distribution Amount payable in respect of each Certificate for any Return Accumulation Period shall be the Fixed Amount and, if the Certificates are in more than one Specified Denomination, shall be the Fixed Amount in respect of each relevant Specified Denomination. Payments of the Periodic Distribution Amount on any Periodic Distribution Date may, if so specified in the applicable Pricing Supplement, amount to the Broken Amount so specified.

As used in the Conditions, “**Return Accumulation Period**” means the period from (and including) a Periodic Distribution Date (or the Return Accumulation Commencement Date (as defined in the applicable Pricing Supplement)) to (but excluding) the next (or first) Periodic Distribution Date.

If any Periodic Distribution Amount is required to be calculated for a period other than a Return Accumulation Period or if no relevant Fixed Amount or Broken Amount is specified in the applicable Pricing Supplement, such Periodic Distribution Amount shall be calculated by applying the Rate to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

“Day Count Fraction” means, in respect of the calculation of Periodic Distribution Amount in accordance with this Condition 6.3:

- (a) if **“Actual/Actual (ICMA)”** is specified in the applicable Pricing Supplement:
 - (i) in the case of Certificates where the number of days in the relevant period from (and including) the most recent Periodic Distribution Date (or, if none, the Return Accumulation Commencement Date) to (but excluding) the relevant payment date (the Accrual Period) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (A) the number of days in such Determination Period and (B) the number of Determination Dates (as specified in the applicable Pricing Supplement) that would occur in one calendar year; or
 - (ii) in the case of Certificates where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
 - (A) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
 - (B) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
- (b) if **“30/360”** is specified in the applicable Pricing Supplement, the number of days in the period from (and including) the most recent Periodic Distribution Date (or, if none, the Return Accumulation Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

In the Conditions:

“Determination Period” means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Return Accumulation Commencement Date (as specified in the applicable Pricing Supplement) or the final Periodic Distribution Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

“sub-unit” means, with respect to any currency, the lowest amount of such currency that is available as legal tender in the country of such currency.

6.4 Payment in Arrear

Subject to Condition 6.5 (*Cessation of Profit Entitlement*), Condition 9.3 (*Dissolution Following a Total Loss Event*) and Condition 12 (*Dissolution Events*) below, and unless otherwise specified in the applicable Pricing Supplement, each Periodic Distribution Amount will be paid in respect of the relevant Certificates in arrear on each Periodic Distribution Date.

6.5 Cessation of Profit Entitlement

No further amounts will be payable on any Certificate from and including the Scheduled Dissolution Date or, as the case may be, the Dissolution Date.

7. FLOATING PERIODIC DISTRIBUTION PROVISIONS

7.1 Application

This Condition 7 is applicable to the Certificates only if the Floating Periodic Distribution Provisions are specified in the applicable Pricing Supplement as being applicable.

7.2 Periodic Distribution Amount

A Periodic Distribution Amount representing a defined share of the income in the Assets of each Series of Certificates will be payable in respect of the Certificates and be distributable by the Issuer to the Certificateholders in accordance with these Conditions. Such Periodic Distribution Amounts will be payable in arrear on either:

- (a) the Specified Periodic Distribution Date(s) in each year specified in the applicable Pricing Supplement; or
- (b) (if no Specified Periodic Distribution Date(s) is/are specified in the applicable Pricing Supplement, each date (each such date, together with each Specified Periodic Distribution Date, a Periodic Distribution Date) which falls the number of months or other period specified as the Specified Period in the applicable Pricing Supplement after the preceding Periodic “**Distribution Date**” or, in the case of the first Periodic Distribution Date, after the Return Accumulation Commencement Date.

Such Periodic Distribution Amounts will be payable in respect of each Return Accumulation Period. If a Business Day Convention is specified in the applicable Pricing Supplement and (x) if there is no numerically corresponding day in the calendar month in which a Periodic Distribution Date should occur or (y) if any Periodic Distribution Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (a) in any case where Specified Periods are specified in accordance with Condition 7.2(a) above, the Floating Rate Convention, such Periodic Distribution Date (a) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (ii) below shall apply *mutatis mutandis* or (b) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (i) such Periodic Distribution Date shall be brought forward to the immediately preceding Business Day and (ii) each subsequent Periodic Distribution Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Periodic Distribution Date occurred; or
- (b) the Following Business Day Convention, such Periodic Distribution Date shall be postponed to the next day which is a Business Day; or
- (c) the Modified Following Business Day Convention, such Periodic Distribution Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Periodic Distribution Date shall be brought forward to the immediately preceding Business Day; or
- (d) the Preceding Business Day Convention, such Periodic Distribution Date shall be brought forward to the immediately preceding Business Day.

In this Condition 7, “**Business Day**” means a day which is either (i) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency; (ii) in relation to any sum payable in euro, a day on which the TARGET2 System is open, or (iii) in the case of a currency and/or one or more Additional 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 Additional Business Center(s) or, if no currency is indicated, generally in each of the Additional Business Centers.

7.3 Screen Rate Determination

If Screen Rate Determination is specified in the applicable Pricing Supplement as the manner in which the Rate(s) is/are to be determined, the Rate applicable to the Certificates for each Return Accumulation Period will be determined by the Calculation Agent on the following basis:

- (a) if the Reference Rate specified in the applicable Pricing Supplement is a composite quotation or customarily supplied by one entity, the Calculation Agent will determine the Reference Rate which appears on the Relevant Screen Page as of the Relevant Time (as specified in the applicable Pricing Supplement) on the relevant Periodic Distribution Determination Date;
- (b) in any other case, the Calculation Agent will determine the arithmetic mean of the Reference Rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Periodic Distribution Determination Date;

- (c) if, in the case of (a) above, such rate does not appear on that page or, in the case of (b) above, fewer than two such rates appear on that page or if, in either case, the Relevant Screen Page is unavailable, the Calculation Agent will:
 - (i) request each of the Reference Banks to provide a quotation of the Reference Rate at approximately the Relevant Time on the Periodic Distribution Determination Date to prime banks in the London or Eurozone interbank market, as the case may be, in an amount that is representative for a single transaction in that market at that time; and
 - (ii) determine the arithmetic mean of such quotations; and
- (d) if fewer than two such quotations are provided as requested, the Calculation Agent will determine the arithmetic mean of the rates (being the nearest to the Reference Rate, as determined by the Calculation Agent) quoted by major banks in the principal financial centre of the Specified Currency, selected by the Calculation Agent, at approximately 11.00 a.m. (local time in the principal financial centre of the Specified Currency) on the first day of the relevant Return Accumulation Period for loans in the Specified Currency to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market, or if the Reference Rate is EURIBOR, the Euro-zone interbank market for a period equal to the relevant Return Accumulation Period and in an amount that is representative for a single transaction in that market at that time, and the Rate for such Return Accumulation Period shall be the sum of the Margin and the rate or (as the case may be) the arithmetic mean so determined; **provided, however, that** if the Calculation Agent is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Return Accumulation Period, the Rate applicable to the Certificates during such Return Accumulation Period will be the sum of the Margin specified in the applicable Pricing Supplement and the rate or (as the case may be) the arithmetic mean last determined in relation to the Certificates in respect of a preceding Return Accumulation Period.

7.4 Cessation of Profit Entitlement

No further amounts will be payable on any Certificate from and including the Scheduled Dissolution Date or, as the case may be, the Dissolution Date.

7.5 Calculation of Periodic Distribution Amount

The Calculation Agent will, as soon as practicable after the time at which the Rate is to be determined in relation to each Return Accumulation Period, calculate the Periodic Distribution Amount payable in respect of each Certificate for such Return Accumulation Period. The Periodic Distribution Amount will be calculated by applying the Rate applicable to the relevant Return Accumulation Period to the face amount (in the case of a Certificate in global form) or Specified Denomination (in the case of a Certificate in individual registered form) of such Certificate during such Return Accumulation Period, multiplying the product by the relevant Day Count Fraction and rounding the resultant figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards).

“**Day Count Fraction**” means, in respect of the calculation of a Periodic Distribution Amount in accordance with this Condition 7:

- (a) if “**Actual/365**” or “**Actual/Actual**” is specified in the applicable Pricing Supplement, the actual number of days in the Return Accumulation Period divided by 365 (or, if any portion of that Return Accumulation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Return Accumulation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Return Accumulation Period falling in a non-leap year divided by 365);
- (b) if “**Actual/365 (Fixed)**” is specified in the applicable Pricing Supplement, the actual number of days in the Return Accumulation Period divided by 365;
- (c) if “**Actual/365 (Sterling)**” is specified in the applicable Pricing Supplement, the actual number of days in the Return Accumulation Period divided by 365 or, in the case of a Periodic Distribution Date falling in a leap year, 366;
- (d) if “**Actual/360**” is specified in the applicable Pricing Supplement, the actual number of days in the Return Accumulation Period divided by 360;
- (e) if “**30/360**” “**360/360**” or “**Bond Basis**” is specified in the applicable Pricing Supplement, the number of days in the Return Accumulation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (A) the last day of the Return Accumulation

Period is the 31st day of a month but the first day of the Return Accumulation Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (B) the last day of the Return Accumulation Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)); and

- (f) if “**30E/360**” or “**Eurobond Basis**” is specified in the applicable Pricing Supplement, the number of days in the Return Accumulation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Return Accumulation Period unless, in the case of the final Return Accumulation Period, the Scheduled Dissolution Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month).

“**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.

“**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.

“**TARGET2 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.

7.6 Calculation of Other Amounts

If the applicable Pricing Supplement specifies that any other amount is to be calculated by the Calculation Agent, the Calculation Agent will, as soon as practicable after the time or times at which any such amount is to be determined, calculate the relevant amount. The relevant amount will be calculated by the Calculation Agent in the manner specified in the applicable Pricing Supplement.

7.7 Publication

The Calculation Agent will cause each Rate and Periodic Distribution Amount determined by it, together with the relevant Periodic Distribution Date, and any other amount(s) required to be determined by it together with any relevant payment date(s) to be notified to the Issuer, Paying Agents and each listing authority, stock exchange and/or quotation system (if any) by which the Certificates have then been admitted to listing, trading and/or quotation as soon as practicable after such determination but (in the case of each Rate, Periodic Distribution Amount and Periodic Distribution Date) in any event not later than the first day of the relevant Return Accumulation Period. Notice thereof shall also promptly be given to the Certificateholders by the Calculation Agent in accordance with Condition 15 (*Notices*). The Calculation Agent will be entitled to recalculate any Periodic Distribution Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Return Accumulation Period.

7.8 Notifications, etc. to be final

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 7 by the Calculation Agent will (in the absence of willful default, bad faith or manifest or proven error) be binding on the Issuer, the Trustee, the Principal Paying Agent and all Certificateholders. No liability to the Issuer, the Trustee, the Republic, the Principal Paying Agent or the Certificateholders shall attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions under this Condition 7.

8. PAYMENT

8.1 Payments in Respect of Certificates

Subject to Condition 8.2 (*Payments Subject to Applicable Laws*), payment of the Dissolution Amount and any Periodic Distribution Amount will be made by the Principal Paying Agent in the Specified Currency, by wire transfer in same day funds to the registered account of each Certificateholder or if it does not have a registered account, by a cheque in the Specified Currency drawn on a bank that processes payments in the

Specified Currency and mailed to the registered address of the Certificateholder. Payments of the Dissolution Amount will only be made against surrender of the relevant Certificate at the specified office of any of the Paying Agents. The Dissolution Amount and each Periodic Distribution Amount will be paid to the Certificateholder shown on the Register at the close of business on the date (the Record Date) being the fifteenth day (whether or not a business day) before the date on which the Dissolution Amount or the relevant Periodic Distribution Amount, as the case may be, is due to be paid.

*For so long as the Certificates are represented by a Global Certificate deposited with a custodian for DTC or, in the case of Certificates issued outside the United States in reliance on Regulation S of the Securities Act, deposited with a common depository for Euroclear and Clearstream, Luxembourg, payments of the Distribution Amount and each Periodic Distribution Amount will be made to the person shown on the relevant Register as the registered Certificateholder represented by such Global Certificate at the close of business on the Clearing System Business Day before the due date for such payment (where “**Clearing System Business Day**” means a day on which each Clearing System with which the Global Certificate is being held is open for business).*

For the purposes of these Conditions, a Certificateholder’s “**registered account**” means the account in the Specified Currency maintained by or on behalf of it with a bank that processes payments in the Specified Currency, details of which appear on the Register at the close of business on the relevant Record Date and a Certificateholder’s “**registered address**” means its address appearing on the Register at that time.

8.2 Payments Subject to Applicable Laws

Payments in respect of Certificates are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment and where appropriate, the place of the specified office of the Paying Agent to whom the relevant Certificate is surrendered, but without prejudice to the provisions of Condition 9 (*Capital Distributions of the Trust*).

8.3 Payment only on a Payment Business Day

Where payment is to be made by transfer to a registered account, payment instructions (for value the due date or, if that is not a Payment Business Day, for value the first following day which is a Payment Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed at the risk and if mailed at the request of the holder otherwise than by ordinary mail, expense of the holder, in each case by the Principal Paying Agent on the due date for payment or, in the case of a payment of the Dissolution Amount, if later, on the Business Day on which the relevant Certificate is surrendered at the specified office of a Paying Agent (if required to do so).

Certificateholders will not be entitled to any additional Periodic Distribution Amount, Dissolution Amount or other payment for any delay after the due date in receiving the amount due if the due date is not a Payment Business Day or, if the relevant Certificateholder is late in surrendering its Certificate (if required to do so) or if a cheque mailed in accordance with this Condition 8.3 arrives after the due date for payment.

If the amount of the Dissolution Amount or any Periodic Distribution Amount is not paid in full when due, the Registrar will annotate the Register with a record of the amount actually paid.

In this Condition 8.3, “**Payment Business Day**” means:

- (a) a day on which banks in the relevant place of surrender of the definitive Certificate are open for presentation and payment of registered securities and for dealings in foreign currencies; and
- (b) in the case of payment by transfer to an account:
 - (i) if the currency of payment is euro, a TARGET2 Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Business Centre; or
 - (ii) if the currency of payment is not euro, any day which is a day on which dealings in foreign currencies may be carried on in the principal financial centre of the currency of payment and in each (if any) Additional Business Centre.

8.4 Agents

The names of the initial Agents and their initial specified offices are set out at the end of these Conditions. The Issuer reserves the right at any time to vary or terminate the appointment of any Agent and to appoint

additional or other Agents **provided that** it will at all times maintain (a) a Principal Paying Agent and a Registrar in New York and a Registrar in Luxembourg and (b) a Paying Agent (which may be the Principal Paying Agent) having its specified office in New York. In addition, for so long as the Certificates are listed on the Singapore Exchange Securities Trading Limited (“SGX-ST”) and the rules thereof so require, in the event that any of the Global Certificates are exchanged for definitive Certificates, the Issuer shall appoint and maintain a paying agent in Singapore, where the definitive Certificates may be presented or surrendered for payment or redemption. In addition, in the event that any of the Global Certificates are exchanged for definitive Certificates, announcement of such exchange shall be made through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive Certificates, including details of the paying agent in Singapore. Notice of any termination or appointment and of any changes in specified offices will be given to Certificateholders promptly by the Issuer in accordance with Condition 15 (*Notices*).

9. CAPITAL DISTRIBUTIONS OF THE TRUST

9.1 Scheduled Dissolution

Unless the Certificates are previously redeemed, the Issuer will redeem Certificates at the Dissolution Distribution Amount on the Scheduled Dissolution Date. Upon payment in full of the Dissolution Distribution Amount and the termination of the Trust, the Certificates shall cease to represent the Trust Assets and no further amounts shall be payable in respect thereof and the Issuer and the Trustee shall have no further obligations in respect thereof.

“**Dissolution Date**” means the Scheduled Dissolution Date or any other earlier date of dissolution of the Trust.

“**Dissolution Distribution Amount**” means the aggregate outstanding face amount of the Certificates plus the Periodic Distribution Amounts accrued and unpaid (if any) to the due date for dissolution.

“**Scheduled Dissolution Date**” in relation to a Series of Certificates shall be specified in the applicable Pricing Supplement.

9.2 Dissolution Following a Dissolution Event

Upon the occurrence of a Dissolution Event (as defined in Condition 12 (*Dissolution Events*)), which is continuing, the Certificates may be redeemed at the Dissolution Distribution Amount and the Trust dissolved by the Trustee on the dates specified in Condition 12 (*Dissolution Events*).

9.3 Dissolution Following a Total Loss Event

The occurrence of a Total Loss Event will result in the termination of the relevant Supplemental Lease Agreement(s) in respect of the properties the subject of the Total Loss Event and the redemption of the Certificates on the Total Loss Dissolution Date and the consequent dissolution of the Trust, unless the Republic (in its capacity as Servicing Agent or Wakeel, as the case may be) in its sole discretion decides to procure, on the date of occurrence of the Total Loss Event, sufficient new properties that will be made subject to the Lease Agreement. In such an event the Lessee and the Lessor shall immediately enter into a new Supplemental Lease Agreement in respect of the new properties. The Servicing Agent or the Wakeel, as the case may be, is also responsible for ensuring that, in such an event, all insurance proceeds (if any) in respect thereof are paid in the Specified Currency directly into the Transaction Account by no later than the close of business in London on the 30th day after the occurrence of the Total Loss Event.

If a Total Loss Event occurs and an amount (if any) less than the aggregate outstanding face amount of the relevant Series is credited to the Transaction Account (the difference between such amount in the Specified Currency and the amount credited to the Transaction Account being the “**Total Loss Shortfall Amount**”), then the Servicing Agent or the Wakeel, as the case may be, shall be required to pay (in the Specified Currency in same day, freely transferable, cleared funds) the Total Loss Shortfall Amount directly into the Transaction Account as soon as practicable and in any event by no later than close of business in London on the 31st day after the Total Loss Event has occurred.

“**Total Loss Dissolution Date**” means the earlier of (i) the date specified for redemption of the Certificates in a notice given by the Issuer to the Certificateholders, the Delegate and the Principal Paying Agent in accordance with Condition 15 (*Notices*); and (ii) the 31st day following the occurrence of a Total Loss Event following which the Servicing Agent or the Wakeel, as the case may be, has not procured the full replacement of the Assets.

“**Total Loss Event**” means the total loss or destruction of, or damage to the whole of, the properties underlying the Assets, or any event or occurrence that renders the whole of the properties underlying the Assets permanently unfit for any economic use and (but only after taking into consideration any insurances or other indemnity granted by any third party in respect of the properties underlying the Assets) the repair or remedial work in respect thereof is wholly uneconomical.

9.4 No Other Dissolution

The Issuer shall not be entitled to redeem the Certificates, and the Trustee shall not be entitled to dissolve the Trust otherwise than as provided in this Condition 9 and in Condition 12 (*Dissolution Events*).

9.5 Purchases

Notwithstanding anything to the contrary in any Transaction Document, the Issuer or the Republic may at any time purchase or acquire any Certificates in any manner and at any price. Certificates which are purchased or acquired by the Issuer or the Republic may, at the Issuer’s or the Republic’s discretion, as the case may be, be held, resold or surrendered for cancellation (subject to such Certificates being deemed not to remain outstanding for certain purposes as provided under the Master Declaration of Trust if so held).

Any Certificates resold shall be assigned a separate CUSIP from the Certificates redeemed unless such resold Certificates are treated as being issued in a “qualified reopening” for U.S. federal income tax purposes.

9.6 Cancellations

Should the Republic wish to cancel any Certificates purchased pursuant to Condition 9.5 (*Purchases*), it shall deliver a Transfer Notice to PPSI-III (in accordance with the terms of the Transfer Undertaking) whereupon PPSI-III shall, in accordance with the terms of the Transfer Undertaking, be required to transfer all of PPSI-III’s rights, title, benefits and entitlements in and to the Transferred Assets to the Republic in consideration for which the Certificates shall be surrendered for cancellation. The transfer of the Transferred Assets will take effect by the Republic and PPSI-III entering into a transfer agreement (in the form scheduled to the Transfer Undertaking). Following the entry into such transfer agreement, PPSI-III shall cancel the relevant Certificates identified for cancellation in the Transfer Notice on the Transfer Date (which shall be a Periodic Distribution Date). In addition, Certificates which are redeemed will forthwith be cancelled and accordingly may not be held, reissued or resold.

10. TAXATION

All payments in respect of the Certificates shall be made without withholding or deduction for, or on account of, any present or future taxes, levies, imposts, duties, fees, assessments or other charges of whatever nature, imposed or levied by or on behalf of any Relevant Jurisdiction (“**Taxes**”), unless the withholding or deduction of the Taxes is required by Indonesian law. In such event, the Issuer will pay additional amounts so that the full amount which otherwise would have been due and payable under the Certificates is received by parties entitled thereto, except that no such additional amount shall be payable in relation to any payment in respect of any Certificate:

- (a) presented for payment (where presentation is required) by or on behalf of a Certificateholder who is liable for such Taxes in respect of such Certificate by reason of having some connection with a Relevant Jurisdiction other than the mere holding of such Certificate or receiving payments thereon; or
- (b) presented for payment (where presentation is required) more than 30 days after the Relevant Date (as defined below) except to the extent that a Certificateholder would have been entitled to additional amounts on presenting the same for payment on the last day of the period of 30 days assuming, whether or not such is in fact the case, that day to have been a Payment Business Day; or
- (c) presented for payment (where presentation is required) by or on behalf of a Certificateholder who 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 Certificateholder.

In these Conditions:

“Relevant Date” means the date on which the payment first becomes due but, if the full amount of the money payable has not been received by the Principal Paying Agent or the Trustee on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect shall have been duly given to Certificateholders by the Issuer in accordance with Condition 15 (*Notices*); and

“Relevant Jurisdiction” means the Republic or any political subdivision thereof having the power to tax. For the avoidance of doubt, neither the Agents nor the Delegate shall be responsible or liable for (a) determining whether the Issuer is liable to pay any taxes or the amounts payable (if any) in connection with this Condition 9; or (b) determining the sufficiency or insufficiency of any amounts so paid and neither the Agents nor the Delegate shall be responsible to the Certificateholders or any other person for any loss arising from any failure by it to do so.

The Lease Agreement and the Purchase Undertaking each provide that payments thereunder by the Republic shall be made without withholding or deduction for, or on account of, any present or future Taxes, unless the withholding or deduction of the Taxes is required by Indonesian law and, in such case, provide for the payment by the Republic of additional amounts so that the full amount which would otherwise have been due and payable is received by PPSI-III.

11. PRESCRIPTION

The right to receive distributions in respect of the Certificates will be forfeited unless claimed within periods of ten years (in the case of the Dissolution Distribution Amount) and five years (in the case of Periodic Distribution Amounts) from the Relevant Date in respect thereof, subject to the provisions of Condition 8 (*Payment*). Neither the Agents nor the Delegate shall be responsible or liable for any amounts so prescribed.

12. DISSOLUTION EVENTS

Upon the occurrence and continuation of any of the following events (**“Dissolution Events”**):

- (a) the Issuer defaults in the payment of any Dissolution Amount or Periodic Distribution Amount and such default is not cured within 30 days of the due date for payment;
- (b) the Issuer defaults in the performance of any covenant or obligation under the Declaration of Trust and such default continues for a period of 60 days after written notice thereof has been given to the Issuer by the Delegate or to the Issuer at the address of its agent for service of process in England by holders of Certificates representing at least 10.0% of the aggregate face amount of the Certificates outstanding;
- (c) the Issuer ceases to exist at any time on or after the Scheduled Dissolution Date but before redemption in full of the Certificates is made;
- (d) the Republic as Lessee rejects any Rental Fixing Notice as defined in and delivered under the relevant Lease Agreement; and
- (e) a Republic Event (as defined in the Purchase Undertaking) occurs,

the Delegate shall give notice of the occurrence of such Dissolution Event to the holders of Certificates in accordance with Condition 15 (*Notices*) with a request to such holders to indicate if they wish the Trust to be dissolved. If so requested in writing by the holders of at least 25.0% of the then aggregate face amount of the Certificates outstanding or if so directed by an Extraordinary Resolution, the Delegate shall (subject in each case to being indemnified and/or secured and/or pre-funded to its satisfaction) or, if the Delegate so decides in its discretion, the Delegate may (but shall have no obligation to), give notice to the Issuer, the Republic and all the holders of the Certificates in accordance with Condition 15 (*Notices*) that the Certificates are to be redeemed at the Dissolution Distribution Amount on the date specified in such notice (which may not be earlier than the date on which the Republic receives such notice) and that the Trust is to be dissolved on the day after the last outstanding Certificate has been redeemed, unless the Issuer or the Republic has remedied the relevant Dissolution Event(s) and has notified the Delegate, each of the Agents and the holders of the Certificates prior to the receipt of such notice of dissolution from the Delegate, such notice to be provided by the Issuer or the Republic, (i) in respect of the Delegate and the Agents, in writing, signed by, in the case of the Issuer, the President Director of the Issuer and, in the case of the Republic, an authorized representative of the Republic and, (ii) in respect of the holders of the Certificates, in accordance with Condition 15 (*Notices*).

If the Dissolution Event(s) giving rise to such notice, other than the non-payment of the Dissolution Distribution Amount which has become due solely by reason of such notice, shall have been cured, waived or otherwise remedied, then the holders of more than 50.0% of the then aggregate face amount outstanding of the Certificates may instruct the Delegate in writing (and the Delegate shall act upon such instructions, subject to being indemnified and/or secured and/or prefunded against any liabilities which it may incur by doing so), on behalf of all Certificateholders, to waive the relevant Dissolution Event(s) and rescind and annul such notice and its consequences (but no such waiver or rescission and annulment shall extend to or affect any subsequent Dissolution Event or impair any right consequent thereon).

For the purpose of paragraph (a) above, amounts shall be considered due in respect of the Certificates (including any amounts calculated as being payable under Condition 6 (*Fixed Periodic Distribution Provisions*), Condition 7 (*Floating Periodic Distribution Provisions*), Condition 8 (*Payment*) and Condition 9 (*Capital Distributions of the Trust*)) notwithstanding that the Issuer or the Trustee has at the relevant time insufficient funds or Trust Assets to pay such amounts.

As set out in the Purchase Undertaking, each of the following events or circumstances shall constitute a “**Republic Event**”:

- (a) the Republic defaults in the payment of any Rental (as defined in the Lease Agreement) under the Lease Agreement or the Exercise Price (as defined in the Purchase Undertaking) and such default is not cured within 30 days of the due date for payment;
- (b) the Republic defaults in the performance of any other covenant in the Purchase Undertaking and such default continues for a period of 60 days after written notice thereof has been given to the Republic by the Delegate or to the Republic at the address of its agent for service of process in England by holders of Certificates representing at least 10.0% of the aggregate face amount of the Certificates outstanding;
- (c) any Public External Indebtedness (as defined in the Purchase Undertaking) 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);
- (d) the Republic defaults in the payment of principal or interest or profit 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 Delegate or to the Republic at the address of its agent for service of process in England by any holder of Certificates; and
- (e) the Republic declares a moratorium with respect to the payment of principal of or interest or profit on any Public External Indebtedness.

13. ENFORCEMENT AND EXERCISE OF RIGHTS

13.1 Upon the occurrence of a Dissolution Event, to the extent that the Dissolution Distribution Amount payable in respect of the Certificates has not been paid in full, PPSI-III or (subject to it being indemnified and/or secured and/or prefunded to its satisfaction) the Delegate acting on behalf of PPSI-III may, or (in the case of the Delegate) shall, if so instructed by an Extraordinary Resolution, or in the absence of an Extraordinary Resolution, in writing by holders of at least 25.0% of the then aggregate face amount of the Certificates outstanding and subject to being indemnified and/or secured and/or pre-funded to its satisfaction, (acting for the benefit of the Certificateholders) take one or more of the following steps:

- (a) enforce the provisions of the Purchase Undertaking against the Republic; and/or
- (b) take such other steps as PPSI-III or the Delegate may consider necessary or desirable to exercise all of the rights of PPSI-III under the Purchase Undertaking and any of the other Transaction Documents and make such distributions from the Trust Assets as PPSI-III is bound to make in accordance with the Declaration of Trust.

13.2 The Delegate shall not be bound in any circumstances to take any action to enforce or to realize the Trust Assets or take any action against the Issuer and/or the Republic under any Transaction Document to which either of the Issuer or the Republic is a party unless directed or requested to do so (a) by an Extraordinary Resolution or (b) in writing by the holders of at least 25.0% of the then aggregate face amount of the Certificates outstanding and in either case then only if it shall be indemnified and/or secured and/or pre-funded to its satisfaction against all liabilities to which it may thereby render itself liable or which it may incur by so doing.

13.3 No Certificateholder shall be entitled to proceed directly against the Issuer or the Republic under any Transaction Document unless (a) the Delegate, having become so bound to proceed in accordance with Condition 13.2 (*Enforcement and Exercise of Rights*), fails to do so within 60 days of becoming so bound and such failure is continuing and (b) the relevant Certificateholder (or such Certificateholder together with the other Certificateholders) who proposes to proceed directly against the Issuer or the Republic, holds at least 25.0% of the outstanding aggregate face amount of the Certificates. This Condition 13 is subject to the following:

- (a) under no circumstances shall the Delegate or any Certificateholder have any right to cause the sale or other disposition of any of the Trust Assets (other than in accordance with the Purchase Undertaking) and the sole right of the Delegate and the Certificateholders against the Issuer and the Republic shall be to enforce their respective obligations under the Transaction Documents; and
- (b) any action or proceeding commenced by an individual Certificateholder as described above must be for the equal, ratable and common benefit of all holders of the Certificates.

13.4 The foregoing paragraphs in this Condition 13 are subject to this paragraph. No Certificateholder shall be entitled in respect thereof to petition or to take any other steps for the winding up of the PPSI-III.

14. REPLACEMENT OF CERTIFICATES

Should any Certificate be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified offices of the Paying Agents upon payment by the claimant of the expenses and costs incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer, the Republic, the relevant Paying Agent or the Registrar may require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

15. NOTICES

All notices to Certificateholders will be valid if:

- (a) published in a daily newspaper (which will be a leading English language newspaper having general circulation) in Asia (which is expected to be the *Asian Wall Street Journal*) and a daily newspaper having general circulation in London (which is expected to be the *Financial Times*) approved by the Delegate; or
- (b) mailed to them by first class pre-paid registered mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective registered addresses.

The Issuer shall also ensure that notices are duly given or published in a manner which complies with the rules and regulations of any stock exchange on which the Certificates are for the time being listed. Any notice shall be deemed to have been given on the day after being so mailed or on the date of publication or, if so published more than once or on different dates, on the date of the first publication. So long as the Certificates are represented by one or more Global Certificates held on behalf of DTC or Euroclear and/or Clearstream, Luxembourg, or another clearing system as may be specified in the applicable Pricing Supplement, or, in each case, the relevant nominee, notices to Certificateholders may be given by delivery of the relevant notice to those clearing systems for communication to entitled holders in substitution for notification as set out under (a) or (b) above.

16. MEETINGS OF CERTIFICATEHOLDERS; WRITTEN RESOLUTIONS

(a) Convening Meetings of Certificateholders; Conduct of Meetings of Certificateholders; Written Resolutions

- (i) The Delegate, the Trustee or the Republic may convene a meeting of the Certificateholders at any time in respect of the Certificates in accordance with the Master Declaration of Trust and the Agency Agreement. The Delegate, the Trustee or the Republic (as the case may be) will determine the time and place of the meeting. The Delegate, the Trustee or the Republic (as the case may be) will notify the Certificateholders of the time, place and purpose of the meeting not less than 30 and not more than 60 days before the meeting.
- (ii) The Trustee, the Republic or the Delegate will convene a meeting of Certificateholders if the holders of at least 10 per cent. in principal amount of the outstanding Certificates (as defined in the Master Declaration of Trust and described in Condition 16(i) (*Certificates controlled by the Trustee or the Republic*)) have delivered a written request to the Trustee, the Republic or the Delegate (with a copy to the Trustee and the Republic) setting out the purpose of the meeting. The Delegate will agree the time

- and place of the meeting with the Trustee and the Republic promptly. The Trustee, the Republic or the Delegate, as the case may be, will notify the Certificateholders within 10 days of receipt of such written request of the time and place of the meeting, which shall take place not less than 30 and not more than 60 days after the date on which such notification is given.
- (iii) The Trustee or the Republic (as the case may be) (with the agreement of the Delegate) will set the procedures governing the conduct of any meeting in accordance with the Agency Agreement. If the Agency Agreement does not include such procedures, or additional procedures are required, the Trustee, the Republic and the Delegate will agree such procedures as are customary in the market and in such a manner as to facilitate any multiple series aggregation, if in relation to a Reserved Matter the Trustee or the Republic (as the case may be) proposes any modification to the terms and conditions of, or action with respect to, two or more series of securities issued by it.
 - (iv) The notice convening any meeting will specify, *inter alia*;
 - (A) the date, time and location of the meeting;
 - (B) the agenda and the text of any Extraordinary Resolution to be proposed for adoption at the meeting;
 - (C) the record date for the meeting, which shall be no more than five business days before the date of the meeting;
 - (D) the documentation required to be produced by a Certificateholder in order to be entitled to participate at the meeting or to appoint a proxy to act on the Certificateholder's behalf at the meeting;
 - (E) any time deadline and procedures required by any relevant international and/or domestic clearing systems or similar through which the Certificates are traded and/or held by Certificateholders;
 - (F) whether Condition 16(b) (Modification of a Single Series of Certificates only), or Condition 16(c) (Multiple Series Aggregation — Single limb voting), or Condition 16(d) (Multiple Series Aggregation — Two limb voting) shall apply and, if relevant, in relation to which other series of securities it applies;
 - (G) if the proposed modification or action relates to two or more series of securities issued by it and contemplates such series of securities being aggregated in more than one group of securities, a description of the proposed treatment of each such group of securities;
 - (H) such information that is required to be provided by the Trustee or the Republic (as the case may be) in accordance with Condition 16(f) (*Information*);
 - (I) the identity of the Aggregation Agent and the Calculation Agent, if any, for any proposed modification or action to be voted on at the meeting, and the details of any applicable methodology referred to in Condition 16(g) (*Claims Valuation*); and
 - (J) any additional procedures which may be necessary and, if applicable, the conditions under which a multiple series aggregation will be deemed to have been satisfied if it is approved as to some but not all of the affected series of securities.
 - (v) In addition, the Agency Agreement contains provisions relating to Written Resolutions. All information to be provided pursuant to Condition 16(a)(iv) (*Convening Meetings of Certificateholders; Conduct of Meetings of Certificateholders; Written Resolutions*) shall also be provided, *mutatis mutandis*, in respect of Written Resolutions.
 - (vi) A “**record date**” in relation to any proposed modification or action means the date fixed by the Trustee or the Republic (as the case may be) for determining the Certificateholders and, in the case of a multiple series aggregation, the holders of securities of each other affected series that are entitled to vote on a Multiple Series Single Limb Extraordinary Resolution or a Multiple Series Two Limb Extraordinary Resolution, or to sign a Multiple Series Single Limb Written Resolution or a Multiple Series Two Limb Written Resolution, which date shall be no more than five business days before the date of any such meeting.
 - (vii) An “**Extraordinary Resolution**” means any of a Single Series Extraordinary Resolution, a Multiple Series Single Limb Extraordinary Resolution and/or a Multiple Series Two Limb Extraordinary Resolution, as the case may be.
 - (viii) A “**Written Resolution**” means any of a Single Series Written Resolution, a Multiple Series Single Limb Written Resolution and/or a Multiple Series Two Limb Written Resolution, as the case may be.

- (ix) Any reference to “**securities**” means any trust certificates (including, without limitation, the Certificates), notes, bonds, debentures or other securities issued by the Trustee or the Republic in one or more series with an original stated maturity of more than one year.
- (x) “**Securities Capable of Aggregation**” means those securities which include or incorporate by reference this Condition 16 and Condition 17 (*Aggregation Agent; Aggregation Procedures*) or provisions substantially in these terms which provide for the securities which include such provisions to be capable of being aggregated for voting purposes with other series of securities.

(b) Modification of a Single Series of Certificates only

- (i) Without prejudice to clause 10.1 of the Declaration of Trust, any modification of any provision of, or any action in respect of, these Conditions or the Transaction Documents in respect of the Certificates may be made or taken if approved by a Single Series Extraordinary Resolution or a Single Series Written Resolution as set out below.
- (ii) A “**Single Series Extraordinary Resolution**” means a resolution passed at a meeting of Certificateholders duly convened and held in accordance with the procedures prescribed by the Trustee or the Republic and the Delegate pursuant to Condition 16(a) (*Convening Meetings of Certificateholders; Conduct of Meetings of Certificateholders; Written Resolutions*) by a majority of:
 - (A) in the case of a Reserved Matter, at least 75 per cent. of the aggregate principal amount of the outstanding Certificates that are represented at a meeting; or
 - (B) in the case of a matter other than a Reserved Matter, more than 50 per cent. of the aggregate principal amount of the outstanding Certificates that are represented at a meeting.
- (iii) A “**Single Series Written Resolution**” means a resolution in writing signed or confirmed in writing by or on behalf of the holders of:
 - (A) in the case of a Reserved Matter, at least 75 per cent. of the aggregate principal amount of the outstanding Certificates; or
 - (B) in the case of a matter other than a Reserved Matter more than 50 per cent. of the aggregate principal amount of the outstanding Certificates.

Any Single Series Written Resolution may be contained in one document or several documents in the same form, each signed or confirmed in writing by or on behalf of one or more Certificateholders.
- (iv) Any Single Series Extraordinary Resolution duly passed or Single Series Written Resolution approved shall be binding on all Certificateholders, whether or not they attended any meeting, whether or not they voted in favour thereof and whether or not they signed or confirmed in writing any such Single Series Written Resolution, as the case may be.

(c) Multiple Series Aggregation — Single limb voting

- (i) In relation to a proposal that includes a Reserved Matter, any modification to the terms and conditions of, or any action with respect to, two or more series of Securities Capable of Aggregation may be made or taken if approved by a Multiple Series Single Limb Extraordinary Resolution or by a Multiple Series Single Limb Written Resolution as set out below, **provided that** the Uniformly Applicable condition is satisfied.
- (ii) A “**Multiple Series Single Limb Extraordinary Resolution**” means a resolution considered at separate meetings of the holders of each affected series of Securities Capable of Aggregation, duly convened and held in accordance with the procedures prescribed by the Trustee or the Republic (as the case may be) and the Delegate pursuant to Condition 16(a) (*Convening Meetings of Certificateholders; Conduct of Meetings of Certificateholders; Written Resolutions*), as supplemented if necessary, which is passed by a majority of at least 75 per cent. of the aggregate principal amount of the outstanding securities of all affected series of Securities Capable of Aggregation (taken in aggregate).
- (iii) A “**Multiple Series Single Limb Written Resolution**” means each resolution in writing (with a separate resolution in writing or multiple separate resolutions in writing distributed to the holders of each affected series of Securities Capable of Aggregation, in accordance with the applicable documentation) which, when taken together, has been signed or confirmed in writing by or on behalf of the holders of at least 75 per cent. of the aggregate principal amount of the outstanding securities of all

affected series of Securities Capable of Aggregation (taken in aggregate). Any Multiple Series Single Limb Written Resolution may be contained in one document or several documents in substantially the same form, each signed or confirmed in writing by or on behalf of one or more Certificateholders or one or more holders of each affected series of securities.

- (iv) Any Multiple Series Single Limb Extraordinary Resolution duly passed or Multiple Series Single Limb Written Resolution approved shall be binding on all Certificateholders and holders of each other affected series of Securities Capable of Aggregation, whether or not they attended any meeting, whether or not they voted in favour thereof, whether or not any other holder or holders of the same series voted in favour thereof and whether or not they signed or confirmed in writing any such Multiple Series Single Limb Written Resolution, as the case may be.
- (v) The “**Uniformly Applicable**” condition will be satisfied if:
 - (A) the holders of all affected series of Securities Capable of Aggregation are invited to exchange, convert, or substitute their securities, on the same terms, for (i) the same new instrument or other consideration or (ii) a new instrument, new instruments or other consideration from an identical menu of instruments or other consideration; or
 - (B) the amendments proposed to the terms and conditions of each affected series of Securities Capable of Aggregation would, following implementation of such amendments, result in the amended instruments having identical provisions (other than provisions which are necessarily different, having regard to different currency of issuance).
- (vi) Any modification or action proposed under Condition 16(c)(i) (*Multiple Series Aggregation — Single Limb Voting*) may be made in respect of some series only of the Securities Capable of Aggregation and, for the avoidance of doubt, the provisions described in this Condition 16(c) may be used for different groups of two or more series of Securities Capable of Aggregation simultaneously.

(d) Multiple Series Aggregation — Two limb voting

- (i) In relation to a proposal that includes a Reserved Matter, any modification to the terms and conditions of, or any action with respect to, two or more series of Securities Capable of Aggregation may be made or taken if approved by a Multiple Series Two Limb Extraordinary Resolution or by a Multiple Series Two Limb Written Resolution as set out below.
- (ii) A “**Multiple Series Two Limb Extraordinary Resolution**” means a resolution considered at separate meetings of the holders of each affected series of Securities Capable of Aggregation, duly convened and held in accordance with the procedures prescribed by the Trustee or the Republic (as the case may be) and the Delegate pursuant to Condition 16(a) (*Convening Meetings of Certificateholders; Conduct of Meetings of Certificateholders; Written Resolutions*), as supplemented if necessary, which is passed by a majority of:
 - (A) at least 66⅔ per cent. of the aggregate principal amount of the outstanding securities of affected series of Securities Capable of Aggregation (taken in aggregate); and
 - (B) more than 50 per cent. of the aggregate principal amount of the outstanding securities in each affected series of Securities Capable of Aggregation (taken individually).
- (iii) A “**Multiple Series Two Limb Written Resolution**” means each resolution in writing (with a separate resolution in writing or multiple separate resolutions in writing distributed to the holders of each affected series of Securities Capable of Aggregation, in accordance with the applicable documentation) which, when taken together, has been signed or confirmed in writing by or on behalf of the holders of:
 - (A) at least 66⅔ per cent. of the aggregate principal amount of the outstanding securities of all the affected series of Securities Capable of Aggregation (taken in aggregate); and
 - (B) more than 50 per cent. of the aggregate principal amount of the outstanding securities in each affected series of Securities Capable of Aggregation (taken individually).

Any Multiple Series Two Limb Written Resolution may be contained in one document or several documents in substantially the same form, each signed or confirmed in writing by or on behalf of one or more Certificateholders or one or more holders of each affected series of Securities Capable of Aggregation.

- (iv) Any Multiple Series Two Limb Extraordinary Resolution duly passed or Multiple Series Two Limb Written Resolution approved shall be binding on all Certificateholders and holders of each other

affected series of Securities Capable of Aggregation, whether or not they attended any meeting, whether or not they voted in favour thereof, whether or not any other holder or holders of the same series voted in favour thereof and whether or not they signed or confirmed in writing any such Multiple Series Two Limb Written Resolution, as the case may be.

- (v) Any modification or action proposed under Condition 16(d)(i) (*Multiple Series Aggregation — Two limb voting*) may be made in respect of some series only of the Securities Capable of Aggregation and, for the avoidance of doubt, the provisions described in this Condition 16(d) may be used for different groups of two or more series of Securities Capable of Aggregation simultaneously.

(e) Reserved Matters

In these Conditions, “**Reserved Matter**” means any proposal:

- (i) to change the Scheduled Dissolution Date or any other date, or the method of determining the Scheduled Dissolution Date or any other date, for payment of the Dissolution Distribution Amount, the Periodic Distribution Amount or any other amount in respect of the Certificates, to reduce or cancel the amount of the Dissolution Distribution Amount, the Periodic Distribution Amount or any other amount payable on any date in respect of the Certificates or to change the method of calculating the amount of the Dissolution Distribution Amount, the Periodic Distribution Amount or any other amount payable in respect of the Certificates on any date;
- (ii) to change the currency in which any amount due in respect of the Certificates is payable or the place in which any payment is to be made;
- (iii) to change the majority required to pass an Extraordinary Resolution, a Written Resolution or any other resolution of Certificateholders or the number or percentage of votes required to be cast, or the number or percentage of Certificates required to be held, in connection with the taking of any decision or action by or on behalf of the Certificateholders or any of them;
- (iv) to change this definition, or the definition of “Extraordinary Resolution”, “Single Series Extraordinary Resolution”, “Multiple Series Single Limb Extraordinary Resolution”, “Multiple Series Two Limb Extraordinary Resolution”, “Written Resolution”, “Single Series Written Resolution”, “Multiple Series Single Limb Written Resolution” or “Multiple Series Two Limb Written Resolution”;
- (v) to change the definition of “securities” or “Securities Capable of Aggregation”;
- (vi) to change the definition of “Uniformly Applicable”;
- (vii) to change the definition of “outstanding” or to modify the provisions of Condition 16(i) (*Certificates controlled by the Trustee or the Republic*);
- (viii) to change the legal ranking of the Certificates;
- (ix) to permit early redemption of the Certificates or, if early redemption is already permitted, set a redemption date earlier than the date previously specified or reduce the redemption price;
- (x) to change any provision of the Certificates describing circumstances in which the Certificates are to be redeemed upon the occurrence of a Dissolution Event, set out in Condition 12 (*Dissolution Events*);
- (xi) to change the law governing the Certificates, the courts to the jurisdiction of which the Trustee and the Republic have submitted in the Certificates, any of the arrangements specified in the Certificates to enable proceedings to be taken or the Trustee’s or the Republic’s waiver of immunity, in respect of actions or proceedings brought by any Certificateholder, set out in Condition 20 (*Governing Law and Submission to Jurisdiction*);
- (xii) to impose any condition on or otherwise change the Trustee’s obligation to make payments of the Dissolution Distribution Amount, the Periodic Distribution Amount or any other amount in respect of the Certificates, including by way of the addition of a call option;
- (xiii) to modify the provisions of this Condition 16(e);
- (xiv) except as permitted by any Transaction Document, to release any agreement guaranteeing or securing payments under the Certificates or to change the terms of any such guarantee or security;
- (xv) to exchange or substitute all the Certificates for, or convert all the Certificates into, other obligations or securities of the Trustee or the Republic (as the case may be) or any other person, or to modify any provision of these Conditions in connection with any exchange or substitution of the Certificates for, or the conversion of the Certificates into, any other obligations or securities of the Trustee or the Republic

(as the case may be) or any other person, which would result in the Conditions as so modified being less favourable to the Certificateholders which are subject to the Conditions as so modified than:

- (A) the provisions of the other obligations or securities of the Trustee or the Republic or any other person resulting from the relevant exchange or substitution or conversion; or
- (B) if more than one series of other obligations or securities results from the relevant exchange or substitution or conversion, the provisions of the resulting series of securities having the largest aggregate principal amount.

(f) Information

Prior to or on the date that the Delegate, the Trustee or the Republic proposes any Extraordinary Resolution or Written Resolution pursuant to Condition 16(b) (*Modification of a Single Series of Certificates only*), Condition 16(c) (*Multiple Series Aggregation — Single limb voting*) or Condition 16(d) (*Multiple Series Aggregation — Two limb voting*), the Trustee or the Republic (as the case may be) shall publish in accordance with Condition 17 (*Aggregation Agent; Aggregation Procedures*), and provide the Delegate with the following information:

- (i) a description of the Republic's economic and financial circumstances, a description of the Republic's existing debts and a description of its broad policy reform program and provisional macroeconomic outlook, in each case to the extent that such matters are, in the Republic's opinion, relevant to the request for any potential modification or action;
- (ii) if the Republic shall at the time have entered into an arrangement for financial assistance with multilateral and/or other major creditors or creditor groups and/or an agreement with any such creditors regarding debt relief, a description of any such arrangement or agreement. Where permitted under the information disclosure policies of the multilateral or such other creditors, as applicable, copies of the arrangement or agreement shall be provided;
- (iii) a description of the Republic's proposed treatment of external securities that fall outside the scope of any multiple series aggregation and its intentions with respect to any other securities and its other major creditor groups; and
- (iv) if any proposed modification or action contemplates securities being aggregated in more than one group of securities, a description of the proposed treatment of each such group, as required for a notice convening a meeting of the Certificateholders in Condition 16(a)(iv)(G) (*Convening Meetings of Certificateholders; Conduct of Meetings of Certificateholders; Written Resolutions*).

(g) Claims Valuation

For the purpose of calculating the par value of the Certificates and any affected series of securities which are to be aggregated with the Certificates in accordance with Condition 16(c) (*Multiple Series Aggregation — Single limb voting*) and Condition 16(d) (*Multiple Series Aggregation — Two limb voting*), the Trustee or the Republic (as the case may be) may appoint a Calculation Agent. The Trustee or the Republic (as the case may be) shall, with the approval of the Aggregation Agent and any appointed Calculation Agent, promulgate the methodology in accordance with which the par value of the Certificates and such affected series of securities will be calculated. In any such case where a Calculation Agent is appointed, the same person will be appointed as the Calculation Agent for the Certificates and each other affected series of securities for these purposes, and the same methodology will be promulgated for each affected series of securities.

(h) Manifest error, etc.

The Certificates, these Conditions and the provisions of the Master Declaration of Trust or the Agency Agreement may be amended, without the consent of the Certificateholders, to correct a manifest error. In addition, the parties to the Master Declaration of Trust may agree to modify any provision thereof, but the Delegate shall not agree, without the consent of the Certificateholders, to any such modification unless, in the opinion of the Delegate, it is of a formal, minor or technical nature or it is not materially prejudicial to the interests of the Certificateholders.

(i) Certificates controlled by the Trustee or the Republic

For the purposes of (i) determining the right to attend and vote at any meeting of Certificateholders, or the right to sign or confirm in writing, or authorise the signature of, any Written Resolution and (ii) this Condition 16, any Certificates which are for the time being held by or on behalf of the Trustee, the Republic or by or on behalf of any person which is owned or controlled directly or indirectly by the Trustee or the Republic or by any public sector instrumentality of the Trustee or the Republic shall be disregarded and be deemed not to remain outstanding, where:

- (i) “**public sector instrumentality**” means Bank Indonesia, any other department, ministry or agency of the government of Indonesia or any corporation, trust, financial institution or other entity owned or controlled by the government of Republic or any of the foregoing; and
- (ii) “**control**” means the power, directly or indirectly, through the ownership of voting securities or other ownership interests or through contractual control or otherwise, to direct the management of or elect or appoint a majority of the board of directors or other persons performing similar functions in lieu of, or in addition to, the board of directors of a corporation, trust, financial institution or other entity.

A Certificate will also be deemed to be not outstanding if the Certificate has previously been cancelled or delivered for cancellation or held for reissuance but not reissued, or, where relevant, the Certificate has previously been called for redemption in accordance with its terms or previously become due and payable at maturity or otherwise and the Trustee or the Republic (as the case may be) has previously satisfied its obligations to make all payments due in respect of the Certificate in accordance with its terms.

In advance of any meeting of Certificateholders, or in connection with any Written Resolution, the Trustee or the Republic (as the case may be) shall provide to the Delegate a copy of the certificate prepared pursuant to Condition 17(d) (*Certificate*), which includes information on the total number of Certificates which are for the time being held by or on behalf of the Trustee or the Republic (as the case may be) or by or on behalf of any person which is owned or controlled directly or indirectly by the Trustee or the Republic (as the case may be) or by any public sector instrumentality of the Trustee or the Republic (as the case may be) and, as such, such Certificates shall be disregarded and deemed not to remain outstanding for the purposes of ascertaining the right to attend and vote at any meeting of Certificateholders or the right to sign, or authorise the signature of, any Written Resolution in respect of any such meeting. The Delegate shall make any such certificate available for inspection during normal business hours at its specified office and, upon reasonable request, will allow copies of such certificate to be taken.

(j) Publication

The Trustee or the Republic (as the case may be) shall publish all Extraordinary Resolutions and Written Resolutions which have been determined by the Aggregation Agent to have been duly passed in accordance with Condition 17(g) (*Manner of publication*).

(k) Exchange and Conversion

Any Extraordinary Resolutions or Written Resolutions which have been duly passed and which modify any provision of, or action in respect of, the Conditions may be implemented at the option of the Trustee or the Republic (as the case may be) by way of a mandatory exchange or conversion of the Certificates and each other affected series of securities, as the case may be, into new securities containing the modified terms and conditions if the proposed mandatory exchange or conversion of the Certificates is notified to Certificateholders at the time notification is given to the Certificateholders as to the proposed modification or action. Any such exchange or conversion shall be binding on all Certificateholders.

17. AGGREGATION AGENT; AGGREGATION PROCEDURES

(a) Appointment

The Trustee or the Republic (as the case may be) will appoint an aggregation agent (the “**Aggregation Agent**”) to calculate whether a proposed modification or action has been approved by the required principal amount outstanding of Certificates, and, in the case of a multiple series aggregation, by the required principal amount of outstanding securities of each affected series of Securities Capable of Aggregation. In the case of a multiple series aggregation, the same person will be appointed as the Aggregation Agent for the proposed modification of any provision of, or any action in respect of, these Conditions, the Master Declaration of Trust or the Agency Agreement in respect of the Certificates and in respect of the terms and conditions or documentation in respect of each other affected series of Securities Capable of Aggregation. The Aggregation Agent shall be independent of the Trustee and the Republic.

(b) Extraordinary Resolutions

If an Extraordinary Resolution has been proposed at a duly convened meeting of Certificateholders to modify any provision of, or action in respect of, these Conditions or the Master Declaration of Trust and other affected series of Securities Capable of Aggregation, as the case may be, the Aggregation Agent will, as soon as practicable after the time the vote is cast, calculate whether holders of a sufficient portion of the aggregate principal amount of the outstanding Certificates and, where relevant, each other affected series of Securities Capable of Aggregation, have voted in favour of the Extraordinary Resolution such that the Extraordinary Resolution is passed. If so, the Aggregation Agent will determine that the Extraordinary Resolution has been duly passed.

(c) Written Resolutions

If a Written Resolution has been proposed under the terms of these Conditions, the Agency Agreement or the Master Declaration of Trust to modify any provision of, or action in respect of, these Conditions, the Agency Agreement or the Master Declaration of Trust and the terms and conditions of other affected series of Securities Capable of Aggregation, as the case may be, the Aggregation Agent will, as soon as reasonably practicable after the relevant Written Resolution has been signed or confirmed in writing, calculate whether holders of a sufficient portion of the aggregate principal amount of the outstanding Certificates and, where relevant, each other affected series of Securities Capable of Aggregation, have signed or confirmed in writing in favour of the Written Resolution such that the Written Resolution is passed. If so, the Aggregation Agent will determine that the Written Resolution has been duly passed.

(d) Certificate

For the purposes of Condition 17(b) (*Extraordinary Resolutions*) and Condition 17(c) (*Written Resolutions*), the Trustee and Republic will provide a certificate to the Aggregation Agent up to three days prior to, and in any case no later than, with respect to an Extraordinary Resolution, the date of the meeting referred to in Condition 16(b) (*Modification of a Single Series of Certificates only*), Condition 16 (c) (*Single limb voting*) or Condition 16(d) (*Multiple Series Aggregation — Two limb voting*), as applicable, and, with respect to a Written Resolution, the date arranged for the signing of the Written Resolution.

The certificate shall:

- (i) list the total principal amount of Certificates and, in the case of a multiple series aggregation, the total principal amount of each other affected series of Securities Capable of Aggregation outstanding on the record date; and
- (ii) clearly indicate the Certificates and, in the case of a multiple series aggregation, securities of each other affected series of Securities Capable of Aggregation which shall be deemed not to remain outstanding as a consequence of Condition 16(i) (*Certificates controlled by the Trustee or the Republic*) on the record date identifying the holders of the Certificates and, in the case of a multiple series aggregation, securities of each other affected series of Securities Capable of Aggregation.

The Aggregation Agent may rely upon the terms of any certificate, notice, communication or other document believed by it to be genuine.

(e) Notification

The Aggregation Agent will cause each determination made by it for the purposes of this Condition 17 to be notified to the Delegate, the Trustee and the Republic as soon as practicable after such determination. Notice thereof shall also promptly be given to the Certificateholders.

(f) Binding nature of determinations; no liability

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 17 by the Aggregation Agent and any appointed Calculation Agent will (in the absence of manifest error) be binding on the Trustee, the Republic, the Delegate, the Certificateholders and (subject as aforesaid) no liability to any such person will attach to the Aggregation Agent or the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

(g) Manner of publication

The Trustee and the Republic will publish all notices and other matters required to be published pursuant to these Conditions, the Master Declaration of Trust and the other Transaction Documents including any matters required to be published pursuant to Condition 16 (*Meetings of Certificateholders; Written Resolutions*), this Condition 17 (*Aggregation Agent; Aggregation Procedures*) and Condition 12 (*Dissolution Events*):

- (i) on the following websites: (A) www.djppr.kemenkeu.go.id; and (B) www.kemenkeu.go.id;
- (ii) through the relevant clearing systems;
- (iii) in such other places and in such other manner as may be required by applicable law or regulation; and
- (iv) in such other places and in such other manner as may be customary.

18. INDEMNIFICATION AND LIABILITY OF THE DELEGATE

18.1 The Declaration of Trust contains provisions for the indemnification of the Delegate in certain circumstances and for its relief from responsibility, including provisions relieving it from taking action unless indemnified and/or secured and/or pre-funded to its satisfaction. In particular, in connection with the exercise of any of its rights in respect of the Trust Assets, the Delegate shall in no circumstances take any action unless directed to do so in accordance with Condition 13.2 (*Enforcement and Exercise of Rights*), and then only if it shall have been indemnified and/or secured and/or pre-funded to its satisfaction.

18.2 The Delegate makes no representation and assumes no responsibility for the validity, sufficiency or enforceability of the obligations of the Issuer or the Republic under the Transaction Documents to which it is a party and shall not under any circumstances have any liability or be obliged to account to Certificateholders in respect of any payments which should have been paid by the Issuer or the Republic but are not so paid and shall not in any circumstances have any liability arising from the Trust Assets other than as expressly provided in these Conditions or in the Declaration of Trust.

18.3 Each of the Trustee, the Delegate and each Agent is exempted from (a) any liability in respect of any loss or theft of the Trust Assets or any cash, (b) any obligation to insure the Trust Assets or any cash and (c) any claim arising from the fact that the Trust Assets or any cash are held by or on behalf of the Trustee or on deposit or in an account with any depositary or clearing system or are registered in the name of the Trustee or its nominee, unless such loss or theft arises as a result of gross negligence, fraud or willful misconduct by the Trustee or the Delegate, as the case may be.

18.4 Whenever the Delegate is required or entitled by the terms of the Declaration of Trust or these Conditions to exercise any discretion or power, take any action, make any decision or give any direction, the Delegate is entitled, prior to exercising any such discretion or power, taking such action, making any such decision, or giving any such direction, seek directions from Certificateholders by way of an Extraordinary Resolution, and the Delegate is not responsible or liable for any loss or liability incurred by any person as a result of any delay in it exercising such discretion or power, taking such action, making such decision, or giving such direction where the Delegate is seeking such directions.

18.5 The Delegate shall not (unless and to the extent ordered so to do by a court of competent jurisdiction) be required to disclose to any Certificateholder any information (including, without limitation, information of a confidential, financial or price sensitive nature) made available by the Republic or any other person in connection with these Conditions or the Certificates and no Certificateholder shall be entitled to take any action to obtain from the Delegate any such information.

19. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of these Conditions, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

20. GOVERNING LAW AND SUBMISSION TO JURISDICTION

20.1 The Declaration of Trust (including these Conditions), the Certificates and any non-contractual obligations arising out of or in connection with the Declaration of Trust (including these Conditions) or the Certificates, are governed by, and will be construed in accordance with, English law.

