



REPUBLIC OF INDONESIA
(THROUGH PERUSAHAAN PENERBIT SBSN INDONESIA III)
U.S.\$10,000,000,000 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 ijarah or wakala series (an **Ijarah 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.\$10,000,000,000 (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 (the **Program Update Date**) (as the same may be amended from time to time, the **Program Agreement**) which appointment may be for a specific issue or on an ongoing basis. 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 the Program Update Date 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 Ijarah 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*.”

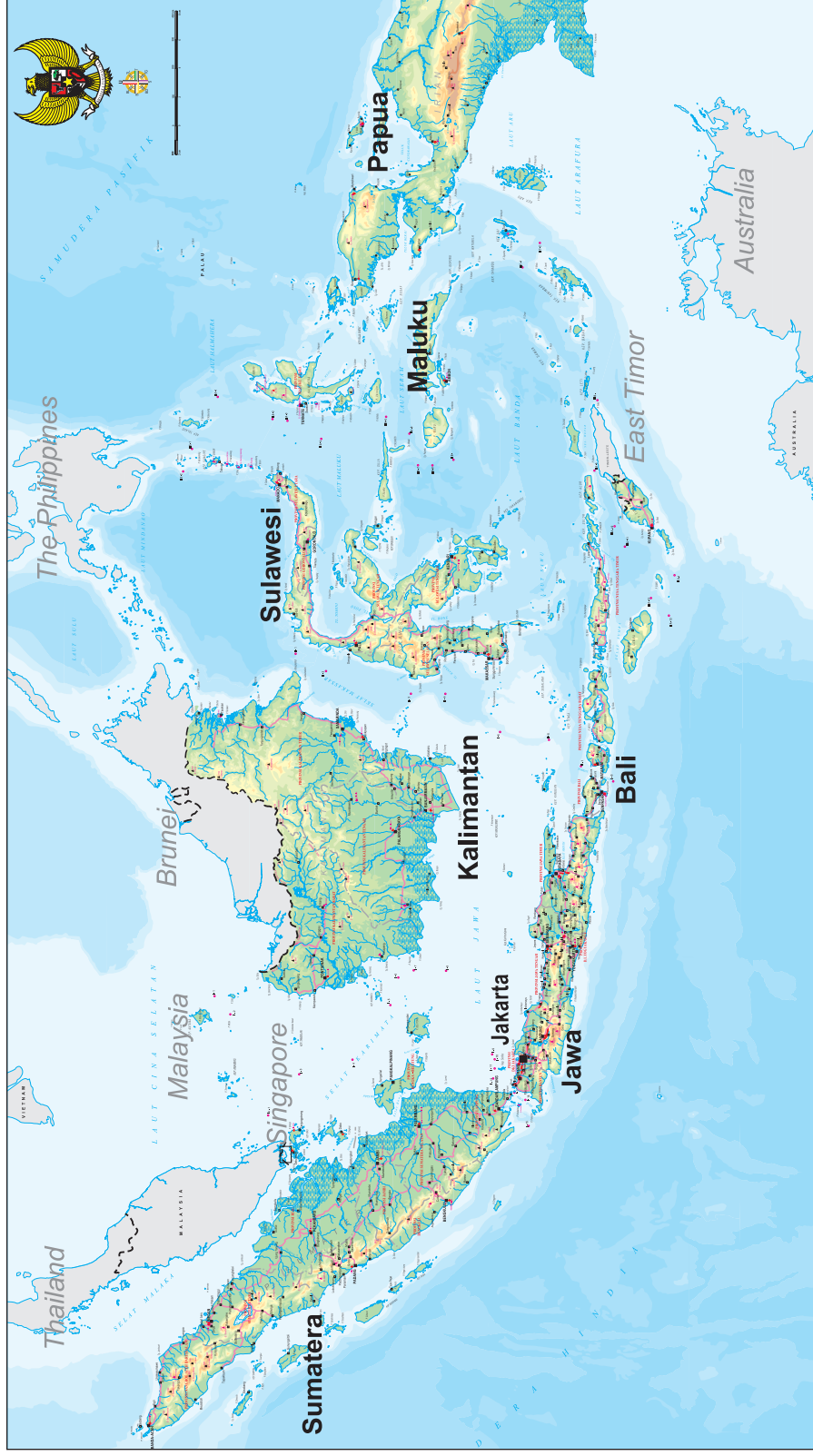
The Certificates will be represented by one or more global certificates in fully registered form which will, unless otherwise specified in the applicable Pricing Supplement, be registered in the name of a nominee of The Depository Trust Company (**DTC**) or, in the case of Regulation S Certificates only, may alternatively be registered in the name of a nominee for the common depository for Euroclear Bank S.A./N.V. (**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.

Arrangers				
CIMB	Citigroup	Deutsche Bank	Dubai Islamic Bank PJSC	Standard Chartered Bank
Dealers				
CIMB	Citigroup	Deutsche Bank	Dubai Islamic Bank PJSC	Standard Chartered Bank

The date of this Offering Memorandum is March 7, 2016

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 to 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 in relation to the information contained or incorporated by reference to this Offering Memorandum or any other information provided by the Issuer or the Republic in connection with the Program. 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.

To the fullest extent permitted by law, none of the Arrangers, the Dealers, the Delegate or the Agents accepts any responsibility for the contents of this Offering Memorandum 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.

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.

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, Hong Kong, Japan, Singapore, Brunei, Indonesia, 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 the European Economic Area. 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, 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. SEE “*PLAN OF DISTRIBUTION*.”

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 SCHEDULE 6 OR SECTION 229(1)(B) AND SCHEDULE 7 OR SECTION 230(1)(B), READ TOGETHER WITH SCHEDULE 8 AND SCHEDULE 9 OR SECTION 257(3) OF THE CAPITAL MARKETS AND SERVICES ACT 2007 OF MALAYSIA.

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 (**BI**), 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 Rp13,395 = U.S.\$1.00 on February 29, 2016. In addition, unless otherwise specified herein, all translations of Rupiah into currencies other than U.S. dollars, or from such other currencies into Rupiah, were made at the BI middle exchange rate between the Rupiah and such other currencies as announced by Bank Indonesia as of the respective dates to which such information relates.

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

	Exchange Rates			
	Rupiah per U.S. dollar	Rupiah per 100 Japanese yen	Rupiah per Euro	Rupiah per Singapore dollar
2008	10,950	12,123	15,432	7,607
2009	9,400	10,170	13,510	6,698
2010	8,991	11,029	11,956	6,981
2011	9,068	11,680	11,739	6,974
2012	9,670	11,197	12,810	7,907
2013	12,189	11,617	16,821	9,628
2014	12,385	10,364	15,063	9,376
2015	13,392	11,068	14,869	9,791
2016				
January	13,846	11,675	15,139	9,707
February	13,395	11,815	14,647	9,494

Source: Bank Indonesia

FORWARD-LOOKING STATEMENTS

Some of the statements contained in this Offering Memorandum constitute forward-looking statements. Statements that are not historical facts are forward-looking statements. Forward-looking statements generally can be identified by the use of forward-looking terminology such as “may,” “will,” “expect,” “intend,” “estimate,” “anticipate,” “believe,” “target,” “continue” or similar terminology. Among other things, Indonesia’s economy, fiscal condition, debt or prospects may constitute forward-looking statements. These statements are based on the Republic’s current plans, objectives, assumptions, estimates and projections.

Forward-looking statements speak only as of the date that they are made and involve inherent risks and uncertainties. Each of the Republic and the Arrangers and the Dealers expressly disclaims any obligation or undertaking to release, publicly or otherwise, any updates or revisions to any forward-looking statements contained herein to reflect any change in the Republic’s expectations with regard thereto or any change in events, conditions, assumptions or circumstances on which any such statement was based. The Republic cautions that a number of important factors could cause actual results to differ materially from those contained in any forward-looking statement. Therefore, undue reliance should not be placed on them.

DATA DISSEMINATION

Indonesia subscribes to the IMF’s Special Data Dissemination Standard, which is designed to improve the timeliness and quality of information of subscribing member countries. This standard requires subscribing member countries to provide schedules indicating, in advance, the date on which data will be released or the so-called “Advance Release Calendar”. For Indonesia, precise dates or “no-later-than-dates” for the release of data are disseminated three months in advance through the Advance Release Calendar, which is published on the Internet under the IMF’s Dissemination Standards Bulletin Board.

Summary methodologies of all metadata to enhance transparency of statistical compilation are also provided on the Internet under the IMF’s Dissemination Standards Bulletin Board. The internet website for Indonesia’s Advance Release Calendar and metadata is located at <http://dsbb.imf.org/Pages/SDDS/ARCCtyCtgList.aspx?ctycode=IDN>.

ENFORCEMENT

The 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.

PRESENTATION OF STATISTICAL, FINANCIAL AND CERTAIN OTHER INFORMATION

Statistical and economic information included in this Offering Memorandum related to the Republic, in particular information presented in the section entitled “*Republic of Indonesia*” has been provided by, among others: (i) the Government of the Republic and its ministries, departments and agencies, including (a) the Central Bureau of Statistics (**BPS**); (b) the Ministry of Finance; (c) the Ministry of State-Owned Enterprises; (d) the Ministry of Agriculture; (e) the Ministry of Marine Affairs and Fishery; (f) the Ministry of Environment and Forestry; (g) the Ministry of Energy and Mineral Resources; (h) the Directorate General of Oil and Gas of the Ministry of Energy and Mineral Resources; (i) Indonesia Investment Coordinating Board (**BKPM**); (j) the Ministry of Manpower and Transmigration; (k) the Financial Services Authority (**OJK**); (ii) the Central Bank of Indonesia; and (iii) the Indonesia Stock Exchange (**IDX**). For certain statistical and economic information, similar information may be obtainable from other sources and the underlying assumption and methodology, and consequently the resulting data, may vary from source to source.

Statistical and economic information included in this Offering Memorandum is the latest official data publicly available at the date of this Offering Memorandum, and may be subsequently revised in accordance with Indonesia’s ongoing maintenance of its data. The Republic has no obligation to distribute such revised data to any holder of the Certificates.

There may be material variances between preliminary or estimated data set forth in this Offering Memorandum and corresponding data previously published by or on behalf of the Republic. Furthermore, certain statistical or economic information included in this Offering Memorandum may differ from previously published information for a number of reasons, including continuing implementation of a debt management system, consultation with the IMF and ongoing revisions. Consequently, the statistical and economic data contained in this Offering Memorandum should be treated with caution by prospective investors. In addition, 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.

Unless otherwise indicated, all statistical data and figures for 2015 and 2016 or any part thereof are estimates based upon preliminary data and are subject to review and adjustment. In addition, all gross domestic product (**GDP**), GDP-related and GDP-derived statistical data and figures for 2015 and 2016 or any part thereof are preliminary and subject to further review and adjustment. Final GDP, GDP-related and GDP-derived data and figures for each of 2015 and 2016 will not be announced by the BPS until the BPS publicly announces detailed preliminary GDP statistical data and figures for the full year of each of 2017 and 2018, respectively.

Any discrepancies in the tables included herein between the amounts listed and the totals thereof and in the totals of certain other figures herein are due to rounding. 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, 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 (km²), each of which is equal to approximately 0.39 square miles, or in hectares, each of which is equal to approximately 247 acres.

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

The Government’s Ministry of Energy and Mineral Resources publishes an average monthly and annual price for Indonesian crude oil which is commonly referred to as the Indonesian Crude Price (the **ICP**). Since July 2007, the Directorate General of Oil and Gas of the Ministry of Energy and Mineral Resources has calculated the ICP as the sum of (i) 50.0% of the average price for Indonesian crude oil published by Platts, a division of The

McGraw-Hill Companies, and (ii) 50.0% of a crude oil price for Indonesian crude oil published by RIM Intelligence Co. of Japan for the relevant period. The Government evaluates the methodology of the calculation of the ICP from time to time and, if appropriate, adjusts the formula to ensure that the ICP closely tracks world market prices for Indonesian crude oil. The Government uses the ICP for various accounting and other purposes. For instance, the Ministry of Finance uses the ICP as an assumption underlying the preparation of the government budget. See “*Republic of Indonesia — Government Budget*.”

Unless otherwise indicated, export data in this Offering Memorandum is collected on a free on board (**f.o.b.**) basis, while import data is collected on a cost and freight (**c&f**) basis.

Certain budget figures have been audited by the Supreme Audit Agency (**BPK**) and appear as audited numbers in the relevant year’s Central Government Financial Report (*Laporan Keuangan Pemerintah Pusat*, or **LKPP**).

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 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.

The Harmonized System (**HS**) is a dynamic classification system. It has been changed from time to time, starting from HS 1988, HS 1996, HS 2002, HS 2007 to HS 2012. In 2012, Central Bureau of Statistics modified the major commodity classification system of exports. This modification was conducted in order to adapt to the implementation of Harmonized System 2012 (**HS 2012**) and to reconcile discrepancies with BPS trade data. The changes in HS 2012 are the addition of new post tariff, the elimination of some post tariff, the merge of post tariff, the split of post tariff, and changes to the notes in section, chapter, and sub-post. See “*Republic of Indonesia — Foreign Trade and Balance of Payments*.”

In 2004, the Republic's central bureau of statistics, BPS, the government agency that compiles statistics regarding the Indonesian economy, adopted the calendar year 2000 as the base year (the **Base Year**) for the calculation of Indonesia's GDP in constant market prices. In 2015, BPS adopted the calendar year 2010 as 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 calendar year 2000 as 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, the fourth most populous country in the world with an estimated population of approximately 255.5 million as of June 2015, is a developing nation in Southeast Asia spread across an archipelago of 17,504 islands. Indonesia is undergoing rapid economic change and has also undergone fundamental political changes, transforming from what was once a centralized, authoritarian system to a participatory democracy that places greater political power in the hands of local and regional governments.

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

Selected Key Economic Indicators

	Year Ended December 31,					
	2011 ^L	2012 ^L	2013 ^L	2014 ^L	2015 ^P	2016 ^B
National account and prices:						
Real GDP growth	6.2%	6.0%	5.6%	5.0%	4.8%	5.3%
Per capita GDP (in thousands of Rupiah)	32,364	35,105	38,365	41,900	45,176	N/A
Per capita GDP (in U.S. dollars) ⁽¹⁾	3,692	3,741	3,677	3,531	3,377	N/A
Average exchange rate (Rupiah per U.S. dollar) ⁽²⁾	8,776	9,358	10,455	11,876	13,392	13,900
Inflation rate (change in CPI) ⁽³⁾	3.8%	4.3%	8.4%	8.4%	3.4%	4.7%
External sector:						
Current account surplus/(deficit) (% of GDP) ⁽⁴⁾	0.2%	(2.7)%	(3.2)%	(3.1)%	(2.1)%	N/A
Fiscal account:						
Budget surplus/(deficit) (% of GDP)	(1.1)%	(1.9)%	(2.3)%	(2.3)%	(2.5)%	(2.2)%
External debt of the central Government (in trillions of Rupiah)	815.9	879.7	1,111.6	1,130.9	N/A	1,476.0
Debt service ratio (% of Government revenue)	18.8%	20.5	19.0	23.9	N/A	25.2

Source: BPS, Bank Indonesia and Ministry of Finance

^L LKPP (Central Government Financial Report/Audited)

^B Budget

^P Preliminary

(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: Rp8,766 per U.S. dollar for 2011, Rp9,384 per U.S. dollar for 2012, Rp10,463 per U.S. dollar for 2013, Rp11,868 per U.S. dollar for 2014, and Rp13,392 per U.S. dollar for 2015. 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 2015 which was based on Bank Indonesia's calculation.

(3) Inflation rate calculated on a year-on-year basis.

(4) Current account for the relevant period published by Bank Indonesia in Indonesia's balance of payments report.

N/A Not Available.

Economic developments in recent periods include the following:

- **Growth.** Real GDP growth was recorded at 6.2%, 6.0%, 5.6%, 5.0% and 4.8% in 2011, 2012, 2013, 2014 and 2015, respectively. GDP growth in 2015 was mainly on account of government stimulus, especially in relation to government infrastructure projects.
- **Ratings.** On May 21, 2015, Standard & Poor's Ratings Services revised its outlook on the Republic from stable to positive and affirmed its BB+ long-term and B short-term sovereign credit ratings and axBBB+/axA-2 ASEAN regional scale rating on the Republic, stating that improvements in the

Republic's policy framework have enhanced monetary and financial sector management and that greater policy effectiveness and predictability have resulted in expanded fiscal and reserve buffers and improved the Republic's external resilience.

- On November 6, 2015, Fitch affirmed its sovereign credit rating of the Republic at BBB-/stable outlook (investment grade) on the back of relatively stronger and more stable growth compared to peer countries, ongoing structural reforms bolstered by policy packages to invigorate the investment climate, controlled public debt and a robust and resilient banking sector.
- On January 28, 2016 Moody's affirmed Indonesia's Sovereign Credit Rating at Baa3/ stable outlook (investment grade) on the back of the government's strong balance sheet against the current backdrop of widening fiscal deficit and effective policy response to mitigate external risks from lower commodity prices and weaker growth to ensure the sustainability of Indonesia's external payments position. The stable outlook reflects that Indonesia remains resilient to current pressure from lower commodity prices and international financial volatility.
- **Exchange Rate.** The Rupiah exchange rate averaged Rp8,776, Rp9,358, Rp10,455, Rp11,876 and Rp13,392 to the U.S. dollar in 2011, 2012, 2013, 2014 and 2015 respectively. Pressures on the Rupiah in 2014 were mainly due to concerns over the normalization of the U.S. Federal Reserve policy and a higher deficit in the Republic's current account at 2.9% of GDP. Rupiah depreciation in 2015 remained high in line with the increasing external and domestic risks. On the external side, depreciation was triggered by the deteriorating sentiment due to the dynamics of the U.S. monetary policy normalization plan, concerns about the Greek debt crisis, implementation of Yuan devaluation by the People's Bank of China (PBoC), as well as global monetary policy divergence. Depreciation pressure was also seen in other regional currencies in line with higher external risks. On the domestic side, rupiah depreciation was due to retention of domestic economic growth and limited supply of foreign exchange proceeds from exports. The increasing external and domestic risks have caused the Rupiah to depreciate more in 2015 compared to 2014. After experiencing depreciatory pressures, particularly in the third quarter of 2015, the Rupiah stabilized and appreciated in the last quarter of 2015. This was in line with the positive sentiment regarding emerging market countries due to the positive announcement relayed at the Federal Open Market Committee (FOMC), less uncertainty in global financial markets after the U.S. Federal Reserve raised its Federal Funds Rate on December 17, 2015, and greater optimism concerning the domestic economic outlook as the Government introduced a series of policy packages to restructure the economy and Bank Indonesia implemented prudent monetary policy and exchange rate stabilization policy packages. These positive sentiments resulted in non-resident capital flow back into Indonesia in the last quarter of 2015. Overall, the Rupiah shows manageable volatility and depreciation compared with peer currencies.
- In 2015, inflation was recorded 3.4% (year-on-year) which was within the target corridor set by the Government of 4±1% and significantly lower than that of 2014 which was recorded 8.4% (year-on-year). Low inflation in 2015 was attributed to cheaper global energy prices and domestic energy subsidy reforms on fuel, LPG, and electricity prices. Low inflation in 2015 was also supported by the government and Bank Indonesia's policy to control inflation. In January 2016, the inflation rate stood at 4.1% (year-on-year) on the back of persistently sluggish domestic demand, the decrease of fuel prices and well maintained inflation expectations. Inflation of volatile foods was recorded at 6.8% (year-on-year), which is low considering the ongoing El Nino weather phenomenon. In February 2016, the inflation rate stood at 4.9% (year-on-year) which was still within the 4±1% inflation target range. This relatively low rate of inflation was due to the decrease of certain food prices and the ongoing impact of a decrease in fuel, LPG, and electricity prices.
- **Diversification.** Manufacturing, agriculture, forestry and fishing and wholesale and retail trade are the principal sectors of the Republic's economy. In 2014 and 2015, the manufacturing sector accounted for the largest portion of GDP (21.0% in 2014 and 20.8% in 2015 using current market prices) followed by agriculture, forestry and fishing (13.4% in 2014 and 13.5% in 2015 using current market prices) and wholesale and retail trade (13.4% in 2014 and 13.3% in 2015 using current market prices).
- **Realization.** Realization figures for 2015 included: (i) state revenue in the amount of Rp1,504.5 trillion; (ii) state expenditures in the amount of Rp1,796.6 trillion; and (iii) a budget deficit of Rp292.1 trillion.
- **Budget deficits.** Budget deficits (as a percentage of GDP) were 1.9%, 2.3%, and 2.3% in 2012, 2013 and 2014, respectively. In the Revised 2015 Budget, the projected budget deficit is 1.9% of GDP. The

Revised 2015 Budget seeks to maintain fiscal sustainability through a lower deficit and calls for a reduction in financing by 9.5%, or Rp23.4 trillion in 2015. In the 2016 Budget, the deficit is forecast at 2.15%.

- **Foreign direct investment.** Despite a challenging global economic environment, net inflows of foreign direct investment (**FDI**) were U.S.\$20.6 billion, U.S.\$21.2 billion, U.S.\$23.3 billion, U.S.\$25.2 billion and U.S.\$18.7 billion in 2011, 2012, 2013, 2014, and 2015.
- **Current account.** While there was a current account surplus of U.S.\$1.7 billion for 2011, the current account posted deficits of U.S.\$24.4 billion, U.S.\$29.1 billion, U.S.\$27.5 billion, and U.S.\$17.8 billion in 2012, 2013, 2014, and 2015 respectively.
- **Foreign reserves.** Foreign reserves totaled U.S.\$110.1 billion, U.S.\$112.8 billion, U.S.\$99.4 billion, U.S.\$111.9 billion, and U.S.\$105.9 billion as of December 31, 2011, 2012, 2013, 2014, and 2015, respectively. The foreign reserves as of December 31, 2015 was equivalent to 7.4 months of imports and servicing of government external debt, well above the international standard of reserves adequacy at 3 months of imports.

As of December 31, 2015, Indonesia's remaining Paris Club debt amounted to U.S.\$ 4.73 billion.

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

Realization of 2015 Revised Budget

The Ministry of Finance published the realization figures of the 2015 Revised Budget (the “**Realization 2015 Budget**”) on January 22, 2016. Growth was lower than the target mainly due to lower export performance on account of the impact of the global economic slowdown, especially the slowdown in China, which is Indonesia's main trading partner. Shocks in the financial market caused the depreciation of the Rupiah, as well as a decrease in investment and consumption. Meanwhile, the Government implemented spending and economic policy packages to activate economic growth.

The key macroeconomic assumptions underlying the Realization 2015 Budget, as compared with the 2015 Revised Budget, are as follows:

- a real GDP growth rate of 4.8%, compared with 5.7% in the 2015 Revised Budget;
- an inflation rate of 3.4%, compared with 5% in the 2015 Revised Budget;
- a three-month short-term treasury bills (SPN) yield of 5.97%, compared with 6.2% in the 2015 Revised Budget;
- an exchange rate of Rp13,392 to U.S.\$1, compared with Rp12,500 to U.S.\$1 in the 2015 Revised Budget;
- average oil production by the Republic of 779,000 barrels of oil per day, compared with 825,000 hundred barrels of oil per day in the 2015 Revised Budget;
- average gas production by the Republic of 1.195 million barrels of gas per day, compared with 1.221 million barrels of gas per day in the 2015 Revised Budget; and
- an average Indonesian Crude Price (**ICP**) of U.S.\$50 per barrel, compared with U.S.\$60 per barrel in the 2015 Revised Budget.

The Realization 2015 fiscal deficit was 2.53% of the projected GDP in 2015, compared to 1.9% of the 2015 Revised Budget. Total expenditure under the Realization 2015 was at Rp1,796.6 trillion, a saving of Rp187 trillion of the 2015 Revised Budget. Total revenue (including grants) amounted to Rp1,504.5 trillion, a decrease of Rp257 trillion as compared to the 2015 Revised Budget.

The Transfer to Revenue and Rural Fund amounted to Rp623 trillion, compared to a targeted Rp664.6 trillion in 2015 Revised Budget. In order to maintain fiscal sustainability, the Realization of 2015 Budget is at 2.53% of the GDP, still under limit of 3% of GDP .

Revised 2015 Budget

On March 6, 2015, the Government issued Law No. 3 of 2015 on Amendment of Law No. 27 of 2014 on 2015 State Budget (the **Revised 2015 Budget**). The revision of the Original 2015 Budget is permitted by Law No. 27 of 2014 on State Budget of 2015. The revision of the Original 2015 Budget was also supported by certain conditions requiring amendments to the Original 2015 Budget, such as significant changes in the basic macroeconomic assumptions underlying the Original 2015 Budget and to accommodate certain new priority governmental programs based on the vision and mission of President Joko Widodo.

The Revised 2015 Budget aims to improve spending efficiency, including by discontinuing subsidies for premium gasoline fuels, by providing fixed subsidies for diesel fuel, and by continuing to provide subsidies for kerosene fuel. The Revised 2015 Budget also increases the budget allocation for rural areas. The policies underpinning the Revised 2015 Budget seek to improve the Government's ability to fund more productive programs and initiatives and minimize fiscal vulnerabilities from external factors such as fluctuations in crude oil prices and the exchange rate.

The key macroeconomic assumptions underlying the Revised 2015 Budget, as compared with the Original 2015 Budget, are as follows:

- a real GDP growth rate of 5.7%, compared with 5.8% in the Original 2015 Budget;
- an inflation rate of 5.0%, compared with 4.4% in the Original 2015 Budget;
- a three-month short-term treasury bills (SPN) yield of 6.2%, compared with 6.0% in the Original 2015 Budget;
- an exchange rate of Rp12,500 to U.S.\$1, compared with Rp11,900 to U.S.\$1 in the Original 2015 Budget;
- average oil production by the Republic of 825,000 barrels of oil per day, compared with 900,000 barrels of oil per day in the Original 2015 Budget;
- average gas production by the Republic of 1.22 million barrels of gas per day, compared with 1.24 million barrels of gas per day in the Original 2015 Budget;
- an average Indonesian Crude Price (ICP) of U.S.\$60 per barrel, compared with U.S.\$100 per barrel in the Original 2015 Budget; and
- a revised projected nominal GDP of Rp11,700.8 trillion, compared with Rp11,146.9 trillion in the Original 2015 Budget (calculated at current market prices).

The Revised 2015 Budget includes a target fiscal deficit of 1.9% of the projected GDP in 2015, lower than the Original 2015 Budget of 2.2%. Total expenditure under the Revised 2015 Budget is estimated at Rp1,984.1 trillion, a decrease of Rp55.3 trillion from the Original 2015 Budget. The Revised 2015 Budget total revenue (including grants) amounts to Rp1,761.6 trillion, a decrease of Rp31.9 trillion as compared to the Original 2015 Budget.

The Government aims to optimize tax revenue without disrupting the investment and business climate and to reform taxation by improving administration, revenue potential and legislation and by providing tax incentives to certain sectors. The Revised 2015 Budget supports the following priority programs: (1) food sovereignty improvement; (2) energy and electricity development; (3) maritime and infrastructure development; (4) national defense industry development; (5) infrastructure and connectivity development; and (6) industry development. The Revised 2015 Budget allocates Rp1,033.8 trillion for these priority programs. The Revised 2015 Budget also provides financing support to SOEs in the form of additional Government capital participation to improve investment and capital provisions. Furthermore, the Revised 2015 Budget provides financing reserves to the Health Social Security Administrator (*Badan Penyelenggara Jaminan Sosial Kesehatan*) and to The Social Welfare Program (*Dana Jaminan Sosial Program*) in the amount of Rp5.0 trillion.

The Revised 2015 Budget allocates Rp664.6 trillion for the Transfer to Regions and Rural Fund, an increase of 2.7% from the Original 2015 Budget. The Balanced Fund increased to Rp5.4 trillion, while the Sharing Fund, the General Allocation Fund and the Special Allocation Fund amounted to Rp110.1 trillion, Rp352.9 trillion and Rp58.8 trillion, respectively. The Revised 2015 Budget also increases the budget allocation for the Rural Fund to Rp20.8 trillion, compared with Rp9.1 trillion in the Original 2015 Budget.

In order to maintain fiscal sustainability, the Revised 2015 Budget projects a deficit of Rp222.5 trillion (1.9% of GDP), Rp23.3 trillion lower than the Original 2015 Budget. The Government expects to finance the projected deficit under the Revised 2015 Budget from both domestic and international sources.

2016 Budget

On November 25, 2015, the Government issued Law No. 14 of 2015 on 2016 State Budget (the **2016 Budget**). The fiscal policy theme for the 2016 Budget is “strengthening fiscal management in order to strengthen the fundamentals of development and quality economic growth”.

Under the 2016 Budget, the Government established the following fiscal policy strategies:

1. strengthen economic stimulus in order to increase production capacity and competitiveness;
2. increase fiscal resilience and support prioritized programs; and
3. control risks and maintain fiscal sustainability both in the medium and long term.

2016 will be the first year in which Kabinet Kerja will fully prepare the budget to reflect its programs and policies. In doing so, Kabinet Kerja seeks to: (1) develop more targeted subsidy reform; (2) improve fiscal support to priority programs and spending; (3) control mandatory spending; (4) manage the budget deficit; and (5) improve the budget and spending practices.

The key macroeconomic assumptions underlying the 2016 Budget, as compared to the Revised 2015 Budget, are as follows:

- a real GDP growth rate of 5.3% in the 2016 Budget, compared to 5.7% in the Revised 2015 Budget;
- an inflation rate of 4.7% in the 2016 Budget, compared to 5.0% in the Revised 2015 Budget;
- three-month short-term SPN of 5.5% in the 2016 Budget, compared to 6.2% in the Revised 2015 Budget;
- an exchange rate of Rp13,900 to U.S.\$1 in the 2016 Budget, compared to Rp12,500 to U.S.\$1 in the Revised 2015 Budget;
- oil production by the Republic of 830,000 barrels of oil per day in the 2016 Budget, compared to 825,000 barrels of oil per day in the Revised 2015 Budget;
- gas production by the Republic of 1.16 million barrels of gas per day in the 2016 Budget, compared to 1.22 million barrels of gas per day in the Revised 2015 Budget;
- ICP of U.S.\$50 per barrel in the 2016 Budget, compared to U.S.\$60 per barrel in the Revised 2015 Budget; and
- a revised projected nominal GDP of Rp12,704.9 trillion in the 2016 Budget (calculated at current market prices), compared to Rp11,700.8 trillion in the Revised 2015 Budget (calculated at current market prices).

The Government aims to achieve revenue optimization through supporting tax revenue and non-tax revenue optimization. Generally, tax revenue policies employed by the Government are those which are directed at: (1) optimizing tax revenue without interrupting business; (2) maintaining national economic stability and maintaining purchasing power; (3) increasing the competitiveness and value of national industries by improving tax and industry policies; (4) controlling excise-taxed goods through adjusting excise tariffs on tobacco products and etil-alcohol beverages (EA-MMEA); and (5) executing various technical tax policies.

For non-tax revenue, the Government seeks to optimize revenue by: (1) optimizing natural resources (oil and gas) by, among other things, increasing lifting estimation and target delivery; (2) adjusting production tariffs and royalties; (3) intensifying and expanding geothermal exploration and improving geothermal energy laws; (4) adjusting the imposition of non-tax revenue tariffs and increasing the quality of forestry and environment non-tax revenue management; (5) increasing the role of SOEs as agents of development to support priority programs of the Government; and (6) improving the services of Public Services Agency (BLU) to the people.

The 2016 Budget includes a target fiscal deficit of 2.2% of the projected GDP in 2016, compared to 1.9% in the Revised 2015 Budget. Total expenditure under the 2016 Budget is estimated at Rp2,095.7 trillion. The 2016 Budget total revenue (including grants) amounts to Rp1,822.5 trillion, an increase of Rp60.9 trillion compared to its Revised 2015 Budget. Allocation of the Transfer to Region and Rural Funds is increased to Rp770.2 trillion, approaching the Ministry/Agencies spending of Rp784.1 trillion.

The main policies of Central Government Expenditure are to: (1) maintain the real income of Government officials in order to increase productivity and improve public service (in the form of giving feast day/ holiday allowance (**THR**)); (2) continue operational and non operational spending (including moratoriums, development of Government building programs and leasing of operational service vehicles); (3) improve targeting of direct subsidies; (4) continue the development of priority programs (such as connectivity infrastructure, food and energy sovereignty, maritime, tourism, gap reducing and defense) to improve development; (5) increase education spending to 20.0% of the state budget and improve access to quality education; (6) increase health spending to 5.0% of the state budget and improve the reach and effectiveness of state health programs; (7) harmonize the fiscal decentralization policy by shifting allocation of Dana Dekonsentrasi/Tugas Pembantuan in Ministries/Agencies to the **DAK**; (8) improve the welfare of the poor by providing a more sustainable social support program (*Kartu Indonesia Pintar* (**KIP**), *Kartu Indonesia Sehat* (**KIS**)), including by increasing the number of recipients of conditional cash support to six million poor families and increasing the number of recipients of national health insurance support to 92.4 million people; (9) meet housing needs through Program Sejuta Rumah, the Republic's "one million houses program" for low income people by supporting housing development, credit interest payments, downpayment costs and FLPP; and (10) widening and improving credit for business programs which were started in 2015.

The Transfer to Regions and Rural Funds policies for the 2016 Budget include, among others: (1) increasing the allocation to levels approaching the Ministries/Agencies budget; (2) improving the quality of budgeting and the distribution of the Revenue Sharing Fund (**DBH**); (3) reformulating the General Allocation Fund (**DAU**) to scale up the equalization of financial capacity among the regions; (4) reformulating and strengthening the Specific Allocation Fund (**DAK**) to support Nawacita implementation and national priority achievement; (5) reformulating the Region Incentive Fund (**DID**) to reward high performing regions in terms of financial management and economic and regional welfare; (6) improving the quality of the Special Autonomy Fund for Yogyakarta; and (7) increasing the Rural Fund allocation (according to the roadmap of the Rural Fund 2015-2019).

Some policies implemented in the 2015 Revised Budget are continued in the 2016 Budget, for instance, budget allocation for rural areas as stated in Law Number 6 of 2014 on rural villages, to support the idea of "developing from suburbs". The allocation for health budget was raised to 5.0% in the 2016 Budget to Rp104.8 trillion, an increase from 3.7% under the 2015 Revised Budget, or Rp 74.8 trillion. The health budget is aimed at: a) improvement of health and nutrition of mother and children, b) control of disease, c) improvement of access to and quality of basic health (in particular, first reference in remote and frontier areas), d) increasing the scope of health service through KIS and improvement of SJSN Kesehatan (including the regulation and policy sides), and e) provision of medical support, vaccine, and medicine.

The education budget remained at 20.0% of the Budget or Rp419.2 trillion. This budget is aimed at improving access to and quality of education through: a) obligatory school up to 12 years, b) improvement of learning quality, c) improvement of access to education service and skill training, d) improvement of teacher management and placement, and e) improvement of access, quality and competency of higher education.

The infrastructure budget increased Rp23.2 trillion from Rp290.3 trillion in the 2015 revised Budget to Rp313.5 trillion in the 2016 Budget. It is in line with the Government's work plan 2016 theme which aims at accelerating infrastructure development to strengthen the foundation for quality development.

In the 2016 Budget, a rural fund is allocated for every rural area based on its population, poverty level and location. The 2016 Budget allocated Rp770.2 trillion for the transfer to regions and rural fund, an increase of 15.9% from the Revised 2015 Budget. In the 2016 Budget, the Balance Fund increased to Rp700.4 trillion, while DBH, DAU and DTK amounted to Rp106.1 trillion, Rp385.4 trillion and Rp208.9 trillion, respectively.

In order to preserve fiscal sustainability, the deficit target in the 2016 Budget is approximately 2.2% of GDP, within the safe harbor limit of 3.0% of GDP mandated by the Government Regulation Number 23/2013. The 2016 Budget projects a deficit of Rp273.2 trillion. The Government expects to finance the projected deficit

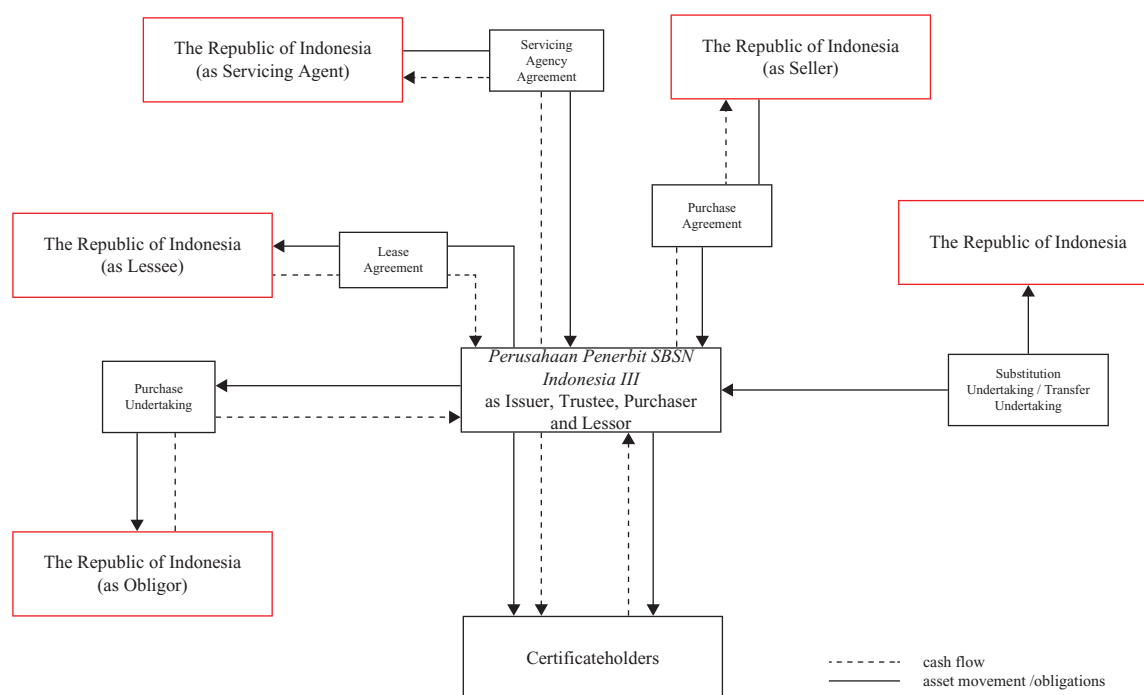
from both domestic and international sources. Approximately, 99.8% of the total financing or Rp272.8 trillion in 2015 was sourced domestically. In 2016, the incurrence of foreign debt will help to reduce the cost of overall loan withdrawals, decrease the market risk of Government securities (SBN) management, diversify the Government's loan sources and support the foreign exchange reserve supply.

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.

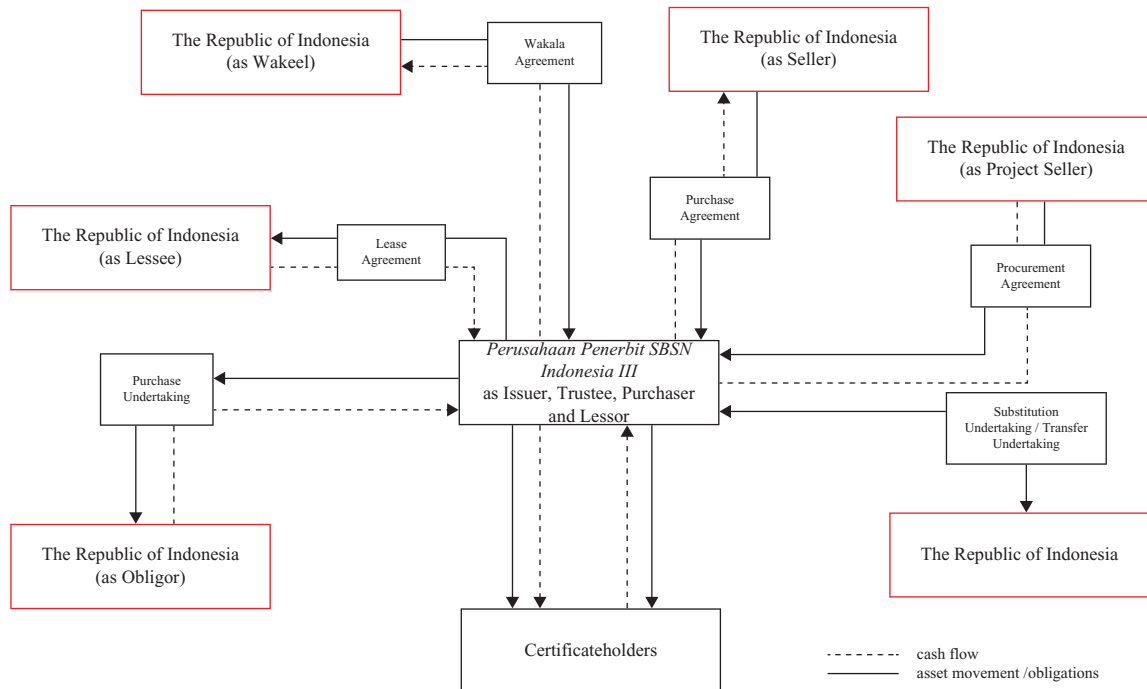
Dissolution Payment by the Republic

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.

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. 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 per cent.

Arrangers CIMB Investment Bank Berhad, Citigroup Global Markets Inc., Deutsche Bank AG, Singapore Branch, Dubai Islamic Bank PJSC, Singapore Branch and Standard Chartered Bank.

Dealers CIMB Investment Bank Berhad, Citigroup Global Markets Inc., Deutsche Bank AG, Singapore Branch, Dubai Islamic Bank PJSC, Singapore Branch and Standard Chartered Bank and any additional dealer(s) appointed under the Program from time to time.

Local Co-Managers	PT Bahana Securities and PT Danareksa Sekuritas.
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 (Luxembourg) S.A. 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.\$10,000,000,000 (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: <ul style="list-style-type: none"> (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	<p>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.</p> <p>The Dissolution Events include the Republic Events (as defined herein) which are certain events relating to the Republic, as set out in the Purchase Undertaking.</p>
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 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	<p>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 (<i>Taxation</i>) 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.</p>
Costs Undertaking	<p>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.</p>
Use of Proceeds	<p>The gross 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.</p>
Listing	<p>Application will be 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.</p>
Clearing Systems	<p>DTC, Euroclear and 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 “<i>Clearance and Settlement.</i>”</p>
Ratings	<p>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.</p> <p>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.</p>

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 (<i>Meetings of holders, modification, waiver, authorization and determination</i>).
Tax Considerations	See “ <i>Taxation</i> ” 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	<p>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.</p> <p>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.</p>
Selling Restrictions	There are restrictions on the distribution of this Offering Memorandum and the offer or sale of Certificates in the United States, the United Kingdom, 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 the European Economic Area.
Waiver of Immunity	<p>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.</p> <p>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.</p>

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 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 to the Declaration of Trust 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, authorization or determination is not materially prejudicial to the interest 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*."

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.

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, Shariah Advisory Board of Citi Islamic Investment Bank, Standard Chartered Bank Shariah Supervisory Committee, Dr. Hussein Hamed Sayed Hassan, Sharia Adviser of Deutsche Bank AG, Singapore Branch, and the Executive Committee of the Fatwa and Sharia Supervisory Board of Dubai Islamic Bank PJSC (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.\$10,000,000,000 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 August 15, 2014 (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 (Luxembourg) S.A. 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 the Program Update Date 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 Program Update Date 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 the Program Update Date, 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 the Program Update Date, 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 the Program Update Date, 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 the Program Update Date 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 the Program Update Date 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 the Program Update Date 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 the Program Update Date, 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, (b) a Paying Agent (which may be the Principal

Paying Agent) having its specified office in New York and (c) a Paying Agent (which may be the Principal Paying Agent) located in an EU Member State that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive. 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 14 (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;
- (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; or

- (d) presented for payment (where presentation is required) by or on behalf of a Certificateholder who would be able to avoid such withholding or deduction by presenting the relevant Certificate to another Paying Agent in a different Member State of the European Union.

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. 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 Amounts*), Condition 7 (*Floating Periodic Distribution Amounts*), 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 HOLDERS, MODIFICATION, WAIVER, AUTHORIZATION AND DETERMINATION

16.1 The Declaration of Trust and the Agency Agreement contain provisions for convening meetings of Certificateholders to consider any matter affecting their interests, including the modification or abrogation by Extraordinary Resolution of these Conditions or the provisions of the Declaration of Trust. The quorum at any meeting for passing an Extraordinary Resolution will be one or more persons present holding or

representing not less than two-thirds in aggregate outstanding face amount of the Certificates, except that any meeting the business of which includes the modification of certain provisions of the Certificates (including, among others, modifying the Scheduled Dissolution Date, reducing or cancelling any amount payable in respect of the Certificates or altering the currency of payment of the Certificates and amending certain covenants given by the Republic and the Issuer in the Declaration of Trust), the quorum shall be one or more persons present holding or representing not less than 75.0% in outstanding face amount of the Certificates. At any adjourned meeting, one or more persons present holding or representing not less than 25.0% of the outstanding face amount of the Certificates shall form a quorum. To be passed, an Extraordinary Resolution requires a majority in favor consisting of not less than three-quarters of the persons voting on a show of hands or, if a poll is duly demanded, a majority of not less than three-quarters of the votes cast on such poll and, if duly passed, will be binding on all holders of the Certificates, whether or not they are present at the meeting and whether or not voting.

16.2 The Delegate may agree, without the consent or sanction of the Certificateholders, to any modification of, or to the waiver or authorization of any breach or proposed breach of, any of these Conditions or any of the provisions of the Declaration of Trust, or determine, without any such consent or sanction as aforesaid, that any Dissolution Event shall not be treated as such if, in its opinion, such modification is of a formal, minor or technical nature, such modification is made to correct a manifest or proven (to the satisfaction of the Delegate) error or such modification, waiver, authorization or determination is not materially prejudicial to the interests of Certificateholders.

16.3 In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorization or determination), the Delegate shall have regard to the general interests of Certificateholders of each Series as a class (but shall not have regard to any interests arising from circumstances particular to Certificateholders of other Series or individual Certificateholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Certificateholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof) and the Delegate shall not be entitled to require, nor shall any Certificateholder be entitled to claim from the Delegate or any other person, any indemnification or payment in respect of any tax consequence of any such exercise upon individual Certificateholders except to the extent already provided in Condition 10 (*Taxation*).

16.4 Any modification, abrogation, waiver, authorization or determination shall be binding on Certificateholders and shall be notified by the Issuer to Certificateholders as soon as practicable thereafter in accordance with Condition 15 (*Notices*).

17. INDEMNIFICATION AND LIABILITY OF THE DELEGATE

17.1 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.

17.2 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.

17.3 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.

17.4 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.

- 17.5** 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.

18. 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.

19. GOVERNING LAW AND SUBMISSION TO JURISDICTION

- 19.1** 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.
- 19.2** 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.
- 19.3** 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.
- 19.4** 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.
- 19.5** Subject to Condition 19.6 (*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.
- 19.6** Notwithstanding anything to the contrary described in Condition 19.5 (*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 (Luxembourg) S.A.
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
#03-01 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.

[Date]

Perusahaan Penerbit SBSN Indonesia III
Issue of [Aggregate Face Amount of Series] [Title of Certificate]
Under the
U.S.\$10,000,000,000
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 [●], 2016 (the **Offering Memorandum**) [and the supplemental offering memorandum dated [●]]. 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: | [●] <i>(this means the minimum integral amount in which transfers can be made)</i> |
| | (ii) | Calculation Amount: | [●] ¹ |

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).

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
- [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]
	<i>[(If not applicable, delete the remaining sub-paragraphs of this paragraph)]</i>
(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] <i>(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)</i>
(iii) Business Day Convention:	[Floating Rate Convention / Following Business Day Convention / Modified Following Business Day Convention / Preceding Business Day Convention / <i>[specify other]</i>]
(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] (<i>Screen Rate Determination</i>) 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:	[] (<i>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</i>)
• 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] (<i>Floating Periodic Distribution Provisions</i>))
(ix) Calculation Agent:	[Principal Paying Agent] [<i>specify other</i>]
(x) Other terms relating to the method of calculating Floating Periodic Distribution Amounts:	[Not Applicable] [<i>give details</i>]

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*]

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**

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

By : _____
Duly authorized

By : _____
Duly authorized

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: [Not Applicable]

. []

(iv) Any clearing system(s) other than The Depository Trust Company or Euroclear SA/N.V. 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] LIST²

[●]

² 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, Euroclear 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 Certificates 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, 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, 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 solely 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
Emmy Hermiati Usman	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 or about the Program Update Date 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 or about the Program Update Date 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 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 or about the Program Update Date 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 the Program Update Date 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 the Program Update Date 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 Lessor to the Lessee 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 or about the Program Update Date 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 the Program Update Date 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 as “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 the Program Update Date 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 the Program Update Date 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 the Program Update Date 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.

USE OF PROCEEDS

The gross 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 gross proceeds it receives to meet part of its general financing requirements.

REPUBLIC OF INDONESIA

Overview

Indonesia, the fourth most populous country in the world with an estimated population of approximately 255.5 million as of June 2015, is a developing nation in Southeast Asia spread across an archipelago of 17,504 islands. Indonesia is undergoing rapid economic change and has also undergone fundamental political changes, transforming from what was once a centralized, authoritarian system to a participatory democracy that places greater political power in the hands of local and regional governments.

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

Selected Key Economic Indicators

	Year Ended December 31,					
	2011 ^L	2012 ^L	2013 ^L	2014 ^L	2015 ^P	2016 ^B
National account and prices:						
Real GDP growth	6.2%	6.0%	5.6%	5.0%	4.8%	5.3%
Per capita GDP (in thousands of Rupiah)	32,364	35,105	38,365	41,900	45,176	N/A
Per capita GDP (in U.S. dollars) ⁽¹⁾	3,692	3,741	3,677	3,531	3,377	N/A
Average exchange rate (Rupiah per U.S. dollar) ⁽²⁾	8,776	9,358	10,455	11,876	13,392	13,900
Inflation rate (change in CPI) ⁽³⁾	3.8%	4.3%	8.4%	8.4%	3.4%	4.7%
External sector:						
Current account surplus/(deficit) (% of GDP) ⁽⁴⁾	0.2%	(2.7)%	(3.2)%	(3.1)%	(2.1)%	N/A
Fiscal account:						
Budget surplus/(deficit) (% of GDP)	(1.1)%	(1.9)%	(2.3)%	(2.3)%	(2.5)%	(2.2)%
External debt of the central Government (in trillions of Rupiah)	815.9	879.7	1,111.6	1,130.9	N/A	1,476.0
Debt service ratio (% of Government revenue)	18.8%	20.5	19.0	23.9	N/A	25.2

Source: BPS, Bank Indonesia and Ministry of Finance

^L LKPP (Central Government Financial Report/Audited)

^B Budget

^P Preliminary

- (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: Rp8,766 per U.S. dollar for 2011, Rp9,384 per U.S. dollar for 2012, Rp10,463 per U.S. dollar for 2013, Rp11,868 per U.S. dollar for 2014, and Rp13,392 per U.S. dollar for 2015. 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 2015 which was based on Bank Indonesia's calculation.
- (3) Inflation rate calculated on a year-on-year basis.
- (4) Current account for the relevant period published by Bank Indonesia in Indonesia's balance of payments report.

N/A Not Available.

Economic developments in recent periods include the following:

- **Growth.** Real GDP growth was recorded at 6.2%, 6.0%, 5.6%, 5.0% and 4.8% in 2011, 2012, 2013, 2014 and 2015, respectively. In the first quarter of 2015, GDP grew by 4.73%, with GDP growth dropping to 4.66% in the second quarter of 2015. In the third quarter of 2015, GDP grew by 4.74%, and in the fourth quarter of 2015, it grew by 5.04%. GDP growth in 2015 was mainly on account of government stimulus, especially in relation to government infrastructure projects.
- **Ratings.** On May 21, 2015, Standard & Poor's Ratings Services revised its outlook on the Republic from stable to positive and affirmed its BB+ long-term and B short-term sovereign credit ratings and

axBBB+/axA-2 ASEAN regional scale rating on the Republic, stating that improvements in the Republic's policy framework have enhanced monetary and financial sector management and that greater policy effectiveness and predictability have resulted in expanded fiscal and reserve buffers and improved the Republic's external resilience.

- On November 6, 2015, Fitch affirmed its sovereign credit rating of the Republic at BBB-/stable outlook (investment grade) on the back of relatively stronger and more stable growth compared to peer countries, ongoing structural reforms bolstered by policy packages to invigorate the investment climate, controlled public debt and a robust and resilient banking sector.
- On January 28, 2016 Moody's affirmed Indonesia's Sovereign Credit Rating at Baa3/ stable outlook (investment grade) on the back of the government's strong balance sheet against the current backdrop of widening fiscal deficit and effective policy response to mitigate external risks from lower commodity prices and weaker growth to ensure the sustainability of Indonesia's external payments position. The stable outlook reflects that Indonesia remains resilient to current pressure from lower commodity prices and international financial volatility.
- **Exchange Rate.** The Rupiah exchange rate averaged Rp8,776, Rp9,358, Rp10,455, Rp11,876 and Rp13,392 to the U.S. dollar in 2011, 2012, 2013, 2014 and 2015 respectively. Pressures on the Rupiah in 2014 were mainly due to concerns over the normalization of the U.S. Federal Reserve policy and a higher deficit in the Republic's current account at 2.9% of GDP. Rupiah depreciation in 2015 remained high in line with the increasing external and domestic risks. On the external side, depreciation was triggered by concerns regarding the U.S. monetary policy normalization plan, the Greek debt crisis, devaluation of the Yuan by the People's Bank of China (PBoC), as well as global monetary policy divergence. Depreciation pressure was also seen in other regional currencies in line with higher external risks. On the domestic side, rupiah depreciation was due to the slowdown of domestic economic growth and limited supply of foreign exchange proceeds from exports. The increasing external and domestic risks have caused the Rupiah to depreciate more in 2015 compared to 2014. After experiencing depreciatory pressures, particularly in the third quarter of 2015, the Rupiah stabilized and appreciated in the last quarter of 2015. This was in line with the positive sentiment regarding emerging market countries due to the positive announcement relayed at the Federal Open Market Committee (FOMC), less uncertainty in global financial markets after the U.S. Federal Reserve raised its Federal Funds Rate on December 17, 2015, and greater optimism concerning the domestic economic outlook as the Government introduced a series of policy packages to restructure the economy and Bank Indonesia implemented prudent monetary policy and exchange rate stabilization policy packages. These positive sentiments resulted in non-resident capital flow back into Indonesia in the last quarter of 2015. Overall, the Rupiah shows manageable volatility and depreciation compared with peer currencies.
- In 2015, inflation was recorded at 3.4% (year-on-year) which was within the target corridor set by the Government of 4+-% and significantly lower from that of 2014 which was recorded at 8.4% (year-on-year). Low inflation in 2015 was attributed to cheaper global energy prices and domestic energy subsidy reforms on fuel, LPG, and electricity prices. Low inflation in 2015 was also supported by the government and Bank Indonesia's policy to control inflation. In January 2016, the inflation rate stood at 4.1% (year-on-year) on the back of persistently sluggish domestic demand, the decrease of fuel prices and well maintained inflation expectations. Inflation of volatile foods was recorded at 6.8% (year-on-year), which is low considering the ongoing El Nino weather phenomenon. In February 2016, the inflation rate stood at 4.4% (year-on-year) which was still within the 4±1% inflation target range. This relatively low level of inflation was due to a decrease in certain food prices and the ongoing impact of a decrease in fuel, LPG, and electricity prices.
- **Diversification.** Manufacturing, agriculture, forestry and fishing and wholesale and retail trade are the principal sectors of the Republic's economy. In 2014 and 2015, the manufacturing sector accounted for the largest portion of GDP (21.0% in 2014 and 20.8% in 2015 using current market prices) followed by agriculture, forestry and fishing (13.4% in 2014 and 13.5% in 2015 using current market prices) and wholesale and retail trade (13.4% in 2014 and 13.3% in 2015 using current market prices).
- **Realization.** Realization figures for 2015 included: (i) state revenue in the amount of Rp1,504.5 trillion; (ii) state expenditures in the amount of Rp1,796.6 trillion; and (iii) a budget deficit of Rp292.1 trillion.
- **Budget deficits.** Budget deficits (as a percentage of GDP) were 1.9%, 2.3%, and 2.3% in 2012, 2013 and 2014, respectively. In the Revised 2015 Budget, the projected budget deficit is 1.9% of GDP. The

Revised 2015 Budget seeks to maintain fiscal sustainability through a lower deficit and calls for a reduction in financing by 9.5%, or Rp23.4 trillion in 2015. In the 2016 Budget, the deficit is forecast at 2.15%.

- **Foreign direct investment.** Despite a challenging global economic environment, net inflows of foreign direct investment (**FDI**) were U.S.\$20.6 billion, U.S.\$21.2 billion, U.S.\$23.3 billion, U.S.\$25.2 billion and U.S.\$18.7 billion in 2011, 2012, 2013, 2014, and 2015.
- **Current account.** While there was a current account surplus of U.S.\$1.7 billion for 2011, the current account posted deficits of U.S.\$24.4 billion, U.S.\$29.1 billion, U.S.\$27.5 billion, and U.S.\$17.8 billion in 2012, 2013, 2014, and 2015 respectively.
- **Foreign reserves.** Foreign reserves totaled U.S.\$110.1 billion, U.S.\$112.8 billion, U.S.\$99.4 billion, U.S.\$111.9 billion, and U.S.\$105.9 billion as of December 31, 2011, 2012, 2013, 2014, and 2015, respectively. The foreign reserves as of December 31, 2015 was equivalent to 7.4 months of imports and servicing of government external debt, well above the international standard of reserves adequacy at 3 months of imports.

As of December 31, 2015, Indonesia's remaining Paris Club debt amounted to U.S.\$ 4.73 billion.

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

Realization of 2015 Budget

The Ministry of Finance published the realization figures of the 2015 Revised Budget (the “**Realization 2015 Budget**”) on January 22, 2016. Growth was lower than the target mainly due to lower export performance on account of the impact of the global economic slowdown, especially the slowdown in China, which is Indonesia's main trading partner. Shocks in the financial market caused the depreciation of the Rupiah, as well as a decrease in investment and consumption. Meanwhile, the Government implemented spending and economic policy packages to activate economic growth.

The key macroeconomic assumptions underlying the Realization 2015 Budget, as compared with the 2015 Revised Budget, are as follows:

- a real GDP growth rate of 4.8%, compared with 5.7% in the 2015 Revised Budget;
- an inflation rate of 3.4%, compared with 5% in the 2015 Revised Budget;
- a three-month short-term treasury bills (SPN) yield of 5.97%, compared with 6.2% in the 2015 Revised Budget;
- an exchange rate of Rp13,392 to U.S.\$1, compared with Rp12,500 to U.S.\$1 in the 2015 Revised Budget;
- average oil production by the Republic of 779,000 barrels of oil per day, compared with 825,000 hundred barrels of oil per day in the 2015 Revised Budget;
- average gas production by the Republic of 1.195 million barrels of gas per day, compared with 1.221 million barrels of gas per day in the 2015 Revised Budget; and
- an average Indonesian Crude Price (**ICP**) of U.S.\$50 per barrel, compared with U.S.\$60 per barrel in the 2015 Revised Budget;

The Realization 2015 fiscal deficit was 2.53% of the projected GDP in 2015, compared to 1.9% of the 2015 Revised Budget. Total expenditure under the Realization 2015 was at Rp1,796.6 trillion, a saving of Rp187 trillion of the 2015 Revised Budget. Total revenue (including grants) amounted to Rp1,504.5 trillion, a decrease of Rp257 trillion as compared to the 2015 Revised Budget.

The Transfer to Revenue and Rural Fund amounted to Rp623 trillion, compared to a targeted Rp664.6 trillion in 2015 Revised Budget. In order to maintain fiscal sustainability, the Realization of 2015 Budget is at 2.53% of the GDP, still under limit of 3% of GDP.

Revised 2015 Budget

On March 6, 2015, the Government issued Law No. 3 of 2015 on Amendment of Law No. 27 of 2014 on 2015 State Budget (the **Revised 2015 Budget**). The revision of the Original 2015 Budget is permitted by Law No. 27 of 2014 on State Budget of 2015. The revision of the Original 2015 Budget was also supported by certain conditions requiring amendments to the Original 2015 Budget, such as significant changes in the basic macroeconomic assumptions underlying the Original 2015 Budget and to accommodate certain new priority governmental programs based on the vision and mission of President Joko Widodo.

The Revised 2015 Budget aims to improve spending efficiency, including by discontinuing subsidies for premium gasoline fuels, by providing fixed subsidies for diesel fuel, and by continuing to provide subsidies for kerosene fuel. The Revised 2015 Budget also increases the budget allocation for rural areas. The policies underpinning the Revised 2015 Budget seek to improve the Government's ability to fund more productive programs and initiatives and minimize fiscal vulnerabilities from external factors such as fluctuations in crude oil prices and the exchange rate.

The key macroeconomic assumptions underlying the Revised 2015 Budget, as compared with the Original 2015 Budget, are as follows:

- a real GDP growth rate of 5.7%, compared with 5.8% in the Original 2015 Budget;
- an inflation rate of 5.0%, compared with 4.4% in the Original 2015 Budget;
- a three-month short-term treasury bills (SPN) yield of 6.2%, compared with 6.0% in the Original 2015 Budget;
- an exchange rate of Rp12,500 to U.S.\$1, compared with Rp11,900 to U.S.\$1 in the Original 2015 Budget;
- average oil production by the Republic of 825,000 barrels of oil per day, compared with 900,000 barrels of oil per day in the Original 2015 Budget;
- average gas production by the Republic of 1.22 million barrels of gas per day, compared with 1.24 million barrels of gas per day in the Original 2015 Budget;
- an average Indonesian Crude Price (ICP) of U.S.\$60 per barrel, compared with U.S.\$100 per barrel in the Original 2015 Budget; and
- a revised projected nominal GDP of Rp11,700.8 trillion, compared with Rp11,146.9 trillion in the Original 2015 Budget (calculated at current market prices).

The Revised 2015 Budget includes a target fiscal deficit of 1.9% of the projected GDP in 2015, lower than the Original 2015 Budget of 2.2%. Total expenditure under the Revised 2015 Budget is estimated at Rp1,984.1 trillion, a decrease of Rp55.3 trillion from the Original 2015 Budget. The Revised 2015 Budget total revenue (including grants) amounts to Rp1,761.6 trillion, a decrease of Rp31.9 trillion as compared to the Original 2015 Budget.

The Government aims to optimize tax revenue without disrupting the investment and business climate and to reform taxation by improving administration, revenue potential and legislation and by providing tax incentives to certain sectors. The Revised 2015 Budget supports the following priority programs: (1) food sovereignty improvement; (2) energy and electricity development; (3) maritime and infrastructure development; (4) national defense industry development; (5) infrastructure and connectivity development; and (6) industry development. The Revised 2015 Budget allocates Rp1,033.8 trillion for these priority programs. The Revised 2015 Budget also provides financing support to SOEs in the form of additional Government capital participation to improve investment and capital provisions. Furthermore, the Revised 2015 Budget provides financing reserves to the Health Social Security Administrator (*Badan Penyelenggara Jaminan Sosial Kesehatan*) and to The Social Welfare Program (*Dana Jaminan Sosial Program*) in the amount of Rp5.0 trillion.

The Revised 2015 Budget allocates Rp664.6 trillion for the Transfer to Regions and Rural Fund, an increase of 2.7% from the Original 2015 Budget. The Balanced Fund increased to Rp5.4 trillion, while the Sharing Fund, the General Allocation Fund and the Special Allocation Fund amounted to Rp110.1 trillion, Rp352.9 trillion and Rp58.8 trillion, respectively. The Revised 2015 Budget also increases the budget allocation for the Rural Fund to Rp20.8 trillion, compared with Rp9.1 trillion in the Original 2015 Budget.

In order to maintain fiscal sustainability, the Revised 2015 Budget projects a deficit of Rp222.5 trillion (1.9% of GDP), Rp23.3 trillion lower than the Original 2015 Budget. The Government expects to finance the projected deficit under the Revised 2015 Budget from both domestic and international sources.

2016 Budget

On November 25, 2015, the Government issued Law No. 14 of 2015 on 2016 State Budget (the **2016 Budget**). The fiscal policy theme for the 2016 Budget is “strengthening fiscal management in order to strengthen the fundamentals of development and quality economic growth”.

Under the 2016 Budget, the Government established the following fiscal policy strategies:

1. strengthen economic stimulus in order to increase production capacity and competitiveness;
2. increase fiscal resilience and support prioritized programs; and
3. control risks and maintain fiscal sustainability both in the medium and long term.

2016 will be the first year in which Kabinet Kerja will fully prepare the budget to reflect its programs and policies. In doing so, Kabinet Kerja seeks to: (1) develop more targeted subsidy reform; (2) improve fiscal support to priority programs and spending; (3) control mandatory spending; (4) manage the budget deficit; and (5) improve the budget and spending practices.

The key macroeconomic assumptions underlying the 2016 Budget, as compared to the Revised 2015 Budget, are as follows:

- a real GDP growth rate of 5.3% in the 2016 Budget, compared to 5.7% in the Revised 2015 Budget;
- an inflation rate of 4.7% in the 2016 Budget, compared to 5.0% in the Revised 2015 Budget;
- three-month short-term SPN of 5.5% in the 2016 Budget, compared to 6.2% in the Revised 2015 Budget;
- an exchange rate of Rp13,900 to U.S.\$1 in the 2016 Budget, compared to Rp12,500 to U.S.\$1 in the Revised 2015 Budget;
- oil production by the Republic of 830,000 barrels of oil per day in the 2016 Budget, compared to 825,000 barrels of oil per day in the Revised 2015 Budget;
- gas production by the Republic of 1.16 million barrels of gas per day in the 2016 Budget, compared to 1.22 million barrels of gas per day in the Revised 2015 Budget;
- ICP of U.S.\$50 per barrel in the 2016 Budget, compared to U.S.\$60 per barrel in the Revised 2015 Budget; and
- a revised projected nominal GDP of Rp12,704.9 trillion in the 2016 Budget (calculated at current market prices), compared to Rp11,700.8 trillion in the Revised 2015 Budget (calculated at current market prices).

The Government aims to achieve revenue optimization through supporting tax revenue and non-tax revenue optimization. Generally, tax revenue policies employed by the Government are those which are directed at: (1) optimizing tax revenue without interrupting business; (2) maintaining national economic stability and maintaining purchasing power; (3) increasing the competitiveness and value of national industries by improving tax and industry policies; (4) controlling excise-taxed goods through adjusting excise tariffs on tobacco products and etil-alcohol beverages (EA-MMEA); and (5) executing various technical tax policies.

For non-tax revenue, the Government seeks to optimize revenue by: (1) optimizing natural resources (oil and gas) by, among other things, increasing lifting estimation and target delivery; (2) adjusting production tariffs and royalties; (3) intensifying and expanding geothermal exploration and improving geothermal energy laws; (4) adjusting the imposition of non-tax revenue tariffs and increasing the quality of forestry and environment

non-tax revenue management; (5) increasing the role of SOEs as agents of development to support priority programs of the Government; and (6) improving the services of Public Services Agency (**BLU**) to the people.

The 2016 Budget includes a target fiscal deficit of 2.2% of the projected GDP in 2016, compared to 1.9% in the Revised 2015 Budget. Total expenditure under the 2016 Budget is estimated at Rp2,095.7 trillion. The 2016 Budget total revenue (including grants) amounts to Rp1,822.5 trillion, an increase of Rp60.9 trillion compared to its Revised 2015 Budget. Allocation of the Transfer to Region and Rural Funds is increased to Rp770.2 trillion, approaching the Ministry/Agencies spending of Rp784.1 trillion.

The main policies of Central Government Expenditure are to: (1) maintain the real income of Government officials in order to increase productivity and improve public service (in the form of giving feast day/ holiday allowance (**THR**)); (2) continue operational and non operational spending (including moratoriums, development of Government building programs and leasing of operational service vehicles); (3) improve targeting of direct subsidies; (4) continue the development of priority programs (such as connectivity infrastructure, food and energy sovereignty, maritime, tourism, gap reducing and defense) to improve development; (5) increase education spending to 20.0% of the state budget and improve access to quality education; (6) increase health spending to 5.0% of the state budget and improve the reach and effectiveness of state health programs; (7) harmonize the fiscal decentralization policy by shifting allocation of Dana Dekonsentrasi/Tugas Pembantuan in Ministries/Agencies to the **DAK**; (8) improve the welfare of the poor by providing a more sustainable social support program (*Kartu Indonesia Pintar* (**KIP**), *Kartu Indonesia Sehat* (**KIS**)), including by increasing the number of recipients of conditional cash support to six million poor families and increasing the number of recipients of national health insurance support to 92.4 million people; (9) meet housing needs through Program Sejuta Rumah, the Republic's "one million houses program" for low income people by supporting housing development, credit interest payments, downpayment costs and FLPP; and (10) widening and improving credit for business programs which were started in 2015.

The Transfer to Regions and Rural Funds policies for the 2016 Budget include, among others: (1) increasing the allocation to levels approaching the Ministries/Agencies budget; (2) improving the quality of budgeting and the distribution of the Revenue Sharing Fund (**DBH**); (3) reformulating the General Allocation Fund (**DAU**) to scale up the equalization of financial capacity among the regions; (4) reformulating and strengthening the Specific Allocation Fund (**DAK**) to support Nawacita implementation and national priority achievement; (5) reformulating the Region Incentive Fund (**DID**) to reward high performing regions in terms of financial management and economic and regional welfare; (6) improving the quality of the Special Autonomy Fund for Yogyakarta; and (7) increasing the Rural Fund allocation (according to the roadmap of the Rural Fund 2015-2019).

Some policies implemented in the 2015 Revised Budget are continued in the 2016 Budget, for instance, budget allocation for rural areas as stated in Law Number 6 of 2014 on rural villages, to support the idea of "developing from suburbs". The allocation for health budget was raised to 5.0% in the 2016 Budget to Rp104.8 trillion, an increase from 3.7% under the 2015 Revised Budget, or Rp 74.8 trillion. The health budget is aimed at: a) improvement of health and nutrition of mother and children, b) control of disease, c) improvement of access to and quality of basic health (in particular, first reference in remote and frontier areas), d) increasing the scope of health service through KIS and improvement of SJSN Kesehatan (including the regulation and policy sides), and e) provision of medical support, vaccine, and medicine.

The education budget remained at 20.0% of the Budget or Rp419.2 trillion. This budget is aimed at improving access to and quality of education through: a) obligatory school up to 12 years, b) improvement of learning quality, c) improvement of access to education service and skill training, d) improvement of teacher management and placement, and e) improvement of access, quality and competency of higher education.

The infrastructure budget increased Rp23.2 trillion from Rp290.3 trillion in the 2015 revised Budget to Rp313.5 trillion in the 2016 Budget. It is in line with the Government's work plan 2016 theme which aims at accelerating the infrastructure development to strengthen the foundation for quality development.

In the 2016 Budget, a rural fund is allocated for every rural area based on its population, poverty level and location. The 2016 Budget allocated Rp770.2 trillion for the transfer to regions and rural fund, an increase of 15.9% from the Revised 2015 Budget. In the 2016 Budget, the Balance Fund increased to Rp700.4 trillion, while DBH, DAU and DTK amounted to Rp106.1 trillion, Rp385.4 trillion and Rp208.9 trillion, respectively.

In order to preserve fiscal sustainability, the deficit target in the 2016 Budget is approximately 2.2% of GDP, within the safe harbor limit of 3.0% of GDP mandated by the Government Regulation Number 23/2013. The 2016 Budget projects a deficit of Rp273.2 trillion. The Government expects to finance the projected deficit from both domestic and international sources. Approximately, 99.8% of the total financing or Rp272.8 trillion in 2015 was sourced domestically. In 2016, the incurrence of foreign debt will help to reduce the cost of overall loan withdrawals, decrease the market risk of Government securities (SBN) management, diversify the Government's loan sources and support the foreign exchange reserve supply.

Economic Policy Packages in 2015

The Coordinating Ministry of Economic Affairs, on behalf of the Government, issued 10 economic policy packages to boost Indonesia's economic growth and to simplify the investment procedures in Indonesia.

1. The first policy package was announced on September 9, 2015, and includes policies to accelerate budget spending and increase household purchasing power, fiscal incentives to strengthen the competitiveness of domestic products and stimulate growth in domestic business. In addition, the package simplifies the process of obtaining business permits, accelerates certain national strategic projects, boosts low-income housing, increases the allocation of rice for low income households and implements tax cuts and strengthens downstream products to produce value added products. Several policies were drafted to stimulate the development of the Small to Medium Enterprise (SME) industry in Indonesia. The strategies include the strengthening of export financing through the National Interest Account project (provision of low-interest export financing) and increasing interest subsidies for SME loans.

(Policies that have been drafted and implemented include those concerning: the Establishment of TEPPRA team, improvement of the Government procurement system, Government regulation on capital injection of SOEs, improvement of the PPP scheme, implementation of corporate governance policy, cash for work, increasing the limit on nontaxable income, luxury tax exemption, additional two-month allocation of rice for low income households, tax allowance, tax holiday, CPO supporting fund, tax incentives for the property sector, LPEI assignment on National Interest Account, interest subsidies for SME commercial loans, addition of visa exempt countries and dwelling time optimization.

Policies in the pipeline include those concerning an integrated logistics center, the development of Special Economic Zones (SEZs), tax incentives for the shipyard industry and seaport services, Debt to Equity Ratio (DER) policy and incentives for processing anode slime.)

(Policies that have been issued include those concerning SEZs, DER, shipyard industries and anode slime are as follows:

- a. Government Regulation No. 96 of 2015 on Facility and in the SEZ Areas.
 - b. Ministry of Finance Regulation No. 169/PMK.010/2015 on the Ratio between Loans and Capital of the Company for the Calculation of Income Tax.
 - c. Government Regulation No. 69 of 2015 on the Import and Delivery of Specific Transportation Equipment and the Delivery of Taxable Services Related to the Specific Transportation Equipment and not Subject to Value Added Tax (VAT).
 - d. Government Regulation No. 106 of 2015 on the Delivery of Taxable Goods which Are Strategic and not Subject to VAT.
2. The second policy package, announced on September 29, 2015, simplifies the process for obtaining investment permits in the industrial sector. This package includes the granting of tax incentives by eliminating VAT for selected transportation industries (indirectly affecting the shipyard industry), strengthening integrated logistics facilities and maintaining the stability of the Rupiah. In addition, this package also simplifies the requirements to obtain permits, particularly those related to tax holidays and the tax allowance approval process. The second policy package also includes VAT incentives for shipyard, train and airplane industries.

(Policies that have been drafted and implemented include those relating to the tax allowance and tax holiday acceleration process and VAT incentives for transportation industries. Policies in the pipeline include those relating to an integrated logistics center and obtaining international currency revenue from exports proceeds.)

3. The third policy package, announced on October 7, 2015, includes policies relating to: the reduction of fuel, gas and industrial electricity prices, the easing of land permit approvals for investment activities and expanding SME commercial loan availability to include salaried employees as eligible recipients. The Government believes that this package will further encourage investment in Indonesia.

(Policies that have been drafted and implemented include those relating to lower fuel prices (aviation, diesel, Pertamina (premium fuel option in Indonesia) and Petralite (semi premium fuel option in Indonesia)), lower electricity tariffs, easing land permit approval processes and expanding eligible recipients for SME commercial loans. Policies in the pipeline include a policy to lower LNG prices.)

4. The fourth policy package, announced on October 15, 2015 includes policies relating to: promoting a fair, simplified and projectable provincial wage system, providing an interest subsidy for small business loans to maximize affordability to applicants and expanding the criteria for small business credit to include productive sectors, such as farming, fishery, manufacturing, creative businesses and overseas Indonesian workers. The Government also provides convenience to employees via the implementation of lay-off prevention incentives.

(Policies that have been drafted and implemented include policies relating to the new SME commercial loan schemes and the loan scheme for export oriented SMEs. Policies in the pipeline include the wage formulae.)

5. The fifth policy package, announced on October 22, 2015, introduced tax incentives for asset revaluations in order to encourage companies and SOEs to revalue their asset base. Additionally, this policy package saw the elimination of the double taxation system for Real Estate Investment Trusts (REITs) in order to attract more domestic REIT issuances and deregulation in Sharia banking sector.

(Policies that have been drafted and implemented include tax incentives for asset revaluation. Policies in the pipeline include those relating to the elimination of the double taxation system for REITs.)

(Policies that have been drafted and implemented include those relating to REITs i.e. The Minister of Finance Regulation No. 200/PMK.03/2015 on Taxation for the Taxpayer and Taxable Entrepreneur that Implement Collective Investment Contracts in the Finance Sector.

6. The sixth policy package, announced on November 5, 2015, includes policies relating to the introduction of tax incentive schemes in eight SEZs to further encourage development, adjustment of water-based resource processing permits to protect natural resources and shortening the import processes for pharmaceutical products by using an online system.

(Policies that have been drafted and implemented include those relating to tax holiday tax allowance, VAT, and import duty schemes for SEZ investments and an online system for pharmaceutical product imports. Policies in the pipeline include revisions relating to obtaining a water-based resource processing business permit.)

7. The seventh policy package, announced on December 7, 2015, includes acceleration in land certification to tax incentives for labor-intensive industry in order to give incentives and to ease the conduct of business.

With regard to the acceleration in land certification, the policies will include increasing the amount of certified Surveyors, increasing the amount of certificate service outlets and giving free certificates to holders of *Kartu Keluarga Sejahtera* (KKS) issued by the Ministry of Social Affairs, accelerating the time period in announcing the land registration, shifting the land registration procedures to an electronic system, and giving communal rights to customary communities as well as communities living in forestry/plantation areas.

As for the tax incentives, in order to increase the productivity of the labor-intensive industry, the Government will reduce the tax temporarily.

(Policies that have been issued include the reduction of income tax (PPh 21) for employees that are working in labor-intensive industry based on the relevant Government Regulation and giving tax facilities to 3 new industries (Footwear Industry for Daily Purposes, Sports Footwear Industry and Industry Purposes Footwear Industry) based on Schedule 1 of Government Regulation Number 18 of 2015. In addition, the Garment and Clothes Industry is also included in such list.)

8. The eighth policy package, announced on December 21, 2015, covers the Acceleration of One National Map, Oil Refinery, and the Release of Import Duty for Aircraft Parts Policy. As regards to the One

National Map Policy, the policy is intended to prevent the overlapping use of land that may be obstacles to economic activities, particularly in investment.

In regards to the Acceleration of Oil Refinery, the Government intends to use the latest technology. The development will be integrated with petrochemicals.

In regards to the Acceleration of Release of Import Duty for Aircraft Parts, there will be incentives for national airline companies who are conducting reparation. The background is the recent development of national airlines industry that growing significantly as assessed by their sales and leasing.

9. The ninth policy package, announced on January 27, 2016, covered the Acceleration of Electrical Energy Infrastructure Development, Stabilization of Meat Price, and the Increase of Logistic Sectors for Cities and Rural Areas.

There are 5 (five) business lines being deregulated which are as follows:

- i. The Development of Commercial Postage Service;
 - ii. The Unification of Electronically Port Services (Single Billing);
 - iii. The Synergy of State Owned Enterprises in Building Aggregator/Consolidator of Small and Medium-Scale Business, Geographical Indications and Creative Economic Products;
 - iv. Electronic Port Integrated System; and
 - v. The Use of Rupiah for Transactions of Transportation Activities.
10. The tenth policy package, announced on February 11, 2016, is focused on expanding employment opportunities and supporting economic growth. Another important initiative was the revision of the Negative Investment List (Presidential Regulation Number 39 of 2014).

Inflation

In 2015, inflation was recorded at 3.4% (year-on-year), which was within the target corridor set by the Government of $4\pm 1\%$ and significantly lower than that of 2014, which was recorded at 8.4% (year-on-year). Low inflation in 2015 was attributed to cheaper global energy prices and domestic energy subsidy reforms on fuel, LPG, and electricity prices. Low inflation in 2015 was also supported by the government and Bank Indonesia's policy to control inflation. Core inflation in 2015 was 4.0% (year-on-year), compared to 4.9% (year-on-year) in 2014; inflation of volatile foods was 4.8% (year-on-year), compared to 10.9% in 2014 (year-on-year); and administered prices inflation was 0.4% (year-on-year), compared to 17.6% in 2014 (year-on-year).

In January 2016, the inflation rate stood at 4.1% (year-on-year), which is within the inflation target corridor set by the Government of $4\pm 1\%$ (year-on-year), on the back of persistently sluggish domestic demand, the decrease of fuel prices and well-maintained inflation expectations. Core inflation was low at 3.6% (year-on-year) as a result of well-anchored expectations and persistently sluggish domestic demand. Administered prices experienced a deflation of 3.9% (year-on-year) as fuel prices fell. Inflation of volatile foods was recorded at 6.8% (year-on-year), which is low considering the ongoing El Nino weather phenomenon.

In February 2016, the inflation rate stood at 4.4% (year-on-year) which was still within the $4\pm 1\%$ inflation target range. This relatively low of inflation was due to the decrease of certain food prices and the ongoing impact of the decrease in fuel, LPG, and electricity prices.

Forest and field fires during 2015

During 2015, forest and field fires occurred in 16 Indonesian provinces in Sumatera and Kalimantan. According to the National Agency for Disaster Management (*Badan Nasional Penanggulangan Bencana* or BNPB) data, the damaged area caused by forest and field fires in 2015 is estimated to have reached 2.6 million hectares.

The Government is currently monitoring over 100 companies in seven provinces to determine their involvement with the fires. 80 of the companies that are being monitored are expected to be given administrative sanctions, while 40 of these companies are being audited because their forest and field areas were burned.

One of the causes of the forest and field fires, especially in the province of Central Kalimantan, was the use of fire to clear land as permitted under Central Kalimantan Regional Regulation No. 5 of 2003, Governor Regulation No. 52 of 2008 and Governor Regulation No. 15 of 2010, pursuant to which the community may clear land through controlled burning, with each Family Head (*Kepala Keluarga*) permitted to burn up to two hectares.

To control the forest and field fires that have expanded and to ease the enforcement by authorities against parties conducting forest and field fires, the Government of Central Kalimantan has issued Governor Regulation No. 49 of 2015 which revokes Governor Regulation No. 52 of 2008 and Governor Regulation No. 15 of 2010.

Evaluation of the implementation of the prevention measures mentioned above is ongoing. 220 people, comprising members from the Regional Work Unit (*Satuan Kerja Perangkat Daerah* or *SKPD*), officials from the BNPB, the Regional Agency for Disaster Management (*Badan Penanggulangan Bencana Daerah* or *BPBD*) in Kalimantan, traditional community figures, non-governmental organizations and others have attended an evaluation meeting on the handling of the haze disaster in Kalimantan. This activity, in addition to evaluating the effectiveness of the handling of the forest and field fires, is meant to obtain input and recommendations from various parties so that forest and field fires do not occur again in future years.

Key Regulatory Updates

Bank Indonesia Regulation on Prudential Principles in Managing External Debt of Non-Bank Corporation

On December 29, 2014, Bank Indonesia issued Bank Indonesia Regulation No. 16/21/PBI/2014 on Implementation of Prudential Principle in Managing Foreign Debt of Non-Bank Corporation (**PBI No. 16/21**), which revoked Bank Indonesia Regulation No. 16/20/PBI/2014. Bank Indonesia also issued Circular Letter No. 16/24/DKEM dated December 30, 2014 on Implementation of Prudential Principle in Managing Foreign Debt of Non-Bank Corporation (**Circular No. 16/24**) to further regulate the implementation of PBI No. 16/21. These regulations were issued to assist non-bank corporations to mitigate risks emerging from external debt activities, in particular, currency risk, liquidity risk and risks resulting from being over leveraged.

Under PBI No. 16/21 and Circular No. 16/24, non-bank corporations must comply with the following principles:

- (a) maintain a minimum hedging ratio (the ratio of the difference between foreign currency assets and foreign currency liabilities with a maturity period of up to three months after the end of a quarter to the difference between foreign currency assets and foreign currency liabilities with a maturity period of three to six months after the end of a quarter) of 25.0% by hedging foreign currency exposure against the Rupiah after December 31, 2015. Should the difference of foreign currency assets and foreign currency liabilities of a non-bank corporation be lower than the U.S.\$100,000 threshold, it is exempted from the obligation to maintain a minimum hedging ratio. From January 1, 2017, hedging shall be done with banks in Indonesia;
- (b) maintain a minimum liquidity ratio (the ratio of foreign currency assets to foreign currency liabilities) of 70.0% by providing sufficient foreign currency assets to satisfy any foreign currency liabilities maturing three months after the end of a quarter. The 70.0% minimum ratio, however, has only been applicable from January 1, 2016; the applicable minimum liquidity ratio in 2015 was 50.0%; and
- (c) maintain a credit rating and/or only issue foreign currency liabilities with a credit rating of no less than the equivalent of BB- issued by a rating agency acknowledged by Bank Indonesia, which currently include: (i) domestic rating agencies: (1) PT Pemeringkat Efek Indonesia (with an equivalent rating of BB-(idn)); (2) Fitch Ratings Indonesia ((Idr)BB-); (3) Investment & Credit Rating Agency Indonesia ((Idr)BB-); and (ii) foreign rating agencies: (1) Moody's Investors Service (Ba3); (2) Standard & Poor's (BB-); (3) Fitch Ratings (BB-); (4) Japan Credit Rating Agency (BB-); and (5) Rating and Investment Information Inc. (BB-).

PBI No. 16/21 came into effect on January 1, 2015. However, non-bank corporations may achieve compliance with PBI No. 16/21 until December 31, 2015 by maintaining: (i) a minimum hedging ratio of foreign currency exposure against the Rupiah of 20.0%; and (ii) a minimum liquidity ratio of 50.0% of foreign currency assets to foreign currency liabilities. The obligation on credit ratings is only applicable for external debt raised from January 1, 2016. The following external debt is exempt from the obligation credit ratings, among others: (i) for refinancing of other external debt; (ii) for infrastructure project financing coming from international institution creditor(s) (bilateral or multilateral) or syndication loans with international institution creditor(s) (bilateral or multilateral) where the portion is more than 50.0%; (iii) for central or regional Government infrastructure projects; or (iv) debt secured by international institutions (bilateral or multilateral). Sanctions relating to the violation of these principles are administrative in nature.

On March 6, 2015, Bank Indonesia issued Bank Indonesia Circular Letters No. 17/3/DStA on Reporting of Prudential Principle Implementation Activities in Managing Foreign Debt of Non-Bank Corporation (**Circular 17/3/DStA**) as implementing regulation of PBI No. 16/21. Circular 17/3/DStA was further amended by Bank Indonesia Circular Letter No. 17/24/DStA (**Circular 17/24/DStA**) dated October 12, 2015. Pursuant to Circular 17/24/DStA, Indonesian debtors of offshore borrowings are required to submit a prudential principle implementation activity report (**KPPK report**).

Bank Indonesia issued Circular Letter No. 17/18/DKEM (Circular No. 17/18/DKEM) on June 30, 2015 to amend Circular No. 16/24/DKEM. Circular No. 17/18/DKEM contains various provisions regarding the treatment of non-bank corporations' receivables and foreign currency obligations, and clarifies that if a newly established non-bank corporation is a joint venture, the credit rating requirement for such corporation may be fulfilled by using the credit rating of such corporation's largest direct shareholder. The background of the amendments are adjustments on the Provision of Mandatory Use of Rupiah in the Republic of Indonesia (PBI No. 17/3 and Circular No. 17/11) and accommodation of common business practices related to financing project activities and business ownership structure. The amendments were:

- a. Additional regulations related to accounts receivable;
- b. Additional regulation related to foreign exchange liabilities; and
- c. Clarifications that in the case of a newly established non-bank corporation that is a joint venture, in order to fulfill the debt rating compliance, the corporation can use the debt rating of the largest shareholder who has a direct ownership relationship (direct shareholders).

Bank Indonesia regulations to strengthen the financial market

To strengthen monetary policy and increase the Indonesian financial market's resilience to external shocks, Bank Indonesia continues to improve the micro structure of the financial system in Indonesia through financial markets, especially in the Rupiah money market and foreign exchange market.

To enhance foreign currency liquidity instruments in the underdeveloped Sharia financial market, Bank Indonesia issued a regulation on Sharia Foreign Currency Term Deposits on July 25, 2014. The regulation of Sharia Foreign Currency Term Deposits is contained within Bank Indonesia Regulation No. 16/12/PBI/2014 on Sharia Monetary Operations. Sharia Foreign Currency Term Deposits represent the first Islamic monetary instruments denominated in a foreign currency issued by Bank Indonesia. The new instruments will expand the role of Islamic banks in financing the economic growth of the Republic. Sharia foreign currency term deposits represent an effective way to maintain liquidity in the foreign currency money market.

To support liquidity management in the domestic market through the provision of hedging, on December 24, 2013 Bank Indonesia issued Bank Indonesia Regulation (PBI) No. 15/17/PBI/2013 (PBI No. 15/17/PBI/2013) concerning swap hedging transactions which revoked PBI No. 7/36/PBI/2005. The amendments in the new regulation include, among others, the expansion of the underlying transactions and tenor of contracts (up to three years) and the adjustment of pricing based on market mechanisms. To further support the implementation of hedging for productive sectors, on September 17, 2014 Bank Indonesia issued PBI No. 16/19/PBI/2014 to amend PBI No. 15/17/PBI/2013. The amended regulation: (i) expands the scope of the underlying transaction to include foreign loans in the form of bank credit agreements and/or the issuance of debt securities and declared business funds; (ii) allows banks to extend their transaction obligations on their hedge contracts and swaps hedging transactions with Bank Indonesia; and (iii) allows the use of netting to settle the extension of swap hedging transactions with Bank Indonesia.

To further support liquidity management in the Sharia banking industry, in April 2015 Bank Indonesia released a regulation on repurchase (repo) transactions by using Sukuk, or Repo Sharia, based on National Sharia Board (*Dewan Syariah Nasional* or DSN) fatwa number 94/DSN-MUI/IV/2014 on Repurchase of Sharia Securities based on Sharia Principles. Regulation PBI No. 17/4/PBI/2015 concerning Interbank Money Market Based on Sharia Principles enables Sharia banks and conventional banks having Sukuk (Government or corporate) to conduct repo transactions among themselves, while previously repo transactions had only been possible between Sharia banks and Bank Indonesia. These efforts are designed with the intention of deepening the Sharia financial markets, mitigating any potential liquidity problems and supporting the development of the Sharia banking industry and financial markets.

The Regulation on Foreign Exchange Transactions against the Rupiah was enacted on September 1, 2014 to achieve and maintain the stability of the Rupiah. Bank Indonesia aims to strengthen the resilience of the domestic market to better support real economic activities and handle shocks from capital flow movements. To achieve these objectives Bank Indonesia issued regulations concerning foreign exchange transactions against the Rupiah to banks with domestic banks with their domestic customers (Bank Indonesia Regulation (PBI) No.16/16/PBI/2014) and foreign parties (PBI No.16/17/PBI/2014). The new foreign exchange regulations revoked six previous Bank Indonesia Regulations. Amendments introduced by the new regulations include: (i) the broadening of underlying transactions which cover the trade of goods and services and investment activities; (ii) increasing the breadth of underlying documentation, such that documentation including projections are caught; (iii) requiring a transaction confirmation detailing the scope, nominal amount and proposed term (with a minimum tenor of one week); and (iv) allowing the use of netting to settle derivative transactions (particularly for roll-over/early termination/unwinding purposes).

Bank Indonesia has amended the above regulations several times in order to navigate economic and financial turmoil caused by the possibility of an FFR increase and slowing global growth. The first amendment recognizes cross currency swaps as permissible foreign-exchange instruments to provide corporations with more options in hedging their foreign-exchange exposures. The second and third amendments are intended to balance the structure of foreign-exchange market demand and supply by expanding the coverage of allowable underlying transactions, curbing foreign currency speculation against the Rupiah in the spot market and encouraging supply in the forward market.

Bank Indonesia provides support to investors using banks to hedge their investments in Indonesia through long term derivative transactions. Bank Indonesia allows banks to pass on their exposure, particularly their exposure relating to the foreign financing of infrastructure investments, public utilities, or input products to Bank Indonesia. On September 17, 2014 Bank Indonesia amended the Regulation Concerning Hedging Transaction to Banks (PBI No.16/18/PBI/2014), to promote hedging against exchange rate movements, through the creation of new rules designed to enable settlement netting on the underlying transactions.

On February 24, 2016 Bank Indonesia issued Bank Indonesia Regulation (PBI) No. 18/2/PBI/2016 on Hedging Transaction Based on Sharia Principles which revokes provisions related to Sharia Commercial Banks and Sharia Business Units regulated under PBI No. 16/18/PBI/2014 on Amendment of Bank Indonesia Regulation No. 15/8/PBI/2013 concerning Hedging Transaction to Bank. In this regulation, Bank Indonesia specifically governs hedging mechanics for Sharia Commercial Banks and Sharia Business Units, and therefore setting them apart from hedging mechanics utilized by commercial banks as stipulated under PBI No. 16/18/PBI/2014. Based on PBI No. 18/2/PBI/2016, Sharia hedging transactions must not be undertaken for speculative purposes and they need to be based on an underlying transaction which is not contrary to Sharia principles.

Currently, Bank Indonesia has had a dedicated Department on Financial Market Deepening. The Indonesian Financial Services Authority (**OJK**) and Ministry Finance also have similar intentions and has made efforts to deepen the financial markets. With KNKS, policy coordination and harmonization will become much stronger and focus on increasing the contributions and roles of the Islamic financial markets to finance the economy.

In the domestic Rupiah money market, the repo market has shown an increase in transaction volume since the use of standardized Master Repurchase Agreement called “**Mini MRA**” in December 2013. The cumulative volume of repurchase transactions with a tenor of up to one year from mid December 2013 to December 2015, using the underlying instruments of Government Securities, Bank Indonesia Certificates, and Bank Indonesia Certificates of Deposit, reached Rp306.5 trillion (average of Rp614.2 billion daily). By comparison, in the January to mid-December 2013 period, transaction volume was Rp28.7 trillion (average of Rp120.1 billion daily). Going forward, domestic banks are prepared for adopting the Global Master Repurchase Agreement (GMRA) Indonesia Annex as basis contract in conducting repo transactions. As an early stage, in January 2016, 4 domestic big banks have signed the GMRA Indonesia Annex.

To enhance the quality and the credibility of the domestic reference rate, Bank Indonesia issued a provision regulating the Jakarta Interbank Offered Rate (**JIBOR**) and improved JIBOR setting. Among the improvements were: (i) redefining JIBOR as the offer rate; (ii) requiring bid-rate quotations to be submitted by contributors and setting the maximum spread between bid rate and offer rate submitted in order to mitigate the downside of one-sided quotes; (iii) making JIBOR “hittable” among contributors within 10 minutes after its daily release, subject to certain terms and conditions; and (iv) enhancing selection criteria of contributor banks through the application of minimum credit ratings.

Insurance Law

New Law No. 40 of 2014 on Insurance (**New Insurance Law**) was issued on October 17, 2014 to replace Law No. 2 of 1992 on Insurance. The New Insurance Law targets improved regulation of the insurance industry within Indonesia by creating a healthier, more reliable, trustworthy and competitive insurance industry. In addition, the New Insurance Law relieves the insurance industry's responsibility to aid national development.

Key changes introduced under the New Insurance Law include:

- (i) setting out the legal basis for the administration of Sharia insurance and Sharia re-insurance businesses;
- (ii) setting out the legal status of insurance companies in the form of mutual businesses (*usaha bersama*) as legal entities as well as accommodating limited liability companies (*Perseroan Terbatas* or *PT*) and cooperatives (*koperasi*) as forms of legal entities allowed to establish an insurance company;
- (iii) improved regulation concerning the ownership of insurance companies to promote national interests, such as:
 - (a) allowing foreign entities to establish insurance companies in conjunction with Indonesian entities or individuals, providing that such foreign entity is already carrying out an insurance business or is a holding company with subsidiaries engaging in the insurance business;
 - (b) ensuring foreign individuals are only allowed to own insurance companies through stock market transactions; and
 - (c) additional regulation through Government Regulation No. 39 of 2008 to govern the quantitative limitation of foreign share ownership in an insurance company with regard to the current maximum ownership of 80%;
- (iv) mandating insurance and Sharia insurance companies to manage cooperation with other parties in relation to marketing insurance and Sharia insurance services; and
- (v) improved provisions regarding good corporate governance, financial health and good corporate conduct, particularly in relation to the introduction of OJK as the regulatory and supervisory agency of insurance businesses.

Further, under the New Insurance Law petitions for the bankruptcy of an insurance company, Sharia insurance company, re-insurance company and/or Sharia re-insurance company may only be submitted by OJK. The New Insurance Law also revoked the provisions on submission of bankruptcy petition by the Minister of Finance as previously set out in Law No. 37 of 2004 on Bankruptcy and Suspension of Payment.

Following the issuance of New Insurance Law, the OJK also issued several implementing regulations as stipulated in OJK Regulation Number 2/POJK.05/2014 dated April 8, 2014 concerning Good Corporate Governance for Insurance Companies and OJK Regulation Number 14/POJK.05/2015 dated November 10, 2015 concerning Self Retention and Domestic Reinsurance Support.

Government Regulations on Mining

On January 11, 2014 Government Regulation No. 1 of 2014 (**GR No. 1/2014**) was issued as the second amendment to GR No. 23 of 2010 on Implementation of Mineral and Coal Mining Activities. GR No. 1/2014 continues the Government's policy to increase the Added Value on mineral products extracted from Indonesia through increased domestic processing and smelting activities. On October 14, 2014, the Republic issued another amendment to GR No. 23/2010 through GR No. 77 of 2014 on the Third Amendment to GR No. 23/2010 (**GR No. 77/2014**). GR No. 77/2014 was drafted with the following objectives: (i) to reassure holders of Mining Business Licenses (IUP or Izin Usaha Pertambangan) and Special Mining Business Licenses (**IUPK** or **Izin Usaha Pertambangan Khusus**) in the framework of domestic investment by stipulating the shareholding composition in the exploration and production operation stages; (ii) to reorganize Indonesian shareholding participation in the framework of FDI by stipulating divestment obligations; and (iii) to improve benefits to the Republic and business certainty for holders of Contracts of Work (Kontrak Karya) and Coal Contracts of Work (Perjanjian Karya Pengusahaan Pertambangan Batubara), by regulating the area coverage and continuity of operations subsequent to contract termination.

Pursuant to GR No. 77/2014, the maximum foreign shareholding for IUP and IUPK holders in the event of a change in their corporate status from a domestic investment company (i.e., a company without foreign shareholding) to a FDI company (i.e., a company with foreign shareholding) will be:

- 75.0% for holders of exploration IUP and IUPK;
- 49.0% for holders of production operation IUP and IUPK who do not conduct their own processing and/or refining/smelting;
- 60.0% for holders of production operation IUP and IUPK who conduct their own processing and/or refining/smelting; and
- 70.0% for holders of production operation IUP and IUPK who conduct underground mining.

The holders of production operation IUP and IUPK are obliged in the framework of FDI to start the gradual divestment of their shares by offering the shares to Indonesian parties by the end of their fifth production year. The offer must be made in the following order of priority: (i) central Government, provincial government and local government; (ii) state-owned entities and regional-owned entities; and (iii) national private entities. The gradual divestment must be implemented in the following manner:

- minimum Indonesian shareholding in the holders of production operation IUPs and IUPKs who do not conduct their own processing, refining and/or smelting shall be 20.0% in the sixth year; 30.0% in the seventh year; 37.0% in the eighth year; 44.0% in the ninth year and 51.0% in the tenth year;
- minimum Indonesian shareholding in the holders of production operation IUPs and IUPKs who conduct their own processing, refining and/or smelting shall be 20.0% in the sixth year; 30.0% in the tenth year and 40.0% in the fifteenth year;
- minimum Indonesian shareholding in the holders of production operation IUPs and IUPKs who conduct underground mining shall be 20.0% in the sixth year; 25.0% in the tenth year and 30.0% in the fifteenth year; and
- minimum Indonesian shareholding in the holders of production operation IUPs and IUPKs who conduct underground mining and open pit mining shall be 20.0% in the sixth year; 25.0% in the eighth year and 30.0% in the tenth year.

