THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QUALIFIED INSTITUTIONAL BUYERS UNDER RULE 144A; OR (2) PERSONS WITH ADDRESSES OUTSIDE OF THE UNITED STATES PURCHASING PURSUANT TO REGULATION S.

IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the Offering Circular dated January 13, 2011 (the "**Offering Circular**") issued in connection with the offering of Series B shares of common stock of par value Rp. 500 per share (the "**Shares**") in PT. Garuda Indonesia (Persero) Tbk. (the "**Company**") and attached to this e-mail. You are advised to read these disclaimer pages carefully before reading, accessing or making any other use of the attached Offering Circular. In accessing the attached Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from us as a result of such access.

IF YOU DO NOT AGREE TO THE TERMS CONTAINED IN THIS NOTICE, YOU SHOULD NOT OPEN THE ATTACHED OFFERING CIRCULAR AND SHOULD DELETE THIS E-MAIL. THIS E-MAIL AND ITS ATTACHMENT ARE PERSONAL TO YOU, ARE CONFIDENTIAL AND MAY ONLY BE READ BY THE ADDRESSEE AND MAY NOT BE REPRODUCED OR REDISTRIBUTED ELECTRONICALLY OR OTHERWISE TO ANY OTHER PERSON.

THIS E-MAIL AND THE ATTACHED OFFERING CIRCULAR MAY NOT BE FORWARDED, TRANSMITTED OR DISTRIBUTED, DIRECTLY OR INDIRECTLY, TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, TRANSMISSION, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE U.S. SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORIZED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED THEREIN.

Confirmation of Your Representation: The attached Offering Circular is being sent to you by Citigroup Global Markets Limited ("**Citigroup**") or UBS AG, Hong Kong Branch ("**UBS**") at your request, and by accepting the e-mail and accessing the attached Offering Circular, you have confirmed that (1) (i) you and any customer you represent are not resident in the United States and, to the extent you purchase Shares described in the attached Offering Circular you will be doing so pursuant to Regulation S under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") **OR** (ii) you are acting on behalf of, or you are, a qualified institutional buyer ("**QIB**"), as defined in Rule 144A under the Securities Act, **AND** (2) that you consent to delivery of the attached Offering Circular and any amendments or supplements thereto by electronic transmission.

The attached Offering Circular has been sent to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission, and consequently none of the Company, the Selling Shareholder (as defined in the attached Offering Circular), Citigroup or UBS, nor any person who controls any of them or any director, officer, employee or agent of any of them, or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Offering Circular distributed to you in electronic format and the hard copy version available to you on request from Citigroup or UBS.

YOU ARE REMINDED THAT THE ATTACHED OFFERING CIRCULAR HAS BEEN DELIVERED TO YOU ON THE BASIS THAT YOU ARE A PERSON INTO WHOSE POSSESSION THE OFFERING CIRCULAR MAY BE LAWFULLY DELIVERED IN ACCORDANCE WITH THE LAWS OF THE JURISDICTION IN WHICH YOU ARE LOCATED. If this is not the case, you must delete this e-mail and destroy any printed copies of the Offering Circular. You may not, nor are you authorized to, deliver the attached Offering Circular or any amendments or supplements thereto to any other person.

Restrictions: The attached Offering Circular is being furnished in connection with an offering exempt from registration under the Securities Act solely for the purpose of enabling a prospective investor to consider the purchase of the Shares described in the Offering Circular.

None of this e-mail, the attached Offering Circular or anything contained in it or them shall form the basis of or be relied upon in connection with any contract or commitment whatsoever. None of the Company, the Selling Shareholder, Citigroup or UBS, nor any person who controls any of them or any director, officer, employee or agent of any of them, or affiliate of any such person accepts any liability whatsoever for any loss howsoever arising from any use of this e-mail or the attached Offering Circular or their respective contents or otherwise arising in connection therewith.

Nothing on this electronic transmission constitutes an offer of securities for sale or invitation, or solicitation of an offer, to subscribe for or purchase any securities in any jurisdiction where it is unlawful to do so. Access to this transmission has been limited so that it shall not constitute a general advertisement or general solicitation (as those terms are used in Regulation D under the Securities Act) or directed selling efforts (within the meaning of Regulation S under the Securities Act) in the United States or elsewhere. The Shares have not been and will not be registered under the Securities Act and may not be offered or sold in the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and any applicable state or local securities laws.

Actions that You May Not Take: You should not reply by e-mail to this announcement, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the “Reply’ function on your e-mail software, will be ignored or rejected.

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

OFFERING CIRCULAR **NOT FOR DISTRIBUTION IN INDONESIA**

Garuda Indonesia

PT. Garuda Indonesia (Persero) Tbk.

(incorporated with limited liability under the laws of the Republic of Indonesia)

6,335,738,000 Offer Shares

Offer Price: Rp. 750 per share

This Offering Circular ("Offering Circular") has been prepared by us in connection with the global offering of 6,335,738,000 Series B shares (the "Offer Shares") of our common stock of par value Rp. 500 per share, of which 4,400,000,000 Offer Shares are being offered by us and 1,935,738,000 Offer Shares are being offered by our selling shareholder, PT Bank Mandiri (Persero) Tbk. (the "Selling Shareholder" or "Mandiri"). The Offer Shares are being offered (i) to eligible investors resident outside of the Republic of Indonesia (the "International Offering"), as described in this Offering Circular; and (ii) in connection with a public offer of shares in the Republic of Indonesia (the "Indonesian Offering"). The International Offering and the Indonesian Offering are collectively referred to as the "Global Offering." The completion of the International Offering and the Indonesian Offering are each conditional upon the completion of the other.

This Offering Circular is being made available with respect to the International Offering only. In connection with the International Offering, Citigroup Global Markets Limited and UBS AG, Hong Kong Branch (the "International Selling Agents"), are soliciting applications from eligible investors resident outside Indonesia on our behalf, on behalf of the Selling Shareholder and on behalf of PT Bahana Securities, PT Danareksa Sekuritas and PT Mandiri Sekuritas (the "Joint Lead Managing Underwriters"). The Indonesian Offering will be conducted by a group of underwriters (the "Underwriters") in Indonesia represented by and including the Joint Lead Managing Underwriters. We have applied to have our shares listed on the Indonesia Stock Exchange (the "IDX") on completion of the Indonesian Offering. The Global Offering is our initial public offering, and no public market currently exists for our shares. The Offer Price may not reflect the market price of the Offer Shares after the closing.

This Offering Circular may only be distributed outside Indonesia to persons who are neither citizens of Indonesia (wherever located) nor residents of Indonesia.

Investing in the Offer Shares involves a high degree of risks. Before purchasing any of the Offer Shares, prospective purchasers should carefully read "Risk Factors" beginning on page 18 of this Offering Circular.

The International Selling Agents expect to deliver the Offer Shares to purchasers on or about February 10, 2011. The Offer Shares will begin trading on the IDX on the listing date, which is expected to be February 11, 2011.

The Offer Shares have not been and will not be registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act"), or any state securities laws of the United States or the securities laws of any jurisdiction other than Indonesia. The Offer Shares may not be offered or sold within the United States unless pursuant to an effective registration statement or applicable exemption from the registration requirements of the U.S. Securities Act and any state securities laws of the United States. The Offer Shares are being offered and sold outside the United States in reliance on Regulation S under the U.S. Securities Act and in the United States only to qualified institutional buyers in reliance on Rule 144A under the U.S. Securities Act. You are hereby notified that sellers of the Offer Shares may be relying on the exemption from the provisions of section 5 of the U.S. Securities Act provided by Rule 144A. The Offer Shares are not transferable except in accordance with certain restrictions on transfer of such shares described under "Transfer Restrictions."

International Selling Agents

citi UBS

Joint Lead Managing Underwriters

PT Bahana Securities **PT Danareksa Sekuritas** **PT Mandiri Sekuritas**

Financial Advisor

ROTHSCHILD

February 9, 2011

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The U.S. Securities and Exchange Commission and state securities regulators have not approved of, disapproved of or recommended the Offer Shares, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the Offer Shares or the accuracy or adequacy of this Offering Circular. Any representation to the contrary is a criminal offence in the United States and may be a criminal offence in other jurisdictions. In addition, the Indonesian Capital Markets and Financial Institution Supervisory Agency (*Badan Pengawas Pasar Modal & Lembaga Keuangan* or "BAPEPAM & LK") does not declare its approval or disapproval of the Offer Shares, nor does it declare the accuracy or adequacy of this Offering Circular. Any statement to the contrary is a violation of Indonesian law. For the purposes of the Indonesian Offering, the formal offering document is the Indonesian prospectus.

This Offering Circular is strictly confidential and has been prepared by us and our Selling Shareholder solely for use in connection with the proposed International Offering. This Offering Circular is personal to each offeree and does not constitute an offer to any person or to the public generally to purchase, or otherwise acquire, the Offer Shares. Distribution of this Offering Circular to any person other than the offeree and those persons, if any, retained to advise such offeree with respect thereto is unauthorized and any disclosure of any of its contents, without our prior written consent, is prohibited. Each prospective purchaser, by accepting delivery of this Offering Circular, agrees to the foregoing and to make no photocopies of this Offering Circular and, if the offeree does not purchase Offer Shares or the International Offering is terminated, to return this Offering Circular to the International Selling Agents.

In making an investment decision, you must rely on your own examination of us and the terms of the International Offering, including the merits and risks involved. By receiving this Offering Circular, you acknowledge that (i) you have been afforded an opportunity to request from us and to review, and have received, all information that you consider necessary to verify the accuracy of the information contained in this Offering Circular, (ii) you have not relied on any of the Underwriters or the International Selling Agents or any person affiliated with any of the Underwriters or the International Selling Agents in connection with your investigation of the accuracy of any information in this Offering Circular or your investment decision, and (iii) no person has been authorized to give any information or to make any representation concerning us or our Selling Shareholder or the Offer Shares other than as contained in this Offering Circular and, if given or made, any such other information or representation should not be relied upon as having been authorized by us or our Selling Shareholder or any of the Underwriters or the International Selling Agents.

No representation or warranty, express or implied, is made by any of the International Selling Agents or the Underwriters as to the accuracy or completeness of the information contained in this Offering Circular. Neither the delivery of this Offering Circular nor the offer of the Offer Shares shall, under any circumstances, constitute a representation or create any implication that there has been no change in our affairs since the date of this Offering Circular or that any information contained herein is correct as of any date subsequent to the date hereof.

Neither we nor our Selling Shareholder nor the International Selling Agents nor the Underwriters, nor any affiliate or representative of us nor any of them, is making any representation to any purchaser of Offer Shares regarding the legality of an investment by such purchaser under applicable laws. In addition, you should not construe the contents of this Offering Circular as legal, business or tax advice. You should be aware that you may be required to bear the financial risks of an investment in the Offer Shares for an indefinite period of time. You should consult with your own advisors as to the legal, tax, business, financial and related aspects of a purchase of Offer Shares.

By receiving this Offering Circular, you acknowledge that the consolidated financial statements it includes have been prepared in accordance with generally accepted accounting principles in Indonesia ("Indonesian GAAP"), which differ in certain significant respects from generally accepted accounting principles in the United States ("U.S. GAAP"), and are subject to Indonesian auditing standards, and are not comparable to the financial statements of a U.S. company prepared under U.S. GAAP or audited under U.S. GAAP. See "Summary of Certain Principal Differences Between Indonesian GAAP and U.S. GAAP."

This Offering Circular does not constitute an offer to sell, or an invitation by or on behalf of us, the Selling Shareholder, the International Selling Agents or the Underwriters or any affiliate or representative of any of us or them to purchase any of the Offer Shares, and may not be used for the purpose of an offer to, or a solicitation by, anyone, in each case, in any jurisdiction or in any circumstances in which such offer or solicitation is not authorized or is unlawful. There are restrictions on the distribution of this Offering Circular and the making of solicitations pursuant thereto in certain jurisdictions, further details of which are set out under "Plan of Distribution" and "Transfer Restrictions." Recipients of this Offering Circular are required to inform themselves about and observe any applicable restrictions.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any U.S. state securities laws and, unless so registered, may not be offered, sold or delivered within the United States or except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable U.S. state securities laws. The International Offering is being made in the United States in reliance on an exemption from registration under the U.S. Securities Act and outside the United States under Regulation S. In making its purchase, each purchaser of the Offer Shares will be required to make or will be deemed to have made certain acknowledgements, representations and agreements. For a description of these and certain further restrictions on offers, sales and transfers of Offer Shares and distribution of this Offering Circular, see "Transfer Restrictions."

Each purchaser of the Offer Shares must comply with all applicable laws and regulations in force in each jurisdiction in which it purchases, offers or sells such Offer Shares or possesses or distributes this Offering Circular and must obtain any consent, approval or permission required by it for the purchase, offer or sale by it of such Offer Shares under the laws and regulations in force in any jurisdictions to which it is subject or in which it makes such purchases, offers or sales and neither we nor our Selling Shareholder nor the International Selling Agents nor any of the Underwriters shall have any responsibility therefor.

NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED KINGDOM

The Offer Shares may not be offered or sold to any person in the United Kingdom, other than to persons whose ordinary activities involve them acquiring, holding, managing or disposing of investments (as principal or 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 or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom.

NOTICE TO NEW HAMPSHIRE RESIDENTS

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

CERTAIN DEFINED TERMS AND CONVENTIONS

We have prepared this Offering Circular using a number of conventions, which you should consider when reading information contained herein.

All references to "our shares", "Shares" or "the Offer Shares" are references to Series B shares of common stock of PT. Garuda Indonesia (Persero) Tbk. par value Rp. 500 per share.

All references to the "Company" are references to PT. Garuda Indonesia (Persero) Tbk.

All references to "we," "us," "our," and "our group" are references to the Company and its subsidiaries taken as a whole.

All references to the "Selling Shareholder" are references to PT Bank Mandiri (Persero) Tbk.

All references herein to "Indonesia" are references to the Republic of Indonesia. References to the "United States" or "U.S." are to the United States of America. All references herein to "Government" are to the Government of the Republic of Indonesia.

Unless otherwise indicated or otherwise required by the context, all references in this Offering Circular to "Rupiah" or "Rp." are to Indonesian Rupiah, the lawful currency of the Republic of Indonesia. References to

"U.S. dollar(s)" or "US$" are to United States dollars, the lawful currency of the United States. References to "JPY" are to Japanese Yen, the lawful currency of Japan.

We use certain terms in this Offering Circular which are used in the Indonesian and global airline industries in Indonesia and in general to analyze airline companies, although they may be defined in different ways. In this Offering Circular, the following key terms have the following meanings:

- "*Aircraft utilization*" means the average number of block hours operated per day per aircraft for the total fleet of aircraft.
- "*AOC*" means an Aircraft Operator Certificate issued by the DGCA.
- "*Available freight ton kilometers*" or "*AFTK*" means the number of kilometers flown multiplied by the number of tons of capacity available for transportation of cargo load.
- "*Available seat kilometers*" or "*ASK*" means the number of seats available for passengers multiplied by the number of kilometers that are flown.
- "*Average fare*" means the average one-way fare paid per flight segment by a revenue passenger.
- "*Average stage length*" means the average number of kilometers flown per flight.
- "*Cargo load factor*" means RFTK as a percentage of AFTK.
- "*Cost per ASK*" means the total cost related to our passenger flight operations (including direct and indirect costs, overhead and fleet costs) as reflected in our accounting records divided by ASK.
- "*DGCA*" means the Indonesian Directorate General Civil Aviation.
- "*domestic passengers*" means the number of outbound domestic passengers.
- "*FSC*" means a full service carrier.
- "*Fuel burn*" means total fuel consumption for all flights during the period.
- "*Fuel burn per ASK*" means fuel burn as a percentage of ASK.
- "*IATA*" means International Air Transportation Association.
- "*ICAO*" means the International Civil Aviation Organization.
- "*international passengers*" means the aggregate of inbound and outbound international passengers.
- "*LCC*" means a low cost carrier.
- "*MRO*" means aviation maintenance, repair and overhaul operations.
- "*NTSC*" means the Indonesian National Transportation Safety Committee.
- "*Passenger load factor*" means RPK as a percentage of ASK.
- "*Revenue freight ton kilometers*" or "*RFTK*" means the number of kilometers flown multiplied by revenue cargo load in tons.
- "*Revenue passenger*" means all passengers who pay more than 20% of the lowest economy fare.
- "*Revenue passenger kilometers*" or "*RPK*" means the number of kilometers flown by revenue passengers.
- "*Scheduled revenue per ASK*" means revenue from scheduled airline services, warehouse rentals, information technology services and training services divided by ASK.

PRESENTATION OF FINANCIAL INFORMATION

Our accounting policies are disclosed in our consolidated financial statements included elsewhere in this Offering Circular, and our audited consolidated financial statements as of and for the years ended December 31, 2007, 2008 and 2009 and as of and for the nine months ended September 30, 2010 have been prepared on a consistent basis. Our unaudited consolidated financial statements as of and for the nine months ended September 30, 2009 have been prepared on a basis consistent with the audited consolidated financial statements and are included elsewhere in this Offering Circular.

Our consolidated financial statements are presented in Rupiah and have been prepared in accordance with Indonesian GAAP, which differ in significant respects from U.S. GAAP. For a summary of certain differences between Indonesian GAAP and U.S. GAAP, see "Summary of Certain Principal Differences Between Indonesian GAAP and U.S. GAAP" included elsewhere in this Offering Circular.

Our reporting currency is Rupiah. Solely for the convenience of the reader, unless otherwise indicated, certain Rupiah amounts in this Offering Circular have been translated to U.S. dollars based on the middle exchange rate announced by Bank Indonesia as of September 30, 2010, which was Rp. 8,924 = US$1.00, with the exception of jet fuel, passenger revenues, passenger yield, scheduled revenue per ASK, cost per ASK, cost per ASK excluding fuel and cargo yield, which have been translated to U.S. dollars, on a monthly basis, using the middle exchange rate announced by Bank Indonesia as of the last day of the previous month. No representation is made that the Rupiah or U.S. dollar amounts referred to in this Offering Circular could have been or could be converted into U.S. dollars or Rupiah, as the case may be, at any particular rate or at all. See "Exchange Rate Information."

Unless otherwise indicated, all amounts in relation to our group presented and discussed in this Offering Circular are presented on a consolidated basis.

INDUSTRY AND MARKET DATA

This Offering Circular includes market share and industry data and forecasts that we have obtained from industry publications and surveys, including reports of governmental agencies and an industry report dated December 20, 2010, that we have commissioned from Strategic Airport Planning Ltd ("The S-A-P Group") on the Indonesian and global airline industries. In particular, market and industry data contained in "Management's Discussion and Analysis of Financial Condition and Results of Operations", "The Airline Industry in Indonesia" and "Business" has been obtained from the abovementioned report prepared by The S-A-P Group, which also references certain other third party sources. Certain industry publications and surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable, but there can be no assurance as to the accuracy or completeness of included information. While we have taken reasonable actions to ensure that the information is extracted accurately and in its proper context, neither we nor our Selling Shareholder nor the International Selling Agents nor the Underwriters, nor our or their affiliates, have independently verified any of the data from third party sources or ascertained the underlying economic assumptions relied upon therein. As a result, you are cautioned against undue reliance on such information.

STATISTICAL DATA AND NON-GAAP FINANCIAL MEASURES

We have included in this Offering Circular various statistical data relating to our business, such as Adjusted EBITDA, Adjusted EBITDAR, RPK, ASK, passenger load factor, passenger yield, scheduled revenue per ASK, cost per ASK, cost per ASK excluding fuel, RFTK, AFTK and cargo load factor. We have described the manner in which we calculated these data in this Offering Circular. This data is derived from management estimates and is not part of our consolidated financial statements and has not been audited or reviewed by auditors, consultants or experts. You should note, however, that other companies in the airline industry may calculate and present these data in a different manner and, therefore, you should use caution in comparing our data with data presented by other companies, as the data may not be directly comparable.

We define Adjusted EBITDA as income (loss) from operations plus depreciation and amortization. We define Adjusted EBITDAR as income (loss) from operations plus depreciation and amortization and aircraft rental expenses incurred in respect of scheduled passenger services. Adjusted EBITDA and Adjusted EBITDAR, as well as the related ratios presented in this Offering Circular, are supplemental measures of our performance that are not required by, or presented in accordance with, Indonesian GAAP or U.S. GAAP. Adjusted EBITDA and Adjusted EBITDAR are not measurements of financial performance or liquidity under Indonesian GAAP or U.S. GAAP and should not be considered as an alternative to net income, operating income or any other performance measures derived in accordance with Indonesian GAAP or U.S. GAAP or as an alternative to cash flow from operating activities as a measure of liquidity. In addition, Adjusted EBITDA and Adjusted EBITDAR are not standardized terms; hence, a direct comparison between companies using such terms may not be possible.

We believe that Adjusted EBITDA and Adjusted EBITDAR facilitate comparisons of operating performance from period to period and company to company by eliminating potential differences caused by variations in capital structures (affecting interest expense and finance charges), tax positions (such as the impact on periods or companies of changes in effective tax rates or net operating losses), the age and booked depreciation and amortization of assets (affecting relative depreciation and amortization of expenses), non-operating income and expenses, extraordinary gains and equity in net income of associates and minority interest. Adjusted EBITDA and Adjusted EBITDAR have been presented because we believe that these measures are frequently used by securities analysts, investors and other interested parties in evaluating similar companies, many of whom present such non-GAAP financial measures when reporting their results. Nevertheless, Adjusted EBITDA and Adjusted EBITDAR have limitations as analytical tools, and you should not consider these measures in isolation from, or as a substitute for, analysis of our financial condition or results of operations, as reported under Indonesian GAAP.

See "Management's Discussion and Analysis of our Financial Condition and Results of Operation — Non-GAAP financial measures" for a reconciliation of our income (loss) from operations under Indonesian GAAP to our definition of Adjusted EBITDA and Adjusted EBITDAR.

AVAILABLE INFORMATION

For so long as our shares remain outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the U.S. Securities Act, we will, during any period in which we are neither subject to Section 13 or 15(d) of the U.S. Exchange Act of 1934, as amended (the "U.S. Exchange Act"), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted securities or to any prospective purchaser of restricted securities who is a "qualified institutional buyer" within the meaning of Rule 144A and designated by the holder or beneficial owner, upon the request of such holder, beneficial owner or prospective purchaser, the information required to be provided by Rule 144A(d)(4) under the U.S. Securities Act. We will furnish annual and interim reports in English and Indonesian languages to our shareholders and the IDX. These reports will include a review of our business and operations and in our annual reports, audited consolidated financial statements which will be prepared in accordance with Indonesian GAAP. We will also furnish to the IDX all notices of shareholders' meetings in English and Indonesian languages that we make available to our shareholders.

ENFORCEABILITY OF CIVIL LIABILITIES AND FOREIGN JUDGMENTS

We are a limited liability company incorporated under the laws of the Republic of Indonesia. All of our commissioners, directors and executive officers reside outside the United States. All or a substantial portion of our assets and the assets of such persons are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon us or such persons or to enforce against us or any of them in the U.S. courts judgments obtained in U.S. courts, including judgments based upon the civil liability provisions of the securities laws of the United States or any state or territory within the United States.

We have been advised by our Indonesian legal counsel, Assegaf Hamzah & Partners, that judgments of U.S. courts based upon the civil liability provisions of the federal securities laws of the United States are not enforceable in Indonesian courts, although such a judgment could be admissible as evidence in a proceeding on the underlying claim in an Indonesian court. There is doubt as to whether Indonesian courts will enter judgments on original actions brought in Indonesian courts based solely upon the civil liability provisions of the federal securities laws of the United States. See "Risk Factors — Risks Relating to an Investment in Our Shares — You may not be able to enforce a judgment of a foreign court against us and it may be difficult or impossible for you to pursue claims relating to the shares in Indonesia."

FORWARD-LOOKING STATEMENTS

This Offering Circular contains "forward-looking" statements that relate to future events, which are, by their nature, subject to significant risks and uncertainties. All statements, other than statements of historical fact contained in this Offering Circular including, without limitation, those regarding our future financial position and results of operations, strategy, plans, objectives, goals and targets, future developments in the markets where we participate or are seeking to participate and any statements preceded by, followed by or that include the words "believe," "expect," "aim," "intend," "will," "may," "project," "estimate," "anticipate," "predict," "seek," "should" or similar words or expressions, are forward-looking statements.

The future events referred to in these forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond our control, which may cause the actual results, performance or achievements, or industry results to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future and are not a guarantee of future performance. Important factors that could cause the actual results, performance or achievements to differ materially from those in the forward-looking statements include, among others, the following:

- general economic, political and business conditions in Indonesia and particularly in the geographic markets we serve, including changes to global, regional or domestic economies affecting our costs of financing and operations;
- our ability to improve aircraft utilization, retain existing and recruit and retain additional pilots and flight attendants, generate sufficient cashflow from operations, and obtain financing for pre-delivery payments for aircraft purchases and capital expenditures to increase our aircraft fleet;
- the price of jet fuel;
- the effects of competition, increases in airline capacity on domestic and international flight routes, and our ability to increase our share of international or domestic passenger traffic for air transport services;
- the effects of changes in Government policies limiting the fares and fuel surcharges that we can charge our passengers, as well as laws and regulations including tariffs, taxation or accounting standards or practices;
- international restrictions on Indonesian airlines, that restrict our ability to fly to certain destinations;
- changes in the value of the Rupiah, the U.S. dollar and other currency changes, including changes in foreign exchange control regulations in Indonesia;
- our level of debt and other fixed obligations;
- changes in Indonesian and international interest rates;
- our fleet expansion plans and changes in the cost of aircraft and aircraft-related equipment that we purchase as part of such plans;
- cyclical and seasonal fluctuations in our operating results;
- demand for airfreight services in Indonesia;
- the ability of third parties to perform in accordance with contractual terms and specifications;
- changes in technology and developments that may significantly affect the airline industry, including failures of automated systems, new aircraft developments and developments in aircraft maintenance and safety systems which could render some of our aircraft or information technology systems less competitive or obsolete;
- failure to negotiate extensions of labor agreements upon expiration;
- environmental liabilities and costs associated with environmental, safety and security measures;
- outcomes of legal and regulatory proceedings in which the Company is involved or may become involved;
- terrorist attacks;
- failures of automated systems and the internet;
- catastrophic events, natural disasters and acts of god affecting business and property; and
- our success at managing the risks of the above factors and the other financial, business and operating risks referred to elsewhere in this Offering Circular.

This list of important factors is not exhaustive. Additional factors that could cause the actual results, performance or achievements to differ materially include, but are not limited to, those discussed under "Risk Factors." When relying on forward-looking statements, you should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which we operate. Such forward-looking statements speak only as of the date on which they are made. Accordingly, we do not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise. We do not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario. Accordingly, you should not place undue reliance on any forward-looking statements.

Summary

This summary highlights selected information from this Offering Circular and may not contain all of the information that may be important to you. You should read this Offering Circular, including our consolidated financial statements and related notes, in its entirety before making an investment decision in the Offer Shares.

PT. GARUDA INDONESIA (PERSERO) TBK.

Overview

We are the state-owned national flag carrier of Indonesia and a leading provider of air passenger, air cargo and airline-related services in Indonesia. We operate major hubs at Soekarno-Hatta International Airport near Jakarta, Indonesia's capital and business center, and Ngurah-Rai International Airport in Denpasar, Bali, Indonesia's major tourist destination, and serve a diverse route network serving 31 domestic and 18 international destinations. We are the only full service carrier licensed in Indonesia, providing FSC services under our Garuda Indonesia brand from our headquarters at Soekarno-Hatta International Airport. In December 2009, we were awarded a four-star rating by *Skytrax*, a research company and owner of a website specializing in the air transport industry, confirming our improvement in product and service quality. In May 2010, we were honored as winner of the Skytrax 2010 "World's Most Improved Airline" award. We also provide LCC services under our separate Citilink brand. Citilink is a separate business unit headquartered in Surabaya, and we expect to transfer the Citilink operations to PT Citilink (Indonesia), a subsidiary formed for that purpose, in the future. We believe that our separate FSC and LCC platforms allow us to better segment our services between our "premium" corporate and private passengers traveling in our business and economy classes, and our more price sensitive "budget" passengers.

With approximately 17,000 islands, of which approximately 6,000 are inhabited, and a growing population currently exceeding 240 million, Indonesia has a natural and increasing requirement for airline services. As of September 30, 2010, approximately 90% of our domestic route network required flights over water. Indonesia's GDP has grown at a CAGR of 3.5% from 2007 through 2009 according to BPS, which has contributed to the development of an emerging middle class. According to BPS, for the nine months ended September 30, 2010, international passenger traffic amounted to approximately 14.1 million passengers, representing an increase of 23.9% as compared to international passenger traffic for the nine months ended September 30, 2009 and domestic passenger traffic for the nine months ended September 30, 2010 amounted to approximately 31.2 million passengers, representing an increase of 21.5% as compared to domestic passenger traffic for the nine months ended September 30, 2009.

We believe that, with our hubs in Jakarta and Denpasar for Garuda and Surabaya for Citilink, and our route network serving major Indonesian urban areas and international destinations, we are well positioned to grow our business and meet increased demand for airline services in Indonesia. As of September 30, 2010, we operated a fleet of 84 aircraft serving 31 domestic and 18 international destinations providing our passengers with FSC and LCC passenger services, as well as cargo services, on direct flights to all major urban areas in Indonesia. As of September 30, 2010, our business unit Citilink, which re-launched in September 2008, operated a fleet of six aircraft providing passengers with LCC services on eight domestic routes within Indonesia. In the nine months ended September 30, 2010, we carried approximately 9.0 million passengers with passenger traffic of approximately 13.4 billion RPK and cargo traffic of approximately 311.4 million RFTK, and in the year ended December 31, 2009, we carried approximately 10.9 million passengers, with passenger traffic of approximately 15.9 billion RPK and cargo traffic of approximately 282.1 million RFTK.

We also provide airline-related services including aircraft maintenance, repair and overhaul (MRO), ground services, reservations and ticketing, and in-flight catering services, as well as travel, tourism and hospitality services. We provide these airline-related and other services in Jakarta, Surabaya, Denpasar and other locations in Indonesia through our business units and our principal subsidiaries: PT Abacus Distribution Systems Indonesia, PT Aero Wisata, PT. Garuda Maintenance Facility Aero Asia and PT Aero Systems Indonesia and our associated company PT Gapura Angkasa.

Our total operating revenues were Rp. 12,685.1 billion (US$1,421.5 million) for the nine months ended September 30, 2010 and Rp. 17,860.4 billion (US$2,001.4 million), Rp. 19,349.7 billion and Rp. 14,042.4 billion for the years ended December 31, 2009, 2008 and 2007. Our Adjusted EBITDAR was Rp. 2,243.4 billion (US$251.4 million) for the nine months ended September 30, 2010 and Rp. 3,796.8 billion (US$425.5 million), Rp. 3,399.0 billion and Rp. 2,446.2 billion for the years ended December 31, 2009, 2008 and 2007. Our net income was Rp. 194.9 billion (US$21.8 million) for the nine months ended September 30, 2010 and

Rp. 1,018.6 billion (US$114.1 million), Rp. 975.0 billion and Rp. 152.7 billion for the years ended December 31, 2009, 2008 and 2007.

Recent Developments

Our financial condition and results of operations for the three-month period ended December 31, 2010 have been adversely affected including by two extraordinary events that occurred in November 2010.

During November and December 2010, frequent volcanic eruptions from Mount Merapi and Mount Bromo, two of Indonesia's most active volcanoes, led to flight restrictions in Indonesian airspace. As a result, we were required to cancel approximately 180 flights to and from certain destinations including Yogyakarta, Jakarta and other locations in Central Java. We were also required to re-route flights (and increase flight distances) to certain other destinations in Indonesia and abroad in order to circumvent the volcanic ash. Such flight cancellations negatively impacted our passenger revenues and passenger volumes and the re-routing of flights increased our jet fuel and other flight operations expenses for the three-month period ended December 31, 2010. See "Risk Factors — Risks Relating to Indonesia — Indonesia is located in a volcanically active zone and is subject to significant seismic risk that could disrupt our operations."

On November 21, 2010, we encountered disruption for a three-hour period during the process of migrating data from our old operational management system to our new Integrated Operational and Control System ("IOCS"). Although we restored the IOCS to operation on November 21, 2010, during the period of November 21-23, 2010, due to human error, flight crew schedules continued to be printed and distributed to flight crew ground transportation units using inaccurate data from the old operational management system. As a result, during the period of November 21-23, 2010, certain flight crews did not arrive for scheduled departures, approximately 180 flights were cancelled and we were required to shutdown our reservations system to avoid taking new passenger reservations. Such flight cancellations and the shutdown of our reservations system during this period negatively impacted our passenger revenues and passenger volumes for the three-month period ended December 31, 2010. The Company's corporate security team, together with LAPI Institut Teknologi Bandung, subsequently conducted an investigation to identify the cause of the outage in the IOCS. This investigation indicated that the Company does not currently have an adequate network management system which can oversee all network traffic or provide early fault detection in the IOCS. We plan an upgrade to our management information systems to improve our ability to oversee network traffic and perform early fault detection. See "Risk Factors — Risks Related to Our Business — We rely heavily on automated systems to operate our business and our failure to maintain and upgrade these systems could harm our business."

Key Investment Highlights

Indonesia is a fast growing and diverse air travel market

With approximately 17,000 islands, of which approximately 6,000 are inhabited, and a growing population currently exceeding 240 million, Indonesia has a natural and increasing requirement for airline services. As of September 30, 2010, approximately 90% of our domestic route network required flights over water, which we believe limits risk of substitution by other modes of transportation. Indonesia's GDP has grown at a CAGR of 3.5% from 2007 through 2009 according to BPS, which has contributed to the development of an emerging middle class and growing demand for air travel services. Indonesia has also recently undergone a period of regionalization that has devolved political power from the national capital in Jakarta to the capitals of the 33 provinces around Indonesia. As a result, contributions to GDP growth have been spread across the archipelago, with East Indonesia being a particular focus of additional investment, thereby increasing demand for air travel from the provincial capitals. We currently serve 31 destinations in the 33 provinces of Indonesia. According to BPS, domestic passenger traffic increased from approximately 31.2 million passengers in the year ended December 31, 2007 to approximately 35.7 million passengers in year ended December 31, 2009, representing a CAGR of 4.6%. Indonesia benefits from proximity to key financial centers in the fast growing Asian region, with approximately one-half of the world's population located within 6 hours flight time from Jakarta according to The S-A-P Group. Indonesia also benefits from a growing tourism industry in Bali and elsewhere in the archipelago. We believe that international traffic is roughly divided between Indonesian citizens traveling overseas and foreign visitors to Indonesia. According to BPS, international passenger traffic increased from approximately 12.6 million passengers in the year ended December 31, 2007 to approximately 15.8 million passengers in the year ended December 31, 2009, representing a CAGR of 7.8%.

Route network leader in the Indonesian aviation market

We have an extensive operating history as the national flag carrier, providing international and domestic airline services in Indonesia since 1950, and having flown over 80 million passengers in the last ten years. We are also the only domestic FSC in Indonesia. Operating from our hubs at Soekarno-Hatta International Airport near Jakarta, Indonesia's capital and business center, and Ngurah-Rai International Airport in Denpasar, Bali, Indonesia's major tourist destination, we have a diverse route network serving 31 domestic and 18 international destinations. According to The S-A-P Group, during September 2010, our market share of domestic seats for flights departing from Indonesia was 23.1%, our market share of international seats for flights departing from Indonesia was 15.5% and we served more destinations than any other Indonesian airline operator. As the only FSC and a route network leader in the Indonesian aviation market, we believe that we are well positioned to meet increased demand among premium and budget passengers for direct flights to destinations within Indonesia, as well as direct flights to and from overseas destinations.

Strong domestic brand recognition and customer loyalty to leverage for future growth

We believe that our Garuda Indonesia brand, established in 1950, enjoys strong recognition in the domestic market. Among others, we have recently been awarded "Indonesia's Most Admired Company" and "The Best in Building and Managing Corporate Image" by Bloomberg BusinessWeek (2010), "World's Most Improved Airline" by Skytrax (2010), "Airline Turnaround of the Year" by the Centre of Asia-Pacific Aviation (2010) and "Indonesia Customer Satisfaction Award" by Frontier Consulting and SWA Magazine (2009) and "Airline of the Year 2009" by Angkasa Magazine. Based on surveys conducted by the Center of Asia-Pacific Aviation, Garuda Indonesia ranked first in service quality when measured against three Skytrax five-star airlines, Singapore Airlines, Cathay Pacific and Malaysia Airlines, and two Skytrax four-star airlines, Bangkok Airways and Thai Airways. In December 2010, we were ranked as the sixth "Most Favorite Company in Indonesia" by Warta Ekonomi Magazine. We also believe that we enjoy strong customer loyalty among premium passengers in the domestic market. Our Garuda Frequent Flyer Program ("GFF") had approximately 435,000 members enrolled as of September 30, 2010. GFF members collectively accounted for 28.8% of total passengers for the nine months ended September 30, 2010. As of September 30, 2010, we had established corporate sales programs with approximately 1,000 businesses in Indonesia, including many Indonesian state-owned enterprises, providing an additional source of premium passengers. In 2010, we introduced "Immigration and Visa On-Board" for advance immigration clearance prior to arrival for international passengers on certain select flights into Soekarno-Hatta International Airport. We also believe that our on-time performance, an important factor in customer satisfaction and brand reputation, compares favorably to our competitors, particularly in the Indonesian domestic market. We believe that, as a result of our strong domestic brand recognition and customer loyalty, we are well positioned to increase our number of passengers in both domestic and international markets.

Flexibility of separate FSC and LCC businesses

We have established Citilink with a separate headquarters and management team located in Surabaya operating on an LCC business model focused on routes with low yield and high density. As of September 30, 2010, Citilink operated five Boeing 737-300 and one Boeing 737-400 aircraft, staffed by 45 pilots and 64 flight attendants. For the nine months ended September 30, 2010, Citilink's cost per ASK was U.S. cents 4.9, as compared to Garuda's cost per ASK of U.S. cents 6.8, which includes the cost per ASK of our LCC Citilink business, for the same period. We believe that our separate FSC and LCC operating models allow us to offer FSC services to premium and budget passengers on routes with high yield, while also offering LCC services to budget passengers on routes with low yield and high density. We also believe that the flexibility afforded to us by our separate FSC and LCC businesses allows us to achieve market segmentation on high density routes and contributes to yield protection as we expand our FSC Garuda Indonesia business, while simultaneously allowing us to capture growth in the price sensitive LCC market.

Highly skilled and experienced management with a proven track record

We believe that our management team has the skills and experience to continue to develop and grow our business within the Indonesian airline industry. Among others, our management has recently been awarded "Good Corporate Governance Award" from SWA Magazine and the Indonesia Institute for Corporate Governance and "Best of The Best CEO" by Warta Ekonomi Magazine (2009). Our management, with a blend of both airline industry and broader industry experience, has a proven track record of restructuring our operations and generating a return to profit during the global recession of 2008-2009, which was a particularly difficult period for FSCs in the global aviation industry. Our management has established a culture of meritocracy, with strong focus on recruitment, training, retention and motivation of flight crew and other key personnel. As of September 30, 2010, the average experience of our pilots was 22 years. We believe that the skill and experience of our management provides us with a solid foundation to pursue our growth strategy.

Business Strategy

We believe that our strategy positions us to capitalize on continued growth in the Indonesian aviation market. The key elements of our strategy include:

Optimize our FSC Garuda Indonesia business to leverage growth in domestic demand

We intend to optimize our FSC Garuda Indonesia business by increasing fleet flexibility and extending our route network in order to leverage the growth in demand for airline travel in our domestic market, which we believe will increase as GDP levels in Indonesia continue to rise and the cost of travel in real terms declines. As the only domestic FSC in Indonesia, we intend to introduce a fleet of up to 18 sub-100 seat aircraft by 2015 to serve routes with high yield and lower density, particularly at smaller regional airports, expanding our point-to-point network and linking our hubs to tourism destinations in Indonesia. Although we have not ordered these sub-100 seat aircraft, we believe that these aircraft will increase our ability to match capacity to demand on lower density routes that cannot be served profitably by either a standard configuration FSC aircraft or an LCC. We also plan to extend our route network to serve all provincial capitals within Indonesia and thereby benefit from continued regionalization, serve smaller tropical tourist destinations developing beyond the popular Bali destination, and to opportunistically provide direct flights bypassing domestic hubs. We also plan to implement a customer relationship management (CRM) system to increase our percentage of flights by GFF members and to upgrade and improve our revenue management system to achieve increased price segmentation for premium and budget passengers reservations in our FSC Garuda Indonesia business and our passenger service solutions system to centralize and improve our selling channels and increase our internet booking capacity for direct customer sales. We believe that these systems upgrades will optimize pricing discretion between our regional offices and central revenue management personnel, thereby maintaining and increasing passenger yield and passenger load factor in our FSC Garuda Indonesia business.

Continue to improve our FSC Garuda Indonesia business and expand and strengthen our international business and brand

We intend to expand our FSC international route network as opportunities arise to provide direct international flights from Indonesia that bypass international hub airports to new destinations such as India, Taiwan and the Philippines, while at the same time adding flight frequencies on existing profitable routes. We have commitments for 10 Boeing 777 aircraft to be delivered between 2013 and 2016 that will allow us to replace our Boeing 747 aircraft and increase our direct flights to long-range international destinations, as well as our seating capacity on flights to regional destinations. Once ordered and put into service, we would also expect our new sub-100 seat aircraft class to retain the same look and feel as our full service airline, albeit on a smaller scale. We also plan to initiate international services from three regional centers in Indonesia (Medan, Makassar and Balikpapan), in order to establish market share at those destinations prior to these airports opening to our competitors under the ASEAN “Open Skies” liberalization in 2015. We also intend to become a member of a global airline alliance within the next two years, and increase our codeshare arrangements, to allow us to better expand our reach to new international destinations that cannot be profitably served by direct flights from Indonesia.

Strengthen our brand in the international market

We plan to focus on consistency in our product services and continue to develop and leverage our unique “Garuda Indonesian Experience” program to distinguish our FSC services from our competitors, provide our Indonesian passengers with a familiar onboard culture and to introduce our foreign passengers to Indonesian culture and hospitality, and thereby strengthening our brand in the international market while continuing to reinforce our strong brand position domestically. As our newly ordered aircraft come into service, we believe that our increasingly younger aircraft fleet will afford our passengers a fresher in-flight offering and more satisfying customer experience. We are one of only two Indonesian carriers with IOSA safety certification and, building on the recent award of a Skytrax four-star rating, we plan to make investments in new cabin interiors, upgraded in-flight entertainment systems and re-design web-based and online customer interfaces. Our strategy for our brand will be focused on our “Garuda” brand which is synonymous with Indonesian culture and hospitality.

Exploit our LCC Citilink business for improved market segmentation within our FSC Garuda Indonesia business

We intend to utilize our LCC to exploit opportunities to serve price-sensitive budget passengers on domestic and regional routes with low yield and high density in a manner that protects the profitability of our FSC Garuda Indonesia business. We have established Citilink with a separate headquarters and separate management team in Surabaya, East Java in order to enhance its ability to develop a distinct LCC business platform emphasizing simple, efficient and friendly service meeting the basic travel needs of budget passengers. Citilink currently serves eight domestic destinations with 6 Boeing 737 aircraft and we intend to expand the Citilink fleet to include up to 25 aircraft by 2015. While we seek to differentiate Citilink with separate branding and service culture, we also believe that Citilink benefits from Garuda's domestic reputation for safety and reliability. We intend to utilize our LCC Citilink business to capture growth in LCC budget passenger numbers on domestic routes with low yield and high density, thereby defending against price erosion among our FSC premium and budget passengers on the same routes. We also intend to utilize our LCC Citilink business to open new international routes with low yield and high density that cannot be profitably served by our FSC Garuda Indonesia business.

Expand, simplify and rejuvenate our fleet

We intend to expand, simplify and rejuvenate our aircraft fleet in order to improve our service quality and the cost efficiency of our flight operations. As of September 30, 2010, we had committed orders for 27 new Boeing 737-800, Boeing 777 and Airbus A330-200 aircraft that we expect will increase the overall fuel efficiency, reduce the average age and reduce the overall maintenance expense for our FSC and LCC aircraft fleet. As of September 30, 2010, we also had executed letters of intent for operating leases of 12 Boeing 737-800 aircraft (of which four were delivered between October and December 2010) and three Airbus A330-200 aircraft (of which one was delivered in December 2010) to commence operation in 2011, and have options to purchase four additional Airbus A330-200 aircraft. We also intend to order and introduce a new regional sub-100 seat class of aircraft. Overall, we plan to grow our fleet from 84 aircraft as of September 30, 2010 to approximately 150 aircraft by 2015. As we grow our aircraft fleet, we will proportionately increase our flight crew and other key personnel, and continue to upgrade and refine our customer relationship management, revenue management and passenger service solutions systems, in order to maintain and increase our passenger load factor and passenger yield.

Enhance our cost discipline and revenue management

We seek to continue to improve cost management by, among other things, improving aircraft utilization and reducing fuel costs with the introduction of new aircraft and fuel conservation programs, as well as realizing savings in maintenance, training and labor costs by shifting from fixed-cost to variable-cost structures as we expand our business. It is our objective that our key subsidiaries should eventually generate around 50% of their revenue from provision of services to third parties in order to gain independence from Garuda, and thereby improve their cost efficiency for services provided to us. We are also upgrading our passenger service solutions system, which we expect will improve our direct selling channels to consumers, and our revenue management system, which we expect will improve our ability to manage seat inventory by origin and destination, allocate seat inventory among the different fare classes and better forecast demand.

Develop our human capital

Our management team has been successful in rationalizing our business and is also focused on capturing existing growth opportunities. Retaining, developing and motivating our staff is of central importance to realizing these growth opportunities. In addition, recruiting and training key employees as our business expands will also be important. We intend to improve our training center in Jakarta — currently the largest, and only airline-operated, training center in Indonesia — to train pilots, flight attendants and maintenance engineers required to accommodate our planned fleet expansion. We also intend to extend our existing relationships with various domestic and international universities and training academies to better leverage global airline best practices in training our flight crew and other key personnel. In addition, we have introduced measures to benchmark each position and employee with a view to improving productivity and creating an employment culture characterized by transparency and meritocracy.

Corporate Information

Our principal executive offices are located at the following address and telephone number:

PT. GARUDA INDONESIA (PERSERO) TBK.
Jalan Kebon Sirih No. 44
Jakarta 10110
Republic of Indonesia
Telephone No. +62-21-231-1355

Summary of the Global Offering

The following summary contains basic information about the Offer Shares and is not intended to be complete. It does not contain all the information that is important to prospective purchasers. For a more complete understanding of the shares, please refer to the section entitled "Description of our Shares" and "Indonesian Capital Markets" in this Offering Circular.

The Company	PT. Garuda Indonesia (Persero) Tbk.
Selling Shareholder	PT Bank Mandiri (Persero) Tbk.
Global Offering	We are offering 27,426,000 Offer Shares in the International Offering and 6,308,312,000 Offer Shares in the Indonesian Offering. We expect the Offer Shares to comprise approximately 27% of our post-offering issued and outstanding share capital after the completion of the Global Offering. The completion of the Indonesian Offering and the International Offering are each conditional upon the completion of the other.
International Offering	Concurrently with the Indonesian Offering, we are offering 27,426,000 Offer Shares through the Joint Lead Managing Underwriters' arrangements with the International Selling Agents (i) inside the United States in reliance on Rule 144A under the U.S. Securities Act to certain institutional investors who are "qualified institutional buyers" as defined in Rule 144A under the U.S. Securities Act and (ii) outside Indonesia and the United States in offshore transactions in reliance on Regulation S under the U.S. Securities Act, subject to adjustments as described below.
Indonesian Offering	Concurrently with the International Offering, we are offering 6,308,312,000 of the Offer Shares through the Underwriters in an initial public offering in Indonesia, represented by and including the Joint Lead Managing Underwriters and we are offering 220,000,000 of the Offer Shares which are being offered by us to eligible employees of the Company. See "Plan of Distribution — Allotment of Offer Shares — Share Allocation Program"
Joint Global Coordinators, International Selling Agents and Joint Bookrunners . .	Citigroup Global Markets Limited and UBS AG, Hong Kong Branch
Joint Lead Managing Underwriters	PT Bahana Securities, PT Danareksa Sekuritas and PT Mandiri Sekuritas
Clawback and Re-allocation	The Offer Shares may be reallocated from the Indonesian Offering to the International Offering and vice versa in the event of an under-subscription in one and an over-subscription in the other.
Offer Price	Rp. 750 per Share.
Share Capital	We have an authorized share capital of Rp. 15,000,000,000,000 consisting of one Special Share and 29,999,999,999 Shares of par value Rp. 500 each, of which one Special Share and 18,240,995,999 Shares were issued and outstanding prior to the closing of the Global Offering and 22,640,996,000 Shares will be issued and outstanding immediately following the closing of the Global Offering.
Use of Proceeds	The aggregate net proceeds to us from the Global Offering, after deducting fees, commissions and certain expenses incurred in connection with the Global Offering, will be Rp. 3,186.9 billion (US$357.1 million). We intend to use the proceeds for pre-delivery payments, fleet expansion, capital expenditures and general corporate purposes.

	For a further description of how we intend to use the proceeds from the Global Offering, see "Use of Proceeds."
Dividends	The declaration, amount and payment of future dividends on the Offer Shares, if any, is discretionary and will be subject to the recommendation of our Board of Directors and approval at an Annual General Meeting of Shareholders. See "Dividend Policy" for a description of our dividend policy.
Voting Rights	Owners of the Offer Shares will be entitled to full voting rights, as described in "Description of our Shares - Shareholders' Meeting and Voting Rights."
Listing of our shares	There is currently no public market for our shares. We have applied to the IDX for the listing and quotation of our shares (including the Offer Shares to be issued pursuant to the Global Offering) on the IDX. If listing approval is granted, trading in our shares on the IDX is expected to commence on or about February 11, 2011 under the symbol "GIAA".
Delivery	Delivery of the Offer Shares to successful applicants will be made against payment therefor through the depository facilities of the Indonesian securities depositary company, PT Kustodian Sentral Efek Indonesia. See "Plan of Distribution" and "Indonesian Capital Markets."
	The International Selling Agents expect to deliver the Offer Shares to purchasers on or about February 10, 2011.
Share Allocation Program	At an extraordinary meeting of our shareholders held on November 15, 2010 as amended by circular resolutions of our shareholders dated January 26, 2011, a management and employee share allocation program (the "Share Allocation Program"), consisting of (a) a reward/bonus share grant and (b) a discounted share purchase plan, was approved.
	The Share Allocation Program must comply with BAPEPAM-LK Rule No IX.A.7 which permits a maximum of 10% of the Offer Shares being offered to the public in the Global Offering to be reserved on a preferential basis for employees of the Company. The aggregate number of Offer Shares offered pursuant to the Share Allocation Program will be up to 5% of the Offer Shares which are being offered by us to the public in the Global Offering, consisting of 1% under the reward/bonus share grant and 4% under the discounted share purchase plan.
	The following are entitled to participate in the Share Allocation Program (i) members of our Board of Directors; (ii) members of our Board of Commissioners (other than our Independent Commissioners) and employees that are registered as of November 30, 2010.
	See "Management — Management and Employee Stock Option Plan."
Transfer Restrictions	Our shares and have not been, and will not be, registered under the U.S. Securities Act. Therefore, resales by subscribers and/or purchasers of our shares offered in this Global Offering will be subject to certain restrictions described in "Transfer Restrictions."
Lock-up	We have agreed, with certain exceptions, not to issue, offer, sell, contract to sell, pledge or otherwise dispose of any Shares for a period of twelve (12) months from the effective date of the

	Registration Statement with BAPEPAM & LK without first obtaining the prior written consent of the International Selling Agents.
	The Government, acting through the Ministry of State-Owned Enterprises, which is our controlling shareholder, has informed the International Selling Agents and us that, for a period of six months following the listing date of our shares, it does not intend to offer, sell, contract to sell, pledge or otherwise dispose, directly or indirectly, of any of its shares in us. The Ministry of State-Owned Enterprises has further advised the International Selling Agents and us that any offer, sale, contract to sell or other arrangement to sell any of its shares in us would require the approval of the Indonesian Parliament. However, the Ministry of State-Owned Enterprises has not entered into any lock-up agreement with the Joint Lead Managing Underwriters or the International Selling Agents.
	See "Plan of Distribution — Restrictions on the Disposition of the Shares" for a further description of these restrictions.
Risk Factors	Investing in the Offer Shares involves certain risks which are described in "Risk Factors" beginning on page 18.

Summary Consolidated Financial Information and Operating Data

You should read the summary historical consolidated financial information and operating data presented below in conjunction with our consolidated financial statements, related notes to the consolidated financial statements, and other financial information, included elsewhere in this Offering Circular. You should also read the sections of this Offering Circular entitled "Risk Factors" and "Management's Discussion and Analysis of Our Financial Condition and Results of Operations."

We have derived our summary consolidated financial information presented in the tables below from (i) our audited consolidated financial statements as of and for the years ended December 31, 2009, 2008 and 2007 and as of and for the nine months ended September 30, 2010 and (ii) our unaudited consolidated financial statements as of and for the nine months ended September 30, 2009. Our consolidated financial statements as of and for the year ended December 31, 2009 and as of and for the nine months ended September 30, 2010 have been audited, and our consolidated financial statements as of and for the nine months ended September 30, 2009 have been reviewed, by Osman Bing Satrio & Rekan (a member firm of Deloitte Touche Tohmatsu Limited), independent public accountants in Indonesia, and our consolidated financial statements as of and for the years ended December 31, 2008 and 2007 have been audited by RSM Aryanto, Amir Jusuf, Mawar and Saptoto, independent public accountants in Indonesia. With respect to the unaudited consolidated financial information as of and for the nine months ended September 30, 2009 included in this Offering Circular, Osman Bing Satrio & Rekan (a member firm of Deloitte Touche Tohmatsu Limited) have reported that they applied limited procedures in accordance with review standards established by the Indonesian Institute of Certified Public Accountants. However, their separate review report included in this Offering Circular states that they did not audit and they do not express an opinion on that interim financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

We have restated our consolidated financial statements for the years ended December 31, 2007 and 2008 to conform with Indonesian GAAP and accounting practice for the airline industry by reference to the AICPA Airline Industry Guide. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Factors Affecting Results of Operations — Restatement of Consolidated Financial Statements for the Years Ended December 31, 2007 and 2008."

We have prepared and presented our consolidated financial statements in accordance with Indonesian GAAP, which differs in certain material respects from U.S. GAAP. You should read the section of this Offering Circular entitled "Summary of Certain Principal Differences between Indonesian GAAP and U.S. GAAP" for a description of certain principal differences between Indonesian GAAP and U.S. GAAP.

We have translated the Rupiah amounts of our consolidated financial information as of and for the year ended December 31, 2009 and for the nine months ended as of September 30, 2010 into U.S. dollars for convenience only based on the average exchange rate announced by Bank Indonesia, the Indonesian central bank, for September 30, 2010, which was Rp. 8,924 = US$1.00. See "Exchange Rate Information."

Consolidated Statements of Income

	For the Year Ended December 31,				For the Nine Months Ended September 30,		
	2007 (Audited) (Restated)	2008 (Audited) (Restated)	2009 (Audited)	2009 (Unaudited)	2009 (Unaudited)	2010 (Audited)	2010 (Unaudited)
	(Rp. billions)	(Rp. billions)	(Rp. billions)	(US$ millions)	(Rp. billions)	(Rp. billions)	(US$ millions)
Operating Revenues:							
Airline:							
Scheduled airline services	11,049.4	15,120.3	13,699.4	1,535.1	10,093.4	11,448.9	1,282.9
Non-scheduled airline services	1,605.9	2,466.6	2,491.2	279.2	475.6	102.3	11.5
Others	1,387.0	1,762.8	1,669.7	187.1	1,280.3	1,133.8	127.1
Total Operating Revenues	14,042.4	19,349.7	17,860.4	2,001.4	11,849.3	12,685.1	1,421.5
Operating Expenses:							
Flight operation	6,504.6	9,948.0	8,096.7	907.3	4,942.6	6,142.7	688.3
Maintenance and overhaul	1,089.9	1,107.6	1,075.8	120.6	723.4	876.9	98.3
User charge and station	1,107.1	1,308.8	1,420.7	159.2	949.8	986.4	110.5
Passenger service	1,002.2	1,105.3	1,378.0	154.4	911.6	1,078.8	120.9
Ticketing, sales and promotion	1,286.2	1,562.7	1,636.4	183.4	1,202.8	1,252.8	140.4
General and administrative	880.0	1,250.3	1,246.9	139.7	890.1	984.7	110.3
Depreciation and amortization	1,045.2	1,295.9	1,609.9	180.4	1,225.7	1,206.1	135.2
Employee benefit expenses	199.2	197.0	260.6	29.2	223.8	273.4	30.6
Transportation operation	104.9	110.1	95.2	10.7	68.4	75.7	8.5
Network operation	58.7	66.1	70.3	7.9	49.2	58.3	6.5
Hotel operation	32.1	44.6	51.5	5.8	38.4	39.3	4.4
Total Operating Expenses	13,310.3	17,996.5	16,942.1	1,898.5	11,225.8	12,975.0	1,453.9
Income (Loss) from Operations	732.2	1,353.2	918.3	102.9	623.5	(289.9)	(32.5)
Other Income (Charges):							
Gain on sale and lease back	—	—	65.1	7.3	2.0	159.1	17.8
Gain (Loss) on foreign exchange — net	(233.8)	(413.3)	462.5	51.8	434.9	130.9	14.7
Employee severance cost	—	—	(203.1)	(22.8)	(203.1)	68.5	7.7
Interest income	65.6	107.0	93.1	10.4	80.3	42.3	4.7
Provision for doubtful accounts	—	—	(156.9)	(17.6)	(156.9)	—	—
Interest expense and financial charges	(438.3)	(378.0)	(262.6)	(29.4)	(233.8)	(119.5)	(13.4)
Others — net	184.4	350.3	(53.2)	(6.0)	(38.9)	(35.5)	(4.0)
Other Income (Charges) — Net	(422.1)	(333.9)	(55.1)	(6.2)	(115.4)	245.8	27.5
Equity in Net Income of Associates	3.0	9.4	12.9	1.4	3.8	6.4	0.7
Income (Loss) before Tax	313.1	1,028.7	876.1	98.2	511.9	(37.7)	(4.2)

	For the Year Ended December 31,				For the Nine Months Ended September 30,		
	2007 (Audited) (Restated)	2008 (Audited) (Restated)	2009 (Audited)	2009 (Unaudited)	2009 (Unaudited)	2010 (Audited)	2010 (Unaudited)
	(Rp. billions)	(Rp. billions)	(Rp. billions)	(US$ millions)	(Rp. billions)	(Rp. billions)	(US$ millions)
Tax Benefit (Expense):							
Current tax	(66.8)	(78.1)	(36.9)	(4.1)	(17.3)	(21.4)	(2.4)
Deferred tax	(82.2)	33.6	60.2	6.8	79.0	70.6	7.9
Total Tax Benefit (Expense)	(149.0)	(44.5)	23.4	2.6	61.7	49.2	5.5
Income from Normal Activities	164.1	984.2	899.5	100.8	573.5	11.5	1.3
Extraordinary Items	—	—	123.5	13.8	—	184.1	20.6
Income before Minority Interest	164.1	984.2	1,023.0	114.6	573.5	195.6	21.9
Minority Interests	(11.4)	(9.1)	(4.3)	(0.5)	(3.4)	(0.7)	(0.1)
Net Income	152.7	975.0	1,018.6	114.1	570.2	194.9	21.8

Consolidated Balance Sheets

	As of and for the Year Ended December 31,				As of and for the Nine Months Ended September 30,		
	2007 (Audited) (Restated)	2008 (Audited) (Restated)	2009 (Audited)	2009 (Unaudited)	2009 (Unaudited)	2010 (Audited)	2010 (Unaudited)
	(Rp. billions)	(Rp. billions)	(Rp. billions)	(US$ millions)	(Rp. billions)	(Rp. billions)	(US$ millions)
Current Assets:							
Cash and cash equivalents	2,969.6	2,601.8	1,722.5	193.0	1,540.1	1,805.8	202.4
Short-term investments	11.6	14.6	11.0	1.2	11.0	—	—
Trade accounts receivable							
Related parties	20.6	14.4	16.8	1.9	16.8	19.6	2.2
Third parties[1]	1.065.6	817.4	1,049.8	117.6	890.3	1,126.2	126.2
Other accounts receivables	11.7	66.1	15.8	1.8	5.9	14.4	1.6
Derivative assets	—	—	—	—	31.6	41.9	4.7
Inventories	397.0	516.2	618.1	69.3	615.4	598.8	67.1
Advances and prepaid expenses	907.7	549.0	643.1	72.1	608.8	888.8	99.6
Prepaid taxes	41.2	46.9	135.4	15.2	83.6	198.5	22.2
Total Current Assets	5,425.2	4,626.4	4,212.5	472.0	3,803.5	4,694.0	526.0
Noncurrent Assets:							
Maintenance reserve fund and security deposits	780.5	1,191.2	1,641.8	184.0	1,685.4	1,773.5	198.7
Advances for purchase of aircraft.	393.8	1,901.6	1,791.1	200.7	2,113.3	1,028.6	115.3
Deferred tax assets	67.9	60.1	53.9	6.0	51.2	81.6	9.1
Investments in shares of stock	198.8	205.6	213.9	24.0	204.8	212.3	23.8
Property and equipment[2]	4,424.1	6,552.9	6,374.9	714.4	6,017.9	5,911.6	662.4
Investment properties	11.9	176.9	171.0	19.2	174.7	178.6	20.0
Deferred charges	4.5	24.0	20.6	2.3	17.8	28.6	3.2
Other assets	646.3	565.0	322.7	36.2	330.8	313.8	35.2
Total Noncurrent Assets	6,527.7	10,677.4	10,589.9	1,186.7	10,595.9	9,528.6	1,067.8
Total Assets	11,952.9	15,303.8	14,802.4	1,658.7	14,399.4	14,222.7	1,593.8

	As of and for the Year Ended December 31,				As of and for the Nine Months Ended September 30,		
	2007 (Audited) (Restated)	2008 (Audited) (Restated)	2009 (Audited)	2009 (Unaudited)	2009 (Unaudited)	2010 (Audited)	2010 (Unaudited)
	(Rp. billions)	(Rp. billions)	(Rp. billions)	(US$ millions)	(Rp. billions)	(Rp. billions)	(US$ millions)
Current Liabilities:							
Bank loans	3.0	10.0	218.6	24.5	104.7	207.3	23.2
Trade accounts payable							
Related parties	64.3	68.9	48.8	5.5	61.5	35.4	4.0
Third parties	1,761.5	2,000.6	1,218.2	136.5	1,735.3	781.2	87.5
Other accounts payable	163.2	232.9	262.0	29.4	222.8	281.3	31.5
Taxes payable	89.8	80.1	75.8	8.5	57.7	61.0	6.8
Accrued expenses	1,493.8	1,378.3	1,379.3	154.6	1,038.6	1,176.0	131.8
Unearned revenues	930.0	717.1	564.4	63.2	950.9	1,848.4	207.1
Advances received	213.0	92.3	48.9	5.5	78.3	119.0	13.3
Current maturities of long term liabilities:							
Long-term loans	1,489.6	1,436.3	1,285.7	144.1	1,292.8	255.6	28.6
Lease liabilities	487.4	786.4	850.5	95.3	687.5	711.6	79.7
Estimated liabilities for aircraft return and maintenance cost	157.0	282.2	395.4	44.3	358.4	379.9	42.6
Total Current Liabilities	6,852.6	7,085.2	6,347.7	711.3	6,588.7	5,856.7	656.3
Noncurrent Liabilities:							
Noncurrent maturities of long-term liabilities:							
Long-term loans	33.9	35.2	1,015.9	113.8	332.1	1,584.5	177.6
Lease liabilities	3,900.2	3,747.8	2,366.8	265.2	2,793.4	1,863.3	208.8
Estimated liabilities for aircraft return and maintenance cost	242.8	450.1	255.3	28.6	332.9	202.6	22.7
Convertible bonds	1,018.8	1,018.8	—	—	1,018.8	—	—
Deferred tax liabilities	37.7	391.2	261.4	29.3	229.4	106.5	11.9
Post-employment benefits obligation	1,070.6	1,129.2	1,257.6	140.9	1,258.5	1,435.8	160.9
Other noncurrent liabilities	25.9	30.3	76.8	8.6	71.6	16.3	1.8
Total Noncurrent Liabilities	6,329.9	6,802.7	5,233.7	586.5	6,036.6	5,209.1	583.7
Total Liabilities	13,182.4	13,887.9	11,581.4	1,297.8	12,625.3	11,065.8	1,240.0
Minority Interests	37.2	49.4	7.0	0.8	6.0	10.1	1.1
Equity:							
Capital stock[3]	7,152.6	8,152.6	9,120.5	1,022.0	8,152.6	9,120.5	1,022.0
Additional paid-up capital	8.4	8.4	8.4	0.9	8.4	8.4	0.9
Paid-in capital fund	1,000.0	—	—	—	—	—	—
Revaluation surplus	4.0	1,672.7	1,515.5	169.8	1,484.5	1,216.7	136.3
Hedge reserve	0.7	(10.8)	—	—	3.6	35.8	4.0
Translation adjustments	3.7	4.7	8.9	1.0	6.8	9.7	1.1
Deficit	(9,436.1)	(8,461.0)	(7,439.3)	(833.6)	(7,887.8)	(7,244.4)	(811.8)
Total Equity (Capital Deficiency)	(1,266.7)	1,366.5	3,214.0	360.2	1,768.1	3,146.8	352.6
Total Liabilities and Equity	11,952.9	15,303.8	14,802.4	1,658.7	14,399.4	14,222.7	1,593.8

Notes:

(1) Net of allowance for doubtful accounts of Rp. 260.6 billion, Rp. 319.8 billion, Rp. 301.0 billion, Rp. 317.0 billion and Rp. 323.0 billion as of December 31, 2007, 2008 and 2009, and September 30, 2009 and 2010, respectively.