- 20.2** Each of the Issuer and the Republic has in the Declaration of Trust irrevocably agreed for the benefit of the Trustee, the Delegate and the Certificateholders that the courts of England are to have exclusive jurisdiction to settle any dispute, suit, action or proceeding (together referred to as “**Proceedings**”) which may arise out of or in connection with the Declaration of Trust (including these Conditions) and any non-contractual obligations which may arise out of or in connection with the Declaration of Trust (including these Conditions) and accordingly submitted to the exclusive jurisdiction of the English courts.
- 20.3** Each of the Issuer and the Republic has in the Declaration of Trust waived any objection to the courts of England on the grounds that they are an inconvenient or inappropriate forum.
- 20.4** Each of the Issuer and the Republic has in the Declaration of Trust appointed an agent for service of process in England (which, as of the Closing Date is the Representative office of Bank Indonesia in the City of London at 10 City Road, London EC1Y 2EH) in respect of any Proceedings and agreed that in the event of such agent ceasing so to act it will appoint another person as its agent for that purpose.
- 20.5** Subject to Condition 20.6 (*Governing Law and Submission to Jurisdiction*), each of the Issuer and the Republic has in the Declaration of Trust agreed that to the extent that it may claim for itself or its assets or revenues immunity from jurisdiction, enforcement, prejudgment proceedings, injunctions and all other legal proceedings and relief and to the extent that such immunity (whether or not claimed) may be attributed to it or its assets or revenues, it will not claim and has irrevocably and unconditionally waived such immunity in relation to any Proceedings. Further, it has irrevocably and unconditionally consented to the giving of any relief or the issue of any legal proceedings, including, without limitation, jurisdiction, enforcement, prejudgment proceedings and injunctions in connection with any Proceedings.
- 20.6** Notwithstanding anything to the contrary described in Condition 20.5 (*Governing Law and Submission to Jurisdiction*), no waiver of immunity or consent shall be deemed or interpreted to include any waiver of immunity or consent in respect of (i) actions brought against the Issuer or the Republic arising out of or based upon United States federal or state securities laws, (ii) attachment under Indonesian laws, (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; **provided that** the foregoing limitations shall not preclude any Proceeding to enforce any provision of the Declaration of Trust relating to the Trust Assets.

AGENTS AND SPECIFIED OFFICES

The Principal Paying Agent with respect to Certificates held through DTC:

The Bank of New York Mellon
101 Barclay Street
21st Floor West
New York NY 10286
United States of America

Facsimile: +1 212 815 5915
Attention: Global Corporate Trust

The Registrar and Transfer Agent with respect to Certificates held through DTC:

The Bank of New York Mellon

101 Barclay Street
21st Floor West
New York NY 10286
United States of America

Facsimile: +1 212 815 5915
Attention: Global Corporate Trust

The Transfer Agent with respect to Regulation S Certificates held through Euroclear and/or Clearstream, Luxembourg

The Bank of New York Mellon, London Branch
One Canada Square
40th Floor
London E14 5AL
United Kingdom

Facsimile: +44 (0) 207 964 2536
Attention: Corporate Trust

The Paying Agent with respect to Regulation S Certificates held through Euroclear and/or Clearstream, Luxembourg

The Bank of New York Mellon, London Branch
One Canada Square
40th Floor
London E14 5AL
United Kingdom

Facsimile: +44 (0) 207 964 2536
Attention: Corporate Trust

The Registrar with respect to Regulation S Certificates held through Euroclear and/or Clearstream, Luxembourg

The Bank of New York Mellon SA/NV, Luxembourg
Branch
Vertigo Building - Polaris
2-4 rue Eugène Ruppert
L-2453 Luxembourg

Facsimile: +352 24 524 204
Attention: New Issues Department

All correspondence should be copied to:

The Bank of New York Mellon,
Singapore Branch
One Temasek Avenue
#02-01 Millenia Tower
Singapore 039192

Facsimile: +65 6883 0338
Attention: Global Corporate Trust

FORM OF PRICING SUPPLEMENT

Set out below is the form of Pricing Supplement which will be completed for each Series of Certificates issued under the Program.

[MIFID II PRODUCT GOVERNANCE/TARGET MARKET — [appropriate target market legend to be included]]

[MIFID II product governance/Professional investors and ECPs only target market: Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Certificates has led to the conclusion that:

- (a) the target market for the Certificates is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, **MiFID II**); and
- (b) all channels for distribution of the Certificates to eligible counterparties and professional clients are appropriate.

Any person subsequently offering, selling or recommending the Certificates (a **distributor**) should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Certificates (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.]

[Date]

Perusahaan Penerbit SBSN Indonesia III
Issue of [Aggregate Face Amount of Series] [Title of Certificate]
Under the
U.S.\$25,000,000,000
Trust Certificate Issuance Program

PART A — CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the conditions (the "**Conditions**") set forth in the offering memorandum dated January 23, 2018 (the "**Offering Memorandum**"). This Pricing Supplement constitutes the final terms of the Certificates and must be read in conjunction with the Offering Memorandum [as supplemented].

[The following alternative language applies if the first issue of a Series which is being increased was issued under offering memorandum 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 memorandum dated [original date]. This document constitutes the Pricing Supplement of the Certificates and must be read in conjunction with the offering memorandum dated [current date] [and the supplemental offering memorandum dated [●]], save in respect of the Conditions which are extracted from the offering memorandum 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 subparagraphs. Italics denote directions for completing the Pricing Supplement.]

- | | | | |
|----|------|---------------------|--|
| 1. | (i) | Issuer and Trustee: | Perusahaan Penerbit SBSN Indonesia III
("PPSI-III") |
| | (ii) | Obligor: | Republic of Indonesia (the " Republic ") |
| 2. | (i) | Series Number: | [●] |
| | (ii) | [Tranche]: | [●] |
| 3. | | Specified Currency: | [●] |

4. Aggregate Face Amount of Series: [●]
5. Issue Price: 100.0% of the Aggregate Face Amount
6. (i) Specified Denominations: [●] (*this means the minimum integral amount in which transfers can be made*)
- (ii) Calculation Amount: [●]¹
7. (i) Issue Date: [●]
- (ii) Return Accumulation Commencement Date: [Issue Date][specify other]
8. Scheduled Dissolution Date: [*Specify date or (for Floating Periodic Distribution Certificates) Periodic Distribution Date falling in or nearest to the relevant month and year.*]
9. Periodic Distribution Amount Basis: [[●]% Fixed Periodic Distribution Amount] [*specify reference rate*] +/- [●]% Floating Periodic Distribution Amount] (*further particulars specified below*)
10. Dissolution Basis: Dissolution at par
11. Change of Periodic Distribution Basis: [*Specify details of any provision for convertibility of Certificates another Periodic Distribution Amount basis.*] [Not Applicable]
12. Method of Distribution: [Syndicated/Non-syndicated]

PROVISIONS RELATION TO PERIODIC DISTRIBUTIONS PAYABLE

13. Fixed Periodic Distribution Provisions: [Applicable/Not Applicable]
- [(If not applicable, delete the remaining sub-paragraphs of this paragraph)]*
- (i) Rate[(s)]: [●]% per annum [payable [annually/ semi-annually/ quarterly/ monthly] in arrear]
- (ii) Periodic Distribution Date(s): [[●] in each year up to and including the Scheduled Dissolution Date] [specify other]
- (iii) Fixed Amount[(s)]: [●] per Calculation Amount
- (iv) Broken Amount[(s)]: [*Insert particulars of any initial or final broken Periodic Distribution Amounts which do not correspond with the Fixed Amount [(s)] specified under paragraph [13(iii)]*]
- (v) Day Count Fraction: [30/360 or Actual/Actual (ICMA) or [specify other]]
- (vi) Determination Date(s): [●] in each year

¹ The applicable Calculation Amount (which is used for the calculation of periodic distribution amounts and redemption amounts) will be (i) if there is only one Specified Denomination, the Specified Denomination of the relevant Certificates or (ii) if there are several Specified Denominations (e.g., Specified Denominations of €100,000 and multiples of €1,000), the highest common factor of those Specified Denominations (note: there must be a common factor in the case of two or more Specified Denominations).

[Insert regular Periodic Distribution Dates, ignoring Issue Date or Scheduled Dissolution Date in the case of a long or short first or last return accumulation period.

N.B. This will need to be amended in the case of regular periodic distribution dates which are not of equal durations.]

[N.B. Only relevant where Day Count Fraction is Actual/Actual (ICMA)]

- (vii) Other terms relating to the method of calculating Fixed Periodic Distribution Amounts:

[Not Applicable/give details]

14. Floating Periodic Distribution Provisions:

[Applicable/Not Applicable]

[(If not applicable, delete the remaining sub-paragraphs of this paragraph)]

- (i) Specified Periodic Distribution Dates:

[●] [Not Applicable]

(Specified Period and Specified Periodic Distribution Dates are alternatives. If the Business Day Convention is the Floating Rate Convention, insert Not Applicable)

- (ii) Specified Period:

[●] [Not Applicable]

(Specified Period and Specified Periodic Distribution Dates are alternatives. A Specified Period, rather than Specified Periodic Distribution Dates, will only be relevant if the Business Day Convention is the Floating Rate Convention. Otherwise, insert Not Applicable)

- (iii) Business Day Convention:

[Floating Rate Convention / Following Business Day Convention / Modified Following Business Day Convention / Preceding Business Day Convention / *[specify other]*]

- (iv) Additional Business Center(s):

[Not Applicable/give details]

- (v) Manner in which the Rate(s) is/are to be determined:

[Screen Rate Determination (Condition [7.3] (*Screen Rate Determination*)) applies/specify other]

- (vi) Screen Rate Determination:

[Applicable/Not Applicable] (If not applicable, delete the remaining sub paragraphs of this paragraph)

- Reference Rate:

[For example, LIBOR or EURIBOR]

- Periodic Distribution Determination Date:

[●] (Second London business day prior to the start of each Return Accumulation Period if LIBOR (other than Sterling or euro LIBOR), first day of each Return Accumulation Period if Sterling LIBOR and the second day on which the TARGET System is open prior to the start of each Return Accumulation Period if EURIBOR or euro LIBOR)

- Relevant Screen Page: [●]
- Relevant Time: [For example, 11.00am London time]
- (vii) Margin: [+/-] [●]% per annum
- (viii) Day Count Fraction: [Actual/Actual], [Actual/Actual (ICMA)], [Actual/365 (Fixed)], [Actual/360], [30/360] or [30E/360] (See Condition [7] (*Floating Periodic Distribution Provisions*))
- (ix) Calculation Agent: [Principal Paying Agent] [*specify other*]
- (x) Other terms relating to the method of calculating Floating Periodic Distribution Amounts: [Not Applicable] [*give details*]

PROVISIONS RELATING TO DISSOLUTION

15. Dissolution Distribution Amount of each Certificate: [●] per Calculation Amount plus any accrued but unpaid Periodic Distribution Amount
- [specify other] [Applies to early redemption on Dissolution Event, the occurrence of a Tax Event, the occurrence of a Total Loss Event and redemption on the Scheduled Dissolution Date]*

GENERAL PROVISIONS APPLICABLE TO THE CERTIFICATES

16. Form of Certificates: Registered Certificates
- Global Certificate exchangeable for Certificates in definitive registered form in the limited circumstances specified in the Global Certificate.
17. Additional Business Center(s) relating to payment: [●]
- [(Note that this item relates to the place of payment and not Return Accumulation Period end dates, to which item [14(iv)] relates)]*

PROVISIONS IN RESPECT OF THE TRUST ASSETS

18. Issue Structure: [Ijara Series]/[Wakala Series]
19. Assets on the Issue Date: As Scheduled to the Supplemental Purchase Agreement [and Supplemental Procurement Agreement] specified below, a copy of which schedule is set out in the Annex hereto.
20. Trust Assets: [Condition [4.1] (*Summary of the Trust*) applies] [*specify other*]
21. (i) Details of Transaction Account: [●] Transaction Account No: [●] with [●] for Series No.: [1/2/3 etc.]
- (ii) Currency: [●]
22. Other Transaction Document Information:
- (i) Supplemental Declaration of Trust: Supplemental Declaration of Trust dated [●] between the Trustee, the Republic and the Delegate

- | | |
|--|--|
| (ii) Supplemental Purchase Agreement: | Supplemental Purchase Agreement dated [●] between the Trustee (as Purchaser) and the Republic (as Seller) |
| [a(iii) Supplemental Procurement Agreement:] | [Supplemental Procurement Agreement dated [●] between the Trustee (as Purchaser) and the Republic (as Project Seller)] |
| ((iii)/[iv]) Supplemental Lease Agreement: | Supplemental Lease Agreement dated [●] between the Trustee (as Lessor) and the Republic (as Lessee) |
23. Other terms or special conditions: [Not Applicable/give details]

DISTRIBUTION

- | | |
|--|-----------------------------|
| 24. (i) If syndicated, names of Dealers: | [Not Applicable/give names] |
| (ii) Stabilizing Manager (if any): | [●] |
| (iii) Date of Subscription Agreement: | [●] |
25. If non-syndicated, name of relevant Dealer: [●]
26. Additional selling restrictions: [Not Applicable/give details]

[USE OF PROCEEDS

The proceeds from the issuer of the Certificates will be applied by the Issuer for the purchase of the Assets specified in Annex I hereto from the Republic.

The Republic will use the proceeds it receives from the issue of the Certificates exclusively to finance or re-finance expenditure directly related to “Eligible Green Projects” as defined in the Green Bond and Green Sukuk Framework of the Republic set out in the appendix to the Offering Memorandum.]²

RESPONSIBILITY

Each of the Issuer and the Republic accepts responsibility for the information contained in this Pricing Supplement. To the best of the knowledge and belief of each of the Issuer and the Republic (having taken all reasonable care to ensure that such is the case) the information contained in this Pricing Supplement is in accordance with the facts and does not omit anything likely to affect the import of such information. [[] has been extracted from [specify source]. Each of the Issuer and the Republic confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [specify source], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

**SIGNED ON BEHALF OF
PERUSAHAAN PENERBIT SBSN
INDONESIA III**

By: _____
Duly authorized

**SIGNED ON BEHALF OF
THE REPUBLIC OF INDONESIA**

By: _____
Duly authorized

² Include for a green sukuk certificate issuance.

PART B — OTHER INFORMATION

1. LISTING

Listing: ☐ (specify)/None

2. RATINGS

Ratings: The Certificates have been rated: [Moody's: ☐]

[Fitch: ☐]

[[Standard & Poor's] ☐]

[(The above disclosure should reflect the rating allocated to Certificates of the type being issued under the Program generally or, where the issue has been specially rated that rating).]

3. OPERATIONAL INFORMATION

(i) ISIN Code: ☐

(ii) Common Code: ☐

(iii) CUSIP: ☐

(iv) Any clearing system(s) other than The Depository Trust Company or Euroclear SA/NV and Clearstream Banking S.A. and the relevant identification number(s): ☐ [Not Applicable/give name(s) and number(s)]

(v) Delivery: Delivery [against/free of] payment

(vi) Names and address of initial Paying Agent(s): ☐

(vii) Names and address of additional paying Agent(s): ☐

(viii) Names and address of Registrar(s): ☐

ANNEX I

IJARA PROPERTIES [AND PROJECT ASSETS] LIST³

[●]

³ Insert for the relevant Series the Properties List contained in relevant Supplemental Purchase Agreement and, in the case of a Wakala Series, the Project Assets specified in the relevant Supplemental Procurement Agreement (including the specifications for the construction of the Project Assets pursuant to the specified Project).

GLOBAL CERTIFICATES

Each Global Certificate contains provisions which apply to the Certificates in respect of which it is issued whilst they are represented by the relevant Global Certificate, some of which modify the effect of the Conditions. The following is a summary of those provisions. Unless otherwise defined, terms defined in the Conditions have the same meaning in paragraphs 1 to 8 below.

1. Form of the Certificates

The Certificates sold in offshore transactions in reliance on Regulation S (the “**Regulation S Certificates**”) will be represented by a global Regulation S certificate in fully registered form (the “**Regulation S Global Certificate**”), which will, unless otherwise specified in the applicable Pricing Supplement, be deposited with a custodian for and will be registered in the name of a nominee of DTC or a nominee for the common depository for Euroclear and Clearstream, Luxembourg. Beneficial interests in the Regulation S Global Certificate may be held through either DTC and its direct or indirect participants including Euroclear and Clearstream, Luxembourg at any time or through Euroclear or Clearstream, Luxembourg and its direct or indirect participants, as the case may be. See “*Clearance and Settlement — Payments and relationship of participants with clearing systems.*”

The Certificates sold within the United States to QIBs in reliance on Rule 144A (the “**Rule 144A Certificates**”) will be represented by a global Rule 144A certificate in fully registered form (the “**Rule 144A Global Certificate**”), which will, unless otherwise specified in the applicable Pricing Supplement, be deposited with a custodian for and will be registered in the name of a nominee of DTC. Beneficial interests in the Rule 144A Global Certificate may only be held through DTC and its direct or indirect participants including Euroclear and Clearstream, Luxembourg at any time. See “*Clearance and Settlement — Payments and relationship of participants with clearing systems.*”. Subject to certain exceptions, beneficial interests in the Rule 144A Global Certificate may only be held by persons who are QIBs, holding their interests for their own account or for the account of one or more QIBs. By acquisition of a beneficial interest in the Rule 144A Global Certificate, the purchaser thereof will be deemed to represent, among other things, that it is a QIB and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the Rule 144A Global Certificate. See “*Transfer Restrictions.*”

The Certificates sold within the United States to Institutional Accredited Investors will be in definitive form, registered in the name of the holder thereof (“**Definitive IAI Certificates**”). Unless otherwise set forth in the applicable relevant Pricing Supplement, Definitive IAI Certificates will be issued only in minimum denominations of U.S.\$500,000 and integral multiples of U.S.\$1,000 in excess thereof (or the approximate equivalents in the applicable Specified Currency). Definitive IAI Certificates will be subject to the restrictions on transfer set forth therein and will bear the restrictive legend described under “*Plan of Distribution*” and “*Transfer Restrictions*”. Institutional Accredited Investors that hold Definitive IAI Certificates may not elect to hold such Certificates through DTC or Euroclear and/or Clearstream, Luxembourg, but transferees acquiring such Certificates in transactions exempt from Securities Act registration pursuant to Regulation S or Rule 144A under the Securities Act (if available) may do so upon satisfaction of the requirements applicable to such transfer as described under “*Plan of Distribution*” and “*Transfer Restrictions*”. The Registered Global Certificates and the Definitive IAI Certificates will be subject to certain restrictions on transfer set forth therein and will bear a legend regarding such restrictions.

The Regulation S Global Certificate and the Rule 144A Global Certificate are referred to herein as the “**Global Certificates**”. Beneficial interests in the Global Certificates will be subject to certain restrictions on transfer set out therein and in the Agency Agreement and such Global Certificates will bear a legend as set out under “*Transfer Restrictions*”. Investors may hold interests in the Regulation S Global Certificate, which are deposited with a common depository for and registered in the name of a nominee for the common depository for Euroclear and Clearstream, Luxembourg, through Euroclear or Clearstream, Luxembourg, if they are participants in those systems. Investors may also hold such interests through organizations other than Euroclear and Clearstream, Luxembourg that are participants in those systems. Euroclear and Clearstream, Luxembourg will hold interests in the Regulation S Global Certificate on behalf of their account holders through customers’ securities accounts in their respective names on the books of their respective depositories. In addition, investors may hold interests in the Regulation S Global Certificates, which are deposited with a custodian for and registered in the name of a nominee of DTC through Euroclear and Clearstream, Luxembourg, if they are participants in those systems. Investors may also hold such interests through organizations other than Euroclear and Clearstream, Luxembourg that are participants in the DTC system. Euroclear and Clearstream, Luxembourg will hold interests in the Regulation S Global

Certificate on behalf of their account holders through customers' securities accounts in their respective names on the books of their respective depositories which in turn will hold such interests in the Regulation S Global Certificate in customers' securities accounts in the depositories' names on the books of DTC. Investors may hold their interests in the Rule 144A Global Certificate directly through DTC, if they are DTC participants, or indirectly through organizations which are DTC participants.

No beneficial interest in the Regulation S Global Certificate may be transferred to a person who takes delivery in the form of a beneficial interest in the Rule 144A Global Certificate unless (i) the transfer is to a person that is a QIB, (ii) such transfer is made in reliance on Rule 144A, and (iii) the transferor provides the Registrar with a written certification substantially in the form set out in the Agency Agreement to the effect that the transferor reasonably believes that the transferee is a QIB purchasing the beneficial interest for its own account or any account of a QIB, in each case, in a transaction meeting the requirements of Rule 144A and that such transaction is in accordance with any applicable securities laws of any state of the United States or any other jurisdiction (and the Registrar shall be entitled to rely on such written certification without further enquiry and will incur no liability for so relying and acting or omitting to act on the basis of such written certification). No beneficial interest in the Rule 144A Global Certificate may be transferred to a person who takes delivery in the form of a beneficial interest in the Regulation S Global Certificate unless (i) the transfer is in an offshore transaction in reliance on Rule 904 of Regulation S, and (ii) the transferor provides the Registrar with a written certification substantially in the form set out in the Agency Agreement to the effect that the transfer is being made in an offshore transaction in accordance with Regulation S.

Any beneficial interest in the Regulation S Global Certificate that is transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Certificate will, upon transfer, cease to be an interest in the Regulation S Global Certificate and become an interest in the Rule 144A Global Certificate, and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Rule 144A Global Certificate for as long as it remains such an interest. Any beneficial interest in the Rule 144A Global Certificate that is transferred to a person who takes delivery in the form of an interest in the Regulation S Global Certificate will, upon transfer, cease to be an interest in the Rule 144A Global Certificate and become an interest in the Regulation S Global Certificate and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Regulation S Global Certificate for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of Certificates, but the Issuer may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Upon receipt of the Global Certificates, DTC or the custodian will credit, on its internal system, the respective face amount of the individual beneficial interests represented by each such Global Certificate to the accounts of persons who have accounts with DTC. Ownership of beneficial interests in a Global Certificate will be limited to persons who have accounts with DTC or persons who hold interests through participants, including Euroclear and Clearstream, Luxembourg. Ownership of beneficial interests in the Global Certificates will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of participants) and the records of participants (with respect to interests of persons other than participants).

Upon receipt of the Global Certificates, Euroclear and/or Clearstream, Luxembourg or the custodian will credit, on its internal system, the respective face amount of the individual beneficial interests represented by each such Global Certificate to the accounts of persons who have accounts with Euroclear and/or Clearstream, Luxembourg. Ownership of beneficial interests in the Global Certificates will be limited to persons who have accounts with Euroclear and/or Clearstream, Luxembourg or persons who hold interests through participants. Ownership of beneficial interests in the Global Certificates will be shown on, and the transfer of that ownership will be effected only through, records maintained by Euroclear and/or Clearstream, Luxembourg (with respect to interests of participants) and the records of participants (with respect to interests of persons other than participants).

Except in the limited circumstances described below, owners of beneficial interests in Global Certificates will not be entitled to receive physical delivery of certificated Certificates.

2. Holders

For so long as all of the Certificates are represented by either or both of the Global Certificates and each Global Certificate is held on behalf of DTC (or its nominee, as the case may be), or Euroclear and/or Clearstream, Luxembourg (or a common depository for Euroclear and/or Clearstream, Luxembourg, as the case may be), each person (other than another clearing system) who is for the time being shown in the

records of any such clearing system as the holder of a particular aggregate face amount of such Certificates (each, a “**Certificateholder**”) (in which regard any certificate or other document issued by such clearing system as to the aggregate face amount of such Certificates standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated as the holder of such aggregate face amount of such Certificates (and the expression “**Certificateholders**” and references to “**holding of Certificates**” and to “**holder of Certificates**” shall be construed accordingly) for all purposes other than with respect to payments on such Certificates, the right to which shall be vested, as against the Issuer and the Delegate, solely in the registered holder of the relevant Global Certificate in accordance with and subject to its terms. Each Certificateholder must look solely to DTC (or its nominee, as the case may be), Euroclear or Clearstream, Luxembourg for its share of each payment made to the registered holder of the relevant Global Certificate.

3. Cancellation

Cancellation of any Certificate represented by a Global Certificate will be effected by reduction in the aggregate face amount of the Certificates in the Register and by annotation of the appropriate schedule to that Global Certificate, subject to the rules and procedures of DTC or Euroclear and/or Clearstream, Luxembourg, as the case may be.

4. Payments

Payments of any Dissolution Amount, Periodic Distribution Amount and any other amount payable in respect of Certificates represented by a Global Certificate will be made upon presentation or, if no further payment falls to be made in respect of the Certificates, against presentation and surrender of the relevant Global Certificate to or to the order of the relevant Registrar or such other Agent as shall have been notified to the holder of the relevant Global Certificate for such purpose.

Distributions of amounts with respect to book-entry interests in the Certificates held through DTC or its nominee will to the extent received by or on behalf of the Registrar be credited to the cash accounts of participants in the relevant clearing system in accordance with the relevant clearing system’s rules and procedures.

*For so long as the Certificates are represented by a Global Certificate deposited with a custodian for DTC or, in the case of Certificates issued outside the United States in reliance on Regulation S of the Securities Act, deposited with a common depository for Euroclear and Clearstream, Luxembourg, payments of the Distribution Amount and each Periodic Distribution Amount will be made to the person shown on the relevant Register as the registered Certificateholder represented by such Global Certificate at the close of business on the Clearing System Business Day before the due date for such payment (where “**Clearing System Business Day**” means a day on which each Clearing System with which the Global Certificate is being held is open for business).*

A record of each payment made in respect of the Certificates will be entered into the relevant Register by or on behalf of the relevant Registrar and shall be *prima facie* evidence that payment has been made.

5. Notices

So long as any of the Certificates are represented by either or both of the Global Certificates and such Global Certificate is held on behalf of DTC (or its nominee, as the case may be), Euroclear or Clearstream, Luxembourg (or a common depository for Euroclear and/or Clearstream, Luxembourg, as the case may be), notices to Certificateholders may be given by delivery of the relevant notice to those clearing systems for communication to entitled holders in substitution for notification as required by the Conditions except that, so long as the Certificates are listed on any stock exchange, notices shall also be published in accordance with the rules of such stock exchange. Any such notice shall be deemed to have been given to the Certificateholders on the day after the day on which such notice is delivered to the relevant clearing systems.

So long as any of the Certificates is represented by a Global Certificate deposited with a custodian for DTC or, in the case of Certificates issued outside the United States in reliance on Regulation S of the Securities Act, deposited with a common depository for Euroclear and Clearstream, Luxembourg, notices may be given by any holder of a Certificate to the Principal Paying Agent through DTC and/or Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Principal Paying Agent and DTC and/or Euroclear and/or Clearstream, Luxembourg may approve for their purposes.

6. Registration of Title

The Registrar will not register title to the Certificates in a name other than that of a nominee for DTC or a nominee for the common depository of Euroclear and/or Clearstream, Luxembourg, as the case may be for a period of seven calendar days preceding the due date for any payment of any Periodic Distribution Amount or the Dissolution Distribution Amount in respect of the Certificates.

7. Transfers

Transfers of book-entry interests in the Certificates will be effected through the records of DTC or Euroclear and/or Clearstream, Luxembourg, as the case may be and their direct and indirect participants in accordance with their respective rules and procedures.

8. Exchange for Definitive Certificates

Exchange

The Rule 144A Global Certificate will be exchangeable, free of charge to the holder, in whole but not in part, for Certificates in definitive form (“**Rule 144A Definitive Certificates**”) and the Regulation S Global Certificate will be exchangeable, free of charge to the holder, in whole but not in part, for Certificates in definitive form (“**Regulation S Definitive Certificates and, together with the Rule 144A Definitive Certificates, the Definitive Certificates**”) upon the occurrence of an Exchange Event.

For these purposes, “**Exchange Event**” means that (i) in the case of Rule 144A Certificates, DTC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depository with respect to the Rule 144A Certificates or DTC ceases to be a “clearing agency” under applicable law or is at any time no longer eligible to act as such or (ii) in the case of Regulation S Certificates issued through Euroclear and/or Clearstream, Luxembourg, the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention to cease business or has in fact done so and, in the case of each of (i) and/or (ii), as applicable no qualified successor clearing system satisfactory to the Delegate has been identified within 90 days of receipt of such notice from DTC and/or Euroclear and/or Clearstream, Luxembourg.

In exchange for the relevant Global Certificate, as provided in the Agency Agreement, the Registrar will deliver or procure the delivery of an equal aggregate face amount of duly executed Definitive Certificates in or substantially in the form set out in the Declaration of Trust.

Delivery

In such circumstances, the relevant Global Certificate shall be exchanged in full for Definitive Certificates and the Issuer will, at the cost of the Issuer (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Definitive Certificates to be executed and delivered to the Registrars for completion, authentication and dispatch to the relevant Certificateholders. A person having an interest in a Global Certificate must provide the relevant Registrar with (i) a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Definitive Certificates and (ii) in the case of the Rule 144A Global Certificate 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 simultaneous sale pursuant to Rule 144A, a written certification that the transfer is being made in compliance with the provisions of Rule 144A to a purchaser that the transferor reasonably believes to be a QIB purchasing the beneficial interest for its own account or any account of a QIB, in each case, in a transaction meeting the requirements of Rule 144A and that such transaction is in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. Definitive Certificates issued in exchange for a beneficial interest in the Rule 144A Global Certificate shall bear the legends applicable to transfers pursuant to Rule 144A, as set out under “*Transfer Restrictions*.”

Legends and transfers

The holder of a Definitive Certificate may transfer the Certificates represented thereby in whole or in part in the applicable Authorized Denomination by surrendering it at the specified office of the Registrar or any

Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Definitive Certificate bearing the legend referred to under “*Transfer Restrictions*,” or upon specific request for removal of the legend on a Definitive Certificate, the Issuer will deliver only Definitive Certificates that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set out therein are required to ensure compliance with the provisions of the Securities Act. Rule 144A Definitive Certificates will bear the same legend as the legend for the Rule 144A Global Certificate set out under “*Transfer Restrictions*”. The Rule 144A Definitive Certificates may not at any time be held by or on behalf of U.S. persons (as defined in Regulation S) that are not QIBs. Before any Regulation S Definitive Certificate may be resold or otherwise transferred to a person who takes delivery in the form of a Rule 144A Definitive Certificate, the transferor and/or transferee, as applicable, will be required to provide the Registrar with a written certification substantially in the form set out in the Agency Agreement to the effect that the transferor reasonably believes that the transfer is (i) to a person that is a QIB purchasing the beneficial interest for its own account or any account of a QIB and (ii) in each case in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of United States or any other jurisdiction. A Regulation S Definitive Certificate will bear the same legend as the legend for the Regulation S Global Certificate set out under “*Transfer Restrictions*”. Before any Rule 144A Definitive Certificate may be resold or otherwise transferred to a person who takes delivery in the form of a Regulation S Definitive Certificate, the transferor and/or transferee, as applicable, will be required to provide the Registrar with a written certification substantially in the form set out in the Agency Agreement to the effect that the transfer is being made to a person in an offshore transaction in accordance with Rule 904 of Regulation S.

THE ISSUER

Perusahaan Penerbit SBSN Indonesia III was established in Indonesia on December 22, 2011 by the Republic under Government Regulation No. 57 of 2011 on the Establishment of *Perusahaan Penerbit Surat Berharga Syariah Negara Indonesia III* in conjunction with Law No. 19 of 2008 on Sovereign Sukuk (*Surat Berharga Syariah Negara*) and Government Regulation No. 56 of 2008 on Perusahaan Penerbit Surat Berharga Syariah Negara as amended by Government Regulation No. 73 of 2012, with its registered office at the Ministry of Finance of the Republic of Indonesia, Frans Seda Building Level 5, Jalan DR. Wahidin Raya No. 1, Jakarta 10710, Indonesia. The Issuer is a special purpose entity formed for the purpose of participating in the transactions contemplated by the Transaction Documents.

The Issuer is wholly-owned by the Republic. Pursuant to Government Regulation No. 57 of 2011 on the Establishment of *Perusahaan Penerbit Surat Berharga Syariah Negara Indonesia III*, the paid-up capital of the Issuer is Rp100,000,000 (one hundred million Rupiah). Other than as described herein, as at the date hereof there has been no material change in the capitalization of the Issuer since its establishment.

Business of the Issuer

The Issuer will issue Certificates under the Program and will not have any substantial liabilities other than in connection with the issue of the Certificates. The Certificates are the obligations of the Issuer alone.

The objects of the Issuer as set out in Government Regulation No. 57 of 2011 on the Establishment of *Perusahaan Penerbit Surat Berharga Syariah Negara Indonesia III* are to issue Sharia compliant securities in foreign currencies in the international markets in order to finance the Indonesian State Budget in accordance with the prevailing laws and regulations. To satisfy such purposes, the Issuer may issue one or more series of Sharia compliant securities and enter into the transaction documents and other agreements necessary for the performance of its obligations pursuant to the issuance of such Sharia compliant securities.

The Issuer has not engaged, since its establishment, in any material activities other than those regarding or incidental to the issue of the Certificates under the Program and the matters contemplated in this Offering Memorandum and the Transaction Documents and the authorization of its entry into the other transactions and documents referred to in this Offering Memorandum to which it is or will be a party.

The Issuer has no subsidiaries.

Financial Statements

The fiscal years of the Issuer end on December 31 of each year.

The Issuer prepares unaudited financial statements in respect of the end, and the first six months of, each fiscal year. The Issuer is not required by Indonesian law, and does not intend, to publish audited financial statements for any period.

Directors

The directors of the Issuer and their principal occupations are as follows:

<u>Directors</u>	<u>Principal Occupation</u>
Suminto (President Director)	Director of Sharia Financing, Directorate General of Budget Financing and Risk Management
Dwi Irianti Hadiningdyah	Head of Sub-Directorate of Sovereign Sukuk Market Development, Directorate of Sharia Financing, Directorate General of Budget Financing and Risk Management
Mardhanus Rudiyanto	Head of Sub-Directorate of Data Analysis and Information on Valuation, Directorate of Valuation, Directorate General of State Assets

The business address of each of the directors is Frans Seda Building Level 5, Jalan DR. Wahidin Raya No. 1, Jakarta 10710, Indonesia.

The Issuer currently has no employees and is not expected to have any employees in the future.

SUMMARY OF THE PRINCIPAL TRANSACTION DOCUMENTS

The following is a summary of certain provisions of the principal Transaction Documents in respect of each Series of Certificates issued under the Program. This summary is qualified in its entirety by reference to the detailed provisions of the principal Transaction Documents. Copies of the Transaction Documents will be available for inspection at the Specified Offices of the Principal Paying Agent (as defined in the Conditions).

Purchase Agreement

The Master Purchase Agreement was entered into on August 15, 2014 between the Issuer (in its capacity as “**Purchaser**”) and the Republic (in its capacity as “**Seller**”). The parties will subsequently enter into a Supplemental Purchase Agreement in relation to the issuance of each Series of Certificates. The Master Purchase Agreement is, and any Supplemental Purchase Agreement will be governed by Indonesian law. The Master Purchase Agreement and each Supplemental Purchase Agreement in relation to a Series of Certificates shall be referred to as the Purchase Agreement.

Pursuant to the Purchase Agreement in relation to the issuance of each Series of Certificates, the Seller will sell to the Purchaser, and the Purchaser will purchase from the Seller, Beneficial Rights over the Ijara Properties for a Purchase Price (as specified in the Supplemental Purchase Agreement, which in the case of a Wakala Series shall be not less than 51.0% of the Issue Price), inclusive of all taxes, if any, free and clear of any encumbrance or any rights of third parties, payable on the Issue Date. The Ijara Properties relating to each Series of Certificates will be identified in the schedule to the relevant Supplemental Purchase Agreement.

“**Beneficial Right**” means, with respect to a property relating to an Ijara Asset or a Project Asset, as the case may be, *hak manfaat* in that property, as stipulated in Law No. 19 of 2008 on Sovereign Sukuk (*Surat Berharga Syariah Negara*), which is the right to own and to obtain the full right to the usage of certain properties without the requirement to register such ownership and rights.

“**Ijara Properties**” means, in respect of each Series of Certificates, the real properties (including buildings, improvements and fixtures thereon) described in the schedule to the relevant Supplemental Purchase Agreement.

Procurement Agreement

The Master Procurement Agreement was entered into on August 15, 2014 between the Issuer (in its capacity as “**Purchaser**”) and the Republic (in its capacity as “**Project Seller**”). The parties will subsequently enter into a Supplemental Procurement Agreement in relation to the issuance of each Wakala Series of Certificates. The Master Procurement Agreement is, and any Supplemental Procurement Agreement will be governed by Indonesian law. The Master Procurement Agreement and each Supplemental Procurement Agreement in relation to a Wakala Series of Certificates shall be referred to as the “**Procurement Agreement**”.

Pursuant to the Procurement Agreement in relation to the issuance of each Wakala Series of Certificates, the Project Seller will sell to the Purchaser, and the Purchaser will purchase from the Project Seller, the Project Assets for a Purchase Price (as specified in the Supplemental Procurement Agreement, which shall be not more than 49.0% of the Issue Price), inclusive of all taxes, if any, free and clear of any encumbrance or any rights of third parties, payable on the Issue Date. The Project Assets relating to each Wakala Series of Certificates will be identified in the schedule to the relevant Supplemental Procurement Agreement.

Further to any such sale and purchase, the Project Seller will undertake to procure the construction of the relevant assets pursuant to the specified Project in respect of such Project Assets and to deliver such assets to the Purchaser upon completion.

PPSI-III may also replace Project Assets under the Procurement Agreement prior to the completion and delivery of the relevant assets pursuant to the specified Project by the amendment of the schedule to the relevant Supplemental Procurement Agreement specifying such Project Assets.

“**Project Assets**” means the Beneficial Rights over the assets specified in the schedule to the relevant Supplemental Procurement Agreement which are either under construction or to be constructed (the construction of such assets being, a “**Project**”) (including the right to the delivery of such assets upon completion).

Lease Agreement

The Master Lease Agreement was entered into on August 15, 2014 between the Republic (in its capacity as “**Lessee**”) and the Issuer (in its capacity as the “**Lessor**”). The parties will subsequently enter into a Supplemental Lease Agreement in relation to the issuance of each Series of Certificates and, in the case of a Wakala Series, upon the completion and delivery of the relevant Project Assets identified in that Supplemental Lease Agreement. The Master Lease Agreement and any Supplemental Lease Agreement will be governed by Indonesian law. The Master Lease Agreement and the Supplemental Lease Agreement(s) in relation to a Series of Certificates shall be referred to as the “**Lease Agreement**”.

Under the terms of the relevant Lease Agreement, the Lessor will agree to lease to the Lessee, and the Lessee will agree to lease from the Lessor, the Assets during the term commencing on the date of the relevant Supplemental Lease Agreement and terminating on the Scheduled Dissolution Date. The Lease Agreement is subject to earlier termination if the Trust is dissolved early.

“**Assets**” means, in respect of each Series of Certificates, the Beneficial Rights over the Properties.

“**Properties**” means, in respect of each Series of Certificates, (i) the real properties (including buildings, improvements and fixtures thereon) and/or (ii) the buildings, improvements and fixtures located on real properties (but not including the relevant real properties), as specified in the relevant Supplemental Lease Agreement as may be modified from time to time to give effect to any substitution pursuant to the Substitution Undertaking or to any procurement of Properties by the Servicing Agent or the Wakeel, as the case may be (following a Loss Event or a Total Loss Event, each as defined in the Lease Agreement) pursuant to the Servicing Agency Agreement or the Wakala Agreement, respectively, or to removal of Transferred Assets (as defined in the Transfer Undertaking) pursuant to the Transfer Undertaking.

The Lessee has agreed to use the Properties at its own risk. Accordingly, the Lessee shall from the date of the relevant Lease Agreement bear the entire risk of loss of or damage to the Properties or any part thereof arising from the usage or operation thereof by the Lessee. In addition, the Lessor shall not be liable (and the Lessee has waived any claim or right, howsoever arising, to the contrary) for any indirect, consequential or other losses, howsoever arising, in connection with the Lessee’s use or operation of the Properties to the extent that such losses have resulted from the Lessee’s negligence, default, breach of the Lease Agreement or other action or failure to take action.

The Lessee shall, at its own cost and expense, be responsible for the performance of all ordinary maintenance and repair required for the Properties during each rental period under the relevant Lease Agreement.

The Lessor shall be responsible for (i) the performance of all major maintenance and structural repair, (ii) the payment of any proprietorship or other relevant taxes and (iii) insuring the Properties and the Lessee has acknowledged that the Lessor may procure that the Republic (in its capacity as “**Servicing Agent**” or “**Wakeel**”, as the case may be), in accordance with the terms and conditions set out in the Servicing Agency Agreement or the Wakala Agreement, respectively, performs, or procures the performance of, the major maintenance and structural repair on behalf of the Lessor, the payment of such taxes and insuring of the Properties.

During the term of the Lease Agreement, the Lessee shall agree to pay to the Lessor the rentals specified in the Lease Agreement for each rental period specified therein.

The rentals payable under the Lease Agreement in respect of the Ijara Properties will be equal to the Periodic Distribution Amounts payable on the Periodic Distribution Dates in respect of the relevant Series of Certificates.

All payments by the Lessee to the Lessor under the Lease Agreement shall be paid in full without any deduction or withholding for or on account of any tax unless required by Indonesian law and without set-off or counterclaim of any kind and, in the event that there is any deduction or withholding required by Indonesian law, the Lessee shall pay all additional amounts as will result in the receipt by the Lessor of such net amounts as would have been received by it if no deduction or withholding had been made.

The payment obligations of the Lessee under the Lease Agreement shall constitute direct, unconditional, unsecured and general obligations of the Republic, without preference, granted by the Republic to one above the other, and rank equal in right of payment with all other unsecured and unsubordinated External Indebtedness (as defined below) of the Republic.

Servicing Agency Agreement

In respect of each Ijara Series, the Servicing Agency Agreement was entered into on August 15, 2014 by the Republic, as Servicing Agent, and PPSI-III, as Lessor, and is governed by Indonesian law.

Pursuant to the Servicing Agency Agreement, the Servicing Agent will be responsible on behalf of the Lessor for carrying out all major maintenance and structural repair, the payment of Proprietorship Taxes (as defined in the Servicing Agency Agreement) charged, levied or claimed by any relevant taxing authority on the Assets and for effecting all appropriate insurances in respect of the properties underlying the Assets in relation to each Series of Certificates.

In the event of a Total Loss Event where, following the termination of the existing Supplemental Lease Agreement in respect of the properties the subject of the Total Loss Event (the “**Original Supplemental Lease Agreement**”) in accordance with the Lease Agreement, the Servicing Agent procures new properties, the Servicing Agent shall apply the relevant insurance proceeds (if any) to procure (or purchase) on the date of occurrence of the Total Loss Event new properties in respect of the relevant Series of Certificates, and the Beneficial Rights over these properties shall be acquired on behalf of and for the Lessor (as the sole holder thereof), following which the Lessor and the Lessee shall immediately enter into a new Supplemental Lease Agreement on the same terms as the Original Supplemental Lease Agreement with the exception of the list of properties that are subject to the Lease Agreement which shall be amended to reflect the change in the composition of the properties that are subject to the Lease Agreement.

In the event of one or more Loss Events which do not constitute a Total Loss Event the Servicing Agent shall apply the relevant insurance proceeds (if any) to procure (or purchase) new properties in respect of the relevant Series of Certificates, and the Beneficial Rights over these properties shall be acquired on behalf of and for the Lessor (as the sole holder thereof), following which the Lessor and the Lessee will amend the Lease Agreement to reflect the change in the composition of the properties that are subject to the Lease Agreement.

The occurrence of a Total Loss Event will result in the redemption of the Certificates of the relevant series at an amount equal to the Dissolution Distribution Amount on the Total Loss Dissolution Date and the consequent dissolution of the Trust in the event that the Assets are not substituted as described in the paragraph above.

The Servicing Agent is responsible for ensuring that, in such an event, all insurance proceeds (if any) in respect of the Assets are paid in the Specified Currency directly into the relevant Transaction Account by no later than the close of business in London on the 30th day after the occurrence of the Total Loss Event. However, if the relevant provisions of the Servicing Agency Agreement are not strictly complied with and as a result the amount (if any) credited to the Transaction Account is less than the Reinstatement Value (the difference between such amount in the Specified Currency and the amount credited to the Transaction Account being the “**Total Loss Shortfall Amount**”), then the Servicing Agent shall be required to pay (unless it proves beyond any doubt that any shortfall in the insurance proceeds is not attributable to its negligence or its failing to comply with the terms of the Servicing Agency Agreement relating to insurance) in same day, freely transferable, cleared funds the Total Loss Shortfall Amount directly to the Transaction Account by no later than close of business in London on the 31st day after the Total Loss Event has occurred. For the avoidance of doubt, the failure by the Servicing Agent to insure the Assets shall not constitute a Dissolution Event, **provided that** it either replaces the Assets or pays the Total Loss Shortfall Amount in accordance with the Servicing Agency Agreement.

Unless the Servicing Agent procures new properties that will be subject to the Lease Agreement, rental under the Lease Agreement shall cease automatically with effect from the date on which a Total Loss Event (if any) occurs, and no additional rental payment shall be made in respect of the period between the date on which the Total Loss Event occurred and the date on which the Total Loss Shortfall Amount is paid into the relevant Transaction Account.

Notwithstanding the appointment of the Servicing Agent, the Lessee shall, at its own cost and expense, be responsible for the performance of all ordinary maintenance and repair required for the Properties relating to each Series of Certificates.

“**Total Loss Dissolution Date**” means the earlier of (i) the date specified for redemption of the Certificates in a notice given by the Issuer to the Certificateholders, the Delegate and Principal Paying Agent in accordance with Condition 15 (Notices); and (ii) the 31st day following the occurrence of a Total Loss Event in the event that the Servicing Agent has not procured the full replacement of the Assets.

“Total Loss Event” means the total loss or destruction of, or damage to the whole of, the Properties, or any event or occurrence that renders the whole of the Properties permanently unfit for any economic use and (but only after taking into consideration any insurance or other indemnity granted by any third party in respect of the Properties) the repair or remedial work in respect thereof is wholly uneconomical.

Wakala Agreement

In respect of each Wakala Series, the Wakala Agreement was entered into on August 15, 2014 by the Republic, as Wakeel, and PPSI-III, as Lessor, and is governed by Indonesian law. The Wakeel will have the same obligations under the Wakala Agreement as those of the Servicing Agent above under the Servicing Agency Agreement.

In addition, the Wakeel will maintain a separate ledger account and will be responsible for collecting all rental payments payable by the Lessee to the Lessor under the Lease Agreement. The Wakeel will pay to the Transaction Account from the amounts so collected an amount equal to the Periodic Distribution Amounts payable on the Certificates by no later than the time by which such amounts are due and payable under the Certificates. Any remaining such amounts, after all amounts due and payable under the Certificates have been paid in full, may be retained by the Wakeel as an incentive fee for acting as Wakeel.

The Wakeel will also use its best efforts to manage the properties underlying the Assets in respect of each Wakala Series such that the percentage of such properties which are represented by Ijara Assets shall at all times be no less than 51 per cent.

All payments by the Wakeel to the Lessor under the Wakala Agreement shall be paid in full without any deduction or withholding for or on account of any tax unless required by Indonesian law and without set-off or counterclaim of any kind and, in the event that there is any deduction or withholding required by Indonesian law, the Wakeel shall pay all additional amounts as will result in the receipt by the Lessor of such net amounts as would have been received by it if no deduction or withholding had been made.

The payment obligations of the Wakeel under the Wakala Agreement shall constitute unconditional, unsecured and general obligations of the Republic without preference granted by the Republic to one above the other, and rank equal in right of payment with all other unsecured and unsubordinated External Indebtedness of the Republic.

Substitution Undertaking

The Substitution Undertaking was executed as a deed on August 15, 2014 by PPSI-III as issuer of the Certificates and as trustee for the Certificateholders in favor of the Republic, and is governed by Indonesian law.

Pursuant to the Substitution Undertaking, the Republic may, subject to certain conditions, require PPSI-III to accept the substitution of certain new assets (the **“New Assets”**) in replacement of existing Assets (the **“Replaced Assets”**) in respect of each Series of Certificates. Upon the Republic giving a notice of substitution to PPSI-III, the Republic and PPSI-III shall enter into a substitution sale agreement (in the form scheduled to the Substitution Undertaking), pursuant to which PPSI-III will sell the Replaced Assets in exchange for the New Assets of a value which is at least equal to or greater than the value of the Replaced Assets, and PPSI-III and the Republic shall amend the relevant Supplemental Lease Agreement to reflect the change in composition of the Properties to give effect to this substitution. If the value of the Replaced Assets as certified by the Republic is more than 20 per cent. of the aggregate outstanding face amount of the Certificates of such Series then the existing Supplemental Lease Agreement in respect of the relevant Replaced Assets shall be terminated and the Lessee and the Lessor shall immediately enter into a new Supplemental Lease Agreement in respect of the New Assets.

Purchase Undertaking

The Purchase Undertaking was executed as a deed on August 15, 2014 by the Republic in favor of PPSI-III as issuer of the Certificates and as trustee for the Certificateholders and the Delegate and is governed by English law.

The Republic will irrevocably undertake in favor of PPSI-III and to the Delegate to purchase all of PPSI-III's rights, title, benefits and entitlements in, to and under the Assets (including any Project Assets prior to (a) the completion and delivery of the Project Assets under construction or to be constructed pursuant to any

Project and (b) the lease of such completed and delivered Project Assets pursuant to the Lease Agreement) as a single portfolio of assets for the relevant Series on the Scheduled Dissolution Date in respect of each Series of Certificates or any earlier due date for dissolution following the occurrence of a Dissolution Event, as the case may be, at an exercise price (the “**Exercise Price**”) equal to the outstanding face amount of the Certificates plus all accrued and unpaid Periodic Distribution Amounts (if any) relating to the Certificates plus any accrued Supplementary Rental (as defined in the Lease Agreement), in each case on an “as is” basis but free from any Encumbrance (as defined in the Declaration of Trust).

In the Purchase Undertaking, the Republic will undertake that, so long as any Certificate remains 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, unless the Republic shall procure that all amounts payable under the Certificates are secured equally and ratably. Notwithstanding the foregoing, the Republic may create or permit the creation of any Permitted Security Interests.

“**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.

“**Indebtedness**” means any indebtedness for money borrowed or any guarantee of indebtedness for money borrowed (including any indebtedness in the form of or represented by bonds, debentures, notes, sukuk or other similar instruments) which is issued or incurred by and in the name of the Republic (or any special purpose vehicle subsidiary thereof) and is backed by the full faith and credit of the Republic; as used in this definition, money borrowed “by and in the name of the Republic” shall not include the borrowings of any state-owned enterprise (“**SOEs**”) 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.

“**Permitted Security Interest**” means any Security Interest:

- (a) 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:
 - (i) unimproved real property for the construction;
 - (ii) 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
 - (iii) the revenue to be generated by the operation of, or loss or damage to, the property to be constructed;
- (b) 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 extension 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;
- (c) arising out of the renewal, extension or replacement of any indebtedness permitted under paragraph (b) above; **provided, however, that** the principal amount of such Public External Indebtedness is not increased;
- (d) arising in the ordinary course of borrowing activities of the Republic to secure Public External Indebtedness with a maturity of one year or less;
- (e) in existence as of the date of the issuance of the Certificates;
- (f) pursuant to any order of attachment or similar legal process arising in connection with court proceedings which proceedings are being contested in good faith; or
- (g) 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.

“**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, sukuk 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 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 Closing Date or at any time thereafter.

The international reserves owned by Bank Indonesia are not subject to the foregoing covenant and Bank Indonesia may in the future incur Public External Indebtedness secured by such reserves without amounts payable under the Certificates being secured.

The Republic will agree in the Purchase Undertaking that all payments by it under the Purchase Undertaking will be made without any deduction or withholding for or on account of tax unless required by Indonesian law and without set-off or counterclaim of any kind and, in the event that there is any deduction or withholding required by Indonesian law, the Republic shall pay all additional amounts as will result in the receipt by the Issuer (or the Delegate, if PPSI-III ceases to exist following the Scheduled Dissolution Date but before redemption in full of the Certificates is made) of such net amounts as would have been received by it if no deduction, or withholding had been made.

The payment obligations of the Republic under the Purchase Undertaking will constitute direct, unconditional, unsecured and general obligations of the Republic without preference granted by the Republic to one above the other, and rank equal in right of payment with all other unsecured and unsubordinated External Indebtedness of the Republic.

Transfer Undertaking

The Transfer Undertaking was executed as a deed on August 15, 2014 by PPSI-III (in its capacity as issuer of the Certificates and as trustee for the Certificateholders) in favor of the Republic and is governed by English law. Under the terms of the Transfer Undertaking, if at any time the Republic wishes to cancel any Certificates purchased pursuant to Condition 9.5 (*Purchases*), the Republic may, by exercising its right under the Transfer Undertaking and by serving a Transfer Notice on PPSI-III, require PPSI-III to transfer all of PPSI-III’s rights, title, benefits and entitlements in, to and under the Transferred Assets to the Republic in consideration for which the Certificates shall be surrendered for cancellation. The transfer of the Transferred Assets will take effect by the Republic and PPSI-III entering into a transfer agreement (in the form scheduled to the Transfer Undertaking). Following the entry into such transfer agreement, PPSI-III shall cancel the relevant Certificates identified for cancellation in the Transfer Notice on the Transfer Date (which shall be a Periodic Distribution Date).

Declaration of Trust

The Master Declaration of Trust was executed as a deed on March 13, 2017 between the Republic, the Issuer, the Trustee and the Delegate and is governed by English law. A Supplemental Declaration of Trust between the same parties shall be entered into on the Issue Date of each Series of Certificates and shall also be governed by English law. The Master Declaration of Trust and any Supplemental Declaration of Trust in relation to a Series of Certificates shall be referred to as the Declaration of Trust.

Pursuant to the Declaration of Trust, PPSI-III will declare a trust for the benefit of the Certificateholders of each Series over all of its rights, title, interest and benefit, present and future, in, to and under the Assets in relation to such Series, all of its rights, title, interest and benefit, present and future, in, to and under the Transaction Documents in relation to such Series, all monies standing to the credit of the transaction account in the Specified Currency opened in the name of the Issuer and maintained and operated by the Principal Paying Agent in relation to such Series (the “**relevant Transaction Account**”) and all proceeds of the foregoing (the “**Trust Assets**”).

Pursuant to the Declaration of Trust, PPSI-III will, in relation to the Certificates, *inter alia*:

- (a) hold the Trust Assets on trust absolutely for the Certificateholders as beneficial tenants in common *pro rata* according to the face amount of Certificates held by each Certificateholder; and
- (b) act as trustee in respect of the Trust Assets, distribute the income from the Trust Assets and perform its duties in accordance with the provisions of the Declaration of Trust.

In the Declaration of Trust, the Trustee will irrevocably and unconditionally delegate to the Delegate the performance of certain present and future duties, powers, authorities and discretions vested in the Trustee by the relevant provisions of the Declaration of Trust (including but not limited to the authority to request instructions from any Certificateholders and the power to make any determinations to be made under the Declaration of Trust). The appointment of such delegate by the Trustee is intended to be in the interests of the Certificateholders and does not affect the Trustee's continuing role and obligations as trustee. The Delegate will undertake in the Declaration of Trust that, following it being notified of the occurrence of a Dissolution Event in respect of any Certificates and subject to Condition 12 (*Dissolution Events*), it shall (a) promptly notify the Certificateholders of the occurrence of such Dissolution Event, and (b) subject to receiving satisfactory indemnity security and/or pre-funding, take all such steps as are necessary to enforce the obligations of the Republic under the Declaration of Trust, the Purchase Undertaking and any other Transaction Document to which the Republic is a party.

Costs Undertaking

The Costs Undertaking was executed as a deed on August 15, 2014 by the Republic acting in its personal capacity and on a voluntary basis in favor of, among others, the Delegate and the Agents and is governed by English law.

Pursuant to the Costs Undertaking, the Republic will pay certain fees and reimburse certain expenses of, and indemnify against certain liabilities incurred by, among others, the Delegate and the Agents.

REPUBLIC OF INDONESIA

Overview

Indonesia is the world's fourth most populous country, with a population of approximately 262 million in 2017. It is a developing nation in Southeast Asia, spread across an archipelago of approximately 17,504 islands.

In recent years, Indonesia has continued its relatively high economic growth and consolidated its transformation 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.

Selected Key Economic Indicators

	For the Year Ended December 31,					
	2013 ^L	2014 ^L	2015 ^L	2016 ^L	2017 ^R	2018 ^B
National account and prices:						
Real GDP growth (period-on-period)	5.6%	5.0%	4.8%	5.0%	5.1%	5.4%
Per capita GDP (in thousands of Rupiah)	38,280	41,809	45,176	47,957	N/A	N/A
Per capita GDP (in U.S. dollars) ⁽¹⁾	3,670	3,531	3,377	3,605	N/A	N/A
Average exchange rate (Rupiah per U.S. dollar) ⁽²⁾	10,445	11,876	13,392	13,305	13,385	13,400
Inflation rate ((year-on-year) change in CPI)	8.4%	8.4%	3.4%	3.0%	3.6%	3.5%
External sector:						
Current account (% of GDP)	(3.2)%	(3.1)%	(2.0)%	(1.8)%	(1.7)% ⁽³⁾	N/A
Fiscal account:						
Budget deficit (% of GDP)	(2.2)%	(2.2)%	(2.6)%	(2.5)%	(2.6)% ⁽⁴⁾	(2.2)%
External debt of the central Government (in trillions of Rupiah)	1,111.6	1,131.0	1,410.0	1,496.3	1,591.8	N/A
Debt service ratio (% of government revenue)	19.0%	23.9%	25.4%	32.5%	37.2%	N/A

Source: BPS, Bank Indonesia and Ministry of Finance

^L LKPP (Central Government Financial Report/Audited).

^R Preliminary realization.

^B 2018 Budget.

- (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: Rp9,384 per U.S. dollar for 2012, Rp10,463 per U.S. dollar for 2013, Rp11,868 per U.S. dollar for 2014, Rp13,377 per U.S. dollar for 2015, Rp13,303 per U.S. dollar for 2016. 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.
- (2) Official average exchange rate for the relevant period published by Bank Indonesia in its annual report, except for 2017 which was based on Bank Indonesia's calculations.
- (3) As published by Bank Indonesia in Indonesia's balance of payments report. Represents figures for the third quarter of 2017.
- (4) On January 15, 2018, the Ministry of Finance of the Republic issued a press release revising the preliminary budget deficit for 2017 to 2.5% of GDP.

N/A Not available.

Outlook and Ratings Upgrade

In December 2017, Fitch upgraded its sovereign credit rating of the Republic to BBB with a stable outlook. In May 2017, S&P upgraded its sovereign credit rating of the Republic to BBB- with a stable outlook. In February 2017, Moody's revised the outlook on Indonesia's government ratings to positive from stable while concurrently affirming Indonesia's Baa3 issuer rating, Baa3 senior unsecured bond ratings and (P)Baa3 senior unsecured MTN program rating.

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 1,913,579 square km, 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 Sumatera, 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 km across the equator from Nanggroe Aceh Darussalam, or 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.