Contracts of Work and Coal Contracts of Work which were executed prior to the enactment of GR No. 23/2010 will remain effective until their respective termination dates. These contracts can be extended twice if changed to production operation IUPK contracts. Holders of Contracts of Work and Coal Contracts of Work which were in production for less than five years before the enactment of GR No. 77/2014 are obliged to comply with the divestment obligations. Holders of Contracts of Work and Coal Contracts of Work which had been producing for at least five years prior to the enactment of GR No. 77/2014 are obliged to: (i) divest 20.0% of their shares within one year of the enactment of GR No. 77/2014; and (ii) divest as per the percentage of the relevant current year within five years of the enactment of GR No. 77/2014.

In line with the policies limiting the export of mineral products, the Minister of Finance also issued Regulation No. 6/PMK.011/2014 on January 11, 2014 as a second amendment to the Minister of Finance Regulation No.75/PMK.011/2012 on Export Goods Imposed with Export Duty and Tariff on Export Duty. This regulation established the progressive increase of export duties on various processed mineral products every six months from 2014 through 2016. The increases have resulted in tariffs rising from a minimum of 20.0% to 25.0% in the first six months of 2014. The tariffs are due to reach 60.0% in the second half of 2016.

Minister of Finance Regulation No.75/PMK.011/2012 was amended by Minister of Finance Regulation No.153/PMK.011/2014 effective as of August 4, 2014. Under this regulation, export duties on processed mineral products applicable to exporters that are in the process of constructing smelter facilities or cooperating in the construction of smelter facilities are to be determined based on the progress of construction of the smelter facilities. Construction of such smelter facilities shall include, among others, the entry by the exporter into a conditional sale and purchase agreement or other documents showing the availability of the raw material, a study phase, permit or licensing and preparation of infrastructure, basic engineering, mechanical completion, commissioning and production.

A flat tariff on the export of non-processed mineral products was introduced on August 4, 2014, and will continue until January 12, 2017 based on the progress of construction, which is divided into three phases. A tariff

of 7.5% applies for Phase I, which covers construction progress of up to 7.5% and requires the provision of a surety bond. A tariff of 5.0% applies for Phase II, which covers construction progress from 7.5% to 30.0%. No tariff is to be applied for Phase III, which covers construction progress exceeding 30.0%.

Ministry of Energy and Mineral Resources Regulation on Retail Sales Price of Fuel

On December 31, 2014, President Joko Widodo issued Presidential Regulation No.191 of 2014 (**Presidential Regulation No. 191 of 2014**) which re-adjusted the subsidized fuel prices and introduced a new mechanism which became effective as of January 1, 2015. Fuels are categorized into three types: Specific Fuel, Specifically Assigned Fuel, and Generic Fuel. Specific Fuel is subsidized and consists of diesel fuel and kerosene. Specifically Assigned Fuel is not subsidized, consists of gasoline with minimum RON of 88 and is distributed in assigned areas. Generic Fuel is not subsidized, consists of the fuels other than diesel fuel, kerosene and gasoline with minimum RON of 88, and is distributed outside the assigned areas.

As of March 1, 2015, in response to the global decline in fuel prices, the Government reduced the amount it subsidized fuel prices, notably for Specifically Assigned Fuel for regions outside of Java Island, Madura and Bali, resulting in an increase in prices from Rp6,600 per liter to Rp6,800 per liter. The retail sale prices of kerosene and diesel fuel remained unchanged. The Government further increased fuel prices on March 28, 2015, in response to the increase of global fuel prices and the depreciation of the Rupiah in March 2015. The price of Specifically Assigned Fuel in regions outside of Java Island, Madura and Bali increased from Rp6,800 per liter to Rp7,300 per liter and the retail price for diesel fuel also increased from Rp6,400 per liter to Rp6,900 per liter, while the price of kerosene remained unchanged.

In accordance with MEMR Regulation No. 39 of 2014 as amended by MEMR Regulation No. 4 of 2015 and MEMR Regulation No. 39 of 2015, MEMR determines the retail price of fuel once or more than once every 3 (three) months as required. In early January 2016, the Government decide to decrease the price of fuel, save for Specific Fuel, the price of which was maintained at Rp2,500. As of January 5, 2016, the price of Specifically Assigned Fuel in regions outside of Java Island, Madura and Bali decreased from Rp7,300 to Rp6,950. As of January 5, 2016, the price of Generic Fuel in regions outside of Java Island, Madura and Bali decreased from Rp6,700 to Rp5.650.

Ministry of Energy and Mineral Resources Electricity Tariff

With the issuance of MEMR Regulation No. 09 of 2014 on April 1, 2014 (**MEMR No. 09/2014**), as amended by MEMR Regulation No. 19 of 2014 on June 30, 2014 (**MEMR No. 19/2014**), Perusahaan Listrik Negara (**PLN**) is permitted to make periodical adjustments to its tariff on electricity, beginning May 2014, for four categories of consumers ranging from large households to large businesses, including Government offices.

The tariff will be adjusted by PLN if the basic cost of providing electrical power is affected by positive or negative changes in: (a) the U.S. dollar exchange rate against the Rupiah; (b) ICP; and/or (c) inflation, in each case based on guidelines using specific formulas to calculate the tariff adjustment.

On December 11, 2014, the Directorate General of Electricity of MEMR initiated a roadmap including three plans related to the development and provision of electricity, addressing issues in the short, medium and long term.

On March 4, 2015, MEMR issued MEMR Regulation No. 09 of 2015 (**MEMR No. 09/2015**), which amended MEMR No. 31/2014. Under MEMR No. 09/2015, implementation of electricity tariff adjustments for small households with 1,300 VA and 2,200 VA power utilization was delayed until May 1, 2015, MEMR No. 9/2015 applied retroactively since January 1, 2015.

In 2015, the Directorate General of Electricity of MEMR was focused on overcoming the power supply crisis in areas experiencing a deficit by undertaking the following steps: (i) declaring a power supply crisis in areas experiencing a deficit; (ii) increasing usage of captive power (excess power purchase); (iii) revising the MEMR regulation on Feed in Tariffs in order to minimize future negotiation possibilities with PLN; and (iv) enacting the Ministry of Energy and Mineral Resource Regulation on the Cooperation and the Procedures of Utilization of Electricity Network in addition to revising the Ministry of Energy and Mineral Regulation on Business Areas, in order to support the private sector and electricity customers (both existing customers and new customers), providing greater options for the purchase of electricity services (from PLN or private companies). During the remainder of 2015 and during 2016, the plan provides for the following to occur: (a) the development

of new business areas and the collective utilization of power wheeling; (b) the development of the Private Power Utility (PPU) and cooperation related to the PPU; (c) the creation of opportunities for major consumers of more than 20 MW to select power suppliers; and (d) infrastructure development and gas allocation for LNG and Mini LNG for power supply. During 2017 to 2019, the following steps are planned to be taken: (1) the revitalization of corporate governance; (2) the establishment of a new project management office for PLN to take on the 35,000 MW power project; (3) the assignment of an office for power plant and sub-stations construction; and (iv) the simplification of the negotiation process with Independent Power Producers.

Beyond the initial five year short-term plan, the medium term plan involves reducing power deficits in certain areas by accelerating the construction of power supply infrastructure and providing affordable electricity tariffs. The Directorate General of Electricity of MEMR's long term plan is aimed at achieving 100% electrification throughout Indonesia through the dual construction of mobile power plants specifically designed for remote islands. Completion of the 2,500 kWh power plant is targeted for 2020 and completion of the 7,500 kWh power plant is targeted for 2050.

Minister of Energy and Mineral Resources Regulation on 35,000 MW Acceleration Program

On January 12, 2015, the MEMR issued Decree No. 0074 K/21/MEM/2015 on the Legalization of Business Plan of PLN on RUPTL for 2015 to 2024. This regulation was issued to guide PLN in developing the Republic's national power infrastructure. MEMR also issued MEMR Regulation No. 03 of 2015 on the Procedure of Power Purchase and the Range Price of Power Purchase from Mine Mouth Power Plants, Coal Fired Power Plants, Gas Power Plants, and Hydroelectric Power Plants by PLN through Direct Selection and Direct Appointment. These regulations were issued to speed up the tender and negotiation process for IPPs, in order increase the Republic's electricity power generation capacity.

In line with the Government program of 2015-2019, RUPTL 2015-2024 has incorporated the 35,000 MW electricity power generation construction program for 2015-2019, in which the role of the private sector is expected to rise significantly. In line with the 35,000 MW program as well as for the establishment of transmission networks ranging 46,000 km in the framework of the use of new and renewable energy to reduce the greenhouse gas emission, the President of the Republic Indonesia issued Presidential Regulation No. 4 of 2016 on Development Acceleration on Electricity Infrastructure Development. The regulation sets out the procedures for the development of electricity infrastructure projects.

Budget Savings

The Presidential Instruction No. 4 of 2014 on Saving and Cutting Measures on Expenses of Ministries/Agencies in relation to the Implementation of State Budget of 2014 (**Instruction 4/2014**) was issued on May 19, 2014. The President instructed 86 ministries and agencies to save a targeted Rp100 trillion through the reduction in expense budgets. The primary target for budget cuts were travel expenses, meeting expenses, advertisement, construction of Government office buildings and the procurement of operational vehicles, among others. These measures, however, were not be applied to the education budget and budgets financed by: (i) loans and grants; and (ii) Non-Tax — Income of Public Service Agency. With approval from the House of Representatives (*DPR or Dewan Perwakilan Rakyat*), the budget savings target was revised to Rp43 trillion in the Revised 2014 Budget.

Following the issuance of Instruction 4/2014, on January 29, 2015, the Government introduced Presidential Instruction No. 2 of 2015 on Saving and Cutting Measures on Expenses of Official Business Trip and Meeting of Ministries/Agencies in relation to the Implementation of State Budget of 2015.

Changes to the Negative Investment List

The Government of Indonesia enacted the Negative Investment List under the New Investment Law No. 25 of 2007 to provide a clearer and more detailed list of business activities that are conditionally open to foreign investors and stakeholders, subject to the satisfaction of certain conditions relating to, among other things, partnership arrangements, capital ownership, location, qualification for special licenses or permits and small and medium-sized enterprises (SMEs). The Negative Investment List sets out business sectors that are closed to foreign investment and business sectors that are open to foreign investment subject to certain conditions, including limits on the percentage of foreign capital ownership.

The latest revision of the Negative Investment List was ratified on April 24, 2014 with the enactment of Presidential Regulation No. 39 of 2014 on the List of Business Fields Closed to Investment and Business Fields Open with Conditions to Investment (**Presidential Regulation No. 39 of 2014**). The objectives of these revisions were to increase investment in Indonesia and to implement Indonesia's commitment to the Asean Economic Community (AEC).

In revising the Negative Investment List, the Government also aims to: (i) prioritize national interest and improve national competitiveness; (ii) maintain sustainable economic development and anticipate the impact of a global economic slowdown by increasing both domestic and foreign investment; and (iii) simplify investment regulations and provide legal certainty to investors. The legal certainty is provided by Article 3 which asserts that business fields not listed in appendices one and two to Article 1 and Article 2 of Presidential Regulation No. 39 of 2014 are open to investment without conditions.

In this revision, 58 additional business sectors have been opened up to FDI, including: (i) port facilities under public-private partnership (**PPPs**) scheme (including the building of piers, container delay terminals, liquid bulk terminals, dry bulk terminals, and Ro-Ro terminals); (ii) terminal construction; (iii) power plants under PPP schemes (power plants above 10 MW, electric power transmission and electricity distribution); (iv) the pharmaceutical industry; and (v) advertising. In addition, there are fewer business sectors closed for FDI, which primarily include those businesses producing goods/services that are: (a) prohibited by Indonesian law; (b) dangerous; (c) polluting; and (d) of strategic importance for national security and/or heritage reasons.

The list of business fields closed to investment include, but are not limited to, captivity of endangered fish, extraction of natural coral reefs to be used in construction materials, hazardous chemical industries, manufacture of alcoholic beverages and gambling and casinos.

On February 11, 2016, the Government announced a 10th economic package (**Announcement**). The Announcement outlines the principles that will be adopted in the new President Regulation on Negative List of Investments in Indonesia (**New Negative List**). The New Negative List will replace the current list under Presidential Regulation No. 39 of 2014.

The Government intends that the New Negative List is clearer for investors, namely it will include the following provisions:

- (a) defining the term of “partnership” which is a requirement for approximately 51 business lines;
- (b) ensuring business certainty by keeping the concept of “grandfathering” prior approvals;
- (c) ensuring that the relevant Ministries and Regional Governments comply with the provisions of the New Negative List; and
- (d) establishing a task force to accelerate investment and the export market (which will also be tasked to resolve quickly implementation issues when the New Negative List is issued).

The New Negative List will provide more protection for micro, small, medium and cooperative businesses — small medium enterprises, which must be Indonesian owned (**Local SME**), by among other things (a) reserving additional 19 business lines for Local SMEs — these business lines are generally related to construction consultancy with low or medium technology and project values of less than IDR10 billion (for example, predesign and architecture consultancy services, architecture design services and contract administration services); previously foreign investment was permitted up to 55%; (b) increasing the project values of 39 business lines in the construction sector that are reserved for Local SMEs from IDR1 billion to IDR50 billion — essentially, this means foreign owned construction services companies can only qualify for projects with a value of over IDR50 billion; and (c) adding three business lines that require a partnership with a Local SME, i.e., plantation seeding with an area of more than 25 ha, sugar industry (white sugar, refined sugar, raw sugar) and retail trading through mail order or the internet.

The Announcement requires that certain investment processes be simplified by:

- (a) removing, for 82 business lines, the need for specific recommendation requirements from the relevant Ministries — for example, accommodation services (hotels and motels), billiard halls, bowling alleys, golf courses, staple food plantation, plantation seeding and plantations above 25 ha; and
- (b) simplifying business lines categories. For example, there are 39 business lines for construction services (e.g., warehouse construction, building construction, building reparation) which will be combined into 1 business line of construction services.

As a result of the proposed foreign investment liberalization, foreign investors (a) may identify opportunities to invest in Indonesia given the additional liberalized sectors; (b) may consider increasing their shareholdings in existing joint ventures (and for certain business lines this will allow consolidation), whether through negotiation or the exercise of call options; (c) may consider it appropriate to remove the small shareholdings currently held by Indonesian investors (e.g. where foreign investment is open 100%).

The Government is targeting to issue the New Negative List in March or April 2016.

Public-Private Partnerships

The Government has recognized the vital role that PPPs play in the country's development and economic growth. The implementation of PPPs in infrastructure is stipulated by Presidential Regulation No. 38 of 2015, which came into force on March 20, 2015 (**Presidential Regulation No. 38 of 2015**). Presidential Regulation No. 38 of 2015 governs PPPs for the following specified infrastructure projects: transportation infrastructure, roads, water resources and irrigation infrastructure, drinking water infrastructure, centralized waste water management systems, localized waste water management systems, waste management systems, telecommunication and informatics infrastructure, electricity infrastructure, oil and gas and renewable energy, energy conservation infrastructure, urban facilities infrastructure, educational facilities infrastructure, sports and arts facilities, zone infrastructure, tourism infrastructure, health infrastructure, correctional facility infrastructure and public housing infrastructure. Presidential Regulation No. 38 of 2015 provides a robust and competitive legal and regulatory framework for PPPs, from procurement of land to the provision of government support and guarantees.

Foreign Currency Drawdown

On May 14, 2014, Bank Indonesia issued Regulation No. 16/10/PBI/2014 concerning Receipt of Export Proceeds and Withdrawal of Foreign Exchange from External Debt (**Regulation No. 16/10**) as amended by Bank Indonesia Regulation No. 17/23/PBI/2015. This regulation enables Bank Indonesia to monitor receipt of foreign exchange export proceeds and the withdrawal of foreign exchange debt through bank institutions to optimize the use of foreign exchange to create a healthier financial market and to maintain the stability of the Rupiah.

Under Regulation No. 16/10, any foreign currency arising from (i) export revenue must be received through or (ii) offshore loans must be withdrawn from, a bank which is licensed by Bank Indonesia to trade foreign currency (**Bank Devisa**). A company that draws down an offshore loan must report it to Bank Indonesia. This report must be accompanied with a supporting document evidencing that the company has withdrawn the offshore loan from a Bank Devisa. This report must be submitted to Bank Indonesia at the latest on the 15th day of the following month. The offshore loans that are subject to this requirement are those arising from (i) non-revolving loan agreements that are not used for refinancing purposes, (ii) any difference between the amount of a refinancing facility and the amount of the previous loan, and (iii) debt securities in the form of bonds, medium term notes, floating rate notes, promissory notes and commercial paper. Further, the debtor must provide a written explanation to Bank Indonesia if there is any discrepancy between the amount of loans disbursed and the total loan commitments. These requirements do not apply to:

- (i) the government's foreign currency export revenue which is received through Bank Indonesia;
- (ii) foreign currency from export revenue in the form of cash which is received onshore; or
- (iii) offshore loans given for the purpose of refinancing where the amount of the new loan is the same as the existing loan.

Failure to receive the export revenue through, or withdraw the offshore loan from, a Bank Devisa or to submit the supporting documents will be subject to monetary sanctions. Exporters may also face the risk of having their export activities suspended, as provided under the relevant regulations.

In principle, all export proceeds must be received within three months after registration of the notification on export of goods. Exporters shall report to their foreign exchange bank the export proceeds information contained in the notification of export of goods.

Foreign Exchange Reporting and Implementation of Prudential Principle of Non-Bank Corporation Offshore Loan

On December 31, 2014, Bank Indonesia issued Bank Indonesia Regulation No. 16/22/PBI/2014 on Reporting on Foreign Exchange Traffic Activities and Reporting on the Implementation of Prudential Principles in the Management of Non-Bank Corporations' Offshore Borrowings effective as of January 1, 2015. Under PBI 16/22, Indonesian residents conducting foreign exchange activities shall submit a report to Bank Indonesia containing the following information: (i) trade transaction of goods, services and other transaction between resident and non-resident, (ii) position and change of offshore financial assets and/or offshore financial obligation, and (iii) plan and/or realization of offshore borrowings.

PBI 16/22 was issued not only to monitor foreign exchange activities but also to monitor corporations' compliance with principles required under Bank Indonesia Regulation No. 16/21/PBI/2014 on Implementation of Prudential Principles in Managing Offshore Loan of Non-Bank Corporations (**PBI 16/21**). Bank Indonesia also issued Circular Letter No. 17/3/DStA dated March 6, 2015 on the Reporting of Implementation of Prudential Principle in Managing Foreign Debt of Non-Bank Corporations.

For the purposes of implementing principles in relation to offshore borrowings as required by PBI 16/21, Bank Indonesia issued Bank Indonesia Circular Letters No. 17/3/DStA on Reporting Prudential Principle Implementation Activities in Managing Foreign Debt of Non-Bank Corporations, under which Indonesian debtors of offshore lenders are required to submit a KPPK report meeting the following requirements:

- (1) the KPPK report must be submitted on a quarterly basis, by no later than the end of every third month;
- (2) the KPPK report, which will be attested to by a suitably qualified public accountant, must be submitted by no later than the end of June of the following year;
- (3) information on the fulfillment of credit rating must be submitted at the latest by the end of the month following the execution or issuance of the offshore borrowing; and
- (4) (i) unaudited financial statements are required to be submitted on a quarterly basis, by no later than the end of the third month after the relevant quarter; and (ii) annual audited financial statements are required to be submitted by no later than the end of June of the following year.

For the period from January 1, 2015 to December 31, 2015, submission of and corrections to the KPPK report were made offline. As of January 1, 2016, submissions of and corrections to the KPPK report shall be made online. The requirement to submit the information on credit rating fulfillment shall be applicable to offshore borrowings executed or issued from January 1, 2016.

Mandatory to Use Rupiah in Indonesian Territory

On March 31, 2015, Bank Indonesia issued Bank Indonesia Regulation No. 17/3/PBI/2015 on the Obligation to Use Rupiah in the Territory of the Republic (**PBI 17/3**). Under PBI 17/3, all persons are required to use Rupiah for cash and non-cash transactions conducted within the territory of the Republic, including (i) each transaction which has the purpose of payment; (ii) settlement of other obligations which must be satisfied with money; and/or (iii) other financial transactions including, among others, bank deposits of Rupiah in certain amounts and denominations.

Subject to further requirements under PBI 17/3, the obligation to use Rupiah does not apply to (i) certain transactions relating to the implementation of state revenue and expenditure; (ii) the receipt or provision of grants either from or to an overseas source; (iii) international trade transactions, which includes (a) export and/or import of goods to or from outside Indonesian territory and (b) activities relating to cross border trade in services; (iv) bank deposits denominated in foreign currencies; (v) international financing transactions; and (vi) transactions in foreign currency which are conducted in accordance with applicable laws and regulations, including, among others: (x) a bank's business activities in foreign currency which is conducted based on applicable laws regarding conventional and Sharia banks, (y) securities in foreign currency issued by the Government in primary or secondary markets based on applicable laws, and (z) other transactions in foreign currency conducted based on applicable laws, among others the law regarding Bank Indonesia, the law regarding investment and the law regarding Lembaga Pembiayaan Ekspor Indonesia (Indonesia Eximbank).

PBI 17/3 took effect from March 31, 2015, and the requirement to use Rupiah for non-cash transactions took effect from July 1, 2015. Written agreements which were signed prior to July 1, 2015 that contain provisions for

the payment or settlement of obligations in foreign currency for non-cash transactions will remain effective until the expiry of such agreements. However, any extension and/or amendment of such agreements must comply with PBI 17/3.

Following the issuance of PBI 17/3, Bank Indonesia issued Circular Letter No. 17/11/DKSP, dated June 1, 2015, on the Obligation to Use Rupiah in the Territory of the Republic, as an implementing regulation to and reaffirming provisions of, PBI 17/3. Under this circular, which became effective as of June 1, 2015, infrastructure projects (including transportation, road, irrigation, drinking water, sanitation, telecommunication and informatics, electricity, power and oil and natural gas projects) may be exempted from the obligation to use Rupiah in the Republic if (i) the central or regional government has declared such project to be a strategic infrastructure project and (ii) Bank Indonesia has approved an exemption to PBI 17/3 for the relevant infrastructure project.

In its implementation of PBI 17/3, Bank Indonesia may directly monitor relevant parties via random audits and/or indirectly monitor relevant parties by analyzing and evaluating reports on the obligatory use of Rupiah submitted by relevant parties. Violations of PBI 17/3 with respect to non-cash transactions will be punished with administrative sanctions, while violations of PBI 17/3 for cash transactions and/or the prohibition to decline Rupiah in cash transactions may be punished with criminal sanctions.

Bank Minimum Capital Requirements

Bank Indonesia issued Bank Indonesia Regulation No. 15/12/PBI/2013 concerning Bank Minimum Capital Requirement on December 12, 2013 effective as on January 1, 2014, in order to harmonize Indonesian bank capital requirements with international standards and to anticipate the dynamics of the global economy and financial system by allocating capital with financial institutions maintained by branch offices of non-Indonesian banks.

Banks are required to maintain minimum capital in line with their respective risk profiles in order to be able to absorb potential losses resulting from credit risk, market risk, operational risk, liquidity risk and other material risks. Banks are required to maintain a minimum of: (i) 8.0% of risk weighted assets for banks with a level one risk profile; (ii) 9.0% to 10.0% of risk weighted assets for banks with a level two risk profile; (iii) 10.0% to 11.0% of risk weighted assets for banks with a level three risk profile; and (iv) 11.0% to 14.0% of risk weighted assets for banks with a level four or five risk profile.

In addition to the above-mentioned requirements, Bank Indonesia Regulation No. 15/12/PBI/2013 concerning Bank Minimum Capital Requirement also introduces a new obligation for certain commercial banks to provide additional funds, above the minimum capital requirement, if Bank Indonesia considers that more capital is required for such banks to deal with potential losses. Such additional funds will serve as a buffer against certain economic and financial risks. The capital buffers are: Capital Conservation Buffer (2.5% of the Risk Weighted Assets (**ATMR**)), Countercyclical Buffer (0% to 2.5% of **ATMR**), and/or Capital Surcharge for Domestic Systemically Important Bank (**D-SIB**) (1.0% to 2.5% of **ATMR**).

Each bank should have and implement an Internal Capacity Adequacy Assessment Process (**ICAAP**) to calculate the minimum capital that it should maintain in line with its risk profile. **ICAAP** consists of: (i) active supervision of the Board of Commissioners and Board of Directors; (ii) capital adequacy assessment; (iii) monitoring and reporting; and (iv) implementing internal controls. **ICAAP** will be reviewed by Bank Indonesia through a Supervisory Review and Evaluation Process (**SREP**) that may result in Bank Indonesia requiring a bank whose minimum capital adequacy is not in line with the risk profile to issue additional capital, improve risk management process quality and/or lower risk exposure. In cases where Bank Indonesia considers that there is a likelihood of a bank's capital decreasing below the minimum capital requirement, **SREP** also enables it to limit certain banking activities, prevent it from opening new offices and/or limit capital distribution of the bank.

As of December 2013, branch offices of foreign banks were obliged to maintain Capital Equivalency Maintained Assets (**CEMA**) equal to at least 8.0% of their total liabilities. If a branch office of a foreign bank is required to maintain less than Rp1 trillion in **CEMA**, it will have until December 31, 2017 to comply with this requirement.

Bank Indonesia Regulation Update concerning Consumer Protection in Payment System

Bank Indonesia issued Bank Indonesia Regulation No. 16/1/PBI/2014 on Consumer Protection in Payment Services System on January 16, 2014, effective as of January 21, 2014. This regulation aims to strengthen the regulatory regime in respect of consumer protection with regards to payment services systems, as well as to aid the understanding of individual consumers who use the payment services systems of their rights and obligations in utilizing the payment services systems of banks and non-bank institutions authorized by Bank Indonesia to carry out such payment services system activities which include, among others, fund transfers, cashless payment and electronic money. In protecting consumers, such banks and non bank institutions are required to, among others, establish and implement a mechanism for handling consumer complaints, establish a task force to handle and settle consumer complaints and to educate consumers about the implementation of consumer protection in respect of their rights with regards to payment services systems.

Certain OJK Regulations

OJK Regulation Update concerning Good Corporate Governance for Insurance Companies

On March 28, 2014, OJK issued Regulation No. 2/POJK.05/2014 concerning Good Corporate Governance for Insurance Companies, which was promulgated and became effective as of April 8, 2014. This regulation includes provisions setting out: the minimum number of directors, commissioners and independent commissions, the duties and scope of authority of such directors and commissions, and the requirements for compliance directors of insurance companies. The regulation aims to introduce good corporate governance to insurance companies in Indonesia in order to allow them to compete at national, regional and international levels.

OJK Regulation Update regarding Guarantee Companies

On April 7, 2014, OJK issued three regulations regarding Guarantee Companies (all of which became effective as of April 8, 2014), which include: Regulation No. 5/POJK.05/2014 concerning the Licensing and Institution of Guarantee Companies, Regulation No. 6/POJK.05/2014 concerning Business of Guarantee Companies and Regulation No. 7/POJK.05/2014 concerning the Examination of Guarantee Companies. The regulations were issued to support the development of Guarantee Companies while maintaining their financial soundness.

OJK Regulation Update concerning Winding-Up and Liquidation of Pension Funds

On July 15, 2014, OJK issued Regulation No. 9/POJK.05/2014 concerning Winding-Up and Liquidation of Pension Funds. This regulation includes provisions concerning, among others, the reasons for winding-up pension funds, requirements and procedures for winding-up pension funds, liquidation team, liquidation process of pension funds, the responsibility of the employer and also supervision of the pension funds liquidation process.

OJK Regulation Update regarding Risk Based Supervision of Non-Bank Financial Services Institution

On August 27, 2014, OJK issued two regulations regarding risk based supervision of non-bank financial institutions, which include Regulation No. 10/POJK.05/2014 concerning Risk Assessment of Non-Bank Financial Institution (**Regulation No. 10/POJK.05/2014**) and Regulation No. 11/POJK.05/2014 concerning On-Site Supervision of Non-Bank Financial Institution (**Regulation No. 11/POJK.05/2014**). Regulation No. 10/POJK.05/2014 sets out the scope of risk assessment of Non-Bank Financial Institution by OJK, including: implementation of prudential risk management policies assessing strategic risk, operational risk, assets and liabilities risk, organizational risk, corporate governance risk, financial support risk, insurance risk and also financing risk. Particular emphasis is placed on industry specific risks for Non-Bank Financial Institutions operating in that industry, such as insurance risk for insurance and reinsurance companies and financing risk for finance companies. Regulation No. 11/POJK.05/2014 sets out the scope of on-site supervision of the Non-Bank Financial Institution by OJK, including details concerning: frequency of on-site supervision, auditors, and the supervision of shareholders, subsidiaries and other parties related to non-bank financial institutions.

OJK Regulation Update regarding Microfinance Institution

On October 31, 2014, OJK issued three regulations regarding microfinance institutions, which include: (i) Regulation No. 12/POJK.05/2014 concerning the Business Licensing of Microfinance Institutions as amended by OJK Regulation No. 61/POJK 05/2015; (ii) Regulation No. 13/POJK.05/2014 concerning the Provision and Business of Microfinance Institutions as amended by OJK Regulation No. 62/POJK 05/2015; and (iii) Regulation No. 14/POJK.05/2014 concerning the Regulation and Supervision of Microfinance Institutions. These regulations

provide further technical implementing rules, guidance and supervision of microfinance institutions as mandated by Law No. 1 of 2013, as set out in the FSA Rules. These regulations also provide guidance on licensing requirements, capital, institutional, business administration, prudential, reporting, examination, in addition to the relevant provisions on the confidentiality of depositors and customer deposits.

OJK Regulation No. 12/POJK.05/2014 and OJK Regulation No. 13/POJK.05/2014 were amended by OJK Regulation No. 61/POJK.05/2015 and OJK Regulation No. 62/POJK.05/2015 respectively.

OJK Regulation Update concerning Bond Index

The Indonesia Bond Pricing Agency (**IBPA**) launched the Indonesia Composite Bond Index (**ICBI**) and the Indonesia Sukuk Indexes (**ISIX**). ISIX and ICBI are a continuation of INDOBEX publishing activities in 2014, which are part of the Bond Market Development program launched by OJK.

On August 21, 2015, OJK issued Circular Letter No. 22/SEOJK.04/2015 concerning other conditions when market conditions fluctuate significantly in the implementation of the repurchase of shares issued by an issuer and public company.

On August 24, 2015, OJK approved the IDX's Board of Directors Decree No. Kep-00096/BEI/08-2015, which allows for the temporary adjustment of auto rejection limits (lowest limit) in effect since August 25, 2015. The purpose of this decree is to maintain securities trading in an orderly, fair, and efficient manner.

OJK Regulation and Circular Letter Update on Mutual Funds

On April 24, 2014, OJK issued Circular Letter No. 7/SEOJK.04/2014 on the Implementation of Face to Face Meetings to Allow the Opening of Mutual Fund Accounts through an Electronic System, and the Electronic Subscription and Redemption of Mutual Funds.

OJK Regulation No.37/POJK.04/2014 on Private Equity Fund (Limited Participation Mutual Funds in the form of Collective Investment Contracts). This regulation revoked the Head of Bapepam-LK Decree No. KEP-43/BL/2008 and Regulation No.IV.C.5 on Private Equity Fund (Limited Participation Mutual Funds in the form of Collective Investment Contracts).

OJK Regulation No.39/POJK.03/2014 on Mutual Fund Selling Agent. This regulation revoked the Head of Bapepam-LK Decree No. KEP-10/BL/2006 and Regulation No.V.B.3 on Registration of Mutual Fund Selling Agent, and Head of Bapepam-LK Decree No. KEP-11/BL/2006 and Regulation No. V.B.4 on Mutual Fund Selling Agent Conduct.

OJK Regulation concerning Issuers and Public Companies Website

On June 25, 2015, OJK issued regulation No.8/POJK.04/2015 concerning Issuers and Public Companies Website (which became effective as of December 26, 2015). This regulation was issued to increase transparency and the access of shareholders and other stakeholders to the actual information of an issuer or public company as part of the application of good corporate governance principles.

OJK Regulation concerning Guidelines of Repurchase Agreement Transaction for Financial Service Institutions

On June 25, 2015, OJK issued regulation No.9/POJK.04/2015 concerning Guidelines of Repurchase Agreement Transaction for Financial Service Institutions to accommodate international standards of Repurchase Agreement Transaction and provide legal certainty for the subject of Repurchase Agreement Transaction.

OJK Regulation concerning Sharia Capital Market

On November 3, 2015, OJK issued six regulations regarding the Sharia capital markets, which include OJK Regulation No.15/POJK.04/2015 concerning the Implementation of Sharia Principles in the Capital Market, OJK Regulation No.17/POJK.04/2015 concerning the Issuance and the Requirements of Equity Based Sharia Securities by Sharia Issuers and Public Companies and OJK Regulation No.18/POJK.04/2015 concerning the Issuance and the Requirements of Sukuk, OJK Regulation No.16/POJK.04/2015 concerning Sharia Capital Market Experts, OJK Regulation No.20/POJK.04/2015 concerning the Issuance and the Requirements of Sharia Assets Backed Securities, OJK Regulation No.19/POJK.04/2015 concerning the Issuance and the Requirements of Sharia Mutual Funds.

OJK Regulation Update regarding Non-Bank Financial Institutions

On March 23, 2015, OJK Issued regulation Number 1/POJK.05/2015 concerning Implementation of Risk Management by Non Bank Financial Institutions. This regulation requires the implementation of risk

management by insurance companies, pension funds, finance companies and sharia non-bank financial institutions. This regulation came into force in January 2016.

OJK Regulation Update regarding Insurance

On March 31, 2015, OJK issued regulation Number 2/POJK.05/2015 regarding premium rates for motor vehicle insurance and property insurance and risk data reports for insurance risk. This regulation requires insurance companies to maintain risk data and report annually to OJK. In addition, the insurance companies should implement the premium rate for motor vehicle and property insurance in accordance with OJK guidelines.

OJK Regulation Update regarding Pension Fund

On March 31, 2015, OJK issued regulation Number 3/POJK.05/2015 concerning Pension Fund Investment. This regulation provides the types of permitted investment by a pension fund and the principles for prudential investment.

OJK Contribution to Stimulate Economic Growth

On July 24, 2015, OJK issued 35 regulations known as the “economic stimulus package”, which consists of 12 regulations in the banking sector, 15 regulations in the capital markets sector, four regulations in the non-bank financial institutions sector and four regulations in the consumer protection and education sector.

On September 15, 2015, OJK issued a regulation on foreign exchange accounts owned by foreign citizens. The policy is intended to bring in foreign exchange funds by tourists to Indonesia’s banking system in order to increase the supply of foreign exchange through foreign exchange deposits in banks.

On October 7, 2015, OJK issued six regulations known as Economy Policy Package Phase III, in order to stimulate economic growth and increase foreign exchange supply in financial services.

OJK Regulation Update regarding Finance Companies

On November 19, 2014, OJK issued four regulations regarding finance companies: Regulation No. 28/POJK.05/2014 concerning the Business Licenses and Institutions of Finance Companies; Regulation No. 29/POJK.05/2014 concerning the Business Activities of Finance Companies; Regulation No. 30/POJK.05/2014 concerning the Good Corporate Governance of Finance Companies; and Regulation No. 31/POJK.05/2014 concerning the Business Activities of Sharia Finance Companies. These regulations provide guidance on licensing requirements, foreign workers, capital requirements, institutional, prudential, reporting, composition board of directors and commissioners, good corporate governance, down payment, risk mitigation, and financial soundness, both in conventional and Sharia companies.

On June 30, 2015, OJK issued two regulations regarding finance companies: Circular letter No. 19/SEOJK.05/2015 concerning Down Payment of Motor Vehicles for Finance Company and Circular letter No.20/SEOJK.05/2015 concerning Down Payment of Motor Vehicles for Sharia Finance Company. These circular letters provide guidance on down payment for vehicles.

OJK Regulation Update regarding Securities Transaction

In July 2015, OJK issued the Strategic Program of Capital Markets Sectoral Supervision to support the National Economic Stimulus, implementing changes such as:

1. Development of REPO Market Infrastructure, which aims to standardize the agreement to protect all parties and to give protection and legal assurance for repo transactions;
2. Enhancement of SME raising funds through an initial public offering via the capital markets;
3. Determination of Electronic Trading Platform, which aims to change over the counter transactions (**OTC**) to organized OTC;
4. The use of the Central Bank for Settlement, which aims to decrease credit and liquidity risks of fund settlement in capital market transaction;
5. Indonesia Government Bond Futures aims to provide an alternative instrument for investors to hedge their government bond portfolio from any market risks;

6. Development of Municipal Bonds which aims to help local governments on bond issues to be used as sources of infrastructure funding;

7. Usage Bond Index, which aims to create additional indicator to monitor economic and money market condition;

8. Expansion of investment products in the capital market through the issuance of asset-backed securities — Participation Letter which aims to increase housing funding in Indonesia;

9. Regulation on Integrated Investment Management System, which aims to create automated and integrated mutual fund transaction through the establishment of this system and to create an integrated database for the investment management industry;

10. Enhancement of the Go Public state-owned enterprises (**BUMN**) and the subsidiaries of BUMN which aims to increase the number of public companies and market liquidity;

11. Electronic Book Building, which aims to increase transparency and fairness between investors in price fixing of IPOs;

12. Regulation on Islamic Capital Market, which aims to give regulation relaxation and legal assurance related to Islamic Securities to have level of playing field with conventional securities; and

13. Guidelines on Governance of Public Company, which aims to increase the implementation of public company governance in accordance with best practice.

OJK Regulation concerning Procedures For Billing Of Administrative Sanction In The Form Of Fines In The Financial Services Sector

On May 5, 2015, OJK issued regulation No.7/POJK.04/2015 as the Amendment of Regulation No. 4/POJK.04/2014 concerning Procedures for Billing of Administrative Sanction in the form of Fines in the Financial Services Sector. This regulation was issued to provide legal certainty in the categorization of uncollectible receivables of FSA from the administrative sanction in the form of fines and/or interest.

OJK Regulation and Circular Letter regarding The Implementation of Corporate Governance Guideline of Public Company

On November 17, 2015, OJK issued OJK Regulation No.21/POJK.04/2015 concerning The Implementation of Corporate Governance Guideline of Public Company and OJK Circular Letter No.32/SEOJK.04/2015 concerning Corporate Governance Guideline of Public Company. These regulations are issued by OJK to encourage the adoption of corporate governance practices based on international best practices underpinning the sector and the industry as determined by the size and complexity of the public company. Public companies shall implement Corporate Governance Guideline based on those regulations. A public company is also required to disclose if it cannot implement Corporate Governance Guideline of Public Company.

OJK Regulation concerning The Exemption on Reporting Obligation to Issuers and Public Companies

On December 16, 2015, OJK issued regulation No.29/POJK.04/2015 concerning The Exemption on Reporting Obligation to Issuers and Public Companies which came into effect on December 22, 2015. This regulation provides issuers and public companies that cannot submit their annual reports and/or financial statements to OJK and announce them to public with an exemption from reporting, in certain circumstances.

OJK Regulation concerning Capital Increase With Preemptive Right

On December 16, 2015, OJK issued regulation No.32/POJK.04/2015 concerning Capital Increase With Preemptive Rights which came into effect on December 22, 2015. This regulation requires public companies to give preemptive rights to shareholders in cases were public companies conduct a capital increase.

OJK Regulation concerning Form and Content of Capital Increase With Preemptive Rights Prospectus

On December 16, 2015, OJK issued regulation No.33/POJK.04/2015 concerning Form and Content of Capital Increase With Preemptives Right Prospectus which came into effect on December 22, 2015. This

regulation requires the provision of a prospectus that contains information and material facts relating to the preemptive rights. This regulation revokes OJK Regulation No. IX.D.3.

OJK Regulation concerning Realization Report of Utilization of Net Proceeds from Initial Public Offering

On December 16, 2015, OJK issued regulation No.30/POJK.04/2015 concerning Reports on Realization of Use of Proceeds of Public Offering which shall come into effect on April 16, 2016 which obliges issuers and public companies to make regular reports every six months until all of the net proceeds from an initial public offering are realized.

OJK Regulation concerning Code of Conduct of Investment Manager

On December 23, 2015, OJK issued regulation No.43/POJK.04/2015 concerning the Code of Conduct of an Investment Manager which came into effect on December 28, 2015 to accommodate Principle 24 of IOSCO (Objectives and Principles of Securities Regulation), particularly on conflict of interest, best execution, order allocation, cross trading, proprietary trading, rebates and soft commission.

Conversion of Bapepam-LK Rules regarding Capital Market into OJK Regulations

On December 29, 2015, OJK converted 14 Bapepam-LK Rules into OJK Regulations. With the enactment of Law No. 21 Year 2011 on the Financial Services Authority, since December 31, 2012 the functions, duties, and authority of regulation and supervision of financial services activity in the capital markets sector switched from Bapepam-LK to OJK. The conversion of 14 Bapepam-LK Rules into OJK Regulations has not resulted in any substantial changes.

On January 11, 2016, OJK issued regulation No. 1/POJK.05/2016 on Government Bonds Investments for Non-Bank Financial Institutions (**OJK Regulation 1/2016**). Pursuant to OJK Regulation 1/2016, non-bank financial institutions are obliged to place investments in government bonds with following threshold: (i) for life insurance companies, minimum 30% from all their investments; (ii) for general insurance companies and reinsurance companies, minimum 20% from all their investments; (iii) for guarantee companies, minimum 20% from all their investments; (iv) for employer's pension funds, minimum 30% from all their investments; (v) manpower social security implementation agency (BPJS Ketenagakerjaan), minimum 30% from all of its investments and minimum 50% from the total manpower social security funds; and (vi) health social security implementation agency (BPJS Kesehatan), minimum 30% from all of its investments.

OJK Regulation Update concerning Sharia Bank Network Development in the Framework of Economic Stimulus for Banks

On January 21, 2016, OJK issued Regulation No. 2/POJK.03/2014 concerning Sharia Bank Network Development in the Framework of Economic Stimulus for Banks, which was promulgated and became effective on January 27, 2016. This regulation aims to promote the growth of Sharia banking in the midst of slowing economic conditions.

OJK Regulation Update concerning Sharia Financing Bank

On January 21, 2016, OJK issued Regulation No. 3/POJK.03/2016 concerning Sharia Financing Bank, which was promulgated and became effective on January 27, 2016. This regulation includes provisions setting out (i) establishment procedure, licensing, and reporting duties of Sharia Financing Bank, (ii) requirements, duties, and responsibilities of board of directors and board of commissioners of Sharia Financing Bank, and (iii) business activities of Sharia Financing Bank. This regulation aims to support national economic growth through governance of capital, shareholding, management, and service of Sharia Financing Bank.

OJK Regulation Update regarding Soundness Level Assessment of Conventional Bank

On January 26, 2016, OJK issued Regulation No. 4/POJK.03/2016 concerning Soundness Level Assessment of Conventional Banks, which was promulgated and became effective on January 27, 2016. This regulation includes provisions setting out mechanisms used in determining the soundness level of a bank, which includes risk profile, good corporate governance, earnings and capital, and the actions that need to be taken by banks (if required by OJK). This regulation aims to strengthen the banking sector through increasing the efficiency of soundness level assessment.

OJK Regulation Update regarding Business Plan of Banks

On January 26, 2016, OJK issued Regulation No. 5/POJK.03/2016 concerning Business Plan of Banks, which was promulgated and became effective on January 27, 2016. This regulation includes provisions setting out obligation to compose a business plan every year containing details as set out in the regulation, and the mechanism for submitting, amending and reporting the business plan. The regulation aims to direct banks to conduct activities according to the bank's vision and mission as well as to compose an optimal and effective risk management, which can be realized through the creation of a yearly business plan.

OJK Regulation Update regarding Business Activities and Branch Network Based on Core Capital of Banks

On January 26, 2016, OJK issued Regulation No. 6/POJK.03/2016 concerning Business Activities and Branch Network Based on Core Capital of Banks, which was promulgated and became effective on January 27, 2016. This regulation includes provisions setting out limitations on the variety of business activities that can be conducted by a bank as well as a branch expansion limitation that is determined based on the core capital value of each respective bank. The regulation aims to increase efficiency through adjustment of business activities and branch networks to increase resilience, competitiveness and efficiency of banks to achieve an optimized growth of national economy.

OJK Regulation Update regarding Prudential Principles in Structured Products for Conventional Banks

On January 26, 2016, OJK issued Regulation No. 7/POJK.03/2016 concerning Prudential Principles in Structured Products for Conventional Banks, which was promulgated and became effective on January 27, 2016. This regulation includes provisions setting out licensing of banks in relation to structured product instruments, risk management implementation for banks in exercising structured products, level of transparency that needs to be implemented and the types of customer eligible to obtain structured product instruments. The regulation aims to enhance the public's confidence in the banking sector, especially in structured product instruments which reflect higher complexity and risks.

OJK Regulation Update regarding Prudential Principles for Conventional Banks in Implementing Agency Activities of Foreign Financial Products

On January 26, 2016, OJK issued Regulation No. 8/POJK.03/2016 concerning Prudential Principles for Conventional Banks in Implementing Agency Activities of Foreign Financial Products, which was promulgated and became effective on January 27, 2016. This regulation includes provisions setting out the scope of activities, risk management principles, customer protection, prudence principles and reporting obligations for activities related to foreign financial products. This regulation aims to increase transparency for customers in relation to foreign financial products that are now more widely available, in order to manage the risk of such investment.

OJK Regulation Update regarding Prudential Principles on Outsourcing for Conventional Banks

On January 26, 2016, OJK issued Regulation No. 9/POJK.03/2016 concerning Prudential Principles on Outsourcing for Conventional Banks, which was promulgated and became effective on January 27, 2016. This regulation includes provisions setting out outsourcing criteria that are permitted for conventional banks, implementation of risk management and prudential principles with respect to outsourcing, and reporting obligations of conventional banks. This regulation aims to minimize risks associated with outsourcing activities of conventional banks.

OJK Regulation Update regarding Venture Capital Business

On December 28, 2015, OJK issued the following regulations to revitalize the venture capital industry:

- (i) OJK Regulation No. 34/POJK.05/2015 on Licensing Procedures for and the Institutional Composition of Venture-Capital Companies;
- (ii) OJK Regulation No. 35/POJK.05/2015 concerning Venture Capital Business;
- (iii) OJK Regulation No. 36/POJK.05/2015 on Good Corporate Governance for Venture-Capital Companies; and
- (iv) OJK Regulation No. 37/POJK.05/2015 on the Direct Investigation of Venture-Capital Companies.

Government Regulation on Non-Tax State Revenue related to Nuclear Power Energy

On July 7, 2014 the Government issued Government Regulation No. 56 of 2014 on Non-Tax State Revenue Category and Tariff with Respect to Category and Tariff of Non-Tax Revenue related to Nuclear Energy. The non-tax revenue category consists of (i) utilization of ion radiated resources, and development, operation, and decommissioning of nuclear installations, (ii) license issuance, (iii) academic tests for installation officers, (iv) training and education, and (v) utilization of the training and education hall. This regulation revoked Government Regulation No. 27 of 2009 on Category and Tariff of Non-Tax State Revenue related to Nuclear Energy.

Government Regulation on Expansion of Working Opportunity

In order to increase employment in accordance with Manpower Law Number 13 of 2003, former President Yudhoyono, on May 8, 2013, issued Government Regulation No. 33 of 2013 on Expansion of Working Opportunity. This regulation reflected an effort to create new areas of work and to develop existing areas of work through employee-employer relationships and entrepreneurial programs. The Government provided various forms of assistance (which, among others, encompassed 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, technology and voluntary work.

Update on Regulation on Income Tax for Taxpayers with Certain Amount of Gross Income

On June 12, 2013, the Government issued Government Regulation No. 46 of 2013 which became effective as of July 1, 2013 (**GR 46 of 2013**). Under GR 46 of 2013, individual and corporate taxpayers (which are not a permanent establishment) who receive cumulative gross income from business activities (excluding services in relation to independent work) in an amount not exceeding Rp4.8 billion per tax year, shall only be subject to a monthly payable 1.0% final income tax tariff calculated on the relevant month's gross income. Should gross income per tax year exceed the Rp4.8 billion threshold, income relating to the subsequent tax year will be taxed according to the income tax tariff applicable under the prevailing tax income law.

The income tax scheme introduced under GR 46 of 2013 is not applicable to those individual taxpayers who in conducting their business: (i) utilize equipment, tools or infrastructure that can be assembled and dismantled; and (ii) occupy part or the whole of a designated public area that is not designated as a commercial area. The income tax scheme under GR 46 of 2013 is also not applicable to those corporate taxpayers that have not commenced commercial operations or those which in the first tax year after commencement have gross income exceeding Rp4.8 billion.

This income tax tariff is not applicable to: (i) individual taxpayers who carry on business activities in trading and/or perform services in a business capacity using a temporary and/or moveable premise in a public area not designated as a commercial area; and (ii) institutional taxpayers who are not operating commercially or which, in the year after commencing commercial operations, record gross income in excess of Rp4.8 billion per tax year.

On July 30, 2013, the implementing regulation of GR 46 of 2013 was issued by the Minister of Finance under Minister of Finance Regulation No. 107/PMK.011/2013 concerning Calculation, Deposit, and Reporting Procedure of Income Tax on Income of Business Received or Earned by Taxpayers with Certain Amount of Gross Income. Directorate General of Taxation (**DGT**) also issued Circular Letter No. SE-42/PJ/2013, which was amended twice by SE-32/PJ/2014 and SE-38 /PJ/2014 regarding the implementing regulations of GR 46 of 2013.

Presidential Regulation on Micro and Macro Business Licenses

On September 15, 2014, the Government issued Presidential Regulation No. 98 of 2014 on Micro and Macro Licenses with the aim of simplifying the process for macro and micro business entrepreneurs obtaining licenses by providing a one-stop service and delegating the authority for license processing to the district or city governments. The purpose of the regulations is to achieve legal certainty and protection in obtaining the licenses and to provide macro and micro entrepreneurs with easy access to bank or non-bank financing, and to also empower local governments and other institutions.

Bank Indonesia Regulation on Foreign Exchange Activity Reporting

On April 29, 2013, Bank Indonesia issued Circular Letter No. 15/16/DInt on Foreign Exchange Activity Reporting in the Form of Offshore Loan Realization and Position of Offshore Loans (**Circular No. 15/16**).

Circular No. 15/16 became effective on April 29, 2013 and was enacted to replace Circular Letter No. 13/1/DInt on Foreign Offshore Loan Reporting Obligations (**Circular No. 13/1**). Circular No. 13/1 was revoked and declared inapplicable based on the July 2013 data which was published in August 2013. Circular No. 15/16 sets out the technical procedures for foreign exchange activity reporting relating to realizations and positions of offshore loans. Circular No. 15/16 also sets forth sanctions for non-compliance.

Circular No. 17/4 became effective on March 6, 2015 and was enacted to replace Circular No. 15/17 on Foreign Exchange Activity Reporting relating to Offshore Loan Plans, Amendment to Offshore Loan Plans and Financial Information (**Circular No. 15/17**). Circular No. 17/4 sets out the technical procedures for foreign exchange activities reporting relating to offshore loan plans and amendments to offshore loan plans. Circular No. 17/4 also sets forth sanctions to be imposed for any parties failing to comply with any provision of this circular.

On January 10, 2014 Bank Indonesia issued Circular Letter No. 16/1/DKSP on On-Line Reporting on Fund Transfer Administration by Non-Bank Indonesian Legal Entities. Such monthly reports are to include data on fund transfer activities from and to Indonesia and within Indonesia.

OJK Board of Commissioners Decree on List of Sharia Securities

In connection with the periodic (semi-annual) review by OJK of the financial reports of issuers and public companies for the year ended December 31, 2014, the Board of Commissioners of OJK, on May 21, 2015, issued Kep-33/D.04/2015 and added by Kep-34/D.04/2015 on May 29, 2015 on List of Sharia Securities setting out a list of Sharia securities, effective as of June 1, 2015, consisting of 334 issuers' shares and other Sharia securities as well as sovereign Sukuk which have obtained an effective registration statement.

In connection with the second periodic (semi-annual) review by OJK of the financial reports of issuers and public companies for the year ended June 30, 2015, the Board of Commissioners of OJK, on November 23, 2015, issued Kep-63/D.04/2015 on List of Sharia Securities, effective as of December 1, 2015, consisting of 331 issuers' shares and other Sharia securities as well as sovereign Sukuk which have obtained an effective registration statement.

Updates on Data Warehouse and Information Systems

In 2015, OJK developed a data warehouse and information system to better integrate data from the capital markets and improve the quality of supervision within the capital markets. This new system allows for the migration of historical data and caters for greater types of data to be entered into the system. The sources of the data warehouse are the IDX, Indonesia Central Securities Depository, and Indonesia Clearing and Guarantee Corporation. OJK also continuously develops and maintains a capital markets supervision dashboard, which provides relevant data and information.

Using Central Bank and Payment Bank in cash settlement

Commencing June 2015, OJK and SRO are implementing phase of Central Bank Money (**CeBM**) with hybrid mode to conduct money settlements on the capital market as recommended by IOSCO, particularly on the Principles for Financial Market Infrastructure (**PFMIs**). Prior to CeBM, Commercial Bank (**CoBM**) was used to settle capital market transactions. The use of CeBM instead of CoBM will mitigate counterparty risk, including liquidity risk stemming from a participant's failure to transfer assets due to a liquidity mismatch at the payment bank.

Updates on Sharia Capital Markets

On May 5, 2015 OJK launched a roadmap to develop a Sharia-compliant capital market over the next five years. In addition, OJK finalized amendments to regulations involving a Sharia-compliant capital market, specifically, regulation number IX.A.13 on Sharia Securities Issuances at the end of 2015. The amendment consists of five regulations: Regulation No. 15/POJK.04/2015 concerning Application of the Sharia Principles in

the Capital Market; Regulation No. 17/POJK.04/2015 concerning Issuance and Requirements of Sharia Securities in the form of Share by the Sharia Issuer or Sharia Public Company; Regulation No. 18/POJK.04/2015 concerning Issuance and Requirements of Sukuk; Regulation No. 19/POJK.04/2015 concerning Issuance and Requirements of Sharia Mutual Funds and; Regulation No. 20/POJK.04/2015 concerning Sharia Asset Backed Securities. In addition to these regulations, OJK published Regulation No. 16/POJK.04/2015 concerning the establishment of a sharia board for the capital market (Ahli Syariah Pasar Modal / ASPM).

In order to develop a Sharia-compliant capital market, OJK has implemented an online trading system (SOTS). There are currently nine securities companies serving SOTS. OJK has also conducted training, education and promotion of a Sharia-compliant capital market in universities, Islamic boarding schools nationwide, the community and social media.

To promote the growth of a Sharia-compliant capital market industry, the Government has reduced the issuance fee for Sukuk issuances and equalized the issuance tax applicable to Sharia securities to that for conventional securities.

On January 23, 2015, the Minister of Finance issued Minister of Finance Regulation No. 16/PMK.08/2015 of 2015 on Amendment to Minister of Finance Regulation No. 75/PMK.08/2013 on Buyback of Sharia Government Securities (**MOF Regulation No. 16/PMK.08/2015**). MOF Regulation No. 16/PMK.08/2015 incorporates the position of Director General of Budget Financing and Risk Management into every relevant provision on buyback of Sharia Government securities by the Government through auction and/or bilateral transactions.

In order to develop the Sharia Government securities market, the Minister of Finance also issued Minister of Finance Regulation No. 19/PMK.08/2015 on Issuance and Sale of Government Sharia Savings Securities (**MOF Regulation No. 19/2015**), effective on February 3, 2015. MOF Regulation No. 19/2015 sets out procedures for the issuance and sale of Government Sharia savings securities in the form of Indonesian individual investment savings, which also covers the required documentation, determination of sales value and allocation of individual investment savings, settlement and early redemption. Individual investment saving products are issued by the Government or a Sharia saving securities issuer and are sold in the national primary market by appointed sales agents (banks, securities companies, and/ or other parties that may sell retail financial products).

GMRA Indonesia Implementation

On January 29, 2016, OJK launched the Indonesia Global Master Repurchase Agreement (**GMRA Indonesia**). On the launch date, four national banks, Bank Mandiri, BNI, BRI and BCA entered into agreements for repo transactions using GMRA Indonesia. The Institute of Financial Services requires the GMRA Indonesia document to be used in repo transactions by OJK Regulation No.09/POJK.04/2015 on Guidelines For Repo Transactions and the Financial Services Institute OJK Circular No.33/SEOJK.04/2015 on GMRA Indonesia. The regulation and circular letter on GMRA Indonesia have been effective since January 1, 2016. With the implementation of GMRA Indonesia, repo transactions will become standardized and provide more liquidity in market as a financing alternative.

Revision on Provisions on Land and Building Tax for Oil and Gas Businesses

On February 10, 2015, the Minister of Finance issued Regulation No. 26/PMK.03/2015, which amends the previous regulation No. 76/PMK.03/2013 on Administration of Land and Building Tax in the Mining Sector for Mining of Oil, Gas and Geothermal. The regulation is aimed at increasing data accuracy and changes the administrative procedures for payment of land and building tax by oil, gas and geothermal companies. Affected companies have been required to abide by the new procedures from February 10, 2015.

Minister of Finance Regulation on Advance Pricing Agreements

On January 12, 2015, the Minister of Finance issued Regulation No. 7/PMK.03/2015 on Procedures to Draft and Implement Advance Pricing Agreements. Under the regulation, subject to the approval and supervision of the DGT, taxpayers may obtain an Advance Pricing Agreement with another taxpayer, whether in the Republic or from a partner country, whereby for the latter, the DGT may cooperate with the relevant partner country's tax authorities. The pricing shall be applicable for a certain period of time and is subject to renegotiation after the end of such period.

Mandatory Use of Letter of Credit for Export of Certain Commodities

In 2015, the Minister of Trade issued two regulations pertaining to the use of letters of credit (L/C) for the export of certain commodities. Under Minister of Trade Regulation No. 04/M-DAG/PER/1/2015, which has been updated with Trade Regulation No. 67/M-DAG/PER/8/2015 dated August 31, 2015, the use of L/C as a method of payment is made mandatory for the export of certain commodities in four categories: (1) minerals, such as iron concentrates, nickel, silver, gold, bronze, and tin; (2) coal, including briquettes, agglomerated coal, and lignite; (3) oil and gas, including crude oil and LNG; and (4) palm oil, including crude palm oil (CPO) and crude palm kernel oil. As an implementing regulation to MOT Regulation No. 04/2015, the Minister of Trade issued Regulation No. 26/M-DAG/PER/3/2015 on Specific Provisions on the Implementation of Using a L/C for Exporting Certain Commodities. The provisions of both regulations were effective as of April 1, 2015.

Tax Incentive

In an effort to increase direct investment to support economic growth, to improve equality and to accelerate the development of certain industries and regions, on April 6, 2015 the Government issued Government Regulation No. 18 of 2015 on the Income Tax Facility for Investment in Certain Business Fields and/or Certain Regions (**GR No. 18/2015**), which came into effect on May 6, 2015. GR No. 18/2015 introduced additional business fields and regions eligible for tax allowances. This regulation revoked Government Regulation No. 1 of 2007 on the Income Tax Facility for Investment in Certain Business Fields and/or Certain Regions. The tax incentives under GR No. 18/2015 apply to new investments and also to the expansion of existing businesses. The tax incentives provided are: (i) reduction of net chargeable income to 30.0% of the total amount of investment in the form of fixed assets including land for main business activities charged over a period of six years with a rate of 5.0% per year since the start of commercial production; (ii) accelerated depreciation of tangible assets and amortization of intangible assets; (iii) income tax on dividends paid to non-residents other than permanent establishments in Indonesia is subject to a 10.0% rate or a lower rate in accordance with the prevailing tax treaty on double taxation avoidance; and (iv) compensation for losses of more than five years but not more than ten years. For a period of six years since commercial production or for the duration of the economic lives of such fixed assets (subject to accelerated depreciation), whichever is earlier, fixed assets that receive income tax facility in the form of reduction of net chargeable income cannot be used for any purpose other than for purposes in which the tax facility is granted, nor can it be transferred to another party unless replaced with new fixed assets. Similarly, intangible assets that receive income tax facility in the form of accelerated amortization cannot be used for any purpose other than for purposes in which the tax facility is granted, nor can it be transferred to another party unless replaced with new intangible assets before the end of the economic lives of such intangible assets (subject to accelerated amortization). Taxpayers who engage in capital investment in certain business fields and/or certain areas as stipulated in the appendices to the regulation may receive tax incentives only if the following criteria are fulfilled: (a) having high investment value or for export purposes; (b) having high employment absorption; or (c) having close local nexus.

Minister of Finance Regulation Update on VAT and Sales Tax on Luxury Goods

In an effort to maintain the public consumption rate, to assist the growth of domestically produced products and to reduce consumption of products manufactured outside the Republic, on June 8, 2015, the Minister of Finance issued two new regulations: Minister of Finance Regulation No. 106/PMK.010/2015 on Classification of Taxable Luxury Goods other than Motorized Vehicle Imposed with Tax on Sales of Luxury Goods (**MoF Regulation No. 106/2015**), which exempts luxury goods VAT on the following group of goods: (a) electronic devices (air conditioners, refrigerators, washing machines, televisions and cameras); (b) sporting goods (fishing, golf, diving and surfing tools); (c) musical instruments (piano and electronic musical instruments); (d) branded goods (dresses, perfume, accessories, bags, watches and items made of metal); and (e) home and office furniture (carpet, mattresses, furniture, porcelain and crystal), and Minister of Finance Regulation No. 107/PMK.010/2015 on the fourth amendment to the Minister of Finance Regulation No. 154/PMK.03/2010 on Collection of Tax Income Article 22 on the Payment over Delivery of Goods and Activities in Import Sector or Business in Other Sector (**MoF Regulation No. 107/2015**), which aims to balance the exemption policy on luxury goods VAT under MoF Regulation No. 106/2015. Under the MoF Regulation No. 107/2015, tariffs on Article 22 Income Tax on imported goods are adjusted upwards to 10% to reduce the impact expected from the increase of imported goods that are exempted from luxury goods VAT.

MoF Regulation No. 107/2015 was later amended by the Minister of Finance Regulation No. 16/PMK.010/2016.

On November 20, 2015, the Minister of Finance issued the Minister of Finance Regulation No. 206/PMK.010/2015 as an amendment to the MoF Regulation No. 106/2015 (**MoF Regulation No. 206/2015**). Pursuant to MoF Regulation No. 206/2015, house and non-strata title town house with selling price of more than IDR 20 billion and apartment, condominium and strata title town house with selling price of more than IDR 10 billion are considered as luxury goods and are subject to 20% sales tax on luxury goods.

On March 12, 2015, the Government issued Government Regulation No. 15 of 2015 (**GR No. 15 of 2015**) on the Treatment of VAT on the fuel supply of foreign ship sea transportation. Under the GR No. 15 of 2015, VAT is applicable to the fuel of foreign ship sea transportation.

On July 24, 2015 The Minister of Finance issued the Minister of Finance Regulation No 142/PMK.010/2015 on the fourth Amendment of Minister of Finance Decree No. 231/KMK.03/2001 on the Treatment of Value Added Tax and Sales Tax on Luxury Goods on the Import of Taxable Goods Exempted from Empty Customs (**PMK No. 142 of 2015**) to support the increase in domestic production of oil and natural gas and geothermal energy. Under PMK No. 142 of 2015, the Government provides for the exemption of VAT and Sales Tax on Luxury Goods for including, among certain goods used for the upstream exploration and exploitation of oil, natural gas and geothermal energy, goods re-imported at the same quality as they were when exported, goods exported for maintenance, repairing, assembling and testing and then re-imported, medicines imported using Government funds for public purposes, human therapeutic substance, blood grouping and classifying tissue substance imported using Government funds for public purposes.

On August 7, 2015, the Minister of Finance released the Minister of Finance Regulation No. 154/PMK.03/2015 on The Procedures for Collecting, Payment, and Reporting of VAT on Fuel Supply for Foreign Ship Sea Transportation.

To improve the competitiveness of the shipbuilding industry and other industries related to the specific transportation and services related to the specific transportation, on September 17, 2015, the Government issued the Government Regulation No. 69 of 2015 on Import and Supply of Specific Transportation and Supply of Taxable Services Related to the Specific Transportation that is not-withheld VAT (**GR No. 69 of 2015**). GR No. 69 of 2015 imposed the exempted VAT facilities on import and supply of specific transportation and services related to specific transportation as stipulated in Government Regulation No. 146 of 2000 in conjunction with Government Regulation No. 38 of 2003 be withheld. The influence of GR No. 69 of 2015 is that the industry that supplies specific transportation and services related to specific transportation to the facility recipients under GR No. 69 of 2015 can credit the input tax.

To implement GR No. 69 of 2015, on October 20, 2015 the Minister of Finance issued Minister of Finance Regulation No. 193/PMK.03/2015 on Procedures to Give not-Withheld VAT Facility on Imports and/or Supply of Specific Transportation and Supply of Taxable Services Related to the Specific Transportation. This regulation became effective on October 17, 2015.

On February 2, 2015, the Minister of Finance issued Regulation No. 18/PMK.010/2015, regarding the Types of Catering Services that Are not Subject to VAT. As the implementing regulation of the Law No. 42/2009, it stipulates that catering services that provide food and beverages at a location chosen by the customer and are equipped with the necessary tools and equipment for such services are exempt from VAT. The food and/or beverages that are part of the provision of catering services are also exempted from VAT, but the sale of food and/or beverages at any other location (such as stores or stalls) is subject to VAT. This regulation revokes the Minister of Finance Decree No. 418/KMK.03/2003 as the implementing regulation of the previous VAT Law under which catering services were subject to VAT.

Also in March 2015, the Minister of Finance Regulation No. 43/PMK.010/2015 regarding the Criteria and/or Details of Hotel Services Excluded from VAT was issued. It regulates that room rentals in hotels, home stays, hostels and inns and space rentals for meetings or events are not subject to VAT, whereas space rental other than the non-VAT able hotel services (such as for banks or ATMs), apartment or condominium rental and travel agents operated by the hotel are subject to VAT.

Another Minister of Finance regulation issued in March 2015 was Regulation No. 56/PMK.03/2015 regarding the Second Amendment of Minister of Finance Regulation No. 75/PMK.03/2010 regarding Other Values Used as the Basis for the Imposition of Tax. It amends the determination of other value for services delivered by travel agents/bureaus. Under the previous regulation, the rate of other value was 10.0% of the total invoice and was applicable for the delivery of all kinds of services. The amended regulation clarifies that the

1.0% effective VAT rate is applicable only for services delivered by travel agents/bureaus which are not based on commissions. This regulation was later amended by the Minister of Finance Regulation No. 121/PMK 03/2015.

On June 23, 2015, the Government issued Government Regulation No. 40 of 2015 on the VAT exemption for delivery of clean water. Under the regulation, the delivery of clean water, other than ready-to-drink bottled water, carried out by a taxable entrepreneur is exempted from VAT. This regulation aims to guarantee the supply of clean water and to support the development of a sustainable clean water provision system by reducing the cost of clean water.

On August 13, 2015, the Ministry of Finance issued Regulation No. 158/PMK.010/2015 regarding the Criteria for Art and Entertainment Services that Are Not Subject to VAT. This regulation sets out the types of products and services provided by art and entertainment workers that are exempt from VAT.

On October 1, 2015, the Government issued Government Regulation No. 74 of 2015 on the VAT Application for Specific Port Services to Marine Transport Companies that Conduct Overseas Transport Activity. Under the regulation, any specific port services delivered by a port company that conducts an overseas transport activity is exempted from VAT. This regulation aims to enhance the industries competitiveness and to further national development by reducing the cost of ocean freight services.

Government Regulation on Motor Vehicles subject to Sales Tax on Luxury Goods

On May 23, 2013, the Government issued Government Regulation No. 41 of 2013 on Motor Vehicles subject to Sales Tax on Luxury Goods (**GR No. 41 of 2013**) to encourage the use of energy efficient and environmentally friendly motor vehicles and to support the increase in domestic motor vehicle production through an energy efficient and low price motor vehicle program. Under GR No. 41 of 2013, the Government calculates sales tax on motor vehicles based on a percentage ranging from 10.0% to 75.0% of the relevant sale price subject to, among other things, cylinder capacity, total weight and the type of motor vehicle. With the enactment of GR No. 22 of 2014 on March 19, 2014, which is an amendment to GR No. 41 of 2013, as of April 19, 2014, the sales tax rates range from 10.0% to 125.0%.

Under GR No. 41 of 2013 motor vehicles with a diesel or petrol engine, dual petrol gas engine (converter kit CNG/LGV), bio fuel engine, hybrid engine or a CNG/LGV which consumes fuel at a rate between 20 km per liter and 28 km per liter will be subject to a sales tax calculated on 75.0% of the sale price. Such engines which consume fuel at a rate in excess of 28 km per liter will be subject to a sales tax calculated on 50.0% of the sale price. This sales tax exemption is also applicable to motor vehicles with a cylinder capacity of less than 1,500cc and which consume fuel at a rate of at least 20 km per liter.

Minister of Finance Regulation on Customs Registration

On March 25, 2014, the Minister of Finance issued Minister of Finance Regulation No. 59/PMK 04/2014 on Customs Registration. This regulation aims to increase services available to the public in anticipation of the use of information technology in customs activities. Under this regulation, customs registration applications by service importers, exporters, transporters and custom brokers shall be submitted electronically. Approved applicants will receive a Customs Identification Number (*Nomor Identitas Kepabeanan* or **NIK**) to access or connect with the customs system either electronically or manually. NIK will be required to enable NIK holders to carry out customs obligations. This regulation also provides an exclusion from NIK for; (i) importers carrying out customs obligations in relation to, among others: goods of foreign countries representatives and their officers designated for Indonesia; goods of international agencies and their officers designated for Indonesia; personal belongings of passengers, transport crew and delivered goods; goods of central or regional government intended for public purpose use; goods from grants for purposes of public religious activities, charity, social or cultural purposes, or natural disaster prevention; and (ii) exporters carrying out customs obligations in relation to, among others: souvenirs; goods for sampling purposes; goods for research purposes, goods of foreign countries representatives and international agencies; goods for purposes of public religious activities, social, education and culture or sport. As of December 31, 2015, there were 76,512 NIK holders.

BKPM Guidelines and Mechanisms for Investment Licenses and Non-Licenses

On September 29, 2015 BKPM issued a new regulation on investment licensing and other procedures, covering both domestic investment and FDI. The new rules are set out in the Chairman of BKPM's Regulation No. 14 of 2015 on Guidelines and Mechanisms for Principle Licenses, Chairman of BKPM's Regulation No. 15

of 2015 on Guidelines and Mechanisms for License and Non License Investment, Chairman of BKPM's Regulation No. 16 of 2015 on Guidelines and Mechanisms for Investment Facility, and Chairman of BKPM's Regulation No. 17 of 2015 on Guidelines and Mechanism for Implementing and Controlling Investment. These regulations have sorted out four subject matters and revoked the one existing BKPM Regulation 5/2013.

New BKPM Chairman Regulation was enacted to simplify and to expedite the approval process for investment licenses, non-investment licenses, among others, simplifying the application forms and providing definite time frames for the completion of applications for licensing and non-licensing facilities.

BKPM Regulation on the Implementation of Integrated Investment Services in BKPM / Regional BKPM / Free Trade Zones / SEZ

Chairman of BKPM Regulation No. 7 of 2013, dated June 13, 2013, was enacted to increase the quality of the approval process for investment license and non-license applications by providing simplified, fast, accurate, transparent and accountable services. The regulation sets forth in detail the mechanisms required for implementing a One-Stop Integrated Service (OSS), including, *inter alia*, the allocation and qualification of human resources, the facilities required and the use of an electronic/online system. As of November 16, 2015, OSS has been implemented in 34 provinces, 372 municipalities, 98 cities, 4 Free Trade Zones, and 3 SEZs in Indonesia. To support OSS, BKPM has launched Electronic Information and Licensing Services System (SPIPSE) since 2010 to expedite the process of investment licensing. As of February 2016, SPIPSE has been adopted by 341 OSS in 33 provinces, 270 municipalities/cities in Indonesia. In addition to improving investment licensing services and increasing transparency, BKPM has also launched tracking system in 2012 to assist investors in monitoring their application process.

In December 2013, BKPM introduced an online service for submitting applications to obtain import duty exemption for imported machinery and raw materials. Furthermore, in April 2014, BKPM introduced an online application system for Principle License applications for companies that have not obtained Indonesian legal entity status. On June 1, 2014, the online application procedure become mandatory for all companies that had not obtained Indonesian legal entity status. The online system provides an improved, more accountable, and transparent investment service.

To provide faster and more integrated investment services in BKPM, the Government enacted Presidential Instruction No. 4 of 2015 on the Implementation of Integrated One Stop Investment Service in Indonesia Investment Coordinating Board which gave instructions to 23 Ministries / Chairman of Government Institution to delegate or assign the authority to publish investment licensing and investment facilities to the Chairman of BKPM. Furthermore, on October 26, 2015, BKPM launched a three-hour investment licenses service for investors making a minimum investment of Rp100 billion and/or using a minimum of 1,000 Indonesian laborers. By using this service, within three hours investors will receive an investment license, a certificate of incorporation, a tax registration number and a letter on land availability. Investors must appear in person at the BKPM and must prepare certain documents, including proof of the investor's identity and a flowchart of business activities.

To assist and facilitate investors in their initial queries regarding investment in Indonesia, BKPM established the Investor Relation Unit in 2010. BKPM has also taken other steps to attract more investment to Indonesia. In 2015 BKPM marketed investment opportunities in Indonesia to 10 countries: Japan, Singapore, China, the Republic of Korea, Taiwan, Australia, United Arab Emirates, United Kingdom, United States of America, and Malaysia.

In 2016, BKPM targets to add more countries in the list which includes Hong Kong, India, Thailand, Vietnam, Germany, Netherlands, Italy, Canada and Russia.

National Medium Term Development Plan

On January 8, 2015, President Joko Widodo issued Presidential Regulation No. 2 of 2015 on National Medium Term Development Plan (*Rencana Pembangunan Jangka Menengah Nasional* or **RPJMN**) 2015-2019. Under this regulation, President Joko Widodo elaborates on his vision, mission and program as set out during the 2014 general election. The RPJMN is divided into three sections: (a) Section I, the National Development

Agenda, which sets out the policy direction, development strategy and macroeconomic construction which expand on the mission and action program of the elected President and Vice President; (b) Section II, Sectoral Development Agenda, which sets out the target, policy direction and strategy of sectoral development, cross sectoral development and main flow of national development (as set out in Section I); and (c) Section III, Regional Development Agenda, which sets out regional development construction, themes for regional development and targets, policy direction and strategy for regional development in relation to the realization of the national development vision set out in Section I.

Ministry of Agrarian Affairs/Head of National Land Agency Regulation on Agrarian National Program

On April 17, 2015, the Minister of Agrarian Affairs/Head of National Land Agency (**BPN**) issued Ministry of Agrarian Affairs/Head of BPN Regulation No. 4 of 2015 on Agrarian National Program which sets out provisions on land registration/certification referred to as the Program Nasional Agraria (**PRONA**). This regulation repeals and replaces the Minister of Agrarian Affairs/Head of National Land Agency Regulation No. 1 of 2015 on Agrarian National Program. The PRONA framework applies to Indonesian citizens, legal entities/social institutions and religious institutions. Land that could be used as PRONA object: (i) ex-customary land rights (non agricultural land, agricultural land with area up to 200m², plantation land, and land owned by legal entities or/social and religious institutions with area up to 500m²); (ii) state-owned land; and (iii) land located in village or sub-districts.

Ministry of Agrarian/Head of National Land Agency Regulation on Location Permits

On April 28, 2015, Ministry of Agrarian/Head of National Land Agency issued Regulation No. 5 of 2015 on Location Permits (the **Regulation 5/2015**). In order to acquire or relinquish land for business purposes, an Indonesian company must obtain a location permit. The location permit, granted over a specific area of land, essentially allows the permit holder to commence land relinquishment/acquisition from the current land user or land title holder. Regulation 5/2015 prohibits any party to acquire land for business prior to obtaining the location permit. Regulation 5/2015 provides certain circumstances which may exempt a company from obtaining a location permit prior to relinquishing land for business purposes, which, among others, include:

- (i) the land relinquished is a contribution in kind (*inbreng*) from a shareholder of the company;
- (ii) the land is already controlled by another company, and it is being acquired for the purpose of continuing the investment plan of the other company, provided that approvals from the relevant authority have been obtained;
- (iii) the land is located in an industrial area or complex;
- (iv) the land is controlled by a development authority of a certain region, in accordance with the region development plan;
- (v) the land is acquired for the expansion of an existing business, for which business a business expansion permit has been acquired, and the land is located adjacent to the existing plot of land used for the business;
- (vi) the land is less than 10,000 m² for non agriculture business sectors or 25 hectares for agriculture business sectors; and
- (vii) the land is acquired from another company with the condition that the land is located in an area in which the zoning is in accordance with the business activities to be done by the land acquirer.

Procedures for obtaining a location permit are stipulated in the regulations issued by the Regent Head or Mayor of the region concerned. Location permits are granted for a period of 3 years. If within the period of time 50% of the land under the location permit has not been acquired by the permit holder, the land that has been acquired must be released to other parties qualified to purchase the land.

In addition, a holder of a location permit must submit a periodic report on the progress of land relinquishment every 3 months to the local land office in the region.

Regulation 5/2015 provides that a group of companies may only hold a maximum of 200 hectares of land per province or 4,000 hectares nationwide if the land are used for hotel resorts. The maximum area of land is

doubled for plots of land acquired in Papua and West Papua. The maximum land area limitation are not imposed to (i) state owned enterprise, (ii) companies that are fully or partially owned by the state, and (iii) companies that have “gone public” (i.e., listed in the Indonesia Stock Exchange) whose shares is majority owned by public.

Presidential Regulation on Visa-Free Travel

On June 9, 2015, President Joko Widodo issued Presidential Regulation No. 104 of 2015 on Visa-Free Travel (**GR No. 69/2015**) as amended by Presidential Regulation No. 104 of 2015 on the amendment to GR No. 69/2015. Non-Indonesian citizens from 75 countries, including South Africa, Algeria, United States of America, Angola, Argentina, Austria, Azerbaijan, Bahrain, Netherlands, Belarus, Belgium, Bulgaria, Czech Republic, Denmark, Dominica, Estonia, Fiji, Finland, Ghana, Hungary, India, United Kingdom, Republic of Ireland, Iceland, Italy, Japan, Germany, Canada, Kazakhstan, Kyrgyzstan, Croatia, South Korea, Kuwait, Latvia, Lebanon, Liechtenstein, Lithuania, Luxembourg, Maldives, Malta, Mexico, Egypt, Monaco, Norway, Oman, Panama, Papua New Guinea, France, Poland, Portugal, Qatar, People’s Republic of China, Romania, Russia, San Marino, Saudi Arabia, New Zealand, Seychelles, Cyprus, Slovakia, Slovenia, Spain, Suriname, Sweden, Switzerland, Taiwan, Tanzania, East Timor, Tunisia, Turkey, United Arab Emirates, Vatican City, Venezuela, Jordan, and Greece that are eligible for visa-free travel to Indonesia, solely for tourism purposes. Tourists will enjoy a 30-day non-extendable and non-changeable permit to stay in Indonesia. With this policy, the Government intends to strengthen the relationship between the Republic and other countries, which the Government believes will ultimately provide benefits to national and economic development.

Bank Indonesia Regulation on Housing and Automotive Financing

On June 18, 2015, Bank Indonesia issued Bank Indonesia Regulation No. 17/10/PBI/2015 on Loan to Value Ratio and Financing to Value Ratio on Loan or Financing of Property and Down Payment for Loan or Financing of Automotive (**PBI 17/10**), which revoked Circular Letter No. 15/40/DKMP. Under PBI 17/10, Bank Indonesia increased the required loan to value (**LTV**) ratio for property loans and financing to value (**FTV**) ratio for some Sharia property loans by up to 10% depending on the type of loan, the size of property, and whether it was the first, second or third financing. These increases are applicable to houses, apartments, and home stores and home offices. In addition, the mandatory down payment for financing of two-wheeled vehicles and vehicles with three or more wheels for non-productive purposes (under either the conventional or Sharia scheme) was reduced by 5%, except for vehicles with three wheels or more for productive purposes. The change in the LTV ratio for auto loans is part of Bank Indonesia’s relaxation of macroprudential policy.

PBI 17/10 also includes measures to mitigate the increased risks inherent in loans with a higher LTV or FTV ratio. Specifically, the new LTV or FTV ratio under PBI 17/10 is only applicable to banks (conventional and Sharia) with a ratio of: (i) non-performing loans (**NPL**) to total gross loans; (ii) non-performing property loans to total gross property loans; and (iii) non-performing automotive financing to total gross automotive financing of less than 5.0%.

Conventional Bank Minimum Statutory Reserves

On June 25, 2015, Bank Indonesia issued PBI No. 17/11/PBI/2015 on Amendment of PBI No. 15/15/PBI/2013 on Minimum Statutory Reserves in Rupiah and Foreign Exchange of Conventional Banks (**PBI 17/11**), which became effective on June 26, 2015. Under this regulation, Bank Indonesia has eased the minimum statutory reserves policy by including, in addition to third party funds, notes issued by banks as components of deposit in calculating the loan to deposit ratio (**LDR**) based reserve levels. In addition, commencing on August 3, 2015, new loan to funding ratio (**LFR**) terminology under PBI 17/11 was introduced to replace the previous LDR terminology. Notes to be included as a LFR component must be (i) issued by banks in the form of medium term notes, floating rate notes or bonds other than subordinated bonds; (ii) issued by way of a public offering; (iii) rated at least investment grade; (iv) owned by a non-bank, either resident or non-resident; and (v) administered by an institution duly authorized to provide custodian and settlement of securities transactions.

In calculating LFR based reserve levels, Bank Indonesia determines the minimum and maximum LFR target for a bank to comply with. Under PBI 17/11, commencing on August 3, 2015, a conventional bank may obtain a higher maximum LFR target of up to 94.0% if such bank can achieve (i) a micro, SME credit ratio faster than the pre-determined timeline under Bank Indonesia regulations on credit or financing by banks and technical assistance in business development of micro, SME; and (ii) NPL ratio on gross credit and bank NPL ratio on gross micro, SME credit of lower than 5.0%. From February 1, 2016, banks that are not in compliance with such

qualifications are subject to adjusted demand deposit interest. In relation to the issuance of PBI 17/11, Bank Indonesia also issued Circular Letter No. 17/17/DKMP/2015 dated June 26, 2015 on Calculation of Minimum Statutory Reserves in Rupiah and Foreign Exchange of Conventional Banks, which revoked Circular Letter No. 15/41/DKMP/2013 dated October 1, 2013 on Calculation of Secondary Reserve Requirements and Reserve Requirements by Loan to Deposit Ratio in Rupiah. Circular Letter No. 17/17/DKMP/2015 was later amended by Circular Letter No. 17/47/DKEM dated November 30, 2015.

Law No. 1 of 2016 on Guarantee

On January 19, 2016, the Government issued Regulation No. 1 of 2016 on Guarantee. The regulation sets out the scope of business activities of guarantee services companies and is intended to support the development of the guarantee services industry.

Presidential Regulation No. 4/2016 on the Acceleration of Electricity Infrastructure Development

On January 8, 2016, the President issued Regulation No. 4 of 2016 on the Acceleration of the Electricity Infrastructure Development. The regulation sets out the procedures for electricity infrastructure projects development.

Ministry of Energy and Mineral Resources Regulation No. 43/2015

On December 31, 2015, the Ministry of Energy and Mineral Resources issued a new regulation on the Evaluation Procedure Of Mining License Permit Issuance. This regulation aims to provide a clear guideline for the issuance of mineral and coal mining permits post the issuance of Law No. 23 of 2014 on Local Government.

Presidential Regulation No. 3/2016 on the Acceleration of National Strategic Projects Implementation

On January 8, 2016, the President issued Regulation No. 3 of 2016 on the Acceleration of National Strategic Projects Implementation, which includes provisions setting measures to accelerate the implementation of national strategic projects.

Procedure and Requirements of the Granting of Recommendation to Implement the Sale of the processed and refined Mineral Resources to Overseas

On February 5, 2016, the MEMR issued Regulation No. 5 of 2016 on Procedure and Requirements of the Granting of Recommendation to Implement the Sale of the processed and refined Mineral Resources to Overseas. This regulation is intended to set clear procedures on how the processed and refined mineral resources can be sold to overseas.

Presidential Regulation No. 8 of 2016 on the National and Industrial Committee

On January 19, 2016, the President issued Regulation No. 8 of 2016 on the National and Industrial Committee. Under the regulation, the National and Industrial Committee has the following duties: (i) assessing national, regional, and global economic and industrial problems; (ii) advising the president on national economic and industrial policies; and (iii) performing other tasks related to economic and industrial issues. The working life of the National Economic and Industrial Committee will end at the same time as the 2014-2019 Working Cabinet concludes its business.

Government Regulation No. 142 of 2015 on Industrial Area

On December 28, 2015, the Government issued Government Regulation No. 142 of 2015 on Industrial Area which revokes the previous Government Regulation No. 24 of 2009 on Industrial Area. This regulation sets out the requirements to establish an industrial area as well as the requirement to obtain Industrial Area Business License from the Minister of Industrial Affairs or the relevant Governor/Mayor/Regent, depending on their authorities. Each Industrial Area Business License holder may be granted a right to build over the land which will be developed.

Government Regulation No. 107 of 2015 on Industrial Business License

On December 23, 2015, the Government issued Government Regulation No. 107 of 2015 on Industrial Business License which revokes the previous Government Regulation No. 13 of 1995 on Industrial Business

License. Pursuant to this regulation, businesses engaging in industrial business activities must obtain industrial business licenses based on the size of their business. This regulation also sets out the various different authorities to issue Industrial Business License based on type and scale of the business.

Minister of Transportation Regulation No. PM 15 of 2016 on Concessions and Other Types of Cooperation between the Government and Business Entities Regarding Public Railways

On January 21, 2016, the Minister of Transportation issued Regulation No. PM 15 of 2016 on Concessions and Other Types of Cooperation between the Government and Business Entities Regarding Public Railways. This regulation stipulates that railways business activities can be conducted by the government and by any business entities. This regulation also includes provisions relating to the types of available concession agreements and its content which can be entered into by the government and business entities.

Recent Developments

2015 Realization Figures

On January 27, 2016, the Ministry of Finance announced realization figures of the 2015 Budget:

- an estimated real GDP growth rate of 4.79%, compared with 5.7% for the full year in the Revised 2015 Budget;
- an inflation rate of 3.35% (year-on-year), compared with 5.0% for the full year in the Revised 2015 Budget;
- an SPN yield of 6%, compared with 6.2% for the full year in the Revised 2015 Budget;
- an exchange rate at Rp13,392 to U.S.\$1, compared with Rp 12,500 to U.S.\$1 in the Revised 2015 Budget;
- average oil production by the Republic of 779 thousand barrels per day, compared with 825 thousand barrels in the Revised 2015 Budget;
- average gas production by the Republic of 1.195 million barrels of gas per day, compared with 1.221 million barrels of gas per day in the Revised 2015 Budget; and
- an average ICP of U.S.\$49.7 per barrel, compared with U.S.\$60 in the Revised 2015 Budget.

As of December 31, 2015, the realized total expenditure in 2015 was Rp1,796.62 billion, the realized total revenue (including grants) was Rp1,504.55 billion, and the realized deficit was Rp292.07 billion.

Debt Issuances

During 2015, the Government issued conventional debt securities and Sukuk in the international capital markets under its U.S.\$40,000,000,000 Global Medium Term Note Program (**Global Medium Term Note Program**) and its U.S.\$10,000,000,000 Trust Certificate Issuance Program (**Trust Certificate Issuance Program**). During 2015, the Government also issued bonds and retail Sukuk in the domestic capital markets. Total Government debt outstanding as of December 31, 2015 amounted to U.S.\$223 billion, with a weighted average debt maturity of approximately 9.3 years.

International Issuances

On January 15, 2015, the Government issued conventional debt securities in the international capital market under its Global Medium Term Note Program in the amount of U.S.\$4 billion, consisting of U.S.\$2 billion with a 10-year tenor and U.S.\$2 billion with a 30-year tenor.

On May 28, 2015, the Government through Perusahaan Penerbit SBSN Indonesia III issued U.S.\$2 billion 4.325% Sukuk due 2025 under its Trust Certificate Issuance Program. As of the date of this Offering Circular, the total amount outstanding under the Trust Certificate Issuance Program is U.S.\$6 billion.

On July 30, 2015, the Government issued one series of Euro-denominated bonds in the international market under its Global Medium Term Note Program of €1.25 billion 3.375% Notes due 2025.

On August 13, 2015, the Government issued three series of Samurai bonds under its Global Medium Term Note Program consisting of 3-year JPY22.5 billion 1.08% notes due in 2018, 5-year JPY22.5 billion 1.38% notes due 2020, and 10-year JPY55.0 billion 0.91% notes due 2025. Both the 3-year and the 5-year bonds are standalone unguaranteed bonds, while the 10-year bond are guaranteed by JBIC.

On December 8, 2015, the Government issued two series of notes under its Global Medium Term Note Program consisting of U.S.\$2.25 billion 4.750% notes due 2026 and US\$1.25 billion 5.950% notes due 2046. The purpose of this issuance was to help pre-fund the 2016 Budget. As of the date of this Offering Circular, the total amount outstanding under the Global Medium Term Note Program is approximately U.S.\$ 10 billion.

Domestic Issuances

On March 11, 2015, the Government issued retail Sukuk in the amount of Rp21.97 trillion 8.26% Sukuk due March 11, 2018 in the domestic market. On October 21, 2015, the Government issued Government retail bond (**ORI**) series ORI012 of approximately Rp27.44 trillion 9.00% ORI due October 15, 2018, to the domestic market. The purpose of the ORI012 issuance was to help fund the Revised 2015 Budget and to improve the development of the domestic Government bond market through diversification of domestic financing instruments and the expansion of the domestic investor base.

Total domestic issuances for both Sukuk and conventional bonds amounted to Rp342.2 trillion and Rp416.6 trillion in 2014 and 2015, respectively.

Foreign Direct Investment

On January 21, 2015, BKPM announced that the investment realization for the fourth quarter of 2015 was Rp145.4 trillion, an increase of 20.1% compared with the same period in 2014 (Rp120.4 trillion). This increase marks the tenth consecutive quarter in which investment realization has exceeded Rp100 trillion. Furthermore, the level of Domestic Direct Investment (**DDI**) realization amounted to Rp46.2 trillion, or 31.8% of the total amount of the investment realization during the fourth quarter of 2015, while FDI realization amounted to Rp99.2 trillion, an increase of 25.8% compared with the same period in 2014 (Rp78.7 trillion) or 68.2% of the total amount of the investment realization during the fourth quarter of 2015.

For the fourth quarter of 2015, DDI realization was based on five leading industrial sectors: Non Metallic Mineral Industry (Rp8.6 trillion); Construction (Rp7.5 trillion); Food Industry (Rp6.4 trillion); Chemical and Pharmaceutical Industry (Rp4.7 trillion); and Electricity, Gas and Water Supply (Rp4.5 trillion). For the fourth quarter of 2015, DDI realization was based on five leading locations: East Java (Rp16.7 trillion); Central Java (Rp5.1 trillion); South Sulawesi (Rp4.4 trillion); Riau (Rp2.8 trillion); and Banten (Rp2.7 trillion).

For the fourth quarter of 2015, FDI realization was based on five leading sectors: Electricity, Gas and Water Supply (U.S.\$1.4 billion); Metal, Machinery and Electronic Industry (U.S.\$1.0 billion); Real Estates, Industrial Estates, and Office Building (U.S.\$0.9 billion); Mining (U.S.\$0.9 billion); and Food Crops and Plantation (U.S.\$0.6 billion). For the fourth quarter of 2015, FDI realization was based on five leading locations: Special Territory of Jakarta (U.S.\$1.4 billion); Banten (U.S.\$0.9 billion); East Java (U.S.\$0.9 billion); Central Kalimantan (U.S.\$0.6 billion); and East Kalimantan (U.S.\$0.6 billion). FDI realization was also based on five leading countries of origin: Singapore (U.S.\$2.4 billion); Hong Kong (U.S.\$0.5 billion); Netherlands (U.S.\$0.4 billion); Japan (U.S.\$0.4 billion); and China (U.S.\$0.2 billion).

As of the fourth quarter of 2015, investment in projects located in Java Island amounted to Rp77.3 trillion and outside Java Island was Rp68.1 trillion.

Based on the investment realization data for the period from June 2010 until December 2015, there was significant growth in each quarter in DDI as well as FDI. The Republic believes that growth of both sectors highlights that investment in Indonesia is currently on a sustainable path. The data of investment realization from June 2010 until December 2015 demonstrate that there are more new investment projects compared to expansion projects. Further, they reflect an increase in the appetite for investment products and increased diversification in terms of the variety and types of industries and products.

The National Long-term Development Plan (RPJPN), a development plan which stretches twenty years from 2005, aims to/achieve the development goals of the Republic Indonesia as mandated in the Constitution. The RPJPN has been drawn up as a continuation and renewal of earlier stages of development planning in

Indonesia and involves institutional restructuring. The RPJPN is divided into four separate medium term plans called National Medium Term Development Plan/RPJMN (2005-2009; 2010-2014; 2015-2019; and 2020-2025).

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

On May 27, 2011, the Master Plan for Acceleration and Expansion of Indonesia Economic Development 2011-2025 (**MP3EI**) was unveiled, with the aim of creating a self-sufficient, advanced, just and prosperous Indonesia. Pursuant to the MP3EI, six economic corridors have been identified as growth centers, with each corridor specializing in economic activities in which it is believed to have a comparative advantage.

- *Sumatera corridor*: this corridor will act as a production and processing center of natural resources, cultivation, national food and energy.
- *Java corridor*: this corridor will act as a driver for industrialization and services.
- *Kalimantan corridor*: this corridor will act as a production and processing center of mining and energy reserves.
- *Sulawesi corridor*: this corridor will act as a production and processing center of agriculture, fisheries, plantation, oil and gas and mining.
- *Bali and Nusa Tenggara corridor*: this corridor will act as a gateway for tourism and food safety.
- *Papua and Kepulauan Maluku corridor*: this corridor will act as a development center of food, fisheries, energy and mining.

In addition, the MP3EI divides the focus of development into eight main programs: (i) forestry; (ii) mining; (iii) energy; (iv) industrial; (v) marine; (vi) tourism; (vii) food crops/livestock; and (viii) development of strategic areas. The eight programs further divide into 22 main economic activities which are all geographically concentrated along the six aforementioned corridors. The development of these six corridors is expected to garner at least Rp4,000 trillion in investment in various projects within a 15-year period from 2011 through 2025.

In 2013, approximately 122 projects were launched as part of the MP3EI, requiring an estimated total investment of Rp790.4 trillion. As of December 31, 2013, the total number of projects that had been launched as part of the MP3EI between 2011 and 2013 was 366 with a total value of Rp829.2 trillion. Of these 365 projects, the Government funded 97 projects valued at Rp131.7 trillion, state-owned companies funded 104 projects valued at Rp212.8 trillion and the private sector funded 127 projects valued at Rp323.3 trillion. The remaining 38 projects were funded by PPPs and were valued at Rp162 trillion.

The largest of the projects launched in 2013 in each of the six corridors are as follows:

- *Papua and Kepulauan Maluku corridor*: an underground mining project at PT Freeport Indonesia's block A area which is expected to require an investment of Rp149 trillion.
- *Java corridor*: the development of a six lane elevated toll road in Jakarta, which is expected to require an investment of Rp48 trillion.
- *Kalimantan corridor*: Chevron's Indonesia Deepwater Development (IDD), which is related to integrated infrastructure for mining and industry in Rapak & Ganai, and is expected to require an investment of Rp70 trillion.
- *Sumatera corridor*: the revitalization of a state-owned fertilizer producer, PT Pupuk Sriwijaya (Pusri), which is expected to require an investment of Rp6.2 trillion (this project was launched in April 8, 2013).
- *Sulawesi corridor*: the development of a nickel pig iron factory in Southeast Sulawesi, which is expected to require an investment of Rp7.6 trillion.
- *Bali and Nusa Tenggara corridor*: the development of the Benua bay, which is expected to require an investment of Rp30 trillion.

Indonesia is now on the third stage of RPJMN (2015-2019) which is aiming for the greater consolidation of development in a comprehensive manner in all fields by emphasizing economic competitiveness in the area of natural resources and the quality of human resources and by increasing capabilities to master science and technology. There are three main focuses of development namely, human development, priority sector development including infrastructure development and distribution and regionality.

There are 19 sub-sectors of basic infrastructure improvement targeted during the third stage period ranging from electricity generating capacity, improvement of access to safe drinking water, development of roads, highways, ports, airports, and broadband coverage.

Based on the list of infrastructure programs, the priority projects identified by the government Jakarta Sewerage Management System, West Semarang Water Supply System, Water to Energy in East Java, Revitalization of Existing Oil Refineries, 500kv Transmission Lines in Sumatera and Java, Power Plant in Indramayu, Batang and other areas, Toll Road in Trans Sumatera, Balikpapan, Manado and other areas, Jakarta MRT, and Soekarno-Hatta Airport Express Railway.

Indonesia is now on the third stage of RPJMN (2015-2019) which is aiming for the greater consolidation of development in a comprehensive manner in all fields by emphasizing economic competitiveness in the area of natural resources and the quality of human resources and by increasing capability to master science and technology. In RPJMN 2015-2019, there are three main focuses of development namely human development, priority sector development including infrastructure development and distribution and regionality.

There are 19 sub-sectors of basic infrastructure improvement targeted during the period 2015 to 2019 ranging from electricity generating capacity, improvement of access to safe drinking water, development of roads, highways, ports, airports, and broadband coverage.

Based on the list of infrastructure programs, the government shortlisted the projects into priority projects to focus on, resulting in priority projects enlisted for 2015, such as Jakarta Sewerage Management System, West Semarang Water Supply System, Water to Energy in East Java, Revitalization of Existing Oil Refineries, 500kv Transmission Lines in Sumatera and Java, Power Plant in Indramayu, Batang and other areas, Toll Road in Trans Sumatera, Balikpapan, Manado and other areas, Jakarta MRT, and Soekarno-Hatta Airport Express Railway.

Economic Recession in Developed Markets and Government Responses

From mid-2007, there was a period of disruption and volatility in global capital and credit markets. Share prices declined sharply globally and such declines, as well as substantial mark-to-market write downs of assets by financial institutions of mortgage-related assets and credit default swaps and other derivative securities, caused many financial institutions to seek new capital, merge with stronger and larger institutions or, in some cases, fail.

At the end of 2008, the United States, various European countries and Japan were all officially in economic recession. This affected the developing markets, including Association of Southeast Asian Nations (ASEAN) countries and the Republic. The Republic and other ASEAN countries have been negatively affected, along with developing countries globally, by the adverse financial and economic conditions in developed countries. The Republic responded to these extraordinary conditions with the aim of maintaining economic stability and public confidence in the Republic's economy.

Recovery has been fragile and partially attributable to the effects of various Government economic stimulus efforts.

Governments, central banks and financial regulators in the United States and Europe have taken a number of steps in response to the extraordinary conditions faced by financial institutions in their jurisdictions. These steps include the partial or complete nationalization of major banks and other financial institutions (including Fannie Mae and Freddie Mac in the United States), the orchestration of bank mergers or asset transfers, the guaranteeing of bank deposits and interbank lending, the creation of a U.S.\$700 billion Troubled Assets Relief Program (TARP) by the United States Treasury to purchase mortgage-related and other assets from financial institutions, the implementation of coordinated rate cuts and direct purchases of commercial paper. In August 2011, the international credit rating of the United States was downgraded by Standard & Poor's Ratings Services (Standard & Poor's) from AAA to AA+ with a negative outlook. Despite the downgrade, the United States Congress allowed the Government to increase the public debt ceiling to avoid a technical default.