(2) Net of accumulated depreciation of Rp. 6,123.8 billion, Rp. 6,923.2 billion, Rp. 7,866.8 billion, Rp. 7,819.0 billion and Rp. 7,675.6 billion as of December 31, 2007, 2008 and 2009, and September 30, 2009 and 2010, respectively.

(3) Par value of Rp. 1 million per share. Authorized capital of 11,540,076 shares, 15,000,000 shares and 15,000,000 shares as of December 31, 2007, 2008 and 2009, respectively. Issued and paid-up share capital of 7,152,629 shares, 8,152,629 shares and 9,120,498 shares as of December 31, 2007, 2008 and 2009, respectively.

(4) We have translated the Rupiah amounts of certain items of our financial data as of and for the year ended December 31, 2009 and as of and for the nine months ended September 30, 2010 into U.S. dollars solely for convenience based on the middle exchange rate announced by Bank Indonesia, the Indonesian central bank, for September 30, 2010, which was Rp. 8,924 = US$1.00. See "Exchange Rate Information."

Operating Data (unaudited)

	As of and for the Year Ended December 31,			As of and for the Nine Months Ended September 30,	
	2007	2008	2009	2009	2010
Passenger Services:					
Passenger revenues (US$ millions)(1)	1,072.4	1,483.9	1,210.3	867.4	1,137.7
International(2)	536.0	774.2	566.3	427.6	517.9
Domestic(2)	536.4	709.7	644.0	439.7	619.8
Number of passengers carried (in thousands)	9,633.5	10,172.3	10,901.8	7,980.3	9,045.6
International	2,268.6	2,424.5	2,324.2	1,724.1	1,943.0
Domestic	7,364.9	7,747.8	8,577.7	6,256.3	7,102.6
RPK (in millions)(3)	14,369.1	15,532.3	15,882.5	11,809.0	13,373.5
International	7,924.1	8,756.2	8,523.3	6,452.9	7,369.7
Domestic	6,445.0	6,776.2	7,359.1	5,356.2	6,003.8
ASK (in millions)(4)	18,566.1	20,336.8	21,713.9	16,209.3	18,827.0
International	10,618.9	11,798.3	12,205.2	9,252.0	10,544.2
Domestic	7,947.2	8,538.5	9,508.7	6,957.3	8,282.7
Passenger load factor (%)(5)	77.4	76.4	73.1	72.9	71.0
International	74.6	74.2	69.8	69.7	69.9
Domestic	81.1	79.4	77.4	77.0	72.5
Kilometers flown (in millions)	102.4	111.7	117.1	87.1	99.0
Block hours (in thousands)	167.4	182.5	190.8	141.6	161.3
International	59.8	67.7	69.5	52.5	59.7
Domestic	107.5	114.8	121.3	89.1	101.6
Daily aircraft utilization (block hours per day)(14)	9:37	9:51	9:00	8:43	9:27
Fuel burn (in millions of liters)	742.0	795.7	814.0	605.6	695.8
Fuel burn per ASK	0.040	0.039	0.037	0.037	0.037
Passenger yield (U.S. cents per RPK)(1)(6)	7.4	9.5	7.5	7.3	8.4
Number of scheduled destinations served as of period end	39	41	45	46	49
Scheduled flight frequency (round-trip flights per week)	790	852	891	877	979
Number of flights	82,168	88,552	92,701	68,393	76,377
On-Time Performance (%)(14)	76.3	83.9	82.5	83.7	80.6
Total seat capacity offered (in thousands)	12,957	13,789	14,933	10,964.0	12,986.9
Business seat offered (in thousands)	1,494.8	1,689.6	1,618.9	1,206.4	1,221.1
International	379.6	441.7	416.1	313.9	355.7
Domestic	1,115.2	1,247.9	1,202.8	892.6	865.4
Economy seat offered (in thousands)	11,461.8	12,099.8	13,314.2	9,757.6	11,765.9
International	3,068.8	3,207.0	3,105.8	2,327.7	2,639.2
Domestic	8,393.0	8,892.8	10,208.4	7,429.9	9,126.7

	As of and for the Year Ended December 31,			As of and for the Nine Months Ended September 30,	
	2007	2008	2009	2009	2010
Scheduled revenue per ASK (U.S. cents)(1)(7)	6.3	8.0	6.3	6.0	6.8
International	5.5	7.1	5.2	5.1	5.5
Domestic	7.5	9.2	7.7	7.2	8.4
Cost per ASK (U.S. cents)(1)(8)	6.0	7.8	6.2	5.9	6.8
International	5.8	6.8	5.6	5.3	6.0
Domestic	6.4	9.0	7.0	6.8	7.8
Cost per ASK excluding fuel (U.S. cents)(1)(9)	3.8	4.4	4.3	4.1	4.4
International	3.7	3.8	3.8	3.7	3.8
Domestic	3.9	5.1	4.8	4.7	5.2
Cargo Services:					
RFTK (in million ton-kilometers)(10)	234.0	275.4	282.1	191.9	311.4
International	147.6	165.4	162.3	105.9	207.1
Domestic	86.4	110.0	119.8	86.0	104.3
AFTK (in million ton-kilometers)(11)	568.9	627.0	757.9	539.7	815.5
International	376.0	402.8	477.8	340.4	556.2
Domestic	192.9	224.2	280.2	199.3	259.3
Cargo and mail carried (in million kilograms)	122.4	149.3	157.1	110.6	149.7
Cargo load factor(%)(12)	41.1	43.9	37.2	35.6	38.5
International	39.3	41.1	34.0	31.1	37.2
Domestic	44.8	49.1	42.8	43.2	40.2
Cargo yield (U.S. cents per kilometer)(1)(13)	30.2	37.4	29.9	30.0	30.7
Total number of aircraft	48	54	70	67	84

Notes:

(1) We have translated the Rupiah amounts of passenger revenues, passenger yield, scheduled revenue per ASK, cost per ASK, cost per ASK excluding fuel and cargo yield to U.S. dollars, on a monthly basis, using the middle exchange rate announced by Bank Indonesia as of the last day of the previous month.

(2) Represents passenger revenues based on flight destination.

(3) Calculated as number of revenue passengers carried multiplied by distance flown (in kilometers) for each flight leg.

(4) Calculated as number of available seats multiplied by distance flown (in kilometers) for each flight leg.

(5) Calculated as RPK divided by ASK and expressed as a percentage.

(6) Calculated as passenger revenue from scheduled services divided by RPK.

(7) Calculated as revenue from scheduled airline services warehouse rentals, information technology services and training services divided by ASK.

(8) Calculated as total cost related to our passenger flight operations (including direct and indirect costs, overhead and fleet costs) as reflected in our accounting records divided by ASK.

(9) Calculated as total cost related to our passenger flight operations (including direct and indirect costs, overhead and fleet costs) as reflected in our accounting records minus fuel expenses and divided by ASK.

(10) Calculated as cargo and mail load carried (in tons) multiplied by distance flown (in kilometers) for each flight leg.

(11) Calculated as total cargo capacity (in tons) multiplied by distance flown (in kilometers) for each flight leg.

(12) Calculated as cargo and mail load (in tons-kilometers) divided by total available payload (in tons-kilometers) per aircraft type per flight and expressed as a percentage.

(13) Calculated as revenue from cargo services divided by RFTK.

(14) FSC Garuda Indonesia only.

Key Ratios and Measures

	As of and for the Year Ended December 31, 2008[1]	As of and for the Year Ended December 31, 2009[1]	As of and for the Nine Months Ended September 30, 2010[2]
Growth Ratio (%)			
Operating Revenues	37.79	(7.70)	7.05
Income (Loss) from Operations	84.82	(32.14)	(146.49)
Income (Loss) before Tax	228.54	(14.83)	(107.36)
Net Income	538.39	4.47	(65.82)
Adjusted EBITDAR	38.95	11.70	(18.96)
Current Assets	(14.72)	(8.95)	23.41
Total Assets	28.03	(3.28)	(1.23)
Current Liabilities	3.39	(10.41)	(11.11)
Total Liabilities	5.35	(16.61)	(12.35)
Total Equity (Capital Deficiency)	(207.88)	135.20	77.97
Operational Ratio (%)			
Income (Loss) before Tax/Operating Revenues	5.32	4.91	(0.30)
Income (Loss) from Operations/Operating Revenues	6.99	5.14	(2.29)
Net Income/Operating Revenues	5.04	5.70	1.54
Adjusted EBITDAR/Operating Revenues	17.57	21.26	17.69
Net Income/Total Equity (ROE)	71.35	31.69	6.19
Net Income/Total Assets (ROA)	6.37	6.88	1.37
Financial Ratio (x)			
Current Assets/Current Liabilities	0.65	0.66	0.80
Total Liabilities/Total Equity	10.16	3.60	3.52
Total Liabilities/Total Assets	0.91	0.78	0.78

Notes:

(1) As compared to the previous annual period ended December 31.

(2) As compared to the period ended September 30, 2009.

	As of and for the Year Ended December 31,				As of and for the Nine Months Ended September 30,		
	2007	2008	2009	2009	2009	2010	2010
	(Rp. billions, unless otherwise stated)	(Rp. billions, unless otherwise stated)	(Rp. billions, unless otherwise stated)	(US$ millions, unless otherwise stated)	(Rp. billions, unless otherwise stated)	(Rp. billions, unless otherwise stated)	(US$ millions, unless otherwise stated)
Adjusted EBITDA[1]	1,777.3	2,649.1	2,528.2	283.3	1,849.3	916.2	102.7
Adjusted EBITDAR[1]	2,446.2	3,399.0	3,796.8	425.5	2,768.4	2,243.4	251.4
Capex[2]	548.9	337.5	745.9	83.6	729.0	384.7	43.1
Net Debt[3]	2,994.5	3,414.0	4,015.0	450.0	3,670.5	2,816.6	315.6
Adjusted Debt[4]	10,596.2	11,264.7	14,617.4	1,638.0	13,094.7	16,358.9	1,833.1
Adjusted Net Debt[5]	7,626.6	8,662.9	12,894.9	1,445.0	11,554.7	14,553.1	1,630.8
Total Capitalization[6]	6,359.9	10,029.4	16,109.0	1,805.1	13,322.8	17,699.8	1,983.4
Adjusted Net Debt/Total Capital (x)	1.2	0.9	0.8	0.8	0.9	0.8	0.8
Adjusted Debt/Adjusted EBITDAR (x)	4.3	3.3	3.8	3.8	n.m.[8]	n.m.[8]	n.m.[8]
Cash/Operating Revenue Ratio (x)	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Total debt[7]	5,914.2	6,015.7	5,737.5	642.9	5,210.6	4,622.4	518.0
Aircraft Rental	668.9	749.8	1,268.6	142.2	919.2	1,327.3	148.7

Notes:

(1) The Company defines Adjusted EBITDA as income (loss) from operations plus depreciation and amortization and Adjusted EBITDAR as income (loss) from operations plus depreciation and amortization and aircraft rental expenses incurred in respect of scheduled passenger services. Adjusted EBITDA and Adjusted EBITDAR are not measurements of financial performance or liquidity under Indonesian GAAP and should not be considered as alternatives to net income, operating income or any other performance measures derived

in accordance with Indonesian GAAP or as alternatives to cash flow from operating activities as measures of liquidity. In addition, Adjusted EBITDA and Adjusted EBITDAR are not standardized terms, hence, a direct comparison between companies using such terms may not be possible. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Non-GAAP financial measures" for a reconciliation of our income (loss) from operations under Indonesian GAAP to our definitions of Adjusted EBITDA and Adjusted EBITDAR.

(2) Capital expenditures is the sum of actual expenditures for flight equipment, ground property and equipment, furniture, fixtures and office equipment, information technology, buildings, and other/land.

(3) Net debt is the sum of long-term loans (excluding convertible bonds), finance lease and short-term borrowings less cash and cash equivalents.

(4) Calculated as Total Debt plus (7x Aircraft Rental).

(5) Calculated as Adjusted Debt minus Cash and cash equivalents.

(6) Calculated as Adjusted Net Debt plus Total Equity or minus Total Capital Deficiency.

(7) Total debt is the sum of bank loans, long-term loans (excluding convertible bonds) and finance lease liabilities.

(8) Not meaningful.

(9) We have translated the Rupiah amounts of certain items of our financial data as of and for the year ended December 31, 2009 and as of and for the nine months ended September 30, 2010 into U.S. dollars solely for convenience based on the middle exchange rate announced by Bank Indonesia, the Indonesian central bank, for September 30, 2010, which was Rp. 8,924 = US$1.00. See "Exchange Rate Information."

Risk Factors

An investment in our shares involves risks. You should consider carefully all of the information contained in this document, especially the following risk factors, in evaluating whether to purchase our shares. Additional risks not presently known to us or that we currently deem immaterial may also materially and adversely impair our business, cash flows, results of operations, financial condition or prospects. The market price of our shares could decline due to any one of these risks and you may lose all or part of your investment. You should also note that certain of the statements set forth below constitute "forward-looking statements" as discussed in "Forward-Looking Statements." The risks described below are not the only ones that may affect us or our shares. In general, investing in securities of companies in emerging market countries such as Indonesia involves risks not typically associated with investing in the securities of companies in more developed economies. To the extent the description in this section relates to Government or Indonesian macroeconomic data, such information has been extracted from official Government publications or other third-party sources and has not been independently verified by us.

Risks Relating to Our Business

We suffered a loss from operations for the nine months ended September 30, 2010 and may continue to do so.

For the nine months ended September 30, 2010, we suffered a loss from operations of Rp. 289.9 billion as compared to income from operations of Rp. 623.5 billion for the nine months ended September 30, 2009. Although we had net income of Rp. 194.9 billion for the nine months ended September 30, 2010, this was principally due to an extraordinary gain of Rp. 184.1 billion arising from our debt restructuring, gain on sale and leaseback of Rp. 159.1 billion arising from our fleet expansion and gain on foreign exchange — net of Rp. 130.9 billion. See "Management's Discussion and Analysis of our Financial Condition and Results of Operations — Factors Affecting Results of Operations — Extraordinary gains on debt restructuring."

Our results of operations for the nine months ended September 30, 2010 were negatively affected by our decision to accelerate delivery of 18 Boeing 737-800 aircraft in connection with our fleet simplification program. We previously took delivery of 15 and two new Boeing 737-800 aircraft in 2009 and 2008, respectively. See "Management's Discussion and Analysis of our Financial Condition and Results of Operations — Factors Affecting Results of Operations — Fleet expansion and simplification." The introduction of these new aircraft into our fleet increased our aircraft rental expenses and coincided with our decision to ground certain older generation Boeing 737 aircraft for final maintenance checks required prior to redelivery at the expiration of their operating leases in 2010 and 2011. Our average fleet utilization during this period was also negatively impacted by a shortage of pilots and the cabin refurbishment program in respect of our six A330 undertaken during 2010, resulting in the equivalent of one aircraft being grounded for the entire year.

A number of other factors also negatively affected our results of operations for the nine months ended September 30, 2010. During this period, our new domestic long-haul routes to destinations in East Indonesia, as well our new European route to Amsterdam, experienced low load factors. Establishment of new routes, particularly new international routes, typically requires a certain lead time to achieve positive profit margins, as the high fixed cost obligations required to establish new routes are usually accompanied by low passenger load factors, and the adverse impact of promotional "lead in" fares on passenger yields, as we seek to build brand awareness and market share on new routes.

Since September 2010, we have also been adversely affected by two extraordinary events that occurred in November 2010. Volcanic eruptions from Mount Merapi and Mount Bromo in November and December 2010, as well as human and technical errors during the process of migrating data to our new IOCS which led to a shutdown of our passenger reservation system from November 21-23, 2010. These resulted in loss of revenue due to flight cancellations and increased expenses including jet fuel and other flight operations expenses due to re-routing of flights. See "Management's Discussion and Analysis of our Financial Condition and Results of Operations — Recent Developments".

There can be no assurance that we will not continue to suffer loss of revenue, increased expenses or loss from operations for the year ended December 31, 2010 or during any other future period or that we record net income during any future period.

Our inability to recruit, train, retain and motivate key personnel may adversely affect our business.

There is a shortage of key personnel including pilots, flight attendants and MRO engineers in the airline industry globally, including Indonesia. We expect this shortage to increase as we and our competitors, particularly in the Indonesian airline industry, increase the size of our aircraft fleets. Although we believe our salary and benefit packages for pilots, flight attendants and MRO engineers are generally competitive with those of our competitors, as demand for pilots, flight attendants and engineers increases in the Indonesian airline industry, we and our competitors may need to increase salaries and other benefits in order to recruit, retain and motivate these key employees. We will also need to increase our training operations in order to ensure that sufficient new personnel are available to meet our increased requirements for these key employees. As we increase the size of our aircraft fleet, our ability to recruit, train and retain additional pilots and flight attendants will be a critical factor in the maintenance and increase of our aircraft utilization rates and improvement of our on-time performance. Our inability to successfully recruit, train, retain and motivate these key personnel could have a material adverse effect on our business, financial condition and results of operation.

Limitations of Soekarno-Hatta International Airport and other Indonesian airports may inhibit our ability to increase our aircraft utilization rates, improve our on-time performance and to provide safe and efficient air transportation.

Although Indonesia's commercial aviation infrastructure has improved substantially in recent years, the resources of many segments of the commercial airline industry, including airport facilities and air traffic control systems, have been strained by the rapid increase in air traffic volume. Our ability to increase utilization rates, improve our on-time performance and to provide safe and efficient air transportation in the future depends in part on factors beyond our control, including:

- capacity of landing slots at existing airports that we serve, particularly our hubs at Soekarno-Hatta International Airport near Jakarta and the Ngurah-Rai International Airport in Denpasar, Bali;
- limitations on operating hours at most Indonesian airports — the only Indonesian airports that operate 24 hours a day are Soekarno-Hatta International Airport near Jakarta, Ngurah-Rai International Airport in Denpasar, Bali and Polonia International Airport in Medan;
- passenger capacity at terminals in major hub airports that we serve, particularly at the Soekarno-Hatta International Airport near Jakarta;
- air traffic congestion at major airports that we serve, particularly the Ngurah-Rai International Airport in Denpasar, Bali and the Soekarno-Hatta International Airport near Jakarta;
- the quality of national air traffic control;
- the quality of navigational systems and ground control operations at Indonesian airports; and
- limitations on runway length and/or strength which restrict our aircraft payload.

If any of these factors is inadequate, our ability to expand our route network or to increase the frequency of flights on our existing routes, improve our on-time performance and to provide safe air transportation will be compromised, and our business prospects and results of operations may be materially and adversely affected.

We source most of our fuel supply from Pertamina.

Jet fuel costs represented 34.3%, 41.2%, 29.4% and 31.8% of our total operating expenses in 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively. We procure approximately 70% of our jet fuel, including all of the jet fuel required for our domestic operations, pursuant to agreements with PT Pertamina (Persero), the state owned oil and gas company ("Pertamina"). We typically enter into five-year supply agreements with Pertamina and one to two year supply agreements with each of our international jet fuel suppliers. Our international jet fuel supply agreements are renewed periodically and provide for payment in U.S. dollars. Our domestic jet fuel supply agreements with Pertamina are also renewed periodically and provide for payment in Rupiah at prices denominated in U.S. dollars. International jet fuel prices are generally set at a premium to the mean price of oil traded through Singapore, the Arab Gulf, Saudi Arabia and Netherlands, as published by Platts under Mean of Platts Singapore (MOPS), Mean of Platts Arab Gulf (MOPAG), ARAMCO or Rotterdam. Domestic jet fuel prices are generally set at a discount to a production posting price established by Pertamina in its sole discretion, which we believe has historically been higher than MOPS. While our prior jet fuel supply agreement with Pertamina provided us with a percentage discount to the production posting price, our new fuel supply agreement with Pertamina incorporates a fixed discount to the production posting price. As a result, when compared to our prior fuel supply agreement with Pertamina, our new agreement will result in lower discounts (and higher fuel prices) as the Pertamina production posting price increases. There can be no assurance that we will be able to obtain competitive pricing from Pertamina, and our failure to do so could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our international jet fuel supply agreements require payment in advance or presentation of a letter of credit against delivery of jet fuel, while our domestic jet fuel supply agreements with Pertamina currently allow us to make payment within two weeks following delivery. We have in the past incurred significant unpaid amounts due to Pertamina for the delivery of jet fuel, which were then converted to long-term subordinated debt in our most recent debt restructuring. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Debt Restructuring.” There can be no assurance that we will be able to meet our future jet fuel payment obligations to Pertamina, or that Pertamina will restructure any such future payment obligations that might become overdue, either of which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our failure to successfully implement our growth strategy could harm our business.

Our growth strategy involves increasing the size of our aircraft fleet, increasing frequency of flights to destinations we currently serve, increasing the number of destinations served, expanding the operations of Citilink, and segmenting our flight operations and markets served between our FSC Garuda Indonesia and our LCC Citilink businesses. Achieving our growth strategies, both for our FSC Garuda Indonesia and our LCC Citilink businesses, is critical in order for our overall business to achieve economies of scale and increase our profitability.

Our strategy to concurrently develop both our FSC Garuda Indonesia and LCC Citilink businesses will require us to develop two separate corporate cultures with different operating requirements and different customer focus. While we currently operate Citilink as a strategic business unit, in the future we intend to spin-off this business unit into a separate subsidiary, PT Citilink Indonesia, which will require us to comply with certain minimum aircraft fleet purchase and operating requirements in order for for Citilink to obtain an AOC. Increasing the size of our aircraft fleet for both our FSC Garuda Indonesia and our LCC Citilink businesses will require significant capital expenditures and other payments for aircraft purchases, as well as significant aircraft rental expenses under operating leases, and will require us to recruit, train, retain and motivate flight crew and other personnel in order to maintain and increase aircraft utilization rates. Segmenting our flight operations and markets served between our FSC Garuda Indonesia and LCC Citilink businesses will also require improvement of our revenue management and passenger service solutions systems in order to maximize seat occupancy and revenue per flight. In particular, we believe that the revenue management system currently used by our FSC Garuda Indonesia business has relatively limited pricing flexibility when compared to certain of its competitors, and we are currently in the process of upgrading this revenue management software to increase pricing flexibility, improve our ability to allocate seat inventory among different fare sub-classes and better forecast market demand. See “— We rely heavily on automated systems to operate our business and our failure to maintain and upgrade these systems could harm our business.” We cannot assure you that we will be able to successfully segment our operations between our FSC Garuda Indonesia and LCC Citilink businesses, and our failure to do so could have a material adverse effect on our business, financial condition and results of operations.

Increasing the number of destinations that we serve depends on our ability to access suitable airports located in our targeted geographic markets in a manner that is consistent with our cost strategy. We will need to obtain air traffic rights and airport landing slots before we can commence service to new destinations. Adding service to new destinations may require us to commit a substantial amount of financial and other resources, even before the new services commence, and we may initially experience low load factors and be required to offer promotional fares to new destinations, which will adversely affect the profitability of these new destinations. Increasing frequency of our flights to existing destinations may require us to obtain additional landing slots and gates at some of our existing destinations. Any condition that would deny, limit or delay our access to airports we seek to serve in the future will constrain our ability to grow.

Our growth strategy will also require additional skilled personnel, equipment and facilities. An inability to hire and retain skilled personnel or to secure the required equipment and facilities efficiently and cost effectively may affect our ability to achieve our growth strategy. Our growth strategy may also strain our existing management resources and operational, financial and management information systems to the point that they may no longer be adequate to support our operations, requiring us to make significant expenditures in these areas. We expect that we will need to develop further financial, operational and management controls, reporting systems and procedures to accommodate future growth. We cannot assure you that we will be able to develop these controls, systems or procedures on a timely basis, or at all.

Our failure to successfully execute our growth strategy could also adversely affect our future operating performance and cashflow, which in turn could adversely affect our ability to make pre-delivery payments on new aircraft, restrict our ability to make payments on the additional debt and other fixed obligations required for the expansion of our aircraft fleet, and adversely affect our ability to comply with the terms of our aircraft and engine operating lease agreements. In addition, any delay in pre-delivery payments on new aircraft could result in additional payment obligations under the terms of our aircraft purchase agreements with Airbus and Boeing.

We cannot assure you that we will be able to successfully execute our growth strategy, and our failure to do so could have a material adverse effect on our business, financial condition and results of operations.

Our high levels of indebtedness and fixed payment obligations could adversely affect our ability to implement our growth strategy.

Although we recently completed a restructuring of our indebtedness and other fixed payment obligations, we continue to have a high level of indebtedness and other fixed payment obligations. In addition, we will be required to incur significant additional indebtedness and fixed payment obligations in connection with the implementation of our growth strategy.

As of September 30, 2010, we had total outstanding debt (including long term loans, obligations under finance leases and short term borrowing) of Rp. 4,622.4 billion, which represented 70.1% of our total capitalization (calculated as total long-term debt net of current maturities and total equity). A portion of our long-term debt and all of our short term debt is subject to floating rates. In addition to long-term debt, we have a significant amount of fixed obligations under operating and finance leases related to our aircraft, airport terminal space, other airport facilities and office space. As of September 30, 2010, our future minimum lease payments under operating leases was approximately Rp. 14,944.4 billion.

As of September 30, 2010, we had aircraft purchase commitments of approximately Rp. 24,460 billion, including estimated amounts for contractual price escalation, to purchase 27 additional aircraft (of which one was delivered in October 2010) through 2016, comprising of 11 Boeing 737-800 deliveries, ten Boeing 777 deliveries and six A330-200, and had options to purchase four additional Airbus A330-200 aircraft. The pre-delivery payments for our aircraft purchases are typically financed initially through operating cash flows and debt financings. Upon delivery, these aircraft purchases are typically converted to operating lease arrangements under sale and leaseback transactions with aircraft leasing companies, which allow us to recover our pre-delivery payments and decrease our capital expenditures while increasing security deposits for operating leases and our aircraft rental expenses. While we believe that our cashflow from operations will be sufficient to fund pre-delivery payments for all of our remaining Boeing 737-800 deliveries and all of our remaining Airbus A330-200 deliveries, we will need to arrange debt financing of pre-delivery payments for our ten remaining Boeing 777 deliveries. Our ECA Loans and Commercial Loans limit our ability to incur additional indebtedness and accordingly we cannot assure you we will be able to incur additional debt financing for our remaining 26 firm aircraft deliveries (including for pre-delivery payments). Moreover, even if we are able to incur such additional debt financing, we cannot assure you that either debt or lease financing will be available for such aircraft deliveries (including for pre-delivery payments) on terms acceptable to us or at all. Our ECA Loans and Commercial Loans contain covenants that may, under certain circumstances, limit our ability to incur additional indebtedness and additional aircraft rental expense and, accordingly, we also cannot assure you that we will be able to enter into additional operating leases to increase the size of our fleet. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Description of Material Indebtedness — Debt Restructuring — Export Agency Loans and Commercial Loans."

Our high level of debt and fixed obligations could:

- impact our ability to obtain additional financing to support capital expansion plans and for working capital and other purposes on acceptable terms or at all;
- divert substantial cash flow from our operations and expansion plans in order to service our fixed obligations;
- require us to incur significantly more interest or rent expense than we currently do, since substantially all of our debt has floating rates and certain of our aircraft leases have variable-rate rent; and
- place us at a possible competitive disadvantage compared to less leveraged competitors and competitors that have better access to capital resources; and

- subject us to restrictive financial and other covenants, including restrictions on our ability to declare dividends or incur additional indebtedness.

Our ability to make scheduled payments on our debt and other fixed obligations will depend on our future operating performance and cashflow, which in turn will depend on prevailing economic and political conditions and financial, competitive, regulatory, business and other factors, many of which are beyond our control. For example, political instability, economic downturns, liquidity of the U.S. dollar and Rupiah bank and debt capital markets, social unrest or changes in the regulatory environment could increase our cost of borrowing or restrict our ability to obtain debt financing. We cannot assure you that we will be able to generate sufficient cash flow from our operations to pay our debt and other fixed obligations as they become due, and our failure to do so could have a material adverse effect on our business, financial condition and results of operations.

To the extent we finance our activities with additional debt, we may become subject to financial and other covenants that may restrict our ability to pursue our growth strategy. If we are unable to make payments on our debt and other fixed obligations, we could be forced to again renegotiate those obligations or obtain additional equity or debt financing. We cannot assure you that future renegotiation efforts would be successful or timely or that we could refinance our obligations on acceptable terms, if at all.

After completion of the Global Offering, the Government will remain our controlling shareholder.

After completion of the Global Offering, the Government, through the Ministry of State-Owned Enterprises, will hold approximately 69% of our outstanding shares. See "Principal and Selling Shareholders." As our controlling shareholder, the Government effectively controls the outcome of matters requiring the vote of shareholders, including the composition of our boards of directors and commissioners, and determining the timing and amount of dividend payments. In addition to being our controlling shareholder, the Government, through the Ministry of State-Owned Enterprises, holds the Special Share, which has special rights which are not available to holders of the Series B shares. See "Description of Our Shares". The Special Share gives the Government the power to nominate all candidates for election to the Board of Commissioners and to the Board of Directors, elect and dismiss directors and commissioners, approve any amendments to the Company's articles of association, including any change to the Company's capital, approve any merger, consolidation, acquisition or spin-off of the Company and approve any submission in relation to dissolution and liquidation or bankruptcy of our Company. The Government has historically influenced, and is likely to continue to influence, our strategy and operations.

There can be no assurance that the Government will exercise its control and influence to the benefit of our Company and our other shareholders. The Government may cause us to take actions that are not in, or may conflict with, our Company's or our other shareholders' best interests. For example, the Government may require us to enter into transactions which are not in the best interest of our Company. As the Government sets various policy goals in relation to air transportation from time to time, we may be requested to establish flight routes to destinations which may not be profitable, or which may not be consistent with our business strategies or objectives. Under Law No. 19 of 2003 regarding State-Owned Companies, the Government is obligated to provide us with reasonable compensation when we establish such flight routes or carry out any related business activities in the public interest at the request of the Government. However, there can be no assurance that such compensation by the Government, if agreed, will be paid in a timely manner or, when paid, will be sufficient to provide us with a reasonable rate of return on our investment. There can also be no assurance that we will ever become independent of our Government shareholder, or if we do become independent, that we will be able to exercise any such independence effectively in making decisions concerning our business and prospects, including decisions concerning compensation from the Government when we act in the public interest. We may have to agree to act in the public interest and if we are not adequately compensated by the Government, this could have a material adverse affect on our business, financial condition, results of operations and prospects.

Our ability to set fares on certain segments of our business is constrained by price caps set by the Government.

As an airline company, we are regulated by the Government through, among others, the Minister of Transportation through the DGCA. The Minister of Transportation is the regulatory authority responsible for regulating the Indonesian aviation sector. Among others, it issues operating licenses required for our flight operations, sets price caps for economy class fares on domestic passenger services sold in Indonesia, regulates fuel surcharges for scheduled domestic passenger and cargo services and agrees international bilateral air transport arrangements with other countries.

Our domestic economy class fares sold within Indonesia are subject to price caps established by the Government. Our revenue from domestic passenger services accounted for approximately 50.0%, 47.8%, 42.0% and 54.8% of our revenues from scheduled airline services in 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively. The DGCA sets price caps for domestic economy class fares sold within Indonesia which effectively limit our ability to adjust economy class fares sold in Indonesia to circumstances where the cost of jet fuel or the Rupiah — U.S. dollar exchange rate exceed certain thresholds for certain prescribed periods, each as set by the DGCA.

We also have significant fuel expenses that are subject to price fluctuation and significant fixed obligations that are denominated in U.S. dollars. Our operating revenues from scheduled airline services historically have been significantly impacted by our ability to apply fuel surcharges on top of our established airfares. From 2007 through 2009, our average cost of jet fuel fluctuated from U.S. cents 56.68 per liter in 2007 to U.S. cents 85.95 per liter in 2008 to U.S. cents 51.33 in 2009. Notwithstanding that our domestic RPK increased during this period from 6.4 billion in 2007 to 6.8 billion in 2008 to 7.4 billion in 2009, our revenue from domestic scheduled airline services fluctuated from US$536.4 million in 2007 to US$709.7 million in 2008 to US$644.0 million in 2009, reflecting the correlation between our ability to apply fuel surcharges and our operating revenues.

Since April 2010, the DGCA has increased the domestic economy class fare cap but no longer permits us to add a fuel surcharge on top of the domestic economy class fare cap. The domestic economy class fare cap can now be adjusted only when the jet fuel price exceeds Rp. 10,000 per liter or fluctuations in the Rupiah — U.S. dollar exchange rate lead to increases of at least 10% in aircraft operation costs, in either case for a period of three consecutive months — whereupon we may apply for DGCA approval of an increase in the domestic economy class fare cap. Any such increase will be subject to review and approval by the DGCA in its discretion. There may be substantial delays in obtaining such approvals, during which time we remain subject to the existing domestic economy class fare caps, notwithstanding the higher fuel prices or exchange rates. See "Regulation of the Airline Industry in Indonesia — Indonesian Aviation Regulation — Airfares."

In addition, the price caps for domestic economy class fares set by the DGCA are different for FSCs and LCCs, with the LCC price cap currently set at 85% of the FSC price cap. As a result, our FSC Garuda Indonesia and LCC Citilink businesses are subject to different economy class fare caps. We believe that, given the lower operating cost structure for LCCs, the LCC economy class fare cap is relatively higher as a multiple of operating expenses than the FSC economy class fare cap, and therefore can result in higher profitability for LCCs of economy class fares for domestic routes during peak periods when the fares we seek to charge for our FSC Garuda Indonesia passengers are most often limited by the economy class fare caps.

We will continue to have significant fuel expenses that are subject to price fluctuation and significant fixed obligations that are denominated in U.S. dollars. The continued requirement to obtain DGCA prior approval to increase economy class fare caps, or any delay in obtaining such approval, or any adverse changes in these policies or to the economy class fare caps or fuel surcharges, in addition to other regulations and policies governing airline operation, could have a material adverse affect on our business, financial condition and results of operations.

Labor activism could adversely affect us, our customers and Indonesian companies in general, which in turn could affect our business, financial condition, results of operations and prospects.

Laws permitting the formation of labor unions, combined with weak economic conditions, have resulted, and may in the future result, in labor unrest and activism in Indonesia. Under the Indonesian labor law of 2003 (the "Labor Law"), which, among other things, increased the amount of required severance, service and compensation payments to terminated employees, and required employers with 50 or more employees to establish bipartite forums with the participation of employers and employees. To negotiate a collective labor agreement with such a company, a labor union's membership (or membership of a coalition of the company's labor unions if the company has multiple unions) must consist of more than 50% of the company's employees. The Government proposed to amend the Labor Law in a manner which, in the view of labor activists, would result in reduced pension benefits, the increased use of outsourced employees and prohibitions on unions to conduct strikes. The proposal has been suspended and the new Government regulation addressing lay-offs of workers has not yet become effective. These labor laws and regulations may make it more difficult for businesses, including our business, to maintain flexible labor policies.

We currently have four labor unions: one pilots' union, two flight attendants' unions and one general employees' union, with whom we entered into a collective bargaining agreement, which expired in 2008. We negotiated a new collective bargaining agreement with these unions through mediation assisted by the regional labor authorities (*Dinas Tenaga Kerja dan Transmigrasi/Disnaker*). The regional labor authorities suggested to us and the labor unions to agree on certain proposed provisions that the regional labor authorities have approved. On December 6, 2010, we conveyed our consent to the proposal of the regional labor authorities. We have been verbally informed, although we have not received formal notice, that the labor unions have rejected the suggested proposal, hence any of the parties may bring a dispute regarding the collective bargaining agreement before the Industrial Relations Court (*Pengadilan Hubungan Industrial*).There can be no assurance that the Industrial Relations Court would decide in our favor. Any significant labor dispute or labor action that we experience could have a material adverse effect on our business, financial condition, results of operations and prospects.

We rely heavily on automated systems to operate our business and our failure to maintain and upgrade these systems could harm our business.

We depend on automated systems to operate our business, including, among others:

- a passenger service solutions system providing reservations, ticketing, seat inventory and departure control functions to enable us to manage flight scheduling and passenger seating, as well as providing us with a distribution and ticketing platform;
- an internet booking engine and online payment system providing reservations, e-ticketing, an interface between the booking engine and the payment gateway and email notifications;
- a revenue management system providing market data analysis (including changes in the airfares of our partners and competitors) to enable us to establish segmented pricing for our airfares and allocate our seat inventory across price segments in a manner that maximizes passenger revenue; and
- a data warehouse system, designed to extract and integrate information from our financial, market and operating data.

We believe that our FSC Garuda Indonesia passenger service and revenue management systems, when compared to the systems used by certain of our competitors, are outdated and provide us with relatively limited capability to conduct direct selling to consumers and effectively allocate seat inventory across price categories. We are currently in the process of upgrading our passenger service and revenue management systems in conjunction with the establishment of a new data center. This upgrade will require data migration from our existing information systems at our current data center to new information systems at our new data center. Our new data center systems will be populated with legacy data which must be extracted, transformed and loaded onto our new information systems, and then tested to ensure optimal system performance. We may be required to expend considerable financial and management resources to complete our data migration. On November 21, 2010, we encountered disruption for a three-hour period during the process of migrating data from our old operational management system to our new IOCS. Although we restored the IOCS to operation on November 21, 2010, during the period of November 21-23, 2010, due to human error, flight crew schedules continued to be printed and distributed to flight crew ground transportation units using inaccurate data from the old operational management system. As a result, during the period from November 21-23, 2010, certain flight crews did not arrive for scheduled departures, approximately 180 flights were cancelled and we were required to shutdown our reservations system to avoid taking new passenger reservations. Such flight cancellations and the shutdown of our reservations system during this period negatively impacted our passenger revenues and passenger volumes for the three-month period ended December 31, 2010. The Company's corporate security team, together with LAPI Institut Teknologi Bandung, subsequently conducted an investigation to identify the cause of the outage in the IOCS. This investigation indicated that the Company does not currently have an adequate network management system which can oversee all network traffic or provide early fault detection in the IOCS. We cannot assure you that we will not encounter future data migration errors, that our data migration will occur on schedule, or that our new information systems will achieve optimal performance within the anticipated timeframe, or at all. Any migration errors could result in the loss of important data, loss of revenue, loss of passengers increase our expenses and adversely affect our business, financial condition and results of operations.

Although we issue traditional paper tickets to some of our passengers, we issue electronic tickets to a substantial portion of our passengers. Our website and reservation system must be able to accommodate a high volume of traffic and deliver important flight information. Substantial or repeated website, reservations system or telecommunication systems failures could reduce the attractiveness of our services and could cause our customers to purchase tickets from another airline. Any disruption in these systems could result in the loss of important data, loss of revenue, loss of passengers increase our expenses and adversely affect our business, financial condition and results of operations.

We also rely on third party registration systems to facilitate the booking and management of reservations of airline tickets. If these third parties experience difficulty meeting our requirements or standards, it could damage our reputation or make it difficult for us to operate some aspects of our business. In addition, if such third-party service providers were to cease operations, temporarily or permanently, face financial distress or other business disruption, we could suffer increased costs and delays in our ability to provide similar services until an equivalent service provider could be found or we could develop replacement technology or operations. If we are unsuccessful in choosing high quality third party registration systems or we ineffectively manage our relationships with such third parties, it could have an adverse impact on our operations and financial results.

Our automated systems and the third party registration systems also involve the transmission of confidential information over public networks. Advances in computer capabilities, new discoveries in the field of cryptography or other events or developments could result in compromises or breaches of the security systems and personal data stored in these systems. Anyone who circumvents the security measures on these systems could misappropriate our confidential information or cause interruptions in our services or operations. The internet is a public network, and data is sent over this network from many sources. In the past, computer viruses or software programs that disable or impair computers have been distributed and have rapidly spread over the internet. Computer viruses could be introduced into our systems, or those of the third party registration systems, which could disrupt our operations or make our systems inaccessible to the third parties. We may be required to expend significant capital and other resources to protect against the threat of security breaches or to alleviate problems caused by breaches. Our security measures may be inadequate to prevent security breaches, and our business operations would be negatively impacted by cancellation of tickets if security breaches are not prevented.

We are dependent on the Ministry of Religious Affairs for our hajj flight operations.

We commenced our *hajj* flight operations in 1956. Our *hajj* flight operations accounted for approximately 10.8%, 11.8% and 13.1% of our total operating revenues for 2007, 2008 and 2009, respectively and approximately 94.0%, 92.9% and 93.9% of our total operating revenues from non-scheduled services in 2007, 2008 and 2009, respectively. *Hajj* operations in 2010 will occur in the fourth quarter of the year and are therefore not reflected in operating revenues for the nine months ended September 30, 2010. The Ministry of Religious Affairs is responsible for travel arrangements for *hajj* pilgrims, including flight arrangements to and from Saudi Arabia. Airfares for *hajj* pilgrims are paid to us by the Ministry of Religious Affairs pursuant to agreements entered into between us and the Ministry, and are renegotiated annually.

Airfares for *hajj* pilgrims are agreed by the Government through the Ministry of Religious Affairs after a negotiation process with us approximately six months in advance of the actual period of travel each year. We negotiate these airfares based on, among other things, our internal assumptions and projections of expected expenses and costs with respect to these flights, including, in particular, our charter expenses and jet fuel expenses. In the event that our internal projections are inaccurate, the airfares paid by the Ministry of Religious Affairs to us may not cover the expenses incurred by us in the provision of our *hajj* services, and our profitability, financial condition and results of operations may be adversely affected.

We are currently the only Indonesian airline contracted by the Ministry of Religious Affairs for *hajj* travel. The Ministry may, however, invite other Indonesian or international airlines to tender for this business, and there can be no assurance that the Ministry of Religious Affairs will continue its contractual arrangements with us in the future. There can be no assurance that we will be able to maintain our arrangements with the Ministry of Religious Affairs, and our failure to do so could have a material adverse effect on our business, financial condition, results of operations and prospects.

We have been dependent on the Government and entities owned and controlled by the Government for financial support and other key services.

The Government has historically funded the acquisition of certain aircraft in our fleet through borrowings from external creditors and then leased the aircraft to us for use in our flight operations. It has also made capital contributions and converted certain debt obligations owed by us into equity, thereby assisting us in improving our financial position. See "Principal and Selling Shareholders."

Substantially all of our flights are operated from the Soekarno-Hatta International Airport and the Ngurah-Rai Airport, which are operated by Government-owned entities, PT Angkasa Pura II (Persero) ("AP II") and PT Angkasa Pura I (Persero) ("AP I"), respectively. We are invoiced on a monthly basis for our usage of airport facilities and services at each of the Indonesian airports to which we operate flight routes, including lease of ticketing and check-in counters and office space, air traffic control services, ground handling and other flight services. In 2007, certain trade payables owed by us to AP I and AP II were converted into equity in our Company and, more recently, certain other trade payables owed by us to Pertamina, AP I and AP II were converted into long-term subordinated indebtedness, in each case assisting us in improving our financial position. See "Principal and Selling Shareholders", "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Debt Restructuring — API and APII Subordinated Loans" and "Risk Factors — Risks Relating to Our Business — We source most of our fuel supply from Pertamina."

We cannot assure you that we will continue to receive financial support and key services from the Government and entities controlled by the Government. If such financial support and key services are not provided to us, or not provided to us on favorable terms, our business, prospects, financial condition, liquidity and results of operations may be materially and adversely affected, which would limit our ability to compete effectively and expand our business.

We have had and may in the future have working capital deficits.

We have working capital deficits. A working capital deficit means that our current liabilities exceed our current assets. Current liabilities include those that fall due for payment within one year of the balance sheet date and include a portion of any of our indebtedness and fixed payment obligations. Current assets are assets that are expected to be converted to cash or otherwise utilized within one year of the balance sheet date and, therefore, may be used to pay current liabilities as they become due during that period.

Due to the nature of our business, our current liabilities will generally exceed our current assets. As at December 31, 2007, 2008, 2009 and September 30, 2010, our current liabilities exceeded our current assets by Rp. 1,427.4 billion, Rp. 2,458.7 billion, Rp. 2,135.1 billion and Rp. 1,162.7 billion, respectively. These current liabilities primarily arise from accrued expenses, unearned revenues for our scheduled and *hajj* flight operations and the current portion of long-term loans and lease liabilities incurred for the expansion of our aircraft fleet. The portion of the loan repayments and lease liabilities due in the next 12 months from a balance sheet date are reflected as current liabilities on our balance sheet.

In the years ended 2007, 2008 and 2009 and the nine months ended September 30, 2010, we had net cashflow from operating activities of Rp. 1,215.0 billion, Rp. 1,766.0 billion, Rp. 1,369.8 billion, and Rp. 1,410.3 billion, respectively, and unearned revenue from scheduled and *hajj* flight operations of Rp. 902.0 billion, Rp. 689.0 billion, Rp. 524.1 billion, and Rp. 1,795.9 billion, respectively.

We may, however, incur additional indebtedness and other fixed payment obligations to finance all or a portion of our planned fleet expansion or for other purposes. In addition, depending on our capital requirements, market conditions and other factors, we may raise additional funds through debt or equity offerings or the sale or other disposition of shares or assets. We cannot assure you that we will be able secure adequate capital to continue our business and our failure to do so could have a material adverse effect on our business, financial condition and results of operations. See "Risk Factors — Risks Relating to our Company — Our high levels of indebtedness and fixed payment obligations could adversely affect our ability to implement our growth strategy" and "Risk Factors — Risks Relating to Ownership of the Shares — Your right to participate in future rights offerings could be limited, which would cause dilution to your holdings" and "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Working Capital."

Our fuel surcharges have been challenged in Indonesia, Australia and New Zealand.

On May 4, 2010, the Indonesian Business Competition Supervisory Commission (*Komisi Pengawas Persaingan Usaha* or "KPPU") fined us Rp. 187.0 billion for alleged anti-competitive practices with respect to passenger fuel surcharges in violation of Article 11 of Law No. 5 of 1999 on Prohibition of Monopolistic Practices and Unfair Business Competition (Law No. 5 of 1999) (the "Competition Law"). On June 17, 2010, we submitted an appeal of the decision of the KPPU to the Central Jakarta District Court. On December 8 and 15, 2010, the District Court for Central Java held hearings and ordered the KPPU to hold additional examinations of expert witnesses designated by us. The KPPU is scheduled to submit a dossier of expert testimony to the panel of judges on January 26, 2011. No decision has been reached in connection with this appeal as of the date of this

Offering Circular. In September 2009, the Australian Competition and Consumer Commission commenced proceedings against our Company, together with other international airlines, for alleged participation in a global cargo fuel surcharge cartel. Between October 2009 and June 2010, pre-hearings were held with respect to the charges against us and, on June 2, 2010, the Federal Court of Australia, New South Wales District Registry, rejected our motion to dismiss based on the Foreign States Immunities Act 1985. On October 17, 2010, we submitted an appeal against the dismissal which is currently pending review by the court. No other findings or decisions have been made in connection with the proceedings as of the date of this Offering Circular. In 2008, the New Zealand Commerce Commission published a statement of issue against us, together with other international airlines, for alleged participation in a global cargo fuel surcharge cartel. The joint defense hearing with respect to the charges against us and the other international airlines in New Zealand is scheduled to commence in 2011. No findings or decisions have been released in connection with the New Zealand hearing as of the date of this Offering Circular.

If we are found to have been acting in violation of Indonesian, Australian, New Zealand or other antitrust or competition laws of other jurisdictions, we may be subject to, among others, the imposition of substantial fines, administrative penalties, and other civil or criminal penalties, restrictions on our business activities in the relevant jurisdictions, the cancellation or suspension of certain licenses required for our business operations in such jurisdictions, or other sanctions. If this occurs, or if any material restrictions are imposed on our ability to apply fuel surcharges, our business, prospects, profitability, financial condition and results of operations may be materially and adversely affected.

Our reputation and business have been adversely affected by the European Union ban on flights to Europe by Indonesian carriers.

We are required to obtain and maintain the requisite licenses and approvals necessary to operate our route network. The airline industry is subject to extensive regulation and we have no control over the regulations that may apply to us. Changes in regulations or introduction of new laws or regulations may have a material adverse effect on our business, financial condition, results of operations and prospects.

In June 2007, the European Union ("EU") imposed a ban on all Indonesian airlines with effect from July 6, 2007, citing deteriorating safety standards since deregulation of the Indonesian aviation sector in the late 1990s. It also issued warnings to citizens of its member countries discouraging use of Indonesian airlines for transit routes, such as between Jakarta and Bali, Indonesia. The Government through the Minister of Transportation thereafter sought a review of the EU-imposed ban. In July 2009, the ban was lifted with respect to our company and three other Indonesian carriers. In June 2010, we commenced daily flights between Jakarta and Amsterdam.

The United States Federal Aviation Administration ("FAA") has also lowered the safety rating for all Indonesian airlines, citing the fact that the Indonesian airline regulator has failed to comply with international safety standards set by ICAO, thereby effectively prohibiting Indonesian-regulated airlines, including ourselves, from serving U.S. destinations. The FAA has also advised U.S. citizens to use alternatives to Indonesian air carriers. Although our international route network does not currently include any U.S. destinations, we would need to have the FAA restrictions lifted with respect to our company before we could commence serving U.S. destinations.

We cannot assure you that any existing regulatory restrictions will be lifted with respect to us or any future regulatory restrictions will not be imposed on us. The FAA, EU and other international regulatory authorities could continue to impose existing restrictions, or could impose additional restrictions (including additional flight bans) against air carriers certified by the Indonesian regulatory authorities, including ourselves. Any regulatory restrictions on our flight operations could adversely affect our growth strategy including our ability to maintain or increase the number of destinations on our route network, or the frequency of flights to existing destinations on our route network, any of which could have a material adverse effect on our reputation, as well as our business, financial condition, results of operation and prospects.

Higher interest expense could adversely affect our profitability.

Substantially all of our outstanding indebtedness bears floating rates, which has caused, and will continue to cause, our interest expense to fluctuate with changes in interest rates. Accordingly, our profitability is affected by changes in U.S. dollar LIBOR, due to the impact such changes have on our interest income and interest expenses from short-term deposits and other interest-bearing financial assets and liabilities. In addition, our indebtedness subject to both fixed and floating rates has a shorter tenor than our lease agreements, and we are subject to risk of refinancing at higher interest rates. Interest expense accounted for 3.1%, 1.9% and 1.5% of our total operating revenues in the years ended December 31, 2007, 2008 and 2009, respectively, and 0.9% of our operating revenues in the nine months ended September 30, 2010. Floating rates on our outstanding indebtedness may increase in the future and thereby increase our interest expense, which could decrease our margins and have a material adverse effect on our business, financial condition, results of operations and liquidity.

Increases in inflation could adversely affect our fleet expansion.

As of September 30, 2010, we had entered into aircraft purchase agreements with Boeing for the future acquisition of 11 Boeing 737-800, 10 Boeing 777 and six Airbus A330-200 aircraft scheduled for delivery between September 30, 2010 and 2016. In addition, we also have options to purchase four additional Airbus A330 aircraft. Under the terms of our aircraft purchase agreements with Boeing and Airbus, the acquisition price is subject to adjustment for, among others, inflation and wage-related increases, as determined in accordance with pre-agreed formulas set out in each agreement. In the event of significant increase in inflation, our capital expenditure and aircraft pre-delivery payment commitments may be significantly increased, which may adversely affect our ability to take delivery of such aircraft in accordance with our fleet expansion plan.

We may expand our business through acquisitions of airlines or airline-related businesses, which exposes us to uncertainties and integration risks related to future acquisitions.

The Government of Indonesia has introduced Law No. 1 of 2009 on Aviation, which requires all scheduled airlines to have a minimum fleet of ten aircraft by January 2012, and that carriers must own at least five aircraft, rather than relying entirely on operating leases. This law, combined with strong competition, could result in consolidation in the Indonesian aviation market, with smaller players being forced to merge or close down. As a result, we may acquire airlines or airline-related businesses to expand our business. Such acquisitions involve uncertainties and risks, including the following:

- difficulty with integrating the assets and operations of the acquired airlines or airline-related businesses, including their employees, corporate cultures, managerial systems, processes and procedures and management information systems and services;
- failure to achieve the anticipated synergies, cost savings or revenue-enhancing opportunities resulting from the acquisition of such airlines or airline-related businesses;
- difficulty with exercising control and supervision over the newly acquired operations; and
- increased financial pressure resulting from the assumption of recorded and unrecorded liabilities of the acquired airlines or airline-related business.

If we are unable to manage or integrate the newly acquired airlines or airline-related businesses successfully without substantial expense, delay or other operational or financial problems, we may be unable to achieve the objectives or anticipated synergies of such acquisitions and such acquisitions may adversely impact the operations and financial results of our existing businesses.

Risks Related To The Airline Industry

The airline industry is intensely competitive.

The airline industry is intensely competitive. We face various degrees of competition from FSCs and LCCs in each of the markets we serve. The primary competitive factors include price, schedule, route networks, service quality and type and age of aircraft. Many of our regional and international competitors have more extensive route networks, stronger brand recognition, and greater financial and technological resources than us. Many such competitors also have larger sales networks and participate in more comprehensive and widely accessible reservation systems than ours, or engage in promotional activities, such as marketing alliance programs, or enjoy public perception of superior safety and service records, that may enhance their ability to attract passengers. If we are unable to compete effectively in this environment, our business prospects and profitability may be adversely affected.

The Government of Indonesia has eased restrictions on foreign LCCs serving Indonesia's four gateway airports in Jakarta, Surabaya, Denpasar and Medan. This easing of restrictions, as well as the growth of domestic LCCs, has further increased competition. Any further changes in competitive conditions in the Indonesian and regional airline markets, in respect of FSCs or LCCs, including as a result of the introduction of "open skies" privileges — for instance, the implementation of the Association of Southeast Asian Nation ("ASEAN") "Open Skies" policies — or cabotage rights in Indonesia, could significantly affect our results of operations.

From time to time, certain of our domestic and international routes also face significant fare discounting, or promotional pricing, which reduces our passenger yields. The recent entry of new airlines, particularly LCCs, has increased seat capacity and price competition on our existing routes. We cannot assure you that our present or future competitors will not engage in fare discounting or promotional pricing in an attempt to gain market share from our FSC Garuda Indonesia and LCC Citilink businesses, which may have a material adverse effect on our financial condition and results of operations.

Increases in fuel costs would adversely affect our business.

The supply and price of jet fuel significantly impact our operating expenses and results of operations. Jet fuel costs represented 34.3%, 41.2%, 29.4% and 31.8% of our total operating expenses in 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively. Historically, fuel costs have been subject to wide price fluctuations based on geopolitical issues and supply and demand. Fuel availability is also subject to periods of market surplus and shortage and can be affected by demand for both kerosene and gasoline. We purchase a substantial portion of our jet fuel, including all of the jet fuel required for our domestic operations, from one source, Pertamina. Because of the variety of factors that affect the price and availability of fuel, the cost and future availability of fuel cannot be predicted with any degree of certainty. Although we have utilized fuel hedging for our *hajj* flight operations since 2009, we do not currently utilize fuel hedging for our scheduled flight operations. In addition, fuel hedges may be limited in fuel volume and duration. We cannot assure you that fuel hedging arrangements, if expanded to our scheduled flight operations, would be sufficient to fully protect us against increases in the price of jet fuel. In addition, due to the intensely competitive nature of the airline industry and regulation in Indonesia and abroad, we may be unable to pass future fuel cost increases on to our customers. Any of the foregoing could have a material adverse effect on our business, financial condition and results of operations.

Changes in government regulations could harm our business.

Airlines are subject to extensive regulatory and legal requirements, both domestically and internationally, that involve significant compliance costs. We have incurred and expect to continue to incur expenses in connection with complying with government regulations. Additional laws, regulations, taxes and airport rates and charges have been proposed from time to time that could significantly increase the cost of airline operations or reduce the demand for air travel. If adopted, these measures could have the effect of raising ticket prices, reducing revenue and increasing costs. We cannot assure you that these and other laws or regulations enacted in the future will not harm our business.

The airline business is characterized by high fixed costs.

The airline business is generally characterized by high fixed costs, including finance and operating lease payments for our aircraft and engines. The costs associated with operating our flights do not vary proportionately with the number of passengers carried, while revenues generated from a flight are directly related to the number of passengers carried and the fare structure of the flight. Aircraft rental and charter expenses (which predominantly comprises our aircraft rental expenses) accounted for 11.1%, 10.2% and 13.6% of our airline services revenue in the years ended December 31, 2007, 2008 and 2009, respectively, and 11.5% of our airline services revenue in the nine months ended September 30, 2010. Accordingly, any change in the number of our passengers, our pricing or our traffic mix could have an effect on our operating and financial results.

We have only a limited number of suppliers for our aircraft and engines.

Our business strategy is to increase aircraft fleet synergies and reduce operating costs through our fleet modernization and simplification program. We currently operate two types of wide-bodied aircraft, the Boeing 747 and Airbus A330 models, and four types of narrow-bodied aircraft, the Boeing 737-300, 737-400, 737-500 and 737-800 models. We intend to phase out the Boeing 747s and replace them with more fuel-efficient and longer-range Boeing 777-300 ERs. We also intend to phase out the Boeing 737-300, 737-400 and 737-500 aircraft and operate the more fuel-efficient Boeing 737-800 and also sub-100 seat aircraft. The Boeing 777-300 ER and 737-800 models are manufactured by Boeing and the A330 models are manufactured by Airbus. The engines used on our aircraft are manufactured by CFM International S.A. (a joint venture of Snecma (SAFRAN Group) in France and General Electric in the U.S.) and Rolls-Royce Plc. We intend to continue to rely on these aircraft manufacturers to supply future aircraft for our flight operations, and have entered into a purchase agreements with Boeing and Airbus for the acquisition of additional aircraft. We are currently reviewing our fleet requirements and the scheduled delivery of new aircraft under our existing purchase agreements. If we should seek to renegotiate our existing purchase agreements with Boeing or Airbus and be unable to conclude such negotiations amicably, or ultimately fail to perform our contractual obligations under the existing purchase agreements, Boeing or Airbus may refuse to continue to supply us with further aircraft. In addition, if either Boeing or Airbus is unable to perform their contractual obligations, or if we are unable to acquire or lease new aircraft or engines from aircraft or engine manufacturers or lessors on acceptable terms, we would have to find other suppliers for similar types of aircraft or engines.