In recent years, the Government has implemented various measures to address haze and other adverse effects caused by forest and field fires related to land clearance for agriculture in the islands of Sumatera and Kalimantan.

Volcanic and Other Natural Disasters

Indonesia is located in one of the most volcanically and seismically active regions in the world. Because it is located in the convergence zone of three major lithospheric plates, it is subject to significant seismic activity that can lead to destructive volcanic eruptions, earthquakes and tsunamis, or tidal waves, including the 2004 earthquake and subsequent Indian Ocean tsunami that devastated the Province of Aceh. In addition to these geological events, Indonesia has also been struck by other natural disasters such as heavy rains and flooding. All of these natural disasters have resulted in loss of life, the displacement of people and destruction of property, and could have significant economic and developmental effects. In December 2016, an earthquake hit the Province of Aceh resulting in approximately 100 deaths, hundreds of injuries and damage to houses and other property. Total government expenditures related to post-natural disaster relief efforts in 2016 were Rp2.9 trillion in 2016.

Beginning in September 2017, an erupting volcano on the island of Bali has adversely affected tourism.

Population

Indonesia had a population of approximately 262 million in 2017 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 148 million in 2016). In 2016, Jakarta, the capital, was estimated to have a population of approximately 10 million.

Indonesia's population is young and growing. In 2017, the Government estimated that approximately 26.8% of the population was under 15 years of age and approximately 43.6% was under 25 years of age. The population growth rate during the period of 2010 to 2017 was 1.3% per annum.

According to the 2010 census, approximately 87.2% of the Indonesian population is Muslim and 9.9% 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 Sumatera; 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 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

From 1605 until its independence in 1945, 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 ended by the Japanese occupation, which lasted from 1942 to 1945.

Indonesia proclaimed its independence on August 17, 1945 and adopted its Constitution in that year. The Constitution has been amended several times and remains in place today (despite being replaced from 1949 until its re-adoption in 1959). In 1966, executive power was transferred from President Soekarno to General Soeharto. General Soeharto served as Indonesia's President until 1998, when he resigned in the aftermath of social unrest that followed the 1997 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.

The post-Soeharto era, which is known in Indonesia as the Reformasi, led to changes in various governmental institutions and structural reforms of the judiciary, legislature, and executive office. Between 1999 and 2002, the Constitution was amended to strengthen constitutional checks and balances and the separation of powers and provide for a more direct democracy. Prior to these amendments, and throughout the period of President Soeharto's administration, the Government had been highly centralized. Power during the Soeharto period was concentrated in the Presidency and the military exerted significant influence over the 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 (i) increase the level of direct democracy; (ii) reduce the influence of the military in the Government; (iii) disperse power to regional and local government authorities; and (iv) improve the transparency and integrity of the judicial system.

Indonesia's most recent presidential election was held in July 2014. In this election, President Joko Widodo and Vice President Muhammad Jusuf Kalla were elected to serve until 2019. Although presidential candidates are nominated individually (along with their respective vice-presidential candidates), relationships with and support from political parties have a considerable effect on election results. Accordingly, the legislative election results are an important indicator of the outcome of the presidential elections.

A total of 15 parties (including three local parties in Aceh) took part in the 2014 legislative election. In addition to presidential and legislative elections, each of Indonesia's 34 provinces conducts their own gubernatorial elections, with governors serving five-year terms.

General elections are expected to be held in Indonesia in April 2019 for the position of President, the People's Consultative Assembly, provincial legislatures and local legislatures. In addition, local elections are expected to be held in June 2018. While Indonesia has successfully conducted elections in the past, the country continues to face various socio-political issues and has, from time to time, experienced political instability and social and civil unrest. Since 2000, thousands of Indonesians have participated in demonstrations in Jakarta and other Indonesian cities both for and against former President Megawati, former President Yudhoyono and current President Joko Widodo, as well as in response to specific issues, including reductions in fuel or electricity subsidies, privatization of state assets, anticorruption measures, decentralization and provincial autonomy, actions of former Government officials and their family members, and the American-led military campaigns in the Middle-East. More recently, gubernatorial elections in Jakarta in February and April 2017 led to protests with religious undertones. Former education and culture minister Anies Baswedan won the election for Jakarta governor in April 2017, defeating then-incumbent governor Basuki Tjahaja Purnama who was later convicted of blasphemy charges. Although these demonstrations were generally peaceful, some have turned violent. As events surrounding the recent Jakarta gubernatorial election have highlighted, political campaigns in Indonesia may bring a degree of political and social uncertainty to Indonesia that could lead to further civil disturbances.

Central Government

The Government is based on the Constitution, under which the Republic is structured as a unitary republic. The Constitution enshrines 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.

The Constitution vests the sovereignty in the country's people and establishes the office of the President, the People's Consultative Assembly (*Majelis Permusyawaratan Rakyat* or MPR) (which consists of the People's Representative Council (*Dewan Perwakilan Rakyat* or DPR) and the Regional Representatives' Council (*Dewan Perwakilan Daerah* or DPD)), 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 and inaugurate and dismiss the President. The MPR has a bicameral structure, consisting of the DPR, which is the principal legislative body, and the DPD. The DPR

has 560 members. The DPD currently has 132 members, consisting of four members from each province with the exception of Indonesia's newest province, North Kalimantan, where elections will not be held until 2019.

Members of the DPR are elected by a proportional representation system. The DPD members are elected in non-partisan elections based on a plurality of votes within the relevant electorate.

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 DPD 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. This includes 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.

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. 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 (i) commercial courts, which have jurisdiction over bankruptcy cases and intellectual property rights cases (except trade secrets); (ii) juvenile courts, which have jurisdiction over child cases; (iii) human rights courts, which have jurisdiction over gross violations of human rights cases; (iv) corruption courts, which have jurisdiction over corruption cases; (v) labor courts, which have jurisdiction over industrial relations cases; (vi) fishery courts, which have jurisdiction over criminal fishery cases; and (vii) 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.

The Constitutional Court has exclusive jurisdiction with respect to questions of constitutional law.

Political and Administrative Reforms

The development of the bureaucratic structure and process under the administration of President Joko Widodo is shifting its focus from output oriented budgeting to performance based outcome. This paradigm shift is important in the Republic's attempt to maximize the performance and efficiency of the country's management in order to allow for the complete implementation of good and clean governance.

One of the best examples of this policy implementation is Law No. 7 of 2017 regarding the general election. While any election in the past was allowed to take place at any time, which resulted in a very costly electoral exercise of holding local elections every month, under Law No. 7 of 2017, national elections, whether legislative, executive local or national, are scheduled to be held in a combined manner once every two years at a particular period.

Another example is the central Government's push to revitalize regional autonomy governance. By empowering local autonomous governments all the way to the village level, in the process of national development, the central Government expects to reduce the cost of the budget for routine expenses such as education, health care and public utilities (examples include access to transportation and communication).

Lastly, the central Government decided to rationalize and restructure petrol subsidies and other subsidies in the public sector, which led to substantial cost savings in the development budget starting from 2015. This allows

such savings to be reallocated to bolster infrastructure construction required to enhance the Republic's national competitiveness.

Regional Governments and Regional Autonomy

Indonesia has 34 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 or *kelurahan*, or sub-districts. Indonesia consists of 416 districts/municipalities in 34 provinces. In 2017, the central Government successfully held peaceful simultaneous regional elections for seven provinces, 18 municipalities and 76 districts.

Over the past eighteen years, the central Government has promoted and created significant regional autonomy through legislation. Under current law, government matters are divided into three areas:

- (i) matters that are solely under the authority of the central Government, such as foreign affairs, defense, security, judicial, national fiscal and monetary matters, and religion;
- (ii) matters that are concurrently implemented between the central Government, Provincial Governments and Regency/Municipality Governments. These include:
 - (a) mandatory matters to be implemented in Regional Governments, namely basic services which consists of education, health, public works and spacial planning, housing, social order and social welfare and non-basic services. Social welfare and non-basic services are further divided into other matters such as labor, women's empowerment and child protection, food sustainability, land policy, living environment, population administration and civil registration, community and village empowerment, population control and family planning, transportation, communication and informatics, cooperatives, plantations, investment, youth and sports, statistics, encryption, culture, libraries and archives;
 - (b) optional matters to be implemented in Regional Governments, namely maritime and fisheries, tourism, agriculture, forestry, energy and mineral resources, trade, industry and transmigration; and
- (iii) matters that are solely under the authority of the President as head of Government (such as Army, Navy and Air Force affairs, the appointment and the replacement of ambassadors and consuls, the granting of pardon and rehabilitation, amnesty and abolition, award of titles, decorations and other marks of state honor).

The provinces of Aceh, Jakarta, Yogyakarta, Papua and West Papua enjoy special autonomy from the central Government. In Papua and West Papua, a 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, the National Armed Forces and police have taken measures to maintain security and order in these provinces, and the Government has continued its policy of promoting social welfare in Papua and West Papua. Further, the Government is addressing the concerns of certain groups seeking greater independence by expanding the powers of the local governments, investing in infrastructure, 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.

Terrorism

Several terrorism-linked bombing incidents have taken place in Indonesia over the years, including incidents linked to ISIS and Jemaah Islamiah, a Southeast Asian terrorist network linked to other terrorist organizations outside the region. In response to these incidents, security forces and the judiciary took action to bring the perpetrators to justice and have targeted terrorist networks. Since the emergence of ISIS, several terror attacks have been committed by ISIS or ISIS affiliated groups in Indonesia. On January 14, 2016, multiple explosions and gunfire took place near the Sarinah shopping mall in central Jakarta that killed eight people and injured 23 people (commonly known as the Sarinah bombing). On July 18, 2016, Indonesian National Armed Forces and police troops killed Santoso, the leader of a pro-ISIS group, who had been a fugitive for years.

The most recent terror incident occurred on May 24, 2017, and is commonly known as the Kampung Melayu bombing, in which two suicide bombers set off explosives near the Kampung Melayu bus station, one of

Jakarta's busiest transit hubs, killing three police officers, the two suicide bombers, and wounding at least ten other people. In June 2017, the anti-terror squad of Indonesia's national police arrested 36 men suspected of being involved in the Kampung Melayu bombing and who are members of the Jamaah Anshar Daulah/Jamaah Ansharut terror group, a splinter cell of Jemaah Islamiah. Indonesia's counter-terrorism efforts include laws in respect of counter-terrorism and money laundering, training efforts for police and security officers (including sending officers to Canada and the United States for training). Indonesia also participates in regional counter-terrorism efforts through the Association of South East Asian Nations, or ASEAN, and global efforts through the United Nations. The Government has also adopted de-radicalization/counter narrative measures as well as bolstered police anti-terror units with additional personnel, equipment and training. Over the past three years of the Widodo administration, several hundred terrorist suspects have been reformed through de-radicalization measures.

The fight against terrorism was made more effective by the introduction of new legislation dealing more specifically and more rigorously with terrorism, radical agitation and terror attacks which has in turn allowed Indonesia's security forces to carry out tasks more easily.

Another new legislation on social and mass organization has been introduced in an attempt to mitigate radicalization, intolerance and acts of sedition by radical elements of society.

To achieve a more secure e-commerce and telecommunication environment, President Joko Widodo signed into decree the establishment of the BSSN (Badan Sandi dan Siber Nasional – the National Agency for Cybersecurity). The BSSN is responsible for the strengthening of the national cyber resilience infrastructure by coordinating with and leading all relevant stakeholders.

The Republic is also keeping up its efforts to maintain a just, transparent and effective legal and judicial system that also meets international standards in ethical compliance. Under the current justice system, Indonesia has eight specific tribunals, other than the standard criminal and civil tribunals, and they are: (i) the Commerce Tribunal; (ii) the Children and Family Tribunal; (iii) the Human Rights Tribunal; (iv) the Anti-corruption Tribunal; (v) the Labor and Relations Tribunal; (vi) the Industrial Relations Tribunal; (vii) the Fishery Tribunal; and (viii) the Taxes Tribunal.

Economic Policy Packages in 2015 – 2017

Since the election of President Joko Widodo in 2014, the Government has introduced 16 economic stimulus policy packages to encourage domestic economic growth through the creation of a climate that is more conducive to business growth and development.

The table below sets forth a summary of certain policies and initiatives under each economic policy package as well as the status of its implementation.

Economic Policy Package	Policies / Initiatives (including accomplishments to date)	Status of Implementation
1 st Economic Policy Package	The 1st policy package, announced on September 9, 2015, seeks to accelerate budget spending, increase household purchasing power, strengthen competitiveness of domestic products and stimulate domestic growth. The package includes strategies to strengthen export financing through the National Interest Account project (provision of low-interest export financing) and increase interest subsidies for loans to small to medium enterprises, or SMEs. Various regulations have been issued to implement the goals of the 1st policy package, including regulations that simplify the process of obtaining business licenses, accelerate certain national strategic projects, increase housing for low-income households, increase the allocation of rice for low-income households and implement tax cuts to strengthen downstream products to produce value-added products, as well as implementation of policies to stimulate the development of the SME sector.	Implementation of the 1 st policy package is ongoing and other initiatives are being considered.

Economic Policy Package	Policies / Initiatives (including accomplishments to date)	Status of Implementation
2 nd Economic Policy Package	The 2nd policy package, announced on September 29, 2015, includes initiatives to simplify the process to obtain industrial investment permits, grant tax incentives by eliminating value added tax, or VAT, for selected transportation sector industries, strengthen integrated logistics facilities and maintain the stability of the Rupiah. This package also simplifies the requirements to obtain tax holidays and the approval process for tax allowances. A number of policies and regulations have been implemented under the 2nd policy package. One policy aims to attract investment by fast-tracking services for issuing investment licenses at industrial estates within 3 hours. As of February 2017, the service has been utilized by 284 companies with a total investment value of Rp219 trillion. Another initiative in the package is the establishment of Bonded Logistics Centers, or BLCs. BLCs are multipurpose logistics warehouses that enjoy exemptions from import duty and tax. The Government has also put into place certain stimulus programs to increase corporate investment and the competitiveness of domestic products. This fiscal stimulus is implemented in the form of tax holidays and tax allowances.	Implementation of the 2 nd policy package is ongoing and other initiatives are being considered.
3 rd Economic Policy Package	The 3rd policy package, announced on October 7, 2015, includes policies to reduce fuel, gas and industrial electricity subsidies, ease land permit approvals for investment activities, and expand the availability of commercial loans for SMEs to include salaried employees as eligible recipients. The Government has taken certain immediate measures to implement the 3rd policy package. Prices for jet fuel, diesel fuel and certain other fuels have been lowered with effect from October 1, 2015. In addition, electricity billing rates have been lowered. To improve access to bank lending under the people's business credit program (a program aimed at supporting SMEs in Indonesia referred to by its Indonesian initials KUR), the Government has lowered the rate of interest on KUR from about 22% to 12%. The Government has also revised regulations to streamline land permit approvals for investment activities.	Implementation of the 3 rd policy package is ongoing and other initiatives are being considered.
4 th Economic Policy Package	The 4th policy package, announced on October 15, 2015, includes policies to promote a fair, simplified and projectable provincial wage system, subsidize small business loans and expand credit available for small businesses in sectors such as farming, fishery, manufacturing, creative businesses and overseas Indonesian workers. The package also includes incentives to encourage businesses to not reduce staff numbers.	Implementation of the 4 th policy package is ongoing and other initiatives are being considered.

Economic Policy Package	Policies / Initiatives (including accomplishments to date)	Status of Implementation
5 th Economic Policy Package	One key policy in the package is the Government Regulation on Wage Systems that introduces a minimum wage calculation to benefit workers. Various other regulations have been implemented to support workers' wages. 14 provinces set a minimum wage in 2016.	Implementation of the 5 th policy package is ongoing and other initiatives are being considered.
	In addition, the Government has implemented an amendment to the KUR program that broadens the scope of eligible borrowers and business sectors to further support business growth at the grassroots level.	
6 th Economic Policy Package	The 5th policy package, announced on October 22, 2015, introduces tax incentives for asset revaluations in order to encourage companies and state-owned-enterprises, or SOEs, to revalue their asset base. It also proposes eliminating the double-taxation system for real estate investment trusts, or REITs, to encourage more domestic REIT issuances.	Implementation of the 6 th policy package is ongoing and other initiatives are being considered.
	The Government has adopted policies that address asset revaluations and rescind double-taxation on investment funds for real estate, property and infrastructure. In addition, the Government has implemented policies that simplify the licensing of Sharia banking products and support the expansion of Sharia banks in Indonesia.	
	The 6th policy package, announced on November 5, 2015, introduces tax incentive schemes to encourage development of special economic zones, or SEZs, adjusts water-based resource processing permits to protect natural resources and shortens the import processes for pharmaceutical products through the use of an online system.	
	The Government has implemented three policies aimed at deregulation. The first policy aims to increase the number of SEZs by providing incentives for investors such as tax breaks, while benefitting workers. As of July 2017, there were 12 SEZs. By 2025, the Government aims to have 25 SEZs established.	
	The Government adopted Government Regulation concerning Commercial Exploitation of Water Resources and the Government Regulation concerning the System for Provision of Drinking Water. Under these two Government Regulations, the Government shall continue to honor contracts for cooperation in water resources management until the expiration of these contracts. The Government will strengthen control over the operation of such cooperation by strengthening the licensing regime for water use.	
	The Government has streamlined import processing for raw materials for pharmaceuticals and food products, reducing processing times to 5.7 hours. In addition, with the introduction of an online services system, 100% paperless processing was achieved ahead of target.	

Economic Policy Package	Policies / Initiatives (including accomplishments to date)	Status of Implementation
7 th Economic Policy Package	The 7th policy package, announced on December 4, 2015, seeks to support the industrial sector through an income tax waiver for workers in labor-intensive sectors and free leasehold certificates for SMEs operating in 34 state-owned areas. The Government has expanded the scope of incentives and facilities for doing business, not only for labor-intensive industries, but also by improving services for citizens in processing land titles. The Government implemented policies that streamline land title issuances. These include increasing the number of land surveyors, decreasing the number of days required for land registration to 14 days and introducing an electronic land-registration system. The Government has also adopted two policies providing income tax relief for employees working in labor-intensive industries for a period of two years. In addition, certain footwear and garment manufacturers now benefit from additional tax incentives.	Implementation of the 7 th policy package is ongoing and other initiatives are being considered.
8 th Economic Policy Package	The 8th policy package, announced on December 21, 2015, introduces policies to exempt airplane spare parts from import duty in order to improve Indonesian airlines' competitiveness, introduces incentives to accelerate oil refinery development across Indonesia, and, through the "one map policy," intends to harmonize all maps in Indonesia under one reference map for use in Government development projects. Pursuant to the Presidential Regulation concerning Accelerated Implementation of the One Map Policy, ministries and government institutions are preparing thematic maps on a 1: 50,000 scale under their individual action plans. The process is scheduled for completion by year-end 2019. The Government also implemented a Presidential Regulation that supports the accelerated construction and expansion of domestic oil refineries. The Government is also providing fiscal and non-fiscal incentives for construction, expansion and refurbishment of new and existing oil refineries. Moreover, the Government has introduced certain incentives for aircraft maintenance companies, including a 0% import duty on 21 tariff items related to spare parts and components for aircraft repairs or maintenance.	Implementation of the 8 th policy package is ongoing and other initiatives are being considered.
9 th Economic Policy Package	The 9th policy package, announced on January 27, 2016, introduces policies to improve national logistic performance through a single-billing system for port services conducted by SOEs, introduces an "Integrated National Single Window" to simplify the submission of trade documents to a single point of collection, requires the use of Rupiah for payments related to transportation activities, and eliminates the price difference between private commercial and state postal services.	Implementation of the 9 th policy package is ongoing and other initiatives are being considered.

Economic Policy Package	Policies / Initiatives (including accomplishments to date)	Status of Implementation
10 th Economic Policy Package	Certain regulations governing postal rates have been brought into alignment to promote efficiency in postal services. The revised regulations eliminate the requirement that rates for commercial postal services must be higher than the Government-set rates for the universal postal service.	Implementation of the 10 th policy package is ongoing and other initiatives are being considered.
	In addition, payments for port services provided by state-owned port operators are to be combined through an electronic single billing system. This measure is intended to strengthen the implementation of Regulation of the Minister of SOEs Number 2 of 2013 concerning Guidelines for Formulation of Information Technology Management for SOEs.	
	Indonesia is implementing the Indonesia National Single Window, or INSW, which manages the smooth processing of export and import documents. The INSW Portal has been introduced at 21 ports of entry and covers approximately 34,000 importers and approximately 26,000 exporters as of September 2015.	
11 th Economic Policy Package	The 10th policy package, announced on February 11, 2016, includes policies to increase foreign investment through the relaxation of the Negative Investment List by reducing or eliminating ownership restrictions in several sectors including pharmaceuticals, cold storage, the film industry, and telecommunications.	Implementation of the 11 th policy package is ongoing and other initiatives are being considered.
	The Government has removed 35 business categories from the Negative Investment List, including tourism, pharmaceuticals, cold storage, the film industry, and telecommunications. At the same time, the Negative Investment List has been expanded by certain business categories for the protection and development of SMEs.	
	The Government has also implemented measures that relax investment restrictions and ease investment licensing and increasing the threshold foreign share ownership across a broad range of business categories.	
	The 11th policy package, announced on March 29, 2016, seeks to reduce dwelling time in the transport sector, or the time between when cargo arrives at and leaves Indonesian ports, improve loan schemes for export-oriented SMEs, and introduces tax incentives for REITs and a pharmaceutical industry roadmap.	
	The Government is implementing regulations concerning (i) a reduction of income tax on income from certain real estate transfers to as low as 0.5% from the usual 5% rate, available for companies issuing REITs, (ii) creating investment incentives and facilities in the regions, and (iii) supporting regions interested in the operations of REITs in their regions.	

Economic Policy Package	Policies / Initiatives (including accomplishments to date)	Status of Implementation
12 th Economic Policy Package	To reduce dwelling time, the Government is requiring all line ministries/government agencies to develop a single licensing submission facility on the INSW portal for processing of licensing, and is implementing a single risk management model within the INSW. The rollout of the single-risk management model across all line ministries and government agencies is expected to reduce dwelling time to less than 3 days by the end of 2017. Presidential Instructions have been issued to various ministries to accelerate progress towards self-reliance and competitiveness of the domestic pharmaceuticals and medical equipment industries. The Government has also implemented the Export Oriented People Business Credit, or KURBE, in order to provide integrated export financing support to SMEs. As of January 2017, 22 SMEs from Jawa Tengah, Yogyakarta, Bali, and Nusa Tenggara Barat have benefitted from KURBE.	Implementation of the 12 th policy package is ongoing and other initiatives are being considered.
	The 12th policy package, announced on April 28, 2016, focuses on enhancing the ease of doing business in Indonesia by reducing fees and waiting times for business applications, building construction permits, property registration, electricity installation, and access to banks. The Government has introduced measures that reduce the number of applications, forms and procedures to establish a business as well as reduce associated costs and minimum capital requirements. Various other improvements have been implemented, including simplification of obtaining construction permits, improving adjudication of small claims and simplification of tax-paying procedures.	
	The 13th policy package, announced on August 28, 2016, includes social housing initiatives as well as additional measures designed to make conducting business easier. The package also includes policies to improve site and environmental planning. The Government has accelerated the implementation of the “National One Million Housing Program” (a five-year government program to build one million homes for people with low incomes). The focus is on streamlining the number of licenses and time to process licenses to construct houses for low-income-earner households from 33 licenses and stages to 11 licenses and stages. By reducing the number of licenses and stages, the time it will take to construct these houses has been reduced to 44 days compared to 770 – 980 days prior to implementation of the 13th economic policy package.	

Economic Policy Package	Policies / Initiatives (including accomplishments to date)	Status of Implementation
14 th Economic Policy Package	The 14th policy package, announced on November 10, 2016, focuses on accelerating e-commerce businesses by creating an “Electronic-Based National Trading System,” which will be regulated under a presidential regulation that will include policies related to funding support, tax relaxation, consumer protection, human resources capacity improvement, logistics support, communication infrastructure, cyber-security, and the formation of an operation management committee to develop an E-Commerce Roadmap. The Government has issued Presidential Regulation No. 74 of 2017 on E-Commerce Road Map for the Year of 2017-2019, or E-Commerce Road Map. This E-Commerce Road Map provides direction and strategic guidance to various Government agencies to support and accelerate development of e-commerce in Indonesia. The guidelines instruct the central, local and regional governments to develop sectoral policies and programs. The E-Commerce Road Map consists of eight key areas: (i) funding, (ii) taxation, (iii) customer protection, (iv) education and human resources, (v) telecommunication infrastructure, (vi) logistics, (vii) cyber-security, and (viii) establishment of a coordinating function (in the form of steering and management committee). These key areas are further divided into 26 programs, which must be carried out by the respective Governmental stakeholders in the 2017-2019 period. Implementation of the E-Commerce Road Map is ongoing.	Implementation of the 14 th policy package is ongoing.
15 th Economic Policy Package	The 15th policy package, announced on June 15, 2017, focuses on improving the national logistics system to accelerate the business development and competitiveness of national logistics service providers. The goals of the policy package are to strengthen the INSW, increase the competitiveness of logistics service providers and create market opportunities for shipping companies, marine insurance and ship maintenance businesses. This package aims to (i) reduce the import duty of 115 types of ship spare parts to 0%, (ii) increase opportunities for national shipping companies that service approximately U.S.\$600 million in exports and imports per year, (iii) produce 70 – 100 new ships with a total value of U.S.\$700 million, (iv) open new job opportunities for 2,000 sailors, and (v) develop regional logistics systems to support the flow of goods, control inflation, and reduce the damage of post-harvest products up to 30%. Various regulations have been issued to, among others: • increase the role and scale of national transport and insurance companies, import and export companies as well as domestic shipyard and ship maintenance businesses;	Implementation of the 15 th policy package is ongoing.

Economic Policy Package	Policies / Initiatives (including accomplishments to date)	Status of Implementation
	- enhance the ease of doing business and reduce the costs for national logistics service providers by (i) reducing transportation services operational fees, (ii) removing licensing requirements for transportation of goods, (iii) reducing port business investment costs, (iv) standardizing documents for the domestic flow of goods, (v) developing regional distribution centers, (vi) easing procurement of certain ships, and (vii) introducing a cargo security fee-recovery mechanism; - strengthen the organization and authority of the INSW, including through (i) the grant of independent authority to the INSW agency to develop an electronic system for import-export, customs and port services and supervision for the entire territory of Indonesia, (ii) supervision of import-export activities which have the potential of facilitating illegal trading, (iii) development of a risk management system for the flow of goods and reducing dwelling times, and (iv) development of the INSW agency as a competent authority in the integration of the ASEAN Single Window and protecting and implementing of free trade agreements. The Government has established an import-export commerce team to support the flow of goods. This team aims to reduce the number of barriers and restrictions to the average non-tariff barriers of ASEAN countries of 17%.	
16 th Economic Policy Package	The 16th policy package, announced on August 31, 2017, aims at speeding up the issuance of business permits while providing greater certainty on the cost and time involved and improving coordination between ministries and provincial administrations through the reform of all licensing related regulations issued by ministries or head of state agencies, governors and regents or mayors. The policy package also includes the issuance of Presidential Regulation Number 91 of 2017 on expediting business operations, establishment of a work unit to guide and settle licensing delays in business operations, application of a licensing checklist in special economic zones, free trade zones, industrial and tourism zones and application of licensing through shared use.	Implementation of the 16 th policy package is ongoing.

Economic Equalization Policy

In April 2017, the central Government announced the Economic Equalization Policy (“EEP”), which embodies a national economic transformation to overcome the middle income trap and achieve the status of a developed country in the long run. The EEP is an integrated reform to create synergy and it comprises three parts: (i) land; (ii) opportunity; and (iii) human capital:

Land

- Social forestry

- The Ministry of Environment and Forestry will distribute access to social forest management covering an area of 211,522 hectares for 48,911 families with 134 permits. The initial focus will be on 11 villages with a total area of 15,576 hectares for 9,411 households.
- Agrarian reform and transmigration land legalization
 - Transmigration of land of 220,000 hectares and 3,800 hectares under the National Agrarian Operation Project is ready to be legalized from a total of 4.5 million hectares, while 23,000 hectares of displaced land and 707,000 hectares of forest disposal are also ready to be redistributed from a total of 4.5 million hectares.
 - Agrarian reforms will be expanded to several provinces, including Banten, West Java, Central Java, Riau, West Kalimantan, West Sumatra, North Sumatra and Maluku.
- Affordable housing for the urban poor
 - The central Government is committed to housing development within urban areas which are well connected to centers of activity, economic resources and public transportation for the urban poor. Core housing policies include the provision of land for affordable housing (land availability), implementation of a housing scheme for the construction of cheap housing and a housing financing scheme.

Opportunity

- Targeted development of key sectors
 - The EPP aims to have a targeted development of key sectors, which includes focussing on addressing issues relating to the tax system, development of manufacturing and IT industries and the retail sector. Through this targeted development, the central Government hopes to improve the competitiveness of the retail sector and strengthen synergies between traditional and modern retail.

Human capital

- Vocational training and labor markets
 - Vocational and labor policies will be structured for capacity building of human resources, especially to align with industry needs and to support government priority programs.
 - Policy steps will also be taken by the central Government to draft and improve the road map for vocational education and training, through reclassification and prioritization of business fields and positions.
 - There will be a job matching program that will focus on strengthening vocational programs for industries.
 - Vocational schemes will be in place for the automotive, tourism and transportation sectors.

Infrastructure Reforms

The central Government has undertaken certain infrastructure reforms to accelerate infrastructure provision. The reforms are: (i) fiscal reforms; (ii) institutional reforms; and (iii) regulatory reforms:

Fiscal reforms

- Viability gap funding
 - Issuance of Ministry of Finance Regulation No. 223 of 2012 to increase project financial feasibility by contributing up to 49% of the construction cost.
- Availability payment
 - Issuance of regulatory framework for annuity payment scheme by the central Government (Ministry of Finance Regulation No. 190 of 2015 for the central Government and Ministry of Home Affairs Regulation No. 96 of 2016 for the regional Government) during the concession period after the project becomes operational by the private sector in order to make the project bankable.

- Land revolving fund
 - Issuance of Ministry of Finance Regulation No. 220 of 2010, which is a revolving fund sourced from the state budget to accelerate land acquisitions.
- Risk-sharing guidelines
 - The Indonesia Infrastructure Guarantee Fund (“**IIGF**”) has issued risk allocation and mitigation guidelines for public-private partnership projects (“**PPP**”).

Institutional reforms

- Committee for Acceleration of Priority Infrastructure Delivery (“**KPPIP**”)
 - KPPIP is actively involved in accelerating the delivery of priority infrastructure projects.
- PT. Sarana Multi Infrastruktur (“**PT SMI**”)
 - PT SMI merged with the Government Investment Center to become an infrastructure funding company.
- IIGF
 - The IIGF has the capacity to provide project guarantees for non-PPP projects.
- Public-private Partnership Unit (“**PPP Unit**”)
 - The PPP Unit provides facilities to help government contracting agencies with preparation for PPP projects.
- State Asset Management Agency
 - The State Asset Management Agency is mandated to provide land funds for National Strategic Projects to ensure timely land acquisition process.
- *Regulatory reforms*
 - Direct lending
 - Issuance of Presidential Regulation No. 82 of 2015 to allow guarantees for direct lending to state-owned enterprises to accelerate financial close process for infrastructure projects.
 - Land acquisition
 - Issuance of Presidential Regulation No. 148 of 2015 to stipulate land acquisition acceleration based on Law No. 2 of 2012.
 - Economic packages
 - Conduct deregulation for issues that impede infrastructure delivery and develop a task force under the Coordinating Ministry for Economic Affairs to ensure effective implementation of economic packages.

Improving licensing services in Indonesia

Badan Koordinasi Penanaman Modal (“**BKPM**”) has implemented measures to digitalize investment licensing by adopting paperless investment licensing. BKPM has commenced issuing licenses with digital certificates, digital signatures in portable document format and a QR code.

In September 2017, the Government issued Presidential Regulation No. 91 Year 2017 on Acceleration of Business Operations (“**Presidential Regulation No. 91**”) which aims to accelerate the licensing process with respect to service standards, time and costs incurred for all business licenses. Presidential Regulation No. 91 stipulates that all business licensing shall be processed through the online integrated system or the online single submission system (“**OSS**”). Investors will only be required to submit their documents once through OSS when applying for several licenses.

The Government also established task forces (“**Satgas**”) at national, ministerial/institutional, provincial and regional/municipality levels to settle any issues relating to licensing for businesses by virtue of Presidential Regulation No. 91.

Ease of Doing Business (“EODB”) Ranking

The EODB Survey is conducted by the World Bank in order to provide objective measures of business regulations and their enforcement across 190 economies and selected cities at subnational and regional level. Indonesia has made some progress in deregulating its economy as its ranking in the EODB index for 2018 has climbed 19 places from its previous rank of 91 to 72.

Foreign Relations and International and Regional Organizations

Indonesia maintains close diplomatic relationships with neighboring countries and its major economic partners.

The Republic is one of the five founding members of ASEAN, an organization that was established in 1967 to ensure regional stability and is now committed to reducing development gaps among its member states (Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam), which have entered into various agreements on mutual assistance and cooperation in several areas. Reaffirming the commitment to the ASEAN vision to establish a community as a milestone in the integration process to ensure prosperity in an outward looking region with economies that are vibrant, competitive, highly integrated and inclusive, the ASEAN leaders declared the formal establishment of the ASEAN Community in 2015. To continue the commitment in the on-going process of ASEAN community building, the ASEAN leaders also adopted the ASEAN Community Vision 2025: Forging Ahead Together (“**AEC 2025**”), which comprises three pillars, including the ASEAN Economic Community. The AEC 2025 consists of five characteristics: (i) A Highly Integrated and Cohesive Economy; (ii) A Competitive, Innovative and Dynamic ASEAN; (iii) Enhanced Connectivity and Sectoral Cooperation; (iv) A Resilient, Inclusive, People-Oriented, and People-Centred ASEAN; and (v) A Global ASEAN.

The Republic’s other principal memberships in international and regional organizations include:

- United Nations;
- the IMF;
- the World Bank and certain World Bank-related organizations;
- the Asian Development Bank or ADB;
- ASEAN+3 (ASEAN nations and China, Japan and South Korea);
- The Group of Twenty, or G20, in which it is the only ASEAN member state that concurrently enjoys membership;
- the Islamic Development Bank;
- World Trade Organization;
- the Asia Pacific Economic Cooperation, or APEC, where it was one of the 12 founding economies and continues to play an important role;
- the Asian Infrastructure Investment Bank, an initiative by the government of China that aims to support the building of infrastructure in the Asia-Pacific region; and
- the Indian Ocean Rim Association (“**IORA**”).

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, the Group of 15, and as observer at the G-24 Forum.

The Republic has been a member of the Organization of Petroleum Exporting Countries, or OPEC, since 1962. In view of the shift in its status from a net exporter to a net importer of oil, the Republic suspended its membership in OPEC effective January 2009. The Republic reactivated its OPEC membership effective January 2016, but due to policy considerations and its continuing status as a net importer of oil, the Republic decided to suspend its OPEC membership during the November 30, 2016 OPEC meeting. On May 24, 2017, Indonesia sent OPEC a letter requesting reactivation of its membership on the condition that Indonesian crude oil production would not have to be cut. In December 2017, the Government of Indonesia decided to freeze the reactivation process and elected not to be the permanent member of OPEC.

Indonesia also pursues opportunities from the Belt and Road Initiative led by the People's Republic of China. This initiative represents the largest initiative across regions which comprises two large segments: (i) the Silk Road Economic Belt, a land road route western mainland China that leads to Central Asia up to the Middle East; and (ii) the 21st Century Maritime Silk Road, a strategic and important sea-land encircling Southeast Asia, the Persian Gulf and reaching the Horn of Africa. This initiative provides opportunities to expand connectivity among countries in Asia, Europe as well as Africa and South America, and also promotes trade balance, e-commerce, digital economy and financial inclusion. In 2017, Indonesia was actively involved in the formulation of the Guiding Principles on Financing the Development for the Belt and Road, which was delivered at the Belt and Road Forum for International Cooperation. The Belt and Road Forum for International Cooperation was held from May 14 to 15, 2017, and it was attended by the President of the Republic. The Republic's recent development involving the Belt and Road Initiative is the project to develop a new airport in Lembeh Island, North Sulawesi, which was announced in December 2017.

Indonesia became a member of the IORA (an association that connects countries along the Indian Ocean region) in 1997. Since joining IORA, Indonesia has been an active member and has directly engaged in a number of initiatives and Indonesia continues to promote economic and maritime diplomacy in the Indian Ocean region. Recently, Indonesia hosted the leader's summit of IORA in Jakarta in March 2017, which concluded with the enactment of the IORA Concord (also referred to as the Jakarta Concord), which aims to lay the foundation and set the course for cooperation within IORA in the coming years to overcome the increasingly complex problems in the Indian Ocean region.

The following table shows Indonesia's capital participation in major international financial organizations as of December 31, 2017.

Name of organization	As of December 31, 2017 contributed capital		
	Date of admission	Subscribed	Paid in
	(in millions of U.S. dollars)		
Asian Development Bank	1966	411.7 ⁽¹⁾	411.7 ⁽¹⁾
IMF	1996 ⁽²⁾	6,619.9 ⁽¹⁾	6,619.9 ⁽¹⁾
World Bank Group			
International Bank for Reconstruction and Development	1966 ⁽²⁾	2,778.3	167.2
International Development Association	1968	114.9 ⁽³⁾	24.1
International Finance Corporation	1968 ⁽⁴⁾	31.6	31.6
Multilateral Investment and Guarantee Agency	1986	20.0	3.8
Islamic Development Bank ⁽⁵⁾	1975	1,620.7	188.3
International Islamic Trade Finance Corporation	1992	2.1	2.1
The Islamic Corporation for the Insurance of Investment and Export Credit	1992	0.7	0.1
Islamic Corporation For The Development Of The Private Sector	1992	882.0	10.8
International Fund for Agricultural Development	1977	72.0	68.0
Common Fund for Commodities	1980	1.3	1.3
Credit Guarantee and Investment Facility	2012	12.6	12.6
ASEAN Infrastructure Investment Bank	2015	672.1	403.0
ASEAN Infrastructure Fund ⁽⁶⁾	2012	120.0	120.0
International Rubber Consortium Limited	2002	4.0	4.0

Source: Bank Indonesia and Ministry of Finance

- (1) Denominated in SDR of the IMF. Converted to U.S. dollars using the exchange rate on December 29, 2017 of U.S.\$1.424 to SDR 1.
- (2) Indonesia rejoined the IMF and The International Bank for Reconstruction and Development in 1966, it originally became a member of these organizations in 1954 and resigned its memberships in 1965.
- (3) In 2017, Indonesia committed to the *IDA18 Replenishment* in the amount of U.S.\$181.2 million, which adds to Indonesia's subscribed share in the International Development Association from U.S.\$33.8 million to U.S.\$114.9 million.
- (4) Indonesia rejoined the International Finance Corporation in 1968. It originally became a member in 1956 and resigned its membership in 1961.
- (5) Denominated in ID (ID 1 = SDR 1). See footnote (1) above.
- (6) As of January 2015.

In 2017, there were additional state capital investments made towards five international financial organizations in the amount of U.S.\$149.0 million. The U.S. dollar amount of these additional state capital investments is recorded and transacted in SDR and ID with reference to the IMF and Euro published exchange rate.

Foreign Relations

Indonesia embraces a foreign policy that is free and active while remaining committed to playing an important role in the maintenance of peace and security in the world. This policy is ingrained in Indonesia's Constitution and is further testament that the aspirations of the international community as enshrined in the Charter of the United Nations is aligned to that of Indonesia. In this respect, Indonesia assumes leadership roles in advancing the interests of not just certain blocs of like-minded countries, as is likely the norm in international relations but rather continuously and persistently assumes the bridge-building negotiating role in constructing platforms that accommodate the interests of all countries for the common benefit of all.

Indonesia continues its active participation in the forums deemed crucial to how life would turn out for the billions in the world for decades to come. In this context, Indonesia has shown active participation in the Third International Conference on Financing for Development held in Addis Ababa, Ethiopia, from July 13 to 16, 2015, the United Nations Sustainable Development Summit held in New York, United States of America, from September 25 to 27, 2015, the G20 Summit held in Antalya, Turkey, from November 15 to 16, 2015, the 21st session of the Conference of the Parties of the United Nations Framework Convention on Climate Change held in Paris, France, from November 30, 2015 to December 11, 2015, the G20 Summit held in Hangzhou, China from September 3 to 5, 2016, the APEC Summit held in Lima, Peru from November 19 to 20, 2016, the G20 Summit held in Hamburg, Germany from July 7 to 8, 2017 and the APEC Summit held in Da Nang, Vietnam from November 11 to 12, 2017.

In recognition of Indonesia's active role in reducing hunger and malnutrition in the country as mandated by the Millennium Development Goals, or MDGs, the Government received an award from the United Nations Food and Agriculture Organization which was presented during a special event on June 7, 2015 with the theme Completing the MDGs Round: Recognizing Achievements in the Fight Against Hunger.

In recent times, Indonesia has enjoyed increasingly close and strong relations with Australia. In August 2014, the two countries signed a reaffirmation of the 2006 "Lombok Treaty" which provided a framework for security cooperation. The 2014 agreement further emphasized the importance of intelligence and security cooperation based on the principles of mutual trust and respect between the two countries. Following the signing of the agreement, information sharing and the exchange of intelligence cooperation, joint coordinated patrol and military exercises and cooperation against human trafficking have been restored.

Indonesia and China encourage the implementation of the ASEAN-China Maritime Cooperation Year 2015 as stipulated in the 17th ASEAN-China Summit in Nay Pyi Taw.

Maritime Boundaries Delimitation and the South China Sea

The Government has a nine priority agenda, known as the *Nawa Cita* (nine objectives), to implement the vision of "realization of sovereign, independent, and characteristically Indonesia, based on mutual cooperation". In line with the *Nawa Cita*, the Government has conducted border diplomacy with its ten neighboring countries, namely, India, Thailand, Malaysia, Singapore, Vietnam, the Philippines, Palau, Papua New Guinea, Timor Leste, and Australia.

Indonesia has agreed on the following maritime boundaries:

- Several Territorial Sea boundaries with Malaysia (northern part of the Malacca Strait) and Singapore (central, western and eastern part of the Singapore Strait), and completion of all Territorial Sea boundaries with Papua New Guinea;
- Exclusive Economic Zone with the Philippines, Australia, and Papua New Guinea; and
- Continental Shelf with India, Thailand, Malaysia (Malacca Strait and South China Sea), Vietnam, Australia and Papua New Guinea.

Negotiations on the following maritime boundaries are ongoing:

- Remaining segments of Territorial Sea boundaries with Malaysia, Singapore and Timor-Leste;

- Exclusive Economic Zone with India, Thailand, Malaysia, Vietnam, Palau and Timor-Leste; and
- Continental Shelf with Malaysia, the Philippines, Palau, and Timor Leste.

Indonesia aims to resolve these maritime boundaries through peaceful and diplomatic channels in accordance with international law.

Indonesia is working to ensure its national interest and to ensure that stability and security are maintained in the South China Sea. These aims are advanced both on a bilateral basis with China as well as through initiatives advanced through ASEAN. In line with this, in November 2017, China and the ten member states of the ASEAN, including Indonesia, announced an agreement to begin discussions on a Code of Conduct, or COC, to implement the 2002 ASEAN-China Declaration on the Conduct of Parties in the South China Sea (frequently referred to as the DOC) based on a negotiating framework agreed in August 2017. Most recently, the Ministry of Foreign Affairs hosted a workshop on the South China Sea from November 15 to 17, 2017 attended by representatives from Brunei Darussalam, China, the Philippines, Indonesia, Laos, Malaysia, Myanmar, Singapore, Vietnam and Taiwan to explore opportunities for cooperation between stakeholders and encourage dialogue on cooperation projects and maritime borders. Indonesia also hosted the 7th ASEAN Maritime Forum and the 5th Expanded ASEAN Maritime Forum in December 2017. Matters discussed in these forums included the importance of strengthening linkages in maritime cooperation to further promote mutual trust and confidence to ensure security, peace and stability in the region, including matters relating to safety and freedom of navigation and overflight.

While Indonesia does not have overlapping territorial claims in the South China Sea with China, it continues to establish communication and consultation with China to push for dispute resolution and the avoidance of conflict in this area. In May 2017, the foreign ministers of Indonesia and China signed a Plan of Action for the Implementation of the Comprehensive Strategic Partnership for 2017-2021, which included China's commitment to the full implementation of the DOC and to expedite the adoption of a COC. Indonesia has also encouraged cooperation between the Indonesian Maritime Security Board and the Chinese Coast Guard to enhance mutual trust and prevent potential conflict.

Indonesia continues to pursue the economic development of its exclusive economic zone off the coast of the Natuna Islands in the North Natuna Sea (which is also referred to as a part of the South China Sea). According to press reports, Indonesia has taken action against foreign-flagged fishing vessels in this zone, which have included Chinese vessels, which China has said is a traditional Chinese fishing ground.

Economy and Gross Domestic Product

Introduction

Indonesia has a balanced and diversified economy. The main challenges currently facing Indonesia's economy include uncertainty in relation to the global economic recovery and commodity prices, which are crucial factors in determining the Republic's export performance.

Domestically, factors that affect the economy are demographic growth and job creation, the country's progress in implementing its infrastructure programs, maintaining relatively stable and low inflation and balancing domestic budgetary pressures against the burden of serving external debt.

Principal Sectors of the Economy

Indonesia's principal economic sectors are manufacturing (including coal, oil and gas); agriculture, forestry and fishery; wholesale and retail trade, repair of motor vehicles and motorcycles; construction; and mining and quarrying.

The tables below show the composition of Indonesia's GDP by sector at current prices and constant market prices, respectively, for the periods indicated.

Gross Domestic Product by Industry
(at current prices)

	Year Ended December 31,										For the Nine Months Ended September 30,	
	2012	%	2013	%	2014	%	2015	%	2016	%	2017 ^P	%
(in billions of Rupiah and percentage of GDP)												
Manufacturing Industry												
Coal Industry and Oil and Gas Refining	298,403	3.5	314,216	3.3	337,201	3.2	320,330	2.8	286,061	2.3	231,607	2.3
Non-Coal, Oil and Gas Manufacturing Industries	1,549,748	18.0	1,693,211	17.7	1,890,383	17.9	2,098,047	18.2	2,258,515	18.2	1,809,195	17.9
Total Manufacturing Industry	1,848,151	21.5	2,007,427	21.0	2,227,584	21.1	2,418,376	21.0	2,544,576	20.5	2,040,802	20.2
Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles	1,138,484	13.2	1,261,146	13.2	1,419,239	13.4	1,535,288	13.3	1,635,960	13.2	1,319,897	13.1
Agriculture, Forestry, and Fishery												
Agriculture, Livestock, Hunting, & Agriculture Services	902,126	10.5	994,778	10.4	1,089,550	10.3	1,183,971	10.3	1,266,361	10.2	1,070,480	10.6
Forestry and Logging	65,882	0.8	69,599	0.7	74,618	0.7	82,860	0.7	85,545	0.7	65,643	0.7
Fishery	184,254	2.1	210,671	2.2	245,488	2.3	288,917	2.5	317,092	2.6	259,488	2.6
Total Agriculture, Forestry, and Fishery	1,152,262	13.4	1,275,048	13.4	1,409,656	13.3	1,555,747	13.5	1,668,998	13.5	1,395,611	13.8
Mining and Quarrying												
Oil, Gas and Geothermal Mining	492,894	5.7	520,088	5.4	509,783	4.8	384,516	3.3	369,354	3.0	288,365	2.9
Coal and Lignite Mining	270,519	3.1	281,193	2.9	259,767	2.5	229,974	2.0	231,698	1.9	236,048	2.3
Metal Ore	100,845	1.2	98,468	1.0	93,615	0.9	74,264	0.6	73,301	0.6	66,072	0.7
Other Mining and Quarrying	136,050	1.6	149,996	1.6	176,258	1.7	192,940	1.7	219,595	1.8	163,262	1.6
Total Mining and Quarrying	1,000,308	11.6	1,050,746	11.0	1,039,423	9.8	881,694	7.6	893,947	7.2	753,748	7.5
Construction	805,208	9.3	905,991	9.5	1,041,950	9.9	1,177,084	10.2	1,287,659	10.4	1,029,692	10.2
Government Administration, Defense Compulsory Social Security	340,568	4.0	372,195	3.9	404,630	3.8	450,233	3.9	478,636	3.9	362,627	3.6
Information and Communication	311,362	3.6	341,009	3.6	369,457	3.5	405,992	3.5	449,141	3.6	382,012	3.8
Transportation and Warehousing	313,156	3.6	375,306	3.9	466,969	4.4	579,060	5.0	647,154	5.2	540,505	5.4
Financial and Insurance Service	320,534	3.7	370,132	3.9	408,439	3.9	465,020	4.0	520,926	4.2	427,814	4.2
Education Service	270,372	3.1	307,862	3.2	341,818	3.2	388,042	3.4	418,258	3.4	321,340	3.2
Other*	929,294	10.8	1,041,470	10.9	1,177,068	11.1	1,312,730	11.4	1,418,520	11.4	1,153,681	11.4
Gross Value Added at Basic Prices	8,429,700	97.8	9,308,332	97.5	10,306,232	97.5	11,169,265	96.9	11,963,776	96.4	9,727,728	96.4
Taxes less Subsidies on Products	186,005	2.2	237,802	2.5	263,473	2.5	362,452	3.1	443,034	3.6	367,001	3.6
Total GDP	8,615,705	100.0	9,546,134	100.0	10,569,705	100.0	11,531,717	100.0	12,406,810	100.0	10,094,728	100.0

Source: BPS

^P Preliminary.

* Includes the Procurement of Electricity and Gas; Procurement of Water, Management of Trash, Waste and Recycle; Accommodation and Food Beverages Supply; Real Estate; Corporate Services; Health Service and Social Activity; and Other Services sectors.

Gross Domestic Product by Industry
(at constant 2010 prices)

	Year Ended December 31,										For the Nine Months Ended September 30, 2017 ^P	
	2012	%	2013	%	2014	%	2015	%	2016 ^P	%	2017 ^P	%
(in billions of Rupiah and percentage of GDP)												
Manufacturing Industry												
Coal Industry and Oil and Gas Refining	227,456	2.9	221,450	2.7	216,751	2.5	214,312	2.4	221,263	2.3	166,444	2.3
Non-Coal, Oil and Gas Manufacturing Industries	1,470,331	19.0	1,550,512	19.0	1,637,506	19.1	1,720,221	19.2	1,796,293	19.0	1,406,076	19.0
Total Manufacturing Industry	1,697,787	22.0	1,771,962	21.7	1,854,257	21.6	1,934,533	21.5	2,017,555	21.4	1,572,520	21.4
Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles	1,067,912	13.8	1,119,272	13.7	1,177,298	13.7	1,207,751	13.4	1,255,225	13.3	981,945	13.3
Agriculture, Forestry, and Fishery												
Agriculture, Livestock, Hunting, & Agriculture Services	816,304	10.6	847,764	10.4	880,390	10.3	906,805	10.1	935,455	9.9	770,292	10.3
Forestry and Logging	58,872	0.8	59,229	0.7	59,574	0.7	60,757	0.7	59,709	0.6	45,421	0.6
Fishery	164,264	2.1	176,149	2.2	189,090	2.2	204,017	2.3	214,523	2.3	169,513	2.3
Total Agriculture, Forestry, and Fishery	1,039,441	13.5	1,083,142	13.3	1,129,053	13.2	1,171,579	13.0	1,209,687	12.8	985,227	13.2
Mining and Quarrying												
Oil, Gas and Geothermal Mining	323,632	4.2	313,328	3.8	307,162	3.6	307,326	3.4	315,504	3.3	230,761	3.2
Coal and Lignite Mining	230,589	3.0	247,595	3.0	251,074	2.9	232,725	2.6	223,099	2.4	171,633	2.4
Metal Ore	91,615	1.2	98,609	1.2	98,258	1.1	87,703	1.0	89,303	0.9	68,644	0.9
Other Mining and Quarrying	125,726	1.6	131,523	1.6	137,996	1.6	139,573	1.6	147,580	1.6	114,718	1.5
Total Mining and Quarrying	771,562	10.0	791,054	9.7	794,490	9.3	767,327	8.5	775,486	8.2	585,755	7.9
Construction	728,226	9.4	772,720	9.5	826,616	9.7	879,164	9.8	925,063	9.8	725,086	9.8
Government Administration, Defense Compulsory Social Security	282,235	3.7	289,449	3.5	296,330	3.5	310,054	3.5	319,953	3.4	235,763	3.2
Information and Communication	316,279	4.1	349,150	4.3	384,476	4.5	421,741	4.7	459,170	4.9	373,482	5.1
Transportation and Warehousing	284,663	3.7	304,506	3.7	326,933	3.8	348,774	3.9	375,764	4.0	300,908	4.0
Financial and Insurance Service	280,896	3.6	305,515	3.7	319,826	3.7	347,309	3.9	378,235	4.0	299,797	4.1
Education Service	232,704	3.0	250,016	3.1	263,685	3.1	283,020	3.2	293,878	3.1	220,128	3.0
Other*	858,558	11.1	916,526	11.2	978,408	11.4	1,028,927	11.5	1,086,176	11.5	852,293	11.5
Gross Value Added at Basic Prices	7,560,263	97.8	7,953,312	97.5	8,351,369	97.5	8,700,179	96.9	9,096,191	96.4	7,132,903	96.6
Taxes less Subsidies on Products	166,821	2.2	203,186	2.5	213,498	2.5	282,332	3.1	336,844	3.6	268,944	3.6
Total GDP	7,727,083	100.0	8,156,498	100.0	8,564,867	100.0	8,982,511	100.0	9,433,034	100.0	7,401,847	100.0

Source: BPS

^P Preliminary.

* Includes the Procurement of Electricity and Gas; Procurement of Water, Management of Trash, Waste and Recycle; Accommodation and Food Beverages Supply; Real Estate; Corporate Services; Health Service and Social Activity; and Other Services sectors.

Manufacturing Industry

Indonesia's principal manufacturing industries include food products and beverages, coal and refined petroleum products, fabricated metal products, computer, electronic and optical products and electrical equipment. Other major manufacturing industries include transport equipment and chemicals, pharmaceuticals and botanical products. Manufacturing has been the largest contributor to economic growth since the 1980s. The manufacturing industry sector consists of the sub-sectors of (i) coal industry and oil and gas refining and (ii) non-coal, oil and gas manufacturing industries.

In 2012, Indonesia's manufacturing industries grew by 5.6%. Non-coal, oil, and gas manufacturing industries grew by 7.0% during 2012 mainly driven by the chemical, pharmacy, and traditional medicine manufacturing sub-sector, which grew by 12.8%. Coal, oil and gas manufacturing industries declined by 2.4% in 2012 due to a decrease in coal manufacturing, LNG manufacturing and petroleum refining.

In 2013, Indonesia's manufacturing industries grew by 4.4%, compared to a rate of 5.6% in the previous year. Non-coal, oil and gas manufacturing industries grew by 5.5% during 2013 mainly driven by the transport equipment manufacturing sub-sector, which grew by 15.0%. Coal, oil and gas manufacturing industries declined by 2.6% in 2013, primarily due to a contraction in coal manufacturing, LNG manufacturing and petroleum refining.

In 2014, Indonesia's manufacturing industries grew by 4.6%, compared to a rate of 4.4% in the previous year. Non-coal, oil and gas manufacturing industries grew by 5.6% during 2014 mainly driven by the food and beverage manufacturing sub-sector, which grew by 9.5%. Coal, oil and gas manufacturing industries declined by 2.1% in 2014, primarily due to a contraction in LNG manufacturing and petroleum refining, which was partially offset by an increase in coal manufacturing.

In 2015, Indonesia's manufacturing industries grew by 4.3%, compared to 4.6% in the previous year. Non-coal, oil and gas manufacturing industries grew by 5.1% during 2015 mainly driven by the metal goods industry, computers, electronics, optics, and electrical equipment sub-sector, which grew by 7.8%. Coal, oil, and gas manufacturing industries declined by 1.1% in 2015, primarily due to a contraction in LNG manufacturing and petroleum refining, which was partially offset by an increase in coal manufacturing.

In 2016, Indonesia's manufacturing industries grew by 4.3%, the same as in the previous year. Non-coal, oil and gas manufacturing industries grew by 4.4% during 2016, mainly driven by growth in the food and beverage manufacturing sub-sector, which grew by 8.5%. Coal, oil, and gas manufacturing industries grew by 3.2% during 2016 compared to the previous year, primarily due to the demand recovery in the industry, after experiencing a downturn driven by declines in commodities prices.

During the nine months ended September 30, 2017, Indonesia's manufacturing industries grew by 4.2% compared to 4.6% in the same period in 2016. Non-coal, oil and gas manufacturing industries grew by 4.7% during the nine months ended September 30, 2017, mainly driven by growth in the chemicals, pharmaceuticals and botanical manufacturing sub-sector, which grew by 6.8%. Coal, oil, and gas manufacturing industries contracted by 0.1% during the nine months ended September 30, 2017 compared to the same period in 2016 primarily due to maintenance and renovation works carried out on refineries by operators as well as decreased investment into the oil and gas sector due to the low oil price environment, which partially offset the 3.6% growth in coal production.

Wholesale and retail trade; repair of motor vehicles and motorcycles

The wholesale and retail trade; repair of motor vehicles and motorcycles sector includes wholesale and retail trade, as well as the repair of motor vehicles, including motorcycles. In recent years, this has generally been the third largest segment of the economy, behind manufacturing and agriculture, forestry and fishery.

In 2012, the wholesale and retail trade; repair of motor vehicles and motorcycles sector grew by 5.4%. This growth was driven by the wholesale of non-cars and motorcycles sub-sector, which grew by 5.1% and the wholesale and retail trade of cars, motorcycles and repairs sub-sectors, which grew by 6.6% in 2012.

In 2013, the wholesale and retail trade; repair of motor vehicles and motorcycles sector grew by 4.8%, compared to 5.4% in 2012. Growth in this sector was driven primarily by growth in the wholesale and retail trade of cars, motorcycles, and repairs sub-sectors, which grew by 7.3%. The wholesale and retail trade of non-cars and motorcycles sub-sectors grew by 4.1% in 2013.

In 2014, the wholesale and retail trade; repair of motor vehicles and motorcycles sector grew by 5.2%, compared to 4.8% in 2013. This growth was driven by the wholesale of non-cars and motorcycles sub-sector, which grew by 5.2% and the wholesale and retail trade of cars, motorcycles, and repairs sub-sector, which grew by 5.0% in 2014.

In 2015, the wholesale and retail trade; repair of motor vehicles and motorcycles sector grew by 2.6%, compared to 5.2% growth in 2014. Growth in this sector was mainly driven by the wholesale of non-cars and motorcycles sub-sector, which grew by 3.1%. The wholesale and retail trade of cars, motorcycles, and repairs sub-sector grew by 0.3% in 2015.

In 2016, the wholesale and retail trade; repair of motor vehicles and motorcycles sector grew by 3.9%, compared to 2.6% 2015. This growth was mainly driven by the wholesale and retail trade of non-cars and motorcycles sub-sector, which grew by 4.0%. The wholesale and retail trade of cars, motorcycles, and repairs sub-sector also grew by 3.8% in 2016.