In Europe, a sovereign debt crisis began in 2009 with Greece and Portugal, which was followed by the Republic of Ireland, Italy and Spain. Major international rating agencies downgraded the sovereign rating of such countries, and the Eurozone debt crisis contributed to fears of contagion and turmoil in financial markets. Surrounding European Union countries have provided assistance and aid to such countries and continue to do so, and the European Commission has proposed policies to reduce the impact of the crisis in the region. In addition, the U.S. Federal Reserve led a coordinated move with other central banks in November 2011 to increase liquidity in the markets by lowering borrowing costs of the U.S. dollar. The fiscal burden of rescue and stimulus programs has been significant for governments in Europe, the United States and other countries and this burden may constrain their future ability to resort to further fiscal measures to counteract the effects of the financial crisis. In addition, the Greek debt crisis in 2015 and more recently, the slowdown in the Chinese economy and fall in commodities' prices had resulted in a slowdown and instability in the global economy.

Indonesia's financial services sector has been affected by the fragility of global financial markets and the ongoing Eurozone debt crisis and the recent slowdown in the Chinese economy. The Government has taken several measures to strengthen this sector, including the following:

- Perpu No. 3 of 2008 on Amendment to Law No. 24 of 2004 on IDIC, later enacted as Law No. 7 of 2009, which allows deposit insurance coverage to be adjusted as a pre-emptive measure to anticipate potential bank runs which lead to financial crises. The prevailing requirements for adjustment in the coverage are in response to high inflation rates for the past several years, threats of bank runs, and fully covered depositors becoming less than 90.0% of depositors. Following the enactment of Perpu No. 3 of 2008, the Government issued Government Regulation No. 66 of 2008 on Deposit Insurance Coverage, which increased the level of insured deposits from Rp100 million to Rp2 billion for each depositor in a bank. The coverage provides full protection for approximately 99.87% of accounts in the Indonesia banking sector and for approximately 45.72% of the total deposits as of December 31, 2015.
- In 2013, OJK issued Circular Letter Number 18/SEOJK.04/2013 regarding Written Statement Criteria by the FSA and Procedures for Determining the Investors' Asset Value Which Lost in using Investor Protection Fund and OJK Decision Number KEP-70 / D.04 / 2013 on the Determination of the Highest Limit For Each Investor (Rp25 million) and Custodian (Rp50 billion) In Using Investor Protection Fund for Investor Compensation Payment. This decision then revised through OJK Decision Number KEP-46 / D.04 / 2015 which raises the limit for each investor to Rp100 million. In 2015, OJK issued Circular Letter Number 30/2015 on Membership Fee of Investor Protection Fund for Custodian Bank. This Circular Letter regulates the amount of fees to be paid by the Custodian Bank as a member of the Investor Protection Fund. That contributions includes initial and annual membership fees. Also, OJK issued OJK Decision Number KEP-58 / D.04 / 2015 on Annual Membership Fee Payment Protection Fund Investor For Securities Broker-Dealer which Administer Customer Securities Account Year 2016, which mandated that all annual memberships for those Securities Broker-Dealers in 2016 will be paid by the Stock Exchange, Clearing Guarantee Institution and Custodian Sentral Depository. Protection Funds and Bapepam-LK Rule Number VI.A.5 concerning Investor Protection Fund Operators. Rule Number VI.A.4 stipulates the mandatory of establishment of Investor Protection Funds while Rule Number VI.A.5 stipulates a license for and the governance of Investor Protection Fund Operators. In 2013, OJK issued Circular Letter Number 18/2013 regarding Written Statement Criteria by the FSA and Procedures for Determining the Investors' Asset Value Which Lost in Using Investor Protection Fund and OJK Decision Number KEP-70 / D.04 / 2013 on the Determination of the Highest Limit for Each Investor (Rp25 million) and Custodian (Rp50 billion) in Using Investor Protection Fund for Investor Compensation Payment. This decision was revised by OJK Decision Number KEP-46 / D.04 / 2015 which raised the limit for each investor to Rp100 million. In 2015, OJK issued Circular Letter Number 30/2015 on Membership Fee of Investor Protection Fund for Custodian Bank. This Circular Letter regulates the amount of fee to be paid by the Custodian Bank as a member of the Investor Protection Fund. That contributions include initial and annual membership fees. In additional, OJK issued OJK Decision Number KEP-58 / D.04 / 2015 on Annual Membership Fee Payment Protection Fund Investor For Securities Broker-Dealer which Administer Customer Securities Account Year 2016 which mandated that all annual membership for those Securities Broker-Dealer in 2016 will be paid by Stock Exchange, Clearing Guarantee Institution and Custodian Sentral Depository.
- In order to improve investor protections and increase the effectiveness of the supervision of securities transactions, on June 14, 2012, Bapepam-LK amended and issued new regulations concerning the implementation of Single Investor Identity (SID) for all investors (a unique identifier for each investor in order to facilitate trading identification) with scrip securities in Indonesian capital markets. Furthermore, in 2013-2014 SID focused on investors who hold script securities whose registered at the registrar and mutual fund investors. In 2015, SID also was created for Government bond investors.

- On December 8, 2014, OJK issued five rules, namely (i) OJK Regulation No. 33/POJK.04/2014 on Directors and Board of Commissioners of Public Company, (ii) OJK Regulation No. 34/POJK.04/2014 on Nomination and Remuneration Committee of Public Company, (iii) OJK Regulation No. 35/POJK.04/2014 on Corporate Secretary of Public Company, (iv) OJK Regulation No. 36/POJK.04/2014 on Continuing Public Offering of Debt Securities and/or Sukuk, and (v) OJK Regulation No. 37/POJK.04/2014 on Mutual Fund in the form Collective Investment Contract-Limited Participation, of which three rules relate to good corporate governance, one rule concerned general meetings of shareholders, and another rule concerned shelf offerings of debt securities and Sukuk.
- On December 29, 2014, OJK issued an OJK Regulation No. 38/POJK.04/2014 as a revision of Rule Number IX.D.4 concerning capital increase without pre-emptive rights.
- On July 26, 2013, OJK issued Regulation No. 1/POJK.07/2013 to enhance consumer protection in the Financial Services Sector. This regulation implements Article 31 of Law No. 21 of 2011 on the Financial Services Authority. Consumer protection extends to all consumers involved with Entrepreneur Financial Services.
- On August 23, 2013, OJK Regulation No. 2/POJK.04/2013 was issued to deal with concerns relating to the repurchase of shares issued by issuers or public companies during times of significant fluctuation in market conditions. This rule was implemented to assist publicly listed companies to buy back their own shares without breaching existing legislation.
- On September 12, 2013, OJK issued Regulation No. 3/POJK.05/2013 concerning the Monthly Report of Non-Bank Financial Services Institutions. This OJK regulation is based on OJK surveillance requirements set forth by the Institute of Non-Bank Financial Services (**LJKNB**). The information provided to LJKNB on a monthly basis is analyzed and used to determine future decisions and policies.
- On October 31, 2014, in relation to the implementation of Law No. 1 of 2013, OJK issued three implementing regulations concerning microfinance institutions: (i) OJK Regulation No.12/POJK.05/2014 on the Business License and Institution of Micro Finance Institutions as amended by OJK Regulation No. 61/POJK 05/2015; (ii) OJK Regulation No.13/POJK.05/2014 on the Business of Micro Finance Institutions as amended by OJK Regulation No. 62/POJK 05/2015; and (iii) OJK Regulation No.14/POJK.05/2014 on the Development and Supervision of Micro Finance Institutions.
- On November 19, 2014, OJK issued 20 regulations known as the “November Package”, which are aimed at the supervision of financial institutions and financial sector services, deepening the financial market, and widening the public’s access to financial services.
- On January 29, 2015, OJK issued four circular letters regarding Risk Assessment of Non-Bank Financial Services Institutions, consist of Circular Letter No. 2/SEOJK.05/2015 concerning Risk Assessment of Pension Fund, Circular Letter No. 3/SEOJK.05/2015 concerning Risk Assessment of Insurance and Reinsurance Company, Circular Letter No. 4/SEOJK.05/2015 concerning Risk Assessment of Finance Company, and Circular Letter No. 5/SEOJK.05/2015 concerning Risk Assessment of Sharia Non-Bank Financial Institution. These four circular letters are intended to provide guidance to assess the risk profile of companies.
- On March 23, 2015, OJK issued Regulation No. 1/POJK.05/2015 concerning Implementation of Risk Management by Non Bank Financial Institutions. This regulation requires implementation of risk management by insurance companies, pension funds, finance companies, and Sharia non-bank financial institutions. This regulation came into force in January 2016.
- On March 31, 2015, OJK issued Regulation No. 2/POJK.05/2015 regarding premium rates for motor vehicle insurance and property insurance and risk data report of insurance risk. This regulation requires insurance companies to maintain risk data and report annually to OJK. In addition, insurance companies should implement the premium rate for motor vehicle and property insurance in accordance with OJK guidelines.
- On March 31, 2015, OJK issued Regulation No. 3/POJK.05/2015 concerning Pension Fund Investment. This regulation provides the types of permitted investments by pension funds and sets out the principles for prudential investment.
- On March 31, 2015, OJK issued Regulation No. 4/POJK.03/2015 on Good Governance Implementation of Rural Banks; OJK Regulation No. 5/POJK.03/2015 on Capital Adequacy and Fulfillment of the Minimum Capital Core Obligation of Rural Banks; and OJK Regulation No. 6/POJK.03/2015 on Transparency and Publication Report by Banks.

- On July 24, 2015, OJK issued 35 regulations known as the “economic stimulus package” consisting of 12 regulations in the banking sector, 15 regulations in capital markets sector, four regulations in the non-bank financial institutions sector, and four regulations in the consumer protection and the education sector.
- On June 8, 2015 OJK issued Circular Letter No. 17/SEOJK.05/2015 concerning the Appointment of a Public Accountants, Actuary, and/or an Independent Appraiser as Auditor for Non-Bank Financial Institutions. This circular letter provides information about external auditor appointments by OJK.
- On June 25, 2015, OJK issued 2 regulations, namely (i) OJK Regulation No. 8/POJK.04/2015 on Website of Public Company and (ii) OJK Regulation No. 9/POJK.04/2015 on Guidelines on Repurchase Agreement Transaction for Financial Services Sector.
- On June 30, 2015 OJK issued two circular letters regarding finance companies: Circular Letter No. 19/SEOJK.05/2015 concerning Down Payment for Finance Company and Circular Letter No.20/SEOJK.05/2015 concerning Down Payment for Sharia Finance Company. These circular letters provide guidance in relation to the minimum down payment for motor vehicle financing.
- On June 30, 2015, OJK issued Circular Letter No.21/SEOJK.05/2015 regarding premium rates for motor vehicle insurance and property insurance. This circular letter provides detailed guidelines about the premium rate for motor vehicle and property insurance.
- On April 30, 2015, OJK issued Regulation No. 7/POJK.04/2015 on Amendment to OJK Regulation No. 4/POJK.04/2014 on Billing Procedures for Administrative Sanctions in the form of Fine on Financial Services Sector.
- On September 15, 2015, OJK issued a regulation on simplification of foreign exchange account owned by foreign citizens. The policy is also intended to bring in foreign exchange funds from tourists to Indonesia’s banking system in order to increase the supply of foreign exchange through foreign exchange deposits in banks.
- On September 28, 2015, OJK issued Circular Letter No. 28/SEOJK.05/2015 concerning Data Report of Insurance Risk. This circular letter provides information about the format of the risk data report for motor vehicle and property insurance and the procedure for submitting the data report to OJK.
- On September 29, 2015, OJK issued Circular Letter No. 29/SEOJK.05/2015 concerning Microfinance Institutions Financial Statements. This circular letter provides information about the format of microfinance institutions, financial statements and the procedure for submitting the financial statements to OJK.
- On October 7, 2015, OJK issued six regulations known as “Economy Policy Package Phase III”, in order to stimulate economic growth and increase the foreign exchange supply in financial services.

Various agencies have also taken action in their respective areas of responsibility. On January 7, 2009, Bank Indonesia revised the BI rate (**BI Rate**) downward to 8.75% then to 8.25% on February 4, 2009, to 7.75% on March 4, 2009, to 7.5% on April 3, 2009, to 7.25% on May 5, 2009, to 7.0% on June 3, 2009, to 6.75% on July 3, 2009, and to 6.5% on August 5, 2009. These decisions were made following the easing of inflationary pressures. Bank Indonesia has also required greater disclosure in large purchases of foreign currency to reduce speculative pressure on the Rupiah. The BI Rate was maintained at 6.5% until February 4, 2011, when Bank Indonesia increased the BI Rate by 25 basis points to 6.75%. Subsequently, Bank Indonesia lowered the BI Rate by 25 basis points back to 6.5% on October 11, 2011 and by another 50 basis points to 6.0% on November 10, 2011. On February 9, 2012, Bank Indonesia lowered the BI Rate by 25 basis points to 5.75%. On June 13, 2013, Bank Indonesia increased the BI Rate by 25 basis points to 6.0% and on July 11, 2013, by 50 basis points to 6.5%. Bank Indonesia subsequently increased the BI Rate on August 29, 2013, to 7.00%, on September 12, 2013, to 7.25% and on November 12, 2013, to 7.50%. On November 18, 2014 the BI Rate was raised 25 basis points to 7.75%.

On January 15, 2015, Bank Indonesia maintained the BI Rate at 7.75%. On February 17, 2015 Bank Indonesia lowered the BI Rate by 25 basis points back to 7.50%. A rate cut was instituted based on Bank Indonesia’s conviction that inflation will remain under control at the lower end of the 4±1% range in 2015 and 2016. The level of policy rate of 7.50% was maintained until December 17, 2015, and in line with ongoing efforts to maintain macroeconomic stability.

On the back of preserved macroeconomic stability, specifically the 2015 inflation that is within the target corridor and current account deficit at around 2% of GDP, Bank Indonesia lowered the policy rate in January and February 2016 to 7.25% and 7% respectively. Further easing will take place after rigorous assessments of the

domestic and global economy, while maintaining macroeconomic and financial system stability. For further discussion on other measures taken by Bank Indonesia, see “*Monetary Policy — Monetary Policy.*”

On August 21, 2015, OJK issued Circular Letter No. 22/SEOJK.04/2015 relating to Other Condition as Market Conditions that Fluctuate Significantly in the Implementation of the Repurchase of Shares issued (buy-backs) by Issuers or Public Companies. This circular letter intended to provide a stimulus and reduce the impact of market fluctuation due to the influence and pressure from outside of the market. This regulation allows buy-backs of up to 20.0% of paid-up capital without shareholders’ approval. Furthermore in 2015, OJK approved the IDX’s Board of Directors Decree No. Kep-00096 IDX/BEI/2015 which allowed for temporary adjustment of Auto Rejection limits (lowest limit) in effect since August 25, 2015. The purpose of this decree is to maintain securities trading in an orderly, fair, and efficient manner.

To stimulate the economy, the Government has made an effort to simplify the Corporate Income Tax by transitioning from a system of progressive tax rates to a single tax rate while reducing the rate payable. The Government has reduced the tax burden on individuals through increasing the non-taxable income threshold for individuals to Rp24.3 million per annum. The new threshold became effective on January 1, 2013, and aims to increase the domestic consumption rate in reaction to the slowing of the global economy and boost domestic economic activities.

In line with these goals, Indonesia has entered into an ASEAN Swap Arrangement (**ASA**) with the ASEAN member states as well as a bilateral swap agreement (**BSA**) with Japan. In addition to the ASA and BSA, Indonesia entered into the Chiang Mai Initiative Multilateralization (**CMIM**) Agreement, which is a pooling arrangement with ASEAN+3 member states with a current total size of U.S.\$240 billion. Under the ASA and BSA and CMIM Agreement, the equivalent of U.S.\$46.1 billion was available to the Republic as of February 29, 2016. See “*Foreign Exchange and Reserves — Regional Swap Arrangements of the Republic.*”

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

On December 31, 2015, the Indonesian Stock Exchange (IDX) composite stock price index closed at 4,593.01. Following the steep drop in global oil prices that occurred during the second half of 2008, the Government announced price cuts for gasoline and for diesel, resulting in the price of gasoline and diesel decreasing approximately by 25.0% and 18.2%, respectively. In June 2013, the Government cut fuel subsidies on a per liter basis, resulting in a 44.4% increase in the price of petrol (to Rp6,500 per liter) and a 22.2% increase in the price of diesel (to Rp5,500 per liter). The fuel hike announcement resulted in protests in major cities across Indonesia. During the second half of 2013, the IDX dropped due to tapering off policy from the U.S. Federal Reserve. In September 2014, Joko Widodo was elected as Indonesia’s new president. His election and another cut to fuel subsidies by the Government on November 18, 2014 caused the IDX Composite Stock Price Index to close positively in 2014. In 2015, the IDX Composite Stock Price Index decreased significantly due to the global economic slowdown. The greatest impact resulted from the slowdown of the Chinese economy. The raising of interest rates by the U.S. Federal Reserve has impacted Indonesia’s ability to reach its targeted economic growth. The decline in global crude oil price resulted in financial difficulties for certain mining and energy companies. During 2015, the Government issued economic policy packages to enhance Indonesia’s economic growth.

On November 11, 2015, OJK suspended the operations of 3 securities companies following breaches of OJK Regulation No. V.D.5 on Supervision and Report of Adjusted Net Working Capital Anti-corruption Measures.

Anti-corruption Measures

In 2012, the Anti Corruption Commission (*Komisi Pemberantasan Korupsi* or **KPK**) signed a memorandum of understanding with the State Army, aimed at improving coordination in preventing corruption activities. The memorandum of understanding set out a series of detailed measures, including signing a cooperation agreement specifying a broad scope of cooperation. In particular, the State Army will provide the asset list of its members to the KPK and the KPK will assist the State Army in monitoring and investigating corruption activities occurring within the State Army. The KPK is also engaged with many international forums. It has been an active member of the G20 Anti-Corruption Working Group, the Asia-Pacific Economic Cooperation Anti-Corruption Task Force, the ADB/OECD, the South East Asia Parties Against Corruption and other multilateral forums. Some of

the other organizations with which the country's authorities have entered into bilateral cooperation through memoranda of understanding include the Federal Bureau of Investigation (USA), the Serious Fraud Office (UK) and the Independent Commission Against Corruption (Hong Kong).

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

In 2013, Indonesia hosted the meeting of the Asia Pacific Economic Cooperation (**APEC**). KPK acted as chair for the Anti-Corruption and Transparency Working Group (**ACTWG**) of APEC. During 2013, KPK organized two ACTWG meetings, two international workshops and established the ACT Network. These workshops discussed two important issues: challenges and strategy to strengthen anti-corruption authorities and preventing facilitation payments and managing gratuities. The workshops were attended by ACT member economies, and international experts, international organizations, Indonesian Government agencies, academics, CSOs and the media were invited. KPK also hosted the SEA-PAC Secretariat meeting where eight law enforcement agencies met to discuss strategic cooperation and networking in the region. Moreover, to strengthen cooperation with other countries, KPK has signed five Memorandums of Understanding with the Government Inspectorate of Vietnam, National Anti-Corruption Commission of Thailand, the Supreme People's Procuratorate of the People's Republic of China, Central Vigilance Commission of India and Malaysian Anti-Corruption Commission. In conjunction with other international engagements, Indonesia ratified the Agreement on the Establishment of International Anti-Corruption Academy (**IACA**) as an international organization in 2013, as a result of Presidential Regulation No. 49 Year 2013.

KPK continues to focus its corruption investigations on several areas, including natural resources, financial safety and food safety. Several recent KPK cases have involved investigations into bribery offences by prominent, high ranking Government officials in relation to the energy and agriculture sectors. KPK has been able to retain its 100.0% conviction rate and will continue to investigate grand corruption against parties at all levels.

As KPK continues to evolve, it faces several challenges, including the prevention of corruption within the KPK itself, while attempting to investigate those institutions administering coal fields, the forestry sector and charity funds. On February 18, 2015, President Joko Widodo issued Government Regulation in lieu of Law No. 1 of 2015. This regulation anticipates that, should the chairmen of KPK become fewer than three, then the President shall appoint temporary chairmen to fill in the vacant position(s) until a chairmen is reactivated or after a new commissioner is sworn in. Following issuance of the new regulation, the President appointed three new chairmen of KPK to temporarily replace one chairman whose term of office lapsed in 2014 and two chairmen who were temporarily suspended pending further investigation of alleged criminal conduct prior to their respective appointments as KPK chairmen.

In December 17, 2015, Agus Rahardjo, Head of the Government's Goods and Services Procurement Agency (LKPP) from 2010 to 2015 and spent two decades as a civil servant at the National Development Planning Board (Bappenas), has been selected as the new KPK Chairman by the House of Representative Commission III overseeing Legal Affairs, Human Rights and Security through a vote in a plenary session. Agus Rahardjo won after obtaining 44 votes, far outnumbering Basaria Pandjaitan, who won nine votes, and Thony Saut Situmorang who got one vote. Two other elected KPK commissioners, namely Alexander Marwata and Thony Saut Situmorang, got no votes.

President Joko Widodo finally decided to postpone the amendment to the Law No. 30/2002 on Corruption Eradication Commission (KPK) for an unspecified period of time. The decision was made after meeting and convincing the five leaders of the House of Representatives (DPR) on Monday February 22, 2016. The reason for the postponement was that both parties viewed it necessary to have sufficient time to accomplish the proposed amendment to Law No. 30/2002 on KPK and to socialize to the public for the purposes of perfecting and strengthening KPK in the future. Both parties had also agreed that revisions would be limited to four points: the establishment of a supervisory body, authority to wiretap, a mechanism for terminating an investigation and the power to hire independent detectives. The Government had earlier agreed to work on revisions of the KPK law with the House of Representative on the condition that they would strengthen the anti-graft agency.

KPK has in the past been criticized for not being able to recover assets exceeding the cost of its operations. However, with KPK enforcement activities increasing in effectiveness, as of December 31, 2015, KPK has

returned Rp 1.525 trillion of stolen state assets to the Republic since its inception. KPK was awarded the prestigious 2013 Ramon Magsaysay Award for its independent and successful campaign against corruption in Indonesia.

Recent Elections

After a successful national legislative election on April 9, 2014, the General Election Commission (Komisi Pemilihan Umum or **KPU**) by virtue of KPU Decree No. 412/kpts/KPU/2014 dated May 9, 2014 in conjunction with KPU Decree No. 416/kpts/KPU/2014 dated May 14, 2014, confirmed the following ten (out of twelve) participating political parties qualified for parliamentary seats in the house of representatives or DPR:

(i) Indonesian Democratic Party of Struggle (*Partai Demokrasi Indonesia-Perjuangan*) with 19.0% of total votes or 109 seats; (ii) Functional Group Party (*Partai Golongan Karya*) with 14.8% of total votes or 91 seats; (iii) Great Indonesia Movement Party (*Partai Gerakan Indonesia Raya*) with 11.8% of total votes or 73 seats; (iv) Democratic Party (*Partai Demokrat*) with 10.2% of total votes or 61 seats; (v) National Awakening Party (*Partai Kebangkitan Bangsa*) with 9.0% of total votes or 47 seats; (vi) National Mandate Party (*Partai Amanat Nasional*) with 7.6% of total votes or 48 seats; (vii) Prosperous Justice Party (*Partai Keadilan Sejahtera*) with 6.8% of total votes or 40 seats; (viii) National Democratic Party (*Partai Nasional Demokrat*) with 6.7% of total votes or 36 seats; (ix) United Development Party (*Partai Persatuan Pembangunan*) with 6.5% of total votes or 39 seats; and (x) People's Conscience Party (*Partai Hati Nurani Rakyat*) with 5.3% of total votes or 16 seats.

Under Decree Letter No. 417/kpts/KPU/2014 dated May 14, 2014, as determined by KPU, 132 new house or regional representative members (Dewan Perwakilan Daerah or DPD) were elected during the national legislative election.

New members of DPR and DPD were sworn in on October 1, 2014 and will serve until 2019.

Joko Widodo, governor of Jakarta, and Jusuf Kalla, former Vice President of the Republic, were elected President and Vice President of the Republic respectively, with a term from 2014 until 2019 with total votes of 70,997,833 (equal to 53.2% of the total national vote).

On July 26, 2014 Prabowo Subianto and Hatta Rajasa appealed against the results of the presidential election issued by KPU to the Constitutional Court. This appeal was declined by the Constitutional Court by virtue of Award No.1/PHPU.PRED-XII/2014 dated August 21, 2014 resulting in the affirmation of Joko Widodo and Jusuf Kalla as President and Vice President of the Republic.

Indonesia held its first simultaneous local executive elections (*Pilkada Serentak*) on December 9, 2015 which elected leaders in 9 provinces, 224 regencies and 36 municipalities. Provinces in which regional elections were held in the *Pilkada Serentak* are Bengkulu, Central Kalimantan, Central Sulawesi, Jambi, North Kalimantan, North Sulawesi, Riau Islands, South Kalimantan and West Sumatera.

New Government

President Joko Widodo and Vice President Muhammad Jusuf Kalla were sworn in as President and Vice President of the Republic on October 20, 2014. President Joko Widodo and Vice President Jusuf Kalla replaced the former President Susilo Bambang Yudhoyono (who served two Presidential terms) and former Vice President Boediono, respectively.

New Cabinet (Kabinet Kerja)

On October 27, 2014 President Joko Widodo issued Presidential Decree No. 121/P of 2014 on Formation of Ministries and Appointment of Ministers under Working Cabinet for 2014-2019. Under this decree, President Joko Widodo named his cabinet as *Kabinet Kerja* (Working Cabinet). *Kabinet Kerja* consists of 34 Ministries up from 31 under former President Yudhoyono, four of which are Coordinating Ministries.

Out of nine new Ministries, seven new Ministries were formed following changes to the disciplines assigned to ministries from the previous Indonesia Unite II Cabinet under former President Yudhoyono: (1) Coordinating Ministry of Human Development and Culture, previously Coordinating Ministry of Public Welfare; (2) Ministry of Public Work and Public Housing, resulting from the merger of the Ministry of Public Work and Ministry of Public Housing; (3) Ministry of Tourism, previously Ministry of Tourism and Creative Economy; (4) Ministry of High Education, Research and Technology, previously known as Ministry of Education and Culture and merging with the previous Ministry of Research and Technology; (5) Ministry of Environment and Forestry, resulting

from the merger of Ministry of Environment and Ministry of Forestry; (6) Ministry of Manpower, previously the Ministry of Manpower and Transmigration; and (7) Ministry of Village, Development Disadvantaged Regions and Transmigration, previously Ministry of Development of Disadvantage Regions. The Coordinating Ministry on Maritime is a newly established eight line ministry.

Four Coordinating Ministries were also established:

- (i) Coordinating Ministry of Politics, Law, and Security, which will coordinate the Ministry of Home Affairs, Ministry of Foreign Affairs, Ministry of Defense, Ministry of Law and Human Rights, Ministry of Communication and Information, and Ministry of Empowerment of State Apparatus and Bureaucratic Reform;
- (ii) Coordinating Ministry of Maritime, which will coordinate the Ministry of Transportation, Ministry of Maritime and Fisheries, Ministry of Tourism, and Ministry of Energy and Mineral Resources;
- (iii) Coordinating Ministry of Economy, which will coordinate the Ministry of Finance, Ministry of State-Owned-Enterprises, Ministry of Cooperative and Micro, Small and Medium Enterprise, Ministry of Industry, Ministry of Trade, Ministry of Agriculture, Ministry of Manpower, Ministry of Public Works and Public Housing, Ministry of Environment and Forestry, and Ministry of Land and Land Administration; and
- (iv) Coordinating Ministry of Human Development and Culture, which will coordinate the Ministry of Religious Affairs, Ministry of Health, Ministry of Social, Ministry of Women Empowerment, Ministry of Culture and Basic and Middle Education, Ministry of High Education, Research and Technology, Minister of Youth and Sports, and Ministry of Village, Development Disadvantage Regions and Transmigration.

President Joko Widodo also appointed a new Attorney General on November 20, 2014 to replace the previous Attorney General who had reached the age of retirement. A new Vice Minister of Foreign Affairs and a Vice Minister of Finance were also appointed on October 27, 2014.

President Joko Widodo also implemented an enhanced selection method for selecting candidates for ministerial positions by involving KPK to participate in the assessment process of the candidates.

On August 12, 2015, President Joko Widodo issued Presidential Decree No. 79/P of 2015 to replace several ministers in the Working Cabinet, *i.e.* (i) Luhut Binsar Panjaitan replacing Tedjo Edhi Purdijatno as the Coordinating Minister of Politics, Law and Security, (ii) Darmin Nasution replacing Sofyan Djalil as the Coordinating Minister of Economy, (iii) Rizal Ramli replacing Indroyono Soesilo as the Coordinating Minister of Maritime, (iv) Thomas Trikasih Lembong replacing Rachmat Gobel as the Minister of Trade, and (v) Sofyan Djalil replacing Andrinof Chaniago as the Minister of National Development Planning/Head of National Development Planning Agency.

House of Representatives

On August 5, 2014, the Government issued Law No. 17 of 2014 on People's Consultative Assembly, House of Representatives and Regional Representatives Council as further amended by Law No. 42 of 2014. Article 84 of Law No. 17 of 2014 provides that the chairman of the DPR is elected from a selection of chairman candidates by members of the DPR. Previously, the chairman of the DPR was determined by DPR members from the winning party of the general election. The new law has caused controversy with regard to whether DPR has the authority to use its rights of interpellation in cases where Government officials have violated recommendations from the House of Representatives. Several articles of the Law No. 17 of 2014 have been rendered as unconstitutional and do not have binding legal force. The Constitutional Court, by virtue of its Decision Number 76/PUU-XII/2014, has rendered the phrase of "written approval from the Tribunal of Council's Honor" in Articles 245 paragraph (1) and 224 paragraph (5) unconstitutional and do not have legal binding force, so long as it is not interpreted as "written approval of the President". Previously under these articles, members of the House of Representatives may only be summoned for investigation of alleged crime upon obtaining approval from the Tribunal of Council's Honor. The Constitutional Court has reworded Articles 245 paragraph (1) and 224 paragraph (5) so that the written approval shall be acquired from the President. Several other articles have also been rendered unconstitutional and do not have binding legal force, and have been re-worded by the Constitutional Court by virtue of its Decision Number 82/PUU-XII/2014, rendered on September 29, 2014, and Decision Number 79/PUU-XII/2014, rendered on September 22, 2015. These articles are namely Articles 71 letter c, 97 paragraph (2), 104 paragraph (2), 109 paragraph (2), 115 paragraph (2), 121 paragraph (2), 152 paragraph (2), 158 paragraph (2), 166 paragraph (2), 250 paragraph (1), 277 paragraph (1).

Election of Head of Regional Government

On October 2, 2014 former President Yudhoyono issued Government Regulation in lieu of Law No. 1 of 2014 on Election of Governor, Regent and Mayor (**Perpu No. 1/2014**) that revoked Law No. 22 of 2014 on Election of Governors, Regents and Mayors due to the escalation of public disapproval on non-direct election of heads of regional governments. Under Perpu No. 1/2014 the elections of Governor, Regent and Mayor must be carried out simultaneously every five years through general election by the people administered by the at the relevant regional level. One change under Perpu No.1/2014 is the introduction of a public test on the candidates' competency and integrity that will be carried out by a committee formed by regional KPU. Perpu No. 1/2014 has been approved by the House of Representatives and has been signed by the President into Law No. 1 of 2015 (**Law No. 1/2015**).

In relation to the issuance of Law No. 22 of 2014, a new Law No. 23 of 2014 on Regional Government was also passed. However, following the issuance of Perpu No. 1/2014, former President Yudhoyono on October 2, 2014 issued Perpu No. 2 of 2014 on Regional Government (**Perpu No. 2/2014**) to amend the provisions of Law No. 23 of 2014 on the Regional Governments. Perpu No. 2/2014 has been approved by the DPR and has been signed by the President into Law No. 2 of 2015 on February 2, 2015.

On March 18, 2015, Law No. 8 of 2015 was passed as an amendment to Law No. 1/2015. Several key provisions under this new law are, among others, (i) authorizing the Constitutional Court to settle disputes on the results of the elections until a special court is established, (ii) eliminating the phase of public test, which takes up to 6 months, in order to simplify the process in the framework of time and cost efficiency, (iii) increasing the minimum regional community support requirement for non-partisan candidates from a range of 3% to 6.5% depending on the relevant region's population to 6.5% to 10%, (iv) setting forth a more comprehensive mechanism towards a nation-wide simultaneous election by 2027 to avoid too much prolonging of and/or reduction of office terms, and (v) setting forth that financial support from the State Budget is to be regulated by a Government Regulation.

On March 18, 2015, Law No. 9 of 2015 (Law No. 9/2015) was also passed as the second amendment to Law No. 23 of 2014 in response to the amendment made on Law No. 1/2015 under which the vice head of regional government shall be elected at the same time as the head of regional government. In respect thereof, the vice head of regional government and the head of regional government shall remain in office together until the end of their terms. Under Law No. 9/2015, in the event that the position of a head of regional government becomes vacant, until such time as the vacancy is filled in accordance with the laws and regulations on election of heads of regional governments, the vice head of such regional government shall carry out the duties of the head until he/she is appointed as head of the regional government. Should the positions of the head and vice head of a regional government become vacant, the Regional House of Representatives shall have the authority to elect a new head and vice head of such regional government for the remaining office term.

To anticipate the transition under the five-year simultaneous general elections of the heads of regional governments, schedules of seven batches of general elections until it will finally be conducted at the same time were also scheduled: (i) the first batch of general elections is expected to be held on December 9, 2015 in 271 provinces, regencies and municipalities for heads of regional governments with office terms that end in 2015 or first half of 2016; (ii) the second batch of general elections will be held in February 2017 for heads of regional governments with office terms that end in the second half of 2016 or in 2017; (iii) the third batch of general elections will be held in June 2018 for heads of regional governments with office terms that end in 2018 or 2019; (iv) the fourth through sixth batches of elections are to be held in 2020, 2022 and 2023 and (v) nation-wide simultaneous general elections will be held in 2027.

Special Task Force for Upstream Oil and Gas Business Activities

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

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

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

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

A new Head of SKK MIGAS has been appointed by the President by virtue of Presidential Decree No.189/M/2014 on Termination and Appointment of Head of SKK MIGAS dated November 18, 2014.

Regional Autonomy in Mining Sector

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

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

Prohibition on the Export of Unprocessed Minerals

The implementation of new regulations first set out in the Mining Law which prohibits the export of unprocessed minerals from Indonesia after January 12, 2014 have been introduced. These regulations are intended to increase the value of commodity exports and encourage mining companies to invest in the domestic processing industry with the construction of new smelters to refine the raw minerals. For additional information on the new regulations, please see "*Key Regulatory Updates — Mining Regulations*" above.

Subsidized Fuel Price Adjustments, Budgetary, Smart Cards of Child Identity Cards

On November 18, 2014, the Government increased the price of gasoline (Type RON-88) by 31.0%, from Rp6,500/liter to Rp8,500/liter, while the price of diesel fuel was increased by 36.0%, from Rp5,500/liter to Rp7,500/liter. The adjustment was based on budgetary considerations, global oil price movements, macroeconomic outlook, and the need for sufficient funds for welfare assistance. The impact of the increases was largely realized in 2015.

Nevertheless, due to the continuing decline of global oil price in December, the Government decided to re-adjust the subsidized fuel price. On December 31, 2014, the Government re-adjusted the subsidized fuel price and introduced a new mechanism effective January 1, 2015. Under the new mechanism, there are three types of fuel: Specific Fuel, Specifically Assigned Fuel and Generic Fuel. Specific Fuel is subsidized and consists of diesel fuel and kerosene. Specifically Assigned Fuel is not subsidized and consists of fuels other than diesel fuel and kerosene which is distributed in assigned areas. Generic Fuel is not subsidized and consists of fuels other than diesel fuel and kerosene which is distributed outside assigned areas.

The basic price and retail price of fuel is set by the Government through the Minister of Energy and Mineral Resources with consideration of purchasing cost, distribution cost, storage cost, and margin. Under the new mechanism, the retail price of Specific Fuel is as follows: (i) kerosene of Rp2,500/liter (inclusive of VAT), and (ii) diesel fuel is set by taking the aggregate of basic price, VAT, and motor fuel tax, deducted by subsidy as high as Rp1,000/liter. On January 1, 2015, the retail price for kerosene and diesel fuel was Rp2,500/liter and Rp7,250/liter, respectively. The retail price of the Specifically Assigned Fuel is set by taking the aggregate of basic price, VAT, motor fuel tax, and distribution cost of 2.0% of basic price. On January 1, 2015, the retail price for the Specifically Assigned Fuel was Rp7,600/liter. The retail price of Generic Fuel, which is also not subsidized, is set by taking the aggregate of basic price, VAT, motor fuel tax, and margin. For Generic Fuel, the margin is set between 5.0% and 10.0% by petrol station owner, with the motor fuel tax is set by the local Government. On January 1, 2015, the retail price for the Generic Fuel was Rp7,600/liter. As of September 1, 2015, the retail price per kerosene, diesel and Generic Fuel was, Rp2,500/liter, Rp6,900/liter and Rp7,300/liter, respectively.

Historically, spending on subsidies has consumed a large portion of the Indonesian state budget. In the Revised 2014 Budget, the total energy subsidy was budgeted to account for approximately 19.0% of total Government expenditure. The realized spending for the energy subsidy in 2014 was 19.4% of the total Government expenditure. In the Revised 2015 Budget, the total energy subsidy was budgeted to account for 7.9% of total Government expenditure, compared with 16.9% in the Original 2015 Budget. In contrast, capital expenditure in the Revised 2014 Budget was budgeted account for 9% of total Government expenditure. The realized capital expenditure in 2014 was 12.2% of the total Government expenditure. The realized capital expenditure in the Revised in 2015 was 15.8% of the total government expenditure.

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 create a larger fiscal space 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.

On November 3, 2014 President Joko Widodo issued Presidential Decree No. 166 of 2014 on the Acceleration Program to Overcome Poverty, which became effective on November 10, 2014. Under this regulation, the Republic set up social protection programs to accelerate the eradication of poverty, including: (i) Prosperous Family Savings Program (*Program Simpanan Keluarga Sejahtera*), an aid program providing a form of savings to 15.5 million poor households throughout Indonesia (recipients will receive the Prosperous Family Cards (*Kartu Keluarga Sejahtera*), which is aimed at improving the distribution of social protection); (ii) Smart Indonesia Program (*Program Indonesia Pintar*), targeted for distribution to school-aged children from poor households to ensure the continuation of their education up to high school level (recipients of this program will receive Smart Indonesia Cards (*Kartu Indonesia Pintar*, or **KIP**) for identification purposes); and (iii) Healthy Indonesia Program (*Program Indonesia Sehat*), to be distributed to poor households in conjunction with the BPJS Kesehatan program (BPJS Kesehatan card for poor households will be replaced by Healthy Indonesia Cards (*Kartu Indonesia Sehat*, or **KIS**)). KIS will be provided to approximately 88.1 million people and KIP will be provided to approximately 24 million underprivileged children. Funding for the implementation of the Acceleration Program to Overcome Poverty will be derived from the state budget and other lawful sources of funding.

On January 14, 2016, Minister of Home Affairs issued Regulation No. 2 of 2016 on Child Identity Card (*Kartu Identitas Anak* or KIA) (**MOHA Regulation 2/2016**). For the first implementation, KIA will be issued in Yogyakarta, Solo, Bantul, Malang, and Balikpapan. KIA will be used as identification for school enrolment, opening bank accounts, registering with BPJS, and in the event of child death or victimization.

In general, the issuance of KIA is classified into 3 (three) categorizes, which are:

- i. For children under 5 years old who have a Birth Certificate: KIA will be issued after submitting the following documentation to the Population Affairs Office (*Dinas Kependudukan dan Pencatatan Sipil*): (i) copy and the original of Birth Certificate; (ii) original of Family Register; and (iii) original of e-Identity Card of his parents or *Wali*.
- ii. For children under 5 years old who do not have a Birth Certificate yet: KIA will be issued together with a Birth Certificate.

- iii. 5 year old child and above and younger than 17 year: KIA will be issued after submitting the following documentation to the Population Affairs Office (*Dinas Kependudukan dan Pencatatan Sipil*): (i) copy and the original of Birth Certificate; (ii) original of Family Register; (iii) original of e-Identity Card of his parents or *Wali*; and (iv) self photos.

The validity of a KIA depends on the age of the child. For a child under 5 years old, a KIA shall be valid until he/she turns 5; for a child older than 5 years old, a KIA will be valid until one day before he/she turns 17. The validity of a KIA for a foreign citizen's child depends on the validity of his parents' Permanent Stay Permit.

MOHA Regulation 2/2016 is made with the spirit of child protection and comprehensive population registration, as in fact, there are still many children with no Birth Certificate. However, MOHA Regulation does not regulate any sanction for children with no KIA or his/her parents who do not manage to get a KIA for their child(ren).

Land and People

Area

Situated between Malaysia, Singapore and the Philippines to the north and Australia to the south, the Republic of Indonesia covers a total land area of approximately 1,910,931 square 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 Nangroe Aceh Darussalam (**Aceh**) in the west to Papua in the east. Jakarta, Indonesia's capital and largest city, is located on the northern coast of the western part of Java.

Population

Indonesia had an estimated population of approximately 255.5 million as of June 2015 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 145 million in 2015), and Jakarta, the capital, was estimated to have a population of approximately ten million in 2015.

Indonesia's population grew at a rate of 2.0% per annum during the 1980s and 1.4% during the 1990s. The growth rate increased to 1.5% per annum during the period from 2000 to 2010 and during the period of 2010 to 2015 was 1.4% per annum. The rate of growth of Indonesia's population was reduced by the successful implementation of the Government's family planning program which started in 1970. Concurrent achievements in health care lowered the infant mortality rate and extended average life expectancy. The Government estimates that, in 2015, approximately 27.3% of the population was under 15 years of age and approximately 44.4% was under 25 years of age, and that the dependency ratio in 2015 was 48.6%. Approximately 64% of the population is in the production age, and the median age is 28.4 years. According to the Indonesian tax office, as of April 2015, there were approximately 1 million people paying tax in Indonesia, with the number of potential tax payers being approximately 44.8 million.

According to the 2010 census, approximately 87.0% of the Indonesian population is Muslim and 10.0% 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 of Indonesia is Bahasa Indonesia, which is based on the Malay language. English is widely used and taught in most secondary schools. In total, approximately 500 languages and dialects are spoken throughout Indonesia.

Government and Political Developments

Political History and Development of Political Parties

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

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

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

During the Soeharto administration, the previously existing political parties consolidated into three parties: Functional Group (*Golongan Karya* or *Golkar*), the Indonesian Democratic Party (*Partai Demokrasi Indonesia*) and the United Development Party (*Partai Persatuan Pembangunan*). Subsequently, the formation of other political parties was permitted, and 48 political parties took part in the 1999 elections and 24 political parties in the 2004 elections. In the 2009 elections, a total of 44 political parties, including six regional parties in Aceh fielded candidates, resulting in nine political parties holding 560 seats in the DPR.

President Yudhoyono is a member of the Democratic Party and Vice-President Boediono is unaffiliated with any political party. The Democratic Party won 150 of the seats (26.8% of the total), followed by the Golkar Party with 107 seats (19.1%), the Indonesian Democratic Party of Struggle with 95 seats (17.0%), the Prosperous Justice Party with 57 seats (10.2%), the National Mandate Party with 43 seats (7.7%), the United Development Party with 37 seats (6.6%) and three other parties. The April 2009 legislative elections marked the first time in the Republic's history that voters cast ballots for individual candidates instead of parties. President Yudhoyono's Democratic Party, having secured at least 20.0% of the seats, was able to nominate a presidential candidate on its own without entering into a coalition with another party.

Indonesia's third direct presidential election was held in July 2014, a few months after the legislative elections held in April 2014. Former President Yudhoyono was constitutionally barred from serving a third term. See "Overview — Recent Elections." 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 the result. Therefore, the legislative election results are an important indicator of the outcome of the presidential elections.

A total of 12 parties took part in the 2014 legislative election. See "Overview — Recent 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. Recent elections have resulted in the appointments of Irwan Prayitno in 2010 for the West Sumatera province, Zaini Abdullah for the Aceh province and Joko Widodo for the Jakarta province in 2012, Ahmad Heryawan for the West Java Province, Ganjar Pranowo for the Central Java province, I Made Mangku Pastika for the Bali province, Alex Noerdin for the South Sumatera province and Annas Maamun for the Riau province in 2013, and Muhammad Ridho Ficardo in 2014 for the Lampung province. With the election of Joko Widodo as the new President, Basuki Tjahaja Purnama was sworn in as the governor for the Jakarta province on November 13, 2014 and will remain in office until 2017.

Indonesia held its first simultaneous local executive elections (*Pilkada Serentak*) on December 9, 2015 which elected leaders in 9 provinces, 224 regencies and 36 municipalities. Provinces in which regional elections were held in the *Pilkada Serentak* are Bengkulu, Central Kalimantan, Central Sulawesi, Jambi, North Kalimantan, North Sulawesi, Riau Islands, South Kalimantan and West Sumatera.

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

Central Government

Indonesia's Government is based on the 1945 Constitution, as amended (the **Constitution**), under which the Republic is structured as a unitary republic. Between 1999 and 2002, the Constitution was amended four times, creating constitutional checks and balances, a separation of powers and a more direct democracy. Prior to the amendments, and throughout the period of President Soeharto's administration, Indonesia's Government had been highly centralized. Power during the Soeharto period was concentrated in the Presidency and the military exerted significant influence over 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.

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

The MPR has the authority to amend the Constitution, dismiss the President or Vice President and appoint a Vice President (or a President and Vice President) in the event of a vacancy. The MPR has a bicameral structure, consisting of the DPR, which is the principal legislative body, and the Regional Representatives' Council. The DPR has 560 members. The Regional Representatives' Council has four members from each province, which currently amounts to 132 members, the new province of North Kalimantan has no representative. The MPR is constitutionally required to sit at least once every five years. The MPR's decisions are taken by majority vote except for any constitutional amendment, which requires a quorum of at least two-thirds and approval by at least 50.0% plus one member of the MPR.

Members of the DPR are elected by a proportional representation system. The Regional Representatives' Council members are elected in non-partisan elections based on a plurality of votes within the relevant electorate. In the most recent legislative elections held in April 2014, Indonesia's voters elected members of the DPR and the Regional Representatives' Council.

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

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

The President is assisted in the administration of his responsibilities by ministers who are appointed and dismissed by the President and who are responsible only to the President. The President's cabinet currently consists of four coordinating ministers and 34 ministers. The cabinet is aided by three non-ministerial officials and a secretary to the cabinet. See "*Overview — Recent Election*".

Judicial System

The Constitution states that the Indonesian judicial system must be independent and that judicial authority is to be exercised by the courts free from the influence of non-judicial power. This judicial independence was re-affirmed under a judicial authority and powers law adopted in January 2004 and a subsequent law in October 2009. The Constitution and the new judicial authority law stipulate that the Republic's judicial power is exercised by the Supreme Court, various lower courts and the Constitutional Court. The courts below the Supreme Court are organized by subject matter jurisdiction. These courts include the general, religious, military and administrative courts. The general district courts have jurisdiction over all criminal and civil cases not within the limited jurisdiction of any of the special courts. The religious courts have jurisdiction over cases such as family law among Muslims. The military courts have jurisdiction over cases involving military personnel. The administrative courts have jurisdiction over actions involving certain Government decisions. Furthermore, there are several special courts under the general courts and the administrative courts such as (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.

In 2004, a law was adopted to establish a Judicial Commission (the Judicial Commission Law) with the authority to nominate judges of the Supreme Court and the responsibility to maintain judicial integrity. Under the Judicial Commission Law, judicial candidates for Supreme Court judgeships are proposed by the Judicial Commission to the DPR, nominated by the DPR and appointed by the President, and other judges are appointed by the President, acting on proposals by the Chairman of the Supreme Court. In addition to setting forth the rights of the Judicial Commission to propose Supreme Court justices, the 2004 Judicial Commission Law gave the Judicial Commission the responsibility to supervise the activities of judges and bring enforcement actions against judges accused of breaches of judicial codes of ethics. In 2006, 31 Supreme Court justices instituted an action before the Constitutional Court, seeking a declaration that the provisions of the Judicial Commission Law which granted the Judicial Commission the right to oversee the activities of Supreme Court justices were unclear and conflicted with the Constitution. After a judicial review of both laws, in August 2006 the Constitutional Court ruled that a number of the provisions of the Judicial Commission Law were unconstitutional, and resulted in legal uncertainty in the application of the Judicial Commission Law to the supervisory role and responsibilities of the Judicial Commission. This ruling has been addressed through Law No. 48 of 2009 on Judicial Powers, which governs the structure of the Supreme Court, the general courts, the religious courts and the administrative courts and Law No. 18 of 2011 on amendment to the Judicial Commission Law which, *inter alia*, further elaborates upon the Judicial Commission's supervisory role and its relationship with the constitutional court.

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

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 and Kelurahan or sub-districts. Since 2000, the number of provinces has increased from 27 to 34. Between 2001 and 2011, each of the number of regencies, municipalities, districts and villages also increased. As of December 18, 2014, there were 416 regencies, 98 municipalities, 6,994 districts, 8,309 sub-districts and 72,944 villages in Indonesia.

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

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

In 2004, the central Government replaced the 1999 regional autonomy law with a new regional autonomy law, Law No. 32 of 2004 which was further amended by Law No. 8 of 2005 and Law No. 12 of 2008 (the **Autonomy Law**). The Autonomy Law was replaced with Law No. 23 of 2014 on Regional Government as last amended by Law No. 9/2015. Under this law, Government matters are divided into three parts: (i) Absolute Government matters, which are Government 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) Concurrent Government matters, the implementation of which is to be divided between the Central Government, Provincial Government and Regency/Municipality Government; these Government matters are (a) compulsory Government matters, which consists of matters that (1) relate to basic services such as education, health, environment, public works, food sustainability, social issues, manpower and housing, and (2) are not related to basic services, such as land policy, micro and medium enterprises, investment, culture, communication and information; and (b) optional Government matters, which are matters that relate to potential development of a region; these matters encompass maritime and fisheries, tourism, forestry, energy and mineral resources, trade, industry and transmigration; and (iii) General Government Matters, which are solely under the authority of the President as head of Government. Under Law No. 23 of 2014 as lastly amended by Law No. 9/2015, the Head of Regional Government in Indonesia is elected for a five-year term and can be re-elected for one term. Dismissal and appointment of the Head of Region should also be conducted according to the requirements of Law No. 23 of 2014 as last amended by Law No. 9/2015.

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

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

Independent Anti-corruption Commission

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

As of December 31, 2015, the KPK had achieved a 100% conviction rate of 320 Government officials and had 7,562 cases in the preliminary investigation phase, 468 cases being investigated, 389 cases being brought forward to prosecution and 320 Government officials being convicted. In furthering the Government’s anti-corruption commitment, the KPK has been effective in combating corruption at high levels. For example, it has obtained the convictions of parliament members, Ministers/Head of Ministerial Level, Province Governors, Governor and Deputy Governor of Central bank, Mayors and Head of regents/Districts, judges, prosecutors, police officers, and others. The Government aims to improve the investment climate within Indonesia by reducing corruption. The KPK is one of the Government’s primary means of addressing corruption within Indonesia.

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

In addition, in 2012 the KPK arrested a member of the House of Representatives for allegations of corruption and charged three judges for receiving gifts in relation to criminal proceedings. In 2013, the KPK brought several charges against a former Justice of the Constitutional Court of the Republic in relation to incidents involving the acceptance of bribes to fix the court's ruling and his involvement in money laundering activities. In June 2014, the corruption court sentenced the former Justice to a life sentence. This decision is now pending the result of an appeal.

In 2013, the KPK also commenced a corruption case against a former Youth and Sports Minister for his alleged involvement in corruption in connection with the construction and procurement of the Hambalang National Training, Development and Sporting School Center during 2010 - 2012. In July 2014, he was sentenced to four years in jail.

In May 2014 the KPK began investigating a former Minister of Religion in relation to a 2012-2013 hajj administration corruption case.

In 2015, the KPK commenced several high profile corruption cases, including: (i) a case relating to the misuse of approximately Rp8 billion in operational funds by the former Minister of Culture and Tourism, (ii) a case involving the receipt of improper gifts by the former DPR's VII Commission member, and (iii) a bribery case involving one of Indonesia's most prominent litigators and three State Administrative Court Judges.

Each year, the KPK determines which areas to focus its attention and investigations on, including natural resources, financial and food security. Recent KPK investigations capturing high ranking government officials and prominent figures have focused on bribery offences committed by public officials in the energy and agriculture sectors.

Terrorism and Security Related Incidents

There are 4 provinces in Indonesia in which security situations are highlighted, with details as follows:

Aceh is marked with several conflicts involving separatist group called *Gerakan Aceh Merdeka (GAM)*. However the situation is now conducive and its respective crime rate has been decreased. In addition, the Government has enacted Law No. 11 of 2006 on the Government of Aceh which establishes status of the province of Aceh as special autonomy region. Further, The Helsinki Memorandum of Understanding has been signed on August 15, 2005 between the Government and GAM that is aimed to end conflict in Aceh.

In Papua, the situation is also conducive despite of the shootings as such situation can be handled by the authorities. Moreover, the Government has enacted Law No. 21 of 2001 on Special Autonomy for Papua Province to establish Papua Province as Special Autonomy Region.

In Poso, Central Sulawesi, the Government is trying to capture terrorists affiliated with ISIS, namely the Santoso group. Several shootings are still happened recently and the crime rate is relatively high. However, the general situation is still considered as conducive.

In West Kalimantan, an extremist group called Gerakan Fajar Nusantara (Gafatar) emerged and caused conflict among the people of West Kalimantan. Consequently, Gafatar is denounced by Majelis Ulama Indonesia as misguided.

Numerous terrorism-linked bombing incidents have taken place in Indonesia since 2002, including at nightclubs in Bali in October 2002 and October 2005, the JW Marriott Hotel in Jakarta in August 2003, the

Australian Embassy in Jakarta in September 2004, the JW Marriott and Ritz-Carlton hotels in Jakarta in July 2009, resulting in numerous deaths and property damage. Most recently, in January 2016, Jakarta was attacked in a series of bombs and gun attacks in the center of the city, and several people, including the attackers, were killed during these attacks. The attacks were generally blamed on the Islamic State terrorist network. The threat of further acts of terrorism has adversely affected transportation, tourism, employment and investment in the Indonesian economy. See “*Principal Sectors of the Economy — Trade, Hotel and Restaurant Services*” and “*Gross Savings and Investment*.” In response, security forces and the judiciary took action to bring the perpetrators to justice and have attacked terrorist networks. For example, in September 2009, Noordin Mohammad Top, one of Indonesia’s and Asia’s most-wanted terrorists, was killed by Indonesian security forces. Top was linked to a series of attacks across Indonesia, including the 2002 and 2005 Bali bombings, the 2003 attack on the Marriott Hotel, the 2004 attack on the Australian embassy in Jakarta and the July 2009 hotel bombings in Jakarta.

The Government has taken other measures to combat terrorism including establishing a National Counter Terrorism Agency (*Badan Nasional Penanggulangan Terorisme*) pursuant to the Presidential Regulation No. 46 of 2010 on National Counter Terrorism Agency as amended by Presidential Regulation No. 12 of 2012, enacting new domestic anti-terrorism laws and amending anti-money laundering laws (see “*Financial System — Anti-Money Laundering Regime*”), establishing a special police task force called Detasemen 88, expanding cooperation with foreign law enforcement agencies, participating in bilateral and multilateral counter-terrorism activities and sending police and security officers to the United States and Canada for counter-terrorism training. The Government’s approach to terrorism includes de-radicalizing captured terrorists and re-integrating them into civil society and establishing prevention-oriented programs in educational settings. The Government has also set up a new agency separate from the police force to coordinate the Government’s response to terrorism. The Republic has become a signatory to the ASEAN Convention on Counter-Terrorism, which was signed on January 13, 2007 and ratified by Law No. 5 of 2012 on the ASEAN Convention on Counter Terrorism, the U.S.-ASEAN Joint Declaration on Cooperation to Combat International Terrorism and a number of other ASEAN Joint Declarations on Cooperation to Combat International Terrorism, and it is a party or signatory to six U.N. conventions relating to international terrorism.

On February 12, 2013, DPR passed the Law No. 9 of 2013 on Anti-Terrorism Financing Act. This Act strengthens the role of the relevant institutions in combating terrorism. The Indonesian Financial Transactions Reports and Analysis Centre (INTRAC/PPATK) (see “*Financial System — Anti Money Laundering Regime*”) will be able to block partially or in whole, direct or indirect, known to be or allegedly used or will be used, funds for acts of terrorism and the Police Department will have the authority to investigate suspected terrorist fund sponsors and fund receivers, which if proven guilty could be sentenced to a maximum of 15 years imprisonment and a penalty of Rp1 billion.

Furthermore, the e-KTP or electronic identity card, as contemplated by Law No.24 of 2013 on amendment of Law No.23 of 2006 on Civil Administration aims to effectively implement a life-long single identity number. The idea of a single identity number had been previously provided for under Law No. 23 of 2006, as well as the Presidential Regulation No. 26 of 2009 as last amended by Presidential Regulation No. 112 of 2013. However, given recent concerns about individuals possessing multiple identification cards and the likely benefits of electronic identity cards in combating money laundering for terrorist financing the efforts to implement the e-KTP have grown significantly during 2013. With the issuance of Presidential Regulation No. 112 of 2013 as the fourth amendment to the Presidential Regulation No. 26 of 2009, non-electronic identity card will only be valid until December 31, 2014. See “*Financial System — Anti-Money Laundering Regime*” for further details on measures being taken by the Government to eradicate financing of terrorist activities.

Peace Agreement, Special Autonomy and Integration Projects in Aceh

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

machines, distributed approximately 30,000 heads of cattle, constructed approximately 15,000 fish ponds, 4,000 motor boats, 2,000 km of roads and 230 bridges, and provided aid for medium scale enterprises.

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

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

Special Autonomy and Activities in Papua

A separatist movement remains active in the province of Papua, where a small portion of the population has shown support for the Free Papua Movement (generally known by its Indonesian initials, **OPM**). While there have been some violent incidents involving the armed wing of the OPM including those targeting the Indonesian police authorities, the national army and police have taken measures to maintain security and order in the province, and the Government has continued its policy of promoting social welfare in Papua. There have been no military operations in Papua since 2004 and the Government is currently trying to address the concerns of certain groups in Papua who were seeking greater independence by expanding the powers of the local government, making investments in infrastructure, including the rebuilding of religious buildings, improving judicial access, instituting affirmative action programs, working to resolve differences among local ethnic groups, increasing welfare programs and infrastructure development and fostering business growth and investment in areas populated by these groups. The province of Papua enjoys special autonomy through the establishment of a regional assembly, Government protection of indigenous rights and the recognition of indigenous courts. The Government has implemented affirmative action and other policies intended to benefit indigenous minorities. The Government believes this welfare approach has been successful; in 2007, 850 former members of OPM who had fled to the neighboring country of Papua New Guinea made requests to return to Papua. Regency-level and municipality-level elections held in Papua in 2007 proceeded smoothly with voter participation of over 60.0%, and both native and non-native people of Papua were elected. The Government allocated special autonomy funds to the Government of the provinces of Papua and West Papua, and to the local governments of Papua's and West Papua's provinces, totaling Rp4.0 trillion, Rp3.9 trillion, Rp5.1 trillion, Rp5.3 trillion, Rp4.5 trillion, Rp5.5 trillion, Rp6.2 trillion, Rp6.8 trillion and Rp7.1 in the Revised 2007 Budget, the Revised 2008 Budget, the 2009 Budget, the Revised 2010 Budget, the Revised 2011 Budget, the Revised 2012 Budget, the Revised 2013 Budget the Revised 2014 Budget and the Revised 2015 Budget, respectively. The Government introduced a Presidential Decree, consistent with Government Regulation No. 54 of 2004 on the Papuan People's Council as amended by Government Regulation No. 64 of 2008, relating to the establishment of a coordinating body for the management of the special autonomy funds and certain regulations relating to financial management and the Papuan People's Council (Majelis Rakyat Papua), a group of Papuan tribal chiefs tasked with considering and approving candidates for the role of governor, approving regional regulations and addressing the needs of the indigenous community, religious community and women in Papua.

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

In 2011, the Government established the Unit for the Acceleration of Development in Papua and West Papua (**UP4B**) based on Presidential Regulation No. 66 of 2011, as amended by Presidential Regulation No. 84 of 2011. The role of the UP4B is to coordinate, synchronize, facilitate, evaluate, and monitor all the Government development programs in Papua and West Papua. UP4B is responsible for ensuring that the programs designed by the central Government in Jakarta fit the needs of the Papuan people.

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

In 2013, the provisions of Presidential Regulation No. 84 of 2012 continued to provide the basis for accelerating the development of Papua and West Papua Province. The allocation of funds for such development was Rp1.0 trillion in 2013 and is Rp2.5 trillion under the Revised 2014 Budget. Throughout 2013, the policies and programs of the Government were communicated, disseminated and publicized throughout Papua in order that the people of Papua can gain a better understanding. The communication, dissemination and publication program will continue to be implemented among the people of Papua and other stakeholders, including the international community, in coming years and is expected to result in a greater participation in accelerating the development of Papua.

Human Rights Protections

With respect to the protection of human rights, the Government has promulgated, among others, Law No. 14 of 2009 on the Ratification of the Protocol to Prevent, Suppress, and Punish Trafficking in Persons, Especially Women and Children, Supplementing the United Nations Convention Against Transnational Organized Crime; Law No. 15 of 2009 on the Ratification of the Protocol Against the Smuggling of Migrants by Land, Sea and Air, Supplementing the United Nations Convention Against Transnational Organized Crime; Law No. 19 of 2011 on Ratification of Convention on the Rights of Persons with Disabilities; Law No. 6 of 2012 on Ratification of International Convention on the Protection of The Rights of All Migrant Workers and Members of Their Families; Law No. 9 of 2012 on Ratification of Optional Protocol to the Convention on the Rights of the Child on the Involvement of Children in Armed Conflict; and Law No. 10 of 2012 on Ratification of Optional Protocol to the Convention on the Rights of the Child on the Sale of Children, Child Prostitution and Child Pornography.

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

Constitutional Court Decision on Water Resources Law

On February 18, 2015, the Constitutional Court, through decision No. 85/PUU-XI/2013, determined that Law No. 7 of 2004 on Water Resources (**Law No. 7/2004**) was unconstitutional and therefore no longer valid. Several implementing regulations of Law No. 7/2004 were also seen as unconstitutional, namely: (i) Government Regulation No. 16 of 2005 on Development Drinking Water Supply Systems; (ii) Government Regulation No. 20 of 2006 on Irrigation; (iii) Government Regulation No. 42 of 2008 on Water Resources Management; (iv) Government Regulation No. 43 of 2008 on Ground Water; (v) Government Regulation No. 38 of 2011 on Rivers; and (vi) Government Regulation No. 73 of 2013 on Swamps. The Constitutional Court then ordered that Law No. 11 of 1974 on Irrigation be effective to fill the void left by the unconstitutionality of Law No. 7/2004.

On March 19, 2015, the Minister of Public Works and Public Housing issued Circular Letter No. 04/SE/M/2015 on Water Utilization Permits and Private-Public Cooperation Agreements for Pipeline Drinking Water Supply Following Constitutional Court Decision No. 85/PUU-XI/2013 (**Circular No. 04/2015**). Circular No. 04/2015 is designed to provide legal certainty on water utilization permits and private-public cooperation agreements for pipeline drinking water supply after the Constitutional Court rendered Decision No. 85/PUU-XI/2013. Circular No. 04/2015 is meant to be a guideline for governors and regents/mayors, holders of water utilization permits, and parties to private-public cooperation agreements for pipeline drinking water supply. In essence, Circular No. 04/2015 provides the following key provisions:

- Per the Constitutional Court's decision, there are six principles that government officials must bear in mind before issuing any water utilization permits or entering into private-public cooperation

agreements for pipeline drinking water supply with their private business partners, which include, among others, the state's obligation to provide the people access to water resources, priority of state- or regional-owned companies to provide water management business and environmental protection in managing water resources;

- Existing water utilization permits remain valid and are to be evaluated based on the above-mentioned principles; and
- Existing cooperation agreements remain valid and are to be evaluated based on the above-mentioned principles. Renegotiation of the terms and conditions of such agreements must be conducted if the terms and conditions are not fully aligned with the six principles of water management.

On January 25, 2016, the Minister of Public Works and Public Housing issued Regulation No. 01/PRT/M/2016 TAHUN 2016 Licensing Procedures for the Management and Utilization of Water Resources (**Regulation No. 01/2016**). Under Regulation No. 01/2016, the utilization of water resources can be implemented in the following locations: (i) specific points of a water source; (ii) specific segments along a water source; (iii) specific sections of a water source; and (iv) the entire length of a given river. Licenses for the utilization of water resources can be granted to state/regional/village-owned enterprises, private companies, cooperatives, and individuals. Meanwhile, licenses for the usage of water resources can be granted to government institutions, legal entities, social bodies, and individuals. Licenses for the utilization of water resources was given, by among other requirements: (i) the allocation of 15% of the managed water volume for the surrounding community and (ii) the setting aside of a certain profit percentage for the purpose of conservation.

Foreign Relations and International and Regional Organizations

Bilateral Diplomatic Relations and Engagement with Regional and Multilateral Organizations

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

Indonesia is a member of a number of international organizations, including the United Nations (and certain of its specialized agencies such as United Nations Economic and Social Commission for Asia and the Pacific, Food and Agriculture Organization, International Civil Aviation Organization, International Labor Organization, International Telecommunication Union, World Meteorological Organization, International Fund for Agriculture Development, World Food Program, International Maritime Organization, United Nations World Health Organization, United Nations Education, Scientific and Cultural Organization, United Nations World Tourism Organization, United Nations Office for Outer Space Affairs, United Nations Committee on the Peaceful Uses of Outer Space, United Nations Industrial Development Organization and United Nations Population Fund), the IMF, the World Bank and certain World Bank-related organizations, the ADB and the Islamic Development Bank (**IDB**).

Indonesia is a signatory to the General Agreement on Tariffs and Trade (**GATT**) 1947 and the GATT 1994, and is a member of the World Trade Organization (**WTO**). Indonesia has been a member or signatory of other international groups and agreements including, among others, ASEAN, the Asia Pacific Economic Cooperation (**APEC**) forum, Indian Ocean Rim Association for Regional Cooperation (**IOR-ARC**) and Forum for East Asia-Latin America Cooperation (**FEALAC**). Indonesia is also a partner of the Asia-Europe Meeting (**ASEM**) since 1996 and considers joining the Pacific Alliance (**PA**) as an observer.

As part of Indonesia's commitment to strengthen regional cooperation, Indonesia has strengthened its role and leadership in various regional and international organizations, including by hosting the United Nations Framework Conventions on Climate Change in Bali in December 2007, hosting and chairing the 9th WTO Ministerial Conference in Bali on December 3 – 7, 2013, and serving as a member of the International Telecommunication Union Council (**ITU**) for the term from 2010 to 2014. Elections for membership for 2014 to 2018 were held in November 2014 and Indonesia is now serving as a member of ITUC for the four year term running from 2014 to 2018.

Indonesia has been an active member of the Indian Ocean Rim Association (**IORA**), the main regional organization for the Indian Ocean, since its inception in 1997. It is now the Vice Chair of IORA for 2013-2015

working with Australia as the current Chair. Indonesia was also appointed as the future chair of IORA for a period of two years at the 12th meeting of the Council of Ministers in Gurgaon, India, and will commence its chairmanship in 2015. Indonesia sees the importance of the Indian Ocean as the world's third largest ocean and a lifeline of international trade and economy.

Indonesia was one of the 12 founding economies of the Asia Pacific Economic Cooperation (APEC) in 1989 and continues to play an important role in the APEC process. The APEC Economic Leaders' Meeting held in Bogor in 1994 gave birth to the Bogor Goal: APEC's cornerstone project that set the target of achieving open and free trade and investment by 2010 for industrialized economies and 2020 for developing economies. Indonesia hosted and chaired APEC, under the theme of "Resilient Asia-Pacific, the Engine of Global Growth" in 2013. Under Indonesia's chairmanship APEC has resolved key economic and financial issues shaping the region's future prosperity, including important policy actions related to attracting sustainable investment, promoting financial inclusion and enhancing infrastructure development for better regional connectivity. The last initiative was taken forward during APEC China 2014 through the development of an "APEC Blueprint on Connectivity" (Blueprint) and continued to be discussed at APEC Philippines 2015. It is expected that this Blueprint will strengthen and deepen Indonesia's integration in the region, improve the quality of growth and contribute to economic resilience. In addition, Indonesia is also taking forward the issue of regional cooperation architecture by further enhancing synergy and complementarity among regional and international cooperation forces. Under the SOM Process, Indonesia initiated a Guidebook on PPP Frameworks in the APEC Region as a useful reference for APEC economies in developing PPP infrastructure frameworks. The Guidebook was launched during the SOM1 2015 in Clark, Philippines.

Related to the infrastructure agenda, APEC Finance Ministers created an APEC PPP Experts Advisory Panel during the Indonesian chairmanship 2013 to develop a functioning PPP Center in the Ministry of Finance, and also to coordinate the development of a PPP center in other economies in the region at a later stage. Since the Bali meeting, a number of activities have been undertaken to support the development of the PPP Center. These activities have been undertaken in two broad areas – those designed to support the development of the PPP Center itself, and those aimed at embedding the PPP Center into the processes of the Indonesian national bureaucracy. The Indonesian PPP Center is fully functional in 2015 and aims to align PPP project development facility processes with feasibility studies preparation that is being done across Indonesian Government institutions. APEC also tasked the Panel to assist the development of PPP Center in other APEC Economies. Meanwhile, APEC Finance Ministers during the last meeting in Cebu, on September 11, 2015, agreed to look forward to the development of an APEC PPP knowledge portal that will be an online repository of PPP Infrastructure projects undertaken by APEC economies and a content guide for the compendium of standard PPP terms and practices. Finance Ministers will closely collaborate with the Global Infrastructure Hub to establish a PPP knowledge portal with the following possible preliminary contents: (i) PPP infrastructure projects undertaken by APEC economies; (ii) directory of private firms, consultants, and experts involved in PPP infrastructure projects; and (iii) financial and legal, public and private risk mitigation instruments available to infrastructure investors in the region.

Indonesia actively participates in several sub-regional cooperation forums that aim to promote the prosperity of people residing in areas closer to borders and add value to untapped potential resources. The sub-regional cooperation forums aim to improve connectivity, food security and trade facilitation. The forums also assert the protection of the environment as one of the core areas for cooperation, combined with eco-tourism. This can help ensure that the development in the sub-regions continues sustainably with the natural system. Such sub-regional cooperation forums include the Brunei-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP EAGA) and the Indonesia-Malaysia-Thailand Growth Triangle (IMT GT). These forums have served as the building blocks for other regional cooperation efforts, including ASEAN, and their projects served as a test-bed for ASEAN Connectivity projects. The most recent summits of the two groups, on April 26, 2015 for IMT-GT and April 28, 2015 for BIMP-EAGA, reaffirmed the commitment of the respective heads of state to task the technical and relevant authorities and agencies to implement the groups' priority projects and to monitor the progress of the projects.

Indonesia is also a member of the **Asia Cooperation Dialogue (ACD)**, and together with Bahrain, China, Philippines, Kazakhstan, Qatar, Laos and the United Arab Emirates, became a co-prime mover in ACD Energy Cooperation. As one of the co-prime movers, Indonesia actively engages in various activities relating to energy cooperation and since 2005 has contributed towards the finalization and endorsement of the Energy Plan of Action (**PoA**). The PoA, which was endorsed at the 12th ACD Ministerial Meeting in Manama, Bahrain on November 25, 2013, is a concrete achievement of the ACD that is aimed at promoting cooperation in relation to clean and renewable sources of energy. In respect of other regional forums, since 2002 Indonesia has been an

observer state at the Conference on Interaction and Confidence Building Measures in Asia (**CICA**). Indonesia is currently conducting an internal review of the forum's potential and exploring the feasibility of becoming a member of CICA.

In recognition of Indonesia's active role at the global level, President Yudhoyono was asked by the United Nations Secretary General to co-chair, together with President Ellen Johnson Sirleaf of Liberia and Prime Minister David Cameron of the United Kingdom, the High-Level Panel of Eminent Persons on the Post-2015 Development Agenda. The Panel started its work in July 2012 and produced a report in May 2013 which contains vision, framework and recommendations on the development agenda beyond 2015. This report is recognized as the main input for the United Nations Secretary General report to the United Nations General Assembly and for the intergovernmental process on the post-2015 development agenda facilitated by the United Nations.

On September 20, 2011, Indonesia became one of the eight founding governments, along with Brazil, Mexico, Norway, the Philippines, South Africa, the United Kingdom, and the United States, and an active member of the Open Government Partnership (**OGP**). With its current 64 members, OGP has grown rapidly as an important multilateral movement to promote transparency, empower citizens, eradicate corruption, and harness new technology to strengthen governance. Indonesia views that its active involvement within OGP, including the hosting of the OGP Asia Pacific Regional Conference in Bali on May 6-7, 2014 as OGP Government Lead Chair 2014-2015, showcases its commitment towards a transparent and credible Government.

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

The Republic has been a member of OPEC since 1962. However, since 2007, Indonesia has been a net importer of oil (determined on an annual basis). In light of the change in its status from that of a net exporter to a net importer of oil, the Government suspended its full membership in OPEC with effect from January 2009. The Government expects to increase its future oil production by attracting more investment in oil exploration and infrastructure and through the use of new technology, and expects to reactivate its OPEC membership when its production increases and it becomes a net exporter of oil again. The Government has outlined plans to rejoin OPEC in December 2015.

Indonesia is one of the five founding members of ASEAN, an organization that was established to ensure regional stability and is now committed to reducing development gaps among its member states. ASEAN now includes Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam. The ASEAN member states have entered into various agreements on mutual assistance and cooperation in several areas.

ASEAN seeks to promote its competitive edge in the world market through the elimination of intra-regional tariffs and non-tariff barriers, including through the ASEAN Free Trade Area, which was established in 1992 and was fully completed in 2002. In order to strengthen the free flow of goods, the ASEAN member states have signed the ASEAN Trade in Goods Agreement (**ATIGA**) which seeks to integrate all existing ASEAN commitments and initiatives and new measures related to trade in goods within a single comprehensive framework.

In December 1995, the ASEAN member states, including Indonesia, agreed on the ASEAN Framework Agreement on Services (**AFAS**) to eliminate substantially all restrictions on trade in services and to realize the free flow of services among member states. In 2015 all ten AMS have met the required threshold for the 9th Package of Commitments under the AFAS. Currently, ASEAN is also in the process of completing the 10th Package of Commitment of the AFAS and working towards the enhancement of the AFAS through the ASEAN Trade in Services Agreement (**ATISA**).

To speed the liberalization of financial services along with deepening financial integration in the region, and in order to meet the goals of preventing financial crises and realizing stable economic growth, the ASEAN Finance Ministers have continued the negotiation process on financial services liberalization in the region. The Protocol to Implement the Sixth Package of Financial Services Commitments was signed by the ASEAN Finance

Ministers in March 2015 and has since been in force. Negotiations for the Seventh Package commenced last year while the Protocol to Implement the Seventh Package of Financial Services Commitments is expected to complete and be signed by the ASEAN Finance Ministers in April 2016.

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

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

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

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

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

At the 27th ASEAN Summit in November 2015, ASEAN has recently made regional economic integration efforts, as demonstrated by the near completion of implementation of the ASEAN Economic Community Blueprint 2015 and the formal announcement of the establishment of the ASEAN Economic Community (AEC) 2015. AMSs will continue to work on the outstanding measures that will be implemented as a priority under the AEC post-2015 agenda for completion in 2016. ASEAN leaders also reaffirmed their strong commitment to continue the process of deepening economic integration over the next ten years under the ASEAN Economic Community Blueprint 2025. This is an ambitious successor document that outlines strategic measures and will be implemented by the region over the next ten years with the following main characteristics: (i) highly integrated and cohesive economy; (ii) competitive, innovative, and dynamic ASEAN; (iii) enhanced connectivity and sectoral cooperation; (iv) resilient, inclusive, people-oriented, and people-centered ASEAN; and (v) global ASEAN.

ASEAN continued its works on building an open ASEAN that is integrated into the global economy, focusing on implementation and upgrading of the ASEAN + 1 Free Trade Agreement. In November 2002, the ASEAN states signed an economic cooperation agreement with China, agreeing to establish the ASEAN-China Free Trade Area (ACFTA) by January 1, 2010 for six ASEAN states, including Indonesia, and by 2015 for the

other four ASEAN states. As part of these efforts, in November 2004, ASEAN and China signed the trade in goods chapter of their economic cooperation agreement.

In January 2007, ASEAN and China signed the services chapter of their economic cooperation agreement, covering more than 60 services, with the goal of increasing market access for services and service providers and expanding trade in services between ASEAN and China. The ASEAN states and China have also agreed to work together to enter into the investment chapter of their economic cooperation agreement. During 2015, ASEAN and China have been negotiating to upgrade the ACFTA with the aim to provide better market access and achieve more balanced trade between the two parties.

Indonesia took note on China's "2+7 Cooperation Framework" (which includes the 21st Century Maritime Silk Road) proposed by President Xi Jinping and the strategy of the Global Maritime Fulcrum initiated by President Joko Widodo could complement each other. As an archipelagic country, with ocean covering two-thirds of the national territory, Indonesia welcomes the ASEAN — China Maritime Cooperation Year 2015 as stipulated in the 17th ASEAN — China Summit in Nay Pyi Taw.

In November 2007, the ASEAN states (except Thailand) and the Republic of Korea signed free trade agreements on trade in goods and services. In July 2008, ASEAN and the Republic of Korea agreed to revise the final protocol on the accession of Thailand to the ASEAN-Korean free trade agreement on trade in goods and services. The agreement and its related documents were entered during the ASEAN Economic Ministers meeting in August 2008 in Singapore. In February 2009 in Hua Hin, Thailand joined and signed the Protocols on the Accession of Thailand into the Trade in Goods Agreement and Trade in Services Agreement. The ASEAN-Korea Investment Agreement was signed at the ASEAN-Korea Commemorative Summit in Jeju, Korea in June 2009. In 2015 the Third Protocol to Amend the ASEAN — Korea Trade in Goods Agreement (**AKTIG Agreement**) was signed, while the modality for further liberalization of the sensitive products was finalized.

The ASEAN states have also concluded a single-undertaking free trade agreement with Australia and New Zealand (**AANZFTA**), making it the most comprehensive agreement ever concluded by ASEAN with non-member countries. Indonesia has ratified the AANZFTA on May 6, 2011. The First Protocol to amend the AANZFTA had been signed and entered into force on October 1, 2015.

ASEAN has also concluded a trade in goods agreement with India and Japan. For ASEAN — India FTA (**AIFTA**), the Trade in Services and Investment Agreement entered into force on July 1, 2015, while the scope of the review of Trade in Goods Agreement was adopted in August 2015. For ASEAN — Japan Comprehensive Economic Partnership (**AJCEP**), efforts have been intensified to conclude, as soon as possible, negotiations for the Chapters on Trade in Services, Movement of Natural Persons, and Investment.

In 2015, ASEAN has continued its negotiations for the Regional Comprehensive Economic Partnership (**RCEP**) with ASEAN FTA Partners as well as ASEAN — Hong Kong (**AHKFTA**). The negotiations are targeted to be concluded by 2016.

ASEAN's close economic cooperation with Dialogue Partners has also continuously been pursued through the adoption, in 2015, of new Trade and Investment Cooperation Work Programs with EU, Canada, and Russia. ASEAN is also exploring the possibility of enhancing cooperation in areas such as trade and investment with the Gulf Cooperation Council (comprising Bahrain, Kuwait, Oman, Saudi Arabia, Qatar and the United Arab Emirates) and with Mercosur (comprising Brazil, Argentina, Paraguay and Uruguay).

Indonesia entered into an economic partnership agreement with Japan (the **IJEPA**), effective July 1, 2008. The IJEPA envisages cooperation between the two countries in the areas of trade in goods and services, rules of origin, customs procedures, investments, movement of natural persons, intellectual property, government procurement, competition, improvement of the business environment and the promotion of business confidence. According to Article 6 of the IJEPA, both parties agreed that the Agreement could be reviewed every five years. In 2013, Indonesia and Japan agreed to review the IJEPA. As a follow-up, the Government of Indonesia delivered the terms of references (TOR) general review of the IJEPA to the Embassy of Japan in Jakarta on April 21, 2014. The Government of Japan is currently examining Indonesia's TOR on General review of the IJEPA.

Indonesia is engaged in more than 60 investment treaties which include both bilateral and multilateral schemes. Currently, Indonesia is in the process of reviewing all existing investment treaties in order to create an

Indonesian investment agreement template. The review process started in the middle of 2013. All negotiations on investment agreements were and will temporarily be on hold until the review is completed.

The Preferential Trade Agreement (**PTA**) between Indonesia and Pakistan was signed on February 3, 2012 and ratified by Presidential Regulation No. 98 of 2012 on November 17, 2012. To enable the operation of the Pakistan PTA, the Ministry of Finance issued Regulation No. 26/PMK.011/2013 relating to the tariff Indonesia will impose as a result of the Pakistan PTA.

Negotiations between Indonesia and the Republic of Korea on the Indonesia-Korea Comprehensive Economic Partnership (**IK-CEPA**) were initiated on July 12, 2012. The negotiation process is still ongoing and the seventh round of negotiations was held in Seoul from February 25, 2014 through February 28, 2014. The parties failed to reach a consensus during this round of negotiations due to issues concerning trade goods, investment, trade in services, trade remedies, cooperation, capacity building, as well as industrial technology cooperation. The next round of negotiations has not been scheduled.

In 2011, Indonesia began actively participating in negotiations for the Indonesia-EFTA Comprehensive Economic Partnership Agreement (**IE-CEPA**) with the European Free Trade Association (**EFTA**), whose member states include Iceland, Liechtenstein, Norway and Switzerland. The negotiations focus on topics such as trade in goods, trade in services, investment, and government procurement. Initial negotiations were held in Jakarta, Indonesia, from January 31 to February 2, 2011. The following eight rounds of negotiations rotated between Indonesia and Switzerland. The ninth round of negotiations was held in Surabaya, Indonesia, from May 12-14, 2014 while the next round of negotiations has not been scheduled.

On April 18, 2011, Indonesia and Australia held a round of pre-negotiation consultations in Jakarta to discuss guiding principles for a future Indonesia-Australia Free Trade Agreement (**IAFTA**). Both countries hope to model the agreement as an Economic Partnership Agreement (**EPA**) to reflect wider cooperation between the countries' economic sectors. The first round of negotiations on the EPA was held on September 26-27, 2012 in Jakarta and focused on finalizing the guiding principles and objectives of the EPA as well as a roadmap for future work. Both countries agreed to communicate between negotiating sessions to refine the issues, and to explore scheduling future rounds of negotiations with the annual meetings of the Indonesia — Australia Working Group on Agriculture, Food and Forestry Cooperation (**WGAFFC**).

On September 24, 2011, ASEAN Finance Ministers and the President of the Asian Development Bank signed a shareholders agreement on the establishment of the ASEAN Infrastructure Fund (the **AIF**) to finance infrastructure projects across the region. As one of the largest ASEAN-led initiatives, the AIF is aimed toward mobilizing the region's resources in order to meet its growing infrastructure requirements. The Infrastructure Fund is being set up with an initial equity contribution of U.S.\$485.2 million, of which U.S.\$335.2 million came from nine ASEAN members, and the remaining U.S.\$150 million was provided by the ADB. Indonesia is the second largest ASEAN contributor with a U.S.\$120 million equity investment and became the Chair of the AIF Board of Directors from 2013 to 2015. The AIF was incorporated in Malaysia in April 2012 as a limited liability company and became fully operational in 2013. A key achievement for the AIF in 2014 was Myanmar becoming a new member of the AIF with contribution of U.S.\$100 million, thereby resulting in all ASEAN members being shareholders of the AIF with the equity contribution commitments from the ASEAN members and ADB being at U.S.\$485.3 million. The AIF is expected to finance up to U.S.\$300 million a year for various projects for the development of energy, transportation, water sectors, and other critical infrastructure. Projects are selected based on sound economic principles and financial rates of return and their potential impact on poverty reduction.

On June 29, 2015, Indonesia signed the Articles of Agreement on the Establishing of the Asian Infrastructure Investment Bank (**AIIB**). The Bank has 57 prospective founding members (**PFMs**) which are divided into regional and non-regional members. This Bank aims to (i) foster sustainable economic development, create wealth and improve infrastructure connectivity in Asia by investing in infrastructure and other productive sectors; and (ii) promote regional cooperation and partnership in addressing development challenges by working in close collaboration with other multilateral and bilateral development institutions.

The ASEAN+3 group has also formed the East Asia Business Council, which cooperates on energy and non-traditional security issues, and since April 2005 has undertaken a study on the feasibility of an ASEAN+3 free trade arrangement, which would create a market of almost two billion people and would be the largest in the world.

In May 2010, the ASEAN+3 endorsed the establishment of the Credit Guarantee and Investment Facility (**CGIF**) as a trust fund under the ADB with an initial capital of U.S.\$700 million. CGIF aims to develop and

strengthen local currency and regional bond markets so that investment-grade rated corporations can access those markets and avoid currency and maturity mismatches. After the endorsement, CGIF started operating in 2012. Indonesia serves as one of the CGIF Board of Directors, representing ASEAN Member States. As part of CGIF operations, some Indonesian companies had tapped into the CGIF facility for their bond issuances. This helps the economy increase private investment and supports the authority's efforts to deepen the financial market.

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

At the most recent meetings (May 3, 2014, in Kazakhstan and May 3, 2013, in India), ASEAN+3, Finance Ministers and Central Bank Governors reiterated the commitment to further strengthen the CMIM as part of the regional financial safety net. ASEAN+3 is also considering ways to seek an effective cooperative relationship with the International Monetary Fund (IMF) and other multilateral financial institutions in the areas of surveillance, liquidity support arrangement and capacity development. At a national level, Indonesia promotes alignment between CMIM procedures and national procedures to enhance the effectiveness and efficiency of national crisis management.

ASEAN+3 Macroeconomic Research office (**AMRO**) was established in Singapore in April 2011 by ASEAN+3, as an independent regional surveillance unit to monitor and analyze regional economies and support CMIM decision-making. To further consolidate the endeavor, ASEAN+3 Finance Ministers and Central Bank Governors have agreed to transform AMRO to an international organization. This marks an important milestone in members' joint efforts to enhance the effectiveness of the financial cooperation among ASEAN+3 countries. AMRO will also further enhance cooperation with relevant multilateral and regional financial institutions including the Asian Development Bank (**ADB**), the IMF, and the Bank for International Settlements (**BIS**), particularly in areas which will bolster the institutional capacity of AMRO. The AMRO Agreement was signed on October 10, 2014 in Washington D.C. at the IMF/World Bank Annual Meeting.

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

China has established a mission to ASEAN and appointed its first resident ambassador to ASEAN in 2012. As of October 31, 2014 there were 81 accredited ambassadors to ASEAN from non-member countries. ASEAN also established 34 ACTCs (ASEAN Committee in Third Countries) which consist of ASEAN member state ambassadors in appointed non-member countries. These accomplishments show the strengthening of ASEAN cooperation both internally and externally.

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

The Government has also entered into avoidance of double taxation agreements with 63 countries and regions, including agreements with Hong Kong, Croatia and Morocco, which entered into force on January 1, 2013.

The following table shows Indonesia's capital participation in major international financial organizations as of June 30, 2015.

Capital Participation in International Financial Organizations

Name of organization	Date of admission	As of June 30, 2015 contributed capital	
		Subscribed (in millions of U.S. dollars)	Paid in
Asian Development Bank (ADB)	1966	8,878.9	406.6
International Monetary Fund ⁽¹⁾	1967 ⁽²⁾	3,214.4	2,924.3
World Bank Group			
International Bank for Reconstruction and Development (IBRD)	1966 ⁽²⁾	1,807.2	152.9
International Development Association (IDA)	1968	16.1	15.6
International Finance Corporation (IFC)	1968 ⁽³⁾	30.1	31.6
Multilateral Investment and Guarantee Agency (MIGA)	1986	20.0	3.8
Bank Pembangunan Islam (IDB) ⁽⁴⁾	1975	628.4	174.8
International Islamic Trade Finance Corporation (ITFC)	1992	2.1	2.1
The Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC)	1992	0.4	0.2
International Fund for Agricultural Development (IFAD)	1977	62.0	57.9
Common Fund for Commodities (CFC)	1980	1.5	1.4
The Islamic Corporation for the Development of the Private Sector (ICD)	1992	9.5	7.1
Credit Guarantee and Investment Facility	2012	12.6	12.6
ASEAN Infrastructure Fund ⁽⁵⁾	2012	120.0	120.0

Source: Ministry of Finance

- (1) Denominated in SDR of the IMF. Converted to U.S. dollars using the exchange rate on September 30, 2014 of U.S.\$1.545890 to SDR 1.
- (2) Before Indonesia rejoined the IMF and The International Bank for Reconstruction and Development in 1967 and 1966, it had become a member of these organizations in 1954 and had resigned its memberships in 1965.
- (3) Before Indonesia rejoined the International Finance Corporation in 1968, it had become a member in 1956 and had resigned its membership in 1961.
- (4) Denominated in Islamic dinars, or ID (ID 1 = SDR 1). See footnote (1) above.
- (5) As of January 2015.

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.

In 2015, Indonesia continued its active participation in 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 in Addis Ababa, Ethiopia, from July 13 to 16, 2015, the United Nations Sustainable Development Summit in New York, United States of America, from September 25 to 27, 2015, the G-20 Summit in Antalya, Turkey, from November 15 to 16, 2015, and will be an active participant at the 21st session of the Conference of the Parties of the United Nations Framework Convention on Climate Change in Paris, France, from November 30, 2015 to December 11, 2015.

In recognition of Indonesia's active role in reducing hunger and malnutrition in the country as mandated by the Millennium Development Goals (MDGs), the Government of the Republic of Indonesia received an award from the United Nations Food and Agriculture Organization (FAO) 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.

During the visit of President Joko Widodo to the United States of America on October 25, 2015, it was announced that Indonesia has intentions to join the Trans Pacific Partnership (TPP). Signed by its twelve

members on October 5, 2015, the TPP is a comprehensive free trade agreement with the main objective of not only liberalizing trade, investment, and services, but also in setting the rules in other sectors such as in intellectual property rights, environment, transparency and anti-corruption, labor, government procurement, competition policy, and state-owned enterprises.

The ASEAN Member states are awaiting developments regarding a possible free trade agreement with the European Union, and are exploring the possibility of enhancing cooperation in areas such as trade and investment with the Gulf Cooperation Council (comprising Bahrain, Kuwait, Oman, Saudi Arabia, Qatar and the United Arab Emirates) and with Mercosur (comprising Brazil, Argentina, Paraguay, Venezuela and Uruguay).

Indonesia and Australia signed the “Joint Understanding on a Code of Conduct (the **CoC**) between the Republic of Indonesia in the implementation of the agreement between the Republic of Indonesia and Australia on the Framework for Security Cooperation” in Bali, on August 28, 2014. The signing signified the close and strong relations between Indonesia and Australia. The CoC 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 exercise and cooperation against human trafficking have been restored.

Indonesia and China held the view that the initiative of the 21st Century Maritime Silk Road proposed by President Xi Jinping and the strategy of the Global Maritime Fulcrum initiated by President Joko Widodo are highly complementary to each other. The two sides agreed to synergize them to each other’s advantages, strengthen strategy and policy communications, advance maritime infrastructure connectivity, deepen cooperation in industrial investment and major project construction, enhance practical cooperation in maritime economy, maritime culture and maritime tourism, so as to develop a Maritime Partnership together.

Ongoing Delimitation Issue with Malaysia

Indonesia and Malaysia have been conducting negotiations regarding the delimitation of the two countries’ maritime boundaries in the Technical Meeting on Maritime Delimitation. The most recent discussion occurred in December 2012 during the ninth annual consultation between Indonesia and Malaysia. The technical meetings were a continuation of maritime delimitation negotiations conducted by the two countries since 1969.

The negotiations in the Technical Meeting on Maritime Delimitation between Malaysia and Indonesia pertain to the exclusive economic zone in the Malacca Strait, the territorial sea in the southern part of the Malacca Strait, the South China Sea (exclusive economic zone) and the Sulawesi Sea (territorial sea (exclusive economic zone) and continental shelf).

The 27th Technical Working Group on Maritime Delimitation between Indonesia and Malaysia took place during December 2014.

Natural Disasters and Infections

Mudflow Accident at Sidoarjo, East Java

In May 2006, a drilling accident occurred at a gas exploration site near Sidoarjo, East Java, resulting in a mudflow of approximately 100,000 to 120,000 cubic meters per day. As of December 15, 2014, the mudflow has not abated and continues at a rate of 30,000 to 50,000 cubic meters per day. The mudflow rate has remained relatively consistent since 2012. The site is located in the Brantas block, which is owned jointly by Lapindo Brantas, Inc. (**Lapindo**) (50.0% interest), a subsidiary of PT Energi Mega Persada Tbk; PT Medco E&P Brantas (32.0% interest), PT Medco E&P Brantas (32.0% interest), a subsidiary of PT Medco Energi International Tbk; and Santos Ltd. of Australia (18.0% interest).

In September 2006, the Government formed a task force to oversee the response to this disaster. On April 8, 2007, President Yudhoyono issued Presidential Regulation No. 14 of 2007 establishing a permanent board, called the Sidoarjo Mudflow Management Board (*Badan Penanggulangan Lumpur Sidoarjo* or **BPLS**), to replace this task force. The BPLS has been mandated with the task of arranging for the reconstruction and rehabilitation of areas adversely affected by the mudflow including the reconstruction of affected infrastructure. Presidential Regulation No. 14 of 2007, as amended by Presidential Regulation No. 48 of 2008, also provided that the Government would bear certain costs resulting from the mudflow, including the cost of relocating a toll road, power lines and gas pipelines from the areas now inundated by mud. The Presidential Regulation No. 40 of 2009 on the Second Amendment to Presidential Regulation No. 14 of 2007 shifts the financial and execution

responsibility of flowing the mud from the affected area to the Porong River from Lapindo to BPLS. In 2011, the Presidential Regulation No. 68 of 2011 on the Third Amendment to Presidential Regulation No. 14 of 2007 asserts such compensation will be made gradually with a specific scheme.

From January 2008 to October 31, 2015, the Government spent approximately Rp5.58 trillion in public funds for a variety of relief, rehabilitation and construction efforts. Such efforts included providing land compensation, constructing a mud reservoir, building new roadways, building drainage and irrigation canals, providing social assistance to affected people (including temporary living, evacuation and house rental assistance) and financing certain geological investigations and socio-economic studies in disaster-affected areas.

For 2013, the Government allocated Rp2.05 trillion to continue the above-mentioned construction and relief efforts. Due to decreasing development activities after the completion of a main arterial road, the Government lowered this allocation to Rp845 billion for 2014. This has been further reduced to Rp843 billion in the 2015 Budget. For 2016, the Government allocated Rp500 billion. The Government estimates that the total direct and indirect losses resulting from the mudflow disaster could reach approximately Rp33.0 trillion. The main targeted BPLS activities are expected to be completed by the end of 2019. Such activities include full compensation for all of the affected households, construction of a mud-dike and its accessories, a new main road, and a pipeline for primary clean water conveyance, among others. Presidential Regulation No. 37 of 2012 on The Fourth Amendment to Presidential Regulation No. 14 of 2007 states that the Government decided to compensate the affected people in the area currently unsuitable for settlement, which will involve relocating approximately 4,600 households (approximately 16,000 people), at an expected total cost of approximately Rp4 trillion. Presidential Regulation No. 33 of 2013 has been issued as the Fifth Amendment to Presidential Regulation No. 14 of 2007 that further clarifies and amends areas for management of mudflow outside the affected area map of March 22, 2007 as contemplated by Presidential Regulation No. 14 of 2007 and provides certainty on settlement of gradual compensation.

Other Natural Disasters

Indonesia has suffered several other natural disasters in recent years, including earthquakes and flooding.

In 2010, there were three large-scale natural disasters. The first was a flash flood in the Gulf Wondama, West Papua where as many as 170 people died with total damages and losses of Rp280.6 billion. This was followed by an earthquake and tsunami in the Mentawai Islands, West Sumatra with a 447 deaths and total damages and losses of Rp3.8 trillion. The eruption of Mount Merapi in Central Java and D.I. Yogyakarta claimed the lives of 386 victims and total damage and losses were estimated at approximately Rp3.6 trillion.

In July 2013, an earthquake in Aceh resulted in 35 deaths and 2,418 injuries. Following the earthquake 48,563 people were evacuated. The provincial government set aside a relief fund of approximately U.S.\$8 million while the Indonesian National Board for Disaster Management contributed a further U.S.\$4 million towards emergency responses. The President also announced a system of grants for owners suffering damage to their houses, ranging between U.S.\$1,000 to U.S.\$4,000. Flooding and landslides in North Sulawesi in 2014 resulted in total damages and losses of Rp1.44 trillion with reconstruction estimated at Rp677.24 billion. Mount Sinabung in North Sumatra remains active. As of January 2014, there have been 37 recorded deaths with 33,210 people being evacuated resulting in an estimated loss of Rp1.8 trillion.

In February 2014, Mount Kelud in East Java erupted affecting East Java, Central Java and the D.I. Yogyakarta areas. As a result of the eruption, 25,151 people were evacuated with seven recorded deaths and 1,423 injuries, resulting in an estimated loss of Rp1.2 trillion.

On December 12, 2014, a landslide occurred in Banjarnegara, Central Java as a result of heavy rainfall in the area. There were 95 recorded deaths and 13 people recorded missing. The Head of Data and Information Center of National Disaster Mitigation Agency (*Badan Nasional Penanggulangan Bencana*) ceased the search for victims on December 21, 2014. The incident resulted in the relocation of 1,225 villagers to Karangobar village, 613 villagers to Punggerlan village, 120 to Wanayasa village and 50 to Banjarmangu village. The administration has also provided 1,000 hectares in Ambal village in Karangobar, Banjarnegara, for 35 families to be relocated to. The Government's current priority is to relocate villagers whose houses were affected by the landslide.

In June 2015, the Mount Sinabung volcano in Sumatra erupted, spewing lava and ash. Twelve villages were evacuated, displacing more than 10,000 people. The Government made it a priority to relocate villagers who were affected by the eruption.

The Government allocated Rp4 trillion for post-natural disaster relief efforts, rehabilitation and reconstruction under the Revised 2015 Budget.

Avian Influenza

The first human case of avian influenza in Indonesia was detected in July 2005. As of December 31, 2014, the Government reported 197 confirmed human cases of the disease in Indonesia, including 165 deaths. In spite of the implementation of avian influenza prevention and control measures, outbreaks in animals, particularly in birds, and in humans are expected to occur from time to time, as long as avian influenza remains endemic in many provinces in Indonesia. Human cases are, however, decreasing with 55 cases in 2006, 42 cases in 2007, 24 cases in 2008, 21 cases in 2009, nine cases in 2010, 12 cases in 2011, nine cases in 2012, three cases in 2013 and two cases in 2014. To date, no human-to-human transmission of the avian influenza virus has been confirmed in Indonesia.

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

The Government has taken several steps in influenza pandemic preparedness and response such as: (i) providing and strengthening 100 influenza referral hospitals; (ii) strengthening epidemiology and virology laboratories; (iii) implementing sentinel and routine surveillance; (iv) conducting vaccine development, (v) carrying out ecology and transmission, clinical spectrum, disease management and molecular genetic as well as antigenic research; (vi) conducting risk communication programs; (vii) implementing training exercises; (viii) establishing command and coordination procedures; (ix) mobilizing and stockpiling logistics; and (x) producing the generic antiviral drug, oseltamivir.