If we had to lease or purchase replacement aircraft from an alternative supplier, we could lose the benefits we currently derive from our current fleet composition and may not realize the synergies and other benefits we expect to derive from our intended future fleet simplification. There can be no assurance that such replacement aircraft would have the same operating advantages as the Boeing and Airbus aircraft which comprise the major part of our fleet, or that such replacement aircraft would be as reliable and efficient. We may also incur substantial transition costs, including costs associated with re-training our employees, replacing our manuals and adapting our facilities, to the extent that such costs would not be covered by the alternative supplier. Our operations could also be harmed by the failure or inability of Boeing, Airbus, CFM International S.A. or Rolls-Royce Plc to provide sufficient parts or related support services on a timely basis.

Our business would be significantly harmed if a design defect or mechanical problem were discovered with the Boeing or Airbus aircraft models, or the CFM International S.A. or Rolls-Royce engines, which comprise our fleet, causing our aircraft to be grounded while any such defect or problem is being corrected, assuming it could be corrected at all. The use of our aircraft could be suspended or restricted in the event of any actual or perceived mechanical or design problems while investigations are being conducted. Our business would also be significantly harmed if the public avoids flying our aircraft due to an adverse perception of such aircraft models or engines because of safety concerns or other problems, whether real or perceived, or in the event of an accident involving any of these aircraft models or engines.

Our reputation and business could be adversely affected if we experience an aircraft accident or incident.

An aircraft accident or incident could involve not only repair or replacement of a damaged aircraft and its consequent temporary or permanent loss from service, but also significant potential claims from injured passengers and survivors of deceased passengers. Although we believe that we maintain sufficient insurance coverage comparable to other Indonesian airlines, our coverage levels may be inadequate and we may be forced to bear substantial losses arising from an accident or incident. Substantial claims resulting from an aircraft accident or incident in excess of related insurance coverage could have a material adverse effect on our results of operations and financial condition. Moreover, any aircraft accident or incident, even if fully insured, could create a public perception that we are less safe or reliable than other airlines, which would harm our business, reputation and results of operations. On March 7, 2007, Garuda Indonesia Flight GA200 crashed on landing at Adisucipto International Airport in Yogyakarta with 21 fatalities. The NTSC accident investigation of the incident determined that the cause of the accident was pilot error, and that the pilot ignored multiple automated warnings of excessive landing speed and Company procedures to abort the landing. The pilot was subsequently convicted of criminal negligence, although this conviction was later overturned on appeal. Since 2007 until September 2010, we have paid approximately US$82.4 million in compensation to passengers and the families of the deceased passengers, and incurred losses of US$21.6 million relating to the write-off of the aircraft, and we have received an aggregate of US$104.0 million in compensation under our insurance policies. On July 30, 2010, the wife and child of a deceased crew member filed a suit in the Kyoto District Court of Japan claiming for loss of spousal support and estimated loss of earnings. A pre-hearing was held on November 5, 2010. No findings or decisions have been released in connection with the hearing as of the date of this Offering Circular. The outcome of the outstanding litigation claim described above is inherently uncertain, and there can be no assurances that the action, if adversely determined, will not have a material adverse effect on our business. For a summary of our major flight accidents in the past fifteen years, see "Business — Safety."

Our results of operations may fluctuate from period to period due to the highly cyclical and seasonal nature of the airline industry.

Since the airline industry is vulnerable to economic cycles, the airline industry has historically experienced significant financial losses during economic downturns and periods of political and social instability. Any future general reduction in airline passenger traffic (which may be caused by economic, political and social factors that we cannot control) may adversely affect our financial condition and results of operations. In addition, the airline industry tends to be seasonal in nature, with most of our revenues from passenger services generated during the second half of the year due to travel for tourism during summer school holidays and the year-end holiday season. Our revenues from domestic passenger services are also affected by low demand during the Muslim Ramadhan holiday, which occurred during the late summer months in each of the years from 2007 through 2010. Our revenue from *hajj* operations, which represented 94.0%, 92.9% and 93.9% of total operating revenues from non-scheduled flight services in 2007, 2008 and 2009, also varies annually with the Muslim lunar calendar. Our *hajj* flight operations in the period from 2007 through 2009 generally covered a twelve week period commencing in each year on a date moving forward from November to October during the period. Since our *hajj* flight operations in 2009 were completed prior to December 31, 2009, and our *hajj* flight operations commenced only in October 2010, we had no revenue from *hajj* flight operations in the nine month period ended September 30, 2010. See also "— Domestic, regional or global economic changes may adversely affect our businesses."

An outbreak of avian flu, severe acute respiratory syndrome ("SARS"), the influenza A (H1N1) virus or other contagious diseases, or the perception that such outbreaks may occur, may adversely affect demand for air travel.

During the last few years, large parts of Asia experienced unprecedented outbreaks of the avian flu. As of August 31, 2010, the World Health Organization ("WHO") had confirmed a total of 300 fatalities in a total number of 505 cases reported to the WHO, which only reports laboratory confirmed cases of avian flu. Of these, the Indonesian Ministry of Health reported to the WHO 139 fatalities in a total number of 168 cases of avian flu in Indonesia. In addition, the WHO announced in June 2006 that human-to-human transmission of avian flu had been confirmed in Sumatra, Indonesia. According to the United Nations Food and Agricultural Organization, the avian flu virus is entrenched in 31 of Indonesia's 33 provinces and efforts to contain avian flu are failing in Indonesia, increasing the possibility that the virus may mutate into a deadlier form. No fully effective avian flu vaccines have been developed and an effective vaccine may not be discovered in time to protect against the potential avian flu pandemic.

In 2003, certain countries in Asia experienced an outbreak of SARS, a highly contagious form of atypical pneumonia, which seriously interrupted economic activities and caused the demand for goods to plummet in the affected regions.

In April 2009, there was an outbreak of the Influenza A (H1N1) virus which originated in Mexico but has since spread globally including confirmed reports in Indonesia, Hong Kong, Japan, Malaysia, Singapore, and elsewhere in Asia. The Influenza A (H1N1) virus is believed to be highly contagious and may not be easily contained.

We cannot assure you that future outbreaks of contagious diseases will not occur and that any future outbreaks, or the measures taken by the governments of Indonesia and other countries against contagious diseases, will not have a material adverse affect on our results of operations. Furthermore, adverse publicity regarding concerns related to communicable diseases and the susceptibility of air passengers thereto, whether or not valid, may discourage passengers from traveling or cause delays or disruptions to our flight schedule, thereby adversely affecting our results of operations.

Future terrorist attacks, or the threat of such attacks, may increase the cost of our operations and reduce demand for our services.

Since 2002, several bombing incidents have taken place in Indonesia, most significantly in Bali in October 2002 and October 2005, at a Marriott Hotel in Jakarta in August 2003, at the Australian Embassy in Jakarta in September 2004 and in the eastern Indonesian town of Tentena on the island of Sulawesi in May 2005. Demonstrations have also taken place in Indonesia in response to plans for and subsequent to U.S., British and Australian military action in Iraq. Most recently, on July 17, 2009, bombs exploded at each of the Ritz Carlton and JW Marriott hotels in Jakarta, killing nine people and injuring more than 50 others. The Indonesian authorities have prosecuted and sentenced certain persons in connection with these incidents, and continue to investigate these incidents, and have suggested that they may be linked to the activities of certain Islamic militant groups.

Terrorist attacks and their aftermath may negatively affect the Indonesian airline industry. The potential impact on the airline industry include the substantial loss of passenger traffic and revenues, increased security and insurance costs, increased concerns about future terrorist attacks, airport delays due to heightened security and reduced passenger yields resulting from lower demand for air travel. Additional terrorist attacks, even if not directed at or effected through the airline industry, or the fear of such attacks, could negatively affect the airline industry and result in further decreased passenger traffic and yields, increased flight delays or cancellations associated with new government mandates and increased security, fuel, insurance and other costs. We cannot assure you that these events will not harm the airline industry generally or our business.

Insurance may become more difficult or expensive to obtain.

Since the September 11, 2001 terrorist attacks in the United States, airline insurers have increased premiums, applied per passenger insurance surcharges and significantly reduced the maximum amount of third-party war liability insurance coverage for claims resulting from acts of terrorism, war or similar events. In line with airline industry practice, we leave some business risks uninsured including business interruptions, loss of profit or revenue, and consequential business losses arising from mechanical breakdown. To the extent that such uninsured risks materialize, we could be materially and adversely affected. There can be no assurance that our insurance will cover actual losses incurred. To the extent that actual losses incurred by us exceed the amount insured, we may have to bear substantial losses which will have a material adverse effect on our business.

As a result of terrorist attacks or other world events, certain aviation insurance could become more expensive, unavailable or available only for reduced amounts of coverage that are insufficient to comply with the levels of coverage required by our aircraft lessors or applicable government regulations. Any inability to obtain insurance, on commercially acceptable terms or at all, for our general obligations or specific assets, could have a material adverse effect on our business.

Risks Relating to Indonesia

A significant portion of our operations and substantially all of our assets are in Indonesia. As a result, future political, economic and social conditions in Indonesia, as well as certain actions and policies the Government may take or adopt, or omit from taking or adopting, could have a material adverse effect on our business, financial condition, results of operations and prospects.

Domestic, regional or global economic changes may adversely affect our businesses.

The economic crisis which affected Southeast Asia, including Indonesia, from mid-1997 was characterized in Indonesia by, among other effects, currency depreciation, negative economic growth, high interest rates, social unrest and extraordinary political developments. These conditions had a material adverse effect on Indonesian businesses. The economic crisis resulted in the failure of many Indonesian companies, through inability or otherwise, to repay their debts when due. Indonesia's economy remains significantly affected by the Asian economic crisis and, more recently, by the global economic crisis that began in late 2007, as evidenced by the decrease in its rate of growth to 4.5% in 2009 from 6.1% in 2008 and from 6.3% in 2007. The global financial markets have experienced, and may continue to experience, significant turbulence originating from the liquidity shortfalls in the U.S. credit and sub-prime residential mortgage markets since the second half of 2007, which have caused liquidity problems resulting in bankruptcy for many institutions, and resulted in major government bailout packages for banks and other institutions. The global crisis has also resulted in a shortage in the availability of credit, a reduction in foreign direct investment, the failure of global financial institutions, a drop in the value of global stock markets, a slowdown in global economic growth and a drop in demand of certain commodities.

As a result of these economic crises, the Government has had to rely on the support of international creditors, international agencies and foreign governments to prevent sovereign debt defaults. The Indonesian Government continues to have a large fiscal deficit and a high level of sovereign debt, its foreign currency reserves are modest, the Rupiah continues to be volatile and has poor liquidity, and the banking sector is weak and suffers from high levels of non-performing loans. Government funding requirements to areas affected by the Indian Ocean tsunami in December 2004 and other natural disasters, as well as increasing oil prices, may increase the Government's fiscal deficits. Inflation (measured by the year on year change in the consumer price index) remains volatile with an annual inflation rate of 2.78% in the year ended December 31, 2009. Interest rates in Indonesia have also been volatile in recent years, which has had a material adverse impact on the ability of many Indonesian companies to service their existing indebtedness. The economic difficulties Indonesia faced during the Asian economic crisis that began in 1997 resulted in, among other things, significant volatility in interest rates, which had a material adverse impact on the ability of many Indonesian companies to service their existing indebtedness. While the interest rate for one- month Bank of Indonesia certificates has declined from a peak of 70.8% in late July 1998 to 6.5% on December 31, 2009, there can be no assurance that the recent improvement in economic condition will continue or the previous adverse economic condition in Indonesia and the rest of the Asia Pacific region will not occur in the future. In particular, a loss of investor confidence in the financial systems of emerging and other markets, or other factors, may cause increased volatility in the international and Indonesian financial markets and inhibit or reverse the growth of the global economy and the Indonesian economy.

The global economic crisis which began in late 2007 affected the global economy, including Indonesia and Southeast Asia, and has been characterized by, among other things, a shortage in the availability of credit, a reduction in foreign direct investment, the failure of global financial institutions, a drop in global stock markets and a slowdown in global economic growth. The airline industry is vulnerable to economic cycles and the airline industry has historically experienced significant financial losses during economic downturns. As a result, an economic downturn could have a material adverse effect on the demand for our airline services. In addition, the general lack of available credit and lack of confidence in the financial markets associated with any market downturn could adversely affect our access to capital. Any of the foregoing could materially and adversely affect our businesses, financial condition, results of operations and prospects.

Political and social instability in Indonesia may adversely affect the economy, which in turn could have a material adverse effect on our business, financial condition, results of operations and prospects.

Since 1998, Indonesia has experienced a process of democratic change, resulting in political and social events that have highlighted the unpredictable nature of Indonesia's changing political landscape. These events have resulted in political instability as well as general social and civil unrest on certain occasions in the past few years. As a relatively new democratic country, Indonesia continues to face various socio-political issues and has, from time to time, experienced political instability and social and civil unrest.

Since 2000, thousands of Indonesians have participated in demonstrations in Jakarta and other Indonesian cities both for and against former President Wahid, former President Megawati, and current President Susilo Bambang Yudhoyono, as well as in response to specific issues, including fuel subsidy reductions, privatization of state assets, anti-corruption measures, the bailout of PT Bank Century Tbk. in 2008, decentralization and provincial autonomy and the American-led military campaigns in Afghanistan and Iraq.

In 2004, Indonesians directly elected the President, Vice-President and representatives in the Indonesian Parliament for the first time. Indonesians have also begun directly electing heads and representatives of local and regional governments. It is likely that increased electoral activity will be accompanied by increased political activity in Indonesia. In April 2009, elections were held to elect the representatives in the Indonesian Parliament (including national, regional and local representatives). The Indonesian Presidential elections, held in July 2009, resulted in the re-election of President Yudhoyono. Although the April 2009 and July 2009 elections were conducted in a peaceful manner, political campaigns in Indonesia may bring a degree of political and social uncertainty to Indonesia. Political and related social developments in Indonesia have been unpredictable in the past. Social and civil disturbances could directly or indirectly, materially and adversely affect our businesses, financial condition, results of operations and prospects.

Changes in the Government and Government policies may have a direct impact on our business and the market price of our shares. In addition, Indonesia has experienced frequent social unrest arising from economic issues which has, on occasion, escalated into riots and violence. In June 2001, demonstrations and strikes affected at least 19 cities after the Government mandated a 30% increase in fuel prices. Similar demonstrations occurred in January 2003 when the Government tried to increase fuel prices, as well as electricity and telephone charges. In both instances, the Government was forced to repeal, defer or substantially reduce such proposed increases. In October 2005, the Government decreased fuel subsidies to the public, which raised the price of premium gasoline by approximately 87.5% to Rp. 4,500 (approximately US$0.44 on that date) per liter, the price of regular gasoline and diesel fuel by approximately 104.8% to Rp. 4,300 (approximately US$0.42 on that date) per liter, and the price of kerosene by approximately 185.7% to Rp. 2,000 (approximately US$0.19 on that date) per liter, resulting in large public demonstrations. Prices for these products have continued to increase. In May 2008, the Government further decreased fuel subsidies to the public, which has also led to public demonstrations. Similar fuel subsidy cuts contributed to the political instability that led to the resignation of then President Soeharto in 1998, which had adverse effects on businesses in Indonesia. There can be no assurance that future changes in the Government and Government policies will not result in political and social instability.

Separatist movements and clashes between religious and ethnic groups have also resulted in social and civil unrest in parts of Indonesia. In the provinces of Aceh and Papua (formerly Irian Jaya), there have been numerous clashes between supporters of those separatist movements and the Indonesian military. In the provinces of Maluku and West Kalimantan, clashes between religious groups and ethnic groups have produced thousands of casualties and refugees over the past several years. The Government has attempted to resolve problems in these troubled regions with limited success except in the province of Aceh in which an agreement between the Government and the Aceh separatists was reached and peaceful local elections were held with some former separatists as candidates.

Growing regional autonomy creates an uncertain business environment for us and may increase our costs of doing business.

In response to a rise in demand for and assertion of autonomy in local governments in Indonesia, the Government has recently devolved some autonomy to local governments, allowing the imposition by such local governments of taxes and other charges on businesses within their jurisdiction and often requiring local participation and investment in such businesses. Increased regional autonomy may increase regulation of our business require organizational restructuring to be undertaken and increase taxes and other costs of doing business, all of which could have a material and adverse effect upon our business, prospects, financial condition, cash flows and results of operations.

Indonesia is located in a volcanically active zone and is subject to significant seismic risk that could disrupt our operations.

The Indonesian Archipelago is one of the most volcanically active regions in the world. Because it is located in the convergence zone of three major tectonic plates, it is subject to significant seismic activity that can lead to destructive volcanic eruptions, earthquakes and tsunamis. On December 26, 2004, an underwater earthquake off the coast of Sumatra released a tsunami that devastated coastal communities in Indonesia, Thailand and Sri Lanka. In Indonesia, more than 220,000 people died or were recorded as missing in the disaster. Aftershocks from the December 2004 tsunami and additional high-magnitude earthquakes have occurred in Indonesia, causing significant fatalities and damage. For example, earthquakes struck south of the Central Javanese city of Yogyakarta in May 2006, off the southern coast of Java in July 2006, Solok in Western Sumatra in March 2007 and southern Sumatra in September 2007. There have also been several earthquakes in the Sulawesi area of magnitudes ranging between 4.6 to 7.7 in 2008 and 2009, most recently in February 2009 when a 7.0 magnitude earthquake struck Sulawesi. The earthquake was followed by two aftershocks but it did not cause any tsunami and there was no report of casualties or damage. In January 2009, a 7.6 magnitude earthquake struck approximately 95 miles north of Manokwari, followed by another big earthquake and a string of aftershocks. These killed at least four people and injured at least 37 people. Electricity was also cut off in the city with a population of approximately 160,000 people. In September 2009, a 6.0 magnitude earthquake struck Tasikmalaya, West Java killing at least 72 people and a 7.6 magnitude earthquake hit Padang, Sumatra killing at least 400 people and trapping thousands of people under rubble.

In addition to these geological events, heavy rains in December 2006 resulted in floods that killed more than 100 people and displaced over 400,000 people on the northwestern Sumatra island. More flooding in January and February 2007 around the capital, Jakarta, killed at least 30 people and displaced at least 340,000 from their homes. In July 2007, at least nine people were killed and at least 16,000 people were forced to flee their homes because of floods and landslides caused by torrential rains on the island of Sulawesi. More recently, in January 2009, torrential rain caused a colonial-era dam to burst outside Jakarta, sending a wall of muddy water crashing into a densely packed neighborhood and killing at least 58 people. The flood also left scores missing and submerged hundreds of homes.

During November and December 2010, frequent volcanic eruptions from Mount Merapi and Mount Bromo, two of Indonesia's most active volcanoes, led to flight restrictions in Indonesian airspace. As a result, we were required to cancel approximately 180 flights to and from certain destinations including Yogyakarta, Jakarta and other locations in Central Java. We were also required to re-route flights (and increase flight distances) to certain other destinations in Indonesia and abroad in order to circumvent the volcanic ash. Such flight cancellations negatively impacted our passenger revenues and passenger volumes and the re-routing of flights increased our jet fuel and other flight operations expenses for the three-month period ended December 31, 2010.

While recent seismic events have not had a significant economic impact on Indonesian capital markets, the Government has had to spend significant amounts on emergency aid and resettlement efforts. Most of these costs have been underwritten by foreign governments and international aid agencies. However, there can be no assurance that such aid will continue to be forthcoming, or that it will be delivered to recipients on a timely basis. If the Government is unable to timely deliver foreign aid to affected communities, political and social unrest could result. Additionally, recovery and relief efforts are likely to continue to impose a strain on the Government's finances, and may affect its ability to meet its obligations on its sovereign debt. Any such failure on the part of the Government, or declaration by it of a moratorium on its sovereign debt, could trigger an event of default under numerous private-sector borrowings including ours, thereby materially and adversely affecting our business, financial condition, results of operations and prospects.

We cannot assure you that our insurance coverage will be sufficient to protect us from potential losses resulting from such natural disasters and other events beyond our control. In addition, we cannot assure you that the premium payable for these insurance policies upon renewal will not increase substantially, which may materially and adversely affect our financial condition and results of operations. In addition, we cannot assure you that future geological occurrences will not have more of an impact on the Indonesian economy. A significant earthquake or other geological disturbance in any of Indonesia's more populated cities and financial centers could severely disrupt the Indonesian economy and undermine investor confidence, thereby materially and adversely affecting our business, financial condition, results of operations and prospects.

Depreciation or volatility in the value of the Rupiah may adversely affect our business, financial condition, results of operations and prospects.

Substantially all of our debt obligations, lease payment obligations, maintenance and overhaul and fuel expenses are denominated in U.S. dollars, while approximately half of our revenues are denominated in Rupiah, with the remainder denominated in other foreign currencies. Our consolidated financial statements are reported in Rupiah. Accordingly, we are exposed to exchange rate risk, in particular, exchange risk related to fluctuations in the U.S. dollar — Rupiah exchange rate. We currently do not hedge our exposure to currency exchange rate risk.

One of the most important immediate causes of the economic crisis which began in Indonesia in mid-1997 was the depreciation and volatility of the value of the Rupiah, as measured against other currencies, such as the U.S. dollar. Although the Rupiah has appreciated considerably from its low point of approximately Rp. 17,000 per U.S. dollar in January 1998, the Rupiah continues to experience significant volatility. See "Exchange Rate Information" for further information on changes in the value of the Rupiah as measured against the U.S. dollar in recent periods. We cannot assure you that the Rupiah will not be subject to depreciation and continued volatility, that the current exchange rate policy will remain the same, or that the Government will, or will be able to, act when necessary to stabilize, maintain or increase the value of the Rupiah, and will not act to devalue the Rupiah, or that any such action, if taken, will be successful.

The Rupiah has generally been freely convertible and transferable (except that Indonesian banks may not transfer Rupiah to persons outside of Indonesia and may not conduct certain transactions with non-residents). However, from time to time, Bank Indonesia has intervened in the currency exchange markets in furtherance of its policies, either by selling Rupiah or by using its foreign currency reserves to purchase Rupiah. We cannot assure you that the current floating exchange rate policy of Bank Indonesia will not be modified, that additional depreciation of the Rupiah against other currencies, including the U.S. dollar, will not occur, or that the Government will take additional action to stabilize, maintain or increase the value of the Rupiah, or that any of these actions, if taken, will be successful.

Modification of the current floating exchange rate policy could result in significantly higher domestic interest rates, liquidity shortages, capital or exchange controls or the withholding of additional financial assistance by multinational lenders. This could result in a reduction of economic activity, an economic recession, and declining passenger volumes, and as a result, we may also face difficulties in funding our fleet expansion and in implementing our business strategy. Any of the foregoing consequences could have a material adverse effect on our business, financial condition, results of operations and prospects.

Downgrades of credit ratings of Indonesia and Indonesian companies could materially and adversely affect us and the market price of the Offer Shares.

In 1997, certain recognized statistical rating organizations, including Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's, downgraded Indonesia's sovereign rating and the credit ratings of various credit instruments of the Government and a large number of Indonesian banks and other companies. Currently, Indonesia's sovereign foreign currency long-term debt is rated "Ba2" by Moody's, upgraded from "Ba3" on September 16, 2009, "BB" by Standard & Poor's, upgraded from "BB−" on March 12, 2010 and "BB+" by Fitch Ratings Service ("Fitch"), upgraded from "BB" on January 25, 2010 and its short-term foreign currency debt is rated "NP" by Moody's, "B" by Standard & Poor's and "B" by Fitch. These ratings reflect an assessment of the Government's overall financial capacity to pay its obligations and its ability or willingness to meet its financial commitments as they become due.

No assurance can be given that Moody's, Standard & Poor's, Fitch or any other statistical rating organization will not downgrade the credit ratings of Indonesia or other Indonesian companies in the future. Any such downgrade could have an adverse impact on liquidity in the Indonesian financial markets, the ability of the Government and Indonesian companies, including us, to raise additional financing and the interest rates and other commercial terms at which such additional financing is available and could have a material and adverse effect on us.

Indonesian corporate and other disclosure and accounting standards differ from those in the United States, countries in the European Union and other jurisdictions.

Our consolidated financial statements are prepared in accordance with Indonesian GAAP, which differ from U.S. GAAP. As a result, our consolidated financial statements and reported earnings could be different from those which would be reported under U.S. GAAP. This Offering Circular does not contain a reconciliation of our consolidated financial statements to U.S. GAAP, and there can be no assurance that such reconciliation, if performed, would reveal material differences. See "Summary of Certain Principal Differences Between Indonesian GAAP and U.S. GAAP."

Risks Relating to an Investment in Our Shares

Conditions in the Indonesian securities market may affect the price or liquidity of our shares; the size of our public float may contribute to a lack of liquidity.

We cannot assure you that a market will develop for our shares. The Indonesian capital markets are less liquid and have different reporting standards than markets in the United States and many other countries. Also, prices in the Indonesian capital markets are typically more volatile than in such other markets. In the past, Indonesian stock exchanges have experienced some problems which, were they to recur, could affect the market price and liquidity of the securities of Indonesian companies, including our shares. These problems have included closures of exchanges, broker defaults and strikes, settlement delays, and the bombing of the Jakarta Stock Exchange building. In addition, the governing bodies of the Indonesian stock exchanges have from time to time imposed restrictions on trading in certain securities, limitations on price movements and margin requirements. The levels of regulation and monitoring of the Indonesian securities markets and the activities of investors, brokers and other market participants are not the same as in certain other countries. In addition, the ability to sell and settle trades on the IDX may be subject to delays. In light of the foregoing, we cannot assure you that a holder of our shares will be able to dispose of such shares at prices or at times at which such holder would be able to do so in more liquid markets or at all.

The price of our shares may fluctuate widely.

The price of our shares after the Global Offering may fluctuate widely, depending on many factors, including:

- perceived prospects for our business and operations;
- differences between our actual financial and operating results and those expected by investors and analysts;
- changes in analysts' recommendations or perceptions of us or Indonesia;
- changes in general economic, social, political or market conditions in Indonesia;
- changes in prices of equity securities of foreign (particularly Asian) companies in emerging markets;
- additions or departures of key personnel;
- involvement in litigation; and
- broad stock market price fluctuations.

The International Selling Agents and the Joint Lead Managing Underwriters will not over-allot Offer Shares or otherwise stabilize the market price of the Offer Shares

The International Selling Agents and the Joint Lead Managing Underwriters will not be over-allotting the Offer Shares or taking other actions to stabilize or maintain the market price of the Offer Shares at levels which might not otherwise prevail in the open market. This is commonly done in other securities markets in the 30-day period immediately following the date of commencement of dealing in securities on the relevant exchange. As a result, the market price of the Offer Shares will be more susceptible to a decline than if such International Selling Agents and Joint Lead Managing Underwriters were permitted to take such actions.

Future changes in the value of the Rupiah against the U.S. dollar or other currencies will affect the foreign currency equivalent of the value of our shares and any dividends.

Our share price is denominated in Rupiah. Fluctuations in the exchange rate between the Rupiah and other currencies will affect the foreign currency equivalent of the Rupiah price of our shares on the IDX. Such fluctuations will also affect the amount in foreign currency received upon conversion of cash dividends or other distributions paid in Rupiah by us on, and the Rupiah proceeds received from any sales of, our shares, as well as the book value of foreign currency assets and liabilities, and income and expenses and cash flows in our consolidated financial statements.

Future sales of our shares could adversely affect the market price of our shares.

Future sales of substantial amounts of our shares in the public market, or the perception that such sales may occur, could adversely affect the prevailing market price of our shares or our ability to raise capital through a public offering of additional equity or equity-linked securities. We and our shareholders have agreed to certain restrictions on our respective abilities to transfer or otherwise dispose of our shares for a limited period following the closing of the Global Offering subject to certain restrictions and waiver by the International Selling Agents. After completion of the Global Offering, the Government, through the Ministry of State-Owned Enterprises, will hold approximately 69% of our outstanding shares. The Government has announced generally that it intends to privatize Government-owned enterprises, which may lead to the sale of our shares in the future as part of its privatization plans. The Government has not entered into a lock up agreement but has informed the International Selling Agents and us that it does not currently intend to offer, sell, contract to sell, pledge or otherwise dispose, directly or indirectly, of any of its shares in us for a period of six months following the listing date of our shares. See "Plan of Distribution." Nevertheless, future sales of large blocks of shares by our shareholders, or future sales of new shares by us, subsequent to the expiry of these restrictions, or the perception that such sales could occur, could cause the price of our shares to decrease and make it more difficult for us to raise capital.

We may be classified as a passive foreign investment company for United States federal income tax purposes, which could subject United States investors in Offer Shares to significant adverse tax consequences.

We may be classified as a passive foreign investment company (a "PFIC") for United States federal income tax purposes for the current or any future taxable year.

PFIC status is a factual determination made for each fiscal year, after the close of such year, on the basis of the composition of our income and our "active" versus "passive" assets for such year. Under the PFIC rules, we will generally be classified as a PFIC if, in the case of any particular fiscal year, the value of our passive assets exceeds the value of our active assets. For this purpose, cash and other liquid assets are generally classified as passive and goodwill and other unbooked intangibles associated with active business activities may generally be classified as active. The overall level of our passive assets will be significantly affected by the amount and time-frame within which we disperse the cash raised in this offering, and other liquid assets that we presently hold, for the purpose of the expenditures described in this prospectus. In addition, the overall level of our active assets will depend on, in great measure, the valuation of our goodwill and other unbooked intangibles as implied by our market capitalization which may decline.

If we were to be or become classified as a PFIC, United States investors in Offer Shares may incur a significantly increased United States income tax liability on gain recognized on the sale or other disposition of Offer Shares and on the receipt of distributions on the Offer Shares. See the section entitled "Taxation — Certain United States Federal Income Tax Considerations — Passive Foreign Investment Company Considerations".

Indonesian law may operate differently from the laws of other jurisdictions with regard to the convening of, and the right of shareholders to attend and vote at, general meetings of shareholders.

We are subject to Indonesian law and the listing requirements of the IDX. In particular, the convening and conduct of general meetings of our shareholders will be governed by Indonesian law. The procedure and notice periods in relation to the convening of special meetings of our shareholders, as well as the ability of our shareholders to attend and vote at such general meetings, may be different from those of jurisdictions outside Indonesia. For instance, our shareholders who would be entitled to attend and vote at general meetings of shareholders are, by operation of Indonesian law, those shareholders appearing in our register of shareholders one market day immediately preceding the day (the "Record Date"), on which the notice of general meeting is issued, regardless of whether such shareholders may have disposed of their shares following the Record Date and prior to the general meeting of the shareholders. In addition, investors who may have acquired their shares after the Record Date (any day before the day of the general meeting) would not be entitled to attend and vote at the general meeting. For further details on the procedure for the convening and conduct of general meetings of our shareholders under Indonesian law, please see "Description of our Shares." Accordingly, potential investors should note that they may be subject to procedures and rights with regards to general meetings of our shareholders that are different from those to which they may be accustomed in other jurisdictions.

Indonesian law contains provisions that could discourage a takeover of our company.

Under the regulations of BAPEPAM & LK, if there is any change of control of an Indonesian publicly listed company, the new controlling party must carry out a tender offer of the remaining shares (public shares, not including shares of the other controlling shareholders, if any). Under BAPEPAM & LK Regulation No. IX.H.1, Attachment of Decision of the Chairman of BAPEPAM & LK No. KEP-259/BL/2008, dated June 30, 2008, regarding Takeover of Publicly listed Companies, a takeover of a publicly listed company is defined as an action which directly or indirectly changes the controlling party of that publicly listed company. A controlling party of a publicly listed company is:

- a party that owns 50% or more of the total issued capital of the publicly listed company; or
- a party that has direct or indirect ability to determine the management and/or policy of the publicly listed company.

Although such take-over provisions are intended to protect the interests of shareholders by requiring any acquisitions of our shares that may involve or threaten a change in control to also be extended to all shareholders on the same terms, these provisions may discourage or prevent such transactions from taking place at all.

The application of BAPEPAM & LK conflict of interest rules may cause us to forego transactions that are in our best interests.

In order to protect the rights of minority shareholders, the rules of BAPEPAM & LK afford independent shareholders of Indonesian public companies the right to vote to approve or disapprove any transactions, whether or not material, which entail a "conflict of interest" under the BAPEPAM & LK rules unless the conflict existed before a company became listed on the IDX and was fully disclosed in the relevant Indonesian share offering documents. Transactions between us and our affiliates could constitute conflict of interest transactions under the BAPEPAM & LK rules. As a result, the approval of holders of a majority of shares owned by disinterested shareholders would have to be obtained if a conflict of interest were to exist. BAPEPAM & LK has the power to enforce this rule and our shareholders may also be entitled to seek enforcement or bring enforcement actions based on this BAPEPAM & LK rules.

The requirement to obtain independent shareholder approval could be burdensome to us in terms of time and expense and could cause us to forego entering into certain transactions which we might otherwise consider to be in our best interests. Moreover, we cannot assure you that approval of disinterested shareholders would be obtained if sought.

Your right to participate in future rights offerings could be limited, which would cause dilution to your holdings.

To the extent that in the future we offer our shareholders rights to purchase or subscribe for shares or otherwise distribute shares to our shareholders, U.S. holders may be unable to exercise such rights for our shares unless a registration statement under the U.S. Securities Act is effective with respect to the new shares or an exemption from registration under the U.S. Securities Act is available.

Whenever we make a rights or similar offering of our shares, we will evaluate the costs and potential liabilities associated with, and our ability to comply with, U.S. regulations, for any such registration statement and any other factors we consider appropriate. However, we may choose not to file any such registration statement. If we do not file a registration statement and no exemption from registration under the U.S. Securities Act is available, then U.S. holders of our shares would be unable to participate in rights or similar offerings and would suffer dilution of their shareholdings. Also, there may be similar restrictions in other jurisdictions that affect our ability to offer rights and make other share offerings in these jurisdictions. Consequently, we cannot assure you that you will be able to maintain your proportional equity interests in us. Also, as rights issues in

Indonesia generally enable participants to purchase shares at a discount to the recent trading price, your inability to participate in such rights offerings could cause you material economic harm.

You may not be able to enforce a judgment of a foreign court against us and it may be difficult or impossible for you to pursue claims relating to the shares in Indonesia.

We are a limited liability company incorporated under the laws of Indonesia. All of our commissioners, directors and executive officers reside in Indonesia. A substantial portion of our assets and the assets of such persons are located in Indonesia. As a result, it may not be possible for investors to effect service of process within the United States upon us or such persons or to enforce against us or such persons judgments obtained in U.S. courts, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state or territory within the United States. Judgments of U.S. courts, including judgments predicated upon the civil liability provisions of the federal securities laws of the United States, are not enforceable in Indonesian courts, and there is doubt as to whether Indonesian courts will enter judgments in original actions brought in Indonesian courts predicated solely upon the civil liability provisions of the federal securities laws of the United States. As a result, holders of our shares may be required to pursue claims against us in Indonesia under Indonesian law.

The claims and remedies available under Indonesian law may not be as extensive as those available in other jurisdictions. We cannot assure you that the Indonesian courts will protect the interests of investors in the same manner or to the same extent as would U.S. courts.

Indonesia's legal system is a civil law system based on written statutes, and decided legal cases do not constitute binding precedent. The administration of laws and regulations by courts and government agencies may be subject to considerable discretion. In addition, because relatively few disputes relating to commercial matters and modern financial transactions and instruments are brought before Indonesia's courts, such courts do not necessarily have the experience of courts in other countries. There is uncertainty as to how long it will take for proceedings in Indonesian courts to be concluded and the outcome of proceedings in Indonesian courts may be more uncertain than that of similar proceedings in other jurisdictions. Accordingly, it may not be possible for investors to obtain swift and equitable enforcement of their legal rights.

In addition, purchasers of our shares may have more difficulty in protecting their interests against actions by our commissioners, directors or principal shareholders than they might have as investors in shares in a corporation established under the laws of other jurisdictions.

You may be subject to limitations on minority shareholders' rights.

The obligations under Indonesian law of majority shareholders, commissioners and directors with respect to minority shareholders may be more limited than those in certain other countries such as the United States or the United Kingdom. Consequently, minority shareholders may not be able to protect their interests under current Indonesian law to the same extent as in certain other countries. Principles of corporate law relating to such matters as the validity of corporate procedures, the fiduciary duties of our management, directors, commissioners and controlling shareholders, and the rights of our minority shareholders are governed by Indonesian law and our articles of association. Such principles of law differ from those that would apply if we were incorporated in a jurisdiction in the United States or in other jurisdictions. In particular, concepts relating to the fiduciary duties of management are untested in Indonesian courts. Derivative actions have almost never been brought on behalf of companies or been tested in Indonesian courts, and minority shareholders' rights have only been defined since 1995 and are unproven in practice. Accordingly, we cannot assure you that legal rights or remedies of minority shareholders will be the same, or as extensive, as those available in other jurisdictions or sufficient to protect the interests of minority shareholders. See "Description of our Shares."

There may be less company information available, and corporate governance standards may differ, for public companies listed on Indonesian securities markets as compared with those listed on securities markets in more developed countries.

The IDX and BAPEPAM & LK have different reporting standards than securities exchanges and regulatory regimes in the United States, the United Kingdom and many other countries. There is a difference between the level of regulation and monitoring of the Indonesian securities markets and the activities of investors, brokers and other participants and that of markets in the United States and other developed economies. BAPEPAM & LK and the IDX are the Indonesian governmental entities responsible for improving disclosure and other regulatory standards for the Indonesian securities markets. BAPEPAM & LK has issued regulations and guidelines on disclosure requirements, insider trading and other matters. There may, however, be less publicly available information about Indonesian companies than is regularly made available by public companies in other countries. As a result, as a shareholder you may not receive the same amount of information or receive information with the same frequency as you may for companies listed in the United States, the United Kingdom and many other countries.

In addition, corporate governance standards and practices may not be as strict, including with regard to the independence of boards of directors and audit and other committees. Because of this, the directors of Indonesian companies may be more likely to have interests that conflict with the interests of shareholders generally, which may result in them taking actions that are contrary to the interests of shareholders.

Our ability to pay dividends in the future will depend upon future retained earnings, financial condition, cash flows, working capital requirements, fleet expansion and covenants in favor of our creditors.

The amount of our future dividend payments, if any, will depend on our future retained earnings, financial condition, cash flows and working capital requirements, as well as our capital expenditures, contractual commitments and aircraft rental expenses incurred in connection with our fleet expansion. We cannot assure you that we will be able to pay dividends or that our board will declare dividends. The terms of our existing ECA Loans and Commercial Loans restrict the amount of dividends that we may pay to 50% of our net profit for any reporting period. In addition, we may be restricted by the terms of future credit financing agreements to make dividend payments only after a certain time period as will be agreed with the lenders. We may also enter into similar financing agreements in the future which could further limit our ability to pay dividends, and we may incur expenses or liabilities that would reduce or eliminate the cash available for distribution of dividends. In addition, as of September 30, 2010, we had negative retained earnings and, as a result, we will not be permitted to distribute dividends under Indonesian law until we have positive retained earnings. We cannot assure you that we will not continue to have negative retained earnings, and consequently be unable to pay dividends, during any particular future period. We cannot assure you that dividends will be paid at the same rate as in prior years or at all. As a result, capital appreciation, if any, of our shares may be our shareholders' only source of gain.

We are not in compliance with certain IDX listing regulations and may become subject to IDX sanctions.

Under IDX Listing Regulation No. I-A, we are required to have independent commissioners comprising at least 30.0% of the total number of members of the Board of Commissioners. As of the date of this Offering Circular, only one of the five members of our Board of Commissioners is an independent commissioner, and we therefore do not have the requisite number of independent commissioners. While there are no specific penalties or sanctions expressly provided for non-compliance with IDX Listing Regulation No. I-A, under IDX Regulation 1-H, the IDX may generally impose sanctions on a listed company which violates IDX regulations. Such sanctions may include, among others, a monetary fine, a written warning or admonition, or a temporary suspension from trading of our shares. Our representatives have met with representatives of the IDX to discuss our failure to comply with the requirement to appoint a requisite number of independent commissioners, and based on these discussions, we believe that such failure will not prohibit us from proceeding with the listing of our shares on the IDX and that no immediate sanctions will be imposed on us for such non-compliance, provided that our principal shareholder, the Government, nominates and appoints another independent commissioner as soon as practicable.

Our shareholders resolved in November 2010 to convene a General Meeting of Shareholders to appoint another independent commissioner. Subsequently, we have requested the Government to convene such General Meeting of Shareholders to appoint another independent commissioner, and we intend to continue renewing this request. There can be no assurance that our shareholders will appoint another independent commissioner and that we will be able to comply with the requirements of IDX Listing Regulation No. I-A. Furthermore, there can be no assurance that the IDX will not decide to impose sanctions on us for non-compliance with the regulation, either in the near term or at a later point in time. Any such sanctions could have a material adverse effect on the price of our shares, on our ability to remain a listed company, on our reputation or on our business.

Dividend Policy

Under Indonesian law and our articles of association, our payment of dividends on our shares must be approved by our shareholders at our annual general meeting of shareholders based upon a recommendation from our Board of Directors which has been approved by our Board of Commissioners prior to such general meeting of shareholders. The recommendation, amount and payment of dividends by our Board of Directors and the approval of dividends by our Board of Commissioners is at their discretion and will depend on a number of factors including our net profits, availability of reserves, capital expenditure requirements, results of operations, cash flows, the payment of cash dividends by our subsidiaries and associated companies, contractual restrictions and our overall financial position. These, in turn, depend on a variety of factors including successful implementation of our business strategy, financial, competitive and regulatory considerations, general economic conditions and other factors that may be specific to us or our industry. Many of these factors are beyond our control. We may also enter into financing agreements that could restrict our ability to pay dividends. There can be no guarantee that we will pay dividends in respect of the current or any future financial year.

In addition, our ability to pay dividends may be restricted or reduced by the following:

- The terms of our ECA Loans and Commercial Loans, which restrict the amount of dividends that we may pay to 50% of our net profit for any reporting period. See "Management's Discussion and Analysis of Financial Condition and Results of Operation — Liquidity and Capital Resource — Debt Restructuring".
- As of September 30, 2010, we had negative retained earnings and, as a result, we will not be permitted to distribute dividends under Indonesian law unless or until we have sufficient retained earnings to offset such negative amounts.
- Our net profits available to pay dividends will be reduced by the amount we are required to allocate to our reserve fund under Indonesian law. Indonesian law requires that our reserve fund be funded up to an amount of at least 20% of our issued and paid-up capital.

Subject to meeting the requirements under Indonesian law, our articles of association and our contractual obligations, we intend to distribute dividends in the future if our net profits are positive.

Our articles of association allow interim distributions to be recommended by our Board of Directors and approved by our Board of Commissioners at their discretion with due regard to our financial condition, provided that such interim dividend does not cause our net assets to become less than our total issued and paid-up capital plus required reserves. Any interim dividends distributed are included in the calculation of final dividends to be distributed based on the approval of our shareholders at the annual general meeting of shareholders convened following such distribution of interim dividends.

Our Board of Directors may change our dividend policy at any time, subject to the approval of such change by a general meeting of shareholders. See "Description of our Shares — Dividends."

To the extent a decision is made to pay dividends, dividends will be paid in Rupiah. Holders of shares on the applicable record dates will be entitled to the full amount of dividends approved, subject to Indonesian withholding tax imposed, if any. Dividends received by a non-Indonesian holder of shares will be subject to Indonesian withholding tax. For further information relating to Indonesian taxation, see "Taxation — Indonesian Taxation."

Use of Proceeds

We estimate that the aggregate net proceeds we will receive from the Global Offering will be approximately Rp. 3,186.9 billion (US$357.1 million), based on an offering price of Rp. 750 per Offer Share, after deducting underwriting fees and commissions and other estimated transaction expenses relating to the Global Offering (which we estimate to be Rp. 113.1 billion (US$12.7 million)). We will not receive any of the proceeds from the sale of shares by the Selling Shareholder.

We intend to use net proceeds from the sale of shares being issued and sold by us in the Global Offering as follows:

- approximately Rp. 2,549.5 billion (US$285.6 million), or approximately 80% of the net proceeds, for pre-delivery payments and fleet expansion; and
- approximately Rp. 637.4 billion (US$71.4 million), or approximately 20% of the net proceeds, for capital expenditures and general corporate purposes.

The foregoing represents our current intentions and our best estimate of our allocation of the net proceeds of the Global Offering based upon our current plans and estimates regarding our anticipated expenditures. The exact amount of net proceeds from the Global Offering which we will actually apply to any particular project may change due to a number of factors. We may find it necessary or advisable to reallocate the net proceeds within the categories described above or to use portions of the net proceeds for other purposes subject to approval from a general meeting of our shareholders.

Exchange Rate Information

Exchange Rates

The following table shows the Rupiah-U.S. dollar exchange rate based on the middle exchange rate at the end of each month or day, as the case may be, during the periods indicated. The Rupiah middle exchange rate is calculated based on Bank Indonesia's buying and selling rates. We do not make any representations that the Rupiah or U.S. dollar amounts referred to in this Offering Circular could have been or could be converted into U.S. dollars or Rupiah, as the case may be, at the rate indicated or any other rate or at all.

	Period End	Average(2)	Low(1)	High(1)
	Rp. per US$1.00			
2006	9,020	9,141	8,775	9,395
2007	9,419	9,164	8,828	9,419
2008	10,950	9,757	9,051	12,151
2009	9,400	10,356	9,400	11,980
2010	8,991	9,078	8,924	9,365
2011				
January	9,057	9,037	8,976	9,088
February (through February 7, 2011)	8,975	9,016	8,975	9,042

Source: Statistik Ekonomi dan Keuangan Indonesia (Indonesian Financial Statistics) published monthly by Bank Indonesia

Notes:

(1) For full years, the high and low amounts are determined based upon the month-end middle exchange rate announced by Bank Indonesia during the year indicated. The high and low figures for January 2011 are determined based on the daily middle exchange rates during the month indicated.

(2) For full years, the average shown is calculated based on the middle exchange rate announced by Bank Indonesia on the last day of each month during the year indicated. For the monthly average for January 2011, the average shown is calculated based on the daily middle exchange rates during the month indicated.

Bank Indonesia is the sole issuer of the Rupiah and is responsible for maintaining its stability. Since 1970, Indonesia has implemented three exchange rate systems: a fixed rate between 1970 and 1978, a managed floating exchange rate system between 1978 and 1997 and a free-floating exchange rate system since August 14, 1997. Under the managed floating exchange rate system, Bank Indonesia maintained the stability of the Rupiah through a trading band policy, pursuant to which Bank Indonesia would enter the foreign currency market and buy or sell Rupiah, as required, when trading in the Rupiah exceeded bid and offer prices announced by Bank Indonesia on a daily basis. On August 14, 1997, Bank Indonesia terminated the trading band policy and instituted the current free-floating exchange rate system, allowing the Rupiah to float without an announced level at which it would intervene, which resulted in a substantial decrease in the value of the Rupiah relative to the U.S. dollar. Under the current system, the exchange rate of the Rupiah is determined by the market, reflecting the interaction of supply and demand in the market. Bank Indonesia may take measures, however, to maintain a stable exchange rate.

The middle exchange rate on February 7, 2011 was Rp. 8,975 = US$1.00.

The Federal Reserve Bank of New York does not certify for customs purposes a noon buying rate for cable transfers in Rupiah.

Exchange Controls

There are currently no foreign exchange control restrictions in Indonesia. Foreign currency is generally freely transferable to, from and within Indonesia. However, in order to maintain the stability of the Rupiah and to prevent the utilization of the Rupiah for speculative purposes by non-Indonesian residents, Bank Indonesia has introduced regulations to prohibit the movement of Rupiah from banks within Indonesia to banks domiciled outside Indonesia, or to an offshore branch or office of an Indonesian bank, or any investment in Rupiah denomination with foreign parties and/or Indonesian citizens domiciled or permanently residing outside Indonesia, thereby limiting offshore trading to existing sources of liquidity. In addition, Bank Indonesia has the authority to request information and data concerning the foreign exchange activities of all persons and legal entities that are domiciled, or plan to be domiciled in Indonesia for at least one year. Bank Indonesia regulations also require companies that have total assets or total annual financial revenue of at least Rp. 100 billion to report to Bank Indonesia all data concerning their foreign currency activities if the relevant foreign currency transaction is not conducted through a domestic bank or domestic non-bank financial institution (such as insurance companies, securities companies, finance companies or venture capital companies). If certain transactions are conducted via a domestic bank or domestic non-bank financial institution, such financial institution is required to report the transaction to Bank Indonesia. The transactions that must be reported include receipts and payments through bank accounts outside of Indonesia.

Capitalization and Indebtedness

The following table shows our capitalization (including current maturities of long term debt) and our cash and cash equivalents as of September 30, 2010 on an actual basis and as adjusted to give effect to our issuance of shares in the Global Offering as described in this Offering Circular under "Use of Proceeds."

This table should be read in conjunction with our consolidated financial statements, including the notes thereto, included elsewhere herein and the sections of this Offering Circular entitled "Use of Proceeds", "Selected Consolidated Financial Information and Operating Data" and "Management's Discussion and Analysis of Our Financial Condition and Results of Operations."

	As for September 30, 2010			
	Actual		Adjusted for the Global Offering(3)	
	Rp. (Rp. billions)	US$ (US$ millions)	Rp. (Rp. billions)	US$ (US$ millions)
Cash and cash equivalents	1,805.8	202.4	4,992.7	559.5
Current maturities of long-term debt	967.2	108.4	967.2	108.4
Long-term debt — net of current maturities:				
Long-term loans	1,584.5	177.6	1,584.5	177.6
Lease liabilities	1,863.3	208.8	1,863.3	208.8
Total(1)	3,447.8	386.4	3,447.8	386.4
Total long-term debt	4,415.1	494.7	4,415.1	494.7
Equity:				
Capital stock — par value Rp. 1,000,000 per share	9,120.5	1,022.0	11,320.5	1,268.5
Authorized capital — 15,000,000 shares				
Issued and fully paid — 9,120,498 shares				
Additional paid-up capital	8.4	0.9	995.3	111.5
Revaluation surplus	1,216.7	136.3	1,216.7	136.3
Hedge reserve	35.8	4.0	35.8	4.0
Translation adjustments	9.7	1.1	9.7	1.1
Deficit	(7,244.4)	(811.8)	(7,244.4)	(811.8)
Total equity	3,146.8	352.6	6,333.7	709.7
Total capitalization(2)	6,594.6	739.0	9,781.5	1,096.1

Notes:

(1) Net of current maturities of long-term debt.

(2) Sum of total long-term debt net of current maturities and total equity.

(3) As adjusted to reflect the issuance and sale of 4,400,000,000 newly issued Series B common shares by us at a price of Rp. 750 per share, after deduction of fees and commissions and certain expenses incurred in connection with the issuance and sale of shares estimated to be approximately Rp. 113.1 billion.

Except as disclosed in this Offering Circular, there have been no material adverse changes in our capitalization since September 30, 2010.

Dilution

Dilution due to the Global Offering represents that amount by which the Offer Price paid by purchasers of Offer Shares in the Global Offering exceeds the net book value per share upon completion of the Global Offering.

As of September 30, 2010, our net book value per share to equity holders was Rp. 345,021.8 per share. Net book value per share represents total assets minus total liabilities divided by the total number of shares outstanding. Without taking into account any other changes in such net book value after September 30, 2010, the sale of the Offer Shares at the initial public offering price of Rp. 750 per share and after deduction of the underwriting discounts and commissions and estimated Offer-related expenses payable by our company, our adjusted net book value as of September 30, 2010 would increase to Rp. 6,333.7 billion, or Rp. 279.7 per share. This represents an immediate increase in net book value of Rp. 107.2 per share to existing shareholders, and an immediate dilution of Rp. 470.3 per Offer Share to purchaser of Offer Shares at the Offer Price.

The following table illustrates dilution on a per share basis based on an Offer Price of Rp. 750 per Offer Share:

Offer Price per Offer Share	Rp.	750
Net book value per share as of September 30, 2010	Rp.	345,021.8
Net book value per share assuming completion of the subdivision of share capital	Rp.	173
Increase per share attributable to the Offer Shares	Rp.	107.2
Pro forma net book value per share after the Offer	Rp.	279.7
Dilution to purchasers of Offer Shares	Rp.	470.3

The pro forma information discussed above is illustrative only. Our net tangible book value following the completion of this offering is subject to adjustment based on the actual initial public offering price of our Offer Shares and other terms of this offering determined at pricing.

The following table summarizes, on a pro forma basis as of September 30, 2010, assuming completion of the subdivision of our share capital, the differences between existing shareholders and the new investors with respect to the number of shares purchased from our company, the total consideration paid and the average price per share paid before deducting the underwriting discounts and commissions and estimated offering expenses.

	Shares Purchased		Total Consideration		Average Price Per Share(1)
	Number	Percent	Amount (In millions)	Percent	
Existing shareholders	16,305,258,000	72.0%	Rp.2,821,834.7	37.2%	Rp.173
New investors	6,335,738,000	28.0%	Rp.4,751,803.5	62.8%	Rp.750
Total	22,640,996,000	100%	Rp.7,564,638.2	100%	Rp.334

Notes:

(1) An increase or decrease in our share price by Rp. 50 would cause a corresponding increase or decrease in our average price per share of Rp. 14.

Selected Consolidated Financial Information and Operating Data

You should read the following discussion together with our audited consolidated financial statements and notes thereto as of and for the nine months ended September 30, 2010 and the three years ended December 31, 2009, 2008 and 2007 and our unaudited consolidated financial statements as of and for the nine months ended September 30, 2009. Our consolidated financial statements are prepared in accordance with Indonesian GAAP which differs in certain respects from generally accepted accounting principles in other countries, including those in the United States.

We have derived our selected consolidated financial information presented in the tables below from our audited consolidated financial statements as of and for the years ended December 31, 2007, 2008 and 2009 and as of and for the nine months ended September 30, 2010 and our unaudited consolidated financial statements as of and for the nine months ended September 30, 2009. Our consolidated financial statements as of and for the year ended December 31, 2009 and as of and for the nine months ended September 30, 2010 have been audited, and our consolidated financial statements as of and for the nine months ended September 30, 2009 have been reviewed, by Osman Bing Satrio & Rekan (a member firm of Deloitte Touche Tohmatsu Limited), independent public accountants in Indonesia, and our consolidated financial statements as of and for the years ended December 31, 2008 and 2007 have been audited by RSM Aryanto, Amir Jusuf, Mawar and Saptoto, independent public accountants in Indonesia. With respect to the unaudited consolidated financial information as of and for the nine months ended September 30, 2009 included in this Offering Circular, Osman Bing Satrio & Rekan (a member firm of Deloitte Touche Tohmatsu Limited) have reported that they applied limited procedures in accordance with review standards established by the Indonesian Institute of Certified Public Accountants. However, their separate review report included in this Offering Circular states that they did not audit and they do not express an opinion on that interim financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

We have restated our consolidated financial statements for the years ended December 31, 2007 and 2008 to conform with Indonesian GAAP and accounting practice for the airline industry by reference to the AICPA Airline Industry Guide. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Factors Affecting Results of Operations — Restatement of Consolidated Financial Statements for the Years Ended December 31, 2007 and 2008."

We have prepared and presented our consolidated financial statements in accordance with Indonesian GAAP, which differs in certain material respects from U.S. GAAP. You should read the section of this Offering Circular entitled "Summary of Certain Principal Differences between Indonesian GAAP and U.S. GAAP" for a description of certain principal differences between Indonesian GAAP and U.S. GAAP.

We have translated the Rupiah amounts of our consolidated financial information as of and for the year ended December 31, 2009 and as of and for the nine months ended September 30, 2010 into U.S. dollars solely for convenience based on the middle exchange rate announced by Bank Indonesia, the Indonesian central bank, for September 30, 2010, which was Rp. 8,924 = US$1.00. See "Exchange Rate Information."

Consolidated Statements of Income

	For the Year Ended December 31,				For the Nine Months Ended September 30,		
	2007 (Audited) (Restated)	2008 (Audited) (Restated)	2009 (Audited)	2009 (Unaudited)	2009 (Unaudited)	2010 (Audited)	2010 (Unaudited)
	(Rp. billions)	(Rp. billions)	(Rp. billions)	(US$ millions)	(Rp. billions)	(Rp. billions)	(US$ millions)
Operating Revenues:							
Airline:							
Scheduled airline services	11,049.4	15,120.3	13,699.4	1,535.1	10,093.4	11,448.9	1,282.9
Non-scheduled airline services	1,605.9	2,466.6	2,491.2	279.2	475.6	102.3	11.5
Others	1,387.0	1,762.8	1,669.7	187.1	1,280.3	1,133.8	127.1
Total Operating Revenues	14,042.4	19,349.7	17,860.4	2,001.4	11,849.3	12,685.1	1,421.5
Operating Expenses:							
Flight operation	6,504.6	9,948.0	8,096.7	907.3	4,942.6	6,142.7	688.3
Maintenance and overhaul	1,089.9	1,107.6	1,075.8	120.6	723.4	876.9	98.3
User charge and station	1,107.1	1,308.8	1,420.7	159.2	949.8	986.4	110.5
Passenger service	1,002.2	1,105.3	1,378.0	154.4	911.6	1,078.8	120.9
Ticketing, sales and promotion	1,286.2	1,562.7	1,636.4	183.4	1,202.8	1,252.8	140.4
General and administrative	880.0	1,250.3	1,246.9	139.7	890.1	984.7	110.3
Depreciation and amortization	1,045.2	1,295.9	1,609.9	180.4	1,225.7	1,206.1	135.2
Employee benefit expenses	199.2	197.0	260.6	29.2	223.8	273.4	30.6
Transportation operation	104.9	110.1	95.2	10.7	68.4	75.7	8.5
Network operation	58.7	66.1	70.3	7.9	49.2	58.3	6.5
Hotel operation	32.1	44.6	51.5	5.8	38.4	39.3	4.4
Total Operating Expenses	13,310.3	17,996.5	16,942.1	1,898.5	11,225.8	12,975.0	1,453.9
Income (Loss) from Operations	732.2	1,353.2	918.3	102.9	623.5	(289.9)	(32.5)
Other Income (Charges):							
Gain on sale and lease back	—	—	65.1	7.3	2.0	159.1	17.8
Gain (Loss) on foreign exchange — net	(233.8)	(413.3)	462.5	51.8	434.9	130.9	14.7
Employee severance cost	—	—	(203.1)	(22.8)	(203.1)	68.5	7.7
Interest income	65.6	107.0	93.1	10.4	80.3	42.3	4.7
Provision for doubtful accounts	—	—	(156.9)	(17.6)	(156.9)	—	—
Interest expense and financial charges	(438.3)	(378.0)	(262.6)	(29.4)	(233.8)	(119.5)	(13.4)
Others — net	184.4	350.3	(53.2)	(6.0)	(38.9)	(35.5)	(4.0)
Other Income (Charges) — Net	(422.1)	(333.9)	(55.1)	(6.2)	(115.4)	245.8	27.5
Equity in Net Income of Associates	3.0	9.4	12.9	1.4	3.8	6.4	0.7
Income (Loss) before Tax	313.1	1,028.7	876.1	98.2	511.9	(37.7)	(4.2)

	For the Year Ended December 31,				For the Nine Months Ended September 30,		
	2007 (Audited) (Restated)	2008 (Audited) (Restated)	2009 (Audited)	2009 (Unaudited)	2009 (Unaudited)	2010 (Audited)	2010 (Unaudited)
	(Rp. billions)	(Rp. billions)	(Rp. billions)	(US$ millions)	(Rp. billions)	(Rp. billions)	(US$ millions)
Tax Benefit (Expense):							
Current tax	(66.8)	(78.1)	(36.9)	(4.1)	(17.3)	(21.4)	(2.4)
Deferred tax	(82.2)	33.6	60.2	6.8	79.0	70.6	7.9
Total Tax Benefit (Expense)	(149.0)	(44.5)	23.4	2.6	61.7	49.2	5.5
Income from Normal Activities	164.1	984.2	899.5	100.8	573.5	11.5	1.3
Extraordinary Items	—	—	123.5	13.8	—	184.1	20.6
Income before Minority Interest	164.1	984.2	1,023.0	114.6	573.5	195.6	21.9
Minority Interests	(11.4)	(9.1)	(4.3)	(0.5)	(3.4)	(0.7)	(0.1)
Net Income	152.7	975.0	1,018.6	114.1	570.2	194.9	21.8

Consolidated Balance Sheets

	As of and for the Year Ended December 31,				As of and for the Nine Months Ended September 30,		
	2007 (Audited) (Restated)	2008 (Audited) (Restated)	2009 (Audited)	2009 (Unaudited)	2009 (Unaudited)	2010 (Audited)	2010 (Unaudited)
	(Rp. billions)	(Rp. billions)	(Rp. billions)	(US$ millions)	(Rp. billions)	(Rp. billions)	(US$ millions)
Current Assets:							
Cash and cash equivalents	2,969.6	2,601.8	1,722.5	193.0	1,540.1	1,805.8	202.4
Short-term investments	11.6	14.6	11.0	1.2	11.0	—	—
Trade accounts receivable							
Related parties	20.6	14.4	16.8	1.9	16.8	19.6	2.2
Third parties[(1)]	1.065.6	817.4	1,049.8	117.6	890.3	1,126.2	126.2
Other accounts receivables	11.7	66.1	15.8	1.8	5.9	14.4	1.6
Derivative assets	—	—	—	—	31.6	41.9	4.7
Inventories	397.0	516.2	618.1	69.3	615.4	598.8	67.1
Advances and prepaid expenses	907.7	549.0	643.1	72.1	608.8	888.8	99.6
Prepaid taxes	41.2	46.9	135.4	15.2	83.6	198.5	22.2
Total Current Assets	5,425.2	4,626.4	4,212.5	472.0	3,803.5	4,694.0	526.0
Noncurrent Assets:							
Maintenance reserve fund and security deposits	780.5	1,191.2	1,641.8	184.0	1,685.4	1,773.5	198.7
Advances for purchase of aircraft.	393.8	1,901.6	1,791.1	200.7	2,113.3	1,028.6	115.3
Deferred tax assets	67.9	60.1	53.9	6.0	51.2	81.6	9.1
Investments in shares of stock	198.8	205.6	213.9	24.0	204.8	212.3	23.8
Property and equipment[(2)]	4,424.1	6,552.9	6,374.9	714.4	6,017.9	5,911.6	662.4
Investment properties	11.9	176.9	171.0	19.2	174.7	178.6	20.0
Deferred charges	4.5	24.0	20.6	2.3	17.8	28.6	3.2
Other assets	646.3	565.0	322.7	36.2	330.8	313.8	35.2
Total Noncurrent Assets	6,527.7	10,677.4	10,589.9	1,186.7	10,595.9	9,528.6	1,067.8
Total Assets	11,952.9	15,303.8	14,802.4	1,658.7	14,399.4	14,222.7	1,593.8

	As of and for the Year Ended December 31,				As of and for the Nine Months Ended September 30,		
	2007 (Audited) (Restated)	2008 (Audited) (Restated)	2009 (Audited)	2009 (Unaudited)	2009 (Unaudited)	2010 (Audited)	2010 (Unaudited)
	(Rp. billions)	(Rp. billions)	(Rp. billions)	(US$ millions)	(Rp. billions)	(Rp. billions)	(US$ millions)
Current Liabilities:							
Bank loans	3.0	10.0	218.6	24.5	104.7	207.3	23.2
Trade accounts payable							
Related parties	64.3	68.9	48.8	5.5	61.5	35.4	4.0
Third parties	1,761.5	2,000.6	1,218.2	136.5	1,735.3	781.2	87.5
Other accounts payable	163.2	232.9	262.0	29.4	222.8	281.3	31.5
Taxes payable	89.8	80.1	75.8	8.5	57.7	61.0	6.8
Accrued expenses	1,493.8	1,378.3	1,379.3	154.6	1,038.6	1,176.0	131.8
Unearned revenues	930.0	717.1	564.4	63.2	950.9	1,848.4	207.1
Advances received	213.0	92.3	48.9	5.5	78.3	119.0	13.3
Current maturities of long term liabilities:							
Long-term loans	1,489.6	1,436.3	1,285.7	144.1	1,292.8	255.6	28.6
Lease liabilities	487.4	786.4	850.5	95.3	687.5	711.6	79.7
Estimated liabilities for aircraft return and maintenance cost	157.0	282.2	395.4	44.3	358.4	379.9	42.6
Total Current Liabilities	6,852.6	7,085.2	6,347.7	711.3	6,588.7	5,856.7	656.3
Noncurrent Liabilities:							
Noncurrent maturities of long-term liabilities:							
Long-term loans	33.9	35.2	1,015.9	113.8	332.1	1,584.5	177.6
Lease liabilities	3,900.2	3,747.8	2,366.8	265.2	2,793.4	1,863.3	208.8
Estimated liabilities for aircraft return and maintenance cost	242.8	450.1	255.3	28.6	332.9	202.6	22.7
Convertible bonds	1,018.8	1,018.8	—	—	1,018.8	—	—
Deferred tax liabilities	37.7	391.2	261.4	29.3	229.4	106.5	11.9
Post-employment benefits obligation	1,070.6	1,129.2	1,257.6	140.9	1,258.5	1,435.8	160.9
Other noncurrent liabilities	25.9	30.3	76.8	8.6	71.6	16.3	1.8
Total Noncurrent Liabilities	6,329.9	6,802.7	5,233.7	586.5	6,036.6	5,209.1	583.7
Total Liabilities	13,182.4	13,887.9	11,581.4	1,297.8	12,625.3	11,065.8	1,240.0
Minority Interests	37.2	49.4	7.0	0.8	6.0	10.1	1.1
Equity:							
Capital stock[(3)]	7,152.6	8,152.6	9,120.5	1,022.0	8,152.6	9,120.5	1,022.0
Additional paid-up capital	8.4	8.4	8.4	0.9	8.4	8.4	0.9
Paid-in capital fund	1,000.0	—	—	—	—	—	—
Revaluation surplus	4.0	1,672.7	1,515.5	169.8	1,484.5	1,216.7	136.3
Hedge reserve	0.7	(10.8)	—	—	3.6	35.8	4.0
Translation adjustments	3.7	4.7	8.9	1.0	6.8	9.7	1.1
Deficit	(9,436.1)	(8,461.0)	(7,439.3)	(833.6)	(7,887.8)	(7,244.4)	(811.8)
Total Equity (Capital Deficiency)	(1,266.7)	1,366.5	3,214.0	360.2	1,768.1	3,146.8	352.6
Total Liabilities and Equity	11,952.9	15,303.8	14,802.4	1,658.7	14,399.4	14,222.7	1,593.8

Notes:

(1) Net of allowance for doubtful accounts of Rp. 260.6 billion, Rp. 319.8 billion, Rp. 301.0 billion, Rp. 317.0 billion and Rp. 323.0 billion as of December 31, 2007, 2008 and 2009, and September 30, 2009 and 2010, respectively.