During the nine months ended September 30, 2017, the wholesale and retail trade, repair of motor vehicles and motorcycles sector grew by 4.8%. This growth was mainly driven by the wholesale and retail trade of non-cars and motorcycles sub-sector, which grew by 4.9%. The wholesale and retail trade of cars, motorcycles, and repairs sub-sector also grew by 4.1% during the nine months ended September 30, 2017 compared to the same period in 2016.

Agriculture, forestry and fishery

The agriculture, forestry and fishery sector consists of the sub-sectors of (i) agriculture, livestock, hunting & agriculture services, (ii) forestry and logging and (iii) fishery.

In 2012, the agriculture, forestry, and fishing sector grew by 4.6%. This growth was mainly driven by the fishery sub-sector, which grew by 6.3%. The agriculture, livestock, hunting & agriculture services sub-sector the forestry sub-sector, grew by 4.6% and 0.2%, respectively, in 2012.

In 2013, the agriculture, forestry and fishery sector grew by 4.2%, slower than its growth of 4.6% in 2012. This growth was mainly driven by the fishery sub-sector, which grew by 7.2% compared to 2012. The agriculture, livestock, hunting & agriculture services sub-sector and the forestry sub-sector, grew by 3.9% and 0.6%, respectively, in 2013.

In 2014, the agriculture, forestry, and fishery sector grew by 4.2%, the same rate as in 2013. This growth was mainly driven by the fishery sub-sector, which grew by 7.3% compared to 2013. The agriculture, livestock, hunting & agriculture services sub-sector and the forestry sub-sector, grew by 3.8% and 0.6%, respectively, in 2014.

In 2015, the agriculture, forestry, and fishery sector grew by 3.8%, slower than its growth of 4.2% in 2014. This growth was mainly driven by the fishery sub-sector, which grew by 7.9% compared to 2014. The agriculture, livestock, hunting & agriculture services sub-sector and the forestry sub-sector, grew by 3.0% and 2.0%, respectively, in 2015.

In 2016, the agriculture, forestry, and fishery sector grew by 3.3%, slower than its growth of 3.8% in 2015. This growth was mainly driven by the fishery sub-sector, which grew by 5.1% compared to the same period in 2016. The agriculture, livestock, hunting & agriculture services sub-sector grew by 3.2% while the forestry sub-sector contracted by 1.7% in 2016.

During nine months ended September 30, 2017, the agriculture, forestry, and fishery sector grew by 4.3% compared to 2.7% in the same period in 2016. This growth was mainly driven by the fishery sub-sector, which grew by 6.8% compared to the same period in 2016. The agriculture, livestock, hunting & agriculture services sub-sector, and the forestry sub-sector grew by 3.9% and 2.1%, respectively, during the nine months ended September 30, 2017.

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

Production of Principal Agricultural Products by Sub-sectors

	Year Ended December 31,					
	2012	2013	2014	2015	2016	2017 ^P
	(in thousands of tons)					
Food crops						
Rice	69,056	71,280	70,846	75,398	79,355	81,382
Cassava	24,177	23,937	23,436	21,801	20,260	19,046
Corn	19,387	18,512	19,008	19,612	23,578	27,952
Sweet Potato	2,483	2,387	2,382	2,298	2,169	2,023
Soybeans (shelled)	843	780	955	963	860	542
Peanuts (shelled)	713	702	639	605	570	480
Mung bean	284	205	245	271	279	253
Estate cash crops						
Dry Rubber	3,012	3,237	3,153	3,145	3,158	3,230
Coffee	691	676	644	639	639	638
Cocoa	741	721	728	593	657	688
Tea	146	145	154	133	144	146
Sugarcane	2,592	2,551	2,579	2,498	2,223	2,465
Tobacco	261	164	198	194	196	198
Palm Oil	26,016	27,782	29,278	31,070	33,229	35,359
Livestock						
Meat	2,669	2,882	2,925	3,057	3,356	3,344
Eggs	1,629	1,728	1,753	1,896	2,031	2,107
Milk	960	787	801	835	913	920
Fish products						
Captured Fish	5,829	6,115	6,484	6,678	6,399	N/A
Farmed Fish	9,676	13,301	14,359	15,634	16,675	N/A
Forestry⁽¹⁾						
Logs	30,908	32,456	36,975	38,813	37,552	N/A
Sawn Timber	1,100	993	1,159	1,765	1,820	N/A
Plywood	3,311	3,262	3,579	3,641	3,636	N/A

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

(1) All units are in thousands of cubic meters.

^P Preliminary.

N/A Not Available.

Mining and Quarrying

Indonesia is a significant player in the global mining and quarrying industry with significant production of natural gas, coal, crude oil, tin, nickel, bauxite and copper.

In 2012, the mining and quarrying sector grew by 3.0%, primarily due to growth in the coal and lignite mining and the other mining and quarrying sub-sectors, which grew by 15.7% and 6.0%, respectively. This was partially offset by a contraction in the metal ore and oil, gas and geothermal mining sub-sector, which contracted 4.0% and 3.6%, respectively.

In 2013, the mining and quarrying sector grew by 2.5% compared to 3.0% in the previous year, primarily due to growth in the metal ore, coal and lignite mining, and the other mining and quarrying sub-sectors, which grew by 7.6%, 7.4% and 4.6%, respectively. This was partially offset by a 3.2% contraction in the oil, gas and geothermal mining sub-sector.

In 2014, the mining and quarrying sector grew by 0.4%, compared to 2.5% in the previous year, primarily due to growth in the other mining and quarrying and the coal and lignite mining sub-sectors, which grew by 4.9% and 1.4%, respectively. This was partially offset by contraction in the oil, gas and geothermal mining and the metal ore sub-sectors, which contracted by 2.0% and 0.4%, respectively.

In 2015, the mining and quarrying sector contracted by 3.4% compared to an increase of 0.4% the previous year, primarily due to contraction in the metal ore and the coal and lignite mining sub-sector, which contracted by 10.7% and 7.3%, respectively. This was partially offset by growth in the other mining and quarrying and the oil, gas and geothermal mining sub-sector which were 1.1% and 0.1%, respectively.

In 2016, the mining and quarrying sector grew by 1.1% compared to a contraction by 3.4% the previous year, primarily due to growth in the other mining and quarrying, the oil, gas and geothermal mining, and the metal ore sub-sectors, which grew by 5.7%, 2.7% and 1.8%, respectively. This was partially offset by a 4.1% contraction in the coal and lignite mining sub-sector in 2016.

During the nine months ended September 30, 2017, the mining and quarrying sector grew by 1.2% compared to 0.9% in the same period in 2016, primarily due to growth in the metal ore mining, the other mining and quarrying, and the coal and lignite mining sub-sectors, which grew by 4.6%, 3.8%, and 3.6%, respectively. This was partially offset by contraction in the oil, gas and geothermal mining sub-sector, which contracted by 2.8% during the nine months ended September 30, 2017.

As products in the mining and quarrying sector are internationally traded commodities with prices set by the world markets, the performance of this sub-sector is primarily affected by international market prices. See “— *Foreign Trade and Balance of Payments — Exports and Imports.*”

Oil and Natural Gas

The oil and gas market in Indonesia is characterized by the presence of large, diversified companies with highly vertically integrated operations throughout oil exploration, production, refining, transportation and marketing. In 2015 and 2016, the contribution of the Indonesian oil and gas industry to Indonesia’s GDP decreased due to a decrease in international crude oil prices. Oil and gas exports are Indonesia’s largest exports, contributing approximately 8.9% of total exports in 2016, and approximately 5.2% of the Government’s domestic revenue (inclusive of income tax revenue from the oil and gas sub-sector) in 2016. Pertamina, an SOE, plays an important role in the production of oil and gas in Indonesia.

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

Crude Oil Production by Source⁽¹⁾

	Year Ended December 31,					Nine Months Ended September 30,
	2012	2013	2014	2015	2016	2017 ^P
	(in millions of barrels)					
Pertamina	45	44	42	32	30	14
Production sharing contracts ⁽²⁾	269	257	247	243	274	132
Total	314	300	289	275	304	145

Source: Ministry of Energy and Mineral Resources

^P Preliminary.

(1) Includes production of crude oil condensate.

(2) Most of the production under production sharing contracts is provided to Pertamina. Production sharing contracts are a common type of joint cooperation contract used in Indonesia’s oil and gas upstream sector, under which the Government and the contractor agree to split the production measured in revenue based on agreed percentages.

The table below sets forth Indonesia's proven crude oil reserves for the periods indicated based on estimates prepared by the Ministry of Energy and Mineral Resources' Reserve Oil and Gas Evaluation Team, which is composed of representatives from the Oil and Gas Directorate of the Ministry of Energy and Mineral Resources, the Center of Research and Development of Oil and Gas Technology of the Ministry of Energy and Mineral Resources, as well as SKK Migas, which are based on the applicable Annual Reserve Oil and Gas Report received by SKK Migas from various oil and gas contractors. SKK Migas is a government entity responsible for supervising upstream oil and gas activities. Proven crude oil reserves include developed and undeveloped volumes that are economically recoverable at either current prices or forecasted future prices as calculated by each relevant contractor under the coordination of SKK Migas. Estimates of proven crude oil reserves are comparable to estimates prepared using international standards and includes total volume without regard to the direct economic benefit of Indonesia. Estimates are prepared pursuant to the Petroleum Resources Management System sponsored by the Society of Petroleum Engineers.

Proven Crude Oil Reserves

<u>Year</u>	<u>Proven Crude Oil Reserves</u> (in million stock tank barrels)
2012	3,741.3
2013	3,692.5
2014	3,624.5
2015	3,602.5
2016	3,306.9
2017	3,170.9

Source: Ministry of Energy and Mineral Resources

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

Crude Oil Exports⁽¹⁾

	<u>Year Ended December 31,</u>					<u>Nine Months Ended November 30,</u>
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017^P</u>
	(in millions of barrels)					
Production sharing contracts ⁽²⁾	85	96	96	123	127	95.5
Government and government-designated ⁽³⁾	20	21	14	5	0	1.0
Total	105	117	110	128	127	96.5

Source: Ministry of Energy and Mineral Resources

^P Preliminary.

(1) Includes exports of crude oil condensate.

(2) Most of the production under production sharing contracts is provided to Pertamina. Production sharing contracts are a common type of joint cooperation contract used in Indonesia's oil and gas upstream sector, under which the Government and the contractor agree to split the production measured in revenue based on agreed percentages.

(3) Exports by Pertamina and entities designated by SKK Migas are reported together.

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

Average Price of Crude Oil

	<u>Year Ended December 31,</u>					
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017^P</u>
	(in U.S. dollars per barrel)					
ICP⁽¹⁾	112.7	106.0	97.0	49.2	40.1	51.2

Sources: Directorate General of Oil and Gas, Ministry of Energy and Mineral Resources

^P Preliminary.

(1) For a description of the ICP, see "Certain Defined Terms and Conventions."

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

Natural Gas Production by Source⁽¹⁾

	Year Ended December 31,					Nine Months Ended September 30,
	2012	2013	2014	2015	2016	2017 ^P
	(in millions of cubic feet)					
Pertamina	330	295	309	323	299	147
Production sharing contracts ⁽²⁾	2,281	2,304	2,267	2,195	2,222	1,026
Total	2,611	2,599	2,576	2,518	2,521	1,173

Source: Ministry of Energy and Mineral Resources

^P Preliminary.

(1) Includes LPG.

(2) Most of the production under production sharing contracts is provided to Pertamina. Production sharing contracts are a common type of joint cooperation contract used in Indonesia's oil and gas upstream sector, under which the Government and the contractor agree to split the production measured in revenue based on agreed percentages.

The table below sets forth Indonesia's proven natural gas reserves for the periods indicated based on estimates prepared by the Ministry of Energy and Mineral Resources' Reserve Oil and Gas Evaluation Team, which is composed of representatives from the Oil and Gas Directorate of the Ministry of Energy and Mineral Resources, the Center of Research and Development of Oil and Gas Technology of the Ministry of Energy and Mineral Resources, as well as SKK Migas, which are based on the applicable Annual Reserve Oil and Gas Report received by SKK Migas from various oil and gas contractors. Proven natural gas reserves represent marketable volumes that generate sales revenue. Estimates of proven natural gas reserves are comparable to estimates prepared using international standards and includes total volume without regard to the direct economic benefit of Indonesia. Estimates are prepared pursuant to the Petroleum Resources Management System sponsored by the Society of Petroleum Engineers.

Proven Natural Gas Reserves

Year	Proven Natural Gas Reserves (in trillions of standard cubic feet of gas)
2012	103.3
2013	101.5
2014	100.3
2015	98.0
2016	101.2
2017	101.2

Source: Ministry of Energy and Mineral Resources

Minerals

The Republic's major mineral products are coal, nickel, copper and bauxite, and it has substantial resources of each of these minerals. In recent years, the Government has pursued policies designed to increase the production and export of value-added products using these mineral resources.

Grasberg Copper Mine

On February 20, 2017, Freeport-McMoRan Inc., the parent company of PT Freeport Indonesia, or Freeport, the operator of the Grasberg copper mine in the province of Papua, announced that Freeport had provided to the Government formal notice of an impending dispute pursuant to the dispute resolutions provisions of the contract of work entered into between Freeport and the Government.

Under Law No. 4 of 2009 on Mineral and Coal Mining enacted by the Government in January 2009, or the Mining Law, two new types of licenses were created: *ijin usaha pertambangan*, or IUP, and *ijin usaha*

pertambangan khusus, or IUPK. Subsequent to the enactment of the Mining Law, the Government issued various regulations thereunder, including (i) regulations mandating the domestic processing and refining of minerals, (ii) regulations requiring the reclamation of areas affected by mining activities, (iii) regulations related to local community development and empowerment, optimization and conservation of mineral resources, and job opportunities for local mining service providers and local communities surrounding a mining area and (iv) regulations relating to procedures for the granting of a production operation special mining permit, which provide guidelines for the granting of an operation production IUPK in order to continue the operation of a contract of work.

Pursuant to the Mining Law, contracts of work issued under the prior mining law, including Freeport's, contract of work, will remain valid until the end of their terms. Under the current regulations, however, contract of work holders, including Freeport, are required to refine their mining products in Indonesia and, contract of work holders, including Freeport, are required to convert their contract of work into an IUPK to continue the export of concentrate.

On April 4, 2017, the Government granted Freeport a temporary special mining permit, which was effective from February 2017 to October 2017. In August 2017, Freeport agreed to convert its contracts of work into an IUPK and to transfer to the Government a 51% stake in the Grasberg copper mine. The timing and valuation for the transfer of the 51% stake is still under discussion. Freeport also agreed to build a smelter to process copper concentrate in Indonesia in order to support job creation and increase the amount of processing work done in Indonesia. In exchange, the Government agreed to grant Freeport an initial five-year license expiring in 2021 and to extend Freeport's permit to operate the mine for two additional ten-year terms until 2041, subject to the construction of certain smelters, submission of the applicable permit applications and certain other conditions.

Construction

Over the last five years, besides the development of a basic public services infrastructure, the main drivers of the construction sector were improvement works in the areas of communications and logistics infrastructure, transportation and electrification.

In 2012, the construction sector grew by 6.6%, primarily due to infrastructure development and construction in the private sector.

In 2013, the construction sector grew by 6.1% compared to a growth of 6.6% in 2012, primarily due to a slowdown in Government budget disbursements compared to the previous year.

In 2014, the construction sector grew by 7.0% compared to a growth of 6.1% in 2013, primarily due to an increase in the production of construction raw materials.

In 2015, the construction sector grew by 6.4% compared to a growth of 7.0% in 2014, primarily due to an acceleration of the implementation of Government development projects in the fourth quarter of 2015.

In 2016, the construction sector grew by 5.2% compared to a growth of 6.4% in 2015, primarily due to several infrastructure projects implemented by the public and private sectors such as airports, industrial zones, bridges, and highways.

During the nine months ended September 30, 2017, the construction sector grew by 6.7% compared to a growth of 5.6% in the same period in 2016, primarily due to several infrastructure projects conducted by the public and private sectors such as roads, high ways, light rail transit, and bridges.

Transportation and Warehousing

The transportation and warehousing sector comprises the sub-sectors of (i) railway transport, (ii) land transport, (iii) sea transport, (iv) river, lake and ferry transport, (v) air transport and (vi) warehousing and support activities for transportation; postal and courier.

In 2012, the transportation and warehousing sector grew by 7.1%. The sea transport and the road transportation sub-sectors grew by 8.7% and 7.5%, respectively. The warehousing and support activities for the transportation; postal and courier sub-sectors grew by 6.5%.

In 2013, the transportation and warehousing sector grew by 7.0% compared to 7.1% in 2012. The warehousing and support activities for the transportation; postal and courier and road transport sub-sectors grew by 8.0% and 7.5%, respectively.

In 2014, the transportation and warehousing sector grew by 7.4%, compared to 7.0% in 2013. The railway transport sub-sector had the highest growth, which grew by 20.8% in 2014 compared to the previous year.

In 2015, the transportation and warehousing sector grew by 6.7%, compared to 7.4% in 2014. The air transport sub-sector had the highest growth, which grew by 9.4% in 2014 compared to the previous year.

In 2016, the transportation and warehousing sector grew by 7.7% compared to 6.7% in 2015. The sub-sector contributing the highest growth was air transport at 13.3%, followed by land transport at 7.6% and warehousing and support activities of transportation, postal and courier at 7.5%.

During the nine months ended September 30, 2017, the transportation and warehousing sector grew by 8.3% compared to 7.7% in the same period in 2016. The sub-sector contributing the highest growth was railway transport at 17.7%, followed by air transport at 13.6% and warehousing and support activities for transportation; postal and courier at 8.4%.

Other sectors

None of the other sectors shown in the tables above comprised more than 5% of GDP, at either current prices or constant prices, for the periods indicated.

Gross Domestic Product

In this Offering Memorandum, GDP is shown in both current and constant prices. GDP at current prices value a country's output using the actual prices for each year, while GDP at constant prices (also referred to as "real" GDP) value output using the prices from a base year, thereby eliminating the distorting effects of inflation and deflation.

The following table shows the distribution of GDP in the Indonesian economy by expenditure at current prices and constant prices, respectively, for the periods indicated (at current prices).

Gross Domestic Product by Expenditure (at current prices)

	Year Ended December 31,										Nine Months Ended September 30,	
	2012	%	2013	%	2014	%	2015	%	2016	%	2017 ^p	%
(in billions of Rupiah and percentage of GDP)												
GDP	8,615,705	100.0	9,546,134	100.0	10,569,705	100.0	11,531,717	100.0	12,406,810	100.0	10,094,728	100.0
Add: Imports of goods and services	2,152,937	25.0	2,359,212	24.7	2,580,508	24.4	2,389,633	20.7	2,271,178	18.3	1,859,495	18.4
Total supply of goods and services	10,768,642	125.0	11,905,346	124.7	13,150,213	124.4	13,921,350	120.7	14,677,988	118.3	11,954,223	118.4
Less: Exports of goods and services	2,118,979	24.6	2,283,777	23.9	2,501,425	23.7	2,439,107	21.2	2,367,332	19.1	2,026,118	20.1
Total domestic expenditure	8,649,663	100.4	9,621,569	100.8	10,648,788	100.7	11,482,243	99.6	12,310,656	99.2	9,928,105	98.3
Allocation of total domestic expenditure:												
Household consumption expenditure	4,768,745	55.3	5,321,088	55.7	5,915,194	56.0	6,477,577	56.2	7,009,577	56.5	5,664,544	56.1
NPISHs consumption expenditure	89,586	1.0	103,929	1.1	124,242	1.2	130,951	1.1	144,470	1.2	118,739	1.2
Government consumption expenditure	796,848	9.2	908,574	9.5	996,197	9.4	1,124,812	9.8	1,172,420	9.4	810,622	8.0
Total consumption	5,655,179	65.6	6,333,591	66.3	7,035,634	66.6	7,733,339	67.1	8,326,468	67.1	6,593,905	65.3
Gross domestic fixed capital formation	2,819,027	32.7	3,051,496	32.0	3,436,924	32.5	3,782,143	32.8	4,040,498	32.6	3,190,132	31.6
Change in inventories (residual) ⁽¹⁾	175,457	2.0	236,482	2.5	176,231	1.7	(33,239)	(0.3)	(56,310)	(0.5)	144,067	1.4
Total domestic expenditure	8,649,663	100.4	9,621,569	100.8	10,648,789	100.7	11,482,243	99.6	12,310,656	99.2	9,928,105	98.3

Source: BPS

^P Preliminary.

(1) Includes statistical discrepancies.

Gross Domestic Product by Expenditure (at constant 2010 prices)

	Year Ended December 31, ⁽¹⁾										For the Nine Months Ended September 30,	
	2012	%	2013	%	2014	%	2015	%	2016 ^P	%	2017 ^P	%
(in billions of Rupiah and percentage of GDP)												
GDP	7,727,083	100.0	8,156,498	100.0	8,564,867	100.0	8,982,511	100.0	9,433,034	100.0	7,401,847	100.0
Add: Imports of goods and services	1,910,300	24.7	1,945,867	23.9	1,987,114	23.2	1,859,712	20.7	1,817,549	19.3	1,419,279	19.2
Total supply of goods and services	9,637,383	124.7	10,102,365	123.9	10,551,981	123.2	10,842,223	120.7	11,250,583	119.3	8,821,126	119.2
Less: Exports of goods and services	1,945,064	25.2	2,026,114	24.8	2,047,887	23.9	2,004,416	22.3	1,969,635	20.9	1,593,405	21.5
Total domestic expenditure	7,692,319	99.6	8,076,251	99.0	8,504,093	99.3	8,837,806	98.4	9,280,948	98.4	7,227,721	97.6
Allocation of total domestic expenditure:												
Household consumption expenditure	4,195,788	54.3	4,423,417	54.2	4,651,018	54.3	4,881,904	54.3	5,126,499	54.3	4,007,804	54.1
NPISHs consumption expenditure	81,919	1.1	88,618	1.1	99,420	1.2	98,800	1.1	105,341	1.1	83,556	1.1
Government consumption expenditure	681,819	8.8	727,812	8.9	736,283	8.6	775,427	8.6	774,298	8.2	519,734	7.0
Total consumption	4,959,525	64.2	5,239,847	64.2	5,486,722	64.1	5,756,131	64.1	6,006,139	63.7	4,611,094	62.3
Gross domestic fixed capital formation	2,527,729	32.7	2,654,375	32.5	2,772,471	32.4	2,911,471	32.4	3,041,825	32.2	2,366,768	32.0
Change in inventories (residual) ⁽²⁾	205,065	2.7	182,029	2.2	244,901	2.9	170,204	1.9	232,984	2.5	249,859	3.4
Total domestic expenditure	7,692,319	99.6	8,076,251	99.0	8,504,093	99.3	8,837,806	98.4	9,280,948	98.4	7,227,721	97.6

Source: BPS

^P Preliminary.

(1) Calculated with calendar year 2010 as the Base Year.

(2) Includes statistical discrepancies.

Inflation

The Government sets inflation targets periodically and targeted an inflation rate of 4.0% (±1.0%) for 2017 and 3.5% (±1.0%) for 2018. Bank Indonesia enacts and implements policies to achieve the inflation target in coordination with the Government.

In addition, the Inflation Management and Monitoring Team (*Tim Pemantauan dan Pengendalian Inflasi* or TPI) is responsible for identifying and analyzing the sources of inflation and making policy recommendations to maintain low and stable inflation 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.

The following table shows the Consumer Price Index, or CPI, as of the end of the periods indicated and the percentage change against the previous period.

Changes in Consumer Price Index

	As of December 31,					
	2012	2013	2014	2015	2016	2017
CPI	135.5 ⁽¹⁾	146.8 ⁽¹⁾	119.0 ⁽²⁾	123.0 ⁽²⁾	126.7 ⁽²⁾	131.3 ⁽²⁾
Annual percentage year-on-year	4.3%	8.4%	8.4%	3.4%	3.0%	3.6%

Source: BPS

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

(2) Calculated on the basis of 2012 CPI = 100.

The following table shows percentage changes years-on-year in the CPI for certain commodities for the periods indicated.

Inflation by Commodity

	For the year ended December 31,					
	2012	2013	2014	2015	2016	2017
Food	5.7%	11.4%	10.6%	4.9%	5.7%	1.3%
Processed food, beverages and cigarettes	6.1%	7.5%	8.1%	6.4%	5.4%	4.1%
Housing	3.4%	6.2%	7.4%	3.3%	1.9%	5.1%
Clothing	4.7%	0.5%	3.1%	3.4%	3.1%	3.9%
Health	2.9%	3.7%	5.7%	5.3%	3.9%	3.0%
Education, recreation and sports	4.2%	3.9%	4.4%	4.0%	2.7%	3.3%
Transportation, communication, and financial Service	2.2%	15.4%	12.1%	(1.5)%	(0.7)%	4.2%

Source: BPS

Indonesia measures annual inflation by year-on-year changes in the CPI.

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

In 2013, annual inflation was 8.4%, which was higher than the 4.3% annual inflation in 2012. Increases in transportation and communication prices contributed to the increased rate of inflation as both sectors witnessed price increases of 15.4%. In 2013, prices for food increased by 11.4%, prices for processed food, beverages and cigarettes increased by 7.4%, and prices for housing and utilities increased by 6.2%.

In 2014, annual inflation was 8.4%, which was in line with the 2013 inflation rate. Increases in transportation and communication prices made the greatest contribution to the increase in the inflation rate, as transportation and communication prices in 2014 were 12.1% higher on average. In 2014 prices for food increased by 10.6%, prices for processed food, beverages, cigarettes and tobacco increased by 8.1%, and prices for housing increased by 7.4%.

In 2015, annual inflation was 3.4%, which was lower than the 8.4% annual inflation in 2014. This decrease was primarily due to smaller increases in the prices for food and housing, which increased by 4.9% and 3.3%, respectively, while prices for transportation, communication, and financial services decreased by 1.5%.

In 2016, annual inflation was 3.0% which was lower than the 3.4% annual inflation in 2015. This decrease was primarily due to smaller increases in the prices for housing; health; and education, recreation and sports, which increased by 1.9%, 3.9% and 2.7%, respectively.

In 2017, annual inflation was 3.6% which was higher than the 3.0% annual inflation in 2016. This increase was primarily due to higher prices in housing; transportation, communication, and financial services; clothing; and education, recreation and sports, which increased by 5.1%, 4.2%, 3.9% and 3.3%, respectively.

Privatization of State-Owned-Enterprises

The sale by the Government of SOE shares 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 SOEs.

As of December 31, 2017, there were 115 SOEs that comprised 17 listed SOEs, 84 non-listed SOEs, and 14 special purpose entities. In addition, there were 24 enterprises in which the Government owned a minority stake. Most SOEs were in the manufacturing industry (29), warehouse and transportation industry (24) and insurance and financial service industry (19).

The following table sets forth significant full and partial privatizations since 2011 (including prior periods where relevant):

State-Owned-Enterprises Privatizations

<u>SOE</u>	<u>Year of offering</u>	<u>Government equity interest after offering</u> (percentages)	<u>Proceeds to the Government</u> (in billions of Rupiah)	<u>Proceeds to SOE</u>
PT Bank Tabungan Negara (Persero) Tbk	2009	72.9	—	1,819
	2012 ⁽³⁾	60.0	135.9	1,870
PT Garuda Indonesia (Persero) Tbk	2011	69.1	—	3,187
	2014 ⁽³⁾	60.5	11.2	1,448.9
PT Kertas Basuki Rachmat Tbk ⁽¹⁾	2011	—	2.6 ⁽²⁾	—
PT Atmindo Tbk ⁽¹⁾	2011	—	9.0 ⁽²⁾	—
PT Jakarta International Hotel Development, Tbk ⁽¹⁾	2011	—	18.5 ⁽²⁾	—
PT Waskita Karya (Persero) Tbk	2012	68.0	—	1,171
PT Semen Baturaja (Persero) Tbk	2013	76.2	—	1,309
PT Sarana Karya (Persero) ⁽⁴⁾	2013	—	48.2	—
PT Kertas Padalarang (Persero) ⁽⁵⁾	2013	—	12.1	—
PT Waskita Karya (Persero) Tbk ⁽⁶⁾	2015	68.0	—	5,289
PT Aneka Tambang (Persero) Tbk ⁽⁶⁾	2015	65.0	—	5,381
PT Adhi Karya (Persero) Tbk ⁽⁶⁾	2015	51.0	—	2,727
PT Wijaya Karya (Persero) Tbk ⁽⁶⁾	2016	65.0	—	6,149
PT Krakatau Steel (Persero) Tbk ⁽⁶⁾	2016	80.0	—	1,875
PT Pembangunan Perumahan (Persero) Tbk ⁽⁶⁾	2016	51.0	—	4,412
PT Jasa Marga (Persero) Tbk ⁽⁶⁾	2016	70.0	—	1,786

Source: Ministry of State-Owned-Enterprises

(1) Minority Ownership by Government.

(2) Sale of unsold shares from 2007.

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

(4) Pursuant to Government Regulation No. 91 of 2013, sales of shares held by the Republic in PT Sarana Karya (Persero) have been made using strategic sales method to PT Wijaya Karya (Persero) Tbk with total gross proceeds of Rp50 billion on December 30, 2013.

(5) Pursuant to Government Regulation No. 35 and 36 of 2013, sales of shares held by the Republic in PT Kertas Padalarang (Persero) have been made using strategic sales method to Perum Peruri with total gross proceeds of Rp13 billion on December 18, 2013.

(6) Rights issues carried out through the execution of pre-emptive rights using the addition of State Capital Investment Fund, or PMN, from the Government.

The following table sets forth Indonesia's employment and unemployment rate as a percentage of Indonesia's working age population as of the period indicated.

Source: BPS

(2) The Government defines unemployment to include all persons 15 years old and older without work who (i) are looking for work, (ii) have established a new business, (iii) are not looking for work because they do not expect to find work, and (iv) have made arrangements to start work on a date subsequent to the unemployment measurement date.

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. Youth unemployment (between the ages of 15 to 24) remains a particular problem, but has improved in recent years. The Government has sought to address employment issues through a number of policies and regulations, including efforts to create new areas of work and to develop existing areas of work through employee-employer relationships and entrepreneurial programs. The Government provides various forms of assistance (including tax relief and infrastructure support) to encourage employers to create jobs for employees while also creating and developing productive and sustainable working opportunities through entrepreneurial programs, the use of technology and encouraging voluntary work. As of August 2017, Indonesia had its lowest unemployment rate in 10 years. This improvement was due in part to a narrowing of the gap between workforce skills and the skills required in available jobs.

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 monthly minimum wage for each year and the average increase across the country for each year.

<u>Year</u>	<u>National average minimum wage</u>	<u>Increase in average minimum wage</u>
2012	Rp1,088,902.6	10.1%
2013	Rp1,296,908.5	19.1%
2014	Rp1,584,391.3	14.8%
2015	Rp1,782,211.3	12.8%
2016	Rp1,967,538.8	9.9%
2017	Rp2,142,854.6	8.9%
2018	Rp2,261,215.8	8.7%

Source: Kemnaker (the Ministry of Manpower)

Pension and Health Funds

In November 2011, the Government enacted a law creating the Social Security Administering Agencies (*Badan Penyelenggara Jaminan Sosial* or BPJS). The BPJS consists of the (i) BPJS for Health Coverage, or BPJS Kesehatan, which provides healthcare services for all citizens and (ii) BPJS for Social Security Benefit for Workers, or BPJS Ketenagakerjaan, which provides social security benefits for private sector and informal workers. BPJS Kesehatan and BPJS Ketenagakerjaan took over the functions of the Government's other social security administering agencies, namely PT Jamsostek (Persero) and PT Askes (Persero), on January 1, 2014.

In order to implement the BPJS, PT Asabri (Persero) and PT Taspen (Persero) will assign: (i) the provision of healthcare benefits and pensions for police and armed forces to be administered by PT Asabri (Persero) and (ii) the provision of pensions and retirement benefits to be administered by PT Taspen (Persero) and BPJS Ketenagakerjaan. The assignments are expected to be completed by no later than 2029.

Income Distribution

As of September 2017, Indonesia had a Gini Index of 0.39. The Gini Index is a measure of income distribution that ranges between 0.0 and 1.0, with higher numbers indicating greater inequality.

The percentage of people living below the poverty line in Indonesia has exhibited a decreasing trend since the Asian financial crisis in 1998. 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. Based on this methodology, approximately 49.5 million people, or 24.2% of the population, were living below the poverty line in 1998, this decreased to approximately 27.8 million, or 10.6% of the population, as of September 2017.

Regional Growth

As the island with the highest population density, high consumption and an industrial base, Java has historically been the main contributor to Indonesia's economic growth. Based on preliminary data for the nine months ended September 30, 2017, Java contributed 58.5% of the country's GDP, Sumatera contributed 21.5%, Kalimantan contributed 8.1%, Sulawesi contributed 6.2%, Bali & Nusa Tenggara contributed 3.2% and Maluku & Papua contributed 2.5%.

To promote more sustainable and equitable economic growth across Indonesia in the longer term, the Government allocates and transfers amounts from the central budget to local and regional governments. In practice, this means that in all regions other than Java, the Government's revenues are lower than the Government's expenditures. From 2014 to 2016, net transfers from Java to all the other regions were equivalent to Rp840 trillion.

Infrastructure Development

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 tourism, enhance urban transportation and improve the lives and economic welfare of Indonesians by reducing unemployment and poverty.

The Government has introduced 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 respective sectors. See “— *Government and Political Development — Economic Policy Packages in 2015 – 2017.*”

As part of its National Medium Term Plan for 2015 – 2019, the Government has selected a list of projects called National Strategic Projects, which consists of 245 projects across fifteen sectors (including roads, railways, seaports, airports, zones, housing, borders, water, dams, irrigation, technology, smelter, energy, agriculture/fishery and seawall), and two programs (including electricity and airplane industry programs). The Government estimates that the total cost of the infrastructure projects under the National Medium Term Plan will be approximately Rp4,197 trillion (U.S.\$345.1 billion). Indonesia's infrastructure investment requirements exceed available public sector funding. As a result, the Government expects to pay for approximately 40% of this cost using public sector funding (state and regional budgets and SOEs) as well as private sector investment. The public sector funds would primarily be used to support basic infrastructure projects, food security (e.g. irrigation, dams) and transportation, logistics and connectivity projects as well as urban transportation.

In addition to maintaining and upgrading existing infrastructure, the Government has identified a number of priority infrastructure projects in its National Medium Term Plan for 2015 – 2019. The Committee for Acceleration of Priority Infrastructure Delivery (*Komite Percepatan Penyediaan Infrastruktur Prioritas* or KPPIP) has designated 37 priority projects in five main sectors: water and sanitation, energy and electricity, transportation, toll roads and information technology. The priority projects have an estimated cost of Rp2,490 trillion (U.S.\$204.7 billion) and are eligible to receive certain direct administrative support provided by KPPIP.

The Government expects to finance the remaining cost of the priority infrastructure projects through greater private sector participation, specifically: partnerships between the Government and the private sector (i.e., private public partnerships, or PPPs), and increased borrowing by the Government and SOEs.

The Government recognizes the important role of PPPs in the development of infrastructure projects and has adopted regulations that provide the legal and regulatory framework for PPPs — from procurement of the PPP concessionaire to the provision of Government support and guarantees. For a discussion of these guarantees, see “— *Public Debt — Contingent Liabilities.*”

Completion timeline for 37 priority projects

The below table shows the construction commencement dates for the 37 priority projects under the National Medium Term Plan for 2015 – 2019 as well as expected commercial operation dates.

Priority Projects	Construction Commencement Date	Expected Commercial Operation Date
Roads and Bridges		
Balikpapan — Samarinda Toll Road	2016	2018
Serang — Panimbang Toll Road	2017	2018
Manado — Bitung Toll Road	2017	2018
Eight sections of the Sumatera toll road:		
Medan — Binjai	2015	2017 ⁽¹⁾
Palembang — Indralaya	2015	2018
Bakauheni — Terbanggi Besar	2015	2019
Pekanbaru — Dumai	2016	2019
Terbanggi Besar — Pematang Panggang	2017	2021
Pematang Panggang — Kayu Agung	2018	2021
Palembang — Tanjung Api-api	2016	2019
Kisaran — Tebing Tinggi	2017	2019
Yogyakarta — Bawen Toll Road	2018	2020
Probolinggo — Banyuwangi Toll Road	2017	2019
Water and Sanitation		
Jakarta Sewerage System (JSS)	2016	2022
Water Supply System (SPAM) West Semarang	2018	2022
National Capital Integrated Coastal Development (NCICD) Phase A	2016	2018
Water Supply System (SPAM) Umbulan	2018	2022
Water Supply System (SPAM) Lampung	2018	2020
Refineries		
Oil refinery in Bontang	2018	2022
Oil refinery in Tuban	2018	2021
Refinery Development Master Plan (RDMP)	2017	2025
Electricity		
PLTU Mulut Tambang	2017	2023
The 500kV Sumatera Transmission	2016	2019
Central — West Java Transmission Line	2017	2019
PLTU Indramayu	2017	2019
PLTU Batang	2016	2019
Ports		
Bitung International Hub Seaport	2020	2022
Kuala Tanjung International Hub Seaport	2019	2021
Patimban Seaport	2018	2019
Inland Waterways / Cikarang-Bekasi-Java Sea (CBL)	2018	2021
Public Transportation		
MRT Jakarta (North — South Corridor)	2013	2019
Light Rail Transit (LRT) South Sumatera	2015	2018
Light Rail Transit (LRT) Jakarta, Bogor, Depok, Bekasi	2015	2019
Railways		
Soekarno-Hatta International Airport (SHIA) Express Railway	2018	2022
Makassar — Parepare Railway	2015	2018
East Kalimantan Railway	2017	2021
Information Technology		
Palapa Ring Broadband	2016	2018

(1) Completed.

Transportation-related projects

The transportation network on the Indonesian archipelago relies heavily on sea and air transportation compared to most other countries of comparable size. 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, Sumatera and Sulawesi.

In the railways sector, by 2030 the railway network is expected to cover 12,100 km and achieve passenger share of approximately 11.0%-13.0%, and freight transport share of approximately 15.0%-17.0%. In addition, the plan provides strategies for the Government 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.

In addition, railway projects are expected to be developed in the provinces of Aceh, North Sumatera, West Sumatera, South Sumatera and South Sulawesi, as well as in Java and several urban railways in Jakarta, Bandung, Yogyakarta, Surabaya and Medan. The Government is also studying the feasibility of railway projects in Kalimantan and Papua and an elevated train and subway system in Jakarta.

Construction of the Jakarta Mass Rapid Transit, or MRT, (Phase One), connecting Lebak Bulus to Bundaran Hotel Indonesia, commenced in 2013. Phase One constitutes approximately 15.7 km out of a total of approximately 23.8 km and is planned to come into operation in 2019. Phase Two, connecting Bundaran Hotel Indonesia, MRT East-West Line and Kalideres-Ujung Menteng will commence after the completion of Phase One.

Construction of the Light Rail Transit in South Sumatera and the Jakarta, Bogor, Depok and Bekasi region commenced in 2015 with operations expected to commence in mid-2018 and mid-2019, respectively. Construction of a high speed train to connect Jakarta and Bandung commenced in 2016. In addition, two additional bus-way corridors have been developed and 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.

Energy related projects

Based on the National Medium Term Plan to develop the electricity sector in Indonesia, the Government is guided by policy objectives as provided in the Government Annual Work Plan Document 2018, which provides a general framework for the preparation of specific work plans and budgets by the various ministries. These policy objectives are:

- (i) accelerating the development of energy and electricity infrastructure;
- (ii) expanding access to energy and electricity infrastructure to rural, remote, border areas, and to the areas of economic activity
- (iii) promoting energy diversification;
- (iv) improving funding and pricing policies;
- (v) encouraging private participation; and
- (vi) encouraging the use of local components and inputs.

Electricity consumption in Indonesia increased at a rate of 6.8% per year between 2011 and 2016. As of October 31, 2017, Indonesia's total electricity generating capacity was approximately 60.3 gigawatts ("GW").

To achieve the Government's goal of a 97.4% electrification ratio by 2019, the country will need to develop power plants with additional generating capacity of approximately 35 GW. Of this goal, as of December 31, 2017:

- 1,061 megawatts ("MW") were in operation;
- 16,992 MW were under construction;
- 12,726 MW has entered into power purchase agreements but not yet achieved financial close;
- 2,790 MW were in the procurement stage; and
- 2,228 MW were in the planning stage.

Telecommunications

The Government aims to reduce the digital divide between rural and urban areas. One Government initiative to achieve this reduction is to implement the Universal Service Obligation, or USO, which aims at providing broadband access to villages in non-commercial areas using facilities placed in schools, community health centers, or rural government offices.

Due to the importance of broadband network access to the improvement of economic growth, the Government introduced the Indonesia Broadband Plan, or IBP, which consists of a policy document and an implementation plan. The policy document outlines Indonesia's current broadband ecosystem, the use of broadband as a strategy to improve Indonesia's competitiveness, and the policies and strategies for developing Indonesia's broadband. The implementation plan includes a detailed action plan for the broadband infrastructure project and its development. The Government has set a target to enable internet access in each regency by 2019 and remote areas by 2021.

One of the Government's major projects in telecommunication is the Palapa Ring Broadband project. This Rp14 trillion (U.S.\$1.05 billion) project comprises three sections, west, central and east, and will span 13,000 kilometers. It aims to construct a broadband network across Indonesia's 57 cities, as well as in frontier, outermost and remote regions. In July 2017, telecommunication developer PT Palapa Timur Telematika commenced the construction of a broadband network in eastern Indonesia under the Palapa Ring Broadband project.

Foreign Investment

Indonesia is working to shift towards a value-added industrial economy in which low-cost labor is no longer the primary focus. The Government faces several challenges, including the ability to attract investment to downstream industries which add more value to the economy. Though certain issues still exist, such as underdeveloped infrastructures, the Government continues its comprehensive reform efforts to improve the business climate, including by introducing more investor-friendly investment regulations.

In April 2007, the Law No. 25 of 2007 was enacted to replace and improve upon both the 1967 Foreign Investment Law (as amended by Law No. 11 of 1970) and the 1968 Domestic Investment Law (as amended by Law No. 12 of 1970) (the "**Investment Law**"). The Investment Law and related regulations unify Indonesia's legal framework for foreign investment and includes limits for foreign participation in certain sectors of the economy, as provided in the most recent Negative Investment List issued in 2016.

The Investment Law provides, amongst other, 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 give added value, promotes new technology, and possesses strategic values for the national economy.

The Government has also taken other measures to attract more foreign direct investment, including measures described in the Government's economic policy packages. See "*— Government and Political Development — Economic Policy Packages in 2015 – 2017.*"

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 published by the Bank Indonesia. Due to the different concept and method of compiling investment statistics, foreign direct investment statistical data published by Bank Indonesia are not comparable to the "administrative" foreign direct investment statistical data published by the Indonesia Investment Coordinating Board (*Badan Koordinasi Penanaman Modal* or BKPM) under "*Direct Investments Realizations.*"

The following table sets out the amounts of foreign investments in Indonesia by non-residents.

Foreign Investment in Indonesia

	Year ended December 31,					Nine Months Ended September 30,
	2012	2013	2014	2015	2016 ^P	2017 ^P
	(in millions of U.S. dollars)					
Direct Investments						
Equity Capital	18,615	20,004	21,895	18,822	4,670	14,224
Debt instrument	2,586	3,278	3,225	957	(201)	1,228
Total direct investments	21,201	23,282	25,121	19,779	4,469	15,451
Portfolio investments:						
Equity securities	1,698	(1,856)	3,259	(1,547)	1,319	(384)
Debt securities	12,976	14,001	20,221	18,998	15,459	21,009
Total portfolio investments	14,673	12,145	23,480	17,451	16,777	20,625
Financial derivatives	(320)	(679)	(597)	(647)	(618)	(456)
Other investments	7,275	2,645	7,699	1,748	(8,987)	1,236
Total foreign investment	42,829	37,393	55,702	38,332	11,641	36,856

Source: Bank Indonesia

^P Preliminary.

Foreign Direct Investment in Indonesia by Country of Origin⁽¹⁾

	Year Ended December 31,					Nine Months Ended September 30,
	2012	2013	2014	2015	2016 ^P	2017 ^P
	(in millions of U.S. Dollars)					
North America	1,018	1,112	(1,129)	706	(371)	(2,693)
USA	830	741	(1,098)	603	(336)	(2,610)
Canada	187	152	106	81	(3)	(26)
Other North America ⁽²⁾	—	219	(138)	22	(32)	(57)
Central and South America	—	(106)	94	395	301	54
Argentina	—	—	0	1	0	0
Brazil	—	3	(1)	23	17	9
Mexico	—	0	1	0	1	1
Cayman Islands	—	30	53	34	5	(169)
Other Central and South America	—	(139)	42	337	279	213
Europe	253	(1,652)	272	(66)	2,148	5,156
European Union	(226)	(1,730)	345	(2)	1,545	4,690
Austria	1	103	44	(6)	52	58
Belgium	41	50	(46)	84	23	(6)
Denmark	(7)	(6)	17	13	8	(6)
Finland	9	7	2	7	1	96
France	(49)	47	(158)	59	(106)	(252)
Germany	(1,300)	(1,292)	(354)	(479)	105	316
Greece	—	—	—	0	8	(6)
Ireland	7	8	6	2	4	11
Italy	18	18	18	14	10	8
Luxembourg	939	83	572	518	143	111
Netherlands	(829)	(767)	(555)	(57)	(580)	3,951
Portugal	—	—	—	—	0	0
Spain	—	3	0	0	2	106
Sweden	28	(21)	36	(13)	11	31
United Kingdom	915	1,108	764	(148)	1,858	260
Other European Union	—	(1,071)	0	5	5	12
Russia	—	0	0	0	0	0
Turkey	21	17	12	8	4	0
Other Europe	458	61	(86)	(72)	600	465

	Year Ended December 31,					Nine Months Ended September 30,
	2012	2013	2014	2015	2016 ^P	2017 ^P
	(in millions of U.S. Dollars)					
Asia	17,051	17,860	21,218	15,047	14,576	14,147
Japan	7,962	5,836	5,793	4,010	2,512	2,175
People's Republic of China	335	67	1,068	324	355	1,676
South Korea	692	866	953	228	199	370
India	8	9	3	37	54	29
Hong Kong SAR	212	416	290	1,239	1,562	346
Taiwan	105	100	87	21	24	9
Saudi Arabia	—	0	0	0	0	0
ASEAN	7,588	10,582	13,084	9,229	9,829	9,319
Brunei Darussalam	—	(3)	(3)	(3)	(3)	(3)
Cambodia	—	0	—	—	—	0
Lao PDR	—	—	—	—	—	0
Malaysia	(508)	(281)	755	330	867	1,079
Myanmar	—	—	—	0	0	0
Philippines	5	8	1	2	10	9
Singapore	7,972	10,723	12,090	8,847	8,331	8,395
Thailand	117	131	231	47	612	(174)
Vietnam	3	5	9	6	11	12
Other Asia	149	(16)	(60)	(40)	41	221
Australia and Oceania	116	249	211	(61)	(3)	114
Australia	116	249	188	(64)	(6)	134
New Zealand	—	0	19	7	0	(20)
Other Australia and Oceania	—	0	4	(4)	2	(1)
Africa	17	590	857	584	(13,143)	15
South Africa	17	15	11	7	(1)	2
Other Africa	—	575	847	578	(13,142)	13
Others	684	763	288	36	339	55
Total	19,138	18,817	21,811	16,641	3,848	16,848

Source: Bank Indonesia

^P Preliminary.

(1) Presents foreign direct investment in accordance with the directional principle prescribed by BPM5.

(2) Includes Bermuda, Greenland and Saint Pierre & Miquelon.

Foreign Direct Investment

The following table sets out the amounts of foreign direct investments in Indonesia by non-residents.

	Year Ended December 31,					Nine Months Ended September 30,
	2012	2013	2014	2015	2016 ^P	2017 ^P
	(in millions of U.S. dollars)					
Equity capital ⁽¹⁾	18,615	20,004	21,895	18,822	4,670	14,224
Debt instruments:						
Inflow	60,871	65,746	80,051	75,588	50,556	35,747
Outflow	(58,284)	(62,468)	(76,826)	(74,631)	(50,757)	(34,519)
Total debt instruments	2,586	3,278	3,225	957	(201)	1,228
Total direct investments	21,201	23,282	25,121	19,779	4,469	15,451
Memorandum ⁽²⁾						
Direct investment in Indonesia	19,138	18,817	21,811	16,641	3,848	16,848

Source: Bank Indonesia

^P Preliminary.

- (1) Includes privatization and banking restructuring.
- (2) Presents foreign direct investment in accordance with the directional principle prescribed by BPM5.

In 2012, net foreign direct investment recorded a surplus of U.S.\$21.2 billion. The nominal increase of net foreign direct investment 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 foreign direct investment representing the largest component in the structure of capital inflows. During this period, a majority of foreign direct investment continued to occur in the manufacturing, mining, transportation and telecommunication sectors. Most foreign direct investment originated from Singapore, Japan, and the United States of America.

In 2013, adverse global and domestic factors impacted the level of foreign direct investment in Indonesia, particularly foreign direct investment in non-oil & gas sectors. Net foreign direct investment in non-oil & gas sectors slipped from U.S.\$22.0 billion in 2012 to U.S.\$20.9 billion. Transactions by domestic investors taking up foreign-held shares in Indonesia-based retail companies and the Government's acquisition of PT Indonesia Asahan Aluminium also contributed to the reduction in foreign direct investment in Indonesia. Even with the acquisition of foreign investor's subsidiaries holding participating interests in Indonesian offshore blocks by state-owned-enterprises, foreign direct investment in the oil & gas sector registered a net inflow of U.S.\$2.3 billion compared to a net outflow of U.S.\$0.8 billion in 2012. As a consequence, net foreign direct investment in Indonesia increased from U.S.\$21.2 billion in 2012 to U.S.\$23.3 billion in 2013. The majority of foreign direct investment were from Singapore, Japan, the United Kingdom, the United States and South Korea. The main contributions to foreign direct investment came from investments in the manufacturing, mining and transportation sectors.

In 2014, foreign direct investment remained robust, boosted by positive investor confidence in Indonesia's economic outlook. Net foreign direct investment was U.S.\$25.1 billion in 2014, which was higher than the U.S.\$23.3 billion in 2013. Increased foreign direct investment in the non-oil & gas sector due to, among other things, the acquisition of Bank Mutiara, a substantial debt-to-equity swap transaction concerning a listed company and withdrawals of inter-company loans resulting from the issuance of global bonds by overseas SPVs. Manufacturing, agriculture and mining sectors were the main contributors to the net foreign direct investment generated in 2014. During this period, the majority of foreign direct investment were from Singapore, Japan and China.

In 2015, sustained foreign investor confidence in the outlook for the Indonesian economy prompted foreign investors to continue investing in Indonesia, resulting in net foreign direct investment of U.S.\$19.8 billion. Nevertheless, in line with the slowdown in the domestic economy, 2015 net foreign direct investment was lower than the previous year's foreign direct investment, which reached U.S.\$25.1 billion. In 2015, the majority of direct investment inflows were from ASEAN countries followed by Japan, and other Asian developing countries (including China). Meanwhile, the sectors attracting the most foreign direct investment in 2015 were agriculture, manufacturing and the mining sector, the same as in 2014.

In 2016, despite a challenging global economic environment, net foreign direct investment was U.S.\$4.5 billion compared to U.S.\$19.8 billion in 2015. The decrease was mainly driven by divestment activities in the banking sector, including divestment by a foreign SPV of its interests in one of the largest private banks in Indonesia to a domestic entity in the last quarter of 2016. Manufacturing, trade and the agricultural sectors were the main contributors to net foreign direct investment in 2016. The majority of foreign direct investment was from ASEAN countries followed by other Asian developing countries (including China) and Japan.

In the nine months ended September 30, 2017, net foreign direct investment was U.S.\$15.5 billion compared to U.S.\$13.8 billion in the same period in 2016. This increase was mainly due to a promising domestic economic outlook and a more conducive investment climate. The manufacturing, trade, and the agriculture sectors were the main contributors to net foreign direct investment in the nine months ended September 30, 2017. The majority of the foreign direct investment was from ASEAN countries followed by Japan and Europe.

Foreign Portfolio Investment

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

Foreign Portfolio Investments

	Year Ended December 31,					Nine Months Ended September 30,
	2012	2013	2014	2015	2016 ^P	2017 ^P
(in millions of U.S. dollars)						
Equity securities:						
Inflows	51,527	61,640	51,200	44,763	52,052	34,591
(Outflows)	(49,829)	(63,496)	(47,940)	(46,310)	(50,734)	(34,975)
Net equity securities	1,698	(1,856)	3,259	(1,547)	1,319	(384)
Debt securities (net)	12,976	14,001	20,221	18,998	15,459	21,009
Total portfolio investments	14,673	12,145	23,480	17,451	16,777	20,625

Source: Bank Indonesia

^P Preliminary.

In 2012, foreign portfolio investments recorded a net inflow of U.S.\$14.7 billion. These inflows were mainly due to foreign investment in Government and corporate bonds and domestic stocks. The Government believes that the favorable condition of Indonesia's economy and higher yields compared to other countries in the region were the key factors driving these inflows. Issuances of Government bonds and private corporate bonds denominated in foreign currencies succeeded in generating additional inflows of foreign investment during 2012. Inflows of foreign capital in Indonesia were also driven by economic stimulus policies implemented in several advanced nations.

In 2013, foreign capital inflows in the form of portfolio investment fell from the previous year. Foreign portfolio investments were U.S.\$12.1 billion, down from U.S.\$14.7 billion in 2012. A decline in capital inflows occurred mainly in the third and fourth quarters of 2013. This was due to global uncertainty related to the announcement of tapering of monetary stimulus in the United States, negative perceptions of foreign investors concerning the current account deficit in Indonesia and a surge in inflation expectations following the fuel-subsidized price hike. The downturn in foreign portfolio investments in Indonesia in 2013 was mainly due to the private sector, particularly the stock market. In contrast to the private sector, foreign portfolio investments in the public sector recorded a surplus. The surplus resulted from issuances of Government global bonds and Sharia-compliant Sukuk instruments, with the remainder coming from high net placements by foreigners in Rupiah-denominated Indonesian Government bonds. The public sector surplus was further reinforced by foreign inflows into Bank Indonesia certificates after the change in the minimum holding period policy, which was reduced from six months to one month effective as of September 2013.

In 2014, foreign capital inflows in the form of portfolio investment were U.S.\$23.5 billion, an increase from inflows of U.S.\$12.1 billion of foreign portfolio investment recorded in the previous year. The increase was primarily due to the first three quarters of 2014 in line with an increase in debt securities issued by the public sector. Throughout 2014, Rupiah-denominated portfolio instruments were a major contributor to the increase in portfolio investments inflows. Non-resident inflows into Rupiah-denominated Government debt securities on a net basis reached U.S.\$11.6 billion, an increase compared to the U.S.\$4.7 billion recorded in 2013.

In 2015, foreign capital inflows in the form of portfolio investment were U.S.\$17.5 billion, a substantial decrease from the U.S.\$23.5 billion recorded in the previous year. The decrease was primarily due to net sales of domestic stocks by non-residents and lower foreign net purchases of Government debt securities.

In 2016, foreign capital inflows in the form of portfolio investment were U.S.\$16.8 billion, lower than the U.S.\$17.5 billion recorded in the previous year. The decrease was caused by widespread global uncertainty in the wake of the U.S. presidential election, combined with expectations of a further increase in the U.S. Federal Funds Rate. This prompted a net foreign capital outflow from Indonesia, especially in the fourth quarter of 2016. In addition, the decrease was also caused by a decrease in the issuances of both global corporate bonds and Government global bonds.

In the nine months ended September 30, 2017, foreign capital inflows in the form of portfolio investment were U.S.\$20.6 billion, higher than the U.S.\$17.1 billion recorded in the same period in 2016. The increase resulted from higher global corporate bonds issuances for expansion and refinancing purposes issued to exploit lower interest rates. Furthermore, the increase was also supported by higher foreign capital inflows to long-term public sector debt instruments denominated in Rupiah. These developments were in line with continued economic growth in Indonesia and investor confidence in the domestic economic outlook.

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						Nine Months Ended September 30,
Year Ended December 31,						2017^P
	2012	2013	2014	2015	2016^P	
	(in millions of U.S. dollars)					
Loans						
Bank sector:						
Disbursements	2,836	5,735	8,436	8,663	3,991	2,089
Debt repayments	(2,440)	(4,051)	(5,885)	(7,402)	(5,307)	(3,307)
Total bank sector	396	1,684	2,551	1,261	(1,316)	(1,218)
Corporate sector:						
Disbursements	31,360	26,394	29,058	21,710	15,655	13,441
Debt repayments	(28,358)	(25,283)	(22,824)	(22,088)	(20,374)	(11,222)
Total corporate sector	3,001	1,111	6,234	(378)	(4,718)	2,219
Other (net) ⁽¹⁾	3,878	(151)	(1,086)	865	(2,954)	235
Total other investments	7,275	2,645	7,699	1,748	(8,987)	1,236

Source: Bank Indonesia

^P Preliminary.

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

In 2012, foreign other investment recorded a net inflow of U.S.\$7.3 billion. The surplus was mainly attributable to the increase in other investment liabilities in the public sector. Although there was an increase in debt repayment in the private sector, withdrawals surpassed the level of repayment.

In 2013, foreign other investment fell from a surplus of U.S.\$7.3 billion in 2012 to U.S.\$2.6 billion in 2013. Foreign other investment in the public sector contributed mostly to the reduced surplus in other investment in Indonesia. Meanwhile, foreign other investment in the private sector posted a surplus bolstered by net disbursement of non-affiliated foreign borrowing and expansion of non-resident deposits held in domestic banks.

In 2014, foreign other investment recorded a net inflow of U.S.\$7.7 billion compared to the net inflow of U.S.\$2.6 billion recorded in 2013. Stronger other investment performance in Indonesia primarily stemmed from the private sector. The foreign other investment surplus in the private sector was due to the drawing down of non-affiliated external loans and an increase in non-resident deposits at domestic banks. Foreign other investment in the public sector recorded net repayment of foreign loans was U.S.\$4.2 billion in 2014, an increase from U.S.\$1.4 billion in 2013. These developments were in line with Government policy to reduce sources of fiscal financing from foreign loans.

In 2015, foreign other investments fell from a surplus of U.S.\$7.7 billion in 2014 to U.S.\$1.7 billion in 2015. The decrease was primarily due to a net repayment of corporate foreign loans following a slowdown in domestic economic growth.

In 2016, foreign other investments fell from a surplus of U.S.\$1.7 billion in 2015 to a deficit of U.S.\$9.0 billion in 2016. The deficit was primarily due to net payments of foreign loans by both the public and private sectors.

In the nine months ended September 30, 2017, foreign other investments increased from a deficit of U.S.\$7.0 billion in the nine months ended September 30, 2016 to a surplus of U.S.\$1.2 billion in the same period in 2017. The surplus was primarily due to net withdrawals of foreign loans by the private sector.

Direct Investment Realizations

Foreign Direct Investment

In 1973, the Republic established the BKPM, an investment services agency of the Government, 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.

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 reviews applications for approval based on the Negative Investment List, which lists those business sectors that are closed to foreign investment and those that are open to foreign investment subject to certain conditions, including limits on the percentage of foreign capital ownership; and also based on criteria established by the particular ministry that regulates the sector in which the foreign investor seeks to invest.