Middle East Respiratory Syndrome Corona Virus (MERS-CoV)

As of October 31, 2015, there were no confirmed reports of MERS-CoV in Indonesia. Out of 199 suspected cases occurring across 22 provinces in Indonesia, laboratory testing confirmed 196 negative results, while there are no available samples for two of the cases and one case with a sample that could not be tested. Worldwide, the World Health Organization indicated that as of April 23, 2015 MERS-CoV has been identified in as many as 22 countries with a total 941 cases. While there is currently no vaccine available or any specific medication available for the treatment of MERS-CoV, the Government has nonetheless taken several steps to ensure readiness to respond to any outbreak of MERS-CoV in Indonesia, including: (i) increased monitoring of entry points to Indonesia and the distribution of information pamphlets; (ii) increased surveillance of epidemiology; (iii) notification to provincial health agencies to prepare for MERS-CoV; (iv) notification to hospitals for readiness in encountering MERS-CoV and implementation of measures to counteract MERS-CoV; (v) increased laboratory readiness including the provision of diagnostic kits; (vi) increased inter-program and inter-sectoral coordination among the BNP2TKI, Ministry of Transportation, Ministry of Region, Ministry of Foreign Affairs and other ministries concerning readiness to encounter MERS; and (viii) increased international cooperation through the World Health Organization.

Economy and Gross Domestic Product

Introduction

Indonesia has a balanced and diversified economy with manufacturing, trade; agriculture, forestry and fishing; and wholesale and retail trade; repair of motor vehicles and motorcycles principal sectors. In 2011, 2012, 2013, 2014 and 2015, the manufacturing sector accounted for the largest portion of GDP (21.0% in 2014 and 20.8% in 2015 using current market prices followed by agriculture, forestry and fishing (13.4% in 2014 and 13.1% in the third quarter of 2015, using current market prices), wholesale and retail trade; repair of motor vehicles and motorcycles (13.4% in 2014 and 13.3% in the third quarter of 2015, using current market prices) and mining and quarrying (9.8% in 2014 and 7.9% in the third quarter of 2015, using current market prices). The

main challenges currently facing Indonesia's economy include uncertainty in relation to the global economic recovery and in relation to commodity prices, both of which are crucial factors in determining the Republic's export performance. Furthermore, the level of imports declined as a result of the Republic's reduced export performance and reduced expenditure on new infrastructure projects. Domestically, there are several risks which could influence the rate of inflation, including inflationary pressures from increases in fuel and LPG prices, in addition to increases resulting from the burden of serving external debt amongst limited market liquidity.

As a result of recent changes in crude oil prices, the Government changed its budgetary assumptions relating to crude oil under its Revised 2015 Budget.

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

Selected Key Economic Indicators

	Year Ended December 31,					
	2011 ^L	2012 ^L	2013 ^L	2014 ^L	2015 ^P	2016 ^B
National account and prices:						
Real GDP growth	6.2%	6.0%	5.6%	5.0%	4.8%	5.3%
Per capita GDP (in thousands of Rupiah)	32,364	35,105	38,365	41,900	45,176	N/A
Per capita GDP (in U.S. dollars) ⁽¹⁾	3,692	3,741	3,677	3,531	3,377	N/A
Average exchange rate (Rupiah per U.S. dollar) ⁽²⁾	8,776	9,358	10,455	11,876	13,392	13,900
Inflation rate (change in CPI) ⁽³⁾	3.8%	4.3%	8.4%	8.4%	3.4%	4.7%
External sector:						
Current account surplus/(deficit) (% of GDP) ⁽⁴⁾	0.2%	(2.7)%	(3.2)%	(3.1)%	(2.1)%	N/A
Fiscal account:						
Budget surplus/(deficit) (% of GDP)	(1.1)%	(1.9)%	(2.3)%	(2.3)%	(2.5)%	(2.2)%
External debt of the central Government (in trillions of Rupiah)	815.9	879.7	1,111.6	1,130.9	N/A	1,476.0
Debt service ratio (% of Government revenue)	18.8%	20.5	19.0	23.9	N/A	25.2

Source: BPS, Bank Indonesia and Ministry of Finance

^L LKPP (Central Government Financial Report/Audited)

^B Budget

^P Preliminary

(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: Rp8,766 per U.S. dollar for 2011, Rp9,384 per U.S. dollar for 2012, Rp10,463 per U.S. dollar for 2013, Rp11,868 per U.S. dollar for 2014, and Rp13,392 per U.S. dollar for 2015. 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 2015 which was based on Bank Indonesia's calculation.

(3) Inflation rate calculated on a year-on-year basis.

(4) Current account for the relevant period published by Bank Indonesia in Indonesia's balance of payments report.

N/A Not Available.

Gross Domestic Product

Indonesia has made substantial progress towards achieving macroeconomic stability and reducing the economy's sensitivity to external shocks, following which real GDP grew by 6.2% in 2011, 6.0% in 2012, 5.6% in 2013, 5.0% in 2014 and 4.8% in 2015.

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

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

	Year Ended December 31,									
	2011	%	2012	%	2013	%	2014 ^P	%	2015 ^P	%
(in billions of Rupiah and percentage of GDP)										
GDP	7,831,726	100	8,615,704.5	100	9,524,926.5	100	10,592,693.5	100	11,540,800.0	100.0
Add: Imports of goods and services	1,868,075	23.9	2,152,937	25	2,359,212	24.8	2,580,527	24.5	1,791,421	20.9
Total supply of goods and services	9,699,801	123.9	10,768,642	125	11,883,949	124.8	13,123,221	124.5	10,365,708	120.9
Less: Exports of goods and services	2,061,886	26.3	2,118,979	24.6	2,283,761	24	2,501,202	23.7	1,837,367	21.4
Total domestic expenditure ...	7,637,915	97.5	8,649,663	100.4	9,600,188	100.8	10,622,019	100.8	8,528,341	99.5
Allocation of total domestic expenditure:										
Household consumption expenditure	4,260,076	54.4	4,768,745	55.3	5,352,697	56.2	5,911,165	56.1	4,735,741	55.2
NPISHs consumption expenditure	80,530	1	89,586	1	103,930	1.1	124,509	1.2	96,143	1.1
Government consumption expenditure	709,451	9.1	796,848	2	904,996	9.5	1,005,400	9.5	727,187	8.5
Total consumption	5,050,056	64.5	5,655,179	65.6	6,361,622	66.8	7,041,074	66.8	5,559,071	64.8
Gross domestic fixed capital formation	2,451,914	31.3	2,819,027	32.7	3,059,781	32.1	3,434,125	32.6	2,790,201	32.5
Change in inventories (residual) ⁽¹⁾	135,945	1.7	175,457	2	178,785	1.9	146,820	1.4	179,069	2.1
Total domestic expenditure ...	7,637,915	97.5	8,649,663	100.4	9,600,188	100.8	10,622,019	100.8	8,528,341	99.5

Source: Ministry of Finance Pers News dated January 27, 2016

^P Preliminary

(1) Includes statistical discrepancies.

In 2011, economic growth slowed to 6.2%, primarily due to increased import of goods and services, export of goods and services, and gross domestic fixed capital formation of 15.0%, 14.8%, and 8.9%, respectively. The information and communication, wholesale and retail trade; repair of motor vehicles and motorcycles, human health and social work activities, business services activities, construction, and transportation and storage sectors grew at rates higher than the overall real GDP growth rate in 2011, at 10.0%, 9.7%, 9.3%, 9.2%, 9.0%, and 8.3%, respectively.

In 2012, economic growth slowed to 6.0%, primarily due to increased gross domestic fixed capital formation, import of goods and services, and Non Profit Institutions Serving Households (NPISHs) consumption of 9.1%, 8.0%, and 6.7%, respectively. The information and communication, electricity and gas supply, financial and insurance activities, and education sectors grew at rates higher than the overall real GDP growth rate in 2012, at 12.3%, 10.1%, 9.5%, and 8.2%, respectively.

Indonesia's real GDP grew by 5.6% in 2013 primarily due to increased Non Profit Institutions Serving Households (NPISHs) consumption, government consumption, and household consumption of 8.2%, 6.9%, and 5.4%, respectively. The information and communication, financial and insurance activities, transportation and storage and education sectors grew at rates higher than the overall real GDP growth rate in 2013, at 10.4%, 9.1%, 8.4%, and 8.2%, respectively.

Indonesia's real GDP grew by 5.0% in 2014, primarily due to increased Non Profit Institutions Serving Households (NPISHs) consumption, household consumption, and gross domestic fixed capital formation of 12.4%, 5.1%, and 4.1%, respectively. The information and communication and business services activities sectors grew at rates higher than the overall real GDP growth rate in 2014, at 10.0% and 9.8%, respectively.

Indonesia's real GDP grew by 4.8% in 2015, primarily due to increased government consumption, gross domestic fixed capital formation, and household consumption of 5.4%, 5.1%, and 5.0% respectively. The

information and communication, financial and insurance services, transportation and storage, construction and others services sectors grew at rates higher than the overall real GDP growth rate in 2015, at 10.1%, 8.5%, 6.7%, 6.6% and 8.1%, respectively. The manufacturing, agriculture, forestry and fishing, and wholesale and retail trade sectors grew at rates lower than the overall real GDP growth rate for 2015, at 4.2%, 4.0%, and 2.5% (at current market prices), respectively while the mining industries sector experienced a negative growth rate of 5.1%.

Inflation

Inflation targets are set periodically by the Government. Under Law No. 23 of 1999 on Central Bank, as amended by Law No. 6 of 2009 (the **Central Bank Law**) it is the main task of the central bank, Bank Indonesia, to achieve and maintain stability in the Rupiah's value. The Government targeted an inflation rate of 4.5% ($\pm 1.0\%$) in 2014 and is targeting an inflation rate of 4.0% ($\pm 1.0\%$) in 2015. In order to maintain the purchasing power of low-income households, the Government administers or influences prices for key goods and services, including fuel, rice, crude palm oil, soybeans, fertilizers, electricity, telephone service and water, through the use of subsidies, VAT exemptions, export taxes, limitations on imports and other regulatory measures.

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

Changes in Consumer Price Index

	Year Ended December 31,				
	2011	2012	2013	2014	2015
CPI	129.9 ⁽¹⁾	135.5 ⁽¹⁾	146.8 ⁽¹⁾	119.0 ⁽²⁾	123.0 ⁽²⁾
Annual percentage year-on-year	3.8%	4.3%	8.4%	8.4%	3.35%

Source: BPS

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

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

The following table shows the inflation rate (change in CPI) for groups of commodities for the periods indicated, in each case on a year-on-year basis.

Inflation by Commodity

	Year Ended December 31,				
	2011	2012	2013	2014	2015
Overall inflation	3.8%	4.3%	8.4%	8.4%	3.35%
Food	3.6%	5.7%	11.4%	10.6%	4.93%
Processed food, beverages and cigarettes	4.5%	6.1%	7.4%	8.1%	6.42%
Housing and utilities	3.5%	3.4%	6.2%	7.4%	3.34%
Clothing	7.6%	4.7%	0.5%	3.1%	3.43%
Health	4.3%	2.9%	3.7%	5.7%	5.32%
Education, recreation and sports	5.2%	4.2%	3.9%	4.4%	3.97%
Transportation and communication	1.9%	2.2%	15.4%	12.1%	-1.53%

Source: BPS

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

In 2011, annual inflation was 3.8%. Substantial increases in clothing prices contributed to the increase in the inflation rate, with clothing prices 7.6% higher on average compared to prices in 2010. Prices for education in 2011 rose by 5.2% compared to prices in 2010, prices for foodstuffs rose by 3.6%, prices for processed foods, beverages, cigarettes and tobacco rose by 4.5%, prices for health services rose by 4.3%, prices for housing and utilities rose by 3.5%, and prices for transportation and communication rose by 1.9%.

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

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

In 2014, annual inflation was 8.4% which was in line with the 2013 inflation rate. Substantial increases in transportation and communication prices contributed the greatest increase in the inflation rate, with prices that were 12.1% higher on average compared to prices in 2013. Compared to 2013 levels, 2014 prices for food rose by 10.6%, prices for processed food, beverages, cigarettes and tobacco rose by 8.1%, prices for housing rose by 7.4%.

In 2015, annual inflation was 3.35%, which was significantly lower than the 2014 inflation rate. Transportation and communication prices decreased in 2015, with deflation recorded at 1.53% (year-on-year). Compared to 2014 levels, prices in 2015 for processed food, beverages, cigarettes and tobacco rose by 6.42%, prices for health rose by 5.32%, and prices for food rose by 4.93%.

Privatization of State-Owned-Enterprises

The sale by the Government of state-owned-enterprise 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 state-owned-enterprises. The following table sets forth significant state-owned-enterprises that have been fully or partially privatized or further privatized from 1998 to December 31, 2015, the Government's interest in the state-owned-enterprise after the sale and the proceeds to the Government and to the state-owned-enterprises, respectively, from the sales of the Government's shares:

State-Owned-Enterprise Privatizations

State-Owned-Enterprise	Year of offering	Government equity interest after offering (percentages)	Proceeds to the Government (in billions of Rupiah (Rp) and millions of U.S. dollars (U.S.\$))	Proceeds to state-owned-enterprise
PT Semen Gresik (Persero) Tbk	1998	51.0	Rp1,317	—
PT Jakarta International Container Terminal ⁽¹⁾	1999	49.0	—	U.S.\$190.0
PT Terminal Petikemas Surabaya ⁽¹⁾	1999	51.0	—	U.S.\$173.7
PT Telekomunikasi Indonesia (Persero) Tbk	1999	66.2	Rp3,188	—
	2001	54.3	Rp3,100	—
	2002	51.2	Rp1,100	—
PT Kimia Farma (Persero) Tbk	2001	90.8	—	Rp110
PT Indofarma (Persero) Tbk	2001	80.2	—	Rp150
PT Socfin Indonesia ⁽²⁾	2001	10.0	U.S.\$45	—
PT Indonesian Satellite Corporation Tbk	2002	14.4	U.S.\$608	—
			Rp967	—
PT Tambang Batubara Bukit Asam (Persero) Tbk	2002	84.0	Rp159	Rp16
	2004	65.0	Rp180	—
PT Wisma Nusantara Indonesia ⁽²⁾	2002	—	Rp255	—
PT Bank Mandiri (Persero) Tbk	2003	80.0	Rp2,547	—
	2004	70.0	Rp2,844	—
	2011	60.0	Rp389.5 ⁽⁴⁾	Rp11,684
PT Indocement Tungal Prakarsa Tbk ⁽²⁾	2003	—	Rp1,157	—
PT Bank Rakyat Indonesia (Persero) Tbk	2003	56.8	Rp2,472	Rp1,537
PT Perusahaan Gas Negara (Persero) Tbk	2003	65.5	Rp935	Rp1,163
	2004	61.0	Rp306	Rp16
	2006	54.6	Rp2,088	—
PT Pembangunan Perumahan (Persero) Tbk	2004	51.0	Rp60	—
	2010	51.0	—	Rp566
PT Adhi Karya (Persero) Tbk	2004	51.0	Rp65	Rp63
PT Bank Negara Indonesia (Persero) Tbk	2007	76.4	Rp3,086	Rp3,854
	2010 ⁽³⁾	73.3	Rp1,355	—
	2010 ⁽⁴⁾	60.0	Rp741.6	Rp10,216
PT Wijaya Karya (Persero) Tbk	2007	68.3	—	Rp766
PT Jasa Marga (Persero) Tbk	2007	70.0	—	Rp3,362
PT Bank Tabungan Negara (Persero) Tbk	2009	72.9	—	Rp1,819
	2012 ⁽⁴⁾	60.0	Rp135.9	Rp1,870
PT Krakatau Steel (Persero) Tbk	2010	80.0	—	Rp2,593
PT Kertas Blabak ⁽²⁾	2010	—	Rp0.5 ⁽³⁾	—
PT Intirub ⁽²⁾	2010	—	Rp7.0 ⁽³⁾	—
PT Garuda Indonesia (Persero) Tbk	2011	69.1	—	Rp3,187
	2014 ⁽⁴⁾	60.5	Rp11.2 ⁽⁴⁾	Rp1,448.9
PT Kertas Basuki Rachmat ⁽²⁾	2011	—	Rp2.6 ⁽³⁾	—
PT Atmindo ⁽²⁾	2011	—	Rp9.0 ⁽³⁾	—
PT Jakarta International Hotel Development, Tbk ⁽²⁾	2011	—	Rp18.5 ⁽³⁾	—
PT Waskita Karya (Persero) Tbk	2015	66.07	—	Rp5,289
PT Semen Baturaja (Persero) Tbk	2013	76.2	—	Rp1,309
PT Sarana Karya ⁽⁵⁾	2013	—	Rp48.2	—
PT Kertas Padalarang ⁽⁶⁾	2013	—	Rp12.1	—
PT Waskita Karya (Persero) Tbk	2015 ⁽⁷⁾	66.07	—	Rp5,289
PT Aneka Tambang (Persero) Tbk	2015 ⁽⁷⁾	65	—	Rp5,381 ⁽⁸⁾
PT Adhi Karya (Persero) Tbk	2015 ⁽⁷⁾	51	—	Rp2,727 ⁽⁸⁾

Source: Ministry of State-Owned-Enterprises

- (1) Subsidiary of state-owned-enterprise.
- (2) Minority Ownership by Government.
- (3) Sale of unsold shares from 2007.
- (4) Rights issue through the issuance of new shares.
- (5) Pursuant to Government Regulation No.91 of 2013, sales of shares held by the Republic state shares in PT Sarana Karya have been made using strategic sales method to PT Wijaya Karya (Persero), Tbk. with total gross proceeds of Rp50 billion on December 31, 2013.
- (6) Pursuant to Government Regulation No.35 and 36 of 2013, sales of shares held by the Republic in PT Kertas Padalarang have been made using strategic sales method to Perum Peruri with total gross proceeds of Rp13 billion on December 18, 2013.
- (7) Rights issues carried out through the execution of pre-emptive rights using the addition of State Capital Investment Fund (PMN) from Government.
- (8) Subject to the ongoing verification of costs associated with privatization.

In 2013, the Government's privatization program was planned to include: (i) a rights issue of PT Aneka Tambang (Persero), Tbk; (ii) the five state-owned-enterprise privatization proposals carried over from 2012; and (iii) three state-owned-enterprise privatization proposals for PT Sarana Karya (Persero), PT Primmisima (Persero) and PT Kertas Padalarang carried over from 2010. PT Semen Baturaja (Persero)'s initial public offering was completed and the shares were successfully listed on the Indonesia Stock Exchange on June 23, 2013.

As of March 31, 2014, the Government's privatization program was planned to include PT Primmisima, PT Prasadha Pamunah Limbah Industri, PT Perkebunan Nusantara V, and PT Perkebunan Nusantara VII.

In 2014, the Coordinating Minister For the Economy by the Referral Privatization Committee letter No. S-23/M.EKON/01/2014 dated January 30, 2014 and the Ministry of Finance Recommendation Letter No. S-71/MK.06/2014 dated February 4, 2014 approved the recommendation to conduct the Initial Public Offering (**IPO**) of two state-owned-enterprises, namely PT Perkebunan Nusantara V (Persero) and PT Perkebunan Nusantara VII (Persero) by offering 40% new shares (unsubscribed). The execution of these IPOs has been postponed pending Presidential approval.

In 2014, PT Garuda Indonesia conducted a rights issue, as a follow up to the Garuda Indonesia IPO in 2011. PT Garuda Indonesia issued 3,227,930,633 class B series shares amounting to 12.48% from the enlarged capital. The rights issue achieved Rp460.00/share and the placement achieved Rp465.00/share, resulting in the non state owned rights issue shares obtaining Rp5.00/share. The net proceeds of PT Garuda Indonesia shares amounted to Rp1,448.9 billion, and the non state owned rights issue proceeds resulted in Rp11.16 billion (these numbers are subject to the ongoing verification of costs associated with privatization).

In 2015, the Coordinating Minister for the Economy by Referral Privatization Committee letter No. S-29.1/M.EKON/01/2015 dated January 30, 2015 and the Ministry of Finance Recommendation Letter No. S-62/MK.06/2015 dated January 28, 2015 recommended the approval by State-Owned Enterprises (**SOEs**) Annual Privatization Program of the proposed rights issues by four SOEs, namely PT Adhi Karya (Persero) Tbk, PT Waskita Karya (Persero) Tbk, PT Aneka Tambang (Persero) Tbk and PT Bank Mandiri (Persero) Tbk, with the terms of the rights issues carried out through the execution of pre-emptive rights using the addition of State Capital Investment fund (**PMN**).

With regard to the addition of PMN to execute pre-emptive rights in the rights issue of the four SOEs, Indonesia's House of Representative (**DPR**) approved the addition of PMN to: (i) PT Waskita Karya (Persero) Tbk; (ii) PT Adhi Karya (Persero) Tbk; and (iii) PT Aneka Tambang (Persero). While the proposals for the additional PMN to PT Bank Mandiri (Persero) Tbk is not approved, therefore the rights issue plan cannot be implemented. The net proceeds raised by PT Waskita Karya (Persero) Tbk. The net proceeds of PT Waskita Karya (Persero) Tbk, PT Adhi Karya (Persero) Tbk and PT Aneka Tambang (Persero) Tbk respectively are Rp5.29 billion, Rp 2.74 billion (subject to the ongoing verification of costs associated with privatization), and Rp5.38 billion (subject to the ongoing verification of costs associated with privatization).

In line with the President administration's agenda, the Ministry of State-Owned-Enterprises will contribute towards developing, among others: (i) the food supply; (ii) the energy supply; (iii) the monetary supply; and (iv) the infrastructure and the maritime sector.

Principal Sectors of the Economy

Indonesia's major economic sectors include manufacturing (including coal, oil and gas), agriculture, forestry and fishing, wholesale and retail trade, mining and quarrying, construction, public transportation and defense. The manufacturing sector accounts for the largest portion of GDP. The following tables show GDP by sector at current market prices and constant market prices, respectively, for the periods indicated.

Gross Domestic Product by Industry (at current market prices)

	Year Ended December 31,								
	2011	2012	%	2013	%	2014 ^P	%	2015 ^P	%
	(in billions of Rupiah and percentage of GDP)								
Manufacturing:									
Coal, oil and gas	284,099	298,403	3.5	314,216	3.3	329,058	3.1	307,704	2.7
Manufacturing (excluding coal, oil and gas)	1,420,152	1,549,748	18	1,693,211	17.7	1,890,383	17.9	2,097,705	18.2
Total manufacturing	1,704,251	1,848,151	21.5	2,007,427	21.0	2,219,441	21.0	2,405,409	20.8
Agriculture, forestry and fishing:									
Agriculture, livestock, hunting and agriculture services	832,514	902,126	10.5	994,778	10.4	1,089,550	10.3	1,186,521	10.3
Forestry and logging	62,248	65,882	0.8	69,599	0.7	74,618	0.7	81,743	0.7
Fishing	163,484	184,254	2.1	210,671	2.2	245,488	2.3	292,136	2.5
Total agriculture, forestry and fishing	1,058,245	1,152,262	13.4	1,275,048	13.4	1,409,656	13.3	1,560,399	13.5
Wholesale and retail trade; repair of motor vehicles and motorcycles	1,066,092	1,138,484	13.2	1,261,146	13.2	1,420,054	13.4	1,534,067	13.3
Mining and quarrying:									
Oil and gas	444,068	492,894	5.7	520,088	5.4	508,911	4.8	382,681	3.3
Mining and quarrying (excluding oil and gas)	480,746	507,413	5.9	530,658	5.6	533,990	5.1	496,719	4.3
Total mining and quarrying	924,813	1,000,308	11.6	1,050,746	11.0	1,042,901	9.9	879,400	7.6
Construction	712,184	805,208	9.3	905,991	9.5	1,041,950	9.9	1,193,346	10.3
Public administration and defense:									
Compulsory social security	304,756	340,568	4	372,195	3.9	404,630	3.8	450,733	3.9
Information and communications	281,778	311,362	3.6	341,009	3.6	369,415	3.5	406,888	3.5
Transportation and storage	276,122	313,156	3.6	375,306	3.9	466,969	4.4	578,964	5.0
Financial and insurance activities	270,586	320,534	3.7	370,132	3.9	408,439	3.9	464,735	4.0
Education	232,727	270,372	3.1	307,862	3.2	342,063	3.2	388,683	3.4
Other	844,345	929,294	10.8	1,041,470	10.9	1,176,827	11.1	1,315,715	11.4
Gross Value Added at Basic Prices	7,675,899	8,429,700	97.8	9,308,332	97.5	10,302,344	97.5	11,178,338	96.9
Taxes less subsidies on products	155,827	186,005	2.2	237,802	2.5	263,473	2.5	362,452	3.1
Total GDP	7,831,726	8,615,705	100	9,546,134	100	10,565,817	100	11,540,790	100

Source: BPS

^P Preliminary

Gross Domestic Product by Industry
(at constant market prices)

	Year Ended December 31,								
	2011	2012	%	2013	%	2014 ^P	%	2015 ^P	%
	(in billions of Rupiah and percentage of GDP)								
Manufacturing:									
Coal, oil and gas	233,052	227,456	2.9	221,450	2.7	216,182	2.5	212,375	2.4
Manufacturing (excluding coal, oil and gas)	1,374,400	1,470,331	19.0	1,550,512	19.0	1,637,506	19.1	1,720,082	19.2
Total manufacturing	1,607,452	1,697,787	22.0	1,771,962	21.7	1,853,688	21.6	1,932,457	21.5
Agriculture, forestry and fishing:									
Agriculture, livestock, hunting and agriculture services	780,581	816,304	10.6	847,764	10.4	880,390	10.3	909,571	10.1
Forestry and logging	58,731	58,872	0.8	59,229	0.7	59,574	0.7	59,966	0.7
Fishing	154,545	164,264	2.1	176,149	2.2	189,090	2.2	204,920	2.3
Total agriculture, forestry and fishing	993,857	1,039,441	13.5	1,083,142	13.3	1,129,053	13.2	1,174,457	13.1
Wholesale and retail trade; repair of motor vehicles and motorcycles	1,013,200	1,067,912	13.8	1,119,272	13.7	1,177,049	13.7	1,206,075	13.4
Mining and quarrying:									
Oil and gas	335,737	323,632	4.2	313,328	3.8	306,855	3.6	307,259	3.4
Mining and quarrying (excluding oil and gas)	413,219	447,929	5.8	477,726	5.9	489,856	5.7	448,980	5.0
Total mining and quarrying	748,956	771,562	10.0	791,054	9.7	796,712	9.3	756,239	8.4
Construction	683,422	728,226	9.4	772,720	9.5	826,616	9.6	881,584	9.8
Public administration and defense:									
Compulsory social security	276,337	282,235	3.7	289,449	3.5	296,330	3.5	310,394	3.5
Information and communications	281,694	316,279	4.1	349,150	4.3	384,407	4.5	423,064	4.7
Transportation and storage	265,774	284,663	3.7	304,506	3.7	326,933	3.8	348,776	3.9
Financial and insurance activities	256,443	280,896	3.6	305,515	3.7	319,826	3.7	347,096	3.9
Education	215,029	232,704	3.0	250,016	3.1	263,890	3.1	283,540	3.2
Other	800,470	858,558	11.1	916,526	11.2	978,158	11.4	1,031,320	11.5
Gross Value Added at Basic Prices	7,142,634	7,560,263	97.8	7,953,312	97.5	8,352,660	97.5	8,695,000	96.9
Taxes less subsidies on products	145,001	166,821	2.2	203,186	2.5	213,612	2.5	281,931	3.1
Total GDP	7,287,635	7,727,083	100.0	8,156,498	100	8,566,271	100	8,976,932	100

Source: BPS

^P Preliminary

Manufacturing

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

In 2011, manufacturing industries grew by 6.3%, compared to a rate of 3.8% in 2010. Non-coal, oil, and gas manufacturing industries grew by 7.5% during this period mainly driven by the basic metal manufacturing sub-sector, which grew by 13.6%. Coal, oil and gas manufacturing industries declined by 0.3% in this period, primarily due to the coal manufacturing sub-sector which declined by 26.1%, while the LNG manufacturing and petroleum refinery sub-sector grew by 0.3%.

In 2012, Indonesia's manufacturing industries grew by 5.6%, compared to a rate of 6.3% in the previous year. 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 the coal manufacturing and the LNG manufacturing and petroleum refinery sub-sector which contracted by 37.4% and 1.8%, respectively.

In 2013, Indonesia's manufacturing industries grew by 4.5%, 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 tools of

transport manufacturing sub-sector, which grew by 15.0%. Coal, oil, and gas manufacturing industries declined by 1.7% in 2013 due to the coal manufacturing and the LNG manufacturing and petroleum refinery sub-sector which contracted by 16.3% and 1.6%, respectively.

In 2014, Indonesia's manufacturing industries grew by 4.6%, compared to a rate of 4.5% in the previous year. Non-coal, oil and gas manufacturing industries grew by 5.6% during 2014 mainly driven by food and beverage manufacturing sub-sector, which grew by 9.5%. Coal, oil, and gas manufacturing industries declined by 2.1% in 2014 due to the LNG manufacturing and petroleum refinery sub-sector which declined by 2.2%, while the coal manufacturing sub-sector grew by 6.4%.

In 2015, Indonesia's manufacturing industries grew by 4.2%, compared to a rate of 4.6% in the previous year. Non-coal, oil and gas manufacturing industries grew by 5.0% during 2015 mainly driven by Metal Goods Industry; Computers, Electronics, Optics; and Electrical Equipment sub-sectors, which grew by 7.8%. Coal, oil, and gas manufacturing industries declined by 1.8% in 2015 due to the LNG manufacturing and petroleum refinery sub-sector which declined by 1.8%, while the coal manufacturing sub-sectors grew by 6.6%.

Agriculture, forestry, and fishing

In 2011, the agriculture sector grew by 4.0%, compared to a rate of 3.0% in 2010. This growth was mainly driven by the horticulture crops sub-sectors, fishery, and estate crops sub-sectors which grew by 8.8%, 7.7%, and 4.9%, respectively.

In 2012, Indonesia's agriculture sector recorded growth of 4.6%, higher than its growth of 4.0% in the previous year. This growth was mainly driven by the fishery, estate crops, and livestock sub-sectors which grew by 6.3%, 7.0%, and 5.0%, respectively.

In 2013, Indonesia's agriculture sector recorded growth of 4.2%, slower than its growth of 4.6% in the previous year. This growth was mainly driven by the fishery, estate crops, and agricultural services and hunting sub-sectors, which grew by 7.2%, 6.2%, and 5.9%, respectively.

In 2014, Indonesia's agriculture sector recorded growth of 4.2%. This growth was mainly driven by the fishery, estate crops, and livestock sub-sectors, which grew by 7.4%, 5.9% and 5.5%, respectively.

In 2015, the agriculture, forestry, and fishing sector grew by 4.0%, at a slower rate compared with a rate of 4.2% in 2014. This growth was mainly driven by the fishery sub-sector, which grew by 8.4%. Agriculture, livestock, hunting, & agriculture services and forestry grew by 3.3% and 0.7%, respectively.

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

Production of Principal Agricultural Products by Sub-sectors

	2011	2012	2013	2014	2015
	(in thousands of tons)				
Food Crops					
Rice	65,757	69,056	71,280	70,846	74,992 ^F
Cassava	24,044	24,177	23,937	23,436	23,970 ^F
Corn	17,643	19,387	18,512	19,008	19,833 ^F
Sweet Potato	2,196	2,483	2,387	2,383	2,461 ^F
Soybeans (shelled)	851	843	780	955	983 ^F
Peanuts (shelled)	691	713	702	639	658 ^F
Mungbean	341	284	205	245	248 ^F
Estate cash crops^P					
Dry Rubber	2,990	3,012	3,237	3,153	N/A
Coffee	639	691	676	645	665
Cocoa	712	741	721	709	N/A
Tea	151	146	145	154	155
Sugarcane	2,268	2,592	2,551	2,579	2,624
Tobacco	215	261	164	166	202
Palm oil	23,097	26,016	27,782	29,345	N/A
Livestock					
Meat	2,554	2,666	2,882	2,925	3,062 ^P
Eggs	1,480	1,629	1,728	1,753	1,816 ^P
Milk	975	960	787	801	805 ^P
Fish Products					
Captured Fish	5,714	5,829	6,115	6,200 ^P	N/A
Farmed Fish	7,929	9,676	5,199 ^P	N/A	N/A
	2011	2012	2013	2014	2015
	(in thousands of cubic meters)				
Forestry					
Logs	47,429	49,112	50,437	31,703	49,590
Sawn Timber	934	1,027	1,228	801	1,635
Plywood	3,324	3,188	3,262	2,091	3,436

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

^P Preliminary.

^{N/A} Not Available.

^F Forecast

Food Crops. Rice is the most important food crop and the main source of carbohydrates in the Indonesian diet. Rice production decreased by 1.1% in 2011, increased by 5.0% in 2012 and 3.2% in 2013, decreased by 1.2% in 2014 and increased by 6.4% in 2015 (forecast figures). In early 2004, through the Decree of the Minister of Industry and Trade No. 9/MPP/KEP/1/2004 (**Decree No. 9/MPP/KEP/1/2004**) on the Rice Import Regulation, the Government imposed a ban on the importation of rice due to the surplus in the supply of rice from domestic farmers, resulting in an effort to increase the income of rice farmers and to encourage rice farmers not to sell productive rice fields to other users. The Government, nevertheless, continued its ban on the importation of rice, except for imports of specialized categories of rice, such as rice for diabetics and glutinous rice. Decree No. 9/MPP/KEP/1/2004 has been revoked and replaced by Minister of Trade Regulation No. 103/M-DAG/PER/12/2015 on Terms and Conditions of Rice Imports and Exports effective as of January 1, 2016.

Production of cassava increased by 0.5% in 2011 and by 0.6% in 2012, decreased by 1.0% in 2013, but increased by 2.6% in 2014, and decreased by 2.4% in 2015 (forecast figures).

Corn production decreased by 3.8% in 2011 due to competition for land use from other crops but increased by 9.9% in 2012 due to increased productivity and harvested area. Corn production decreased by 4.5% in 2013, increased by 2.7% in 2014, and by 4.3% in 2015 (forecast figures II).

Soybean production decreased by 6.2% in 2011 due to a decline in production in Java, by 0.9% in 2012 due to a decline in harvested area, mainly in Java, by 7.5% in 2013, increased by 22.4% in 2014 and by 2.9% in 2015 (forecast figures).

Peanut production decreased by 11.3% in 2011 due to a decline in harvested area increased by 3.2% in 2012, decreased by 1.5% in 2013, by 8.8% in 2014 and by 4.5% in 2015 (forecast figures).

Production of sweet potatoes and mungbean has remained stable in the last few years.

Estate Cash Crops. Palm oil is the Republic's most important cash crop, followed by rubber and sugar cane. Large plantations produce the majority of palm oil, palm kernel, and tea, while rubber, cocoa, tobacco, sugar cane and coffee are produced primarily by small holders. Exports of palm oil and rubber and, to a lesser extent, coffee and cocoa are significant sources of foreign exchange revenue. Palm oil production increased by 5.2% in 2011, by 12.6% in 2012, by 6.8% in 2013, by 5.6% in 2014 (preliminary figures). Sugar cane production decreased by 1.0% in 2011, increased by 14.3% in 2012, decreased by 1.6% in 2013, increased by 1.1% in 2014 and by 0.1% in 2015 (preliminary figures). Cocoa production decreased by 15.0% in 2011, increased by 4.0% in 2012, decreased by 2.7% in 2013, and by 1.6% in 2014. Rubber production increased by 9.3% in 2011, by 0.7% in 2012, by 7.5% in 2013, and decreased by 2.6% in 2014 (preliminary figures). Tobacco production increased by 58.1% in 2011, by 21.6% in 2012, decreased by 37.0% in 2013, and increased by 20.6% in 2014 and by 2.03% in 2015 (preliminary figures).

Livestock. Livestock has maintained a relatively stable portion of total agriculture output since 2006. Livestock output had a weighted average growth of approximately 5.2% per year from 2006 to 2012 (with per year growth ranging from 0.0% to 11.0% during this period). Livestock production is steadily increasing and is expected to increase along with income levels. Meat production was 2,554 thousand tons in 2011, 2,666 thousand tons in 2012, 2,882 thousand tons in 2013, 2,925 thousand tons in 2014 and 3,062 thousand tons in 2015 (preliminary figures). Egg production decreased to increased to 1,480 thousand tons in 2011 and to 1,629 thousand tons in 2012, to 1,728 thousand tons in 2013, to 1,753 thousand tons in 2014 and to 1,816 thousand tons in 2015 (preliminary figures). Milk production increased to 827 thousand tons in 2009, 910 thousand tons in 2010 and 975 thousand tons in 2011, before it decreased to 960 thousand tons in 2012 and to 787 thousand tons in 2013, and increased to 801 thousand tons in 2014 and to 805 thousand tons in 2015 (preliminary figures).

Fish products. The Indonesian fisheries sector, which includes both capture and aquaculture, plays an important role in the national economy. Productive fishing grounds within Indonesia are located in the Malacca Strait, the South China Sea, the Makassar Strait, the Flores Sea, the Banda Sea, the Arafura Sea, the Tomini Bay, the Maluku Sea and the Indian Ocean. In recent years, fishery products, particularly shrimp, have become important export commodities. From 2009 to 2013, production of farmed fish or aquaculture increased approximately 182.5% from 4,709 thousand tons in 2009 to 5,199 thousand tons in 2013. From 2009 to 2013, total fish production increased by 24.2%, from approximately 4,915 thousand tons in 2009 to approximately 6,105 thousand tons in 2013. The country's exports of fish and aquatic products consist of shrimp, skipjack, tuna and other fish and aquatic species such as grouper, tilapia, abalone, seaweeds, sea cucumber, pearls and other mollusks.

Forestry. Indonesia's forestry sector experienced rapid expansion following the late 1960s, when development of Indonesia's forests first began on a large scale. Principal tropical hardwood resources are located in Kalimantan, Sumatera, Papua and Sulawesi. Although the development of Indonesia's tropical forests is important to the country's continued development, the preservation of those forests and the establishment of long-term sustainable forest management and renewable forestry resources through the establishment of reforestation programs are also government concerns. Currently, logging companies are only permitted to conduct selective cutting, and they are required to pay reforestation and royalty fees to the Government based on the quantity of logs harvested. Logging companies are also required to implement reforestation programs in their forestry concessions. Production of logs decreased from 50,437,000 m³ in 2013 to 31,703,000 m³ in 2014 and was 42,281,000 m³ up to October 31, 2015. Meanwhile, sawn timber production decreased from 1,228,000 m³ in 2013 to 801,000 m³ in 2014 and was 1,208,000 m³ up to October 31, 2015. Furthermore, plywood products decreased from 3,262,000 m³ in 2013 to 2,091,000 m³ in 2014 and was 2,882,000 m³ up to October 31, 2015.

Wholesale and retail trade; repair of motor vehicles and motorcycles

Figures for the wholesale and retail trade sector also include the repair of motor vehicles and motorcycles.

In 2011, the wholesale and retail trade; repair of motor vehicles and motorcycles sector grew by 9.7%, higher than its growth of 9.1% in 2010. This increase was primarily due to growth at a rate of 10.9% in the wholesales – non cars and motorcycles sub-sector in 2011, which was higher than its growth at the rate of 8.0% in 2010. In addition, the sale of cars, motorcycles and repairs sub-sectors grew by 4.8% in 2011.

In 2012, the wholesale and retail trade; repair of motor vehicles and motorcycles sectors recorded growth of 5.4%, slower than its growth of 9.7% in 2011. This wholesales – non cars and motorcycles sub-sector grew at a rate of 5.1%. The sale of cars, motorcycles and repairs sub-sectors grew by 6.6% in 2012.

In 2013, the wholesale and retail trade; repair of motor vehicles and motorcycles sectors grew by 4.7%, slower than its growth of 5.4% in 2012 primarily due to growth in the sale of cars, motorcycles, and repairs sub-sectors, which grew by 7.3%. The wholesales – 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 sectors grew by 4.8%, compared to a rate of 4.7% in 2013. This growth was mainly driven by the sale of cars, motorcycles, and repairs sub-sector, which grew by 5.0%. The wholesale – non cars and motorcycles sub-sectors grew by 4.8% in 2014.

In 2015, the wholesale and retail trade; repair of motor vehicles and motorcycles sectors grew by 2.5%, compared to a rate of 5.2% in 2014. This growth was mainly driven by the wholesale – non cars and motorcycles sub-sectors, which grew by 3.0%. The sale of cars, motorcycles, and repairs sub-sectors grew by 0.5% in 2015.

Mining and Quarrying

Indonesia produces a number of natural resources including oil, gas, coal and other minerals, and their exploitation has made an important contribution to the country's economic growth. The oil and gas sub-sector accounts for a steadily declining percentage of revenue of the mining and quarrying sector, and this percentage declined from 42.3% in 2011 to 39.4% in 2012 to 39.3% in 2013 and to 38.7% in 2014 and then increased to 43.5% for 2015.

In 2011, the mining and quarrying sector grew by 4.3%, primarily due to growth in the non-oil and gas mining and quarrying sub-sectors, which grew by 8.2%. The non-oil and gas mining and quarrying sub-sectors contracted by 0.1%.

In 2012, the mining and quarrying sector grew by 3.0%, primarily due to growth in the oil and gas mining and quarrying sub-sectors, which grew by 8.4%. The oil and gas mining and quarrying sub-sectors contracted by 3.6%.

In 2013, the mining and quarrying sector grew by 1.7%, primarily due to growth in the oil and gas mining and quarrying sub-sectors, which grew by 5.4%. The non-oil and gas mining and quarrying sub-sectors contracted by 3.3%.

In 2014, the mining and quarrying sector grew by 0.6%, primarily due to growth in the oil and gas mining and quarrying sub-sectors, which grew by 2.5%. The non-oil and gas mining and quarrying sub-sectors contracted by 2.4%.

In 2015, the mining and quarrying sector contracted by 5.1%, primarily due to the non-oil and gas mining and quarrying sub-sectors which contracted by 8.3%. The oil and gas mining and quarrying sub-sectors grew by 0.1%.

Oil and Natural Gas

In 2011, 2012, 2013, 2014 and 2015 average oil production was 1,082,000, 859,860, 825,000, 790,255 and 779,000 barrels per day, respectively.

Although oil and gas production has declined over the past several years, oil and gas are still Indonesia's largest exports, contributing approximately 16.4% of total exports in 2014, and approximately 19.8% of Government domestic revenue (inclusive of income tax revenue from the oil and gas sub-sector) in 2014. As

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

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
	2011	2012	2013	2014	September 30,
					2015
	(in millions of barrels)				
Pertamina ⁽²⁾	54.2	46.6	43.9	42.4	27.9
Production sharing contracts ⁽³⁾	340.9	268.1	256.8	245.6	185.9
Total	395.1	314.7	300.7	288.0	213.8

Source: Ministry of Energy and Mineral Resources

(1) Includes production of crude oil condensate.

(2) In 2003, Pertamina became a state-owned limited liability company.

(3) Most of the production under production sharing contracts is provided to Pertamina.

In 2011, Indonesia produced 395.1 million barrels of crude oil compared to 344.8 million barrels in 2010. In 2012, Indonesia produced 314.7 million barrels of crude oil, decreasing to 300.7 million barrels of crude oil in 2013 and 288.0 million barrels of crude oil in 2014, mainly reflecting the maturity of oil fields in Indonesia. For the nine months ended September 30, 2015, Indonesia produced 213.8 million barrels of crude oil.

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

Crude Oil Exports⁽¹⁾

	Year Ended December 31,				Eleven months ended
	2011	2012	2013	2014	November 30,
					2015
	(in millions of barrels)				
Production sharing contracts ⁽²⁾	101	84.5	96	96	119.8
Government and government-designated ⁽³⁾	29	20.5	21	14	7.6
Total	130	105	117	110	127.3

Source: Ministry of Energy and Mineral Resources

(1) Includes exports of crude oil condensate.

(2) Most of the production under production sharing contracts is provided to Pertamina.

(3) Exports by Pertamina and entities designated by BP Migas were reported together.

Crude oil exports decreased to 105 million barrels in 2012 due to a decline in crude oil production as a result of operational constraints, including extreme weather and unavailability of shipping. Crude oil exports increased in 2013 to 117 million barrels due to the optimization of oil field production before decreasing to 110 million barrels in 2014. For the eleven months ended November 30, 2015, crude oil exports were 127.3 million barrels.

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

Average Price of Indonesian Crude Oil

	Year Ended December 31,				
	2011	2012	2013	2014	2015
	(in U.S. dollars per of barrels)				
ICP ⁽¹⁾	111.6	112.7	105.8	96.5	51.2

Source: Ministry of Energy and Mineral Resources

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

The average monthly ICP was U.S.\$111.6 per barrel in 2011, U.S.\$112.7 per barrel in 2012, U.S.\$105.8 per barrel in 2013, U.S.\$104.4 per barrel in 2014 and U.S. \$51.2 per barrel in 2015.

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

Natural Gas Production by Source⁽¹⁾

	Year Ended December 31,				
	2011	2012	2013	2014	2015
	(in billions of cubic feet)				
Pertamina ⁽²⁾	422	352	355	379	296
Production sharing contracts ⁽³⁾	3,268	2,635	2,568	2,570	1,899
Total	<u>3,690</u>	<u>2,987</u>	<u>2,923</u>	<u>2,948</u>	<u>2,202</u>

Source: Ministry of Energy and Mineral Resources

(1) Includes LPG.

(2) In 2003, Pertamina became a state-owned limited liability company.

(3) Most of the production under production sharing contracts is provided to Pertamina.

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

In 2012, the Ministry of Energy and Mineral Resources estimated oil reserves to be approximately 7,408.24 billion barrels, comprised of proven reserves of 3,741.33 million stock tank barrels and potential reserves of 3,666.91 million stock tank barrels. Natural gas reserves were estimated to be approximately 150.70 trillion standard cubic feet as of December 31, 2012, comprised of proven reserves of 103.35 trillion standard cubic feet and potential reserves of 47.35 trillion standard cubic feet.

Bioenergy. In 2014, the electricity generated from on-grid bioenergy power plants was 90,5 MW. As of September 30, 2015, the electricity generated from on grid bioenergy power plants was 104,1 MW, representing an increase of 15.0% (year on year). In the fourth quarter of 2015, the Government issued the Minister of Energy and Mineral Resources Regulation No. 44 of 2015 on Power Purchase of Electricity by PT PLN (Persero) from Power Plants that use Municipal Solid Waste (**Ministerial Regulation No. 44/2015**) to address the purchase of electricity from power plants that use municipal solid waste. The purpose of Ministerial Regulation No. 44/2015 is to increase the utilization of municipal solid waste for power generation.

In the fourth quarter of 2014, the Government issued the Minister of Energy and Mineral Resources Regulation No. 27 of 2014 on Power Purchase of Electricity by PT PLN (Persero) from Power Plants that use Biogas and Biomass (**Ministerial Regulation No. 27 of 2014**) to address the “Feed in Tariff” of electricity purchase from Power Plants that use biogas and biomass. The purpose of Ministerial Regulation No. 27 of 2014 is to increase the utilization of biogas and biomass for power generation.

Utilization of biofuels as a source of energy was initiated in 2006 following the issuance of Presidential Instruction No. 1 of 2006 on Provision and Utilization of Biofuels as an Alternative Fuel. At the beginning of 2009, the Government made the use of biofuels mandatory in transport, industry and power generation following the implementation of the Minister of Energy and Mineral Resources Regulation No. 32 of 2008 on the Provision, Utilization, and Procedure of Commerce Biofuel as an Alternative Fuel (**Ministerial Regulation No. 32 of 2008**). The installed capacity for biodiesel is currently 7.0 million kilogram liters per year, while the installed capacity for bioethanol (fuel grade ethanol) is 446 thousand kilogram liters per year. The percentage utilization of biodiesel in the transport sector (PSO) is 10.0% within a partial distribution area comprising Sumatera, Jawa, Bali, and Kalimantan, and still be measured until this end of year.

From April 1, 2015, due to the implementation of the Minister of Energy and Mineral Resources Regulation No. 12 of 2015 (**Ministerial Regulation No. 12 of 2015**) (which amends of Ministerial Regulation No. 32 of 2008), the utilization targets for biodiesel have been increased to 15.0 % for PSO transport, 25.0% for power generation, 15.0% for industry and 15.0 % for diesel non-PSO. As at September 30, 2015, the distribution network for biodiesel was still in the process of being refined to resolve outstanding problems related to the distribution of biodiesel in the eastern region of Indonesia.

Geothermal. In 2011, electricity production from geothermal sources was approximately 9,254 gigawatt-hours and total installed capacity was approximately 1,226 MW. In June 2012, total geothermal power plant installed capacity was 1,336 MW and electricity production from geothermal sources was 9,355 gigawatt-hours. In 2013, total installed capacity increased by 7.5 MW from 1,336 MW to 1,343.5 MW. Electricity production in 2013 amounted to 9,323 gigawatt-hours. In 2014, electricity production from geothermal sources was approximately 9,650 gigawatt-hours and total installed capacity was 1,403.5 MW. As of December 31, 2015, electricity production from geothermal sources was approximately 9,963 gigawatt-hours and total installed capacity was 1,438.5 MW.

According to the Geothermal Development Roadmap, the Government plans to increase the total installed capacity each year to achieve a targeted total installed capacity of 4,276.5 MW by 2020. The Government launched a 35 GW project to accelerate the development of its power infrastructure with 1.1 GW generated by geothermal power plant for the next five years. In 2010, the Government launched the second Fast Track Program (FTP II) for electricity projects as part of the Government's long term geothermal development plan, which includes plans to develop 51 electricity projects with an intended total development output of 4,825 MW. As of December 31, 2015, there are 67 geothermal concessions and investment realization that has reached approximately Rp 10,956.32 billion.

The Government continuously seeks ways to improve the investment climate which includes implementing reforms such as to the energy tariff and through the provision of incentives. Through the Minister of Energy and Mineral Resources Regulation No. 17 of 2014, the new energy tariff was restructured based on region and COD for each project, and accounted to meet the economic values of the project. The Government also simplified licensing procedure through one door service under Indonesia Investment Coordinating Board (BKPM), including geothermal license.

Geothermal contribution in FTP II was approximately 50% based on the Minister of Energy and Mineral Resources Regulation No. 40 of 2014 and it required investment of about US\$ 14,475 Million. As of September 30, 2015 the Government had installed approximately 52 GW with made up of approximately 8.50% from fuel oil/diesel, 6.37% from hydro power, 24.79% from gas, 4.27% from geothermal power 55.6% from coal fired power plants and 0.64% from renewable energy mini scale power plants.

PLN owns approximately 70% of the total installed capacity, IPP owns about 21%, PPU owns about 4% and Non-Oil IO owns about 5%. Indonesia will require additional power generation capacity of approximately 211,000 gigawatts by 2034. The electricity sector faces numerous challenges in its development, including: (i) a mismatch between the availability of primary energy resources, which are located mostly outside Java and Bali, and demand for electricity, which mostly comes from Java and Bali; (ii) high dependence on oil for power generation despite the abundance of coal resources within the country; and (iii) limited availability of government funds and other resources to finance the construction of new power plants and transmission and distribution networks. In its infrastructure development initiatives, the Government has placed special emphasis on the development of power generation plants, particularly coal-fired power plants, in order to reduce dependence on oil for power generation. One of the Government's ten model projects introduced at the Indonesia Infrastructure Conference and Exhibition (**IICE**) in 2006 is a power generation project, the central Java coal-fired power plant. The Government issued Presidential Regulation No. 78 of 2010 regarding Infrastructure Guarantee for Public Private Partnership Projects through the Infrastructure Guarantee Agency, of which the Government will give government guarantees to the 2 x 950 MW Central Java Coal-Fired Power Plant. The winner of the tender of Central Java Coal-Fired Power Plant was announced by PLN on June 17, 2011. The central Java coal-fired power plant is divided into two units which are expected to be operational in 2019.

Additionally, the Government has instructed PLN to accelerate its construction of coal power plants with an aggregate capacity of 10,000 MW and associated transmission lines. The Government has issued Presidential Regulation No. 45 of 2014, amending Presidential Regulation No. 71 of 2006, which assigned PLN the responsibility of accelerating the development of coal-fired power plants. The total general transmission value was estimated at Rp95.89 trillion, and the Government has pledged certain credit support. PLN entered into construction contracts in relation to 34 of the power plants comprising the 10,000 MW power plants program, and the Government expects construction of these plants to be completed by the end of 2016. The aggregate value of the construction contracts is approximately U.S.\$10 billion (assuming exchange rates of U.S.\$1 = Rp9,000 and €1 = Rp12,153.96). As of January 20, 2016, coal power plants in 10,000 MW Phase 1 have generating capacity of approximately 7,894.5 MW (79.5% of the project total). Additional investment in power generation, transmission and distribution lines and facilities will be required in order to meet the expected demand. The Government expects that from 2015 to 2024, the electricity sector will require approximately

U.S.\$97.06 billion in investment for the development of additional generation capacity, approximately U.S.\$20.56 billion in investment for electricity transmission and approximately U.S.\$14.53 billion in investment for electricity distribution.

Hydro, Solar and Wind Energy. Indonesia has an abundance of hydro, solar, and wind energy resources, with potential resources of approximately 75 MW, 560 GWp, and 107 GWp respectively. As of December 31, 2015, there were 5,333 MW of hydro power plants capacity, approximately 80 MW of solar power plants capacity and 2.5 MW of wind power plants capacity.

To increase the installed capacity of hydro power plants, the Government has issued “Feed-in Tariff” of electricity purchase from hydro power plants through Minister of Energy and Mineral Resources Regulation No. 19/2015 for Mini/Micro Hydro with power plant capacity up to 10 MW; and ceiling price through Minister of Energy and Mineral Resources Regulation No. 3/2015 for power plant capacity more than 10 MW. These tariffs are attractive to investors. While Feed-in Tariff for solar PV and wind power plants are now under drafting, investors have shown their interest to develop solar PV and wind power plants.

Minerals. The Republic’s major mineral products are tin, nickel, bauxite, copper and coal. In 2014, the country’s estimated mineral reserves included 32.36 billion tons of coal, 2.7 billion tons of copper, 282 thousand tons of tin and 1,155 million tons of nickel. On February 6, 2012, the Minister of Energy and Mineral Resources Regulation No. 7 of 2012 on the Increase of Added Value to Mineral by way of Mineral Smelting (**Regulation 7/2012**) was issued for holders of mining concessions for metal minerals, such as gold, copper, tin, bauxite and iron sand, and non-mineral metals such as quartz sand, in order to provide domestic smelting and refining facilities the ability to increase the production of mineral products up to a minimum standard of smelting percentage set forth by the Government prior to exporting such commodities. Mining concession holders must adjust their minimum standard smelting percentages in compliance with Regulation 7/2012 within a three-to-five year period following the enactment of Regulation 7/2012. In order to facilitate the building of smelter facilities in Indonesia by mining companies that have evinced an intention and provided plans to conduct such activities, the Minister of Energy and Mineral Resources revised Regulation No. 7/2012 through the Minister of Energy and Mineral Resources Regulation No. 11 of 2012 on May 16, 2012 (**Regulation 11/2012**). Regulation 11/2012 allows the export of raw materials or ore to production concession holders and public mining concession holders after obtaining an approval from the Minister of Energy and Mineral Resources c.q. Directorate General of Coal and Minerals. Such recommendation may only be given to production concession holders and public mining concession holders that have a clean and clear mining concession license, have settled their financial obligations to the state and have submitted a working and/or cooperation plan in domestic mineral smelter and refinery. However, the Supreme Court issued Decisions No. 09P/HUM/2012 and No. 10P/HUM/2012, both dated September 12, 2012, which ordered the revocation of certain provisions under Regulation 7/2012. Further, the Regulation 11/2012 has been amended by the Minister of Energy and Mineral Resources Regulation No. 20 of 2013 (Regulation 20/2013).

The Minister of Energy and Mineral Resources Regulation No. 1 of 2014 (**MEMR No.1/2014**) was issued in January 11, 2014 to replace Regulation 7/2012, Regulation 11/2012 and Regulation 20/2013. MEMR No.1/2014 sets out the minimum quantity of domestic smelting and domestic processing that concession holders and operation and production mining license holders must satisfy in relation to mineral products in order for them to export such processed mineral products. Primary mineral commodities such as nickel, bauxite, tin, gold and silver must be smelted to minimize any production of intermediary products before they can be exported. To provide time for the completion of smelting infrastructure, certain processed concentrates, including among others, copper, quartz sand and iron ore may continue to be exported in limited quantities until 2017. Following the expiry of the grace period, only smelted concentrates will be allowed to be exported.

On March 4, 2015, the Minister of Energy and Mineral Resources issued Regulation No. 08 of 2015 (**MEMR No. 8/2015**) that amends certain provisions under MEMR No. 1/2014. MEMR No. 8/2015 introduces several amendments with regards to, among others, (i) type and side products of mining commodities, (ii) joint cooperation for refining and/or smelting process of mining commodities, (iii) minimum benchmark qualities in refining and/or smelting process of mining commodities, and (iv) amendments regarding the application of MEMR No. 1/2004.

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

Production of Principal Mineral Products

	Year Ended December 31,			
	2011	2012	2013	2014
Tin metal (thousands of metric tons)	17	3	12	7
Nickel matte (thousands of wet metric tons)	68	73	78	80
Copper ore concentrate (thousands of dry metric tons)	2,236	1,897	2,352	1,517
Coal (millions of metric tons)	353	412	474	458
Gold (kg)	73,418	50,641	56,223	463,124
Silver (kg)	181,264	147,681	197,193	234,952

Source: Ministry of Energy and Mineral Resources

Tin. Indonesia's tin-ore deposits are concentrated in the province of Belitung and Bangka group of islands located off the eastern coast of Sumatera. The Government cancelled the mining contract previously held by PT Koba Tin in September 2013. Tin metal production as at December 31, 2014 stood at 7.1 thousand metric tons. Furthermore, due to the Minister of Trade Regulation No. 33/M-DAG/PER/5/2015, which amended the Minister of Trade Regulation No. 44/M-DAG/PER/7/2014 (**Trade Regulation 32/2015**), Tin which may be exported is only pure tin bars, tin solder and other goods made of tin. Tin reserves based on estimates from the Government's geological agency in 2014 showed there were reserves of approximately 0.8 million metric tons of tin ore.

Nickel. Indonesia has some of the world's largest reserves of nickel ore, located primarily in Sulawesi, Halmahera Island in the north Moluccas and west Papua. Nickel matte production as of December 31, 2014 was approximately 80.3 million tons, higher than nickel ore production for the same period in 2012 of 78.0 million tons.

Copper. Copper deposits are found in Papua, Nusa Tenggara, Sumatera, Java and Sulawesi. The only copper producing companies currently operating in Indonesia are PT Freeport Indonesia and PT Newmont Nusa Tenggara. Copper ore production as of December 31, 2014 increased to 1.5 million dry metric tons. Copper production in 2013 increased compared to 2012.

Coal. Indonesia's coal industry has continued to grow in recent years as the country has diversified its energy sources, decreasing its dependence on oil and making greater use of coal in electricity generation. Coal production has increased to 458 million tons as of December 31, 2014, up from 474 million tons in the same period in 2013. Most of the coal produced in Indonesia is exported. The majority of coal production that is consumed domestically is used for electricity generation. Increases in coal production reflected strategic production plans of coal companies. The increase in coal production from 2011 was due to increased demand from coal-fired power plants and power generation for domestic use.

Gold. Gold exploration in Indonesia has fluctuated in recent years. In 2011, 2012, 2013 and 2014, Indonesia produced 73 thousand, 50 thousand, 56 thousand and 463 thousand kilograms of gold, respectively. Most of Indonesia's gold is exported. Although gold production decreased at PT Freeport Indonesia and PT Newmont Nusa Tenggara, three gold mining companies (PT Meares Soputan Mining, PT Tambang Tondano Nusajaya and PT Kasongan Bumi Kencana) commenced their respective gold production activities in 2012.

Law No. 4 of 2009 on Mineral and Coal Mining (**Mining Law**) was enacted on January 12, 2009 and revoked Law No. 11 of 1967. The Mining Law revises the long-standing previously existing licensing and contract system applicable to mining and quarrying activities in Indonesia. The Mining Law only recognizes a single type of mining concession in the form of mining business licenses. Mining licenses issued under the previous law are still recognized but shall be replaced by new mining business licenses within one year of the enactment of the Mining Law. However, contracts under the previous law will remain effective until the expiry of such contracts, subject to the obligation to adjust their terms to conform to the Mining Law within one year of

the enactment of the Mining Law. The Mining Law provides greater powers to local Governments and requires mine operators to process raw materials locally. The Mining Law also stipulates various conditions to be met by mine operators and with respect to the mining area.

Transportation and Storage

In 2011, the transportation and storage sector grew by 8.3%, primarily due to growth of 14.7% and 8.6% in the air transportation and river transport sub-sectors, respectively. The storage and auxiliary transportation services; post and courier sub-sectors grew by 7.1%.

In 2012, the transportation and storage sector grew by 7.1%, primarily due to growth of 8.6% and 7.5% in the sea transport and the road transportation sub-sectors, respectively. The storage and auxiliary transportation services; post and courier sub-sectors grew by 6.5%.

In 2013, the transportation and storage sector grew by 8.4%, primarily due to growth of 9.9% and 8.6% in the road transport and the storage and auxiliary transportation services; post and courier sub-sectors, respectively.

In 2014, the transportation and storage sector grew by 8.0%, primarily due to growth of 22.4% and 8.4% in the rail transport and road transport sub-sectors, respectively. The storage and auxiliary transportation services; post and courier sub-sector grew by 8.1%.

In 2015, the transportation and storage sector grew by 6.7%, primarily due to growth of 9.4% and 7.2% in the air transport and road transport sub-sectors, respectively. The storage and auxiliary transportation services; post and courier sub-sectors grew by 6.0%.

Information and Communications

In 2011, the information and communications sector grew by 10.0%. This was mainly due to slower growth, of 10.0% in the private sector information and communications sub-sector.

In 2012, Indonesia's information and communications sector recorded growth of 12.3%, an increase from a growth rate of 10.0% in 2011. This was mainly due to growth in the private sector information and communications sub-sector, which grew by 12.3% in 2012; the Government information and communications sub-sector also recorded growth of 7.1% in 2012.

In 2013, the information and communications sector grew by 10.4% decreasing from a growth rate of 12.3% in 2012. This was due to slower overall growth in the private sector information and communications sub-sector, where the growth rate was also 10.4% as compared to 12.3% in 2012.

In 2014, the information and communications sector grew by 10.0%, which was a slight decrease compared to 10.4% in 2013. Growth in the private sector information and communications, and Government information and communications sub-sectors was 10.0% and 4.8% in 2014 as compared to 10.4% and 5.4% in 2013, respectively.

For the nine months ended September, 2015, the information and communication sector grew by 10.2%, which was a slight increase compared to 10.0% in same period in 2014.

Financial and Insurance Activities

In 2011, the financial and insurance activities sector grew by 7.0%. The increased growth rate was primarily due to growth in the other financial services sub-sectors and auxiliary financial services sub-sectors, which grew by 9.7% and 8.7%, respectively. The insurance and pension funds and intermediary financial services sub-sectors, grew by 8.5% and 5.8% respectively.

In 2012, the financial and insurance activities sector grew by 9.5%, an increase from the 7.0% growth rate in 2011. The higher growth rate was primarily due to growth in the intermediary financial services and auxiliary financial services sub-sectors, which grew by 10.5% and 8.6%, respectively. The other financial services and insurance and pension funds sub-sectors, grew by 8.4% and 7.6% respectively.

In 2013, the financial and insurance activities sector grew by 9.1%, a decrease from the 9.5% growth rate in 2012. This growth was primarily due to growth in the intermediary financial services and auxiliary financial services sub-sectors, which grew by 10.2% and 8.4%, respectively. The insurance and pension funds and the other financial services sub-sectors grew by 7.8 % and 6.1%, respectively.

In 2014, the financial and insurance activities sector grew by 4.9%, a decrease from the 9.1% growth rate in 2013. This was primarily due to slower growth in the other financial services and the insurance and pension funds sub-sectors, which grew by 7.6% and 7.6%, respectively. The auxiliary financial services and the intermediary financial services sub-sectors, grew by 6.4% and 3.4%, respectively.

In 2015, the financial and insurance activities sector grew by 8.5%, an increase from the 4.7% growth rate in 2014. This growth was primarily due to growth in the intermediary financial services and the other financial services sub-sectors which grew by 9.6% and 7.5%, respectively. The insurance and pension funds and the auxiliary financial services sub-sectors grew by 6.6% and 5.2%, respectively.

Labor and Employment

Labor

The following table sets forth the proportion of the employed labor force in each sector of the economy as of August 2011 through August 2015.

Sector	As of August		As of February		As of August		As of February		As of August		As of February		As of August	
	2011	2012 ⁽¹⁾	2013 ⁽¹⁾		2014 ⁽¹⁾		2015 ⁽¹⁾		2015 ⁽¹⁾		2015 ⁽¹⁾		2015 ⁽¹⁾	
	(percentages)	(percentages)	(in millions)	%	(in millions)	%	(in millions)	%	(in millions)	%	(in millions)	%	(in millions)	%
Agriculture	35.9	35.2	40.8	35.2	39.2	34.8	40.8	34.6	39.0	34.0	40.1	33.2	37.8	32.9
Industry	13.3	13.9	15.0	12.9	15.0	13.3	15.4	13.0	15.3	13.3	16.4	13.6	15.3	13.3
Construction	5.8	6.1	7.0	6.0	6.4	5.6	7.2	6.1	7.3	6.4	7.7	6.4	8.2	7.2
Trade	21.3	20.9	25.3	21.8	24.1	21.4	25.8	21.8	24.8	21.7	26.7	22.1	25.7	22.4
Transportation, warehouses, and communications ...	4.6	4.5	5.3	4.6	5.1	4.5	5.3	4.5	5.1	4.5	5.2	4.3	5.1	4.5
Financial	2.4	2.4	3.1	2.6	2.9	2.6	3.2	2.7	3.0	2.6	3.7	3.0	3.3	2.8
Public services	15.2	15.4	17.8	15.3	18.5	16.4	18.5	15.6	18.4	16.1	19.4	16.1	17.9	15.6
Others (mining, electricity, gas and water)	1.5	1.6	1.8	1.6	1.7	1.5	1.9	1.6	1.7	1.5	1.7	1.4	1.6	1.4
Total	100	100	115.9	100	112.8	100	118.2	100	114.6	100	120.9	100	114.8	100

Source: BPS

(1) Estimation was result of backcasting from population projection weighing.

Indonesia's open unemployment rate decreased to 6.2% as of August 31, 2013, reflecting an increase in economic activity. As of August 31, 2013, the working age population of 120.2 million, further divided into 112.8 million who were employed and 7.4 million who were actively seeking jobs.

As of August 31, 2014, the Indonesian labor force consisted of 121.9 million people, which represents a decrease of 3.4 million people compared to the labor force in February 2014, but an increase of 1.7 million people compared to the labor force in August 2013. The number of employed residents is 114.6 million people as of August 31, 2014, representing a decrease of 3.6 million people compared to February 28, 2014, but an increase of 1.8 million people compared to August 31, 2013. The open unemployment rate in August 2014 was 5.9%, compared to 5.7% in February 2014, and 6.2% in August 2013. From August 2013 to August 2014, there was an increase in employee absorption in all sectors, except for agriculture and public services. The construction sector absorbed 0.9 million people, the trade sector absorbed 0.7 million people and the industrial sector absorbed 0.3 million people. In August 2014, elementary school graduates and university graduates comprised 47.1% and 8.2% respectively of employed residents.

As of August 31, 2015, the Indonesia labor force consisted of 122.4 million people, which represents a decrease of 5.9 million people compared to the labor force in February 2015 and an increase of 510 thousand

people compared to August 2014. The number of employed residents was 114.8 million people as of August 31, 2015, representing an decrease of 6.1 million people compared to February 28, 2015 and an increase of 200 thousand people compared to August 31, 2014. The open unemployment rate in August 2015 was 6.2%, compared to 5.8% in February 2015 and 5.9% in August 2014. From August 2014 to August 2015, there was an increase in employee absorption, except for in agriculture, industry, transportation, warehouse, communication the three public service sectors and other financial sectors. The construction sector absorbed 0.9 million people, the trade sector absorbed 0.9 million people, and the trade sector absorbed 0.2 million people. In August 2015, elementary school graduates and university graduates comprised 44.3% and 8.3%, respectively, of employed residents.

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.

In 2013, the Government issued Government Regulation No. 33 of 2013 on Expansion of Working Opportunity in order to increase employment in accordance with Law No. 13 of 2003 on Manpower. This regulation reflects an effort 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 (which, among others, encompass 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.

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

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

<u>Year</u>	<u>National average minimum wage</u>	<u>Increase in average minimum wage</u>
2011	Rp988,829.4	8.7%
2012	Rp1,088,902.6	10.1%
2013	Rp1,355,331.5	19.1%
2014	Rp1,589,391.5	22.2%
2015	Rp1,790,391.8	12.8%

Source: Ministry of Manpower and Transmigration

Pension and Health Funds

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

The establishment of pension funds for non-government employees is regulated by Law No. 11 of 1992 on Pension Funds that provides for the establishment of two types of pension funds: employer pension funds, which are provided by a private employer to its employees, and financial institution pension funds, which are chosen and obtained by an employee from a financial institution. In addition, the law and several Government regulations and decrees specify the types of assets that these pension funds may acquire, as well as the permissible allocation of investments among assets and asset classes. See “*Financial System — Banks and Other Financial Institutions.*”

On November 25, 2011, Law No. 24 of 2011 on Social Security Administering Agencies (*Badan Penyelenggara Jaminan Sosial* or **BPJS**) (**Law No. 24 of 2011**) was passed to help implement the SJSN Law. BPJS is to consist of two bodies, namely BPJS for Health Coverage (**BPJS Kesehatan**) which will provide universal healthcare for all citizens, and BPJS for Social Security Benefit for Workers (**BPJS Ketenagakerjaan**) which will provide work-related accident insurance, pension payments, old age benefit, and death benefits for all workers (formal and informal). Pursuant to OJK Regulation No. 5/POJK.05/2013 dated December 31, 2013 on Supervision of BPJS by OJK (OJK Regulation No. 5/2013), BPJS activities are supervised by OJK.

BPJS was established by transforming PT ASKES and PT Jamsostek. BPJS Kesehatan has been fully operational on January 1, 2014 by transformation of PT ASKES and will provide healthcare service for all citizens including through those programs that were formerly provided by PT Jamsostek and PT Asabri (the healthcare program for police and armed forces). BPJS Ketenagakerjaan was established on January 1, 2014, in order to provide social security benefits for private sector and informal workers.

To implement Law No. 24 of 2011, PT ASABRI (Persero) and PT Taspen (Persero) established two master plans; (1) the master plan on completing diversion of healthcare program for police and armed forces and pension payments program (owned by PT ASABRI), and (2) the master plan on completing diversion of old age benefits program and pension payments program (owned by PT TASPEN) towards BPJS Ketenagakerjaan, these programs will be implemented by no later than 2029.

In early 2030, BPJS Ketenagakerjaan plans to transform itself into the agency that provides universal social security benefits to all workers.

On December 24, 2013, OJK and the National Social Security Board (*Dewan Jaminan Sosial Nasional*, or **DJSN**) entered into a Memorandum of Understanding (**MoU**) to agree on the scope of external supervisory role of OJK towards BPJS Kesehatan and BPJS Ketenagakerjaan. OJK will supervise the agencies' financial soundness, implementation of good corporate governance, management and performance of investment portfolio, implementation of risk management and control, detection and settlement of financial crimes, valuation on assets and liabilities, compliancy with regulations, and fee ratio and systemic monitoring effect. These are further regulated under OJK Regulation No. 5/2013.

On April 1, 2014, OJK issued Circular Letter No. 5/SEOJK.05/2014 on the Monthly Financial Report of BPJS and Monthly Financial Report on Social Security Fund. This letter requires BPJS Kesehatan and BPJS Ketenagakerjaan to submit monthly financial reports on the 15th day of the following month.

Income Distribution

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

Income Distribution (percentage of total national income)					
	As of December 31,				As of
	2011⁽¹⁾	2012⁽¹⁾	2013⁽¹⁾	2014⁽¹⁾	March 31,
					2015⁽¹⁾
Lowest 40.0%	17.7%	16.9%	16.9%	17.1%	N/A
Middle 40.0%	35.9%	34.2%	34.1%	34.6%	N/A
Highest 20.0%	46.5%	48.9%	49.0%	48.3%	N/A
Gini Index ⁽²⁾	0.39	0.41	0.41	0.41	0.41

Source: BPS (Based on Annual Panel National Socio Economic Survey last conducted in 2013)

- (1) The method of calculation for the Gini Index is based on the individual approach.
- (2) The Gini Index is a measure of income distribution that ranges between 0.0 and 1.0, with higher numbers indicating greater inequality. In practice, the lowest values do not go below 0.2 and the highest value may reach 0.6.

Income distribution improved during the Asian financial crisis, as the manufacturing sector suffered the great losses, whilst the agricultural sector performed relatively well by comparison. In addition, the depreciated Rupiah provided better returns to primary commodities producers. As agriculture and primary commodities

producers tend to be concentrated in rural areas with lower income levels, the Asian financial crisis reduced income disparity somewhat across different regions and different sectors of society. Income distribution, as measured by the Gini index, has remained relatively constant from 2009 through 2013.

However, the percentage of people living below the poverty line has exhibited a decreasing trend since the Asian crisis in 1998. Approximately 49.5 million people, or 24.2% of the population, were living below the poverty line in 1998, which decreased to approximately 28.5 million as of September 2015, or 11.2% of the population as of March 2015. This percentage decreased in each period from 1998 to 2013, except 2006, when the Republic experienced increases in domestic oil prices in March and in October 2005 that caused annual inflation to rise to 18.0% in March 2006. The Government has implemented policies to further decrease poverty to a targeted range of 9.0% to 10.5% in the Revised 2014 Budget, in accordance with the National Medium Term Development Plan.

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

People living below poverty line

	Number of people (millions)	Percentage of population
March 2011	30.0	12.5%
March 2012	29.1	12.0%
March 2013	28.0	11.4%
March 2014	28.3	11.2%
September 2014	27.7	11.0%
March 2015	28.6	11.2%
September 2015	28.5	11.1%

Source: Panel National Socio Economic Survey

BPS measures poverty using a basic needs approach and defines poverty as an economic inability to fulfill food and non-food basic needs, measured by consumption and expenditure. BPS sets the poverty line by calculating two components, the Food Poverty Line (FPL) and the Non-Food Poverty Line (NFPL), and calculates a separate poverty line for urban and for rural areas. The FPL is set using a daily minimum requirement of 2,100 kcal per capita per day. The NFPL is set using a minimum expenditure per month per capita. As of March 30, 2013, the FPL and NFPL were approximately Rp199,691 and Rp71,935, respectively, and the total poverty line was Rp271,626. As of March 30, 2013, the FPL and NFPL for urban areas were approximately Rp202,137 and Rp86,904, respectively, while for rural areas, the FPL and NFPL were approximately Rp196,215 and Rp57,058, respectively, and the total poverty line for urban and rural areas was Rp289,041 and Rp253,273, respectively.

As of September 30, 2014, the FPL and NFPL were approximately Rp229,469 and Rp82,859, respectively, and the total poverty line was Rp312,328. As of September 30, 2014, the FPL and NFPL for urban areas were approximately Rp228,534 and Rp98,319, respectively, while for rural areas, the FPL and NFPL were approximately Rp229,391 and Rp67,290, respectively, and the total poverty line for urban and rural areas was Rp326,853 and Rp296,681, respectively.

As of March 31, 2015, the FPL and NFPL were approximately Rp242,241 and Rp88,535, respectively, and the total poverty line was Rp330,776. As of March 31, 2015, the FPL and NFPL for urban areas were approximately Rp238,278 and Rp104,263, respectively, while for rural areas, the FPL and NFPL were approximately Rp245,357 and Rp75,524, respectively, and the total poverty line for urban and rural areas was Rp342,541 and Rp317,881, respectively.

As of September 30, 2015, the FPL and NFPL were approximately Rp251,943 and Rp92,866, respectively, and the total poverty line was Rp344,809. As of September 30, 2015, the FPL and NFPL for urban areas were approximately Rp247,840 and Rp108,538, respectively, while for rural areas, the FPL and NFPL were approximately Rp256,120 and Rp76,914, respectively, and the total poverty line for urban and rural areas were Rp356,378 and Rp333,034, respectively.

Infrastructure Development

The 1997-1998 Asian financial crisis placed a great strain on Indonesia's infrastructure. During that crisis, the overall quality of the nation's infrastructure decreased as public spending in real terms was reduced and many planned private infrastructure projects were suspended or cancelled. Although the Asian financial crisis has ended, Indonesia continues to face major challenges in improving its infrastructure at the same time as it seeks to consolidate and accelerate its economic recovery, improve its international competitiveness and increase access to basic public services. A key priority of the Government is to encourage infrastructure development as a means to accelerate economic growth particularly in rural areas, support further industrial development and improve the lives and economic welfare of Indonesians by reducing unemployment and poverty. In order to promote infrastructure development, the Government allocated Rp2.0 trillion in each of 2006 and 2007 for infrastructure development. The Revised 2008 Budget allocated Rp2.8 trillion for investment funds, of which Rp1.0 trillion was allocated for initial capital for the establishment of the Indonesia Infrastructure Fund. In the Revised 2011 Budget, the Revised 2012 Budget, the Revised 2013 Budget, the Revised 2014 Budget and the Revised 2015 Budget, the Government allocated Rp21.1 trillion, Rp19.3 trillion, Rp20.6 trillion, Rp9.3 trillion and Rp58.8 trillion, respectively, for investment funds, which includes funds for infrastructure development. These funds are currently managed by the IIA, but a portion of the funds is expected to be managed by the Indonesia Infrastructure Fund, which commenced operation in January 2010, while the IIA commenced operation in December 2008. In December 2009, the Government established PT Penjaminan Infrastruktur Indonesia (Indonesia Infrastructure Guarantee Fund, or **PT PII**) pursuant to Presidential Instruction No. 5 of 2008 on Economic Program Focus of 2008-2009 (**Presidential Instruction 5/2008**) and Government Regulation No. 35 of 2009 on Capital Participation of the Republic of Indonesia for the Establishment of a Guarantee Company in Infrastructure Business. The Government allocated Rp1.0 trillion towards such Guarantee Fund in 2009 as initial capital. To increase the guarantee capability of PT PII, the Government allocated an aggregate of Rp3.5 trillion from the state budgets in 2010, 2011, 2012 and 2013. The Guarantee Fund is expected to cover the guarantee of certain risks for infrastructure projects in Indonesia structured as public private partnership projects. To support the guarantee infrastructure mechanism conducted by PT PII, the Government has issued Presidential Regulation No. 78 of 2010 on Government Guarantee for Public Private Partnership Infrastructure Projects Performed through Business Entity on Infrastructure Guarantee and Minister of Finance Regulation No. 260/PMK.011/2010 as amended by Minister of Finance Regulation No. 8/PMK.08/2016 on Implementation Guideline on Infrastructure Guarantee in Cooperation Projects between the Government and Business Entities.

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

By the end of 2015, there were approximately 132,35 km of open toll roads connecting Cikampek-Palimanan, Gempol-Pandaan and Porong-Gempol. The Government is in the process of developing a four lane toll road connecting Jakarta to Surabaya (the Trans-Java Toll Road Project). In addition, the Government by way of presidential regulation assigned PT Hutama Karya (Persero), a wholly state-owned construction company, to carry out the Sumatera toll road project. The first phase of the project is scheduled to take four years to complete, and will comprise four sections, namely Medan-Binjai, Palembang — Simpang Indralaya, Pekanbaru — Dumai, and Bakauheni — Terbanggi Besar. The first phase of the project will be approximately 300 km in length and is estimated to be finished by 2018. For the next phase, the Government intends to add four additional sections which will comprise Terbanggi Besar — Pematang Panggang; Pematang Panggang — Kayu Agung; Palembang — Tanjung Api-Api; and Kisaran — Tebing Tinggi.

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

The Government is committed to reforms of regulations that require private investors to enter into concession agreements despite significant uncertainty in the acquisition of land for a project remains. The Government enacted Law No. 2 of 2012 on Land Procurement for Development in the Public Interest on January 14, 2012, (**Law No. 2 of 2012**), followed by Presidential Regulation No. 71 of 2012 on Land Procurement for Public Interest Projects on August 7, 2012 (**Presidential Regulation No. 71/2012**) as recently amended by Presidential Regulation No. 148 of 2015. In addition, the Government established an Execution Committee of Land Acquisition in an effort to shorten the land acquisition process and to limit costs relating to land acquisition. The members of the Execution Committee of Land Acquisition consist of the head of the BPN, the land acquisition officer in the Regional Office of BPN (province), the head of the Land Office (district), the related officer in the Local Government Office, the Head of Regency, and the Head of Village.

Presidential Regulation No. 71/2012 was enacted on August 7, 2012 as the implementing regulation for Law No. 2 of 2012 which replaced the old Presidential Regulation No. 36 of 2005 as amended by Presidential Regulation No. 65 of 2006. Under this Presidential Regulation, certain ongoing land acquisition for public interest projects still had to be completed following the old regulatory regime until December 31, 2014. The transitional provisions of the Presidential Regulation, however, provide that land in an ongoing land acquisition process which has not been acquired by December 31, 2014 could be procured by following the procedures set out in the Presidential Regulation. These transitional provisions in the Presidential Regulation indicate that the new land acquisition regulatory regime is only applicable for new land acquisition processes or land acquisition processes in the preparation stage where the land acquisition planning documents are still being processed.

On September 18, 2014 a second amendment to Presidential Regulation No. 71/2012 was enacted by Presidential Regulation No.99 of 2014. Under this new regulation, monetary compensation for land acquisition shall be paid within 14 days (previously seven days), after validation by the relevant head of land procurement for the project. Further, the new regulation prolongs the transitional period of land procurement under the previous regime from December 31, 2014 to December 31, 2015, subject to the condition that 75% of such land acquisition process under the previous regime must have already been completed. If such land acquisition process cannot be completed after December 31, 2015 then the remaining land procurement shall be carried out under the provisions of Presidential Regulation No. 71/2012 and its amendments.

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

The land title itself is extinguished upon the granting of the compensation or the deposit of the compensation in court or upon completion of land title release. The Presidential Regulation also allows commencement of construction above the procured land after delivery of the procured land to the institution that needs the land without waiting for the land certificate to be issued, but the institution must still have registered the procured land within 30 working days after the procured land is delivered to the institution.

On March 17, 2015, a third amendment to Presidential Regulation No. 71/2012 was enacted by Presidential Regulation No. 30 of 2015. Pursuant to the amendment, an authorized business entity can make payment for the procurement of land and then seek reimbursement from the Government.

On December 28, 2015, a fourth amendment to Presidential Regulation No. 71/2012 was enacted by Presidential Regulation No. 148 of 2015. Pursuant to the amendment, a land acquisition for development, save for national security, or stated in Law No. 2 of 2012, carried out directly by way of sale and purchase, exchange, or other means as agreed by the entitled party and private entities.

As stipulated in Presidential Regulation No. 71/2012, the BPN, the Ministry of Home Affairs and the Ministry of Finance are required to issue the implementing regulation for Land Procurement. BPN issued the Head of BPN Regulation No. 5 of 2012 which has been amended by Head of BPN Regulation No. 6 of 2015 and Head of BPN Regulation No. 22 of 2015, as technical guidance to the implementation of land acquisition for development for public interest as amended by the Head of the National Land Agency Regulation No. 22 of 2015. On October 30, 2012 the Minister of Home Affairs issued Minister of Home Affairs Regulation No. 72 of 2012 regarding operating and support costs involved in the implementation of land acquisition for development for public interest deriving from Regional Government Budget (**APBD**) while the Minister of Finance issued Minister of Finance Regulation No. 13/PMK.02/2013 regarding operating and support costs involved in the implementation of land acquisition for development for public interest deriving from the state budget, as amended by the Minister of Finance Regulation No. 10/PMK.02/2016 TAHUN-2016.

On April 24, 2014, Presidential Regulation No. 40 of 2014 was enacted to amend Presidential Regulation 71/2012. The amendment aimed to: (i) align operational and supporting costs for land acquisition of specially assigned state-owned-enterprises and for infrastructure development of upstream oil and gas activities with Minister of Finance Regulation No. 13/PMK.02/2013 and (ii) provide flexibility for government institutions to directly acquire up to five hectares of land for public interest purposes.

On January 12, 2016, Presidential Regulation No. 3 of 2016 was enacted to support the government objective in accelerating the implementation of national strategic projects. The regulation defines National Strategic Projects as projects implemented by central government, regional government, or business entities with a strategic role to support growth.

The Government also set up a land acquisition revolving fund. The Government allocated Rp3.85 trillion to the fund in the Revised 2011 Budget and Rp900 billion in the Revised 2012 Budget but did not allocate any funds in the Revised 2013 Budget. In relation to this, the Government allocated Rp4.89 trillion to support a national policy on land capping for 28 toll roads. Under this policy, the Government bears the cost of land clearance necessary to prepare land for a project in excess of a set ceiling. This policy is limited to projects that the Government has determined to be financially feasible. In 2011, the Government allocated Rp3.85 trillion for the land acquisition revolving fund to the Badan Pengatur Jalan Tol (**BPJT**) and utilized approximately Rp753 billion. In 2012, the Government allocated Rp900 billion for the land acquisition revolving fund. In 2014, the Government allocated Rp1.6 trillion for the land acquisition revolving fund. From 2007 through 2012, the Government allocated Rp7.05 trillion for the land acquisition revolving fund and utilized around Rp3.02 trillion to support land acquisition for toll road projects. The Government utilized the land acquisition fund to support three toll road PPP projects: Pasir Koja-Soreang, Pandaan-Malang and Pekanbaru-Kandis-Dumai. The Government allocated Rp323.17 billion in the Revised 2011 Budget, Rp117 billion in the Revised 2012 budget, and Rp160 billion in the Revised 2013 Budget to fund the three toll road PPP projects.

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

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

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

Government Regulation No. 1 of 2008 on Government Investment, dated February 4, 2008, as amended by Government Regulation No. 49 of 2011, provides mechanisms for government investment in various sectors, including investment in both debt and equity securities as well as direct investment through the purchase of equity or the provision of loans. Government investment will be conducted and managed by a Government Investment Agency which will be regulated and supervised by the Minister of Finance.

On May 22, 2008, the Government issued Presidential Instruction 5/2008, which aims to increase transparency in the Government’s programs to alleviate poverty and unemployment. The Economic Program for 2008-2009 addresses a range of issues relating to the improvement of the investment climate, financial sector reforms, the energy sector, natural resources, environment and agriculture, the empowerment of micro, small and

medium enterprises, the ASEAN economic community, labor and transmigration and related infrastructure development issues. The Presidential Instruction 5/2008 seeks to implement the following measures: (i) improvement of institutional services in banks, state-owned-enterprises, energy companies and agricultural companies, and of services related to distribution of goods, custom facilities, taxation services and land registration; (ii) simplification of procedures for application of business licenses regionally and nationally; and (iii) increase in quality and productivity of each sector particularly the banking, energy and agriculture sectors. The Presidential Instruction 5/2008 requires certain details regarding each program to be specified, including clear targets, timetable and a responsible minister or head of agency.

In late 2010, the Government showcased five infrastructure PPP projects: (i) Tanah Ampo Cruise Terminal, Bali (estimated investment value: U.S.\$36 million); (ii) Soekarno Hatta — Manggarai rail link (estimated investment value: U.S.\$2 billion); (iii) Coal Fired Power Plant, Central Java (estimated investment value: U.S.\$4.0 billion); (iv) Medan-Kuala Namu-Tebing Tinggi toll road, North Sumatra (estimated investment value: U.S.\$628 million); and (v) Umbulan Water Supply, East Java (estimated investment value: U.S.\$204.2 million). The projects are at various stages of development.

The Government will focus on preparing, transacting, financing and constructing these projects as a showcase for infrastructure development through the public-private partnership scheme.

The Government currently has two main strategies for infrastructure development, being the MP3EI and the National Logistic System (*Sistem Logistik Nasional* or **Sislognas**). For further information on MP3EI, see “*Key Regulatory Updates — Master Plan for Acceleration and Expansion of Indonesia’s Economic Development 2011-2025*.”

In 2014, actual capital expenditures was Rp147.3 trillion as compared to Rp180.9 trillion for capital expenditure in 2013. This budget was allocated for the development of six infrastructure projects, including electricity, air, road, railway, port, and agriculture infrastructure. These projects include, among others, development of long distance electricity transmission networks, construction of new airports and revitalization of old airports, procurement of new land transportation vehicles and expansion of irrigation networks. In the Revised 2015 Budget, the Government allocated Rp275.8 trillion for capital expenditure.

In the future, the Government has provided assurance with regard to its focus in infrastructure development through national development goals. Within its national medium-term plan, the Government has allocated Rp5,519.4 trillion for the development through 2019. This investment consists of various projects including the following: (i) 2,650 km of roads; (ii) 1,000 km of toll roads; (iii) 46,770 km of road maintenance; (iv) 15 new airports; (v) 20 airplanes for pioneer routes; (vi) 3,258 km. of railways; (vii) 21.4 million additional households having access to running water with connection of 268,680 liter/second; (viii) broadband connections in all districts and cities; (ix) public transportation in 29 cities; (x) public apartment leasing for 515,711 houses and stimulant support for 5.5 million and loan facilities for 2.5 million houses; (xi) waste disposal system for 227 districts focusing on 430 cities; (xii) maritime toll roads including public and bulk cargo services, shipyard revitalization and 24 new ports; (xiii) 49 reservoirs and 33 hydropower generation units and three million hectares of irrigation systems; and (xiv) two refineries processing 300,000 barrels per day.

Under the Government’s medium term plan, the major infrastructure projects include:

- Electricity: the Central Java power plant project
- Water Supply: Umbulan, Bandar Lampung, Southern Bali and Lamongan supply projects
- Ports: 24 new ports developed by state-owned port operator companies amounting to Rp70.56 trillion with major projects comprising Tanjung Priok in Jakarta (amounted to Rp28.1 trillion), Teluk Lamong near Surabaya (Rp4.6 trillion), Kuala Tanjung International hub in Malacca Straits (Rp 4 trillion), and Sorong West Pacific Hub Port the expansion of Tanjung Priok Hub Port (Rp4 trillion). Sea ports financed by Government budget such as Batu Ampar in Batam and the Tanah Ampo Cruise Terminal at Kabupaten Karangasem Bali are also major infrastructure projects listed in the Government’s medium-term plan.
- Railways: such as the Manggarai-Soekarno Hatta railway track project and the Central Kalimantan coal railway project
- Airports: Kertajati airports project

- Toll roads: Trans Sumatra toll road network (totaling Rp79.3 trillion of which Rp44 trillion is to be financed by state budget allocated to PT Hutama Karya through paid in capital and the rest by corporate debt) comprising eight sections, namely the Medan-Binjai, Palembang — Simpang Indralaya, Pekanbaru — Dumai, and Bakauheni — Terbanggi Besar from the first phase and Terbanggi Besar — Pematang Panggang; Pematang Panggang — Kayu Agung; Palembang — Tanjung Api-Api; and Kisaran — Tebing Tinggi from the following phase; Trans Java toll road project; and several projects in various regions. The project is expected to result in over 1000 km of toll roads.

Transportation

Indonesia consists of 17,504 islands, and the transportation network relies more heavily on sea and air transportation as compared to most other countries of comparable size. In terms of land transportation, which accounts for 92.0% and 84.0% of freight and passenger movement, respectively, as of December 2015, Indonesia had approximately 511,236 km of roads, consisting of approximately 47,017 km of national roads, approximately 53,642 km of provincial roads, approximately 415,848 km of municipal and city roads, and approximately 820 km of toll roads. Most road networks in and around major cities are heavily congested, while many inter-urban and rural road networks are in poor condition and are in need of repair. Public funds for road maintenance and construction are insufficient, and the Government is encouraging private participation and investment in building toll roads, mostly in Java, Sumatera and Sulawesi. As of December 31, 2012, Indonesia had 8,159 km of railways 4,969 km of which were in operation. As of September 25, 2015, the land transportation system included 823 bus stations, serviced by 23,020 inter-provincial buses and 20,524 tourist buses. In terms of sea transportation, as of December 31, 2012, Indonesia had: (i) 2,179 ports, 111 of which served as international ports to facilitate export-import cargo traffic; (ii) 214 inland waterway transport routes with a total navigable length of 34,342 km; and (iii) 229 ferry routes serviced by 335 vessels consisting of 321 roll-on, roll-off transport vessels and 14 landing craft tanks. As of December 31, 2014, Indonesia operated 237 airports, of which 27 were international airports. International flights into and out of Indonesia are serviced by 53 international airlines, of which 49 are passenger airlines and four are for cargo. The domestic market is serviced by nine airlines, six of which are passenger airlines and three for cargo.

Currently, several toll road projects are being developed in Indonesia. In 2015 the Ministry of Public Works and Public Housing (**PUPERA**) focused on accelerating the development of the following highway projects: the Trans Java Toll Road, the Non Trans Java Toll Road, the Trans Sumatra Toll Road, the Manado-Bitung Toll Road and the Balikpapan-Samarinda Toll Road.

In August, 2015, PUPERA released its progress report on the construction of highways in Indonesia. The report set out the land acquisition and construction status for the nine sections of the Trans Java toll road with section 1, Cikampek-palimanan, commencing operations on June 3, 2015. For sections 2 to 9 the land acquisition and construction status was as follows: section 2: Pejagan-Pemalang 42.0% land and 10.0% construction; section 3: Pematang-Batang, land acquisition 1.9% and construction 0.0%; section 4: Batang-Semarang, land acquisition 20.3 and construction 0.0%; section 5: Semarang-Solo, land acquisition 61.6% and construction 31.4%; section 6: Solo-Ngawi, land acquisition 89.5% and construction 15.2%; section 7: Kertosono Ngawi, land acquisition 67.0% and construction 0.0%; section 8: Mojokerto-Jombang-Kertosono, land acquisition 90.9% and construction 66.4%; and section 9: Mojokerto-Surabaya, land acquisition 82.2% and construction 33.5%.

For the Non Trans Java Toll Road, which consists of eight sections, the land acquisition and construction status of each of the eight sections was as follows: section 1: Ciawi-Sukabumi, land acquisition 25.2% and construction 0.0%; section 2: Gempol-Pandaan, land acquisition 99.8% and operational since June 12, 2015; section 3: Gempol-Pasuruan, land acquisition 53.1% and construction 36.9%; section 4: Pasuruan-Probolinggo, land acquisition 0.0% and construction 0.0%; section 5: Wonokromo Waru-Tanjung Perak, land acquisition 0.0% and construction 0.0%; section 6: Bali Mandara (Nusa Dua-Benoa-Ngurah Rai) has been operational since September 2013; section 7: Cileunyi-Sumedang-Dawuan, land acquisition 31.3% and construction 65.3% (section I Phase I); and section 8: Serang-Panimbang, land acquisition 0.0% and construction 0.0%.

For the Trans Sumatra Toll Road, which consists of seven sections, the land acquisition and construction status of each of the seven sections was as follows: section 1: Medan-Binjai, land acquisition 70.0% and construction 1.2%; section 2: Medan-Kuala Namu-Tebing Tinggi, land acquisition 86.0% and construction 32.0%; section 3: Pekanbaru-Dumai-Kandis, land acquisition 7.7% and construction 0.0%; section 4: Palembang-Indralaya, land acquisition 34.5% and construction 0.0%; section 5: Bakauheni-Terbanggi Besar, land acquisition 0.2% and construction 0.0%; section 6: Terbanggi Besar-Kayu Agung, land acquisition 0.0% and construction

0.0%; and section 7: Kayu Agung-Palembang-Betung, land acquisition (section I) 100.0% and construction 0.0%.

With respect to the Manado-Bitung toll road, the land is still in the process of being acquired via an auction process. Land acquisition for the Manado Ringroad-SS Sukur and SS Sukur-SS Airmadidi development has reached 94.9% and 5.5%, respectively.

For the Balikpapan-Samarinda toll road, which consists of five sections, the average land procurement is above 50%, with the status of each section as follows: section 1: Samboja (80.4%); section 2: Sp. Samboja-Palaran 1 (98.28%); section 3: Samboja-Palaran 2 (98%); section 4: Palaran-JBT Mahkota (55.71%); and section 5: km13-Sepinggan (54%). The contract for the auction process relating to section 1 was signed on April 27, 2015. The contract for the auction process relating to section 5 was signed on September 23, 2015.

The construction of the Jakarta Outer Ring Road Project was completed in 2015. The Government is continuing to prepare the remaining segments of the Trans-Java Toll Road Project and completion of the project is targeted for sometime in 2016. The ten model projects introduced at the IICE include two toll road projects and one transportation facility project. The Solo-Kertosono Toll Road is planned to be 180.02 km long and to cost approximately U.S.\$1,294.3 million, and the Government expects that 120 km of the road will be constructed by the private sector and 60.02 km will be constructed by the Government. The Medan-Kualanamu-Tebing Tinggi Toll Road in Sumatera is planned to be 60.8 km long of which 17.8 km of the toll road (costing approximately U.S.\$123 million) will be constructed by the Government (using a loan from The Export-Import Bank of China) to support the development of the new Kualanamu Airport with the remaining 43 km to be tendered for construction. To accelerate the implementation of this project, the local Government authorities have submitted a proposal for dividing the project into two phases. Under this proposal, the first phase is expected to entail construction of 20 km of road at a cost of U.S.\$163 million. The transportation facility included among the model projects is the expansion of the seaport at Teluk Lamong near Surabaya, which is estimated to cost U.S.\$179 million. As of November 2014, 17.6% of the Medan-Kuala Namu-Tebing Tinggi toll road had been completed, with completion scheduled for sometime in 2016.

In addition, railway projects are planned to be developed in the provinces of Aceh, North Sumatera, Riau, West Sumatera and South Sumatera, Lampung and South Sulawesi, as well as in Java and several urban railways in Jakarta, Bandung, Yogyakarta, Surabaya, Medan, Makassar and Manado. In 2008, construction began on the Aceh Railway Project and certain segments of the Java Railway Project and is ongoing. The Government is also studying the feasibility of railway projects in Kalimantan, Sulawesi and Papua and an elevated train and subway system in Jakarta. The new Medan Airport commenced operations in July 2013. There are several railways strategic projects such as the Construction of Java North Line Railway Double Tracking. The total length of the projects is 432 km connecting Cirebon-Semarang-Surabaya, with an estimated cost of Rp10 trillion, and the projects were fully operational in August 2014. The Java South Line Railway is also being constructed, which includes: (A) Double Tracking from Cirebon-Kroya consisting of 158 km (which is further divided into three segments: (i) connecting Cirebon-Larangan (57 km) and Larangan-Prupuk (18 km); (ii) connecting Prupuk-Purwokerto (56 km); and (iii) connecting Purwokerto-Kroya (28 km)), (B) Double Tracking from Kroya-Kutoarjo consisting of 76 km and (C) Double Tracking from Solo-Surabaya consisting of 253 km. In another strategic project, the Government issued President Regulation to accelerate the Development of LRT for Jabodebe area and Palembang City.

Another strategic initiative is the construction of railway access to airports. Three of these projects include the construction of a railway lines into Soekarno-Hatta International Airport, Minang Kabau International Airport and an elevated railway double track from Medan to Kualanamu Airport. Two lines have been proposed, the Express Line and the Commuter Line. The Express Line will be 33 km long and will be financed through a public private partnership (PPP) scheme. The estimated cost is approximately Rp23 trillion. The Commuter Line will be built by state-owned entities. Railway development has opened up opportunities for private coal railway development in: (i) Muara Enim to Tanjung Api-Api (South Sumatera Province) which consists of 300 km of rail; (ii) Tanjung Enim (South Sumatera Province) — Pulau Baai (Bengkulu Province) which consists of 310 km of rail; (iii) Puruk Cahu-Bangkuang (Central Kalimantan Province) which consists of 290 km of rail; and (iv) Muara Wahau-Lubuk Tutung (East Kalimantan Province) which consists of 120 km of rail.

To reform and further develop the transportation sector and associated infrastructure and to improve the legal framework for investors in the transportation sector, the Government has introduced various new laws and regulations and is discussing additional regulatory improvements. These new laws and regulations include Law No. 1 of 2009 on Aviation; Law No. 22 of 2009 on Traffic and Land Transportation; Law No. 23 of 2007 on

Railway; Law No. 17 of 2008 on Shipping; Government Regulation No. 56 of 2009 on Railway Operation, Government Regulation No. 61 of 2009 on Port as amended by Government Regulation No. 64 of 2015 and Government Regulation No. 20 of 2010 on Water Transport as amended by Government Regulation No. 22 of 2011. Government Regulation No. 32 of 2011 on Traffic Management and Engineering, Impact Analysis and Demand Management, Government Regulation No. 37 of 2011 on Traffic and Transportation Forum, Government Regulation No. 55 of 2012 on Vehicles and Government Regulation No. 80 of 2012 on Inspection Procedures of Motor Vehicle on the Roads and Enforcement of Traffic Violation and Transportation. One focus of these reforms is to encourage private sector participation in the development of the transportation sector by providing greater opportunities for private sector participants to invest in the development of roads, inland waterways, ports, airports and railways. Another focus of the reforms is to improve safety standards within the industry by ensuring that the Government in its capacity as industry regulator continues to work closely with the operators and developers within the industry.