(2) Net of accumulated depreciation of Rp. 6,123.8 billion, Rp. 6,923.2 billion, Rp. 7,866.8 billion, Rp. 7,819.0 billion and Rp. 7,675.6 billion as of December 31, 2007, 2008 and 2009, and September 30, 2009 and 2010, respectively.

(3) Par value of Rp. 1 million per share. Authorized capital of 11,540,076 shares, 15,000,000 shares and 15,000,000 shares as of December 31, 2007, 2008 and 2009, respectively. Issued and paid-up share capital of 7,152,629 shares, 8,152,629 shares and 9,120,498 shares as of December 31, 2007, 2008 and 2009, respectively.

(4) We have translated the Rupiah amounts of certain items of our financial data as of and for the year ended December 31, 2009 and as of and for the nine months ended September 30, 2010 into U.S. dollars solely for convenience based on the middle exchange rate announced by Bank Indonesia, the Indonesian central bank, for September 30, 2010, which was Rp. 8,924 = US$1.00. See "Exchange Rate Information."

Operating Data (unaudited)

	As of and for the Year Ended December 31,			As of and for the Nine Months Ended September 30,	
	2007	2008	2009	2009	2010
Passenger Services:					
Passenger revenues (US$ millions)(1)	1,072.4	1,483.9	1,210.3	867.4	1,137.7
International(2)	536.0	774.2	566.3	427.6	517.9
Domestic(2)	536.4	709.7	644.0	439.7	619.8
Number of passengers carried (in thousands)	9,633.5	10,172.3	10,901.8	7,980.3	9,045.6
International	2,268.6	2,424.5	2,324.2	1,724.1	1,943.0
Domestic	7,364.9	7,747.8	8,577.7	6,256.3	7,102.6
RPK (in millions)(3)	14,369.1	15,532.3	15,882.5	11,809.0	13,373.5
International	7,924.1	8,756.2	8,523.3	6,452.9	7,369.7
Domestic	6,445.0	6,776.2	7,359.1	5,356.2	6,003.8
ASK (in millions)(4)	18,566.1	20,336.8	21,713.9	16,209.3	18,827.0
International	10,618.9	11,798.3	12,205.2	9,252.0	10,544.2
Domestic	7,947.2	8,538.5	9,508.7	6,957.3	8,282.7
Passenger load factor (%)(5)	77.4	76.4	73.1	72.9	71.0
International	74.6	74.2	69.8	69.7	69.9
Domestic	81.1	79.4	77.4	77.0	72.5
Kilometers flown (in millions)	102.4	111.7	117.1	87.1	99.0
Block hours (in thousands)	167.4	182.5	190.8	141.6	161.3
International	59.8	67.7	69.5	52.5	59.7
Domestic	107.5	114.8	121.3	89.1	101.6
Daily aircraft utilization (block hours per day)(14)	9:37	9:51	9:00	8:43	9:27
Fuel burn (in millions of liters)	742.0	795.7	814.0	605.6	695.8
Fuel burn per ASK	0.040	0.039	0.037	0.037	0.037
Passenger yield (U.S. cents per RPK)(1)(6)	7.4	9.5	7.5	7.3	8.4
Number of scheduled destinations served as of period end	39	41	45	46	49
Scheduled flight frequency (round-trip flights per week)	790	852	891	877	979
Number of flights	82,168	88,552	92,701	68,393	76,377
On-Time Performance (%)(14)	76.3	83.9	82.5	83.7	80.6
Total seat capacity offered (in thousands)	12,957	13,789	14,933	10,964.0	12,986.9
Business seat offered (in thousands)	1,494.8	1,689.6	1,618.9	1,206.4	1,221.1
International	379.6	441.7	416.1	313.9	355.7
Domestic	1,115.2	1,247.9	1,202.8	892.6	865.4

	As of and for the Year Ended December 31,			As of and for the Nine Months Ended September 30,	
	2007	2008	2009	2009	2010
Economy seat offered (in thousands)	11,461.8	12,099.8	13,314.2	9,757.6	11,765.9
International	3,068.8	3,207.0	3,105.8	2,327.7	2,639.2
Domestic	8,393.0	8,892.8	10,208.4	7,429.9	9,126.7
Scheduled revenue per ASK (U.S. cents)(1)(7)	6.3	8.0	6.3	6.0	6.8
International	5.5	7.1	5.2	5.1	5.5
Domestic	7.5	9.2	7.7	7.2	8.4
Cost per ASK (U.S. cents)(1)(8)	6.0	7.8	6.2	5.9	6.8
International	5.8	6.8	5.6	5.3	6.0
Domestic	6.4	9.0	7.0	6.8	7.8
Cost per ASK excluding fuel (U.S. cents)(1)(9)	3.8	4.4	4.3	4.1	4.4
International	3.7	3.8	3.8	3.7	3.8
Domestic	3.9	5.1	4.8	4.7	5.2
Cargo Services:					
RFTK (in million ton-kilometers)(10)	234.0	275.4	282.1	191.9	311.4
International	147.6	165.4	162.3	105.9	207.1
Domestic	86.4	110.0	119.8	86.0	104.3
AFTK (in million ton-kilometers)(11)	568.9	627.0	757.9	539.7	815.5
International	376.0	402.8	477.8	340.4	556.2
Domestic	192.9	224.2	280.2	199.3	259.3
Cargo and mail carried (in million kilograms)	122.4	149.3	157.1	110.6	149.7
Cargo load factor (%)(12)	41.1	43.9	37.2	35.6	38.5
International	39.3	41.1	34.0	31.1	37.2
Domestic	44.8	49.1	42.8	43.2	40.2
Cargo yield (U.S. cents per kilometer)(1)(13)	30.2	37.4	29.9	30.0	30.7
Total number of aircraft	48	54	70	67	84

Notes:

(1) We have translated the Rupiah amounts of passenger revenues, passenger yield, scheduled revenue per ASK, cost per ASK, cost per ASK excluding fuel and cargo yield to U.S. dollars, on a monthly basis, using the middle exchange rate announced by Bank Indonesia as of the last day of the previous month.

(2) Represents passenger revenues based on flight destination.

(3) Calculated as number of revenue passengers carried multiplied by distance flown (in kilometers) for each flight leg.

(4) Calculated as number of available seats multiplied by distance flown (in kilometers) for each flight leg.

(5) Calculated as RPK divided by ASK and expressed as a percentage.

(6) Calculated as passenger revenue from scheduled services divided by RPK.

(7) Calculated as revenue from scheduled airline services warehouse rentals, information technology services and training services divided by ASK.

(8) Calculated as total cost related to our passenger flight operations (including direct and indirect costs, overhead and fleet costs) as reflected in our accounting records divided by ASK.

(9) Calculated as total cost related to our passenger flight operations (including direct and indirect costs, overhead and fleet costs) as reflected in our accounting records minus fuel expenses and divided by ASK.

(10) Calculated as cargo and mail load carried (in tons) multiplied by distance flown (in kilometers) for each flight leg.

(11) Calculated as total cargo capacity (in tons) multiplied by distance flown (in kilometers) for each flight leg.

(12) Calculated as cargo and mail load (in tons-kilometers) divided by total available payload (in tons-kilometers) per aircraft type per flight and expressed as a percentage.

(13) Calculated as revenue from cargo services divided by RFTK.

(14) FSC Garuda Indonesia only.

Key Ratios and Measures

	As of and for the Year Ended December 31,		As of and for the Nine Months Ended September 30,
	2008[1]	2009[1]	2010[2]
Growth Ratio (%)			
Operating Revenues	37.79	(7.70)	7.05
Income (Loss) from Operations	84.82	(32.14)	(146.49)
Income (Loss) before Tax	228.54	(14.83)	(107.36)
Net Income	538.39	4.47	(65.82)
Adjusted EBITDAR	38.95	11.70	(18.96)
Current Assets	(14.72)	(8.95)	23.41
Total Assets	28.03	(3.28)	(1.23)
Current Liabilities	3.39	(10.41)	(11.11)
Total Liabilities	5.35	(16.61)	(12.35)
Total Equity (Capital Deficiency)	(207.88)	135.20	77.97
Operational Ratio (%)			
Income (Loss) before Tax/Operating Revenues	5.32	4.91	(0.30)
Income (Loss) from Operations/Operating Revenues	6.99	5.14	(2.29)
Net Income/Operating Revenues	5.04	5.70	1.54
Adjusted EBITDAR/Operating Revenues	17.57	21.26	17.69
Net Income/Total Equity (ROE)	71.35	31.69	6.19
Net Income/Total Assets (ROA)	6.37	6.88	1.37
Financial Ratio (x)			
Current Assets/Current Liabilities	0.65	0.66	0.80
Total Liabilities/Total Equity	10.16	3.60	3.52
Total Liabilities/Total Assets	0.91	0.78	0.78

Notes:

(1) As compared to the previous annual period ended December 31.

(2) As compared to the period ended September 30, 2009.

	As of and for the Year Ended December 31,				As of and for the Nine Months Ended September 30,		
	2007	2008	2009	2009	2009	2010	2010
	(Rp. billions, unless otherwise stated)	(Rp. billions, unless otherwise stated)	(Rp. billions, unless otherwise stated)	(US$ millions, unless otherwise stated)	(Rp. billions, unless otherwise stated)	(Rp. billions, unless otherwise stated)	(US$ millions, unless otherwise stated)
Adjusted EBITDA[1]	1,777.3	2,649.1	2,528.2	283.3	1,849.3	916.2	102.7
Adjusted EBITDAR[1]	2,446.2	3,399.0	3,796.8	425.5	2,768.4	2,243.4	251.4
Capex[2]	548.9	337.5	745.9	83.6	729.0	384.7	43.1
Net Debt[3]	2,994.5	3,414.0	4,015.0	450.0	3,670.5	2,816.6	315.6
Adjusted Debt[4]	10,596.2	11,264.7	14,617.4	1,638.0	13,094.7	16,358.9	1,833.1
Adjusted Net Debt[5]	7,626.6	8,662.9	12,894.9	1,445.0	11,554.7	14,553.1	1,630.8
Total Capitalization[6]	6,359.9	10,029.4	16,109.0	1,805.1	13,322.8	17,699.8	1,983.4
Adjusted Net Debt/Total Capital (x)	1.2	0.9	0.8	0.8	0.9	0.8	0.8
Adjusted Debt/Adjusted EBITDAR (x)	4.3	3.3	3.8	3.8	n.m.[8]	n.m.[8]	n.m.[8]
Cash/Revenue Ratio (x)	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Total debt[7]	5,914.2	6,015.7	5,737.5	642.9	5,210.6	4,622.4	518.0
Aircraft Rental	668.9	749.8	1,268.6	142.2	919.2	1,327.3	148.7

Notes:

(1) The Company defines Adjusted EBITDA as income (loss) from operations plus depreciation and amortization and Adjusted EBITDAR as income (loss) from operations plus depreciation and amortization and aircraft rental expenses incurred in respect of scheduled passenger services. Adjusted EBITDA and Adjusted EBITDAR are not measurements of financial performance or liquidity under Indonesian GAAP and should not be considered as alternatives to net income, operating income or any other performance measures derived

in accordance with Indonesian GAAP or as alternatives to cash flow from operating activities as measures of liquidity. In addition, Adjusted EBITDA and Adjusted EBITDAR are not standardized terms, hence, a direct comparison between companies using such terms may not be possible. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Non-GAAP financial measures" for a reconciliation of our income (loss) from operations under Indonesian GAAP to our definitions of Adjusted EBITDA and Adjusted EBITDAR.

(2) Capital expenditures is the sum of actual expenditures for flight equipment, ground property and equipment, furniture, fixtures and office equipment, information technology, buildings, and other/land.

(3) Net debt is the sum of long-term loans (excluding convertible bonds), finance lease and short-term borrowings less cash and cash equivalents.

(4) Calculated as Total Debt plus (7x Aircraft Rental).

(5) Calculated as Adjusted Debt minus Cash and cash equivalents.

(6) Calculated as Adjusted Net Debt plus Total Equity or minus Total Capital Deficiency.

(7) Total debt is the sum of bank loans, long-term loans (excluding convertible bonds) and finance lease liabilities.

(8) Not meaningful.

(9) We have translated the Rupiah amounts of certain items of our financial data as of and for the year ended December 31, 2009 and as of and for the nine months ended September 30, 2010 into U.S. dollars solely for convenience based on the middle exchange rate announced by Bank Indonesia, the Indonesian central bank, for September 30, 2010, which was Rp. 8,924 = US$1.00. See "Exchange Rate Information."

Management's Discussion and Analysis of our Financial Condition and Results of Operations

You should read the following Management's Discussion and Analysis of our Financial Condition and Results of Operations in conjunction with our consolidated financial statements, related notes to the consolidated financial statements, and other financial information, included elsewhere in this Offering Circular. This discussion contains forward-looking statements that reflect our current views with respect to future events and financial performance. See "Forward-Looking Statements" for a discussion of the risks relating to such forward-looking statements. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of factors such as those set forth under "Risk Factors" and elsewhere in this Offering Circular. Our consolidated financial statements have been prepared in accordance with Indonesian GAAP. Indonesian GAAP differs in certain material respects from U.S. GAAP. For a summary of significant differences between Indonesian GAAP and U.S. GAAP, see "Summary of Certain Principal Differences Between Indonesian GAAP and U.S. GAAP."

Overview

We are the state-owned national flag carrier of Indonesia and a leading provider of air passenger, air cargo and airline-related services in Indonesia. We operate major hubs at Soekarno-Hatta International Airport near Jakarta, Indonesia's capital and business center, and Ngurah-Rai International Airport in Denpasar, Bali, Indonesia's major tourist destination, and serve a diverse route network serving 31 domestic and 18 international destinations. We are the only full service carrier licensed in Indonesia, providing FSC services under our Garuda Indonesia brand from our headquarters at Soekarno-Hatta International Airport.

As of September 30, 2010, we operated a fleet of 84 aircraft serving 31 domestic and 18 international destinations providing our passengers with FSC and LCC passenger services, as well as cargo services, on direct flights to all major urban areas in Indonesia. As of September 30, 2010, our business unit Citilink, which re-launched in September 2008, operated a fleet of six aircraft providing passengers with LCC services on eight domestic routes within Indonesia.

We also provide airline-related services including aircraft maintenance, repair and overhaul (MRO), ground services, reservations and ticketing, and in-flight catering services, as well as travel, tourism and hospitality services. We provide these airline-related and other services in Jakarta, Surabaya, Denpasar and other locations in Indonesia through our business units and our principal subsidiaries: PT Abacus Distribution Systems Indonesia, PT Aero Wisata, PT. Garuda Maintenance Facility Aero Asia and PT Aero Systems Indonesia and our associated company PT Gapura Angkasa.

Our total operating revenues were Rp. 12,685.1 billion (US$1,421.5 million) for the nine months ended September 30, 2010 and Rp. 17,860.4 billion (US$2,001.4 million), Rp. 19,349.7 billion and Rp. 14,042.4 billion for the years ended December 31, 2009, 2008 and 2007. Our Adjusted EBITDAR was Rp. 2,243.4 billion (US$251.4 million) for the nine months ended September 30, 2010 and Rp. 3,796.8 billion (US$425.5 million), Rp. 3,399.0 billion and Rp. 2,446.2 billion for the years ended December 31, 2009, 2008 and 2007. Our net income was Rp. 194.9 billion (US$21.8 million) for the nine months ended September 30, 2010 and Rp. 1,018.6 billion (US$114.1 million), Rp. 975.0 billion and Rp. 152.7 billion for the years ended December 31, 2009, 2008 and 2007.

Recent Developments

Our financial condition and results of operations for the three-month period ended December 31, 2010 have been adversely affected including by two extraordinary events that occurred in November 2010.

During November and December 2010, frequent volcanic eruptions from Mount Merapi and Mount Bromo, two of Indonesia's most active volcanoes, led to flight restrictions in Indonesian airspace. As a result, we were required to cancel approximately 180 flights to and from certain destinations including Yogyakarta, Jakarta and other locations in Central Java. We were also required to re-route flights (and increase flight distances) to certain other destinations in Indonesia and abroad in order to circumvent the volcanic ash. Such flight cancellations negatively impacted our passenger revenues and passenger volumes and the re-routing of flights increased our jet fuel and other flight operations expenses for the three-month period ended December 31, 2010. See "Risk Factors — Risks Relating to Indonesia — Indonesia is located in a volcanically active zone and is subject to significant seismic risk that could disrupt our operations."

On November 21, 2010, we encountered disruption for a three-hour period during the process of migrating data from our old operational management system to our new Integrated Operational and Control System (IOCS). Although we restored the IOCS to operation on November 21, 2010, during the period of

November 21-23, 2010, due to human error, flight crew schedules continued to be printed and distributed to flight crew ground transportation units using inaccurate data from the old operational management system. As a result, during the period of November 21-23, 2010 certain flight crews did not arrive for scheduled departures, approximately 180 flights were cancelled and we were required to shutdown our reservations system to avoid taking new passenger reservations. Such flight cancellations and the shutdown of our reservations system during this period negatively impacted our passenger revenues and passenger volumes for the three-month period ended December 31, 2010. The Company's corporate security team, together with LAPI Institut Teknologi Bandung, subsequently conducted an investigation to identify the cause of the outage in the IOCS. This investigation indicated that the Company does not currently have an adequate network management system which can oversee all network traffic or provide early fault detection in the IOCS. We plan an upgrade to our management information systems to improve our ability to oversee network traffic and perform early fault detection. See "Risk Factors — Risks Related to Our Business — We rely heavily on automated systems to operate our business and our failure to maintain and upgrade these systems could harm our business."

Factors Affecting Our Financial Condition and Results of Operations

Our financial condition and results of operations have been, and will continue to be, affected by a number of important factors, including the following:

General economic conditions

Our passenger volumes are influenced by a number of factors, such as the state of the Indonesian tourism industry, as well as general economic conditions globally and in Indonesia. Between 2007 and 2009, our passenger numbers increased to 10.9 million in 2009 from 10.2 million in 2008 and from 9.6 million in 2007 for a CAGR of 6.6%. During this same period, Indonesia's real gross domestic product ("GDP") grew at a compound annual growth rate, or a CAGR, of 3.5%. According to *Badan Pusat Statistik* ("BPS"), for the nine months ended September 30, 2010, international passenger traffic amounted to approximately 14.1 million passengers, representing an increase of 23.9% as compared to international passenger traffic for the nine months ended September 30, 2009; and domestic passenger traffic for the nine months ended September 30, 2010 amounted to approximately 31.2 million passengers, representing an increase of 21.5% as compared to domestic passenger traffic for the nine months ended September 30, 2009. According to statistics released by the Minister of Transportation, total domestic passengers increased to 43.8 million in 2009 from 37.4 million in 2008 and 39.2 million in 2007 for a CAGR of 5.8%. Our financial results have been, and are expected to continue to be, materially affected by Indonesia's economic development, per capita disposable income, the state of the Indonesian tourism industry and global economic conditions.

Revenue management

Our business is impacted by the number of passengers and the fares that we charge passengers on the domestic and international routes operated by us. Revenue management is an integrated set of business processes used to calculate the optimal pricing and inventory seats policy for maximizing revenue generated by the sale of tickets based on forecasting of demand behavior for each market. We use revenue management processes and systems to maximize seat occupancy and revenue per flight and our ability to do so successfully affects our results of operations. We are currently in the process of upgrading our revenue management software.

The airline industry is generally characterized by low profit margins and high fixed cost obligations, primarily for aircraft leases, engineering and maintenance changes, jet fuel, landing charges and interest and debt service. The cost of operating an aircraft does not vary significantly with the number of passengers or tonnage of cargo carried onboard. As a result of our high fixed cost obligations, a relatively small change in the number of passengers and our pricing can have a significant effect on our financial condition and results of operation.

Revenue from passenger services accounted for 72.5%, 72.7%, 71.4% and 83.0% of our total operating revenues for the years ended December 31, 2007, 2008 and 2009, and the nine months ended September 30, 2010, respectively. Revenue from scheduled passenger services was Rp. 10,180.8 billion in 2007, to Rp. 14,067.0 billion in 2008, Rp. 12,759.2 billion in 2009 to Rp. 10,533.2 billion in the nine months ended

September 30, 2010. A number of factors contribute to our revenue from scheduled passenger services including ASK, number of passengers, RPK, passenger load factor and passenger yield.

- ASK were 18,566.1 million in 2007, 20,366.8 million in 2008, 21,713.9 million in 2009 and 18,827.0 million in the nine months ended September 30, 2010, reflecting the expansion of our fleet size from 48 aircraft as of January 1, 2007 to 84 aircraft as of September 30, 2010.
- Number of passengers increased from 9.6 million in 2007 to 10.2 million in 2008 to 10.9 million in 2009 and 9.0 million in the nine months ended September 30, 2010, while RPK increased from 14,369.1 million in 2007 to 15,532.3 million in 2008 to 15,882.5 million in 2009 and 13,373.5 million in the nine months ended September 30, 2010, as we sought to utilize our expanded seat capacity through increased international and domestic flight frequencies and routes.
- Passenger load factor declined from 77.4% in 2007 to 76.4% in 2008 to 73.1% in 2009 to 71.0% during the nine months ended September 30, 2010, due to lower passenger demand on new destinations introduced into our route network and LCC competition during this period.
- Passenger yield was U.S. cents 7.4 per kilometer in 2007, U.S. cents 9.5 per kilometer in 2008, U.S. cents 7.5 per kilometer in 2009 to U.S. cents 8.4 per kilometer in the nine months ended September 30, 2010.

Our revenue from international passenger services comprised approximately 50.0%, 52.2%, 46.8% and 45.5% of our revenue from scheduled passenger services for the years ended December 31, 2007, 2008 and 2009, and the nine months ended September 30, 2010. Our passenger yield and passenger load factors for international passenger services have been adversely impacted by competition from LCCs on short haul international routes and our relatively low rate of market penetration on long haul international routes in the Middle East and Europe, which have been partially offset by a higher rate of market penetration on international routes in Asia and Australia.

Our revenue from domestic passenger services comprised approximately 50.0%, 47.8%, 53.2% and 54.5% of our revenue from scheduled passengers services for the years ended December 31, 2007, 2008 and 2009, and the nine months ended September 30, 2010. Our revenue from international and domestic passenger services and passenger yield has historically been correlated to our ability to apply fuel surcharges (which are recorded as part of our operating revenues) that reflect fluctuations in the price of jet fuel. From 2007 through 2009, our average cost of jet fuel fluctuated from U.S. cents 56.68 per liter in 2007 to U.S. cents 85.95 per liter in 2008 to U.S. cents 51.33 in 2009. Since April 2010, however, we are no longer permitted to apply a fuel surcharge on top of the domestic economy class fare cap — which can be adjusted only when fuel prices or increases in aircraft operation costs due to fluctuations in the Rupiah — U.S. dollar exchange rate exceed certain thresholds established by the DGCA for a prescribed period. As a result of this new domestic regulatory regime, we have shifted the focus of our revenue management — particularly for domestic flights — to allocation of seat inventory in the different fare segments.

We believe that our current revenue management system used by our FSC Garuda Indonesia business has relatively limited capability to allocate seat inventory when compared to certain of our competitors. We are currently in the process of upgrading our revenue management system, as well as our passenger service solutions system, in conjunction with the establishment of a new data center. We believe that our upgraded passenger service will improve our direct selling channels to consumers and our upgraded revenue management system will improve our ability to manage seat inventory by origin and destination, allocate seat inventory among the different fare classes and more accurately forecast demand.

Jet Fuel Prices

Jet fuel is an important element of all airlines' cost structure and therefore a change in jet fuel costs would significantly affect our results of operations. Jet fuel costs represented 34.3%, 41.2%, 29.4% and 31.8% of our total operating expenses in 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively. Jet fuel prices have been historically, and will in the future continue to be, subject to price volatility and fluctuations in supply and demand.

We procure approximately 70% of our jet fuel, including all of the jet fuel required for our domestic operations, pursuant to agreements with Pertamina. We typically enter into five-year supply agreements with Pertamina and one to two year supply agreements with each of our international jet fuel suppliers. Our international and domestic jet fuel supply agreements are renewed periodically and provide for payment in U.S. dollars. Our domestic jet fuel supply agreements with Pertamina are also renewed periodically and provide for payment in Rupiah at prices denominated in U.S. dollars. International jet fuel prices are generally set at a premium to the mean price of oil traded through Singapore, the Arab Gulf, Saudi Arabia and Netherlands, as published by Platts under Mean of Platts Singapore (MOPS), Mean of Platts Arab Gulf (MOPAG), ARAMCO or Rotterdam. Domestic jet fuel prices are generally set at a discount to a production posting price established by Pertamina in its sole discretion, which we believe has historically been higher than MOPS. While our prior jet fuel supply agreement with Pertamina provided us with a percentage discount to the production posting price, our new fuel supply agreement with Pertamina incorporates a fixed discount to the production posting price. As a result, when compared to our prior fuel supply agreement with Pertamina, our new agreement will result in lower discounts (and higher fuel prices) as the Pertamina production posting price increases.

Our international jet fuel supply agreements require payment in advance or presentation of a letter of credit against delivery of jet fuel, while our domestic jet fuel supply agreements with Pertamina currently allow us to make payment within two weeks following delivery. We have in the past incurred significant unpaid amounts due to Pertamina for the delivery of jet fuel, which were then converted to long-term subordinated debt in our most recent debt restructuring. See "— Debt Restructuring."

We do not enter into hedging transactions with respect to jet fuel prices, except for certain derivative transactions with respect to jet fuel required for our *hajj* flight operations.

We historically passed on a portion of our fuel costs for our passenger and cargo services in the form of fuel surcharges; however, since April 2010 the amount that we can apply in fuel surcharges (both in connection with domestic passenger and cargo services sold in Indonesia) is regulated by the Government and, in addition, this practice has recently been challenged as anti-competitive by the KPPU. See "Risk Factors — Risks Relating to Our Business — Our ability to set fares on certain segments of our business is constrained by price caps set by the Government" and "Our fuel surcharges have been challenged in Indonesia, Australia and New Zealand."

Increases in the aggregate price of air travel (comprising airfare, related taxes and fuel and other surcharges) due to significant increases in the price of jet fuel may decrease demand for our services. Accordingly, higher weighted jet fuel costs per barrel may adversely affect our profitability and results of operation.

Fleet expansion, modernization and simplification

A significant portion of our future capital expenditures, pre-delivery payment commitments and aircraft rental expenses will relate to our aircraft fleet expansion, modernization and simplification program. As of September 30, 2010, we had 84 aircraft and intend to expand our fleet to approximately 150 aircraft by 2015. The size, age and composition of our aircraft fleet have a significant impact on our financial condition and results of operations. We expect to expand our fleet to meet growth in passenger traffic through the opening of new routes and increased flight frequencies on our existing routes. The objective of our fleet modernization and simplification program is to increase standardization of training, maintenance and inventory, while also improving flight dispatch reliability and fuel efficiency, in particular through the operation of a single series of new generation narrow-body aircraft.

We currently operate four types of narrow-bodied aircraft, the Boeing 737-300, 737-400, 737-500 and 737-800 models. In connection with our fleet modernization and simplification program, we intend to phase out the Boeing 737-300, 737-400 and 737-500 aircraft and operate the more fuel-efficient Boeing 737-800 and also sub-100 seat aircraft. In the nine months ended September 30, 2010, we decided to accelerate our fleet simplification and modernization program by taking early delivery of 18 Boeing 737-800 aircraft, after previously taking delivery of 15 Boeing 737-800 aircraft in 2009 and and two Boeing 737-800 aircraft in 2008. The introduction of these new aircraft into our fleet under operating leases has increased our aircraft rental expense. In addition, the early delivery of 18 Boeing 737-800 aircraft in the nine months ended September 30, 2010 coincided with our decision to ground certain older generation Boeing 737 aircraft for final maintenance checks required prior to redelivery at the expiration of their operating leases in 2010 and 2011.

We also operate two types of wide-bodied aircraft, the Boeing 747 and Airbus A330 models. We currently intend to phase out the Boeing 747s and replace them with longer range and more fuel-efficient Boeing 777-300 ERs by 2012.

As of September 30, 2010, we had aircraft purchase commitments of approximately Rp. 24,460 billion, including estimated amounts for contractual price escalation, to purchase 27 additional aircraft (of which one was delivered in October 2010) through 2016, comprising of 11 Boeing 737-800 deliveries, ten Boeing 777 deliveries and six A330-200. As of September 30, 2010, we also had executed letters of intent for operating leases of 12 Boeing 737-800 aircraft (of which four were delivered between October and December 2010) and three Airbus A330-200 aircraft (of which one was delivered in December 2010) to commence operation in 2011, and have options to purchase four additional Airbus A330-200 aircraft. The pre-delivery payments for our aircraft purchases are typically financed initially through operating cash flows and debt financings, which we will then convert to operating lease arrangements under sale and leaseback transactions with aircraft leasing companies, which allows us to recover our pre-delivery payments and should reduce our total capital expenditure commitments. While we believe that our cashflow from operations will be sufficient to fund pre-delivery payments for all of our remaining Boeing 737-800 deliveries and all of our remaining Airbus A330-200 deliveries, we will need to arrange debt financing of pre-delivery payments for our ten remaining Boeing 777 deliveries. Our ECA Loans and Commercial Loans (each defined below) limit our ability to incur additional indebtedness and accordingly we cannot assure you we will be able to incur additional debt financing for our remaining 26 firm aircraft deliveries (including for pre-delivery payments). Moreover, even if we are able to incur such additional debt financing, we cannot assure you that either debt or lease financing will be available for such aircraft deliveries (including for pre-delivery payments) on terms acceptable to us or at all. Our ECA Loans and Commercial Loans also limit our ability to incur additional aircraft rental expense and, accordingly, we cannot assure you that we will be able to enter into additional operating leases to increase the size of our fleet.

See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Debt Restructuring — Export Agency Loans and Commercial Loans.”

We believe that the expansion of our fleet is required to meet growth in passenger traffic, expand our route network and increase flight frequencies, increase fuel efficiency and reduce maintenance costs. As of September 30, 2010, the average age of our aircraft fleet was 8.8 years, and we expect that further reductions of the average age through our fleet expansion program will increase the competitiveness of our maintenance costs when compared to certain of our competitors.

Aircraft utilization

One of the key elements of our growth strategy is to increase the daily utilization of our aircraft. High daily utilization of our aircraft improves our capacity to generate revenue from our fleet. High utilization can be achieved in part by reducing turnaround time at airports so that we can fly more hours each day. Aircraft utilization can be influenced by a number of factors, some of which are outside our control, including air traffic and airport congestion (particularly at our hubs at Soekarno-Hatta International Airport near Jakarta and Ngurah-Rai International Airport at Bali) , adverse weather conditions, security requirements, mechanical problems with our aircraft, and delays with third party contractors for services such as ground handling and refueling. Our average daily aircraft utilization in block hours per day was 9:37, 9:51, 9:00 and 9:27 for the years ended December 31, 2007, 2008 and 2009, and the nine months ended September 30, 2010, respectively. As we expand the size of our fleet, we intend to increase our expenditures for recruitment and training of pilots and flight attendants in order to support high utilization of our aircraft. Since July 2010, the DGCA has given its recommendation for us to hire foreign pilots for our aircraft on one-year (extendable) contracts and we believe that this will support our ability to increase aircraft utilization.

Interest rate exposure

Substantially all of our outstanding debt obligations are denominated in U.S. dollars and bear floating rates. In addition, certain of our obligations under long term aircraft finance leases also bear floating rates. Accordingly, our profitability is affected by changes in U.S. dollar LIBOR, due to the impact such changes have on our interest income and interest expenses from short-term deposits and other interest-bearing financial assets and liabilities. Changes in U.S. dollar interest rates could impact our finance costs.

Our operating lease obligations are currently denominated in U.S. dollars at fixed and floating rates. We may, however, enter into future operating leases that are denominated in U.S. dollars and bear floating rates.

Our indebtedness includes bank and other loans, trade payables as well as obligations under finance leases. As of September 30, 2010, we had long-term debt, net of current maturities, of Rp. 3,447.8 billion (US$386.4 million), which included finance lease obligations of Rp. 1,863.3 billion (US$208.8 million).

Currency exposure

Our functional and reporting currency is the Rupiah and accordingly, we are exposed to exchange rate risk with respect to fluctuations in the U.S. dollar — Rupiah exchange rate, primarily due to our U.S. dollar-denominated debt obligations, certain lease obligations under our aircraft leasing agreements, and dollar-denominated trade payables with respect to our fuel costs. When the Rupiah weakens against the U.S. dollar, our U.S. dollar-denominated liabilities and expenses increase in Rupiah terms, thereby adversely affecting our operating margins.

Approximately 44.6% of our revenue is denominated in Rupiah, and the remainder in a variety of other currencies. Meanwhile, approximately 46.2% of our expenses are denominated in U.S. dollars. Because our expenses in U.S. dollars are greater than our revenues generated in U.S. dollars, foreign exchange transactions from other currencies into U.S. dollars are required to cover our U.S. dollar-denominated obligations and trade payables.

We previously hedged a portion of our foreign currency exposure, principally because our annual U.S. dollar-denominated operating revenues were less than the sum of our U.S. dollar-denominated capital expenditures and other payment obligations and annual payments of U.S. dollar-denominated principal and interest payments. Since 2008, our policy has been to manage our U.S. dollar-denominated exposure by monthly conversion of our non-U.S. dollar-denominated foreign currency revenues into U.S. dollars at the spot rate available at the time of conversion. We also calculate our U.S. dollar-denominated monthly commitments and match our commitments with our U.S. dollar revenues and the conversion of our non-U.S. dollar denominated foreign currency revenues. If our U.S. dollar revenues and converted foreign currency revenues are insufficient to match our U.S. dollar-denominated obligations in any particular period, we further convert part of our Rupiah revenues to U.S. dollars. to cover such shortfall.

See "— Market Risk Disclosures — Currency Risk."

Seasonality

Our passenger revenues and profitability are affected by the seasonality of the Indonesian airline industry. Seasonality may affect our passenger services revenues and profitability from quarter to quarter. Generally, most of our revenues from passenger services are generated during the second half of the year due to travel for tourism during summer school holidays and the year-end holiday season. However, our revenues from domestic passenger services are also affected by low demand during the Muslim Ramadhan holiday, which occurred during the late summer months in each of the years from 2007 through 2010. Our revenue from *hajj* operations, which represented 94.0%, 92.9% and 93.9% of total operating revenues from non-scheduled flight services in 2007, 2008 and 2009, also varies annually with the Muslim lunar calendar. Our *hajj* flight operations in the period from 2007 through 2009 generally covered a twelve week period commencing in each year on a date moving forward from November to October during the period. Since our *hajj* flight operations in 2009 were completed prior to December 31, 2009, and our *hajj* flight operations commenced only in October 2010, we had no revenue from *hajj* flight operations in the nine month period ended September 30, 2010.

Government regulation of the airline industry

Since 2000, the Government has deregulated many aspects of the Indonesian domestic airline industry, allowing for greater competition and access to Indonesia's aviation market. As a result, many new LCCs have entered the domestic airline industry. Changes in the regulatory regime may result in increases or decreases in competition from other airline operators, and may impact our business, prospects and results of operations in future periods. We compete with international FSCs and LCCs providing flights connecting Indonesia with other international destinations, and, following the deregulation of the Indonesian domestic airline industry, we also compete with several LCCs providing domestic flights within Indonesia. The primary competitive factors include price, schedule, route networks, service quality and type and age of aircraft. While we believe that we will be able to compete effectively in an increasingly deregulated industry, deregulation may result in additional competition and impact our results of operations in future periods. We are also subject to operational and environmental laws applicable to the airline industry in general, in each country and region where we fly. See "Regulation of the Airline Industry in Indonesia — Environment and noise regulation" and "Risk Factors — Risks Relating to our Business — Our ability to set fares on certain segments of our business is constrained by price caps set by the Government."

Extraordinary events

Extraordinary events beyond our control such as terrorist attacks and outbreaks of contagious diseases could also affect our financial results. Terrorist attacks such as the September 11, 2001 attacks and the bombings in Bali in 2003 and 2005 have had, and may continue to have, an adverse impact on the airline industry resulting in depressed demand for passenger services, lower airfares, higher insurance premiums and increased security costs. On July 17, 2009, bombs exploded at the Marriott and Ritz-Carlton hotels in Jakarta, Indonesia, killing eight and injuring approximately 150 people. Outbreaks of contagious diseases such as SARS and the H1N1 virus could also severely affect our operations. Our airline operations were adversely affected during the peak of the SARS outbreak in the months of April to June 2003 when our passenger traffic dropped significantly. In November and December 2010, volcanic eruptions from Mount Merapi and Mount Bromo, two of Indonesia's most active volcanoes, led to flight restrictions in Indonesian airspace. The eruption from Mount Merapi resulted in disruptions to our flights to Yogyakarta, Jakarta and other destinations in Central Java. These extraordinary events may take place in the future and may have short-term or long-term impact on the airline industry and on our business, financial condition and results of operations.

Extraordinary gains on debt restructuring

As a result of our debt restructuring in 2001, we issued an aggregate principal amount of Rp. 1,018.8 billion Mandatory Convertible Bonds ("MCB") to Bank Mandiri bearing interest at 4% per annum, convertible to equivalent value of shares of our Company at any time prior to maturity date of five years from issuance. The MCB were non-transferable and subordinated to our other outstanding indebtedness. In 2006, we agreed on an two-year extension of the maturity date of the MCB with Bank Mandiri. In December 2009, we and Bank Mandiri agreed to restructure and fully settle the MCB by cash payment of Rp. 50.9 billion and conversion to Company shares of principal amount of Rp. 967.9 billion. As a result of the difference between the total amount of this settlement and our carrying amount of the MCB, we recognized an extraordinary gain of Rp. 123.5 billion in the year ended December 31, 2009.

On January 21, 2010, we completed a partial dutch auction tender offer and consent solicitation for US$40.65 million and Rp. 37.6 billion of our defaulted outstanding Floating Rate Notes due 2007 ("FRN") for an aggregate purchase price of approximately US$22.5 million and Rp. 23 billion. As a result of this partial repurchase of our FRN and consent solicitation, we extended the final maturity date of the remaining outstanding principal amount of the FRN to January 21, 2018 and recognized an extraordinary gain of Rp. 184.1 billion in the nine months ended September 30, 2010 on the repurchase of FRN. See "— Debt Restructuring — Floating Rate Notes."

Restatement of Consolidated Financial Statements for the Years Ended December 31, 2007 and 2008

We have restated our consolidated financial statements for the years ended December 31, 2007 and 2008 to conform with accounting principles generally accepted in Indonesia and accounting practice for airline industry through reference to the AICPA Airline Industry Guide. The changes resulting from these restatements include the following:

- Change to the accounting policy for cost of major airframe inspection, engine overhauls for owned aircraft, and leased aircraft from accrual method to deferral method and revised the consolidated financial statements in accordance with SFAS No. 16 (Revised 2007) and FASB Staff Position (FSP) AUG AIR1 "Accounting for Planned Major Maintenance Activities" issued on September 8, 2006.

- Recognition of contractual liability on supplemental lease when airframe component no longer met the required minimum performance as stated in the agreement, amounting to the estimated minimum cost for return condition in accordance with SFAS No. 57 'Estimated Liabilities, Contingent Liabilities and Assets". Moreover, payment for airframe heavy maintenance was conducted through reimbursement mechanism. With this term the supplemental rent should be recognized as asset (deposits or prepayments) in accordance with SFAS No. 30 (Revised 2007) "Leases".

- Recognition of long term benefits related to Preparation for Retirement Period program managed by Yayasan Kesehatan Garuda (Yankesga) where the benefit is determined by service level when the employees retire in accordance with SFAS No. 24 (Revised 2004) "Employee Benefits".

- Recognition of customer loyalty program in accordance with SFAS No. 57 "Estimated Liabilities, Contingent Liabilities and Assets".

- Change to the classification of building and improvement, machineries and installation in PT Bina Intl Dinamika, subsidiary of PT Aero Wisata, into Build Operate Transfer (BOT) and changed the accounting policy for BOT asset from revaluation model into cost model.

- Change to the reporting entity in PT Aero Wisata, subsidiary, wherein the subsidiary has obtained as new data for the financial statements of Garuda Orient Holidays Korea Co, Ltd, subsidiary of PT Aero Wisata as of December 31, 2008, thus the accounting for the investment in subsidiary has changed from cost method into consolidation method.

Critical Accounting Policies

We prepared our consolidated financial statements contained elsewhere in this Offering Circular in accordance with Indonesian GAAP. Note 3 of the notes to our consolidated financial statements includes a summary of the significant accounting policies we adopted in preparing these consolidated financial statements. Our actual results may differ significantly under different assumptions or conditions. The accounting policies that we believe are the most critical to a full understanding and evaluation of our reported financial results include the following:

Revenue recognition

We recognize revenue from sales of passenger tickets and cargo waybills initially as unearned transportation revenue and as operating revenue when the transportation service is rendered. We recognize revenues arising from short-term aircraft maintenance and overhaul service contracts at the time such services are rendered. Revenues arising from long-term aircraft maintenance and overhaul service contracts are recognized based on the percentage of completion method.

We recognize revenues arising from hotels, catering, travel agency services, reservation system services and other services related to our flight operations at the time such services are rendered.

Interest revenue is accrued on time basis, by reference to the principal outstanding and at the applicable interest rate.

Revaluation of property and equipment

Starting December 31, 2008, aircraft, land and buildings are stated at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and impairment losses. Revaluation is made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.

Any revaluation increase arising on the revaluation of such aircraft, land and buildings is credited to the revaluation surplus in the equity section, except to the extent that it reverses a revaluation decrease, for the same asset which was previously recognized in profit or loss, in which case the increase is credited to profit and loss to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such aircraft, land and buildings is charged to profit or loss to the extent that it exceeds the balance, if any, held in the revaluation surplus relating to a previous revaluation of such aircraft, land and buildings.

The revaluation surplus included in equity in respect of aircraft, land and buildings is directly transferred to retained earnings when the asset is derecognized.

Previously, aircraft, land and buildings and improvements were stated at cost, less accumulated depreciation and any accumulated impairment losses. The change in the accounting policy for subsequent measurement of aircraft, land and buildings from cost model to revaluation model is accounted for prospectively.

Depreciation

With effect from January 1, 2009, we implemented a change in our accounting policies with respect to the useful lives of our aircraft assets from between 12 to 15 years to 18 to 20 years. With effect from January 1, 2009, estimated useful lives of our assets were as follows:

	Years
Aircraft Assets	
Aircraft (net of residual value of 20%)	
Airframe	18-20
Engines	18-20
Simulators (net of residual value of 20%)	
Simulators	10
Rotable Parts	12
Maintenance Assets	
Airframe inspection	Period to next inspection
Engine overhaul	Period to next overhaul
Non aircraft Assets	
Buildings	
Hangars	40
Office buildings	40
Vehicles	3-5
Furniture and Fixtures	2-10
Land is not depreciated	

Assets held under finance lease are depreciated based on the same estimated useful life with owned assets or over the lease period whichever is shorter.

We review the estimated useful lives, residual values and depreciation method of our assets and adjust them as appropriate in accordance with Indonesian GAAP at each balance sheet date. The cost of maintenance and overhaul is charged to income as incurred, unless such expenditures extend the useful life of the asset or result in increased future economic benefits such as improvements in capacity, quality of production or performance, in which case such expenditures are capitalized.

Machinery and equipment under installation or construction is stated at cost and transferred to the applicable property and equipment account when completed and ready for use.

On the retirement or disposal of assets, resulting gains or losses (net of carrying values and accumulated depreciation) are recognized in our consolidated income statements in the corresponding period.

Impairment of Tangible Asset

When the carrying amount of an asset exceeds its estimated recoverable amount, the asset is written down to its estimated recoverable amount, which is determined as the higher of net selling price and value in use.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases where the Company and its subsidiaries are lessees are initially recognized as assets of the Company and subsidiaries at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss unless they are directly attributable to qualifying asset, in which case they are capitalized in accordance with the accounting policy on borrowing costs. Contingent rentals are recognized as expenses in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred. In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate amount of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Assets sold under a sale and leaseback transaction are accounted for as follows:

- If the sale and leaseback transaction results in an operating lease and the transaction is established at fair value, any profit or loss is recognized immediately. If the sale price is below fair value, any profit or loss is recognized immediately except that, if the loss is compensated by future lease payments at below market price, it is deferred and amortized in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above fair value, the excess over fair value is deferred and amortized over the period for which the asset is expected to be used.
- If the sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount of the asset is deferred and amortized over the lease term.

For operating leases, if the fair value at the time of a sale and leaseback transaction is less than the carrying amount of the asset, a loss equal to the amount of the difference between the carrying amount and fair value is recognized immediately. For finance leases, no such adjustment is necessary unless there has been impairment in value, in which case the carrying amount is reduced to recoverable amount.

Heavy Maintenance Costs of Aircraft

Major airframe inspection cost relating to heavy maintenance visit and engine overhauls for owned aircraft and those held on finance lease is capitalized and amortized over the period until the next expected major inspection or overhaul.

If there is a commitment related to maintenance of aircraft held under operating lease arrangements, a provision is made during the lease term for the lease return obligations specified within those lease agreements. The provision is made based on historical experience, manufacturers' advice and if relevant, contractual obligations, to determine the present value of the estimated future major airframe inspections cost and engine overhauls, by making appropriate actual charges to the statements of operations, calculated by reference to period following major overhaul or inspections.

All other repair and maintenance costs are expensed as incurred.

Post-Employment Benefits and Long-Term Benefits

Post-employment benefits are determined using the Projected Unit Credit Method. The accumulated unrecognized actuarial gains and losses that exceed 10% of the greater of the present value of the defined benefit obligations and the fair value of plan assets, is recognized on a straight-line basis over the expected average remaining service years of the participating employees. Past service cost is recognized immediately to the extent that the benefits are already vested, and otherwise is amortized on a straight-line basis over the average period until the benefits become vested. The employee benefits obligation recognized in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognized actuarial gains and losses and unrecognized past service cost, and reduced by the fair value of plan assets.

Long-term benefits are also determined using the Projected Unit Credit Method. Past service cost and actuarial gains (losses) are recognized immediately in the current operations. The long-term employee benefit obligation recognized in the consolidated balance sheets represents the present value of the defined benefit obligation.

Financial Assets

All financial assets are recognized and de-recognized on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Our financial assets are classified as follows:

- Fair value through profit or loss — Financial derivatives are classified in this category unless designated as hedging derivatives. Gain or loss on non-hedging derivative is recognized in profit or loss.

- Loans and receivables — Cash in banks, time deposits, maintenance reserve funds and security deposits on operating leases, trade and other receivables that have fixed or determinable payments that are not quoted in active market, are classified in this category. Loans and receivables are measured at amortized cost using the effective interest method less impairment. Interest is recognized by applying the effective interest method, except for short term receivable where the recognition of interest would be immaterial.

- Available for sale — Long-term investments in shares, except investments in associates, are classified in this category. As there is no active market for these investments and the fair value cannot be reliably measured, these investments are measured at cost less impairment.

- Impairment of financial assets — Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

- Financial assets measured at amortized cost — In determining whether there is an objective evidence that impairment loss has been incurred on financial assets, management considers factors such as historical experience of collecting payments, default or significant increase in the number of delayed payments in the portfolio past the average credit period, as well as significant financial difficulty of the debtor. For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of receivables, where the carrying amount is reduced through the use of an allowance account. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in statements of income.

- Financial assets measured at cost, less impairment — If there is objective evidence that impairment loss has been incurred on financial assets measured at cost, such as significant financial difficulty of the issuer or adverse changes in the environment the issuer operates, impairment loss is measured as the difference between the asset carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent period.

Financial Liabilities

Classification as debt or equity

Financial liabilities and equity instruments issued by the Company are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

Derivative Financial Instruments

Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently measured to their fair value at each balance sheet date. All derivative transactions are recognized as assets when the fair value is positive while liabilities are recognized when the fair value is negative.

Changes in fair value of derivative financial instruments that are designated as effective hedges of future cash flows are recognized as part of equity and the ineffective portion is recognized immediately in earnings. If the hedged transaction results in the recognition of an asset or liability, the accumulated gains and losses under equity are reclassified into earnings in the same period in which the related asset or liability affects earnings. For hedges that do not result in the recognition of an asset or liability, amounts deferred in equity are recognized in earnings in the same period in which the hedged item affects net income or loss.

For an effective hedge of an exposure to changes in the fair value, the hedged item is adjusted for changes in fair value attributable to the risk being hedged and such changes are recognized immediately in earnings.

Provisions

Provisions are recognized when the Company and its subsidiaries have a present obligation (legal or constructive) as a result of a past event, it is probable that the Company and its subsidiaries will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Management's use of estimates

Our consolidated financial statements have been prepared in accordance with Indonesian GAAP. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses as well as the disclosure of contingent assets and liabilities. We base our estimates and assumptions on historical experience and other factors that we believe to be reasonable under the circumstances. We continually evaluate these estimates and judgments. Actual results may differ from these estimates under different assumptions or conditions.

Key Operational Data

To measure our operating performance, we track certain statistical data including the following:

	Year Ended and as of December 31,			Nine Months Ended and as of September 30,	
	2007	2008	2009	2009	2010
SELECTED OPERATING DATA (unaudited):					
Information relating to our passenger services:					
Passengers carried (thousands)	9,633.5	10,172.3	10,901.8	7,980.3	9,045.6
Revenue passenger-kilometers (RPK) (in millions)[(2)]	14,369.1	15,532.3	15,882.5	11,809.0	13,373.5
Available seat-kilometers (ASK) (in millions)[(3)]	18,566.1	20,336.8	21,713.9	16,209.3	18,827.0
Passenger load factor (%)[(4)]	77.4	76.4	73.1	72.9	71.0
Passenger yield (U.S. cents/passenger kilometer)[(1)(5)]	7.4	9.5	7.5	7.3	8.4
Information relating to our cargo operations:					
Cargo and mail carried (million kilograms)	122.4	149.3	157.1	110.6	149.7
RFTK (millions ton-kilometer)[(6)]	234.0	275.4	282.1	191.9	311.4
AFTK (million ton-kilometers)[(7)]	568.9	627.0	757.9	539.7	815.5
Cargo load factor (%)[(8)]	41.1	43.9	37.2	35.6	38.5
Cargo yield (U.S. cents/kilometer)[(1)(9)]	30.2	37.4	29.9	30.0	30.7

Notes:

(1) We have translated the Rupiah amounts of passenger yield and cargo yield to U.S. dollars, on a monthly basis, using the middle exchange rate announced by Bank Indonesia as of the balance sheet date of the last day of the previous month.

(2) Calculated as number of revenue passengers carried multiplied by distance flown (in kilometers) for each flight leg.

(3) Calculated as number of available seats multiplied by distance flown (in kilometers) for each flight leg.

(4) Calculated as RPK divided by ASK and expressed as a percentage.

(5) Calculated as passenger revenue from scheduled services divided by RPK.

(6) Calculated as cargo and mail load carried (in tons) multiplied by distance flown (in kilometers).

(7) Calculated as total cargo capacity (in tons) multiplied by distance flown (in kilometers).

(8) Calculated as cargo and mail load (in tons-kilometers) divided by total available payload (in tons-kilometers) per aircraft type per flight and expressed as a percentage.

(9) Calculated as revenue from cargo services divided by RFTK.

Key Consolidated Income Statement Line Items

Airline Services Revenue

Our airline services revenue is principally comprised of revenues arising from our operation of scheduled and non-scheduled flight services. The following table shows the breakdown of certain key items comprising our operating revenues and each item as a percentage of total operating revenues for the periods indicated:

	Year Ended December 31,							Nine Months Ended September 30,				
	2007 (Audited)		2008 (Audited)		2009 (Audited)		2009 (Unaudited)	2009 (Unaudited)		2010 (Audited)		2010 (Unaudited)
	(Rp. billions, except percentages)		(Rp. billions, except percentages)		(Rp. billions, except percentages)		(US$ millions)	(Rp. billions, except percentages)		(Rp. billions, except percentages)		(US$ millions)
Scheduled services:												
Passenger	10,180.8	72.5%	14,067.0	72.7%	12,759.2	71.4%	1,429.8	9,423.2	79.5%	10,533.2	83.0%	1,180.3
Cargo	801.4	5.7%	947.6	4.9%	839.3	4.7%	94.1	593.9	5.0%	845.3	6.7%	94.7
Excess baggage	44.0	0.3%	75.6	0.4%	64.3	0.4%	7.2	49.5	0.4%	42.8	0.3%	4.8
Mail and document	23.2	0.2%	30.0	0.2%	36.6	0.2%	4.1	26.8	0.2%	27.7	0.2%	3.1
Total revenue from scheduled services	11,049.4	78.7%	15,120.3	78.1%	13,699.4	76.7%	1,535.1	10,093.4	85.2%	11,448.9	90.3%	1,282.9
Non-Scheduled Services:												
Hajj	1,510.4	10.8%	2,291.8	11.8%	2,339.7	13.1%	262.2	396.0	3.3%	—	—	—
Charter	95.6	0.7%	174.8	0.9%	151.6	0.8%	17.0	79.6	0.7%	102.3	0.8%	11.5
Total revenue from non-scheduled services	1,605.9	11.4%	2,466.6	12.8%	2,491.2	13.9%	279.2	475.6	4.0%	102.3	0.8%	11.5
Total airline services	12,655.4	90.1%	17,586.9	90.9%	16,190.7	90.7%	1,814.3	10,569.1	89.2%	11,551.2	91.1%	1,294.4

Other Revenue

Other revenue is principally comprised of revenues from ancillary flight-related services provided by us, such as aircraft maintenance and overhaul services, travel agency services, catering services, hotel services, healthcare services, training and other services. The following table shows the breakdown of certain key items comprising other revenue and each item as a percentage of total operating revenues for the periods indicated:

	Year Ended December 31,							Nine Months Ended September 30,				
	2007 (Audited)		2008 (Audited)		2009 (Audited)		2009 (Unaudited)	2009 (Unaudited)		2010 (Audited)		2010 (Unaudited)
	(Rp. billions, except percentages)		(Rp. billions, except percentages)		(Rp. billions, except percentages)		(US$ millions)	(Rp. billions, except percentages)		(Rp. billions, except percentages)		(US$ millions)
Other Revenues												
Travel agency services	251.6	1.8%	333.2	1.7%	256.6	1.4%	28.7	191.5	1.6%	258.8	2.0%	29.0
Catering services	250.9	1.8%	231.4	1.2%	337.8	1.9%	37.9	253.0	2.1%	260.7	2.1%	29.2
Aircraft maintenance and overhaul	379.8	2.7%	589.9	3.0%	436.7	2.4%	48.9	370.7	3.1%	163.5	1.3%	18.3
Airline related	173.4	1.2%	213.6	1.1%	274.9	1.5%	30.8	200.9	1.7%	160.9	1.3%	18.0
Facilities	113.7	0.8%	159.3	0.8%	134.7	0.8%	15.1	94.3	0.8%	121.3	1.0%	13.6
Hotel services	78.6	0.6%	122.0	0.6%	139.9	0.8%	15.7	98.5	0.8%	96.5	0.8%	10.8
Information technology	31.2	0.2%	38.2	0.2%	28.3	0.2%	3.2	20.3	0.2%	17.8	0.1%	2.0
Healthcare services	22.7	0.2%	21.7	0.1%	20.4	0.1%	2.3	15.8	0.1%	14.9	0.1%	1.7
Transportation services	38.7	0.3%	7.5	0.0%	19.0	0.1%	2.1	18.8	0.2%	14.9	0.1%	1.7
Training services	28.3	0.2%	20.2	0.1%	13.7	0.1%	1.5	11.4	0.1%	6.7	0.1%	0.7
Others	18.2	0.1%	25.8	0.1%	7.7	0.0%	0.9	5.1	0.0%	17.7	0.1%	2.0
Total other revenue	1,387.0	9.9%	1,762.8	9.1%	1,669.7	9.3%	187.1	1,280.3	10.8%	1,133.8	8.9%	127.1

Travel Agency Services

Revenues from our travel agency services consist of the operating revenues of our subsidiaries, PT Aero Wisata, PT Biro Perjalanan Wisata Satriavi, PT Aerojasa Perkasa, Garuda Orient Holidays, Pty. Limited, Garuda Orient Holidays Japan Inc. and Garuda Orient Holidays Korea Co. Ltd., which operate travel agencies promoting holiday packages and are located in Indonesia, Korea, Japan and Australia, and also act as general sales agents for other airlines.

Catering Services

Revenues from our catering services consist of the operating revenues of our subsidiary, PT Angkasa Citra Sarana Catering Services ("ACS"), a subsidiary of PT Aero Wisata, which provides in-flight catering services to our Company and third party airlines operating out of domestic airports in Indonesia. Revenues shown in our consolidated financial statements with respect to our catering services provided by us represent the total revenues of ACS, after elimination of intercompany transactions.

Aircraft maintenance and overhaul

Revenues from aircraft maintenance and overhaul consist of the operating revenues of our subsidiary, PT Garuda Maintenance Facility Aero Asia ("GMFAA"), which provides aircraft maintenance and overhaul services to other airline operators and third parties, in addition to maintenance and servicing of our fleet. Revenues shown in our consolidated financial statements with respect to aircraft maintenance and overhaul services provided by us represent the total revenues of GMFAA, after elimination of intercompany transactions.