Due to the different concept and method of compiling investment statistics, "administrative" foreign direct investment statistical data published by the BKPM and "Balance of Payment" foreign direct investment statistical data published by Bank Indonesia are not comparable. BKPM calculates foreign direct investment based on realized investments in Indonesian companies owned by foreign investors within a certain reporting period. BKPM's realization data covers the total value of investments funded by foreign investors, other foreign creditors, as well as domestic investors and creditors. In comparison, Bank Indonesia's calculation method covers the entire flow of investments stemming from foreign investors over a certain reporting period. In addition, Bank Indonesia excludes from its calculations foreign investments made by investors with a non-resident ownership of less than 10% per individual investors while BKPM has no such minimum ownership requirement. In terms of sector coverage, BKPM excludes certain sectors from its calculation, including investments in oil and gas, banking, non-bank financial institutions, insurance, leasing, investment sectors licensed by technical/sectoral agencies, investments through the stock market and household investments. Bank Indonesia covers all economic sectors. As a result the data regarding realized foreign direct investments is not comparable to those under "Foreign Investment in Indonesia" in the table above.

The following table sets forth the amount of realized foreign direct investment by sector of the economy for the periods indicated.

Realized Foreign Direct Investment by Sector⁽¹⁾

	Year Ended December 31,					Nine Months Ended September 30,
	2012	2013	2014	2015	2016 ^P	2017 ^P
	(in millions of U.S. dollars)					
Primary Sector						
Food Crops & Plantation	1,602	1,605	2,207	2,072	1,589	1,093.5
Livestock	20	11	31	75	49	145.6
Forestry	27	29	53	19	78	40.4
Fishery	29	10	35	53	43	46.3
Mining	4,255	4,816	4,665	4,017	2,742	3,206.4
Total Primary Sector	5,933	6,472	6,991	6,236	4,502	4,532.1
Secondary sector:						
Food Industry	1,783	2,118	3,140	1,521	2,115	1,465.4
Textile Industry	473	751	422	433	321	243.6
Leather Goods & Footwear Industry	159	96	211	162	144	258.9
Wood Industry	76	39	64	47	267	384.6
Paper and Printing Industry	1,307	1,169	706	707	2,787	505.3
Chemical and Pharmaceutical Industry	2,770	3,142	2,323	1,956	2,889	2,216.4
Rubber and Plastic Industry	660	472	544	694	737	520.5
Non Metallic Mineral Industry	146	874	917	1,303	1,076	506.6
Metal, Machinery & Electronic Industry	2,453	3,327	2,472	3,092	3,897	3,136.0
Medical Precision & Optical Instruments, Watches & Clock Industry	3	26	7	7	9	2.1
Motor Vehicles & Other Transport Equipment Industry	1,840	3,732	2,061	1,757	2,369	1,149.5
Other Industry	100	112	152	83	75	94.5
Total Secondary Sector	11,770	15,859	13,019	11,763	16,688	10,483.4
Tertiary sector:						
Electricity, Gas & Water Supply	1,515	2,222	1,249	3,029	2,140	2,686.2
Construction	240	527	1,384	954	187	108.6
Trade & Repair	484	606	867	625	670	1,028.7
Hotel & Restaurant	768	462	513	650	888	912.3
Transport, Storage & Communication	2,808	1,450	3,001	3,281	750	871.4
Real Estate, Ind. Estate & Business Activities	402	678	1,168	2,433	2,321	2,034.8
Other Services	646	342	337	294	818	1,227.3
Total Tertiary Sector	6,862	6,286	8,519	11,276	7,775	8,869.2
Total	24,565	28,617	28,530	29,276	28,964	23,884.7

Source: BKPM

^P Preliminary.

- (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.

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,					Nine Months Ended September 30,
	2012	2013	2014	2015	2016 ^P	2017 ^P
	(in billions of Rupiah)					
Primary sector:						
Food Crops & Plantation	9,631	6,589	12,707	12,041	20,999	12,015.1
Livestock	97	361	651	325	466	620.6
Forestry	145	—	—	472	204	18.6
Fishery	15	4	22	275	3	30.5
Mining	10,481	18,762	3,141	3,947	6,034	19,885.4
Total Primary Sector	20,369	25,716	16,521	17,060	27,705	32,570.2
Secondary sector:						
Food Industry	11,167	15,081	19,596	24,534	32,028	27,927.0
Textile Industry	4,451	2,446	1,451	2,725	3,210	6,968.1
Leather Goods & Footwear Industry	77	80	103	5	69	104.4
Wood Industry	57	391	585	1,185	3,151	1,077.6
Paper and Printing Industry	7,561	6,849	4,094	6,529	5,258	8,065.7
Chemical and Pharmaceutical Industry ..	5,069	8,886	13,314	20,712	30,054	9,900.1
Rubber and Plastic Industry	2,855	2,905	2,117	3,696	3,577	2,790.2
Non Metallic Mineral Industry	10,731	4,625	11,923	20,502	15,405	4,731.1
Metal, Machinery & Electronic Industry	7,226	7,568	5,293	7,938	11,568	9,821.8
Medical Precision & Optical Instruments, Watches & Clock Industry	—	210	—	—	5	—
Motor Vehicles & Other Transport Equipment Industry	664	2,069	490	1,071	1,714	1,082.8
Other Industry	31	62	68	147	744	542.1
Total Secondary Sector	49,889	51,171	59,035	89,045	106,784	6,968.1
Tertiary sector:						
Electricity, Gas & Water Supply	3,797	25,831	36,297	21,947	22,794	21,931.2
Construction	4,587	6,033	12,098	17,165	14,039	19,562.3
Trade & Repair	1,030	2,205	518	1,427	4,513	2,005.8
Hotel & Restaurant	1,015	1,402	1,731	3,977	1,560	3,196.4
Transport, Storage & Communication ...	8,612	13,178	15,715	21,339	26,770	25,685.4
Real Estate, Ind. Estate & Business Activities	58	2,152	13,112	6,510	9,193	14,305.2
Other Services	2,825	462	1,100	1,001	2,873	2,436.5
Total Tertiary Sector	21,924	51,264	80,571	73,361	81,742	89,122.8
Total	92,182	128,151	156,126	179,466	216,231	194,704.0

Source: BKPM

^P Preliminary.

- (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.

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 signatory to the GATT 1947 and a founding

member of the World Trade Organization through the ratification of Law No. 7 of 1994 on Agreement Establishing the World Trade Organization. ASEAN has served as the forum for the negotiation of a number of regional agreements, and in 2015, ASEAN leaders adopted the ASEAN Economic Community Blueprint 2025, which is a roadmap for strategic integration of the economies of the ASEAN Member States.

In 2009, the ASEAN Member States also entered into the ASEAN Comprehensive Investment Agreement which aims to create a free and open regime in ASEAN to achieve economic integration.

ASEAN Member States have entered into six free trade agreements, namely: the ASEAN Trade in Goods Agreement, or ATIGA, the ASEAN-China Free Trade Agreement, or ACFTA, the ASEAN-Korea Free Trade Agreement, or AKFTA, the ASEAN-Japan Closer Economic Partnership, or AJCEP, the ASEAN-India Free Trade Agreement, or AIFTA, and the ASEAN-Australia and New Zealand Free Trade Agreement, or AANZFTA. In addition, Indonesia has entered into two bilateral trade agreements: the Indonesia-Japan Economic Partnership Agreement, or IJ-EPA, and the Indonesia-Pakistan Preferential Trade Agreement, IP-PTA. These free trade agreements covers three core areas, namely: trade in goods, trade in services and investments.

Various regional and bilateral free trade agreements of which Indonesia is a party are currently in different stages of negotiations namely the Indonesia-European Union Comprehensive Economic Partnership Agreement, the Indonesia-Australia Comprehensive Economic Partnership Agreement and the Indonesia European Free Trade Association Comprehensive Economic Partnership Agreement.

Tariff Reforms

The Minister of Finance is authorized to set rates for import duties. 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. The Republic has implemented preferential tariff commitments under the ATIGA, the ACFTA, the AKFTA, the AJCEP, the AIFTA, the AANZFTA, the IJ-EPA and the IP-PTA.

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 following classification changes were carried out for data published in 2005 onwards. Since March 1, 2014, exporters must declare the value of their exported goods using terms of delivery cost insurance freight in order to enhance the validity and accuracy of freight and insurance data for export activities. The requirements introduced in 2014 have not changed the business process of export transactions, in which the export value is still the real transaction value agreed by exporters and importers.

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

Exports and Imports⁽¹⁾

	Year Ended December 31,					Nine Months Ended September 30,
	2012	2013	2014	2015	2016 ^P	2017 ^P
	(in millions of U.S. dollars)					
Exports:						
Oil and gas exports (f.o.b.)	35,571	33,588	28,752	17,184	12,891	11,245
Non-oil and gas exports (f.o.b.)	151,775	148,501	146,541	131,941	131,554	112,078
Total exports (f.o.b.)	187,347	182,089	175,293	149,124	144,445	123,323
Total imports (c.i.f.)	(189,138)	(186,186)	(177,813)	(142,379)	(135,716)	(112,927)
Balance of trade	(1,791)	(4,097)	(2,520)	6,746	8,729	10,396

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.

In 2012, Indonesia recorded a trade deficit of U.S.\$1.8 billion. Exports decreased 2.0% due to the 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 13.2% in line with strong domestic demand and mounting consumption of oil-based fuels.

In 2013, Indonesia recorded a trade deficit of U.S.\$4.1 billion, which was an increase from the deficit of U.S.\$1.8 billion recorded in 2012. Exports decreased by 2.8% as a result of the global economic slowdown, with weaker growth in emerging market countries reducing demand for Indonesia's exports. Exports contracted further because of the simultaneous deterioration in Indonesia's terms of trade and downward movement in global commodity prices. In addition, structural problems related to the export of natural resource-based commodities and worsening terms of trade resulted in the weaker performance of Indonesia's commodity exports. At the same time, although imports declined by 1.6%, overall imports remained high as domestic production was unable to keep pace with the burgeoning demand from the middle class, particularly in relation to technological goods. Oil imports remained high due to heavy reliance on imported oil in the national energy supply structure.

In 2014, Indonesia recorded a trade deficit of U.S.\$2.5 billion, which was smaller than the 2013 deficit of U.S.\$4.1 billion. This smaller deficit was attributable to a steeper contraction in imports of 4.5% than the contraction in exports of 3.7%, each compared against the previous year. The decline in imports was in line with a moderation in domestic demand. The contraction in exports was largely attributable to a slower than expected global economic recovery and the ongoing decline in global commodity prices.

In 2015, the trade balance recorded a surplus of U.S.\$6.7 billion, higher than the trade deficit of U.S.\$2.5 billion in the previous year. This was caused by a 19.9% decrease in imports, which was larger than the 14.9% decrease in exports. Imports decreased sharply in line with limited domestic demand, while persistently low commodity prices and sluggish growth in trade partner countries, such as the United States, China and Singapore resulted in a contraction in exports.

In 2016, Indonesia recorded a trade surplus of U.S.\$8.7 billion, higher than the U.S.\$6.7 billion surplus recorded in 2015. The higher deficit was caused by a 4.6% decrease in imports, which was higher than the 3.1% decrease in exports, each compared against the previous year. Exports contracted at a lower rate compared to 2015, primarily due to improvements in commodity prices such as coal and palm oil resulting in higher coal and palm oil exports, especially during the second half of 2016.

In the nine months ended September 30, 2017, Indonesia recorded a trade surplus of U.S.\$10.4 billion, higher than the U.S.\$5.4 billion surplus recorded in the same period in 2016. The higher trade surplus was caused by an increase in exports of 18.3% to U.S.\$123.3 billion. This increase in exports was primarily driven by higher commodity prices and improvements in global demand during the period and was in line with increased domestic economic activities in the nine months ended September 30, 2017.

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

Exports by Sector

	Year Ended December 31,					Nine Months Ended September 30,
	2012	2013	2014	2015	2016 ^P	2017 ^P
	(in thousands of U.S. Dollars)					
General merchandise	185,337,265	180,293,992	173,759,963	147,724,654	143,063,896	122,075,102
Agricultural						
Coffee bean	1,241,922	1,166,406	1,030,826	1,210,617	1,000,542	935,205
Tea	126,754	131,112	108,843	89,969	85,057	66,535
Spices	631,746	554,137	577,627	780,981	698,006	437,729
Tobacco	60,791	93,458	82,397	58,878	49,440	42,863
Cocoa bean	388,326	443,372	201,407	118,047	85,498	40,983
Shrimp and prawn	1,111,388	1,467,208	1,786,335	1,331,640	1,441,142	1,091,639
Other agricultural products	2,023,351	1,931,996	2,139,877	2,174,509	2,135,090	1,726,213
Total Agricultural products	5,584,278	5,787,688	5,927,312	5,764,642	5,494,777	4,341,167
Manufacture products						
Textile and Textile products	12,510,222	12,770,966	12,847,055	12,338,750	11,883,621	9,381,172
Processed wood products	3,338,150	3,510,392	3,906,760	3,813,415	3,691,540	2,730,269
Palm oils	17,685,127	16,518,525	17,461,545	15,402,551	14,357,677	13,834,391
Chemicals	3,634,536	3,498,625	3,851,429	2,805,673	3,236,877	3,376,580
Base metal products	9,303,974	8,614,179	9,085,294	7,580,115	7,436,783	6,616,358
Electrical apparatus, measuring instruments and others	11,157,423	10,716,148	10,108,187	8,777,604	8,386,801	6,631,147
Cement	20,050	49,657	37,365	62,539	82,332	97,385
Paper and paper products	3,938,382	3,732,138	3,779,966	3,599,154	3,442,980	2,803,921
Processed rubber	10,368,180	9,306,376	7,022,184	5,843,690	5,538,628	5,649,808
Oil products ⁽¹⁾	3,270,001	3,846,251	3,165,942	1,401,627	672,387	1,117,615
Liquefied Petroleum Gas ⁽¹⁾	9,176	10,534	4,538	12,231	44,880	54,172
Other manufacture products	40,215,423	40,604,203	47,338,146	44,550,999	47,852,307	38,013,825
Total Manufacture products	115,450,644	113,177,996	118,608,410	106,188,347	106,626,841	90,306,643
Mining products						
Copper ore	2,565,990	2,999,560	1,673,548	3,277,196	3,481,608	2,045,778
Nickel ore	1,458,409	1,677,366	85,913	0	0	69,834
Coal	26,248,270	24,359,167	20,818,030	16,004,035	14,563,340	14,665,712
Bauxite	637,597	1,318,775	47,742	744	431	23,757
Crude oil ⁽¹⁾	12,723,142	12,187,863	8,839,625	5,641,245	4,941,223	3,690,567
Natural Gas ⁽¹⁾	17,670,962	15,689,119	14,941,959	9,338,774	6,579,074	5,839,503
o/w Liquefied Natural Gas	11,943,550	10,568,458	10,293,714	6,894,365	4,816,387	4,066,982
Other mining products	455,659	591,546	213,410	182,769	179,479	128,187
Total Mining products	61,760,030	58,823,397	46,620,227	33,444,764	29,745,154	26,463,339
Other merchandise⁽²⁾	2,542,238^R	2,504,910	2,604,014	1,326,902	1,197,124	963,953
Other goods⁽³⁾	2,009,286	1,795,235	1,532,832	1,399,827	1,380,875	1,248,149
Total Exports	187,346,476^R	182,089,227	175,292,795	149,124,482	144,444,771	123,323,251
Memorandum⁽⁴⁾						
Non-oil & gas exports	151,775,044	148,500,805	146,540,725	131,940,836	131,553,644	112,077,920
Oil & gas exports	35,571,432	33,588,422	28,752,069	17,183,646	12,891,123	11,245,332

Source: Bank Indonesia

^P Preliminary.

^R Revised.

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

(2) Consists of art goods, goods not elsewhere specified, and goods procured in ports by carriers.

(3) Consists of non-monetary gold and merchanting goods.

(4) Presents the classification of exports based on two main groups of commodities: (i) oil and gas and (ii) non-oil and gas.

The table below sets forth Indonesia's exports by destination for the periods indicated.

Exports by Destination						
	Year Ended December 31,					Nine Months Ended September 30,
	2012	2013	2014	2015	2016 ^P	2017 ^P
	(in thousands of U.S. Dollars)					
America						
North America						
United States of America	14,765,254	15,622,136	16,502,799	15,977,225	16,071,640	13,222,764
Canada	787,624	775,984	754,367	724,445	733,241	624,971
Other North America	1,185	1,626	1,174	1,238	1,533	1,234
Total North America	15,554,063	16,399,745	17,258,340	16,702,908	16,806,414	13,848,968
Central and South America						
Argentina	310,678	448,181	237,167	238,132	219,225	197,455
Brazil	1,529,742	1,569,342	1,517,378	1,181,702	1,113,545	900,321
Mexico	594,865	625,022	814,494	802,893	795,730	750,738
Other Central and South America	1,153,932	1,127,463	1,165,225	1,044,492	1,076,613	803,759
Total Central and South America	3,589,217	3,770,009	3,734,264	3,267,219	3,205,114	2,652,274
Total America	19,143,280	20,169,754	20,992,604	19,970,127	20,011,528	16,501,241
Europe						
European Union						
Netherlands	4,546,619	4,099,858	3,981,353	3,432,577	3,244,318	3,003,728
Belgium	1,293,102	1,254,708	1,217,227	1,108,544	1,123,078	929,165
United Kingdom	1,679,815	1,618,871	1,659,576	1,521,994	1,582,654	1,069,166
Italy	2,279,791	2,121,981	2,288,020	1,871,943	1,570,726	1,431,833
Germany	3,064,521	2,862,481	2,820,475	2,654,242	2,632,296	1,981,467
France	1,116,351	1,053,698	1,018,400	971,332	886,124	722,935
Spain	2,059,230	1,806,692	1,938,255	1,476,585	1,578,057	1,515,623
Other European Union	1,814,223	1,886,988	1,996,538	1,763,808	1,816,541	1,531,791
Total European Union	17,853,652	16,705,277	16,919,845	14,801,026	14,433,792	12,185,708
Russia	866,396	934,132	1,056,775	993,581	1,273,965	951,282
Turkey	1,361,964	1,537,295	1,447,167	1,159,227	1,022,876	838,249
Other Europe	819,235	913,110	693,214	1,552,167	2,692,989	1,533,960
Total Europe	20,901,247	20,089,814	20,117,001	18,506,001	19,423,622	15,509,199
Asia and Middle East						
ASEAN						
Brunei Darussalam	116,854	88,505	98,873	85,589	85,377	49,285
Philippines	3,667,656	3,774,591	3,887,862	3,920,827	5,260,823	4,725,299
Cambodia	290,684	317,085	416,644	429,207	424,465	360,323
Lao PDR	23,736	5,086	6,212	7,135	5,863	2,397
Malaysia	11,000,550	10,475,415	9,454,669	7,489,169	6,801,105	6,054,803
Myanmar	412,643	576,497	587,710	612,315	606,350	558,059
Singapore	16,138,033	15,724,945	15,648,800	11,770,922	11,194,483	9,433,411
Thailand	6,491,642	6,051,348	5,762,720	5,414,929	5,359,904	4,693,018
Vietnam	2,266,667	2,558,864	2,443,990	2,716,595	3,016,614	2,547,465
Total ASEAN	40,408,467	39,572,336	38,307,481	32,446,688	32,754,984	28,424,059
Hong Kong SAR	2,644,935	2,646,008	2,760,064	2,048,572	2,127,953	1,727,174
India	12,500,116	12,969,881	12,242,603	11,635,073	10,076,131	10,257,071
Iraq	44,886	171,973	70,480	94,987	91,069	91,861
Japan	28,968,734	26,677,721	20,802,334	17,455,820	15,652,802	12,528,174
South Korea	14,269,724	11,260,652	10,079,871	7,334,452	6,369,436	5,553,051
Pakistan	1,377,718	1,412,462	2,048,086	1,988,062	2,017,977	1,795,870
People's Republic of China	21,523,958	22,425,902	17,301,903	14,611,015	16,670,696	15,513,448
Saudi Arabia	1,767,167	1,728,619	2,155,351	2,060,074	1,327,878	1,079,912
Taiwan	6,044,791	5,792,218	7,924,755	5,573,652	4,214,622	3,537,117
Other Asia and Middle East	5,166,760	4,987,194	7,186,956	6,159,489	5,577,849	4,660,319
Total Asia and Middle East	134,717,255	129,644,966	120,879,884	101,407,884	96,881,397	85,168,056
Australia and Oceania						
Australia	4,718,098	4,344,740	5,000,046	3,652,251	3,202,772	1,875,103
New Zealand	356,826	444,951	481,487	446,040	378,687	306,209
Other Australia and Oceania	373,454	488,064	367,443	345,654	346,007	266,631
Total Australia and Oceania	5,448,377	5,277,755	5,848,975	4,416,946	3,927,466	2,447,943
Africa						
South Africa	1,642,411	1,245,443	1,378,907	665,661	727,757	522,577
Other Africa	2,951,669	3,156,584	3,479,381	2,838,590	2,294,232	2,217,283
Total Africa	4,594,079	4,402,028	4,858,288	3,504,251	3,021,989	2,739,860
Unclassified exports ⁽¹⁾	2,542,238 ^R	2,504,910	2,596,043	1,319,272	1,178,768	956,951
Total (f.o.b.)	187,346,076 ^R	182,089,227	175,292,795	149,124,482	144,444,771	123,323,251

Source: Bank Indonesia

^P Preliminary.

^R Revised.

(1) Consists of goods procured in ports by carriers and merchanting goods.

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

Imports by Sector⁽¹⁾

	Year Ended December 31,					Nine Months Ended September 30,
	2012	2013	2014	2015	2016 ^P	2017 ^P
	(in thousands of U.S. Dollars)					
General Merchandise	189,094,827	186,153,764	177,787,488	141,672,713	134,883,521	112,295,114
Consumption Goods						
Food and beverages, primary, mainly for household	1,537,179	1,394,325	1,541,254	1,320,173	1,729,432	1,598,178
Food and beverages, processed, mainly for household	2,759,331	2,812,575	2,750,512	2,332,869	3,008,370	2,084,847
Passenger motor cars	1,498,307	1,171,510	784,431	583,152	594,978	448,279
Transport equipment, nonindustrial	367,729	383,485	268,909	243,873	142,456	125,624
Durable consumer goods	1,592,871	1,624,973	1,415,739	1,073,667	1,208,820	1,110,257
Semi-durable consumer goods	1,921,446	2,150,785	1,952,560	1,965,991	2,221,224	1,997,270
Non-durable consumer goods	1,910,634	2,154,691	2,158,041	2,023,181	2,154,671	1,796,800
Fuels and lubricants, processed, oil products ⁽²⁾	13,720,367	14,736,636	14,504,300	8,181,422	5,146,414	5,161,948
Goods not elsewhere specified	224,769	450,718	531,831	737,074	824,708	696,125
Total Consumption Goods	25,532,632	26,879,699	25,907,577	18,461,404	17,031,073	15,019,328
Raw materials and auxiliary goods						
Food and beverages, primary, mainly for industry	4,005,713	4,348,635	4,934,923	4,100,987	4,423,376	3,859,172
Food and beverages, processed, mainly for industry	3,317,376	3,294,925	3,247,084	2,726,501	3,459,829	2,627,149
Industrial supplies, primary	5,480,589	6,180,739	5,967,884	4,616,310	3,986,892	3,570,283
Industrial supplies, processed	58,236,091	56,624,346	56,247,051	49,421,677	47,297,837	39,084,946
Parts and accessories for capital goods	18,011,245	17,191,495	15,552,758	14,628,024	15,529,878	12,418,898
Parts and accessories for transport equipment	8,267,873	8,980,793	7,128,761	6,139,368	6,384,650	5,316,014
Fuels and lubricants, primary	11,008,146	13,322,222	12,896,531	8,011,548	7,197,942	5,464,634
o/w Crude oil ⁽²⁾	10,987,073	13,236,094	12,600,220	7,725,385	6,874,010	4,992,437
Fuels and lubricants, processed	18,405,384	17,706,610	15,702,783	8,292,444	6,784,224	7,111,564
o/w Oil products ⁽²⁾	15,540,944	14,408,358	12,442,784	6,057,936	4,721,414	5,041,303
o/w Liquefied Petroleum Gas ⁽²⁾	2,626,816	3,094,502	3,039,246	2,061,615	1,841,452	1,868,827
Total Raw materials and auxiliary goods	126,732,417	127,649,765	121,677,775	97,936,858	95,064,628	79,452,659
Capital Goods						
Capital goods (except transport equipment)	26,642,473	25,541,302	25,570,739	22,424,297	19,855,824	14,741,184
Passenger motor cars	1,498,307	1,171,510	784,431	583,152	594,978	448,279
Other transport equipment, industrial	7,945,543	4,196,809	3,093,174	1,847,542	1,865,130	2,233,817
Total Capital Goods	36,086,323	30,909,621	29,448,344	24,854,992	22,315,931	17,423,279
Other merchandise⁽³⁾	743,455	714,679	753,791	419,459	471,889	399,848
Other goods⁽⁴⁾	43,071	32,398	25,620	706,213	832,395	632,181
Total	189,137,898	186,186,162	177,813,107	142,378,926	135,715,916	112,927,296

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.

(4) Consists of nonmonetary gold.

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,					Nine Months Ended
	2012	2013	2014	2015	2016 ^P	September 30, 2017 ^P
	(in thousands of U.S. Dollars)					
America						
North America						
United States of America	9,701,647	8,966,943	8,139,708	7,608,621	7,338,417	5,850,873
Canada	1,809,859	2,104,103	1,908,631	1,621,298	1,382,005	1,111,323
Other North America	15,931	1,094	111,336	1,756	2,008	1
Total North America	11,527,437	11,072,140	10,159,676	9,231,676	8,722,430	6,962,197
Central and South America						
Argentina	1,749,601	1,683,663	1,465,715	1,298,541	1,373,780	842,990
Brazil	1,934,842	2,205,400	2,548,178	2,425,680	2,347,422	1,136,755
Mexico	566,649	516,890	186,888	197,406	177,236	133,036
Other Central and South America	561,260	600,191	540,815	392,383	449,709	483,508
Total Central and South America	4,812,353	5,006,144	4,741,596	4,314,010	4,348,148	2,596,290
Total America	16,339,789	16,078,284	14,901,271	13,545,685	13,070,578	9,558,487
Europe						
European Union						
Netherlands	845,501	999,770	912,737	794,586	710,662	671,939
Belgium	618,879	652,619	583,997	560,461	492,260	483,152
United Kingdom	1,280,884	1,063,795	899,185	816,947	892,660	681,109
Italy	1,508,328	1,692,133	1,720,992	1,417,856	1,388,461	1,158,187
Germany	4,050,293	4,389,557	4,104,817	3,453,948	3,152,972	2,515,762
France	1,638,856	1,568,430	1,334,831	1,337,879	1,360,419	1,240,357
Spain	521,227	573,305	555,106	473,990	484,441	360,639
Other European Union	3,144,422	2,704,189	2,646,741	2,484,948	2,222,940	1,960,199
Total European Union	13,608,391	13,643,796	12,758,406	11,340,613	10,704,815	9,071,346
Russia	1,743,576	2,038,204	1,583,207	983,680	846,317	867,961
Turkey	409,525	1,409,107	1,035,394	249,109	308,327	434,588
Other Europe	1,679,654	1,717,109	1,408,827	1,335,978	1,857,943	1,386,894
Total Europe	17,441,145	18,808,216	16,785,834	13,909,380	13,717,402	11,760,789
Asia and Middle East						
ASEAN						
Brunei Darussalam	480,349	677,923	610,286	126,168	88,029	36,793
Philippines	801,738	775,382	694,808	684,289	816,532	609,738
Cambodia	11,053	17,752	18,722	21,133	25,197	20,640
Lao PDR	3,278	7,543	51,265	1,027	4,196	5,933
Malaysia	12,786,250	13,878,131	10,714,357	8,464,345	7,197,766	6,276,191
Myanmar	63,359	72,997	122,243	159,685	112,955	114,651
Singapore	27,435,575	26,687,954	24,699,196	17,784,006	14,501,421	13,025,735
Thailand	11,369,461	10,721,002	9,770,883	8,074,329	8,647,172	6,746,056
Vietnam	2,543,876	2,686,495	3,399,903	3,146,337	3,228,483	2,331,540
Total ASEAN	55,494,939	55,525,180	50,081,662	38,461,319	34,621,750	29,167,277
Hong Kong SAR	1,897,323	1,956,494	1,892,903	1,806,733	1,814,777	2,024,320
India	4,310,220	3,960,489	3,937,401	2,742,320	2,858,593	2,864,255
Iraq	200	49	342	243	106	58
Japan	22,674,852	19,188,165	16,866,526	13,255,694	12,981,644	11,020,483
South Korea	12,238,061	11,761,514	11,732,612	8,424,260	6,657,910	6,111,886
Pakistan	271,276	162,555	158,655	173,600	156,774	139,253
People's Republic of China	29,486,325	29,792,501	30,631,469	29,381,441	30,677,815	24,163,101
Saudi Arabia	5,447,047	6,929,195	6,343,400	3,332,183	2,720,977	1,935,373
Taiwan	4,731,457	4,488,642	3,748,062	3,145,310	2,877,222	2,380,567
Other Asia and Middle East	6,879,661	5,840,125	8,180,995	4,617,161	3,661,908	3,593,889
Total Asia and Middle East	143,431,361	139,604,909	133,574,026	105,340,264	99,029,475	83,400,462
Australia and Oceania						
Australia	5,227,751	5,088,023	5,637,313	4,811,041	5,241,353	4,527,082
New Zealand	692,249	796,396	837,703	637,396	660,958	527,125
Other Australia and Oceania	69,803	86,192	42,249	29,367	37,469	98,870
Total Australia and Oceania	5,989,802	5,970,611	6,517,265	5,477,803	5,939,779	5,153,077
Africa						
South Africa	650,838	624,337	477,411	231,880	288,464	178,305
Other Africa	4,541,508	4,385,126	4,803,509	3,454,454	3,198,328	2,476,327
Total Africa	5,192,346	5,009,463	5,280,920	3,686,335	3,486,792	2,654,632
Unclassified imports⁽²⁾	743,455	714,679	753,791	419,459	471,889	399,848
Total	189,137,898	186,186,162	177,813,107	142,378,926	135,715,916	112,927,296

Source: Bank Indonesia

^P Preliminary.

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

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

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 the periods indicated.

Balance of Payments⁽¹⁾

	Year Ended December 31,					Nine Months Ended September 30,
	2012	2013	2014	2015	2016 ^P	2017 ^P
	(in millions of U.S. Dollars)					
Current account	(24,418)	(29,109)	(27,510)	(17,519)	(16,790)	(11,503)
Goods ⁽²⁾	8,680	5,833	6,983	14,049	15,437	15,777
Total exports (f.o.b.)	187,346	182,089	175,293	149,124	144,445	123,323
Non-oil and gas exports	151,775	148,501	146,541	131,941	131,554	112,078
Oil and gas exports	35,571	33,588	28,752	17,184	12,891	11,245
Total imports (f.o.b.)	(178,667)	(176,256)	(168,310)	(135,076)	(129,008)	(107,546)
Non-oil and gas imports	(137,857)	(132,959)	(127,729)	(112,189)	(111,320)	(91,299)
Oil and gas imports	(40,810)	(43,297)	(40,582)	(22,887)	(17,688)	(16,247)
Services	(10,564)	(12,070)	(10,010)	(8,697)	(7,015)	(5,597)
Primary income	(26,628)	(27,050)	(29,703)	(28,379)	(29,656)	(24,799)
Secondary income	4,094	4,178	5,220	5,508	4,444	3,116
Capital account	51	45	27	17	41	16
Financial account	24,858	21,926	44,916	16,843	28,576	23,425
(i) Public sector	7,030	9,730	14,136	17,588	15,082	15,515
Portfolio investment	4,577	11,105	18,345	17,778	18,629	16,969
Assets	(4,674)	848	2,965	392	1,795	(99)
Liabilities	9,251	10,257	15,380	17,386	16,835	17,069
Other investment	2,453	(1,376)	(4,209)	(190)	(3,547)	(1,454)
Assets	(1)	0	0	0	(269)	0
Liabilities	2,453	(1,376)	(4,209)	(190)	(3,279)	(1,454)
Loans	(2,220)	(527)	(1,243)	202	(1,484)	(1,553)
Drawings	3,332	4,947	4,035	5,139	3,709	1,719
Repayments	(5,553)	(5,474)	(5,278)	(4,937)	(5,193)	(3,273)
Other liabilities	4,674	(848)	(2,965)	(392)	(1,795)	99
(ii) Private sector	17,828	12,196	30,780	(745)	13,494	7,910
Direct investment	13,716	12,170	14,733	10,704	16,063	14,378
Assets	(7,485)	(11,112)	(10,388)	(9,075)	11,594	(1,073)
Liabilities	21,201	23,282	25,121	19,779	4,469	15,451
Portfolio investment	4,629	(233)	7,722	(1,595)	366	1,795
Assets	(793)	(2,121)	(379)	(1,660)	423	(1,761)
Liabilities	5,422	1,888	8,100	65	(57)	3,556
Financial derivatives	13	(334)	(156)	20	(9)	(59)
Other investment	(530)	593	8,480	(9,874)	(2,926)	(8,204)
Assets	(5,352)	(3,427)	(3,427)	(11,812)	2,783	(10,894)
Liabilities	4,822	4,020	11,907	1,938	(5,709)	2,690
Errors and omissions	(275)	(186)	(2,184)	(439)	263	(1,325)
Overall balance	215	(7,325)	15,249	(1,098)	12,089	10,612
Reserves and related items	(215)	7,325	(15,249)	1,098	(12,089)	(10,612)
Memorandum⁽³⁾						
Reserve asset position	112,781	99,387	111,862	105,931	116,362	129,402

Source: Bank Indonesia

^P Preliminary.

- (1) Bank Indonesia uses (+) and (-) signs in its published data to follow BPM5 whereby (+) means inflow and (-) means outflow. In financial account, (+) denotes increase in liabilities or decrease in assets, while (-) represents increase in assets or decrease in liabilities. The table above has been adjusted to align with the formatting of this Offering Memorandum.
- (2) 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.
- (3) Presents the position of reserve assets at the end of period. A surplus/deficit in the overall balance of payments during a reporting period will increase/decrease the outstanding amount of reserve assets at the end of that period.

In 2012, the balance of payments recorded 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 deficit of about 2.8% 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 sufficient level of international reserves. The increased capital and financial account surplus was driven not only by portfolio investment, but also foreign direct investment, 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 was due to the series of policies launched by Bank Indonesia and the Government, encompassing monetary and macro prudential policy, exchange rate management, fiscal management, and improvements to the investment climate.

In 2013, the weakening global economy combined with the lack of support from the domestic economy led to mounting pressure on Indonesia's balance of payments. The global economic slowdown caused exports to contract further while imports remained high due to demand from middle class consumers and high oil imports. The slowdown in exports combined with the high demand for imports resulted in a widening of the current account deficit.

Amid discussions regarding the tapering of the monetary stimulus package by the U.S. monetary authority following improvements in the U.S. economy there was a gradual reduction in the supply of liquidity to emerging market countries, including Indonesia. As a result, foreign capital inflows into Indonesia began to weaken. Negative perceptions among foreign investors were exacerbated by the rising current account deficit and inflation expectations. These conditions had a negative impact on the capital and financial account surplus.

The current account deficit increased from 2.6% of GDP in March 2013 to 4.2% of GDP in June 2013. In the capital and financial account, capital outflows increased in July 2013, triggered by global concerns over the planned tapering by the U.S. monetary authority. Between the months of June to September 2013, the current account still posted a sizeable deficit at 3.7% of GDP. Capital outflows continued through August 2013 as a result of lingering concerns over tapering.

In 2013, Bank Indonesia, in conjunction with the Government, introduced a range of policies designed to bring down the current account deficit to a more sustainable level. The policies can be grouped into three major areas. The first group addressed monetary policy, consisting of a number of measures implemented by Bank Indonesia designed to influence interest rate policy, exchange rate policy and macro prudential policy. The second group of policies addressed fiscal policy, such as the reduction to the fuel subsidies and tax instruments for reducing imports. Both monetary policy and fiscal policy were directed towards managing domestic demand in order to curb excessive imports. The third group of policies related to structural policies, including those for improving the investment climate and measures to promote economic self-reliance, which in turn will support the balance of payments in the long run.

These stabilization policies successfully reduced the current account deficit. The reduction was achieved through a fall in imports following more moderate domestic demand, an increase in exports in line with improved economic growth in advanced countries and a depreciation in the exchange rate. The rebalancing of the current account deficit was further aided by increases in the capital and financial account surplus resulting from corporate drawings of foreign borrowings, withdrawals from offshore deposits held by domestic banks and stable

inflows of direct investment. The surplus in the capital and financial account was sufficient to finance the current account deficit, with the result that, in the last quarter of 2013, after three straight quarters of deficit, the balance of payments returned to surplus.

Despite developments in the last quarter of 2013, the overall balance of payments in 2013 resulted in a U.S.\$7.3 billion deficit in contrast with the U.S.\$0.2 billion surplus of 2012. The 2013 balance of payments deficit reflects the current account deficit of U.S.\$29.1 billion, or 3.2% of GDP, up from the 2012 deficit of U.S.\$24.4 billion or 2.7% of GDP, and a reduced capital and financial surplus, which declined from U.S.\$24.9 billion in 2012 to U.S.\$21.9 billion in 2013.

In 2014, the current account improved, with the deficit falling from U.S.\$29.1 billion or 3.2% of GDP in 2013 to U.S.\$27.5 billion or 3.1% of GDP in 2014. This improvement was mainly the result of new policies instituted by Bank Indonesia in close cooperation with the Government. The improvement in the current account was also supported by improved performances in the goods trade balance, services and secondary income accounts. Improvements in the trade balance were mainly attributable to an increase in the non-oil and gas trade surplus compared with 2013, as non-oil and gas imports contracted following moderate demand in the domestic market, as reflected in the decrease in imports of consumption goods, raw materials, and capital goods. Meanwhile, non-oil and gas exports contracted in nominal terms due to a weakening in global demand, especially from China, and the ongoing decline in global commodity prices. Nevertheless, the improvement in the trade balance was contained by the widening oil and gas trade deficit. Declines in the oil and gas trade balance were attributable to the high domestic energy needs, boosting oil and gas imports amid the decreasing oil exports, in line with the decline in oil production and the global oil price.

The narrowing deficit in the services account was attributable to reduced payments for transportation services, in line with the decrease in imports of goods, increased receipts of travel services, along with the rise in the number of foreign travelers visiting Indonesia, and the increased receipt of remittances from Indonesian workers abroad. On the other hand, the deficit in the income account grew, along with the increase in Indonesia's foreign liability position, mainly due to increased interest payments on the Government's debt securities.

Improvement in Indonesia's economic fundamentals led to an increase in foreign direct investment in 2014. The capital and financial account posted a record high of foreign capital inflow, mainly in the form of portfolio investments. Foreign capital inflows in 2014 reached U.S.\$23.5 billion, a significant increase from U.S.\$12.1 billion in 2013. The increased inflows of foreign portfolio investments, in addition to the impact of increases in net foreign buying in Rupiah-denominated portfolio instruments, was supported by the Government's steps to issue foreign currency bonds as a source of fiscal financing.

The capital and financial account surplus in 2014 also benefited from the increased foreign direct investment inflows compared with 2013, with the capital and financial account recording a U.S.\$44.9 billion surplus, almost double the surplus of 2013. The lower current account deficit and the higher capital and financial account surplus resulted in the balance of payments in 2014 swinging back to a surplus of U.S.\$15.2 billion from a deficit of U.S.\$7.3 billion in 2013. This surplus in turn increased international reserves from U.S.\$99.4 billion as of December 31, 2013 to U.S.\$111.9 billion as of December 31, 2014.

In 2015, the current account continued to improve, with the deficit falling from U.S.\$27.5 billion or 3.1% of GDP in 2014 to U.S.\$17.6 billion or 2.0% of GDP in 2015. The improvement in the current account was mainly attributed to the narrowing of the oil and gas trade deficit due to the drop in oil imports brought about by the fall in global crude oil prices and the lower consumption of oil-based fuels as a positive impact of the Government subsidy reforms. On the other hand, the decline in imports of non-oil and gas was in line with reduced domestic demand. The decline in the services account deficit resulted from a decline in transportation services (freight) in line with fewer imports of goods.

Amid growing uncertainty in the global financial markets, the capital and financial account in 2015 posted a surplus of U.S.\$16.8 billion, lower than the surplus of U.S.\$44.9 billion in 2014. The decrease was primarily due to decline in direct investment inflows and lower corporate funding needs through foreign borrowing in line with slowing domestic economy. In addition, foreign portfolio inflows decreased sharply as uncertainty in the global financial markets increased, although the uncertainty eased in the fourth quarter of 2015. Meanwhile, other investments recorded a deficit of U.S.\$9.9 billion, due to increase in private sector deposits in foreign banks as investors' perception of the domestic economy weakened. Indonesia's overall balance of payments in 2015 recorded a deficit of U.S.\$1.1 billion. As a consequence, international reserves decreased from U.S.\$111.9 billion as of December 31, 2014 to U.S.\$105.9 billion as of December 31, 2015.

In 2016, the current account deficit increased compared to 2015, but improved as a percentage of GDP, with the deficit of U.S.\$17.5 billion or 2.0% of GDP in 2015 falling to U.S.\$16.8 billion or 1.8% of GDP in 2016. The higher current account deficit was mainly due to lower non-oil and gas trade surplus and a higher deficit in the primary income account and lower surplus in the secondary income account, each as compared to 2015, which was partially offset by a lower deficit in the services account due to a lower deficit in transportation services. The lower non-oil and gas trade surplus was partially offset by a lower oil and gas trade deficit due to the drop in oil imports brought about by the fall in global crude oil prices and lower consumption of oil based fuels mainly due to Government subsidy reforms.

Amid growing uncertainty in the global financial markets, the capital and financial account for 2016 posted a surplus of U.S.\$28.8 billion, higher than the U.S.\$16.9 billion surplus in 2015. The increase was primarily the result of positive sentiment towards the domestic economic outlook and easing global risk. Net direct investment increased from U.S.\$10.7 billion in 2015 to U.S.\$15.9 billion in 2016. The portfolio investment account also recorded a surplus due to positive sentiment concerning the sound implementation of the Tax Amnesty Law. The other investment deficit shrank on net withdrawals of Government foreign loans and net withdrawals of private sector deposits abroad.

Indonesia's overall balance of payments in 2016 recorded a surplus of U.S.\$12.1 billion compared to the deficit of U.S.\$1.1 billion in 2015. The surplus resulted in higher international reserves from U.S.\$105.9 billion as of December 31, 2015 to U.S.\$116.4 billion as of December 31, 2016.

Indonesia's overall balance of payments surplus for the nine months ended September 30, 2017 was U.S.\$10.6 billion compared to U.S.\$7.6 billion in the same period in 2016. The higher surplus was a result of a capital and financial surplus that outpaced the current account deficit that in turn led to an increase in official reserve assets to U.S.\$129.4 billion as of September 30, 2017. The current account deficit in the nine months ended September 30, 2017 was U.S.\$11.5 billion (1.5% of GDP), lower than the deficit in same period of 2016 of U.S.\$15.0 billion (2.2% of GDP). The narrower current account deficit was primarily due to the higher non-oil and gas trade surplus. The services account and the income account recorded higher deficits. The higher deficit in the services account was primarily due to an increase in freight services payments. The capital and financial account surplus in the nine months ended September 30, 2017 was U.S.\$23.4 billion, higher than the surplus in the same period of 2016 of U.S.\$20.9 billion. This increased surplus was driven by an increase in direct investment inflows, in line with increasing domestic investment, and a decrease in other investment deficit, particularly on account of lesser outflows of domestic private deposits overseas.

Export-Import Data from the Central Statistics Agency

In addition to the exports and imports related data sourced from Bank Indonesia included in this Offering Memorandum, the Central Statistics Agency (BPS) also publishes data relating to imports and exports. However, the BPS follows a different methodology as compared with the methodology followed by Bank Indonesia for similarly titled measures. BPS uses the International Merchandise Trade Statistics Manual issued by the United Nations, while Bank Indonesia uses the Balance of Payments Manual issued by the IMF.

The table below shows Indonesia's exports and imports for the periods indicated (as published by BPS).

	Year ended December 31,					
	2012	2013	2014	2015	2016	2017
	(in millions of U.S. dollars)					
Exports:						
Non oil and gas						
exports	153,043.0	149,934.6	145,961.2	131,791.9	132,080.8	152,990.1
Oil and gas exports	36,977.1	32,617.4	30,018.9	18,574.4	13,105.5	15,806.6
Total exports	190,020.1	182,552.0	175,980.1	150,366.3	145,186.2	168,796.7
Imports:						
Non oil and gas						
imports	149,126.60	141,362.30	134,718.90	118,126.80	116,913.47	132,585.41
Oil and gas imports	42,564.40	45,266.40	43,459.90	24,613.10	18,723.86	24,307.64
Total imports	191,691.00	186,628.70	178,178.80	142,739.90	135,637.33	156,893.05

Financial System

Indonesia Financial Safety Net and Crisis Management

In April 2016, parliament passed the Law on Financial System Crisis Prevention and Management that revamped the coordination framework for crisis management and resolution among Indonesia Financial Safety Net participants (“**KSSK**”) and also refined the emphasis on strengthened supervisory capacity, improved banking liquidity and prevention measures. These coordinated policy responses allow an institutionalized early warning system and crisis management protocol which enable KSSK to identify potential disruptions, and determine effective policy responses and resolution steps.

As a Financial Safety Net participant, the Ministry of Finance also contributes to safeguard financial system stability. In the event of a disruption, such as sudden reversals in capital flows, the Crisis Management Protocol will be activated to determine the policy response required to maintain market confidence and stability. Policy responses include, amongst others, the Bond Stabilization Framework which provides the mechanism to execute buybacks with several SOEs for the purpose of maintaining stability of the sovereign bond market, placement of funds in instruments with a longer maturity period by issuing longer term securities, debt switching to lengthen debt maturities and reduce the risks associated with refinancing.

Indonesia Deposit Insurance Scheme

Since September 2005, the Indonesia Deposit Insurance Corporation (“**IDIC**”) has acted to protect insured depositors and actively promote financial stability. The prevailing IDIC coverage is up to Rp 2 billion for each depositor in any one bank. The IDIC membership is compulsory for every bank conduct business in Indonesia. The IDIC will pay, in accordance with its procedures, deposit insurance claims when a member bank has its license revoked by the Indonesia Financial Service Authority, (*Otoritas Jasa Keuangan* or **OJK**). The maximum amount of deposits insured can be adjusted in the event of a crisis that can potentially decrease public trust in the banking system or affect the stability of the financial system.

Indonesia Financial Services Authority (OJK)

The OJK was established in 2011 under Law No. 21 of 2011, and exists to organize an integrated regulatory and supervisory system for all activities in the financial services sector (banking sector, capital markets, insurance industry, pension funds, finance companies and other financial services sectors). The OJK is an independent institution free from external interference with a vision to protect the interests of the customer and the public.

The OJK plays an important role in creating a stable financial services sector that contributes significantly to sustainable economic growth and prosperity in the Republic. In order to boost the contribution of the financial services sector to economic growth, the development of the financial services sector is directed at optimizing the supporting role of the financial services sector to accelerate national economic growth, safeguard financial stability as a foundation for sustainable economic development, create financial independence and support efforts towards economic equality.

The Banking System

The Government’s policies for the banking sector emphasize the strengthening of the banking system.

The law governing Bank Indonesia, Indonesia’s central bank, was amended in 2004 to, among other things, provide that Bank Indonesia will 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, or 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. Bank Indonesia’s banking supervision function was transferred to the OJK on December 31, 2013. The latest amendment to the Central Bank Law was in 2008, mainly to amend the collateral requirement on Sharia financing, certain provisions of which were revoked by the Law on Financial System Crisis Prevention and Management enacted in April 2016.

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 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 and the OJK to bolster and improve surveillance in order to better anticipate the symptoms of troubled banks on a risk basis, as well as enhance the quality 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 risks that might arise.

OJK has issued banking regulations that are in line with the international standards, such as the Basel framework. In terms of the capital reforms, OJK issued its rule for the Basel III capital framework in December 2013, which was amended in February 2016. These cover (i) raising the quality of regulatory capital, (ii) setting a minimum Tier 1 and CET 1 ratio of 6% and 4.5%, respectively, as well as a minimum capital requirement based on risk profile between 8% to 14%, and (iii) building-up of adequate buffers above the minimum capital requirement based on risk profile (including a capital conservation buffer, countercyclical buffer and capital surcharge for D-SIBs). In 2015, OJK issued regulation regarding D-SIB methodology and capital surcharge application which was applied for the first time in January 2016.

As part of its Basel III implementation policies, OJK issued regulations for the Basel III Liquidity framework, Liquidity Coverage Ratio, or LCR, and Net Stable Funding Ratio, or NSFR. The LCR regulation was issued in December 2015 and requires banks to maintain short-term liquidity through high quality liquid assets that meet their liquidity needs for thirty days. The NSFR regulation was issued in July 2017 and uses NSFR as an indicator to evaluate a bank's long-term liquidity risk by comparing the amount of stable funding available to the bank with the amount of stable funding required by the bank. It aims to reduce long-term liquidity risk by requiring banks to fund activities from stable and adequate sources of funds.

Under the Financial System Crisis Prevention and Management law, OJK has issued regulations concerning a systemic bank recovery plan in April 2017. These regulations establish the requirements for systemic banks to prepare and submit recovery plans. Systemic banks are also required to have guidelines in relation to the recovery plan in place, which are prepared by taking into account the governance principles supporting the implementation of the recovery plan. Moreover, systemic banks are also obliged to evaluate and perform stress testing in order to assess the adequacy of their recovery plans at least once a year.

As of November 30, 2017, total banking assets were Rp7,357.5 trillion, consisting of assets of commercial banks of Rp7,222.4 trillion and assets of rural credit banks of Rp135.1 trillion.

Islamic Financial System

The Republic has introduced Islamic finance since the 1990s by establishing the first Islamic bank, Bank Muamalat, in 1992, PT Asuransi Takaful Keluarga in 1994 and PT Asuransi Takaful Umum in 1995. The introduction of Islamic banking and takaful have contributed to increased demand for capital market instruments which comply with Sharia principles. In 2000, the first Islamic stock index, the "Jakarta Islamic Indeks", was launched, which was followed by the issuance of Daftar Efek Syariah (List of Sharia Securities) by Bapepam-LK in 2007. In 2008, the government issued its first Islamic bonds (Sukuk Negara) to show its commitment to supporting the development of the global Islamic financial market.

As of October 2017, the value of the total assets in the Islamic finance sector stood at Rp1,086.99 trillion (US\$80 billion) or 5.5% of the national finance industry. The assets in Islamic banking stood at US\$29.94 billion and grew 19.09% (yoy). Further, the assets of the Islamic non-bank financial industry grew 11.19% (yoy) and total US\$6.87 billion. The assets of the Islamic capital markets stood at US\$43.09 billion, contributed by a 66% growth in Islamic mutual funds and 34% growth in Islamic corporate bonds.

The OJK and Bank Indonesia have issued various regulations in order to support the growth and development of the Islamic finance industry with due observance to precautionary principles and Sharia principles. The central Government has also been supporting the development by issuing regulations such as the Islamic Banking Law No. 21 of 2008, Sukuk Negara Law No. 19 of 2008, Zakat Management Law No. 23 of 2011, Hajj Fund Management No. 34 of 2014, Insurance Law No. 40 of 2014 and Guarantee Law No. 1 of 2016.

In July 2017, the President of the Republic inaugurated the National Committee for Sharia Finance, or KNKS, as part of the government policy to accelerate the development of Islamic finance in the Republic. The

KNKS, established by a Presidential Decree in November 2016, plays a strategic role in coordinating stakeholders and aligning programs to develop Islamic economics and finance in the Republic. The National Committee for Sharia Finance is chaired by the President, and members of the board of advisors, which is made up of ministers, heads of institutions and regulators in the fields of economics, finance and Sharia, assist the President.

The Sharia Non Bank Financial Industry (“**Sharia NBF**”) supervised by the OJK includes Sharia insurance companies, Sharia multifinance institutions, Sharia pension funds, and special Sharia financial institutions. Sharia insurance companies consist of Sharia insurance companies and Sharia reinsurance companies, whose activities either partially or fully comply with Sharia principles. Sharia multifinance institutions consist of multifinance companies, venture capital companies and infrastructure finance companies, whose business activities either partially or fully comply with Sharia principles (full fledge or sharia business unit).

The special Sharia financial institutions currently supervised by the OJK include guarantee institutions, pawnshops, Indonesia Eximbank, and micro finance institutions that carry on business activities, which partially or fully comply with Sharia principles.

As of November 2017, there are 147 Sharia NBFIs listed in the OJK, consisting of 62 sharia insurance companies, 46 sharia multifinance institutions (38 multifinance companies, seven venture capital companies and one infrastructure finance company), one Sharia pension fund, 10 special Sharia financial institutions (six guarantee companies, three pawnshops, and Indonesia Eximbank (LPEI)) as well as 28 Sharia micro finance institutions. The assets of Sharia NBF as of November 30, 2017 stood at Rp 97.102 trillion.

The OJK has published the Roadmap of Sharia NBF 2015-2019 which comprise strategic developmental plans of the Sharia NBF. The roadmap is expected to provide guidance for stakeholders to improve synergies among sectors of Sharia NBF to achieve sustainable growth.

In December 2016, OJK issued four OJK regulations which separately regulate aspects of licensing, financial soundness, business conduct, and good corporate governance. The regulations provide more detailed guidance on regulatory aspects which were stipulated in Law No. 40 of 2014 concerning insurance and strengthening previous regulatory framework. For instance, the OJK regulation on licensing provides guidance for insurance companies to spin off its Sharia window, which are (i) methodology and stages to spin-off sharia window, (ii) requirement to submit action plan for spin-off sharia window, and (iii) document should be submitted to get approval from the OJK. In addition, the OJK regulation on financial soundness requires a solvency margin for Sharia insurance which is higher than previous regulations.

In order to promote the development of Sharia pension funds, the OJK also issued a regulation to govern the Sharia pension funds which came into force in September 2016. Under the regulation, management of Sharia pension funds may be conducted by way of: (i) establishment of Sharia pension funds, (ii) conversion of pension funds into Sharia pension funds, (iii) formation of a Sharia unit in employee pension funds, or (iv) sale of Sharia investment package in financial institution pension funds.

As the multifinance business develops, some multifinance companies have started their financing activities based on Sharia principles. Sharia-based multifinance activities have been regulated by the OJK’s regulations in POJK Number 31/POJK.05/2014 concerning the business operation of Sharia financing activities. Besides the POJK, there are also the following regulations stipulated for sharia financing activities: financial soundness, monthly report form, down payment and good corporate governance. For the venture capital industry, the OJK has issued four regulations about Sharia venture capital industry as follows: (1) POJK Number 34/POJK.05/2015 concerning Licensing and Institutional of Venture Capital Company, (2) POJK Number 35/POJK.05/2015 concerning Business Operation of Venture Capital Company, (3) POJK Number 36 /POJK.05/2015 concerning Good Corporate Governance of Venture Capital Company, and (4) POJK Number 37/POJK.05/2015 concerning Supervision of Venture Capital Company

For guarantee companies, Indonesia enacted the Law No. 1 of 2016 concerning Credit Guarantee. OJK also stipulated the OJK’s regulation concerning credit guarantee, as follows: (1) POJK No 1 Number 1/POJK.05/2017 concerning the License and Institutional for Guarantee Institutions, (2) POJK Number 2 /POJK.05/2017 concerning Business Operation of Guarantee Institutions, and (3) POJK Number 3 /POJK.05/2017 concerning Good Corporate Governance of Guarantee Institutions.

Another industry running in Indonesia is the pawnshop industry, which provides loan with collateral, for example movable assets, safekeeping service, appraisal service, and/or other services. For the pawnshop

industries, the OJK released POJK Number 31/POJK.05/2016 in 2016, which concerns pawnshop businesses. Although pawnshop businesses run by private sectors have developed significantly in Indonesia, it has no legal framework yet, while the pawnshop business run by the central Government is regulated by the previous regulations. Therefore, the issuance of this regulation was expected to accommodate the needs of both private-owned state-owned companies for the pawnshop industry. The regulation also specified the Sharia pawnshop business process which is allowed to be carried out by both private-owned and state-owned companies.

Regarding the Islamic micro finance institutions, during the year of 2017, the OJK issued business licenses for 28 Islamic micro finance institutions (“LKMS”). Those LKMS are expected to be one of the effective ways in empowering and increasing society’s welfare, specifically in Islamic boarding schools and their surrounding area. The establishment of LKMS is also considered as part of the OJK’s financial inclusion program which engaging ulama to broaden the access to financial for unbanked community in reducing poverty and boosting prosperity.

Sharia NBFIs as of November 30, 2017

No.	Industry	Entity		Assets
		Full	Sharia Business Unit	(in trillions Rp)
1.	Sharia Life Insurance	7	23	31.713
2.	Sharia General Insurance	4	25	5.301
3.	Sharia Reinsurance	1	2	1.654
4.	Sharia Finance Company	3	35	33.557
5.	Sharia Venture Capital company	4	3	1.122
6.	Sharia Pension Funds	1	9	113
7.	Sharia Infrastructure Finance Company	0	1	1.261
8.	Sharia Guarantee Industry	2	4	1.016
9.	Sharia Pawn Shops	2	1	5.133
10.	Sharia Export Finance Indonesia Institution	0	1	16.132
11.	Islamic Micro Finance Institutions	28	0	100
Total		52	95	97.102

Anti-Money Laundering Regime

Various financial regulatory agencies in the Republic were formed to combat money laundering activities within Indonesia. In 2002, the Government enacted an anti-money laundering law, or 2002 AML Law, and established a financial intelligence unit, the Indonesian Financial Transaction Reports and Analysis Centre, or INTRAC/*Pusat Pelaporan Analisis Transaksi Keuangan* or PPATK. The PPATK’s duties were later expanded to include matters relating to countering terrorism financing, and consequently, the PPATK was appointed to be the focal point of countering money-laundering and financing of terrorism in Indonesia.

Some of the significant progress made in implementing the Government’s anti-money laundering laws and countering financing of terrorism, or CFT, national strategies in the last few years includes: promulgating a new Anti-Money Laundering Law, namely, Law No. 8 of 2010 on the Prevention and Eradication of Money Laundering Crimes (“**Law No. 8**”), or 2010 AML Law, and the ratification of the UN Convention against Transnational Organized Crime. The 2010 AML Law came into force on October 22, 2010 replacing the 2002 AML Law, as amended, to be in line with current international standards and best practices.

As of November 2017, the PPATK has disseminated 4,065 analysis results and 101 examination results to law enforcement agencies pursuant to Law No. 8.

As part of the implementation of the Government’s policy to prevent and eradicate the crime of money laundering, the PPATK has issued and continues to issue various regulations as further implementation of the 2010 AML Law. In November 2017, the PPATK enacted Head of PPATK Regulation No. 18 of 2017 which obligates financial institutions to suspend any transactions of individuals or entities that have been designated by the INP as terrorists or terrorist organizations on the PPATK’s orders. The PPATK have also prepared an initial draft of a Presidential Regulation that will obligate corporations to carry out KYC checks that is pending ministerial approval.