One of the recent reform initiatives concerning the transport sector and associated infrastructure involves minimizing traffic congestion in Jakarta. In connection with this, Presidential Regulation on the Transportation Authority at Jakarta, Bogor, Depok, Tangerang, Bekasi (**Jabodetabek**) and Government Regulation on the Mandate of Law No. 22 of 2009 on Traffic and Land Transportation were issued and the Board of authority has already established. Construction of the Jakarta Mass Rapid Transit (Phase One), connecting Lebak Bulus to Bundaran Hotel Indonesia, commenced on October 10, 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 2018. Also, two additional bus-way corridors have been developed; the construction of the remaining sections of the tolled ring road circling the outer city of Jakarta, the Jakarta Outer Ring Road, has been completed; a Master Plan Intelligence Traffic System at Jabodetabek is currently in the planning stages; and a non-toll road flyover, the Antasari — Blok M flyover, became operational at the end of 2012.

The National Road Safety Master Plan (Rencana Umum Nasional Keselamatan (RUNK) Jalan), introduced in 2011, focuses on road safety. The goal of the plan is to reduce traffic accident fatality rates by 80.0% by 2035. This plan is based on a five-pillar approach to road safety, which consists of road safety management, safe roads, safe vehicles, safe conduct on roads and how to tend to accident victims. On November 26, 2011, the Kutai Kartanegara Bridge across the Mahakam River at East Kalimantan collapsed. On November 28, 2011, the Coordinating Ministry for Public Welfare released an official statement stating that there were 10 fatalities and 33 others reported missing as a result of the accident. The Coordinating Ministry for Public Welfare and the Ministry of Public Works, among others, investigated the cause of the collapse and concluded that the bridge collapsed due to construction and maintenance oversights.

Moreover, in the railway sector, the Directorate General of Railways established the National Railways Master Plan in April 2011, which covers, among other things, national railway planning through 2030. Under the National Railways Master Plan, by 2030 the railway network is expected to cover 12,000 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 for strategies to achieve its goals by 2030, such as strategies regarding railway network development, increasing security and safety, technology transfer and industrial development, human resources development, institutional development, investment and financing. The National Railways Master Plan is expected to serve as a guideline for national railway development up to 2030 for national and local governments as well as the private sector.

Electricity

Indonesia has gradually been opening electric power services to competition from the private sector. In 1990, the Government converted PLN from an agency with a social purpose to a limited liability company with a profit motive. Private investment in power plants has been permitted since 1992. Growth in electricity consumption averaged 7.1% per year between 2010 and 2015 and was 2.0% as of December 31, 2015, on a year-on-year basis.

On September 23, 2009, the Republic enacted Law No. 30 of 2009 on Electricity, which reorganizes the electricity sector in the country and aims to adopt the principles of utility, efficiency and sustainability. This law affirms that the power supply business shall be controlled by the state and used for the prosperity of the people with its organization being conducted by the Government and local governments. The Government and local governments shall conduct power supply business, with implementation undertaken by the state-owned-enterprises and region-owned enterprises. To enhance the capability of the state in power supply activities, this law gives opportunities to private enterprises, cooperatives and self-reliant communities to participate in the

power supply business. Power supply businesses are power generation, transmission, distribution or electricity retailing which could be conducted in an integrated manner. The Government or local governments shall within the autonomy principles issue power supply business licenses. This law also governs the issuing of power supply business areas to other license holders aside from PLN, application of regional tariffs applicable only for one certain business area, electrical grid utilization for telecommunications, multimedia and informatics, as well as cross-border electricity trading.

On September 23, 2002, Indonesia enacted Law No. 20 of 2002 on Electricity, which required significant changes in the electricity sector. Under this law, open competition for power generation was to be introduced by 2007. The law brought an end to PLN's monopoly on electricity distribution within five years, after which time private companies (both foreign and domestic) would be permitted to sell electricity directly to consumers. However, all companies would need to use PLN's existing transmission network. In December 2004, the Constitutional Court annulled the 2002 electricity law on the grounds that competition in the Indonesian electricity industry contradicted Article 33 of the Constitution, which states that the Government should control businesses affecting the lives of a majority of the Indonesian people. The Constitutional Court further held that: (i) all contracts or permits that had been entered into or issued under the 2002 electricity law would remain valid until their expiration; (ii) the previous electricity law of 1985 would be reinstated; and (iii) the Government would need to prepare a new electricity law which was consistent with Article 33 of the Constitution. The annulment of the 2002 electricity law did not affect existing independent power producers because they are required to be connected to PLN's electricity grids. In light of these developments, on September 23, 2009, the Republic enacted Law No. 30 of 2009 on Electricity. On December 8, 2009, a request for judicial review of this new electricity law was once again filed with the Constitutional Court by PLN's labor union. On December 31, 2010, the Panel of Constitutional Court Judges rejected the request, ruling that:

- a. The possession of relative majority power by the Government would remain to give the Government a sounding vote in the making of the business entity's management decisions engaged in the power generation business; and
- b. Article 33 of the Constitution does not prohibit competition amongst business actors, so long as the competition does not vitiate the state's power to govern, manage, maintain and supervise the sectors of production that are important for the country, affect the lives of the people and promote the prosperity of the public.

As of January 31, 2016, Indonesia had an installed electrical generating capacity of approximately 54.48 gigawatts, with approximately 5.3% coming from oil/gas steam, approximately 12.3% from diesel, approximately 9.4% from hydro power, approximately 26.3% from gas, approximately 2.6% from geothermal power, approximately 43.3% from coal-fired power plants and approximately 0.6% coming from renewable energy mini-scale power plants. PLN owns approximately 34.14 gigawatts or 70.0% of the installed capacity, IPPs own approximately 11.52 gigawatts or 21% of the installed capacity, PPU own about 2.35 gigawatts or 4% and Non-Oil IO own about 2.4 gigawatts or 5%. The electricity sector faces numerous challenges in its development, including: (i) a mismatch between the availability of primary energy resources, which are located mostly outside Java and Bali, and demand for electricity, which mostly comes from Java and Bali; and (ii) the limited availability of Government funds and other resources to finance the construction of new power plants and transmission and distribution networks. In its infrastructure development initiatives, the Government has placed special emphasis on the development of power generation plants, particularly coal-fired power plants, in order to reduce dependence on oil for power generation. One of the Government's ten model projects introduced at the IICE is a power generation project, the central Java coal-fired power plant. The feasibility study of this project has been completed, and the pre-qualification stage for bids was completed in November 2009. Seven bidders passed the pre-qualification process. In June 2011, PLN issued a determination of the winner and a power plant agreement was signed on October 6, 2011. Recently, the Government issued Presidential Regulation No. 78 of 2010 regarding Infrastructure Guarantee for Public Private Partnership Projects through the Infrastructure Guarantee Agency. Pursuant to this, the Government will provide a guarantee for the central Java coal-fired power plant. The central Java coal-fired power plant is divided into two units which are expected to become operational in 2019. In October 2014, the Government introduced new regulations including, among others, Government Regulation No 79 of 2014 to replace Presidential Regulation No. 5 of 2006 on National Energy Policy to encourage the development of the energy sector, through various initiatives such as the search and the increase of fossil energy reserves, the development of new energy and renewable energy, restoration of environmental function and conservation of energy resources. To show the Government's commitment, on August 26, 2015, President Joko Widodo, commenced the groundbreaking for the Central Java Coal Fired Power Station.

Additionally, the Government has instructed PLN to accelerate its construction of coal power plants with an aggregate capacity of 10,000 MW and associated transmission lines, the total generation and transmission value of which is estimated at U.S.\$6.7 billion and for which the Government has pledged certain credit support. PLN entered into construction contracts in relation to 34 power plants comprising the 10,000 MW power plants program, and the Government expects construction of these plants to be completed by the end of 2016. As of January 20, 2016, the total generating capacity of the coal fired power plants in the first 10,000 MW phase was approximately 7,894.5 MW (79.5% of the total project). Since March 22, 2013, the Government has been a party to the service level agreement between PLN and related stakeholders in the electricity industry in Indonesia, such as the Coordinating Ministry of Economics, the Ministry of Finance, Ministry of Energy and Mineral Resources, the Ministry of State-Owned-Enterprises, the Ministry of Transport, the Ministry of Forestry, the Ministry of Domestic Affairs, the Ministry of the Environment, SKK Migas, BPH Migas and the BPN. The purpose of this agreement is to enhance the completion of electricity development in Indonesia and also forms part of the Government's commitment to PLN, and is periodically supervised by UKP4 (Presidential Delivery Unit). The aggregate value of the construction contracts is approximately U.S.\$10 billion (assuming exchange rates of U.S.\$1 = Rp9,000 and €1 = Rp12,153.86). Higher levels of investment in power generation, transmission and distribution lines and facilities will also be required to meet expected demand. The Government expects that from 2015 through 2024, the electricity sector will require approximately U.S.\$97.06 billion in investment for the development of additional generation capacity, approximately U.S.\$20.56 billion in investment for electricity transmission and approximately U.S.\$14.53 billion in investment for electricity distribution.

On November 13, 2008, the Ministry of Energy and Mineral Resources introduced the National Electricity General Plan 2008-2027 to coordinate infrastructure development for the various regions of Indonesia and on August 13, 2015, MEMR submitted the draft of the National Electricity General Plan 2015-2034 to the House of Representatives of the Republic of Indonesia to be consulted before being assigned by the Government. Indonesia will require additional power generation capacity of approximately 237,020 MW by 2031.

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

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

MEMR Regulation No. 22 of 2012 on the Obligation of PLN to Purchase Electricity from Geothermal Power Plants and the Standard Purchase Price for Geothermal Power by PLN was issued to replace MEMR Regulation No. 2 of 2011 and to set out how PLN purchases geothermal power. This regulation aims to accelerate the development of geothermal power as mandated by Government Regulation No. 59 of 2007 on Geothermal Business Activities as amended by Government Regulation No. 70 of 2010, in particular the second-phase geothermal development of 10,000 MW. The Regulation sets the purchase price for geothermal power at 10-18.5 U.S. cents/kWh depending on the region and the type of voltage transmission which connects the geothermal power plants to the system. The price at which PLN will purchase geothermal power will be non-negotiable. MEMR Regulation No. 17 of 2014 on the Obligation of PLN to Purchase Electricity from Geothermal Power Plants and the Standard Purchase Price for Geothermal Power by PLN was issued to replace MEMR Regulation No. 22 of 2012 and to set out how PLN purchases geothermal power. The Regulation sets the purchase price for geothermal power at 11.8-29.6 U.S. cents/kWh depending on the region and commercial operation date of the project.

MEMR also issued MEMR No.09/2014 as amended by MEMR No.19/2014 under which the Government has been gradually increasing the electricity power tariff for industry bi-monthly since July 1, 2014. The new tariff will be applicable to consumption of electricity power for social services, household/domestic purposes, business and Government buildings and public road lighting interests. By increasing the electricity power tariff, the Government aims to maintain the sustainability of electricity power supply, increase the quality of service to consumers, improve the electrification ratio and promote a more focused electricity power subsidy. MEMR No. 19/2014 has been revoked and replaced by MEMR No. 31/2014 as amended by MEMR No. 09/2015.

Based on PLN's 2015-2024 Electricity Supply Business Plan (*Rencana Usaha Penyediaan Tenaga Listrik* or **RUPTL**), national electricity needs are expected to grow at a rate of approximately 8.7% per year. To meet

the demand and to support the Government program, the Government has planned to increase plant capacity by 70.43 gigawatts by 2024 or approximately 7.04 gigawatts per year on average. Considering that the demand for electricity in 2024 is still expected to be concentrated in the Java-Bali and Sumatera electricity system, the biggest increase in plant capacity will be in Java-Bali electricity system (38.53 gigawatts) and Sumatera (17.73 gigawatts).

To meet the demand for electricity, the Government has launched the 35,000 MW electricity development program. This program is expected to be fully implemented by 2019 and the Indonesian electrification ratio is expected to reach 97.4%. Participants in the program are mostly IPPs (71.4%) and PLN (28.6%). Most of the project are designed to be built along the PLN electricity system which is in deficit.

The Government needs approximately U.S.\$72.942 million to fund and complete the 35,000 MW electricity project, which consists of (a) 291 power plant projects approximately U.S.\$53.663 million, (b) 732 transmission projects at a cost of approximately U.S.\$10.893 million and (c) 1.375 unit power transformer projects approximately U.S.\$8.386 million.

The Government is working on six strategic policies for electricity sector development in Indonesia, including: (i) increase of electrification ratio; (ii) increase of power plant capacity; (iii) expansion of electricity transmission network; (iv) revitalization of electricity distribution; (v) improvement of the energy mix by reducing oil utilization in power generation; and (vi) development of renewable energy (including hydro, geothermal, solar and wind) development policy, which includes maximizing the use of geothermal power plants.

Telecommunication

Through the 1990s, the Indonesian telecom sector was dominated by Telkom as the sole operator for local and domestic long-distance services and Indosat as the sole operator for international long-distance service. To enable fair competition and a level playing field and to improve service quality, the Government ended the monopoly era in basic telephony services through early termination of the exclusive rights of Telkom and Indosat. The transition towards full competition was made in steps, with limited competition in the form of a duopoly policy introduced for local service in 2002 and expanded to domestic long-distance and international service in 2003. As of December 31, 2013, three operators, Telkom (including its subsidiary, Telkomsel), Indosat, and XL-Axiata held market shares of approximately 41.99%, 19.02%, and 19.33%, respectively, in terms of number of mobile phone subscribers.

Fixed mobile services, also known as fixed wireless access, are wireless mobile services which are confined by the service provider to a certain designated coverage area and do not provide for roaming services to areas outside the designated coverage area. As of December 31, 2013, the number of mobile phone subscribers was approximately 313 million, while the number of fixed mobile service subscribers was approximately 18.5 million. As of December 31, 2014, the number of mobile phone service subscribers increased to approximately 325 million, while the number of fixed mobile service subscribers decreased to approximately 16.3 million. The decrease in the number of fixed mobile service subscribers was primarily due PT Telkom diverting the fixed mobile service into mobile service. Telecommunication penetrations as at December 31, 2014 was as follows: (i) fixed line penetration of 3.2%; (ii) fixed mobile service penetration of 5.3%; and (iii) mobile service penetration of 91.43%. The trend in recent years is a declining use of land lines and increasing use of mobile services. To support telecommunications penetration in the Republic, the Government has maintained a Universal Service Obligation (USO) program since mid-2003. Originally funded by the national budget, Government Regulation No. 28 of 2005 on Tariff of Types of Non Tax State Revenue Applied in the Ministry of Communication and Information Technology was enacted on July 5, 2005 requiring the contribution of 0.75% of telecommunications operators' gross income to the USO program. In January 2009, the contribution of telecommunications operators' gross income to the USO program was increased to 1.25% by Government Regulation No. 7 of 2009 as amended by Government Regulation No. 76 of 2010 (no change in percentage of contribution is stipulated). As of December 31, 2013, 33,184 villages were included in the USO program and gained access to telephone services while 5,956 cities (*kecamatan*/subdistrict) gained access to internet services. To ensure the sustainability to implement of the USO program, in collaboration with other institutions, the Government redesigned the USO program to a more bottom-up approach, with local governments or other governmental ministries initiating and proposing the projects to be implemented with USO. The Ministry of Communication and ICT will survey and fund the infrastructure and access, whereas the counterpart institutions will make sure the utilization of the project is in accordance with the proposal.

On November 24, 2009, the Government entered into a procurement and installation contract to develop the Palapa Ring Mataram-Kupang submarine cable system. PT Telkom completed the development of the submarine

transport backbone from Mataram to Kupang in November 2011, providing an initial capacity of 40 gigabytes. The Palapa Ring Mataram-Kupang submarine cable system provides a network link between Mataram and Kupang, connecting the islands of Lombok, Sumbawa, Sumba, Flores and Timor.

Due to the importance of broadband networks to the economic growth, the Government formulated the Indonesia Broadband Plan (IBP) through Presidential Decree No. 96 of 2014 on Indonesia Broadband Plan 2014-2019. The formulation of IBP was done through multi-stakeholders collaboration and coordinated by the Ministry of National Development Planning, along with other ministries such as Ministry of Communication and Information Technology, Ministry of Finance, Coordinating Ministry for Economic Affairs, Detiknas, Indonesian Telecommunication Society (Mastel), and many other stakeholders. The IBP consists of a policy document and implementation plan. The policies document outlines Indonesia's current broadband condition and ecosystem, the importance of broadband for Indonesia's competitiveness, and the policy, strategies, and targets for Indonesia's broadband implementation. The implementation plan outlines the six primary programs of the IBP implementation such as the deployment of Palapa Ring, Passive Infrastructure Sharing (Duct Sharing), Rural Terrestrial Broadband Pilotting, Government Networks and Consolidated Data Center, USO Reform, and human resource and industry improvement in ICT sector. It also identifies five priority sectors to utilize the IBP which are e-Government, e-Education, e-Health, e-Logistic, and e-Procurement.

Water

Based on the National Indonesian Statistical criteria in 2013, 67.7% of the Indonesian population has access to adequate drinking water. Compared to 2012, the national access to adequate drinking water grew by 1.7% in 2013. This increase was fueled primarily by the improvement of the performance of Perusahaan Daerah Air Minum (PDAM), a government-owned water company throughout the country and the implementation of a community-based water supply and sanitation project (*Penyediaan Air Minum Berbasis Masyarakat or AMSIMAS*). In addition to this, in 2012 the National Statistic Bureau improved the methodology used to calculate access to adequate water supply based on the criteria prescribed by the MDGs. Indonesia is on course to achieve the MDGs target of giving 68.9% of its population access to adequate drinking water services by 2015.

Sanitation conditions in Indonesia are relatively underdeveloped, which may affect the quality of surface and groundwater. Improved sanitation coverage is still limited to approximately 59.7% of the Indonesian population. Population growth is expected to put increasing pressure on the existing water supply and sanitation systems and the Government aims to achieve a targeted 62.4% of accessible sanitation services by 2015.

The Government has undertaken programs and activities to improve access to clean water and sanitary conditions and aims to meet the targets it has set by 2015. To overcome problems regarding clean water, including relatively low investment, lack of comprehensive legislation, a low rate of community and private sector involvement and low quality of management, the Government has issued policies designed to improve service coverage, managerial quality and capacity for water services and to increase the involvement of communities, private entities and international support agencies in the sector. Regulatory reform aims to improve the investment climate and increase government accountability.

On February 18, 2015, the Indonesian Constitutional Court, through decision No. 85/PUU-XI/2013, determined that Law No. 7 of 2004 on Water Resources (Law No. 7/2004) was unconstitutional and therefore no longer valid. Several implementing regulations of Law No. 7/2004 were also seen as unconstitutional, namely: (i) Government Regulation No. 16 of 2005 on Development Drinking Water Supply System; (ii) Government Regulation No. 20 of 2006 on Irrigation; (iii) Government Regulation No. 42 of 2008 on Water Resources Management; (iv) Government Regulation No. 43 of 2008 on Ground Water; (v) Government Regulation No. 38 of 2011 on Rivers; and (vi) Government Regulation No. 73 of 2013 on Swamps. The Indonesian Constitutional Court then ordered that Law No. 11 of 1974 on Irrigation be effective to fill the void left by the unconstitutionality of Law No. 7/2004. As the implementing regulation of Law No. 11/1974, government has issued Government Regulation No 122 of 2015 regarding Water Resources Enterprise and Government Regulation No 122 of 2015 Regarding Water Supply and Minister of Public Works Regulation No. 1/PRT/M/2016 on Procedures for Licensing on the Exploitation and Use of Water Resources.

As of January 2015, five water supply projects had been tendered through public-private partnership schemes with a projected cost of approximately Rp5 trillion and two ready to offer water supply projects were to be tendered through public-private partnership schemes with a projected cost of approximately Rp1.3 trillion.

Public-Private Partnership (PPP)

The Government has recognized the vital role of PPPs for the country's future development and increasing economic growth. The implementation of PPPs in infrastructure is stipulated by Presidential Regulation No. 38 of 2015. This presidential regulation replaces Presidential Regulation No. 67 of 2015 and its amendments. This regulation governs PPPs for the following economic and social infrastructure projects. The purpose of Presidential Regulation No. 38 of 2015 is to accelerate infrastructure provision. As the implementing regulation of Presidential Regulation No. 38 of 2015, the Government has issued three regulations, namely Regulation of Minister of National Development Planning/Head of National Development Planning Agency No. 4 of 2015, Regulation of Head of National Procurement Agency (LKPP) No. 19 of 2015, and Minister of Finance Regulation (PMK) No.190/PMK.08/2015.

To accelerate the implementation of PPPs in infrastructure, the Minister of Finance issued the Minister of Finance Regulation (PMK) No. 223/PMK.011/2012 regarding Provision of Feasibility Support as Part of Construction Cost for PPP Project in Infrastructure Procurement called Viability Gap Fund (VGF) and Minister of Finance Regulation (PMK) No.164/PMK.06/2014 regarding Procedure for the Use of State Asset in Infrastructure Provision. VGF is a form of government support to increase the financial feasibility for PPP infrastructure projects. Some infrastructure projects (including toll road and water supply projects) may need this facility.

As of January 2015, a summary of PPP progress in Indonesia is as follows: 24 projects were tendered with a total investment of approximately Rp131 trillion; 23 projects consisting of 22 toll roads and one water supply project have become operational, two projects consisting coal fired power plant and railway project with a total investment of Rp113 trillion have reached financial close and 11 toll road projects are under construction.

Gross Savings and Investment

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

National Savings and Investments

	Year Ended December 31,			
	2011	2012	2013	2014 ^P
Savings (in trillions of Rupiah)	2,387.6	2,504.6	2,572.4	2,888.2
Investment (in trillions of Rupiah)	2,372.8	2,733.2	2,876.3	3,199.7
Surplus/(deficit) (in trillions of Rupiah)	14.8	(228.6)	(303.8)	(311.5)
Savings (% of GDP)	32.2	30.4	28.3	29.6
Investment (% of GDP)	32.0	33.2	31.7	32.6
Surplus/(deficit) (% of GDP)	0.2	(2.8)	(3.3)	(3.0)
GDP (in trillions of Rupiah)	7,423	8,242	9,084	10,543
Current account (in millions of U.S. dollars)	1,685	(24,418)	(29,109)	27,499
Average exchange rate (Rupiah per U.S. dollar) ⁽¹⁾	8,776	9,358	10,455	11,876
GNP (in trillions of Rupiah)	7,215	7,848	8,803	N/A
Current account balance (% of GDP)	0.2%	(2.8)%	(3.2)%	(3.1)%

Source: Bank Indonesia

^P Preliminary.

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

In the 30 years prior to the Asian financial crisis, investment and exports had been the primary sources of economic growth. During that period, the investment-to-GDP ratio averaged around 25.0%. That ratio fell to near 20.0% after the crisis. In the years leading up to the Asian financial crisis, Indonesia's gross domestic savings fell short of investment by an average of approximately 2.0% to 3.0% of GDP. The savings-investment gap was financed by foreign savings through net capital inflow. Declining investment and increasing net exports (declines in imports exceeding declines in exports) led to surpluses of savings over investment in 2001 and 2002. This continued surplus reflected limited domestic investment and continued transfer of national savings abroad (or net

capital outflow). The annualized total savings rate was, 32.2% of GDP for 2011, 30.4% of GDP for 2012, 28.3% of GDP for 2013 and 29.6% of GDP for 2014.

In 2011, the private sector surplus decreased to 1.3% of GDP because private investment growth increased at a higher rate than the growth in private savings. The government sector posted a deficit of 1.1% of GDP due to an increase in government investment and expenditure related to fuel subsidies necessitated by the high international oil price in the last quarter of 2011.

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

The total savings rate was 28.3% of GDP for 2013. However, in 2013, the savings — investment deficit increased to 3.3% of GDP, caused mainly by the deficit in the government sector. The deficit in the government sector was due to both higher investment as well as lower savings. Higher investment in the government sector was attributed primarily to increased capital spending in line with improvement in budget disbursement procedures and improved coordination among ministries. With respect to saving, rising energy subsidies have caused government spending to increase, thereby reducing savings. In the private sector, the savings — investment deficit rose slightly to 1.1% of GDP. In 2013, private savings also increased, but not as much as private investment which remained particularly strong. This development was partly explained by the fuel price increase, which in turn raised consumption spending and reduced the rate of savings.

In 2014 the savings-investment account posted a deficit of 3.0% of GDP. The total savings rate was 29.6% of GDP, while the total investment rate was 32.6% of GDP.

Foreign Investment

In 1973, the Republic established the Indonesia Investment Coordinating Board (Badan Koordinasi Penanaman Modal or BKPM) to accelerate economic growth by attracting foreign capital investment. BKPM's main function is to implement the Government's objectives for investment in the country. To reflect its goal of reducing unemployment and poverty, the Government plans to attract quality investments in seven business sectors, which are export oriented industries, industries to substitute imports of capital goods and raw materials, industries to substitute imports of consumer goods, downstream industries, industrial sectors with increasing domestic consumption, infrastructure, and tourism and creative industries. To assist investors with their queries regarding investment in Indonesia, BKPM formed the Investor Relation Unit in 2010.

FDI inflows to Asia in the first quarter of 2014 amounted to U.S.\$57,423 million, which resulted in an increase of 13.0% from previous year's FDI inflow during the first quarter of 2013 of U.S.\$50,967 million.

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 infrastructure the Government continues its comprehensive reform efforts to improve the business climate, including by introducing more investor-friendly investment regulations.

In June 2006, the Government and the Republic of Singapore signed the Framework Agreement on Economic Cooperation to develop the islands of Batam, Bintan and Karimun, located in the Riau archipelago approximately 50 km south of Singapore, into special economic zones. The development of the special economic zones will be conducted by the Government and the Republic of Singapore working together through two bodies, the Joint Steering Committee and the Joint Working Group. The special economic zones are expected to develop a legal infrastructure to promote investment, including reduced or eliminated taxes and streamlined regulatory and immigration procedures. The investment incentives offered in the free trade zones include no import or export tax and no VAT for all processing industries for export purposes. In 2007, the Government established Batam, Bintan and Karimun as free trade zones. In 2009, the House of Representatives enacted Law No. 39 of 2009 on Special Economic Zones (SEZ). The purposes of the SEZ provisions are to enhance investment activities, particularly through the provision of economic zones with particular economic and strategic

competencies; to maximize high-return economic activities; to develop the local region; and to enhance economic zone development.

There were 67 economic zones proposed to the Government as SEZs. Currently, there are eight SEZs in Indonesia:

- a. Tanjung Lesung SEZ, Banten as a tourism zone. It was enacted by Government Regulation No. 26 of 2012.
- b. Sei Mangkei, SEZ North Sumatera as industrial, logistic, and tourism zone. It was enacted by Government Regulation No. 29 of 2012.
- c. Palu SEZ, Central Sulawesi as industrial, logistic, and export-oriented industrialization zone. It was enacted by Government Regulation No. 31 of 2014.
- d. Bitung SEZ, North Sulawesi as industrial, logistic, and export-oriented industrialization zone. It was enacted by Government Regulation No. 32 of 2014.
- e. Morotai SEZ, North Maluku as industrial, logistic, export-oriented industrialization, and tourism zone. It was enacted by Government Regulation No. 50 of 2014.
- f. Tanjung Api-Api SEZ, South Sumatera as industrial, logistic, export-oriented industrialization, and energy zone. It was enacted by Government Regulation No. 51 of 2014.
- g. Mandalika SEZ, West Nusa Tenggara as tourism zone. It was enacted by Government Regulation No. 52 of 2014.
- h. Maloy Batuta Trans Kalimantan SEZ, East Kalimantan as industrial, logistic, and export-oriented industrialization zone. It was enacted by Government Regulation No. 85 of 2014.

Out of the above SEZs, the Sei Mangkei SEZ and Tanjung Lesung SEZ have already commenced operations.

The ACIA was signed on February 26, 2009 in Cham-am, Thailand to focus on regional cooperation among ASEAN countries and to implement the ASEAN Economic Community (AEC) in 2015. ACIA is a comprehensive investment agreement covering four investment pillars which are protection, liberalization, promotion and facilitation. The ACIA came into force on March 29, 2012 and was amended on August 26, 2014 in Nay Pye Taw, Myanmar. The ACIA amendments consist of the following points:

- a. the updating and endorsement of the ACIA Reservation List by the AIA Council;
- b. the enforcement of Reservation List Ratification for Brunei Darussalam, Indonesia, and Laos; and
- c. rearranging the mechanism and timing to ratify the Reservation List.

The Government has completed its review on the Bilateral Investment Treaties (BITs) between Indonesia and partner countries. It is expected that the final version of BIT will provide fair protection to both foreign direct investment in Indonesia and for Indonesian investors located overseas. The final version of BIT consists of 29 articles which is a legal text of 15 major principles that have been agreed in advance and are intended to provide guidance on investor protection and foreign investment in Indonesia, including but not limited to: (a) granting broader rights to the Government to set policies in pursuit of sustainable development; (b) clarification that a protected investment is an investment which has been approved by BKPM through the terms of the Law No.25 of 2007 on Investment; (c) avoidance treaty shopping as an effort to prevent the use of bilateral investment treaty with the other partner countries in the resolution of disputes and round tripping; (d) dispute resolution based on the investment contract or concession cannot use bilateral investment treaty (anti umbrella clause); (e) restrictions on the types of disputes that can be settled by international arbitration is limited to violations of discriminatory measures against provisions of: national treatment, most favored, standards of treatment, or expropriation regarding the compensation value; (f) settlement of disputes in the field of investment in international arbitration must obtain prior written approval from the Government in the form of consent in writing is made separately from the agreement. This is in accordance with the mandate of Law No.25 of 2007 on Investment in particular Article 32 paragraph 4.

In April 2007, the New Investment 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 New Investment Law and related regulations unify Indonesia's legal

framework for foreign investment. The most significant feature of the New Investment Law is that it provides equal treatment for domestic and foreign investors, subject to limits for foreign participation in certain sectors of the economy. The New Investment Law abolishes the requirement for gradual divestment by foreign investors (formerly, there was a 30-year time limit for foreign investment) and grants investors certain new privileges, including the right to appoint foreign management and the right of free repatriation of investment profits without nationalization (unless otherwise provided by law) or expropriation. The New Investment Law prohibits nationalization without indemnification at the market value and provides for unrestricted repatriation by stating owners should be compensated at the market value of assets should they be seized or nationalized. Any disputes in investment which arise between foreign investors and the Government may be settled through deliberation and international arbitration if agreed upon between the parties.

The latest revision of the Negative Investment List was ratified on April 24, 2014 with the enactment of Presidential Regulation No. 39 of 2014 on the List of Business Fields Closed to Investment and Business Fields Open with Conditions to Investment. The purpose of the revision is to increase investment in Indonesia and to implement Indonesia's commitment to the AEC. By revising the Negative Investment List, the Government also aims to: (i) prioritize the national interest and improve national competitiveness; (ii) maintain sustainable economic development and anticipate the impact of a global economic slowdown by increasing both domestic and foreign investment; and (iii) simplify investment regulations and provide legal certainty to investors. The legal certainty is provided by Article 3 which asserts that business fields not listed in appendices one and two to Article 1 and 2 of Presidential Regulation No.39 of 2014 are open to investment without conditions.

In this revision, 58 additional business sectors have been opened up to foreign direct investment, including: (i) port facilities under PPP schemes (piers, buildings, container delay terminals, liquid bulk terminals, dry bulk terminals, and Ro-Ro terminals); (ii) terminal construction; (iii) power plants under PPP schemes (power plants greater than 10MW, electric power transmission and electricity distribution); (iv) the pharmaceutical industry; and (v) advertising. In addition, there has been a reduction in the number of business sectors closed off to foreign direct investment which primarily include those businesses producing goods/services that are: (a) prohibited by Indonesian law; (b) dangerous; (c) polluting; and (d) strategically important for national security and/or heritage reasons.

The list of business fields closed to investment includes, but is not limited to, captivity of endangered fish, extraction of natural coral reefs to be used in construction materials, hazardous chemical industries, production and manufacture of alcoholic beverages and gambling and casinos.

With the enactment of Presidential Regulation No. 39 of 2014, the former Presidential Regulation No. 77 of 2007 on the List of Business Fields Closed to Investment and Business Fields Open with Conditions to Investment, as amended by Presidential Regulation No. 111 of 2007 on the Amendment to Presidential Regulation No. 77 of 2007 on the List of Business Fields Closed to Investment and Business Fields Open with Conditions to Investment, and Presidential Regulation No. 36 of 2010 on the List of Business Fields Closed to Investment and Business Fields Open with Conditions to Investment, were revoked and are no longer applicable.

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

One of the fiscal incentives provided by the Government is a tax allowance which is regulated by the Government Regulation No.18 of 2015 on Income Tax Facility for Investment in certain Business Fields and/or Certain Regions. This new regulation increases the number of business fields and regions that are entitled to a tax allowance from 129 to 143 fields of business.

The incentive provides (i) a 30.0% net tax deduction of total investment in the form of tangible fixed assets used for main business activities, imposed within a period of six years at a rate of 5.0% annually, calculated as of the commencement of commercial production; (ii) an accelerated depreciation of tangible assets and accelerated amortization of intangible assets acquired in the framework of new investment and/or business expansion (benefit period and tariffs are set out based on certain classifications); (iii) imposition of income tax on dividend payments to non-residents other than permanent establishment in Indonesia is 10%, or lower rate according to the

prevailing treaty on double taxation avoidance; and (iv) loss carry-forward from five years to a maximum of ten years.

In order to attract more foreign direct investment, the Government enacted Government Regulation No. 94 of 2010 on Taxable Income Calculation and Payment of Income Tax in Current Year (**GR No. 94/2010**), which provides an exemption from or reduction of corporate income tax for any company investing in industries that are deemed as pioneer industries and have a capital investment plan with a minimum Rp1 trillion value. According to Minister of Finance Regulation No. 159/PMK.010/2015 on the Provision of Corporate Income Tax Exemption or Reduction (**MOF No. 159/2015**), which further regulates GR No. 94/2010, pioneer industries include (i) the upstream metal industry; (ii) the petroleum refining industry; (iii) the organic chemical industry from petroleum and natural gas; (iv) machinery industry which produces special machinery; (v) processing industry of agricultural products, forestry, and fisheries; (vi) telecommunications industry, information and communication; (vii) marine transportation industry; (viii) processing industry which is a major industry in Special Economic Zones (**SEZ**); and or (ix) economic infrastructure using PPP schemes.

Under MOF No. 159/2015, any company investing in a pioneer industry will be entitled to a reduction of corporate income tax of between 10% to 100% of payable corporate income tax for a minimum five taxation years and a maximum of fifteen taxation years. The telecommunications, information and communications industries have benefitted from a reduction in the minimum investment size to Rp500 billion and a corresponding limit of 50% on corporate income tax deductibles. Under certain circumstances the tax exemption could be extended to maximum of twenty taxation years.

The Government also enacted Minister of Finance Regulation No. 176/PMK.011/2009 on Exemption of Import Duties on Machinery as well as Goods and Materials for Industrial Construction Development in the Framework of Investment as lastly amended by the Minister of Finance Regulation No. 188/PMK.010/2015. The incentive provides an exemption of import duty on certain machinery, goods and materials for business activities in manufacturing industries and service industries. The last amendment was one of the Government Economic Policy Package I-III which was issued to boost the development of, and expand job opportunities in, manufacturing and service industries, among other things, by way of eliminating the recommendation requirement for facilitation of custom duties of restructuring/development of industries.

To become eligible for the exemption, the machinery, goods or materials must be of the type of machinery, goods or materials that (i) are not in production in Indonesia and (ii) have been produced in Indonesia, but have not fulfilled the required specifications; or (iii) have been produced in Indonesia, but in an insufficient amount. This regulation sets out the types of investments that qualify for exemption from import duties for a period ranging from two to four years in relation to the purchase of machineries and materials in accordance with certain requirements. The industry sectors that benefit from this regulation include the manufacturing industry, service industries related to tourism and culture, public transportation, public health, mining, construction and the telecommunications sectors. The Investment Coordinating Board (**BKPM**) has published two Head of BKPM Regulations (**Perka BKPM**) related to the acceleration of application of tax holidays and tax allowance. Perka BKPM No.18 of 2015 replaces Perka BKPM No.8 of 2015 on Procedures for Application Income Tax Facilities for Investment in Certain Business Sectors and / or in Certain Regions (Tax Allowance). While changes regarding the application process for the grant of a tax holiday is regulated by Perka BKPM No.19 of 2015 on Amendments to the Regulation of the Head of BKPM No.13 of 2015 on Procedures for Granting Request of Corporate Income Tax Reduction Facility. Both of the regulations were issued to accelerate the process for both tax holiday and tax allowance application. The application to obtain a tax allowance initially took 28 working days and has now been accelerated to 25 working days (comprised of 18 business days in the management of BKPM and seven working days of the DGT, Ministry of Finance). The application to obtain a tax holiday originally took 125 working days and has now been accelerated to 45 working days (comprised of 25 working days in BKPM and 20 working days at the Fiscal Policy Office (**BKF**) of the Ministry of Finance.)

In addition, the Government Regulation No. 45 of 2008 on Guidance for Regional Incentives and Investment Facilities has encouraged local governments to give local incentives such as exemptions, deductions or reductions of local tax or free of other local government fees and charges, a stimulant grant or capital. There are also local investment facilities such as the provision of data and information of investment opportunities, infrastructure, land and location, technical assistance and the expedition of local licenses and permits. Domestic investments may be processed directly in the regional offices while foreign direct investment will continue to be processed in Jakarta.

The Government has enacted the Indonesia Investment Guidelines (the **RUPM**) through Presidential Regulation No. 16 of 2012 dated February 7, 2012, which sets out a long-term investment plan for Indonesia and

is valid until 2025. The RUPM provides guidance for the Ministry/Non-ministerial Government (**LPNK**), Provincial Government and District/City Government in formulating policies relating to investment activities. The guidelines set out seven investment policy directives, which are: (i) to improve the climate for investment in Indonesia, (ii) to encourage the distribution of investment, (iii) to increase focus on food, infrastructure and energy, (iv) to support sustainable investment (Green Investment), (v) to empower of micro, small, and medium enterprises, and cooperatives (**UMKMK**), (vi) to provide facilities to aid investment incentives, and (vii) to promote investments. According to Article 4 Paragraph 1 and 2 of the Presidential Decree No. 16 of 2012, provincial governments are to use the RUPM and potential provincial development priority as guidance when formulating Provincial Investment General Plans (**RUPMP**). The district/city government formulates the district/city investment general plan (**RUPMK**) by referring to the RUPM, the RUPMP as well as potential district development priority. As a guideline, BKPM issued the Chairman of BKPM's Regulation No. 9 of 2012 on Guidelines to Formulate Provincial Investment General Plan and District/City Investment General Plan to develop coherence and consistency in the direction taken by RUPM, RUPMP, and RUPMK in relation to investment planning.

As of September 2014, 23 regions had ratified RUPMP and RUPMK consisting of:

- 1) nine provinces: Sulawesi Tenggara, Aceh, Jawa Tengah, Jawa Barat, Sumatera Barat, Sumatera Selatan, Kalimantan Timur, DI Yogyakarta, and Jawa Timur; and
- 2) 14 districts: Kabupaten Kebumen, Kabupaten Wonogiri, Kota Bukittinggi, Kabupaten Brebes, Kabupaten Cilacap, Kabupaten Demak, Kabupaten Kendal, Kabupaten Pekalongan, Kabupaten Semarang, Kabupaten Tegal, Kabupaten Wonosobo, Kota Pekalongan, Kota Semarang, and Kota Bau-Bau.

In addition, the Minimum Service Standards have been implemented in several regions, as follows:

- 1) seven provinces: Jawa Timur, Sulawesi Barat, Sumatera Utara, Bengkulu, Nusa Tenggara Barat, DI Yogyakarta, and Kalimantan Timur;
- 2) 10 districts: Lamongan, Kebumen, Muko-muko, Rejang Lebong, Kepahiang, Seluma, Bengkulu Utara, Bengkulu Tengah, Batang, and Siak; and
- 3) four cities: Yogyakarta, Salatiga, Palu, and Bengkulu.

The chairman of BKPM has enacted the Chairman of BKPM's Regulation No. 14 of 2011 in relation to the Minimum Service Standards (**SPM**) in the Investment Sector in Provinces and Districts/Cities, dated December 28, 2011, to facilitate the creation of a competent authority aimed at introducing time limits to comply with the SPMs in investments in the provinces, districts and cities. As a guideline, BKPM issued the Chairman of BKPM's Regulation No. 10 of 2012 on Guidelines to Formulate the Minimum Service Standards on the Investment Sector in Provinces and Districts/Cities. The Government intends to push the development of investment activities in food (seed, fertilizer and estate crops), energy (fossil fuels and geothermal) and infrastructure (cement, steel, air and sea transports, toll roads, bridges, railways and utilities) projects throughout Indonesia. To expedite the infrastructure development, the Government has enacted Presidential Regulation No. 38 of 2015 on Government Cooperation with Business Entities in the Provision of Infrastructure, or commonly known as public private partnerships. Public private partnerships will have the full support of the Government and guarantees such as fiscal facilities, financial support, compensation, and other incentives. In 2012, to accelerate infrastructure development, the Government enacted Law No.2 of 2012 on Land Procurement for Development for Public Interest and Presidential Regulation No. 71/2012 as last amended with Presidential Regulation No. 148 of 2015.

In order to encourage economic development, in particular, investment in Indonesia, the Government released an economic policy package in which one of the highlights is investment deregulation investment facilities. Phase II of the economic policy package was released which regulates (i) accelerated investment services within three hours, under certain circumstances; (ii) accelerated tax allowance and tax holiday application processes; (iii) value added tax not collected in relation to transportation; (iv) incentives on Bonded Logistics Center Area; (v) incentives on deposit interest tax deduction; and (vi) deregulation on forestry investment licensing and forestry production licensing from 14 to six permits.

On October 7, 2015, the Government released Phase III of the economic policy package which, among other things amends the Regulation of Minister of Agrarian and Spatial No. 2 of 2015 on Service Standards and Regulations on Agrarian, Spatial and Land in Investment Activity. The new Regulation of Minister of Agrarian

and Spatial No. 17 of 2015 on Service Standards and Regulations on Agrarian, Spatial and Land in Investment Activity was enacted on October 23, 2015 which states that (i) applicants could obtain information on land availability within three hours instead of seven days; (ii) the entire application is registered to provide certainty to the applicant as to availability and land use plans and approved within three hours; and (iii) the periods for application / extension / renewal of land rights are accelerated.

Phase IV of the economic policy package was issued on October 15, 2015 which contains (i) formulation on minimum wage and (ii) amendment on Regulation of Coordinating Minister of Economic No. 6 of 2015 on Guidelines on Small Business Credit (**KUR**). In addition to that, on October 22, 2015 Phase V of the economic policy package was issued which contains policies relating to (i) asset revaluation; (ii) elimination of double taxation of investment funds in real estate, property and infrastructure and (iii) the deregulation of Islamic banking.

On November 5, 2015, the Government released Phase VI of the economic policy package, which contains policies relating to (i) introduction of tax incentive schemes in eight SEZs to further encourage development; (ii) adjustment of water-based resource processing permits to protect natural resources; and (iii) shortening the import processes for pharmaceutical products by using an online system.

On December 7, 2015, the Government released Phase VII of the economic policy package, which contains policies relating to (i) tax incentives for labor-intensive industry in order to give incentives and to ease the business conduct; and (ii) accelerated land certificates issuance.

On December 21, 2015, the Government released Phase VIII of the economic policy package, which regulates the One National Map, oil refinery development, and the release of import duty for aircraft parts policy.

On January 27, 2016, the Government released Phase IX of the economic policy package, which regulates the acceleration of electrical energy infrastructure development, stabilization of meat price, and the increase of logistic sector for cities-rural areas.

On February 11, 2016, the Government released Phase X of the economic policy package, which focuses on expanding employment opportunities and to support economic growth. Another important point is the revision of the Negative List of Investment (Presidential Regulation 39 of 2014). The revision will include most of its business lines and its respective limitation that has tendency to ease the foreign investment.

Foreign Investment in Indonesia

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

Foreign Investment in Indonesia

	Year Ended December 31,				
	2011	2012	2013	2014 ^P	2015 ^P
	(in millions of U.S. Dollars)				
Direct Investments					
Equity Capital	16,278	18,615	20,004	21,816	18,743
Debt instrument	4,287	2,586	3,278	3,360	(57)
Total direct investments	20,565	21,201	23,282	25,176	18,686
Portfolio investments:					
Equity securities	(326)	1,698	(1,856)	3,259	(1,547)
Debt securities	5,322	12,976	14,001	20,221	19,256
Total portfolio investments	4,996	14,673	12,145	23,481	17,709
Financial derivatives	(458)	(320)	(679)	(597)	(647)
Other investments	4,954	7,275	2,645	7,688	1,645
Total foreign investment	30,057	42,829	37,393	55,748	37,393

Source: Bank Indonesia

^P Preliminary.

Foreign Direct Investment

The Asian financial crisis in Indonesia was accompanied by unstable socio-political conditions that substantially reduced FDI in the following years. FDI includes equity investment (either green field or cross-border mergers or acquisitions) and debt extended by FDI investors (headquarters or affiliated companies) to their Indonesian affiliates. The following table sets out the amounts of foreign direct investments in Indonesia by non-residents.

Foreign Direct Investments

	Year Ended December 31,				
	2011	2012	2013	2014 ^P	2015 ^P
	(in millions of U.S. dollars)				
Equity capital ⁽¹⁾	16,278	18,615	20,004	21,816	18,743
Debt instruments:					
Inflow	53,677	60,871	65,746	78,200	71,779
Outflow	(49,390)	(58,284)	(62,468)	(74,841)	(71,837)
Total debt instruments	4,287	2,586	3,278	3,360	(57)
Total direct investments	20,565	21,201	23,282	25,176	18,686
<u>Memorandum:</u>					
Direct investment in Indonesia	19,241	19,138	18,817	21,866	15,508

Source: Bank Indonesia

^P Preliminary.

(1) Includes privatization and banking restructuring.

The Government believes that there are no significant domestic legal or regulatory obstacles in attracting foreign investment into Indonesia. There are no significant restrictions on foreign ownership of equity shares, except in industries related to natural resources, and foreigners are allowed to own 95.0% to 100.0% of the equity of most categories of corporations. The Government currently aims to attract investment in processing industries that will increase the value added to existing resources such as oil and gas, palm oil, copper, tin, gold, bauxite and other mineral resources, rubber, cocoa and other agriculture resources.

In 2011, net FDI recorded a surplus of U.S.\$20.6 billion compared to a surplus of U.S.\$15.3 billion in 2010. The increase of net FDI inflows was primarily attributable to a more conducive investment climate and favorable macroeconomic conditions. The increased level of FDI inflows caused the structure of capital inflows into the balance of payments to be more weighted to long-term capital, resulting in a more sustainable structure of capital inflows. The investment contributing to the increase of FDI inflows was mainly from European Union countries, Singapore and Japan, and flowed mainly into the manufacturing and mining sectors of the Republic.

In 2012, net FDI recorded a higher surplus of U.S.\$21.2 billion compared to a surplus of U.S.\$20.6 billion in 2011. The nominal increase of net FDI inflows was in line with strong domestic investment in a stable economic environment. Continued resilience of the Indonesian economy and Indonesia's economic outlook resulted in net FDI inflows representing the largest component in the structure of capital inflows. During this period, a majority of FDI inflows continued to occur in the manufacturing, mining, transportation and telecommunication sectors. Most FDI inflows originated from Singapore, Japan, and the United States of America.

In 2013, adverse global and domestic factors impacted the level of FDI in Indonesia, particularly FDI in non-oil & gas sectors. Net FDI in non-oil & gas sectors slipped from US\$22.0 billion in 2012 to US\$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 FDI in Indonesia. Even with the acquisition of foreign investor's subsidiaries holding participating interests in Indonesian offshore blocks by state-owned-enterprises, FDI 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, total FDI in Indonesia increased from U.S.\$21.2 billion in 2012 to U.S.\$23.3 billion in 2013. The majority of net FDI inflows were from Singapore, Japan, the United Kingdom, the United States and South Korea. The main contributions to FDI inflows came from investments in the manufacturing, mining and transportation sectors.

In 2014, net FDI inflows remained robust, boosted by positive investor confidence in Indonesia's economic outlook. FDI was U.S.\$25.2 billion, which was higher than the inflows in 2013, which amounted to U.S.\$23.3 billion. Increased inflows were registered as FDI 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 FDI surplus generated in 2014. During this period, the majority of net FDI inflows were from Singapore, Japan and China.

In 2015, sustained foreign investor confidence in the outlook for Indonesian economy prompted foreign investors to continue investing in Indonesia so that FDI registered a U.S.\$18.7 billion surplus. Nevertheless, the 2015 surplus decreased from the previous year which reached U.S.\$25.2 billion in line with the slowdown in the domestic economy.

In 2011, direct investment assets increased to U.S.\$9.0 billion. This trend was partly linked to a share exchange transaction between domestic listed companies and foreign publicly listed companies. In 2012, direct investment assets decreased to U.S.\$7.5 billion, due to lower equity investment as well as net lending from parent companies in Indonesia to their overseas subsidiaries. In 2013, Indonesian direct investment assets increased to U.S.\$11.1 billion, primarily due to the acquisition of overseas oil and gas fields by Indonesian companies. In 2014, direct investment assets decreased to U.S.\$10.4 billion. In 2015, direct investment assets charted a net outflow of U.S.\$9.4 billion. See "*Foreign Trade and Balance of Payments — Balance of Payments.*"

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,				
	2011	2012	2013	2014 ^P	2015 ^P
	(in millions of U.S. dollars)				
Equity securities:					
Inflows	30,419	51,527	61,640	51,200	44,763
(Outflows)	(30,745)	(49,829)	(63,496)	(47,940)	(46,310)
Net equity securities	(326)	1,698	(1,856)	3,259	(1,547)
Debt securities (net)	5,322	12,976	14,001	20,221	19,256
Total portfolio investments	<u>4,996</u>	<u>14,673</u>	<u>12,145</u>	<u>23,481</u>	<u>17,709</u>

Source: Bank Indonesia

^P Preliminary.

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

In 2012, FPI posted a net inflow of U.S.\$14.7 billion, a significant increase from the U.S.\$5.0 billion inflows recorded in 2011. These rapid inflows were mainly due to foreign investment in Government and corporate bonds and domestic stocks. The Government believes that the buoyant condition of Indonesia's economy and its attractive yields compared to other countries in the region were the key factors driving such inflows. Issuances of Government bonds and private corporate bonds denominated in foreign currencies succeeded in generating added inflows of foreign investment during 2012. Inflows of foreign capital in Indonesia were also driven by the launching of economic stimulus policies in several advanced nations.

In 2013, foreign capital inflows in the form of portfolio investment fell sharply from the previous year. FPI was recorded at U.S.\$12.1 billion, down from the 2012 level of U.S.\$14.7 billion. A steep decline of capital inflows occurred mainly in the third and fourth quarters of 2013. This was due to global uncertainty related to

tapering of the 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 FPI in Indonesia in 2013 was mainly due to the private sector, particularly the stock market. In contrast to the private sector, FPI in the public sector recorded a surplus. The surplus resulted from issuances of Government global bonds in the form of Global Medium Term Notes (GMTN) and the Sharia-compliant Sukuk instruments, with the remainder being 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 (SBIs) after the change in the minimum holding period policy, which was reduced from six months to one month effective from September 2013.

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

In 2015, the net inflows of FPI recorded a U.S.\$17.7 billion surplus, lower than U.S.\$23.5 billion surplus in 2014. The decrease in the inflow of FPI was due to a net sale of domestic stocks by non-residents and lower foreign net buying of Government debt securities.

Net portfolio investment, which represents the difference between portfolio investment in Indonesia by foreign investors and portfolio investment abroad by Indonesian investors, recorded net inflows of U.S.\$3.8 billion in 2011, U.S.\$9.2 billion in 2012, U.S.\$10.9 billion in 2013, U.S.\$26.1 billion in 2014, and U.S.\$16.7 billion in 2015. Meanwhile, portfolio investments abroad by Indonesian investors recorded net outflows of U.S.\$1.2 billion in 2011, U.S.\$5.5 billion in 2012 and U.S.\$1.3 billion in 2013. In 2014, portfolio investments abroad had a net inflow of U.S.\$2.6 billion. In 2015, portfolio investments abroad had a net outflow of U.S.\$1.0 billion. See “*Foreign Trade and Balance of Payments — Balance of Payments.*”

Other Foreign Investment

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

Other Foreign Investments

	Year Ended December 31,				
	2011	2012	2013	2014 ^P	2015 ^P
	(in millions of U.S. dollars)				
Loans					
Bank sector:					
Disbursements	3,724	2,836	5,735	8,436	8,663
Debt repayments	(1,803)	(2,440)	(4,051)	(5,885)	(7,402)
Total bank sector	1,920	396	1,684	2,551	(1,261)
Corporate sector:					
Disbursements	22,519	31,360	26,394	29,058	21,320
Debt repayments	(19,197)	(28,358)	(25,283)	(22,922)	(22,085)
Total corporate sector	3,321	3,001	1,111	6,135	(765)
Other (net) ⁽¹⁾	(288)	3,878	(151)	(998)	3,671
Total other investments	4,954	7,275	2,645	7,688	1,645

Source: Bank Indonesia

^P Preliminary.

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

In recent years, disbursements of banking and corporate loans have increased significantly as a result of better access to international markets along with increased market confidence in the Indonesian economy.

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

In 2012, other foreign 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.

Global and domestic economic developments impacted foreign capital inflows leading to a downturn in other investments in Indonesia. Other foreign investments in Indonesia fell significantly from a surplus of U.S.\$7.3 billion in 2012 to U.S.\$2.6 billion in 2013. Other foreign 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, other foreign investment recorded a net offer of U.S.\$7.8 billion. This surplus was attributable to a surge in other investment helped buoy the capital and financial account surplus. Stronger other investment performance in Indonesia primarily stemmed from the private sector. The 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. Other investment in the public sector recorded net repayment of foreign loans totaling US\$4.2 billion in 2014, an increase from US\$1.4 billion in 2013. Such developments were in line with Government policy to reduce sources of fiscal financing from foreign loans.

In 2015, foreign other investment in Indonesia recorded a surplus of U.S.\$1.6 million, much lower than the surplus in the same period of 2014 of U.S.\$7.7 billion. The decrease was influenced primarily by a net repayment of corporates' foreign loans following the slowdown in domestic economic growth.

Net other investments, which represents the difference between other investments in Indonesia by foreign investors and other investments abroad by Indonesian investors, recorded net outflows of U.S.\$1.8 billion in 2011, net inflows of U.S.\$1.9 billion in 2012, net outflows of U.S.\$0.8 billion in 2013, net inflows of U.S.\$4.3 billion in 2014, and net outflows of U.S.\$8.9 billion in 2015. Other investment abroad recorded net outflows of U.S.\$6.8 billion in 2011, net outflows of U.S.\$5.4 billion in 2012, net outflows of U.S.\$3.4 billion in 2013, and net outflows of U.S.\$3.4 billion in 2014. In 2015, other investment abroad recorded a net outflow of U.S.\$10.5 billion, higher than the outflow of U.S.\$3.4 billion in the same period of 2014. This was primarily due to the higher placement of private savings abroad, mainly registered in the first half of 2015.

Direct Investment Realizations

Foreign Direct Investment

Under Indonesian law, most direct equity investments by foreign persons are subject to approval by the BKPM, regardless of the size of the investment. The BKPM review applications for approval based on the Negative List of Investment, as currently set forth in Presidential Regulation 39 of 2014 which comprises a list of 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.

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

On October 22, 2015, BKPM announced that investment realization for the third quarter of 2015 reached Rp140.3 trillion, an increase of 17.0% as compared to the same period in 2014, the highest recorded investment realization for a quarter. Realization of was Rp47.8 trillion, an increase of 14.9% compared to the same period in 2014, while the realization of FDI was Rp92.5 trillion, an increase of 18.1% compared to the same period from 2014.

Investment realization from January to September 2015 reached Rp400 trillion, an increase of 16.7% compared to the same period in 2014 which amounted to Rp342 trillion. DDI realization from January to September 2015 grew 14.9% to Rp133.2 trillion, and FDI realization grew 18.1% to Rp266.8 trillion. Investment realization throughout January to September 2015 resulted in an additional 1,059,734 jobs, an increase by 10.4% compared to the same period in 2014 which resulted in an additional 960,336 jobs. The highlight of investment realization from January to September was the increasing proportion of investment outside Java Island.

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

Realized Foreign Direct Investment by Sector⁽¹⁾

	Year Ended December 31,				
	2011	2012	2013	2014 ^P	2015 ^P
	(in millions of U.S. dollars)				
Primary Sector					
Food Crops & Plantation	1,223	1,602	1,605	2,207	2,072
Livestock	21	20	11	40	75
Forestry	10	27	29	53	19
Fishery	10	29	10	35	53
Mining	3,619	4,255	4,817	4,665	4,017
Total Primary Sector	4,883	5,933	6,472	6,991	6,236
Secondary sector:					
Food Industry	1,105	1,783	2,118	3,139	1,521
Textile Industry	497	473	751	422	433
Leather Goods & Footwear Industry	255	159	96	211	162
Wood Industry	51	76	40	63	47
Paper and Printing Industry	258	1,307	1,169	706	707
Chemical and Pharmaceutical Industry	1,467	2,770	3,142	2,323	1,956
Rubber and Plastic Industry	370	660	472	544	695
Non Metallic Mineral Industry	137	146	874	916	1,303
Metal, Machinery & Electronic Industry	1,773	2,453	3,327	2,472	3,093
Medical Precision & Optical Instruments, Watches & Clock Industry	42	3	26	7	7
Motor Vehicles & Other Transport Equipment Industry	770	1,840	3,732	2,061	1,757
Other Industry	65	100	112	152	83
Total Secondary Sector	6,790	11,770	15,859	13,019	11,764
Tertiary sector:					
Electricity, Gas & Water Supply	1,865	1,515	2,222	1,249	3,029
Construction	354	240	527	1,383	955
Trade & Repair	826	484	605	866	625
Hotel & Restaurant	242	768	462	513	650
Transport, Storage & Communication	3,799	2,808	1,450	3,001	3,290
Real Estate, Ind. Estate & Business Activities	199	402	678	1,168	2,434
Other Services	517	646	342	337	294
Total Tertiary Sector	7,802	6,862	6,286	8,519	11,277
Total	19,475	24,565	28,617	28,529	29,276

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.

In 2011, the amount of FDI realized was U.S.\$19.5 billion and the amount of FDI realized increased to U.S.\$24.6 billion in 2012 and U.S.\$28.6 billion in 2013. Although 2014 was an election year in Indonesia, the Government expected the positive trend in FDI to continue. The target for FDI realization in 2014 was U.S.\$28.3 billion and as of December 31, 2014, 100.7% of the targeted FDI had been realized. The target for FDI realization in 2015 is Rp344 trillion and as of December 31, 2015, 106.5% of the targeted FDI had been realized.

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,				
	2011	2012	2013	2014 ^P	2015 ^P
	(in billions of Rupiah)				
Primary sector:					
Food Crops & Plantation	9,367.3	9,631.5	6,589	12,707	12,041
Livestock	247.2	97.4	361	651	325.43
Forestry	12.5	144.5	—	—	472
Fishery	0.1	14.7	4	22	275
Mining	6,899.2	10,480.9	18,762	3,140	3,947
Total Primary Sector	16,526.3	20,369.1	25,716	16,520	17,060
Secondary sector:					
Food Industry	7,940.9	11,166.7	15,081	19,596	24,534
Textile Industry	999.2	4,450.9	2,446	1,451	2,725
Leather Goods & Footwear Industry	13.5	76.7	80	103	5
Wood Industry	514.9	57.0	391	585	1,185
Paper and Printing Industry	9,296.3	7,561.0	6,849	4,093	6,529
Chemical and Pharmaceutical Industry	2,711.9	5,069.5	8,887	13,313	20,712
Rubber and Plastic Industry	2,295.7	2,855.0	2,905	2,117	3,696
Non Metallic Mineral Industry	7,440.5	10,730.7	4,624	11,923	20,502
Metal, Machinery & Electronic Industry	6,787.0	7,225.7	7,567	5,292	7,938
Medical Precision & Optical Instruments, Watches & Clock Industry	—	—	10	—	—
Motor Vehicles & Other Transport Equipment Industry	529.1	664.4	2,183	490	1,071
Other Industry	4.8	31.5	148	68	147
Total Secondary Sector	38,533.8	49,888.9	51,171	59,034	89,044
Tertiary sector:					
Electricity, Gas & Water Supply	9,134.7	3,796.8	25,831	36,296	21,947
Construction	598.2	4,586.6	6,033	12,097	17,165
Trade & Repair	328.6	1,030.4	2,217	518	1,427
Hotel & Restaurant	394.4	1,015.0	1,402	1,730	3,977
Transport, Storage & Communication	8,130.1	8,612.0	13,179	15,715	21,334
Real Estate, Ind. Estate & Business Activities	732.7	58.0	2,152	13,111	6,510
Other Services	1,621.9	2,825.1	462	1,100	1,001
Total Tertiary Sector	20,940.6	21,924.0	51,276	80,570	73,361
Total	76,000.7	92,182.0	128,163	156,126	179,465

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.

The amount of domestic investment realized has shown overall growth over the past five-year period, increasing from Rp76.0 trillion in 2011 to Rp92.2 trillion in 2012, and further to Rp128.2 trillion in 2013. BKPM's targeted domestic investment realization for 2014 was Rp159.3 trillion and as of December 31, 2014, 98.0% of the 2014 target had been realized. BKPM's targeted domestic investment realization for 2015 was Rp175.8 trillion and as of December 31, 2015, 102.1% of the 2015 target had been realized.

The highlights of the investment realization for the domestic and foreign direct investment for 2015 are as follows:

1. DDI Realization

DDI realization by sector (five biggest sectors) is as follows: Food Industry (Rp24.5 trillion); Electricity, Gas and Water Supply (Rp21.9 trillion); Transportation, Warehouse and Telecommunication (Rp21.3 trillion); Chemical and Pharmaceutical Industry (Rp20.7 trillion); and Non Metallic Mineral Industry (Rp20.5 trillion). Combined, the industrial sectors contributed Rp89.0 trillion or 49.6% of the total domestic direct investment realization for 2015.

Meanwhile, the DDI realization by location (five biggest locations) is as follows: East Java (Rp35.5 trillion); West Java (Rp26.3 trillion); Special Territory of Jakarta (Rp15.5 trillion); Central Java (Rp15.4 trillion); and South Sumatera (Rp10.9 trillion).

2. FDI Realization

FDI realization by sector (five biggest sectors) is as follows: Mining (U.S.\$4.0 billion); Transportation, Warehouse and Telecommunication (U.S.\$3.3 billion); Metal, Machinery, and Electronic Industry (U.S.\$3.1 billion); Electricity, Gas and Water Supply (U.S.\$3.0 billion); Real Estate Industrial Estates and Office Building (U.S.\$2.4 billion). If combined, the industrial sectors contributed U.S.\$14.8 billion or 50.5% to the total foreign direct investment realization for 2015.

Meanwhile, FDI realization by location (five biggest locations) is as follows: West Java (U.S.\$5.7 billion); Special Territory of Jakarta (U.S.\$3.6 billion); East Java (U.S.\$2.6 billion); Banten (U.S.\$2.5 billion); and East Kalimantan (U.S.\$2.4 billion).

FDI realization by country of origin (five biggest countries) is as follows: Singapore (U.S.\$5.9 billion); Malaysia (U.S.\$3.1 billion); Japan (U.S.\$2.9 billion); Netherlands (U.S.\$1.3 billion) and South Korea (U.S.\$1.2 billion).

3. Distribution of Project Location

The distribution of project location for in Java island is Rp296.7 trillion (54.4%) while outside Java island is Rp248.7 trillion (45.6%), or an increase of 24.5% compared to 2014 (Rp199.8 trillion).

Foreign Trade and Balance of Payments

Membership in International and Regional Free Trade Agreements

The Government supports the liberalization of international trade and investment through its membership in several international and regional trade organizations. Indonesia is a founding member of ASEAN, which has served as the forum for the negotiation of a number of regional agreements, and Indonesia has participated in several of these agreements. Indonesia is a signatory to the GATT 1947 and a founding member of the WTO through the ratification of Law No. 7 of 1994 on Agreement Establishing the World Trade Organization. Indonesia is also a member of the APEC forum, one of the goals of which is to promote liberalization of international trade and investment. The ASEAN member states have concluded a series of free trade agreements with seven dialogue partners, namely, Japan, India, China, the Republic of Korea, Pakistan, Australia and New Zealand. In addition, Japan and Indonesia entered into an economic partnership agreement effective July 2008. Indonesia and Pakistan also entered into a Preferential Trade Agreement effective on September 1, 2013. The free trade agreements with India, China and the Republic of Korea cover issues relating to goods, services and investments while those with Japan, Pakistan and India cover only the trade of goods. Negotiations for free trade agreements that cover services and investments with Japan and India are ongoing. Despite these ongoing negotiations, the ASEAN free trade agreements with the dialogue partners have been implemented since 2010. See “*Foreign Relations and International and Regional Organizations.*”

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

With the ASEAN Comprehensive Investment Agreement (**ACIA**) has been signed and came into force, the focus of regional cooperation among ASEAN countries is to implement the ASEAN Economic Community (**AEC**) in 2015. ACIA is a comprehensive investment agreement covering four investment pillars which are protection, liberalization, promotion and facilitation.

The Government has finished the review on Bilateral Investment Treaties (**BITs**) between Indonesia and partner countries. It is expected that the final template of BIT will give fair protection for both foreign direct investment in Indonesia and for Indonesian investors in overseas. Final template of BIT consist of 29 articles which is a legal text on the translation of 15 major principles that have been agreed in advance and used as a guideline in the provision of investor protection and foreign investment in Indonesia, among others:

- a. granting broader rights to the Government to set policies in pursuit of sustainable development;
- b. covered investments are investment which have approval from BKPM. Protection for investment for which approval is not given by BKPM will be provided through the terms of the Law No.25 of 2007 on Investment;
- c. avoidance treaty shopping as an effort to prevent the use of bilateral investment treaty with the other partner countries in the resolution of disputes and round tripping for prevention paper company became a shareholder in a foreign investment companies in Indonesia;
- d. dispute resolution based on the investment contract or concession cannot use bilateral investment treaty (anti umbrella clause);
- e. restrictions on the types of disputes that can be settled by international arbitration is limited to violations of discriminatory measures against provisions of: national treatment, most favored nation, standards of treatment, or expropriation;
- f. settlement of disputes in the field of investment in international arbitration must obtain prior written approval from the Government in the form of consent in writing is made separately from the agreement. This is in accordance with the mandate of Law No.25 of 2007 on Investment in particular Article 32 paragraph 4.

Tariff Reforms

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

The Republic implemented preferential tariff commitments under five regional trade agreements: the ASEAN Trade in Goods Agreement (**ATIGA**), the ASEAN-China Free Trade Agreement (**ACFTA**), the ASEAN-Korea Free Trade Agreement (**AKFTA**), the ASEAN-India Free Trade Agreement (**AIFTA**), the ASEAN-Australia and New Zealand Free Trade Agreement (**AANZFTA**), and two bilateral trade agreements: the Indonesia-Japan Economic Partnership Agreement (**IJ-EPA**) and the Indonesia-Pakistan Preferential Trade Agreement (**IP-PTA**). In line with the Republic's commitments under the ATIGA scheme, the Republic eliminated its tariffs for 98.7% of products covered by the ATIGA scheme and reduced its simple average tariff to 0.8% in 2012 from 1.9% in 2009. The Republic also eliminated its tariff under the ACFTA to 2.5% and under the AKFTA to 2.2% based on tariffs set for 2012. The Republic has committed to eliminate tariffs for 93.0% of products covered by the IJ-EPA by 2023. The AIFTA, which has been implemented for three years since 2012, has an average tariff of 6.1% at present, while the AANZFTA, which has been implemented for three years, has an average tariff of 3.1% based on tariffs set for 2012. The IP-PTA entered into force in September 2013 and covers 232 tariff lines. Under the Minister of Finance Regulation No. 75/PMK.011/2012, as amended by PMK 153/PMK011/2014, regarding Stipulation of Export Goods Subject to Export Duty and Export Duty Rate, goods subject to export duty include 65 types of mineral ore with an export duty rate of 20.0%, CPO and products thereof, raw hides and skins, and woods. The objectives which are to be achieved under this regulation include export control, development of the refinery and processing industries and environment protection. The export ban on mineral ore came into effect on July 25, 2014 as a result of Minister of Finance Regulation No. 153/PMK.011/2014 which was issued as a third amendment to the Minister of Finance Regulation No. 75/PMK.011/2012. This regulation established the progressive increase of export duties on various processed mineral products every six months from 2014 to January 2017. These increases resulted in increased tariffs from a minimum of 20.0% to 25.0% in the first six months of 2014 and will increase to 60.0% in the second half of 2016 and valid up to January 12, 2017.

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. However, this new regulation does not change 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,				
	2011	2012	2013	2014 ^P	2015 ^P
	(in millions of U.S. dollars)				
Exports:					
Oil and gas exports (f.o.b.)	38,067	35,571	33,588	28,752	16,415
Non-oil and gas exports (f.o.b.)	153,042	151,775	148,501	146,541	131,926
Total exports (f.o.b.)	191,109	187,346	182,089	175,293	148,341
Total imports (c.i.f.)	(167,048)	(189,138)	(186,186)	(177,813)	(142,362)
Balance of trade	24,060	(1,791)	(4,097)	(2,520)	5,979

Source: Bank Indonesia

^P Preliminary.

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

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

In 2011 exports and imports strengthened by 27.0% and 30.7%, respectively, as compared to 2010. Exports increased in line with high volume of world trade and global commodity prices. Imports continued to increase, driven by domestic economic activities in the transportation and communication sectors. To further strengthen exports, the Republic intends to diversify its export markets by increasing exports to Africa, the Middle East, South America and Russia. In 2012, as the global economic crisis unfolded, total exports recorded a negative growth of 6.1% due to lower external demand and a decrease in commodity prices. Conversely, in line with robust domestic demand, imports grew further by 8.0%, although at a slower growth rate than the preceding year. In 2013, exports and imports contracted by 2.7% and 1.6%, respectively (year-on-year). Declining global demand and falling global commodity prices led to the contraction in export growth. In addition to these cyclical factors, export performance was also affected by structural problems such as the composition of Indonesia's export structure that is predominantly derived from natural resource-based commodities. Although imports contracted by 1.6% (year-on-year), imports remained strong due to structural problems that have limited capacity for domestic industries to fulfill demand. During the first quarter of 2014, exports were down by 1.8% while imports contracted by 6.3% as compared to the same period in 2013.

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

In 2011, Indonesia recorded a trade surplus of U.S.\$24.1 billion. Exports increased 27.4% due to an increase in global commodity trading volume and price. Export performance was also supported by the diversification of exports to Asian emerging countries, the advantageous natural resource-based composition of Indonesia's main export commodities and competitive Rupiah exchange rates compared to other currencies in the region. Imports accelerated by 33.0% in response to strong domestic demand.

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 amount 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 registered a negative growth of 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 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. This improvement was attributable to a steeper contraction in imports of 4.5% (year-on-year) than in exports of 3.7% (year-on-year). Such 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.\$6.0 billion caused by a decrease in imports of 19.8% (year-on-year), which was larger than the decrease in exports of 15.4% (year-on-year). 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, precipitated contraction in exports from Indonesia.

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

Exports by Sector

	Year Ended December 31,				
	2011	2012	2013	2014 ^P	2015 ^P
	(in thousands of U.S. Dollars)				
General merchandise	189,432,260	185,337,265	180,293,992	173,759,963	146,940,788
Agricultural					
Coffee bean	1,030,338	1,241,922	1,166,406	1,030,826	1,210,617
Tea	136,366	126,754	131,112	108,843	89,969
Spices	430,320	631,746	554,137	577,627	780,981
Tobacco	61,037	60,791	93,458	82,397	58,878
Cocoa bean	616,202	388,326	443,372	201,407	118,047
Shrimp and prawn	1,064,620	1,111,388	1,467,208	1,786,335	1,331,320
Other agricultural products	1,738,979	2,023,351	1,931,996	2,139,877	2,174,195
Total Agricultural products	5,077,862	5,584,278	5,787,688	5,927,312	5,764,008
Manufacture products					
Textile and Textile products	13,172,828	12,510,222	12,770,966	12,847,055	12,338,815
Processed wood products	3,244,615	3,338,150	3,510,392	3,906,760	3,815,167
Palm oils	16,709,854	17,685,127	16,518,525	17,461,545	15,402,551
Chemicals	4,579,567	3,634,536	3,498,625	3,851,429	2,805,673
Base metal products	10,774,417	9,303,974	8,614,179	9,085,294	7,610,957
Electrical apparatus, measuring instruments and option	8,592,466	11,157,423	10,716,148	10,108,187	8,778,287
Cement	57,724	20,050	49,657	37,365	62,559
Paper and paper products	4,144,400	3,938,382	3,732,138	3,779,966	3,599,155
Processed rubber	14,083,724	10,368,180	9,306,376	7,022,184	5,843,690
Oil products ⁽¹⁾	4,067,730	3,270,001	3,846,251	3,165,942	1,401,627
Liquefied Petroleum Gas ⁽¹⁾	294,528	9,176	10,534	4,538	12,231
Other manufacture products	36,101,426	40,215,423	40,604,203	47,338,146	44,550,743
Total Manufacture products	115,823,279	115,450,644	113,177,996	118,608,410	106,221,455
Mining products					
Copper ore	4,706,934	2,565,990	2,999,560	1,673,548	3,277,196
Nickel ore	1,333,171	1,458,409	1,677,366	85,913	0
Coal	26,924,584	26,248,270	24,359,167	20,818,030	15,955,978
Bauxite	767,138	637,597	1,318,775	47,742	744
Crude oil ⁽¹⁾	14,166,567	12,723,142	12,187,863	8,839,625	5,631,769
Natural Gas ⁽¹⁾	18,196,212	17,670,962	15,689,119	14,941,959	8,579,347
o/w Liquefied Natural Gas	12,961,524	11,943,550	10,568,458	10,293,714	6,134,938
Other mining products	538,971	455,659	591,546	213,410	182,769
Total Mining products	66,633,576	61,760,030	58,823,397	46,620,227	33,627,805
Other merchandise⁽²⁾	1,897,544	2,542,314	2,504,910	2,604,014	1,327,520
Other goods⁽³⁾	1,676,441	2,009,286	1,795,235	1,532,832	1,399,835
Total Exports	191,108,702	187,346,552	182,089,227	175,292,795	148,340,623
Memorandum:					
Non oil & gas exports	153,042,038	151,775,044	148,500,805	146,540,725	131,925,879
Oil & gas exports	38,066,672	35,571,432	33,588,422	28,752,069	16,414,744

Source: Bank Indonesia

^P Preliminary.

(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.

In 2011, exports increased by 27.4% from U.S.\$150.0 billion in 2010 to U.S.\$191.1 billion, in line with an increase in commodity prices. The increase in exports of agricultural products (2.9%), mining products (34.0%) and manufactured products (24.6%) supported the increase in exports. In 2011, non-oil and gas exports increased by 26.2% to U.S.\$153.0 billion from U.S.\$121.3 billion in 2010. Oil and gas exports in 2011 increased by 32.8%, reaching U.S.\$38.1 billion, primarily due to oil price hikes. The average price of Indonesia's crude oil exports for 2011 was U.S.\$109.2 per barrel, compared to an average of U.S.\$77.7 per barrel in 2010.

In 2012, exports decreased by 2.0% from U.S.\$191.1 billion in 2011 to U.S.\$187.3 billion. This decrease was due to a decrease in exports of mining products (7.3%) and manufactured products (0.3%), partially offset by an increase in exports of agricultural products (10.0%). In 2012, non-oil and gas exports decreased by 0.8% from U.S.\$153.0 billion in 2011 to U.S.\$151.8 billion. Oil and gas exports in 2012 amounted to U.S.\$35.6 billion, 6.6% lower than in 2011 due to decreases both in oil and gas exports. The average price of Indonesia's crude oil exports for 2012 was U.S.\$110.7 per barrel, compared to an average of U.S.\$109.2 per barrel in 2011.

In 2013, exports decreased by 2.8% from U.S.\$187.3 billion in 2012 to U.S.\$182.1 billion. This decrease was attributable to the economic slowdown in emerging market countries, led by China and India, that dampened demand for exported goods from Indonesia. This was compounded by a worldwide economic slowdown which also resulted in lower commodity prices. The slowdown eroded Indonesia's terms of trade and ultimately put more pressure on Indonesia's commodity exports. Exports of mining products decreased by 4.8% and manufactured products contracted by 2.0%, while exports of agricultural products increased by 3.6%. In 2013, non-oil and gas exports decreased by 2.2% from U.S.\$151.8 billion in 2012 to U.S.\$148.5 billion. Oil and gas exports in 2013 amounted to U.S.\$33.6 billion, 5.6% lower than in 2012. The average price of Indonesia's crude oil exports for 2013 was U.S.\$104.0 per barrel, compared to an average of U.S.\$110.7 per barrel in 2012.

In 2014, exports decreased by 3.7% from U.S.\$182.1 billion in 2013 to U.S.\$175.3 billion. Non-oil and gas exports decreased by 1.3% from U.S.\$148.5 billion in 2013 to U.S.\$146.5 billion. Lower commodity price and sluggish external demand due to the weaker-than-expected global recovery contributed to the deceleration in non-oil and gas exports. On the other hand, oil and gas exports in 2014 amounted to U.S.\$28.8 billion, 14.4% lower than in 2013 triggered by factors of volume and price that lowered export earnings. Exports of mining products decreased by 20.7% while exports of agricultural products increased by 2.4% and manufactured products increased by 4.8%. The average price of Indonesia's crude oil exports for 2014 was U.S.\$95.8 per barrel, compared to an average of U.S.\$104.0 per barrel in 2013.

In 2015, exports were U.S.\$148.3 billion, a 15.4% decrease compared to the same period last year. This decrease was mainly due to a sharp drop in oil and gas exports, by 42.9% (year-on-year), as oil prices fell. The average price of crude oil exports decreased to U.S.\$48.7 per barrel from U.S.\$95.8 per barrel in 2014. Non-oil and gas exports also decreased by 10.0% (year-on-year) due to decline in external demand in line with the global economic slowdown and lower commodity prices. Most of the fall of non-oil and gas exports occurred in mining products, which fell by 15.0% (year-on-year) as well as the manufactured products sector by 9.2% (year-on-year), while the agricultural sector fell by 2.8% (year-on-year). Indonesia's exports structure is still dominated by natural resource-based commodities that are affected significantly by lower commodity prices. Meanwhile, manufacturing exports are still under pressure due to less competitiveness compared to other countries although the rupiah exchange rate depreciated.

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

Exports by Destination

	Year Ended December 31,				
	2011	2012	2013	2014 ^P	2015 ^P
	(in thousands of U.S. Dollars)				
America					
North America					
United States of America	16,130,055	14,765,254	15,622,136	16,502,799	15,985,151
Canada	946,635	787,624	775,984	754,367	724,445
Other North America	836	1,185	1,626	1,174	1,238
Total North America	17,077,526	15,554,063	16,399,745	17,258,340	16,710,834
Central and South America					
Argentina	354,038	310,678	448,181	237,167	238,132
Brazil	1,665,021	1,529,742	1,569,342	1,517,378	1,166,218
Mexico	597,834	594,865	625,022	814,494	802,893
Other Central and South America	1,167,304	1,153,932	1,127,463	1,165,225	1,044,492
Total Central and South America	3,784,197	3,589,217	3,770,009	3,734,264	3,251,736
Total America	20,861,723	19,143,280	20,169,754	20,992,604	
Europe					
European Union					
Netherlands	4,809,674	4,546,619	4,099,858	3,981,353	3,432,513
Belgium	1,348,769	1,293,102	1,254,708	1,217,227	1,108,544
United Kingdom	1,627,848	1,679,815	1,618,871	1,659,576	1,521,994
Italy	2,995,990	2,279,791	2,121,981	2,288,020	1,871,943
Germany	3,201,828	3,064,521	2,862,481	2,820,475	2,653,903
France	1,049,478	1,116,351	1,053,698	1,018,400	971,332
Spain	2,231,984	2,059,230	1,806,692	1,938,255	1,476,585
Other European Union	2,027,124	1,814,223	1,886,988	1,996,538	1,763,808
Total European Union	19,292,694	17,853,652	16,705,277	16,919,845	14,800,623
Russia	852,039	866,396	934,132	1,056,775	993,581
Turkey	1,423,668	1,361,964	1,537,295	1,447,167	1,159,227
Other Europe	900,788	819,235	913,110	693,214	1,552,167
Total Europe	22,469,189	20,901,247	20,089,814	20,117,001	18,505,598
Asia and Middle East					
ASEAN					
Brunei Darussalam	65,327	116,854	88,505	98,873	85,589
Philippines	3,686,766	3,667,656	3,774,591	3,887,862	3,917,407
Cambodia	266,448	290,684	317,085	416,644	429,207
Lao PDR	10,613	23,736	5,086	6,212	7,135
Malaysia	10,579,133	11,000,550	10,475,415	9,454,669	7,449,610
Myanmar	322,090	412,643	576,497	587,710	612,315
Singapore	12,188,436	16,138,033	15,724,945	15,648,800	11,823,428
Thailand	4,946,490	6,491,642	6,051,348	5,762,720	5,375,889
Vietnam	2,258,382	2,266,667	2,558,864	2,443,990	2,716,595
Total ASEAN	34,323,685	40,408,467	39,572,336	38,307,481	32,417,174
Hong Kong SAR	3,078,247	2,644,935	2,646,008	2,760,064	2,040,839
India	13,215,101	12,500,116	12,969,881	12,242,603	11,619,016
Iraq	148,874	44,886	171,973	70,480	94,987
Japan	32,262,656	28,968,734	26,677,721	20,802,334	17,151,816
South Korea	14,613,206	14,269,724	11,260,652	10,079,871	7,108,505
Pakistan	917,913	1,377,718	1,412,462	2,048,086	1,988,062
People Republic of China	23,118,704	21,523,958	22,425,902	17,301,903	14,544,750
Saudi Arabia	1,372,845	1,767,167	1,728,619	2,155,351	2,064,769
Taiwan, Province of China	6,470,164	6,044,791	5,792,218	7,924,755	5,450,999
Other Asia and Middle East	6,568,274	5,166,760	4,987,194	7,186,956	6,160,118
Total Asia and Middle East	136,089,668	134,717,255	129,644,966	120,879,884	100,641,035
Australia and Oceania					
Australia	4,933,967	4,718,098	4,344,740	5,000,046	3,597,100
New Zealand	468,210	356,826	444,951	481,487	464,439
Other Australia and Oceania	401,999	373,454	488,064	367,443	345,739
Total Australia and Oceania	5,804,177	5,448,377	5,277,755	5,848,975	4,407,278
Africa					
South Africa	1,409,167	1,642,411	1,245,443	1,378,907	665,661
Other Africa	2,577,234	2,951,669	3,156,584	3,479,381	2,838,590
Total Africa	3,986,401	4,594,079	4,402,028	4,858,288	3,504,251
Unclassified exports⁽¹⁾	1,897,544	2,542,314	2,504,910	2,596,043	1,319,890
Total (fob)	<u>191,108,701</u>	<u>187,346,552</u>	<u>182,089,227</u>	<u>175,292,795</u>	<u>148,340,623</u>

Source: Bank Indonesia

^P Preliminary.

(1) Consists of goods procured in ports by carriers and merchanting goods.

In 2011, Indonesia's main trading partners remained unchanged, being Japan, China, the United States, the Republic of Korea and India accounting for 16.9%, 12.1%, 8.4%, 7.6% and 6.9%, respectively, of Indonesia's total exports.

In 2012, Indonesia's main trading partners remained unchanged, being Japan, India, China, Singapore, the United States, the Republic of Korea and India accounting for 15.5%, 11.5%, 8.6%, 7.9%, 7.6% and 6.7%, respectively, of Indonesia's total exports.

In 2013, Indonesia's main trading partners remained unchanged, being Japan, China, the United States, Singapore, India and the Republic of Korea, accounting for 14.7%, 12.3%, 8.6%, 8.6%, 7.1% and 6.2%, respectively, of Indonesia's total exports.

In 2014, Indonesia's main trading partners remained unchanged, being Japan, China, the United States, Singapore, India and the Republic of Korea, accounting for 11.9%, 9.9%, 9.4%, 8.9%, 7.0%, and 5.8%, respectively, of Indonesia's total exports.

In 2015, Indonesia's main trading partners were slightly different with South Korea being replaced by Malaysia, such that Indonesia's main trading partners became Japan, the United States, China, Singapore, India and Malaysia, accounting for 11.6%, 10.8%, 9.8%, 8.0%, 7.8%, and 5.0%, respectively, of Indonesia's total exports. The total share of exports to these countries in 2015 was 53.0%.

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

Imports by Sector⁽¹⁾					
	Year Ended December 31,				
	2011	2012	2013	2014^P	2015^P
	(in thousands of U.S. Dollars)				
General Merchandise	166,977,265	189,094,827	186,153,764	177,787,488	141,655,531
Consumption Goods					
Food and beverages, primary, mainly for household	1,832,692	1,537,179	1,394,325	1,541,254	1,320,174
Food and beverages, processed, mainly for household	3,533,437	2,759,331	2,812,575	2,750,512	2,332,902
Passenger motor cars	872,628	1,498,307	1,171,510	784,431	583,152
Transport equipment, nonindustrial	555,433	367,729	383,485	268,909	243,875
Durable consumer goods	1,192,777	1,592,871	1,624,973	1,415,739	1,073,677
Semi-durable consumer goods	1,501,594	1,921,446	2,150,785	1,952,560	1,965,869
Non-durable consumer goods	1,490,297	1,910,634	2,154,691	2,158,041	2,023,313
Fuels and lubricants, processed, oil products ⁽²⁾	11,465,941	13,720,367	14,736,636	14,504,300	8,181,422
Goods not elsewhere specified	167,147	224,769	450,718	531,831	736,501
Total Consumption Goods	22,611,945	25,532,632	26,879,699	25,907,577	18,460,886
Raw materials and auxiliary goods					
Food and beverages, primary, mainly for industry	4,112,931	4,005,713	4,348,635	4,934,923	4,100,987
Food and beverages, processed, mainly for industry	3,261,887	3,317,376	3,294,925	3,247,084	2,725,053
Industrial supplies, primary	6,679,561	5,480,589	6,180,739	5,967,884	4,616,230
Industrial supplies, processed	49,204,480	58,236,091	56,624,346	56,247,051	49,419,113
Parts and accessories for capital goods	13,831,250	18,011,245	17,191,495	15,552,758	14,628,275
Parts and accessories for transport equipment	6,617,550	8,267,873	8,980,793	7,128,761	6,139,476
Fuels and lubricants, primary	10,923,734	11,008,146	13,322,222	12,896,531	8,011,548
o/w Crude oil ⁽²⁾	10,905,440	10,987,073	13,236,094	12,600,220	7,725,385
Fuels and lubricants, processed	18,519,887	18,405,384	17,706,610	15,702,783	8,292,444
o/w Oil products ⁽²⁾	16,590,030	15,540,944	14,408,358	12,442,784	6,057,936
o/w Liquefied Petroleum Gas ⁽²⁾	1,708,094	2,626,816	3,094,502	3,039,246	2,061,615
Total Raw materials and auxiliary goods	113,151,281	126,732,417	127,649,765	121,677,775	97,933,125
Capital Goods					
Capital goods (except transport equipment)	22,301,038	26,642,473	25,541,302	25,570,739	22,411,496
Passenger motor cars	872,628	1,498,307	1,171,510	784,431	583,152
Other transport equipment, industrial	7,316,357	7,945,543	4,196,809	3,093,174	1,847,396
Total Capital Goods	30,490,023	36,086,323	30,909,621	29,448,344	24,842,044
Other merchandise⁽³⁾	724,016	743,455	714,679	753,791	419,475
Other goods⁽⁴⁾	71,097	43,071	32,398	25,620	706,232
Total	167,048,361	189,137,898	186,186,162	177,813,107	142,361,763

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 goods.

In 2011, total imports increased by 33.0% to U.S.\$167.0 billion compared to 2010 due to more robust domestic demand. Imports of consumer goods, raw materials, and capital goods grew by 40.7 %, 32.9% and 29.3%, respectively. Non-oil and gas imports increased by 27.8% to U.S.\$126.1 billion from U.S.\$98.7 billion in 2010. In addition, the increase in domestic fuel consumption and higher oil prices led to a 52.3% increase in oil and gas import value, reaching U.S.\$40.9 billion in 2011 compared to U.S.\$26.9 billion in 2010.

In 2012, total imports amounted to U.S.\$189.1 billion due to more robust domestic demand. Imports of capital goods, consumer goods and raw materials grew by 18.4%, 12.9% and 12.0%, respectively. Non-oil and gas imports increased by 15.8% to U.S.\$146.0 billion from U.S.\$126.1 billion in 2011. Meanwhile, oil and gas imports increased by 5.4%, reaching U.S.\$43.2 billion in 2012 compared to U.S.\$40.9 billion in 2011.

In 2013, total imports contracted by 1.6% to U.S.\$186.2 billion compared to 2012 following a moderation in domestic demand. Imports of capital goods decreased by 14.3%, while imports of consumption goods and raw materials increased at a rate of 5.3% and 0.7%, respectively compared to 2012. Non-oil and gas imports decreased by 3.8% to U.S.\$140.4 billion from U.S.\$146.0 billion in 2012. Meanwhile, oil and gas imports increased by 6.1% to U.S.\$45.8 billion from U.S.\$43.2 billion in 2012.

In 2014, total imports amounted to U.S.\$177.8 billion, representing a 4.5% decrease as compared with 2013, in line with a slowdown in domestic demand. Oil and gas imports decreased by 6.3% (year-on-year), amounting to U.S.\$42.9 billion, while non-oil and gas imports decreased by 3.9% (year-on-year), amounting to U.S.\$134.9 billion. Imports of capital goods, raw materials and consumer goods decreased by 4.7%, 4.7%, and 3.6%, respectively, in 2014 as compared to 2013.

In 2015, total imports continued to decrease by 19.9% compared with 2014 in line with a slowdown in overall economic growth. Oil and gas imports decreased by 43.6% (year-on-year), amounting to U.S.\$24.2 billion due to a decrease in oil prices and fuel consumption, while non-oil and gas imports decreased by 12.4% (year-on-year), amounting to U.S.\$118.2 billion. Imports of consumer goods, raw materials, and capital goods in 2015 decreased by 28.7%, 19.5%, and 15.6%, respectively, compared to 2014. The decline in imports of consumer goods was influenced by a drop in demand in line with sluggish household consumption. Furthermore, the decline in consumption was followed by a drop in sales amid the worsening economic sentiment that depressed demand for investment and working capital. Weak investment demand eventually had a negative impact on imports, particularly imports of raw material and capital goods. A further decline in imports was driven by the weakening Rupiah causing prices of imported goods to increase.

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,				
	2011	2012	2013	2014 ^P	2015 ^P
	(in thousands of U.S. Dollars)				
America					
North America					
United States of America	9,189,605	9,701,647	8,966,943	8,139,708	7,610,054
Canada	1,998,380	1,809,859	2,104,103	1,908,631	1,621,337
Other North America	5,759	15,931	1,094	111,336	1,75
Total North America	11,193,744	11,527,437	11,072,140	10,159,676	9,233,148
Central and South America					
Argentina	1,584,193	1,749,601	1,683,663	1,465,715	1,298,541
Brazil	1,789,701	1,934,842	2,205,400	2,548,178	2,422,680
Mexico	394,537	566,649	516,890	186,888	197,406
Other Central and South America	858,496	561,260	600,191	540,815	392,61
Total Central and South America	4,626,927	4,812,353	5,006,144	4,741,596	4,313,988
Total America	15,820,672	16,339,789	16,078,284	14,901,271	13,547,136
Europe					
European Union					
Netherlands	809,563	845,501	999,770	912,737	794,622
Belgium	575,936	618,879	652,619	583,997	560,460
United Kingdom	1,030,795	1,280,884	1,063,795	899,185	817,058
Italy	1,092,190	1,508,328	1,692,133	1,720,992	1,417,793
Germany	3,099,593	4,050,293	4,389,557	4,104,817	3,454,307
France	1,580,843	1,638,856	1,568,430	1,334,831	1,337,993
Spain	391,004	521,227	573,305	555,106	473,989
Other European Union	2,548,168	3,144,422	2,704,189	2,646,741	2,484,564
Total European Union	11,128,092	13,608,391	13,643,796	12,758,406	11,340,785
Russia	1,255,824	1,743,576	2,038,204	1,583,207	983,680
Turkey	547,384	409,525	1,409,107	1,035,394	249,109
Other Europe	1,541,811	1,679,654	1,717,109	1,408,827	1,335,978
Total Europe	14,473,111	17,441,145	18,808,216	16,785,834	13,909,553
Asia and Middle East					
ASEAN					
Brunei Darussalam	1,072,833	480,349	677,923	610,286	126,257
Philippines	759,631	801,738	775,382	694,808	684,289
Cambodia	7,324	11,053	17,752	18,722	21,133
Lao PDR	1,292	3,278	7,543	51,265	1,027
Malaysia	10,152,616	12,786,250	13,878,131	10,714,357	8,464,259
Myanmar	69,558	63,359	72,997	122,243	159,685
Singapore	23,132,138	27,435,575	26,687,954	24,699,196	17,784,003
Thailand	10,302,740	11,369,461	10,721,002	9,770,883	8,073,096
Vietnam	2,404,867	2,543,876	2,686,495	3,399,903	3,146,326
Total ASEAN	47,902,999	55,494,939	55,525,180	50,081,662	38,460,076
Hong Kong SAR	2,338,465	1,897,323	1,956,494	1,892,903	1,807,478
India	4,239,683	4,310,220	3,960,489	3,937,401	2,742,142
Iraq	703	200	49	342	243
Japan	18,581,923	22,674,852	19,188,165	16,866,526	13,255,947
South Korea	13,134,515	12,238,061	11,761,514	11,732,612	8,424,255
Pakistan	205,643	271,276	162,555	158,655	173,453
People Republic of China	25,029,568	29,486,325	29,792,501	30,631,469	29,362,627
Saudi Arabia	5,767,637	5,447,047	6,929,195	6,343,400	3,332,476
Taiwan, Province of China	4,123,106	4,731,457	4,488,642	3,748,062	3,145,871
Other Asia and Middle East	5,257,022	6,879,661	5,840,125	8,180,995	4,617,348
Total Asia and Middle East	126,581,269	143,431,361	139,604,909	133,574,026	105,321,885
Australia and Oceania					
Australia	4,989,574	5,227,751	5,088,023	5,637,313	4,811,039
New Zealand	726,069	692,249	796,396	837,703	637,396
Other Australia and Oceania	44,223	69,803	86,192	42,249	29,367
Total Australia and Oceania	5,759,866	5,989,802	5,970,611	6,517,265	5,477,802
Africa					
South Africa	689,390	650,838	624,337	477,411	231,880
Other Africa	3,000,043	4,541,508	4,385,126	4,803,509	3,454,031
Total Africa	3,689,433	5,192,346	5,009,463	5,280,920	3,685,911
Unclassified imports⁽²⁾	724,016	743,455	714,679	753,791	419,475
Total	167,048,361	189,137,898	186,186,162	177,813,107	142,361,763

Source: Bank Indonesia

^P Preliminary.

- (1) Data collected on a cost, insurance and freight basis.
- (2) Consists of goods procured in ports by carriers.

From 2010 to 2014, the majority of Indonesia's imports (approximately 65.5% of total imports) came from seven countries: China, Singapore, Japan, the Republic of Korea, Malaysia, Thailand and the United States. Imports from China accounted for 15.9% of total imports. Imports from Singapore, Japan, the Republic of Korea, Malaysia, Thailand and the United States accounted for 13.8%, 11.1%, 6.7%, 6.6%, 5.9% and 5.2% of the total imports, respectively.

In 2011, China was the Republic's largest source of imports, accounting for 15.0% of total imports, followed by Singapore (13.8%), Japan (11.1%) and the Republic of Korea (7.9%). Taking each as a whole, ASEAN and Europe accounted for 28.7% and 8.7% of Indonesia's total imports, respectively.

In 2012, emerging countries were Indonesia's largest import sources, including China (15.6%), Singapore (14.5%), Malaysia (6.8%) and the Republic of Korea (6.5%). Imports from Japan accounted for 12.0% of Indonesia's total imports. Taking each as a whole, ASEAN and Europe accounted for 29.3% and 9.2% of Indonesia's total imports, respectively.

In 2013, Indonesia's main trading partners were China, Singapore, Japan, Malaysia, the Republic of Korea, and Thailand accounting for 16.0%, 14.3%, 10.3%, 7.5%, 6.3%, and 5.8% of total imports in 2013, respectively.

In 2014, Indonesia's main trading partners were China, Singapore, Japan, the Republic of Korea, Malaysia, Thailand and the United States. Imports from China accounted for 17.2% of total imports. Imports from Singapore, Japan, the Republic of Korea, Malaysia, Thailand and the United States, accounted for 13.9%, 9.5%, 6.6%, 6.0%, 5.5% and 4.6% of the total imports, respectively.

In 2015, imports from China accounted for 20.6% of the total imports. Imports from Singapore, Japan, the Republic of Korea, Malaysia, Thailand and the United States accounted for 12.5%, 9.3%, 5.9%, 5.9%, 5.7% and 5.3% of the total imports, respectively. These seven countries reflected 65.3% of Indonesia's total imports.

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,				
	2011	2012	2013	2014 ^P	2015 ^P
	(in millions of U.S. Dollars)				
Current account	1,685	(24,418)	(29,109)	(27,499)	(17,761)
Goods ⁽²⁾	33,825	8,680	5,833	6,983	13,281
Total exports (f.o.b.)	191,109	187,346	182,089	175,293	148,341
Non-oil and gas exports	153,042	151,775	148,501	146,541	131,926
Oil and gas exports	38,067	35,571	33,588	28,752	16,415
Total imports (f.o.b.)	(157,284)	(178,667)	(176,256)	(168,310)	(135,060)
Non-oil and gas imports	(118,567)	(137,857)	(132,959)	(127,729)	(112,172)
Oil and gas imports	(38,717)	(40,810)	(43,297)	(40,582)	(22,887)
Services	(9,803)	(10,564)	(12,070)	(10,010)	(8,493)
Primary income	(26,547)	(26,628)	(27,050)	(29,692)	(28,028)
Secondary income	4,211	4,094	4,178	5,220	5,479
Capital account	33	51	45	27	17
Financial account	13,603	24,858	21,926	44,962	17,120
(a) Public sector	(1,215)	7,030	9,730	14,136	17,292
Portfolio investment	1,045	4,577	11,105	18,345	17,761
Assets	218	(4,674)	848	2,965	392
Liabilities	827	9,251	10,257	15,380	17,369
Other investment	(2,260)	2,453	(1,376)	(4,209)	(469)
Assets	(2)	(1)	0	0	0
Liabilities	(2,258)	2,453	(1,376)	(4,209)	(469)
Loans	(2,040)	(2,220)	(527)	(1,243)	(77)
Drawings	3,428	3,332	4,947	4,035	4,829
Repayments	(5,468)	(5,553)	(5,474)	(5,278)	(4,906)
Other liabilities	(218)	4,674	(848)	(2,965)	(392)
(b) Private sector	14,818	17,828	12,196	30,826	(172)
Direct investment	11,528	13,716	12,170	14,788	9,259
Assets	(9,037)	(7,485)	(11,112)	(10,388)	(9,427)
Liabilities	20,565	21,201	(23,282)	25,176	18,686
Portfolio investment	2,762	4,629	(233)	7,722	(1,054)
Assets	(1,408)	(793)	(2,121)	(379)	(1,395)
Liabilities	4,169	5,422	1,888	8,101	341
Financial derivatives	69	13	(334)	(156)	20
Other investment	459	(530)	593	8,470	(8,397)
Assets	(6,753)	(5,352)	(3,427)	(3,426)	(10,510)
Liabilities	7,212	4,822	4,020	11,897	2,113
Errors and omissions	(3,465)	(275)	186	(2,241)	479
Overall balance	11,857	215	(7,325)	15,249	(1,098)
Reserves and related items	(11,857)	(215)	7,325	(15,249)	1,098
<u>Memorandum</u>					
Reserve asset position	110,123	112,781	99,387	111,862	105,932

Source: Bank Indonesia

^P Preliminary.