Hotel Services

Revenues from our hotel services consist of the consolidated operating revenues of PT Aero Wisata, PT Mirtasari Hotel Development, PT Senggigi Pratama Internasional and PT Bina Inti Dinamika, which own and operate five hotels and manage and operate other hotels.

Healthcare Services

Revenues from our healthcare services consist of revenues from clinics and pharmacies operated by us, as well as revenue from members of medical healthcare plans offered by us to our employees. Revenues shown in our consolidated financial statements with respect to our healthcare services provided by us represent the total revenues of our healthcare business unit, after elimination of intercompany transactions.

Other Services

Revenues from other services consist of revenues from our administration of code-share flights operated by third party airline operators, our sale of cargo space on third party airline freight, warehouse rentals, reservation systems and provision of IT services to third parties.

Operating Expenses

The following table shows the breakdown of our operating expenses and each item as a percentage of total revenue for the periods indicated:

	Year Ended December 31,							**Nine Months Ended September 30,**				
	2007 (Audited)		**2008 (Audited)**		**2009 (Audited)**		**2009 (Unaudited)**	**2009 (Unaudited)**		**2010 (Audited)**		**2010 (Unaudited)**
	(Rp. billions, except percentages)		**(Rp. billions, except percentages)**		**(Rp. billions, except percentages)**		**(US$ millions)**	**(Rp. billions, except percentages)**		**(Rp. billions, except percentages)**		**(US$ millions)**
Operating Expenses												
Flight operations . .	6,504.6	48.9%	9,948.0	55.3%	8,096.7	47.8%	907.3	4,942.6	44.0%	6,142.7	47.3%	688.3
Maintenance and overhaul	1,089.9	8.2%	1,107.6	6.2%	1,075.8	6.4%	120.6	723.4	6.4%	876.9	6.8%	98.3
User charge and station	1,107.1	8.3%	1,308.8	7.3%	1,420.7	8.4%	159.2	949.8	8.5%	986.4	7.6%	110.5
Passenger service . .	1,002.2	7.5%	1,105.3	6.1%	1,378.0	8.1%	154.4	911.6	8.1%	1,078.8	8.3%	120.9
Ticketing, sales and promotion	1,286.2	9.7%	1,562.7	8.7%	1,636.4	9.7%	183.4	1,202.8	10.7%	1,252.8	9.7%	140.4
General and administrative . .	880.0	6.6%	1,250.3	6.9%	1,246.9	7.4%	139.7	890.1	7.9%	984.7	7.6%	110.3

	Year Ended December 31,							Nine Months Ended September 30,				
	2007 (Audited)		2008 (Audited)		2009 (Audited)		2009 (Unaudited)	2009 (Unaudited)		2010 (Audited)		2010 (Unaudited)
	(Rp. billions, except percentages)		(Rp. billions, except percentages)		(Rp. billions, except percentages)		(US$ millions)	(Rp. billions, except percentages)		(Rp. billions, except percentages)		(US$ millions)
Depreciation and amortization . . .	1,045.2	7.9%	1,295.9	7.2%	1,609.9	9.5%	180.4	1,225.7	10.9%	1,206.1	9.3%	135.2
Employee benefit expenses	199.2	1.5%	197.0	1.1%	260.6	1.5%	29.2	223.8	2.0%	273.4	2.1%	30.6
Transportation operation	104.9	0.8%	110.1	0.6%	95.2	0.6%	10.7	68.4	0.6%	75.7	0.6%	8.5
Network operation	58.7	0.4%	66.1	0.4%	70.3	0.4%	7.9	49.2	0.4%	58.3	0.4%	6.5
Hotel operation . . .	32.1	0.2%	44.6	0.2%	51.5	0.3%	5.8	38.4	0.3%	39.3	0.3%	4.4
Total operating expenses	13,310.3	100.0%	17,996.5	100.0%	16,942.1	100.0%	1,898.5	11,225.8	100.0%	12,975.0	100.0%	1,453.9

Flight operation expenses

Flight operation expenses consist primarily of fuel costs, aircraft rental and charter expenses, employee salaries and allowances for our pilots and insurance expenses relating to our aircraft. Aircraft rental and charter expenses consist principally of payments in respect of our aircraft operating lease obligations, as well as charter of aircraft used to provide our non-scheduled *hajj* services and charter flights for business, government, educational and tourist groups.

	Year Ended December 31,							Nine Months Ended September 30,				
	2007 (Audited)		2008 (Audited)		2009 (Audited)		2009 (Unaudited)	2009 (Unaudited)		2010 (Audited)		2010 (Unaudited)
	(Rp. billions, except percentages)		(Rp. billions, except percentages)		(Rp. billions, except percentages)		(US$ millions)	(Rp. billions, except percentages)		(Rp. billions, except percentages)		(US$ millions)
Flight Operation Expenses												
Fuel	4,569.1	70.2%	7,414.6	74.5%	4,983.6	61.6%	558.5	3,212.0	65.0%	4,122.1	67.1%	461.9
Aircraft Rental and Charter . . .	1,403.8	21.6%	1,785.1	17.9%	2,206.8	27.3%	247.3	1,079.1	21.8%	1,327.3	21.6%	148.7
Aircraft Rental	668.9	10.3%	749.8	7.5%	1,268.6	15.7%	142.2	919.2	18.6%	1,327.3	21.6%	148.7
Charter	734.9	11.3%	1,035.3	10.4%	938.2	11.6%	105.1	159.9	3.2%	—	—	—
Salaries and Allowances . . .	368.9	5.7%	550.8	5.5%	669.7	8.3%	75.0	482.9	9.8%	516.4	8.4%	57.9
Insurances	158.2	2.4%	188.5	1.9%	230.4	2.8%	25.8	165.5	3.3%	173.8	2.8%	19.5
Others	4.6	0.1%	8.9	0.1%	6.1	0.1%	0.7	3.1	0.1%	3.2	0.1%	0.4
Total	6,504.6	100.0%	9,948.0	100.0%	8,096.7	100.0%	907.3	4,942.6	100.0%	6,142.7	100.0%	688.3

Maintenance and overhaul expenses

Maintenance and overhaul expenses represent the total operating costs of GMFAA (including general maintenance and overhaul costs, spare part costs, employee salaries and allowances for GMFAA maintenance service staff, rental charges relating to maintenance equipment and vehicles operated by GMFAA, fuel costs relating to the operation of equipment and vehicles operated by GMFAA in providing MRO services and insurance expenses relating to such equipment and vehicles), and cost for MRO services provided by third parties to us. For the years 2007, 2008 and 2009 and the nine months ended September 30, 2010, approximately 73.5%, 71.4%, 74.1% and 74.6% respectively of total operating costs of GMFAA were attributable to MRO costs for our fleet, with the remaining costs being attributable to the provision of MRO services by GMFAA to third parties.

Maintenance and operation expenses do not include expenditures for certain heavy maintenance checks on the airframe and engines required for the airworthiness of our owned aircraft or required under the terms of our finance and operating leases. Expenditures for such heavy maintenance checks are capitalized and depreciated over the period of the applicable lease term, or the useful life of the aircraft, as applicable.

User charge and station expenses

User charge and station expenses consist primarily of aircraft and flight service expenses relating to our flight operations, such as airport terminal charges, rental charges for buildings and vehicles and salaries and allowances for employees stationed in the various airports to which we have established flight routes.

Passenger service expenses

Passenger service expenses consist primarily of expenses relating to passengers services including catering, in-flight entertainment and operation of operating costs of our subsidiary, ACS, as well as our executive lounges, salaries and allowances for our flight attendants, catering staff and other employees engaged in the provision of such services, and expenses for consumable items used in connection with the provision or passenger services.

Ticketing, sales and promotion expenses

Ticketing, sales and promotion expenses consist primarily of commissions payable to travel agencies which make flight bookings with us, reservation expenses charged by passenger booking systems, salaries and allowances for our ticketing, sales and marketing staff, as well as expenses relating to advertising and promotional programs.

General and administrative expenses

General and administrative expenses consist primarily of salaries and allowances payable to our general administration employees located at our head office, utility expenses, rental charges relating to land, buildings and certain related equipment for our head office, tax expenses, allowances for bad debts, expenses relating to professional services and training programs, expenses for maintenance and repair of our properties, healthcare expenses for our general administration employees, office supply expenses, insurance expenses relating to our properties, and fees paid for membership in professional and international associations such as IATA.

Depreciation and amortization expenses

Depreciation and amortization expenses consists of depreciation provisions for our aircraft including airframes, engines, as well as heavy maintenance performed on airframes (D-checks) and engines. It also includes depreciation provisions for buildings including hangars, vehicles, furniture and fixtures. Since December 31, 2008, the aircraft, land and buildings owned by us are stated at their revalued amounts, being the fair market value as of the date of revaluation less any subsequent accumulated depreciation and impairment losses. Any revaluation increase or decrease in the carrying amount of aircraft, land and buildings owned by us as a result of its revaluation increases or decreases (as the case may be) depreciation and amortization expense until the next revaluation date.

Employee benefit expenses

Employee benefit expenses consist of our contributions toward, and funding of, our pension and long-term benefit arrangements for our employees.

Transportation operation expenses

Transportation operation expenses consist of expenses incurred in connection with ground transportation operations by our subsidiary PT Mandira Erajasa Wahana (a subsidiary of PT Aero Wisata).

Network operation expenses

Network operation expenses consist of the operating expenses incurred by our subsidiaries, PT Aero Systems Indonesia and PT Abacus Distribution Systems Indonesia, with respect to their provision of information technology and network system operation services.

Hotel operation expenses

Hotel operation expenses consist of the operating expenses incurred by our subsidiaries PT Aero Wisata, PT Mirtasari Hotel Development, PT Senggigi Pratama Internasional and PT Bina Inti Dinamika, with respect to their hotel operations within Indonesia.

Results of Operations

Nine months ended September 30, 2010 compared to nine months ended September 30, 2009

Our results of operations for the nine months ended September 30, 2010 were negatively affected by our decision to accelerate delivery of 18 Boeing 737-800 aircraft in connection with our fleet simplification program. We previously took delivery of 15 and two new Boeing 737-800 aircraft in 2009 and 2008, respectively. See "— Factors Affecting Results of Operations — Fleet expansion and simplification." The introduction of these new aircraft into our fleet increased our aircraft rental expenses and coincided with our decision to ground certain older generation Boeing 737 aircraft for final maintenance checks required prior to redelivery at the expiration of their operating leases in 2010 and 2011. Our average fleet utilization during this period was also negatively impacted by a shortage of pilots and the cabin refurbishment program in respect of our six A330 undertaken during 2010, resulting in the equivalent of one aircraft being grounded for the entire year. In July 2010, the DGCA has given its recommendation for us to hire foreign pilots on one-year (renewable) contracts, and we believe that this will help alleviate our pilot shortage.

A number of other factors also negatively affected our results of operations for the nine months ended September 30, 2010. During this period, our new domestic long-haul routes to destinations in East Indonesia, as well our new European route to Amsterdam, experienced low load factors. Establishment of new routes, particularly new international routes, typically requires a certain lead time to achieve positive profit margins, as the high fixed cost obligations required to establish new routes are usually accompanied by low passenger load factors, and the adverse impact of promotional "lead in" fares on passenger yields, as we seek to build brand awareness and market share on new routes.

Operating Revenues

Operating revenues increased 7.1% to Rp. 12,685.1 billion (US$1,421.5 million) in the nine months ended September 30, 2010 from Rp. 11,849.3 billion in the nine months ended September 30, 2009, primarily due to increased revenue from scheduled airline services, which were partially offset by decreased revenue from non-scheduled airline services and other operating revenues.

Scheduled airline services

Revenue from scheduled airline services increased 13.4% to Rp. 11,448.9 billion (US$1,282.9 million) in the nine months ended September 30, 2010 from Rp. 10,093.4 billion in the nine months ended September 30, 2009, as a result of increased revenue from passenger and cargo services. Fuel surcharges increased as the average price of jet fuel increased to U.S. cents 64.5 per liter in the nine months ended September 30, 2010 from U.S. cents 49.0 per liter in the nine months ended September 30, 2009. Separate fuel surcharges for our domestic flights were terminated in June 2010 as the Government introduced a new cap on airfares which incorporated a fuel price fluctuation formula. See "— Fuel surcharges."

Passenger services. Revenue from passenger services increased 11.8% to Rp. 10,553.2 billion (US$1,180.3 million) in the nine months ended September 30, 2010 from Rp. 9,423.2 billion in nine months ended September 30, 2009. An increase in total passengers to 9.0 million in the nine months ended September 30, 2010 from 8.0 million in the nine months ended September 30, 2009, an increase in RPK to 13.4 billion in the nine months ended September 30, 2009 from 11.8 billion in the nine months ended September 30, 2009 and an increase in passenger yield to U.S. cents 8.4 per RPK in the nine months ended September 30, 2010 from U.S. cents 7.3 per RPK in the nine months ended September 30, 2009 were partially offset by a decrease in passenger load factor to 71.0% in the nine months ended September 30, 2010 from 72.9% in the nine months ended September 30, 2009, primarily as a result of low load factors following our introduction of new domestic long-haul routes to destinations in East Indonesia, as well as the introduction of direct flights from Jakarta to destinations in China, Australia and Japan.

Cargo services. Revenue from cargo services also increased 42.3% to Rp. 845.3 billion (US$94.7 million) in the nine months ended September 30, 2010 from Rp. 593.9 billion in the nine months ended September 30, 2009 as RFTK increased to 311.3 million in the nine months ended September 30, 2010 from 191.9 million in the nine months ended September 30, 2009, cargo load factor increased to 38.5% in the nine months ended September 30, 2009 from 35.6% in the nine months ended September 30, 2009 and cargo yield increased to U.S. cents 30.7 per kilometer in the nine months ended September 30, 2010 from U.S. cents 30.0 per kilometer in the nine months ended September 30, 2009, primarily due to increased demand for international cargo services and increased marketing of our domestic and international cargo services.

Non-scheduled airline services

Revenue from non-scheduled airline services decreased 78.5% to Rp. 102.3 billion (US$11.5 million) in the nine months ended September 30, 2010 from Rp. 475.6 billion in the nine months ended September 30, 2009, primarily due to the fact that we had no revenue from *hajj* flight operations in the nine months ended September 30, 2010 (since *hajj* flight operations will only occur the fourth quarter of 2010), which was partially offset by an increase in revenue from chartered flight operations to Rp. 102.3 billion (US$11.5 million) in the nine months ended September 30, 2010 from Rp. 79.6 billion in the nine months ended September 30, 2009 on increased chartered flight operations.

Other revenues

Other revenues decreased 11.4% to Rp. 1,133.8 billion (US$127.1 million) in the nine months ended September 30, 2010 from Rp. 1,280.3 billion in the nine months ended September 30, 2009, primarily due to a decrease in MRO revenues to Rp. 163.5 billion (US$18.3 million) in the nine months ended September 30, 2010 from Rp. 370.7 billion in the nine months ended September 30, 2009 as a result of decrease in MRO services provided to third parties by GMFAA and a decrease in airline-related revenues from Rp. 160.9 billion (US$18.0 million) in the nine months ended September 30, 2010 from Rp. 200.9 billion in the nine months ended September 30, 2009, which were partially offset by an increase in travel agent revenue to Rp. 258.8 billion (US$29.0 million) in the nine months ended September 30, 2010 from Rp. 191.5 billion in the nine months ended September 30, 2009 as a result of increased ticket sales at PT Aero Wisata, an increase in catering revenue to Rp. 260.7 billion (US$29.2 million) in the nine months ended September 30, 2010 from Rp. 253.0 billion in the nine months ended September 30, 2009 as a result of increased catering services provided to third parties by PT Aero Wisata, and an increase in facilities revenue to Rp. 121.3 billion (US$13.6 million) in the nine months ended September 30, 2010 from Rp. 94.3 billion in the nine months ended September 30, 2009.

Operating Expenses

Operating expenses increased 15.6% to Rp. 12,975.0 billion (US$1,453.9 million) in the nine months ended September 30, 2010 from Rp. 11,225.8 billion in the nine months ended September 30, 2009, primarily due to an increase in flight operations and general and administrative expenses.

Flight operations

Flight operation expenses increased 24.3% to Rp. 6,142.7 billion (US$688.3 million) in the nine months ended September 30, 2010 from Rp. 4,942.6 billion in the nine months ended September 30, 2009, primarily due to increases in jet fuel expenses, aircraft rental and charter, salaries and allowances and insurance.

Fuel. Fuel expenses as a component of flight operation expenses increased 28.3% to 4,122.1 billion (US$461.9 million) in nine months ended September 30, 2010 from Rp. 3,212.0 billion in the nine months ended September 30, 2009, primarily due to an increase in average price of jet fuel to U.S. cents 64.5 per liter in the nine months ended September 30, 2010 from U.S. cents 49.0 per liter in the nine months ended September 30, 2009 and an increase in ASK to 18.8 billion in the nine months ended September 30, 2010 from 16.2 billion in the nine months ended September 30, 2009.

Aircraft Rental and Charter. Aircraft rental and charter as a component of flight operation expenses increased 23.0% to Rp. 1,327.3 billion (US$148.7 million) in the nine months ended September 30, 2010 from Rp. 1,079.1 billion in the nine months ended September 30, 2009, primarily due to an increase in aircraft rental expense to Rp. 1,327.3 billion in the nine months ended September 30, 2010 from Rp. 919.2 billion in the nine months ended September 30, 2009 in connection with additional operating leases as 18 Boeing 737-800 entered our fleet and two Boeing 737-300 and two Boeing 737-400 were disposed from our fleet in the nine months ended September 30, 2010. This increase in aircraft rental expense was partially offset by a decrease in charter expenses to nil in the nine months ended September 30, 2010 from Rp. 159.9 billion in the nine months ended September 30, 2009 (as charter flights for *hajj* flight operations occurred in the fourth quarter of 2010).

Salaries and allowances. Salaries and allowances of pilots as a component of flight operation expenses increased 6.9% to Rp. 516.4 billion (US$57.9 million) in the nine months ended September 30, 2010 from Rp. 482.9 billion in the nine months ended September 30, 2009, primarily due an increase in pilot headcount and increases in salaries and allowances, which included increases in the base component of pilot salaries, as well as in the variable component of pilot salaries tied to hours flown, as block hours increased to 161,300 hours in the nine months ended September 30, 2009 from 141,600 hours in the nine months ended September 30, 2009.

Maintenance and overhaul

Maintenance and overhaul expenses increased 21.2% to Rp. 876.9 billion (US$98.3 million) in the nine months ended September 30, 2010 from Rp. 723.4 billion in the nine months ended September 30, 2009, primarily due to an increase in maintenance and overhaul to Rp. 383.7 billion in the nine months ended September 30, 2010 from Rp. 328.5 billion in the nine months ended September 30, 2009 as a result of increased flight hours of our aircraft, increase in spare parts to Rp. 231.4 billion from Rp. 176.5 billion in connection with increased spare parts inventory for new Boeing 737-800 inventory introduced to our fleet, as well as maintenance on certain older aircraft required to be performed prior to the term of operating lease, increase in salaries and allowances to Rp. 204.2 billion from Rp. 166.6 billion due to increased employee headcount and increased salaries and allowances at GMFAA and increase in others to Rp. 35.5 billion from Rp. 32.4 billion in the nine months ended September 30, 2010 and 2009.

User charge and station expenses

User charge and station expenses increased 3.9% to Rp. 986.4 billion (US$110.5 million) in the nine months ended September 30, 2010 from Rp. 949.8 billion in the nine months ended September 30, 2009, primarily due to an increase in aircraft and flight services to Rp. 864.4 billion in the nine months ended September 30, 2010 from Rp. 825.3 billion in the nine months ended September 30, 2009 as a result of increases in flight frequencies and number of passengers, and an increase in salaries and allowances to Rp. 87.3 billion in the nine months ended September 30, 2010 from Rp. 84.4 billion in the nine months ended September 30 , 2009 due to increased salaries and allowances for station employees, which were partially offset by a decrease in rental to Rp. 29.5 billion in the nine months ended September 30, 2010 from Rp. 35.1 billion in the nine months ended September 30, 2009.

Passenger service expenses

Passenger service expenses increased 18.3% to Rp. 1,078.8 billion (US$120.9 million) in the nine months ended September 30, 2010 from Rp. 911.6 billion in the nine months ended September 30, 2009, primarily due to an increase in passenger services including in-flight catering, entertainment and executive lounges to Rp. 702.1 billion in the nine months ended September 30, 2010 from Rp. 517.0 billion in the nine months ended September 30, 2009 as a result of increases in passenger numbers and RPK, as well as improved quality of services. Salaries and allowances for flight attendants also increased to Rp. 340.7 billion in the nine months ended September 30, 2010 from Rp. 285.0 billion in the nine months ended September 30, 2009 as reduced employee headcount was offset by increases in salaries and allowances.

Ticketing, sales and promotion

Ticketing, sales and promotion expenses increased 4.2% to Rp. 1,252.8 billion (US$140.4 million) in the nine months ended September 30, 2010 from Rp. 1,202.8 billion in the nine months ended September 30, 2009, primarily due to an increase in promotions to Rp. 138.6 billion in the nine months ended September 30, 2010 from Rp. 126.1 billion in the nine months ended September 30, 2009, an increase in reservations to Rp. 355.1 billion in the nine months ended September 30, 2010 from Rp. 289.5 billion in the nine months ended September 30, 2009, an increase in rental for office space to Rp. 58.9 billion in the nine months ended September 30, 2010 from Rp. 51.8 billion in the nine months ended September 30, 2009 and an increase in commissions to Rp. 552.1 billion in the nine months ended September 30, 2010 billion from Rp. 550.4 billion in the nine months ended September 30, 2009, resulting from increased passenger numbers which were partially offset by a decrease in salaries and allowances to Rp. 125.0 billion in the nine months ended September 30, 2010 from Rp. 161.6 billion in the nine months ended September 30, 2009 due to decreased employee headcount and a decrease in others to Rp. 23.1 billion in the nine months ended September 30, 2010 from Rp. 23.4 billion in the nine months ended September 30, 2009.

General and administrative

General and administrative expenses increased 10.6% to Rp. 984.7 billion (US$110.3 million) in the nine months ended September 30, 2010 from Rp. 890.1 billion in the nine months ended September 30, 2009, primarily due to increases in salaries and allowances for head office employees, head office rental and utilities, professional services and training, maintenance and other expenses (related to bad debts), which were partially offset by decreases in taxes and healthcare services.

Depreciation and amortization

Depreciation and amortization expenses decreased 1.6% to Rp. 1,206.1 billion (US$135.2 million) in the nine months ended September 30, 2010 from Rp. 1,225.7 billion in the nine months ended September 30, 2009, primarily due to increased depreciation provisions for heavy maintenance of airframes and engines in our aircraft fleet, which were offset by decrease in the carrying amount of aircraft, land and buildings owned by us as a result of revaluation of assets.

Employee benefit expenses

Employee benefit expenses increased 22.1% to Rp. 273.4 billion (US$30.6 million) in the nine months ended September 30, 2010 from Rp. 223.8 billion in the nine months ended September 30, 2009, primarily due to increased contributions to employee pension plans and other long-term employee benefits as a result of increased employee retirements under our early retirement program.

Transportation operations

Transportation operation expenses increased 10.7% to Rp. 75.7 billion (US$8.5 million) in the nine months ended September 30, 2010 from Rp. 68.4 billion in the nine months ended September 30, 2009, primarily due to increased ground transportation operations by our subsidiary PT Mandira (a subsidiary of PT Aero Wisata).

Hotel operations

Hotel operation expenses increased 2.3% to Rp. 39.3 billion (US$4.4 million) in the nine months ended September 30, 2010 from Rp. 38.4 billion in the nine months ended September 30, 2009, primarily due to increases in hotel stays and guest volumes at properties owned, operated and managed by our subsidiaries, PT Aero Wisata, PT Mirtasari Hotel Development, PT Senggigi Pratama Internasional and PT Bina Inti Dinamika.

Network operations

Network operation expenses increased 18.4% to Rp. 58.3 billion (US$6.5 million) in the nine months ended September 30, 2010 from Rp. 49.2 billion in the nine months ended September 30, 2009, primarily due to increased revenue for information technology services at our subsidiary, PT Aero Systems Indonesia.

Income from operations

As a result of the foregoing, loss from operations was Rp. 289.9 billion (US$32.5 million) in the nine months ended September 30, 2010 as compared to income from operations of Rp. 623.5 billion in the nine months ended September 30, 2009.

Other income (charges)

Other income (charges) increased to income of Rp. 245.8 billion (US$27.5 million) in the nine months ended September 30, 2010 from charges of Rp. 115.4 billion in the nine months ended September 30, 2009, primarily as a result of gain on sale and leaseback of Rp. 159.1 billion in the nine months ended September 30, 2010 (compared to a gain of Rp. 2.0 billion in the nine months ended September 30, 2009). This was primarily due to new Boeing 737-800 aircraft added to our fleet under sale and leaseback transactions, gain on employee severance cost of Rp. 68.5 billion in the nine months ended September 30, 2010 (compared to a loss of Rp. 203.1 billion in the nine months ended September 30, 2009) as a result of writedown of employee severance allowances made in prior periods, decrease in provision for doubtful accounts expenses to nil in the nine months ended September 30, 2010 from Rp. 156.9 billion in the nine months ended September 30, 2009 relating to provision for receivable for MRO services due from PT Merpati Airlines ("Merpati"), decrease in interest expenses and financial charges to Rp. 119.5 billion in the nine months ended September 30 , 2010 from Rp. 233.8 billion in the nine months ended September 30, 2009 due to lower interest rates, principal amounts outstanding and appreciation in the Rupiah against the U.S. dollar, and decrease in others-net expenses to Rp. 35.5 billion in the nine months ended September 30, 2010 from Rp. 38.9 billion in the nine months ended September 30, 2009, which were partially offset by decrease in gain on foreign exchange transactions to Rp. 130.9 billion in the nine months ended September 30, 2010 from Rp. 434.9 billion in the nine months ended September 30, 2009, primarily as a result of unrealized foreign exchange translation gains in 2009 on our monetary liabilities denominated in U.S. dollars, as the Rupiah appreciated against the U.S. dollar to Rp. 8,924 to US$1.00 as of September 30, 2010 from Rp. 9,681 to US$1.00 as of September 30, 2009, as well as decrease in interest income to Rp. 42.3 billion in the nine months ended September 30, 2010 from Rp. 80.3 billion in the nine months ended September 30, 2009 due to lower average cash balance on deposit during the nine months ended September 30, 2010.

Tax benefit (expense)

Income tax benefit decreased 20.2% to Rp. 49.2 billion (US$5.5 million) in the nine months ended September 30, 2010 from Rp. 61.7 billion in the nine months ended September 30, 2009, primarily due to increases in current tax expenses at our subsidiaries and decreases in deferred tax in the nine months ended September 30, 2010 due to timing differences between accounting and tax treatment on depreciation of our fixed assets.

Extraordinary Item

In connection with a partial dutch auction tender offer and consent solicitation for US$40.65 million and Rp. 37.6 billion of our FRN for an aggregate purchase price of approximately US$22.5 million and Rp. 23 billion, we recognized an extraordinary gain of Rp. 184.1 billion in the nine months ended September 30, 2010 on the repurchase of FRN. See "— Factors Affecting Results of Operations — Extraordinary gains on debt restructuring."

Minority Interests

In the nine months ended September 30, 2010, minority interests expense was Rp. 0.7 billion (US$0.1 million) as compared to Rp. 3.4 billion in the nine months ended September 30, 2009.

Net income (loss)

As a result of the foregoing, net income in the nine months ended September 30, 2010 decreased 65.8% to Rp. 194.9 billion (US$21.8 million) from Rp. 570.2 billion in the nine months ended September 30, 2009.

Year ended December 31, 2009 compared to year ended December 31, 2008

Operating Revenues

Operating revenues decreased 7.7% to Rp. 17,860.4 billion (US$2,001.4 million) in the year ended December 31, 2009 from Rp. 19,349.7 billion in the year ended December 31, 2008, primarily due to decreased revenue from scheduled airline services and other operating revenues, which were partially offset by increased revenue from non-scheduled airline services.

Scheduled airline services

Revenue from scheduled airline services decreased 9.4% to Rp. 13,699.4 billion (US$1,535.1 million) in the year ended December 31, 2009 from Rp. 15,120.3 billion in the year ended December 31, 2008, as a result of decreases in revenue from passenger and cargo services. Fuel surcharges decreased as the average price of jet fuel decreased to U.S. cents 51.33 per liter in 2009 from U.S. cents 85.95 per liter in 2008.

Passenger services. Revenue from scheduled airline services decreased 9.3% to Rp. 12,759.2 billion (US$1,429.8 million) in the year ended December 31, 2009 from Rp. 14,067.0 billion in the year ended December 31, 2008. A decrease in passenger yield to U.S. cents 7.55 per RPK in 2009 from U.S. cents 9.47 per RPK in 2008 and a decrease in passenger load factor to 73.1% in 2009 from 76.4% in 2008 were partially offset by an increase in total passengers to 10.9 million in 2009 from 10.2 million in 2008 and an increase RPK to 15.9 billion in 2009 from 15.5 billion in 2008, primarily as a result of lower fuel surcharges to recover our fuel expense and appreciation in the Rupiah against the U.S. dollar (which reduced the Rupiah value of our U.S. dollar revenues).

Cargo services. Revenue from cargo services decreased 11.4% to Rp. 839.3 billion (US$94.1 million) in 2009 from Rp. 947.6 billion in 2008 as a decrease in cargo load factor to 37.2% in 2009 from 43.9% in 2008 and a decrease in cargo yield to U.S. cents 29.9 per kilometer in 2009 from U.S. cents 37.4 per kilometer in 2008 were partially offset by an increase in RFTK to 282.1 million in 2009 from 275.4 million in 2008, primarily as a result of reduced demand for cargo services as a result of the economic downturn.

Non-scheduled airline services

Revenue from non-scheduled airline services increased 1.0% to Rp. 2,491.2 billion (US$279.2 million) in the year ended December 31, 2009 from Rp. 2,466.6 billion in the year ended December 31, 2008, primarily due to an increase in revenue from our *hajj* services which was partially offset by a decrease in revenue from our charter services, as our number of *hajj* passengers increased to 263,944 in 2009 from 259,566 in 2008 and demand for charter services declined in 2009 due to reduced charter flights for business, government, educational and tourist groups. We fully hedged our jet fuel costs for *hajj* flights in 2009 based on the cost assumptions in our *hajj* fares agreed with the Government. In 2008, we did not hedge our jet fuel costs for *hajj* flights, and the average jet fuel price increased above our internal cost assumptions in the period after our airfares for *hajj* services had been agreed with the Ministry of Religious Affairs, and this increase had an adverse effect on the profitability of our *hajj* flight operations.

Other revenues

Other revenues decreased 5.3% to Rp. 1,669.7 billion (US$187.1 million) in the year ended December 31, 2009 from Rp. 1,762.8 billion in the year ended December 31, 2008, primarily due to a decrease in revenue attributable to MRO to Rp. 436.7 billion in the year ended December 31, 2009 from Rp. 589.9 billion in the year ended December 31, 2008 as a result of a decrease in MRO services provided by GMFAA to third parties following the economic downturn, a decrease in travel agency services to Rp. 256.6 billion in the year ended December 31, 2009 from Rp. 333.2 billion in the year ended December 31, 2008 as a result of decreased revenue from scheduled passenger services, a decrease in facilities-related services to Rp. 134.7 billion in the year ended December 31, 2009 from Rp. 159.3 billion in the year ended December 31, 2008, which were partially offset by an increase in catering revenue to Rp. 337.8 billion in the year ended December 31, 2009 from Rp. 231.4 billion in the year ended December 31, 2008 as a result of an increase in catering services provided by PT Aero Wisata to third parties, an increase in airline-related revenue to Rp. 274.9 billion in the year ended December 31, 2009 from Rp. 213.6 billion in the year ended December 31, 2008 and an increase in hotel revenue to Rp. 139.9 billion in the year ended December 31, 2009 from Rp. 122.0 billion in the year ended December 31, 2008.

Operating Expenses

Operating expenses decreased 5.9% to Rp. 16,942.1 billion (US$1,898.5 million) in the year ended December 31, 2009 from Rp. 17,996.5 billion in the year ended December 31, 2008, primarily due to a decrease in flight operation expenses.

Flight operations

Flight operation expenses decreased 18.6% to Rp. 8,096.7 billion (US$907.3 million) in the year ended December 31, 2009 from Rp. 9,948.0 billion in the year ended December 31, 2008, primarily due to decreases in jet fuel expenses which were partially offset by increases in aircraft rental and charter and salaries and allowances.

Fuel. Fuel expenses as a component of flight operation expenses decreased 32.8% to Rp. 4,983.6 billion (US$558.5 million) in 2009 from Rp. 7,414.6 billion in 2008, primarily due to a significant decrease in the average cost of jet fuel to U.S. cents 51.33 per liter in 2009 from U.S. cents 85.95 per liter in 2008, which was partially offset by an increase in ASK to 21.7 billion in 2009 from 20.3 billion in 2008.

Aircraft Rental and Charter. Aircraft rental and charter as a component of flight operation expenses increased 23.6% to Rp. 2,206.8 billion (US$247.3 million) in 2009 from Rp. 1,785.1 billion in 2008, primarily due to an increase in aircraft rental expense to Rp. 1,268.6 billion in 2009 from Rp. 749.8 billion in 2008 from additional operating leases as one Boeing B737-300, 15 Boeing 737-800 and four Airbus A330-200 entered our fleet, while four Boeing 737-300 were disposed from our fleet in 2009. This increase in aircraft rental expense was partially offset by a decrease in charter expenses to Rp. 938.2 billion (US$105.1 million) in 2009 from Rp. 1,035.3 billion in 2008 arising from a decrease in charter rates as we used fewer aircraft with greater seating capacity in our non-scheduled *hajj* services to increase the number of seats offered for *hajj* services to 529,628 in 2009 from 524,310 in 2008.

Salaries and allowances. Salaries and allowances of pilots as a component of flight operation expenses increased 21.6% to Rp. 669.7 billion (US$75.0 million) in 2009 from Rp. 550.8 billion in 2008, primarily due an increase in pilot headcount as a result of our increased fleet size and increases in salaries and allowances, which included increases in the base component of pilot salaries, as well as in the variable component of pilot salaries tied to hours flown, as block hours increased to 190,800 hours in 2009 from 182,500 hours in 2008.

Maintenance and overhaul

Maintenance and overhaul expense decreased 2.9% to Rp. 1,075.8 billion (US$120.6 million) in the year ended December 31, 2009 from Rp. 1,107.6 billion in the year ended December 31, 2008, primarily due to a decrease in maintenance and overhaul to Rp. 455.0 billion in 2009 from Rp. 547.1 billion in 2008 as a result of a decrease in MRO services provided by third parties for our aircraft as we modernized and reduced the average age of our aircraft fleet, which was partially offset by an increase in spare parts to Rp. 283.1 billion in 2009 from Rp. 240.1 billion in 2008 in connection with increased MRO services provided by GMFAA for our aircraft in connection with scheduled inspection and maintenance performed on our aircraft (C-Check), and an increase in salaries and allowances to Rp. 272.7 billion in 2009 from Rp. 232.2 billion in 2008 as a result of an increase in salaries and allowances for GMFAA employees.

User charge and station expenses

User charge and station expenses increased 8.6% to Rp. 1,420.7 billion (US$159.2 million) in the year ended December 31, 2009 from Rp. 1,308.8 billion in the year ended December 31, 2008, primarily due to an increase in aircraft and flight services to Rp. 1,227.9 billion in 2009 from Rp. 1,120.6 billion in 2008 as a result of increases in flight frequencies and number of passengers, and an increase in rental of buildings and vehicles to Rp. 54.3 billion in 2009 from Rp. 41.2 billion in 2008 corresponding to an increase in flight destinations, which were partially offset by a decrease in salaries and allowances to Rp. 132.2 billion in 2009 from Rp. 141.3 billion in 2008 as a result of decrease in airport employee headcount.

Passenger service expenses

Passenger service expenses increased 24.7% to Rp. 1,378.0 billion (US$154.4 million) in the year ended December 31, 2009 from Rp. 1,105.3 billion in the year ended December 31, 2008, primarily due to an increase in passenger services (including in-flight catering, entertainment and executive lounges) to Rp. 753.4 billion in 2009 from Rp. 600.1 billion in 2008 as a result of increases in passenger numbers and ASK, as well as improved quality of services. Salaries and allowances for flight attendants also increased to Rp. 468.4 billion in 2009 from Rp. 377.3 billion in 2008 as reduced employee headcount (primarily among flight attendants) was offset by increases in salaries and allowances.

Ticketing, sales and promotion

Ticketing, sales and promotion expenses increased 4.7% up Rp. 1,636.4 billion (US$183.4 million) in the year ended December 31, 2009 from Rp. 1,562.7 billion in the year ended December 31, 2008, primarily due to an increase in salaries and allowances to Rp. 304.7 billion in 2009 from Rp. 156.6 billion in 2008 as a result of increased ticketing, sales and marketing employee headcount and increased salaries and allowances, an increase in expenses relating to promotional activities to Rp. 197.6 billion in 2009 from Rp. 125.2 billion in 2008 as a result of increased brand awareness campaigns, and an increase in rental for office space to Rp. 64.8 billion in 2009 from Rp. 54.9 billion in 2008 as we increased our direct selling channels. These increases were partially offset by a decrease in commissions to Rp. 672.9 billion in 2009 from Rp. 756.7 billion in 2008 as a result of decreased revenue from scheduled flight services and our increase in direct selling, and a decrease in costs associated with reservations as a result of cost reductions following our takeover of PT Lufthansa Systems Indonesia (renamed PT Aero Systems Indonesia) and also in connection with our increase in direct selling.

General and administrative

General and administrative expenses decreased 0.3% to Rp. 1,246.9 billion (US$139.7 million) in the year ended December 31, 2009 from Rp. 1,250.3 billion in the year ended December 31, 2008, primarily due to a decrease in utilities to Rp. 88.7 billion in the year ended December 31, 2009 from Rp. 105.3 billion in the year ended December 31, 2008, a decrease in taxes to Rp. 72.6 billion in the year ended December 31, 2009 from Rp. 97.7 billion in the year ended December 31, 2008, and a decrease in others to Rp. 56.0 billion in the year ended December 31, 2009 from Rp. 134.5 billion in the year ended December 31, 2008, which was partially offset by an increase in salaries and allowances to Rp. 652.8 billion in 2009 from Rp. 535.7 billion in 2008 (as decreased employee headcount was offset by increase in salaries and allowances for general administration employees) and an increase in rental for office space to Rp. 131.6 billion in the year ended December 31, 2009 from Rp. 104.9 billion in the year ended December 31, 2008.

Depreciation and amortization

Depreciation and amortization expenses increased 24.2% to Rp. 1,609.9 billion (US$180.4 million) in the year ended December 31, 2009 from Rp. 1,295.9 billion in the year ended December 31, 2008, primarily due to increased depreciation provisions for heavy maintenance of airframes and engines in our aircraft fleet, as well as the addition of new aircraft to our fleet.

Employee benefit expenses

Employee benefit expenses increased 32.3% to Rp. 260.6 billion (US$29.2 million) in the year ended December 31, 2009 from Rp. 197.0 billion in the year ended December 31, 2008, primarily due to increased contributions to employee pension plans and other long-term employee benefits which offset reduction in employee headcount.

Transportation operations

Transportation operation expenses decreased 13.6% to Rp. 95.2 billion (US$10.7 million) in the year ended December 31, 2009 from Rp. 110.1 billion in the year ended December 31, 2008, primarily due to decreased ground transportation operations by our subsidiary PT Mandira (a subsidiary of PT Aero Wisata).

Hotel operations

Hotel operation expenses increased 15.5% to Rp. 51.5 billion (US$5.8 million) in the year ended December 31, 2009 from Rp. 44.6 billion in the year ended December 31, 2008, primarily due to increases in hotel stays and guest volumes at properties owned, operated or managed by our subsidiaries, PT Aero Wisata, PT Mirtasari Hotel Development, PT Senggigi Pratama Internasional and PT Bina Inti Dinamika.

Network operations

Network operation expenses increased 6.2% to Rp. 70.3 billion (US$7.9 million) in the year ended December 31, 2009 from Rp. 66.1 billion in the year ended December 31, 2008, primarily due to increased revenue for information technology services at our subsidiary, PT Aero Systems.

Income from operations

As a result of the foregoing, income from operations decreased 32.1% to Rp. 918.3 billion (US$102.9 million) in the year ended December 31, 2009 from Rp. 1,353.2 billion in the year ended December 31, 2008.

Other income (charges)

Other income (charges) decreased 83.5% to charges of Rp. 55.1 billion (US$6.2 million) in the year ended December 31, 2009 from charges of Rp. 333.9 billion in the year ended December 31, 2008, primarily as a result of unrealized foreign exchange translation gains in 2009 on our monetary liabilities denominated in U.S. dollars, as the Rupiah appreciated against the U.S. dollar to Rp. 9,400 to US$1.00 as of December 31, 2009 from Rp. 10,950: US$1.00 as of December 31, 2008, and gain on sale and leaseback of Rp. 65.1 billion in 2009 (from nil in 2008) arising from sale and leaseback of aircraft; which were offset by expense for a provision for doubtful accounts of Rp. 156.9 billion in 2009 for amounts due from PT Merpati Airlines for MRO services, employee severance cost of Rp. 203.1 billion in 2009 in connection with early retirement programs intended to reduce employee headcount (primarily among ground staff and flight attendants), a decrease in interest expense to Rp. 262.6 billion in 2009 from Rp. 378.0 billion in 2008 as a result of lower interest rates on our floating rate debt and a decrease in others-net to a loss of Rp. 53.2 billion in 2009 from a gain of Rp. 350.3 billion in 2008 (as a result of the sale of the land and building comprising our former headquarters office building in Jakarta in 2008).

Tax benefit (expense)

Income tax benefit was Rp. 23.4 billion (US$2.6 million) in the year ended December 31, 2009 as compared to tax expense of Rp. 44.5 billion in the year ended December 31, 2008, primarily due to decreases in current tax due on reduced income before tax in 2009 and increases in deferred tax in 2009 due to timing differences between accounting and tax treatment on depreciation of our fixed assets.

Extraordinary Item

In the year ended December 31, 2009, we had income from an extraordinary item of Rp. 123.5 billion (US$13.8 million) resulting from gain arising from the restructuring in 2009 of our convertible notes issued to PT Bank Mandiri (Persero) Tbk. See "— Factors Affecting Results of Operations — Extraordinary Gains."

Minority Interests

In the year ended December 31, 2009, minority interests expense was Rp. 4.3 billion (US$0.5 million) as compared to Rp. 9.1 billion in the year ended December 31, 2008.

Net income (loss)

As a result of the foregoing, net income in the year ended December 31, 2009 increased 4.5% to Rp. 1,018.6 billion (US$114.1 million) from Rp. 975.0 billion in the year ended December 31, 2008.

Year ended December 31, 2008 compared to year ended December 31, 2007

Operating Revenues

Operating revenues increased 37.8% to Rp. 19,349.7 billion in the year ended December 31, 2008 from Rp. 14,042.4 billion in the year ended December 31, 2007 due to increases in revenue from scheduled airline services, revenue from non-scheduled airline services and other revenues.

Scheduled airline services

Revenue from scheduled airline services increased 36.8% to Rp. 15,120.3 billion in the year ended December 31, 2008 from Rp. 11,049.4 billion in the year ended December 31, 2007, primarily due to increase in revenue from passenger services. Fuel surcharges increased as the average price of jet fuel increased to U.S. cents 85.95 per liter in 2008 from U.S. cents 56.68 per liter in 2007.

Passenger services. Revenue from passenger services increased 38.2% to Rp. 14,067.0 billion in the year ended December 31, 2008 from Rp. 10,180.8 billion in the year ended December 31, 2007. An increase in total passengers to 10.2 million in 2008 from 9.6 million in 2007, an increase in RPK to 15.5 billion in 2008 from 14.4 billion in 2007 and an increase in passenger yield to U.S. cents 9.47 per RPK from U.S. cents 7.41 per RPK were partially offset by a decrease in passenger load factor to 76.4% in 2008 from 77.4% in 2007, primarily as a result of higher fuel surcharges to recover our fuel expense and improved fare segmentation in our revenue management system (which allowed a broader segmentation of fare sub-classes).

Cargo services. Revenue from cargo services also increased 18.2% to 947.6 billion in 2008 from Rp. 801.4 billion in 2007 as RFTK increased to 275.4 million in 2008 from 234.0 million in 2007, cargo load factor increased to 43.9% in 2008 from 41.1% in 2007 and cargo yield increased to U.S. cents 37.4 per kilometer in 2008 from U.S. cents 30.2 per kilometer in 2007, primarily as a result of an increase in domestic demand for cargo services.

Non-scheduled airline services

Revenue from non-scheduled airline services increased 53.6% to Rp. 2,466.6 billion in the year ended December 31, 2008 from Rp. 1,605.9 billion in the year ended December 31, 2007. Revenue from our *hajj* services increased to Rp. 2,291.8 billion from Rp. 1,510.4 billion, as our number of *hajj* passengers increased to 259,566 in 2008 from 235,037 in 2007; and revenue from our charters services increased to Rp. 174.8 billion in 2008 from Rp. 95.6 billion in 2007, primarily as a result of increased number of charter flights and increased charter prices (reflecting higher jet fuel costs).

Other revenues

Other revenues increased 27.1% to Rp. 1,762.8 billion in the year ended December 31, 2008 from Rp. 1,387.0 billion in the year ended December 31, 2007, primarily due to an increase in MRO revenue to Rp. 589.9 billion in the year ended December 31, 2008 from Rp. 379.8 billion as a result of increased demand for MRO services provided by GMFAA to third parties, an increase in travel agent services to Rp. 333.2 billion in the year ended December 31, 2008 from Rp. 251.6 billion in the year ended December 31, 2007 as a result of increased ticket sales for scheduled passenger services, an increase in airline-related revenue to Rp. 213.6 billion in the year ended December 31, 2008 from Rp. 173.4 billion in the year ended December 31, 2007, an increase in facilities-related services to Rp. 159.3 billion in the year ended December 31, 2008 from Rp. 113.7 billion in the year ended December 31, 2007, and an increase in hotel revenue to Rp. 122.0 billion in the year ended December 31, 2008 from Rp. 78.6 in the year ended December 31, 2007, which were partially offset by a decrease in catering revenue to Rp. 231.4 billion in the year ended December 31, 2008 from Rp. 250.9 billion in the year ended December 31, 2007 as a result of reduced catering services provided by PT Aero Wisata to third parties and a decrease in transportation revenue to Rp. 7.5 billion in the year ended December 31, 2008 from Rp. 38.7 billion in the year ended December 31, 2007.

Operating Expenses

Operating expenses increased 35.2% to Rp. 17,966.5 billion in the year ended December 31, 2008 from Rp. 13,310.3 billion in the year ended December 31, 2007, primarily due to an increase in flight operation expenses.

Flight operations

Flight operation expenses increased 52.9% to Rp. 9,948.0 in the year ended December 31, 2008 from Rp. 6,504.6 billion in the year ended December 31, 2007, primarily due to increases in jet fuel expenses.

Fuel. Fuel expenses as a component of flight operation expenses increased 62.3% to Rp. 7,414.6 billion in 2008 from Rp. 4,569.1 billion in 2007, primarily due to a significant increase in the average cost of jet fuel to U.S. cents 85.95 per liter in 2008 from U.S. cents 56.68 per liter in 2007, as well as an increase in ASK to 20.3 billion in 2008 from 18.6 billion in 2007.

Aircraft Rental and Charter. Aircraft rental and charter as a component of flight operation expenses increased 27.2% to Rp. 1,785.1 billion in 2008 from 1,403.8 billion in 2007, primarily due to an increase in aircraft rental expense to Rp. 749.8 billion in 2008 from Rp. 668.9 billion in 2007 arising from additional operating leases as three Boeing 737-300, one Boeing B737-400 and two Boeing 737-800 entered the fleet in 2008, and an increase in charter expenses to 1,035.3 billion in 2008 from Rp. 734.9 billion as a result of increased charter rates and an increase in the number of seats offered on *hajj* flights to 524,310 in 2008 from 475,780 in 2007.

Salaries and allowances. Salaries and allowances of pilots as a component of flight operations increased 49.3% to Rp. 550.8 billion in 2008 from Rp. 368.9 billion in 2007, primarily due an increase in pilot headcount and increases in salaries and allowances, which included increases in both the base component of pilot salaries and the variable component of pilot salaries tied to hours flown, as block hours increased to 182,500 hours in 2008 from 167,375 in 2007.

Maintenance and overhaul

Maintenance and overhaul expenses increased 1.6% to Rp. 1,107.6 billion in the year ended December 31, 2008 from Rp. 1,089.9 billion in the year ended December 31, 2007, primarily due to an increase in maintenance and overhaul to Rp. 547.1 billion in 2008 from Rp. 400.6 billion in 2007 as a result of increase in MRO services provided by third parties for our aircraft, which was partially offset by a decrease in spare parts to Rp. 240.1 billion in 2008 from Rp. 352.0 billion in 2007 as a result of fewer spare parts used in connection with scheduled MRO services provided by GMFAA for the airframes of our aircraft and a decrease in salaries and allowances to Rp. 232.2 billion in 2008 from Rp. 352.0 billion in 2007 as a result of reduced headcount at GMFAA.

User charge and station expenses

User charge and station expenses increased 18.2% to Rp. 1,308.8 billion in the year ended December 31, 2008 from Rp. 1,107.1 billion in the year ended December 31, 2007, primarily due to an increase in aircraft and flight services to Rp. 1,120.6 billion in 2008 from Rp. 957.0 billion in 2007 as a result of increased flight frequencies and increased number of passengers, an increase in rental of buildings and vehicles to Rp. 41.2 billion in 2008 from Rp. 31.6 billion in 2007 as a result of an increase in flight destinations, and an increase in salaries and allowances to Rp. 141.3 billion in 2008 from Rp. 115.9 billion in 2007 as reduced employee headcount was offset by increased salaries and allowances.

Passenger service expenses

Passenger service expenses increased 10.3% to Rp. 1,105.3 billion in the year ended December 31, 2008 from Rp. 1,002.2 billion in the year ended December 31, 2007, primarily due to an increase in passenger services including in-flight catering, entertainment and executive lounges to Rp. 600.1 billion in 2008 from Rp. 528.6 billion in 2007 as a result of increases in passenger numbers and ASK from 2007 to 2008. Salaries and allowances for flight attendants also increased to Rp. 377.3 billion in 2008 from Rp. 335.3 billion in 2007, as reduced flight attendant headcount was offset by increases in salaries and allowances.

Ticketing, sales and promotion

Ticketing, sales and promotion expenses increased 21.5% to Rp. 1,562.7 billion in the year ended December 31, 2008 from Rp. 1,286.2 billion in the year ended December 31, 2007, primarily due to an increase in salaries and allowances to Rp. 156.6 billion in 2008 from Rp. 146.6 billion in 2007 as a result of increases in both employee headcount and salaries and allowances, an increase in promotions to Rp. 125.2 billion in 2008 from Rp. 72.1 billion in 2007 as a result of increased brand awareness campaigns, as well as an increase in commissions to Rp. 756.7 billion in 2008 from Rp. 597.1 billion in 2001 and an increase in reservations to Rp. 428.6 billion in 2008 from Rp. 366.1 billion in 2007, each as a result of increased revenue from scheduled flight services.

General and administrative

General and administrative expenses increased 42.1% to Rp. 1,250.3 billion in the year ended December 31, 2008 from Rp. 880.0 billion in the year ended December 31, 2007, primarily due to an increase in salaries and allowances to Rp. 535.7 billion in 2008 from Rp. 367.9 billion in 2007 as a decrease in employee headcount was more than offset by increases in salaries and allowances, increase in rental to Rp. 104.9 billion in 2008 from Rp. 81.8 billion in 2007, increase in taxes to Rp. 97.7 billion in 2008 from Rp. 61.6 billion in 2007, increase in healthcare services expenses to Rp. 66.3 billion in 2008 from Rp. 43.4 billion in 2007 and increase in other expenses to Rp. 134.5 billion in 2008 from Rp. 65.7 billion in 2007 as a result of expensing VAT payable but not applied on fuel surcharges.

Depreciation and amortization

Depreciation and amortization expenses increased 24.0% to Rp. 1,295.9 billion in the year ended December 31, 2008 from Rp. 1,045.2 billion in the year ended December 31, 2007, primarily due to increased depreciation provisions for heavy maintenance of airframes and engines in our aircraft fleet and introduction of depreciation and amortization of the fair value of aircraft, land and buildings owned by us from December 31, 2008.

Employee benefit expenses

Employee benefit expenses decreased 1.1% to Rp. 197.0 billion in the year ended December 31, 2008 from Rp. 199.2 billion in the year ended December 31, 2007, primarily due to decreased contributions to employee pension plans and other long-term employee benefits.

Transportation operation

Transportation operation expenses increased 5.0% to Rp. 110.1 billion in the year ended December 31, 2008 from Rp. 104.9 billion in the year ended December 31, 2007, primarily due to increased ground transportation operations by our subsidiary PT Mandira (a subsidiary of PT Aero Wisata).

Hotel operations

Hotel operation expenses increased 38.8% to Rp. 44.6 billion in the year ended December 31, 2008 from Rp. 32.1 billion in the year ended December 31, 2007, primarily due to increases in hotel stays and guest volumes at properties owned and managed by our subsidiaries, PT Aero Wisata, PT Mirtasari Hotel Development, PT Senggigi Pratama Internasional and PT Bina Inti Dinamika.

Network operations

Network operation expenses increased 12.7% to Rp. 66.1 billion in the year ended December 31, 2008 from Rp. 58.7 billion in the year ended December 31, 2007, primarily due to increased revenue for information technology services at our subsidiary, PT Aero Systems.

Income from operations

As a result of the foregoing, income from operations increased 84.8% to Rp. 1,353.2 billion in the year ended December 31, 2008 from Rp. 732.2 billion in the year ended December 31, 2007.

Other income (charges)

Other income (charges) decreased 20.9% to charges of Rp. 333.9 billion in the year ended December 31, 2008 from charges of Rp. 422.1 billion in the year ended December 31, 2007, primarily due to other income recognized from gain on the sale of the land and building for our former headquarters office building in Jakarta in the amount of Rp. 385.6 billion in 2008 and an increase in interest income to Rp. 107.0 billion in 2008 from Rp. 65.6 billion in 2007 as a result of higher average cash balance on deposit during 2008 and a decrease in interest expense to Rp. 378.0 billion in 2008 from Rp. 438.3 billion in 2007 as a result of lower interest rates on our floating rate debt which were more than offset by an increase of unrealized foreign exchange translation losses in 2008 on our monetary liabilities denominated in U.S. dollars, as the Rupiah depreciated against the U.S. dollar to Rp. 10,950 to US$1.00 as of December 31, 2008 from Rp. 9,419 to US$1.00.

Tax benefit (expense)

Income tax expense decreased 70.1% to Rp. 44.5 billion in the year ended December 31, 2008 from Rp. 149.0 billion in the year ended December 31, 2007, primarily due to a deferred tax benefit in 2008 due to timing differences between accounting and tax treatment on depreciation of our fixed assets, partially offset by current tax due on increased income before tax in 2008.

Minority Interests

In the year ended December 31, 2008, minority interests expense was Rp. 9.1 billion as compared to Rp. 11.4 billion in the year ended December 31, 2007.

Net income (loss)

As a result of the foregoing, net income increased 538.4% to Rp. 975.0 billion in the year ended December 31, 2008 from Rp. 152.7 billion in the year ended December 31, 2007.

Liquidity and Capital Resources

Our principal use of cash has been for funding our business operations. Our main source of liquidity has been cash generated from our operating activities, debt financing facilities and refunds for advance payments for purchase of aircraft in connection with conversion of our purchase commitments to operating leases through sale and leaseback transactions. We currently rely on cash generated from operations, as well as normal trade terms from our suppliers, to fund our fleet expansion and other capital expenditure requirements.

Consolidated Statements of Cash Flows

	Year Ended December 31,				Nine Months Ended September 30,		
	2007 (Audited)	2008 (Audited)	2009 (Audited)	2009 (Unaudited)	2009 (Unaudited)	2010 (Audited)	2010 (Unaudited)
	(Rp. billions)	(Rp. billions)	(Rp. billions)	(US$ millions)	(Rp. billions)	(Rp. billions)	(US$ millions)
Net cash provided by (used in) operating activities:							
Cash receipts from customers	14,058.8	18,822.5	17,095.3	1915.7	11,553.5	14,030.6	1,572.2
Cash paid to suppliers	(10,907.5)	(14,370.3)	(12,554.1)	(1,406.8)	(8,739.8)	(10,563.3)	(1,183.7)
Cash paid to employees	(1,735.6)	(2,402.4)	(2,837.4)	(318.0)	(1,937.1)	(1,902.6)	(213.2)
Cash generated from operations	1,415.7	2,049.8	1,703.8	190.9	876.6	1,564.8	175.3
Interest and financial charges paid	(105.8)	(210.8)	(141.5)	(15.9)	(153.3)	(89.9)	(10.1)
Income taxes paid	(94.9)	(73.0)	(192.5)	(21.6)	(69.4)	(64.5)	(7.2)
Total	1,215.0	1,766.0	1,369.8	153.5	653.8	1,410.3	158.0
Net cash provided by (used in) investing activities:							
Proceeds from sale of property and equipment	214.3	212.8	20.7	2.3	10.3	12.2	1.4
Proceeds from sale of investment properties	—	—	5.0	0.6	—	—	—
Withdrawal of time deposits	35.3	—	—	0.4	3.6	—	0.0
Placement of time deposits	—	(3.6)	—	—	—	—	—
Interest received	55.0	101.8	97.7	10.9	81.6	28.6	3.2
Dividend received	9.2	7.8	18.5	2.1	16.7	14.9	1.7
Other receipts from sale of land and building	—	—	45.1	5.1	45.1	—	—
Refund of advance payments for purchase of aircraft	—	—	447.7	50.2	124.1	1,014.9	113.7
Receipts of aircraft maintenance reimbursements	116.6	169.2	204.4	22.9	176.6	269.1	30.2
Receipts of security deposit	5.2	35.9	188.0	21.1	8.5	30.2	3.4
Payments for aircraft maintenance reserve fund	(213.6)	(335.4)	(630.5)	(70.7)	(112.3)	(1,030.1)	(115.4)
Advance payments for aircrafts	(188.1)	(1,231.5)	(809.5)	(90.7)	(626.7)	(327.0)	(36.6)
Advance payments for fixed assets	(40.0)	(22.2)	(320.8)	(35.9)	(379.7)	(191.0)	(21.4)
Payments for aircraft maintenance asset	(503.0)	(197.8)	(108.0)	(12.1)	(90.9)	(16.0)	(1.8)
Acquisition of property and equipment	(5.9)	(117.5)	(317.2)	(35.5)	(258.4)	(177.8)	(19.9)
Payments for security deposit	(55.6)	(138.2)	(377.2)	(42.3)	(134.2)	(145.6)	(16.3)
Other payment from investing activities	—	—	—	—	—	(0.8)	(0.1)
Other receipt from investing activities	0.1	—	—	—	—	11.0	1.2
Investment in shares of stock	—	—	(57.6)	(6.5)	(56.9)	—	—
Total	(570.6)	(1,518.7)	(1,590.0)	(178.2)	(1,192.6)	(507.4)	(56.9)
Net cash provided by (used in) financing activities:							
Payments of long-term liabilities	(29.2)	(733.7)	(751.3)	(84.2)	(596.3)	(962.2)	(107.8)
Payments of short-term loans	—	—	(99.5)	(11.2)	—	(324.7)	(36.4)
Proceeds of long-term loans	36.7	47.9	56.1	6.3	22.5	255.3	28.6
Proceeds of short-term loans	—	—	208.6	23.4	94.2	247.0	27.7
Proceeds of additional paid — in capital fund	1,000.0	—	—	—	—	—	—
Dividends paid to minority shareholders	—	—	(0.1)	(0.0)	—	—	—
Decrease (increase) in restricted cash	—	(1.3)	(0.1)	(0.0)	(0.6)	0.9	0.1
Payments for other financing activities	—	—	(15.3)	(1.7)	(7.0)	(15.3)	(1.7)
Total	1,007.5	(687.1)	(601.7)	(67.4)	(487.1)	(799.1)	(89.5)
Net increase (decrease) in cash and cash equivalents	1,651.8	(439.9)	(822.0)	(92.1)	(1,025.8)	103.8	11.6

Net Cash Provided by (Used in) Operating Activities

For the nine months ended September 30, 2010, our net cash flows provided from operating activities were Rp. 1,410.3 billion (US$158.0 million), primarily resulting from cash receipts from customers of Rp. 14,030.6 billion (US$1,572.2 million), which were partially offset by payments to suppliers and employees of Rp. 10,563.3 billion (US$1,183.7 million) and Rp. 1,902.6 billion (US$213.2 million), respectively.

For the year ended December 31, 2009, our net cash flows provided from operating activities were Rp. 1,369.8 billion (US$153.5 million), primarily resulting from cash receipts from customers of Rp. 17,095.3 billion (US$1,915.7 million), which were partially offset by payments to suppliers and employees of Rp. 12,554.1 billion (US$1,406.8 million) and Rp. 2,837.4 billion (US$318.0 million), respectively.

For the year ended December 31, 2008, our net cash flows provided from operating activities were Rp. 1,766.0 billion, primarily resulting from cash receipts from customers of Rp. 18,822.5 billion, which were partially offset by payments to suppliers and employees of Rp. 14,370.3 billion and Rp. 2,402.4 billion, respectively.

For the year ended December 31, 2007, our net cash flows provided from operating activities were Rp. 1,215.0 billion, primarily resulting from cash receipts from customers of Rp. 14,058.8 billion, which were partially offset by payments to suppliers and employees of Rp. 10,907.5 billion and Rp. 1,735.6 billion, respectively.