In 2017, the Government issued Presidential Regulation No. 18 (“**Regulation No. 18**”) which stipulates that civil society organizations must undertake “know your customer” (“**KYC**”) checks for beneficiaries and donors when receiving and distributing donations in order to mitigate the risk of terrorist financing. In addition, the Minister of Finance Affairs, the Chief of the Indonesian National Police (“**INP**”), the Head of the Indonesian Financial Transaction Reports and Analysis Center and the Head of the Nuclear Energy Regulation Agency have issued a joint regulation which provides that accounts containing the funds owned by persons or corporations which appear on the INP’s list of individuals or corporations, which have financed weapons of mass destruction, will be frozen.

On March 13, 2013, the DPR adopted the Law No. 9 of 2013 on the Prevention and Eradication of the Financing of Terrorism (“**Law No. 9**”). Law No. 9 comprehensively regulates: (i) the criminalization of terrorist financing offenses and other offenses related to terrorism financing offenses; (ii) the application of the principle of recognizing users of financial services; reporting and compliance monitoring; (iii) surveillance activities through a remittance transfer system or through other systems by financial service providers; (iv) control disposition of cash and/or other payment instruments into or outside the Indonesian customs area; (v) blocking mechanisms relating to the movement of cash and/or other payment instruments; (vi) the inclusion in the list of suspected terrorists and terrorist organizations; and (vii) arrangements regarding the setting of the investigation, prosecution, and examination at trial.

Terrorism financing within the scope of Law No. 9 includes acts committed, directly or indirectly, in order to provide, gather, give, or lend funds to those who are known to intend to commit an act of terrorism. In addition to individuals, Law No. 9 regulates the criminalization of terrorist financing to terrorist organizations. Terrorist organizations within Law No. 9 can include a collection of people who have a common goal and that, based on a court decision, have committed an act of terrorism. Parties that are named in lists of terrorist organizations also fall within the scope of Law No. 9.

OJK issued regulations concerning the implementation of anti-money laundering and prevention of terrorism financing in financial services sector in March 2017, namely the OJK Regulation No. 12/POJK.01/2017 and a circular letter in June 2017, namely the circular letter No. 32/SEOJK.03/2017. This regulation requires any financial service provider to identify, assess and understand the risk of money laundering and/or terrorism financing crimes related to customers, countries, geographic areas, products, services, transaction or delivery channels. To perform these types of activities, the financial service provider must establish policies, supervision and maintenance procedures and mitigation of money laundering and terrorism financing risks and establish a special task force and/or appoint an officer to act as a person-in-charge for the implementation of anti-money laundering and anti-terrorism financing programs. The financial service provider is required to submit suspicious financial transaction reports, cash transaction reports and other reports to the PPATK.

Bank Indonesia

Bank Indonesia’s statutory mandate 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.

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,					
	2012	2013	2014	2015	2016	2017 ^P
	(in billions of Rupiah)					
Base Money (M0)	704,843	821,679	918,421	945,916	989,565	1,085,796
Currency in Circulation ⁽¹⁾	439,720	500,020	528,537	586,763	612,545	694,830
Commercial Banks Demand						
Deposits at Bank Indonesia . . .	239,957	253,655	287,484	308,756	288,824	306,361
Private sector Demand						
Deposits	133	451	1,397	366	361	478
Bank Indonesia Certificates						
(SBI) ⁽²⁾	25,033	67,552	101,002	50,031	87,835	84,127
Factors Affecting Base Money						
(M0)	704,843	821,679	918,421	945,916	989,565	1,085,796
Net Foreign Assets	1,056,084	1,169,689	1,351,402	1,422,446	1,525,701	1,727,853
Claims on Non-Residents	1,152,721	1,279,282	1,424,331	1,529,331	1,642,137	1,843,171
Liabilities to Non-Resident	(96,636)	(109,593)	(72,929)	(106,886)	(116,436)	115,317
Claims on Other Depository						
Corporations	3,226	2,315	1,489	465	362	260
Liquidity Credits	1,137	1,016	978	56	56	56
Other Claims	2,089	1,300	511	409	307	205
Net claims on central						
Government	200,520	185,249	168,098	91,814	82,455	36,201
Claims on central Government . .	252,214	245,029	237,218	241,710	207,515	193,766
Liabilities to central						
Government	(51,694)	(59,781)	(69,120)	(149,895)	(125,060)	(157,565)
Claims on Other Sectors	13,508	8,116	7,927	7,865	7,505	7,243
Claims on Other Financial						
Institutions	202	6	1	0	0	—
Claims on Private Sectors	13,306	8,109	7,926	7,865	7,505	7,243
Open Market Operations ⁽³⁾	(344,565)	(193,362)	(246,403)	(177,243)	(259,798)	(264,838)
Other Liabilities to						
Commercial & Rural Banks . .	(50,407)	(68,872)	(74,899)	(83,990)	(80,483)	(79,878)
Deposits included in Broad						
Money (M2)	—	—	—	—	0	—
Deposits excluded from Broad						
Money (M2)	(35)	(15)	(17)	(192)	(9)	(26)
Shares and Other Equity	(169,783)	(284,545)	(288,822)	(313,331)	(252,816)	(305,710)
Net Other items	(3,705)	3,106	(353)	(1,918)	(33,352)	(35,308)

Source: Bank Indonesia

^P Preliminary.

(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 2). Such SBI types include: Syariah SBI, Third Party Syariah SBI, Bank Indonesia Facility, Fine Tune Operation, Government Bonds, State Syariah Negotiable Paper, 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, among others, 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 November 30, 2017.

Indonesian Financial Institutions as of November 30, 2017

	<u>Number of institutions</u>	<u>Assets*</u> (in trillions of Rupiah)	<u>Percentage of total assets</u> (%)
Banking:			
Commercial banks	118	6,729.8	74.7
Rural credit banks	1,633	113.5	1.3
Total banking	1,751	6,843.3	75.9
Insurance:			
Life insurance	61	524.9	4.6
General insurance & Reinsurance	85	149.8	1.4
Social insurance ⁽¹⁾	5	461.6	4.6
Total insurance	151	1,136.2	10.5
Pension funds ⁽²⁾ :			
Financial institution pension funds	24	77.4	0.7
Employer pension funds	213	183.5	1.9
Total pension funds	237	260.9	2.6
Finance companies ⁽³⁾	195	471.5	4.9
Venture capital companies	67	12.0	0.1
Securities companies ⁽⁴⁾⁽⁵⁾	114	40.3	0.5
Mutual funds (collective investment schemes, not institutions)	1,425	338.8	3.6
Credit guarantee companies	23	17.7	1.3
Pawn shops	16	49.1	0.5
Total	3,948	9,012.6	100.00

Sources: OJK

* Unaudited other than in respect of Banking, Securities Companies, and Mutual Funds.

(1) Social insurance encompasses traffic and public transportation, health social security programs, worker social security programs and insurance for civil servants and the armed forces.

(2) As of November 30, 2017.

(3) Finance companies provide financing for leasing, factoring, consumer finance and credit cards.

(4) Includes 18 securities companies that are not members of a securities exchange but act as broker-dealers.

(5) Assets as of November 30, 2017.

Indonesian banks are divided into two categories: commercial banks and rural banks. Both commercial and rural banks may operate under either conventional banking principles or under Sharia principles.

The OJK is responsible for the regulation and supervision of the insurance industry. Development of this sub-sector has required the implementation of more robust regulatory requirements and, in particular, improved capital requirements, including requirements to continuously maintain a specified ratio of risk-weighted assets to risk-weighted liabilities.

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.

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.

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,					As of
	2012	2013	2014	2015	2016	November 30, 2017 ^P
	(in trillions of Rupiah)					
Assets						
Loans	2,725.7	3,319.8	3,706.5	4,092.1	4,413.4	4,645.4
Interbank Assets	166.6	171.9	182.4	211.9	207.1	231.0
Placements at Bank Indonesia	580.7	506.5	569.0	685.6	717.8	662.8
Securities (including Government Bonds)	429.9	520.6	636.7	660.8	860.5	1,049.3
Equity Participation	15.1	15.7	21.0	25.6	33.9	37.9
Other Claims	176.5	183.1	245.4	155.5	171.3	251.9
Others	168.1	236.9	254.2	297.7	325.8	344.1
Total Assets	4,262.6	4,954.5	5,615.2	6,129.4	6,729.8	7,222.4
Liabilities						
Third Party Funds	3,225.2	3,603.6	4,114.4	4,413.1	4,836.8	5,199.5
Liabilities owed to Bank Indonesia	1.9	1.8	2.1	0.7	0.8	1.6
Interbank Liabilities	124.7	115.8	133.0	161.1	168.5	179.2
Securities	42.1	54.5	54.3	65.5	93.2	108.2
Borrowing	75.3	112.9	145.9	177.7	179.7	184.8
Other Liabilities	60.3	85.1	120.7	109.6	100.7	91.1
Guarantee Deposits	5.0	5.9	5.6	6.3	5.2	5.0
Others	202.7	352.2	317.1	383.9	432.3	435.8
Capital:						
Paid in Capital	123.3	138.1	153.4	164.3	176.7	195.1
Reserves	38.7	50.6	67.6	81.7	64.8	65.0
Current Earnings/Loss	92.8	106.7	112.2	104.6	106.5	121.3
Retained Earnings/Loss	150.0	201.1	256.6	323.8	411.2	473.7
Estimates of Additional Paid in Capital	89.4	92.6	97.9	96.2	111.7	123.9
Others	31.2	33.6	34.4	40.9	41.7	43.1
Total Liabilities	4,262.6	4,954.5	5,615.2	6,129.4	6,729.8	7,222.4

Source: Bank Indonesia up to December 31, 2013. OJK from January 1, 2014 onwards.

^P Preliminary.

The following table shows the average capital adequacy ratio of the banking system as of the dates indicated:

Average Capital Adequacy Ratios

	As of December 31,					As of
	2012	2013	2014	2015	2016	September 30, 2017 ^P
	(percentages)					
CAR	17.4	18.1	19.6	21.4	22.9	23.4

Source: Bank Indonesia and OJK

^P Preliminary.

Non-Performing Loans

Since the beginning of 2005, Indonesian banks have been required to calculate their non-performing loans, or NPLs, using 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. Banks nationwide are required to apply the same uniform loan classification system to all loans meeting one of three criteria: (i) loans greater than Rp10 billion that are made to one borrower or one similar project; (ii) loans between Rp1 billion and Rp10 billion that are made to one of the 50 largest debtors of the lending bank; and (iii) loans based on joint financing to one borrower or one project.

The following table shows the gross NPL ratios as of the dates indicated.

Non-Performing Loans Ratios

	As of December 31,					As of September 30,
	2012	2013	2014	2015	2016	2017 ^P
	(percentages)					
Gross NPL ratio	1.9	1.8	2.2	2.4	2.9	2.9

Source: Bank Indonesia and OJK

^P Preliminary.

Capital Markets and Capital Markets Regulation

The Indonesian capital markets are regulated by the OJK, which superseded the Capital Markets and Financial Institutions Supervisory Agency (*Badan Pengawas Pasar Modal dan Lembaga Keuangan* or Bapepam-LK) and assumed its duties and functions when Bapepam-LK and the Ministry of Finance's Directorate General of Financial Institution, or DJLK, were merged into a single unit on December 31, 2012.

The regulatory framework for the Indonesian capital markets is provided by the Capital Markets Law No. 8 of 1995 on Capital Markets, or Capital Markets Law. The Capital Markets Law granted the original regulatory authority (and its successors, including OJK) authority in the fields of regulation, development, supervision and law enforcement. The law also provides the authority and responsibilities of self-regulatory organizations, capital market institutions, professionals and firms conducting business in the capital markets. According to the Capital Markets Law, OJK 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.

Over the past few years, OJK has introduced rules to strengthen its supervisory and enforcement capacity over Indonesia's capital markets and to promote sound and transparent capital markets. It has exercised its authority over publicly listed companies by issuing new corporate governance regulations to make corporate management and audit committees more directly responsible for financial reports. OJK has also issued revised regulations on the content of listed companies' annual reports, general meeting of shareholders, board of directors and board of commissioners, remuneration and nomination committees, and corporate secretary.

The following table sets forth key indicators regarding the Indonesian Stock Exchange (*Bursa Efek Indonesia* or IDX) and any securities traded on the IDX as of September 30, 2017.

Indonesian Stock Exchange

	IDX
Market capitalization (in trillions of Rupiah)	6,473.4
Listed shares (in billions of shares)	4,380.9
Average daily transaction value (in billions of Rupiah) ⁽¹⁾	6,633.5
Average daily transaction volume (in millions of shares) ⁽¹⁾	8,964.8

Source: OJK and IDX

(1) For the nine months ended September 30, 2017.

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. The OJK and Bapepam-LK 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 outside Indonesia.

The IDX, a self-regulatory body, has two indices based on Sharia stock, the Jakarta Islamic Index, or JII, and the Indonesia Sharia Stock Index, or ISSI.

The JII is a stock market index established on the Indonesian Stock Exchange. The JII was launched in 2000 and consists of the 30 largest Sharia-compliant listings by market capitalization and average liquidity in the regular market. As of September 30, 2017, the market capitalization of the JII was Rp2,188.1 trillion.

The IDX launched the ISSI on May 12, 2011. The ISSI comprised of 359 Sharia stocks which are listed on the Indonesia Stock Exchange as of October 31, 2017. As of September 29, 2017, the market capitalization of the ISSI was Rp3,490.7 trillion.

Monetary Policy

Bank Indonesia conducts its monetary policy under two principles: first, inflation targeting framework, or ITF, was adopted as the anchor of monetary policy. Second, a floating exchange rate system was introduced under which Bank Indonesia may intervene in the foreign exchange market, but the objective of Bank Indonesia's intervention is not to achieve a particular exchange rate level but to avoid excessive volatility.

Bank Indonesia adopted the ITF in July 2005. It replaced the previous monetary policy that used base money as the monetary policy target. At the operational level, the monetary policy stance is reflected in the setting of the policy rate, BI Rate, with the expectation of influencing money market rates and in turn the deposit rates and lending rates in the banking system. Changes in these rates will ultimately influence inflation. While other factors in the economy are also taken into account, Bank Indonesia will normally raise the BI Rate if future inflation is forecasted ahead of the established inflation target. Conversely, Bank Indonesia will lower the BI Rate if future inflation is predicted below the inflation target.

In order to strengthen its monetary policy framework, Bank Indonesia introduced a new benchmark rate effective from August 19, 2016, namely the Bank Indonesia 7-Day Reverse Repo Rate, or BI Repo Rate, to replace the BI Rate. The BI Repo Rate changes the tenor of the policy rate from a 360 day tenor (used in the BI Rate) to 7-day tenor money market rates. The change aims to improve the effectiveness of monetary policy in influencing money market rates and bank rates, both lending and funding rates (monetary policy transmission through interest rate channels). The enhancement is directed to strengthen the effectiveness of policy rate setting as a tool to achieve monetary policy operational targets as reflected in the overnight interbank rates.

Implementation of the BI Repo Rate is also complemented by normalization of the interest rate corridor in which the Lending Facility, or LF, and the Deposit Facility, or DF, are positioned symmetrically from the BI Repo Rate at a spread of 75 basis points, or bps.

In order to ensure financial and macroeconomic stability, Bank Indonesia also deploys a variety of policy instruments (policy mix approach) which consist of (i) policy rate to anchor inflation expectation complemented by (ii) exchange rate flexibility to lessen pressure on current account, (iii) capital flow management to dampen short-term excessive volatility of exchange rate, (iv) appropriate macro-prudential measures, and (v) ensure good communication to the public. Bank Indonesia also pursues financial market deepening to support the stability of the Rupiah exchange rate and enhance the effectiveness of transmission of monetary policy.

In October 2016, Bank Indonesia lowered the BI Repo Rate by 25 bps from 5.00% to 4.75%, while also lowering the DF and LF rates by 25 bps to 4.0% and 5.5%, respectively.

In November 2016, Bank Indonesia held the BI Repo Rate at 4.75%, while maintaining the Deposit Facility and Lending Facility rates at 4.00% and 5.50%, respectively. The decision to maintain the BI Repo Rate reflects Bank Indonesia's response to increasing uncertainty in the global financial markets following the US elections against a stable domestic macroeconomic backdrop, as reflected by low inflation and a narrower current account deficit.

In its subsequent monthly meetings from December 2016 through to July 2017, Bank Indonesia held the BI Repo Rate at 4.75%, while maintaining the DF and LF rates at 4.00% and 5.50%, respectively. These decisions reflected Bank Indonesia's efforts to maintain macroeconomic and financial system stability, while preserving the recovery momentum of the domestic economy in light of the uncertain direction of US economic, monetary and trade policies, the geopolitical risks in Europe and in the Korean Peninsula, the rising global inflation and domestic risks related to the impact of administered prices in response to inflation.

In August 2017, Bank Indonesia lowered the BI Repo Rate by 25 bps from 4.75% to 4.50%, while also lowering the DF and LF rates by 25 bps to 3.75% and 5.25%, respectively. The decision to lower rates reflected Bank Indonesia's belief that monetary policy may be eased given the lower inflation rates projected for 2017 and 2018 and a controlled current account deficit. In addition, Bank Indonesia believes that external risks may be caused by the Federal Open Market Committee of the United States Federal Reserve increasing the Federal Funds Rate (the interest rate at which depository institutions lend reserve balances to other depository institutions overnight) and its intention to decrease over time the size of its balance sheet are diminishing. The monetary policy easing is expected to reinforce intermediation in the banking sector, strengthen financial system stability as well as support higher economic growth.

In September 2017, Bank Indonesia further lowered the BI Repo Rate by 25 bps from 4.50% to 4.25%, while also lowering the DF and LF rates by 25 bps to 3.50% and 5.00%, respectively. These rate cuts are expected to support the ongoing improvements in banking intermediation (as reflected in credit and deposit growth) and domestic economic recovery. Bank Indonesia estimated that this policy rate level was sufficient and was aligned with the forecasted inflation rates and other macroeconomic indicators.

In October 2017, Bank Indonesia maintained the BI Repo Rate at 4.25%, while maintaining the DF and LF rates at 3.50% and 5.00%, respectively. The decision to maintain the rate level is consistent with efforts to maintain macroeconomic and financial system stability, while stimulating domestic economic recovery and remaining mindful of prevailing domestic and global economic dynamics. Bank Indonesia considers the current policy rate to be adequate to maintain inflation at the targeted level and maintain a reasonable current account deficit.

In its subsequent monthly meetings from October 2017 to December 2017, Bank Indonesia maintained the BI Repo Rate at 4.25%, while maintaining the DF and LF rates at 3.50% and 5.00%, respectively. The decision to maintain the rates is consistent with efforts to maintain macroeconomic and financial system stability, while stimulating domestic economic recovery and remaining mindful of prevailing domestic and global economic dynamics. Bank Indonesia considers the current policy rate to be sufficient to maintain inflation at the target rate and maintain a reasonable current account deficit. Bank Indonesia also considers monetary policy was successfully transmitted, especially through the interest rate channel, as evidenced by the banks' proclivity to continue lowering deposit and lending rates. Nonetheless, transmission through the credit channel was less optimal. Credit growth in October 2017 stood at 8.16% (year-on-year).

In January 2018, Bank Indonesia held the BI Repo Rate at 4.25%, while maintaining the DF and LF rates at 3.50% and 5.00%, respectively. The policy is consistent with the well maintained macroeconomic and financial system stability, while also building domestic economic recovery momentum. In addition to the decision regarding policy rate, BI also decided to accelerate the implementation of average minimum reserve requirement ratios as a follow up on the monetary policy operational framework reform. To encourage bank intermediation function and liquidity management, BI also decided to refine the macroprudential policy by implementing related regulations on Loan to Funding Ratio (LFR), Financing to Deposit Ratio, and Macroprudential Liquidity Buffer (MLB). Bank Indonesia considered the financial system stability has been maintained despite a suboptimal bank intermediation function. Monetary policy easing was successfully transmitted through the interest rate channel as banks continued to lower deposit and lending rates, albeit smaller than expected. Transmission through the credit channel has not yet been optimal in line with soft demand for new loans and the selective nature of banks when disbursing new loan. Consequently, credit growth in November 2017 declined to 7.5% (year-on-year).

Money Supply

Bank Indonesia tracks several different measures of money supply. Base Money includes currency (bank notes and coins in circulation) and demand deposits of commercial banks at Bank Indonesia, or Base Money. Narrow Money 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, or Narrow Money. Broad Money consists of Narrow Money 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

End of period	Money					
	Base money	Currency	Demand deposits	Total ^{M1}	Quasi-money	Total ^{M2}
	(in billions of Rupiah)					
2012	704,843	361,897	479,755	841,652	2,455,435	3,307,508
2013	821,679	399,609	487,475	887,084	2,820,521	3,730,409
2014	918,421	419,262	522,960	942,221	3,209,475	4,173,327
2015	945,916	469,534	585,906	1,055,440	3,479,961	4,548,800
2016	989,565	508,124	729,519	1,237,643	3,753,809	5,004,977
As of November 30, 2017 ^P	1,030,560	533,298	800,896	1,338,143	3,964,509	5,321,432

Source: Bank Indonesia

^P Preliminary.

M1 Narrow Money.

M2 Broad Money.

End of period	Factors affecting money supply			
	Foreign assets (net)	Claims on central Government (net) ⁽¹⁾	Claims on business sectors	Other items (net) ⁽²⁾
	(in billions of Rupiah)			
2012	965,442	389,827	2,581,327	17,778
2013	1,011,361	406,611	3,098,305	34,146
2014	1,105,783	416,608	3,488,677	49,733
2015	1,176,638	491,127	3,822,128	57,313
2016	1,298,938	519,065	4,115,821	79,272
As of November 30, 2017 ^P	1,480,272	518,698	4,325,556	145,268

Source: Bank Indonesia

^P Preliminary.

(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 2012, Broad Money increased by 15.0%, mainly due to an increase in Rupiah time deposits and saving deposits. Quasi Money increased by 14.7%, primarily due to an increase in foreign currency deposits and savings deposits. Narrow Money increased by 16.4%. Growth in Narrow Money was mainly driven by increasing demand in Rupiah deposits in line with growth in lending.

In 2013, Broad Money increased by 12.8%, less than the 15.0% increase in the prior, primarily due to lower net domestic assets in the midst of minimum net foreign assets. Quasi Money increased by 14.9% compared to the 14.7% increase in the prior year, primarily due to an increase in foreign currency deposits. Narrow Money growth slowed to 5.4% compared to the 16.4% increase in the prior year, primarily due to a decline in Rupiah demand deposits and the downturn of currency outside commercial and rural banks.

In 2014, Broad Money increased by 11.9% compared to the 12.8% increase resulting from slower Government expansion. Quasi money growth slowed to 13.8% compared to the growth of 14.9% in the prior year, primarily due to sharp decline in foreign currency deposits (consisting of, time deposits, saving deposits and demand deposits). Narrow Money growth increased by 6.2% compared to the increase of 5.4% in the prior year, driven by increasing growth of Rupiah demand deposits.

In 2015, Broad Money growth slowed to 8.9% compared to the increase of 11.9% in the previous year resulting from lower growth in quasi-money. Quasi-money growth decreased to 8.4% from the 13.8% increase in 2014, primarily due to a decline in time deposits. Narrow Money growth increased by 12.0% compared to the increase of 6.2% in the previous year, primarily due to an increase in currency outside commercial and rural banks as well as Rupiah demand deposits.

In 2016, Broad Money grew by 10.0% compared to 8.9% in the previous year, due to accelerated growth in Narrow Money. Quasi-money decreased to 7.9% compared to the 8.4% increase in the previous year, due to a

decline in foreign currency deposits. Narrow Money increased to 17.3% compared to the 12.0% increase in the previous year, mainly due to an increase in currency outside commercial and rural banks as well as Rupiah demand deposits.

As of November 30, 2017, Broad Money slightly decreased to 9.3% compared to 9.4% as of November 30, 2016, due to slower growth in Quasi-money. Quasi-money growth declined to 8.0% as of November 30, 2017, compared to 8.4% as of November 30, 2016, mainly due to a decline in savings deposits. On the other hand, narrow money growth increased to 13.1% as of November 30, 2017, compared to 12.5% as of November 30, 2016, due to increase in currency outside commercial and rural banks.

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 macroeconomic 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.

Central Government Revenues and Expenditures

	Year Ended December 31,							
	2013 ^L	2014 ^L	2015 ^L	2016 ^L	2016 ^{RR}	2017 ^R	2017 ^P	2018 ^B
	(in trillions of Rupiah)							
Revenues and grants:								
Domestic revenue								
Tax revenue	1,077.3	1,146.9	1,240.4	1,285.0	1,539.2	1,472.8	1,339.8	1,618.1
Non-tax revenue	354.8	398.6	255.6	262.0	245.1	260.2	308.4	275.4
Total domestic revenue	1,432.1	1,545.5	1,496.0	1,546.9	1,784.2	1,733.0	1,648.2	1,893.5
Grants	6.8	5.0	12.0	9.0	2.0	3.1	7.6	1.2
Total revenues and grants	1,438.9	1,550.5	1,508.0	1,555.9	1,786.2	1,736.1	1,655.8	1,894.7
Expenditures:								
Central government expenditures	1,137.2	1,203.6	1,183.3	1,154.0	1,306.7	1,367.0	1,259.6	1,454.5
Transfer to regions and rural fund ⁽¹⁾	513.3	573.7	623.1	710.3	776.3	766.3	742.0	766.2
Total central and transfer expenditures	1,650.5	1,777.3	1,806.4	1,864.3	2,082.9	2,133.3	2,001.6	2,220.7
Suspend ⁽²⁾	0.1	(0.1)	0.1	—	—	—	—	—
Total expenditures	1,650.6	1,777.2	1,806.5	1,864.3	2,082.9	2,133.3	2,001.6	2,220.7
Primary balance ⁽³⁾	(98.6)	(93.3)	(142.5)	(125.6)	(105.5)	(178.0)	(129.3)	(87.3)
Surplus/(deficit)	(211.7)	(226.7)	(298.5)	(308.3)	(296.7)	(397.2)	(345.8)	(325.9)
Financing: ⁽⁴⁾⁽⁵⁾								
Debt financing	223.2	255.7	380.9	403.0	371.6	461.3	426.1	399.2
Investment financing	(16.9)	(8.9)	(59.7)	(89.1)	(94.0)	(59.7)	(59.8)	(65.7)
On-Lending	0.3	2.5	1.5	1.7	0.5	(3.7)	(1.2)	(6.7)
Government guarantee	(0.7)	(1.0)	—	(0.7)	(0.7)	(1.0)	(1.0)	(1.1)
Other financing	31.4	0.5	0.3	19.6	19.3	0.3	0.4	0.2
Total Financing	237.4	248.9	323.1	334.5	296.7	397.2	364.5	325.9

Source: Ministry of Finance

^L LKPP (Central Government Financial Report/Audited).

^{RR} Central Government revenues and expenditures included in the assumptions for the 2016 Revised Budget.

^R Central Government revenues and expenditures included in the assumptions for the 2017 Revised Budget.

^B Central Government revenues and expenditures included in the assumptions for the 2018 Budget.

^P Preliminary realization.

(1) Starting from the fiscal year, or FY, 2015, central Government allocates rural fund based on law number 6/2014.

- (2) Realized expenditures 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.
- (3) Primary balance represents revenues minus expenditures excluding interest expenditures.
- (4) In 2012, total financing of Rp175.2 trillion exceeded the budget deficit of Rp153.3 trillion and the Government added the difference of Rp21.9 trillion to its reserves. In 2013, total financing of Rp237.4 trillion exceeded the budget deficit of Rp211.6 trillion and the Government added the difference of Rp25.7 trillion to its reserves. In 2014, total financing of Rp248.9 trillion exceeded the budget deficit of Rp226.7 trillion and the Government added the difference of Rp22.2 trillion to its reserves. In 2015, total financing of Rp323.2 trillion exceeded the budget deficit of Rp298.5 trillion and the Government added the difference of Rp24.7 trillion to its reserves. In 2016, total financing of Rp330.6 trillion exceeded the budget deficit of Rp305.4 trillion and the Government added the difference of Rp25.2 trillion to its reserves.
- (5) As of FY 2017, the Financing line items have been reclassified and the previously reported data has been restated across the periods shown.

2017 Budget

On November 18, 2016, the DPR and the President enacted the law on state budget year 2017, or 2017 Budget.

Policies underlying the 2017 Budget were aimed at supporting the Government's development targets, primarily supporting sustainable growth and employment, poverty eradication, inequality reduction and maintaining balance with fiscal resilience and controlling risk.

The main policies underlying the 2017 Budget include: (i) optimization of state revenue, mainly through taxation, (ii) emphasis on priority spending to accelerate infrastructure development and reduction of poverty and the social gap and (iii) stronger risk management, including managing the deficit and debt ratios to achieve fiscal sustainability.

The key macroeconomic assumptions underlying the 2017 Budget, as compared to the Revised 2016 Budget, were as follows:

- a real GDP growth rate of 5.1% in the 2017 Budget, compared to 5.2% in the Revised 2016 Budget;
- an inflation rate of 4.0% in the 2017 Budget, the same as the Revised 2016 Budget;
- three-month Indonesian treasury bills yield of 5.3% in the 2017 Budget, compared to 5.5% in the Revised 2016 Budget;
- an exchange rate of Rp13,300 to U.S.\$1 in the 2017 Budget, compared to Rp13,500 to U.S.\$1 in the Revised 2016 Budget;
- average oil production by the Republic of 815 thousand barrels of oil per day in the 2017 Budget, compared to 820 thousand barrels of oil per day in the Revised 2016 Budget;
- gas production by the Republic of 1.15 million barrels of oil equivalent of gas per day in the 2016 Budget, the same target as in the Revised 2016 Budget;
- an average ICP of U.S.\$45 per barrel in the 2017 Budget, compared to U.S.\$40 per barrel in the Revised 2016 Budget; and
- a revised projected nominal GDP of Rp13,716.7 trillion in the 2017 Budget (calculated at current market prices), compared to Rp16,626.5 trillion in the Revised 2016 Budget (calculated at current market prices).

The Government continued to seek to optimize the contribution of non-tax revenue as one of the sources of state revenue in light of current conditions and expected challenges in 2017. Based on macroeconomic assumptions underlying the 2017 Budget, non-tax revenue was targeted at Rp250.0 billion, an increase of 2.0% compared to the Revised 2016 Budget.

The 2017 Budget included a target fiscal deficit of 2.41% of the projected GDP in 2016, compared to 2.35% in the Revised 2016 Budget. Total expenditure under the 2017 Budget was estimated at Rp2,080.5 trillion, a decrease of Rp2.5 trillion compared to the Revised 2016 Budget. The 2017 Budget total revenue (including grants) amounted to Rp1,750.3 trillion, a decrease of Rp35.9 trillion compared to the Revised 2016 Budget. Allocation of the transfer to region and rural funds increased to Rp764.9 trillion, higher than the Ministry/Agencies allocation of Rp763.6 trillion in the Revised 2016 Budget.

Tax revenues comprised the biggest portion of revenue targets in the 2017 Budget. In 2017, tax policies primarily aimed to (i) optimize tax revenue to improve the tax ratio and fulfillment of state budget needs, (ii) improve people's purchasing power, investment, and the competitiveness of national industries, (iii) encourage the downstreaming of domestic businesses, (iv) control consumption of particular goods with negative externalities, (vi) increase tax compliance, (vii) support information transparency in the international taxation field and preventing tax evasion, and (viii) improve the quality of service and competence of human resource in order to optimize tax revenue.

In the 2017 Budget, the main policies underlying the central Government's expenditure were: (i) improvement of public service through bureaucratic reform policies and continuous improvement of the welfare of government officials, (ii) continuous improvement in non-priority spending efficiencies, (iii) allocation of 20% of the state budget to the education budget and 5% of the state budget to health, (iv) allocation of a significant portion of the budget to support the acceleration of infrastructure development, (v) supporting the sustainability of social security health programs, (vi) accelerating the reduction of poverty and inequalities through the expansion of social protection programs, (vii) continuing the development of priority programs in the areas of education, health, agriculture, energy, maritime and marine, tourism and industries.

The 2017 Budget allocated Rp764.9 trillion for the transfer to regions and rural fund, Rp677.1 trillion to the balanced fund, Rp92.8 trillion to the revenue sharing funds, Rp410.8 trillion to the general allocation funds and Rp173.4 trillion to the specific purpose funds. The allocation to the rural funds increased from Rp47.0 trillion in the Revised 2016 Budget to Rp60.0 trillion in the 2017 Budget.

To preserve fiscal sustainability, the deficit target in the 2017 Budget was approximately 2.41% of GDP, within the safe harbor limit of 3.0% of GDP mandated by law. The 2017 Budget projected a deficit of Rp330.2 trillion. The Government expected to finance the projected deficit from both domestic and international sources. Rp357.0 trillion in 2017 was expected to be sourced domestically (Rp400.0 trillion is the net target to be achieved by issuing Government securities).

Revised 2017 Budget

The 2017 Revised Budget was approved on July 26, 2017. The key macroeconomic assumptions underlying the 2017 Revised Budget, as compared to the 2017 Budget, were as follows:

- a real GDP growth rate of 5.2% in the 2017 Revised Budget, compared to 5.1% in the 2017 Budget;
- an inflation rate of 4.3% in the 2017 Revised Budget, compared to 4.0% in the 2017 Budget;
- three-month Indonesian treasury bills yield of 5.2% in the 2017 Revised Budget, compared to 5.3% in the 2017 Budget;
- an exchange rate of Rp13,400 to U.S.\$1 in the 2017 Revised Budget, compared to Rp13,300 in the 2017 Budget;
- average oil production by the Republic of 815 thousand barrels of oil per day in the 2017 Revised Budget, the same as in the 2017 Budget;
- gas production by the Republic of 1.15 million barrels of oil equivalent of gas per day in the 2017 Revised Budget, the same as in the 2017 Budget;
- an average ICP of U.S.\$48 per barrel in the 2017 Revised Budget, compared to U.S.\$45 per barrel in the 2017 Budget; and
- a revised projected nominal GDP of Rp13,613.2 trillion in the 2017 Revised Budget (calculated at current market prices), compared to Rp13,716.7 trillion in the 2017 Budget (calculated at current market prices).

The 2017 Revised Budget included a target fiscal deficit of 2.9% of the projected GDP in 2016, compared to 2.4% in the Revised 2016 Budget. Total expenditure under the 2017 Revised Budget was estimated at Rp2,133.3 trillion, an increase of Rp50.4 trillion compared to the Revised 2016 Budget. The 2017 Revised Budget total revenue (including grants) amounted to Rp1,736.1 trillion, a decrease of Rp50.1 trillion compared to the Revised 2016 Budget. Allocation of the transfer to region and rural funds increased to Rp766.3 trillion, higher than the Ministry/Agencies allocation of Rp763.6 trillion in the Revised 2016 Budget.

The 2017 Revised Budget allocated Rp678.6 trillion to the balanced funds, Rp95.4 trillion to the revenue sharing funds, Rp398.6 trillion to the general allocation funds and Rp184.6 trillion to the specific purpose

allocation funds. The allocation to the rural fund increased from Rp47.0 trillion in the Revised 2016 Budget to Rp60.0 trillion in the 2017 Revised Budget.

To preserve fiscal sustainability, the deficit target in the 2017 Revised Budget was approximately 2.9% of GDP, within the safe harbor limit of 3.0% of GDP mandated by law. The 2017 Revised Budget projected a deficit of Rp397.2 trillion. The Government expected to finance the projected deficit mainly from Government securities with net issuances of Rp467.3 trillion.

Realization of 2017 Budget

The key macroeconomic results for 2017, as compared with the key macroeconomic assumptions underlying the 2017 Budget, are as follows:

- a real GDP growth rate of 5.1%, compared with 5.2% in the Revised 2017 Budget;
- an inflation rate of 3.6%, compared with 4.3% in the Revised 2017 Budget;
- a three-month Indonesian treasury bills yield of 5.0%, compared with 5.2% in the Revised 2017 Budget;
- an exchange rate of Rp13,384 to U.S.\$1, compared with Rp13,400 to U.S.\$1 in the Revised 2017 Budget;
- average oil production by the Republic of 801.0 thousand barrels of oil per day, compared with 815.0 thousand barrels of oil per day in the Revised 2017 Budget;
- average gas production by the Republic of 1.13 million barrels of oil equivalent of gas per day, compared with 1.15 million barrels of oil equivalent of gas per day in the Revised 2017 Budget; and
- an average ICP of U.S.\$ 51 per barrel, compared with U.S.\$48 per barrel in the Revised 2017 Budget.

The realization of total revenue (including grants) for 2017 was Rp1,655.8 trillion, or 95.4% of the targeted amount set out in the 2017 Revised Budget, and an increase of 6.4% from 2016. The increase in total revenue, as compared with 2016, was primarily due to higher tax revenues in 2017, as a result of better tax compliance post the tax amnesty program. The realization of total revenue (including grants) was lower than the targeted amount set out in the 2017 Revised Budget as actual GDP growth for 2017 was lower than the targeted amount. Total revenue consisted of Rp1,339.8 trillion in tax revenue and Rp308.4 trillion in non-tax revenue. During 2017, total state expenditure realization amounted to Rp2,001.60 trillion or 93.8% of the projected expenditure in the 2017 Budget. Total state expenditure consisted of Rp1,259.60 trillion in central Government expenditure and Rp742.0 trillion in transfers to regions and rural funds. The total state expenditure realization for 2017, as a percentage of the projected expenditure in the 2017 Revised Budget, was better than the corresponding performance in 2016 due to better budgetary efficiency and fiscal consolidation.

2018 Budget

Policies underlying the proposed 2018 Budget are aimed at supporting the development targets, primarily supporting sustainable growth and employment, poverty eradication, inequality reduction and maintaining balance with fiscal resilience and controlling risk.

The key macroeconomic assumptions underlying the 2018 Budget, as compared to the Revised 2017 Budget, are as follows:

- a real GDP growth rate of 5.4% in the 2018 Budget, compared to 5.2% in the Revised 2017 Budget;
- an inflation rate of 3.5% in the 2018 Budget, compared to 4.3% in the Revised 2017 Budget;
- three-month Indonesian treasury bills yield of 5.2% in the 2018 Budget, the same as in the Revised 2017 Budget;
- an exchange rate of Rp13,400 to U.S.\$1 in the 2018 Budget, the same as in the Revised 2017 Budget;
- average oil production by the Republic of 800 thousand barrels of oil per day in the 2018 Budget, compared to 815 thousand barrels of oil per day in the Revised 2017 Budget;
- gas production by the Republic of 1.2 million barrels of oil equivalent of gas per day in the 2018 Budget, compared to 1.15 million barrels of oil equivalent of gas per day in the Revised 2017 Budget;

- an average ICP of U.S.\$48 per barrel in the 2018 Budget, the same as in the Revised 2017 Budget; and
- a projected nominal GDP of Rp14,850.5 trillion in the 2018 Budget (calculated at current market prices), compared to Rp13,613.2 trillion in the Revised 2017 Budget (calculated at current market prices).

The Government continues to seek to strengthen and widen the sources of central Government revenue by focusing on increasing the share of tax revenue to 11.6% of GDP, primarily supported by higher income tax and excise and customs tax revenue. This goal is supported through the successful tax amnesty program implemented from 2015 to 2017 and the Government intends to implement legislation in 2018 relating to open access of tax-related financial information. Based on macroeconomic assumptions underlying the 2018 Budget, tax revenue is targeted at Rp1,618.1 trillion, an increase of 9.9% compared to the Revised 2017 Budget.

The 2018 Budget projects a deficit of Rp325.9 trillion. The Government expects to finance the projected deficit from both domestic and international sources. Total expenditure under the 2018 Budget is estimated at Rp2,220.7 trillion, an increase of Rp87.4 trillion compared to the Revised 2017 Budget. The 2018 Budget total revenue (including grants) amounts to Rp1,894.7 trillion, an increase of Rp158.6 trillion compared to the Revised 2017 Budget. Money allocated for transfer to region and rural funds decreased to Rp766.2 trillion, lower than the Ministry/Agencies allocation of Rp776.3 trillion in the Revised 2017 Budget. To preserve fiscal sustainability, the deficit target in the 2018 Budget is approximately 2.19% of GDP compared to 2.9% in the Revised 2017 Budget, within the safe harbor limit of 3.0% of GDP mandated by law.

The Government intends to pursue a structural reform in terms of spending that will move away from consumptive spending towards productive spending. The goal is to boost economic growth, alleviate poverty and create more jobs. The Government intends to pursue these goals by further improving the fuel subsidy and electricity subsidy scheme as well as issuing new regulations to accelerate infrastructure spending. The oil price in the 2018 Budget is assumed at U.S.\$48/barrel, the same as in the Revised 2017 Budget and an assumed exchange rate at Rp13,400 per U.S.\$1 and production of 800 thousand barrels per day.

Fuel subsidies (kerosene and diesel fuel) and the subsidy for 3kg liquefied petroleum gas, or 3kg LPG, is budgeted at Rp46.9 trillion. The main policy reasons for the continuation of the limited subsidy support for fuel and 3kg LPG are to increase and develop the construction of an urban gas network for households and to increase the role of local government in controlling and supervising the consumption of subsidized fuel and 3kg LPG. In addition, electricity subsidies are budgeted at Rp47.7 trillion.

The allocation for central Government expenditures in the 2018 Budget is Rp1,454.5 trillion, higher than the Rp1,351.6 trillion in the Revised 2017 Budget. Central Government expenditures in the 2018 Budget are directed at: (i) poverty alleviation by increasing the Program Keluarga Harapan, a poverty alleviation program, to 10 million beneficiary families from 6 million in 2017 as well as increasing coverage of the Bantuan Pangan Non Tunai food program, (ii) accelerating infrastructure development through 856 km of road construction and 781 km irrigation construction, (iii) further development of the agriculture, tourism, and fisheries sectors, (iv) reform of government bureaucracy to improve civil servant management and the provision of civil services and (v) defense and democracy through the allocation for minimum essential forces, or MEF, and preparation for the 2019 presidential election.

Central Government Finances

The following table sets forth information regarding the revenues and expenditures of the central Government for the periods indicated.

Central Government Revenues.

The following table sets forth central Government revenues by category for the periods indicated.

	Year Ended December 31,						
	2013 ^L	2014 ^L	2015 ^L	2016 ^L	2017 ^R	2017 ^P	2018 ^B
	(in trillions of Rupiah)						
Domestic revenue:							
Tax revenue:							
Domestic tax							
Income tax:							
Oil and gas	88.7	87.4	49.7	36.1	41.8	50.3	38.1
Non-oil and gas	417.7	458.7	552.6	630.1	742.2	595.3	816.9
Total income tax	506.4	546.2	602.3	666.2	784.0	645.6	855.1
Value added tax (VAT)	384.7	409.2	423.7	412.2	475.5	478.4	541.8
Land and building tax	25.3	23.5	29.3	19.4	15.4	16.8	17.4
Excises	108.5	118.1	144.6	143.5	153.2	153.3	155.4
Other taxes	4.9	6.3	5.6	8.1	8.7	6.7	9.7
Total domestic taxes	1,029.9	1,103.2	1,205.5	1,249.5	1,436.8	1,300.8	1,579.4
International trade taxes:							
Import duties	31.6	32.3	31.2	32.5	33.3	35.0	35.7
Export tax	15.8	11.3	3.7	3.0	2.7	4.1	3.0
Total international trade taxes	47.4	43.6	34.9	35.5	36.0	39.0	38.7
Total tax revenue	1,077.3	1,146.9	1,240.4	1,285.0	1,472.7	1,339.8	1,618.1
Non-tax revenue:							
Natural resources:							
Oil	135.3	139.2	48.0	31.4	57.4	61.2	59.6
Gas	68.3	77.7	30.2	12.6	14.8	21.2	20.8
Total oil and gas	203.6	216.9	78.2	44.1	72.2	82.4	80.4
General mining	18.6	19.3	17.7	15.8	17.9	23.1	17.8
Forestry	3.1	3.7	4.2	3.8	4.0	4.1	4.1
Fishery	0.2	0.2	0.1	0.4	1.0	0.5	0.6
Geothermal	0.9	0.8	0.9	0.9	0.7	0.9	0.6
Total non-oil and gas	22.8	24.0	22.8	20.8	23.4	28.6	23.3
Total natural resources	226.4	240.8	101.0	64.9	95.6	111.0	103.7
Profit transfer from SOEs	34.0	40.3	37.6	37.1	41.0	43.9	44.7
Other non-tax revenue	69.7	87.7	81.7	118.0	85.1	108.8	83.7
Public Service Agency (BLU) Income ⁽¹⁾	24.6	29.7	35.3	41.9	38.5	44.7	43.3
Total non-tax revenue	354.8	398.6	255.6	262.0	260.2	308.4	275.4
Total domestic revenue	1,432.1	1,545.5	1,496.0	1,546.9	1,733.0	1,648.1	1,893.5
Grants	6.8	5.0	12.0	9.0	3.1	7.6	1.2
Total revenue and grants	1,438.9	1,550.5	1,508.0	1,555.9	1,736.1	1,655.8	1,894.7

Source: Ministry of Finance

^L LKPP (Central Government Financial Report/Audited).

^R Central Government revenues included in the assumptions for the 2017 Revised Budget.

^P Preliminary realization.

^B 2018 Budget.

- (1) Includes Government's share of Bank Indonesia's profits representing amounts in excess of Bank Indonesia's capital ratio requirements, which excess amounts are transferred to the central Government to be used for repayments of certain central Government obligations to Bank Indonesia.

Sources of Central Government Revenues.

The central Government derives its revenues from both tax and non-tax sources. The main sources of tax revenues include income tax, value-added tax, or VAT, customs duties and excises. The main sources of non-tax revenues are revenues generated from the sale of natural resources, profit transfers from SOEs and other non-tax revenues. Although oil and gas have historically been the single largest source of income tax and non-tax revenues for the central Government, this has changed in recent years. In 2012, income tax from oil and gas as well as revenues generated from the sale of oil and gas constituted 18.0% and 58.5% of total income tax revenue and total non-tax revenues, respectively. In 2016, these ratios have decreased to 5.4% and 16.8% respectively, primarily driven by lower oil prices and declines in oil and gas production.

Indonesian income tax comprises both corporate income tax and personal income tax. Generally, a flat corporate income tax rate of 25% applies to taxable business profits. Listed companies that meet certain conditions are eligible for a reduction of 5 percentage points from the standard rate, giving them an effective tax rate of 20%. Small enterprises, being corporate taxpayers with an annual gross turnover of up to Rp50 billion, are entitled to a 50% discount of the standard tax rate so that their effective tax rate will be 12.5%, to be imposed proportionally on taxable income of the part of gross turnover up to Rp4.8 billion. Certain enterprises with gross turnover of up to Rp4.8 billion are subject to a final tax at 1% of revenue.

Personal income tax rates are set at a maximum rate of 30% for annual taxable income above Rp500 million, 25% for annual taxable income above Rp250 million and up to Rp500 million, 15% for annual taxable income above Rp50 million and up to Rp250 million, and 5% for annual taxable income from Rp0 up to Rp50 million.

VAT is typically levied at a 10% rate on events involving the transfer of value-added goods or the provision of value-added services in the Indonesian customs area. There are certain VAT exemptions available on, among others, delivery and/or import of value-added goods designated as strategic goods (such as certain capital goods in the form of machinery and plant and equipment or specifically supporting the achievement of certain national objectives). Exports of value-added goods and certain services are subject to a VAT rate of 0%.

Customs duties consist of import duty and export duty. Import duty is applied on importation of goods and is payable at rates from 0% and 150% on cost, insurance and freight, or CIF, level. Export of certain goods are subject to export duty on certain tariff based on the type of the products and calculated based on either certain percentage of customs value (*ad valorem*) or specifically based on duty rate/quantity in certain currency. Excises are generally imposed on certain goods, the distribution and consumption of which are required to be controlled due to their potential negative effects on society or the environment (such as ethyl alcohol and its concentrate, alcoholic drinks and tobacco products).

Other than the taxes described above, deliveries or imports of certain manufactured taxable goods may be subject to a luxury tax, the rates of which by law may be increased up to 200%. These rates currently range between 10% – 125%. Further, a property tax, called Land and Building Tax (*Pajak Bumi dan Bangunan*, or PBB), is chargeable on all land and/or buildings unless exempted. Certain documents are subject to nominal stamp duty that is payable as a fixed amount of either Rp6,000 or Rp3,000.

Central Government revenues increased by 7.8% from Rp1,438.9 trillion in 2013 to Rp1,550.5 trillion in 2014, primarily driven by increases in both tax and non-tax revenues. Total tax revenues increased by 6.5% from Rp1,077.3 trillion in 2013 to Rp1,146.9 in 2014, driven by increased revenues from income tax, value added tax and excise tax. Income tax increased by 7.9% from Rp506.4 trillion in 2013 to Rp546.2 trillion in 2014, primarily due to increased non-oil and gas income tax. Value added tax increased by 6.4% from, Rp384.7 trillion in 2013 to 409.2 trillion in 2014, primarily driven by an increase in economic growth coupled with stable inflation. Excise tax increased by 8.8% from Rp108.5 trillion in 2013 to Rp118.1 trillion in 2014, primarily due to increases in cigarette production. Total non-tax revenues increased by 12.3% from Rp354.8 trillion in 2013 to Rp398.6 trillion in 2014, mainly driven by higher revenues generated from the sale of oil and gas, which increased by 6.5% from Rp203.6 trillion to Rp216.9 trillion. Profit transfers from SOEs and other non-tax revenues increased from Rp34.0 trillion and Rp69.7 trillion in 2013 by 18.5% and 25.8% to Rp40.3 trillion and Rp87.7 trillion, respectively.

Central Government revenues declined by 2.7% from Rp1,550.5 trillion in 2014 to Rp1,508.0 trillion in 2015, primarily driven by a decrease in non-tax revenues, which was partly offset by an increase in tax revenues. Total non-tax revenues declined by 35.9% from Rp398.6 trillion in 2014 to Rp255.6 trillion, mainly driven by a decrease in revenues generated from the sale of oil and gas, which declined by 63.9% from Rp216.9 trillion in

2014 to 78.2 trillion in 2015, mainly driven by lower oil prices and a decline in oil production. Total tax revenues increased by 8.2% from Rp1,146.9 trillion in 2014 to Rp1,240.4 trillion in 2015, mainly driven by increased revenues from income tax, value added tax and excise tax. Income tax increased by 10.3% from Rp546.2 trillion in 2014 to Rp602.3 trillion in 2015, primarily due to an increase in non-oil and gas income tax. Value added tax increased by 3.5% from Rp409.2 trillion in 2014 to Rp423.7 trillion in 2015, primarily driven by increased domestic imports. Excise tax increased by 22.4% from Rp118.1 trillion in 2014 to Rp144.6 trillion in 2015, primarily due to an increase in excise tariff of tobacco.

Central Government revenues increased by 3.2% from Rp1,508.0 trillion in 2015 to Rp1,555.9 trillion in 2016, primarily driven by an increase in tax revenues. Total tax revenues increased by 3.6% from Rp1,240.4 trillion in 2015 to Rp1,285.0 trillion in 2016, mainly driven by increased revenues from income tax, which increased by 10.6% from Rp602.3 trillion in 2015 to Rp666.2 trillion due to increased non-oil and gas income tax. This was offset partly by declines in value added tax and land and building tax of 2.7% and 33.8%, respectively, due to lower economic growth. Total non-tax revenues increased by 2.5% from Rp255.6 trillion in 2015 to Rp262.0 trillion in 2016. Other non-tax revenues increased by 44.4% from Rp81.7 trillion in 2015 to Rp118.0 trillion in 2016 primarily due to decrease in economic transactions subject to stamp tax duties. This was offset by a further decline in revenues generated from the sale of oil and gas by 43.6% from Rp78.2 trillion in 2015 to Rp44.1 trillion in 2016, due to lower oil prices and declining oil production.

Central Government revenues increased by 6.4% from Rp1,555.9 trillion in 2016 to Rp1,655.8 trillion in the 2017, primarily driven by increased international trade tax and value added tax of 9.9% and 16.1%, respectively, primarily driven by an increase in household consumption and higher export-import activities. These increases were mitigated by decreased revenues from income tax in 2017, primarily due to higher, non-recurring income tax revenues in 2016 as a result of the tax amnesty program.

Tax Amnesty

In July 2016, the Government passed a tax amnesty law which grants a certain tax amnesty to any individual or corporate taxpayer who met the requirements and submitted their application before March 31, 2017. 973,426 taxpayers participated in the program, which has concluded as of March 31, 2017.

As of March 31, 2017, Rp4,884.3 trillion in assets had been declared and the Government had collected Rp135.7 trillion as penalties under the scheme. Of the assets declared under the program, 75.8% are onshore, 21.2% are offshore and 3.0% have been repatriated (predominantly from Singapore). Most of the penalties collected, or Rp114.5 trillion of the total, as of March 31, 2017, represent “redemption” money, or the fee payable to the Government in exchange for the amnesty.

The Government hopes that the success of the tax amnesty program will continue to improve tax compliance in Indonesia. The submissions of annual tax reports by taxpayers who are required to submit one has risen in tandem with the number of registered taxpayers in the past few years. The compliance rate for annual tax rate submissions was 56.2% in 2013, 59.1% in 2014, 60.4% in 2015, 63.1% in 2016 and 71.5% as of November 30, 2017.

Central Government Expenditures.

The following table sets forth the expenditures of the central Government for the periods indicated.

Central Government Expenditures

	Year Ended December 31,						
	2013 ^L	2014 ^L	2015 ^L	2016 ^L	2017 ^R	2017 ^P	2018 ^B
	(in trillions of Rupiah)						
Central government expenditures:							
Personnel expenditures	221.7	243.7	281.1	305.1	343.7	312.7	365.8
Good and services expenditures	169.7	176.6	233.3	259.6	296.2	286.9	364.7
Capital expenditures	180.9	147.3	215.4	169.5	224.6	208.4	179.4
Interest payments:							
Domestic debt	98.7	118.8	141.9	167.8	202.9	200.0	222.3
Foreign debt	14.3	14.6	14.1	15.0	16.3	16.6	16.3
Total interest payments	113.0	133.4	156.0	182.8	219.2	216.6	238.6
Subsidies:							
Energy subsidies	310.0	341.8	119.1	106.8	89.9	97.6	94.5
Non-energy subsidies	45.1	50.2	66.9	67.4	79.0	68.6	61.7
Total subsidies	355.0	392.0	186.0	174.2	168.9	166.3	156.2
Grant expenditures	1.3	0.9	4.3	7.1	5.5	5.4	1.5
Social assistance ⁽¹⁾	92.1	97.9	97.2	49.6	59.0	54.6	81.0
Other expenditures	3.4	11.7	10.1	6.0	49.9	8.8	67.2
Total central Government expenditures	1,137.2	1,203.6	1,183.3	1,154.0	1,367.0	1,259.6	1,454.5
Transfers to Regions and Rural Fund							
Transfer to Regions							
Balanced funds:							
General transfer funds:							
Revenue sharing funds	88.5	103.9	78.1	90.5	95.4	88.2	89.2
General allocation funds	311.1	341.2	352.9	385.4	398.6	398.6	401.5
Total general transfer funds	399.6	445.2	430.9	475.9	494.0	486.8	490.2
Specific allocation funds:							
Physical special allocation fund	30.8	31.9	54.9	75.2	69.5	62.1	62.4
Non-physical special allocation fund ⁽²⁾	68.0	78.7	97.2	88.8	115.1	105.6	123.4
Total specific allocation funds	98.7	110.6	152.1	163.9	184.6	167.7	185.9
Total balanced funds	498.3	555.7	583.0	639.8	678.6	654.5	676.6
Regional incentive fund ⁽³⁾	1.4	1.4	1.7	5.0	7.5	7.5	8.5
Specific autonomy funds ⁽⁴⁾	13.6	16.1	17.1	18.3	19.4	19.4	20.1
Specific Fund for Special Region of Yogyakarta ⁽⁵⁾	—	0.4	0.5	0.5	0.8	0.8	1.0
Total Transfer to Regions	513.3	573.7	602.4	663.6	706.3	682.2	706.2
Rural Fund ⁽⁶⁾	—	—	20.8	46.7	60.0	59.8	60.0
Total transfers to regions and Rural Fund	513.3	573.7	623.1	710.3	766.3	742.0	766.2
Suspend ⁽⁷⁾	0.1	(0.1)	0.1	—	—	—	—
Total expenditures	1,650.6	1,777.2	1,806.5	1,864.3	2,133.3	2,001.6	2,220.7

Source: Ministry of Finance

^L LKPP (Central Government Financial Report/Audited).

^R Central Government expenditures included in the assumptions for the 2017 Revised Budget.

^P Preliminary realization.

^B 2018 Budget.

(1) Consists of Social Assistance from Ministries/Agencies Spending and Social Assistance for Disaster Relief.

(2) Included under "Others" before FY 2016 except the regional incentive fund.

(3) Included under "Others" before FY 2016.

(4) Consists of specific autonomy fund and additional specific infrastructure autonomy fund for Papua and West Papua Provinces.

(5) Starting from FY 2013, central Government allocates a specific fund for Yogyakarta's privilege in other expenditures. In FY 2014, this fund was allocated in specific autonomy and adjustment funds as part of transfer to regions.

- (6) Starting from FY 2015, central Government allocates to the rural fund based on law number 6/2015.
- (7) Realized expenditures 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.

The following table sets forth, by percentage, the allocation of central Government development expenditures by function for the periods indicated.

Allocation of Central Government Development Expenditures by Function

	Year Ended December 31,						
	2013 ^L	2014 ^L	2015 ^L	2016 ^L	2017 ^R	2017 ^P	2018 ^B
	(percentages)						
General public services	62.1	66.3	52.8	36.9	26.5	N/A	29.7
Defense	7.7	7.2	9.0	8.1	8.4	N/A	7.3
Public order and safety	3.2	2.9	4.5	9.2	10.6	N/A	9.3
Economic affairs	9.5	8.1	15.0	12.2	23.9	N/A	23.1
Environmental protection	0.9	0.8	0.8	0.7	0.9	N/A	1.1
Housing and community amenities	3.0	2.2	1.4	1.7	2.3	N/A	2.2
Health	1.5	0.9	2.0	4.9	4.2	N/A	4.7
Tourism and culture	0.2	0.1	0.3	0.4	0.5	N/A	0.5
Religion	0.3	0.3	0.4	4.8	0.7	N/A	0.7
Education	10.1	10.2	12.1	11.0	10.5	N/A	10.4
Social protection	1.5	1.1	1.8	10.1	11.3	N/A	11.1
Total	100.0	100.0	100.0	100.0	100.0	N/A	100.0

Source: Ministry of Finance

^L LKPP (Central Government Financial Report/Audited).

^R 2017 Revised Budget.

^P Preliminary realization.

^B 2018 Budget.

N/A: Not available.

Fuel Prices and Subsidies

The basic price and retail price of certain types of fuel are set by the Government through the Minister of Energy and Mineral Resources taking into consideration fuel purchasing cost, distribution cost, storage cost, and margin. Although the Government subsidy for fuel was eliminated in 2015, kerosene and gasoil continue to be subsidized by the Government. Historically, spending on subsidies has consumed a large portion of the Indonesian state budget. However, the Government in recent years has been implementing measures to raise subsidized fuel prices and reduce energy subsidies by controlling the consumption of subsidized fuel through regulations, increased supervision and distribution management. In the past, fuel hike announcements have resulted in protests in major cities across Indonesia.