- (1) The use of (+) and (-) signs follows 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.
- (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.

In 2011, Indonesia's balance of payments registered a surplus of U.S.\$11.9 billion due to surpluses in the current account and the capital and financial account of U.S.\$1.7 billion and U.S.\$13.6 billion, respectively. The

current account surplus was due to robust export growth despite weak global demand. Similarly, the capital and financial account surplus was due to higher inflows of FDI and an increase in private external debt, consistent with the conducive Indonesian investment climate and stable macroeconomic conditions. On a quarterly basis, the balance of payments maintained a positive performance during the first and second quarters of 2011, driven in part by strong increases in export commodity prices and buoyant inflows of foreign portfolio investment. However, in the third quarter of 2011, the balance of payments registered a deficit due to the spill-over effects of the Eurozone debt crisis which triggered outflows of foreign portfolio investment. Pressures on the balance of payments subsequently decreased in the fourth quarter as foreign portfolio inflows and foreign direct investment inflows resumed, as well as higher drawing on private external debt. In the fourth quarter of 2011, the balance of payments showed a deficit in its current account. This modest deficit (1.1% of GDP) was due to a steady expansion in imports, in line with a strong domestic demand, with exports declining as a result of weak global demand and a drop in commodity prices. As of December 31, 2011, these reserves stood at U.S.\$110.1 billion (equivalent to 6.7 months' imports and official debt repayments).

In 2012, the balance of payments charted a U.S.\$0.2 billion surplus. Slowing growth in world demand and plunging export commodity prices in contrast to buoyant domestic demand and mounting consumption of oil-based fuels led to a reduced non-oil and gas trade surplus and a widening oil and gas trade deficit. As a result, the current account recorded an overall 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 FDI, with an added boost from the growing proportion of export earnings received through the domestic banking system. The success in boosting inflows of foreign investment and curbing the current account deficit at no more than 3.0% of GDP was due to the series of policies launched by Bank Indonesia and the Government, encompassing monetary and macroprudential policy, exchange rate management, fiscal management, and improvements to the investment climate. As of December 31, 2012, the Republic's official reserves stood at U.S.\$112.8 billion (equivalent to 6.2 months of imports and official debt repayments).

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 resulted in a widening of the current account deficit.

The tapering of the monetary stimulus package by the U.S. monetary authority following improvements in the U.S. economy has resulted in 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, particularly from May 2013. Negative perceptions among foreign investors were exacerbated by the rising current account deficit and inflation expectations. These conditions have had a negative impact on the capital and financial account surplus, and thus the decline in Indonesia's balance of payments performance persisted until September 30, 2013.

The negative pressure on Indonesia's balance of payments intensified during the second and third quarters of 2013. The current account deficit increased from 2.7% of GDP in March 2013 to 4.5% 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 3.9% of GDP. Capital outflows continued through August 2013 as a result of lingering concerns over tapering and the perceptions of a deteriorating current account, which put additional pressure on the financial account.

The stabilization policies implemented by Bank Indonesia and the Government have successfully reduced the current account deficit. As a result of these policies, current account deficit stood at 2.1% of GDP during the last quarter of 2013. 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. This positive

development contributed to an increase in the international reserves position from U.S.\$95.7 billion in the third quarter of 2013 to U.S.\$99.4 billion in the fourth quarter of 2013.

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 influence of the current account deficit at U.S.\$29.1 billion or 3.3% of GDP, up from the 2012 deficit of U.S.\$24.4 billion or 2.8% of GDP, and a reduced capital and financial surplus from U.S.\$24.9 billion in 2012 to U.S.\$22.0 billion in 2013.

In 2014, the current account continued to improve, with the deficit falling from U.S.\$29.1 billion (3.2% of GDP) in 2013 to U.S.\$27.5 billion (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 explained by reduced payments in 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 income account deficit 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 the surplus of capital and financial account in 2014. The capital and financial account posted a record high of foreign capital inflow, mainly in the form of portfolio investments. Foreign portfolio 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 benefitted from the increased FDI inflows compared with 2013, with the capital and financial account recording a U.S.\$45.4 billion surplus, more than 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 (3.1% of GDP) in 2014 to U.S.\$17.8 billion (2.1% of GDP) in 2015. The improvement in the current account was mainly attributed to the narrowing of 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 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 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.\$17.1 billion, lower than the surplus of U.S.\$45.4 billion in 2014. The decrease was primarily due to a 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 elevated, although the uncertainty eased in Q4/2015. Meanwhile, other investments deficit was also due to an increase in private sector deposits in foreign banks as economic agents' perception of the domestic economy had 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. As of January 31, 2016 international reserves decreased to U.S.\$102.1 billion.

Financial System

Liquidity Supports, Government Guarantee and Deposit Insurance

In September 2004, the Government enacted the law establishing Indonesia Deposit Insurance Corporation (**IDIC**). The IDIC became fully operational, as stipulated in the law, on September 22, 2005. The IDIC's mandates are to protect bank depositors and actively promote banking stability. The prevailing IDIC coverage is up to Rp2 billion for each depositor in any one bank. The IDIC membership is compulsory for every bank conducting business in Indonesia. The IDIC will pay, in accordance with its procedures, deposit insurance claims, when a member bank has its license revoked by the Indonesia Financial Services Authority (previously by Bank Indonesia). This law was subsequently amended by Government Regulation in lieu of Law No. 3 of 2008, which was re-affirmed by Law No.7 of 2009. The amendment provides for an adjustment in the maximum amount of deposit insured in the event of a crisis that can potentially decrease public trust in the banking system or affect the stability of the financial system.

From the commencement of its operations to December 31, 2015, the IDIC has liquidated 66 failed banks that had their licenses revoked, including one commercial bank and 65 rural banks. The total deposits of the 66 banks were Rp1.28 trillion (approximately U.S.\$92.83 million based on the exchange rate on December 31, 2015). Based on verification conducted by IDIC, the total amount of deposits eligible for pay-out was Rp772.91 billion (approximately U.S.\$56.06 million). The IDIC also assigned to rescue one commercial bank (Bank Mutiara) which failed during the financial crisis in 2008. IDIC sold Bank Mutiara to J-Trust on November 20, 2014 with price to book value of 3.5 times.

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

PT Perusahaan Pengelola Aset (Persero) (PT PPA)

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

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

On September 4, 2008, the Government issued Government Regulation No. 61 of 2008 regarding the Amendment of Government Regulation No. 10 of 2004 on the Establishment of Public Company (Persero) in Asset Management Field (**PP 61/2008**). With PP 61/2008, the purpose and objectives of PT PPA were revised to restructure and/or revitalize state-owned-enterprises, to invest and to manage the assets of state-owned-enterprises, and to manage ex IBRA assets for and on behalf of the Minister of Finance.

From 2004 to September 30, 2015, PT PPA collected Rp20.89 trillion in proceeds from the management of assets previously owned by IBRA (including the interest of fund placement) and has submitted Rp17.78 trillion to the Government. In addition, PT PPA submitted Rp1.075 billion as dividends to the Government from profits earned from fiscal year 2004 to 2014 and Rp1,042 billion from taxes collected from 2004 to September 30, 2015.

As of September 30, 2015, PT PPA conducted restructuring and/or revitalization activities in relation to 13 SOEs which included monitoring of the implementation of such restructuring and/or revitalization.

As of September 30, 2015, PT PPA had sold, on behalf of the Ministry of Finance: (i) its majority ownership interests in PT Bank Permata Tbk to strategic investors; (ii) minority interests in PT Bank Danamon Indonesia Tbk, PT Bank Permata Tbk, PT Bank CIMB Niaga Tbk, PT Bank Central Asia Tbk, PT Bank Internasional Indonesia Tbk, PT Bank Lippo Tbk and PT Bank Pan Indonesia Tbk to investors through market

placements; (iii) shares in PT Bank Tabungan Pensiunan Nasional Tbk through an initial public offering; (iv) shares and credit in PT Dipasena Citra Darmaja and PT Bali Nirwana Resort through an open tender process; and (v) other Government shares and rights in national banks and other companies and property assets.

The following table sets forth information regarding the divestment of ex-IBRA assets by PT PPA during the period from 2004 to September 30, 2015.

Divestments by PT PPA

Assets	Month of divestment	Equity interest	Proceeds to the
		divested (percentages)	Government (in trillions of Rupiah)
PT Bank Permata Tbk	November 2004	51.0	2.78
	December 2004	20.0	1.16
	September 2006	25.9	1.75
	March 2013	0.2	0.03
PT Bank Danamon Indonesia Tbk	November 2004	10.0	1.74
	August 2005	10.5	2.68
PT Bank CIMB Niaga Tbk	December 2004	16.3	0.59
	April 2005	5.2	0.22
PT Bank Internasional Indonesia Tbk	January 2005	15.3	1.35
	November 2006	5.2	0.51
	December 2008	0.3	0.06
PT Bank Central Asia Tbk	September 2005	5.0	2.19
PT Bank Lippo Tbk ⁽¹⁾	November 2006	0.0 ⁽¹⁾	0.00
	November 2008	1.7	0.20
PT Bank Pan Indonesia Tbk ⁽²⁾	March 2013	0.0 ⁽²⁾	0.0003
PT Jasa Marga (Persero) Tbk Bonds	December 2006	— ⁽³⁾	0.04
PT Dipasena Citra Darmaja	May 2007	100.0	0.07
PT Bali Nirwana Resort	July 2007	77.3	0.05
PT Bank Tabungan Pensiunan Nasional Tbk	March 2008	28.4	0.76
PT Asuransi Tugu Kresna Pratama	June 2008	35.0	0.01
PT Babcock Wilcox Indonesia	June 2008	51.0	0.01
Property Auction Program I	June 2008	— ⁽⁴⁾	0.04
Property Auction Program II	December 2008	— ⁽⁴⁾	0.08
PT Bank Permata Tbk (Rights)	November 2010	— ⁽⁵⁾	0.0004
	December 2012	— ⁽⁵⁾	0.0003
PT Tugu Pratama Indonesia	December 2010	17.5	0.30
PT Bank Maybank Syariah Indonesia	December 2011	3.2	0.04
PT Tugu Reasuransi Indonesia	June 2013	19.75	0.05

Source: PT PPA

- (1) PT PPA divested 0.000015% of PT Bank Lippo Tbk.
- (2) PT PPA divested 0.0054% of PT Bank Pan Indonesia Tbk.
- (3) Sale of government-owned bonds of PT Jasa Marga (Persero) Tbk. The transaction did not involve divestment of any equity interest by PT PPA.
- (4) This was a property auction program and did not involve divestment of any equity interest by PT PPA.
- (5) This was a divestment of rights (issued by PT Bank Permata Tbk) as a consequence of PT PPA/Minister of Finance's decision not to exercise its rights as a shareholder to buy new shares on the PT Bank Permata Tbk's rights issue.

Strengthening the Banking System

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

The structural resilience of financial institutions has changed dramatically compared to what it was during the Asian financial crisis of 1997. The most prominent feature of the changes comes from the strengthened risk

management and good governance in the financial sector to mitigate risk. Banks are regularly encouraged to enhance the quality of their risk management and governance, not only to meet Bank Indonesia's regulations but also to nurture market discipline.

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

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

As a follow-up to the banking restructuring program and to help prepare banks to address the challenges of globalization, in early 2004, Bank Indonesia unveiled a blueprint for the country's banking sector reform program known as the Indonesian Banking Architecture (the **Architecture**). The Architecture sets forth a vision to enhance the strength, soundness and efficiency of the Indonesian banking system for financial stability and to promote national economic growth, based on six principles: (i) a healthy banking structure; (ii) an effective regulation system; (iii) an effective and independent supervisory system; (iv) a strong banking industry; (v) adequate infrastructure; and (vi) robust customer protection. The review of policies within the Architecture accommodates the current global, regional and local dynamics, the development of all pillars in the Architecture and is part of the preparations toward implementation of the ASEAN Economic Community in the financial sector in 2020 and enhances banking contributions in accelerating Indonesian economic growth.

In order to improve good corporate governance practices in the banking industry, on July 13, 2012 Bank Indonesia issued Bank Indonesia Regulation No. 14/8/PBI/2012 on Share Ownership of Commercial Banks. The share ownership structure of a bank is largely determined based on the type of shareholders. Exemptions may be given to banks that have good ratings in Bank Indonesia's rating system and a good corporate governance rating system.

In addition, on January 26, 2016, Financial Services Authority issued a new OJK Regulation No. 6/POJK.03/2016 which revokes Bank Indonesia Regulation No. 14/26/PBI/2012 on Bank Activities and Office Network Based on Tier-1 Capital. The regulation is a policy derived from the principle of strengthening the resilience of the Banking Industry. This regulation is also enacted to improve efficiency and competitiveness of banks in anticipating ASEAN Integration framework for financial sectors in 2020.

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

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

To strengthen the overall structure of the banking system, Bank Indonesia has issued regulations governing the treatment of foreign debt and establishing principles for the issuance of asset-backed securities, created a uniform loan classification system to regulate asset quality, revised the methods of weighting risk for loans

extended to small-scale enterprises, small mortgages and civil service and military employees and retirees, and redefined and adjusted legal lending limits and related party transaction restrictions applicable to banks. Bank Indonesia has also worked to respond to changes in the banking environment, by providing greater access for Islamic banking in conventional commercial banks and authorizing the special treatment of loans provided to people affected by natural disasters in Aceh, North Sumatra and Yogyakarta. Following several natural disasters in 2014, OJK through a decree of the Board of Commissioners extended the special treatment of loans granted by banks in the designated disaster zones affected by the eruption of Mount Sinabung, the Manado flash floods and the eruption of Mount Kelud.

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

To protect customers, Bank Indonesia has required banks to provide greater transparency and information on banking products and restricted the use of bank customers' personal data. In relation to customer protection, OJK issued regulation POJK No. 1/POJK.07/2013 concerning Consumers Protection in the Financial Sector to ensure customers receive accurate, fair and clear information. In 2014, OJK regulation No. 1/POJK.07/2014 concerning Alternative Institutes for Dispute Resolution in the Financial Services Sector (LAPS) was released to regulate the availability of alternative dispute resolution mechanisms in the financial sector in order to increase consumer confidence in financial services institutions. To empower bank customers, Bank Indonesia issued rules requiring banks to establish standard customer complaint mechanisms and dispute resolution forums for customer disputes in addition to other forms of non-judicial dispute resolution.

In 2012, Bank Indonesia implemented several new regulations designed to promote good corporate governance within the Indonesian banking sector, to foster sustainable growth and to ensure the financial soundness of banks.

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

Since December 2012, the New Basel Capital Accord (Basel II) framework has been fully implemented in Indonesia. By implementing Basel II, Bank Indonesia seeks to strengthen risk management of the banks to make them more resilient to domestic, regional and international shocks. Overall, the Basel II implementations are as follows:

- Pillar 1 (minimum capital requirement). through the issuance of Bank Indonesia Circular Letter No. 13/6/DPNP, Bank Indonesia Circular Letter No. 13/31/DPNP, Bank Indonesia Circular Letter No. 9/33/DPNP, Bank Indonesia Circular Letter No. 14/21/DPNP and Bank Indonesia Circular Letter No. 11/3/DPNP.
- Pillar 2 (supervisory review process). through the issuance of Bank Indonesia Regulation No. 14/18/PBI/2012 as amended by Bank Indonesia Regulation No. 15/12/PBI/2013 and Bank Indonesia Circular Letter No. 14/37/DPNP.
- Pillar 3 (market discipline). through the issuance of OJK regulation No. 6/POJK.03/2015 and OJK Circular Letter No. 11/SEOJK.03/2015.

To enable the establishment of a sound banking system that is capable of growing and competing both domestically and internationally while complying with Basel III standards, the authority issued regulation No. 15/12/PBI/2013 which came into force in January, 2015. Further OJK also issued OJK Regulation No. 42/POJK.03/2015 and OJK Regulation No. 45/POJK03/2015 to comply with the international standard on liquidity coverage ratio and remuneration.

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

On December 22, 2011, Bank Indonesia issued Circular Letter No. 13/31/DPNP relating to the rating agencies and recognition of ratings by Bank Indonesia.

As of September 30, 2014, total banking assets were Rp5,011.8 trillion, consisting of assets of commercial banks of Rp4,932.9 trillion and assets of rural credit banks of Rp78.8 trillion.

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

Bank Indonesia continuously seeks to improve risk management policies in Indonesia's banking system. Bank Indonesia introduced a number of measures on June 16, 2010 to increase the central bank's toolset to manage liquidity as well as to encourage banks to conduct more transactions in the secondary market in the form of demand creation. By implementing these policies, Bank Indonesia hoped to shift the maturity profile of transactions between Bank Indonesia and banks into a longer tenor in order to absorb unnecessary excess liquidity. The new policies were intended to enhance the effectiveness of monetary policy, maintain macro stability and strengthen the momentum of economic recovery. The policy package covered the enhancement of instruments and regulations both in the Rupiah and foreign exchange money markets to further strengthen monetary management, improve bank prudential aspects, and deepen the financial markets. The policies included:

- Widening of the corridor of the overnight interbank money market rate. This policy was intended to further develop the interbank money market by encouraging banks to frequently be involved in interbank money market in fulfilling short-term liquidity needs prior to engaging monetary instruments provided by Bank Indonesia.
- Revisions of regulations on banks' foreign exchange net open positions (**NOP**). This policy was intended to buttress the deepening of the domestic foreign exchange market while keeping in consideration bank prudential aspects. While the on balance sheet NOP maximum limit of 20.0% of capital was abolished, the overall NOP was maintained at 20.0% of capital.
- Imposing a minimum of a one-month holding period for SBI both in primary and secondary markets. This policy was imposed to both resident and non-resident investors and was intended to lengthen the ownership and the transaction period of SBI in the secondary market. Nevertheless, to fulfill its short-term liquidity needs, a bank holding SBI can conduct a repo transaction with Bank Indonesia which has been available thus far. In April 2011, Bank Indonesia extended the one-month holding period to a six-month holding period in response to the increasing amount of capital inflows and as a tool to mitigate the risks of large and sudden capital reversal.
- Introduction of a non-securities monetary instrument in the form of a term deposit. Term deposit is a liquidity management instrument of Bank Indonesia without an underlying debt security. This instrument is non-transferable, but may be redeemed prior to maturity (early redemption) subject to certain requirements.
- Issuance of the nine- and 12-month SBI. This policy measure supports the deepening of the domestic money market in terms of the availability of instruments, maturity profile, and the formation of a short-term interest rate structure.
- Implementation of the tripartite repurchase (repo) of Government debt securities (**SBN**). The tripartite repo SBN is Bank Indonesia's liquidity management activity through reverse repo transaction with underlying assets in the form of SBN acquired from qualified parties such as pension funds and insurances.

In response to the steadily expanding involvement of banks in activities related to bancassurance and offshore products, banks need to strengthen the effective application of risk management through the implementation of prudential principles and protection of customer interests. In this regard, the Financial Services Authority issued Regulation No. 8/POJK.03/2016 (which replaces Bank Indonesia Regulation No. 12/9/PBI/2010) on Prudential Principles in Conducting Agency Activities for Offshore Financial Products by Commercial Banks. Bank Indonesia issued several regulations such as and Circular Letter No. 12/35/DPNP on Application of Risk Management for Banks Conducting Marketing Cooperation Activities with Insurance Companies (Bancassurance).

On September 3, 2010, Bank Indonesia announced a new policy regarding the statutory reserve requirement (**SSR**) in Rupiah. Bank Indonesia decided to raise the primary statutory reserve requirement for Rupiah funds to 8.0% and to introduce a loan-to-deposit ratio (**LDR**) based reserve requirement. This policy is intended to curb mounting inflationary pressure through management of excess banking liquidity. As the new reserve requirement has been set in consideration of the present condition of banking liquidity, it does not diminish the capacity of banks to pursue credit expansions in line with existing bank business plans while upholding prudential banking

principles. Based on this new policy, the computation of the Rupiah reserve requirement will be: 8.0% primary reserves + 2.5% secondary reserves + LDR-based reserves.

The Rupiah primary reserve requirement has been raised from 5.0% to 8.0% of Rupiah depositor funds. The secondary reserve requirement at 2.5% of Rupiah depositor funds remains unchanged. The LDR-based reserve requirement is established with a range that will promote the banking intermediation function while upholding prudential banking principles. The LDR target range is set with a lower limit at 78.0% and an upper limit at 100.0%. Banks with an LDR that falls outside this range will face disincentives as follows: (i) banks with an LDR below the lower limit will face an additional 0.1 reserve requirement from Rupiah deposits for each 1.0% that exceeds the upper limit; (ii) banks with an LDR exceeding the upper limit and with a capital adequacy ratio (CAR) below 14.0% will face an additional 0.2 reserve requirement from Rupiah deposits for each 1.0% short of the target; and (iii) banks with an LDR in excess of the upper limit but which maintain CAR of 14.0% or above and will not face any disincentives. The new primary reserve requirement became effective on November 1, 2010, with a transition period of about two months. The new LDR-based reserve requirement came into force on March 1, 2011, following a transition period of six months.

Under PBI No. 15/7/PBI/2013, dated September 26, 2013, Bank Indonesia announced new policies regarding the minimum secondary reserves and LDR-based reserve requirements. The new policies increased the minimum secondary reserve from 2.5% to 3.0% of third party funds from October 1, 2013 to October 31, 2013, 3.5% of third party funds from November 1, 2013 to December 1, 2013 and 4.0% of third party funds from December 2, 2013 onwards. The new LDR target range has been reduced with the upper limit being lowered from 100.0% to 92.0% with an unchanged lower limit at 78.0% and was effective from December 2, 2013. The disincentives to banks that do not apply the new requirements remain unchanged.

OJK's introduction of the bank supervisory role as of December 31, 2013 resulted in Bank Indonesia issuing PBI No. 15/15/PBI/2013 on Minimum Statutory Reserves in Rupiah and Foreign Exchange of Conventional Banks to replace PBI No. 12/19/PBI/2010 as last amended by PBI No. 17/21/PBI/2015. The minimum statutory reserve and LDR-based reserve rates remain unchanged from those previously regulated under PBI No. 15/7/PBI/2013. However, under this regulation, Bank Indonesia with approval from OJK, may allow for those banks undertaking consolidation or mergers to benefit from a 1.0% reduction in the minimum primary Rupiah reserve requirement of 8.0% for the period of one year from the effective date of such merger or consolidation activity. Bank Indonesia may conduct joint investigations with OJK or utilize OJK investigation results, or conduct its own direct investigations into banks to ensure compliance with the minimum statutory reserve regulation.

In 2014, the Financial Services Authority (*Otoritas Jasa Keuangan* or **OJK**) issued three decrees of the Board of Commissioners concerning the special treatment for loans extended by banks to disaster areas:

- KDK No. 2/KDK.03/2014 concerning the designation of several districts in Karo Regency as an area that requires special credit treatment to address the recovery of disaster zones resulting from the eruption of Mount Sinabung;
- KDK No. 3/KDK.03/2014 concerning the designation of the municipality of Manado as an area that requires special credit treatment to address the recovery of the disaster zone resulting from the Manado flood disaster; and
- KDK No. 7/KDK.03/2014 concerning the designation of districts in Kediri Regency, Blitar Regency, Malang Regency, the municipality of Kediri and Batu as areas that require special credit treatment to address the recovery of the disaster zones resulting from the eruption of Mount Kelud.

On March 28, 2011, Bank Indonesia issued a new implementing regulation to Bank Indonesia Regulation No. 12/22/PBI/2010 on Fit and Proper Tests dated December 29, 2010 (the **Fit and Proper Test Regulation**) through Circular Letter No. 13/8/DPNP on Fit and Proper Tests as amended by Circular Letter No. 13/26/DPNP (the **Circular Letter**). The Fit and Proper Test Regulation and Circular Letter aim to strengthen the national banking system by laying out fit and proper test mechanisms and by imposing stricter rules and sanctions in relation to fit and proper tests for certain parties. With respect to sanctions imposed, a controlling shareholder who fails to pass these fit and proper tests shall, among others, have his entire shareholding transferred within six months and be prohibited to act as a controlling shareholder of any bank.

On September 22, 2011, Bank Indonesia issued Bank Indonesia Regulation No. 13/19/PBI/2011 as an amendment to Bank Indonesia Regulation No. 8/12/PBI/2006 on Periodical Report for Commercial Bank, in which Bank Indonesia moves forward the submission period for periodical reports from commercial banks and

requires an additional report concerning balance assets based on risk and computation for base interest credit rate.

On October 27, 2011, the House of Representatives passed the Financial Services Authority (*Otoritas Jasa Keuangan* or **OJK**) law to establish an independent regulatory agency to promote sustainable growth in the financial services sector. OJK is responsible for protecting consumer and public interest by regulating the country's financial services industry in a fair and transparent way. OJK will regulate the banking sector by monitoring, among other things, bank office openings, ownership, acquisitions, licenses, fund sources, liquidity, asset quality, credit lending, reserves, debtor information systems, accounting standards, risk management and bank governance. Nine commissioners were appointed to OJK on July 20, 2012. Each commissioner term is limited to five years and an individual may only be elected once. For accountability purposes, OJK will provide annual activity reports to the President of the Republic of Indonesia and to the House of Representatives. The OJK budget for operational and administrative activities shall come from the state budget and from fees collected from practitioners in financial services. The entity has taken over its regulatory duties from Bank Indonesia since 2013.

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 has issued its final rule for the Basel III capital framework in December 2013 which covers (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 minimum capital requirement based on risk profile (including a capital conservation buffer, countercyclical buffer and capital surcharge for D-SIBs). In this regard, on December 23, 2015, Bank Indonesia issued Bank Indonesia Regulation No. 17/22/PBI/2015 on the Obligation to Form a Countercyclical Buffer.

With regard to the liquidity reforms, OJK has published a consultative paper on Liquidity Coverage Ratio (LCR) regulation in September 2014. As requested by OJK, selected banks have calculated their LCRs starting in January 2015 using December 2014 data and disclosed their LCRs quarterly since the first quarter of 2015. A majority of the selected banks have LCR positions far above the 2015 required minimum of 60%, while the average LCR position as of June 2015 is 163.25%. Meanwhile, regarding the leverage ratio, OJK has published a consultative paper on the Leverage Ratio regulation in October 2014 which requires selected banks to calculate the leverage ratio starting in January 2015 using the December 2014 data and disclose their leverage ratios quarterly since the first quarter of 2015. Based on the data, the average leverage ratio position of the selected banks as of June 2015 is 10%, far above the required minimum of 3% set by BCBS.

On September 24, 2013, Bank Indonesia introduced a new regulation regarding loan to value (**LTV**) and financing to value (**FTV**) for property credit, and property-backed consumer loans through Circular Letter No. 15/40/DKMP, which replaces the 2012 regulations, in order to mitigate the concentration of credit risk in the property sector, to promote the application of prudential principles when disbursing credit, to provide low and middle-income earners a greater opportunity to acquire appropriate housing as well as simultaneously enhance aspects of consumer protection in the property sector. Central and regional Government housing schemes are exempt from the regulation. The 2012 LTV/FTV policy was deemed necessary due to excessive credit growth in the property sector. The new regulation applies a regressive LTV/FTV ratio. The primary objective of the regulation is to anticipate potential default risk attributable to weaker repayment capacity. This regulation is subject to further adjustments consistent with the prevailing economic conditions as well as overall banking industry performance.

Bank Indonesia Monetary Policy

Bank Indonesia will continue to focus its efforts on maintaining economic and financial system stability through a combination of policies, such that:

- Monetary policy will be geared towards achieving targeted inflation rates and reducing the current account deficit to more sustainable levels through a combination of interest rate and exchange rate stabilizations. Reinforcing monetary operations, managing the flow of foreign exchange and financial market deepening to support the effectiveness of policy rate and exchange rate transmission, while simultaneously improving the structure and capacity of the financial system to provide financing for economic development are key steps to be taken.
- Macroprudential policy will remain focused on mitigating systemic risk in the financial sector as well as managing credit and liquidity to promote macroeconomic stability management. Bank Indonesia will also increase financial inclusion by broadening public access to banking services.

- Payment system policy will continue to encourage the development of a more secure, efficient and seamless domestic payment system.

These policies will be supplemented through policy coordination with the Government and other relevant financial sector authorities. Following the Board of Governors' critical assessments of the economic performance in 2010 and its outlook and challenges in 2011 and 2012, Bank Indonesia at the end of December 2010 announced a set of new policy measures in the monetary and banking areas to further strengthen monetary and financial stability. To safeguard the macroeconomic stability while fostering sustained robust economic growth, Bank Indonesia continues to adopt prudent and consistent monetary and banking policies. The new policies encompass five key aspects as follows:

- Policies to strengthen monetary stability. Bank Indonesia will direct the BI Rate to be consistent with the achievement of the inflation target set at 4.5% ($\pm 1.0\%$) in 2013, 4.5% ($\pm 1.0\%$) in 2014 and 4.0% ($\pm 1.0\%$) in 2015 and 2016, while cautiously assessing the risks of increasing inflation pressures going forward. This policy will be accompanied by a number of new measures to further strengthen the monetary and macro-prudential policies that have been implemented in 2010, and also to normalize the policies that were adopted during the 2008 crisis as the monetary and financial conditions have improved at present. The new policies include reinstating the limit on the daily balance of a bank's short term external debt and revocation of Bank Indonesia's direct supply of foreign exchange to domestic corporations. On September 30, 2015, Bank Indonesia issued a Rupiah exchange rate stabilization policy package as a follow-up to the previous policy package dated September 9, 2015. The follow-up policy package focuses on three pillars, namely:

(1) Maintaining Rupiah exchange rate stability.

The presence of Bank Indonesia on the domestic foreign exchange market to stabilize the Rupiah exchange rate was strengthened through intervention on the forward market. In addition to intervention on the spot market, Bank Indonesia also intervenes on the forward market to help balance supply and demand. Maintaining balance on the forward market is important to alleviate pressures on the spot market.

(2) Strengthening Rupiah liquidity management.

Bank Indonesia reinforced Rupiah liquidity management by releasing three-month SDBIs along with two-week reverse repo tradeable government securities (SBN). The release of such open market operation instruments will absorb liquidity, prompting a shift towards longer tenor instruments, which should reduce the risk of excessive use of Rupiah liquidity that could intensify pressures on the Rupiah exchange rate.

(3) Strengthening foreign exchange supply and demand management.

Foreign exchange supply and demand management was strengthened through a variety of policies that aim to boost supply and control demand.

First, policy to manage supply and demand on the forward market was strengthened. The policy aims to encourage forward selling transactions of foreign currencies/Rupiah and clarify underlying forward buys of foreign currencies/Rupiah by raising the forward selling threshold that requires an underlying document from U.S.\$1 million to U.S.\$5 million per transaction per customer and broaden the scope of underlying assets for forward sells to include domestic and offshore foreign currency term deposits.

Second, foreign currency Bank Indonesia securities (SBBI) were also issued to back financial market deepening efforts, especially on the foreign exchange market.

Third, the holding period of Bank Indonesia Certificates (SBI) was reduced from one month to one week in order to attract foreign capital inflows.

Fourth, an incentive was provided in the form of a reduction in the interest tax rate applicable to the term deposits for exporters depositing their foreign exchange earnings at banks in Indonesia or converting the proceeds into Rupiah as requested by the Government. The policy is expected to keep foreign exchange earnings in the country for longer periods.

Fifth, Bank Indonesia ensured greater transparency and information availability when using foreign exchange by strengthening the foreign exchange flow report (LLD). In this case, LLD participants are obliged to report their use of foreign exchange through supplementary supporting documentation for transactions above a certain value. The regulation is pursuant to Act No. 24 of

1999 concerning the Flow of Foreign Exchange and the Exchange Rate System, where Bank Indonesia is authorized to request information and data regarding the flow of foreign exchange from residents.

- Policies to promote a bank's intermediation function. These policies are intended to further promote banking intermediation more efficiently and transparently and to widen the access of the poor to financial services. The new policies include: applying an operating standard for administering mortgages securitization, introducing a disclosure requirement on the prime lending rate to the public, calculating risk weighted assets relating to commercial bank retail credit risk and small and medium enterprises, and licensing, regulation and supervision of private credit bureaus.
- Policies to strengthen banks' resiliency. These policies promote a strong and sound banking system through transparency management based on good governance. The new policies cover: improvements of regulation based on the fit and proper test, strengthening the commercial banks' compliance functions, implementation of risk weighted assets calculations for credit risk using a standardized approach for commercial banks, implementing risk management for banks involved in joint marketing with insurance companies, regulation on asset quality for Sharia banks, Sharia business units, and Sharia rural banks, improvements in regulation on restructuring of financing for Sharia banks and Sharia business units, enhancements on maximum legal financing limits for Sharia rural banks, amendments of license regulations on the conversion of commercial banks to rural banks and promotion of highly competitive rural banks with good corporate governance.
- Strengthening macro-prudential policy. These policies are aimed to strengthen monetary and financial system stability through the implementation of macro prudential surveillance by Bank Indonesia. The new policies include: improving the regulation and use of information on a bank's business plan, raising the reserve requirement ratio for foreign currency deposits and normalizing the regulation on the short term funding facility of Bank Indonesia to commercial banks.
- Strengthening supervisory functions. The new policies are intended to strengthen the effectiveness of Bank Indonesia's banking supervision, particularly the quality of early warning systems and its relation to the macro-prudential supervision. The policies include: enhancement in the risk-based banking supervision system, determination of bank's supervisory status and further remedial actions and improvements in the assessment of bank soundness ratings based on risks.

In addition to the above policies to strengthen monetary and financial system stability, Bank Indonesia also seeks to mitigate the economic impact of natural disasters in a number of areas through special treatment for loans extended to disaster areas. This policy is expected to support the economic recovery in areas such as Merapi, Wasior and Mentawai. The policy was enacted based on the Governor of Bank Indonesia Decree issued on December 8, 2010.

In March 2012, Bank Indonesia mandated loan-to-value levels for mortgages and down payments on motor vehicle loans in order to enhance banking prudence and to bolster financial sector resilience. The legislation is stated in Bank Indonesia Circular No. 15/40/DKMP, dated September 24, 2013, on Risk Management Application to Banks Providing Credit Extension or Property Ownership Financing, Consumption Credit or Financing with Collateralized Property, and Motorized Vehicle Credit or Financing. A reduced payment level was set for commercial vehicles from that of personal vehicles.

Under Bank Indonesia Regulation No. 16/10/PBI/2014 as lastly amended by Bank Indonesia Regulation No. 17/23/PBI/2015 that replaces Bank Indonesia Regulation No. 14/25/PBI/2012 and Bank Indonesia Regulation No. 13/22/PBI/2011, any foreign currency arising from (i) export revenue must be received through or (ii) offshore loans must be withdrawn from, a bank which is licensed by Bank Indonesia to trade foreign currency (*Bank Devisa*). A company that draws down an offshore loan must report it to Bank Indonesia. This report must be accompanied with a supporting document evidencing that the company has withdrawn the offshore loan from a *Bank Devisa*. This report must be submitted to Bank Indonesia at the latest on the 15th day of the following month. The offshore loans that are subject to this requirement are those arising from (i) non revolving loan agreements that are not used for refinancing purposes, (ii) any difference between the amount of a refinancing facility and the amount of the previous loan, and (iii) debt securities in the form of bonds, medium term notes, floating rate notes, promissory notes and commercial paper. Also the debtor must provide a written explanation to Bank Indonesia if there is any discrepancy between the amount of loans disbursed and the total loan commitments. These requirements do not apply to:

- (i) the government's foreign currency export revenue which is received through Bank Indonesia;

- (ii) foreign currency from export revenue in the form of cash which is received onshore; or
- (iii) offshore loans given for the purpose of refinancing where the amount of the new loan is the same as the existing loan.

Failure to receive the export revenue through, or withdraw the offshore loan from, a *Bank Devisa* or to submit the supporting documents will be subject to monetary sanctions. Exporters may also face the risk of having their export activities suspended, as provided under the relevant regulations.

In principle, all export proceeds must be received within three months after registration of the notification on export of goods. Exporters shall report to their foreign exchange bank the export proceeds information contained in the notification of export of goods.

In 2015, in accordance to the strategy to put forward stability over growth, BI kept the policy rate unchanged since February, with the policy rate being 175 basis points higher at the year-end compared to mid-2013. This relatively tight monetary stance helped the economy to face external turbulence and bring inflation back to within the target band.

Strengthening the Islamic Financial System

The Government believes that the Islamic finance banking industry has an opportunity to grow rapidly in Indonesia, which has the largest Muslim population in the world. The industry provides the Muslim community with alternative financial products and services that conform to Sharia principles. To assist with development and growth of Islamic financial services in Indonesia, these alternative financial products are considered an integral part of the banking industry and contribute to enhancing the stability of the Indonesian financial system by supporting national economic development in Indonesia.

The Indonesian Islamic financial industry has been developing under the regulatory authority of OJK (since December 31, 2013) and previously Bank Indonesia, which formulates and publishes a strategic plan for the development of the industry. OJK has established a new strategic plan for the development of the Indonesia's Islamic banking industry for 2015-2019. This new strategic plan is expected to provide guidelines that include detailed initiatives as well as specific objectives for the Sharia banking industry to achieve. This strategic plan for the development of the national Sharia banking industry is recognized as the "Roadmap of Indonesian Islamic Banking 2015-2019" with a view to "establish an Islamic banking industry that provides significant contributions to sustainable economic growth, equitable development, financial system stability and is highly competitive".

Previously, the Law No. 10 of 1998 on the Amendment of Law No. 7 of 1992 on Banking stipulated a dual system bank in Indonesia that allowed the conventional bank to offer Islamic banking services by establishing Islamic banking units and Islamic banking branches to carry out their business along Sharia principles. In July 2008, the Parliament ratified the Sharia Banking Law (as defined below) which serves as specific legal basis for Islamic banking operations. For purposes of supervision, the Law No. 3 of 2004 on the Amendment of Law No. 23 of 1999 on Bank Indonesia (**Central Bank Law**) allows Bank Indonesia to supervise and regulate Islamic banks and to provide central bank instruments that comply with Sharia principles for the purpose of conducting monetary policy and other facilities for liquidity management and lender of last resort functions of the central bank. The implementation of the Financial Services Authority's Act No. 21 of 2011, has resulted in the regulation and supervision function of Islamic banking (as well as banking supervision as a whole) being transferred from Bank Indonesia to OJK from December 31, 2013.

In order to diversify and enrich the Islamic financial market, the DPR also ratified the legal basis for Indonesian sovereign Sukuk. The DPR has introduced amendments to the income tax treatment of Sharia-compliant financial transactions and passed Law No. 42 of 2009 on the third amendments to the Law No. 8 of 1983 on Goods and Services and Sales Tax on Luxury Goods with effect from April 2010 to implement a neutral VAT treatment of Sharia-compliant financial transactions.

The Government and the financial authority have also taken steps to promote the growth of Sharia-compliant financial products in Indonesia and believes that there is a substantial opportunity for growth in the world's most populous Muslim country. Indonesia's Islamic banking sector has grown at an average year-on-year rate of approximately 38.4% from 2009 to 2013. As of December 31, 2015, the assets of Sharia banks were Rp296 trillion, or 4.5% of the country's total banking assets. Market efficiency and compliance with Sharia principles in the Republic's Islamic finance sector was also supported by the establishment of the National Sharia

Board in 2000, which was established under the Indonesia Ulema Council (*Majelis Ulama Indonesia*). One role of the board is to minimize disputes regarding the interpretation and/or implementation of Sharia principles in Islamic financial institutions in the country. It is also the sole authority for issuing fatwa regarding Islamic financial instruments and in recommending members of Sharia supervisory boards of Islamic banks and non-bank financial institutions.

Finally, the Government, the financial authority and the stakeholders of Islamic banking are pursuing other strategies to develop competent and qualified human capital for the industry, establish an effective regulatory and supervisory regime, provide complete and supportive infrastructure, develop an efficient structure of the Islamic finance industry, encourage a synergy of strategic alliances among Islamic financial institutions, enhance product innovation and market development and enhance Islamic finance customer protection and empowerment.

The Jakarta Islamic Index (**JIXI**), launched in 2000, consists of 30 Sharia-compliant Indonesian stocks with a market capitalization of Rp1,911.0 trillion as of June 30, 2014 and Rp1,701 trillion as of November 13, 2015. The Republic launched its first local currency sovereign Sukuk in August 2008. Indonesia's first local currency corporate Sukuk was issued in 2002 and seven Sukuk were issued in the country's domestic market by six issuers from January 1, 2013 to December 31, 2013. From January 1, 2014 to November 30, 2014, four Sukuk were issued in the country's domestic market by three issuers with total Sukuk outstanding amounting to Rp11.99 trillion. From January 1, 2015 to November 13, 2015, nine Sukuk were issued in Indonesia's domestic market by four issuers with total Sukuk outstanding amounting to Rp 8.28 trillion. To provide guidance for investors in and fund managers of Sharia-compliant securities, Bapepam-LK OJK publishes a list of Sharia-compliant securities twice a year, and the list contains 331 Sharia-compliant stocks as of June 1, 2015. In 2008, the Directorate of Tax, Ministry of Finance enacted a policy eliminating some taxes for sovereign Sukuk which result in unequal treatment for Islamic finance transactions. Following its successful inaugural U.S. dollar-denominated Sukuk issued in April 2009, the Republic has been periodically issuing sovereign Sukuk.

In July 2008, Law No. 21 of 2008 on Sharia Banking (the **Sharia Banking Act**) was enacted to facilitate the expansion of the Indonesian Islamic banking industry. The Sharia Banking Act applies Sharia principles to banking for Sharia banks and Sharia divisions of conventional banks, prohibiting the payment and receipt of interest and providing that returns on funds that are distributed or lent out must be based on the actual profits generated. The Sharia Banking Act also prohibits Islamic banking business and transactions that would support practices or products forbidden or discouraged by Sharia principles. This law also requires existing Sharia divisions of commercial banks to operate as separate Islamic commercial banks if such a division's assets account for at least half of the parent commercial bank's assets or within 15 years of the enactment of the Sharia Banking Act. The Republic believes that the new legislation will better position Indonesia as a venue for Islamic banking and finance.

During 2009, Bank Indonesia issued several regulations governing Sharia banking. Bank Indonesia Regulation No. 11/15/PBI/2009 concerning Conversion of Conventional Banks to Sharia Banks requires a conventional commercial bank to meet a minimum requirement of Rp100 billion in Tier 1 core capital before it can operate as a Sharia commercial bank. Bank Indonesia Regulation No. 11/33/PBI/2009 concerning the Implementation of Good Corporate Governance for Sharia Banks and Sharia Business Units and Bank Indonesia Regulation No. 14/6/PBI/2012 and Circular Letter No. 14/25/DPbS (to replace Bank Indonesia Regulation No. 11/31/PBI/2009 concerning Fit and Proper Test for Sharia Banks and Sharia Business Units) aim to promote professionalism, transparency and accountability among directors, commissioners and Sharia supervisory boards of Sharia banks.

On March 24, 2011, Bank Indonesia issued Bank Indonesia Regulation No. 13/14/PBI/2011 concerning Valuation of Assets for Sharia Rural Bank (**BPRS**) in order to support the growth and development of the Sharia banking industry with due observance to precautionary principles and Sharia principles, as well as to harmonize with other prevailing Bank Indonesia regulations and to replace the previous Bank Indonesia Regulation No. 8/24/PBI/2006. On November 2, 2011, Bank Indonesia issued Bank Indonesia Regulation No. 13/23/PBI/2011 concerning the Implementation of Risk Management for Sharia banks and Sharia business units. The regulation requires the implementation of risk management procedures tailored to the purpose, business policy, size, complexity and capability of the Sharia banks and Sharia business units.

On November 27, 2012, Bank Indonesia issued Circular Letter No. 14/33/DPbS concerning the Implementation of Policy on Housing and Automotive Financing for Sharia Banks and Sharia Business Units. In essence, this policy is in line with the policy applicable to conventional banks. For housing financing, the policy limits the financing to value (**FTV**) rate under a murabahah or isthisna scheme to only 70.0% of the mortgage

value provided by the customer, while under the musyarakah scheme, Sharia banks are limited to a 80.0% sharing participation out of the total value of the house or building. In respect of automotive financing, the policy introduced an obligation on customers to provide down payments of at least 25.0% for the financing of two- or three- wheeled vehicles, 30.0% for financing four-wheeled vehicles which are not intended for productive purposes, and 20.0% for four- or more-wheeled vehicles intended for productive purposes. This regulation was replaced on September 24, 2013, with the introduction of a new Bank Indonesia regulation regarding loan to value (LTV) and financing to value (FTV) for property credit, and property-backed consumer loans through Circular Letter No. 15/40/DKMP. As with conventional banks, on June 18, 2015 Bank Indonesia set out new LTV or FTV ratios for Sharia Banks for credit or financing of property and down payments for credit or financing of motor vehicles under the Bank Indonesia Regulation No. 17/10/PBI/2015 which revoked and replaced the previous circular letters issued by Bank Indonesia, namely the Circular No. 14/10/DPNP and Circular Letter No. 15/40/DKMP.

During 2013, Bank Indonesia issued regulations concerning Sharia banking including:

- (i) Circular Letter Number 15/8/DPbS dated March 27, 2013 concerning the Opening of Sharia Commercial Banks and Sharia Business Unit Offices Network based on core capital. The regulation stipulates that the opening of additional offices within a network should primarily be supported by financial capacity, with such financial capacity being determined by core capital allocation and availability. To support this objective, the regulation specifically excludes certain definitions such as the delivery channel (a Sharia deposit service operated by a standalone Islamic bank within the bank's conventional) and office channeling (whereby Sharia financing and deposit services are provided within a conventional bank) such that these definitions are not captured when determining the size of a current bank's network;
- (ii) Circular Letter Number 15/26/DPbS dated July 10, 2013 concerning Implementation of Indonesia's Islamic Banking Accounting Standard for Sharia Commercial Banks and Sharia Business Units, regulates the implementation of accounting standards relating to the Sharia banking industry. This guidance sets out the treatment of financial instruments in Indonesia's accounting standard No. 50 (year 2010 revision), Indonesia's accounting standard No. 55 (year 2011 revision), which in addition to Indonesia's accounting standard No. 60, regulates the implementation of accounting treatment relating to Sharia National Board Fatwa No. 84/DSN-MUI/XII/2012 concerning the murabahah revenue recognition method; and
- (iii) Bank Indonesia Regulation Number 15/13/PBI/2013 dated December 24, 2013 relates to the amendment of Bank Indonesia Regulation Number 11/3/PBI/2009 concerning Sharia Commercial Banks. The regulation was amended in order to increase good governance, accountability and the reporting accuracy of a bank's office network and executive management, while also increasing the efficiency and development of the Sharia banking industry and its harmonization with other related regulations. The regulation stipulates that Sharia banks can cooperate with conventional banks (as long as they are within the same bank's group/under the same ownership) on certain services such as the delivery channel for Sharia deposit services in a conventional bank's office network and receiving consultancy services from a conventional bank.

In 2014, OJK issued regulations to improve the existing regulation relating to the soundness and quality of assets of Sharia Commercial Bank and Sharia Business Units as well as the minimum capital requirement of Sharia Commercial Bank in order to meet the challenges posed by increasing business complexity and increased risk profiles such as, OJK Regulation No.8/POJK.03/2014 on Assessment of Sharia Commercial Bank and Sharia Business Unit Soundness, OJK Regulation No.16/POJK.03/2014 on Asset Quality Assessment of Sharia Commercial Bank and Sharia Business Unit, and OJK Regulation No.21/POJK.03/2014 on Minimum Capital Requirement for Islamic Banks.

In 2015, OJK reissued some implementing regulations which were previously issued such as Circular Letter No.9/SEOJK.03/2015 concerning Accounting Guidelines for Rural Sharia Bank, Circular Letter No.12/SEOJK.03/2015 concerning Minimum Capital Requirement according to Sharia Commercial Bank Risk Profile, Circular Letter No.13/SEOJK.03/2015 concerning Risk Weighted Asset for Operational Risk using Basic Indicator Approach for Islamic Banks, and Circular Letter No.18/SEOJK.03/2015 concerning Transparency and Publication Report of Sharia Commercial Banks and Sharia Business Units.

The Income Tax treatment on Sharia-based transactions is currently regulated under Government Regulation No. 25 of 2009 on Income Tax on Sharia-Based Business (**GR 25/2009**) which was issued as a mandate of Article 31D of the Law No. 36 of 2008 on Income Tax (the **New Income Tax Law**). This regulation provides

general treatments on Sharia transactions with respect to income, expenses, and withholding taxes. Following the GR 25/2009, the Minister of Finance recently issued two regulations as the implementing regulations to GR 25/2009, i.e. the Minister of Finance Regulation No. 136/PMK.03/2011 on Income Tax Treatment of Sharia Banking (**MOF Reg. 136/2011**) and Minister of Finance Regulation No. 137/PMK.03/2011 on Income Tax Treatment on Sharia-Based Financing Activities (**MOF Reg. 137/2011**). Both of these Minister of Finance regulations were issued on August 19, 2011 and became effective on the date of issuance. MOF Reg. 136/2011 describes the tax treatment of recipients based on the types of income and the recipients of income while MOF Reg. 137/2011 defines the tax treatment of various enumerated Sharia-based financing activities. The most significant progress set forth in these regulations is the adoption of a pass-through securitization concept for the transfer of assets or lease of an asset, which is required in the fulfillment of Sharia-compliant transactions. Pursuant to these provisions, income accrued from Sharia-based transactions are treated “mutatis mutandis” to similar conventional transactions to provide a level-playing field among Sharia and conventional businesses.

The table below sets out the number of Sharia mutual funds and the net assets values as of the dates indicated.

Mutual Funds

	As of December 31,				As of November 30,
	2011	2012	2013	2014	2015
Number of Sharia Mutual Fund	50	58	65	74	86
Net Asset Values of Sharia Mutual Fund (in billions of Rupiah)	5,564.8	8,050.1	9,432.2	11,158.0	10,770.7

Source: OJK

As of December 31, 2011, the Republic had 50 Sharia mutual funds with a net asset value (NAV) of Rp5,564.8 billion. There were 58 such funds as of December 31, 2012 with a NAV of Rp8,050.1 billion. The Republic had 65 Sharia mutual funds with a NAV of Rp9,432.2 billion as of December 31, 2013. Indonesia had 74 Sharia mutual funds with a NAV of Rp11,158.0 billion as of December 31, 2014. As of November 30, 2015, Indonesia had 86 Sharia mutual funds with a NAV of Rp 10,770.7 billion.

Non-Bank Sharia Financial Industry

Sharia Non-Bank Financial Industry (*Industri keuangan Non Bank Syariah* or **IKNB Sharia**) is supervised by OJK (Indonesia Financial Service Authority) and consists of the Sharia Insurance Company, the Sharia Pension Fund, the Sharia Financial Institution and other Sharia Financial Service Institutions. OJK is currently preparing and developing the regulatory governance for Sharia pension funds. There are currently no established Sharia pension funds in Indonesia.

The table below sets out the number of Sharia entities and the assets as of December 31, 2012, 2013, 2014 and 2015.

IKNB Sharia

Number of Sharia Entities	Sharia Insurance Company	Sharia Pension Fund	Sharia Financial Institution	Other Sharia Financial Service Institution	IKNB Sharia
As of December 31, 2012	45	0	34	2	80
As of December 31, 2013	49	0	48	2	99
As of December 31, 2014	49	0	48	3	100
As of December 31, 2015	53	0	46	8	110
Asset Values (in trillions of Rupiah)					
As of December 31, 2012	13.2	0	22.7	0.1	36.0
As of December 31, 2013	16.7	0	25.0	0.1	41.7
As of December 31, 2014	22.4	0	24.2	0.4	46.9
As of December 31, 2015	26.5	0	22.4	16.0	64.9

Source: OJK

As of December 31, 2015, there were 88 IKNB Sharia entities registered with OJK, 45 of which were from Sharia insurance companies, 37 of which were from Sharia financial institutions and six of which were from other Sharia financial institution services. The value of IKNB Sharia assets at December 31, 2015 was Rp64.9 trillion.

The table shows that from December 31, 2014 to December 31, 2015 the number and value of assets held by IKNB Sharia entities increased. Compared to December 31, 2014, IKNB Sharia showed an increase of 10.0% in the number of entities with an increase of 38.4% in the value of assets. The increased number of entities reflects the belief that there is potentially a very large demand for IKNB Sharia entities. The corresponding growth in IKNB Sharia assets can be attributed to the increased number of entities and the development of new IKNB Sharia products and services designed to accommodate the increased public interest and demand.

The development of IKNB Sharia in Indonesia continues to focus on enhancing the role of the regulator to support the performance of the industry. One measure for rating the effectiveness of the regulator is to view the number of new policies implemented and maintained over time.

With respect to the interest of the finance industry and the stakeholders, in 2013 OJK implemented various policies in relation to IKNB Sharia. The IKNB Sharia policies implemented in 2013 were designed to cover development activities, drafting of regulatory concepts, research, supervision and servicing agencies.

Based on research conducted by former Bapepam-LK and its successor OJK on Sharia based pension programs over the last five years and the issuance of a Fatwa of National Sharia Board — Indonesia Ulama Council (**DSN-MUI**) number 88/DSN-MUI/XI/2013 on General Guidelines on Administration of Sharia Principle Based Pension Program in 2013, OJK has formed the basic principles in preparing the regulatory concept for a Sharia pension fund. With the issuance of a fatwa by DSN MUI and the OJK regulations for Sharia pension funds, it is expected that Sharia pension funds will develop in conjunction with other Sharia financial services.

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 (**2002 AML Law**), and established a financial intelligence unit, the Indonesian Financial Transaction Reports and Analysis Centre (**INTRAC/PPATK**). The PPATK's duties later were expanded to include matters relating to countering financing of terrorism, and consequently, the Indonesian Financial Intelligence Unit (**PPATK**) was appointed to be the focal point of countering money-laundering and financing of terrorism in Indonesia. In 2006, the Ministry of Finance adopted a new decree regarding the implementation of know-your-client (**KYC**) principles which requires non-bank financial institutions to comply with anti-money laundering regulations, such as the requirement to report suspicious financial and cash transactions to the PPATK by way of suspicious transaction reports or cash transaction reports. This decree was subsequently amended in February 2010. In 2009, Bank Indonesia promulgated a new regulation on further strengthening customer due diligence and enhanced due diligence covering the implementation of anti-money laundering and the prevention of terrorism funding programs for commercial banks to introduce international best practices. This regulation was replaced in 2012 with the intention of harmonizing existing regulations and conforming them to international standards, with particular emphasis on those provisions relating to the transfer of funds, high risk areas and customer due diligence. This update was enacted to support the strategy of national and global financial cohesion strategy and cross-border banking of the Republic. In 2009, Bapepam-LK also revised its KYC regulations for parties involved in capital market activities and imposed reporting obligations for suspicious financial and cash transactions to the PPATK. In 2009, the Criminal Investigation Board of the Indonesia National Police established a special unit to investigate money laundering cases and a task force for terrorist financing. In March 2010, Bank Indonesia issued a regulation regarding Anti Money Laundering (**AML**) and Countering Financing of Terrorism (**CFT**) procedures in the money changers sector.

The Indonesian Financial Intelligence Unit (**PPATK**) has also initiated several regulations related to implementation of AML laws, as follows: (a) Bill of Law concerning Limitation of Cash Transaction; (b) Bill of Law concerning Asset Forfeiture in Criminal Matters; (c) Draft of Government Regulation concerning the New Reporting parties; (d) Draft of Government Regulation concerning the Procedures for the Submissions of Data and Information by Government Agencies and and/or Private Institutions to PPATK; and (e) Draft of Government Regulation concerning Carrying Cash and other Payment Instruments into or out of Indonesian customs areas.

From June 2001 until February 2005, the Financial Action Task Force (**FATF**), an organization established by developed countries to combat money laundering, had placed Indonesia on its list of non-cooperative countries and territories. Although now removed from this list, Indonesia has continued to strengthen its anti-money laundering laws and regulations and increase enforcement.

In order for Indonesia to comply with Recommendation 1 as set out in the FATF Recommendations, PPATK in cooperation with AUSTRAC, since September 2013, has established the National Risk Assessment (**NRA**) documentation for Indonesia. In addition to satisfying FATF Recommendation 1, the introduction of the NRA documentation will help further the prevention and eradication of money laundering and help prevent financing of terrorism. Several agencies will be involved with the establishment of the NRA documents: the State Audit of the Republic of Indonesia, Financial Services Agency, Corruption Eradication Commission, Ministry of Law And Human Rights, Ministry of Finance, Attorney General, Indonesia National Police and National Narcotics Agency.

In satisfaction of Special Recommendation IV of the FATF Recommendations, PPATK will be issuing a PPATK Regulation concerning the issue of reports for the identification of suspicious transactions relating to the financing of terrorism for financial service providers along with a circular letter providing key indicators for identifying suspicious transactions in addition to examples of suspicious transactions relating to the financing of terrorism.

During the FATF Plenary Meetings held in OECD Headquarters, Paris, on February 23-27, 2015, the FATF discussed the significant progress made by Indonesia to substantially address its FATF Action Plan at a technical level and acknowledged that Indonesia has demonstrated progress in improving its AML/CFT regime, by implementing measures, which include,: (1) adequately criminalizing money laundering and terrorist financing; (2) establishing adequate procedures to identify and freeze terrorist assets; and (3) enacting laws or other instruments to fully implement the 1999 International Convention for the Suppression of Financing of Terrorism. Such recognition and acknowledgement can also be found in the letter from President of FATF to Minister of Coordinating Ministry for Political, Legal and Security Affairs as chairman of anti-money laundering and terrorist financing committee dated March 16, 2015. The results of the on-site visit and further progress made by Indonesia in implementing its FATF Action Plan were discussed at the FATF meetings which was held in Brisbane, Australia, on June 22-26, 2015.

The June 2015 FATF Publication stated that Indonesia is no longer subject to International Co-operation Review Group (ICRG) review process. FATF acknowledged Indonesia's significant progress in improving its AML/CFT regime and that Indonesia had established the necessary legal and regulatory framework to meet its commitments in its action plan regarding the strategic deficiencies that the FATF had identified in February 2010. Indonesia will work with the Asia/Pacific Group on Money Laundering (APG) as it continues to address the full range of AML/CFT issues identified in the mutual evaluation report.

On January 17, 2013, the Government attended the Asia Pacific Regional Review Group (**RRG**) in Hong Kong. The Indonesian delegation consisted of representatives from PPATK, the Ministry of Foreign Affairs, the C9. Fiscal Policy Office (**BKF**) and Ministry of Finance. The RRG Review Team consisted of representatives from Hong Kong, India, the United States, Canada, Macau, as well as representatives of the APG Secretariat and FATF Secretariat.

Some of the significant progress made in implementing the Government's AML and CFT national strategies in the last few years has included: establishing a single identity number for each citizen to facilitate detection of fraudulent identities; promulgating a new Anti-Money Laundering Law, namely, Law No. 8 of 2010 on the Prevention and Eradication of Money Laundering Crimes; on-going establishment of electronic information exchanges among the PPATK, KPK and the National Police (**2010 AML Law**) which replaces the 2002 AML Law, and its implementing regulations; enhancing compliance supervision and monitoring for financial service providers; enhancing Bank Indonesia's regulation of money changers in relation to KYC and registration requirements; implementing more effective procedures for the tracing and forfeiture of assets; increasing public participation through a public campaign to support the implementation of the anti-money laundering regime; strengthening regulations relating to the alternative remittance system and wire transfers; the establishment of electronic information exchange systems among the PPATK, KPK and Indonesian National Police; accelerating the drafting and implementation of regulations and reporting obligations for goods and service providers; increasing the effectiveness of investigating criminal cases related to money laundering and organized crime; the comprehensive management of non-profit organizations; and the ratification of the UN Convention against Transnational Organized Crime through Law No. 5 of 2009 and the International Convention for the Suppression of the Financing of Terrorism through Law No. 6 of 2006.

PPATK has made arrangements to cooperate with investigations on suspicious financial transactions with the Indonesian National Police, the Attorney General's Office and other partner agencies involved in these investigations. As of July 31, 2012, PPATK had entered into memoranda of understanding with 44 financial investigation unit counterparts abroad. PPATK has also launched a nationwide program to educate relevant audiences on potential money laundering activities.

As of October 31, 2013, PPATK had disseminated 5,402 analysis results regarding money laundering and predicate crimes to law enforcement agencies. In addition, the number of suspicious transaction reports (**STRs**) received from banks and non-banks has steadily increased from 115,167 cases as of December 31, 2012 to 146,158 as of October, 2013. Similarly, the number of cash transaction reports (**CTRs**) increased from 12,247,141 cases as of December 31, 2012 to 13,456,612 cases as of October, 2013.

As of June 30, 2014, the PPATK had received 93,394 STRs from banks and 80,065 STRs from non-banks, in addition to 14,509,758 CTRs from banks and 31,727 CTRs from non-banks. Goods and service providers also provided 45,959 reports to PPATK. As of June 30, 2014, PPATK had disseminated 2,646 analysis reports regarding money laundering and related predicate crimes to law enforcement agencies.

On February 3, 2015, the head of PPATK issued Head of PPATK Regulation No. PER-02/1.02/PPATK/02/2015 on Categories of Customers with Propensity to Commit Criminal Act of Money Laundering. The Regulation became effective on March 13, 2015 and is aimed at providing guidelines for financial supervisory agencies in formulating KYC or EDD guidelines, and providing guidelines for financial service providers in formulating internal regulation to identify and classify customers considered high-risk in relation to committing money laundering. The categorization is based on four factors, i.e. profile (e.g. politically exposed person), country (e.g. foreign countries ranked under 50 based on worldwide governance indicators issued by World Bank), business (e.g. non-bank foreign exchange agencies, freight forwarding and property), or products/services (e.g. bearer negotiable instruments and cross border correspondent banking).

On February 11, 2015, as a joint effort to prevent terrorism financing as authorized by Law No. 9 of 2013 regarding the Prevention and Eradication of Terrorism Financing, the Head of PPATK issued, along with the Chief Justice of the Indonesian Supreme Court, the Minister of Foreign Affairs, the Chief of the Indonesian National Police, and the Head of the National Anti Terrorism Agency a Joint Regulation on the Entry of the Identity of Persons and Corporations in the List of Alleged Terrorists or Terrorist Organizations, and Immediate Freezing of Funds Owned by Persons or Corporations Who Are Listed in the List of Alleged Terrorists and Terrorist Organizations. The joint regulation is aimed at optimizing coordination and cooperation between related institutions, increasing time efficiency in listing the identities of alleged terrorists and terrorist organizations, and providing technical guidelines for the relevant institutions in implementing the listing.

On June 23, 2015, Government Regulation No. 43 of 2015 on Reporting Parties in Preventing and Eradicating Criminal Act of Money Laundering was enacted (**Regulation No. 43**). Regulation No. 43 was issued as an implementing regulation of Law No. 8 of 2010 on Prevention and Eradication of Criminal Act of Money Laundering (**Law No. 8 of 2010**). Under Law No. 8 of 2010 there are two categories of reporting parties: (i) financial services providers (including 16 sub-categories) and (ii) other goods and/or service providers (including five sub-categories). The reporting parties are those parties who are obligated to report (without limitation): (i) suspicious financial transactions, (ii) cash transactions of a certain size, or a series of transactions made over one business day over a certain size, and/or (iii) inbound or outbound international fund transfers above a certain amount. Regulation No. 43 added (A) four additional categories of financial services providers that constitute reporting parties: (i) venture capital companies, (ii) infrastructure financing companies, (iii) micro financing companies and (iv) export financing companies and (b) six additional persons that are obligated to report to PPATK, namely: lawyers, notaries, land deed officials, accountants, public accountants and financial planners.

As of September 30, 2015, PPATK had disseminated 3,155 Analysis Result, and 58 Examination Result regarding Money Laundering and/or Predicate Crime to the law enforcement agencies pursuant to the Law No. 8/2010. Since January 2003, there has been a significant increase in the number of STRs, CTRs and International Fund Transaction Instruction (IFTI) received. As of December 31, 2015, PPATK had received 253,409 STRs, 18,347,896 CTRs and 18,000,000 IFTIs. PPATK also received the transaction reports from Other Goods and/or Service Providers. As of December 31, 2015, PPATK had received 104,856 transaction reports.

The 2010 AML Law came into force on October 22, 2010 replacing the 2002 AML Law and its amendment of 2003 to be in line with current international standards and best practices. Some important features of this new law include:

- Extending the scope of coverage to predicate offences combining 25 crimes, including narcotics and psychotropic substances and any other crimes with an imprisonment for a term of four years or more.
- Extending the scope of coverage of assets and proceeds, including assets which are known or reasonably suspected of being used, directly or indirectly, for acts of terrorism.
- Increasing the maximum custodial sentence of money laundering offense to 20 years with a fine of up to Rp10 billion.
- Extending the scope of reporting parties to include financial service providers and designated non-financial businesses, for example property companies/agents, car dealers, dealers of precious stones, metals and jewels, art and antique dealers, and auction houses.
- Extending the authority of PPATK to request for and obtain data and information from Government institutions and/ or private institutions which possess an authority to manage data and information.
- Extending the types of reports from financial service providers, in the form of international fund transfer instruction reports.
- Empowering financial services providers to postpone transactions for five days.
- Authorizing controls on the cross-border carrying of cash and bearer negotiable instruments.
- Allowing the investigation of money laundering to be conducted by the investigator of predicate crimes, namely the Indonesian National Police, the General Prosecutor Office, the KPK, the National Narcotics Board, the DGT and the Directorate General of Customs and Excise under the Ministry of Finance.
- Giving the investigator, public prosecutor or judge the authority to order the reporting party to postpone a transaction of assets known or reasonably suspected to constitute proceeds of criminal acts.
- Not requiring proof of the predicate crime beforehand, so that at trial, the onus is on a defendant to prove that the assets in question did not originate from or are not linked to the alleged criminal acts.
- When an investigator finds indications of a money laundering crime and the predicate crime, requiring the investigator to combine the investigation of both crimes and notify PPATK.
- Arranging compliance supervision.
- Rearranging the organizational structure of PPATK.
- Setting the provisions for the seizure of assets originating from criminal acts.

In order to implement the 2010 AML Law, Presidential Regulation No. 50 of 2011 on Procedures for the Implementation of Authority of the Indonesian Financial Transaction Reports and Analysis Centre was issued on August 12, 2011. This new regulation focuses on the authority of PPATK to perform its functions.

- In preventing and eradicating money laundering, PPATK has the authority to, among other things, require and obtain data and information from any government institution and/or private institution having the authority to process data and information, receive reports from short-listed professionals, coordinate the prevention of money laundering with relevant institutions and represent the Government in international forums and organizations in relation to the prevention and eradication of money laundering.
- In processing data and information through the administration of information system, PPATK has the authority to build, develop and maintain an application system, database and information technology infrastructure.
- In monitoring the compliancy of the reporting party with “Know Your Customer” (or **KYC**) principles, PPATK has the authority to perform an audit or special audit.
- In analyzing or investigating reports and information on financial transactions indicated as money laundering and/or other criminal acts, PPATK has the authority to, among other things, require financing service providers to temporarily suspend all or part of any transaction suspected or known to have been part of a criminal act.

Recent regulations issued by the PPATK as further implementation of the 2010 AML Law are Head of PPATK Regulation No. PER-12/1.02.1/PPATK/09/2011 on Guidance of Transaction Reporting for goods

provider and/or any other services which obliged designated non-financial businesses and provider to submit reports to PPATK for any transactions in their business at a defined threshold, Head of PPATK Regulation No. PER-11/1.02/PPATK/06/13 Concerning Identification of Suspicious Transaction Reports for financial service Providers and Head of PPATK Regulation No. PER-12/1.02/PPATK/06/13 concerning the Procedure for Submitting International Fund Transfer instruction for Financial Service Providers.

As part of the implementation of the Government's policy to prevent and eradicate the crime of money laundering, Head of PPATK Regulation No. PER-12/1.02.1/PPATK/09/2011 was promulgated and is applicable to real estate agents, car dealers, jewelry and precious stone traders as well as to auction houses for any transaction equivalent to or above Rp500,000,000. This obligation is effective starting March 20, 2012.

As part of implementation of the Government's policy to prevent and eradicate the crime of money laundering PPATK Regulation No. PER-11/1.02/PPATK/06/13 on Identification of Suspicious Financial Transactions by Financial Service Providers was promulgated in July 22, 2013. The Regulation sets forth new guidelines to be used by financial service providers to identify suspicious financial transactions. It replaces the guidelines created in 2003 that were deemed to not conform with the international standards recommended by the FATF. The Regulation sets forth in detail the three steps that a financial service provider must take in order to identify suspicious financial transactions, i.e. the supervision of unusual transactions by consumers who are deemed to be at high risk of committing money laundering, analysis of such unusual transactions, and finally the determination of transactions as suspicious financial transactions. Financial service providers must report transactions that have been determined to be suspicious financial transactions to PPATK. In order to carry out the obligations set forth in the Regulation, financial service providers must have internal policies and procedures in place.

As part of implementation of the Government's policy to prevent and eradicate the crime of money laundering, PPATK Regulation No. PER-12/1.02/PPATK/06/13 on Procedure for Submitting International Fund Transfer for Financial Service Provider was promulgated in July 9, 2013. Under such Regulation, financial service providers that provide international fund transfers services are obligated to submit reports to PPATK regarding fund transfer instructions to and from overseas, including instructions received or sent in writing, electronically, and through other applications, such as SWIFT. Such reports must include, among others, identities of the originator and the beneficiary. The reports are submitted electronically through PPATK's client server application or web based application. In order to carry out its obligations under the Regulation, financial service providers must allocate at least eight personnel for four different responsibilities, whose names and job titles must be submitted to PPATK. Implementation of obligations as set forth in the Regulation were effective as of January 14, 2014 for commercial banks and July 1, 2014 for financial service providers other than commercial banks.

PPATK issued PPATK Regulation No. PER-21/1.02/PPATK/11/2013 on November 29, 2013 on the Identification of Financial Transactions in Cash for Financial Service Providers, and Circular Letter No. SE-01/1.02/PPATK/02/14 on Examples of the Use of Consumer Approach and Account Approach in Implementing the Identification of Financial Transactions in Cash dated February 28, 2014. Under these regulations, financial service providers are required to identify, record and monitor financial transactions in cash of their customers and their accounts. Should the financial service provider determine that a financial transaction is a single financial transaction in cash or a series of multiple financial transactions in cash made during one business day, with a cumulative value of at least Rp500 million, or its equivalent in other currencies, carried out in one or more offices of a financial service provider and such transaction is not excluded from a reporting obligation (i.e. a transaction in cash (i) made by a financial service provider and Bank Indonesia; (ii) made for the purpose of payment of payroll and pension funds; (iii) determined otherwise by PPATK; or (iv) proposed by a financial service provider to be excluded and approved by PPATK), then it shall report the same to PPATK.

On February 27, 2014, PPATK issued PPATK Regulation No. PER-02/1.02/PPATK/02/2014 on the Integrated Information System on Customers. PPATK issued Circular Letter No. SE-02/1.02/PPATK/03/14 dated March 4, 2014 on the Procedure of Submission of Integrated Information on Customers. Under the regulations, both banks and non-bank financial service providers are required to submit to PPATK integrated information on their customers on a quarterly basis. Information may be submitted manually or electronically, and should be made available for two years after the date of submission to PPATK.

The Presidential Regulation No. 48 of 2012 concerning Organizational Structure and Management of the PPATK was enacted in 2012. The Government Regulation No. 38 of 2013 concerning Remuneration, Other Rights, Perquisites and Facilities for the Head and Deputies was promulgated on May 8, 2013.

On March 13, 2013, the House of Representatives of the Republic of Indonesia adopted the Law No. 9 of 2013 on the Prevention and Eradication of the Financing of Terrorism (**Law No. 9 of 2013**). Law No. 9 of 2013

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; (vi) the inclusion in the list of suspected terrorists and terrorist organizations; and (vii) the setting of the investigation, prosecution, and examination at trial.

Terrorism financing within the scope of Law No. 9 of 2013 includes acts committed directly or indirectly in order to provide, gather, give, or lend funds to those who are known to intend commit an act of terrorism. In addition to individuals, Law No. 9 of 2013 regulates the criminalization of terrorist financing to terrorist organizations. Terrorist organizations within Law No. 9 of 2013 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. of 2013.

PPATK, as the initiator of the preparation of Law No. 9 of 2013, has a role in preventing and combating the financing of terrorism offenses. Therefore, one of the initial steps undertaken by INTRAC was to organize a national seminar on May 2, 2013 with the theme “Implementation of Law No. 9 of 2013 on the Prevention and Eradication of the Financing of Terrorism.” This seminar was presented by the House of Representatives, the Supreme Court, the Indonesian National Police, the Ministry of Foreign Affairs of the Republic of Indonesia, as well as academics. The seminar was attended by more than 300 law enforcement officials, regulators, financial service providers, and other stakeholders.

In addition, in May 2013, INTRAC initiated an inter-ministerial coordination meeting between the Foreign Ministry, the Indonesian National Police, the National Counter-Terrorism Agency (**BNPT**) and PPATK. The coordination meeting was held to discuss implementation efforts related to Chapter VII of Law No. 9 of 2013 related list Terrorists and Terrorist Organizations Contingency Issued by the Government. Additionally, the implementation of provisions to meet FATF Recommendation 5 and Recommendation 6 pertaining to blocking property owned or dominated by terrorists and terrorist organizations — as stated in the consolidated list of United Nations Security Council Resolution (**UNSCR**) 1267 — were discussed. As of May 2015, the Government had frozen more than Rp2 billion of assets linked to alleged terrorists or terrorist organizations based on the list issued by the Indonesian National Police. The list of alleged terrorists and terrorist organizations is created by PPATK in conjunction with the Indonesian National Police, the Ministry of Foreign Affairs, the National Anti-Terrorism Agency and the Central District Court. A software has been developed to aid the co-ordination of the list which is expected to be fully implemented by 2016.

PPATK issued new regulations to further increase the cooperation between PPATK and the other agencies and reporting parties. PPATK Regulation No. PER-08/1.02/PPATK/05/2013 sets out the procedure for requesting information from PPATK.

Bank Indonesia

Bank Indonesia is the central bank of the Republic of Indonesia and the only institution in the Republic with responsibility for monetary policy. Following the Asian financial crisis, the Government enacted the Central Bank Law in 1999 to ensure the independence of Bank Indonesia in pursuing its objectives in monetary, banking and payment systems policies. The Central Bank Law stipulates two key principles — the achievement of Rupiah stability and Bank Indonesia’s freedom from interference.

The Central Bank Law states that “the objective of Bank Indonesia is to achieve and maintain the stability of the Rupiah.” Rupiah stability can be measured in terms of its value vis-à-vis either domestic or external goods. Rupiah stability relative to domestic goods is reflected in the inflation rate, while stability relative to external goods is represented by the exchange rate of the Rupiah against other currencies. Market conditions determine the Rupiah exchange rate, consistent with the floating exchange rate system adopted by Bank Indonesia in August 1997. See “*Foreign Exchange and Reserves — Exchange Rates.*” Bank Indonesia may, however, continue to use its policy instruments to minimize exchange rate fluctuations.

To help Bank Indonesia achieve its objective, the Central Bank Law grants Bank Indonesia a high degree of independence to: (i) stipulate and implement monetary policy; (ii) regulate and safeguard the payment system; and (iii) regulate and to supervise banks.

In January 2004, the Central Bank Law was amended. The amendment, among other things, provides that Bank Indonesia shall conduct monetary policy to achieve an inflation target as determined by the Government in

consultation with Bank Indonesia. It also provides for the creation of the Bank Indonesia Supervisory Board (the **Supervisory Board**) to assist the DPR in conducting oversight of Bank Indonesia's internal financial management. The Supervisory Board comprises five members chosen by the DPR and appointed by the President for three-year tenures. The January 2004 amendment also stipulates that Bank Indonesia is the lender of last resort to ensure the stability of the financial system.

Under the Central Bank Law, Bank Indonesia's banking supervision function was originally to be transferred to a new independent agency by December 31, 2002. The January 2004 amendments to the Central Bank Law extended this deadline to December 31, 2010. However, pursuant to Law No. 21 of 2011 on Financial Services Authority (**OJK Law**), such authority was transferred to the Financial Services Authority (*Otoritas Jasa Keuangan* or **OJK**) as of December 31, 2013. Currently, Bank Indonesia has responsibilities for regulating and supervising the macroprudential aspect of the banking industry.

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

	Year Ended December 31,				
	2011	2012	2013	2014	2015
	(in billions of Rupiah)				
Base Money (M0)	613,488	704,843	821,679	918,434	945,916
Currency in Circulation ⁽¹⁾	372,972	439,720	500,020	528,550	586,763
Commercial Banks Demand Deposits at Bank Indonesia	207,538	239,957	253,655	287,484	308,756
Private sector Demand Deposits	116	133	451	1,397	366
Bank Indonesia Certificates (SBI) ⁽²⁾	32,862	25,033	67,552	101,002	50,031
Factors Affecting Base Money (M0)	613,488	704,843	821,679	918,434	945,916
Net Foreign Assets	965,873	1,056,084	1,169,689	1,351,402	1,422,445
Claims on Non-Residents	1,015,081	1,152,721	1,279,282	1,424,331	1,529,331
Liabilities to Non-Resident	(49,208)	(96,636)	(109,593)	(72,929)	(106,886)
Claims on Other Depository Corporations	4,399	3,226	2,315	1,489	465
Liquidity Credits	1,521	1,137	1,016	978	56
Other Claims	2,878	2,089	1,300	510	409
Net claims on Central Government	166,928	200,520	185,249	168,098	84,687
Claims on Central Government	256,520	252,214	245,029	237,218	241,710
Liabilities to Central Government	(89,591)	(51,694)	(59,781)	(69,120)	(157,022)
Claims on Other Sectors	13,743	13,508	8,116	7,927	7,865
Claims on Other Financial Institutions	421	202	6	1	—
Claims on Private Sectors	13,322	13,306	8,109	7,926	7,865
Open Market Operations ⁽³⁾	(403,347)	(344,565)	(193,362)	(246,403)	(177,243)
Other Liabilities to Commercial & Rural Banks	(43,850)	(50,407)	(68,872)	(74,899)	(83,990)
Deposits included in Broad Money (M2)	—	—	—	—	—
Deposits excluded from Broad Money (M2)	(32)	(35)	(15)	(17)	(191)
Shares and Other Equity	(79,087)	(169,783)	(284,545)	(288,822)	(313,333)
Net Other items	(11,139)	(3,705)	3,106	(341)	5,210

Source: Bank Indonesia

(1) Currency outside banks plus cash in vault.

(2) SBI which is used to fulfill the secondary statutory reserve requirement of banks and accounted for as primary money supply components. Included in Base Money since October 2009.

(3) Consists of total SBI after it is reduced by the SBI used to fulfill the secondary statutory reserve requirement of banks, and is accounted for as a primary money supply component (see footnote 1). Such SBI types include: Syariah SBI (**SBIS**), Third Party Syariah SBI (**Repo SBIS**), Bank Indonesia Facility (**FASBI**), Fine Tune Operation (**FTO**), Government Bonds (**SUN**), State Syariah Negotiable Paper (**SBSN**), and Reserve Reverse Repo Government Bonds.

Banks and Other Financial Institutions

The Indonesian financial system consists of banks and non-bank financial institutions. Non-bank financial institutions consist of insurance companies, pension funds, finance companies, venture capital companies, securities companies, mutual funds, credit guarantee companies and pawn shops. The following table sets forth the total number of financial institutions in operation and their share of total assets of the financial system as of December 31, 2015.

Indonesian Financial Institutions

	Number of institutions	Assets*	Percentage of total assets
	(in trillions of Rupiah)		
Banking:			
Commercial banks	118	6,132.6	77.2
Rural credit banks	1,644	99.6	1.3
Total banking	1,762	6,244.8	78.5
Insurance:			
Life insurance	50	329.6	4.2
General insurance & Reinsurance	82	132.5	1.7
Social insurance ⁽¹⁾	5	341.4	4.3
Total insurance	137	765.7	10.2
Pension funds ⁽²⁾ :			
Financial institution pension funds	25	48.0	0.6
Employer pension funds	239	158.2	2.0
Total pension funds	264	206.5	2.6
Finance companies ⁽²⁾	202	425.7	5.9
Venture capital companies	63	8.9	0.1
Securities companies ⁽³⁾⁽⁴⁾⁽⁵⁾	119	40.3	0.5
Mutual funds (collective investment schemes, not institutions) ⁽⁵⁾	685	169.9	2.1
Credit guarantee companies	21	12.7	0.2
Pawn shops ⁽⁶⁾	1	39.2	0.5
Total		7,938.9	100.0

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) Finance companies provide financing for leasing, factoring, consumer finance and credit cards.
- (3) Excludes 25 securities companies that are not members of a securities exchange but act as broker-dealers.
- (4) Excludes the assets of customers of the securities companies.
- (5) As of September 30, 2015.
- (6) Total assets of pawn shops as at September 30, 2015.

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 Government also issued Perpu No. 3 of 2008 on Amendment to Law No. 24 of 2004 on IDIC, which allows temporary increases in the level of deposit insurance provided by the IDIC to be adjusted through a government regulation in response to high levels of inflation, threats of bank runs and similar adverse market developments. Perpu No. 3 of 2008 was later enacted as Law No. 7 of 2009. The number of banks in Indonesia has dropped substantially since the Asian financial crisis, as insolvent banks were closed or merged with other banks. As of December 31, 2011, there were 122 commercial banks with 13,837 offices, consisting of four state-owned banks, 67 private national banks (36 of which were licensed to conduct foreign exchange transactions), 26 regional development banks and 25 joint venture banks and foreign banks. As of December 31, 2012, there were 120 commercial banks with 16,625 offices, 66 private national banks and 24 joint venture banks. As of December 31, 2013, there were 120 commercial banks with 18,558 offices, 65 private national banks and 25 joint venture

banks. As of December 31, 2014, there were 119 commercial banks including 12 Sharia commercial banks with 19,948 offices, 67 private national banks and 22 joint venture banks. Also there were 1,643 rural banks and including 163 Sharia rural banks. As of September 30, 2015, there were 118 commercial banks including 12 Sharia commercial banks with 20,470 offices, 67 private national banks, 21 joint venture banks 1,644 rural banks and 162 Sharia rural banks. As of December 31, 2015 there were 118 commercial banks, including 12 Sharia commercial banks with 32,963 offices, 67 private national banks, 21 joint venture banks 1,638 rural banks and 163 Sharia rural banks.

As of December 31, 2012, the number of rural banks decreased to 1,653 and the number of Sharia divisions of rural banks increased to 158. As of March 31, 2014, there were 49 life insurance companies, 83 general insurance companies, four reinsurance companies, three companies providing social insurance programs and health and workers' social security programs, two companies providing insurance programs for civil servants, military and police, 154 insurance broker companies, 29 reinsurance broker companies, 25 insurance loss adjusters, 29 actuary consultants and 26 insurance agent companies.

Gross premiums collected by the insurance industry reached Rp153.1 trillion in 2011, an increase of 22.4% from the previous year's figure of Rp125.1 trillion. Gross premiums averaged an annual growth of 22.8% over the five-year period from 2007 to 2011. Total assets of the insurance industry as of December 31, 2011 were Rp481.8 trillion, an increase of 18.9% from Rp405.2 trillion as of December 31, 2010. Invested assets of the insurance industry as of December 2011 totaled Rp419.7 trillion, an increase of 17.8% over December 2010.

Gross premiums collected by the insurance industry reached Rp178.1 trillion in 2012, an increase of 14.9% from the previous year's figure of Rp153.1 trillion. Gross premiums averaged an annual growth of 18.0% over the five-year period from 2008 to 2012. Total assets of the insurance industry as of December 31, 2012 were Rp584.0 trillion, an increase of 21.2% from Rp481.8 trillion as of December 31, 2011. Invested assets of the insurance industry as of December 2012 totaled Rp496.8 trillion, an increase of 18.3% over December 2011.

Gross premiums collected by the insurance industry reached Rp193.1 trillion in 2013, an increase of 8.4% from Rp178.1 trillion in 2012. Gross premiums averaged an annual growth of 16.2% over the five-year period from 2009 to 2013. Total assets of the insurance industry as of December 31, 2013 amounted to Rp659.7 trillion, an increase of 13.0% from Rp584.0 trillion as of December 31, 2012. Invested assets of the insurance industry as of December 2013 amounted to Rp538.4 trillion, an increase of 8.4% from December 2012.

Gross premiums collected by the insurance industry reached Rp247.3 trillion in 2014, an increase of 28.1% from Rp193.1 trillion in 2013. Gross premiums averaged an annual growth of 18.6% over the five-year period from 2010 to 2014. Total assets of the insurance industry as of December 31, 2014 amounted to Rp807.7 trillion, an increase of 22.4% from Rp659.7 trillion as of December 31, 2013. Invested assets of the insurance industry as of December 2014 amounted to Rp648.4 trillion, an increase of 20.4% from 2013.

As of September 30, 2015 (non-audited report), gross premiums collected by insurance companies reached Rp204.8 trillion and total assets of the insurance industry amounted to Rp765.7 trillion. Invested assets amounted to Rp608.7 trillion.

The OJK is responsible for the regulation and supervision of the insurance industry. Development of this sub-sector since the Asian financial crisis required the implementation of more robust regulatory requirements and, in particular, improved capital requirements. For the purpose of financial soundness of insurance companies, a 2003 decree of the Ministry of Finance that became effective in 2005 requires each insurance company, including reinsurance companies, to continuously maintain a ratio of risk-weighted assets to risk-weighted liabilities of at least 120.0%. In September 2006, the Indonesian Insurance Mediation Agency (*Badan Mediasi Asuransi Indonesia* or **BMAI**) commenced operations. BMAI is an independent body established to provide mediating services to insured persons and insurance policy holders who are dissatisfied with claim rejections. Dispute Resolution through BMAI is pursuant to the Law No. 30 of 1999 on Arbitration and Alternative Dispute Resolution. BMAI was established through the initiative of the insurance industry, including insurance industry associations, with the support of the Government.

The Law No. 2 of 1992 on Insurance (**Insurance Law**) has been amended by the New Insurance Law (see — “*Key Regulatory Updates — Insurance Law*”). Two government regulations in relation to the insurance industry were passed in 2008. Government Regulation No. 39 of 2008 (**Regulation No. 39 of 2008**) concerning the Second Amendment to Government Regulation No. 73 of 1992 concerning the Conduct of Insurance Business regulates the scope of an insurance business and the capital requirements of insurance and insurance-

related companies, including takaful or Sharia-compliant insurance companies. This regulation also requires an insurance company to set aside funds equal to 20.0% of its issued capital to serve as a guarantee fund for policy holders to protect them in the event the company is liquidated or closed by the Government. Pursuant to Regulation No. 39 of 2008, the Minister of Finance issued Minister of Finance Regulation No. 53/PMK.010.2012 concerning Financial Soundness of Insurance and Reinsurance Companies that further regulates compliance by insurance and reinsurance companies in relation to the solvability rate (which is required to be equal to risk-based capital), management of assets for investment, unit linked products, and guaranteeing of policyholders' funds. In its effort to recapitalize insurance companies, Government Regulation No. 81 of 2008 concerning the Third Amendment to Government Regulation No. 73 of 1992 concerning the Conduct of Insurance Business introduced new minimum capital requirements for insurance and reinsurance companies. Insurance companies were required to have a minimum capital of Rp40 billion for 2010, Rp70 billion for 2012 and Rp100 billion for 2014. Reinsurance companies were required to have a minimum capital of Rp100 billion in 2010, Rp150 billion for 2012 and Rp200 billion for 2014.

Pension funds are divided into two categories: employer pension funds and financial institution pension funds. Employer pension funds may be run either as defined benefit plans or as defined contribution plans, while financial institution pension funds may only be run as defined contribution plans. As of September 30, 2015, there were 264 pension funds actively operating including 239 employer pension funds and 25 financial institution pension funds. As of September 30, 2015, the total net assets and investments of pension funds was Rp191.44 trillion and Rp185.28 trillion, respectively, compared to Rp193.88 trillion and Rp187.57 trillion, respectively, at the end of March 31, 2015. The investment portfolios of the pension funds consist largely of bank deposits followed by Government bonds, stocks, mutual funds, land and buildings and other types of investments. As pension funds have grown, their preferences for portfolio investment has shifted from short-term investments to longer-term investments. As of September 30, 2015, there were 264 pension fund business licenses.

Indonesia's other non-bank financial institutions include finance companies, guarantee companies, venture capital companies, Indonesia export credit agencies, infrastructure financing companies and secondary mortgage facilities companies. Finance companies provide financing through leasing, factoring, credit cards and consumer finance. As of December 31, 2014, there were 201 finance companies. Total assets and investments of financing companies as of December 31, 2014 were Rp420.4 trillion and Rp366.5 trillion, respectively. As of September 30, 2015 there were 202 finance companies. Total assets and investments of financing companies as of September 30, 2015 were Rp444.3 trillion and Rp371.9 trillion, respectively.

The following table sets forth the total number of such other non-bank financial institutions, and related total assets and total investments as of December 31, 2015.

<u>Non-bank financial institution</u>	<u>Number of companies</u>	<u>Total assets</u>	<u>Total investments</u>
		(in trillions of Rupiah)	(in trillions of Rupiah)
Finance companies	203	425.7	363.7
Guarantee companies	21	12.7	9.4
Venture capital companies	61	8.9	6.9
Indonesia export credit agencies	1	85.3	9.5
Infrastructure financing companies	2	38.2	23.2
Secondary mortgage facilities companies	1	10.0	1.8

Source: OJK

In 2011, various Minister of Finance regulations were issued with respect to non-bank financial institutions. Such regulations in 2011 concerned the financial soundness of Sharia insurance and reinsurance companies, the legalization of the establishment of financial institution pension funds and the amendment of regulations on pension funds deriving from financial institution pension funds, the financial soundness of the provident saving fund program for civil servants, and credit guarantee and re-guarantee companies.

On March 15, 2012, the Minister of Finance issued regulation No. 43/PMK.010/2012 as amended by Regulation of the Minister of Finance No. 220/PMK.010/2012 on Down Payments for Consumer Financing for Vehicles by a Finance Company, requiring consumer finance loans to include a minimum down payment comprising at least 20.0% of the cost of the vehicle for motorcycle loans, 20.0% of the cost of the vehicle for four (or more) wheeled vehicles used for commercial purposes and 25.0% of the cost of the vehicle for four (or more) wheeled vehicles used for non-commercial purposes. This regulation is intended to prohibit unfair

competition on down payment requirements by establishing loan to value ratio requirements, promoting prudent practices in extending financing, minimizing moral hazard and default risks, and providing a level playing field with respect to requiring down payments in the financing industry. To improve the protection for investors and the effectiveness of securities transaction supervision, on June 14, 2012, Bapepam-LK issued new regulations concerning the implementation of SID for all investors participating in the Indonesia Capital Market.

Bank Assets and Liabilities

The following table sets forth the consolidated balance sheets of the commercial banks as of the dates indicated.

Consolidated Balance Sheet of Commercial Banks

	As of December 31,				
	2011	2012	2013	2014	2015
	(in trillions of Rupiah)				
Assets					
Loans	2,200.0	2,725.7	3,319.8	3,706.5	4,098.1
Interbank Assets	226.9	166.6	171.9	182.4	212.0
Placements at Bank Indonesia	754.0	580.7	506.5	569.0	685.6
Securities (including Government Bonds)	427.0	429.9	520.6	636.7	660.8
Equity Participation	11.0	15.1	15.7	21.0	25.6
Other Claims	63.4	176.5	183.1	245.4	155.5
Others	107.9	168.1	236.9	254.2	201.0
Total Assets	<u>3,652.8</u>	<u>4,262.6</u>	<u>4,954.5</u>	<u>5,615.2</u>	<u>6,132.6</u>
Liabilities					
Third Party Funds	2,784.9	3,225.2	3,603.6	4,114.4	4,413.1
Liabilities owed to Bank Indonesia	5.1	1.9	1.8	2.1	0.7
Interbank Liabilities	221.2	124.7	115.8	133.0	161.1
Securities	23.3	42.1	54.5	54.3	65.6
Borrowing	32.4	75.3	112.9	145.9	177.7
Other Liabilities	21.9	60.3	85.1	120.7	109.6
Guarantee Deposits	5.0	5.0	5.9	5.6	6.3
Others	150.9	202.7	352.2	317.1	387.1
Capital:					
Paid in Capital	112.7	123.3	138.1	153.4	164.3
Reserves	34.2	38.7	50.6	67.6	81.7
Current Earnings/Loss	75.1	92.8	106.7	112.2	104.6
Retained Earnings/Loss	106.7	150.0	201.1	256.6	323.8
Estimates of Additional Paid in Capital	79.4	89.4	92.6	97.9	96.2
Others	4.2	31.2	33.6	34.4	40.5
Total Liabilities	<u>3,652.8</u>	<u>4,262.6</u>	<u>4,954.5</u>	<u>5,615.2</u>	<u>6,132.6</u>

Source: Bank Indonesia up to December 31, 2013. OJK from January 1, 2014 onwards.

As of September 30, 2015, the four state-owned banks together controlled approximately 35.5% of the total assets of the banking system and securities (including SBI, recapitalization bonds, Treasury Bills, Bonds and Others), which comprised approximately 13.1% of the four state-owned banks' assets. In the banking industry, as of September 30, 2015, credit to third parties represented approximately 64.4% of the assets of banks, compared to approximately 65.4% as of December 31, 2014. Interest income from securities (including SBI, Treasury Bills, Bonds and Others) represented approximately 6.3% of the operating income of banks as of September 30, 2015, representing a slight decrease from 6.4% as of December 31, 2014.

Interest income from credit to third parties represented approximately 64.9% of the operating income of banks as of September 30, 2015, compared to approximately 68.8% as of December 31, 2014. Most time deposits in the banking sector are short-term, denominated in terms of one to three months. As of September 30, 2015, time deposits increased (year-on-year) by 11.2%, savings deposits increased by 6.4%, while demand deposits increased by 19.9%.

Loans grew by 11.1% as of September 30, 2015 (year-on-year), compared with 11.6% growth as of December 31, 2014 (year-on-year). Earnings were robust, with return on assets of the industry at 2.3% and estimated to remain stable. Liquidity is well managed as liquid assets are well maintained against deposits with a ratio of 15.7% and a loan to deposit ratio of about 88.5%. As of December 31, 2015, the CAR level was recorded at 21.4%.

The following table shows the average capital adequacy ratio of the banking system for the periods indicated:

Average Capital Adequacy Ratios

	As of December 31,				
	2011	2012	2013	2014	2015
	(percentages)				
CAR	16.1	17.4	18.1	19.6	21.2

Source: Bank Indonesia and OJK

Non-Performing Loans

Since the beginning of 2005, Indonesian banks have been required to calculate their NPLs using new international best practices-based standards that require banks to classify as “non-performing” all loans to any borrower if any of that borrower’s loans are non-performing. Under regulation No. 14/15/PBI/2012 concerning the Assessment of Commercial Bank Asset Quality, 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 gross NPL ratio was 2.2%, as of December 31, 2011, due to the write-offs of NPLs, restructuring and the extension of new loans which resulted in a lower gross NPL than December 31, 2010.

The gross NPL ratio was 1.9%, as of December 31, 2012, due to the write-offs of NPLs, restructuring and extension of new loans, significantly lower than during both the 1997/1998 crisis and global economic crisis in 2008.

The gross NPL ratio was 1.8%, as of December 31, 2013, due to the write-offs of NPLs. As of December 31, 2014, the gross NPL ratio was 2.2%. As of December 31, 2015, the gross NPL ratio was 2.5%.

The following table shows the gross NPL ratios as of the dates indicated.

Non-Performing Loans Ratios

	As of December 31,				
	2011	2012	2013	2014	2015
	(percentages)				
Gross NPL ratio	2.2	1.9	1.8	2.2	2.5

Source: Bank Indonesia and OJK

The following table sets forth information regarding loans issued by commercial banks by risk category and type of loan.

Risk Classification of Aggregate Assets of Commercial Banks by Type of Loans⁽¹⁾⁽²⁾

	As of December 31, 2014				As of December 31, 2015			
	Working capital	Consumer loan	Investment loan	Total	Working capital loans	Consumer loan	Investment loan	Total
	(in trillions of Rupiah)							
Pass ⁽³⁾	1,652.5	845.3	944.7	3,442.5	1,776.	1,028.5	955.0	3,759.8
Special mention	61.1	36.6	54.6	152.4	82.7	60.7	53.9	197.4
Substandard	7.2	4.4	2.7	14.3	11.3	3.0	5.2	19.5
Doubtful	8.4	3.9	3.0	15.3	6.1	3.6	3.7	13.4
Loss	28.2	12.9	8.6	49.8	39.9	9.9	18.2	68.0
Total	<u>1,757.4</u>	<u>903.2</u>	<u>1,013.7</u>	<u>3,674.3</u>	<u>1,916.4</u>	<u>1,105.8</u>	<u>1,036.0</u>	<u>4,058.1</u>

Source: Bank Indonesia up to December 31, 2015, OJK from January 1, 2014 onwards.

- (1) Indonesia asset classification guidelines take into account various criteria, among them timely payment. Loans being paid on time are rated “Pass”; loans overdue by less than three months, six months and nine months are rated “Special Mention”, “Substandard” and “Doubtful”, respectively; and loans that are more than nine months in arrears are rated “Loss.”
- (2) Not including credit that is channeled by commercial banks from international sources to domestic projects.
- (3) In line with the trend of declining NPL ratios, outstanding commercial bank loans are primarily classified as “Pass.”

Capital Markets and Capital Markets Regulation

Indonesia’s economy has traditionally relied predominantly on the banking sector to finance growth. The ownership structure of companies in Indonesia is characterized by concentrated ownership, family-owned businesses and controlling shareholders. Companies with these types of ownership structures often seek financing from banks rather than from capital markets. The availability of subsidized loans from state-owned banks prior to 1991 also gave companies less incentive to seek funding from the capital markets. To finance the higher levels of growth that the Government seeks to achieve, credits from the banking sector need to grow substantially. Diversifying sources of finance is an important element of the Government’s efforts to reduce economic vulnerability and strengthen the financial sector.

In 1976, the Government established the Capital Market Implementation Agency (*Badan Pelaksana Pasar Modal*, or **Bapepam**) to develop and regulate the country’s capital markets. The first shares were listed on the JSX in 1977; later, the official name of Bapepam was changed to Capital Market Supervisory Agency (*Badan Pengawas Pasar Modal*) to reflect the shift in emphasis from development to regulation and supervision. The promulgation of the Capital Market Law No. 8 of 1995 on Capital Markets (**Capital Market Law**) provided the Indonesian capital markets with a sound legal foundation and extended Bapepam authority in the fields of regulation, development, supervision and law enforcement. The law also clarifies the authority and responsibilities of self-regulatory organizations, capital market institutions and professionals and firms conducting business in the capital markets. According to the Capital Market Law, Bapepam is responsible for the guidance, regulation and day-to-day supervision necessary to implement orderly, fair and efficient capital markets and to protect the interests of investors and the public. As part of the ongoing reorganization of the Ministry of Finance, and in an effort to centralize regulation and strengthen oversight of the non-bank financial sector, the Government approved a merger of Bapepam with the Ministry of Finance’s Directorate General of Financial Institution (**DJLK**). In 2006, the two agencies were merged into a single new unit called the Capital Markets and Financial Institutions Supervisory Agency (**Bapepam-LK**). Bapepam-LK assumed the responsibilities previously held by DJLK and Bapepam. Pursuant to the OJK Law, as of December 31, 2012, the authority of Bapepam-LK was transferred to OJK.