Net Cash Provided by (Used in) Investing Activities

For the nine months ended September 30, 2010, our net cash flows used in investing activities were Rp. 507.4 billion (US$56.9 million), primarily consisting of Rp. 327.0 billion (US$36.6 million) for advance (pre-delivery) payments under then existing contractual commitments for Boeing 737-800 and Airbus A330-200 aircraft, Rp. 1,030.1 billion (US$115.4 million) for payments for aircraft maintenance reserve fund required under the terms of our operating leases for Boeing 737 aircraft, Rp. 191.0 billion (US$21.4 million) for advance payment for fixed assets, Rp. 177.8 billion (US$19.9 million) for acquisition of property and equipment and Rp. 145.6 billion (US$16.3 million) for payments for security deposits, which were partially offset primarily by Rp. 1,014.9 billion (US$113.7 million) for refunds for advance payments for purchase of aircraft in connection with conversion of our purchase commitments to operating leases through sale and leaseback transactions and Rp. 269.1 billion (US$30.2 million) for receipts of aircraft maintenance reimbursements.

For the year ended December 31, 2009, our net cash flows used in investing activities were Rp. 1,590.0 billion (US$178.2 million), primarily consisting of Rp. 809.5 billion (US$90.7 million) for advance payments under then existing contractual commitments for Boeing 737-800 and Airbus A330-200 aircraft, Rp. 630.5 billion (US$70.7 million) for payments for aircraft maintenance reserve fund required under the terms of our operating leases for Boeing 737 aircraft, Rp. 320.8 billion (US$35.9 million) for advance payment for fixed assets, Rp. 317.2 billion (US$35.5 million) for acquisition of property and equipment and Rp. 377.2 billion (US$42.3 million) for payments for security deposits, which were partially offset by Rp. 447.7 billion (US$50.2 million) for refund of advance payments for purchase of aircraft in connection with conversion of our purchase commitments to operating leases through sale and leaseback transactions and Rp. 204.4 billion (US$29.9 million) for receipt of aircraft maintenance reimbursements under operating leases.

For the year ended December 31, 2008, our net cash flows used in investing activities were Rp. 1,518.7 billion, primarily consisting of Rp. 1,231.5 billion for advance payments under then existing contractual commitments for Boeing 737-800 and Airbus A330-200 aircraft, 335.4 billion for payments for aircraft maintenance reserve fund required under the terms of our operating leases for Boeing 737 aircraft, Rp. 197.8 billion for payment for aircraft maintenance assets, Rp. 117.5 billion for acquisition of property and equipment and Rp. 138.2 billion for payments for security deposit, which were partially offset primarily by Rp. 212.8 billion for proceeds for sale of property and equipment, Rp. 169.2 billion for receipt of aircraft maintenance reimbursements and Rp. 101.8 billion for interest received from time deposits.

For the year ended December 31, 2007, our net cash flows used in investing activities were Rp. 570.6 billion, primarily consisting of Rp. 503.0 billion for payments for aircraft maintenance asset, Rp. 213.6 billion for payments for aircraft maintenance reserve fund required under the terms of our operating leases for Boeing 737 aircraft and Rp. 188.1 billion for advance payments for aircraft, which were partially offset by Rp. 214.3 billion for proceeds from sale of property and equipment and Rp. 116.6 billion for receipts of aircraft maintenance reimbursements.

Net Cash Provided by (Used in) Financing Activities

For the nine months ended September 30, 2010, our net cash flows used in financing activities were Rp. 799.1 billion (US$89.5 million), primarily consisting of principal repayments under our restructured long-term liabilities and payments related to trustee and management fees.

For the year ended December 31, 2009, our net cash used in financing activities was Rp. 601.7 billion (US$67.4 million), primarily consisting of Rp. 751.3 billion in payments of long-term liabilities, which were partially offset by Rp. 208.6 billion in proceeds of short-term loans and Rp. 56.1 billion in proceeds of long-term loans.

For the year ended December 31, 2008, our net cash used in financing activities was Rp. 687.1 billion, primarily consisting of Rp. 733.7 billion in payments of long-term liabilities, which were partially offset by Rp. 47.9 billion in proceeds of long-term loans.

For the year ended December 31, 2007, our net cash provided by financing activities was Rp. 1,007.5 billion, primarily resulting from Rp. 1,000.0 billion for proceeds of additional paid-in capital fund pursuant to Government Regulation No. 46 of 2006 and Government Regulation No. 69 of 2007 approving increase of the Government equity participation in our Company.

Working Capital

Due to the nature of our business, our current liabilities will generally exceed our current assets. As at December 31, 2007, 2008, 2009 and September 2010, our current liabilities exceeded our current assets by Rp. 1,427.4 billion, Rp. 2,458.7 billion, Rp. 2,135.1 billion and Rp. 1,162.7 billion, respectively. These current liabilities primarily arise from accrued expenses, unearned revenues for our scheduled and *hajj* flight operations, and current portion of long-term loans and lease liabilities incurred for the expansion of our aircraft fleet. The portion of the loan repayments and lease liabilities due in the next 12 months from a balance sheet date are reflected as current liabilities on our balance sheet.

In the years ended 2007, 2008 and 2009 and the nine months ended September 30, 2010, we had net cashflow from operating activities of Rp. 1,215.0 billion, Rp. 1,766.0 billion, Rp. 1,369.8 billion, and Rp. 1,410.3 billion, respectively and unearned revenue from scheduled and *hajj* flight operations of Rp. 902.0 billion, Rp. 689.0 billion, Rp. 524.1 billion, and Rp. 1,795.9 billion, respectively.

We believe that we have adequate working capital for our present requirements and that our net cash generated from operating activities and indebtedness incurred under our existing facilities, together with cash and cash equivalents, will provide sufficient funds to satisfy our working capital requirements and anticipated capital expenditure and other payment obligations for the next 12 months. We may, however, incur additional indebtedness to finance all or a portion of our planned capital expenditure, pre-delivery payment due to Boeing under our Boeing 777 purchase commitments and other payment obligations or for other purposes. Our ECA Loans and Commercial Loans limit our ability to incur additional indebtedness. In addition, depending on our capital requirements, market conditions and other factors, we may raise additional funds through debt or equity offerings or the sale or other disposition of shares or assets. See "Risk Factors — Risks Relating to our Company - Our high levels of indebtedness and fixed payment obligations could adversely affect our ability to implement our growth strategy" and "Risk Factors — Risks Relating to Ownership of the Shares — Your right to participate in future rights offerings could be limited, which would cause dilution to your holdings."

Capital Expenditures

A significant portion of our capital expenditure commitments have historically related to our purchase of aircraft equipment that we finance through operating cashflow and debt financings. We typically finance pre-delivery payments for aircraft purchases through operating cash flows and debt financings, and then recovering these pre-delivery payments and converting these aircraft purchases to operating leases through sale and leaseback arrangements with aircraft leasing companies, which decreases our capital expenditure commitments while increasing our aircraft rental expense.

The following table shows our actual capital expenditures for the years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010:

	Year Ended December 31,				Nine Months Ended September 30,		
	2007 (Audited)	2008 (Audited)	2009 (Audited)	2009 (Unaudited)	2009 (Unaudited)	2010 (Audited)	2010 (Unaudited)
	(Rp. billions)	(Rp. billions)	(Rp. billions)	(US$ millions)	(Rp. billions)	(Rp. billions)	(US$ millions)
Flight Equipment							
Airframe/Refurbishment	40.0	22.2	320.8	35.9	379.7	191.0	21.4
Engine	—	—	72.1	8.1	72.1	—	—
Simulator	—	—	—	—	—	8.5	1.0
Ground Property and Equipment	—	7.3	68.0	7.6	52.5	42.4	4.7
Furniture, Fixtures, and Office Equipment	1.4	22.1	51.3	5.7	31.8	42.0	4.7
Information Technology	2.7	22.9	29.0	3.3	22.2	24.4	2.7
Land and Building	1.8	65.1	96.8	10.8	79.8	60.5	6.8
Sub Total	45.9	139.7	638.0	71.5	638.1	368.7	41.3
Aircraft Maintenance assets	503.0	197.8	108.0	12.1	90.9	16.0	1.8
Total capital expenditures	548.9	337.5	745.9	83.6	729.0	384.7	43.1

As of September 30, 2010, our contracted and outstanding capital expenditure commitments amounted to approximately Rp. 384.7 billion (US$43.1 million), excluding aircraft purchase commitments under our aircraft purchase agreements with Boeing and Airbus. Going forward, we may adjust our capital expenditure plan based on our future results of operations, cash flows and overall financial condition, as well as considerations such as financing costs, the condition of financial markets, the Indonesian economy and the airline industry in general, the availability of vendor or other financing on terms acceptable to us, technical or other problems in obtaining or installing equipment, changes in our business plans and strategies and changes in the exchange rates between the U.S. dollar and the Rupiah. Our capital expenditures are generally subject to the receipt of necessary approvals from the DGCA, as well as approvals from certain of our creditors.

The following table summarizes our planned capital expenditures for the periods indicated (unaudited):

	Year Ended December 31,		
	2010	2011	2012
	(Rp. billions)	(Rp. billions)	(Rp. billions)
Flight Equipment	636.5	589.9	557.9
Airframe/Refurbishment	259.1	241.1	191.2
Leasehold Improvement (SPE)	368.8	55.8	237.6
Engine	—	128.6	16.2
Rotable	—	34.2	1.1
Simulator	8.6	130.2	111.8
Ground Property and Equipment	78.1	236.5	305.9
Furniture, Fixtures, and Office Equipment	37.0	123.0	35.2
Information Technology	60.3	395.5	65.2
Building	72.6	206.0	55.6
Other/Land	12.9	13.9	—
Sub Total	897.2	1,564.7	1,019.7
Aircraft Maintenance assets	270.1	433.9	559.3
Total capital expenditures	1,167.3	1,998.6	1,578.9

Contractual obligations and commitments

A significant portion of our contractual obligations and commitments have historically related to our purchase of aircraft. As we proceed with our fleet expansion plan, we intend to continue our practice of financing pre-delivery payments for aircraft purchases through operating cash flows and debt financings, and then recovering these pre-delivery payments and converting these aircraft purchases to operating leases through sale and leaseback arrangements with aircraft leasing companies, which decreases our capital expenditure commitments while increasing our aircraft rental expense.

The following table summarizes our fixed payment obligations and commitments (including our finance lease obligations, operating lease commitments and aircraft purchase commitments) as of September 30, 2010 for the periods indicated:

	Payment Due By Period									
Contractual Obligations	**Less than 1 year**		**1-3 years**		**4-5 years**		**More than 5 years**		**Total**	
	(Rp. billions)	**(US$ millions)**	**(Rp. billions)**	**(US$ millions)**	**(Rp. billions)**	**(US$ millions)**	**(Rp. billions)**	**(US$ millions)**	**(Rp. billions)**	**(US$ millions)**
Short-term bank and other loans	207.3	23.2	—	—	—	—	—	—	207.3	23.2
Long-term bank and other loans	255.6	28.6	660.4	74.0	638.8	71.6	285.6	32.0	1,840.1	206.2
Finance lease obligations[(1)]	711.6	79.7	947.3	106.2	575.3	64.5	340.9	38.2	2,575.0	288.5
Operating lease commitments	2,017.6	226.1	5,150.5	577.2	3,060.7	343.0	4,715.6	528.4	14,944.4	1,674.6
Aircraft purchase commitments	853.2	95.6	9,386.0	1,051.8	7,590.7	850.6	6,630.4	743.0	24,460.3	2,741.0
Total	4,045.3	453.3	16,144.2	1,809.1	11,865.5	1,329.6	11,972.5	1,341.6	44,027.1	4,933.6

Notes:

(1) Finance lease obligations are incurred in connection with the ECA Loans and Commercial Loans. See " Description of Material Indebtedness."

We have in the past deferred delivery of aircraft under purchase agreement commitments when we were unable to fund pre-delivery payments. The pre-delivery payments for our aircraft purchases are typically financed initially through operating cash flows and debt financings, which we will then convert to operating lease arrangements under sale and leaseback transactions with aircraft leasing companies, which allows us to recover our pre-delivery payments and should reduce our total capital expenditure commitments. While we believe that our cashflow from operations will be sufficient to fund pre-delivery payments for all of our remaining Boeing 737-800 deliveries and all of our remaining Airbus A330-200 deliveries, we will need to arrange debt financing of pre-delivery payments for our ten remaining Boeing 777 deliveries. Our ECA Loans and Commercial Loans limit our ability to incur additional indebtedness and accordingly we cannot assure you we will be able to incur additional debt financing for our remaining 26 firm aircraft deliveries (including for pre-delivery payments). Moreover, even if we are able to incur such additional debt financing, we cannot assure you that either debt or lease financing will be available for such aircraft deliveries (including for pre-delivery payments) on terms acceptable to us or at all.

Off-Balance Sheet Arrangements

As of September 30, 2010, we had no off-balance sheet arrangements.

Description of Material Indebtedness

Our total debt was Rp. 4,622.4 billion (US$518.0 million) as of September 30, 2010, Rp. 5,737.5 billion (US$642.9 million) as of December 31, 2009, Rp. 6,015.6 billion as of December 31, 2008 and Rp. 5,914.0 billion as of December 31, 2007. Our total debt outstanding as of September 30, 2010 consisted of aggregate principal indebtedness of US$485.3 million in U.S. dollar-denominated bank loans and Rp. 291.7 billion under Rupiah-denominated bank loans. See Notes 18, 24 and 25 to our consolidated financial statements for a further discussion of our outstanding and historical debt. We and our subsidiaries are currently in compliance with the covenants of our respective loan agreements.

Outstanding loan amounts as of September 30, 2010 are listed in the table below:

	As of September 30, 2010 (Rp. billions)
Less than one year	
Bank Negara Indonesia	207.3
More than one year	
FRN — U.S. dollar	615.3
FRN — Rupiah	96.4
Pertamina	675.7
AP I	91.5
AP II	186.0
Bank CIMB Niaga	77.7
Indonesia Eximbank	71.4
Bank Negara Indonesia	21.9
Bank Mandiri Tunas Finance	4.3
ECA Loans	1,726.2
Commercial loans	848.7
Total	4,622.4

Debt Restructuring

In 2005, we declared a standstill on payments of principal under certain of our outstanding debt obligations, which had previously been restructured in 2001. As a result, we entered into various agreements with certain of our lenders and debtors to restructure certain outstanding indebtedness and fixed obligations, including the following:

- US$501.6 million in outstanding principal amount under certain finance lease transactions relating to our acquisition of six A330-300 aircraft financed by export credit agencies of France, Germany and the United Kingdom (each an "ECA" and collectively, the "ECA Lenders") and certain commercial banks (the "Commercial Lenders");
- US$115.7 million and Rp. 146.51 billion in outstanding principal amount of US$305,279,760 Floating Rate Notes due 2007 and Rp. 366,286,240,000 Floating Rate Notes due 2007 (the "FRN");
- US$106.9 million in aggregate of outstanding trade payables owed to Pertamina, AP I and AP II, each of which are Government-affiliated companies;
- Rp. 60 billion under a syndicated loan facility with PT Bank Mandiri (Persero) Tbk. ("Bank Mandiri") and certain other banks. This was repaid in full in October 2009; and
- Rp. 1,018.8 billion in outstanding principal amount of subordinated mandatory convertible bonds (the "Mandatory Convertible Bonds") held by Bank Mandiri.

In December 2009, we entered into an agreement with Bank Mandiri to amend and restate the existing Mandatory Convertible Bonds. Pursuant to this agreement, we restructured the Mandatory Convertible Bonds held by Bank Mandiri by redeeming principal amounts equivalent to five percent of the outstanding principal amount of the Mandatory Convertible Bonds for an amount equal to Rp. 50.9 billion, and the conversion of the remaining 95% in outstanding principal amount into ordinary shares of our Company (representing approximately 10.61% of the outstanding share capital of our Company on a fully-diluted basis on the date of the conversion). See "Principal and Selling Shareholders."

As of December 31, 2010, following completion of our debt restructuring, our outstanding indebtedness were as follows.

Export Credit Agency Loans and Commercial Loans

In November 1989, we agreed to purchase nine Airbus A330-300 aircraft. Six of these were delivered between December 1996 and April 1997, and were financed through a combination of finance lease and Japanese leveraged lease structures. Two special purpose companies, G.I.E. Sulawesi and G.I.E. Sumatera, were incorporated in France for the purposes of acquiring these aircraft, and loans were made to these companies by the ECA Lenders (which were guaranteed by the ECAs) (the "ECA Loans") and the Commercial Lenders (which were not guaranteed by the ECAs) (the "Commercial Loans") for the purposes of financing such acquisitions. Concurrently with the ECA Loans and the Commercial Loans, we entered into lease agreements pursuant to which we would pay rental for the leases of such aircraft to us based on the equivalent of the principal, interest and other payments to be made by the special purpose companies to the ECA Lenders and the Commercial Lenders under the ECA Loans and the Commercial Loans. Three of the Airbus A330-300 aircraft were acquired by G.I.E. Sulawesi through finance leases, and the remaining three Airbus A330-300 aircraft were acquired by G.I.E. Sumatera through Japanese leveraged lease structures. The financings of each of these aircraft were secured by, among others, mortgages granted over the aircraft (comprising the airframe and the engines) and assignments of the lease rental payments and insurance proceeds.

In 2001, we entered into a court-sanctioned scheme of arrangement with our creditors, pursuant to which the ECA Loans and the Commercial Loans were restructured as part of a wider restructuring of all of our outstanding payment obligations. The maturity date of each of the ECA Loans was extended to December 31, 2010. Interest would be payable at 40 basis points above LIBOR (in the case of the loans granted to our Company by the ECA Lenders and guaranteed by the EGCD) and 45 basis points above LIBOR (in the case of the loans granted to our Company the ECA Lenders and guaranteed by Hermes and COFACE, respectively). Repayment of the ECA Loans would be made through semi-annual amortization of each aircraft, staggered such that we would make one payment in each calendar month commencing on January 1, 2001. In addition, principal repayments of certain specified amounts were to be made bi-annually on June 30 and December 31 of each year until maturity of the loan on December 31, 2010. The maturity date of each of the Commercial Loans was extended to December 31, 2010, and repayment of the principal amount due under such loans was rescheduled as a bullet repayment on the maturity date. In connection with the restructuring of these loans, we also procured a US$100 million irrevocable standby letter of credit issued by Bank Mandiri as additional security for our obligations under the ECA Loans and the Commercial Loans. In addition, each of the ECA Lenders and the Commercial Lenders were also eligible for principal repayments under the cash sweep mechanism adopted by our Company as part of the scheme of arrangement, which enabled all eligible creditors in the scheme to take a pro-rated proportion of any excess cash of our Company (as calculated in accordance with a specified formula set out in a deed of covenant executed by us in connection with the scheme) and the net proceeds of disposals (subject in each case, to limitations, reservations and certain thresholds) at the end of each financial year until repayment in full.

In December 2005, we declared a standstill on payments of principal under certain of our outstanding debt obligations, including the bi-annual principal payments required to be made during such period under the restructured ECA Loans. In May 2009, we formalized and agreed to an interim arrangement with respect to the ECA Loans pursuant to which we had been making repayments of principal and interest since January 2008, and agreed to continue making these payments for such period until the execution of definitive documentation for the restructuring of these obligations pursuant to the Restructuring. In July 2009, we issued a written request to the ECA Lenders, requesting certain amendments to the interim payment arrangements agreed with the ECA Lenders with respect to US$40 million of principal repayments, and offering to grant additional security over up to seven Boeing 737-400 aircraft to secure these payment obligations. On December 21, 2010, we agreed and executed definitive documentation for the restructuring of our outstanding indebtedness to the ECA Lenders and the Commercial Lenders. In this restructuring, the Japanese leveraged lease structures which were used for the acquisition of the aircraft by G.I.E. Sumatera were terminated and we entered into direct conditional sale and purchase agreements for these aircraft, under which we would own the aircraft outright upon payment of all outstanding amounts under such sale and purchase agreements. The terms of each of the conditional sale and purchase agreements are similar to those in the leases governing the three Airbus A330-300 aircraft leased by G.I.E. Sulawesi to us, and differences in the transaction structures used for the aircraft owned by G.I.E. Sumatera are principally attributable to the elimination of the Japanese leveraged lease structures for these aircraft and were adopted for the purposes of minimizing French taxes payable on such restructured transactions.

Under the terms of the 2010 Restructuring, the ECA Loans are expected to be fully repaid by December 2016. Interest will be payable on outstanding principal amounts at a floating rate per annum based on U.S. dollar LIBOR plus an additional margin of 0.90% (with respect to the British Lenders) to 0.95% (with respect to the German Lenders and the French Lenders, respectively). The Company will be required to make fixed repayments amounting to US$45 million per annum in 12 equal installments of US$3.75 million except that five of these installments in 2011 will instead each be US$4.15 million. These fixed repayments comprise principal and interest payments during such year, and the amortization of principal amounts under the ECA

Loans are calculated after deduction of interest payments at the agreed rates for the relevant period. However, in the event that the U.S. dollar LIBOR rate exceeds 7.5 percent. for any calculation period of a principal installment, the Company will be required to make additional payments of interest based on the interest rate in excess of the 7.5 percent. threshold. The Company will also be required to make several additional principal repayments in the amounts and on the dates as specified in the restructured agreements. As of September 30, 2010, our total outstanding indebtedness under the ECA Loans was US$193.4 million.

Under the terms of the restructured Commercial Loans, interest will accrue on the Commercial Loans at the rate of LIBOR plus 1.75% and we are required to make semi-annual principal payments on a per aircraft basis through maturity of the Commercial Loans in 2016. As of September 30, 2010, our total outstanding indebtedness under the Commercial Loans was US$95.1 million. A restructuring fee of US$350,000 was also paid to the Commercial Lenders on December 21, 2010.

In addition to the above principal and interest payments, each of the ECA Lenders and the Commercial Lenders are also eligible for principal repayments under the revised cash sweep mechanism adopted by our Company as part of the 2010 restructuring, which enables certain of our creditors (including the ECA Lenders and the Commercial Lenders) to take a pro-rated proportion of any excess cash of our Company (as calculated in accordance with a specified formula). The excess cash of our Company is calculated based on our aggregate cash and cash equivalents after deducting certain working capital requirements (which have been set at the higher of US$60 million or five percent of our total operating revenue), less certain funds agreed to be excluded from such calculation (including, among others, 70% of any rights issue proceeds received by us from new equity subscriptions including, for the avoidance of doubt, the Global Offering, carried forward capital expenditure allowances and proceeds of asset sales or debt issuances).

In connection with the restructuring of these loans, we granted additional security over seven Boeing 737-400 aircraft and 3 spare Rolls-Royce Trent 768 engines owned by us to the ECA Lenders and the Commercial Lenders, as replacement security for amounts which had previously been secured by the standby letter of credit issued by Bank Mandiri. We also funded certain tax reserve accounts and granted security over such accounts for payment of outstanding tax obligations of the special purpose companies, and are required to fund maintenance reserve accounts for the maintenance of the six Airbus A330-300 airframes. We are not required to accrue maintenance reserves for the engines since these are covered by a total care package agreement with Rolls Royce.

The terms of the ECA Loans and the Commercial Loans (as set forth in the leases entered into between us and G.I.E. Sulawesi and G.I.E. Sumatera) include various financial covenants which restrict us from incurring additional indebtedness (subject to certain permitted exceptions) unless, among others: (i) our EBITDAR divided by principal, interest and lease and rental payments due and payable during the preceding four (4) financial quarters does not exceed 1.3 and (ii) the ratio of total indebtedness plus eight (8) multiplied by our lease and rental payments for the preceding four (4) financial quarters, as divided by our EBITDAR, does not exceed 5.0. We are also restricted from incurring capital expenditures in excess of 2.5% of our total operating revenues. These leases also include other provisions that restrict our ability to take various actions and limit our flexibility in operating our business, paying dividends to our shareholders and raising additional capital. These restrictive covenants include, among others, making of payments from our company or our restricted subsidiaries, asset sales, acquisitions of assets, shares, properties or businesses, dividend payments, affiliate transactions, sale and leaseback transactions, the creation of liens and encumbrances and merger or change of control transactions.

Floating Rate Notes

On November 2, 2001, we entered into a trust deed pursuant to which we issued the FRN due 2007. On December 31, 2005, we suspended payment of principal under the FRN while we continue to pay interest. On January 21, 2010, we completed the restructuring of the FRN through a consent solicitation for amendments to the trust deed for the FRN and a repurchase of certain outstanding notes through a dutch auction tender process. In connection with the tender offer and consent solicitation, we repurchased an aggregate of approximately US$46.6 million (consisting of approximately US$41 million and Rp. 38 billion) in outstanding principal amount of the 2007 Notes for approximately US$25.0 million (consisting of approximately US$22 million and Rp. 23 billion). A restructuring fee was also paid to noteholders equivalent to approximately one percent of the total outstanding principal amount of the 2007 Notes.

Through the consent solicitation, we extended the final maturity date of the remaining outstanding principal amount of the FRN to January 21, 2018, with interest on the US dollar denominated notes to LIBOR plus

1.75% and interest on the Rupiah denominated notes to the average Rupiah deposit rate plus 1.75%. Principal is repayable in 15 equal semi-annual installments of the restructured principal amount, four interim installments payable annually between 2012 and 2015, and a final bullet payment on the maturity date.

As of September 30, 2010, our total indebtedness under the FRN was Rp. 711.8 billion (US$79.8 million).

Pertamina Subordinated Loan

On October 19, 2009, we entered into a restructuring agreement with Pertamina to convert our outstanding trade payables owed to Pertamina for jet fuel purchased between June 2004 and June 2006, amounting to approximately US$76.5 million, into a U.S. dollar denominated subordinated loan (the "Pertamina Subordinated Loan").

The maturity date for the Pertamina Subordinated Loan is December 31, 2015. The Pertamina Subordinated Loan provides for an interest rate of 6 month LIBOR plus 1.75%, with interest payable semi-annually in arrears. Principal is payable in installments of 1% of the restructured principal amount in December 2009, 5% of the restructured principal amount in December 2010 and 18.8% of the restructured principal amount in December of each year from 2011 to 2015.

Repayment of the Pertamina Subordinated Loan is subordinated to all outstanding indebtedness due under financing or refinancing agreements executed with creditors pursuant to our 2001 restructuring.

As of September 30, 2010, our total indebtedness under the Pertamina subordinated loan was US$75.7 million.

AP I and AP II Subordinated Loans

On May 27, 2009, we entered into restructuring agreements with each of AP I and AP II to convert our outstanding trade payables owed to AP I and AP II for the provision of airport services amounting to approximately US$8.9 million and US$21.1 million, respectively, into a Rupiah denominated subordinated loan (the "AP I Subordinated Loan") and U.S. dollar denominated subordinated loan (the "AP II Subordinated Loan", and collectively, the "AP I and AP II Subordinated Loans"). The outstanding principal amount of the AP I Subordinated Loan was determined using the average exchange rate for U.S. dollars converted into Rupiah during the 12 month period prior to the effective date of the restructuring.

The maturity period for the AP I and AP II Subordinated Loans is December 30, 2015. The AP I Subordinated Loan provides for an interest rate of 3 month SBI rate plus 0.90% payable quarterly in arrears. The AP II Subordinated Loan provides for an interest rate of LIBOR applicable at previous interest payment plus 0.90% payable quarterly in arrears. Principal is repayable in installments of 1% of the restructured principal amount payable in 2009, 5% with annual increases of 2.5% of the restructured principal amount between 2010 and 2014, and 49% of the restructured principal amount in 2015.

Repayment of the AP I and AP II Subordinated Loans is subordinated to all outstanding indebtedness due under financing or refinancing agreements executed with creditors pursuant to our 2001 restructuring.

As of September 30, 2010, our total indebtedness under the AP I Subordinated Loan was Rp. 91.5 billion and our total indebtedness under the AP II Subordinated Loan was US$20.8 million.

Company — BNI Loan

On September 27, 2010, we entered into an agreement with PT Bank Negara Indonesia Tbk. ("BNI") in the form of a domestic letter of credit cover facility in the amount of up to US$15,000,000 with an availability period until September 26, 2011. Upon our written request, BNI will issue one or more letter of credit with terms similar to those of usance letters of credit, which are valid up to and must be fully repaid in three months as of issuance. Letters of credit bears interest at a rate of 4.0% per annum on the amount outstanding and may only be issued for the purpose of financing jet fuel supplied by Pertamina. Under the agreement, (i) we are required to open and maintain deposits or accounts with BNI with balances at any time equal to the amount of the letter of credit to be opened by BNI; and (ii) BNI is authorized to apply amounts standing in our accounts/deposits against any amount then due and payable in relation to the BNI letter of credit. As of September 30, 2010, we had drawn down US$7,000,000 under this facility.

Company — Indonesia Exim Bank Loan

On February 12, 2010, we entered into a term loan agreement with Lembaga Pembiayaan Ekspor Indonesia ("Indonesia Exim Bank") and drew down US$15,000,000 for financing Pre-Delivery Payments for the purchase of five B737-800 new generation aircraft from Boeing ("Phase I Aircraft"), for which we have obtained sale and leaseback financing commitments from Dubai Aerospace Enterprises and Mitsubishi Corporation Aviation Partners, Mitsubishi Corporation. Once repaid, the loan may be redrawn to finance pre-delivery payments for subsequent aircraft deliveries. The loan matures on February 11, 2012 and bears interest at a floating rate calculated as 6 months LIBOR plus 3.5% per annum payable on the 20th day of each month. Without the prior written approval of Indonesia Exim Bank, we may not, among other things, (i) obtain new loans or (ii) provide corporate guarantees to any third party. The facility is secured by a pledge over 52.29% of our shares in GMFAA. Principal repayment is tied to the Phase I Aircraft delivery schedule. As of September 30, 2010, we had repaid the principal amount of US$7,000,000 and US$8,000,000 remained outstanding under this Facility.

PT Aero Wisata — CIMB Niaga Loan

On October 6, 2009, AWS, our subsidiary, entered into a loan agreement with PT Bank CIMB Niaga Tbk. ("CIMB Niaga") for up to Rp. 20 billion to be used for hotel renovation. The loan matures on October 6, 2017. The loan bears interest at a rate of 13.25% per annum on the outstanding amount of the loan payable each month. The principal is to be repaid beginning from the end of 12 months after the availability period or full draw down. The loan is secured by 3 plots of land owned by the Company located in Biak, Papua.

PT Angkasa Citra Sarana Catering Service — BNI Loan

On November 16, 2009, ACS, our indirect subsidiary, entered into a loan agreement with BNI in the form of a working capital facility in the amount of Rp. 100 billion with an availability period until November 15, 2010. Any amount of the facility may be drawn down by furnishing an invoice for working capital expenditures to BNI, and must be fully repaid in 180 days. The loan bears interest at a rate of 11.5% per annum on amounts outstanding. The loan is secured by fiducia security over receivables arising from the contracts financed by the loan.

The loan agreement includes covenants which, among others, require ACS to maintain:

- Current ratio of not less than 1.0 times;
- Debt to equity ratio of maximum of 2.5 times; and
- Debt service coverage of at least 100%.

Without the prior written approval of BNI, ACS may not: (i) carry out a merger, consolidation, or acquisition; (ii) amend its articles of association, (iii) distribute dividends; (iv) act as guarantor; or (v) change the composition of its Board of Directors or Board of Commissioners.

GMFAA — BNI

On March 31, 2010, GMFAA, our subsidiary, entered into a loan agreement with BNI in the form of an investment credit commitment of up to Rp. 100 billion, which will mature on December 30, 2015. The purpose of the facility is to finance the expansion of GMFAA's maintenance and overhaul facilities and purchase of machinery and equipment.

In connection with the above credit commitment, on July 28, 2010, GMFAA entered into a loan agreement with BNI of up to US$15,000,000 in the form of a current account facility. The facility bears interest at a rate of 6% per annum on the outstanding amount of the loan payable monthly. Without prior written approval of BNI, GMFAA may not, among other things, (i) carry out any merger or consolidation; (ii) amend its articles of association, (iii) engage in sale and leaseback transactions; (iv) distribute dividends; (v) repay shareholder loans; or (vi) change the composition of its Board of Directors or Board of Commissioners.

The loan agreements include covenants which, among others, require GMFAA to maintain:

- Current ratio of not less than 1.0 times;
- Debt to equity ratio of maximum of 2.5 times; and
- Debt service coverage of at least 100%.

As of September 30, 2010, the outstanding principal amount under this loan was US$7.4 million.

PT Mandira Erajasa Wahana — CIMB Niaga Loan

PT Mandira Erajasa Wahana ("MEW"), our subsidiary, has entered into seven loan facilities with CIMB Niaga to finance acquisitions of vehicles for MEW's transport rental service or to refinance MEW's existing loans from CIMB Niaga. The loan facilities are secured by fiducia security over receivables arising from the lease of vehicles and vehicles financed by the loan facilities. These facilities are as follows:

- On September 17, 2009 as amended and restated on June 29, 2010, MEW entered into a loan facility with CIMB Niaga for up to Rp. 9.675 billion with monthly principal repayments over a period of 42 months until March 17, 2013. The loan bears interest of 12.25% per annum calculated annually in arrears.
- On October 22, 2009 as amended and restated on June 29, 2010, MEW entered into a loan facility with CIMB Niaga for up to Rp. 1.165 billion with monthly principal repayments over a period of 42 months until April 22, 2013. The loan bears interest at a rate of 12.25% per annum calculated annually in arrears.
- On November 25, 2009 as amended and restated on June 29, 2010, MEW entered into a loan facility with CIMB Niaga for up to Rp. 3.4 billion with monthly principal repayments over a period of 42 months until May 25, 2013. The loan bears interest at a rate of 12.25% per annum calculated annually in arrears.
- On January 20, 2010 as amended and restated on June 29, 2010, MEW entered into a loan facility with CIMB Niaga for up to Rp. 4.557 billion with monthly principal repayments over a period of 42 months until July 20, 2013. The loan bears interest at a rate of 12.25% per annum calculated annually in arrears.
- On March 11, 2010 as amended and restated on June 29, 2010, MEW entered into a loan facility with CIMB Niaga for up to Rp. 4.557 billion with monthly principal repayments over a period of 42 months until March 11, 2013. The loan bears interest at a rate of 12.25% per annum calculated annually in arrears.
- On June 29, 2010 MEW entered into a loan facility with CIMB Niaga for up to Rp. 16.79 billion with monthly principal repayments over a period of 36 months until June 29, 2013. The loan bears interest at a rate of 12.25% per annum calculated annually in arrears. This loan facility is cross-collateralized with MEW's other loan facility with CIMB Niaga dated June 29, 2010 described below.
- On June 29, 2010 MEW entered into a loan facility with CIMB Niaga for up to Rp. 28.64 billion with monthly principal repayments over a period of 36 months until June 29, 2013. The loan bears interest at a rate of 12.25% per annum calculated annually in arrears. This loan facility is cross-collateralized with MEW's other loan facility with CIMB Niaga dated June 29, 2010 described above.

PT Mandira Erajasa Wahana — PT Mandiri Tunas Finance Loans

On June 18, 2010 and June 20, 2010, MEW entered into two consumer financing facilities with PT Mandiri Tunas Finance to finance the acquisition of vehicles for MEW's transport rental services for up to Rp. 445,032,000 with monthly principal repayments over a period of 35 months from the drawdown date.

Market Risk Disclosures

Our major market risk exposures include changes in currency exchange rates, interest rates and inflation.

Interest Rate Risk

Our exposure to interest rate risk relates primarily to our U.S. dollar and Rupiah-denominated bank loans which bear interest at floating rates as follows:

Loan	Amount Outstanding as of September 30, 2010	Interest Rate
	(Rp. billions)	
ECA Loans	1,726.2	LIBOR + 0.90%-0.95%
Commercial Loans	848.7	LIBOR + 1.75%
FRN (Rupiah denominated notes)	96.4	Average of Rupiah deposit rate from three government reference banks + 1.75%
FRN (U.S. dollar denominated notes)	615.3	LIBOR + 1.75%
Pertamina Subordinated Loan	675.7	6 month LIBOR + 1.75%
AP I Subordinated Loan	91.5	3 month SBI rate + 0.90%
AP II Subordinated Loan	186.0	LIBOR + 0.90%
BNI	21.9	Floating rate
Indonesian Exim Bank	71.4	LIBOR + 3.50%
CIMB Niaga Loan	67.2	2.5%-5% + interest rate on Indonesian government guaranteed time deposits

We currently plan to enter into transactions to hedge our exposure to floating rate loans over the interest rate payable under the ECA Loans.

Foreign Currency Risk

Our foreign currency exposure gives rise to market risk associated with exchange rate movements against the Rupiah, our functional and reporting currency. We translate foreign currency transactions into Rupiah at the exchange rates prevailing on the date of the transaction. We translate our monetary assets and liabilities denominated in foreign currencies outstanding on the date of any balance sheet into Rupiah at the exchange rates prevailing on the balance sheet date.

We have U.S. dollar-denominated obligations under our ECA Loans, our Commercial Loans and our U.S. dollar-denominated FRN. Approximately 44.6% of our revenue is denominated in Rupiah, and the remainder in a variety of other currencies. Meanwhile, approximately 46.2% of our expenses are denominated in U.S. dollars. Because our expenses in U.S. dollars are greater than our revenues generated in U.S. dollars, foreign exchange transactions from other currencies into U.S. dollars are required to cover our U.S. dollar-denominated obligations and trade payables.

We previously hedged a portion of our foreign currency exposure, principally because our annual U.S. dollar-denominated operating revenues were less than the sum of our U.S. dollar-denominated capital expenditures and annual payments of U.S. dollar-denominated principal and interest payments. Since 2008, our current policy is to manage our U.S. dollar-denominated exposure by monthly conversion of our non-U.S. dollar-denominated foreign currency revenues into U.S. dollars at the spot rate available at the time of conversion. We also calculate our U.S. dollar-denominated monthly commitments and match our commitments with our U.S. dollar revenues and the conversion of our non-U.S. dollar denominated foreign currency revenues. If our U.S. dollar revenues and converted foreign currency revenues are insufficient to match our U.S. dollar-denominated obligations in any particular period, we further convert part of our Rupiah revenues to U.S. dollars to cover such shortfall.

We recorded a foreign exchange loss of approximately Rp. 233.8 billion in 2007, a foreign exchange loss of approximately Rp. 413.3 billion in 2008, a foreign exchange gain of approximately Rp. 462.5 billion (US$51.8 million) in 2009, and a foreign exchange gain of approximately Rp. 130.9 billion (US$14.7 million) for the nine months ended September 30, 2010. These gains and losses were primarily due to translation gains and losses due to our monetary assets and liabilities denominated in U.S. dollars. As of September 30, 2010, we had monetary assets of Rp. 2,760 billion (US$309.3 million) and monetary liabilities of Rp. 6,405 billion (US$717.7 million) subject to foreign currency exposure. Our monetary assets, subject to foreign currency exposure, consisted of cash and cash equivalents, trade receivables, advances and other assets denominated principally in U.S. dollars, which we believe mitigates our foreign exchange exposure to a limited degree.

However, this is offset to a certain extent by trade payables due to Pertamina, other accrued expenses for unearned revenues, advances received and our US-dollar denominated loan obligations.

Commodity Price Risk

Our exposure to commodity price rate risk relates primarily to the volatility of the cost of fuel denominated in U.S. dollars. We do not enter into hedging transactions with respect to jet fuel prices, except for certain derivative transactions with respect to jet fuel required for our *hajj* flight operations. See "Risk Factors — Risks Relating to Our Business — We source most of our fuel supply from Pertamina".

Effects of Inflation

Indonesia had an annual inflation rate of 2.8% in 2009, 11.1% in 2008 and 6.6% in 2007 according to BPS estimates. We do not consider inflation in Indonesia, where all of our operations are currently located, to have had a material impact on the results of our operations. Inflation in Indonesia could adversely affect our net income and cash flow to the extent we are unable to increase our revenue to cover any increases in our operating expenses resulting from inflation. Although the maintenance fees for many of our tenancies are adjusted annually based on inflation, our lease fees are fixed and we may, upon renewal of our lease agreements, be constrained in our ability to increase our lease fees in response to inflation because of competitive pressures. In addition, our pre-delivery payments under our aircraft purchase agreements are tied to applicable inflation rates for Boeing and Airbus.

Non-GAAP financial measures

We use Adjusted EBITDA and Adjusted EBITDAR to provide additional information about our operating performance. We define Adjusted EBITDA as income from operations plus depreciation and amortization. We define Adjusted EBITDAR as income from operations plus depreciation and amortization and aircraft rental expenses incurred in respect of scheduled passenger services. Adjusted EBITDA and Adjusted EBITDAR are not standard measures under either U.S. GAAP or Indonesian GAAP. As a measure of our operating performance, we believe that the most directly comparable Indonesian GAAP and U.S. GAAP measure to Adjusted EBITDA or Adjusted EBITDAR is net profit. We use Adjusted EBITDA and Adjusted EBITDAR in addition to net income because net income includes many accounting items associated with capital expenditures, such as depreciation, as well as non-operating items, such as interest income and interest expense, financial charges, foreign exchange gains and losses, gain on sale and leaseback, employee severance cost, provision for doubtful accounts and extraordinary gains and minority interest. These accounting items may vary between companies depending on the method of accounting adopted by each company. Funds depicted by Adjusted EBITDA or Adjusted EBITDAR may not be available for debt service due to covenant restrictions, capital expenditure requirements and other commitments.

The following table reconciles our income (loss) from operations under Indonesian GAAP to our definition of Adjusted EBITDA and Adjusted EBITDAR for the periods indicated:

	Year Ended December 31,				Nine Months Ended September 30,		
	2007 (Audited)	2008 (Audited)	2009 (Audited)	2009 (Unaudited)	2009 (Unaudited)	2010 (Audited)	2010 (Unaudited)
	(Rp. billions)	(Rp. billions)	(Rp. billions)	(US$ millions)	(Rp. billions)	(Rp. billions)	(US$ millions)
Income (loss) from operations	732.2	1,353.2	918.3	102.9	623.5	(289.9)	(32.5)
Depreciation and amortization	1,045.2	1,295.9	1,609.9	180.4	1,225.7	1,206.1	135.2
Adjusted EBITDA	1,777.3	2,649.1	2,528.2	283.3	1,849.3	916.2	102.7
Aircraft rental	668.9	749.9	1,268.6	142.2	919.2	1,327.3	148.7
Adjusted EBITDAR	2,446.2	3,399.0	3,796.8	425.5	2,768.4	2,243.4	251.4

You should not consider our definition of either Adjusted EBITDA or Adjusted EBITDAR in isolation or construe it as an alternative to income (loss) from operations, or as an indicator of operating performance or any other standard measure under Indonesian GAAP or U.S. GAAP.

The Airline Industry in Indonesia

This section, including statistical data and tables included herein, is an excerpt from the report prepared by The S-A-P Group. Neither we nor the International Selling Agents, the Joint Lead Managing Underwriters, nor any of our respective affiliates or advisors, makes any representation as to the accuracy of the information contained herein. The S-A-P Group has prepared the information in this section and its report based on (i) information made publicly available by participants in the relevant markets and industries, (ii) information published by third parties including market surveys and information published by government agencies and industry bodies, (iii) information from data bases compiled and maintained by The S-A-P Group on a routine basis and (iv) information provided to The S-A-P Group by significant participants in the relevant markets and industries.

Overview of Asia Pacific Passenger Growth

The Asia Pacific aviation industry has grown rapidly in recent years. According to IATA, the Asia Pacific region became the airline industry's largest market in 2009, and approximately 647 million passengers, or 27 percent of the world's travelers, journeyed to, from, or within the Asia Pacific region on commercial flights that year. By contrast, 638 million people flew on commercial flights in North America last year.

The Asia Pacific region's growth rates are forecast to remain robust over the next 20 years. For example, if people living in Asia flew at the same rates per annum as Americans, the global aviation industry would be triple its current size.

Growth in passenger air travel, as measured in RPK, historically has increased faster than growth in GDP. Global passenger air travel increased at a CAGR of 4.6% from 1985 to 2009. During this period, passenger air travel in the Asia Pacific region grew at one of the highest rates in the world and is forecast by the Boeing Company to continue experiencing strong growth rates in the coming years. Passenger volumes in the Asia Pacific region are significant, accounting for approximately 27% of global travel in 2009.

Passenger air travel within the Asia Pacific region is forecast to grow at a compound average annual rate of 7.1% from 2009 to 2029 and passenger air travel to, from, and within the Asia Pacific region is forecast to grow at a CAGR of 6.8% during the same period.

The following table sets forth historical CAGR for passenger air travel, as measured in RPK, from 1985 to 2009 and forecast CAGR for the period from 2009 to 2029, both globally and within selected Asia Pacific regions.

	CAGR						
	Historical						Forecast
	1985-1990	1990-1995	1995-2000	2000-2005	2005-2009	1985-2009	2009-2029
Global	6.8%	3.3%	5.7%	4.1%	2.9%	**4.6%**	5.3%
Within regions							
within China	16.7%	25.4%	5.4%	13.5%	13.5%	**14.8%**	7.9%
within Europe	8.7%	3.5%	7.5%	4.6%	2.7%	**5.5%**	4.1%
within Middle East	1.9%	1.3%	5.7%	4.6%	9.6%	**4.4%**	6.0%
within North America	4.6%	2.6%	5.3%	3.6%	(2.0%)	**3.0%**	2.8%
within Northeast Asia[(a)]	9.2%	6.1%	3.2%	0.9%	1.2%	**4.2%**	2.5%
within Oceania	7.1%	10.2%	2.9%	4.4%	4.5%	**5.8%**	5.3%
within South America	2.8%	3.2%	6.2%	3.7%	10.8%	**5.1%**	7.5%
within South Asia[(b)]	2.1%	5.6%	1.0%	8.5%	14.5%	**5.9%**	9.3%
within Southeast Asia[(c)]	11.1%	12.5%	(0.1)%	7.6%	3.7%	**7.0%**	8.3%

Source: The Boeing Company, Current Market Outlook, 2003, 2009, and 2010.

(a) Japan, North Korea and South Korea

(b) India, Pakistan, and Afghanistan

(c) Brunei, Burma, Cambodia, Indonesia, Laos, Malaysia, Philippines, Singapore, Taiwan, Thailand, and Vietnam

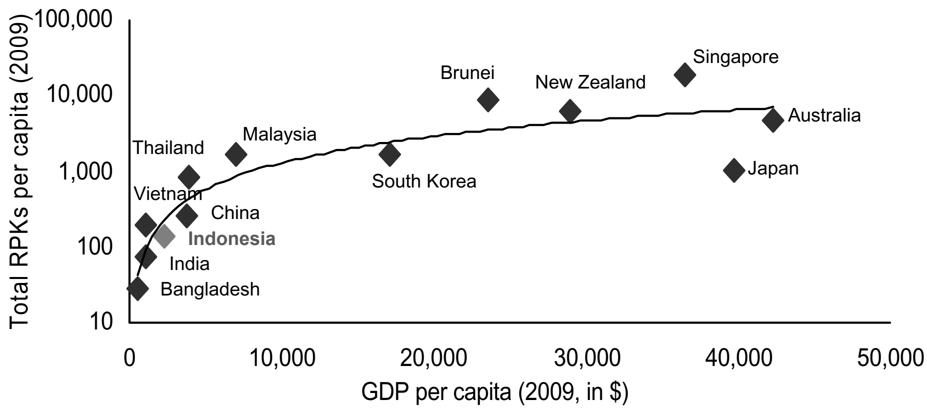
Overview of Indonesia Passenger Growth

Indonesia has experienced robust economic growth in the last decade, which has contributed to the development of an emerging middle class and growing demand for air travel services. The following table provides a summary of the growth in air travel passengers in Indonesia from 2000 to 2008.

Passengers (millions)	Passengers									CAGR
	2000	2001	2002	2003	2004	2005	2006	2007	2008	(2000-2008)
	(Millions)									
Air (domestic)	7.6	9.2	12.3	19.2	23.8	28.8	34.0	39.2	37.4	22.0%
Air (international)	4.7	4.7	4.8	4.3	5.4	5.7	5.7	6.6	7.3	5.6%

Source: Indonesian Directorate of Air Transport, Badan Pusat Statistik, and other sources, October 2010.

Although Indonesia is expected to have the highest growth in GDP in the Asia Pacific region (see table below on page 98), Indonesia's current passenger demand remains relatively low. The following chart provides a summary of the relationship between GDP and RPK per capita for various countries in the Asia Pacific region for 2009.



Source: The S-A-P Group.

The strong growth in passenger air traffic can be attributed to a number of factors including (1) strong economic growth in ASEAN, especially in Indonesia (2) high population growth and rapid urbanization (3) increased international travel and tourism (4) development of the LCC business model and (5) regulatory liberalization and infrastructure development.

(1) Strong Economic Growth in ASEAN and especially in Indonesia

The economies in the Asia Pacific region, especially Indonesia, are enjoying strong economic growth. Robust economic growth creates greater purchasing power for the population, which in turn translates into greater air travel in the region.

For the period from 2002 to 2009, China, Indonesia and Vietnam had the highest per capita GDP growth rates in U.S. dollars. During this period, GDP per capita in China increased at a CAGR of 18.6%, while GDP per capita for Indonesia increased at a CAGR of 14.0% during the same period. In addition, according to the International Monetary Fund ("IMF"), Indonesia is expected to have the highest growth in GDP in the Asia Pacific region from 2009 to 2014, with a projected CAGR of 13.6% for the period.

The following table sets forth 2002 GDP, 2009 GDP, GDP CAGR 2002-2009 and projected GDP CAGR 2009-2014 for selected countries in the Asia Pacific region.

	2002 GDP (US$)		2009 GDP (US$)		GDP CAGR (2002-2009)		Projected GDP CAGR (2009-2014)[a]
Country	Total (millions)	Per capita	Total (millions)	Per capita	Total	Per capita	Total
Indonesia	$ 195,593	$ 928	$ 539,377	$ 2,329	15.6%	14.0%	13.6%
Thailand	$ 126,877	$ 1,999	$ 263,979	$ 3,941	11.0%	10.2%	9.4%
Malaysia	$ 100,845	$ 4,112	$ 192,955	$ 6,950	9.7%	7.8%	9.1%
Singapore	$ 90,640	$22,028	$ 182,231	$36,379	10.5%	7.4%	7.9%
Philippines	$ 76,814	$ 958	$ 161,196	$ 1,748	11.2%	9.0%	10.4%
Vietnam	$ 35,097	$ 440	$ 93,164	$ 1,068	15.0%	13.5%	10.2%
Cambodia	$ 4,283	$ 327	$ 10,871	$ 768	14.2%	13.0%	9.8%
China	$1,453,833	$ 1,132	$4,984,731	$ 3,735	19.2%	18.6%	12.4%
India	$ 514,253	$ 477	$1,236,943	$ 1,032	13.4%	11.6%	11.9%
Bangladesh	$ 49,560	$ 340	$ 94,602	$ 583	9.7%	8.0%	9.3%
Average[b]		$ 887		$ 2,409		15.3%	
Average[c]		$ 1,324		$ 2,751		11.0%	
Australia	$ 426,470	$21,571	$ 994,246	$45,285	12.9%	11.2%	7.5%
New Zealand	$ 60,747	$15,339	$ 117,794	$27,259	9.9%	8.6%	6.6%

Source: IMF, World Economic Outlook Database, October 2010

(a) Total current GDP growth in current US$ prices.

(b) All Asian countries shown.

(c) All Asian countries shown, except India, China and Bangladesh.

(2) High Population Growth and Rapid Urbanization

Increased population growth and urbanization, the percentage of the total population living in urban or metropolitan areas, are also expected to contribute to growth in air travel services in Indonesia. Populations located in urban areas generally have higher-than-average income levels and are located in closer proximity to airports than populations located in rural areas. Indonesia is expected to witness one of the highest rates of urbanization in the region.

According to the IMF, urbanization is projected to increase from 46.1% in 2009 to 72.3% in 2050 in China, from 29.7% in 2009 to 56.4% in 2050 in India and from 44.0% in 2009 to 65.9% in 2050 in Indonesia.

The following table sets forth the populations of various countries in 2009, their projected population growth rates for the period from 2009 to 2015, the actual percentage of their populations living in urban areas in 2009, the projected percentage of their populations living in urban areas in 2050 and the number of their cities with populations in excess of 1 million (and the percentage of their total urban population) in 2005.

	Population		Urbanization (% of Total Population Living in Urban Areas)		Cities/Agglomerations of 1 Million Person or Greater	
Country	2009 Actual	2009-2015 CAGR Forecast	2009 Actual	2050 Forecast	Number of Cities/ Agglomerations 2005 Actual	Share of Urban Population 2005 Actual
Indonesia	229,964,723	1.3%	44.0%	65.9%	7	18.0%
Philippines	91,983,102	2.0%	48.7%	69.4%	2	22.0%
Vietnam	87,279,754	1.2%	29.8%	59.0%	3	50.0%
Thailand	67,764,033	1.0%	33.6%	60.0%	1	32.3%
Myanmar	50,019,775	2.0%	33.0%	62.9%	1	27.0%
Malaysia	27,467,837	1.7%	71.3%	87.9%	1	8.0%
Cambodia	14,805,358	1.0%	19.8%	43.8%	1	50.0%
Singapore	4,987,600	1.7%	100.0%	100.0%	1	100.0%
China	1,331,460,000	0.5%	46.1%	73.2%	93	43.0%
India	1,155,347,678	1.3%	29.7%	54.2%	40	40.0%
Bangladesh	162,220,762	1.4%	27.6%	56.4%	3	46.0%
Australia	21,874,900	1.3%	88.9%	93.8%	5	69.0%
New Zealand	4,315,800	1.0%	86.2%	90.9%	1	34.0%

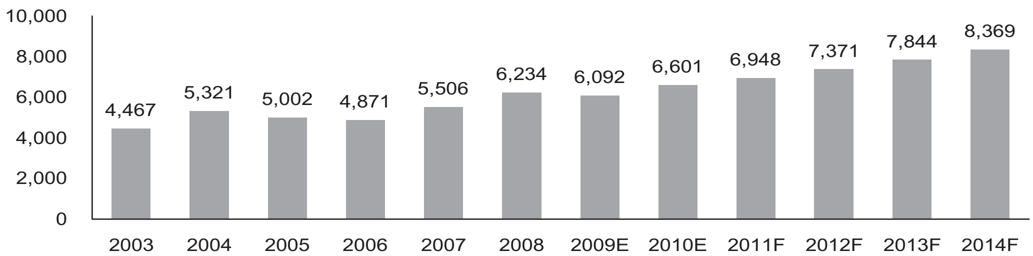
Sources: IMF World Economic Outlook Database, October 2010, and UN, World Urbanization Prospects: The 2009 Revision Population Database, October 2010.

(3) Robust Tourism Growth for Indonesia

Passenger growth in Indonesia has benefited from robust traffic resulting from an increasing number of visitors and tourists arriving at and departing from Indonesia over the last decade.

Tourist arrivals are forecasted to continue to grow at the growth rates experienced in the past. From 2003 to 2008, actual tourism arrivals grew at a CAGR of 6.9%. From 2009 to 2014, tourism arrivals are forecast to increase at a CAGR of 6.6%. The following figure shows the tourist arrivals in Indonesia from 2003 to 2008 and the expected and forecasted tourist arrivals for 2009 to 2014.

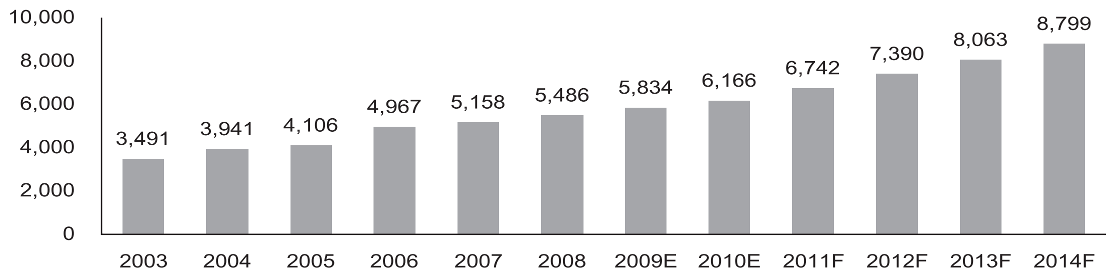
TOURISM ARRIVALS (in Thousands)
Indonesia
2003 to 2014



Source: World Development Indicators, World Tourism Organisation, 2010.
Note: 2003~2008 (Actual), 2009~2010 (Estimated), and 2011~2014 (Forecast).
All amounts in thousands.
Number of visitors who travel to a country other than that where they have their normal residence for a period not exceeding 12 months and whose main purpose in visiting is other than an activity remunerated from within the country visited.

Similarly, tourist departures are forecasted to continue to grow at the growth rates experienced in the past. From 2003 to 2008, actual tourism departures grew at a CAGR of 9.5%. From 2009 to 2014, tourism departures are forecast to increase at a CAGR of 8.6%. The following figure shows the tourist departures in Indonesia from 2003 to 2008 and the expected and forecasted tourist departures for 2009 to 2014.

TOURISM DEPARTURES (in Thousands)
Indonesia
2003 to 2014



Source: World Development Indicators, World Tourism Organisation, 2010.
Note: 2003~2008 (Actual), 2009~2010 (Estimated), and 2011~2014 (Forecast).
All amounts in thousands.
Number of departures that people make from their country of normal residence to any other country for any purpose other than a remunerated activity within the country visited.

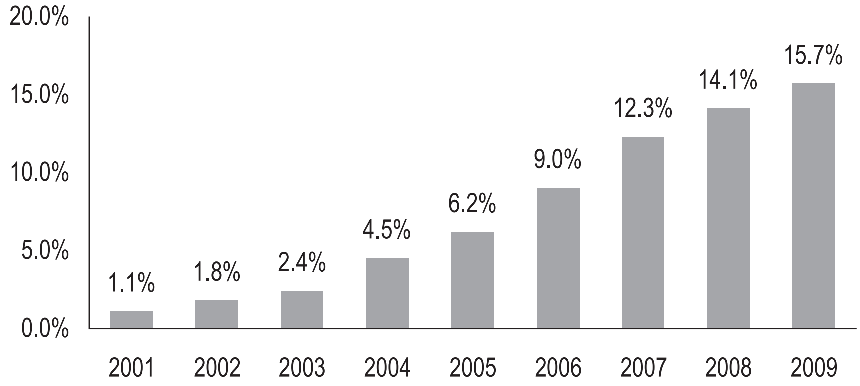
(4) Development of the LCC Model

Airline costs are decreasing as airlines improve their efficiency and increase their competitiveness, particularly among airlines providing LCC services. LCCs have had a significant impact on the aviation industry in the Asia Pacific and ASEAN regions. Some of the effects are as follows:

- LCC competition can encourage established carriers to operate more efficiently, thereby driving down average airfares and stimulating demand across the entire market.
- Established carriers may choose to launch strong competitive responses to LCCs, including significant decreases in airfares, increases in seat capacity and flight frequency and the introduction of new point-to-point flights. Several Asian network carriers have introduced, or are planning to introduce, their own LCCs.
- Airport operators in Malaysia and Singapore have created dedicated LCC passenger terminal facilities, while Thailand is studying the use of Don Mueang International Airport as an LCC facility. In addition, some airport operators in the region are providing aeronautical charge discounts for new routes and for the efficient use of airport facilities, such as quick aircraft turnarounds.
- The rapid growth that LCCs generate is encouraging some governments and airport operators to liberalize bilateral aviation agreements and to develop new airport capacity to accommodate the increased demand.

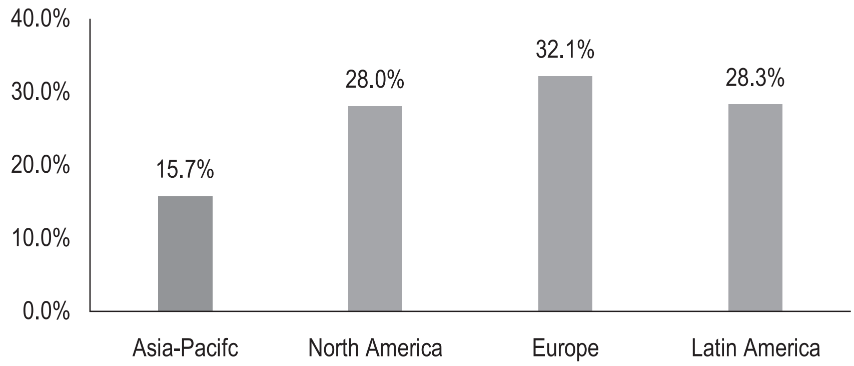
The following charts set forth the historical growth in capacity of LCCs in the Asia Pacific region from 2001 to 2009 and the market penetration of LCCs for 2009.

ASIA-PACIFIC LCC PASSENGER CAPACITY
LCC Capacity as a Share of All Carrier Capacity
2001~2009



Source: Centre for Asia Pacific Aviation (CAPA), 2010.

LCC PASSENGER CAPACITY (BY REGION)
LCC Capacity as a Share of All Carrier Capacity
2009



Source: Centre for Asia Pacific Aviation (CAPA), 2010.

The Asia Pacific region has witnessed rapid growth in LCC capacity, especially over the last five years yet remains one of the most under-penetrated LCC markets globally.

(5) Regulatory Liberalization and Infrastructure Development

Regulatory liberalization and infrastructure development in aircraft fleets and airport facilities are crucial to increasing passenger air travel. The liberalization of market regulation among ASEAN members, as member states strive to fully liberalize most traffic rights within ASEAN by as early as 2015, is removing traditional barriers to growth for airlines. As a result, ASEAN governments and airport authorities are eager to develop their aviation infrastructure and capitalize on increased trade and tourism.

Further, many airlines in the Asia Pacific and ASEAN regions have plans for significant changes to their aircraft fleets. As new, high-efficiency aircraft are integrated into an airline's operations, long-term operating costs are typically reduced and, depending on the financial structure for implementing these changes, lower overall costs per passenger can result. This has typically led to decreased average airfares and associated increases in demand.

Airport capacity and airline capacity changes mutually support growth in one another. The rapid growth of air passenger demand in Asia has encouraged some governments and airport operators to develop new airport capacity to accommodate the increased demand.