With recent global and domestic economic challenges, greater emphasis has been placed on improving national competitiveness. The Government is pursuing a more focused subsidy regime to provide direct subsidies to low income households and to allocate a large part of the budget for infrastructure development. Following the adjustment of fuel subsidies, the Government has implemented a conditional cash transfer program for low-income households. "Smart cards" have been introduced to provide improved health care services, better facilities, education assistance and other kinds of social assistance.

The savings from reductions in fuel subsidies have been allocated to more productive Government spending. For example, spending for energy subsidies on average for the period of 2011 to 2014 was Rp303.5 trillion, compared to average energy subsidy spending of Rp112.9 trillion for 2015 and 2016 and average energy subsidy spending of Rp96.7 trillion estimated for 2017 and 2018. Spending for infrastructure from 2011 to 2014 on average amounted to Rp142.5 trillion, Rp262.6 trillion on average for 2015 and 2016 and Rp404.9 trillion on average estimated for 2017 and 2018.

The table below sets forth the amount of subsidies for the periods indicated.

	Year Ended December 31,					
	2013 ^L	2014 ^L	2015 ^L	2016 ^L	2017 ^R	2018 ^B
	(in trillions of Rupiah)					
Subsidies:						
Energy subsidies	310.0	341.8	119.1	106.8	89.9	94.5
Non-energy subsidies	45.1	50.2	66.9	67.4	79.0	61.7
Total subsidies	<u>355.0</u>	<u>392.0</u>	<u>186.0</u>	<u>174.2</u>	<u>168.9</u>	<u>156.2</u>

Source: Ministry of Finance

^L LKPP (Central Government Financial Report/Audited).

^R 2017 Revised Budget.

^P Preliminary realization.

^B 2018 Budget.

Deficit Financing. The following table sets forth, by amount, information on deficit financing for the periods indicated.

Deficit Financing⁽¹⁾

	Year Ended December 31,					
	2013 ^L	2014 ^L	2015 ^L	2016 ^L	2017 ^R	2018 ^B
	(in trillions of Rupiah)					
Debt financing						
Government securities (net)	224.7	264.6	362.3	407.3	467.3	441.8
Loans						
Domestic loans (net)	0.5	0.9	0.8	1.1	1.7	0.4
Foreign loans:						
Gross drawings:						
Program loan	18.4	17.8	55.1	35.3	20.1	20.9
Project loan	36.9	34.8	28.7	28.1	37.4	28.1
Total gross drawing	55.3	52.6	83.8	63.4	57.5	49.0
Amortization	(57.2)	(62.4)	(66.0)	(68.7)	(65.2)	(41.6)
Total foreign loan (net)	(1.9)	(9.8)	17.8	(5.3)	(7.7)	(16.1)
Total loans (net)	(1.5)	(8.9)	18.7	(4.3)	(6.0)	(15.7)
Total debt financing	<u>223.2</u>	<u>255.7</u>	<u>380.9</u>	<u>403.0</u>	<u>461.3</u>	<u>399.2</u>
Investment financing						
Investment to SOEs	(2.0)	(3.0)	(64.5)	(50.5)	(6.4)	(6.4)
Investment to other institutions	(1.0)	(1.0)	(7.1)	(10.8)	(3.2)	(3.2)
Investment to public service agencies	(12.9)	(3.5)	(6.9)	(25.3)	(48.2)	(48.2)
Investment in financial organizations/institutions	(1.0)	(1.4)	(0.3)	(3.8)	(2.0)	(2.0)
Revenue of investment	0.1	0.0	19.1	1.4	—	—
Total investment financing	<u>(16.9)</u>	<u>(8.9)</u>	<u>(59.7)</u>	<u>(89.1)</u>	<u>(59.8)</u>	<u>(65.7)</u>
Lending	—	—	—	—	—	—
On-lending to SOEs/local government/institutions/other agencies:	0.3	2.5	2.3	1.7	(3.7)	(1.2)
Lending reserves	—	—	(0.8)	—	—	—
Total lending	0.3	2.5	1.5	1.7	(3.7)	(1.2)
Mandatory guarantee	(0.7)	(1.0)	—	(0.7)	(1.0)	(1.0)
Other financing	31.4	0.5	0.3	19.6	0.3	0.4
Total financing (net)	<u>237.4</u>	<u>248.9</u>	<u>323.1</u>	<u>334.5</u>	<u>397.2</u>	<u>325.9</u>

Source: Ministry of Finance

^L LKPP (Central Government Financial Report/Audited).

^R 2017 Revised Budget.

^P Preliminary realization.

^B 2018 Budget.

(1) As of FY 2017, the deficit financing line items have been reclassified and the data previously reported has been restated across the periods shown.

Central Government Expenditures.

Total expenditures consist primarily of two components: (i) central Government expenditures and (ii) transfers to regions and rural fund. Central Government expenditures consist primarily of personnel, goods and services, capital, interest and social expenditures, as well as energy subsidies. Regional transfers consist primarily of expenditures for general and specific funds on the regional and rural level.

Total expenditures increased by 7.7% from Rp1,650.6 trillion in 2013 to Rp1,777.2 trillion in 2014. Total central Government expenditures increased by 5.8% from Rp1,137.2 trillion in 2013 to Rp1,203.6 trillion in 2014, primarily due to higher expenditures for personnel, goods and services, interest and energy subsidies; these increases were partly offset by lower capital expenditures, due to lower capital expenditures for equipment and machineries. Total transfers to regions and rural fund increased by 11.8% from Rp513.3 trillion in 2013 to Rp573.7 trillion in 2014, primarily driven by higher total general transfer funds.

Total expenditures increased by 1.6% from Rp1,777.2 trillion in 2014 to Rp1,806.5 trillion in 2015. Total central Government expenditures decreased by 1.7% from Rp1,203.6 trillion in 2014 to Rp1,183.3 trillion in 2015, primarily due to a sharp decline in expenditures for energy subsidies of 65.2%, due to the Government's implementation of a range of changes to its pricing policy for gasoline and automotive diesel fuel as a reaction to declining international oil prices. This was partly offset by higher expenditures for personnel, goods and services, capital and interest. Total transfers to regions and rural fund increased by 8.6% from Rp573.7 trillion in 2014 to Rp623.1 trillion in 2015, primarily driven by higher total specific allocation funds and the rural fund, which were partly offset by lower revenue sharing funds.

Total expenditures increased by 3.2% from Rp1,806.5 trillion in 2015 to Rp1,864.3 trillion in 2016. Total central Government expenditures decreased by 2.8% from Rp1,183.3 trillion in 2015 to Rp1,154.0 trillion in 2016, primarily due to lower capital and social assistance expenditures, which declined by 22.7% and 49.0%. This was partly offset by higher expenditures for personnel, goods and services and interest. Total transfers to regions and rural fund increased by 14.0% from Rp623.1 trillion in 2015 to Rp710.3 trillion in 2016, primarily driven by higher total general transfer funds, the physical special allocation fund and the rural fund.

Total expenditures increased by 7.4% from Rp1,864.3 trillion in 2016 to Rp2,001.6 trillion in 2017. Total central Government expenditures increased by 9.2% from Rp1,154.0 trillion in 2016 to Rp1,259.6 trillion in 2017, primarily due to higher goods and services expenditures, higher capital expenditures because of the continuing development of programs executed by the line ministries, and macroeconomic indicators such as the Rupiah exchange rate that affects interest payments. Total transfers to regions and rural fund increased by 4.5% from Rp710.3 trillion in 2016 to Rp742.0 trillion in 2017, primarily due to higher distributions to the regional incentive fund and the balanced fund and the rural fund.

Central Government Revenues.

The following table sets forth the revenues of the central Government as (i) audited 2016 revenue as a percentage of the actual 2016 GDP, (ii) projected 2017 revenue as a percentage of projected 2017 GDP (as set forth in the 2017 Revised Budget), (iii) preliminary realized revenues for 2017 as a percentage of preliminary 2017 GDP and (iv) projected 2018 revenue as a percentage of projected 2018 GDP, respectively.

Central Government Revenues

	2016 LKPP Audited	2017 Revised Budget	2017 Realization ⁽²⁾	2018 Budget
	(percentages of 2016 GDP)	(percentages of projected 2017 GDP)	(percentages of 2017 GDP)	(percentages of projected 2018 GDP)
Total revenue and grants (in trillions of Rupiah)	1,555.9	1,736.1	1,655.8	1,894.7
Domestic revenue:				
Tax revenue:				
Domestic tax				
Income tax:				
Oil and gas	0.3	0.3	0.4	0.3
Non-oil and gas	5.1	6.0	4.4	6.0
Total income tax	5.4	6.3	4.7	6.2
Value added tax (VAT)	3.3	3.8	3.5	3.9
Land and building tax	0.2	0.1	0.1	0.1
Excises	1.2	1.2	1.1	1.1
Other taxes	0.1	0.1	0.0	0.1
Total domestic taxes	10.1	11.6	9.6	11.5
International trade taxes:	—	—	—	—
Import duties	0.3	0.3	0.3	0.3
Export tax	0.0	0.0	0.0	0.0
Total international trade taxes	0.3	0.3	0.3	0.3
Total tax revenue	10.4	11.9	9.8	11.8
Non-tax revenue:				
Natural resources:				
Oil	0.3	0.5	0.4	0.4
Gas	0.1	0.1	0.2	0.2
Total oil and gas	0.4	0.6	0.6	0.6
General Mining	0.1	—	0.2	0.1
Forestry	0.0	—	0.0	0.0
Fishery	0.0	—	0.0	0.0
Geothermal	0.0	—	0.0	0.0
Total non-oil and gas	0.2	0.2	0.2	0.2
Total natural resources	0.5	0.8	0.8	0.8
Profit transfer from SOEs	0.3	0.3	0.3	0.3
Other non-tax revenue	1.0	0.7	0.8	0.6
Public Service Agency (BLU) Income ⁽¹⁾	0.3	0.3	0.3	0.3
Total non-tax revenue	2.1	2.1	2.3	2.0
Total domestic revenue	12.5	14.0	12.1	13.8
Grants	0.1	0.0	0.1	0.0
Total Revenue and Grant	12.5	14.0	12.2	13.8

Source: Ministry of Finance

- (1) Includes Government's share of Bank Indonesia's profits, representing amounts in excess of Bank Indonesia's capital ratio requirements. The excess amounts are transferred to the central Government to be used for repayments of certain central Government obligations to Bank Indonesia.
- (2) Presents preliminary realized central Government revenues for FY 2017 as a percentage of preliminary 2017 GDP.

Central Government Expenditures.

The following table sets forth the expenditures of the central Government as (i) audited 2016 expenditures as a percentage of the actual 2016 GDP, (ii) projected 2017 expenditures as a percentage of projected 2017 GDP (as set forth in the 2017 Revised Budget), (iii) preliminary realized expenditures for 2017 as a percentage of preliminary 2017 GDP and (iv) projected 2018 expenditures as a percentage of projected 2018 GDP, respectively.

Central Government Expenditure

	2016 LKPP Audited (percentages of 2016 GDP)	2017 Revised Budget (percentages of projected 2017 GDP)	2017 Realization ⁽⁵⁾ (percentages of 2017 GDP)	2018 Budget (percentages of projected 2018 GDP)
Total expenditures (in trillions of Rupiah)	1,864.3	2133.3	2,001.6	2,220.7
Central government expenditures:				
Personnel expenditures	2.5	2.8	2.3	2.7
Good and services expenditures	2.1	2.4	2.1	2.7
Capital expenditures	1.3	1.8	1.5	1.3
Interest payments:	—	—	—	1.7
Domestic debt	1.4	1.6	—	1.6
Foreign debt	0.1	0.1	—	0.1
Total interest payments	1.5	1.8	1.6	1.7
Subsidies:	—	—	—	—
Energy subsidies	0.9	0.7	0.7	0.7
Non-energy subsidies	0.5	0.6	0.5	0.4
Total subsidies	1.4	1.4	1.2	1.1
Grant expenditures	0.1	0.0	0.0	0.0
Social assistance	0.4	0.5	0.4	0.6
Other expenditures	0.0	0.4	0.1	0.5
Total central Government expenditures	9.3	11.0	9.3	10.6
Transfers to Regions and Rural Fund:	—	—	—	—
Transfer to Regions	—	—	—	—
Balanced funds:	—	—	—	—
General transfer funds:	—	—	—	—
Revenue sharing funds	0.7	0.8	0.6	0.7
General allocation funds	3.1	3.2	2.9	2.9
Total general transfer funds	3.8	4.0	3.6	3.6
Specific allocation funds:	—	—	—	—
Physical special allocation fund	0.6	0.6	0.5	0.5
Non-physical special allocation fund ⁽¹⁾	0.7	0.9	0.8	0.9
Total specific allocation funds	1.3	1.5	1.2	1.4
Total balanced funds	5.2	5.5	4.8	4.9
Regional incentive fund ⁽²⁾	0.0	0.1	0.1	0.1
Specific autonomy funds	0.1	0.2	0.1	0.0
Specific Fund for Special Region of Yogyakarta	0.0	0.0	0.0	0.0
Total transfer to Regions	5.3	5.7	5.0	5.1
Rural Fund ⁽³⁾	0.4	0.5	0.4	0.4
Total transfers to regions and rural fund	5.7	6.2	5.5	5.6
Suspend ⁽⁴⁾	—	—	—	—
Total expenditures	15.0	17.2	14.7	16.2

Source: Ministry of Finance

(1) Included under “others” before FY 2016 except regional incentive fund.

(2) Included under “others” before FY 2016.

(3) Starting from FY 2015, central Government allocates rural fund based on law number 6/2015.

(4) Realized expenditures 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.

(5) Presents preliminary realized central Government expenditures for FY 2017 as a percentage of preliminary 2017 GDP.

Central Government Deficit Financing.

The following table sets forth the budgeted deficit financing of the Government, by amount, and as a percentage of the actual 2016 GDP, projected 2017 GDP (as set forth in the 2017 Revised Budget), projected 2018 GDP, and the preliminary realized 2017 deficit financing as a percentage of preliminary 2017 GDP.

Central Government Deficit Financing⁽¹⁾

	2016 LKPP Audited (percentages of 2016 GDP)	2017 Revised Budget (percentages of projected 2017 GDP)	2017 Realization ⁽²⁾ (percentages of 2017 GDP)	2018 Budget (percentages of projected 2018 GDP)
Total financing (net) (in trillions of Rupiah)	334.5	397.2	364.5	325.9
Debt financing				
Government securities (net)	3.28	3.43	3.25	2.79
Loans				
Domestic loans (net)	0.01	0.01	0.00	0.02
Foreign loans:				
Gross drawings:				
Program loan	0.28	0.15	0.15	0.09
Project loan	0.23	0.27	0.21	0.26
Total gross drawing	0.51	0.42	0.36	0.35
Amortization	(0.55)	(0.48)	(0.31)	(0.47)
Total foreign loan (net)	(0.04)	(0.06)	(0.12)	(0.12)
Total loans (net)	(0.03)	(0.04)	(0.12)	(0.10)
Total debt financing	3.25	3.39	3.13	2.69
Investment financing				
Investment to SOEs	(0.41)	(0.05)	(0.05)	(0.02)
Investment to other institutions	(0.09)	(0.02)	(0.02)	(0.02)
Investment to public service agencies	(0.20)	(0.35)	(0.35)	(0.39)
Investment in financial organizations/institutions	(0.03)	(0.01)	(0.01)	(0.01)
Revenue of investment	(0.72)	(0.44)	(0.44)	(0.44)
Total investment financing				
Lending	0.01	(0.03)	(0.01)	(0.05)
On-lending to SOEs/local government/institutions/ other agencies:	—	—	—	—
Lending reserves	0.01	(0.03)	(0.01)	(0.05)
Total lending	(0.01)	(0.01)	(0.01)	(0.01)
Mandatory guarantee	0.16	0.00	0.00	0.00
Other financing	2.7	2.92	2.68	2.19

Source: Ministry of Finance

(1) As of FY 2017, the central Government deficit financing line items have been reclassified and the previously reported data has been restated across the periods shown.

(2) Presents realized central Government deficit financing for 2017 as a percentage of preliminary 2017 GDP.

Public Debt

Over the last decade, 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 23.1% in 2011 and 23.0% in 2012. Public debt as a percentage of GDP was 24.9% in 2013, 24.7% in 2014, 27.4% in 2015, 28.3% in 2016 and 29.1% in the nine months ended September 30, 2017.

As of December 31, 2016, the total public debt was U.S.\$261.6 billion, 21% of which consisted of loans and 79% of which consisted of securities. As of September 30, 2017, total public debt was U.S.\$286.6 billion, 19.1% of which consisted of loans and 80.9% of which consisted of securities, including domestic and foreign issuances of bonds and Sukuk.

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 discussion below 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,					
	2012	2013	2014	2015	2016	2017 ^P
	(in billions of U.S. dollars)					
Concessional Loans:						
Multilateral creditors	23.8	23.6	23.5	26.1	27.5	28.1
Bilateral creditors	37.2	31.5	26.9	24.7	23.5	23.2
Semi-concessional Loans:						
Export agency creditors	0.00	0.00	0.0	0.0	0.0	0.1
Commercial ⁽²⁾	29.9	36.0	40.5	51.4	60.4	70.2
Total	91.0	91.2	90.9	102.2	111.4	121.5
Total public external debt of the Republic, as a percentage of GDP for the period indicated ⁽³⁾	10.3%	10.4%	10.7%	12.4%	12.1%	12.2%

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 applicable BI middle exchange rates as of the respective dates indicated.

Sources of Public External Borrowing

The sources of the Republic's public external borrowings are concessional loans from multilateral creditors and bilateral creditors, semi-concessional loans from export agency creditors, and commercial creditors, including international bondholders.

The World Bank and the ADB, have been important sources of funds for the Republic, and the Republic has secured substantial commitments from the Japan Bank for International Cooperation, or JBIC, in recent years.

In 2014, the Republic drew down program loans of U.S.\$773.84 million from the World Bank, U.S.\$100 million from Agence Française de Développement, U.S.\$400 million from ADB and U.S.\$200 million from KfW Bankengruppe. In 2015, the Republic drew down program loans of U.S.\$2.1 billion from the World Bank, U.S.\$1.4 billion from ADB, U.S.\$245 million from KfW Bankengruppe, and U.S.\$100 million from Agence Française de Développement. Additionally, the Republic utilized the contingency facilities provided by the World Bank in the amount of U.S.\$2 billion and from ADB in the amount of U.S.\$500 million in 2015. In 2016, the Republic drew down program loans of U.S.\$1.1 billion from the World Bank, U.S.\$1 billion from ADB, U.S.\$440 million KfW Bankengruppe, and U.S.\$110 million from Agence Française de Développement. In 2017, the Republic drew down a program loan of U.S.\$647 million from the World Bank, U.S.\$400 million from ADB, €200 million from KfW Bankengruppe and €250 million from Agence Française de Développement.

Since 2012, the Government has expanded its sources of external financing by accessing the international capital markets (including the Islamic financial markets).

The total outstanding external public debt of the Republic as of December 31, 2017 was U.S.\$121.5 billion.

The following table sets forth the outstanding amounts of international development assistance received by the Republic as of the dates indicated.

International Development Assistance⁽¹⁾⁽²⁾

	As of December 31,					As of
	2012	2013	2014	2015	2016	November 30,
	(in millions of U.S. dollars)					2017
Bilateral loans	32,007.0	27,134.0	23,095.7	21,555.9	20,847.2	22,817.7
Multilateral loans:						
International Monetary Fund	—	—	—	—	—	—
International Bank for Reconstruction and Development	10,426.4	11,343.4	12,176.3	14,380.0	15,811.8	16,490.3
Asian Development Bank	10,372.8	9,394.3	8,630.1	9,193.9	9,311.1	9,009.5
International Development Association	2,210.4	2,100.1	1,879.8	1,677.3	1,474.5	1,393.0
Islamic Development Bank	520.5	545.1	581.5	643.4	701.0	857.5
Nordic Investment Bank	32.5	27.6	21.9	16.7	12.0	11.4
European Investment Bank	58.9	48.9	38.5	27.6	22.0	19.1
International Fund for Agricultural Development	130.6	137.9	145.2	155.2	166.2	184.3
Asian Infrastructure Development Bank	—	—	—	—	—	18.1
Multilateral Investment Guarantee Agency	—	—	—	—	—	—
Total multilateral loans	23,752.0	23,598.0	23,473.4	26,094.2	27,498.6	27,983.1
Total loans	55,759.0	50,732.0	46,569.1	47,650.0	48,345.8	50,800.9

Source: Ministry of Finance

- (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 dates indicated.

Outstanding External Public Debt of the Republic by Major Currency

	As of December 31,							
	2014		2015		2016		2017 ^P	
	In millions of original currency	In millions of U.S. dollars ⁽¹⁾	In millions of original currency	In millions of U.S. dollars ⁽¹⁾	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	59,993	59,993	70,817	70,817	75,267	75,267	83,537.5	83,537.5
Japanese yen	2,203,955	18,469	2,126,845	17,657	2,053,751	17,708	2,016,698.2	18,007.0
Euros	5,055	6,150	5,999	6,554	8,676	9,150	9,845.1	11,678.6
SDR	4,669	5,680	3,783	5,246	3,585	4,830	1,447.4	2,050.2
British pounds	246	383	180	267	129	161	106.2	143.1
Others	Multiple currency	1,825	Multiple currencies	1,581	Multiple currencies	1,507	Multiple currencies	1,588.2
Total	N/A	92,500	N/A	102,121	N/A	108,624	N/A	117,004.6

Source: Ministry of Finance

^P Preliminary.

- (1) Calculated based on the applicable BI middle exchange rates as of the date indicated for each column.

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)		
2015	5,925.6	3,328.6	9,254.2
2016	6,038.7	3,618.7	9,657.4
2017 ^(P)	1,800.0	700.0	2,500.0
2018 ^(P)	8,348.7	4,229.1	12,577.8
2019 ^(P)	10,291.4	3,925.6	14,217.0

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 December 31, 2017.

^(P) Projected based on external debt outstanding and exchange rates as of December 31, 2017.

Payment History of External Debt

Indonesia maintains a policy of external debt management and has a history of servicing its external debt obligations in accordance with its terms.

In the wake of the Asian financial crisis in 1997, the Paris Club, an informal voluntary group of 18 creditor countries that seeks to coordinate solutions for payment difficulties experienced by debtor nations by extending or guaranteeing bilateral credits, played an important role in easing Indonesia's foreign exchange burden. Between 1998 and 2000, Indonesia 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 Indonesia's creditors between April 2002 and December 2003 were rescheduled.

In addition, on March 10, 2005, the Paris Club offered to permit Indonesia, as well as other countries affected by the December 2004 tsunami, to defer debt services payments through the end of 2005 to allow these countries to commit additional government resources to the tsunami-related humanitarian and relief efforts. On May 10, 2005, 18 individual Paris Club members and Indonesia signed a memorandum of understanding to reschedule some payments of principal and interest due under official development assistance and non-official development assistance.

While there have been a number of reschedulings of Indonesia's external debt to its bilateral creditors as described above, Indonesia has not defaulted on, and has not attempted to restructure, the payment of principal or interest on any of its external securities in the last 20 years.

External Debt of Bank Indonesia

Under Indonesian law, Bank Indonesia has the ability to incur external debt primarily to meet balance of payments needs and maintain adequate foreign exchange reserves.

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⁽¹⁾

	As of December 31,					As of November 30,
	2012	2013	2014	2015	2016	2017 ^P
	(in millions of U.S. dollars)					
Multilateral	3,053	3,050	2,868	2,747	2,654	2,805
Commercial ⁽²⁾	354	244	223	190	167	0
Total	3,407	3,294	3,092	2,937	2,821	2,805

Source: Bank Indonesia

^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 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

Period	Principal repayment	Interest repayment	Total
	(in millions of U.S. dollars)		
2015	32.6	2.9	35.5
2016	48.3	4.2	52.5
2017 ^(P)	169.1	10.3	179.4
2018 ^(P)	0.0	1.4	1.4
2019 ^(P)	0.0	1.4	1.4

Source: Bank Indonesia

^(P) Projected based on external debt outstanding as of November 30, 2017.

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. See “— Foreign Exchange and Reserves — Regional Swap Arrangements of the Republic.”

External Debt of State-Owned-Enterprises

The following table sets forth the outstanding direct external debt of SOEs as of the dates indicated.

Outstanding Direct External Debt of State-Owned-Enterprises⁽¹⁾

	As of December 31,					As of November 30,
	2012	2013	2014	2015	2016	2017 ^P
	(in millions of U.S. dollars)					
Financial institutions:						
Bank	4,036	3,071	4,082	5,103	5,235	4,560
Non-bank	957	797	1,583	2,816	3,497	4,086
Total financial institutions	4,993	3,868	5,665	7,919	8,731	8,646
Non-financial institutions	14,789	20,806	25,034	24,704	22,888	24,456
Total	19,782	24,674	30,699	32,623	31,619	33,102

Source: Bank Indonesia

^P Preliminary.

- (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.

For a discussion of the Republic’s guarantee of certain external debt in connection with infrastructure projects in the country, see “— Public Debt — Contingent Liabilities.”

Domestic Debt of the Central Government

The following table sets forth the outstanding domestic debt of the Government as of the dates indicated.

Domestic Debt of the Central Government

	As of December 31,					As of
	2012	2013	2014	2015	2016	November 30, 2017 ^P
Total domestic public debt, in trillions of Rupiah ⁽¹⁾	1,098.0	1,264.0	1,477.8	1,755.2	2,019.2	2,347.4

Source: Ministry of Finance

^P Preliminary.

(1) Excludes SBI, which are obligations of Bank Indonesia and not of the Government. See “— *Financial System — Bank Indonesia*.”

Domestic Debt Service Requirements of the Central Government

The following table sets forth the debt service requirements for the central Government for the years indicated.

Direct Domestic Debt Service Requirements of the Central Government⁽¹⁾

Period	Principal repayment and redemption	Interest repayment	Total
	(in trillions of Rupiah)		
2015	147.4	111.0	258.4
2016	309.8	148.3	458.1
2017 ^(P)	10.9	4.8	15.7
2018 ^(P)	272.8	160.1	433.0
2019 ^(P)	216.4	146.6	363.0

Source: Ministry of Finance

(1) Foreign currency values of outstanding direct domestic debt service, which are in U.S. dollars, have been converted into Rupiah based on the exchange rate as of December 31, 2017 of U.S.\$1=13,429.

^(P) Projected based on external debt outstanding and exchange rates as of December 31, 2017.

Contingent Liabilities from Government Guarantees

As part of the Government’s policy to prioritize infrastructure development, the Government has provided support to encourage investments in infrastructure projects in the form of credit and investment guarantees. External debts of SOEs are not direct obligations of the Republic, unless such debts are explicitly guaranteed by the Republic.

The credit guarantees that the Government has provided to infrastructure projects include:

- full default risk guarantee on PT PLN’s loans for the construction of coal power plants with an aggregate capacity of 10,000 MW and its associated transmission lines. The total amount outstanding under these loans was Rp39,926.2 billion as of September 30, 2017;
- partial default risk guarantee for local government-owned water companies’ loans in connection with the Millennium Development Goals in water provision. The total amount outstanding under these loans was Rp169.0 billion as of September 30, 2017;
- business viability guarantee on PT PLN to support the construction of renewable, coal and steam power plants with an aggregate capacity of 10,000 MW related to the Fast Track 2 program. The total amount outstanding was Rp21,418.8 billion as of September 30, 2017;
- full default risk guarantee on PT Hutama Karya (Persero)’s loans and bonds for the construction of Sumatera Toll Road. The total amount outstanding was Rp6,500 billion as of September 30, 2017;
- guarantee for infrastructure financing through direct loans from international financial institutions to SOEs. The total amount outstanding was Rp4,690.5 billion as of September 30, 2017;

- guarantee for local infrastructure financing through PT SMI with outstanding amount of Rp997.1 billion; and
- guarantee on the obligations of Government related entities under Public-Private Partnership (PPP) project agreements with total exposure of Rp14,354.1 billion.

Starting from 2008 the Government has been allocating a contingent budget with respect to these guarantees. Any unused budget allocation may be transferred to a guarantee reserve fund. This reserve fund, together with the relevant annual budget allocations, serves as reserves for any claim that arises from these guarantees. As of December 31, 2017, the Government has accumulated an amount of Rp3.3 trillion in the guarantee reserve fund.

As of December 31, 2017, no claims from the foregoing guarantees have materialized.

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 has adopted a free floating exchange rate system since August 1997, 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 the U.S. dollar for the periods indicated.

Exchange Rates

	Rupiah per U.S. dollar	
	End of Period	Average
2012	9,638	9,358
2013	12,170	10,445
2014	12,385	11,876
2015	13,785	13,392
2016	13,473	13,305
2017 ^A	13,568	13,385
2018		
January ^B	13,335	13,422

Source: Bank Indonesia

^A As of December 29, 2017.

^B As of January 15, 2018.

By the end of 2014, the Rupiah had depreciated by 1.8% to Rp12,385 per U.S. dollar from Rp12,170 per U.S. dollar at the end of 2013. On average, the Rupiah depreciated by 12% to Rp11,876 per U.S. dollar from Rp10,445 per U.S. dollar in 2013. The Rupiah's depreciation was triggered by slowing domestic economic growth and domestic political conditions. Externally, pressure on the Rupiah mainly came from concerns toward the impact of the U.S. Federal Reserve Bank's normalization policy, a slowing global economy and an escalation of geopolitical tensions at the Russian-Ukrainian border. Rupiah depreciation in 2014 was broadly in line with downward movements of other regional currencies and in line with an increase of the U.S. Dollar Index, which measures the value of the U.S. dollar against a basket of foreign currencies.

By the end of 2015, the Rupiah had depreciated by 11.3% to Rp13,785 from Rp12,385 per U.S. dollar at the end of 2014. On average, the Rupiah depreciated 11.3% from Rp11,876 per U.S. dollar in 2014 to Rp13,392 per U.S. dollar in 2015. Uncertainty surrounding the timing of an increase of the Federal Funds Rate as part of the gradual normalization of U.S. monetary policy, the Greek debt crisis and global monetary policy divergence were the primary external factors affecting the Rupiah. In addition, in line with the market reaction to the devaluation of the Renminbi, nearly all global currencies, including the Rupiah, experienced depreciatory pressures. Domestically, pressure was exerted from a slowing domestic economy.

By the end of 2016, the Rupiah appreciated by 2.3% to Rp13,473 per U.S. dollar from Rp13,785 per U.S. dollar at the end of 2015. On average the Rupiah appreciated from Rp13,392 per U.S. dollar in 2015 to Rp13,305 per U.S. dollar, a gain of 0.7%. Despite external pressures stemming from the timing of an increase of the Federal Funds Rate, the result of the UK referendum, the appreciation of the U.S. Dollar Index and the reaction of global markets to the U.S. election in November 2016, domestic factors remained conducive for Rupiah stability, particularly due to low inflation, an improved current account deficit and a sustained economic recovery. In addition, the successful tax amnesty program further bolstered investor confidence.

The Rupiah depreciated by 0.66% from Rp13,473 per U.S. dollar as of December 31, 2016 to Rp13,563 per U.S. dollar as of October 31, 2017. On average, the Rupiah depreciated by 0.36% from Rp13,305 per U.S. dollar as of December 31, 2016 to Rp13,353 per U.S. dollar as of October 31, 2017. The depreciation was in line with prevailing trends for most other global currencies against the U.S. dollar. The U.S. dollar appreciated globally as a result of the financial markets' response to the nomination of a new U.S. Federal Reserve Governor, the intention to gradually normalize monetary policy, growing expectations of a further increase in the U.S. Federal Funds Rate as well as plans in the U.S. for tax reform.

The Rupiah depreciated by 0.7% from Rp13,473 per U.S. dollar as of December 31, 2016 to Rp13,568 per U.S. dollar as of December 29, 2017. On average, the Rupiah depreciated by 0.6% from Rp13,305 per U.S. dollar as of December 31, 2016 to Rp13,385 per U.S. dollar as of December 29, 2017. The depreciation was in line with prevailing trends for most other global currencies against the U.S. dollar. The U.S. dollar appreciated globally following the intention of the U.S. Federal Reserve Bank to gradually normalize its monetary policy, growing expectations of a further increase in the U.S. Federal Funds Rate as well as plans in the U.S. for tax reforms.

Prudential Policies on Foreign Exchange and Rupiah

Under Law No. 24 of 1999 on Foreign Exchange Activities and Exchange Rate System, every resident may freely own and use foreign currency. Foreign currency is also generally freely transferable within or from Indonesia although by regulation most domestic transactions are prohibited from using foreign currency. Bank Indonesia has the authority to request information and data regarding foreign exchange activities and implement provisions regarding foreign exchange activities based on prudential principles.

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: (i) extensions of loans or of overdrafts in Rupiah or foreign currencies to foreign parties, (ii) transfers of Rupiah to foreign parties or offshore banks in excess of U.S.\$1 million without underlying transactions, and (iii) purchases of Rupiah-denominated securities issued by foreign parties.

Bank Indonesia has issued several regulations concerning foreign currency transactions relating to the Rupiah in order to deepen financial markets. A deep foreign exchange market is distinguished by adequate liquidity, convenient transactions, fair prices and minimal risk in order to maintain economic stability. Bank Indonesia strives towards the creation of a liquid, efficient and secure domestic foreign exchange market through amendments to regulations concerning foreign exchange transactions.

On January 1, 2015, Bank Indonesia regulations came into effect to mitigate risks relating to external borrowing by non-bank corporations. Under these regulations, corporate issuers of debt must, subject to certain limited exceptions:

- hedge at least 25% of their open foreign exchange positions (i.e., the excess of foreign currency liabilities that fall due within the following three to six months over foreign currency assets);
- maintain a 70% minimum liquidity ratio of foreign currency assets to foreign currency liabilities maturing within three months after the end of a quarter; and
- maintain a minimum credit rating (issuer and/or issue) of BB- by a rating agency acknowledged by Bank Indonesia.

International Reserves

The following table sets forth the Republic's total official international reserves, expressed in (i) U.S. dollar equivalents and (ii) 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. Indonesia complies with the IMF's Special Data Dissemination Standard requirement on international reserves and foreign exchange currency liquidity.

Official International Reserves of the Republic

	As of December 31,					
	2012	2013	2014	2015	2016	2017
	(in millions of U.S. dollars, except for months)					
Gold	3,935	3,023	3,027	2,661	2,876	3,346
SDRs	2,715 ⁽¹⁾	2,712	2,551	2,442	1,499	1,588
Reserve position with the IMF	224	224	211	202	1,056	1,119
Foreign exchange ⁽²⁾ and others	105,907	93,247	106,073	100,073	110,341	124,143
Total	112,781	99,386	111,862	105,931	116,362	130,196
Total as number of months of imports and Government external debt repayments	6.2	5.5	6.4	7.4	8.4	8.3

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.

Foreign reserves totaled U.S.\$112.8 billion, U.S.\$99.4 billion, U.S.\$111.9 billion, U.S.\$105.9 billion and U.S.\$116.4 billion as of December 31, 2012, 2013, 2014, 2015, 2016, respectively. As of December 31, 2017, foreign reserves increased to U.S.\$130.20 billion which is equal to 8.3 months of import coverage and government external debt service requirements. In addition, the coverage ratio is in excess of the recommended international adequacy ratio of three months of import coverage.

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 endeavored to prevent future financial crises. In 2000, ASEAN members agreed to strengthen the existing cooperative frameworks among monetary authorities through the Chiang Mai Initiative, or CMI. The CMI involves an expanded Association of Southeast Asia ("ASA") (extending its coverage to all members of ASEAN and increasing the size) and a network of Bilateral Swap Arrangements ("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 a 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 into 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, or CMIM-PL. This arrangement became effective on July 17, 2014. 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, or AMRO, as an ASEAN+3 independent surveillance unit since early 2011.

Under the ASA, BSA, and CMIM, a total of U.S.\$46.1 billion of foreign currency swap is currently available to the Republic as of December 31, 2017. Up to 30.0% of the amount available under the BSAs and CMIM may be activated without participating in any IMF program, but greater amounts requires participation in an IMF program. The Republic also has a U.S.\$22.76 billion swap line in place with Japan. The swap line increased from U.S.\$12.0 billion in December 2013. These swap arrangements will contribute to greater financial stability and sustainable economic growth in the region.

Bank Indonesia has also established a Bilateral Currency Swap Agreement, or BCSA, with Korea amounting to KRW 10.7 trillion/Rp115 trillion which was signed in March 2014.

A BCSA entered into between Bank Indonesia and the Reserve Bank of Australia became effective on December 15, 2015. The BCSA with the Reserve Bank of Australia is for an initial period of three years.

As of December 31, 2017, no drawdowns on existing bilateral and regional swap arrangements have been made.

Debt-to-GDP Ratios

The following table sets forth the central Government's debt-to-GDP ratio and debt service to GDP ratio as of the dates indicated. Under the State Finances Law No. 17 of 2003, the Republic's debt-to-GDP ratio must remain below 60%.

Debt-to-GDP Ratios

	As of December 31,					
	2012 ^L	2013 ^L	2014 ^L	2015 ^L	2016 ^L	2017 ^P
	(percentages, unless indicated otherwise)					
Debt-to-GDP ratio ⁽¹⁾	23.0	24.9	24.7	27.4	28.3	29.2
Debt service to GDP ratio ⁽¹⁾	3.2	2.9	3.5	3.3	4.1	4.2
Total public debt of the central Government (in billions of U.S.\$) ⁽²⁾	204.5	194.9	209.7	229.4	261.6	290.7
— % in Loans	31.2	30.1	26.0	23.9	21.0	18.9
— % in Bonds	68.8	69.9	74.0	76.1	79.1	81.1

Source: Ministry of Finance

- (1) Outstanding foreign currency debt was converted to Rupiah using the BI middle exchange rate as of each period indicated in the table.
- (2) The following exchange rates were used: Rp9,670 per U.S.\$ for 2012, Rp12,189 per U.S.\$ for 2013, Rp12,440 per U.S.\$ for 2014, Rp13,795 per U.S.\$ for 2015, Rp13,436 per U.S.\$ for 2016 and Rp13,492 per U.S.\$ for December 31, 2017.

^L LKPP (Audited).

^P Preliminary.

USE OF PROCEEDS

The proceeds of each Series of Certificates issued under the Program will be applied by the Issuer for the purchase of the Assets relating to the relevant Series from the Republic.

Unless otherwise specified in the Pricing Supplement for each Series of Certificates issued under the Program, the Republic will use the proceeds it receives to meet part of its general financing requirements.

TAXATION

Indonesian Taxation

The following summary of Indonesian taxation issues deals only with the implications for holders of Certificates who are non-residents for Indonesian taxation purposes.

Generally, an individual is considered a non-resident of Indonesia if the individual neither:

- (i) 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
- (ii) is present in Indonesia for more than 183 days in any 12-month period.

An entity will be considered non-resident if it is established and domiciled outside Indonesia.

If a non-resident has a permanent establishment in Indonesia, the permanent establishment is subject to the ordinary Indonesian corporate income tax at a flat rate of 25.0% on all taxable income, including but not limited to income from foreign sources directly or indirectly attributable to such permanent establishment, except that certain types of income will be subject to final Indonesian income tax at certain rates. In addition, the after-tax taxable income of a permanent establishment is subject to a branch profits tax of 20.0% (which may be reduced under the provisions of most income tax treaties entered into by Indonesia). Under the Republic's income tax treaty with the United States (the "**U.S.-Indonesia Treaty**"), the branch profits tax on the after-tax taxable income of a permanent establishment is reduced to 10.0%. The branch profit tax can be exempted if all the after-tax income are reinvested in Indonesia no later than the following fiscal year in one of the following investment forms: (1) as a founding shareholder or a participant founder in a newly established Indonesian company through capital participation; (2) as a shareholder in an established Indonesian company through capital participation; (3) acquisition of fixed assets used by the permanent establishment to conduct its business or activities in Indonesia; or (4) investment in the form of intangible assets used by the permanent establishment to conduct its business or activities in Indonesia. The investment procedure for the exemption of branch profit tax should be in accordance with the requirements set out in the Minister of Finance Regulation No. 14/PMK.03/2011 dated January 24, 2011.

Taxation of Distributions

In 2009, the Republic issued GR 25/2009. Pursuant to this regulation, Periodic Distribution Amounts (as defined in the Conditions) arising from the Certificates constitute taxable income.

Based on Government Regulation No. 16/2009 dated February 9, 2009, which was amended by Government Regulation No. 100/2013 dated December 31, 2013 ("**GR 16/2009**") and Ministry of Finance Regulation No. 85/PMK.03/2011 dated May 23, 2011, which was amended by Ministry of Finance Regulation No. 07/PMK.011/2012, any amount paid by a company in the form of interest and/or discount (which in general is also treated as interest) in relation to bonds that have a maturity exceeding 12 months will be subject to a final withholding tax under Article 4(2) of the Income Tax Law in Indonesia. Interest is taxed on the gross value, while discount is taxed on the difference between the transfer value (or nominal value if held to maturity date) and acquisition cost of bonds. The definition of discount is the difference between the transfer value and the nominal value of the bonds, and also the difference between the transfer value and the acquisition cost of the bonds. For a resident taxpayer or non-resident taxpayer with a permanent establishment, a final withholding tax of 15% shall apply to interest received on the bonds. For a non-resident taxpayer, a final withholding tax of 20% applies to interest received on the bonds.

Assuming that the Certificates are considered as bonds and the Payment of Periodic Distribution Amounts are considered as interest as stipulated in the above regulation, the payment of Periodic Distribution Amounts to non-residents will generally be subject to Indonesian withholding tax of 20.0% of the gross amount of the distribution (unless the Certificates are held and owned by a permanent establishment in Indonesia, as discussed below). Accordingly, subject to certain exceptions, the Republic will be required to pay additional amounts as provided in Condition 9. The 20.0% rate may be reduced under the provisions of any applicable income tax treaty Indonesia has concluded with another jurisdiction. Under the U.S.-Indonesia Treaty, the withholding tax rate is reduced to 10.0%.

The Republic has concluded double taxation treaties with a number of countries, including Japan, The Netherlands, Singapore, the United States and the United Kingdom. To obtain the benefit of the reduced rate

under an applicable tax treaty, a Certificateholder must comply with the certification, eligibility, information and reporting requirements in force in Indonesia. Currently under, the prevailing tax regulation to be entitled to tax treaty protection, a Certificateholder would need to provide to PPSI-III (in its capacity as Trustee) a valid certificate of tax domicile using a specific form issued by the Indonesian tax authority (known as form DGT-1 or DGT-2) that is validated by a competent tax authority of the relevant country. For US person, in addition to the form DGT-1 or DGT-2 that has been filled in by the recipient of income, a form 6166 issued by the IRS is required to be submitted.

Pursuant to Minister of Finance Regulation No. 187/PMK.03/2015 dated September 30, 2015, 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 Taxation if the tax withheld is not in accordance with the Indonesian income tax law in force and/or any double taxation treaty.

The concept of beneficial owner was introduced in the latest Income Tax Law which was taken into effect as of January 1, 2009. According to the Income Tax Law, a beneficial owner is defined as the person (an individual or a corporation) entitled to directly enjoy the benefits of such income. The domicile country of the beneficial owner is determined based on the actual residence of the individual, in the case of an individual, or the domicile of the corporation (i.e. the country where the owners or more than 50.0% of the shareholders are domiciled or where the effective management is located).

Further, on 19 June 2017, the Directorate General of Taxation Regulation No. PER-10/PJ/2017 (“**PER-10/2017**”) regarding Procedures for Application Double Tax Avoidance Agreements.

Under PER-10/2017, in order for a non-resident recipient of the payment from Indonesia to be eligible for tax treaty benefit, it must:

- (a) satisfy the administrative criteria (i.e. by providing the COD in Form DGT-1 or Form DGT-2 for banking institution);
- (b) satisfy the anti-tax treaty abuse test and/or beneficial ownership test; and
- (c) not have an Indonesian PE in Indonesia.

The non-resident should satisfy the following anti-tax treaty abuse test:

- (a) A relevant economic motive for establishment of the entity;
- (b) Business activities managed by its own management and the management has sufficient authority to carry out transactions;
- (c) Fixed and non-fixed assets, sufficient and adequate to carry out business activities in the Tax Treaty Partner State or Partner Jurisdiction other than the assets that generate income from Indonesia;
- (d) Employees with certain expertise in accordance with the business field that is carried out, in sufficient and adequate number; and
- (e) Activities or other active business other than only receiving income in the form of dividend, interest and/or royalty originating from Indonesia.

Further, if the non-resident taxpayer receives income for which the relevant tax treaty stipulates a beneficial requirement (for example interest, royalty and dividend income), it must satisfy the following beneficial ownership test:

- (a) a “non-resident individual” does not act as an agent or a nominee; or
- (b) a “non-resident entity” does not act as an agent, a nominee or a conduit company, that must satisfy the following requirements:
 - 1. it has controlling or disposal rights over the fund, assets or the rights that generate the income from Indonesia;
 - 2. no more than 50% of the income is used to satisfy claims by other party;
 - 3. it bears the risk on its own assets, capital or liabilities; and
 - 4. it has no written or unwritten contract that obliges it to transfer partially or entirely the income derived from Indonesia to other party.

Failure to comply with the above requirements for the application of tax treaty benefit, the statutory withholding tax of 20.0% will be applied.

If an individual or entity holds Certificates through a permanent establishment in Indonesia, the permanent establishment will be taxed on distributions at a flat rate of 25.0% under the ordinary Indonesian corporate income tax. Payments of Periodic Distribution Amounts made to the permanent establishment will be subject to a 15.0% withholding tax, which will be withheld by the Republic from the payment of each Periodic Distribution Amounts. This withholding tax is a prepaid tax, which may be credited against the Indonesian annual corporate income tax payable by the permanent establishment at the end of fiscal year. If the permanent establishment in Indonesia is a bank, the payments of Periodic Distribution Amounts on the Certificates shall not be subject to withholding tax.

Taxation of Dispositions

In general, gains resulting from the sale or other disposition of assets by a non-resident to a non-resident without a permanent establishment in Indonesia will not be subject to income, withholding or capital gains tax, unless the assets are held and owned through a permanent establishment in Indonesia, in which case the permanent establishment will be taxed on any profit at a flat rate of 25.0%.

Based on GR 16/2009 gains from the disposal of the bonds are considered interest that shall be subject to the final withholding tax outlined above.

Gains from the disposal of the bonds derived by a resident taxpayer, whether an individual or a corporation, or by a non-resident taxpayer with a permanent establishment, are subject to final withholding tax at the rate of 15%. Non-resident taxpayers that derive gains from the disposal of the bonds will be subject to 20% final withholding tax, subject to reduction under the provisions of the applicable tax treaty.

Under Article 3A of Minister of Finance Regulation No. 07/PMK.011/2012, any negative discount or loss incurred from the disposal of the bonds can be deducted from the amount of interest income in calculating the withholding tax on interest.

If the Certificates are held and owned by a permanent establishment in Indonesia, the permanent establishment shall be taxed on the capital gain at 25.0% flat rate under the ordinary Indonesian corporate income tax and branch profit tax.

Other Indonesian Duties

There are no other material Indonesian duties (such as inheritance duties, gift duties, stamp duties or other similar duties) that a holder of Certificates will be required to pay in relation to any of the payments of Periodic Distribution Amounts by the Republic.

United States Federal Income Tax Considerations

The following is a summary of certain U.S. federal income tax considerations that may be relevant to a holder of a Certificate. This summary does not describe any tax consequences arising under the laws of any taxing jurisdiction other than the income tax laws of the U.S. federal government. This summary is based on laws, regulations, rulings and decisions in effect as of the date hereof, all of which are subject to change, which change could apply retroactively and could affect the tax consequences described below. This summary deals only with holders that acquire the Certificates at original issuance and that will hold Certificates as capital assets and does not address tax considerations applicable to investors that may be subject to special tax rules, such as banks, financial institutions, regulated investment companies, tax-exempt entities, insurance companies, dealers or traders in securities or currencies, U.S. branch operations of foreign corporations, holders that are subject to the mark to market rules, persons that will hold Certificates as a position in a hedging, “straddle” or conversion transaction, or as part of a “synthetic security” or other integrated financial transaction, persons that have a “functional currency” other than the U.S. dollar or persons who hold Certificates through a partnership or other pass-through entity. Furthermore, this summary does not address Medicare contribution or alternative minimum tax consequences or the indirect effects on the holders of equity interests in a holder of the Certificates or U.S. federal estate and gift tax consequences.

For the purposes of this summary, a “**United States holder**” is a beneficial owner of Certificates that is for U.S. federal income tax purposes (i) an individual who is a citizen or resident of the United States, (ii) a

corporation created in, or organized under the laws of, the United States or any state thereof, including the District of Columbia, (iii) an estate the income of which is includible in gross income for U.S. federal income tax purposes regardless of its source or (iv) a trust the administration of which is subject to the primary supervision of a U.S. court and which has one or more United States persons who have the authority to control all substantial decisions of the trust. A **“non-United States holder”** is a beneficial owner of Certificates that is not a United States holder. If a partnership (or any other entity treated as a partnership for U.S. federal income tax purposes) holds the Certificates, the tax treatment of the partnership and a partner in such partnership generally will depend on the status of the partner and the activities of the partnership. Such partner or partnership should consult its own tax advisor regarding the specific consequences of the acquisition, ownership and disposition of the Certificates.

Pursuant to recent legislation, for taxable years beginning after December 31, 2017, an accrual method taxpayer that reports revenues on an applicable financial statement generally must recognize income for U.S. federal income tax purposes no later than the taxable year in which such income is taken into account as revenue in an applicable financial statement of the taxpayer. Thus, this rule could potentially require such a taxpayer to recognize income for U.S. federal income tax purposes with respect to the Certificates prior to the time such income would be recognized pursuant to the rules described below. Potential investors in Certificates should consult their tax advisors regarding the potential applicability of these rules to their investment in the Certificates.

No ruling is being requested from the U.S. Internal Revenue Service (the **“IRS”**) and no legal opinion is being given regarding the tax consequences of investing in the Certificates and no assurance can be given that the IRS or the courts will agree with the discussions set forth herein. Investors should consult their own tax advisors in determining the tax consequences to them of holding Certificates, including the application to their particular situation of the U.S. federal income tax considerations discussed below, as well as the application of state, local, foreign or other tax laws.

Overview

The Issuer intends to treat the Certificates as debt instruments for U.S. tax purposes and the remainder of this discussion assumes that the Certificates will be so treated. Under this characterization, United States holders will not be required to take account of income and expenses incurred at the level of the Trust. The following summary does not discuss Certificates that are issued at more than a *de minimis* discount for U.S. federal income tax purposes. In the event that the Issuer issues Certificates at more than a *de minimis* discount, the applicable Pricing Supplement may describe the material U.S. federal income tax consequences thereof.

Periodic Distribution Amounts

Periodic Distribution Amounts will be subject to taxation under the U.S. tax rules applicable to debt instruments. Accordingly, a United States holder will be required to include Periodic Distribution Amounts in its income as ordinary income at the time that such distributions are accrued or are received (in accordance with the holder’s method of tax accounting). Such income will be treated as foreign source income for purposes of calculating that United States holder’s foreign tax credit limitation. The limitation on foreign taxes eligible for foreign tax credit is calculated separately with respect to specific classes of income. For this purpose, such income should generally constitute “passive income.” Any foreign income taxes withheld from payments of Periodic Distribution Amounts will be included in the income of United States holders as ordinary income and will likewise be deductible to United States holders, or, alternatively, United States holders may be eligible for a U.S. foreign tax credit subject to various limitations. United States holders should consult their own tax advisors regarding the availability of a foreign tax credit and the application of the foreign tax credit rules.

A United States holder utilizing the cash method of accounting for U.S. federal income tax purposes that receives a Periodic Distribution Amount denominated in a currency other than U.S. dollars (a foreign currency) will be required to include in income the U.S. dollar value of that Periodic Distribution Amount, 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.

If a Periodic Distribution Amount is payable in a foreign currency, an accrual basis United States holder is required to include in income the U.S. dollar value of the Periodic Distribution Amount. Such a United States holder may determine the amount of the accrued Periodic Distribution Amount to be recognized in accordance with either of two methods. Under the first accrual method, the amount of income accrued will be based on the

average exchange rate in effect during the accrual period or, with respect to an accrual period that spans two taxable years, the part of the period within the taxable year. Under the second accrual method, the United States 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. If the last day of the accrual period is within five business days of the date the Periodic Distribution Amount is actually received, an electing accrual basis United States holder may instead translate that Periodic Distribution Amount at the exchange rate in effect on the day of actual receipt. Any election to use the second accrual method will apply to all debt instruments held by the United States holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the United States holder and will be irrevocable without the consent of the IRS.

A United States holder utilizing either of the foregoing two accrual methods will recognize ordinary income or loss with respect to accrued income attributable to a Periodic Distribution Amount on the date of receipt of the Periodic Distribution Amount denominated in a foreign currency (including a payment attributable to accrued but unpaid Periodic Distribution Amount upon the sale, exchange or other disposition of a Certificate). The amount of ordinary income or loss will equal the difference between the U.S. dollar value of the Periodic Distribution Amount received (determined on the date the payment is received) in respect of the accrual period and the U.S. dollar value of the income attributable to a Periodic Distribution Amount that has accrued during that accrual period (as determined under the accrual method utilized by the United States holder).

Foreign currency received as a Periodic Distribution Amount will have a tax basis equal to its U.S. dollar value at the time the Periodic Distribution Amount is received. Gain or loss, if any, realized by a United States holder on a sale, exchange or other disposition of that foreign currency will be ordinary income or loss and generally will be income from sources within the United States for U.S. foreign tax credit limitation purposes.

Sale, Exchange or Retirement of Certificates

A United States holder's tax basis in a Certificate generally will equal the U.S. dollar cost of such Certificate to such holder. The "**U.S. dollar cost**" of a Certificate purchased with a foreign currency will generally be the U.S. dollar value of the purchase price on the date of purchase or, in the case of a Certificate traded on an established securities market (as defined in the applicable U.S. Treasury regulations) that is purchased by a cash basis United States holder (or an accrual basis United States holder that so elects), on the settlement date for the purchase. Upon the sale, exchange or retirement of a Certificate, a United States holder generally will recognize gain or loss equal to the difference between the amount realized on the sale, exchange or retirement (less any amounts in respect of accrued Periodic Distribution Amounts, which will be taxable as ordinary income) and the holder's tax basis in such Certificate.

The amount realized on the sale, exchange or retirement of a Certificate for an amount in foreign currency will be the U.S. dollar value of that amount on the date of disposition or, in the case of a Certificate traded on an established securities market (as defined in the applicable U.S. Treasury regulations) that is sold by a cash basis United States holder (or an accrual basis United States holder that so elects), on the settlement date for the sale. Gain or loss recognized by a United States holder on the sale, exchange or retirement of a Certificate that is attributable to changes in currency exchange rates will be ordinary income or loss and will consist of principal exchange gain or loss. Principal exchange gain or loss will equal the difference between the U.S. dollar value of the United States holder's purchase price of the Certificate in foreign currency determined on the date of the sale, exchange or retirement, and the U.S. dollar value of the United States holder's purchase price of the Certificate in foreign currency determined on the date the United States holder acquired the Certificate. The foregoing foreign currency gain or loss will be recognized only to the extent of the total gain or loss realized by the United States holder on the sale, exchange or retirement of the Certificate, and will generally be treated as from sources within the United States for U.S. foreign tax credit limitation purposes.

Any gain or loss recognized by a United States holder in excess of any foreign currency gain or loss recognized by a United States holder generally will be U.S. source capital gain or loss. For United States holders who are individuals, trusts or estates that hold the Certificates for more than one year, capital gains may be taxed at lower rates than ordinary income. The deductibility of capital losses is subject to certain limitations.

A United States holder will have a tax basis in any foreign currency received on the sale, exchange or retirement of a Certificate equal to the U.S. dollar value of the foreign currency at the time of the sale, exchange or retirement. Gain or loss, if any, realized by a United States holder on a sale, exchange or retirement of that foreign currency will be ordinary income or loss and will generally be income or loss from sources within the United States for U.S. foreign tax credit limitation purposes.

Potential Alternative Characterization

The Issuer believes that it is appropriate to treat the Certificates as representing debt obligations of the Obligor and intends to do so. However, the IRS may seek to characterize the Certificates as interests in a grantor trust for U.S. federal income tax purposes. Under this characterization, while the taxation of the income, gain or loss attributable to the Certificates would be essentially the same as the consequences described above, the Issuer and United States holders would be subject to certain information reporting applicable to foreign trusts. United States holders that fail to comply with these information reporting requirements in a timely manner could be subject to significant penalties. A United States holder could also be liable for penalties equal to the greater of \$10,000 or 5.0% of the gross value of the portion of the trust owned by a United States holder at the close of the year, if the Issuer failed to file a U.S. annual information return and provide each United States holder with a foreign grantor trust owner statement. Similar penalties would be applicable to the Issuer for failure to comply. The Issuer does not expect that it will provide information that would allow either itself or United States holders to comply with foreign trust reporting obligations if they were determined to be applicable. United States holders should consult their own tax advisors as to the potential application of the foreign trust reporting rules and the tax consequences generally with respect to an investment in the Certificates.

Non-United States Holders

Subject to the backup withholding rules discussed below, a non-United States holder generally should not be subject to U.S. federal income or withholding tax on any payments on the Certificates and gain from the sale, redemption or other disposition of the Certificates unless: (i) that payment and/or gain is effectively connected with the conduct by that non-United States holder of a trade or business in the U.S.; (ii) in the case of any gain realised on the sale or exchange of a Certificate by an individual non-United States holder, that holder is present in the U.S. for 183 days or more in the taxable year of the sale, exchange or retirement and certain other conditions are met; or (iii) the non-United States holder is subject to tax pursuant to provisions of the U.S. Internal Revenue Code of 1986 applicable to certain expatriates.

Information Reporting and Backup Withholding

Information returns may be required to be filed with the IRS with respect to payments made to certain United States holders of Certificates. In addition, a United States holder may be subject to backup withholding tax in respect of such payments if such holder fails to provide its taxpayer identification number, to certify that such United States holder is not subject to backup withholding, or otherwise to comply with the applicable requirements of the backup withholding rules. Non-United States holders may be required to comply with applicable certification procedures to establish that they are not United States holders in order to avoid the application of such information reporting requirements and backup withholding. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules from a payment to a holder of Certificates generally may be claimed as a credit against such holder's U.S. federal income tax liability **provided that** the required information is furnished to the IRS. Holders of Certificates should consult their own tax advisors as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

Additionally, certain United States holders may be required to report to the IRS certain information with respect to their beneficial ownership of the Certificates. Investors who fail to report required information could be subject to substantial penalties.

Reportable Transactions

A U.S. taxpayer that participates in a "reportable transaction" will be required to disclose its participation to the IRS. A United States holder may be required to treat a foreign currency exchange loss from the Certificates as a reportable transaction if the loss exceeds certain specified thresholds in a single taxable year. Accordingly, if a United States holder realizes a loss on any Certificate (or, possibly, aggregate losses from the Certificates) satisfying such thresholds, the United States holder could be required to file an information return with the IRS, and failure to do so may subject the United States holder to penalties. Prospective purchasers are urged to consult their tax advisors regarding the application of these rules to the acquisition, holding or disposition of Certificates.

The Proposed Financial Transactions Tax ("FTT")

On February 14, 2013, the European Commission published a proposal (the "**Commission's proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

The Commission's proposal has very broad scope and could, if introduced, apply to certain dealings in the Certificates (including secondary' market transactions) in certain circumstances.