OJK will regulate the banking sector by monitoring, among other things, bank office openings, ownership, acquisitions, licenses, fund sources, liquidity, asset quality, credit lending, reserves, debtor information systems, accounting standards, risk management, and bank governance. For accountability purposes, OJK will provide annual activity reports to the President of the Republic of Indonesia and to the House of Representatives. The OJK budget for operational and administrative activities shall come from the state budget and from fees collected from practitioners in financial services.

From December 31, 2012 OJK took over the duties and functions of Bapepam-LK in order to regulate and supervise the Capital Market and Non-Bank Financial Institutions. OJK has taken over the regulatory and supervisory duties relating to bank activities from Bank Indonesia as of December 31, 2013.

On October 30, 2007, the shareholders of the JSX and the Surabaya Stock Exchange (**SSX**) agreed to a plan to merge the exchanges into a single new entity, the Indonesia Stock Exchange (**IDX**). The merger was completed on November 30, 2007.

The following table sets forth key indicators regarding the IDX and any securities traded on the IDX as of December 31, 2015.

Indonesian Stock Exchange

	<u>IDX</u>
Market capitalization (in trillions of Rupiah)	4,872.82
Listed shares (in billions of shares)	3,342.58
Average daily transaction value (in billions of Rupiah)	5,756
Average daily transaction volume (in millions of shares)	5,922

Source: OJK and Indonesia Stock Exchange

On December 31, 2015 the IDX composite price index closed at 4,593.01 a 12.13% decrease compared to 5,226.95 on December 31, 2014. On December 31, 2014 the IDX composite price index closed at 5,226.95, a 22.3% increase compared to 4,274.17 on December 31, 2013. On December 31, 2013 the IDX composite price index closed at 4,274.17, a 1.0% decrease compared to 4,316.69 on December 28, 2012. On December 28, 2012, the IDX composite stock price closed at 4,316.69, an increase of 12.9% compared to 3,821.99 on December 31, 2011. As of December 28, 2012 the IDX average daily transaction value was Rp4,537 billion or 4,283.6 million shares during the period from January 2012 to December 2012. From January 1, 2013 to December 31, 2013, the average daily trading value on the IDX was Rp4,850 billion and the average daily trading volume was 4,951 million shares. From January 1, 2014 to December 31, 2014, the average daily transaction value was Rp6,006 billion and the average daily transaction volume was 5,484 million shares. From January 1, 2015 to December 31, 2015, the average daily transaction value was Rp 5,756 billion and the average daily transaction volume was 5,922 million shares.

Sixteen companies undertook initial public offerings and listed their shares on the IDX in 2015, raising approximately Rp11.31 trillion. In 2014, 20 companies undertook initial public offerings and listed their shares on the IDX, raising approximately Rp8.30 trillion. In 2013, 30 companies undertook initial public offerings and listed their shares on the IDX, raising approximately Rp16.7 trillion. In 2012, 22 companies undertook initial public offerings and listed their shares on the IDX, raising approximately Rp27.1 trillion.

The Indonesia Stock Exchange has two indices based on Sharia stock, the Jakarta Islamic Index (**JII**) and the Indonesia Sharia Stock Index (**ISSI**).

The JII is a stock market index established on the Indonesian Stock Exchange. The JII launched in 2000 and consists of the 30 largest Sharia-compliant listings by market capitalization. As of November 13, 2015, the market capitalization of the JII was Rp1,701.08 trillion.

The IDX launched the ISSI on May 12, 2011. The ISSI is comprised of 317 Sharia stocks which are listed on the Indonesia Stock Exchange. As of November 13, 2015, the market capitalization of the ISSI was Rp2,578.8 trillion.

On November 14, 2012, the Board of Directors of IDX issued Decree No. Kep-00399/BE/11-2012 concerning changes of trading time in IDX to harmonize trading time of IDX with other stock exchanges in the region and to give additional trading time to investors in central and eastern Indonesia. With this Decree, the IDX regulation regarding equity trading (IDX Regulation Number II-A of Equity Trading) has been revised to reflect the change of the IDX trading hours in order to: (i) align with other regional exchange trading times; (ii) accommodate investors living in the central and eastern regions of Indonesia; (iii) and facilitate market participants in understanding the IDX rules.

A Decree of the Board of Directors of IDX related to Guidance on Handling the Continuity of Trading on the Stock Exchange in Emergency was passed in order to explain the provisions of IDX Rule No. II-A on Equity Trading, which states that the IDX can suspend trading in the event of emergencies. The decree also explains what conditions constitute an emergency and describes the processes around continuance of trading during emergencies.

The Decree of the Board of Directors of IDX related to the Exchange Policy on The Implementation of Amendments or Cancellation Exchange Transaction on Negotiations Market establishes the imposition of fines as sanctions for the correction or cancellation of a transaction on the Negotiations Market. This is to compensate for the market impact relating to the difference between the distributed trade data and the real time transaction data recapitulation in the afternoon, and the resulting delay in the distribution process of trade reporting to market participants.

The LQ45 is an index that consists of 45 company listings that fulfill certain criteria, including criteria relating to market capitalization and transaction value. As of December 31, 2015, the LQ45 closed at 792.03 and the market capitalization of the LQ45 was Rp 2,953 trillion. As of December 31, 2014, the LQ45 closed at 898.58, an increase of 26.4% compared to 711.14 as of December 31, 2013 and the market capitalization was Rp3,337 trillion, an increase of 31.2% compared to Rp2,544 trillion as of December 31, 2013.

On April 23, 2012, IDX launched a new share price index called IDX30, which consists of 30 stocks selected from the constituents of LQ45. The index is expected to be used as a stock-based investment product and can serve as a reference for stocks with high liquidity and large capitalization. The day basis for calculation IDX30 index is dated December 31, 2004 with an initial index of 100. The index calculation method is similar to the method of calculating the IDX of other indices, using the market capitalization weighted average. On December 31, 2014 IDX30 closed at 461.62 and the market capitalization was Rp 2,989 trillion. On December 30, 2015, IDX30 closed at 414.73 and the market capitalization was Rp 2,694 trillion.

On January 31, 2013 IDX launched SMInfra18 stock price index in cooperation with PT Sarana Multi Infrastructure (SMI). This index measures the performance of 18 stock prices in the infrastructure sector. The index is expected to be a reference to investors in the infrastructure sector. In the future, SMInfra18 index is projected to be a reference foundation for capital market products such as mutual funds, ETFs and other derivative products. IDX and SMI will conduct a periodic review twice a year. On December 31, 2014 SMInfra 18 closed at 374.0 and the market capitalization was Rp 978.41 trillion. On December 30, 2015, SMInfra 18 closed at 317.4 and the market capitalization was Rp 805.14 trillion.

From January 2, 2013, the new IDX trading time is: (i) pre-opening session from 08:45 to 08:55; (ii) first session for all markets from 09:00 to 12:00 from Monday to Thursday and 09:00 to 11:30 on Friday; (iii) second session of regular market from 13:30 from Monday to Thursday and from 14:00 on Friday, until 15:49:59; and (iv) second session of negotiation market from 13:30 from Monday to Thursday and from 14:00 on Friday, until 16:15.

Additional trading sessions for regular markets are also introduced: (i) pre-closing session, from 15:50 to 16:00; and (ii) post-trading session, from 16:05 to 16:15.

Effective as of January 6, 2014, IDX reduced round lot trading units from 500 equity stocks per lot to 100 equity stocks per lot. Auto rejection on offer to sell or purchase with the Jakarta Automated Trading System was also introduced and is designed to improve share liquidity. With these revisions, IDX Regulation Number II-A of Equity Trading was revised by the issuance of Board of Directors of IDX Decree No. Kep-00071/BEI/11-2013 dated November 8, 2013 on Change of Trading Unit and Price Fraction. This 2013 Decree replaced Board of Directors of IDX Decree No. Kep-00399/BEI/11-2012.

The following table sets forth certain information on the corporate bond market in Indonesia as of the dates indicated.

Corporate Bonds Outstanding

	As of December 31,				
	2011	2012	2013	2014	2015
Listed bond Issuance, at period-end	199	210	221	385	415
Listed bond issuers, at period-end	96	99	109	102	103
Listed Islamic bonds issues, at period-end	31	32	36	35	45
Total outstanding value of Rupiah-denominated bonds (in trillions of Rupiah), at period-end	147	189.4	220.582	223.464	251.230
Total outstanding value of U.S. dollar-denominated bonds (in millions of U.S.\$), at period-end	80	100	100	100	100
Trading volume (in billions of Rupiah)	125,850	160,118	185,719	167,674	187,655

Sources: Indonesian Stock Exchange, OJK and Ministry of Finance

Indonesian corporate bonds have been trading more actively since 2004, helped by declining SBI interest rates and favorable tax treatment for listed bonds. In 2011, the trading volume and total outstanding amount of Rupiah-denominated bonds was Rp125.9 trillion and Rp147.0 trillion, respectively. In 2012, the trading volume and total outstanding amount of Rupiah-denominated bonds was Rp160.1 trillion and Rp189.4 trillion, respectively. In 2013, the trading volume and total outstanding amount of Rupiah-denominated bonds was Rp185.7 trillion and Rp220.6 trillion, respectively. In 2014, the trading volume and total outstanding amount of Rupiah-denominated bonds was Rp167.67 trillion and Rp223.46 trillion. As of December 31, 2015, the trading volume and total outstanding amount of Rupiah-denominated bonds was Rp187.655 trillion and Rp251.230 trillion, respectively.

As of December 14, 2012, there were 45 public bond offerings by Indonesian companies in 2012, raising approximately Rp53.8 trillion for these companies. In 2012, there was one issuance of a U.S. dollar-denominated bond, bringing the total outstanding value of U.S. dollar-denominated bonds at the end of the period to U.S.\$100 million. During 2013, there were 11 public bond offerings by Indonesian companies which raised approximately Rp6.2 trillion. During 2014, there were 10 public bond offerings by Indonesian companies which raised approximately Rp9.65 trillion. During 2015, there were six public bond offerings by Indonesian companies, raising approximately Rp3.6 trillion for these companies. In 2013, 2014 and 2015, there were no public bond offerings of U.S. dollar-denominated bonds by Indonesian companies.

Government bonds are also actively traded in the capital markets. The amount of Rupiah-denominated government bonds outstanding has steadily increased from 2011 through 2013, totaling Rp724 trillion in 2011, Rp820 trillion in 2012 and Rp996 trillion in 2013. As of December 31, 2014 the amount of Rupiah-denominated Government bonds outstanding totaled Rp1,099 trillion. As of December 31, 2015, the amount of Rupiah-denominated Government bonds outstanding totaled Rp2,409 trillion. As of February 29, 2016, it totaled Rp2,424 trillion. Since resuming its bond-issuing activities, the Government has taken a number of steps to promote the development of sound Government bond markets. See “*Public Debt — Development of the Secondary Market for Domestic Securities of the Government.*”

The following table sets forth certain information on the corporate Sukuk market in Indonesia as of the dates indicated.

Corporate Sukuk Outstanding

	As of December 31,				
	2011	2012	2013	2014	2015
List of Corporate Sukuk Outstanding	31	32	33	35	45
Total Outstanding value of Corporate Sukuk (in billions of Rupiah)	5,876.0	6,275.5	7,538.0	7,105.0	9,652.0

Sources: OJK and Ministry of Finance

As of December 31, 2014, there were a total of 35 outstanding corporate Sukuk, with a total outstanding amount Rp7,105.0 billion, a decrease of 5.7% compared to a total outstanding amount Rp7,538.0 billion as of December 31, 2013. The market share of outstanding Sukuk is relatively insignificant compared to the total outstanding amount of bond and Sukuk. As of December 31, 2015, there were a total of 45 outstanding corporate Sukuk, with a total outstanding amount Rp 9,652.0 billion, an increase of 35.85% compared to total outstanding amount as of December 31, 2014.

The following table sets forth certain information regarding the mutual fund industry in Indonesia as of the dates indicated.

Mutual Funds

	As of December 31,				
	2011	2012	2013	2014	2015
Number of funds	646	754	823	895	1091
Number of unit holders	476,940	509,149	539,383	499,910	572,618
Number of Sharia mutual funds	50	58	65	74	91
Number of IDX-traded mutual funds (Exchange Traded Funds) . .	2	2	5	8	9*
Net asset value (in billions of Rupiah)	168,237	212,592	192,544	241,462	271,969

Source: OJK and Ministry of Finance, *includes one Syariah ETF.

As of December 31, 2014 the total NAV of mutual funds was Rp241.5 trillion. As of December 31, 2015 the total NAV of mutual funds was Rp272.0 trillion.

OJK introduced rules to strengthen its supervisory and enforcement capacity over Indonesia's capital markets and to promote sound and transparent capital markets. Over the past few years, OJK also exercised its authority over listed companies by issuing new regulatory guidelines to make corporate management and audit committees more directly responsible for financial reports, as well as issuing rules on public offerings by shareholders and procedures for conducting quasi-reorganizations. OJK also issued revised regulations on the content of listed companies' annual reports, and required issuers of debt securities to publicly release all ratings of their debt securities.

In July 2005, Bapepam issued new guidelines for capital protected funds, guaranteed funds and index funds, which are types of mutual funds that are already well-developed in the international mutual fund industry.

Since April 13, 2010, Bapepam-LK has been requiring that any share buy-backs be carried out in compliance with the Company Law, which allows buy-backs of up to 10.0% of paid-up capital in public companies. The Company Law requires shareholders' approval for such buy-backs. In 2008 Bapepam-LK also issued regulations relating to the fair market value of securities in investment fund portfolios to address fair market valuation issues in the context of the current financial crisis. On November 10, 2008, Bapepam-LK revised disclosure regulations applicable to securities companies to provide for more stringent disclosure of information and to increase management accountability for the activities of securities companies. On November 25, 2008, Bapepam-LK revised certain regulations relating to Guidelines for Asset Backed Securities Collective Investment Contracts, to ensure greater legal certainty in the conduct of securitization transactions and to protect the holders of asset backed securities collective investment contracts. Bapepam-LK further issued, on November 28, 2008, new regulations relating to the establishment of internal audit units for issuers and public companies, to ensure more stringent risk management and better corporate governance practices. On November 25, 2009, Bapepam-LK also introduced amendments to certain regulations relating to affiliated parties and transactions where conflicts of interest may arise to ensure better disclosures from affiliated entities relating to such parties and transactions and to protect unaffiliated or independent shareholders. Bapepam-LK also amended certain regulations relating to material transactions and change of core business activities to facilitate the business activities of equity issuers and public companies and protect public shareholders. On December 9, 2009, Bapepam-LK revised regulations to make it easier for equity issuers and public companies to raise funds without rights issues while balancing protection for shareholders. Under the revised regulations, no pre-emptive rights apply if a company issues new shares up to 10.0% of its paid-up capital, compared to 5.0% previously.

In order to increase transparency of credit rating agencies, on June 22, 2009, Bapepam-LK issued six regulations relating to credit rating agencies. These regulations cover the licensing process, code of conduct, credit rating contracts, publication, reporting and documentation in relation to such agencies.

As the largest Muslim country in the world, Indonesia has been engaged in an initiative to establish a legal framework for the development of an investor market in Indonesia for Sharia-compliant securities, which are securities that comply with the tenets of Islamic legal principles. On June 30, 2009, Bapepam-LK issued Rule No. IX.A.13 which regulates 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. In 2015, this rule was amended through in the implementation of five regulations, Regulation No. 15/POJK.04/2015 concerning Application of the Sharia Principles in the Capital Market; Regulation No. 17/POJK.04/2015 concerning Issuance and Requirements of Sharia Securities in the form of Share by the Sharia Issuer or Sharia Public Company; Regulation No. 18/POJK.04/2015 concerning Issuance and Requirements of Sukuk; Regulation No. 19/POJK.04/2015 concerning Issuance and Requirements of Sharia Mutual Funds; Regulation No. 20/POJK.04/2015 concerning Sharia Asset Backed Securities. In addition to these regulation, OJK already published Regulation No. 16/POJK.04/2015 concerning Capital Market Sharia Expert (**Ahli Syariah Pasar Modal / ASPM**). In addition, in May 2008, the Government adopted the Law No. 19 of 2008 on Sovereign Sukuk (*Surat Berharga Syariah Negara*), which has established a legal framework for the Government to issue Sharia-compliant commercial paper.

In 2010, Bapepam-LK issued rules concerning debt securities trust-agency agreements, a fit and proper test for administrators and acting executors of financial institution pension funds, interim financial reports of infrastructure financing companies, issuance of shares with different nominal values, continuous public offerings of debt and Sukuk, implementation of KYC requirements by financial institution pension funds, licensing of securities companies that operate as investment managers, share buy-backs by issuers and public companies, individual securities portfolio management in the interest of investors, licensing of representatives of securities companies, internal controls of securities broker-dealers in administering client accounts, the control and protection of securities deposited with a securities company, the maintenance and reporting of net adjusted working capital of securities companies, guidelines on financial report presentation and guidelines for the management of collective investment schemes.

On October 27, 2011, the House of Representatives passed the OJK Law to establish an independent regulatory agency, OJK, to promote sustainable growth in the financial services sector. OJK's purpose is to protect consumer and public interest by regulating the country's financial services industry with a fair and transparent decision-making process. OJK is mandated to perform regulatory and supervisory duties on financial service activities in banking, capital market, insurance, pension fund, financing institution and other financial service institutions. In doing so it will have the power to, among other things, implement regulations, investigate, audit, and enforce sanctions against, and grant or revoke business licenses, registration letters, and dissolution approvals for financial institutions and related professionals. To protect consumers, OJK also has the authority to file legal actions against financial services institutions to recover assets based on consumer complaints and to seek indemnification for victims of infringement. OJK consists of nine commissioners. Each commissioner term is limited to five years and an individual may only be elected once. For accountability purposes, OJK provides annual activity reports to the President of the Republic of Indonesia and to the House of Representatives. The agency has taken over the duty of monitoring the capital market, insurance and financing institutions from the Ministry of Finance (**Bapepam-LK**) as of December 31, 2012. On April 24, 2012, Bapepam-LK issued revised Rule No. II.K.1 regarding the criteria and issuance of Sharia securities. The revised regulations aim to support the Islamic capital markets industry by setting up the criteria of Sharia securities investments. One of the main improvements include the replacement of the required total debt against total equity ratio of not more than 82.0% with the interest-based total debt against total assets ratio of not more than 45.0%.

On November 19, 2014, OJK issued 17 regulations, known as the November Package, relating to financial institutions aimed at better supervising in financial sector services, deepening financial markets and widening public financial access. The November Package regulations encompass:

- (i) six regulations in the banking sector:
 - (1) OJK Regulation No.16/POJK.03/2014 on Asset Quality Sharia Bank and Sharia Business Unit came into force on January 1, 2015. This regulation revoked BI Regulation No.13/13/PBI/2011 on Valuation of Asset Quality of Sharia Bank and Sharia Business Unit and BI Regulation No.10/18/PBI/2008 as amended by BI Regulation No.13/9/PBI/2011 save for provisions relating to Sharia rural banks;
 - (2) OJK Regulation No.17/POJK.03/2014 on the Implementation of Integrated Risk Management of Financial Conglomerations;

- (3) OJK Regulation No.18/POJK.03/2014 on the Implementation of Integrated Governance on Financial Conglomerations;
 - (4) OJK Regulation No.19/POJK.03/2014 on Branchless Banking in relation to Inclusive Finance;
 - (5) OJK Regulation No.20/POJK.03/2014 on Rural Banks (Bank Perkreditan Rakyat) that came into force on January 1, 2015. This regulation revoked BI Regulation No. 8/26/PBI/2006 on Rural Banks;
 - (6) OJK Regulation No.21/POJK.03/2014 on the Minimum Capital Requirement of Sharia Banks that came into force on January 1, 2015. This regulation revoked BI Regulation No.7/13/PBI/2005 as amended by BI Regulation No.8/7/PBI/2006 on the Minimum Capital Requirement of Banks with Sharia Principles;
- (ii) seven regulations in the capital market sector:
- (1) OJK Regulation No.15/POJK.04/2014 on Monthly Report of Collective Investment Contract of Asset Backed Securities (Kontrak Investasi Kolektif — Efek Beragun Aset or KIK — EBA);
 - (2) OJK Regulation No.22/POJK.04/2014 on Know Your Customer Principles for Financial Service Providers in the Capital Market sector. This regulation revoked the Head of Bapepam-LK Decree No. Kep-476/BL/2009 and Regulation V.D.10 on Know Your Customer Principles for Financial Service Providers in the Capital Market Sector;
 - (3) OJK Regulation No.23/POJK.04/2014 on Guidelines for Issuance and Reports on Asset Backed Securities in the form of Participating Notes (Efek Beragun Aset — Surat Partisipasi) in relation to the Secondary Mortgage Facilities;
 - (4) OJK Regulation No.24/POJK.04/2014 on Guidelines on Implementation of Functions of Investment Manager. This regulation revoked the Head of Bapepam-LK Decree No. Kep-480/BL/2009 and Regulation V.D.11 on Guidelines on Implementing Functions of Investment Manager;
 - (5) OJK Regulation No.25/POJK.04/2014 on License of Representative of Investment Manager. This regulation revoked the Head of Bapepam-LK Decree No. Kep-547/BL/2010 and Regulation V.B.1 on License of Representative of Securities Company;
 - (6) OJK Regulation No.26/POJK.04/2014 on Guarantee on Settlement of Stock Exchange Transaction. This regulation revoked the Head of Bapepam-LK Decree No. Kep-46/PM/2004 on Guarantee on Settlement of Stock Exchange Transaction and Head of Bapepam-LK Decree No. Kep-47/PM/2004 and Regulation III.B.7 on Guarantee Fund;
 - (7) OJK Regulation No.27/POJK.04/2014 on License of Representative of Underwriter (Penjamin Emisi Efek) and Broker (Perantara Pedagang Efek). This regulation revoked the Head of Bapepam-LK Decree No. Kep-547/BL/2010 and Regulation V.B.1 on License of Representative of Securities Company; and
- (iii) four regulations on the Non-Banking Financial Industry (*Industri Keuangan Non-Bank* or **IKNB**):
- (1) OJK Regulation No.28/POJK.05/2014 on Business Licenses and Institutions of Financing Companies;
 - (2) OJK Regulation No.29/POJK.05/2014 on Business Activities of Financing Companies;
 - (3) OJK Regulation No.30/POJK.05/2014 on Good Corporate Governance of Financing Companies; and
 - (4) OJK Regulation No.31/POJK.05/2014 on Business Activities of Sharia Financing Companies.

On December 8, 2014, OJK issued six rules:

- (a) OJK Regulation No. 32/POJK.04/2014 on General Meetings of Shareholders of Issuers and Public Companies;
- (b) OJK Regulation No. 33/POJK.04/2014 on Boards of Directors and Boards of Commissioners of Issuers and Public Companies;
- (c) OJK Regulation No. 34/POJK.04/2014 on Nomination and Remuneration Committee of Issuers and Public Companies;
- (d) OJK Regulation No. 35/POJK.04/2014 on Corporate Secretaries of Issuers and Public Companies;

- (e) OJK Regulation No. 36/POJK.04/2014 on Shelf Offering of Debt Securities or Sukuk;
- (f) OJK Regulation No. 37/POJK.04/2014 on Private Equity Fund (Limited Participation Mutual Funds in the form of Collective Investment Contracts). This regulation revoked the Head of Bapepam-LK Decree No. KEP-43/BL/2008 and Regulation No.IV.C.3 on Private Equity Fund (Limited Participation Mutual Funds in the form of Collective Investment Contracts).

On December 29, 2014, OJK issued two rules:

- (a) OJK Regulation No. 38/POJK.04/2014 on Capital Increase Without Pre-Emptive Rights; and
- (b) OJK Regulation No.39/POJK.03/2014 on Mutual Fund Selling Agent. This regulation revoked the Head of Bapepam-LK Decree No. KEP-10/BL/2006 and Regulation No.V.B.3 on Registration of Mutual Fund Selling Agent, and Head of Bapepam-LK Decree No. KEP-11/BL/2006 and Regulation No. V.B.4 on Mutual Fund Selling Agent Conduct.

On June 25, 2015, OJK issued two rules:

- (a) OJK Regulation No.8/POJK.04/2015 on Issuers or Public Companies Website; and
- (b) OJK Regulation No.9/POJK.04/2015 on Guidelines of Repurchase Agreement Transaction for Financial Service Institutions.

On November 3, 2015, OJK issued six regulations regarding Sharia Capital Market:

- (a) OJK Regulation No.15/POJK.04/2015 concerning the implementation of Sharia principles in the Capital Market;
- (b) OJK Regulation No.17/POJK.04/2015 concerning the issuance and the requirements of equity based sharia securities by Sharia issuers and public companies;
- (c) OJK Regulation No.18/POJK.04/2015 concerning the issuance and the requirements of Sukuk;
- (d) OJK Regulation No.16/POJK.04/2015 concerning Sharia Capital Market Experts;
- (e) OJK Regulation No.20/POJK.04/2015 concerning the issuance and the requirements of Sharia Assets Backed Securities; and
- (f) OJK Regulation No.19/POJK.04/2015 concerning the issuance and the requirements of Sharia Mutual Funds.

On September 1, 2015, OJK issued Circular Letter No.27/SEOJK.04/2015 concerning Accounting Treatment on Leased Assets Telecommunication Tower.

On August 27, 2015, OJK issued Circular Letter No.23/SEOJK.04/2015 concerning Guarantee Fund Contribution Based On Transaction Value.

On September 30, 2015, OJK issued Circular Letter No.30/SEOJK.04/2015 concerning Membership Fee of Custodian Bank for Investor Protection Fund.

On January 1, 2015, OJK issued Circular Letter No.1/SEOJK.04/2015 concerning Settlement Procedures on Error Calculation of Net Asset Value of Mutual Funds.

On May 5, 2015, OJK issued regulation No.7/POJK.04/2015 concerning Procedures For Billing Of Administrative Sanction In The Form Of Fines In The Financial Services Sector.

On November 17, 2015, OJK issued two rules regarding Corporate Governance Guideline of Public Company:

- (a) OJK Regulation No.21/POJK.04/2015 concerning The Implementation of Corporate Governance Guideline of Public Company; and
- (b) OJK Circular Letter No.32/SEOJK.04/2015 concerning Corporate Governance Guideline of Public Company.

On November 23, 2015, OJK issued OJK Circular Letter No.33/POJK.04/2015 concerning Global Master Repurchase Agreement of Indonesia.

On December 22, 2015, OJK issued five rules:

- (a) OJK Regulation No.29/POJK.04/2015 concerning The Exemption on Reporting Obligation to Issuers and Public Companies;
- (b) OJK Regulation No.32/POJK.04/2015 concerning Capital Increase With Preemptives Right;
- (c) OJK Regulation No.33/POJK.04/2015 concerning Form and Content of Capital Increase With Preemptives Right Prospectus;
- (d) OJK Regulation No.30/POJK.04/2015 concerning Realization Report of Utilization of Net Proceeds from Initial Public Offering; and
- (e) OJK Regulation No.31/POJK.04/2015 concerning Disclosure of Information or Material Facts by Issuers or Public Companies.

On December 28, 2015, OJK issued OJK Regulation No.43/POJK.04/2015 concerning Code of Conduct of Investment Manager.

On December 29, 2015, OJK Converted 14 Bapepam-LK Rules into OJK Regulations:

- (a) OJK Regulation No.47/POJK.04/2015 concerning Guideline of Daily Announcement of Net Asset Value of Public Mutual Funds;
- (b) OJK Regulation No.48/POJK.04/2015 concerning Guideline of Management of Protected Mutual Fund, Guaranteed Mutual Fund, Index Mutual Fund;
- (c) OJK Regulation No.49/POJK.04/2015 concerning Exchange-Traded Investment Fund in the form of Collective Investment Contract;
- (d) OJK Regulation No.50/POJK.04/2015 concerning Licencing of Representative of Mutual Fund Securities Sale Agent;
- (e) OJK Regulation No.51/POJK.04/2015 concerning Code of Conduct of Securities Rating Agency;
- (f) OJK Regulation No.52/POJK.04/2015 concerning Guideline of Rating Agreement;
- (g) OJK Regulation No.53/POJK.04/2015 concerning Contracts Used in Issuance Of Sharia-Based Securities in Capital Market;
- (h) OJK Regulation No.54/POJK.04/2015 concerning Voluntary Tender Offer;
- (i) OJK Regulation No.55/POJK.04/2015 concerning Establishment and Implementation Guidance of the Audit Committee;
- (j) OJK Regulation No.56/POJK.04/2015 concerning Establishment and Guidelines for Internal Audit Charter;
- (k) OJK Regulation No.57/POJK.04/2015 concerning Securities Rating Agency Report;
- (l) OJK Regulation No.58/POJK.04/2015 concerning Documents Maintenance by Securities Rating Agency;
- (m) OJK Regulation No.59/POJK.04/2015 concerning Securities Rating Agency Publication;
- (n) OJK Regulation No.60/POJK.04/2015 concerning Disclosure of Certain Shareholders;
- (o) OJK Regulation No. 61/POJK.05/2015 concerning the amendment of OJK Regulation No. 12/POJK.05/2015 on Licensing and Organization of Micro Financial Institution; and
- (p) OJK Regulation No. 62/POJK.05/2015 concerning the amendment of OJK Regulation No. 13/POJK.05/2014 on Business Management of Micro Financial Institution.

Monetary Policy

Monetary Policy

The Republic adopted three elements of monetary policy following the Asian financial crisis in 1997. First, inflation targeting was adopted as the anchor of monetary policy. Second, a floating exchange rate system was introduced. The Republic may intervene in the foreign exchange market; the objective of its intervention is not to achieve a particular exchange rate level but to avoid excessive volatility. Third, the banking restructuring process was given higher priority. The above three policy measures have resulted in lower interest rates, which in turn have helped ease the debt burden of both the public and corporate sectors.

The Government began to issue bonds in the domestic market in 1998. Bank Indonesia issues SBI in open market operations to adjust the country's money supply. SBI are issued in one-month and three-month maturities, and SBI discount rates are determined by the market through a biweekly auction of SBI, which Bank Indonesia influences by controlling the supply of SBI made available in these biweekly auctions. SBI rates are used as references by Bank Indonesia in determining its policy interest rate and the financial sector uses SBI rates as references to determine deposit and loan rates. The first SBI were issued in 1984. SBI, which are issued by Bank Indonesia in its role as formulator and implementer of the Republic's monetary policy, are not considered liabilities of the Republic. Accordingly, SBI are not reflected in the government debt discussions in this Offering Memorandum. See *"Financial System — Bank Indonesia."*

While other economic factors are taken into account, Bank Indonesia will normally raise the BI Rate if future inflation is forecasted ahead of the inflation target. Conversely, Bank Indonesia will lower the BI Rate if future inflation is predicted to fall below the inflation target.

Bank Indonesia has also taken measures to improve the operational aspects of its monetary policy in line with an interest rate-based monetary policy operational framework and has set a policy of targeting changes in the overnight interbank interest rate as opposed to the SBI interest rate. The policy aims to provide clearer information to the financial system regarding the goals of and changes in Bank Indonesia's monetary policy. Bank Indonesia plans to continually evaluate monetary policy in response to domestic, regional and global market conditions, with the aim of maintaining economic and financial system stability and supporting the Government's medium term inflation target.

Other policy measures taken by Bank Indonesia to ensure financial system stability include regulations that permit banks to transfer government and other long-term domestic debt securities from the tradable and available-for-sale category to the hold-until-maturity category.

In order to maintain equilibrium between demand and supply in the foreign exchange market, decrease the pressure on the Rupiah, and minimize domestic speculative purchases of foreign currency, Bank Indonesia issued new regulations that govern foreign currency purchases. Foreign currency transactions above U.S.\$100,000 per month must be accompanied by evidence of an underlying transaction. This is applicable only to spot transactions in the case of non-residents. Further, Bank Indonesia continues to support the availability of foreign exchange supply in the market. The latest measure undertaken by Bank Indonesia was the repurchase of export drafts from exporters and facilitating the Republic's plans for the international issuance of bonds.

To safeguard the macroeconomic stability while fostering sustained robust economic growth, Bank Indonesia continues to adopt prudent and consistent monetary policies. Nonetheless, implementation of these policies remains challenging. The unfolding global environment continues to be uncertain, thereby increasing the complexity of Bank Indonesia's policy responses. Global economic recovery still exhibits imbalances between advanced and emerging countries, while capital inflows to emerging markets including Indonesia continue to be strong. On the domestic front, the strong demand requires a corresponding response from the supply side so as to not cause pressures on both price and external stability.

Bank Indonesia decided to further adopt a set of new monetary policy measures in December 2010. See *"Financial System — Strengthening the Banking System."* These new policies aim to further strengthen the monetary and macro-prudential policies that have been implemented, while at the same time aim to normalize the policies that were adopted during the 2008 crisis. The new policies include reinstating the limit on the daily balance of a bank's short term external debt to a maximum of 30.0% of the bank's capital, and revocation of Bank Indonesia's direct supply of foreign exchange to domestic corporations. Bank Indonesia also strengthened monetary and financial system stability through the implementation of macro-prudential surveillance. The new policies include: improving the regulation and use of information on a bank's business plan, raising the reserve requirement ratio for foreign currency deposits from 1.0% to 5.0% on March 1, 2011 and from 5.0% to 8.0% on June 1, 2011 and normalizing the regulation on Bank Indonesia's short-term funding facilities to commercial banks.

At the beginning of 2011, inflation expectations began to climb. The surge in inflation expectations was triggered by steep increases in food prices and was also prompted by rising global commodity prices and the Government's plan to reduce the fuel subsidy. Believing that the rising inflation expectations called for an appropriate response to avert future inflationary pressures, Bank Indonesia decided to increase the BI Rate by 0.25% to 6.75% on February 4, 2011. Before February 2011, Bank Indonesia had maintained a BI Rate of 6.50% since August 5, 2009 when the BI Rate was reduced from 6.75% to 6.50%. The decision to increase the BI Rate represents an anticipatory measure to curb the renewed surge in expectations of future inflation.

Entering the second quarter of 2011, inflationary pressures gradually declined in line with the correction in food prices, as well as with the appreciation of the Rupiah. The Government's decision to postpone its plan to reduce the fuel subsidy also contributed to the decline in inflationary pressures. Bank Indonesia monitored the number of risks that may put pressure on overall macroeconomic and financial stability, particularly with continuing large capital inflows, acceleration in domestic demand, and global commodity price increases. Through September 2011, Bank Indonesia kept the BI Rate unchanged at 6.75%. The decision took into account the importance of maintaining macroeconomic stability amid heightened uncertainty in the global financial system triggered by the U.S. and Euro area debt concerns. On October 11, 2011, Bank Indonesia lowered the BI Rate by 25 basis points back to 6.50%. This decision was made in accordance with Bank Indonesia's belief that inflation at the end of 2011 and in 2012 will fall below 5.0%. On November 10, 2011, Bank Indonesia lowered the BI Rate by another 50 basis points to 6.00%. The decision to further lower the BI Rate was taken in line with the decreasing trend in inflation pressures and also as part of Bank Indonesia's efforts to narrow the interest rate term structure. Both of the latest reductions to the BI Rate were also intended to mitigate the impacts of global economic developments on Indonesia's economic performance. Although the impact of the uncertainty in the global economy on Indonesia's domestic economy has so far been limited, Bank Indonesia continues to monitor the situation and assess its impact on Indonesian economic performance. Against this backdrop, Bank Indonesia was able to adjust the interest rate along with a mix of other monetary policies to mitigate the potential slowdown in domestic economic performance and to keep inflation at 3.8% in 2011, which is below its budgeted target of 5.0% plus or minus 1.0%. Similarly, in 2012, inflation rose to 4%, and remained below Bank Indonesia's target of 4.5%, plus or minus 1.0%.

In January 2012, Bank Indonesia decided to keep the BI Rate unchanged at 6.0%. The Board of Governors was of the view that the level of BI Rate was still consistent with inflation targets, financial system stability, and remained conducive to propel domestic economic expansion amidst global economic uncertainty. In February 2012, Bank Indonesia decided to lower the BI Rate by 25 basis points to 5.75%. This decision was made as a further step to boost Indonesia's economic growth amidst decreasing performance of the global economy, while keeping the priority on achieving inflation target and exchange rate stability. Under this decision, the lower and upper bounds of interest rate corridor of Bank Indonesia's monetary operation turned to 3.75% for overnight deposit facilities (deposit facility rate) and 6.75% for overnight lending facilities (lending facility rate). In March 2012, Bank Indonesia mandated loan-to-value levels for mortgages and down payments on motor vehicle loans in order to enhance bank prudence and to bolster financial sector resilience. The legislation is stated in Bank Indonesia Circular No. 14/10/DPNP, dated March 15, 2012, concerning the Application of Risk Management by Banks that offer Mortgages and Motor Vehicle Loans. A reduced payment level was set for commercial vehicles from that of personal vehicles. This regulation is further amended by the issuance of Bank Indonesia Circular Letter No. 15/40/DKMP on September 24, 2013, which was revoked by Bank Indonesia Regulation No. 17/10/PBI/2015. See *"Financial System — Bank Indonesia Monetary Policy."* The BI Rate level remained unchanged at 5.75% as of September 30, 2012. In anticipation of a potential deterioration in the ongoing European crisis, Bank Indonesia continued to monitor and prepare necessary anticipatory measures. In addition to market intervention, Bank Indonesia also enhanced existing Rupiah stabilization measures, including purchases of SBN in the secondary market, the introduction of foreign currency term deposits and the development of other domestic foreign exchange instruments.

In June 2012, the Government, Bank Indonesia and the IDIC signed a new memorandum of understanding on mutual coordination for crisis anticipation aimed at safeguarding the financial system's stability. Experience from prior crises both in Indonesia as well as in other countries has demonstrated that inefficient crisis resolution has caused extremely high economic and social costs and required considerable recovery time. Experience has also shown that the Indonesian economy cannot be insulated from the global crises risks. While various policies have been taken in order to strengthen domestic economy resilience, increasing economic and global financial uncertainty has created vulnerabilities, such as large capital reversals that have occurred since the second half of 2011. It is difficult to foresee or anticipate the risks associated with the economic uncertainty and vulnerability. Therefore, steps have been taken to increase the awareness of these risks by identifying sources of vulnerability and establishing a mechanism of crisis prevention and resolution. Under the new memorandum of understanding, the Financial System Stability Coordination Forum will monitor not only the banking sector but also the financial market, capital market and non-banking financial institutions. Bank Indonesia will focus on preventing and handling exchange rate and banking crises, while the Government will focus on regulating financial markets, capital markets and non-banking financial institutions. The Crisis Management Protocol was created to ensure effective decision making and proper legal bases for crisis prevention and management actions and policies.

Entering the second half of 2012, the economy faced an increasing risk of external imbalances marked by the widening of the current account deficit. Meanwhile, financing for the deficit is constrained by limited capital

inflows following negative perception on Rupiah assets. In response to these developments, Bank Indonesia took the tactical move of narrowing the interest rate corridor for monetary operations by 25 basis points to 4.0% in August 2012, followed by strengthening the short-term monetary instrument interest rate structure which also complements the exchange rate policy. The strategy to strengthen the structure of short-term interest rates was aimed at influencing the money market interest rates structure and the bond market as a whole in order to increase the competitiveness of Rupiah assets. This move aims to increase the supply of foreign exchange in the domestic financial market. The policy to increase the overall interest rate structure was quite effective as indicated by the depletion of the yield spread between the long-term and the short-term tenor of Government securities. After the policy was implemented, foreign capital flowed back into Rupiah assets. The inflow was also supported by the improvement of financial market risk perception due to accommodative monetary policies taken by advanced countries, especially the QE3 program by the U.S. Federal Reserve.

Overall, the interest rate measures taken by the Bank of Indonesia were effective to maintain the momentum of economic growth. During 2012, Indonesia was still able to grow above 6.0%, making Indonesia one of the few countries in the region which was still able to achieve growth through the global economic slowdown.

In the second and third quarters of 2013, in line with the protracted global economic slowdown, the Republic's economy showed signs of a continued slowdown. The Government and Bank Indonesia have implemented various policies to address these economic pressures. The policies aimed to maintain economic stability and ensure the process for short term adjustments remains in place. In particular, the policies aimed to ensure that inflation will remain at a stable level, the exchange rate will be kept at projected levels and current account deficits will be reduced to a more robust level.

CPI increased significantly in June 2013 by approximately 5.9% (year-on-year). CPI also increased significantly in July 2013 by approximately 8.6% (year-on-year). These increases were primarily due to significant inflation in administered prices and volatile food inflation. The rise in CPI was in line with Bank Indonesia forecasts, as it was primarily a result of increases in fuel prices caused by the planned reduction of government fuel subsidies on a per liter basis that became effective in late June 2013. In July 2013, Bank Indonesia increased the BI Rate by 50 basis points to 6.5%, having previously increasing the BI Rate by 25 basis points in June 2013.

Inflationary pressures eased in August and September 2013 following a spike in the preceding months. CPI decreased in August by 1.1% (month-to-month) or 8.8% (year-on-year). In September 2013, inflation decreased by 0.4% (month-to-month) or 8.4% (year-on-year). This decrease is in line with Bank Indonesia's projections that inflationary pressures would ease from September 2013 onwards and is a result of the steps taken by Bank Indonesia and the Government to coordinate anti-inflationary measures and lower domestic demand.

In the final quarter of 2013, CPI was 8.4% (year-on-year), exceeding the target rate of 4.5% \pm 1, an increase of 4.1% from the end of 2012 as a result of domestic food price increases in addition to fuel subsidy adjustments at the end of June 2013. In the first quarter of 2014, CPI was 7.3% (year-on-year), a decrease of 1.1% from the previous quarter. This decrease was in line with Bank Indonesia forecasts, as it resulted from lower inflationary pressures on volatile foods and core inflation. Core inflation subsided in line with economic moderation, minimal external pressures and improved inflation expectations.

Between June 2013 and September 2013, Bank Indonesia raised its benchmark interest rate from 5.75% to 7.25%. The increase in interest rate forms part of the follow-up measures taken by Bank Indonesia to reinforce its policies to control inflation, stabilize the Rupiah exchange rate and ensure the current account deficit is maintained at a sustainable level. Measures to stabilize the Rupiah in line with prevailing economic principles will continue, underpinned by efforts to strengthen monetary operations and expand the foreign exchange market. Bank Indonesia will also renew its efforts to enhance coordination with the Government and the Coordinating Forum on Financial System Stability in order to maintain macroeconomic and domestic financial system stability, particularly to control inflation, stabilize financial markets, reduce the current account deficit and ensure a robust balance of payments.

In January 2014, Bank Indonesia maintained the BI Rate at 7.50%. The Board of Governors decided that the rate was consistent with inflation targets and efforts to preserve stability of the financial system amidst the slowdown of the global economy. Between February 2014 and June 2014, CPI gradually decreased along with the global economic recovery. Bank Indonesia maintained its policy of steering inflation towards its target of 4.5 \pm 1% in 2014 and 4.0 \pm 1% in 2015.

Towards the second half of 2014, the economy faced persistent deceleration of domestic economic growth. CPI was recorded at 0.47% (month-to-month) or 3.99% (year-on-year) in August 2014, lower than the preceding month. Bank Indonesia decided to maintain the BI Rate at 7.50% and continuously strengthen its monetary and macroprudential policy mix to safeguard macroeconomic and financial system stability as well as strengthen the domestic economic structure.

In December 2014, BI kept the BI Rate at 7.75%, and maintained the Lending Facility and Deposit Facility rates at 8.00% and 5.75%, respectively. The benchmark rate is consistent with efforts to ensure short-term inflationary pressures in the wake of government policy to reallocate fuel subsidies are controlled and temporary, with inflation returning to the target corridor of $4\pm 1\%$ in 2015. The policy is also in line with existing stabilization measures taken to manage the current account deficit to a more sustainable level.

In January 2015, BI held the BI Rate at 7.75%, and maintained the Lending Facility and Deposit Facility rates at 8.00% and 5.75%, respectively. An overall assessment of domestic economic performance in 2014 along with the economic outlook for 2015 and 2016 indicate that such policy is consistent with efforts to control inflation within its target corridor of $4\pm 1\%$ in 2015 and 2016, as well as manage the current account deficit to a more sustainable level. Amidst a number of onerous global and domestic challenges throughout 2014, domestic economic performance in Indonesia was relatively sound with macroeconomic stability maintained and economic rebalancing ongoing in a more sustainable direction in line with solid economic fundamentals coupled with economic stabilization policies and structural reforms implemented by Bank Indonesia and the Government.

In February 2015, Bank Indonesia lowered the BI Rate 25 basis points to 7.50% and reduced the Deposit Facility rate also by 25 basis points to 5.50%, while maintaining the Lending Facility rate at 8.00%, effective 18th February 2015. Such policy measures were instituted based on Bank Indonesia's conviction that inflation will remain under control at the lower end of the $4\pm 1\%$ range in 2015 and 2016. The current policy direction is consistent with Bank Indonesia's efforts to reduce the current account deficit to a more sustainable level. In addition, macroeconomic stability was tied to close coordination between Bank Indonesia and the Government at the central and local levels.

Bank Indonesia maintained the BI Rate at 7.50%, with the Deposit Facility rate at 5.50% and Lending Facility rate at 8.00%. This decision is in line with the ongoing efforts to keep inflation within the target of $4\pm 1\%$ for 2015 and 2016, and to control current account deficit towards a healthier level at 2.5-3% of GDP in the medium term. Bank Indonesia remaining vigilant of domestic and external risks; while consistently strengthening the monetary and macroprudential policy mix, which includes stabilizing the Rupiah to maintain macroeconomic and financial system stability. Meanwhile in June 2015, to keep the economic growth momentum, Bank Indonesia has loosened macroprudential policy by revising the LDR-RR regulation, LTV policy for mortgage loans as well as down payments on automotive loans. In August and September 2015, as the Rupiah exchange rate fluctuated, Bank Indonesia focused on efforts to stabilize the Rupiah amid uncertainty in the global economy, by optimizing monetary operations in the Rupiah and foreign exchange market, strengthening forex supply and demand management, while continuing to deepen the money market. Furthermore, in September 2015, Bank Indonesia issued Rupiah exchange rate stabilization policy packages on September 9, 2015 and September 30, 2015, which were based on three pillars, namely: (1) maintaining rupiah exchange rate stability; (2) strengthening rupiah liquidity management; and (3) strengthening foreign exchange supply and demand management.

However, in December 2015 Bank Indonesia started a process of gradually unwinding its tightening cycle on the back of continued macroeconomic stability taking into consideration the backdrop of lower inflation and the reduced global uncertainty post-FFR hike, making room to maintain a loose monetary policy stance. Effective in December 2015 BI reduced the primary reserve requirement in rupiah by 50 basis points to 7.5%. In January 2016 the policy rate was lowered by 25 basis points to 7.25%, with the Deposit Facility Rate and Lending Facility Rate held at 5.25% and 7.75% respectively. Bank Indonesia considered that the macroeconomic stability has continued to improve.

In February 2016, Bank Indonesia lowered the BI Rate by 25 basis points to 7%, as well as the Deposit Facility rate and the Lending Facility rate, to 5% and 7.5%, respectively. Bank Indonesia also reduced the rupiah denominated primary reserve requirement by 1%, from 7.5% to 6.5%, effective from March 16, 2016.

Looking ahead, Bank Indonesia's policy mix will remain focused on maintaining macroeconomic and financial system stability in 2016, while stimulating economic momentum. In the monetary sector, gradual monetary easing will remain consistent with efforts to maintain macroeconomic and financial system stability.

Such policy will be supported by measures to maintain exchange rates in line with the rupiah's fundamental value, strengthen the position of reserve assets and manage flows of foreign capital. Furthermore, Bank Indonesia will maintain accommodative macroprudential policy, while continuing financial market deepening. Payment system policy will be directed towards developing a more efficient domestic payment system industry, while expanding electronic payment systems. Bank Indonesia will bolster the various ongoing measures through closer coordination with the Government and relevant institutions in order to maintain macroeconomic stability, strengthen the economic structure and support sustainable economic growth.

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 (**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 (**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 (**Broad Money**).

The following table sets forth the money supply for the periods indicated.

End of period	Money Supply					
	Money					
	Base money	Currency	Demand deposits	Total ^(M1)	Quasi-money	Total ^(M2)
			(in billions of Rupiah)			
2011	613,488	307,760	415,231	722,991	2,139,840	2,877,220
2012	704,843	361,897	479,755	841,652	2,455,435	3,307,508
2013	821,679	399,606	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	497,916	585,906	1,055,285	3,478,059	4,546,743

Source: Bank Indonesia

(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)			
2011	912,174	351,177	2,118,376	(29,895)
2012	965,442	389,827	2,581,327	17,778
2013	1,011,361	406,615	3,098,225	34,146
2014	1,105,783	416,608	3,488,677	49,733
2015	1,139,295	491,279	3,821,885	92,182

Source: Bank Indonesia

(1) Claims on the Government are Rupiah-denominated claims which are included net of the Government's deposits with the banking system.

(2) Includes capital accounts, SDR allocations and inter-system accounts.

In 2011, base money supply increased to Rp613.5 trillion. In the same period, M1 increased by 19.4% to Rp723 trillion primarily due to a significant expansion in Government accounts that increased demand for Rupiah deposits. Meanwhile, M2 increased 16.4% to Rp2,877.2 trillion, primarily due to an increased contribution from saving and demand deposits amid minimum contribution from net foreign assets because of uncertainty in the global economy.

In 2012, economic liquidity demonstrated an upward trend in line with the continued strength of household consumption and brisk pace of credit expansion. Base money increased to Rp704.8 trillion, or 14.9% from 2011. M1 increased by 16.4% from 2011 to Rp841.7 trillion and M2 increased by 15.0% from 2011 to Rp3,307.5 trillion. Growth in M1 was mainly driven by increasing demand in Rupiah deposits in line with growth in lending. Growth in M2 was due to an increase in Rupiah time deposits and saving deposits.

In 2013, economic liquidity increased to Rp3,730.4 trillion. This was consistent with the pace of the domestic economy, resulting in slower expansion in economic liquidity. M1 growth slowed to 5.4% (year-on-year) from the 2012 level of 16.4% (year-on-year) primarily due to a decline in Rupiah demand deposits and the downturn of currency outside commercial and rural banks. In addition, M2 growth slowed to 12.8% (year-on-year) from the 2012 level of 15.0% (year-on-year), primarily due to lower net domestic assets in the midst of minimum net foreign assets.

In 2014, base money increased by 11.8% (year-on-year) to Rp918.4 trillion. Economic liquidity grew slowly by 11.9% (year-on-year) to Rp4,173 trillion resulting from slower government expansion. Quasi money growth slowed to 13.1% (year-on-year) from the same period last year of 14.9% (year-on-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% (year-on-year) driven by increasing growth of Rupiah demand deposits.

In 2015, base money increased by 3.0% (year-on-year) to Rp945.9 trillion. Economic liquidity, or broad money (M2), grew at 8.9% (year-on-year) from 2014 level of 11.9% (year-on-year), primarily due to lower growth of net foreign assets and claims on business sectors. By components, weaker M2 growth was due to slower growth of quasi money which decelerated from 13.8% (year-on-year) in 2014 to 8.4% (year-on-year).

Indonesia Stock Exchange

At the end of 2015, the Jakarta Composite Index (JCI) traded sideways due to the economic slowdown in China and the decision of the U.S. Federal Reserve to raise interest rates for the first time since 2009. In October 2015, the JCI rebounded after a decline in September 2015. Some issues that may have affected the JCI in September 2015 were the result of the FOMC meeting which postponed increasing Federal Funds Rate as well as the decision of the PBoC to maintain its interest rate at a low level. On the domestic side, negative sentiment originated from fears of rising inflationary pressures, a depreciating exchange rate and a decline in the Republic's financial performance. From a global perspective, negative sentiment resulted from the crisis in Greece and uncertainties in interest rates set by the U.S. Federal Reserve. As at December 31, 2015, the JCI reached a level of 4,593.01, down 12.1% compared to 2014 at the level of 5,226.947. Recent issues that may have affected the JCI in December 2015, include the results of the FOMC meeting held on December 2015 which raised the Federal Funds Rate from the range of 0.00% to 0.25% to a range of 0.25% to 0.50%, concerns about global economic slowdown and the downward trends in oil prices due to global oil oversupply despite weak demand outlook.

Exchange Rates

The Rupiah exchange rate strengthened slightly at the beginning of 2014 before gradually weakening thereafter. The Rupiah has depreciated significantly since September 2014, partially as a result of the planned cutback in the Federal Reserve's monetary stimulus. The negative perceptions of investors of the current account deficit at the beginning of 2014 contributed to the weaker Rupiah, however, the current account deficit has been narrowing throughout 2014.

In 2014, the Rupiah had an average exchange rate of Rp11,876 to the U.S. dollar, having depreciated by 13.7% compared to the average in 2013, during which the exchange rate was Rp10,455 to the U.S. dollar.

The Rupiah exchange rate depreciated against the U.S. dollar during the fourth quarter of 2014 due to U.S. dollar appreciation against nearly all global currencies after the release of improved U.S. economic data as well as the planned increase to the FFR. Point to point, the Rupiah depreciated 1.74% (year-on-year) in 2014 to a level of Rp12,385 per U.S. dollar.

In the first quarter of 2015, the Rupiah depreciated as the U.S. dollar gained against nearly all currencies. The Rupiah depreciated an average of 4.4% (quarter-to-quarter) to a level of Rp12,807 per U.S. dollar during the first quarter 2015. Broad U.S. dollar appreciation was backed by U.S. economic momentum and quantitative easing by the European Central Bank (ECB). Nonetheless, the Rupiah rebounded in April 2015 on a U.S. dollar correction along with a sound domestic risk profile. Consequently, the Rupiah strengthened by an average of 0.95% (month-to-month) to Rp12,944 per U.S.\$.

In second quarter of 2015, the Rupiah depreciated primarily on the back of external sentiment. The Rupiah fell by an average of 2.5% (quarter-to-quarter) to a level of Rp13,131 per U.S. dollar during the second quarter 2015. Pressures on the currency escalated due to investor anticipation of the proposed FFR hike in the United

States along with quantitative easing implemented by the ECB and the ongoing fiscal negotiations in Greece. Domestically, demand surged for foreign currencies in order to service debt and disburse seasonal dividend payments during the second quarter of 2015. Pressures were offset, however, by positive sentiment stemming from S&P's affirmation to raise Indonesia's outlook rating from stable to positive together with a growing trade surplus. The latest developments have shown that, in line with the market reaction to the Renminbi devaluation in China, nearly all global currencies, including the Rupiah, experienced depreciatory pressures (overshoot). Consequently, the Rupiah overshot, which left the currency undervalued.

In July 2015, the Rupiah depreciated primarily on the back of external sentiment. Pressures on the currency escalated due to investor anticipation of the proposed FFR hike in the United States along with quantitative easing implemented by the ECB and the ongoing fiscal negotiations in Greece. The Rupiah depreciated on the back of intense external pressures. On August 2015, the Rupiah fell by an average of 2.9% (month-to-month) to a level of Rp13,789 per U.S. dollar. Pressures mainly originated from the Renminbi devaluation policy of the People's Bank of China combined with uncertainty over the proposed FFR hike in the United States. Domestically, however, demand for U.S. dollars surged in order to service foreign debt, which exacerbated the Rupiah overshoot. To address these developments, Bank Indonesia continued to monitor and intervene in the market through Rupiah stabilization measures in order to nurture macroeconomic and financial system stability. In addition, Bank Indonesia also optimized monetary operations to manage demand and bolster foreign currency supply. Pressures on the Rupiah continued in September 2015, as the Rupiah depreciated 4.1% (point to point) to a level of Rp14,650 per U.S. dollar. However, the Rupiah appreciated 4.5% (month-to-month) in October to a level of Rp13,783 per U.S. dollar on the back of dovish statements by the Federal Reserve and positive sentiment after the Government launched a series of policy packages to boost economic growth.

In the fourth quarter of 2015, the Rupiah appreciated 6.27% (point to point) to a level of Rp13,785 per U.S. dollar. Furthermore, Rupiah appreciation persisted into January 2016, with the currency climbing 0.1% (point to point) to close at a level of Rp13,775 per U.S. dollar at the end of the month. Rupiah appreciation was bolstered by an influx of foreign capital to government securities in line with favorable investor perception of domestic economic fundamentals due to the lower BI Rate, government policy packages aimed at improving investment climate, and an increasingly effective implementation of various infrastructure projects. In addition, less risk on global financial markets, reflecting a more dovish Federal Fund Rate path, also drove Rupiah appreciation. Bank Indonesia will always seek to maintain exchange rate stability in line with the currency's fundamental value, thereby supporting macroeconomic and financial system stability.

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.

In August 2010, President Yudhoyono submitted the 2011 Budget to the DPR, which, with certain modifications, was enacted in November 2010. The Government's main focuses for 2011 were increasing welfare; development of democracy and law enforcement.

Certain expenditure in the 2011 Budget was aimed at: (i) accelerating economic growth; (ii) creating and increasing employment by giving tax incentives to encourage investment and exports to increase the capital expenditure to build infrastructure; (iii) improving the welfare of its people through social security nets for the poor with sustainable welfare programs and a more targeted subsidy allocation; and (iv) improving the quality of environment management. While endeavoring to achieve these goals, the Government maintained a prudent fiscal policy, encouraged private sector participation in infrastructure development and adopted a series of foreign investment, financial sector and banking sector reforms. See “— *Monetary Policy*” and “*Infrastructure Development*.”

In July 2011, the 2011 Budget was revised (the **Revised 2011 Budget**) to include a target fiscal deficit of 2.1% of the projected GDP, which was higher than the target fiscal deficit of 1.8% of GDP in the 2011 Budget and the actual deficit of 0.7% of GDP in 2010. The target fiscal deficit as a percentage of GDP increased in the Revised 2011 Budget primarily due to increases in the assumptions related to average ICP and inflation, and a

decrease in the assumption related to oil production. The targeted fiscal deficit of 2.1% of GDP under the Revised 2011 Budget was higher than or equal to the actual fiscal deficit, as a percentage of GDP, of 0.1% and 1.6% in 2008 and 2009, respectively. Total expenditure under the Revised 2011 Budget was projected to be Rp1,320.7 trillion compared to Rp1,229.6 trillion in the 2011 Budget and actual total expenditure of Rp1,042.1 trillion in 2010. The Revised 2011 Budget projected total revenue (including grants) of Rp1,169.9 trillion, compared to Rp1,104.9 trillion in the 2011 Budget and actual total revenue (including grants) of Rp995.3 trillion in 2010. The Revised 2011 Budget projected a deficit of Rp150.8 trillion, significantly higher than the Rp124.7 trillion deficit projected in the 2011 Budget and the actual fiscal deficit of Rp46.8 trillion in 2010.

In 2011, the Indonesian Government budget realized a deficit of Rp89.4 trillion or 56.0% of the Government's targeted fiscal deficit of Rp150.8 trillion in the Revised 2011 Budget. This realized fiscal deficit of 1.1% of GDP in 2011 was lower than the targeted fiscal deficit of 2.1% of GDP under the Revised 2011 Budget. Total expenditure in 2011 was Rp1,295.0 trillion, slightly lower than the Rp1,320.8 trillion in the Revised 2011 Budget. Total revenue (including grants) was Rp1,210.6 trillion, slightly higher than Rp1,169.9 trillion in the Revised 2011 Budget and actual total revenue (including grants) of Rp995.3 trillion in 2010. The realized fiscal deficit of Rp84.4 trillion was significantly lower than the Rp150.8 trillion deficit projected in the Revised 2011 Budget.

The Government financed the projected deficit under the Revised 2011 Budget using domestic and international sources. See “— *Public Debt*.” The Government continued to consider further policy measures intended to raise revenues and lower non-discretionary expenditures. On the revenue side, these may include tax collection improvement, tax incentives and tax administration reforms. On the expenditure side, these may include implementing additional energy saving measures at Government offices, implementing targeted subsidies and encouraging the use of Liquefied Petroleum Gas instead of kerosene for household use.

Expenditure allocation in the Revised 2011 Budget focused on the public services, education and economic functions. Such expenditure was projected to be 84.1% of central Government expenditure. The Revised 2011 Budget also aimed to maintain a minimum allocation of 20.0% of central Government expenditure for education.

As of December 31, 2011, the realized fiscal deficit of Rp84.4 trillion was 56.0% of the Government's target of Rp150.8 trillion in the Revised 2011 Budget. The realized fiscal deficit of 1.1% of GDP was lower than the target fiscal deficit under the Revised 2011 Budget of 2.1% of GDP. The realized fiscal deficit as a percentage of GDP was 1.1% in 2011, higher than the actual fiscal deficit of 1.6% in 2009 and 0.7% in 2010. Total expenditures in 2011 were Rp1,295.0 trillion compared to Rp1,320.8 trillion in the Revised 2011 Budget and actual total expenditures of Rp1,042.1 trillion in 2010. Total revenues (including grants) were Rp1,210.6 trillion, compared to Rp1,169.9 trillion in the Revised 2011 Budget and actual revenues (including grants) of Rp995.3 trillion in 2010. The fiscal deficit of Rp84.4 trillion was significantly lower than the Rp150.8 trillion deficit projected in the Revised 2011 Budget and higher than the actual fiscal deficit of Rp46.8 trillion in 2010.

The 2012 Budget, approved by the DPR on October 27, 2011, included a target fiscal deficit of 1.5% of the projected GDP, higher than the fiscal deficit of 1.1% of GDP in 2011 and higher than the actual deficit of 0.7% of GDP in 2010. Total expenditure under the 2012 Budget was projected to be Rp1,435.4 trillion compared to Rp1,295.0 trillion in 2011 and actual total expenditure of Rp1,042.1 trillion in 2010. The 2012 Budget projected total Revenue (including grants) of Rp1,311.4 trillion (equivalent to 16.1% of GDP), compared to Rp1,210.6 trillion (equivalent to 16.2% of GDP) in 2011 and actual total revenue (including grants) of Rp995.3 trillion in 2010. The 2012 Budget projected a deficit of Rp124.0 trillion, compared to Rp84.4 trillion in 2011, and higher than the actual fiscal deficit of Rp46.8 trillion in 2010. The Government was expected to finance the projected deficit under the 2012 Budget from both domestic and international sources. Through its budgeted expenditure in the 2012 Budget, the Government intended to continue the four main targets of its fiscal policy in the 2011 Budget, including promoting inclusive economic growth (pro growth), creating and expanding employment (pro job), increasing social welfare through social safety net programs benefiting the poor (pro poor), and supporting environmental sustainability (pro environment).

On March 31, 2012, the revised 2012 Budget (the **Revised 2012 Budget**) included a target fiscal deficit of 2.2% of the revised projected GDP compared to 1.5% of the projected GDP in the 2012 Budget and to the realized fiscal deficit of 1.1% of GDP in 2011. Total expenditure under the Revised 2012 Budget was projected to be Rp1,548.3 trillion as compared to Rp1,435.4 trillion in the 2012 Budget and Rp1,295.0 trillion in 2011. Total revenue (including grants) under the Revised 2012 Budget was projected to be Rp1,358.2 trillion

(equivalent to 15.9% of GDP) compared to Rp1,311.4 trillion (equivalent to 16.1% of GDP) in the 2012 Budget and Rp1,210.6 trillion (equivalent to 16.2% of GDP) in 2011. The Revised 2012 Budget projected a deficit of Rp190.1 trillion, compared to Rp124.0 trillion in the 2012 Budget and Rp84.4 trillion in 2011.

As of December 31, 2012, the realized total expenditure in 2012 was Rp1,491.4 trillion, as compared to Rp1,548.3 trillion in the Revised 2012 Budget and Rp1,295.0 trillion in 2011. The realized 2012 total revenue (including grants) was Rp1,338.1 trillion (equivalent to 16.2% of GDP) compared to Rp1,358.2 trillion (equivalent to 15.9% of GDP) in the Revised 2012 Budget and Rp1,210.6 trillion (equivalent to 16.3% of GDP) in 2011. The realized 2012 deficit was Rp153.3 trillion, compared to Rp190.1 trillion in the Revised 2012 Budget and Rp84.4 trillion in 2011. As a percentage of GDP, the realized fiscal deficit was 2.2% of GDP in 2012, compared to 2.2% of projected GDP in the Revised 2012 Budget and to the realized fiscal deficit of 1.1% of GDP in 2011.

The Revised 2013 Budget included a target fiscal deficit of 2.4% of projected GDP compared to 1.7% in the 2013 Budget. The total expenditure under the Revised 2013 Budget was projected to be Rp1,726.2 trillion compared to Rp1,683.0 trillion in the 2013 Budget. The Revised 2013 Budget projects total revenue (including grants) of Rp1,502.0 trillion (equivalent to 16.0% of the projected 2013 GDP), compared to Rp1,529.7 trillion (equivalent to 16.5% of GDP) in the 2013 Budget. The Revised 2013 Budget projected a deficit of Rp224.2 trillion, compared to Rp153.3 trillion in the 2013 Budget. As of December 31, 2013, the realized total expenditure in 2013 was Rp1,650.5 trillion, as compared to Rp1,726.2 trillion in the Revised 2013 Budget and Rp1,491.4 trillion in 2012. The realized 2013 total revenue (including grants) was Rp1,438.9 trillion (equivalent to 15.8% of GDP) compared to Rp1,502.0 trillion (equivalent to 16% of GDP) in the Revised 2013 Budget and Rp1,338.1 trillion (equivalent to 16.2% of GDP) in 2012. The realized 2013 deficit was Rp211.6 trillion, compared to Rp224.2 trillion in the Revised 2013 Budget and Rp153.3 trillion in 2012. As a percentage of GDP, the realized fiscal deficit was 2.3% of GDP in 2013, compared to 2.4% of projected GDP in the Revised 2013 Budget and to the realized fiscal deficit of 1.9% of GDP in 2012.

The Revised 2014 Budget included a target fiscal deficit of 2.4% of the projected GDP, higher than the deficit in 2013 of 2.3%. The total expenditure under the Revised 2014 Budget is projected to be Rp1,876.9 trillion compared to Rp1,650.5 trillion in 2013. The Revised 2014 Budget projects total revenue (including grants) of Rp1,635.4 trillion, compared to Rp1,438.9 trillion in 2013. The Revised 2014 Budget projects a deficit of Rp241.5 trillion, compared to a realized deficit of Rp211.6 trillion in 2013. The Government is expected to finance the projected deficit under the Revised 2014 Budget from both domestic and international sources.

The Revised 2015 Budget includes a fiscal deficit target of 1.9% of GDP, lower than its target set in the Original 2015 Budget of 2.2% and lower than its target in the Revised 2014 Budget of 2.4%. For the Revised 2015 Budget, the total expenditure is Rp1,984.1 trillion, total revenue is Rp1,761.6 trillion (including grants) and deficit financing is Rp222.5 trillion.

As of December 31, 2015, the realized total expenditure in 2015 was Rp1,796.6 trillion, the realized total revenue (including grants) was Rp1,504.5 trillion and the realized deficit was Rp226.7 trillion. As a percentage of GDP, the realized fiscal deficit was 2.3% of GDP in 2014.

The central Government transfers a significant proportion of central Government revenue to local Governments under the Transfer to Region and Rural Fund. These transfer allocations are based on Law No. 33 of 2004 on Balance of Funding between the Central and Regional Governments and other related regulations. In 2011, 2012, 2013 and 2014 these fund transfers accounted for 31.8%, 32.2%, 31.1% and 32.4% respectively, of the central Government's total expenditure. These fund transfers account for 33.5% of total expenditure in the Revised 2015 Budget.

In 2015, the Transfer to Regions and Rural Fund consisted of two schemes. Transfer to Regions comprised of (i) Balance Fund; (ii) Special Autonomy Fund for Papua, West Papua and Aceh Province; (iii) Special Fund for D.I Yogyakarta Province; (iv) Other Transfer fund which among other things includes Profession and Allowance to Teachers, School Operation Aids (BOS), Regional Incentives Fund (DID). Rural Fund, began allocations in 2015 to meet provisions of Law No. 6 of 2014 on village.

Central Government Finances

The following table sets forth information regarding the revenue and expenditure of the central Government for the periods indicated.

Central Government Revenue and Expenditure

	Year Ended December 31,					
	2011 ^L	2012 ^L	2013 ^L	2014 ^L	2015 ^P	2016 ^B
	(in trillions of Rupiah)					
Revenues and grants:						
Domestic revenue						
Tax revenue	873.9	980.5	1,077.3	1,146.9	1,240.4	1,546.7
Non-tax revenue	331.5	351.8	354.8	398.6	253.7	273.8
Total domestic revenue	1,205.4	1,332.3	1,432.1	1,545.5	1,494.1	1,820.5
Grants	5.2	5.8	6.8	5.0	10.4	2.0
Total revenues and grants	1,210.6	1,338.1	1,438.9	1,550.5	1,504.5	1,822.5
Expenditures:						
Central Government expenditures	883.7	1,010.6	1,137.2	1,203.6	1,173.6	1,325.6
Transfer to Regions and Rural Fund ⁽¹⁾	411.3	480.6	513.3	573.7	623.0	770.2
Total central and transfer expenditures	1,295.0	1,491.2	1,650.5	1,777.3	1,796.6	2,095.7
Suspend ⁽²⁾	(0.0)	0.2	0.1	(0.1)	—	—
Total expenditures	1,295.0	1,491.4	1,650.6	1,777.2	1,796.6	2,095.7
Primary balance ⁽³⁾	8.9	(52.8)	(98.6)		(136.1)	(88.2)
Surplus/(deficit)	(84.4)	(153.3)	(211.7)	(226.7)	(292.1)	(273.2)
Financing: ⁽⁴⁾						
Domestic financing	148.7	198.6	243.2	261.2	307.8	272.8
Foreign financing	(17.8)	(23.5)	(5.8)	(12.4)	10.4	0.4
Total Financing	130.9	175.2	237.4	248.9	318.1	273.2

Source: Ministry of Finance

^L LKPP (Central Government Financial Report/Audited)

^P Preliminary

^B Budget

- (1) Starting from fiscal year 2015, central Government allocates funds to the Rural Fund based on Law No. 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 2011, total financing of Rp130.9 trillion exceeded the budget deficit of Rp84.4 trillion and the Government added the difference of Rp46.5 trillion to its reserves. In 2012, total financing of 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 Rp318.1 trillion exceeded the budget deficit of Rp292.1 trillion and the Government added the difference of Rp26.0 trillion to its reserves.

Central Government Revenue. The following table sets forth central Government revenue by category for the periods indicated.

Central Government Revenue

	Year Ended December 31,					
	2011 ^L	2012 ^L	2013 ^L	2014 ^L	2015 ^P	2016 ^B
	(in trillions of Rupiah)					
Domestic revenue:						
Tax revenue:						
Domestic tax:						
Income tax:						
Oil and gas	73.1	83.5	88.7	87.4	49.7	41.4
Non-oil and gas	358.0	381.6	417.7	458.7	552.6	715.8
Total income tax	431.1	465.1	506.4	546.2	602.3	757.2
Value added tax (VAT)	277.8	337.6	384.7	409.2	423.7	571.7
Land and building tax	29.9	28.9	25.3	23.5	29.3	19.4
Excises	77.0	95.0	108.5	118.1	144.6	146.4
Other taxes	3.9	4.2	4.9	6.3	5.6	11.8
Total domestic taxes	819.8	930.9	1,029.9	1,103.2	1,205.5	1,506.6
International trade taxes:						
Import duties	25.3	28.4	31.6	32.3	31.2	37.2
Export tax	28.9	21.2	15.8	11.3	3.7	2.9
Total international trade taxes	54.1	49.7	47.5	43.6	34.9	40.1
Total tax revenue	873.9	980.5	1,077.3	1,146.9	1,240.4	1,546.7
Non-tax revenue:						
Natural resources:						
Oil	141.3	144.7	135.3	139.2	65.4	60.3
Gas	52.2	61.1	68.3	77.7	13.0	18.3
Total oil and gas	193.5	205.8	203.6	216.9	78.4	78.6
General mining	16.4	15.9	18.6	19.3	18.8	40.8
Forestry	3.2	3.2	3.1	3.7	4.2	4.0
Fishery	0.2	0.2	0.2	0.2	0.1	0.7
Geothermal	0.5	0.7	0.9	0.8	0.9	0.7
Total non-oil and gas	20.3	20.0	22.8	24.0	24.0	46.3
Total natural resources	213.8	225.8	226.8	240.8	102.3	124.9
Profit transfer from state-owned-enterprises	28.2	30.8	34.0	40.3	37.6	34.2
Other non-tax revenue	69.4	73.5	69.7	87.7	78.5	79.4
Public Service Agency (BLU) Income ⁽¹⁾	20.1	21.7	24.6	29.7	35.2	35.4
Total non-tax revenue	331.5	351.8	354.8	398.6	253.7	273.8
Total domestic revenue	1,205.4	1,332.3	1,432.1	1,545.5	1,494.1	1,820.5
Grants	5.2	5.8	6.8	5.0	10.4	2.0
Total revenue and grants	1,210.6	1,338.1	1,438.9	1,550.5	1,504.5	1,822.5

Source: Ministry of Finance

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

^P Preliminary

^B Budget

- (1) Includes Government's share of Bank Indonesia 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.

In 2011, realized tax revenue of Rp873.9 trillion was 99.5% of the Government's target of Rp878.7 trillion in the Revised 2011 Budget. Realized domestic tax revenue of Rp819.8 trillion for 2011 was 98.5% of the Government's budget target of Rp831.8 trillion under the Revised 2011 Budget, while international trade tax revenue of Rp54.1 trillion was 115.6% of the Government's budget target of Rp46.9 trillion under the Revised 2011 Budget. Realized non-tax revenue in 2011 was Rp331.5 trillion, or 115.7% of the Government's budgeted amount of Rp286.5 trillion under the Revised 2011 Budget. Total realized revenue and grants of Rp1,210.6 trillion in 2011 were 103.5% of the Government's budget target of Rp1,169.9 trillion under the Revised 2011 Budget.

In 2012, realized tax revenue of Rp980.5 trillion was 96.5% of the Government's target of Rp1,016.2 trillion in the Revised 2012 Budget. Realized domestic tax revenue of Rp930.9 trillion was 96.1% of the Government's budget target of Rp968.3 trillion under the Revised 2012 Budget. Realized non-tax revenue was Rp351.8 trillion, or 103.1% of the Government's budgeted amount of Rp341.1 trillion under the Revised 2012 Budget. Total realized revenue and grants of Rp1,338.1 trillion were 98.5% of the Government's budget target of Rp1,358.2 trillion under the Revised 2012 Budget. This was primarily due to a decline in commodity prices (including mining, mineral, CPO and rubber), which resulted in a decline in non-oil and gas tax revenues.

In 2013, realized tax revenue of Rp1,077.3 trillion was 93.8% of the Government's target of Rp1,148.4 trillion in the Revised 2013 Budget. Realized domestic tax revenue of Rp1,029.9 trillion was 93.6% of the Government's budget target of Rp1,099.9 trillion under the Revised 2013 Budget. Realized non-tax revenue was Rp354.8 trillion, or 101.6% of the Government's budgeted amount of Rp349.2 trillion under the Revised 2013 Budget. Total realized revenue and grants of Rp1,438.9 trillion were 95.8% of the Government's budget target of Rp1,502.0 trillion under the Revised 2013 Budget. This was primarily due to the slowdown of economic activities during 2013 from: (i) weakening of global demand that reduced exports; (ii) decreasing of commodity and energy prices; and (iii) falling of import values, especially on consumption goods. In addition, the shortfall in tax revenue in 2013 resulted from the implementation of certain tax policies, namely the: (i) adjustment of non-taxable income that reduced the tax base of personal income tax; (ii) CPO downstream policy that decreased export duties on CPO products; and (iii) transferring the authority for the collection of property taxes to local government.

In 2014, realized tax revenue of Rp1,146.9 trillion was 92.0% of the Government's target of Rp1,246.1 trillion in the Revised 2014 Budget. Realized domestic tax revenue of Rp1,103.2 trillion was 92.7% of the Government's budget target of Rp1,189.8 trillion in the Revised 2014 Budget. Realized non-tax revenue was Rp398.6 trillion, or 103.0% of the Government's budgeted amount of Rp386.9 trillion in the Revised 2014 Budget. Total realized revenue and grants of Rp1,550.5 trillion were 94.8% of the Government's budget target of Rp1,635.4 trillion under the Revised 2014 Budget. (This was primarily due to slow growth in the mining and industrial sectors, decreased imports and the decreased price of CPO in the international market.)

In 2015, realized domestic tax revenue was Rp1,240.4 trillion, lower than the target. This was due to slow growth in the manufacture and mining sector. In addition, weak external sector performance due to the impact of low global commodity prices contributed to lower domestic tax revenue.

Central Government Expenditure. The following table sets forth the expenditure of the central Government for the periods indicated.

Central Government Expenditure

	Year Ended December 31,					
	2011 ^L	2012 ^L	2013 ^L	2014 ^L	2015 ^P	2016 ^B
	(in trillions of Rupiah)					
Central Government expenditures:						
Personnel expenditures	175.7	197.9	221.7	243.7	281.1	347.5
Good and services expenditures	124.6	140.9	169.7	176.6	232.4	325.4
Capital expenditures	117.9	145.1	180.9	147.3	201.6	201.6
Interest payments:						
Domestic debt	66.8	70.2	98.7	118.8	141.9	168.5
Foreign debt	26.5	30.3	14.3	14.6	14.1	16.4
Total interest payments	93.3	100.5	113.0	133.4	156.0	184.9
Subsidies:						
Energy subsidies	255.6	306.5	310.0	341.8	119.1	102.1
Non-energy subsidies	39.8	39.9	45.1	50.2	66.9	80.5
Total subsidies	295.4	346.4	355.0	392.0	186.0	182.6
Grant expenditures	0.3	0.1	1.3	0.9	3.1	4.0
Social assistance ⁽¹⁾	71.1	75.6	92.1	97.9	97.0	54.9
Other expenditures	5.5	4.1	3.4	11.7	8.9	24.7
Total central Government expenditures	883.8	1,010.5	1,137.2	1,203.6	1,166.2	1,325.6
Transfers to Regions and Rural Fund						
Transfer to Regions						
Balanced funds:						
Revenue sharing funds	96.9	111.5	88.5	103.9	78.1	106.1
General allocation funds	225.5	273.8	311.1	341.2	352.9	385.4
Total general transfer funds	322.4	385.4	399.6	455.2	430.9	491.5
Specific allocation funds:						
Physical special allocation fund	24.8	25.9	30.8	31.9	54.9	85.5
Nonphysical special allocation fund ⁽²⁾	—	—	—	—	—	123.5
Total specific allocation funds	24.8	25.9	30.8	31.9	54.9	208.9
Total balanced funds	347.2	411.3	430.4	477.1	485.8	700.4
Regional incentive fund ⁽³⁾	—	—	—	—	—	5.0
Special autonomy funds ⁽⁴⁾	10.4	12.0	13.4	16.1	17.1	17.2
Special Fund for D.I Yogyakarta Province ⁽⁵⁾	—	—	—	0.4	0.5	0.5
Others ⁽⁶⁾	53.7	57.4	69.5	80.1	98.8	—
Total Transfer to Regions	411.3	480.6	513.3	573.7	602.2	723.2
Rural Fund ⁽⁷⁾	—	—	—	—	20.8	47.0
Total transfers to regions and Rural Fund	411.3	480.6	513.3	573.7	623.0	770.2
Suspend ⁽⁸⁾	(0.0)	0.2	0.1	(0.1)	—	—
Total expenditures	1,295.1	1,491.4	1,650.6	1,777.2	1,789.1	2,095.7

Source: Ministry of Finance

^L LKPP (Central Government Financial Report/Audited)

^B Budget

^P Preliminary

(1) Consists of Social Assistance from Ministries/Agencies Spending and Social Assistance for Disaster Relief.

(2) Classified under Others before 2016 except regional incentive fund.

(3) Others before 2016.

(4) Consists of Specific Autonomy Fund and Additional Specific Infrastructure Autonomy Fund for Papua and West Papua Provinces.

(5) Starting in 2013, the central government allocates a specific fund for Yogyakarta's privilege in Other expenditures. In 2014, this fund was allocated in special autonomy and adjustment funds as part of transfer to region.

(6) Consists of adjustment funds through 2014; in 2015, consists of nonphysical allocation fund and regional incentive fund.

(7) Starting in 2015, the central government allocates funds to the Rural Fund based on law number 6/2015.

- (8) 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.

In 2011, the Government's total expenditure was Rp1,295.0 trillion, equivalent to 98.0% of the Revised 2011 Budget amount of Rp1,320.8 trillion. Central Government expenditure in 2011 was Rp883.7 trillion, equivalent to 97.3% of the Revised 2011 Budget amount of Rp908.2 trillion. Actual subsidies in 2011 were Rp295.4 trillion, equivalent to 124.5% of the Revised 2011 Budget amount of Rp237.2 trillion. Total transfers to regions in 2011 were Rp411.3 trillion, equivalent to 99.7% of the Revised 2011 Budget amount of Rp412.5 trillion.

In 2012, the Government's total expenditure was Rp1,491.4 trillion, equivalent to 96.3% of the Revised 2012 Budget amount of Rp1,548.3 trillion. Central Government expenditure was Rp1,010.6 trillion, equivalent to 94.5% of the Revised 2012 Budget amount of Rp1,069.5 trillion. Actual subsidies were Rp346.4 trillion, equivalent to 141.3% of the Revised 2012 Budget amount of Rp245.1 trillion. Total transfers to regions in 2012 were Rp480.6 trillion, equivalent to 100.4% of the Revised 2012 Budget amount of Rp478.8 trillion.

In 2013, the Government's total expenditure was Rp1,650.5 trillion, equivalent to 95.0% of the Revised 2013 Budget amount of Rp1,726.2 trillion. Central Government expenditure was Rp1,137.2 trillion, equivalent to 94.2% of the Revised 2013 Budget amount of Rp1,196.8 trillion. Actual subsidies were Rp355.0 trillion, equivalent to 102.0% of the Revised 2013 Budget amount of Rp348.1 trillion. Transfers to regions were Rp513.3 trillion, equivalent to 96.9% of the Revised 2013 Budget amount of Rp529.4 trillion.

In 2014, the Government's total expenditure reached Rp1,777.2 trillion, equivalent to 94.7% of the Revised 2014 Budget amount of Rp1,876.9 trillion. Central Government expenditure was Rp1,203.6 trillion, equivalent to 94.0% of the Revised 2014 Budget amount of Rp1,280.4 trillion. Actual subsidies were Rp392.0 trillion, equivalent to 97.3% of the Revised 2014 Budget amount of Rp403.0 trillion. Transfers to region reached Rp573.7 trillion, 96.2% of its target in the Revised 2014 Budget of Rp596.5 trillion.

In 2015 realization figures, the Government's total expenditure was Rp1,789.1 trillion, equivalent to 90.1% of the Revised 2015 Budget amount of Rp1,984.1 trillion. Central Government Expenditure was Rp1,166.2 trillion, equivalent to 88.3% of the Revised 2015 Budget amount of Rp1,319.5 trillion. Transfer to Regions reached Rp623.0 trillion, equivalent to 93.7% of the Revised 2015 Budget amount of Rp664.6 trillion.

The following table sets forth, by percentage, the allocation of central Government development expenditure by function for the periods indicated.

Allocation of Central Government Development Expenditure by Function

	Year ended December 31,					
	2011 ^L	2012 ^L	2013 ^L	2014 ^L	2015 ^R	2016 ^B
	(percentages)					
General Public Services	64.6	64.1	62.1	66.3	53.4	26.9
Defense	5.8	6.1	7.7	7.2	7.4	7.5
Public order and safety	2.5	2.9	3.2	2.9	3.8	8.3
Economic affairs	9.9	10.4	9.5	8.1	16.5	27.2
Environmental protection	1.0	0.9	0.9	0.8	0.9	0.9
Housing and community amenities	2.6	2.6	3.0	2.2	2.0	2.6
Health	1.6	1.5	1.5	0.9	1.8	5.1
Tourism and culture	0.4	0.2	0.2	0.1	0.3	0.6
Religion	0.2	0.3	0.3	0.3	0.4	0.7
Education	11.1	10.4	10.1	10.2	11.7	11.3
Social protection	0.4	0.5	1.5	1.1	1.7	11.8
Total	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100</u>	<u>100.0</u>	<u>100</u>

Source: Ministry of Finance

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

^R Revised 2015 Budget.

^B Budget

Deficit Financing. The following table sets forth, by amount, information on deficit financing for the periods indicated.

Deficit Financing

	Year Ended December 31,					
	2011 ^L	2012 ^L	2013 ^L	2014 ^L	2015 ^P	2016 ^B
	(in trillions of Rupiah)					
Domestic financing:						
Domestic bank financing	48.9	62.7	34.2	5.0	3.8	5.5
Domestic non-bank financing:						
Privatization	0.4	0.1	0.1	0.0	—	—
Assets management	1.2	1.1	1.4	0.5	0.4	0.3
Government securities (net)	119.8	159.7	224.7	264.6	362.3	327.2
Domestic loans (net)	0.6	0.8	0.5	0.9	0.7	3.3
Government investment fund:						
Government investment	(1.5)	(3.3)	—	—	—	—
Investment Financing for BLU asset management	—	—	—	—	(1.5)	—
Investment Revenue	—	—	—	—	19.1	—
Government capital participation	(9.3)	(8.5)	(4.0)	(5.4)	(70.4)	(48.4)
Revolving fund	(8.8)	(7.0)	(3.3)	(3.5)	(5.4)	(9.2)
PT Inalum Acquisition	—	—	(4.6)	—	—	—
Total Government investment fund	(19.6)	(18.9)	(11.9)	(8.9)	(58.1)	(57.6)
Endowment fund for education	(2.6)	(7.0)	(5.0)	—	—	(5.0)
Government Guarantee	—	—	(0.7)	(1.0)	—	(0.9)
Lending to PT PLN	—	—	—	—	—	—
Bailout Fund For PT Minarak Lapindo Jaya	—	—	—	—	(0.8)	—
Financing Reserve For BPJS Kesehatan For DJS Kesehatan Program	—	—	—	—	(1.5)	—
Other Financing Revenue	—	—	—	—	1.0	—
Total domestic non-bank financing	<u>99.8</u>	<u>135.9</u>	<u>209.0</u>	<u>256.2</u>	<u>303.9</u>	<u>267.3</u>
Total domestic financing	<u>148.7</u>	<u>198.6</u>	<u>243.2</u>	<u>261.2</u>	<u>307.8</u>	<u>272.8</u>

	Year Ended December 31,					
	2011 ^L	2012 ^L	2013 ^L	2014 ^L	2015 ^P	2016 ^B
	(in trillions of Rupiah)					
Foreign financing:						
Gross drawing:						
Program loan	15.2	15.0	18.4	17.8	55.1	36.8
Project loan	18.5	16.4	36.9	34.8	22.4	38.3
Total gross drawing	33.7	31.4	55.3	52.6	77.5	75.1
On-lending to SOEs and local Government	(4.2)	(3.8)	(3.9)	(2.5)	(1.1)	(5.9)
Amortizations	(47.3)	(51.1)	(57.2)	(62.4)	(66.0)	(68.8)
Total foreign financing (net)	(17.8)	(23.5)	(5.8)	(12.4)	10.4	0.4
Total financing (net)	130.9	175.2	237.4	248.9	318.1	273.2

Source: Ministry of Finance

^L LKPP (Central Government Financial Report/Audited)

^P Preliminary

^B Budget

In 2011, actual central Government expenditure and transfers to regions were Rp1,295.0 trillion, while actual revenue and grants were Rp1,210.6 trillion. The Government financed this deficit of approximately Rp84.4 trillion primarily through net bond issuances of Rp119.8 trillion, domestic bank financing of Rp48.9 trillion and foreign financing from program loans and project loans of Rp33.7 trillion. These were partially offset by the amortization outflow on foreign financings (other than bonds) of Rp47.3 trillion.

In 2012, actual Central Government expenditure and transfers to regions were Rp1,491.4 trillion, while actual revenue and grants were Rp1,338.1 trillion. The Government financed this deficit primarily through net bond issuances of Rp159.7 trillion, domestic bank financing of Rp62.7 trillion and foreign financing from program loans and project loans of Rp31.4 trillion. These were partially offset by the amortization outflow on foreign financings (other than bonds) of Rp51.1 trillion.

In 2013, actual Central Government expenditure and transfers to regions were Rp1,650.5 trillion, while actual revenue and grants were Rp1,438.9 trillion. The Government financed this deficit through net bond issuances of Rp224.7 trillion, domestic bank financing of Rp34.2 trillion and foreign financing from program loans and project loans of Rp55.3 trillion. These were partially offset by the amortization outflow on foreign financings (other than bonds) of Rp57.2 trillion.

In 2014, actual Central Government expenditure and transfers to regions were Rp1,777.2 trillion, while actual revenue and grants were Rp1,550.5 trillion. The Government financed this deficit through net bond issuances of Rp264.6 trillion, domestic bank financing of Rp5.0 trillion and foreign financing from program loans and project loans of Rp52.6 trillion.

In 2015 realization figures, the Central Government's expenditure was Rp1,789.1 trillion, transfer to regions and rural fund was Rp623 trillion hence the total expenditure was Rp1,796.6 trillion. Revenue and grants was Rp1,504.5 trillion and the deficit was Rp292.1 trillion.

Central Government Revenue. The following table sets forth the revenue of the Government by amount and as a percentage of the actual 2014 GDP, projected 2015 GDP (as set forth in the Revised 2015 Budget), the actual 2015 GDP, and 2016 Budget, respectively.

Central Government Revenue

	2014 LKPP		2015 Revised Budget		2015 As of Dec 31		2016 Budget	
	(in trillions of Rupiah)	(percentages of 2014 GDP)	(in trillions of Rupiah)	(percentages of 2015 GDP)	(in trillions of Rupiah)	(percentages of 2015 GDP)	(in trillions of Rupiah)	(percentages of 2016 GDP)
Domestic revenue:								
Tax revenue:								
Domestic tax:								
Income tax:								
Oil and gas	87.4	0.8	49.5	0.4	49.7	0.4	41.4	0.3
Non-oil and gas	458.7	4.4	629.8	5.3	552.6	4.8	715.8	5.6
Total income tax ..	546.2	5.2	679.4	5.7	602.3	5.2	757.2	6.0
Value added tax (VAT)	409.2	3.9	576.5	4.9	423.7	3.7	571.7	4.5
Land and building tax ..	23.5	0.2	26.7	0.2	29.3	0.3	19.4	0.2
Excises	118.1	1.1	145.7	1.2	144.6	1.3	146.4	1.2
Other taxes	6.3	0.1	11.7	0.1	5.6	0.0	11.8	0.1
Total domestic taxes	1,103.2	10.5	1,440.0	12.1	1,205.5	10.4	1,506.6	11.9
International trade taxes:								
Import duties	32.3	0.3	37.2	0.3	31.2	0.3	37.2	0.3
Export tax	11.3	0.1	12.1	0.1	3.7	0.0	2.9	0.0
Total international trade taxes	43.6	0.4	49.3	0.4	34.9	0.3	40.1	0.3
Total tax revenue	1,146.9	10.9	1,489.3	12.5	1,240.4	10.7	1,546.7	12.2
Non-tax revenue:								
Natural resources:								
Oil	139.2	1.3	61.6	0.5	65.4	0.6	60.3	0.5
Gas	77.7	0.7	19.8	0.2	13.0	0.1	18.3	0.1
Total oil and gas	216.9	2.1	81.4	0.7	78.4	0.7	78.6	0.6
General mining	19.3	0.2	31.7	0.3	18.8	0.2	40.8	0.3
Forestry	3.7	0.0	4.7	0.0	4.2	0.0	4.0	0.0
Fishery	0.2	0.0	0.6	0.0	0.1	0.0	0.7	0.0
Geothermal	0.8	0.0	0.6	0.0	0.9	0.0	0.7	0.0
Total non-oil and gas ...	24.0	0.2	37.6	0.3	24.0	0.2	46.3	0.4
Total natural resources	240.8	2.3	118.9	1.0	102.3	0.9	124.9	1.0
Profit transfer from SOEs	40.3	0.4	37.0	0.3	37.6	0.3	34.2	0.3
Other non-tax revenue	87.7	0.8	90.1	0.8	78.5	0.7	79.4	0.6
Public Service Agency (BLU)								
Income ⁽¹⁾	29.7	0.3	23.1	0.2	35.2	0.3	35.4	0.3
Total non-tax revenue	398.6	3.8	269.1	2.3	253.7	2.2	273.8	2.2
Total domestic revenue	1,545.5	14.7	1,758.3	14.8	1,494.1	12.9	1,820.5	14.3
Grants	5.0	0.0	3.3	0.0	10.4	0.1	2.0	0.0
Total revenue and grants	1,550.5	14.7	1,761.6	14.8	1,504.5	13.0	1,822.5	14.3

Source: Ministry of Finance

(1) Includes Government's share of Bank Indonesia profits representing amounts in excess of Bank Indonesia's capital ratio requirements, which excess amounts are transferred to Central Government to be used for repayments of certain Central Government obligations to Bank Indonesia.

The Revised 2015 Budget projected total revenue (including grants) of Rp1,761.6 trillion (equivalent to 14.8% of GDP), compared to real total revenue and grants amounting to Rp1,550.5 trillion (equivalent to 14.7% of GDP) in 2014.

In 2015 realization figures, revenue and grants was equivalent to 13.0% of GDP or Rp1,504.5 trillion.

In the 2016 Budget, total revenue (including grants) is projected to be Rp1,822.5 trillion, consisting of tax revenue of Rp1,546.7 trillion, non-tax revenue of Rp273.8 trillion and grants of Rp2 trillion.

Government Expenditure. The following table sets forth the budgeted expenditure of the Government, by amount and as a percentage of the actual 2014 GDP, projected 2015 GDP (as set forth in the Revised 2015 Budget), the actual 2015 GDP respectively, together with the budgeted expenditure of the Government for the year 2016.

Central Government Expenditure

	2014 LKPP		2015 Revised Budget		2015 As of Dec 31		2016 Budget	
	(in trillions of Rupiah)	(percentages of 2014 GDP)	(in trillions of Rupiah)	(percentages of 2015 GDP)	(in trillions of Rupiah)	(percentages of 2015 GDP)	(in trillions of Rupiah)	(percentages of 2016 GDP)
Central Government expenditures:								
Personnel expenditures	243.7	2.3	293.1	2.5	281.1	2.4	347.5	2.7
Good and services expenditures	176.6	1.7	238.8	2.0	232.4	2.0	325.4	2.6
Capital expenditures	147.3	1.4	275.8	2.3	201.6	1.7	201.6	1.6
Interest payments:								
Domestic debt	118.8	1.1	141.2	1.2	141.9	1.2	168.5	1.3
Foreign debt	14.6	0.1	14.5	0.1	14.1	0.1	16.4	0.1
Total interest payments	133.4	1.3	155.7	1.3	156.0	1.4	184.9	1.5
Subsidies:								
Energy subsidies	341.8	3.2	137.8	1.2	119.1	1.0	102.1	0.8
Non-energy subsidies	50.2	0.5	74.3	0.6	66.9	0.6	80.5	0.4
Total subsidies	392.0	3.7	212.1	1.8	186.0	1.6	182.6	1.4
Grant expenditures	0.9	0.0	4.6	0.0	3.1	0.0	4.0	0.0
Social assistance	97.9	0.9	107.7	0.9	97.0	0.8	54.9	0.6
Other expenditures	11.7	0.1	31.7	0.3	8.9	0.1	24.7	0.2
Total central Government expenditures	1,203.6	11.4	1,319.5	11.1	1,166.2	10.1	1,325.6	10.4
Transfers to Regions and Rural Fund:								
Transfer to Regions Balanced funds:								
General transfer funds:								
Revenue sharing funds	103.9	1.0	110.1	0.9	78.1	0.7	106.1	0.8
General allocation funds	341.2	3.2	352.9	3.0	352.9	3.1	385.4	3.0
Total general transfer funds	445.2	4.2	462.9	3.9	430.9	3.7	491.5	3.9
Specific allocation funds:								
Physical special allocation fund	31.9	0.3	58.8	0.5	54.9	0.5	85.5	0.7
Nonphysical special allocation fund ⁽¹⁾	—	—	—	—	—	—	123.5	1.0
Total specific allocation funds	31.9	0.3	58.8	0.5	54.9	0.5	208.9	1.6
Total balanced funds	477.1	4.5	521.8	4.4	485.8	4.2	700.4	5.5
Regional incentive fund ⁽²⁾	—	—	—	—	—	—	5.5	0.0
Specific autonomy funds	16.1	0.2	17.1	0.1	17.1	0.1	17.2	0.1
Specific Fund for Special Region of Yogyakarta ⁽³⁾	0.4	0.0	0.5	0.0	0.5	0.0	0.5	0.0
Others ⁽⁴⁾	80.1	0.8	104.4	0.9	98.8	0.9	—	—
Total transfer to Regions	573.7	5.4	643.8	5.4	602.2	5.2	723.2	5.7
Rural Fund ⁽⁵⁾	—	—	20.8	0.2	20.8	0.2	47.0	0.4
Total transfers to regions and Rural Fund	573.7	5.4	664.6	5.6	623.0	5.4	770.2	6.1
Suspend ⁽⁶⁾	(0.1)	(0.0)	—	—	—	—	—	—
Total expenditures	1,777.2	16.9	1,984.1	16.7	1,789.1	15.5	2,095.7	16.5

Source: Ministry of Finance

- (1) Classified under Others before 2016 except regional incentive fund.
- (2) Classified under Others before 2016.
- (3) In 2013, the Central Government allocated a specific fund for Yogyakarta's privilege in other expenditures. In 2014, this fund was allocated in special autonomy and adjustment funds as part of transfer to regions.
- (4) Consisted of adjustment funds in 2014. In 2015, consists of nonphysical allocation fund and regional incentive fund.
- (5) Starting from 2015, Central Government allocates funds to the Rural Fund based on law number 6/2015.
- (6) 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 Revised 2015 Budget Expenditure consists of Rp795.5 trillion for ministries and agencies expenditure, Rp643.0 trillion for transfer of funds to regions, Rp20.8 trillion for the Rural Fund, Rp212.1 trillion for subsidies, and Rp31.7 trillion for other expenditures.

The Revised Budget has reflected an improvement of quality expenditure. The bold subsidy reform in early 2015 has resulted in significant amounts of budget which has been relocated to more productive spending, such as infrastructure development, social welfare programs and rural fund transfer. Budget allocation for infrastructure development has increased from Rp177.9 trillion to Rp290.3 trillion or 63.2% compared to that of the 2014 Budget. This was the first time that infrastructure expenditure was bigger than the energy subsidy.

Budget allocation for social programs, which include food security, health and education, increased from Rp68.2 trillion to Rp119.8 trillion, Rp67.5 trillion to Rp77.4 trillion and Rp375.5 trillion to Rp408.5 trillion, respectively, compared to that of the previous year. In addition, the rural fund transfer increased by Rp11.7 trillion.

The 2015 Revised Budget also reflected the commitment of the Government of Indonesia to the decentralization program. It reflected increased transfers to the regions from Rp638 trillion in Budget 2015 to Rp643.8 in the 2015 Revised Budget. Meanwhile, the Central Government budget decreased from Rp1,392.4 trillion to Rp1,319.5 trillion.

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 2014 GDP, the projected 2015 GDP (as set forth in the Revised 2015 Budget), the actual 2015 GDP, together with the budgeted deficit financing of the Government for the projected 2016 GDP.