The following table provides a summary of the transportation infrastructure in select countries in the Asia Pacific region. As shown in the table, Indonesia has a significantly higher number of airports with paved runways than any other country in Southeast Asia. As a result, air travel growth can be facilitated by the availability of this airfield capacity. As secondary cities in the region prosper, demand for services from secondary city airports to domestic and international destinations will grow. This growth can be facilitated by the use of small, regional jets to serve secondary city markets.

	Number of Airports with Paved Runways					
	Length				Roadways	Railways
Country	1,524-2,437m	2,438-3,047m	>3,047m	Total(1)	Paved km(2)	Total km(2)
Malaysia	6	10	7	38	80,280	1,849
Thailand	24	11	8	64	180,053	4,071
Indonesia	50	19	4	171	258,744	8,529
Singapore	4	1	2	8	3,356	—
Bangladesh	6	2	2	15	22,726	2,768
Cambodia	2	3	—	6	2,977	690
Laos	4	2	—	9	4,811	n.a.
Philippines	29	8	4	85	21,677	897
Vietnam	14	5	9	37	125,789	2,347
India	75	57	21	249	1,560,593	64,015
China	132	137	63	442	2,925,028	77,834
Australia	148	13	11	326	341,448	37,855
New Zealand	12	1	2	40	61,879	4,128

Source: CIA, The World Factbook 2008, October 2010.

Notes:

(1) Includes runway lengths <1,524 meters

(2) Some amounts are estimated.

Growth in Indonesia Airline Markets

Indonesia's domestic and international airline markets are expected to enjoy strong long-term growth rates for several reasons:

- *Proximity to major populations.* Approximately 50% of the world's population lives within a 6-hour commercial flying radius from Jakarta, indicating the potential size of the regional aviation market.

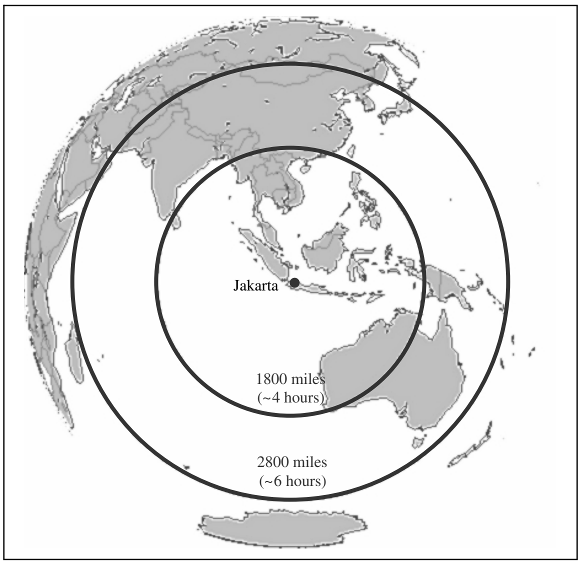
However, as a result of low GDP per capita throughout most of the region and other factors, a large proportion of the population has, historically, been unable to afford air transportation.

We expect the affordability of air travel to grow with increases in GDP per capita, which should result in higher rates of travel per head of population.

- *Location on major trade routes.* Indonesia is well positioned between Europe and the Pacific region, as well as between North Asia and South Asia.

- *Proximity to China.* With its strong economic growth and increasingly relaxed restrictions on travel to foreign destinations, travelers from the world's most populous country will create significant demand for leisure and business travel to Southeast Asian countries.

- *Proximity to Australia.* Australia has one of the most mature economies in the region, with a high GDP per capita, high levels of disposable income, high propensity to travel per capita, and strong tourism connections with Indonesia and other regions in Asia.



- *Location between South Asia and China.* Indonesia's role as a destination for visitors from China (the world's most populous country) and South Asia, which includes India (the world's second most populous country), Pakistan (the world's sixth most populous country), and Bangladesh (the world's seventh most populous country) will grow in prominence as the people of these countries start to travel more frequently.

- *Transport substitution.* As income levels increase and air transport costs decrease, we expect air transport will substitute for land-based transport modes and, especially in archipelagic Indonesia, for sea-based modes. The following table provides a summary of the number of passengers traveling in Indonesia and the mode of transport taken by these passengers from 2000 to 2008. Air transport has grown rapidly as compared to passenger growth for sea and rail transport.

Passengers (millions)	Passengers									CAGR
	2000	2001	2002	2003	2004	2005	2006	2007	2008	(2000-2008)
					(Millions)					
Air (domestic)	7.6	9.2	12.3	19.2	23.8	28.8	34.0	39.2	37.4	22.0%
Air (international)	4.7	4.7	4.8	4.3	5.4	5.7	5.7	6.6	7.3	5.6%
Sea	14.4	19.9	20.5	19.2	16.8	14.7	13.7	14.8	18.7	3.4%
Rail	192.0	187.0	176.0	155.0	150.0	152.0	159.0	175.0	194.0	0.1%
Total	218.7	220.7	213.7	197.6	196.0	201.3	212.4	235.5	257.4	2.1%

Source: Indonesian Directorate of Air Transport, Badan Pusat Statistik, and other sources, October 2010.

Note: 2008 is the last year that consolidated data is available.

- *Liberalization of aviation agreements and market regulation.* Southeast Asian countries have become more liberal with their aviation agreements and market regulation, both within ASEAN and with other countries.

- *Tourist infrastructure.* The region's well-developed tourist infrastructure will continue to attract leisure travelers.

- *Urbanization.* The share of the population in Southeast Asian countries living in cities is generally expected to continue to increase.

The opportunities for industry-wide aviation activity growth could be offset by:

- *Increased fuel prices and/or unfavorable currency exchange levels*, which could constrain aviation demand if air and other travel costs increase and travelers' disposable income levels decrease.

- *Regional conflicts or scares.* Civil unrest, terrorist events, or other events could constrain future activity levels.

- *Travel restrictions.* Government restrictions on travel, for example, limiting the number of entry/exit visas issued or imposing high visa costs, could limit future aviation growth.

- *Insufficient airport or airspace infrastructure.* Socioeconomic or other constraints could result in delays or changes in plans by governments regarding planned infrastructure expansion.
- *Environmental factors.* Natural and man-made environmental events, such as haze, volcanic ash and natural disasters could impact future activity levels.

Indonesian Domestic Aviation Market

Garuda Indonesia and several LCCs operate in the Indonesian domestic aviation market. The following table provides a summary overview of the key participants in the Indonesian domestic aviation market.

	Fleet	Average Age	2011	2012	2013+	Model	Skytrax Stars	IATA Operational Safety Audit (IOSA)
Garuda Indonesia	84[(1)(2)]	8.8	9	6	19	FSC & LCC	4	Yes
Lion Air	64	8.2	13	16	110	LCC	Not Rated	No
Batavia Air	37	20.2	—	—	—	—	Not Rated	No
Sriwijaya Air	28	24.3	—	—	—	—	Not Rated	No
Mandala Airlines	4	7.3	1	4	20	LCC	Not Rated	Yes
Indonesia AirAsia	19	9.0	[(3)]	[(3)]	[(3)]	LCC	3[(4)]	No
40+ AOCs	The vast majority are expected to be revoked in 2012 when the new Indonesian regulation requiring five owned aircraft comes into effect.					—	Not Rated	No

Source: Airfleets.net, Ascend, Skytrax, Aviation Safety Network. As of November 2010.

(1) Garuda Indonesia fleet as of September 30, 2010.

(2) Order book for Garuda Indonesia includes aircraft purchase commitments and operating lease commitments

(3) Does not include aircraft that may come from parent AirAsia (Malaysia)

(4) Rating of AirAsia (Malaysia)

Domestic Departures

For flights operated by Indonesia-based carriers during September 2010, Lion Air had the highest share of domestic seats and flights departing from Soekarno-Hatta International Airport near Jakarta, while Garuda had the highest share of domestic seats departing from Ngurah-Rai International Airport in Denpasar, Bali. Soekarno-Hatta International Airport and Ngurah-Rai International Airport are the largest airports in Indonesia in terms of the number of passengers handled.

The following table sets forth market share information based on domestic departures for Indonesia-based carriers from 2000 to 2009.

Full-Service Carrier	Air Passengers 2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	CAGR (2000-2009)
	(Millions)										
Garuda Indonesia[(a)]	3.861	4.410	4.680	5.632	6.297	6.939	6.956	7.371	7.665	8.398	9.0%
Low-Cost Carriers											
Lion Air/Wings Air	0.043	0.182	0.834	3.079	5.046	7.232	8.660	8.888	11.536	14.649	90.9%
Batavia Air	—	—	0.370	1.204	1.511	1.975	3.971	5.314	4.771	6.108	n.a.
Sriwijaya Air	—	—	—	—	0.690	2.346	3.140	3.577	4.273	5.465	n.a.
Mandala Airlines	1.015	1.244	1.682	2.011	2.187	2.373	1.679	1.732	3.449	3.553	14.9%
Indonesia AirAsia	0.116	0.208	0.029	—	0.010	0.701	1.506	1.768	1.504	1.455	32.4%
Other air carriers	2.586	3.124	4.739	7.255	8.022	7.246	8.104	10.511	4.207	4.181	5.5%
Subtotal	3.761	4.758	7.653	13.549	17.467	21.874	27.060	31.791	29.740	35.410	28.3%
Total	7.623	9.168	12.333	19.181	23.764	28.814	34.016	39.162	37.405	43.808	21.4%
Garuda Indonesia share of total	50.7%	48.1%	37.9%	29.4%	26.5%	24.1%	20.5%	18.8%	20.5%	19.2%	

Source: Indonesian Directorate of Air Transport and other sources, October 2010. Some amounts are estimated

Note: Amounts represent departing air passengers.

(a) Includes operations conducted through Garuda Indonesia's Citilink business unit.

The following table sets forth market share information for Indonesia-based carriers during September 2010 for domestic seats and flights departing Soekarno-Hatta International Airport and Ngurah-Rai International Airport.

	Scheduled Domestic Passenger Services					
	Share of Departing Weekly Seats			Share of Departing Weekly Flights		
Indonesia-Based Carriers	**From All Airports**	**From Jakarta (CGK) Only**	**From Denpasar (DPS) Only**	**From All Airports**	**From Jakarta (CGK) Only**	**From Denpasar (DPS) Only**
Lion Air	39.3%	40.7%	27.8%	29.5%	33.4%	19.6%
Wings Air	2.7%	0.4%	3.4%	6.5%	0.4%	10.1%
Lion Air/Wings Air	42.0%	41.1%	31.2%	36.0%	33.8%	29.6%
Garuda Indonesia[(a)]	23.1%	30.2%	36.5%	20.6%	30.0%	28.6%
Batavia Air	11.8%	12.4%	4.8%	12.8%	15.2%	5.0%
Sriwijaya Air	8.5%	9.1%	2.0%	10.2%	12.4%	2.2%
Merpati Nusantara Airline	5.5%	1.0%	10.5%	7.7%	1.5%	15.5%
Mandala Airlines	3.5%	2.5%	3.0%	3.3%	2.8%	2.6%
Indonesia AirAsia	2.6%	3.0%	9.7%	2.5%	3.3%	9.3%
Kartika Airlines Indonesia	1.1%	0.5%	0.0%	1.2%	0.6%	0.0%
Trigana Air	1.0%	0.0%	0.9%	3.2%	0.1%	2.8%
Riau Airlines	0.8%	0.2%	0.0%	1.5%	0.3%	0.0%
Indonesia Air Transport	0.3%	0.0%	1.3%	1.0%	0.0%	4.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: The S-A-P Group, based on data from OAG, October 2010.

(a) Includes operations conducted through Garuda Indonesia's Citilink business unit.

International Departures

The following table sets forth a summary of the carrier seat shares at Indonesian airports for departing international scheduled passenger flights by Indonesian and foreign carriers during September 2010.

	Country/Region of Destination									
				China						
Carrier	**Malaysia**	**Singapore**	**Australia**	**SAR HK**	**Mainland**	**Thailand**	**Japan**	**Middle East**	**All Others**	**All**
Garuda Indonesia	2.6%	12.7%	28.6%	15.5%	43.1%	12.5%	55.0%	27.5%	10.5%	15.5%
Indonesia AirAsia	22.7%	14.9%	14.6%			10.5%			2.9%	12.3%
Singapore Airlines		28.3%								9.1%
AirAsia (Malaysia)	36.0%									8.8%
Malaysia Airlines	23.0%									5.6%
Cathay Pacific				64.3%						5.0%
Lion Air	1.8%	9.3%						14.6%		4.4%
China Airlines		2.4%		12.4%					25.3%	3.8%
SilkAir		8.4%								2.7%
Jetstar Airways		0.8%	25.4%							2.5%
Valuair		7.4%								2.4%
Thai Airways Int'l						54.7%				2.2%
Emirates Airlines								28.2%		2.0%
Japan Airlines							45.0%			2.0%
Korean Air									23.1%	1.9%
Virgin Blue			21.3%							1.9%
KLM	4.1%	2.0%								1.7%
EVA Airways									19.5%	1.6%
Batavia Air	0.7%	2.8%			17.8%					1.6%
Mandala Airlines		2.2%		3.6%	6.9%					1.2%
All others	9.2%	8.7%	10.2%	4.2%	32.1%	22.3%	0.0%	29.7%	18.6%	11.8%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: The S-A-P Group, based on data from OAG, October 2010.

The following table sets forth the weekly international scheduled passenger flights departing from airports in Indonesia during September 2010.

	Country/Region of Destination									
				China						
Carrier	Malaysia	Singapore	Australia	SAR HK	Mainland	Thailand	Japan	Middle East	All Others	All
Indonesia AirAsia	92	79	21	—	—	7	—	—	4	203
Garuda Indonesia	14	55	28	14	14	7	22	15	8	177
AirAsia (Malaysia)	126	—	—	—	—	—	—	—	—	126
Malaysia Airlines	89	—	—	—	—	—	—	—	—	89
Singapore Airlines	—	71	—	—	—	—	—	—	—	71
SilkAir	—	52	—	—	—	—	—	—	—	52
Lion Air	7	35	—	—	—	—	—	7	—	49
Valuair	—	41	—	—	—	—	—	—	—	41
Wings Air	38	—	—	—	—	—	—	—	—	38
Cathay Pacific	—	—	—	35	—	—	—	—	—	35
China Airlines	—	6	—	8	—	—	—	—	19	34
Batavia Air	3	16	—	—	10	—	—	—	—	29
Jetstar Airways	—	4	24	—	—	—	—	—	—	28
Virgin Blue	—	—	28	—	—	—	—	—	—	28
Firefly	23	—	—	—	—	—	—	—	—	23
Japan Airlines	—	—	—	—	—	—	21	—	—	21
Mandala Airlines	—	10	—	4	3	—	—	—	—	17
Thai Airways Int'l	—	—	—	—	—	17	—	—	—	17
Korean Air	—	—	—	—	—	—	—	—	17	17
Merpati Nusantara	7	2	—	—	—	—	—	—	6	15
Sriwijaya Air	7	7	—	—	—	—	—	—	—	14
Emirates Airlines	—	—	—	—	—	—	—	14	—	14
EVA Airways	—	—	—	—	—	—	—	—	14	14
Thai AirAsia	—	—	—	—	—	13	—	—	—	13
KLM	7	4	—	—	—	—	—	—	—	11
Royal Brunei Airlines	—	—	—	—	—	—	—	—	10	10
Philippine Airlines	—	4	—	—	—	—	—	—	3	7
Saudi Arabian Airlines	—	—	—	—	—	—	—	7		7
China Southern Airlines	—	—	—	—	7	—	—			7
Etihad Airways	—	—	—	—	—	—	—	7		7
Lufthansa	—	7	—	—	—	—	—			7
Tiger Airways	—	7	—	—	—	—	—			7
Riau Airlines	6	—	—	—	—	—	—			6
Hong Kong Express	—	—	—	5	—	—	—			5
Qantas Airways	—	—	4	—	—	—	—			4
Jetstar Asia	—	2	2	—	—	—	—			4
Qatar Airways	—	4	—	—	—	—	—			4
Air China	—	—	—	—	3	—	—			3
Cebu Pacific Air	—	—	—	—	—	—	—		3	3
Strategic Airlines Pty	—	—	3	—	—	—	—			3
Yemenia Yemen	2	—	—	—	—	—	—	1		3
All others	—	—	2	—	4	—	—	—	1	7
Total	**421**	**406**	**112**	**67**	**41**	**44**	**43**	**51**	**84**	**1,269**

Source: The S-A-P Group, based on data from OAG, October 2010.

Key Financial and Operating Metrics for FSCs

The following table provides key financial and operating metrics, including RASK and CASK, for selected FSCs based in the Asia-Pacific region.

	Financial Performance					Operating Performance				
Full-Service Carriers (Base)	Operating Revenues[(a)]	Operating Profit/ (Loss)[(a)]	Operating Margin	RASK[(b)]	CASK[(c)]	Pax Load Factor	Pax (millions)	Aircraft in fleet	Oper Rev per Aircraft[(d)]	FY ending
ANA Group (Japan)	13,255	(586)	(4.4)%	$0.158	$0.165	66.3%	44.6	152	$87.2	Mar-10
Japan Airlines Corp. (Japan)	12,411	(1,310)	(10.6)%	$0.114	$0.126	66.6%	41.4	174	$71.3	Dec-09
Qantas (Australia)	11,707	164	1.4%	$0.094	$0.093	79.6%	38.4	133	$88.0	Jun-09
Singapore Airlines (Singapore)	9,083	46	0.5%	$0.086	$0.086	78.4%	16.5	110	$82.6	Mar-10
Cathay Pacific (Hong Kong)	8,637	578	6.7%	$0.078	$0.072	80.5%	24.6	121	$71.4	Dec-09
China Southern (China)	8,331	211	2.5%	$0.067	$0.066	75.3%	66.3	324	$25.7	Dec-09
Korean Air (South Korea)	8,073	113	1.4%	$0.102	$0.101	69.8%	20.7	131	$61.6	Dec-09
Air China (China)	7,539	807	10.7%	$0.079	$0.071	76.8%	39.8	255	$29.6	Dec-09
China Eastern Airlines (China)	5,908	267	4.5%	$0.070	$0.067	72.2%	44.0	248	$23.8	Dec-09
Thai Airways (Thailand)	4,928	416	8.4%	$0.093	$0.085	72.2%	13.4	90	$54.8	Dec-09
Malaysia Airlines (Malaysia)	3,381	(184)	(5.4)%	$0.079	$0.083	76.9%	11.9	84	$40.3	Dec-09
Asiana Airlines (South Korea)	3,340	(204)	(6.1)%	$0.092	$0.098	72.6%	13.4	67	$49.9	Dec-09
China Airlines (Chin. Taiwan)	3,188	(52)	(1.6)%	$0.078	$0.080	75.8%	10.0	65	$49.0	Dec-09
Air New Zealand (New Zeal.)	2,981	50	1.7%	$0.087	$0.085	79.0%	12.4	46	$64.8	Jun-09
Air India (India)	2,938	(1,261)	(42.9)%	$0.104	$0.149	61.3%	3.2	137	$21.4	Mar-09
Jet Airways (India)	2,302	(104)	(4.5)%	$0.079	$0.082	77.4%	12.0	72	$32.0	Mar-10
Hainan Airlines (China)	2,281	(9)	(0.4)%	$0.063	$0.064	78.0%	17.4	71	$32.1	Dec-09
EVA Air (Taiwan)	2,273	(88)	(3.9)%	$0.078	$0.081	77.4%	6.0	52	$43.7	Dec-09
Garuda (Indonesia)[(e)]	1,776	86	4.8%	$0.068	$0.065	69.2%	11.2	74	$24.0	Dec-09
Philippine Airlines (Philippines)	1,634	(266)	(16.3)%	$0.069	$0.080	75.1%	9.4	39	$41.9	Mar-09
Weighted Average of FSC[(f)]			**(1.6)%**	**$0.094**	**$0.096**	**78.1%**			**$49.2**	

Source: The S-A-P Group, based on industry sources, October 2010.

(a) in US$ millions.

(b) Revenue per available seat kilometer; calculated as operating revenues in US$ per available seat kilometer flown.

(c) Cost per available seat kilometer; calculated as operating expenses in US$ per available seat kilometer flown.

(d) Operating revenues (in US$ millions) per aircraft.

(e) Includes operations conducted through Garuda Indonesia's Citilink business unit.

(f) Includes FSC operating in other regions and not shown in this table.

Key Financial and Operating Metrics for LCCs

The following table provides key financial and operating metrics, including RASK and CASK, for selected LCCs based in the Asia-Pacific region.

	Financial Performance					Operating Performance				
Low-Cost Carriers (Base)	Operating Revenues[(a)]	Operating Profit/ (Loss)[(a)]	Operating Margin	RASK[(b)]	CASK[(c)]	Pax Load Factor	Pax (millions)	Aircraft in fleet	Oper Rev per Aircraft[(d)]	FY ending
Virgin Blue Airlines (Australia)	2,120	(24)	(1.1)%	$0.076	$0.077	78.4%	18.2	71	$29.9	Jun-09
Jetstar (Australia)	1,489	86	5.8%	$0.064	$0.060	77.5%	10.2	48	$31.0	Jun-09
AirAsia (Malaysia)	929	131	14.1%	$0.042	$0.036	70.2%	14.3	48	$19.4	Dec-09
Tiger Airways (Singapore)	348	20	5.8%	$0.057	$0.054	86.3%	3.2	10	$34.8	Mar-09
Thai AirAsia (Thailand)	280	4	1.4%	$0.044	$0.043	75.6%	5.0	23	$12.2	Dec-09
Cebu Pacific Air (Philippines)	236	n.a.	n.a.	$0.025	n.a.	75.4%	8.8	29	$ 8.1	Dec-09
Indonesia AirAsia (Indonesia)	183	(7)	(3.9)%	$0.033	$0.034	73.7%	3.5	17	$10.7	Dec-09
Weighted Average of LCC[(e)]			**5.2%**	**$0.067**	**$0.064**	**77.6%**			**$23.0**	

Source: The S-A-P Group, based on industry sources, October 2010.

(a) in US$ millions.

(b) Revenue per available seat kilometer; calculated as operating revenues in US$ per available seat kilometer flown.

(c) Cost per available seat kilometer; calculated as operating expenses in US$ per available seat kilometer flown.

(d) Operating revenues (in US$ millions) per aircraft.

(e) Includes LCC operating in other regions and not shown in this table.

Regulation of the Airline Industry in Indonesia

International Aviation Regulation

International commercial air transport is regulated by international conventions ratified by and applied in the national airspace of participating countries. The principal international conventions are the Convention for the Unification of Certain Rules Relating to International Carriage by Air of 1929, as amended by the Protocol to Amend the Convention for the Unification of Certain Rules Relating to International Carriage by Air of 1929 (the "Warsaw Convention"), the Convention on International Civil Aviation of 1944 (the "Chicago Convention"), and the Convention for the Unification of Certain Rules for International Carriage by Air of 1999 (the "Montreal Convention").

The Warsaw Convention established the principle of limited liability of air transport companies. The limitation of liability under the Warsaw Convention may be exceeded only if it is proved that the damage resulted from an act or omission of the carrier was done with the intent to cause damage or recklessly and knowingly that damage would probably result. Indonesia is a party to the Warsaw Convention.

The Montreal Convention amended the liability limits under the Warsaw Convention and modernized and clarified other aspects of the international airline accident liability system. Indonesia is currently not a party to the Montreal Convention.

The Chicago Convention established the general principle that each state has sovereignty over its air space and has the right to control the operation of scheduled international air services over or into its territory. The Chicago Convention sets out the common legal and technical principles governing international commercial aviation that participant states, comprising substantially all the member states of the United Nations, implement within their respective national air space and apply in their relations with each another. The Chicago Convention permits charter and cargo non-scheduled flights to fly over the territories of participant states and gives rights for non-scheduled flights to make stops for non-traffic purposes in the territories of such states, subject to certain restrictions which may be imposed by the individual states. Indonesia is a party to the Chicago Convention.

ICAO was established based on the Chicago Convention. In 1947, ICAO became the division of the United Nations governing aviation. Within the framework of ICAO, participant states establish the international technical regulations applicable to civil aviation. ICAO adopts standards and recommends practices concerning civil aviation, including safety and security, standards for pilot and crews, as well as airports and infrastructures. Indonesia is a member of ICAO.

International Air Transportation Association

IATA provides an important international self-regulatory framework for the airline industry. Established in 1945, the IATA currently has 230 member airlines in over 115 countries. Carrying 93% of the world's international scheduled traffic, IATA members include the world's leading airlines. The main functions of the IATA include: (i) establishing regulations for certain aspects of the airline industry; (ii) setting tariffs for international passenger and cargo services; (iii) settling payments among IATA members or between IATA members and non-members; and (iv) licensing of travel agents. We have been a member of the IATA since 2006.

Under the auspices of the IATA, airlines enter into agreements that have modified the limits of liability for injured or deceased passengers under the Warsaw Convention. Pursuant to the IATA Intercarrier Agreement on Passenger Liability, signatory airlines agreed to waive the limitation of liability on recoverable compensatory damages under the Warsaw Convention to enable recoverable compensatory damages to be determined and awarded by reference to the law of the domicile of the passenger. We have been a party to the IATA Intercarrier Agreement on Passenger Liability since 1996.

Allocation of Airport Slots

Access to many of the world's major international airports is regulated by the allotment of time slots by a slot coordinator in each country governing the arrival at or departure from these airports. Access to most European and Asian airports is regulated through slots. Time slots are allotted for each IATA season. The two IATA seasons are the northern summer season, which begins on the last Sunday in March and ends on the last Saturday in October, and the northern winter season, which begins on the last Sunday in October and ends on the last Saturday in March. Prior to each season, an airline wishing to operate internationally is required to apply for the allotment of slots. Such allotments are governed by the Scheduling Procedure Guidelines issued by the IATA, which aim to maximize airport usage capacity. As a general rule, a slot that has been operated by an airline entitles that airline to claim the same slot in the next equivalent scheduling period (often referred to as "grandfather rights").

Bilateral Air Services Agreements

International air transport requires transport rights (a concept known as "traffic rights" or "route rights") which one state may acquire by applying for another state's transport rights by entering into bilateral air transport agreements, also frequently referred to as air services agreements ("ASAs"). Bilateral ASAs between states generally set forth principles governing the designation of airlines for the operation of specified routes, the capacity offered by such airlines and procedures for the agreement of tariffs. Contracting states under bilateral ASAs typically designate only one or a small number of national airlines to exercise the rights to operate on the routes granted to its parent state by other states under bilateral ASAs or treaties. Indonesia is currently a party to 71 bilateral ASAs.

Indonesian Aviation Law

The Indonesian airline industry is currently regulated under Law No. 1 of 2009 on Aviation ("Aviation Law"), which superseded the former aviation law enacted in 1992. The Aviation Law mandates implementing regulations, which to date have not been issued and, consequently, many regulations based on the former aviation law remain in force. The Aviation Law regulates many aspects of aviation in Indonesia, including aircraft registration and airworthiness, pilots, crew and engineers, airline business licenses, routes and airfares, airline safety and security, air traffic and navigation, airports and airline liability.

DGCA

The main government agency having authority over aviation is the Minister of Transportation, through the DGCA and its directorates. The DGCA and its directorates are responsible for preparation, monitoring, evaluation and enforcement of policies, standards, practice, guidance, system and procedures, certification and evaluation of civil aviation. The DGCA directorates and their responsibilities are as follows:

- Directorate of Airworthiness and Aircraft Operation ("DAAO"): engineering, manufacturing of aeronautical products, operation, maintenance and aircraft personnel;
- Directorate of Aviation Security: aviation security standards and programs, emergency services, security personnel, facility and quality control, dangerous goods and cargo handling;
- Directorate of Air Transport: scheduled, unscheduled and non commercial air transport services, air transport cooperation, business development and management;
- Directorate of Airports: the airport system, infrastructure, equipment, operation and personnel and administrators; and
- Directorate of Air Navigation: air traffic management and facilities, standardization and certification.

Airworthiness Certificate

Aircraft procurement must be approved by the DGCA. All aircraft imported to Indonesia (either new or used) must have type and validation certificates (including any changes or modification made to the aircraft) issued by the DAAO.

All aircraft operating in Indonesia must be registered in their state of origin or Indonesia, in which case the aircraft must be registered with the Minister of Transportation and bear Indonesian marks. An Indonesian operator that intends to operate a new type of aircraft in Indonesia must obtain a new type and validation certificate in order to be registered in Indonesia. The registration is valid for three years and the airline must register for a new type and validation certificate upon expiry of the existing type and validation certificate in order to continue operating the aircraft in Indonesia.

All aircraft registered in Indonesia must also obtain an airworthiness certificate issued by the DAAO. The airworthiness certificate is comprised of (i) an initial certificate after the aircraft has obtained type and validation certificates and (ii) a standard certificate of registration and certificate of airworthiness. The DAAO will issue an initial airworthiness certificate with due regard to the design, construction, workmanship and materials of the aircraft and of any equipment carried in the aircraft which the DAAO considers necessary, as well as the results of flying trials, and such other tests of the aircraft as the DAAO may require. Indonesian aircraft must be operated in compliance with the terms of the airworthiness certificate (including engineering and maintenance requirements) and within the approved operating limitations in its flight manual as approved by the DGCA. The DGCA conducts an annual inspection and examination of the aircraft for compliance with the terms of the existing airworthiness certificate, including maintenance requirements and requirements set out in technical or engineering manuals, prior to issuing a subsequent airworthiness certificate. The DGCA's inspection and examination also covers performance of the aircraft, controllability and maneuverability, stability and ground and water handling characteristics. An operator will be subject to administrative sanctions, including suspension or revocation of the AOC, for failure to comply with the airworthiness rules and terms of the airworthiness certificate.

We have the required certificates of registration and certificates of airworthiness for our fleet.

AOC and Commercial Air Transport Business License

Pursuant to the Aviation Law, no Indonesian entity may operate an aircraft for the purpose of public transport except in accordance with the terms of an AOC and commercial air transport business licenses issued by the DGCA for the Minister of Transportation.

The DGCA will grant an AOC to the operator based on compliance with criteria including operating record, aircraft, equipment and facilities, organization, staffing, maintenance and criteria set forth in other systems and manuals and other arrangements necessary to secure the safe operation of the aircraft. The AOC may be granted subject to conditions imposed by the DGCA, which are stipulated in operation specifications attached to the AOC. The holder of an AOC shall, at all times, comply with the conditions contained in the AOC and the requirements stipulated in regulations issued by the DGCA. Failure to comply with any of these requirements may result in suspension or revocation of the AOC or penalties provided under the Aviation Law. Our current AOC was issued in June 2009 and will remain valid for a period of two years. Prior to renewing an AOC, the DGCA conducts a quality audit to determine whether the airline remains in compliance with the relevant regulations.

Commercial air transport business licenses are separated into two categories: (i) scheduled domestic and international passenger and cargo flights and (ii) unscheduled domestic and international passenger and cargo flights each subject to minimum service standards set by the DGCA. Each commercial air transport business license remains valid as long as the operator continues to operate the minimum number of flights required under the Aviation Law and is subject to annual performance evaluation by the DGCA. Commercial air transport business licenses also require Indonesian airlines to submit periodic financial and operational reports to the DGCA. Our current commercial air transport business licenses for scheduled and unscheduled domestic and international passenger and cargo flights were issued on January 2, 2007 and will remain valid as long as we continue to operate, subject to annual performance evaluations.

Pursuant to the Aviation Law, any Indonesian airline operating scheduled flights must own at least five aircraft and control, including under lease agreements, at least five other aircraft. If an airline fails to conduct its business of operating aircraft for 12 consecutive months, its commercial air transport business licenses will automatically be invalid.

Routes

International Routes

International route rights are generally based on ASAs negotiated by the Government, through the DGCA, and the governments of the relevant countries. Under the ASAs, each government grants to the other the right to designate an airline or airlines of the relevant country to operate scheduled services on the specified routes. Each airline designated to operate the international route must also obtain the necessary operating permits from the relevant foreign government. Certain states may require airlines from other countries to obtain an AOC or similar certifications from their civil aviation authorities in order to operate flights in those countries.

Once an ASA has been agreed with a foreign government, the DGCA for the Minister of Transportation awards the international route rights to Indonesian airlines qualified to fly international routes based on certain criteria, including availability of transport rights and operational ability of the airline. We hold such international route rights as are necessary for us to carry out our flight operations, which are renewed every six months.

Domestic Network and Routes

Domestic routes may only be operated by licensed Indonesian airlines. To apply for route approval, Indonesian airlines must prepare an operation plan, which includes among other things the proposed route. The Minister of Transportation reviews and approves proposed routes in accordance with the operation plan based on demand, compliance to aviation operational requirements, airport facilities and distribution of routes to all regions. Any amendments to the routes operated must be approved by the DGCA, while any implementation of planned routes must be reported to the DGCA. The DGCA evaluates routes at least once every five years based on the terms of the airline's commercial air transport business license. We hold such domestic route rights as are necessary for us to carry out our flight operations, which are renewed every six months.

Flight Approvals

In order to operate a non-scheduled flight, an airline must apply for a flight approval for each flight and pay the relevant fees to the DGCA. In addition, flight approval from the destination state is required for unscheduled international flights. An airline must file a weekly report to the DGCA of all its unscheduled flights.

Airfares

Domestic scheduled economy class airfares are regulated under the Aviation Law and the Minister of Transportation Regulation of 2010 (the "Regulation") with the DGCA monitoring compliance. Business class airfares, however, are not regulated. Individual airlines may exercise their discretion and set business class airfares based on market demand. Economy class seats must constitute a minimum of 60% of the total seats available on each flight.

Economy class airfares are limited by the DGCA for the Minister of Transportation, such limit being based on the following components: distance tariff (*tariff jarak*), tax, mandatory insurance premium and surcharge. Distance tariff is derived from the product of the basic tariff (*tariff dasar*) per person and the distance while taking into account the passenger's purchasing power, as well as aspects of consumer protection and sound business competition.

The DGCA for the Minister of Transportation determines and publishes the distance tariff in coordination with the national airlines association as well as the airline consumers association. The maximum distance tariff depends on the airlines' level of service, where FSCs may charge up to 100% of the distance tariff, medium service carriers ("MSCs") may charge up to 90% and LCCs may charge up to 85% of the distance tariff. The DGCA evaluates the distance tariff annually depending on any significant changes affecting the aviation industry, including: (i) the cost of jet fuel exceeding Rp. 10,000/liter or (ii) fluctuations in exchange rates leading to increases of at least 10% in aircraft operation costs, in each case over three consecutive months. The Minister of Transportation also has discretion to determine and apply an additional surcharge which airlines may charge for flights when specific conditions determined by Minister apply — mainly during holiday periods. Under the Regulation, the Minister for Transportation determined that the basic tariff per passenger based on the distance flown kilometers is Rp. 2,070 for journeys of 301-375 kilometers and Rp. 1,190 for journeys above 1,400 kilometers. The Regulation also lists all currently serviceable routes with their corresponding basic tariff.

Indonesian airlines must determine and publish their normal fares through print or electronic media which must not exceed the maximum amount determined by the DGCA for the Minister of Transportation.

Under the Aviation Law, international airfares are determined by reference to the relevant bilateral or multilateral ASA governing the relevant route.

Safety and Security

ICAO issues regulations, standards and recommended practices in relation to aviation security and safety, which are adopted by respective country's aviation authority. Indonesia adopts ICAO regulations, standards and practices into the Civil Aviation Safety Regulations ("CASR") under decree or regulations issued by the DGCA for the Minister of Transportation. To implement CASR, the DGCA and the DAAO issue instructions to their respective officers and produce advisory circulars, safety circulars as well as airworthiness directives for the airlines for compliance. ICAO regulations, standards and practices cover safety and security matters relating to aircraft and maintenance, flight operations, personnel and airports.

The CASR and Aviation Law require airlines to produce, maintain and implement a variety of systems and manuals, most of which are requirements for the airline to obtain and maintain its AOC. As a requirement to obtain an AOC, Indonesian airlines must issue a company operation manual, company training manual, company maintenance manual and safety management system manual approved by the DGCA. The company operation manual details the standards and procedures of the daily running and operations of the airlines. This company operation manual covers the airline's policies regarding all flights, pilot procedures, handling of cargo and passengers.

All airlines must also maintain a company training manual, which sets out the training guidelines for its personnel and required training facilities. The training programs are prepared based on ICAO standards and are sanctioned by the DGCA and, additionally, all training instructors must possess DGCA licenses.

The Aviation Law requires airlines to issue a company maintenance manual, which sets out standards and procedures of all aircraft maintenance and repairs in accordance with CASR and must be approved by the DGCA. In addition, airlines are required to issue company airworthiness maintenance programs, which sets out the guidelines for performing maintenance for each type of aircraft operated by an airline. The DGCA ensures implementation of these manuals and programs through audits and examinations prior to issuing or renewing the AOC for the airline and the airworthiness certificate for each aircraft. The maintenance of aircraft may be performed by either the airline operating the aircraft or by a maintenance and repair organization, in each case based on licenses issued by the Minister of Transportation. GMFAA, a licensed maintenance and repair organization, performs maintenance and repairs of the majority of our fleet as well as maintenance and repair for third party airlines. Maintenance of our fleet for services that where GMFAA is not licensed to provide, as well as maintenance services at international destinations, is performed by other licensed maintenance and repair organizations.

Indonesian airlines must produce and implement a safety management system, under which the airline must (i) appoint safety units and dedicated officers, and (ii) adopt safety action and emergency response plans, safety risks and assurance. In addition, a security program must be prepared, which aims to ensure the security of property or individuals from unlawful acts or unauthorized access to aircraft. A company quality assurance manual, which sets out a system of quality control to maintain operations and technical performance, must also be produced. Indonesian airlines must operate their aircraft in accordance with the relevant aircraft operating procedures, drawn upon manuals issued by the relevant aircraft manufacturer in addition to the CASR.

Aviation accidents in Indonesia are investigated by the NTSC, a permanent independent institution responsible to the President. NTSC reports its findings to the Minister of Transportation. In addition, NTSC submits recommendations for the formulation of transportation safety policy and rules.

Flight Crew

All pilots and non-pilot crew members, including cabin crew, flight operations officers, navigators and engineers of Indonesian airlines must be licensed by the DGCA in accordance with CASR. These licenses comprise permits and medical certificates, which are generally valid for 6 to 24 months, and type ratings, all of which are renewable upon re-examination.

Pursuant to the CASR, an Indonesian aircraft must carry a flight crew adequate in number and description to ensure the safety of the aircraft and of at least the number and description specified in the certificate of airworthiness or based on seating capacity of the aircraft. Further, an Indonesian aircraft flying for the purpose of public transport may not carry less than the number of flight crew members required by the certification of the aircraft type.

In addition, aircraft operators must comply with the requirements of ICAO Annex 6, which sets forth the responsibilities of states in supervising their airline operators, particularly in respect of flight crew. The main provision of ICAO Annex 6 requires the establishment of a method of supervising flight operations to ensure a continuing level of safety. It calls for the provision of an operations manual for each aircraft type, and places the onus on each operator to ensure that all operations personnel are properly instructed in their duties and responsibilities, and in the relationship of such duties to the airline operation as a whole.

Airports

At present, the major Indonesian airports are maintained and operated by state-owned companies — PT Angkasa Pura I, or AP I (13 airports in central and eastern Indonesia) and PT Angkasa Pura II, or AP II (13 airports in western Indonesia).

Under the Aviation Law, the Minister of Transportation will issue a blueprint of airport developments valid for 20 years, including the location of new airports. Licenses for the construction of new airports are issued by the Minister of Transportation in coordination with the relevant local government agencies. To obtain such construction licenses, all airport operators must meet the aviation safety and security rules as well as the airport service standards issued by the DGCA. Qualifying airports are to be issued with certificates depending on their capacity once they have the required personnel, facilities and aerodrome manual licensed by the DGCA.

The Aviation Law envisages the creation of airport authorities tasked with ensuring safety and security as well as compliance with service standards in airports within specific regions. To date, the Government plans to set up five airport authorities by 2012.

Environment and noise regulation

To obtain an airworthiness certificate, the relevant aircraft must satisfy the standards for noise and gas emissions. Indonesian airlines and airport operators must comply with Indonesian environmental and noise regulations, including those relating to emissions of oils and other waste materials. They must also maintain the noise and other emissions within permitted levels determined by the Government. Airport operators may limit time, frequency or even deny take off and landing in order to meet such levels. Indonesian airlines are also subject to environmental and noise regulations of each country in which they operate.

Liability under the Aviation Law

The Aviation Law sets the maximum liability of an airline in the event of, namely, death, disability or injury; delay or cancellation of flights; or loss or damage of baggage and cargo. Generally, the Regulation sets the maximum amount of liability for each of the above, which is reviewed at least annually.

Under the Aviation Law, Indonesian airlines are liable for the following:

- death, disability or injury of passengers. The maximum liability is Rp. 40 million for death and injury and Rp. 50 million for permanent disability in addition to statutory transportation accident insurance. If the injury is due to the fault or negligence of the airline or its employees, the airline may be liable for amounts beyond the maximum liability under the Aviation Law or the Regulation;
- damage or loss of cabin baggage, if the passenger can prove that the damage or loss is due to the airline or its employee's actions. The airline's maximum liability is limited to the actual losses suffered by the passenger but shall not be more than Rp. 1 million/passenger;
- damage of loss of cargo or checked-in baggage, due to the airline's transport while the baggage or cargo, as the case may be, is within the airline's control. The airline's maximum liability is limited to the actual losses suffered by the passenger but shall not be more than Rp. 100,000/kilogram or as agreed between the airline and the passenger or cargo company;
- delays to passengers, baggage or cargo, unless due to bad weather or technical matters as specified in the Regulation, which to date has not been issued;
- failure to transport passengers due to aircraft capacity, the airline must compensate the passengers with free transfer to another scheduled flight or accommodation;
- under the Regulation, in respect of: (a) delays of flights, airlines must (i) provide food and beverages or accommodation depending on the length of delay; and (ii) transfer the passenger to other scheduled flights if the passenger so requests; (b) cancellation of flights, airlines must provide accommodation or transfer to other scheduled flights, if the passenger so requests; and
- losses suffered by third parties caused by the operation of the aircraft, aircraft accidents or by falling objects from the operated aircraft. The airline's liability is limited to the actual losses suffered by the third parties.

The amounts of maximum liability listed above may be revised pursuant to the Regulation, and to date no such revisions have been issued.

Competition Regulation

Airlines often enter into code-sharing arrangements with other airlines as a means to gain access to a particular route or market. Typically, the code-sharing arrangement will allow each airline party to such arrangement to display its flight number, even though such airlines do not operate their own aircraft for a particular route, along with the flight number of the airline operating the route. Notwithstanding that the Competition Law does not impose any approval requirement for code-share arrangements, an Indonesian airline must obtain the DGCA's approval of the relevant code-share agreement.

Airlines are subject to unfair business competition rules under Law No. 5 of 1999 on prohibition against monopolistic practices and unfair business competition ("Competition Law"). The KPPU presides over complaints or investigates on its own account allegations of unfair business practices. The Competition Law sets out certain prohibited acts, including monopoly, market control, predatory pricing and conspiracy, as well as prohibited agreements entered into for the purposes of furthering the aforementioned acts, such as price fixing, market segmentation, cartel, trust, and tying agreements. If there is any allegation of prohibited actions or agreements raised in connection with such code-share arrangements, the KPPU may initiate an inquiry.

ASEAN Open Skies Initiative

In 2003, the member countries of ASEAN endorsed the Bali Concord II declaration, which is aimed at establishing an integrated economic community between ASEAN member countries by 2020. Certain initiatives have been taken towards an integrated economic community, including the acceleration of liberalization for 11 priority sectors. The priority sectors include, among others, air travel and tourism. Currently, the ASEAN member countries have signed agreements for liberalizing air transport between the member countries' capital cities. The ASEAN member countries are also expected to enter into agreements, to be effective by 2015, for the liberalization of air transport between all ASEAN destinations.

IATA Carbon Offset Program

The IATA-administered industry-wide carbon offset program enables airlines to offer their passengers the ability to compensate for their carbon emissions with contributions towards carbon reduction projects in developing countries. The IATA program calculates carbon emissions based on a methodology developed by ICAO. The system utilizes IATA's financial systems to enable passengers to purchase tickets and offsets at the same time.

The IATA program only invests in United Nations-approved Certified Emissions Reductions ("CER") projects and voluntary credits which comply with the recognized Gold and/or Voluntary Carbon Standards. The passenger contribution goes to a sponsored CER project.

We were the first Indonesian airline to sign a Memorandum of Understanding with IATA agreeing to give our passengers the opportunity to offset their carbon generated from flying. We intend to work with IATA to implement carbon offsets into our internet-based direct sales to customers and identify CER projects that will benefit from this initiative.

Business

Overview

We are the state-owned national flag carrier of Indonesia and a leading provider of air passenger, air cargo and airline-related services in Indonesia. We operate major hubs at Soekarno-Hatta International Airport near Jakarta, Indonesia's capital and business center, and Ngurah-Rai International Airport in Denpasar, Bali, Indonesia's major tourist destination, and serve a diverse route network serving 31 domestic and 18 international destinations. We are the only full service carrier licensed in Indonesia, providing FSC services under our Garuda Indonesia brand from our headquarters at Soekarno-Hatta International Airport. In December 2009, we were awarded a four-star rating by *Skytrax*, a research company and owner of a website specializing in the air transport industry, confirming our improvement in product and service quality. In May 2010, we were honored as winner of the Skytrax 2010 "World's Most Improved Airline" award. We also provide LCC services under our separate Citilink brand. Citilink is a separate business unit headquartered in Surabaya, and we expect to transfer the Citilink operations to PT Citilink (Indonesia), a subsidiary formed for that purpose, in the future. We believe that our separate FSC and LCC platforms allow us to better segment our services between our "premium" corporate and private passengers traveling in our business and economy classes, and our more price sensitive "budget" passengers.

With approximately 17,000 islands, of which approximately 6,000 are inhabited, and a growing population currently exceeding 240 million, Indonesia has a natural and increasing requirement for airline services. As of September 30, 2010, approximately 90% of our domestic route network required flights over water. Indonesia's GDP has grown at a CAGR of 3.5% from 2007 through 2009 according to BPS, which has contributed to the development of an emerging middle class. According to BPS, for the nine months ended September 30, 2010, international passenger traffic amounted to approximately 14.1 million passengers, representing an increase of 23.9% as compared to international passenger traffic for the nine months ended September 30, 2009 and domestic passenger traffic for the nine months ended September 30, 2010 amounted to approximately 31.2 million passengers, representing an increase of 21.5% as compared to domestic passenger traffic for the nine months ended September 30, 2009.

We believe that, with our hubs in Jakarta and Denpasar for Garuda and Surabaya for Citilink, and our route network serving major Indonesian urban areas and international destinations, we are well positioned to grow our business and meet increased demand for airline services in Indonesia. As of September 30, 2010, we operated a fleet of 84 aircraft serving 31 domestic and 18 international destinations providing our passengers with FSC and LCC passenger services, as well as cargo services, on direct flights to all major urban areas in Indonesia. As of September 30, 2010, our business unit Citilink, which re-launched in September 2008, operated a fleet of six aircraft providing passengers with LCC services on eight domestic routes within Indonesia. In the nine months ended September 30, 2010, we carried approximately 9.0 million passengers with passenger traffic of approximately 13.4 billion RPK and cargo traffic of approximately 311.4 million RFTK, and in the year ended December 31, 2009, we carried approximately 10.9 million passengers, with passenger traffic of approximately 15.9 billion RPK and cargo traffic of approximately 282.1 million RFTK.

We also provide airline-related services including aircraft maintenance, repair and overhaul (MRO), ground services, reservations and ticketing, and in-flight catering services, as well as travel, tourism and hospitality services. We provide these airline-related and other services in Jakarta, Surabaya, Denpasar and other locations in Indonesia through our business units and our principal subsidiaries: PT Abacus Distribution Systems Indonesia, PT Aero Wisata, PT. Garuda Maintenance Facility Aero Asia and PT Aero Systems Indonesia and our associated company PT Gapura Angkasa.

Our total operating revenues were Rp. 12,685.1 billion (US$1,421.5 million) for the nine months ended September 30, 2010 and Rp. 17,860.4 billion (US$2,001.4 million), Rp. 19,349.7 billion and Rp. 14,042.4 billion for the years ended December 31, 2009, 2008 and 2007. Our Adjusted EBITDAR was Rp. 2,243.4 billion (US$251.4 million) for the nine months ended September 30, 2010 and Rp. 3,796.8 billion (US$425.5 million), Rp. 3,399.0 billion and Rp. 2,446.2 billion for the years ended December 31, 2009, 2008 and 2007. Our net income was Rp. 194.9 billion (US$21.8 million) for the nine months ended September 30, 2010 and Rp. 1,018.6 billion (US$114.1 million), Rp. 975.0 billion and Rp. 152.7 billion for the years ended December 31, 2009, 2008 and 2007.

Recent Developments

Our financial condition and results of operations for the three-month period ended December 31, 2010 have been adversely affected including by two extraordinary events that occurred in November 2010.

During November and December 2010, frequent volcanic eruptions from Mount Merapi and Mount Bromo, two of Indonesia's most active volcanoes, led to flight restrictions in Indonesian airspace. As a result, we were required to cancel approximately 180 flights to and from certain destinations including Yogyakarta, Jakarta and other locations in Central Java. We were also required to re-route flights (and increase flight distances) to certain other destinations in Indonesia and abroad in order to circumvent the volcanic ash. Such flight cancellations negatively impacted our passenger revenues and passenger volumes and the re-routing of flights increased our jet fuel and other flight operations expenses for the three-month period ended December 31, 2010. See "Risk Factors — Risks Relating to Indonesia — Indonesia is located in a volcanically active zone and is subject to significant seismic risk that could disrupt our operations."

On November 21, 2010, we encountered disruption for a three-hour period during the process of migrating data from our old operational management system to our new Integrated Operational and Control System (IOCS). Although we restored the IOCS to operation on November 21, 2010, during the period of November 21-23, 2010, due to human error, flight crew schedules continued to be printed and distributed to flight crew ground transportation units using inaccurate data from the old operational management system. As a result, during the period from November 21-23, 2010, certain flight crews did not arrive for scheduled departures, approximately 180 flights were cancelled and we were required to shutdown our reservations system to avoid taking new passenger reservations. Such flight cancellations and the shutdown of our reservations system during this period negatively impacted our passenger revenues and passenger volumes for the three-month period ended December 31, 2010. The Company's corporate security team, together with LAPI Institut Teknologi Bandung, subsequently conducted an investigation to identify the cause of the outage in the IOCS. This investigation indicated that the Company does not currently have an adequate network management system which can oversee all network traffic or provide early fault detection in the IOCS. We plan an upgrade to our management information systems to improve our ability to oversee network traffic and perform early fault detection. See "Risk Factors — Risks Related to Our Business — We rely heavily on automated systems to operate our business and our failure to maintain and upgrade these systems could harm our business."

Key Investment Highlights

Indonesia is a fast growing and diverse air travel market

With approximately 17,000 islands, of which approximately 6,000 are inhabited, and a growing population currently exceeding 240 million, Indonesia has a natural and increasing requirement for airline services. As of September 30, 2010, approximately 90% of our domestic route network required flights over water, which we believe limits risk of substitution by other modes of transportation. Indonesia's GDP has grown at a CAGR of 3.5% from 2007 through 2009 according to BPS, which has contributed to the development of an emerging middle class and growing demand for air travel services. Indonesia has also recently undergone a period of regionalization that has devolved political power from the national capital in Jakarta to the capitals of the 33 provinces around Indonesia. As a result, contributions to GDP growth have been spread across the archipelago, with East Indonesia being a particular focus of additional investment, thereby increasing demand for air travel from the provincial capitals. We currently serve 31 destinations in the 33 provinces of Indonesia. According to BPS, domestic passenger traffic increased from approximately 31.2 million passengers in the year ended December 31, 2007 to approximately 35.7 million passengers in year ended December 31, 2009, representing a CAGR of 4.6%. Indonesia benefits from proximity to key financial centers in the fast growing Asian region, with approximately one-half of the world's population located within 6 hours flight time from Jakarta according to The S-A-P Group. Indonesia also benefits from a growing tourism industry in Bali and elsewhere in the archipelago. We believe that international traffic is roughly divided between Indonesian citizens traveling overseas and foreign visitors to Indonesia. According to BPS, international passenger traffic increased from approximately 12.6 million passengers in the year ended December 31, 2007 to approximately 15.8 million passengers in the year ended December 31, 2009, representing a CAGR of 7.8%.

Route network leader in the Indonesian aviation market

We have an extensive operating history as the national flag carrier, providing international and domestic airline services in Indonesia since 1950, and having flown over 80 million passengers in the last ten years. We are also the only domestic FSC in Indonesia. Operating from our hubs at Soekarno-Hatta International Airport near Jakarta, Indonesia's capital and business center, and Ngurah-Rai International Airport in Denpasar, Bali, Indonesia's major tourist destination, we have a diverse route network serving 31 domestic and 18 international destinations. According to The S-A-P Group, during September 2010, our market share of domestic seats for flights departing from Indonesia was 23.1%, our market share of international seats for flights departing from

Indonesia was 15.5% and we served more destinations than any other Indonesian airline operator. As the only FSC and a route network leader in the Indonesian aviation market, we believe that we are well positioned to meet increased demand among premium and budget passengers for direct flights to destinations within Indonesia, as well as direct flights to and from overseas destinations.

Strong domestic brand recognition and customer loyalty to leverage for future growth

We believe that our Garuda Indonesia brand, established in 1950, enjoys strong recognition in the domestic market. Among others, we have recently been awarded "Indonesia's Most Admired Company" and "The Best in Building and Managing Corporate Image" by Bloomberg BusinessWeek (2010), "World's Most Improved Airline" by Skytrax (2010), "Airline Turnaround of the Year" by the Centre of Asia-Pacific Aviation (2010) and "Indonesia Customer Satisfaction Award" by Frontier Consulting and SWA Magazine (2009) and "Airline of the Year 2009" by Angkasa Magazine. Based on surveys conducted by the Centre of Asia-Pacific Aviation, Garuda Indonesia ranked first in service quality when measured against three Skytrax five-star airlines, Singapore Airlines, Cathay Pacific and Malaysia Airlines, and two Skytrax four-star airlines, Bangkok Airways and Thai Airways. In December 2010, we were ranked as the sixth "Most Favorite Company in Indonesia" by Warta Ekonomi Magazine. We also believe that we enjoy strong customer loyalty among premium passengers in the domestic market. Our Garuda Frequent Flyer Program ("GFF") had approximately 435,000 members enrolled as of September 30, 2010. GFF members collectively accounted for 28.8% of total passengers for the nine months ended September 30, 2010. As of September 30, 2010, we had established corporate sales programs with approximately 1,000 businesses in Indonesia, including many Indonesian state-owned enterprises, providing an additional source of premium passengers. In 2010, we introduced "Immigration and Visa On-Board" for advance immigration clearance prior to arrival for international passengers on certain select flights into Soekarno-Hatta International Airport. We also believe that our on-time performance, an important factor in customer satisfaction and brand reputation, compares favorably to our competitors, particularly in the Indonesian domestic market. We believe that, as a result of our strong domestic brand recognition and customer loyalty, we are well positioned to increase our number of passengers in both domestic and international markets.

Flexibility of separate FSC and LCC businesses

We have established Citilink with a separate headquarters and management team located in Surabaya operating on an LCC business model focused on routes with low yield and high density. As of September 30, 2010, Citilink operated five Boeing 737-300 and one Boeing 737-400 aircraft, staffed by 45 pilots and 64 flight attendants. For the nine months ended September 30, 2010, Citilink's cost per ASK was U.S. cents 4.9, as compared to Garuda's cost per ASK of U.S. cents 6.8, which includes the cost per ASK of our LCC Citilink business, for the same period. We believe that our separate FSC and LCC operating models allow us to offer FSC services to premium and budget passengers on routes with high yield, while also offering LCC services to budget passengers on routes with low yield and high density. We also believe that the flexibility afforded to us by our separate FSC and LCC businesses allows us to achieve market segmentation on high density routes and contributes to yield protection as we expand our FSC Garuda Indonesia business, while simultaneously allowing us to capture growth in the price sensitive LCC market.

Highly skilled and experienced management with a proven track record

We believe that our management team has the skills and experience to continue to develop and grow our business within the Indonesian airline industry. Among others, our management has recently been awarded "Good Corporate Governance Award" from SWA Magazine and the Indonesia Institute for Corporate Governance and "Best of The Best CEO" by Warta Ekonomi Magazine (2009). Our management, with a blend of both airline industry and broader industry experience, has a proven track record of restructuring our operations and generating a return to profit during the global recession of 2008-2009, which was a particularly difficult period for FSCs in the global aviation industry. Our management has established a culture of meritocracy, with strong focus on recruitment, training, retention and motivation of flight crew and other key personnel. As of September 30, 2010, the average experience of our pilots was 22 years. We believe that the skill and experience of our management provides us with a solid foundation to pursue our growth strategy.

Business Strategy

We believe that our strategy positions us to capitalize on continued growth in the Indonesian aviation market. The key elements of our strategy include:

Optimize our FSC Garuda Indonesia business to leverage growth in domestic demand

We intend to optimize our FSC Garuda Indonesia business by increasing fleet flexibility and extending our route network in order to leverage the growth in demand for airline travel in our domestic market, which we believe will increase as GDP levels in Indonesia continue to rise and the cost of travel in real terms declines. As the only domestic FSC in Indonesia, we intend to introduce a fleet of up to 18 sub-100 seat aircraft by 2015 to serve routes with high yield and lower density, particularly at smaller regional airports, expanding our point-to-point network and linking our hubs to tourism destinations in Indonesia. Although we have not ordered these sub-100 seat aircraft, we believe that these aircraft will increase our ability to match capacity to demand on lower density routes that cannot be served profitably by either a standard configuration FSC aircraft or an LCC. We also plan to extend our route network to serve all provincial capitals within Indonesia and thereby benefit from continued regionalization, serve smaller tropical tourist destinations developing beyond the popular Bali destination, and to opportunistically provide direct flights bypassing domestic hubs. We also plan to implement a customer relationship management (CRM) system to increase our percentage of flights by GFF members and to upgrade and improve our revenue management system to achieve increased price segmentation for premium and budget passengers reservations in our FSC Garuda Indonesia business and our passenger service solutions system to centralize and improve our selling channels and increase our internet booking capacity for direct customer sales. We believe that these systems upgrades will optimize pricing discretion between our regional offices and central revenue management personnel, thereby maintaining and increasing passenger yield and passenger load factor in our FSC Garuda Indonesia business.

Continue to improve our FSC Garuda Indonesia business and expand and strengthen our international business and brand

We intend to expand our FSC international route network as opportunities arise to provide direct international flights from Indonesia that bypass international hub airports to new destinations such as India, Taiwan and the Philippines, while at the same time adding flight frequencies on existing profitable routes. We have commitments for 10 Boeing 777 aircraft to be delivered between 2013 and 2016 that will allow us to replace our Boeing 747 aircraft and increase our direct flights to long-range international destinations, as well as our seating capacity on flights to regional destinations. Once ordered and put into service, we would also expect our new sub-100 seat aircraft class to retain the same look and feel as our full service airline, albeit on a smaller scale. We also plan to initiate international services from three regional centers in Indonesia (Medan, Makassar and Balikpapan), in order to establish market share at those destinations prior to these airports opening to our competitors under the ASEAN "Open Skies" liberalization in 2015. We also intend to become a member of a global airline alliance within the next two years, and increase our codeshare arrangements, to allow us to better expand our reach to new international destinations that cannot be profitably served by direct flights from Indonesia.

Strengthen our brand in the international market

We plan to focus on consistency in our product services and continue to develop and leverage our unique "Garuda Indonesian Experience" program to distinguish our FSC services from our competitors, provide our Indonesian passengers with a familiar onboard culture and to introduce our foreign passengers to Indonesian culture and hospitality, and thereby strengthening our brand in the international market while continuing to reinforce our strong brand position domestically. As our newly ordered aircraft come into service, we believe that our increasingly younger aircraft fleet will afford our passengers a fresher in-flight offering and more satisfying customer experience. We are one of only two Indonesian carriers with IOSA safety certification and, building on the recent award of a Skytrax four-star rating, we plan to make investments in new cabin interiors, upgraded in-flight entertainment systems and re-design web-based and online customer interfaces. Our strategy for our brand will be focused on our "Garuda" brand which is synonymous with Indonesian culture and hospitality.

Exploit our LCC Citilink business for improved market segmentation within our FSC Garuda Indonesia business

We intend to utilize our LCC to exploit opportunities to serve price-sensitive budget passengers on domestic and regional routes with low yield and high density in a manner that protects the profitability of our FSC Garuda Indonesia business. We have established Citilink with a separate headquarters and separate management team in Surabaya, East Java in order to enhance its ability to develop a distinct LCC business platform emphasizing simple, efficient and friendly service meeting the basic travel needs of budget passengers. Citilink currently serves eight domestic destinations with 6 Boeing 737 aircraft and we intend to expand the Citilink fleet to include up to 25 aircraft by 2015. While we seek to differentiate Citilink with separate branding and service culture, we also believe that Citilink benefits from Garuda's domestic reputation for safety and reliability. We intend to utilize our LCC Citilink business to capture growth in LCC budget passenger numbers on domestic routes with low yield and high density, thereby defending against price erosion among our FSC premium and budget passengers on the same routes. We also intend to utilize our LCC Citilink business to open new international routes with low yield and high density that cannot be profitably served by our FSC Garuda Indonesia business.

Expand, simplify and rejuvenate our fleet

We intend to expand, simplify and rejuvenate our aircraft fleet in order to improve our service quality and the cost efficiency of our flight operations. As of September 30, 2010, we had committed orders for 27 new Boeing 737-800, Boeing 777 and Airbus A330-200 aircraft that we expect will increase the overall fuel efficiency, reduce the average age and reduce the overall maintenance expense for our FSC and LCC aircraft fleet. As of September 30, 2010, we also had executed letters of intent for operating leases of 12 Boeing 737-800 aircraft (of which four were delivered between October and December 2010) and three Airbus A330-200 aircraft (of which one was delivered in December 2010) to commence operation in 2011, and have options to purchase four additional Airbus A330-200 aircraft. We also intend to order and introduce a new regional sub-100 seat class of aircraft. Overall, we plan to grow our fleet from 84 aircraft as of September 30, 2010 to approximately 150 aircraft by 2015. As we grow our aircraft fleet, we will proportionately increase our flight crew and other key personnel, and continue to upgrade and refine our customer relationship management, revenue management and passenger service solutions systems, in order to maintain and increase our passenger load factor and passenger yield.