Under the Commission's proposal, FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Certificates where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Certificates are advised to seek their own professional advice in relation to the FTT.

THE ABOVE DESCRIPTION IS NOT INTENDED TO CONSTITUTE A COMPLETE ANALYSIS OF ALL TAX CONSEQUENCES RELATING TO THE ACQUISITION, OWNERSHIP AND DISPOSITION OF CERTIFICATES. PROSPECTIVE PURCHASERS OF CERTIFICATES SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE TAX CONSEQUENCES OF THEIR PARTICULAR SITUATIONS.

ERISA CONSIDERATIONS

The U.S. Employee Retirement Income Security Act of 1974, as amended (“**ERISA**”), and Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the “**Code**”), impose certain restrictions on (i) employee benefit plans (as defined in Section 3(3) of ERISA) that are subject to Part 4 of Subtitle B of Title I of ERISA, (ii) plans (as defined in Section 4975(e)(1) of the Code) that are subject to Section 4975 of the Code, including individual retirement accounts and Keogh plans, (iii) any entities whose underlying assets are deemed to include plan assets by reason of a plan’s investment in such entities (each of the foregoing, a “**Plan**”) and (iv) persons who have certain specified relationships to a Plan or its assets “parties in interest” under ERISA and “disqualified persons” under the Code; collectively, “**Parties in Interest**”). ERISA also imposes certain duties on persons who are fiduciaries of Plans subject to ERISA, and ERISA and Section 4975 of the Code prohibit certain transactions between a Plan and Parties in Interest with respect to such Plan. Violations of these rules may result in the imposition of excise taxes and other penalties and liabilities under ERISA and the Code.

ERISA and Section 4975 of the Code prohibit a broad range of transactions involving plan assets and Parties in Interest, unless a statutory or administrative exemption is available. Parties in Interest that participate in a prohibited transaction may be subject to penalties imposed under ERISA and/or excise taxes imposed pursuant to Section 4975 of the Code, unless a statutory or administrative exemption is available. These prohibited transactions generally are set forth in Section 406 of ERISA and Section 4975 of the Code. Certain exemptions from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code may be applicable, however, depending in part on the type of Plan fiduciary making the decision to acquire any Certificates and the circumstances under which such decision is made. Included among these exemptions are Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code (relating to transactions between a person that is a Party in Interest (other than a fiduciary or an affiliate that has or exercises discretionary authority or control or renders investment advice with respect to assets involved in the transaction) solely by reason of providing services to the Plan, **provided that** there is adequate consideration for the transaction), Prohibited Transaction Class Exemption (“**PTCE**”) 91-38 (relating to investments by bank collective investment funds), PTCE 84-14 (relating to transactions effected by a qualified professional asset manager), PTCE 95-60 (relating to transactions involving insurance company general accounts), PTCE 90-1 (relating to investments by insurance company pooled separate accounts) and PTCE 96-23 (relating to transactions determined by in-house asset managers). Prospective investors should consult with their advisors regarding the prohibited transaction rules and these exceptions. There can be no assurance that any of these exemptions or any other exemption will be available with respect to any particular transaction involving any Certificates. Certain employee benefit plans, including governmental plans (as defined in Section 3(32) of ERISA), certain church plans (as defined in Section 3(33) of ERISA), and non-U.S. plans (as described in Section 4(b)(4) of ERISA) are not subject to the prohibited transaction rules of ERISA or the Code but may be subject to substantially similar rules under other applicable laws or regulations. Accordingly, assets of such plans may be invested in the Certificates without regard to the prohibited transaction considerations under ERISA and the Code described below, subject to the provisions of such other applicable federal, state, local or non-U.S. laws or regulations (“**Similar Law**”).

Each purchaser or transferee of the Certificates using the assets of a Plan, or a governmental plan, church plan or non-U.S. plan that is subject to Similar Law, will be deemed to have represented and agreed that its acquisition, holding and disposition of the Certificates will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of a governmental plan, church plan or non-U.S. plan, a violation of any Similar Law).

Each Plan fiduciary who is responsible for making the investment decisions whether to purchase or commit to purchase and to hold any of the Certificates should determine whether, under the documents and instruments governing the Plan, an investment in such Certificates is appropriate for the Plan, taking into account the overall investment policy of the Plan and the composition of the Plan’s investment portfolio. Any Plan proposing to invest in such Certificates (including any governmental, church or non-U.S. plan) should consult with its counsel to confirm that such investment will not constitute or result in a non-exempt prohibited transaction and will satisfy the other requirements of ERISA and the Code (or, in the case of a governmental, church or non-U.S. plan, any Similar Law).

The sale of any Certificates to a Plan is in no respect a representation by the Issuer, the Republic, the Arrangers, the Dealers or any other party to the transactions that such an investment meets all relevant legal requirements with respect to investments by Plans generally or any particular Plan, or that such an investment is appropriate for Plans generally or any particular Plan.

PLAN OF DISTRIBUTION

Subject to the terms and conditions stated in the Program Agreement between the Issuer, the Republic, the Arrangers and the Dealers, the Certificates may be offered on a continuous basis by the Republic to the Dealers. The Certificates 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 Certificates may also be sold by the Republic through the Dealers, acting as agents of the Republic. If a jurisdiction requires that the offering of the Certificates be made by a licensed broker or dealer and the Arrangers and Dealers or any their affiliates is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by that arranger or dealer or their affiliates on behalf of the Issuer in such jurisdiction. The Program Agreement also provides for Certificates 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 Certificates subscribed by it. The Republic has agreed to reimburse each Arranger 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 Certificates including liabilities under the Securities Act. The Program Agreement entitles the Dealers to terminate any agreement that they make to subscribe Certificates in certain circumstances prior to payment for such Certificates being made to the Republic.

The Arrangers and the Dealers and certain of their affiliates may from time to time engage in transactions with and perform services for the Issuer and the Republic in the ordinary course of their business. The Arrangers, Dealers and their respective affiliates are full service financial institutions engaged in various activities which may include securities trading, commercial and investment banking, financial advice, investment management, principal investment, hedging, financing and brokerage activities. Each of the Arrangers and Dealers may have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Republic from time to time. In the ordinary course of their various business activities, the Arrangers, Dealers and their respective affiliates may make or hold (on their own account, on behalf of clients or in their capacity of investment advisors) a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments and enter into other transactions, including credit derivatives (such as asset swaps, repackaging and credit default swaps) in relation thereto. Such transactions, investments and securities activities may involve securities and instruments of the Republic, including Certificates issued under the Program, may be entered into at the same time or proximate to offers and sales of Certificates or at other times in the secondary market and be carried out with counterparties that are also purchasers, holders or sellers of Certificates. Certificates issued under the Program may be purchased by or be allocated to any Dealer or an affiliate for asset management and/or proprietary purposes but not with a view to distribution.

United States

The Certificates have not been and will not be registered under the Securities Act or under any applicable securities laws or regulations of any state of the United States and, subject to certain exceptions, may not be offered or sold within the United States except to persons reasonably believed to be qualified institutional buyers in reliance on Rule 144A or another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Certificates are being offered and sold only (1) in the United States to qualified institutional buyers pursuant to Rule 144A under the Securities Act and (2) outside the United States in offshore transactions in reliance on Regulation S under the Securities Act.

The Certificates 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 the Certificates within the United States only to QIBs in reliance on Rule 144A or Institutional Accredited Investors pursuant to an exemption from the registration requirements of the Securities Act.

In addition, until 40 days after the commencement of the offering of any Series of Certificates, an offer or sale of such Certificates within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in

accordance with an available exemption from registration under the Securities Act. See “*Transfer Restrictions*” for a description of other restrictions on the transfer of the Certificates.

As used herein, the term “**United States**” has the meaning given to it in Regulation S.

United Kingdom

Each Dealer has represented, warranted and agreed that:

- (a) 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 it has not offered or sold and will not offer or sell any Certificates 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 Certificates would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act (“**FSMA**”) by the Issuer;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an 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 or sale of any Certificates in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer and the Republic; 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 Certificates in, from or otherwise involving the United Kingdom.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “**Relevant Member State**”), each Dealer has represented and agreed, and each further Dealer appointed under the Program will be required to represent and agree, 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 Certificates which are the subject of the offering contemplated by this Offering Memorandum 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 Certificates to the public in that Relevant Member State:

- (a) if the pricing supplement in relation to the Certificates specify that an offer of those Certificates 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 Certificates 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 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 Certificates referred to in (b) to (d) above 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 Certificates to the public**” in relation to any Certificates 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 Certificates to be offered so as to enable an investor to decide to purchase or subscribe the Certificates, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression “**Prospectus Directive**” means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

Hong Kong

This Offering Memorandum has not been approved by or registered with the Securities and Futures Commission of Hong Kong or the Registrar of Companies of Hong Kong. In relation to the Certificates, each Dealer has represented and agreed that:

- (a) it has not offered or sold and will not offer or sell in the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**"), by means of any document, any Certificates (except for Certificates which are a "structured product" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**SFO**")) other than (A) to "professional investors" as defined in the SFO and any rules made under the SFO; or (B) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and
- (b) 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 Certificates, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Certificates which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made thereunder.

Japan

As the Certificates 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**"), each relevant Dealer represents and agrees that it will not offer or sell any Certificates, 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.

Singapore

Each Dealer has acknowledged that this Offering Memorandum has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented, warranted and agreed that it has not offered or sold any Certificates or caused the Certificates to be made the subject of an invitation for subscription or purchase and will not offer or sell any Certificates or cause the Certificates 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 Memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Certificates, whether directly or indirectly, to any person in Singapore other than: (a) to an institutional investor (as defined in Section 4A of the Securities and Futures Act, Chapter 289 of Singapore (the "**SFA**") pursuant to Section 274 of the SFA, (b) to a relevant person (as defined in Section 275(2) of the SFA pursuant to Section 275(1) of the SFA, or to any person pursuant to Section 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 Certificates 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 transferred within six months after that corporation or that trust has acquired the Certificates pursuant to an offer made under Section 275 of the SFA except:

- (i) to an institutional investor or to a relevant person as defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or 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) as specified in Section 276(7) of the SFA; or
- (v) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

Brunei

This Offering Memorandum has not been registered, delivered to, licensed or permitted by the Autoriti Monetari Brunei Darussalam with the Authority designated under the Brunei Darussalam Securities Markets Order (the “SMO”) nor has it been registered with the Registrar of Companies, Registrar of International Business Companies. As such the Certificates may not be offered or sold or made the subject of an invitation for subscription or purchase nor may this Offering Memorandum or any other document or material in connection with the offer or sale or invitation for subscription or purchase of Certificates be circulated or distributed, whether directly or indirectly, to any person in Brunei other than: (a) to an accredited investor under Section 20 of the SMO; (b) an expert investor under Section 20 of the SMO; or (c) an institutional investor under Section 20 of the SMO, and in accordance with the conditions specified in Section 117 of the SMO.

This Offering Memorandum is for informational purposes only and does not constitute an invitation or offer to the public. It must not be distributed or redistributed to and may not be relied upon or used by any person in Brunei other than the person to whom it is directly communicated: (i) in accordance with the conditions of section 21(3) of the International Business Companies Order 2000; or (ii) whose business or part of whose business is in the buying and selling of shares within the meaning of section 308(4) of the Companies Act (Cap. 39).

Any offers, acceptances, subscription, sales and allotments of the Certificates shall be made outside Brunei. Nothing in this Offering Memorandum shall constitute legal, tax, accounting or investment advice. The recipient should independently evaluate any specific investment with consultation with professional advisors in law, tax, accounting and investments.

United Arab Emirates (excluding the Dubai International Finance Centre)

Each Dealer has represented and agreed that the Certificates have not been and will not be offered, sold or publicly promoted or advertised by it in the United Arab Emirates other than in compliance with any laws applicable in the United Arab Emirates governing the issue, offering and sale of securities.

Dubai International Financial Centre

Each Dealer has represented and agreed that it has not offered and will not offer the Certificates to any person in the Dubai International Financial Centre unless such offer is:

- (a) an “**Exempt Offer**” for the purposes of the Markets Rules (MKT) Module of the Dubai Financial Services Authority (the “**DFSA**”) rulebook; and
- (b) made only to persons who meet the Professional Client criteria set out in Rule 2.3.3 of the Conduct of Business Module of the DFSA rulebook.

Kingdom of Saudi Arabia

Any investor in the Kingdom of Saudi Arabia or who is a Saudi person (a “**Saudi Investor**”) who acquires Certificates pursuant to any offering should note that the offer of Certificates is a private placement under Article 10 of the “Offer of Securities Regulations” as issued by the Board of the Capital Market Authority resolution

number 2-11-2004 dated October 4, 2004 and amended by the Board of the Capital Market Authority resolution number 3-151-2016 dated December 21, 2016 (the “**KSA Regulations**”), made through a person authorised by the Capital Markets Authority (the “**CMA**”) to carry on the securities activity of arranging and following a notification to the CMA under the KSA Regulations. Each Dealer has represented, warranted and agreed that it shall not offer, sell or advertise the Certificates to any person in the Kingdom of Saudi Arabia other than to “Sophisticated Investors” under Article 11 of the KSA Regulations or by way of a limited offer under Article 12 of the KSA Regulations. Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Program will be required to represent, warrant and agree, that any offer of Certificates to a Saudi Investor will comply with the KSA Regulations, as amended and/or supplemented from time to time.

Each offer of Certificates shall not therefore constitute a “public offer” pursuant to the KSA Regulations, but is subject to the restrictions on secondary market activity under Article 18 of the KSA Regulations. Any Saudi Investor who has acquired Certificates pursuant to a private placement under Article 11 and/or Article 12 of the KSA Regulations may not offer or sell those Certificates to any person unless the offer or sale is made through an authorized person appropriately licensed by the Saudi Arabian Capital Market Authority and: (a) the Certificates are offered or sold to a “Sophisticated Investor” (as defined in Article 11 of the KSA Regulations); (b) the price to be paid for the Certificates in any one transaction is equal to or exceeds Saudi Riyal 1 million or an equivalent amount; or (c) the offer or sale is otherwise in compliance with Article 18 of the KSA Regulations.

State of Qatar

Each Dealer has represented and agreed that it has not offered or sold, and will not offer or sell, directly or indirectly, any Certificates in Qatar, including the Qatar Financial Centre, except (a) in compliance with all applicable laws and regulations of Qatar and (b) through persons or corporate entities authorized and licensed to provide investment advice and/or engage in brokerage activity and/or trade in respect of foreign securities in Qatar.

Kingdom of Bahrain

Each Dealer has represented, warranted and agreed that it has not offered and will not offer Certificates except on a private placement basis to persons in the Kingdom of Bahrain who are “accredited investors”. For this purpose, an accredited investor means: (a) an individual holding financial assets (either singly or jointly with a spouse) of U.S.\$1,000,000 or more excluding that person’s principal place of residence; (b) a company, partnership, trust or other commercial undertaking which has financial assets available for investment of not less than U.S.\$1,000,000; or (c) a government, supranational organisation, central bank or other national monetary authority or a state organisation whose main activity is to invest in financial instruments (such as a state pension fund).

Kuwait

The Certificates have not been licensed for offering in Kuwait by the Kuwait Capital Markets Authority. The offering of the Certificates in Kuwait on the basis of a private placement or public offering is, therefore, restricted in accordance with Law No. 7 of 2010 “Establishing of the Capital Markets Authority and the organization of securities activity”, its Executive Regulations and the various Resolutions and Announcements issued pursuant thereto or in connection therewith. No private or public offering of the Certificates is being made in Kuwait, and no agreement relating to the sale of the Certificates will be concluded in Kuwait. No marketing or solicitation or inducement activities are being used to offer or market the Certificates in Kuwait.

Malaysia

Each Dealer has represented, warranted and agreed that:

- (a) this Offering Memorandum has not been registered as a prospectus with the Securities Commission Malaysia under the Capital Markets and Services Act 2007 of Malaysia (the “**CMSA**”); and
- (b) accordingly, the Certificates have not been and will not be offered, sold or delivered, and no invitation to subscribe for or purchase the Certificates has or will be made, directly or indirectly, nor may any document or other material in connection therewith be distributed in Malaysia, other than to persons falling within any one of the categories of persons specified under Part 1 of Schedule 6 (or Section 229(1)(b)) and Part 1 of Schedule 7 (or Section 230(1)(b)) of the CMSA, read together with Schedule 8 (or Section 257(1)) and Schedule 9 (or Section 257(3)) of the CMSA, subject to any law, order, regulation or official directive of Central Bank of Malaysia, Securities Commission Malaysia and/or any other regulatory authority from time to time.

Residents of Malaysia may be required to obtain relevant regulatory approvals including approval from the Controller of Foreign Exchange to purchase the Certificates. The onus is on the Malaysian residents concerned to obtain such regulatory approvals and none of the Dealers is responsible for any invitation, offer, sale or purchase of the Certificates as aforesaid without the necessary approvals being in place.

Switzerland

This Offering Memorandum is not intended to constitute an offer or solicitation to purchase or invest in the Certificates. The Certificates may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither this Offering Memorandum nor any other offering or marketing material relating to the Certificates constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations or a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange or any other regulated trading facility in Switzerland and neither this Offering Memorandum nor any other offering or marketing material relating to the Certificates may be publicly distributed or otherwise made publicly available in Switzerland.

General

These selling restrictions may be modified by agreement between the Issuer, the Republic and the Dealers following a change in relevant law, regulation or directive. The distribution of this Offering Memorandum and the offering, sale or delivery of the Certificates is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Offering Memorandum are advised to consult with their own legal advisers as to what restrictions may be applicable to them and to observe such restrictions. This Offering Memorandum may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorized. The Certificates may not be offered or sold, directly or indirectly, and neither this Offering Memorandum nor such other material may be distributed or published in or from any country or jurisdiction except in compliance with any applicable rules and regulations of such country or jurisdiction.

No representation is made that any action has been taken in any jurisdiction that would permit a public offering of the Certificates, or possession or distribution of this Offering Memorandum, or any other offering material in any country or jurisdiction where action for that purpose is required.

Settlement and Delivery

The Republic and the Issuer expect that delivery of the Global Certificates will be made against payment therefor on or about the Closing Date, which will be on or about the fifth business day following the date of pricing of the Certificates. Under Rule 15c6-1 of the U.S. Securities Exchange Act, trades in the secondary market generally are required to settle in three business days, unless the parties to a trade expressly agree otherwise. Accordingly, purchasers who wish to trade the Certificates on the date of pricing or the next succeeding business day will be required, by virtue of the fact that the Certificates initially will settle on or about T+5, to specify alternative settlement arrangements to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of Certificates may be affected by such local settlement practices and purchasers of Certificates who wish to trade Certificates on the date of pricing or the next succeeding business day should consult their own advisor.

In connection with the issue of Certificates in any Series under the Program, subsequent to the issue of Certificates, 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 Certificates or effect transactions with a view to supporting the market price of the Certificates in such a Series at a level higher than that which might otherwise prevail. However, there is no assurance that a 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.

TRANSFER RESTRICTIONS

Due to the following significant transfer restrictions applicable to the Certificates, investors are advised to consult legal counsel prior to making any reoffer, resale, pledge, transfer or disposal of Certificates.

The Certificates 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 registration statement or in accordance with an applicable exemption from the registration requirements of the Securities Act. Accordingly, the Certificates are being offered and sold in the United States only to persons reasonably believed to be QIBs in reliance on the registration exemption in Rule 144A of the Securities Act or to Institutional Accredited Investors within the meaning of Rule 501(a)(1), (2), (3) or (7) of Regulation D of the Securities Act pursuant to another available exemption from registration under the Securities Act. The international offering is being made outside the United States in offshore transactions pursuant to Regulation S under the Securities Act.

Any reoffer, resale, pledge, transfer or other disposal, or attempted reoffer, resale, pledge, transfer or other disposal, made other than in compliance with the restrictions noted below shall not be recognized by the Republic, the Issuer or the Trustee.

Rule 144A Transfer Restrictions

Each purchaser of the Rule 144A Certificates in the United States will be deemed to have acknowledged, represented and agreed that:

1. It is:
 - (a) a QIB as defined in Rule 144A under the Securities Act;
 - (b) aware, and that each beneficial owner of the Rule 144A Certificates has been advised, that the sale of such Certificates to it is being made in reliance on Rule 144A; and
 - (c) acquiring the Rule 144A Certificates for its own account or for the account of one or more QIBs; and
2. It understands that the Rule 144A Certificates have not been and will not be registered under the Securities Act or the securities laws of any state of the United States and may be offered, sold, pledged or otherwise transferred only:
 - (a) outside the United States in an offshore transaction in accordance with Regulation S under the Securities Act;
 - (b) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available);
 - (c) within the United States to a person whom it reasonably believes is a QIB that is purchasing for its own account or for the account of one or more QIBs, in a transaction meeting the requirements of Rule 144A under the Securities Act; or
 - (d) pursuant to an effective registration statement under the Securities Act,in each case in accordance with any applicable securities laws of any state of the United States; and
3. Rule 144A Certificates sold in the offering will constitute “restricted securities” within the meaning of Rule 144 under the Securities Act, and for so long as they remain “restricted securities” such Rule 144A Certificates may not be transferred except as described in paragraph (2) above; and
4. Rule 144A Certificates will bear a legend to the following effect, unless the Issuer determines otherwise in compliance with applicable law:

“THIS CERTIFICATE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE SECURITIES ACT), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND ACCORDINGLY MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED OR DISPOSED OF WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT AS SET FORTH IN THE FOLLOWING SENTENCE.

BY ITS ACQUISITION HEREOF, THE HOLDER (1) REPRESENTS THAT (A) IT IS A “QUALIFIED INSTITUTIONAL BUYER” (AS DEFINED IN RULE 144A UNDER THE

SECURITIES ACT) OR (B) IT IS ACQUIRING THE CERTIFICATES REPRESENTED HEREBY IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH REGULATIONS UNDER THE SECURITIES ACT, (2) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THE CERTIFICATES EXCEPT (A) WITHIN THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QUALIFIED INSTITUTIONAL BUYERS IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT, (B) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (C) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) OR (D) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT AND (3) AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS CERTIFICATE IS BEING TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND.

AS USED HEREIN, THE TERMS “OFFSHORE TRANSACTION” AND “UNITED STATES” HAVE THE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE SECURITIES ACT. IN CONNECTION WITH ANY TRANSFER, THE HOLDER WILL DELIVER TO THE REGISTRAR SUCH OPINIONS OF COUNSEL, CERTIFICATES AND/OR OTHER INFORMATION AS IT MAY REASONABLY REQUIRE IN FORM REASONABLY SATISFACTORY TO IT AS PROVIDED FOR IN THE DECLARATION OF TRUST TO CONFIRM THAT THE TRANSFER COMPLIED WITH THE FOREGOING RESTRICTIONS AS PROVIDED FOR IN THE DECLARATION OF TRUST.

ANY RESALE OR OTHER TRANSFER OF THIS CERTIFICATE (OR BENEFICIAL INTEREST HEREIN) WHICH IS NOT MADE IN COMPLIANCE WITH THE RESTRICTIONS SET FORTH HEREIN WILL BE OF NO FORCE AND EFFECT, WILL BE NULL AND VOID *AB INITIO* AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE;” and

5. The Issuer, the Republic, the Registrar, the other Transfer Agents, 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 Certificates 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.

Definitive IAI Transfer Restrictions

Each purchaser of the Definitive IAI Certificates in the United States will be deemed to have acknowledged, represented and agreed that:

1. It is:
 - (a) an Accredited Investor within the meaning of Rule 501(a)(1), (2), (3) or (7) of Regulation D of the Securities Act that is an institution which has delivered an IAI Investment Letter; and
 - (b) acquiring the Definitive IAI Certificates for its own account or for the account of one or more Institutional Accredited Investors; and
2. It understands that the Definitive IAI Certificates have not been and will not be registered under the Securities Act or the securities laws of any state of the United States and may be offered, sold, pledged or otherwise transferred only:
 - (a) outside the United States in an offshore transaction in accordance with Regulation S under the Securities Act;
 - (b) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available);
 - (c) within the United States to a person whom it reasonably believes is a QIB that is purchasing for its own account or for the account of one or more QIBs, in a transaction meeting the requirements of Rule 144A under the Securities Act; or
 - (d) pursuant to an effective registration statement under the Securities Act,

in each case in accordance with any applicable securities laws of any state of the United States; and

3. Definitive IAI Certificates sold in the offering will constitute “restricted securities” within the meaning of Rule 144 under the Securities Act, and for so long as they remain “restricted securities” such Definitive IAI Certificates may not be transferred except as described in paragraph (2) above; and
4. Definitive IAI Certificates will bear a legend to the following effect, unless the Issuer determines otherwise in compliance with applicable law:

“THIS CERTIFICATE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE SECURITIES ACT), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND ACCORDINGLY MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED OR DISPOSED OF WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT AS SET FORTH IN THE FOLLOWING SENTENCE.

BY ITS ACQUISITION HEREOF, THE HOLDER (1) REPRESENTS THAT (A) 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 CERTIFICATE FOR INVESTMENT PURPOSES ONLY AND NOT WITH A VIEW TO ANY RESALE OR DISTRIBUTION HEREOF, SUBJECT TO ITS ABILITY TO RESELL THIS CERTIFICATE 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 CERTIFICATE BY ITS ACCEPTANCE HEREOF AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THE CERTIFICATES EXCEPT (A) WITHIN THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QUALIFIED INSTITUTIONAL BUYERS IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT, (B) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (C) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) OR (D) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT.

AS USED HEREIN, THE TERMS “OFFSHORE TRANSACTION” AND “UNITED STATES” HAVE THE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE SECURITIES ACT. IN CONNECTION WITH ANY TRANSFER, THE HOLDER WILL DELIVER TO THE REGISTRAR SUCH OPINIONS OF COUNSEL, CERTIFICATES AND/OR OTHER INFORMATION AS IT MAY REASONABLY REQUIRE IN FORM REASONABLY SATISFACTORY TO IT AS PROVIDED FOR IN THE DECLARATION OF TRUST TO CONFIRM THAT THE TRANSFER COMPLIED WITH THE FOREGOING RESTRICTIONS AS PROVIDED FOR IN THE DECLARATION OF TRUST.

ANY RESALE OR OTHER TRANSFER OF THIS CERTIFICATE (OR BENEFICIAL INTEREST HEREIN) WHICH IS NOT MADE IN COMPLIANCE WITH THE RESTRICTIONS SET FORTH HEREIN WILL BE OF NO FORCE AND EFFECT, WILL BE NULL AND VOID *AB INITIO* AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE”; and

5. The Issuer, the Republic, the Registrar, the other Transfer Agents, 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 Certificates for the account of one or more Institutional Accredited Investors, 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.

Regulation S Transfer Restrictions

Each purchaser of the Regulation S Certificates and each subsequent purchaser of such Regulation S Certificates in resales, by accepting delivery of this Offering Memorandum and the Certificates, will be deemed to have represented, agreed and acknowledged that:

1. It is, or at the time Regulation S Certificates are purchased will be, the beneficial owner of such Regulation S Certificates and (a) 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;
2. It understands that such Regulation S Certificates have not been and will not be registered under the Securities Act;
3. It understands that the Regulation S Certificates, unless otherwise determined by the Issuer in accordance with applicable law, will bear a legend substantially in the following form:

“THIS CERTIFICATE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (the “**SECURITIES ACT**”), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND ACCORDINGLY MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED OR DISPOSED OF WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT”; and
4. The Issuer, the Republic, the Registrar, the other Transfer Agents, the Arrangers, the Dealers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements.

ERISA Transfer Restrictions

Each purchaser or transferee of the Certificates will be deemed to have acknowledged, represented and agreed that (a) either: (i) it is not, and for so long as it holds the Certificates or interests in the Certificates will not be, an employee benefit plan (as defined in Section 3(3) of the U.S. Employee Retirement Income Security Act of 1974, as amended (“**ERISA**”)) subject to the provisions of part 4 of subtitle B of Title I of ERISA, a plan to which Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the “**Code**”), applies, or any entity whose underlying assets include “plan assets” by reason of such an employee benefit plan’s and/or plan’s investment in such entity, or a governmental plan, church plan or non-U.S. plan that is subject to any laws, regulations or rules that are substantially similar to Section 406 of ERISA or Section 4975 of the Code (collectively, “**Similar Law**”), or (ii) its acquisition, holding or disposition of the Certificates or interests in the Certificates will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of a governmental plan, church plan, non-U.S. or other plan, a violation of any Similar Law); and (b) it will not transfer any such Certificates to any person unless such person could itself truthfully make the foregoing deemed acknowledgements, representations and agreements.

LEGAL MATTERS

The validity of the Certificates will be passed upon for the Republic by the Head of the Legal Bureau of the Ministry of Finance of the Republic and by Assegaf Hamzah & Partners, Indonesian counsel to the Republic and the Issuer, as to matters of Indonesian law, and by Clifford Chance Pte. Ltd., international counsel to the Republic and the Issuer, as to matters of U.S. federal and English law. Certain legal matters will be passed upon for the Arrangers and Dealers by AZP Legal Consultants, Indonesian counsel to the Arrangers and Dealers and by Norton Rose Fulbright (Asia) LLP, international counsel to the Arrangers and Dealers, as to matters of U.S. federal securities and English law. In rendering their opinions, Clifford Chance Pte. Ltd. will rely as to all matters of Indonesian law upon the opinion of the Head of the Legal Bureau of the Ministry of Finance of the Republic and of Assegaf Hamzah & Partners and Norton Rose Fulbright (Asia) LLP will rely as to all matters of Indonesian law upon the opinions of Assegaf Hamzah & Partners and AZP Legal Consultants.

CLEARANCE AND SETTLEMENT

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC or Euroclear and/or Clearstream, Luxembourg currently in effect. The information in this section concerning such clearing systems has been obtained from sources that the Issuer believes to be reliable, but none of the Issuer, the Republic, the Arrangers, the Dealers, the Agents or the Delegate takes any responsibility for the accuracy of this section. The Issuer and the Republic only take responsibility for the correct extraction and reproduction of the information in this section. 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. None of the Issuer, the Republic nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Certificates 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.

Book-entry ownership

The Certificates will be evidenced on issue by the Regulation S Global Certificate (unless otherwise specified in the applicable Pricing Supplement, registered in the name of a nominee of, and shall be deposited with a custodian for, DTC for the accounts of Euroclear and Clearstream, Luxembourg or registered directly in the name of a nominee of, and shall be deposited with the common depository for, Euroclear and Clearstream, Luxembourg) and the Rule 144A Global Certificate (unless otherwise specified in the applicable Pricing Supplement, registered in the name of a nominee of, and shall be deposited with a custodian for, DTC).

Unless otherwise specified in the applicable Pricing Supplement, the Issuer, and a relevant US agent appointed for such purpose that is an eligible DTC participant, will make application to DTC for acceptance in its book-entry settlement system of the Certificates represented by the Regulation S Global Certificate and the Rule 144A Global Certificate. Unless otherwise specified in the applicable Pricing Supplement, the Issuer will also make application to Euroclear and/or Clearstream, Luxembourg for acceptance in their respective book-entry systems in respect of the Certificates to be represented by the Regulation S Global Certificate. The Regulation S Global Certificate and Rule 144A Global Certificate will each have a CUSIP, an ISIN and a Common Code. The Rule 144A Global Certificate and the Regulation S Global Certificate will be subject to restrictions on transfer contained in a legend appearing on the front of such Global Certificate, as set out under “*Transfer Restrictions*.” In certain circumstances, as described below, transfers of interests in the Rule 144A Global Certificate may be made as a result of which such legend may no longer be required.

Upon the Global Certificates being registered in the name of a nominee of, and deposited with a custodian for, DTC, DTC will electronically record the nominal amount of the Certificates held within the DTC system. Investors may hold their beneficial interests in the Global Certificates directly through DTC if they are participants in the DTC system, or indirectly through organizations (including Euroclear and Clearstream, Luxembourg) which are participants in such system (together, such direct and indirect participants of DTC shall be referred to as “**DTC participants**”). All interests in the Global Certificates, including those held through Euroclear or Clearstream, Luxembourg may be subject to the procedures and requirements of DTC. Those interests held through Euroclear or Clearstream, Luxembourg may also be subject to the procedures and requirements of such system.

Upon the Regulation S Global Certificates being registered in the name of a nominee of, and deposited with a common depository for Euroclear and Clearstream, Luxembourg, Euroclear and Clearstream, Luxembourg will electronically record the face amount of the Certificates held within their respective systems. Investors may hold their beneficial interests in the Regulation S Global Certificates directly through Euroclear and Clearstream, Luxembourg if they are participants in those systems or indirectly through organizations which are participants in such system. The interests held through Euroclear or Clearstream, Luxembourg may also be subject to the procedures and requirements of such system.

Payments and relationship of participants with clearing systems

Each of the persons shown in the records of DTC as the holder of a Certificate represented by a Global Certificate must look solely to DTC for his share of each payment made by the Issuer to the holder of such Global Certificate and in relation to all other rights arising under such Global Certificate, subject to and in accordance with the respective rules and procedures of DTC. The Issuer expects that, upon receipt of any

payment in respect of Certificates represented by a Global Certificate, DTC or its nominee will immediately credit the relevant participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the face amount of the relevant Global Certificate as shown on the records of the relevant clearing system or its nominee. The Issuer also expects that payments by DTC participants to owners of beneficial interests in a Global Certificate held through such DTC participants will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Certificates for so long as the Certificates are represented by such Global Certificate and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of such Global Certificate in respect of each amount so paid. None of the Issuer, the Delegate or any Agent shall have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Certificate or for maintaining, supervising or reviewing any records relating to such ownership interests.

Transfer of Certificates

Transfers of interests in the Global Certificates within Euroclear, Clearstream, Luxembourg and DTC will be in accordance with the usual rules and operating procedures of the relevant clearing system. The laws of some states in the United States require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in the Rule 144A Global Certificate to such persons may be limited. Because DTC can only act on behalf of participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in the Rule 144A Global Certificate to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate in respect of such interest.

Beneficial interests in the Regulation S Global Certificate may only be held through Euroclear or Clearstream, Luxembourg. In the case of Certificates to be cleared through Euroclear, Clearstream, Luxembourg and/or DTC, transfers may be made at any time by a holder of an interest in the Regulation S Global Certificate to a transferee who wishes to take delivery of such interest through the Rule 144A Global Certificate **provided that** any such transfer will, subject to the applicable procedures of Euroclear, Clearstream, Luxembourg and/or DTC from time to time, only be made upon receipt by any Transfer Agent of a written certificate from Euroclear or Clearstream, Luxembourg, as the case may be, (based on a written certificate from the transferor of such interest) to the effect that such transfer is being made to a person that the transferor reasonably believes is a QIB within the meaning of Rule 144A purchasing the Certificates for its own account or any account of a QIB, in each case in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States. Any such transfer made thereafter of the Certificates represented by such Regulation S Global Certificate will only be made upon request through Euroclear or Clearstream, Luxembourg by the holder of an interest in the Regulation S Global Certificate to the Delegate or other agent of details of that account at DTC to be credited with the relevant interest in the Rule 144A Global Certificate. Transfers at any time by a holder of any interest in the Rule 144A Global Certificate to a transferee who takes delivery of such interest through the Regulation S Global Certificate will, subject to the applicable procedures of Euroclear, Clearstream, Luxembourg and/or DTC from time to time, only be made upon delivery to any transfer agent of a certificate setting forth compliance with the provisions of Regulation S and giving details of the account at Euroclear or Clearstream, Luxembourg, as the case may be, and DTC to be credited and debited, respectively, with an interest in each relevant Global Certificate.

Subject to compliance with the transfer restrictions applicable to the Certificates described above and under "*Transfer Restrictions*," cross-market transfers between DTC, on the one hand, and directly or indirectly through Euroclear or Clearstream, Luxembourg accountholders, on the other, will be effected by the relevant clearing system in accordance with its rules and through action taken by the custodian or common depository of the Global Certificates, the Registrar, the Transfer Agents, the Principal Paying Agent and any other Paying Agents.

On or after the Closing Date, transfers of Certificates between accountholders in Euroclear and/or Clearstream, Luxembourg and transfers of Certificates between participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in Euroclear or Clearstream, Luxembourg and DTC participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Euroclear and Clearstream, Luxembourg, on the other, transfers of interests between the Global Certificates will be effected through the Principal Paying Agent and other paying

agents, the custodian or common depository of the Global Certificates, the Registrar and any other Transfer Agent receiving instructions (and where appropriate certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. Transfers will be effected on the later of (i) three business days after the trade date for the disposal of the interest in the relevant Global Certificate resulting in such transfer and (ii) two business days after receipt by the Principal Paying Agent or other paying agent or the Registrar or other Transfer Agent, as the case may be, of the necessary certification or information to effect such transfer. In the case of cross-market transfers, settlement between Euroclear or Clearstream, Luxembourg accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

For a further description of restrictions on transfer of the Certificates, see “*Transfer Restrictions.*”

DTC

DTC is a limited purpose trust company organized under the laws of the State of New York, a “banking organization” under the laws of the State of New York, a member of the US Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its participants and facilitate the clearance and settlement of securities transactions between participants through electronic computerized book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. Direct participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC direct participant, either directly or indirectly.

DTC will take any action permitted to be taken by a holder of Certificates only at the direction of one or more DTC participants in whose accounts with DTC interests in the Global Certificates are credited and only in respect of such portion of the aggregate nominal amount of the relevant Global Certificate as to which such DTC participant or participants has or have given such direction. However, the custodian of the Global Certificates will surrender the relevant Global Certificate for exchange for individual definitive certificates in certain limited circumstances.

Although Euroclear, Clearstream, Luxembourg and DTC have agreed to the foregoing procedures in order to facilitate transfers of beneficial interests in the Global Certificates among participants and accountholders of Euroclear, Clearstream, Luxembourg and DTC 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 Issuer, the Delegate or any Agent will have any responsibility for the performance by Euroclear, Clearstream, Luxembourg or DTC or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations.

While the Global Certificates are lodged with DTC, Certificates represented by individual definitive certificates will not be eligible for clearing or settlement through Euroclear, Clearstream, Luxembourg or DTC.

Euroclear and Clearstream, Luxembourg

Each of Euroclear and Clearstream, Luxembourg 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, Luxembourg each provides various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg each also deals with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg 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, Luxembourg 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, Luxembourg 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, Luxembourg are governed by the respective rules and operating procedures of Euroclear or

Clearstream, Luxembourg and any applicable laws. Both Euroclear and Clearstream, Luxembourg 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.

Individual Definitive Certificates

Registration of title to Certificates in a name other than a custodian or its nominee for DTC or the common depository for Euroclear and Clearstream, Luxembourg will be permitted only in the circumstances set forth in “*Global Certificates — Exchange for Definitive Certificates*.” In such circumstances, the Issuer and the Delegate will cause sufficient individual definitive certificates to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Certificate holder. A person having an interest in a Global Certificate must provide the Registrar with certain information as specified in the Agency Agreement.

Pre-issue trades settlement

It is expected that delivery of Certificates will be made against payment therefor on the Issue Date, which could be more than three business days following the date of pricing of the Certificates. Under Rule 15c6-1 under the Exchange Act, trades in the secondary market generally are required to settle within three business days (T+3), unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Certificates on the date of pricing or the next succeeding business day will be required, by virtue of the fact the Certificates initially will settle beyond T+3, to specify an alternative settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of Certificates may be affected by such local settlement practices and purchasers of Certificates who wish to trade Certificates on the date of pricing or the next succeeding business day should consult their own advisor.

GENERAL INFORMATION

Authorization

The entry by the Republic into the transactions contemplated by the Transaction Documents was authorized by (1) Law No. 19 of 2008 on Sovereign Sukuk (*Surat Berharga Syariah Negara*), (2) Law No. 15 of 2017 on State Budget of 2018 passed on November 20, 2017 and (3) the approval on the use of underlying assets for the issuance of sovereign sukuk from the Minister of Finance on the list of projects of ministries or agencies (“**List of Projects**”) as underlying assets for the issuance of sovereign sukuk in 2018 on December 18, 2017. The use of underlying assets for the issuance of sovereign sukuk (save for the List of Projects) was provided to the parliament on October 24, 2017. The Issuer was created under Government Regulation No. 57 of 2011 on the Establishment of *Perusahaan Penerbit Surat Berharga Syariah Negara Indonesia III* in conjunction with the Government Regulation No. 56 of 2008 on *Perusahaan Penerbit Surat Berharga Syariah Negara* as amended by Government Regulation No. 73 of 2012 on the amendment of Government Regulation No. 56 of 2008 on *Perusahaan Penerbit Surat Berharga Syariah Negara* for the purpose of issuing the Certificates and entering into the Transaction Documents.

Listing

Application has been made to the SGX-ST for permission to deal in and quotation of any Certificates 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. However, Certificates 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 Certificates will specify whether or not the Certificates will be listed on the SGX-ST or any other stock exchange.

For so long as the Certificates are listed on the SGX-ST and the rules of the SGX-ST so require, the Issuer shall appoint and maintain a Paying Agent in Singapore, where such Certificates may be presented or surrendered for payment or redemption, in the event that any of the Global Certificates representing such Certificates is exchanged for definitive Certificates. In addition, in the event that any of the Global Certificates is exchanged for definitive Certificates, for so long as such Certificates are listed on the SGX-ST, an announcement of such exchange will be made by or on behalf of the Issuer through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive Certificates, including details of the Paying Agent in Singapore.

It is expected that each Series of Certificates which is to be admitted to the DFSA Official List and to trading on Nasdaq Dubai will be admitted separately as and when issued, subject only to the issue of a Global Certificate initially representing the Certificates of such Series. Application has been made for the Certificates to be admitted to the DFSA Official List and to be admitted to trading on Nasdaq Dubai. However, unlisted Certificates may also be issued pursuant to the Program.

Documents Available

For so long as any Certificates remain outstanding, copies (and English translations where the documents in question are not in English) of the following documents will be available, during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted), for inspection at the offices of the Issuer and, between 9.30am and 3.00pm, Monday to Friday (public holidays excepted), for inspection at the specified office of the Principal Paying Agent in New York:

- (a) the Transaction Documents;
- (b) Law No. 19 of 2008 on Sovereign Sukuk (*Surat Berharga Syariah Negara*; Government Regulation No. 56 of 2008 on *Perusahaan Penerbit Surat Berharga Syariah Negara* as amended by Government Regulation No. 73 of 2012 on the amendment of Government Regulation No. 56 of 2008 on *Perusahaan Penerbit Surat Berharga Syariah Negara* and Government Regulation No. 57 of 2011 on the Establishment of *Perusahaan Penerbit Surat Berharga Syariah Negara Indonesia III*;
- (c) this Offering Memorandum; and
- (d) any future offering circulars, offering memoranda, prospectuses, information memoranda and supplements, including the Pricing Supplement (except that the Pricing Supplement relating to unlisted Certificates will only be available for inspection by a Holder of such Certificate and such Holder must

produce evidence satisfactory to the Delegate as to the identity of such Holder) to this Offering Memorandum and any other documents incorporated herein or therein by reference.

Clearing Systems

The appropriate common code and ISIN for each Tranche of Certificates allocated by DTC or Euroclear and Clearstream, Luxembourg will be specified in the applicable Pricing Supplement. In addition, the CUSIP for each Tranche of Certificates allocated by DTC will also be specified in the applicable Pricing Supplement. If the Certificates are to clear through an additional or alternative clearing system, the appropriate information will be specified in the applicable Pricing Supplement.

Significant or Material Change

There has been no significant change in the financial or trading position of the Issuer and no material adverse change in the financial position or prospects of the Issuer, in each case, since the date of its incorporation. Except as disclosed in this Offering Memorandum, there has been no material adverse change in the information set out in this Offering Memorandum under “*Republic of Indonesia*” since the date of this Offering Memorandum. There have been no recent events relevant to the evaluation of the Republic’s solvency.

Litigation

Neither the Issuer nor the Republic is currently, nor have either of them in the 12 months preceding the date of this Offering Memorandum been, involved in any governmental, legal or arbitration proceedings (including any such proceedings that are pending or, except as may be disclosed in this Offering Memorandum, threatened of which either the Issuer or the Republic is aware) that may have, or that in the 12 months preceding the date of this Offering Memorandum have had, a significant effect on the financial position or profitability of the Issuer or the financial position of the Republic.

Financial Statements

The fiscal years of the Issuer end on December 31, of each year.

The Issuer prepares unaudited financial statements in respect of the end of, and the first six months of, each fiscal year. The Issuer is not required by Indonesian law to prepare or publish audited financial statements and does not intend to do so. If the Issuer publishes its accounts, it will ensure that copies are made available free of charge at the specified office of the Principal Paying Agent in New York.

The Issuer has no subsidiaries.

APPENDIX

THE GREEN BOND AND GREEN SUKUK FRAMEWORK

From time to time, the Issuer may issue Certificates the proceeds of which will be used by the Republic exclusively to finance or refinance expenditure directly related to Eligible Green projects (as defined below). The following Green Bond and Green Sukuk Framework applies to such issuances.

THE REPUBLIC OF INDONESIA

GREEN BOND AND GREEN SUKUK FRAMEWORK

I. INTRODUCTION

BACKGROUND

Indonesia is strongly committed to combating climate change and is also one of the nations most susceptible to climate-induced disasters. As such, Indonesia has made a number of commitments to step up its climate change adaptation and mitigation priorities.

As part of a responsible and committed global community, Indonesia has ratified the Paris Agreement in 2016 and submitted its Nationally Determined Contributions (NDCs). It sets out Indonesia's commitment to a low carbon and climate resilient future. For 2020 and beyond, Indonesia aims to reach archipelagic climate resilience from comprehensive adaptation and mitigation programs, and disaster risk reduction strategies.

Indonesia has a pivotal role in combating climate change. Its extensive tropical landscape and seascape with high biodiversity, high carbon stock values and energy and mineral resources are all contributing factors for the nation to be at the forefront of climate action and environmental protection. Furthermore Indonesia's position close to the global ocean conveyor system make it particularly vulnerable to natural disasters that will likely to be exacerbated by climate change.

Under current administration, Indonesia has set out priority actions within the national's strategic development goals, known as the *Nawacita* (or Nine Agenda Priorities). This includes protecting Indonesian people, encouraging rural and regional development, improving the quality of life, and improving productivity and international competitiveness. Shifting to a low carbon and climate resilient development path is an integral part of these missions, and is integrated in development policies, strategies and programs of the National Medium-Term Development Plan (RPJMN) 2015-2019.

Many of the projects being undertaken by the Indonesian Government to address climate change mitigation and adaption will also deliver important social benefits. The implementation of these missions involves all stakeholders.

1. MITIGATION

To implement its commitment to reduce greenhouse gas (GHG) emissions, Indonesia has promulgated relevant legal and policy instruments, including the Presidential Regulation (PERPRES) No. 61/2011, National Action Plan to Reduce Greenhouse Gas Emissions (RAN-GRK)¹ and the Presidential Regulation (PERPRES) No. 71/2011, the Implementation of a National GHG Inventory. In 2015, Indonesia has revised its commitment through Nationally Determined Contribution ("NDC") to an unconditional emission reduction target of 29% (from previously 26%), and conditional reduction target up to 41% of the business as usual scenario by 2030 (from previously by 2020). The mitigation regulations are focusing on the sectors of Energy, Waste, Industrial Processes and Product Use (IPPU), Agriculture, and Forestry.

2. ADAPTATION

Climate change presents significant risks for Indonesia's natural resources that will, in turn, impact the production and distribution of food, water, and energy. Therefore, Indonesia considers climate mitigation and adaptation efforts as an integrated concept that is essential for building resilience in safeguarding food, water and energy resources. Indonesia has adopted the National Action Plan on Climate Change Adaptation (RAN-API) which provides a national framework for adaptation initiatives that has been mainstreamed into the National

¹ http://www.sekretariat-rangrk.org/images/documents/PERPRES%20_61_2011_English.pdf

Development Plan. The medium-term goal of Indonesia's climate change adaptation strategy is to reduce risks on all development sectors (agriculture, water, energy security, forestry, maritime and fisheries, health, public service, infrastructure, and urban system) by 2030 through local capacity strengthening, improved knowledge management, convergent policy on climate change adaptation and disaster risks reduction, and application of adaptive technology.

3. BIODIVERSITY

Indonesia is an archipelago made up of approximately 17,000 islands throughout which there are unique ecosystems containing a large number of diverse species. The country also contains the world's third largest area of rainforest. Yet, Indonesia is facing challenges in maintaining its status as one of the megadiverse countries in the world due to threats such as deforestation. As the preservation of biodiversity is closely associated with national prosperity and development, the Indonesian Biodiversity Strategy and Action Plan (IBSAP) 2015-2020 was launched to provide an outline for how biodiversity could be utilized sustainably to improve the economic and development opportunities. Indonesia's strong commitment on the environment and climate change issues, as well as biodiversity, could be achieved through comprehensive and coherent policy development, institutional strengthening, technology innovation, social-cultural approaches, and improved financial and funding mechanisms.

II. APPLICATION OF ICMA GREEN BOND PRINCIPLES²

The Republic of Indonesia (ROI) has developed a Green Bond and Green Sukuk Framework (the "Framework") under which it plans to finance and or re-finance Eligible Green Projects via the issuance of Green Bonds and Green Sukuk.

1. Use of Proceeds

With reference to the Green Bond Principles, the proceeds of each Green Bond or Green Sukuk will be used exclusively to finance or re-finance expenditure directly related to "Eligible Green Projects".

"Eligible Green Projects" refer to projects which promote the transition to low-emission economy and climate resilient growth, including climate mitigation, adaptation, and biodiversity in accordance with the criteria and process set out in this Framework.

Eligible Green Projects must fall into at least one of the following sectors:

Eligible Sectors	Further Detail of Eligible Green Projects
Renewable Energy	• Generation and transmission of energy from renewable energy sources: include offshore and onshore wind, solar, tidal, hydropower, biomass and geothermal • Research and development of products or technology ("R&D") for renewable energy generation, include turbines and solar panels
Energy Efficiency	• Improvement of the energy efficiency of infrastructure, which results in an energy consumption of at least 10% below the average national energy consumption of an equivalent infrastructure • Research and development of products or technology ("R&D") and their implementation that reduces energy consumption of underlying asset, technology, product or system(s); including LED lights, improved chillers, improved lighting technology, and reduced power usage in manufacturing operations

² <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/GreenBondsBrochure-JUNE2017.pdf>

Eligible Sectors	Further Detail of Eligible Green Projects
Resilience to Climate Change for Highly Vulnerable Areas and Sectors/ Disaster Risk Reduction	• Research leading to technology innovation with sustainability benefits • Food security • Flood mitigation • Drought management • Public health management
Sustainable Transport	• Developing clean transportation systems • Transportation network upgrade to higher climate resilient design standards
Waste to Energy and Waste Management	• Improving waste management • Transforming waste to renewable energy source • Rehabilitation of landfill areas
Sustainable Management of Natural Resources	• Sustainable management of natural resources which substantially avoids or reduces carbon loss / increases carbon sequestration (through planting of new forest areas and/or replanting of degraded areas, the use of drought / flood / temperature resistant species). • Habitat and biodiversity conservation (through sustainable management of land use change, sustainable management of agriculture/fisheries/forestry, protection of coastal and marine environments, pest management)
Green Tourism	• Developing new tourism areas in line with Green Tourism Principles • Optimization of supporting infrastructure to support sustainable tourism (i.e. water treatment, energy efficiency) • Developing tourism resiliency against climate change risk
Green Buildings	• Developing green buildings in line with Greenship developed by Green Building Council Indonesia (“GBC Indonesia”), which contains six categories: – Appropriate Site Development – Energy Efficiency and Conservation – Water conservation – Material & resources cycle – Air quality & leisure air (water indoor health & comfort) – Building & environment management
Sustainable Agriculture	• Developing sustainable agriculture management and methods, such as organic farming, less pesticides, Research and Development (“R&D”) on climate resilient seeds, and energy efficient on agriculture • Subsidy mechanism for agriculture insurance

For the avoidance of doubt, in any case, the Eligible Green Projects shall exclude the below:

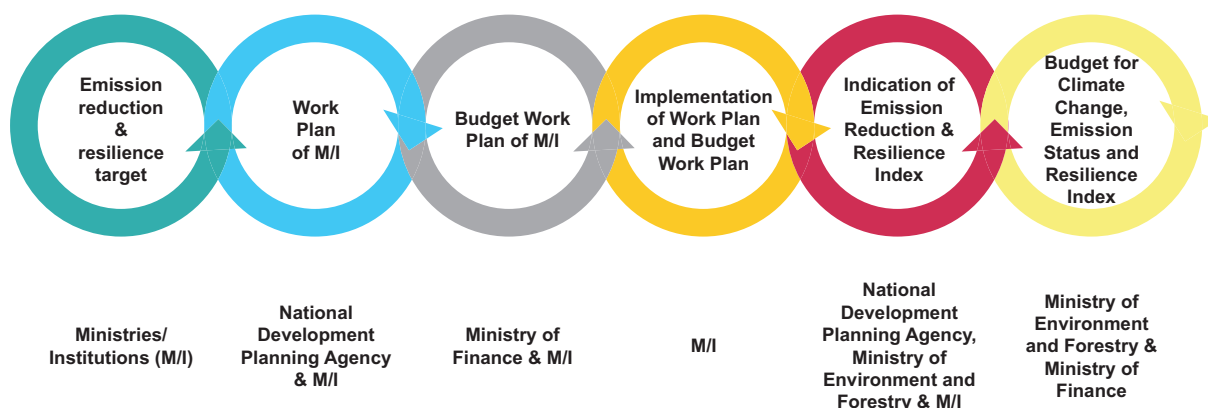
- New fossil fuel based electric power generation capacity and expenditure related to the improvement in the efficiency of fossil fuel based electric power generation.
- Large scale hydropower plants (>30 MW capacity)
- Nuclear and nuclear-related assets

2. Process for Project Evaluation and Selection

The Republic of Indonesia, represented by the National Development Planning Agency and the Ministry of Finance will review and approve projects / budget allocation / subsidies to be included in the State Budget.

In 2015 the Republic of Indonesia introduced a system for “tagging” of ministry budgets (Budget Tagging Process) to identify expenditures on projects that deliver specified climate change benefits in accordance with the Republic of Indonesia’s climate objectives. The Budget Tagging Process was developed with the support of the UN Development Programme and involves a detailed assessment of the climate benefits of projects undertaken by Line Ministries. At the initial stage, the Budget Tagging Process covers climate change mitigation, involving 6 Line Ministries, i.e. (i) Ministry of Agriculture; (ii) Ministry of Energy and Mineral Resources; (iii) Ministry of Transportation; (iv) Ministry of Industry; (v) Ministry of Environment and Forestry; and (vi) Ministry of Public Works and Housing (and may be adopted by other Ministries in due course) based on key performance indicators of project output. In 2018, the Budget Tagging Process is expanded to cover climate change mitigation and adaptation, involving 17 Line Ministries, i.e. (i) Ministry of Agriculture; (ii) Ministry of Environment and Forestry; (iii) Ministry of Maritime Affairs and Fisheries; (iv) Ministry of Energy and Mineral Resources; (v) Ministry of Transportation; (vi) Ministry of Public Works and Housing; (vii) Ministry of Health; (viii) Ministry of Home Affairs; (ix) Ministry of Agrarian Affairs and Spatial Planning/National Land Agency; (x) Ministry of Law and Human Rights; (xi) Indonesian Institute of Sciences; (xii) National Institute of Aeronautics and Space; (xiii) Geospatial Information Board; (xiv) Assessment and Application of Technology Agency; (xv) Indonesian Agency for Meteorology, Climatology and Geophysics; (xvi) Indonesian Central Board of Statistics; and (xvii) National Development Planning Agency (BAPPENAS) (and may be adopted by other Ministries in due course). Currently Indonesia is in the process to expand the Budget Tagging Process to biodiversity under Biodiversity Financing Program.

The Budget Tagging Process is an integrated process involving the individual ministries responsible for the individual projects as well the Ministry of Finance. The process is summarized in the following graphic.



The environmental benefits of each project are accessed by the individual ministries together with the Climate Change Secretariat of BAPPENAS and validated by the Ministry of Environment and Forestry to be consistent with Indonesia’s NDC and endorsed by the Ministry of Finance as “tagged” for budget allocation.

The Ministry of Finance will select “tagged” projects that

- fall into one or more of the Eligible Sectors under this Framework and
- have a project development timeline consistent with the tenor of the applicable Green Bond or Green Sukuk

to be Eligible Green Projects and funded by the use of proceeds of Green Bonds or Green Sukuk issued under this Framework.

The Ministry of Finance will maintain notes and records of all Eligible Green Projects reviewed and to be funded by the Use of Proceeds of each Green Bond and Green Sukuk issued.

3. Management of Proceeds

The proceeds of each Green Bond or Green Sukuk will be managed within the Government’s general account in accordance with sound and prudent treasury management policy. Upon request from the Line Ministries, the Green Bond and Green Sukuk proceeds will be credited to a designated account of the relevant ministries for funding exclusively projects as defined in the Framework. Pending application to Eligible Green Project proceeds will be held in cash in the Government’s general account at Bank Indonesia.

The proceeds of each Green Bond or Green Sukuk can be used both for the financing and/or refinancing of eligible green projects. If part of the proceeds are to be used for refinancing, ROI shall disclose the ratio of the proceeds which is used for financing and refinancing to the total proceeds.

The Ministry of Finance shall manage the processes for allocation of the proceeds of each Green Bond and Green Sukuk issuance, and make sure that the proceeds are used in accordance with this Framework.

The respective ministries utilizing the proceeds shall track and monitor, and report to the Ministry of Finance, the environmental benefits of the Eligible Green Projects in their portfolio which are funded by Green Bonds or Green Sukuk proceeds.

A Green Bond and Green Sukuk allocation register (the “Register”) will be established to record the allocation of each Green Bond or Green Sukuk proceeds. The Register will contain, for each Green Bond and Green Sukuk issued, information including:

- a) Details of Each Green Bond or Green Sukuk: ISIN, pricing date, maturity date, etc.
- b) List of Eligible Green Projects, with information including:
 - Summary of projects details;
 - Amount of proceeds allocated to each eligible projects;
 - Expected climate and/or environmental impacts of eligible projects;
 - Aggregate amount of proceeds of Green Bonds and Green Sukuk allocated to eligible projects;
 - Remaining balance of unallocated proceeds;
 - Other necessary information.

In case of asset divestment, the Republic of Indonesia will mark the proceeds as “unallocated” until the proceeds are used to finance or refinance other Eligible Green Projects.

4. Reporting

The Republic of Indonesia, represented by the Ministry of Finance will prepare and publish a Green Bond and Green Sukuk report (the “Report”) annually and initially on the date falling no more than one year after the inaugural Green Bond or Green Sukuk issuance. The Report will contain at least:

- a) A list and brief description of the projects to which Green Bond and Green Sukuk proceeds have been allocated;
- b) The amount of Green Bonds and Green Sukuk proceeds allocated to such projects.
- c) An estimation of the beneficial impact arising from the implementation of Eligible Green Projects. Reporting is expected to include measures of the reduction in greenhouse gas emissions, reduction in resource consumption, the number of parties that benefit from projects funded and other appropriate measures taking into account the nature of the project.

The Report will be published on the Ministry of Finance website (www.djppr.kemenkeu.go.id).

III. ASSURANCE

The Republic of Indonesia will engage an independent third party to provide assurance on its annual Green Bond and Green Sukuk report and the compliance of each Green Bond and Green Sukuk issued with this Green Bond and Green Sukuk Framework.

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