Deficit Financing

	2014 LKPP		2015 Revised Budget		2015 As of Dec 31		2016 Budget	
	(in trillions of Rupiah)	(percentages of 2014 GDP)	(in trillions of Rupiah)	(percentages of 2015 GDP)	(in trillions of Rupiah)	(percentages of 2015 GDP)	(in trillions of Rupiah)	(percentages of 2016 GDP)
Domestic financing:								
Domestic bank financing	5.0	0.0	4.8	0.0	3.8	0.0	5.5	0.0
Domestic non-bank financing:								
Privatization	0.0	0.0	—	—	—	—	—	—
Assets management	0.5	0.0	0.4	0.0	0.4	0.0	0.3	0.0
Government securities (net) . . .	264.6	2.5	297.7	2.5	362.3	3.1	327.2	2.6
Domestic loans (net)	0.9	0.0	1.7	0.0	0.7	0.0	3.3	0.0
Government investment fund:								
Government investment	—	—	(1.5)	(0.0)	—	—	—	—
Investment revenue	—	—	19.1	0.2	19.1	0.2	—	—
Government capital participation	(5.4)	(0.1)	(70.4)	(0.6)	(70.4)	(0.6)	(48.4)	(0.4)
Revolving fund	(3.5)	(0.0)	(6.1)	(0.1)	(5.4)	(0.0)	(9.2)	(0.1)
PT Inalum acquisition	—	—	—	—	—	—	—	—
Total Government investment fund	(8.9)	(0.1)	(58.8)	(0.5)	(58.1)	(0.5)	(57.6)	(0.5)
Endowment fund for education	—	—	—	—	—	—	(5.0)	(0.0)
Guarantee fund	(1.0)	(0.0)	(0.8)	(0.0)	—	—	(0.9)	(0.0)
Lending to PT PLN	—	—	—	—	—	—	—	—
Bailout Fund For PT Minarak Lapindo Jaya	—	—	(0.8)	(0.0)	(0.8)	(0.0)	—	—
Financing Reserve For BPJS Kesehatan For DJS Kesehatan Program	—	—	(1.5)	(0.0)	(1.5)	(0.0)	—	—
Total domestic non-bank financing	256.2	2.4	237.7	2.0	303.9	2.6	267.3	2.1
Total domestic financing	261.2	2.5	242.5	2.0	307.8	2.7	272.8	2.1
Foreign financing:								
Gross drawing:								
Program loan	17.8	0.2	7.5	0.1	55.1	0.5	36.8	0.3
Project loan	34.8	0.3	41.1	0.3	22.4	0.2	38.3	0.3
Total gross drawing	52.6	0.5	48.6	0.4	77.5	0.7	75.1	0.6
On-lending to SOEs and local Government	(2.5)	(0.0)	(4.5)	(0.0)	(1.1)	(0.0)	(5.9)	(0.0)
Amortizations	(62.4)	(0.6)	(64.2)	(0.5)	(66.0)	(0.6)	(68.8)	(0.5)
Total foreign financing (net)	(12.4)	(0.1)	(20.0)	(0.2)	10.4	0.1	0.4	0.0
Total financing (net)	248.9	2.4	222.5	1.9	318.1	2.8	273.2	2.2

Source: Ministry of Finance

The allocation to energy subsidy in the 2014 Revised Budget has increased from Rp310 trillion to Rp350.3 trillion compared with the previous year, due to an increase in energy consumption, mainly in oil and the depreciation of Rupiah against the Dollar. In the 2015 Revised Budget, there was a significant decrease in energy subsidy from Rp350.3 trillion in the 2014 Revised Budget to Rp137.8 trillion, due to a bold subsidy reform in early 2015 implemented by President Jokowi. This policy has resulted in a significant amount of the budget to be reallocated to more productive spending, such as infrastructure development, social welfare programs and rural fund transfers.

Budget and Taxation Reform

In early 2005, the Government introduced an integrated budgetary system to clarify and focus Government spending decisions and improve efficiency. The Government is currently seeking to make Indonesia's tax administration more "business-friendly" by focusing on transparency and equality of treatment, by simplifying procedures and by setting tax rates that are competitive with those in comparable economies. The Government is also making efforts to strengthen its customs enforcement to curb smuggling activities.

Tax administration reforms have been underway for some time but are now being accelerated. Traditionally, Indonesia's tax office (*Kantor Pelayanan Pajak*) was organized by type of tax. A taxpayer was required to deal separately with tax officials responsible for corporate income tax, VAT, property tax and other types of tax, as applicable. In July 2002, the Minister of Finance implemented Tax Reform Chapter One which was completed in 2008. The reform resulted in modernized and more efficient organizational structures, simplified and transparent business processes, and improved governance in tax offices. Since 2015, the following tax services offices were established: four large tax services offices (*Kantor Pelayanan Pajak (KPP) Wajib Pajak Besar*) 28 medium sized tax services offices (*KPP Madya*) and 309 small tax services offices (*KPP Pratama*). In addition, 207 tax services, dissemination and consultation offices (*Kantor Pelayanan, Penyuluhan dan Konsultasi Perpajakan*) were established to facilitate tax counseling for taxpayers in remote areas. In April the oil and petroleum tax services office (*KPP Minyak dan Gas Bumi*) was established and the non-resident corporate and individual tax office 1 (*KPP Badan dan Orang Asing Satu*) 2 (*KPP Badan dan Orang Asing Dua*) were merged to form the non-resident corporate and individual tax office (*KPP Badan dan Orang Asing*).

In June 2009, the Minister of Finance implemented Tax Reform Chapter Two with a focus on two key aspects, namely, human resources and information and communication technology. This reform was executed through several projects including the reformation of tax policies, the provision of tax incentives through legislative amendments, improving business processes, developing an integrated information system, and enhancing potential tax revenue analyses and capabilities. Through 2009, Tax Reform Chapter Two resulted in the extension of the sunset policy, establishment of a High Wealth Individual Taxpayers Office which in 2012 converted into the Large Taxpayers Office IV, a drop box for tax returns and improvements in the quality of service.

Other initiatives designed to assist taxpayers include simplified VAT audits, refunds for taxpayers who file accurate returns and various reforms designed to improve the quality of taxpayer service, including improving access to information and adopting a taxpayer bill of rights and a tax officer code of ethics. To improve VAT administration in Indonesia, the Directorate General of Taxes implemented a program called the Re-registration of Taxable Enterprise on February 3, 2012 through the Directorate General of Tax Regulation No. PER-05/PJ/2012, as amended by Directorate General of Tax Regulation No. 20/PJ/2012 on Amendment to Directorate General of Tax Regulation No. PER-05/PJ/2012 on Re-registration of Taxable Enterprises. The aim of the program was to ensure that only taxable enterprises that have fulfilled certain requirements can be involved in the VAT collection mechanism. On November 22, 2012, the Directorate General of Taxes also issued Director General of Tax Regulation No. PER-24/PJ/2012, as amended on March 27, 2013 by Director General of Tax Regulation No. PER-08/PJ/2013, which applies stricter controls for the numbering of tax invoices in order to minimize the risk of counterfeit tax invoices that can be used in tax crimes. These two policies have been undertaken in anticipation of the 2014 implementation of the e-tax invoice system. In December 2013, the Minister of Finance Regulation No. 197/PMK.03/2013 on the amendment to the Minister of Finance Regulation No. 68/PMK.03/2010, stipulated that the threshold for a small scale VAT taxable enterprise would increase from Rp600 million to Rp4.8 billion. The new threshold is in line with the Government Regulation No. 46 of 2013 setting out those individuals subject to a final tax of 1.0%.

In relation to the development of the VAT administration system, the Minister of Finance issued the Minister of Finance Regulation No. 151/PMK.03/2013 to implement the use of electronic VAT invoice (e-tax invoice). In 2014, the Director General of Taxes issued further regulations to address the implementation of the

e-tax invoice system. The Director General of Tax Regulation No. PER-16/PJ/2014 regulates the procedures of preparing and reporting the e-tax invoice and mandatory use of e-tax invoice for taxable enterprises appointed by the Directorate General of Taxes starting in July 1, 2014 in the Director General of Tax Regulation No. KEP-136/PJ/2014. The timeline for the mandatory use of e-tax invoices is as follows:

- in July 2014, for 45 taxable enterprises listed in the KEP-136/PJ/2014;
- in July 2015, for other taxable enterprises under the Director General of Taxes Regional Offices in Java and Bali regions; and
- in July 2016, for the remaining and new taxable enterprises.

The Directorate General of Taxes also issued the Director General of Tax Regulation No. PER-17/PJ/2014 as the second amendment to the Director General of Tax Regulation No. PER-24/PJ/2012. The new regulation stipulates that the taxable enterprise can obtain the serial number of tax invoices through a website governed by the Directorate General of Taxes. This can only be done if the taxable enterprise has already obtained the electronic certificate issued by the Directorate General of Taxes. This certificate functions as an authentication for the taxable enterprise to use electronic services provided by the Directorate General of Taxes, i.e. the request for tax invoice serial numbers through DGT-governed website and the application to prepare e-tax invoice.

In March 2010, the Government enacted the Minister of Finance Regulation No. 76/PMK.03/2010 as amended by Minister of Finance Regulation No. 100/PMK.03/2013 on the Second Amendment to the Minister of Finance Regulation No. 76/PMK.03/2010 on the Procedure of Filing and Settlement of VAT Refund for Individual Holding Foreign Passport. This is a tax facility that enables international tourists to claim VAT refunds on goods purchased in stores in Indonesia with the “VAT Refund for Tourist” logo by showing their passport and a valid tax invoice at the airport. This regulation was later amended in 2011 and 2013 to further elaborate on the forms to be submitted for obtaining a refund.

To improve tax collection, the Government is also introducing measures to ensure that all persons and corporations with income levels above the non-taxable income level have taxpayer identification numbers, preparing a database for taxpayer information including income, property and vehicle registration information, and developing an on-line network in cooperation with other institutions. In 2006, the Directorate General of Taxes implemented a program for greater cooperation and coordination with business and professional associations. This program was designed to facilitate data collection and to gain input from these associations in the tax collection process, with the goal of increasing tax revenue.

Consistent with the amendments to applicable income tax regulations, the Government issued Government Regulation No. 52 of 2011 on Second Amendment to the Government Regulation No. 1 of 2007 on Income Tax Facilities for Investment in Certain Business Sectors and/or in Certain Regions to implement income tax incentives for investment in certain sectors and provinces. As stipulated in such laws and regulations, the incentives include:

- an investment allowance of 30% of the total investment, charged over six years i.e. 5% per year;
- accelerated depreciation and amortization of assets through a 50.0% reduction in their useful life and a doubling of the depreciation and amortization rate;
- an extension of loss carry-forward to a maximum of ten years from five years; and
- a reduction in the tax rate on dividend payments to non-residents to 10.0% (or a lower rate if so provided by a tax treaty).

The incentives enumerated above are to be utilized by the taxpayer on realizing a minimum of 80.0% of the investment.

On December 28, 2007, the Minister of Finance adopted a new tax regulation, Government Regulation No. 81 of 2007 on Income Tax Reduction for Public Listed Companies (**GR No. 81 of 2007**), effective January 1, 2008, which reduces the corporate income tax rate of publicly listed companies that meet certain conditions. This GR No. 81 of 2007 was replaced with Government Regulation No.77 of 2013 dated November 21, 2013 as amended by Government Regulation No. 56 of 2015 dated August 4, 2015 (**GR No. 56 of 2015**) that further aligned the 5.0% reduction rate to the new corporate income tax rate introduced by Income Tax Law No. 36 of 2008 as further described below. Under GR No. 56 of 2015, an Indonesian publicly listed company can apply for a 5.0% reduction in its corporate income tax rate if: (i) at least 40.0% of its total paid up shares are traded on the

Indonesian stock exchange; (ii) those shares are owned by at least 300 public shareholders; (iii) each of these public shareholders owns less than 5.0% of its total paid up shares; and (iv) these conditions must be fulfilled for a minimum period of 183 calendar days in a fiscal year.

Law No. 36 of 2008 on the Fourth Amendment to the Law No. 7 of 1983 on Income Tax entered into force on January 1, 2009, amending Income Tax Law no. 17 of 2000. The law aims to simplify the country's tax regulations and broaden the tax base by making it easier for taxpayers to pay their taxes. The amendment implements a single corporate income tax rate of 28.0% in 2009, which was reduced to 25.0% in 2010. It also lowers the highest personal income tax rate from 35.0% to 30.0%, and reduces the number of tax brackets from five to four. The amendments also provide tax incentives for entrepreneurs, small and medium-sized enterprises and non-profit organizations, and donations for education, sports and disaster relief. In addition, the amendments provide lower corporate income tax rate of 20.0% since 2010 for publicly listed companies with 40.0% or more of their shares held by the public and which fulfill other requirements. The Government estimates that these reforms will result in a loss of tax revenue of approximately Rp40.8 trillion in 2009. Although these reforms will reduce revenues in the short term, it is expected that these reforms will, in the medium and long term, stimulate a more competitive and sound economic environment.

Pursuant to Government Regulation No. 16 of 2009 (GR No. 16/2009) relating to Income Tax on Interest Income from Bonds Interest, the applicable income tax rates on interest income from investments in bonds were reduced for certain categories of resident corporate taxpayers. GR No.16/2009 has been amended by Government Regulation No.100 of 2013 issued on December 31, 2013. With the amendment of GR No.16/2009 tax rates on interest income of mutual fund tax payers registered with OJK shall remain at 5.0% income tax rate as of year 2014 until 2020, while a 10.0% rate shall be applicable from year 2021 onward. This amendment is designed to foster the growth of the mutual fund industry.

Director General of Taxes (**DGT**) Regulation No. PER 62/PJ/2009 on the Prevention of Misappropriate Use of Approval of Double Taxation Evasion dated November 5, 2009, as amended by DGT Regulation No. PER-25/PJ/2010 dated April 30, 2010, disallows application of a tax treaty provision if there is evidence of abuse. Abuse may be deemed to have occurred if a transaction is without economic substance and is used merely to obtain a benefit from a tax treaty, if there is a difference between the economic substance and legal form of a transaction and it is used merely to obtain a benefit from a tax treaty, or if the recipient of the income is not the beneficial owner of the income (e.g., it is an agent or nominee). For a company not to be considered as a vehicle for abuse, its establishment must not be solely for utilizing a tax treaty benefit, it must have its own management, it must have employees, it must have an active business, its Indonesian-source income should be subject to income tax in the recipient country and it must not use more than half its income to meet its obligations (e.g., interest, royalty or other compensation) to other parties. Based on these provisions, in the case of offshore bond issuances by Indonesian companies, Indonesian tax authorities are likely to deny the use of special purpose companies to utilize tax treaty benefits, resulting in the application of the regular 20.0% withholding tax to interest payments to Indonesian-owned offshore bond issuers.

Pursuant to the 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 Taxes if the tax withheld is not in accordance with Indonesia's income tax law in force and/or any double taxation treaty.

Pursuant to Minister of Finance Regulation No. 130/2011 as amended by Ministry of Finance No. 192/2014 on Granting of Exemption or Reduction Facility on Income Tax for Legal Entity, income tax exemptions or reduction facilities may be granted to qualified Indonesian legal entities operating in certain industries and with plans for capital investment meeting specific criteria, with due consideration to the competitiveness of the national industries and the strategic value of certain business activities.

The Government seeks to continue to expand the country's tax base by increasing the number of registered taxpayers. The Government has reviewed non-tax databases, including property records and the payrolls of large employers, and had sent notices to individuals it believes to be potential unregistered taxpayers encouraging them to register. If recipients of these notices do not register, they will be subject to higher tax rates than those applicable to registered taxpayers. The Government is also implementing a lower tax rate applicable to a larger number of potential taxpayers, educating the general public on taxation and increasing the public's access to guidance on tax policies and procedures, changes that the Government believes will improve compliance and increase the tax base. Under another program, taxpayers were given a period of 14 months (ending February 2009) to ensure that their tax returns were properly completed and filed, following which the Government has been enforcing penalties on errant taxpayers and has adopted a stricter approach toward them.

In relation to excise policies, the Government seeks to control the consumption of tobacco products and ethyl alcohol (including beverages containing ethyl alcohol) by continuously increasing tariffs on these products. The excise tariff on alcohol was raised by an average rate of 152.0% in 2010, and by an average rate of 8.5% for tobacco products in 2012. In addition, the Directorate General of Customs and Excise works against illegal or counterfeit excise ribbons, and seeks to improve the quality of supervision and enforcement of excise laws and regulations. In May 2012, the Government implemented a graduated progressive CPO export tax structure, with twelve levels of export taxes ranging from nil (if the average price for CPO in Rotterdam, Malaysia, and Indonesia is less than U.S.\$750 per ton) to 22.5% (if the average price for CPO in Rotterdam, Malaysia, and Indonesia is greater than U.S.\$1,250 per ton). The Government revised the export tax structure applicable to exports of CPO and related oil palm products to discourage export of these products and the resulting shortages and increases in prices of cooking oil and palm kernel oil in the domestic markets in response to CPO price increases in world markets.

The domestic tax regime has been significantly improved since the introduction of Law No. 28 of 2009 on Local Taxes and Charges. The Acquisition Duty of Right on Land and Buildings (*Bea Perolehan Hak atas Tanah dan Bangunan* or **BPHTB**) and the Urban-Rural Land and Building Tax (*Pajak Bumi dan Bangunan — Perdesaan dan Perkotaan* or **PBB-P2**) have been transferred from the central to the local governments. Both BPHTB and PBB-P2 were implemented in 2011 and local governments are now required to issue local regulations in order to collect them. The collection and utilization of PBB-P2 is now completely under the purview of local governments. This means that the central Government is only responsible for the collection and utilization of Land and Building Tax in Plantation, Forestry, Mining and other sectors which are not subject to Urban-Rural Land and Building Tax (*Pajak Bumi dan Bangunan Sektor Perkebunan, Perhutanan, dan Pertambangan* or **PBB-P3**).

To assist with the collection and utilization of taxes, the Ministry of Finance issued Regulation No.139/PMK.03/2014 that sets out the classifications and determinations of the sale values of taxable objects to calculate Land and Building Tax on forestry, plantation, mining, and other sectors which are not subject to Urban-Rural Land and Building Tax (*Pajak Bumi dan Bangunan — Perdesaan dan Perkotaan* or PBB-P2).

To implement Law No. 28 of 2009, the Minister of Finance and the Minister of Internal Affairs issued Joint Regulation No. 213/PMK.07/2010 and No. 58 of 2010 on Preparation Phase of Transfer of Tax on Land and Building in Rural and Urban Area as Local Tax. However, the regulation was deemed insufficient to settle the problems arising from the transfer of tax on land and building in rural and urban area. Such problems arose relating to the application services of PBB-P2 which have not been completed prior to December 31, 2013, the receivables of PBB-P2, the completion and follow up on the decisions of claims, appeals, and/or reconsiderations of PBB-P2, and the fact that some local governments have not collected PBB-P2 until January 1, 2014. Thus, to solve these problems, in 2014 the Minister of Finance and Minister of Internal Affairs issued Joint Regulation No. 15/PMK.07/2014 and No. 10 of 2014 on Preparation Phase and Implementation of Transfer of Tax on Land and Building in Rural and Urban Area as Local Tax.

In March 2015, the Minister of Finance issued the Minister of Finance Regulation No. 37/PMK.03/2015 to appoint certain entities to be VAT collectors in addition to the State Owned Entities (SOEs) which have already been appointed as VAT Collectors under Ministry of Finance Regulation No. 136/PMK.03/2012.

As an incentive to taxpayers to pay their tax debts in an effort to increase tax revenue, in March 2015, the Minister of Finance issued Minister of Finance Regulation No. 29/PMK.03/2015. The regulation stipulates that upon request to DGT, taxpayers are granted a writing-off of the administrative sanctions associated with their tax debts arising before January 1, 2015, with the condition that such tax debts are paid prior to January 1, 2016. The Ministry of Finance Regulation Number 91/PMK.03/2015 was issued to incentivize taxpayer compliance with their tax obligations. The regulation provides for the reduction or cancellation of taxpayer's penalties, if as a result of amending their tax return, the taxpayer is due to incur a higher tax liability, tax returns are lodged after the due date; and/or they pay their taxes stated on their tax return after the due date, conducted in the year of 2015.

For a discussion of the Republic's tariff reform measures, see "*Foreign Trade and Balance of Payments — Membership in International and Regional Free Trade Agreements*" and "*— Tariff Reforms.*"

Public Debt

Over the last eight years, Indonesia has made substantial improvement in its public debt management. The reduction of public debt in percentage-of-GDP terms has been a consistent key fiscal policy objective of the Government. To achieve this objective, the Government's policy has emphasized the strengthening of public debt management, the lengthening and balancing of the maturities of public debt and the growth of public debt at sustainable levels. Pursuant to these policies, the Republic successfully reduced its public debt as a percentage of GDP from 39.0% in 2006 to 26.0% of GDP in 2010, 24.3% in 2011 and 24.0% in 2012. In 2013, public debt was 26.2% as a percentage of GDP. Total public debt remained relatively stable at U.S.\$198.9 billion as of December 31, 2011 compared to U.S.\$186.4 billion as of December 31, 2010. As of December 31, 2011, 34.0% of the public debt consisted of loans and 66.0% consisted of securities. As of December 31, 2012, the total public debt was U.S.\$204.28 billion, 31.1% of which consisted of loans and 68.9% of which consisted of securities. As of December 31, 2013, the total public debt was U.S.\$194.5 billion, 30.0% of which consisted of loans and 70.0% of which consisted of securities.

As of December 31, 2014, the total public debt was U.S.\$209.7 billion, 26% of which consisted of loans and 74% of which consisted of securities. As of December 31, 2015, the total public debt was U.S.\$ 224.6 billion, 24.3% of which consisted of loans and 75.7% of which consisted of securities.

Public External Debt of the Republic

Public external debt of the Republic consists of central Government debt (other than public domestic debt) and debt of Bank Indonesia owed to creditors outside Indonesia. The disclosure that follows treats the external debt of Bank Indonesia as part of the Republic's external debt. However, SBI, which are issued by Bank Indonesia in its role as formulator and implementer of the Republic's monetary policy, are not considered liabilities of the Republic. Accordingly, SBI are not reflected in the Government debt discussions in this Offering Memorandum. See "*Financial System — Bank Indonesia*." The discussion of debt of the Republic in this section differs from the discussion of "Government debt" elsewhere in this Offering Circular, 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,				
	2011	2012	2013	2014	2015
	(in billions of U.S. dollars)				
Concessional Loans:					
Multilateral creditors	23.4	23.8	23.6	23.5	26.1
Bilateral creditors	35.7	32.2	27.0	23.1	21.6
Semi-concessional Loans:					
Export agency creditors	8.1	7.0	6.0	5.0	4.0
Leasing	—	—	—	—	—
Commercial ⁽²⁾	22.2	28.0	34.1	39.1	46.9
Total	89.4	91.0	90.7	90.6	98.5
Total public external debt of the Republic, as a percentage of GDP for the period indicated ⁽³⁾	10.5%	10.3%	10.4%	10.7%	12.77%

Source: Ministry of Finance

- (1) Foreign currency values of outstanding external debt have been converted into U.S. dollars at the applicable BI middle exchange rates as of the respective dates indicated.
- (2) Includes securities (bonds and Sukuk) issued in international capital markets and commercial bank borrowings.
- (3) In calculating as a percentage of GDP, GDP in U.S. dollars has been converted from Rupiah into U.S. dollars at the following exchange rates per U.S. dollar: Rp8,997.9 per U.S. dollar for 2010, Rp8,697.1 per U.S. dollar for 2011, Rp9,357.9 per U.S. dollar for 2012, Rp10,431 per U.S. dollar for 2013 and Rp11,742.5 per U.S. dollar for 2014. Exchange rates for 2010 to 2014 were calculated by BPS with reference to the weighted average monthly exchange rates applicable to export and import transactions for each month in a given period.

Public external debt decreased to 10.3% of GDP as of December 31, 2012, compared to 10.5% as of December 31, 2011. Public external debt increased to U.S.\$90.7 billion as of December 31, 2012 from U.S.\$89.4 billion as of December 31, 2011. The increase in public external debt in 2012 was mainly attributable to the depreciation of the Rupiah against the U.S. dollar, the issuance of global bonds and the disbursement of program loans of U.S.\$1.763 billion from the World Bank (U.S.\$903.8 million), ADB (U.S.\$600 million), JICA (U.S.\$200 million) and IDB (U.S.\$59.2 million).

Public external debt increased to 10.4% of GDP as of December 31, 2013, compared to 10.3% as of December 31, 2012. Public external debt decreased to U.S.\$90.7 billion as of December 31, 2013 from U.S.\$91.0 billion as of December 31, 2012. The decrease in public external debt in 2013 was mainly attributable to repayment of concessional loans to bilateral creditors. As of December 31, 2014, public external debt was U.S.\$90.6 billion. Public external debt increased to Rp 98.5 billion (12.77% of GDP) as of December 31, 2015. The increase was mainly due to the increase in commercial debt and the depreciation of the Rupiah the against U.S. dollar.

Sources of Public External Borrowing

The sources of the Republic's public external borrowings are bilateral creditors (which accounted for U.S.\$27 billion, or 29.8%, of the total outstanding public external debt as of December 31, 2013), multilateral creditors (which accounted for U.S.\$23.6 billion, or 26.0%, of the total outstanding public external debt as of December 31, 2013), export agency creditors and commercial creditors (which accounted for U.S.\$40 billion, or 44.2%, of the total outstanding public external debt as of December 31, 2013), including international bondholders (which accounted for U.S.\$34 billion, or 37.6%, of the total outstanding public external debt as of December 31, 2013).

As at October 31, 2014, bilateral creditors of the Republic (accounted for U.S.\$25 billion, or 27.0%, of the total outstanding public external debt), multilateral creditors (accounted for U.S.\$23 billion, or 24.7%, of the total outstanding public external debt), export agency creditors and commercial creditors (accounted for U.S.\$45 billion, or 48.3%, of the total outstanding public external debt), including international bondholders (accounted for U.S.\$39 billion, or 42.3%, of the total outstanding public external debt).

See "*Public Debt — Public External Debt of the Republic.*"

The World Bank and the ADB have been important sources of funds for the Republic, and the Republic has secured substantial commitments from JBIC in recent years. In 2011, the Republic received disbursements of loans from the ADB and World Bank in the amounts of U.S.\$632 million and U.S.\$5,726 million, respectively. In 2012, the Republic received disbursements of loans from the ADB and World Bank in the amounts of U.S.\$808.13 million and U.S.\$1,179.8 million, respectively.

As of September 30, 2011, the Republic's total World Bank and ADB debt outstanding was U.S.\$11.4 billion and U.S.\$10.8 billion, respectively. The World Bank and ADB loans have been used to fund development programs in nearly all sectors of the Indonesian economy. Multilateral lending programs such as those of the World Bank and the ADB are subject to regular compliance reviews.

As of November 30, 2012, the Republic's total World Bank and ADB debt outstanding was U.S.\$12.1 billion and U.S.\$9.8 billion, respectively.

In 2011, the Republic drew down the following program loans: U.S.\$1,010 million from the World Bank, U.S.\$400 million from ADB and U.S.\$100 million from JBIC, respectively.

In 2012, the Republic drew down the following program loans: U.S.\$903.8 million from the World Bank, U.S.\$600 million from ADB and U.S.\$59.2 million from IDB.

As of December 31, 2015, total commitment of multilateral creditors of the Republic accounted for U.S.\$ 11,087.29 million, bilateral creditors accounted for U.S.\$ 8,327.94 million and commercial creditors accounted for U.S.\$ 5,159.91 million.

In 2015, the Republic drew down the following programs loans: U.S.\$ 94.5 million from World Bank, U.S.\$ 800.0 million from ADB, U.S.\$ 100.0 million from AIF, U.S.\$ 150.0 million from AFD and U.S.\$ 245.0 million from KfW.

In 2013, the Republic's drew down the following program loans: U.S.\$800 million from the World Bank, U.S.\$400 million from ADB and U.S.\$361.3 million from JICA (Japan).

As of November 7, 2014, the Republic had drawn program loans of U.S.\$773.84 million from the World Bank and U.S.\$100 million from France, U.S.\$400 million from ADB and U.S.\$200 million from KFW. Starting in 2012, the Republic established new contingency facilities with ADB, the World Bank, JBIC, and the Australian Government for values of U.S.\$500 million, U.S.\$2 billion, U.S.\$1.5 billion, and U.S.\$1 billion respectively. As of June 30, 2014 the Republic has not drawn down on any of these contingency facilities. As of December 31, 2015, the Republic has drawn contingency loans of U.S.\$2 billion from the World Bank and U.S.\$500 million from ADB respectively.

In October and November 2011, the Republic entered into new loans with the World Bank and ADB of U.S.\$790 million and U.S.\$400 million, respectively. The purpose of the new loans is to further support reforms in improving the investment climate, developing infrastructure, strengthening public financial management and enhancing poverty alleviation and service delivery efforts. In 2013, the Republic entered into new commitment loans with the World Bank, ADB and JICA of U.S.\$519.9 million, U.S.\$49.5 million, and JP¥ 18,557 million respectively. The purpose of the new loans is to further support the reforms started in 2011 with respect to improving the investment climate, developing the infrastructure and energy sector, strengthening public financial management and enhancing poverty alleviation and service delivery efforts.

In 2012 and 2013, four development partners (World Bank, ADB, Japan and Australia) committed to provide funds for standby loans to the Republic to enhance the Government's crisis preparedness to address the potential impact of ongoing volatility in financial markets. In 2012, the Republic secured standby loan commitments from the World Bank, ADB, and Japan of U.S.\$2,000 million, U.S.\$500 million and JP¥ 120,000 million respectively. On July 9, 2013, the Republic entered into an agreement with Australia for a commitment of AUD 1000 million.

The Government has expanded its sources of external financing by accessing the international capital markets (including the Islamic financial markets) by issuing securities as follows:

- March 2004, U.S.\$1 billion in 6.75% bonds due 2014 (this represented the first time Indonesia accessed the international capital markets for financing since the onset of the Asian financial crisis);
- April 2005, U.S.\$1 billion in 7.25% bonds due 2015;
- October 2005, U.S.\$900 million in 7.50% bonds due 2016 and U.S.\$600 million in 8.50% bonds due 2035;
- March 2006, U.S.\$1 billion in 6.875% bonds due 2017 and a further U.S.\$1 billion issuance of 8.50% bonds due 2035;
- February 2007, U.S.\$1.5 billion of 6.625% bonds due 2037;
- January 2008, U.S.\$1 billion of 6.875% bonds due 2018 and U.S.\$1 billion of 7.75% bonds due 2038;
- June 2008, U.S.\$0.3 billion of 6.75% bonds due 2014, U.S.\$0.9 billion of 6.875% bonds due 2018 and U.S.\$1 billion of 7.75% bonds due 2038;
- March 2009, U.S.\$1 billion of 10.375% bonds due 2014 and U.S.\$2 billion of 11.625% bonds due 2019;
- April 2009, U.S.\$650 million of 8.80% Islamic trust certificates (Sukuk) due 2014;
- July 2009, JP¥35 billion of 2.73% Samurai bonds due 2019;
- January 2010, U.S.\$2 billion of 5.875% Notes due 2020;
- November 2010, JP¥60 billion of 1.60% Samurai bonds due 2020;
- April 2011, U.S.\$2.5 billion of 4.875% bonds due 2021;
- November 2011, U.S.\$1 billion of 4.00% Islamic trust certificates (Sukuk) due 2018;
- January 2012, U.S.\$1.75 billion of 5.25% bonds due 2042; April 2012, U.S.\$2 billion of 3.75% bonds due 2022 and U.S.\$500 million of 5.25% bonds due 2042 (reopening);
- November 2012, U.S.\$1 billion of 3.3% Islamic trust certificates (Sukuk) due 2022;

- November 2012, JP¥60 billion of 1.13% Samurai bonds due 2022;
- April 2013, U.S.\$1.5 billion 3.375% Notes due 2023 and U.S.\$1.5 billion 4.625% Notes due 2043;
- July 2013, U.S.\$1 billion 5.375% Notes due 2023;
- September 2013, U.S.\$1.5 billion 6.135% Islamic trust certificates (Sukuk) due 2019;
- January 2014, U.S.\$2 billion 5.875% bonds due 2024 and U.S.\$2 billion 6.750% bonds due 2044;
- July 2014, EUR1 billion 2.875% bonds due 2021;
- August 2014, U.S.\$1.5 billion 4.35% Islamic trust certificates (Sukuk) due 2024;
- January 2015, U.S.\$2 billion 4.125% bonds due 2025 and U.S.\$2 billion 5.125% bonds due 2045;
- May 2015, U.S.\$2 billion 4.325% Islamic trust certificates (Sukuk) due 2025;
- July 2025, EUR1.25 billion 3.375% bonds due 2025;
- August 2015, JP¥22.5 billion of 1.08% Samurai bonds due 2018, JP¥22.5 billion of 1.38% Samurai bonds due 2020, and JP¥55 billion of 0.91% Samurai bonds due 2025; and
- December 2015, U.S.\$2.25 billion 4.75% bonds due 2026 and U.S.\$1.25 billion 5.95% bonds due 2046. The purpose of this issuance was to help fund the 2016 Budget (pre-funding).

In January 2007, Indonesia terminated the CGI, a group of donor countries and multilateral institutions, to increase the Republic's autonomy in negotiating bilateral assistance on more favorable terms. Indonesia believes that the former members of the CGI who were its primary creditors (the ADB, World Bank and JBIC) will continue to seek to provide loans to Indonesia. To that end, the Republic has engaged in bilateral dialogue with the ADB, World Bank and JBIC regarding its funding needs and developed a plan for obtaining future financing directly from these institutions in the areas formerly serviced by the CGI.

The Paris Club, an informal intergovernmental forum of official creditors for negotiating debt restructurings, played an important role in easing the Republic's foreign exchange burden in the wake of the Asian financial crisis. Between 1998 and 2000, the Republic twice rescheduled certain payments of its Paris Club foreign debt. Pursuant to an April 2002 agreement, Paris Club debt payments of principal and interest of approximately U.S.\$5.4 billion that were due to certain of the Republic's creditors between April 2002 and December 2003 were rescheduled. As a result of the Government's decision to exit the IMF program in 2003, Indonesia is no longer eligible for debt rescheduling through the Paris Club and the Republic is required to repay its outstanding loans according to their repayment schedules.

As of December 31, 2015, the Republic had made payments totaling U.S.\$6.7 billion towards its Paris Club debt. As of December 31, 2015, Indonesia's remaining Paris Club debt amounted to U.S.\$4.7 billion.

The following table sets forth amounts of international development assistance received by the Republic as of the date indicated.

International Development Assistance⁽¹⁾⁽²⁾

	As of December 31,				
	2011	2012	2013	2014	2015
	(in millions of U.S. dollars)				
Bilateral loans	35,722.4	32,186.2	27,016.6	23,095.7	21,555.9
Multilateral loans:					
International Monetary Fund	—	—	—	—	—
International Bank for Reconstruction and Development	9,606.4	10,463.4	11,335.6	12,176.3	14,380.0
Asian Development Bank	10,798.1	10,379.1	9,387.2	8,630.1	9,193.9
International Development Association	2,273.5	2,208.2	2,097.7	1,879.8	1,677.3
Islamic Development Bank	465.2	526.5	545.1	581.5	643.4
Nordic Investment Bank	32.5	32.4	27.6	21.9	16.7
European Investment Bank	68.2	58.8	48.9	38.5	27.6
International Fund for Agricultural Development	119.5	130.7	137.7	145.2	155.2
Multilateral Investment Guarantee Agency	—	—	—	—	—
Total multilateral loans	23,363.4	23,799.2	23,579.8	23,473.4	26,094.2
Total loans	59,085.8	55,985.4	50,596.4	46,569.1	47,650.0

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 date indicated.

Outstanding External Public Debt of the Republic by Major Currency

	As of December 31, 2013		As of December 31, 2014		As of December 31, 2015	
	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	53,792	53,792	57,081	57,081	68,701	68,701
Japanese yen	2,395,310.4	22,829	2,203,955	18,469	2,126,854.7	17,657
Euros	4,260.0	5,879	5,055	6,150	6,114.3	6,554
SDR	4,516.6	3,183	4,669	2,812	1,802.1	2,499
British pounds	308.0	508	246	383	179.9	267
Others	Multiple currencies	1,536	Multiple currencies	1,825	Multiple currencies	1,581
Total	N/A	87,726	N/A	86,720	N/A	97,258

Source: Bank Indonesia.

- (1) Calculated based on the applicable BI middle exchange rates as of the date indicated for each column.

Fluctuations in exchange rates between the U.S. dollar and foreign currencies have affected, and will continue to affect, the relative composition by currency of the external public debt of the Republic in U.S. dollar terms. From mid-2007 until the end of December 2010, the U.S. dollar has generally depreciated against the Japanese yen, thereby increasing the percentage of the Republic's public external debt represented by Japanese yen-denominated debt during this period. From the end of 2010 until the end of 2012, the U.S. dollar has generally depreciated against the Japanese yen, thereby increasing the percentage of the Republic's public external debt represented by Japanese yen-denominated debt during this period. However, as a result of the

U.S. dollar appreciating against the Japanese yen in 2013, the percentage of the Republic's public external debt represented by Japanese yen-denominated debt has correspondingly decreased during this period.

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

Period	Principal repayment	Interest repayment	Total
	(in millions of U.S. dollars ⁽¹⁾)		
2011	5,218.6	2,914.5	8,133.1
2012	5,316.3	2,938.0	8,254.3
2013	5,368.8	3,156.6	8,525.3
2014	8,221.1	3,256.1	11,477.2
2015	5,925.6	3,328.6	9,254.2
2016	5,771.3	3,417.8	9,189.1
2017	6,672.5	3,193.4	9,865.9
2018	7,932.8	2,977.8	10,910.6
2019	9,177.2	2,655.3	11,832.5
2020	7,833.7	2,272.6	10,106.4
2021	7,887.0	2,036.3	9,923.4
2022	7,350.5	1,825.1	9,175.7
2023	5,758.7	1,653.4	7,412.1
2024	6,166.1	1,457.1	7,623.2
2025	8,165.2	1,197.7	9,362.9
2026	2,019.1	1,020.9	3,040.0
2027	1,721.4	985.5	2,706.9
2028	1,441.6	956.9	2,398.5
2029	1,247.8	934.0	2,181.8
2030	1,193.0	915.3	2,108.3
2031	1,045.5	895.1	1,940.6
2032	1,045.4	877.6	1,923.0
2033	999.1	859.6	1,858.7
2034	668.6	846.3	1,514.9
2035	2,009.9	837.5	2,847.3
2036	267.6	695.4	963.0
2037	1,677.8	641.8	2,319.6
2038	2,110.5	511.9	2,622.4
2039	94.0	432.8	526.8
2040	84.8	431.4	516.2
2041	81.1	430.1	511.2
2042	2,323.1	369.8	2,692.9
2043	1,562.9	275.0	1,837.9
2044	2,055.0	172.0	2,227.0
2045	2,046.3	52.5	2,098.8
2046	34.7	0.6	35.3
2047	20.5	0.3	20.8
2048	12.8	0.2	13.0
2049	7.2	0.1	7.3
2050	3.4	0.1	3.5
2051	2.4	0.0	2.4
2052	0.4	0.0	0.4
2053	0.4	0.0	0.4
2054	0.2	0.0	0.2

Source: Ministry of Finance

(1) Foreign currency values of outstanding external debt have been converted into U.S. dollars at the applicable BI middle exchange rates as of the respective dates indicated.

Fluctuations in exchange rates between the Rupiah and foreign currencies have affected, and will continue to affect, the debt servicing requirements of the external public debt of the Republic in Rupiah terms. In 2011, the Rupiah generally depreciated against the Japanese yen to Rp11,680 per JP¥100 as of December 31, 2011. The

Rupiah further depreciated against the Japanese yen in 2012 to Rp11,197 per JP¥100 as of December 31, 2012. The Rupiah appreciated against the Japanese yen to Rp10,035 per JP¥100 as of June 30, 2013, but then depreciated to Rp11,617 per JP¥100 as of December 31, 2013. The Rupiah appreciated against the Japanese yen to Rp10,424 per JP¥100 as of December 31, 2014. The Rupiah depreciated against the Japanese yen to Rp11,068 per JP¥100 as of December 31, 2015.

In 2011, the Rupiah generally appreciated against the Euro to Rp11,739 per €1 as of December 31, 2011. In 2012 the Rupiah depreciated against the Euro to Rp12,810 per €1 as of December 31, 2012. The Rupiah appreciated against the Euro in the first quarter of 2013 to Rp12,423 per €1 as of March 31, 2013, but then depreciated through the second, third and fourth quarters of 2013 to Rp16,821 per €1 as of December 31, 2013. The Rupiah appreciated against the Euro to Rp15,133 per €1 as of December 31, 2014. The Rupiah appreciated against the Euro to Rp14,869 per €1 as of December 31, 2015.

In 2011, the Rupiah generally depreciated against the U.S. dollar to Rp9,068 per U.S.\$1 as of December 31, 2011. The Rupiah further depreciated against the U.S. dollar in 2012 to Rp9,670 per U.S.\$1 as of December 31, 2012 and continued to depreciate against the U.S. dollar in 2013 to Rp12,189 per U.S.\$1 as of December 31, 2013. The Rupiah further depreciated against the U.S. dollar in 2014 to Rp12,440 per U.S.\$1 as of December 31, 2014. See “*Foreign Exchange and Reserves — Exchange Rates.*” The Rupiah depreciated against the US Dollar in 2015 to 13,392 per U.S.\$1 as of December 31, 2015.

External Debt of Bank Indonesia

In line with the Central Bank Law, Bank Indonesia has the ability to incur external debt primarily to meet balance of payments needs and maintain adequate foreign exchange reserves. As of December 31, 2011, the total outstanding multilateral and commercial external debt of Bank Indonesia was U.S.\$3.5 billion, comprising U.S.\$3.0 billion of multilateral debt and U.S.\$0.5 billion of commercial debt. As of December 31, 2012, the total outstanding multilateral and commercial external debt of Bank Indonesia was U.S.\$3.4 billion, or approximately 2.7% of the Republic’s total public external debt. Total external debt of Bank Indonesia from all sources was U.S.\$9.9 billion as of December 31, 2012. As of December 31, 2013, Bank Indonesia’s outstanding multilateral and commercial debt was U.S.\$3.3 billion. Total external debt of Bank Indonesia from all sources was U.S.\$9.3 billion as of December 31, 2013, or approximately 7.5% of the Republic’s total public external debt. As of December 31, 2014, Bank Indonesia’s outstanding multilateral and commercial debt was U.S.\$3.1 billion. Total external debt of Bank Indonesia from all sources was U.S.\$5.9 billion as of December 31, 2014, or approximately 4.6% of the Republic’s total public external debt.

As of December 31, 2015, the outstanding amount of multilateral and commercial debt was U.S.\$2.9 billion, consisting of U.S.\$2.7 billion of multilateral debt and U.S.\$0.2 billion of commercial debt. Total external debt of Bank Indonesia from all sources was U.S.\$5.3 billion as of December 31, 2015, or approximately 3.7% of the Republic’s total public external debt.

The following table sets forth the outstanding multilateral and commercial external debt of Bank Indonesia by type of credit as of the dates indicated.

Outstanding Multilateral and Commercial External Debt of Bank Indonesia

	As of December 31,				
	2011	2012	2013	2014 ^P	2015 ^P
	(in millions of U.S. dollars ⁽¹⁾)				
Multilateral	3,031	3,053	3,050	2,868	2,747
Commercial ⁽²⁾	490	354	244	223	190
Total	3,521	3,407	3,294	3,092	2,937

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 (2011 — 2018)⁽¹⁾

<u>Period</u>	<u>Principal repayment</u>	<u>Interest repayment</u>	<u>Total</u>
	(in millions of U.S. dollars)		
2011 ⁽²⁾	93.8	15.9	109.6
2012 ⁽²⁾	128.1	9.7	137.8
2013 ⁽²⁾	96.7	5.1	101.8
2014 ⁽²⁾	15.8	3.6	19.3
2015 ⁽²⁾	32.6	2.9	35.5
2016 ⁽³⁾	47.5	3.8	51.4
2017 ⁽³⁾	47.5	3.2	50.7
2018 ⁽³⁾	47.5	2.5	50.0

Source: Bank Indonesia

- (1) The table does not include amounts payable after 2015 in respect of multilateral financing due in 2025 or in respect of other commercial debt maturing after 2015.
- (2) Calculated based on the transaction exchange rate, which is a spot rate used upon settlement.
- (3) Projected, based on debt outstanding and exchange rates as of December 31, 2015.

In order to strengthen its international reserves and support its balance of payments, the Republic has entered into a swap arrangement with ASEAN as well as bilateral swap arrangements with other countries. Bank Indonesia has signed BSAs with Japan, China and the Republic of Korea. The Government expects that these arrangements will contribute to greater financial stability and economic growth in East Asia, including Indonesia. See “*Foreign Exchange and Reserves — Regional Swap Arrangements of the Republic.*”

In order to maintain its balance of payments and short-term liquidity, the Republic has entered into an ASA as well as a BSA with Japan. Aside from the ASA and BSA, Indonesia entered into the CMIM Agreement, an ASEAN+3 reserve pooling arrangement with a total size of U.S.\$240 billion. Under the ASA and BSAs and CMIM Agreements, The equivalent of a total of U.S.\$46.1 billion was available to the Republic as of December 31, 2015. See “*Foreign Exchange and Reserves — Regional Swap Arrangements of the Republic.*”

Ratings History

The following table sets forth changes in the credit ratings of the Republic since 2011.

Sovereign Credit Rating of the Republic⁽¹⁾

<u>Date</u>	<u>Rating agency</u>	<u>Credit rating</u>
May 21, 2015	Standard & Poor's	BB+
April 28, 2014	Standard & Poor's	BB+
May 2, 2013	Standard & Poor's	BB+
April 8, 2011	Standard & Poor's	BB+
January 28, 2016	Moody's	Baa3
January 18, 2012	Moody's	Baa3
January 17, 2011	Moody's	Ba1
November 6, 2015	Fitch	BBB-
November 13, 2014	Fitch	BBB-
November 15, 2013	Fitch	BBB-
November 22, 2012	Fitch	BBB-
December 15, 2011	Fitch	BBB-
February 24, 2011	Fitch	BB+

Source: Bloomberg

- (1) Ratings relate to outstanding bonds and Sukuk.

On January 17, 2011, Moody's upgraded Indonesia's sovereign credit rating from Ba2 to Ba1. Moody's stated that they had upgraded the sovereign credit rating as the momentum in the economy is expected to be sustained by steady domestic demand, a reasonable pace and sequencing of policy and structural reforms, and rising foreign direct investment. Moody's also viewed Indonesia's debt position and reserve adequacy as remaining on an improving trajectory relative to most of its rating peers.

On February 24, 2011, Fitch raised its outlook on Indonesia from stable to positive. Fitch stated that the positive outlook reflects its view that Indonesia's favorable macroeconomic prospects are likely to see the credit profile strengthen further over the next 12 to 18 months, despite near-term risks from inflation and potentially volatile capital flows.

On April 8, 2011, Standard & Poor's raised Indonesia's long-term foreign-currency sovereign credit and debt ratings to BB+ from BB. Standard & Poor's stated that the ratings upgrade reflected continuing improvements in the Government's balance sheet and external liquidity, against a backdrop of resilient economic performance and cautious fiscal management.

On December 15, 2011, Fitch upgraded Indonesia's long-term foreign-currency sovereign credit and debt ratings to BBB- from BB+, the highest level since the Asian financial crisis. Fitch stated that the ratings upgrade reflected Indonesia's strong and resilient economic growth, low and declining public-debt ratios, strengthened external liquidity and a prudent overall macro policy framework. Fitch also stated that the outlook on the rating is stable.

On January 18, 2012, Moody's upgraded Indonesia's long-term foreign and local currency bond rating from Ba1 to Baa3. Moody's stated that the ratings outlook is stable and the rating upgrade reflected the anticipation that the Government's financial metrics will remain in line with Baa peers, Indonesia's strong and resilient economic growth and healthier banking system, the presence of policy buffers and tools that address financial vulnerabilities, Indonesia's healthy external payments position and continued policy flexibility and the adept management of economic risks and global financial market volatility.

On May 2, 2013, Standard & Poor's revised its outlook on the Republic to stable from positive. At the same time, it affirmed the Republic's 'BB+' long-term and 'B' short-term sovereign credit ratings and 'axBBB+/axA-2' ASEAN regional scale rating on Indonesia. Standard & Poor's stated that the outlook revision to stable reflected the stalling of reform momentum in Indonesia and a weaker external profile which had diminished the potential for a rating upgrade over the next 12 months.

On April 28, 2014, Standard & Poor's affirmed the Republic's ratings outlook as stable. At the same time, it confirmed the Republic's sovereign credit rating as BB+. This rating reflected the favorable fiscal and debt metrics and moderately strong growth prospects as against moderately weak institution, low GDP per capita and external vulnerability of the Republic.

On November 13, 2014, Fitch affirmed its sovereign credit rating of the Republic at BBB-/stable outlook (investment grade). The affirmation reflected the authorities' consistency in responding to external and domestic pressure, economic growth, improving current account deficit, as well as strong fiscal balance and a well-capitalized banking sector.

On May 21, 2015, Standard and Poor's revised its outlook on the Republic to positive from stable. In its press release, Standard & Poor's mentioned that the main factor supporting this decision is improvements in Indonesia's policy framework which have enhanced monetary and financial sector management. Greater policy effectiveness and predictability have resulted in expanded fiscal and reserve buffers and improved Indonesia's external resilience.

On November 6, 2015, Fitch affirmed its sovereign credit rating of the Republic at BBB-/stable outlook (investment grade). In its release, Fitch cited four key factors in the decision to affirm the sovereign credit rating of Indonesia, namely relatively stronger and more stable growth compared to peer countries, ongoing structural reforms bolstered by policy packages to invigorate the investment climate, controlled public debt as well as a robust and resilient banking sector.

On January 28, 2016, Moody's Investors Service affirmed the sovereign credit rating of the Republic at Baa3/stable outlook (investment grade level). The key factors supporting the affirmative decision for Indonesia's sovereign credit rating were the government's strong balance sheet against the current backdrop of widening

fiscal deficit and Indonesia's effective policy response to mitigate external risks from lower commodity prices and weaker growth to ensure the sustainability of Indonesia's external payments position. The stable outlook reflects the view that Indonesia remains resilient to current pressure from lower commodity prices and international financial volatility.

External Debt of State-Owned-Enterprises

The following table sets forth the outstanding external debt of state-owned-enterprises as of the dates indicated.

Outstanding Direct External Debt of State-Owned-Enterprises⁽¹⁾

	As of December 31,				
	2011	2012	2013	2014 ^P	2015 ^P
	(in millions of U.S. dollars ⁽¹⁾)				
Financial institutions:					
Bank	2,349	4,036	3,071	4,103	5,657
Non-bank	765	957	797	1,583	2,830
Total financial institutions	3,114	4,993	3,900	5,686	8,488
Non-financial institutions	12,283	14,789	20,806	25,034	24,704
Total	15,397	19,782	24,674	30,720	33,192

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.

External debts of state-owned-enterprises are not direct obligations of the Republic unless such debts are explicitly guaranteed by the Republic. The Republic's general policy is not to guarantee external debt of state-owned-enterprises. However, to encourage investment in infrastructure projects, the Republic has recently adopted a policy of providing credit support with respect to particular projects. See "*Infrastructure Development*" and "*Contingent Liabilities*." As of December 31, 2012, the total outstanding external debt of state-owned-enterprises was U.S.\$19.8 billion, of which U.S.\$14.8 billion was debt of non-financial institutions. Non-financial institutions, primarily in the oil and gas sector, accounted for the largest portion of the outstanding state-owned-enterprises external debt. As of December 31, 2013, the total outstanding external debt of state-owned-enterprises was U.S.\$24.7 billion, an increase of 24.9% from the total outstanding external debt of state-owned-enterprises at the end of 2012. The outstanding state-owned-enterprises external debt was U.S.\$30.7 billion as of December 31, 2014 and U.S.\$33.2 billion as of December 31, 2015.

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,				
	2011	2012	2013	2014	2015
Total domestic public debt, in trillions of Rupiah ⁽¹⁾	992.8	1,096.2	1,264.0	1,477.5	1,740.0

Source: Ministry of Finance

(1) Excludes SBI, which are obligations of Bank Indonesia and not of the Government. See "Financial System — Bank Indonesia."

Prior to 1998, all of the central Government's debt was external and the Government's budget policy only permitted foreign debt and foreign aid for financing the budget deficit. In 1998, however, the Government began issuing domestic debt to finance the restructuring and recapitalization of Indonesia's banks undertaken by the Government following the Asian financial crisis. Currently all of the Government's domestic debt consists of securities. These securities include treasury bonds, which have maturities greater than one year and include fixed

and floating rate bonds and zero coupon securities and Sukuk; treasury bills, which have maturities of one year or less and are issued on a zero coupon basis; and promissory notes to Bank Indonesia, which may be tradable or non-tradable. As of December 31, 2011, the central Government's tradable domestic debt consisted of 18.7% floating rate debt and 81.3% fixed rate debt. As of December 31, 2012, the central Government's tradable domestic debt consisted of 15.0% floating rate debt and 85.0% fixed rate debt and as of December 31, 2013, the central Government's tradable domestic debt consisted of 12.3% floating rate debt and 87.7% fixed rate debt. As of December 31, 2014, the central Government's tradable domestic debt consisted of 10% floating rate debt and 90% fixed rate debt while as of December 31, 2015, it consists of 4.1% of floating rate debt and 95.9% of fixed rate debt. The Government prefers to reduce the portion of its debt which is floating rate in order to protect against rising interest rates.

Since 2008, the proportion of tradable domestic Government bonds held by non-banks has increased significantly, from 46.4% in 2008, to 62.3% in 2011 to 63.1% in 2012, before decreasing to 61.8% in 2013 and increasing again to 65.5% in 2014 and 65.9% as of December 31, 2015. Accordingly, the proportion of such debt held by banks declined from 49.2% in 2008, to 43.7% in 2009 and to 33.9% in 2010. The proportion of such debt held by banks increased to 36.6% and 36.7% in 2011 and in 2012, before decreasing to 33.7% in 2013. As at December 31, 2014 the proportion of debt held by banks was 31% and decreased to 23.9% as of December 31, 2015. In addition, the proportion of tradable domestic Government bonds held by offshore residents increased from approximately 18.6% in 2009 to approximately 30.5% in 2010 and to approximately 30.8% in 2011. The proportion of offshore ownership then increased to 33.0% in 2012, to 32.5% in 2013, to 38.1% as of December 31, 2014, and increase slightly to 38.2% as of December 31, 2015.

Domestic Debt Service Requirements of the Central Government

The following table sets forth the debt service requirements for all public domestic debt of the Government for the years indicated.

Direct Domestic Debt Service Requirements of the Central Government

Period	Principal repayment and redemption	Interest repayment	Total
	(in trillions of Rupiah)		
2011	87.4	65.6	153.0
2012	91.2	62.6	153.8
2013	103.1	98.1	201.2
2014	140.6	94.2	234.9
2015	147.4	111.0	258.4
2016	185.2	116.6	301.7
2017	88.1	109.5	197.6
2018	122.0	102.3	224.3
2019	109.1	94.0	203.1
2020	75.9	88.3	164.2
2021	92.6	82.6	175.2
2022	75.9	74.2	150.1
2023	70.9	69.8	140.8
2024	160.5	61.3	221.7
2025	45.3	54.0	99.3
2026	59.9	51.0	110.9
2027	47.8	45.0	92.8
2028	53.1	40.5	93.7
2029	99.1	34.3	133.4
2030	29.1	29.9	59.0
2031	42.4	26.8	69.2
2032	47.0	21.9	68.9
2033	52.5	18.6	71.1
2034	97.5	13.1	110.6
2035	5.7	9.2	14.9
2036	23.0	8.5	31.5
2037	23.4	7.2	30.6
2038	23.2	6.5	29.8
2039	8.4	4.9	13.2
2040	16.7	4.9	21.6
2041	23.7	3.5	27.2
2042	23.2	2.5	25.7
2043	22.3	1.8	24.1
2044	16.3	0.7	17.0

Source: Ministry of Finance

Domestic Debt Management by the Central Government

Since 2000, the Government has sought to reduce the cost of servicing its domestic debt securities and to manage risks related to such securities such as refinancing risk and interest rate risk. To address these risks, the Government has refinanced maturing bonds with new bonds having appropriately structured maturities, conducted bond exchange offers and engaged in open market repurchases. Between 2000 and 2003, the Government conducted four exchange offers through which it exchanged portions of its portfolio of debt securities. These exchange offers were conducted to extend the average maturity of its outstanding debt securities and to increase liquidity of the securities in the secondary market.

Beginning in 2002, the Government initiated a buy-back program for its domestic debt pursuant to which it repurchases domestic debt securities with proceeds from the liquidation of assets owned or held by IBRA,

proceeds from privatization and divestments of state-owned-enterprises, swaps of IBRA's loan assets conducted through asset-bond swap programs and funds appropriated in the Republic's budget. From 2002 to 2010, bonds amounting to Rp32.2 trillion were repurchased pursuant to the buy-back program. The Government repurchased Government bonds amounting to Rp2.0 trillion in April 2008, Rp0.04 trillion in October 2008, Rp0.3 trillion in November 2008, Rp3.5 trillion in 2011, Rp1.1 trillion in 2012 and Rp1.6 trillion during the six months ended June 28, 2013.

On November 7, 2008, the Minister of Finance issued Minister of Finance Regulation No. 170/PMK.08/2008 governing the regulation, sale and issuance of debt securities in the primary market and their repurchase in the secondary market. The regulation aims to stabilize the Government debt securities market, manage the Government debt securities portfolio, and meet the Government's securities issuance target as provided for under the Government budget. This Regulation was last amended by Minister of Finance Regulation No. 77/PMK.08/2012 which aims at stabilizing the sovereign debt markets through direct transactions and optimizing the deposit surplus in the state treasury. On May 28, 2014 the Minister of Finance issued Minister of Finance Regulation No.95/PMK.08/2014 on Direct Transaction of Sovereign Debt Securities that revoked both Minister of Finance Regulation No. 170/PMK.08/2008 and Minister of Finance Regulation No. 77/PMK.08/2012. This new regulation aims to synchronize the indicators used in direct transactions of sovereign debt securities from previously yield increase to index indicators for the purpose of stabilizing the sovereign debt market.

Under Law No. 24 of 2002 on Government Debt Securities (the **Government Debt Securities Law**), the issuance of debt securities by the Republic requires prior approval of the DPR. According to the Government Debt Securities Law, the DPR approves net additional debt that can be raised by the Government during each fiscal year. This provides the Government with flexibility to issue and buy back Government bonds in any amount, as long as the net additional debt does not exceed the level approved by the DPR. Approval by the DPR is granted when the DPR ratifies the state budget every year. The Government Debt Securities Law also establishes a "standing appropriation", which ensures that all payments of principal and interest for both new, if approved by the DPR, and certain existing debt securities of the Government are provided for without additional legislative action. The Government Debt Securities Law also provides the legal basis for the Government's issuance of debt securities and its development of a Government bond market. In addition, several regulations have been enacted under the Government Debt Securities Law, including regulations on Government securities, information and publicity. The Ministry of Finance and Bank Indonesia have also issued a number of decrees to implement the goals of the Government Debt Securities Law and to encourage the development of primary and secondary markets in domestic Government debt securities.

The Government conducted its first direct Government securities market transaction through its dealing room in December 2009, purchasing Rp10 billion of an illiquid series of Government securities. In 2010, the Government successfully purchased Rp3.2 trillion of total Government securities. The transaction was conducted to promote efficiency in the portfolio management of Government securities through direct repurchase operations via the dealing room and to increase liquidity in the secondary market.

In 2010, through its debt switching program, the Government exchanged Rp2.6 trillion of bonds maturing between 2011 and 2018, thereby further reducing its refinancing risk.

In January, May and June of 2011, the Government, through its debt switching program, exchanged Rp0.6 trillion of bonds maturing between 2011 and 2015 for bonds maturing in 2026.

The Government conducted further debt switching programs in June, July, November and December of 2012 and exchanged Rp11.9 billion of bonds maturing between 2012 and 2017 for bonds maturing in 2027, 2028 and 2032. In 2013, the Government exchanged Rp1.98 billion of bonds maturing in 2013 to 2017 years for bonds maturing in 2018 to 2022. As of December 31, 2014, the Government had undertaken four debt switching programs resulting in the exchange of Rp5.94 trillion of bonds maturing in 2014 and 2019 with bonds maturing in 2019 and 2034. As of December 31, 2015, the Government had undertaken two debt switching programs resulting in the exchange of Rp3.00 trillion of bonds maturing in 2016 and 2019 with bonds maturing in 2021 and 2034.

Development of the Secondary Market for Domestic Securities of the Government

The following table sets forth the average daily trading volume in the domestic Government debt securities market.

Average Daily Trading of Domestic Government Debt Securities

	Year ended December 31,				
	2011	2012	2013	2014	2015
Average daily trading volume (in billions of Rupiah)	7,671	9,389	12,016	17,467	20,257
Average daily number of trades	295	412	407	393	438

Source: Ministry of Finance

To stimulate development of the secondary domestic Government debt securities market, since 2002 the Government has: (i) supported the development of the Inter-Dealer Market Association to facilitate a market-based price-discovery mechanism, (ii) encouraged the development of a repo market for securities lending activities, by implementation of the Master Repo Agreement to enhance market liquidity, (iii) created a benchmark yield curve through regular issuances, (iv) implemented Government securities buy-back (including debt-switching) programs, (v) enhanced the efficiency and reliability of securities clearing, settlement and registry operations and (vi) taken steps to develop a transparent and efficient regulatory framework.

These actions have resulted in an increase in the volume and number of trades in the domestic Government debt securities market. The average daily trading volume of government-issued domestic debt securities increased by 54.6% in 2011, 22.4% in 2012, 28.0% in 2013, 45.4% in 2014 and 12.2% in 2015 (as of December 31, 2015). This increase resulted from large capital inflow to the domestic market and sound fundamental economics.

Government debt securities issued domestically in 1998 and initially held by the banks were recapitalized in the wake of the Asian financial crisis. As of December 31, 2011, non-bank ownership accounted for 62.3% of total domestic tradable Government debt securities. Non-bank ownership accounted for 62.3%, 63.1%, 61.8% and 65.5% and 66.4% of total domestic tradeable Government debt securities as of December 31, 2011, 2012, 2013 and 2014 respectively. Foreign ownership of tradable Government debt securities was 30.8% as of December 31, 2011, to 33.0% as of December 31, 2012 to 32.5% as of December 31, 2013 to 38.1% as of December 31, 2014, to 38.9% as of December 31, 2015.

In March 2007, the Government implemented rules under which only firms meeting specific criteria are eligible to deal in the initial offering of benchmark Government securities with the goal of promoting the domestic sale and liquidity of Government securities. Under the new framework, dealers are required to quote bid and ask prices, with these quotations required to fall within a certain maximum spread. In line with the policy of promoting the trading of Government securities and increasing the types of instruments offered to promote investor demand, cost efficiency and market development, the Government issued 30-year coupon bonds, zero-coupon bonds and treasury bills in 2007 and, in April 2008, began to issue variable rate bonds. In May 2007, all domestic Government securities became eligible for trading on stock exchanges. In April 2008, the Government adopted a regulation changing the tax treatment of the discount on treasury bills. As a result of this new regulation, the discount amount is taxed at the time the treasury bill is sold or redeemed by the initial investor, rather than taxed as a capital gain when the treasury bill is originally issued and purchased by the initial investor as previously treated.

Additionally, in May 2008, Law No. 19 of 2008 on Sovereign Sukuk (*Surat Berharga Syariah Negara*) was enacted. Under this new law, the Government is permitted to issue Sharia-compliant commercial paper or Sukuk. In August 2008, the Government issued its inaugural domestic Sukuk in an aggregate amount of Rp4.7 trillion, namely the Series IFR0001, consisting of Rp2.71 trillion of 11.80% Sukuk due August 15, 2015 and IFR0002, consisting of Rp2.0 trillion of 11.95% Sukuk due August 15, 2018. On February 25, 2009, the Government issued its inaugural domestic retail Sukuk series SR001, with an aggregate amount of Rp5.66 trillion and three-year tenor.

On May 7, 2009 the Government, through a private placement issuance to the Ministry of Religious Affairs, issued Rp1.5 trillion Sukuk *ijara al khadamat*, the series SDH12010A Sukuk. The non-tradable Sukuk was

followed by other issuances of SDH12010B on June 24, 2009, and SDH12010C to an amount of Rp1.19 trillion. Furthermore, in 2009, the Government issued its inaugural domestic Sukuk through auction, namely, the series IFR003 and IFR004 in a total amount of Rp1.28 trillion.

In 2010, the Government issued ten series of Rupiah denominated sovereign Sukuk. On February 10, 2010, the second domestic retail Sukuk SR002 with three-year tenor, was issued successfully to the amount of Rp8.03 trillion at 8.7%. Subsequently, the Government issued four series of Sukuk *ijarah al khadamat* through private placement to the Ministry of Religious Affairs in an aggregate amount of Rp12.78 trillion and five series of Sukuk *ijarah* sales and lease back through auction (one re-opening and four new series) in an aggregate amount of Rp6.15 trillion.

On February 23, 2011, the Government issued the third domestic retail Sukuk series SR003, with an aggregate amount of Rp7.34 trillion at 8.15% and three-year tenor. The Government also issued three series of non-tradable Sukuk through private placement to the Ministry of Religious Affairs in an aggregate amount of Rp11 trillion, consisting three-year series of the series of SDHI2014D, in the amount of Rp6 trillion, SDHI2021A, due April 11, 2021 and SDHI2021B, due October 17, 2021 in the amount of Rp2 trillion and Rp3 trillion, respectively. Subsequently, the Government issued three series of Sukuk *ijarah* sale and lease back through auction, (two re-opening and one new series) in an aggregate amount of Rp4.61 trillion.

In order to develop the Islamic financial market, and particularly to support liquidity management of Islamic banking in Indonesia through investment instrument diversification, the Government issued its inaugural Islamic T-bills on August 4, 2011, namely, the series SPN-S03022012 in a total amount of Rp570 billion. The SPN-S was followed by other issuances, including the series SPN-S24022012 on August 25, 2011 in a total amount of Rp330 billion, and SPN-SI2042012 on October 13, 2011 in a total amount of Rp420 billion. All the SPN-S series have a six-month maturity.

In March 2011, the Indonesian Finance Minister announced that the Government would begin using three-month treasury bills or SPNs as the new reference rate for on-the-run variable rate Government bonds. SBI is no longer used as the reference rate since the country's central bank stopped issuing three-month SBIs early in 2011.

On February 2, 2012 the Government issued, through auction, its first project based Sukuk. The Government projects underlying the Sukuk resulted in the series being named Series PBS002 and Series PBS003, with an aggregate amount of Rp925 billion. Series PBS 001 and the Series PBS004 followed on February 16, 2012. During 2012, the Government issued in total Rp 16.71 trillion under the project based Sukuk Series (PBS001, PBS002, PBS003, and PBS004). The Government continued to issue the SPN-S during 2012 with an issuance totaling Rp1.38 trillion. Starting with the issuance of series SR004 on March 21, 2012, the Government implemented a maximum limit of Rp5 billion per investor per series, to increase participation among retail investors. The total issue amount of SR004 was Rp13.61 trillion. The Government also issued eight series of non-tradable Sukuk through private placement to the Ministry of Religious Affairs in an aggregate amount of Rp15.34 trillion during 2012.

In 2013, the Government continued to issue six series of project-based Sukuk (four series were reopening and two were new issuances) totaling Rp9.32 trillion and the SPN-S totaling Rp11.65 trillion. On February 27, 2013, the Government issued its fifth domestic retail Sukuk series SR005, with an aggregate amount of Rp14.97 trillion at a coupon rate of 6% per annum and a maturity date of February 27, 2016.

On March 5, 2014, the Government issued its sixth domestic retail Sukuk series SR006, with an aggregate amount of Rp19.3 trillion at a coupon rate of 8.75% per annum with a maturity date of March 5, 2017. During 2014, the Government issued Rp9.45 trillion under the project based Sukuk Series (PBS003, PBS005, PBS006, and PBS007). The Government also issued through the SPN-S with issuances totaling Rp16.17 trillion. The Government also issued six series of non-tradable Sukuk through private placement to the Ministry of Religious Affairs in an aggregate amount of Rp12.86 trillion during 2014.

The Government plans to regularly issue these Islamic-based financial market instruments through auction, book-building and private placement. Beside developing the domestic market, the Government has continued to develop the global Islamic financial market through the issuance of standalone sovereign Sukuk in the international market since 2009. Since 2012, the Republic has issued international Sukuk under its Trust Certificate Issuance Program. Total global Sukuk issuance by the Government to date amounts to U.S.\$7.65 billion (of which U.S.\$6 billion is issued under the Trust Certificate Issuance Program) with a total outstanding amount of U.S.\$7 billion.

As of December 31, 2015 the Government had issued in total Rp 47.25 trillion under the project based Sukuk Series (PBS006, PBS007, PBS008, and PBS009). The Government also issued through the SPN-S with issuances totaling Rp 14.3 trillion. The Government also issued eight series of non-tradable Sukuk through private placement in an aggregate amount of Rp 14.84 trillion during 2015. Sukuk issuance in 2015 increased 47% compared to the previous year, representing the Government's commitment in developing the Islamic financial market. The outstanding aggregate face amount of Sukuk issued by the Government was Rp369.18 trillion, consisting of non-tradable Sukuk in an aggregate face amount of Rp57.67 trillion (or 15.62% of the total face amount outstanding).

The Government plans to widen its sources of domestic debt financing through Government Regulation No. 54 of 2008 regarding the Procedure for Withdrawing and On Lending of Domestic Loans by the Government. The regulation facilitates loans from domestic state banks to finance certain projects, to be lent to regional Governments and state-owned-enterprises through a two-step lending mechanism.

Contingent Liabilities

Since 2005, the IDIC has guaranteed third-party deposit in banks in the form of savings account, current accounts, time deposits, certificates of deposits, and other similar types of deposits. Since October 13, 2008, the maximum amount of deposits guaranteed is Rp2 billion for each deposit in one bank. For Sharia-based banks, the IDIC insures Wadiah current accounts, Wadiah savings accounts, Mudharabah savings accounts, Mudharabah time deposits and other similar form of time deposits.

The IDIC was established in September 2005 with initial capital of Rp4 trillion (approximately U.S.\$290.11 million, based on exchange rate at December 31, 2015), provided by the Government. Total assets of the IDIC as of December 31, 2015 were Rp62.10 trillion (approximately U.S.\$4.50 billion). The IDIC Law stated if the IDIC encounters liquidity problems, it may borrow from the Government, and if the IDIC's capital drop below its initial capital, the Government, with DPR's consent, will recapitalize it.

In 2003, the Government provided a liquidity facility to cover any shortfall in servicing liabilities related to Tanjung Jati B, a restructured electric power generation project, which is expected to remain outstanding for the 20-year concession project period. The Government has established a directorate under the Ministry of Finance to manage fiscal risk, including contingent liabilities from infrastructure development and state-owned-enterprises. See "*Infrastructure Development*."

In accordance with Government regulations and presidential decrees issued in 2006 and 2007, the Government has instructed the PLN to accelerate construction of coal power plants with an aggregate capacity of 10,000 MW and the related transmission lines. The estimated total value of the generation and transmission projects is approximately Rp113.9 trillion, of which approximately 85% will be financed by commercial credit. For the commercial credits of the projects the Government provides PLN with a full default risk guarantee on the repayment of principal and interest. Any successful guarantee claim will be paid within 45 days. The Government sets aside a reserve fund in relation to these guarantees. For the reserve, the Government allocated a budget of Rp889 billion in 2011, Rp623.3 billion in 2012, Rp611.21 billion in 2013, Rp913.7 million 2014, and Rp792 million in 2015. Thus far, no guarantee issued under the program has been called. As of September 2015, the outstanding amount of guarantees under this program is Rp15.5 trillion and U.S.\$2.8 billion.

The Government also supports PLN's ability to meet any liabilities from commercial credit for financing the 10,000 MW project. The Government support is an effort by the Government to safeguard PLN from events of default and enhance PLN's soundness. This support is in the form of (i) increasing PLN's margin from 0% to 5.0% in 2009, from 5.0% to 8.0% in 2010; (ii) increasing the electricity tariff in 2010 and an increase to the electricity tariff of approximately 15.0% on average in 2013, which is applied every quarter for customers above 900VA; and (iii) a policy to give a direct soft loan from the Government to PLN valued at Rp7.5 trillion in 2010. PLN's margins did not increase from 2010 to 2011 or 2012 to 2013 and remained at 8.0% in 2011 and at 7.0% in both 2012 and during the six months ended June 30, 2013. PLN's margin decreased from 8.0% to 7.0% from 2011 to 2012. In addition, electricity tariffs did not increase in 2011 or 2012 and the Government did not give direct soft loans to PLN in 2011, 2012 or during the six months ended June 30, 2013. From 2014 to 2016, the Government allocated PLN's electricity subsidy at a margin of 7.0%, by using the "cost plus margin" scheme. To increase accountability and transparency at PLN, the Government intends to implement a new scheme to calculate the electricity subsidy a new regulation to govern the "Performance Based Regulatory" (PBR) scheme. The PBR scheme will replace the "cost plus margin" scheme during the fiscal year 2017.

In order to achieve its Millennium Development Goals in water provision, the Government has agreed to guarantee investment credits of Perusahaan Daerah Air Minum (**PDAM**), local-government-owned water companies. The Government provides partial guarantees for PDAMs that covers 70% of PDAM's principal payment obligations to the lender in the event PDAM defaults. For these guarantees, the Government has also set aside a reserve fund. The Government allocated a budget of Rp15 billion in 2011, Rp10 billion in 2012, Rp35 billion in 2013, Rp2,2 billion in 2014, and Rp1.8 billion in the 2015 for the reserve. Thus far, none of those guarantees has been called. As of September 2015, the outstanding amount of guarantees for the program is Rp156.4 billion.

In 2011, the Government issued a guarantee for Central Java 2 x 1000 MW Steam Power Plant PPP Project using a joint guarantee scheme with the Indonesia Infrastructure Guarantee Fund (**IIGF**) under the Presidential Regulation No. 78 of 2010 regarding Guarantee for Public-Private Partnership Infrastructure Project through Infrastructure Fund. This project is the first large-scale showcase PPP project which is worth more than Rp30 trillion. The guarantee covers specific financial obligations of PLN under a Power Purchase Agreement (**PPA**) with the private developers. This guarantee was expected to become effective in 2013 as the project achieves financial close, but was delayed due to problems in completing the land acquisition which is one of the conditions precedent under the PPA. The target for the effective date of the guarantee has now been extended until April 2016. The Government allocated Rp59.8 billion 2013, Rp48.6 billion 2014, and Rp49.7 in 2015 for reserve fund for the guarantee of this project.

The Government is committed to managing contingent liabilities arising from Government guarantees and has established a designated unit within Ministry of Finance to deal with contingent liabilities. The total reserve fund the Government has set aside for Government guarantees has reached Rp1.7 trillion as of September 2015.

In order to support the infrastructure provision through the PPP scheme, the Ministry of Finance issued the Minister of Finance Regulation No. 223/PMK.011/2012 concerning Construction Cost Contribution for PPP Project (**Viability Gap Fund**). The Viability Gap Fund provided by the Ministry of Finance offers financial support for the PPP projects by assisting with a portion of the construction costs of each PPP project. The objectives of the Viability Gap Fund are: (i) to increase the financial viability of the PPP project; (ii) to increase certainty of the infrastructure project provision in accordance to the planned quality and timing; and (iii) to increase the availability of infrastructure with affordable tariffs for the community. The Government allocated a budget of Rp341 billion in the Revised 2013 Budget and Rp226 billion in the Revised 2014 Budget to support the preparation of two PPP projects.

The Government established the Geothermal Fund Facility to finance geothermal project exploration. The Indonesia Investment Agency (*Pusat Investasi Pemerintah*) has been assigned to manage this fund. The objectives of the Geothermal Fund Facility are: (i) to increase the contribution of renewable energy resources, especially geothermal energy, in the energy mix; and (ii) to make geothermal projects financially viable and bankable by providing exploration data, which is verified by reputable international institutions. The Government allocated Rp1,126.5 billion in the Revised 2011 Budget, Rp876.5 billion in the Revised 2012 Budget and Rp1,126.5 billion in the Revised 2013 Budget for the Geothermal Fund Facility.

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 certain other currencies as of the end of the periods indicated.

Exchange Rates

	Rupiah per U.S. dollar	Rupiah per 100 Japanese yen	Rupiah per Euro	Rupiah per Singapore dollar
2011	9,068	11,680	11,739	6,974
2012	9,670	11,197	12,810	7,907
2013	12,189	11,617	16,821	9,628
2014	12,385	10,364	15,063	9,376
2015	13,392	11,068	14,869	9,791
2016				
January	13,846	11,675	15,139	9,707
February	13,395	11,815	14,647	9,494

Source: Bank Indonesia

In the first half of 2011, the Rupiah appreciated 3.6% to Rp8,597 per U.S. dollar. The strengthening of the Rupiah was closely tied to global investor funds that continued to flow into Asia's emerging markets. In the third quarter of 2011, the Rupiah depreciated by 1.2% to Rp8,940 per U.S. dollar. This was in line with the depreciation of regional currencies closely tied with the prolonged financial crisis in Europe. The Rupiah closed at Rp9,068 per U.S. dollar on December 31, 2011.

In the first half of 2012, the Rupiah depreciated 4.5% to Rp9,480 per U.S. dollar. Pressure on the Rupiah was related to the Eurozone crisis which triggered a higher demand for foreign currency by non-residents for rebalancing their portfolios. Another source of pressure on the Rupiah was the increase in imports in 2012. In the second half of 2012, the Rupiah depreciated 2.0% against the U.S. dollar, closing at Rp9,670 per U.S. dollar on December 28, 2012. The slow global economic recovery and Indonesia's widening current account deficit were the main factors behind the depreciation.

In the first half of 2013, the Rupiah depreciated 2.9% (quarter-to-quarter) to Rp9,925 per U.S. dollar, or on average depreciated by 3.8% (quarter-to-quarter) to Rp9,732 per U.S. dollar. The weakening of the Rupiah during the six months ended June 30, 2013 was consistent with the exchange rate depreciation in the region and, according to Bank Indonesia, was primarily the result of foreign investors adjusting their portfolios in anticipation of the U.S. Federal Reserve changing their monetary stimulus policy. As of December 31, 2013 the Rupiah exchange rate was Rp12,189 to the U.S. dollar. The Rupiah declined approximately 26.9% against the U.S. dollar between December 31, 2012 and December 31, 2013.

In the first half of 2014, the Rupiah appreciated 1.8% to Rp11,969 per U.S. dollar. The appreciation of Rupiah was in line with the appreciation of regional currencies due to an increase in global investors' risk appetite for higher yielding assets. From July 1, 2014 to December 31, 2014, the Rupiah depreciated 3.9% to Rp12,440 per U.S. dollar. Rupiah depreciation was attributed to both external and internal factors, predominantly the slowing down of global and domestic economy.

In the first half of 2015, the Rupiah depreciated 7.1% to Rp13,333 per U.S. dollar, primarily due to investor anticipation of the proposed FFR hike in the United States along with quantitative easing implemented by the European Central Bank and the ongoing fiscal negotiations in Greece. In addition, in line with the market reaction to the devaluation of the Renminbi, nearly all global currencies, including the Rupiah, experienced depreciatory pressures. From July 1, 2015 to September 30, 2015, the Rupiah depreciated 8.9% to Rp14,650 per U.S. dollar. The depreciation was in line with the depreciation of its currency peers and was primarily due to external dynamics related to the increase in the FFR after the improvement in U.S. GDP, as well as the depreciation of the Renminbi and increased demand for the Rupiah domestically in order to service foreign debt which increased the Rupiah overshoot. However, the Rupiah appreciated 4.5% (month-on-month) in October 2015 to Rp13,783 per U.S. dollar on the back of dovish statements from the U.S. Federal Reserve and positive sentiment after the Government launched a series of policy packages to boost economic growth.

After experiencing depreciatory pressures, particularly in third quarter of 2015, Rupiah stabilized and appreciated in the last quarter of 2015. This was in line with the positive sentiment regarding emerging market countries due to the positive announcement relayed at the FOMC, less uncertainty on global financial markets after the U.S. Federal Reserve hiked its Federal Funds Rate on December 17, 2015, greater optimism concerning the domestic economic outlook as the Government introduced a series of policy packages to restructure the economy and Bank Indonesia implemented prudent monetary policy and exchange rate stabilization policy packages. These positive sentiments resulted in non-resident capital flow back into Indonesia in the last quarter of 2015. Overall, Rupiah shows manageable volatility and depreciation compared with peer currencies.

Prudential Policies on Foreign Exchange

Foreign currency is generally freely transferable within or from Indonesia although by recent regulation PBI 17/3/PBI/2015 most domestic transaction are prohibited from using foreign currency. However, to maintain the stability of the Rupiah, and to prevent the utilization of the Rupiah for speculative purposes by foreign parties, the Rupiah is non-internationalized. Regulations prohibit banks from conducting, among others, the following transactions: (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.

To curb speculative derivative transactions that could destabilize the value of the Rupiah, on September 17, 2014 Bank Indonesia implemented new regulations on derivative transactions (Bank Indonesia Regulation No. 16/16/PBI/2014 and Bank Indonesia Regulation No.16/17/PBI/2014). The new regulations prohibit banks from conducting margin trading on foreign currency against the Rupiah and prohibit banks from holding certain derivative transaction positions with their related parties. Bank Indonesia has, however, continued to support investors who hedge their investments in Indonesia through long-term derivative transactions with banks. Bank Indonesia provides this support by relaxing the underlying transactions required to conduct interbank derivative transaction with banks.

Bank Indonesia may request information concerning the foreign exchange activities of all natural persons and legal entities that are domiciled, or plan to domicile, in Indonesia for at least one year. Bank Indonesia regulations also require all resident banks and non-bank financial institutions, as well as companies with total assets or total annual gross revenue over Rp100 billion, to report to it all data concerning their foreign currency activities.

In the third quarter of 2014, Bank Indonesia issued several regulations concerning foreign currency transactions against 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. Therefore, Bank Indonesia strives towards the creation of a liquid, efficient and secure domestic foreign exchange market through amendments to regulations concerning foreign exchange transactions. The latest amendment covers foreign exchange transactions against the Rupiah settled between banks and their domestic customers, banks and a foreign party, as well as banks and Bank Indonesia. The amendment also contains a strategic and comprehensive approach, taking into consideration efforts to bolster economic activity in the real sector and to minimize speculative transactions on the Rupiah. The regulations include the following:

- a. Bank Indonesia Regulation No.16/16/PBI/2014 on Foreign Exchange Transactions against Rupiah with Domestic Parties as amended several times by PBI No. 17/6/PBI/2015, PBI No. 17/13/PBI/2015, and PBI No. 17/15/PBI/2015;
- b. Bank Indonesia Regulation No.16/17/PBI/2014 on Foreign Exchange Transactions against Rupiah with Foreign Parties as amended several times by PBI No. 17/7/PBI/2015, PBI No. 17/14/PBI/2015, and PBI No. 17/16/PBI/2015;
- c. Bank Indonesia Regulation No.16/18/PBI/2014 on Amendment of Bank Indonesia Regulation No. 15/8/PBI/2013 concerning Hedging Transaction to Bank, as partly revoked by Bank Indonesia Regulation No. 18/2/PBI/2016 on Hedging Transaction Based on Sharia Principles with respect to provisions related to Sharia Commercial Banks and Sharia Business Units; and
- d. Bank Indonesia Regulation No.16/19/PBI/2014 on Amendment of Bank Indonesia Regulation No.15/17/PBI/2013 concerning Swap Transaction to Bank Indonesia for Hedging Purpose.

Concerning the regulation on foreign exchange transactions between a bank and its customers (domestic and foreign), Bank Indonesia will promulgate several provisions that summarize and elaborate upon a number of existing regulations regarding foreign exchange transactions amended to provide increased flexibility and a more precise explanation to market participants when conducting foreign exchange transactions. The amendment set forth amongst others, relaxing and clarifying underlying assets, the types of transactions that can be used as an underlying transaction, thresholds for foreign exchange transactions, clarifying netting to settle a transaction, as well as restrictions on extending credit or financing in a foreign currency and/or the Rupiah for derivative transactions.

The amended regulation officially supersedes the following six Bank Indonesia Regulations:

- a. Bank Indonesia Regulation No.10/28/PBI/2008 on the Purchase of Foreign Exchange against the Rupiah to a Bank;
- b. Bank Indonesia Regulation No.10/37/PBI/2008 on Foreign Exchange Transactions against the Rupiah;
- c. Bank Indonesia Regulation No.11/14/PBI/2009 on Amendment of Bank Indonesia Regulation No.10/37/PBI/2008 on Foreign Exchange Transactions against the Rupiah;
- d. Bank Indonesia Regulation No.7/14/PBI/2005 on Restrictions on Rupiah Transactions and the Extension of Foreign Currency Credit by a Bank;
- e. Bank Indonesia Regulation No.14/10/PBI/2012 on Amendment of Bank Indonesia Regulation No.7/14/PBI/2005 on Restrictions on Rupiah Transactions and the Extension of Foreign Currency Credit by a Bank; and
- f. Bank Indonesia Regulation No.16/9/PBI/2014 on Second Amendment of Bank Indonesia Regulation No.7/14/PBI/2005 on Restrictions on Rupiah Transactions and the Extension of Foreign Currency Credit by a Bank.

In 2015, Bank Indonesia amended a number of FX regulations, including Bank Indonesia Regulation No.16/16/PBI/2014 and Bank Indonesia Regulation No.16/17/PBI/2014, in anticipation of the FFR hike and slowing global growth. The amendments are also intended to promote balance in the FX market supply and demand, by tightening the purchasing transaction threshold in the spot market that need to be supported by underlying transaction and relaxing selling transaction thresholds on the forward market that need to be supported by underlying transaction as well as increasing the number of permitted underlying transaction.

The amended regulations include the following:

- a. Bank Indonesia Regulation No.17/6/PBI/2015 on the First Amendment of Bank Indonesia Regulation No.16/16/PBI/2014;
- b. Bank Indonesia Regulation No.17/7/PBI/2015 on the First Amendment of Bank Indonesia Regulation No.16/17/PBI/2014;
- c. Bank Indonesia Regulation No.17/13/PBI/2015 on the Second Amendment of Bank Indonesia Regulation No.16/16/PBI/2014;
- d. Bank Indonesia Regulation No.17/14/PBI/2015 on the Second Amendment of Bank Indonesia Regulation No.16/17/PBI/2014;
- e. Bank Indonesia Regulation No.17/15/PBI/2015 on the Third Amendment of Bank Indonesia Regulation No.16/16/PBI/2014;
- f. Bank Indonesia Regulation No.17/16/PBI/2015 on the Third Amendment of Bank Indonesia Regulation No.16/17/PBI/2014;

New Law No. 7 of 2011, dated June 28, 2011, on Currency has been enacted to ensure the use of Rupiah for every transaction which will be settled inside the jurisdiction of the Republic. This provision, however, does not apply for transactions with respect to the implementation of state budgets, granting or receiving grants (*hibah*) from or to outside the Republic, international trade, bank savings in the form of foreign currency or international financings.

Updates on Monetary Operation Regulations

To achieve the operational target of monetary policy, Bank Indonesia conducts monetary operation by managing liquidity of the banking system, among others. The implementation of monetary operation is regulated

on Bank Indonesia's Regulation No. 12/11/PBI/2010 on July 2, 2010. To enhance domestic economy resilience through liquidity management, Bank Indonesia introduced term deposits in foreign currency which was included in the amendment of BI's Regulation on Monetary Operation with Bank Indonesia Regulation No. 14/5/PBI/2012 on the amendment to Bank Indonesia Regulation No. 12/11/PBI/2010 on Monetary Operation on June 8, 8 2012. On August 27, 2013, Bank Indonesia introduced Bank Indonesia Certificate of Deposit (SDBI) which was promulgated through Bank Indonesia's Regulation No. 15/5/PBI/2013 on the second amendment to Bank Indonesia Regulation No. 12/11/PBI/2010 on Monetary Operation. The introduction of SDBI is expected to strengthen monetary operation and provide more instrument options for banks' daily liquidity management. Moreover, BI has reduced the minimum holding period for SBI, one of monetary operation instruments, from one month to one week and introduced foreign exchange forward auctions.

Along with the enhancing of infrastructure for monetary operation transaction, Bank Indonesia performed the third amendment on BI's Regulation on Monetary Operation in November 2015 (Bank Indonesia Regulation No. 17/20/PBI/2015 regarding Monetary Operation). To give further explanation on the regulation, Bank Indonesia issue circular letter both for monetary operation conducted based on conventional and sharia law

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. Since May 2000, Indonesia has complied with the IMF's new Special Data Dissemination Standard requirement on international reserves and foreign exchange currency liquidity.

Official International Reserves of the Republic

	As of December 31,				
	2011	2012	2013	2014	2015
	(in millions of U.S. dollars, except for months)				
Gold	3,593	3,935	3,023	3,026	2,661
SDRs ⁽¹⁾	2,696	2,715	2,712	2,551	2,442
Reserve position with the IMF	223	224	224	211	202
Foreign exchange ⁽²⁾ and others	103,611	105,907	93,247	106,073	100,626
Total	<u>110,123</u>	<u>112,781</u>	<u>99,386</u>	<u>111,862</u>	<u>105,931</u>
Total as number of months of imports and Government external debt repayments	<u>6.7</u>	<u>6.2</u>	<u>5.5</u>	<u>6.5</u>	<u>7.4</u>

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.

As of December 31, 2011, Indonesia's international reserves increased to U.S.\$110.1 billion due to an increase in oil and gas export receipts and an increase in foreign currency reserve requirements. As of December 31, 2012, Indonesia's international reserves increased to U.S.\$112.8 billion, equal to 6.1 months of imports and Government debt repayments. This increase was in line with the recovery of commodities' prices. Indonesia's foreign exchange reserves decreased to U.S.\$99.4 billion as of December 31, 2013, equal to 5.5 months of imports and Government debt repayments. This decrease in international reserves to U.S.\$99.4 billion as of December 31, 2013, equal to 5.5 months of imports and Government debt repayments, was in line with the pressures on Indonesia's balance of payments, particularly on the capital and financial account side. As of December 31, 2014, Indonesia's international reserves increased to U.S.\$111.9 billion, equal to 6.5 months of imports and Government debt repayments. As of December 31, 2015, Indonesia's foreign exchange reserves decreased to U.S.\$105.9 billion, equivalent to 7.4 months of imports and Government debt repayments.

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 (CMI). The CMI involves an expanded ASA (extending its coverage to all members of ASEAN and increasing the size) and a network of BSAs among ASEAN+3 countries. The objectives of these bilateral swap arrangements are to address short-term liquidity difficulties in the region and to supplement existing international financial arrangements.

The ASA was originally created by five ASEAN member states in 1977 with 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 (**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 (**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, 2015. 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. 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 (**BCSA**) with China amounting to CNY 100 billion/IDR 175 trillion which was signed in 2009 and extended in October 2013 and a BCSA with Korea amounting to KRW 10.7 trillion/IDR 115 trillion which was signed in March 2014. No activation of existing bilateral and regional swap arrangements have been made.

Bank Indonesia signed a bilateral local currency swap agreement with the Reserve Bank of Australia which is effective as of December 15, 2015. The agreement allows for the exchange of local currencies between the two central banks of up to A\$10 billion or IDR 100 trillion. The effective period of the facility will be three years and it could be extended by mutual consent of both sides. This agreement is designed to promote bilateral trade for the economic development of the two countries. In particular, the agreement will ensure that trade between the two countries can continue to be settled in local currency even in times of financial stress. The agreement can also be used for other mutually agreed purposes.

Debt-to-GDP Ratios

The following table sets forth the Republic's debt-to-GDP ratio and debt service to GDP ratio as of the dates indicated.

Debt-to-GDP Ratios

	As of December 31,					
	2011 ^L	2012 ^L	2013 ^L	2014 ^L	2015 ^P	2016 ^B
	(percentages)					
Debt-to-GDP ratio ⁽¹⁾	23.1	23.0	24.9	24.7	26.8	26.9
Debt service to GDP ratio ⁽¹⁾	2.9	3.2	2.9	3.5	3.3	3.6
Debt-to-Export ratio	101.0	113.8	123.1	139.7	165.5	157.7
Total public debt of the central Government (in billion U.S.\$)	199.5	204.5	194.9	209.7	224.6	245.6
— Loans	34.3	31.2	30.1	26.0	24.3	N/A
— Bonds	65.7	68.8	69.9	74.0	75.7	N/A

Source: Ministry of Finance, Bank Indonesia

(1) Outstanding foreign currency debt was converted to Rupiah using the Bank Indonesia middle exchange rate at the end of each period indicated in the table.

^L LKPP (Audited)

^B Budget

^P Preliminary

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%. Unless such profits are reinvested in Indonesia as a founding shareholder in an Indonesian company, as a shareholder in an Indonesian company, acquisition of fixed assets, and acquisition of intangible assets no later than the following fiscal year and other requirements in accordance with the Minister of Finance Regulation No. 14/PMK.03/2011 dated January 24, 2011 concerning Tax Treatment on After Tax Profits of a Permanent Establishment.

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.

Payment of Periodic Distribution Amounts to non-residents will generally be subject to an 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) that is validated by a competent tax authority of the relevant country. (If the withholding tax is payable in Indonesia). For US person, in addition to the form DGT-1 that has been filled in by the recipient of income, a form 6166 issued by the IRS is required to be submitted.

Pursuant to the Minister of Finance Regulation No. 187/PMK.03/2015 dated September 2015, dated January 2, 2013, 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 November 5, 2009, the Directorate General of Tax issued 2 (two) regulations, i.e. the Director General of Tax Regulation (the **DGT Regulation**) No. Per-61/PJ./2009, regarding Procedures for Implementing Double Tax Avoidance Agreements which was amended by the DGT Regulation No. Per-24/PJ/2010 and the DGT Regulation No. Per-62/PJ./2009 regarding Prevention of Double Tax Avoidance Agreements Abuse which was amended by the DGT Regulation No. Per- 25/PJ/2010 (the **Beneficial Owner Regulations**). Under the Beneficial Owner Regulations, if it is determined that:

- a transaction does not have economic substance and is structured with the sole purpose of enjoying tax treaty benefits;
- a transaction is structured such that the legal form is at variance with the economic substance for the sole purpose of enjoying tax treaty benefits; and
- an income recipient is not the beneficial owner of the income (e.g., the income recipient is merely an agent or a nominee or a conduit company),

a taxpayer's entitlement to withholding tax benefits under an applicable tax treaty will be voided and the 20.0% statutory withholding tax rate will be applied.

Under the Beneficial Owner Regulations, a company can avoid such an adverse determination and qualify for benefits allowed under applicable tax treaties if they are able to satisfy all of the following requirements (the **Requirements**):

- the company's incorporation and transactions are not merely aimed at enjoying tax treaty benefits;
- the management of the company has genuine decision-making authority;
- the company has actual employees;
- the company is engaged in genuine business activities;
- any revenue sourced in Indonesia is subject to tax in the country where the recipient of the income is located; and
- the company does not use more than 50.0% of its total income to fulfill obligations to other parties.

For a tax treaty to apply, the foreign income recipient will be required to provide the Indonesian payer of the income with a valid Certificate of Domicile.

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 an 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 treated as bonds as set out in GR 16/2009, the sale of the Certificate can be subject to 15% withholding tax for resident taxpayers, or 20% withholding tax for non-resident taxpayers (or subject to tax treaty application).

If the Certificates are held and owned by a permanent establishment in Indonesia, the permanent establishment shall be taxed on the capital gain at a 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 who is for U.S. federal income tax purposes an individual that is a citizen or resident of the U.S. or a domestic corporation or an estate or trust that otherwise is subject to U.S. federal income taxation on a net income basis in respect of a Certificate (a **United States holder**). 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 United States 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.

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.

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.

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. 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 amended and restated program agreement dated August 15, 2014 (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 US 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.

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 the 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 FSMA) received by it in connection with the issue or sale of the 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 the Certificates in, from or otherwise involving the United Kingdom.

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) other than (A) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; 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 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 Securities and Futures Ordinance 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

This Offering Memorandum has not been and will not be registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Chapter 289 of Singapore (the **SFA**). Accordingly,

each Dealer has represented, warranted and agreed that it has not offered or sold any 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 SFA) pursuant to Section 274 of the SFA, (b) to a relevant person (as defined in Section 275(2) of the SFA) under Section 275(1) of the SFA, or to any person pursuant to an offer referred to in 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 acquired by persons who are relevant persons specified in Section 276 of the SFA, namely:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferable for six months after that corporation or that trust has acquired the Certificates pursuant to an offer made under Section 275 of the SFA except:

- (i) to an institutional investor (under Section 274 of the SFA) or to a relevant person as defined in Section 275(2) of the SFA, or any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights or interest in that trust are acquired at a consideration of not less than S\$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets and further for corporations, in accordance with the conditions specified in Section 275(1A) of the SFA;
- (ii) where no consideration is or will be given for the transfer;
- (iii) where the transfer is by operation of law;
- (iv) pursuant to Section 276(7) of the SFA; or
- (v) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

Brunei

This Offering Memorandum does not, and is not intended to constitute an invitation, offer, sale or delivery of Certificates or other securities in Brunei Darussalam. This Offering Memorandum is not intended to be a prospectus. It is for information purposes only. This Offering Memorandum may not be distributed or redistributed to and may not be relied upon or used by any person in Brunei Darussalam. Any offers, acceptances, subscription, sales and allotments of Certificates, shares or other securities shall be made outside Brunei Darussalam. This Offering Memorandum is neither registered with nor approved by the Brunei Darussalam Registrar of Companies, Registrar of International Business Companies, the Brunei Darussalam Ministry of Finance, the Monetary Authority of Brunei Darussalam and the Sharia Financial Supervisory Board. The Certificates, shares or other securities are not registered, licensed or permitted by the authority designated under the Mutual Funds Order 2001, the Securities Order 2001, the Sharia Financial Supervisory Board or by any other government agency or under any law in Brunei Darussalam.

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. Each Dealer has acknowledged, that the information contained in this Offering Memorandum does not constitute a public offer of securities in the United Arab Emirates in accordance with the Commercial Companies Law (Federal Law 8 of 1984 (as amended)) or otherwise and is not intended to be a public offer and the information contained in this Offering Memorandum is not intended to lead to the conclusion of any contract of whatsoever nature within the territory of the United Arab Emirates.

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 2012 of the Dubai Financial Services Authority (DFSA); and
- (b) made only to persons who meet the Professional Client criteria set out in Rule 2.3.2 of the DFSA Conduct of Business.

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 or Article 11 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 1-28-2008 dated August 18, 2008 (the **KSA Regulations**). Each Dealer has represented and agreed, and each further Dealer appointed under the Program will be required to represent and agree, 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 10 of the KSA Regulations or by way of a limited offer under Article 11 of the KSA Regulations. Each Dealer has represented and agreed, and each further Dealer appointed under the Program will be required to represent and agree, that any offer of Certificates will comply with the KSA Regulations.

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 17 of the KSA Regulations. Any Saudi Investor who has acquired Certificates pursuant to a private placement under Article 10 and/or Article 11 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; (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 17 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, 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 to the public (as defined in Articles 142-146 of the Commercial Companies Law (Decree Law No. 21/2001) of Bahrain) in Bahrain.

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 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, 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 Schedule 6 (or Section 229(1)(b)) and Schedule 7 (or Section 230(1)(b)), read together with Schedule 8 and Schedule 9 or Section 257(3)) of the CMSA, subject to any law, order, regulation or official directive of Bank Negara Malaysia, the 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.

European Union and European Economic Area (excluding the United Kingdom)

No offers or sales of the Certificates may be made in any jurisdiction within the European Union or any member of the European Economic Area other than the United Kingdom.

Switzerland

This Offering Circular 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 Circular 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 Circular 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 Hadiputranto, Hadinoto & Partners, Indonesian counsel to the Arrangers and Dealers and by Allen & Overy LLP, international counsel to the Arrangers and Dealers as to matters of U.S. federal 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 Allen & Overy LLP will rely as to all matters of Indonesian law upon the opinions of Hadiputranto, Hadinoto & Partners and Assegaf Hamzah & Partners.

CLEARANCE AND SETTLEMENT

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear 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. 14 of 2015 on State Budget of 2016 passed on November 25, 2015 and (3) the approval on the use of underlying assets for the issuance of sovereign sukuk from: (i) the Parliament as approved in the Commission XI meeting on October 15, 2015; and (ii) the Minister of Finance on the list of projects of ministries or agencies as underlying assets for the issuance of sovereign sukuk in 2016 on February 19, 2016. 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 will be 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 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.

ISSUER

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