Enhance our cost discipline and revenue management

We seek to continue to improve cost management by, among other things, improving aircraft utilization and reducing fuel costs with the introduction of new aircraft and fuel conservation programs, as well as realizing savings in maintenance, training and labor costs by shifting from fixed-cost to variable-cost structures as we expand our business. It is our objective that our key subsidiaries should eventually generate around 50% of their revenue from provision of services to third parties in order to gain independence from Garuda, and thereby improve their cost efficiency for services provided to us. We are also upgrading our passenger service solutions system, which we expect will improve our direct selling channels to consumers, and our revenue management system, which we expect will improve our ability to manage seat inventory by origin and destination, allocate seat inventory among the different fare classes and better forecast demand.

Develop our human capital

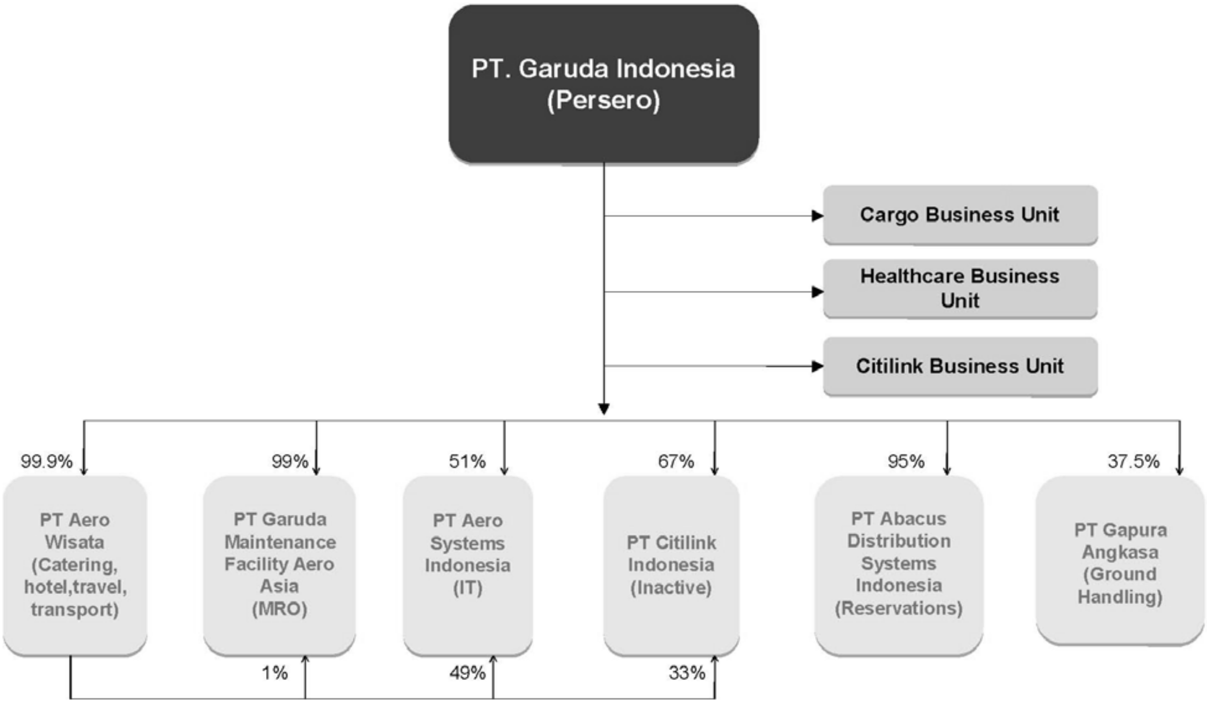
Our management team has been successful in rationalizing our business and is also focused on capturing existing growth opportunities. Retaining, developing and motivating our staff is of central importance to realizing these growth opportunities. In addition, recruiting and training key employees as our business expands will also be important. We intend to improve our training center in Jakarta — currently the largest, and only airline-operated, training center in Indonesia — to train pilots, flight attendants and maintenance engineers required to accommodate our planned fleet expansion. We also intend to extend our existing relationships with various domestic and international universities and training academies to better leverage global airline best practices in training our flight crew and other key personnel. In addition, we have introduced measures to benchmark each position and employee with a view to improving productivity and creating an employment culture characterized by transparency and meritocracy.

Corporate History and Group Structure

We have an extensive operating history in Indonesia through our predecessor companies, and have historically been the Indonesian flag carrier providing international, domestic and regional airline services. Some key milestones include:

- On January 26, 1949, Indonesia's first commercial flight operator commenced operations under the name of "Indonesian Airways". On December 28, 1949, "Garuda Indonesian Airways" commenced operations.
- On March 31, 1950, our immediate predecessor business was incorporated as Garuda Indonesian Airways NV, a joint venture between the Dutch national airline KLM (as to 51%) and the Government (as to 49%).
- In 1954, the Republic of Indonesia, represented by the Government through the Minister of Finance, became the sole shareholder of Garuda Indonesian Airways NV.
- In 1956, we carried *hajj* pilgrims to Saudi Arabia for the first time.
- In 1973, our subsidiary PT Aero Wisata was formed to manage and develop supporting services for flight catering, hotel and resort, travel and leisure and ground transportation.
- In 1975, we were incorporated as PT (Persero) Perusahaan Penerbangan Garuda Indonesia, a state-owned limited liability company under the laws of the Republic of Indonesia, to assume the operations of Garuda Indonesian Airways NV.
- In 1976, we received our first deliveries of DC-10 aircraft, which was also the first wide-body aircraft introduced to our fleet.
- In 1985, we changed our corporate identity to PT. Garuda Indonesia (Persero).
- In 1995, our subsidiary, PT Abacus Distribution Systems Indonesia, was formed to provide information technology and network system operation services, including services for our global distribution system.
- In 2002, our subsidiary GMFAA was formed to provide MRO services including airframe and engine maintenance and related supporting services.
- In September 2008, we re-launched Citilink's operations to meet increasing demand for LCC services in the domestic markets.
- In December 2008, our subsidiary, PT Aero Systems Indonesia, was formed to provide information technology services for the transportation industry.
- In July 2009, we refreshed our corporate branding and launched our new generation Boeing 737-800 and our new Airbus A330-200 aircraft. We also moved to a new management building at Soekarno-Hatta International Airport in Cengkareng near Jakarta.
- In June 2010, we re-launched our flight services to Amsterdam.

We currently operate three principal business units, being the Cargo Business Unit, the Citilink Business Unit and the Healthcare Business Unit, and four significant operating subsidiaries, being PT Abacus Distribution Systems (reservations), PT Aero Wisata (catering, hotel, transport and travel), PT Garuda Maintenance Facility Aero Asia (MRO) and PT Aero Systems Indonesia (information technology). We also have an associated company, PT Gapura Angkasa ("Gapura"), which provides us with ground handling services. The following chart sets forth our group structure including our principal business units, our significant operating subsidiaries, and certain other material subsidiaries:



Our Services

We provide passenger and air cargo services and airline-related services including ground, aircraft maintenance, repair and overhaul, also known as MRO and in-flight catering services. The table below sets forth, for the periods indicated, our operating revenues from our scheduled and non-scheduled airline services, and the percentage of our operating revenues for each of our scheduled and non-scheduled airline services:

	Year Ended December 31,							Nine Months Ended September 30,				
	2007 (Audited)		2008 (Audited)		2009 (Audited)		2009 (Unaudited)	2009 (Unaudited)		2010 (Audited)		2010 (Unaudited)
	(Rp. billions, except percentages)		(Rp. billions, except percentages)		(Rp. billions, except percentages)		(US$ millions)	(Rp. billions, except percentages)		(Rp. billions, except percentages)		(US$ millions)
Scheduled services:												
Passenger	10,180.8	72.5%	14,067.0	72.7%	12,759.2	71.4%	1,429.8	9,423.2	79.5%	10,533.2	83.0%	1,180.3
Cargo	801.4	5.7%	947.6	4.9%	839.3	4.7%	94.1	593.9	5.0%	845.3	6.7%	94.1
Other[1]	67.2	0.5%	105.6	0.6%	100.9	0.6%	11.3	76.3	0.5%	70.4	0.5%	7.9
Total revenue from scheduled services	11,049.4	78.7%	15,120.2	78.1%	13,699.4	76.7%	1,535.1	10,093.4	85.2%	11,448.9	90.3%	1,282.9
Non-Scheduled Services:												
Hajj	1,510.4	10.8%	2,291.8	11.8%	2,339.7	13.1%	262.2	396.0	3.3%	—	—	—
Charter	95.6	0.7%	174.8	0.9%	151.6	0.8%	17.0	79.6	0.7%	102.3	0.8%	11.5
Total revenue from non-scheduled services	1,605.9	11.4%	2,466.6	12.7%	2,491.2	13.9%	279.2	475.6	4.0%	102.3	0.8%	11.5
Revenues from scheduled and non-scheduled airline services	12,655.4	90.1%	17,586.9	90.9%	16,190.7	90.7%	1,814.3	10,569.1	89.2%	11,551.2	91.1%	1,294.4

Notes:

(1) Comprised of excess baggage and mail and document fees.

Other revenues not included in the table above are principally comprised of revenues from ancillary flight-related services provided by us, such as aircraft maintenance and overhaul services, travel agency services, catering services, hotel services, healthcare services, training and other services.

Airline Services

We provide airline services comprised of scheduled passenger FSC services provided under our Garuda Indonesia brand and LCC services provided under our Citilink brand, as well as non-scheduled *hajj* and charter flight services provided under our Garuda Indonesia brand. We also provide, cargo, excess baggage and mail and document services. Our airline services accounted for approximately 90.1%, 90.9%, 90.7% and 91.1% of our total operating revenues in 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively.

Scheduled Passenger Services

Our scheduled passenger services accounted for approximately 72.5%, 72.7%, 71.4% and 83.0% of our total operating revenues in 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively. The table below sets forth, for the periods indicated, certain information relating to our passenger services (unaudited):

	As of and for the Year Ended December 31,			As of and for the Nine Months Ended September 30,	
	2007	2008	2009	2009	2010
Passenger Services:					
Passenger revenues (US$ millions)(1)	1,072.4	1,483.9	1,210.3	867.4	1,137.7
International(2)	536.0	774.2	566.3	427.6	517.9
Domestic(2)	536.4	709.7	644.0	439.7	619.8
Number of passengers carried (in thousands)	9,633.5	10,172.3	10,901.8	7,980.3	9,045.6
International	2,268.6	2,424.5	2,324.2	1,724.1	1,943.0
Domestic	7,364.9	7,747.8	8,577.7	6,256.3	7,102.6
RPK (in millions)(3)	14,369.1	15,532.3	15,882.5	11,809.0	13,373.5
International	7,924.1	8,756.1	8,523.4	6,452.8	7,369.7
Domestic	6,445.0	6,776.2	7,359.1	5,356.2	6,003.8
ASK (in millions)(4)	18,566.1	20,336.8	21,713.9	16,209.3	18,827.0
International	10,618.9	11,798.3	12,205.2	9,252.1	10,544.2
Domestic	7,947.2	8,538.5	9,508.7	6,957.3	8,282.7
Passenger load factor (%)(5)	77.4	76.4	73.1	72.9	71.0
International	74.6	74.2	69.8	69.7	69.9
Domestic	81.1	79.4	77.4	77.0	72.5
Passenger yield (U.S. cents per RPK)(1)(6)	7.4	9.5	7.5	7.3	8.4
Scheduled revenue per ASK (U.S. cents)(1)(7)	6.3	8.0	6.3	6.0	6.8
International	5.5	7.1	5.2	5.1	5.5
Domestic	7.5	9.2	7.7	7.2	8.4
Cost per ASK (U.S. cents)(1)(8)	6.0	7.8	6.2	5.9	6.8
International	5.8	6.8	5.6	5.3	6.0
Domestic	6.4	9.0	7.0	6.8	7.8
Cost per ASK excluding fuel (U.S. cents)(1)(9)	3.8	4.4	4.3	4.1	4.4
International	3.7	3.8	3.8	3.7	3.8
Domestic	3.9	5.1	4.8	4.7	5.2
Kilometers flown (in millions)	102.4	111.7	117.1	87.1	99.0
Block hours (in thousands)	167.4	182.5	190.8	141.6	161.3
International	59.8	67.7	69.5	52.5	59.7
Domestic	107.5	114.8	121.3	89.1	101.6
Daily aircraft utilization (block hours per day per aircraft)(10)	9:37	9:51	9:00	8:43	9:27

	As of and for the Year Ended December 31,			As of and for the Nine Months Ended September 30,	
	2007	2008	2009	2009	2010
Number of scheduled destinations served as of period end	39	41	45	46	49
Scheduled flight frequency (round-trip flights per week)	790	852	891	877	979
Number of flights	82,168	88,552	92,701	68,393	76,377

Notes:

(1) We have translated the Rupiah amounts of passenger revenues, passenger yield, scheduled revenue per ASK, cost per ASK and cost per ASK excluding fuel and cargo yield to U.S. dollars, on a monthly basis, using the middle exchange rate announced by Bank Indonesia as of the last day of the previous month.

(2) Represents passenger revenues based on flight destination.

(3) Calculated as number of revenue passengers carried multiplied by distance flown (in kilometers) for each flight leg.

(4) Calculated as number of available seats multiplied by distance flown (in kilometers) for each flight leg.

(5) Calculated as RPK divided by ASK and expressed as a percentage.

(6) Calculated as passenger revenue from scheduled services divided by RPK.

(7) Calculated as revenue from scheduled airline services, warehouse rentals, information technology services and training services divided by ASK.

(8) Calculated as total cost related to our passenger flight operations (including direct and indirect costs, overhead and fleet costs) as reflected in our accounting records divided by ASK.

(9) Calculated as total cost related to our passenger flight operations (including direct and indirect costs, overhead and fleet costs) as reflected in our accounting records minus fuel expenses and divided by ASK.

(10) FSC Garuda Indonesia only.

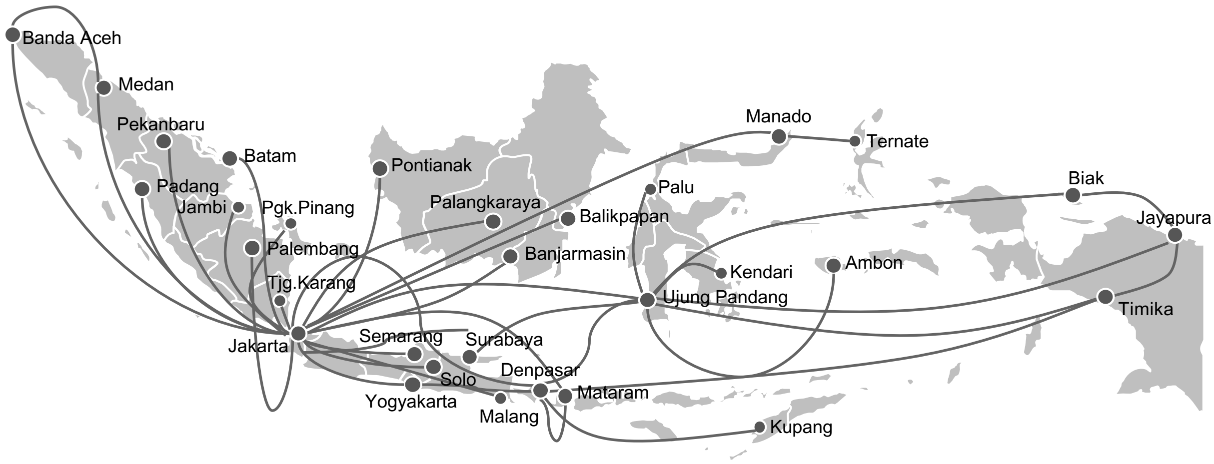
We operate our flights out of two main hubs located at Soekarno-Hatta International Airport near Jakarta, and Ngurah-Rai International Airport in Denpasar, Bali.

As Indonesia’s capital, Jakarta is the political centre and headquarters of Indonesia’s central government ministries and administrative departments. Jakarta is also one of Indonesia’s key economic centers and the base of many state-owned enterprises, large domestic companies and multinational corporations. Soekarno-Hatta International Airport is Indonesia’s busiest airport as measured by passenger throughput and aircraft landings and takeoffs, and is Indonesia’s most important international gateway and domestic transit hub. As of September 30, 2010, we served 30 domestic destinations and 15 international destinations from Jakarta.

Our second principal base is located in Denpasar, Bali. Denpasar is the capital of Bali, which is Indonesia’s leading tourist destination and one of Indonesia’s key cultural centers. Denpasar is Indonesia’s second busiest airport as measured by passenger throughput and aircraft landings and take-offs. As of September 30, 2010, we served six domestic destinations and nine international destinations from Denpasar.

Domestic Passenger Services

We have the longest operating history and currently have the most extensive domestic route network of any Indonesian airline. As of September 30, 2010, we operated approximately 814 domestic round-trip flights every week, serving 31 domestic destinations. The map below provides a graphic representation of our domestic route network:



Domestic passenger services accounted for approximately 50.0%, 47.8%, 42.0% and 54.8% of our revenues from scheduled airline services in 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively.

We currently operate our domestic flights using a hub-and-spoke system, with our main hub for domestic flight services located at Soekarno-Hatta International Airport near Jakarta. As of September 30, 2010, we served 30 destinations in Indonesia from Jakarta. We intend to further optimize our route network by incorporating a fleet of up to 18 sub-100 seat class of aircraft into our fleet and expanding the number of domestic destinations we serve. This will be achieved by building out our domestic route network and developing a point-to-point route network to provide direct flights between cities that today require stopovers in hub cities. The table below sets forth, for the periods indicated, certain information regarding our top routes for our domestic passenger services by flight frequency:

		Flight Frequency (Flights per Week)			
		As of December 31,			As of September 30,
Route	**Major Competitors Serving Route**	**2007**	**2008**	**2009**	**2010**
Jakarta-Surabaya	Batavia Air, Lion Air, Sriwijaya Air	115	108	115	104
Jakarta-Denpasar	Batavia Air, Lion Air, Indonesia AirAsia	60	66	74	54
Jakarta-Jogyakarta	Batavia Air, Lion Air, Indonesia AirAsia	56	63	63	63
Jakarta-Semarang	Batavia Air, Mandala, Sriwijaya Air	56	63	63	63
Jakarta-Medan	Batavia Air, Lion Air, Sriwijaya Air	49	42	63	49
Jakarta-Palembang	Batavia Air, Lion Air, Sriwijaya Air	49	49	49	49
Jakarta-Balikpapan	Batavia Air, Lion Air, Sriwijaya Air	40	42	49	45
Surabaya-Denpasar	Batavia Air, Lion Air, Sriwijaya Air	28	28	21	21
Jakarta-Pekanbaru	Batavia Air, Lion Air, Mandala	21	21	21	21
Jakarta-Makasar(1)	Batavia Air, Lion Air, Merpati	28	35	42	56

Notes:

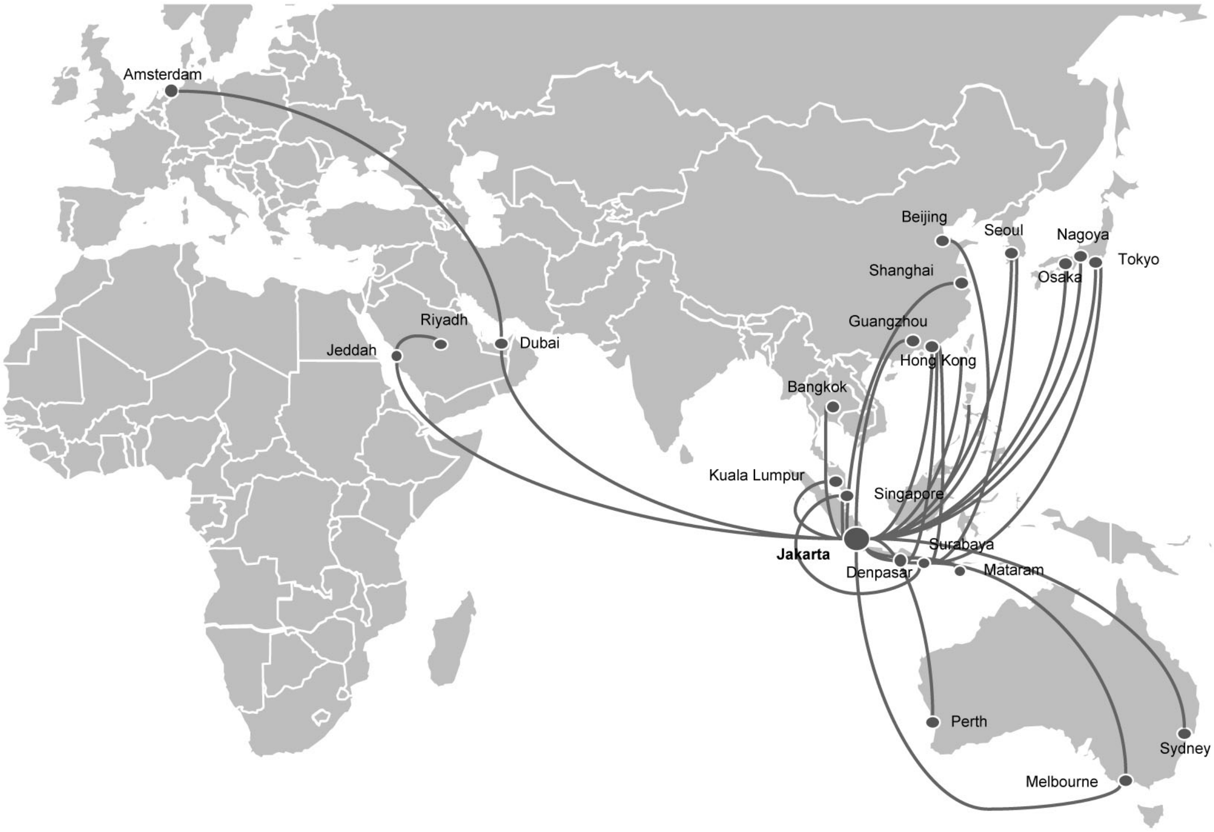
(1) Includes all routes via Jakarta-Makasar

We typically use Boeing 737 and Airbus A330 aircraft for domestic flights. We intend to introduce a sub-100 seat class of aircraft to our fleet for our domestic services to serve smaller airports. While we have not yet placed any orders for such sub-100 seat class of aircraft, we believe that this class of aircraft will be important to match capacity to demand on lower density routes that are not currently served by LCCs.

International Passenger Services

We have the longest operating history and believe that we currently have the most extensive international route network of any Indonesian airline. As of September 30, 2010, we operated approximately 165 international round-trip flights every week, serving 18 international destinations. Since 2007, we have expanded our international route network to include Jakarta-Seoul, Jakarta-Shanghai, Jakarta-Beijing, Denpasar-Nagoya, Jakarta-Melbourne, Jakarta-Sydney, Denpasar-Hong Kong, Jakarta-Tokyo, Mataram-Jakarta-Kuala Lumpur and Surabaya-Hong Kong.

The map below provides a graphic representation of our international route network:



We operate our flights out of two main hubs located at Soekarno-Hatta International Airport near Jakarta, and Ngurah-Rai International Airport in Denpasar, Bali. We believe that we have the most extensive Jakarta-based route network of any airline. As of September 30, 2010, we served 15 international destinations from Jakarta. Our second principal base is located in Denpasar, Bali. Denpasar is the capital of Bali, which is Indonesia’s leading tourist destination and one of Indonesia’s key cultural centers. Denpasar is Indonesia’s second busiest airport as measured by passenger throughput and aircraft landings and take-offs. As of September 30, 2010, we served nine international destinations from Denpasar.

We focus our international route network on key cities in Asia, Australia, the Middle East and Europe which are primary destinations for overseas travel by Indonesian citizens. We seek to expand our international network over the next five years by introducing service to more than two-thirds of the top 20 markets for Indonesian travel, while at the same time adding frequency to existing international routes. We intend to introduce international passenger services to India, Taiwan and the Philippines in 2011.

In addition, our objective to become a member of a global airline alliance would also support our strategy of expanding our reach to new international destinations, including continents currently not served by us, and increasing our passenger revenues.

The table below sets forth, for the periods indicated, certain information regarding our top routes for our international passenger services by flight frequency:

Route	Major Competitors Serving Route	Flight Frequency (Flights per Week) As of December 31, 2007	2008	2009	As of September 30, 2010
Jakarta-Singapore	Singapore Airlines, ValueAir, Lion Air, Indonesia AirAsia, Mandala, Tiger Airways, Batavia Air, Lufthansa, Philippines Airline	49	49	49	48
Jakarta-Jeddah	Saudi Arabia Air, Lion Air, Batavia Air, Al wafeer	8	14	11	14
Jakarta/Denpasar-Perth	Indonesia AirAsia, Jetstar, Virgin Blue Strategic Air	17	25	21	14
Jakarta-Hong Kong	Cathay Pacific, China Airlines	5	7	7	7
Jakarta/Denpasar-Tokyo	Japan Airlines	7	7	7	14

International passenger services accounted for approximately 50.0%, 52.2%, 46.8% and 45.5% of our revenue from scheduled passenger services in 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively. We served 17, 18, 18 and 18 international destinations as of December 31, 2007, 2008, 2009 and as of September 30, 2010. The table below sets forth, for the periods indicated, certain information relating to our international passenger services (unaudited):

	Year Ended December 31, 2007	2008	2009	Nine Months Ended September 30, 2009	2010
International passenger revenues (US$ millions)(1)(2)	536.0	774.2	566.3	427.6	517.9
Asia (ex Japan Korea China)	106.9	135.2	74.4	56.0	63.8
Japan Korea China	199.6	265.7	217.6	166.0	206.1
Australia	111.6	197.1	125.0	89.8	117.3
Middle East	117.9	176.2	149.2	115.8	110.9
Europe	—	—	—	—	19.8
RPK (in millions)	7,924.1	8,756.2	8,523.3	6,452.8	7,369.7
Asia (ex Japan Korea China)	1,199.0	1,274.1	780.8	573.5	595.8
Japan Korea China	3,281.5	3,319.8	3,515.6	2,650.9	2,893.7
Australia	1,216.4	1,602.7	1,689.0	1,176.8	1,382.4
Middle East	2,227.2	2,559.6	2,537.9	2,051.7	2,109.8
Europe	—	—	—	—	388.0
ASK (in millions)	10,618.9	11,798.3	12,205.2	9,252.0	10,544.2
Asia (ex Japan Korea China)	1,805.7	1,893.8	1,136.6	843.2	999.8
Japan Korea China	4,484.8	4,732.4	5,251.6	4,000.2	4,052.5
Australia	1,632.3	2,051.2	2,422.6	1,711.2	2,021.8
Middle East	2,696.1	3,120.9	3,394.4	2,697.4	2,854.8
Europe	—	—	—	—	615.3
Passenger load factor (%)(3)	74.6	74.2	69.8	69.7	69.9
Asia (ex Japan Korea China)	66.4	67.3	68.7	68.0	59.6
Japan Korea China	73.2	70.1	66.9	66.3	71.4
Australia	74.5	78.1	69.7	68.8	68.4
Middle East	82.6	82.0	74.8	76.1	73.9
Europe	—	—	—	—	63.1

	Year Ended December 31,			Nine Months Ended September 30,	
	2007	2008	2009	2009	2010
Passenger yield (U.S. cents per RPK)[(1)(4)]	6.7	8.8	6.6	6.6	7.0
Asia (ex Japan Korea China)	8.8	10.5	9.4	9.6	10.6
Japan Korea China	6.0	8.0	6.1	6.2	7.1
Australia	9.1	12.2	7.4	7.6	8.4
Middle East	5.3	6.9	5.8	5.6	5.2
Europe	—		—		5.1

Notes:

(1) We have translated the Rupiah amounts of passenger revenues and passenger yield to U.S. dollars, on a monthly basis, using the middle exchange rate announced by Bank Indonesia as of the last day of the previous month.

(2) Represents passenger revenues based on flight destination.

(3) Calculated as RPK divided by ASK and expressed as a percentage.

(4) Calculated as passenger revenue from scheduled services divided by RPK.

Japan, Korea and China

In 2009, Japan, Korea and China represented our most important international market as measured by passenger traffic in RPK and passenger revenues, accounting for approximately 41.1% of our total international RPK and 34.2% of our total international passengers on scheduled flight services. For the nine months ended September 30, 2010, Japan, Korea and China accounted for approximately 39.3% of our total international RPK and 34.9% of our total international passengers on scheduled flight services. We operate flights between Denpasar, Nagoya, Osaka, Tokyo and Seoul. We also operate flights between Jakarta and Seoul, Beijing, Shanghai and Guangzhou, as well as flights from Jakarta — Denpasar to Tokyo. We also offer passenger services to Guangzhou, Taipei and Seoul through our code-share agreements with China Southern Airlines, China Airlines and Korean Air.

Asia (excluding Japan, Korea and China)

In 2009, Asia (excluding Japan Korea and China) accounted for approximately 9.2% of our total international RPK and 30.4% of our total international passengers on scheduled flight services. For the nine months ended September 30, 2010, Asia (excluding Japan Korea and China) accounted for approximately 8.1% of our total international RPK and 27.6% of our total international passengers on scheduled flight services. We operate flights between Jakarta and Bangkok, Hong Kong, Kuala Lumpur and Singapore. We also operate flights between Denpasar and Hong Kong and Singapore, as well as flights between Surabaya and Hong Kong. We also offer passenger services to various cities in Asia including Manila, Kuala Lumpur and Ho Chi Minh City through our code-share agreements with Philippine Airlines, Malaysia Airlines and Vietnam Airlines.

Middle East

In 2009, the Middle East accounted for approximately 29.8% of our total international RPK and 14.3% of our total international passengers on scheduled flight services (excluding *hajj* flight operations). For the nine months ended September 30, 2010, the Middle East accounted for approximately 28.6% of our total international RPK and 14.1% of our total international passengers on scheduled flight services (excluding *hajj* flight operations). We operate flights between Jakarta and Riyadh and Jeddah.

Australia

In 2009, Australia accounted for approximately 19.8% of our total international RPK and 21.1% of our total international passengers on scheduled flight services. For the nine months ended September 30, 2010, Australia accounted for approximately 18.8% of our total international RPK and 21.3% of our total international passengers on scheduled flight services. We operate flights between Jakarta and Melbourne and Sydney. We also operate flights from Denpasar to Melbourne, Perth and Sydney, as well as Jakarta — Denpasar to Perth.

Europe

In June 2010, following the lifting of the European Union ban in July 2009 on Indonesian airline carriers, we recommenced our service between Jakarta and Amsterdam via Dubai. For the nine months ended

September 30, 2010, Europe accounted for approximately 5.3% of our total international RPK and 2.1% of our total international passengers on scheduled flight services. We also offer passenger services to Paris, London and Frankfurt through our code-share agreement with Malaysian Airlines.

Citilink

Our strategy is to concurrently develop both our FSC Garuda Indonesia and our LCC Citilink businesses. To enhance Citilink's ability to compete effectively and develop its own positioning in the LCC market, we established our Citilink strategic business unit with a separate management team and separate headquarters in Surabaya, operating a distinct LCC carrier business model. Although we currently operate Citilink as a business unit, in the future we intend to obtain a separate AOC for our subsidiary, PT Citilink Indonesia, and spin-off our business unit into the subsidiary. This separate AOC will require us to comply with certain minimum aircraft fleet purchase and operating requirements for Citilink.

Citilink re-launched operations in September 2008 to meet increasing demand for LCC services in the domestic market. Citilink's management headquarters are located in Surabaya — geographically separated from our Garuda's headquarters in Jakarta — and, as of September 30, 2010, Citilink served eight destinations in Indonesia from Surabaya and Jakarta. Citilink's route planning is done in coordination with Garuda. The Citilink route network currently focuses on routes with low yield and high density to capture growth in the price sensitive LCC market. As of September 30, 2010, the routes served jointly by our FSC Garuda Indonesia and our LCC Citilink businesses were between Surabaya-Jakarta, Jakarta-Balikpapan, Jakarta-Medan and Jakarta-Denpasar.

The map below provides a graphic representation of the Citilink route network:

As of September 30, 2010, Citilink operated five Boeing 737-300, consisting of aircraft with 142 or 148 economy passenger seats, and one Boeing 737-400 aircraft, with 170 economy passenger seats. Each Citilink flight is staffed with two pilots and three flight attendants, as compared to the two pilots and five flight attendants that normally staff a Garuda Boeing 737-300 flight. As of September 30, 2010, Citilink employed 45 pilots and 64 flight attendants. Citilink pilots receive periodic training at the Garuda training facility in Jakarta. Citilink fight attendants are also trained at the Garuda training facility in Jakarta. See "— Pilots and Flight Attendants" and "Risk Factors — Risks Relating to Our Business — Our inability to recruit, train and motivate key personnel may adversely affect our business."

Citilink operates an integrated information technology system called "tikAero" provided by TIK Systems (Thailand), a subsidiary of Mercator, the information technology solutions provider of the Emirates Group, which includes components for revenue management, inventory and booking system, a business-to-business internet-booking engine for travel agents, a business-to-enterprise and business-to-customer internet-booking engine for direct consumer sales, a departure control system, revenue accounting and management information and reporting. Citilink also operates a revenue management and optimization module provided by AirRM, a company based in Seattle, Washington, United States. Citilink is also developing proprietary crew management and flight operations software to be used with the tikAero system.

Citilink currently sells tickets online and through travel agent sales distribution. Citilink plans to focus its ticket distribution primarily through online direct sales as the infrastructure and market in Indonesia develops.

For the nine months ended September 30, 2010, Citilink received approximately 50% of reservations through its business-to-customer internet-booking engine for direct consumer sales and approximately 50% of reservations through its business-to-business internet-booking engine for travel agents who are paid a nominal service fee. By comparison, for Garuda (including Citilink) in the nine months ended September 30, 2010, ticket sales from online direct sales generated approximately 3% of total passenger net sales, while sales from our own sales office, airport sales office and travel agents generated approximately 97% of total passenger sales.

Citilink fares are non-refundable, although the schedule of the passenger booking may be changed upon payment of an additional fee at least 24 hours before departure. Citilink generally conducts promotional campaigns through the internet, as well as local newspapers and radio, and airport billboard advertising, in its hub and destination markets.

Citilink's flight operations and scheduling are conducted from its headquarters in Surabaya. MRO services are provided by GMFAA, catering of "sales on board" consumables is provided by PT Aero Wisata, ground handling is provided by Gapura, PT Jasa Angkasa Semesta Tbk. ("JAS") and other providers on a cost-competitive basis, and jet fuel is sourced under the Garuda contract with Pertamina to take advantage of volume discounts. Citilink focuses on faster flight turnaround, which is targeted at 30 minutes for Citilink flights as compared to 45 minutes for Garuda flights.

Citilink's MRO expense is typically lower than Garuda's MRO expense due to the "no-frills" cabin configuration, such as the absence of in-flight entertainment and catering services. GMFAA does not, however, provide certain conversion services for the "all economy" configuration of Citilink's aircraft — such as removal of the forward galley — which must be done overseas. In addition, our Citilink aircraft still utilize FSC economy class seating, which has a higher seat pitch than LCC seating. As a consequence, we believe that Citilink's Boeing 737-300 aircraft currently have approximately five fewer seats than the seat configuration used by some of its LCC competitors.

The table below sets forth, for the periods indicated, certain information relating to our Citilink passenger services (unaudited):

	As of and for the Year Ended December 31, 2009	As of and for the Nine Months Ended September 30, 2010
Passenger Services:		
RPK (in millions)(2)	509.9	681.8
ASK (in millions)(3)	800.1	984.4
Passenger load factor (%)(4)	63.7	69.3
Number of passengers carried (in thousands)	588.8	796.2
Passenger yield (U.S. cents per RPK)(1)(5)	4.3	4.7
Revenue per ASK (U.S. cents)(1)(6)	3.0	3.7
Cost per ASK (U.S. cents)(1)(7)	4.3	4.9
Cost per ASK excluding fuel (U.S. cents)(1)(8)	2.5	2.6

Notes:

(1) We have translated the Rupiah amounts of passenger yield, revenue per ASK cost per ASK and cost per ASK excluding fuel, to U.S. dollars, on a monthly basis, using the middle exchange rate announced by Bank Indonesia as of the last day of the previous month.

(2) Calculated as number of revenue passengers carried multiplied by distance flown (in kilometers) for each flight leg.

(3) Calculated as number of available seats multiplied by distance flown (in kilometers) for each flight leg.

(4) Calculated as RPK divided by ASK and expressed as a percentage.

(5) Calculated as passenger revenue from scheduled services divided by RPK.

(6) Calculated as revenue from scheduled airline services divided by ASK.

(7) Calculated as total cost related to our passenger flight operations (including direct and indirect costs, overhead and fleet costs) as reflected in our accounting records divided by ASK.

(8) Calculated as total cost related to our passenger flight operations (including direct and indirect costs, overhead and fleet costs) as reflected in our accounting records minus fuel expenses and divided by ASK.

Each of Citilink's principal competitors — Lion Air, Batavia Air and Sriwidjaya Air — currently have larger fleet sizes and/or greater aircraft seat capacity than Citilink. While we intend to increase the size of Citilink's aircraft fleet and its aircraft seat capacity in the future, there can be no assurance that we will be successful in this strategy. See "Risk Factors — Risks Relating to Our Business — Our failure to successfully implement our growth strategy could harm our business."

Non-Scheduled Passenger Services

We provide non-scheduled international and domestic passenger services to Saudi Arabia for *hajj* pilgrims (*hajj* services) and charter flight services. Our non-scheduled passenger services accounted for approximately 11.4%, 12.7%, 13.9% and 0.8% (since our *hajj* flight operations will occur in the fourth quarter of 2010) of our total operating revenues in 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively.

Hajj Services

We commenced *hajj* flight operations in 1956, and we operated 628, 722 and 689 flights, and carried a total of 235,037, 259,566 and 263,994 Muslim pilgrim passengers, on round trips from Indonesia to Jeddah for the annual *hajj* pilgrimage arranged by the Ministry of Religious Affairs in 2007, 2008 and 2009, respectively. Our *hajj* flight services are provided at the request of the Government of Indonesia at rates negotiated with by the Government based on a variety of factors including the Rupiah — U.S. dollar exchange rate, aircraft charter rates and the price of jet fuel. The Ministry of Religious Affairs is responsible for travel arrangements for *hajj* pilgrims, including flight arrangements to and from Saudi Arabia. Airfares for *hajj* pilgrims are paid to us by the Ministry of Religious Affairs pursuant to agreements entered into between us and the Ministry, and are renegotiated annually. Our *hajj* flight services accounted for approximately 10.8%, 11.8% and 13.1% of our total operating revenues for 2007, 2008 and 2009, respectively, and approximately 94.0%, 92.9% and 93.9% of our revenues from non-scheduled passenger services in 2007, 2008, 2009, respectively. *Hajj* flight operations vary annually with the Muslim lunar calendar. Our *hajj* flight operations in the period from 2007 through 2009 generally covered a twelve week period commencing in each year on a date moving forward from November to October during the period. Since our *hajj* flight operations in 2009 were completed prior to December 31, 2009, and our *hajj* flight operations commenced only in October 2010, we had no revenue from *hajj* flight operations in the nine month period ended September 30, 2010.

We are currently the only Indonesian airline contracted by the Ministry of Religious Affairs for *hajj* travel. The Ministry may, however, invite other Indonesian airlines to tender for this business. See "Risk Factors — Risks Relating to Our Business — We are dependent on the Ministry of Religious Affairs for our *hajj* flight operations."

Charter Services

In 2009, we operated 191 charter flights for government (VIP), business, educational or tourist groups traveling to international and domestic destinations. We determine our charter flight arrangements primarily in accordance with market demand and aircraft availability. We typically seek to determine our charter schedule two weeks to one month prior to implementing such schedule, but we also arrange charter flights on shorter notice. The operation of charter flights may at times involve the redeployment of aircraft away from regularly scheduled passenger flights.

Charter services accounted for approximately 6.0%, 7.1%, 6.1% and 100.0% (since our *hajj* flight operations will occur in the fourth quarter of 2010) of our revenues from non-scheduled passenger services in 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively.

Cargo Services

We are the largest provider of air cargo services in Indonesia as measured by total cargo volume, accounting for approximately 46.4% of the total RFTK in Indonesia for the nine months ended September 30, 2010 according to AP I and AP II. In 2009, we transported approximately 144,059 tons of cargo and generated Rp. 839.3 billion in revenues from our cargo services. Our cargo services accounted for approximately 5.7%, 4.9%, 4.7% and 6.7% of our total operating revenues in 2007, 2008, 2009 and the nine months ended

September 30, 2010, respectively. The table below sets forth, for the periods indicated, certain information relating to our cargo services (unaudited):

	Year Ended December 31,			Nine Months Ended September 30,	
	2007	2008	2009	2009	2010
Cargo Services:					
RFTK (in million ton-kilometers)[2]	234.0	275.4	282.1	191.9	311.4
International	147.6	165.4	162.3	105.9	207.1
Domestic	86.4	110.0	119.8	86.0	104.3
AFTK (in million ton-kilometers)[3]	568.9	627.0	757.9	539.7	815.5
International	376.0	402.8	477.8	340.4	556.2
Domestic	192.9	224.2	280.2	199.3	259.3
Cargo and mail carried (in million kilograms)	122.4	149.3	157.1	110.6	149.7
Cargo load (million ton-kilometers)	234.0	275.4	282.1	191.9	311.4
Gross capacity (million ton-kilometers)	568.9	627.0	757.9	539.7	815.5
Cargo load factor (%)[4]	41.1	43.9	37.2	35.6	38.2
International	39.3	41.1	34.0	31.1	37.2
Domestic	44.8	49.1	42.8	43.2	40.2
Cargo yield (U.S. cents per kilometer)[1][5]	30.2	37.4	29.9	30.0	30.7

Notes:

(1) We have translated the Rupiah amounts of cargo yield to U.S. dollars, on a monthly basis, using the middle exchange rate announced by Bank Indonesia as of the last day of the previous month.

(2) Calculated as cargo and mail load carried (in tons) multiplied by distance flown (in kilometers) for each flight leg.

(3) Calculated as total cargo capacity (in tons) multiplied by distance flown (in kilometers) for each flight leg.

(4) Calculated as cargo and mail load (in tons-kilometers) divided by total available payload (in tons-kilometers) per aircraft type per flight and expressed as a percentage.

(5) Calculated as revenue from cargo services divided by RFTK.

Our cargo services include general air cargo services and special cargo services for goods and materials that require special handling, including perishables, live animals, valuables and hazardous goods. We also offer mail and express services, including a 24-hour express mail service and an express cargo transfer service. We intend to shift our focus to primarily deliver special cargo services, which usually generate higher margins.

Our primary cargo terminal is a 23,000 sqm facility leased by us at Soekarno-Hatta International Airport, which can handle approximately 350,000 tons of cargo each year. We plan to implement a 24-hour cargo tracking system to trace the shipment of goods handled by the Jakarta terminal. We also plan to acquire or lease dedicated freighter aircraft commencing in 2012, although we are not currently contractually committed to do so.

Other Airline-Related Services

We also provide airline-related services such as ground services, MRO services and in-flight catering services. For more information on ground services, MRO services and in-flight catering services, see "Business — Operations." Other airline services accounted for approximately 9.9%, 9.1%, 9.3% and 8.9% of our total operating revenues in 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively.

Our Fleet

Aircraft Procurement and Disposal Policy

We seek to maintain a rationalized, streamlined and modern fleet to serve our route network and multiple markets. When evaluating our aircraft procurement and disposition plan, we consider many factors, including demand forecasts for the aviation industry, current fleet capacity, current and future aircraft requirements, capital structure, cash flows, purchase and leasing costs, prevailing interest rates and other market conditions which may impact financing costs. We evaluate on a case-by-case basis the retirement or disposal of a particular aircraft based on a number of factors, including operating and safety efficiency and market demand for a particular aircraft type. Moreover, we carefully balance jet fuel consumption and maintenance costs of ageing aircraft against financing costs and depreciation expenses which may be incurred by acquiring newer replacement aircraft. We typically purchase or lease new aircraft. See also "Management's Discussion and Analysis of Our Financial Condition and Results of Operations — Factors Affecting Our Financial Condition and Results of Operations — Capital Expenditures."

Fleet Composition

As of September 30, 2010, we operated a fleet of 84 passenger aircraft. The table below sets forth certain information regarding our fleet as of September 30, 2010:

	Number of Aircraft				Number of Seats (Standard)
	Owned	Finance Lease	Operating Lease	Fleet	
Passenger aircraft:					
Narrow-body:					
B737-300	3	0	3	6	16 C + 94 Y
B737-400	7	0	10	17	14 C + 120 Y
B737-500	5	0	0	5	12 C + 84 Y
B737-800	0	0	37	37	12 C + 150 Y
Sub-total**	**15**	**0**	**50**	**65**	
Wide-body:					
B747-400	2	0	1	3	42 C + 386 Y
A330-300	0	6	0	6	42 C + 215 Y
A330-200	0	0	4	4	36 C + 186 Y
Sub-total**	**2**	**6**	**5**	**13**	
Citilink aircraft:					
Narrow-body:					
B737-300	3	0	2	5	142 Y or 148 Y
B737-400	0	0	1	1	170 Y
Sub-total**	**3**	**0**	**3**	**6**	
Total**	**20**	**6**	**58**	**84**	

Note: C = business class; Y = economy class; Citilink 737-300 and 737-400 operate "all economy" configurations of 142 to 170 seats.

Our total fleet size was 48, 54, 70 and 84 aircraft for the years ended December 31, 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively. The average age of our fleet was 11.1, 12.0, 10.4 and 8.8 years for the years ended December 31, 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively. According to industry standards, the actual operating life of an aircraft ranges from 20 to 40 years, depending on its aircraft type, maintenance record, utilization rate and operating environment. Ageing aircraft typically require higher maintenance, repair and overhaul services to maintain safe and efficient operations. As of September 30, 2010, 15 aircraft in our fleet were over 15 years of age and the oldest aircraft in our fleet was 19 years of age.

Aircraft Delivery and Disposal Schedule

As of September 30, 2010, we had aircraft purchase commitments of approximately Rp. 24,460 billion, including estimated amounts for contractual price escalation, to purchase 27 additional aircraft (of which one was delivered in October 2010) through 2016, comprising of 11 Boeing 737-800 deliveries, ten Boeing 777 deliveries and six A330-200 deliveries. The pre-delivery payments for these purchases are typically financed initially through operating cash flows and debt financings, which we will then convert to operating lease arrangements under sale and leaseback transactions with aircraft leasing companies, which allows us to recover our pre-delivery payments and should reduce our total capital expenditure commitments. While we believe that our cashflow from operations will be sufficient to fund pre-delivery payments for all of our remaining Boeing 737-800 deliveries and all of our remaining Airbus A330-200 deliveries, we will need to arrange debt financing of pre-delivery payments for our ten remaining Boeing 777 deliveries. Our ECA Loans and Commercial Loans limit our ability to incur additional indebtedness and accordingly we cannot assure you we will be able to incur additional debt financing for our remaining 26 firm aircraft deliveries (including for pre-delivery payments). Moreover, even if we are able to incur such additional debt financing, we cannot assure you that either debt or lease financing will be available for such aircraft deliveries (including for pre-delivery payments) on terms acceptable to us or at all. See "Risk Factors — Risks Related to Our Business — Our high levels of indebtedness and fixed payment obligations could adversely affect our ability to implement our growth strategy."

The table below sets forth, as of September 30, 2010, certain information relating to the expected delivery schedule, the aircraft model, the number of aircraft and the capacity measured in number of seats:

Expected Acquisition Schedule	Aircraft Model	Number	Number of Seats (Standard)
2010 (October 1 to December 31)	B-737-800	5	12 C + 150 Y
	A330-200	1	36 C + 186 Y
2011	B-737-800	9	12 C + 150 Y
2012	B-737-800	5	12 C + 150 Y
	A330-200	1	36 C + 186 Y
2013	B-777-300ER	3	4 F + 38 C + 295 Y
	A330-200	2	36 C + 186 Y
2014	B-777-300ER	3	4F + 38 C + 295 Y
	A330-200	3	36 C + 186 Y
2015	B-737-800	2	12 C + 150 Y
	B-777-300ER	3	4F + 38 C + 295 Y
2016	B-737-800	2	12 C + 150 Y
	B-777-300ER	1	4F + 38 C + 295 Y

As of September 30, 2010, we also had options to purchase four additional Airbus A330-200 aircraft. As of September 30, 2010, we also had executed letters of intent for operating leases of 12 Boeing 737-800 aircraft (of which four were delivered between October and December 2010) and three Airbus A330-200 aircraft (of which one was delivered in December 2010) to commence operation in 2011. We also intend to extend the existing operating leases for our Boeing 737-800 and Airbus A330-200 aircraft upon their expiration and seek additional operating leases, including leases for sub-100 seat aircraft and additional aircraft for Citilink, in order to expand our fleet to approximately 150 aircraft by 2015. However, our ECA Loans and Commercial Loans contain covenants that may, under certain circumstances, limit our ability to incur additional aircraft rental expense and, accordingly, we cannot assure you that we will be able to enter into additional operating leases to increase the size of our fleet.

The table below sets forth, as of September 30, 2010, our expected aircraft (including aircraft retired or returned on expiry of operating leases) disposal schedule, the aircraft model, the number of aircraft and the capacity measured in number of seats:

Expected Disposal Schedule	Aircraft Model	Number	Number of Seats (Standard)
2010 (October 1 to December 31)	B-737-400	1	14 C + 120 Y
2011	B-737-300	1	16 C + 94 Y
	B-737-400	10	14 C + 120 Y
2012	B-737-300	1	148 Y
	B-737-400	1	14 C + 120 Y
	B-747-400	1	42 C + 386 Y
2013	B-737-300	1	148 Y
	B-737-400	1	170 Y
	B-737-800	1	12 C + 150 Y
2014	B-737-300	2	16 C + 94 Y
	B-737-800	2	12 C + 144 Y
2015	B-737-800	1	12 C + 150 Y
2016	B-737-800	6	12 C + 144 Y
	A330-200	4	36 C + 186 Y

See "Business — Aircraft Purchase and Leasing Arrangements" and "Financial Information — Capital Expenditure Plan" for additional information on our planned capital expenditures and contractual commitments.

Aircraft Purchase and Leasing Arrangements

Our fleet consists of aircraft purchased as well as leased pursuant to finance and operating leases. As of September 30, 2010, we owned 20 aircraft and operated six aircraft under finance leases and 58 aircraft under operating leases. All of these aircraft are registered in Indonesia.

Finance Leases

Under our finance leases, we make lease payments to a special purpose company ("SPC") that finance repayment of the ECA and Commercial Loans that funded most of the purchase price of six A330-300s . The SPC bears substantially all of the economic risks and rewards of owning the aircraft. Under the finance leases, we may also purchase the aircraft from the SPC upon the expiration of such lease and obtain title to the aircraft upon payment of all amounts owed. The terms of our finance leases vary depending on the financing structures and commercial agreements reached by the parties concerned. Generally, the lenders provide the SPC with floating rate financing. Lease payments are generally paid on a semi-annual basis. The terms of our finance leases are typically 15 years. Under certain leases, we are given an option to terminate the lease early on a voluntary basis, if certain conditions are satisfied. Circumstances under which a lessor may have the right to terminate a lease early and require us to surrender the aircraft include the occurrence of an event of default such as non-payment of rent, failure to maintain insurance coverage for the aircraft and insolvency. To date, our lessors have not early-terminated any finance leases or required us to return any aircraft as a result of a default by us.

Operating Leases

Our operating leases generally have original terms ranging from seven to 12 years from the aircraft's delivery. Under operating leases, we are entitled to use the aircraft and are obligated to make rental payments according to the relevant lease agreements. The lessor bears the economic benefits and risks of ownership, including the risk of the residual value of the aircraft at the end of the lease term. We are required to return the aircraft in the agreed condition at the end of the lease term. Although the title remains with the lessor, we are responsible during the lease term for legal and regulatory compliance, maintenance, servicing, insurance, taxes and repair of the aircraft. Our operating leases require us to maintain and make contributions to maintenance and repair reserve funds during the term of the lease. Maintenance and repair reserve fund contributions are based on the use of the aircraft during the lease term and include reserves for airframe structure maintenance, engine performance restoration maintenance, engine life limited parts maintenance, landing gear maintenance, and auxiliary power unit maintenance. We are required to maintain the aircraft to agreed standards during the term of the lease and are entitled to reimbursement by the lessor from the maintenance and repair reserve fund upon presentation of documentation of completion of required maintenance work, provided that no default has occurred. Depending on the specific operating lease agreements, the lessor may or may not retain the remaining balance in the maintenance and repair funds upon termination of the lease. Under certain of our operating leases, the lessor has the right to terminate a lease early and require us to surrender the aircraft upon the occurrence of an event of default, such as the non-payment of rent, failure to make contributions to the maintenance and repair fund and failure to maintain insurance coverage for the aircraft or insolvency. To date, our lessors have not early-terminated any operating leases or required us to return any aircraft as a result of a default by us.

Aircraft Purchases

We may from time to time purchase aircraft directly from aircraft manufacturers. The pre-delivery payments for these purchases are typically financed initially through operating cash flows and debt financings, which we will then convert to operating lease arrangements under sale and leaseback transactions with aircraft leasing companies, which allows us to recover our pre-delivery payments and should reduce our total capital expenditure commitments. Under the terms of our aircraft purchase agreements, the acquisition price is subject to escalation adjustments for, among others, inflation and wage-related increases, as determined in accordance with pre-agreed formulas set out in each purchase agreement.

Our Operations

Route Planning

Our growth strategy includes identifying profitable routes which are inadequately serviced by other airlines, increasing the number of routes served, increasing the frequency of our flights and disposing of routes that we have identified as being unprofitable. We established two new international routes (including new long-haul international routes) and five new domestic routes in the nine months ended September 30, 2010, seven new international routes and eight new domestic routes in the year ended December 31, 2009, two new international routes and one new domestic route in the year ended December 31, 2008, and four new domestic routes in the year ended December 31, 2007. We disposed of 2 international routes in the nine months ended September 30, 2010, 5 international routes and 2 domestic routes in the year ended December 31, 2009, no routes in the year ended December 31, 2008, and 1 international route and 4 domestic routes in the year ended December 31, 2007. We constantly review and seek to optimize our route network by identifying opportunities to offer direct international flights to and from Indonesia on routes that are primarily served through third-country hubs, as well as opportunities to increase our flight frequencies on domestic flights within Indonesia. We also review our route network to identify routes that no longer meet customer expectations and demands by assessing the route performance and profitability of such routes, our overall route network strategy, the competition on such routes and the market conditions for the aviation industry. We also intend to utilize our LCC Citilink business to exploit opportunities to serve price-sensitive budget passengers on domestic and regional routes with low yield and high density in a manner that protects the profitability of our FSC Garuda Indonesia business. We intend to utilize our LCC platform to be a "price taker" for LCC budget passengers on domestic routes with low yield and high density, thereby defending against price erosion among our FSC premium and budget passengers on the same routes. We also intend to utilize our LCC Citilink business to open new international routes with low yield and high density that cannot be profitably served by our FSC Garuda Indonesia business. Developing and exploiting profitable routes and flight frequencies depends on a number of factors including our ability to obtain accurate market data for evaluation, availability of aircraft and our ability to obtain landing rights at airports.

To maximize our fleet utilization rates and enhance our competitiveness, we carefully evaluate and plan our route network and flight schedule. Our route planning department prepares and periodically updates rolling one year and five year route plans based on a number of factors, including our business strategies, market projections and analyses and competition. We also evaluate each route's profitability and adjust our flight schedule and frequency to maximize profitability. We have several management information systems, including a network and schedule management system, to improve our market analysis, network planning and hub operations. See the section headed "Management Information Systems." Based on our route plans, we may seek regulatory approval for additional routes or modify flight frequency on certain routes to continuously improve our route network. We cooperate closely with the regulatory authorities in seeking additional route rights under new or existing bilateral air services agreements and may assist the Government in its negotiations with foreign governments on such agreements.

Flight Scheduling

Our marketing and sales department formulates flight schedules, based on market demand for various routes. Consistent with market practice and with IATA guidelines, we publish summer and winter flight schedules each year. From time to time, we also vary the flight frequency and type of aircraft utilized on scheduled routes based on anticipated seasonal demand.

Flight Operations

Our operations control center ("OCC") at Soekarno-Hatta International Airport near Jakarta supervises and controls our flight activities in accordance with our flight operation schedules. Our OCC collects and analyses information relating to the projected payload, the weather condition and status of aircraft equipment, approves flight dispatches, and coordinates necessary ground services. Our OCC monitors flights by radio communications and Air Communication and Reporting System and we expect to implement Air-to-Ground Data Link communications in the future. In the event of irregularities, the center may adjust flight schedules, combine flights and, if necessary, cancel flights.

On-time departure and arrival is important to customer satisfaction, our brand reputation and cost control. According to our internal reports, in 2009 our average on-time departure rate was 82.5%, with 8.2% of our flights being irregular due to factors within our control (such as flight scheduling, mechanical incidents and passenger services), 8.8% of our flights being irregular due to factors beyond our control (such as airport congestion, limitations of airport facilities, air traffic control, poor weather and no-flight orders) and 0.5% of our flights being cancelled or rescheduled.

Ground Services

At domestic airports in Indonesia, our associated company PT Gapura Angkasa provides ground services for our own domestic flights, and also on a contract basis for other airlines. At airports in foreign countries, third-party ground service providers or the principal airlines based at such airports provide ground services to our flights, typically based on pre-set contractual fees. Ground services include check-in service, boarding service, premium class lounge service, ramp service, luggage handling, loading and unloading services, cabin cleaning and transit services.

Jet Fuel

In 2007, 2008, 2009 and the nine months ended September 30, 2010, jet fuel costs represented 34.3%, 41.2%, 29.4% and 31.8% of our total operating expenses, respectively. Jet fuel prices have been historically, and will in the future continue to be, subject to price volatility and fluctuations in supply and demand.

We procure approximately 70% of our jet fuel, including all of the jet fuel required for our domestic operations, pursuant to agreements with Pertamina, the state-owned oil and gas company. We typically enter into five-year supply agreements with Pertamina and one to two year supply agreements with each of our international jet fuel suppliers. Our international jet fuel supply agreements are renewed periodically and provide for payment in U.S. dollars. Our domestic jet fuel supply agreements with Pertamina are also renewed periodically and provide for payment in Rupiah at prices denominated in U.S. dollars. International jet fuel prices are generally set at a premium to the mean price of oil traded through Singapore, the Arab Gulf, Saudi Arabia and Netherlands as published by Platts under Mean of Platts Singapore (MOPS), Mean of Platts Arab Gulf (MOPAG), ARAMCO or Rotterdam. Domestic jet fuel prices are generally set at a discount to a production posting price established by Pertamina in its sole discretion, which we believe has historically been higher than MOPS. While our prior jet fuel supply agreement with Pertamina provided us with a percentage discount to the production posting price, our new fuel supply agreement with Pertamina incorporates a fixed discount to the production posting price. As a result, we believe that, when compared to our prior fuel supply agreement with Pertamina, our new agreement will result in lower discounts (and higher fuel prices) as the Pertamina production posting price increases See "Risk Factors — We are dependent on Pertamina for our domestic fuel supply".

Our international jet fuel supply agreements require payment in advance or presentation of a letter of credit against delivery of jet fuel, while our domestic jet fuel supply agreements with Pertamina currently allow us to make payment within two weeks following delivery. We have in the past incurred significant unpaid amounts due to Pertamina for the delivery of jet fuel, which amounts have been converted to long-term subordinated debt in our most recent debt restructuring. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Debt Restructuring."

We do not enter into hedging transactions with respect to jet fuel prices, except for certain derivative transactions with respect to jet fuel required for our *hajj* flight operations. We have historically passed on a portion of our fuel costs to our customers in the form of fuel surcharges; however, the amount that we can apply in fuel surcharges is regulated by the Government and since June 2010 our ability to pass fuel surcharges on to our customers has been substantially reduced. In addition, this practice has recently been challenged as anti-competitive by the Indonesian Commission for the Supervision of Business Competition. Increases in the aggregate price of air travel (comprising airfare, related taxes and fuel and other surcharges) due to significant increases in the price of jet fuel may decrease demand for our services. Accordingly, higher weighted jet fuel costs per barrel may adversely affect our profitability and results of operations. See "Management's Discussion and Analysis of Our Financial Condition and Results of Operations — Factors Affecting Our Financial Condition and Results of Operations — Jet Fuel Prices" and "Risk Factors — Risks Relating to Our Business — We source most of our fuel supply from Pertamina." Because of our limited ability to continue to apply fuel surcharges outside of economy class fare caps, we may increasingly rely on fuel hedges in order to manage our exposure to fuel price changes.

For our international return flights, we purchase jet fuel from international suppliers at prevailing international market prices. Our principal international fuel suppliers include Air BP and Shell Malaysia Trading.

In-Flight Catering

Our subsidiary, ACS, a subsidiary of PT Aero Wisata, provides in-flight catering for our flights originating at our Jakarta and Denpasar hubs, as well as other domestic airports. For flights originating from international airports, we generally contract with local airlines or local catering companies for in-flight catering, generally on a bi-annual basis and otherwise on terms that are customary in the industry.

Revenues from our in-flight catering operations consist of revenues earned by ACS from provision of in-flight catering services to third party airlines operating out of the Soekarno-Hatta International Airport.

Aircraft Maintenance, Repair and Overhaul

Aircraft maintenance, repair and overhaul, also known as MRO, is critical to the safety and comfort of our passengers, the efficient use and maintenance of our aircraft and the optimization of our fleet utilization. The schedule and cycle of MRO services for our fleet varies depending on certain factors, including the age and type of aircraft and the manufacturers' specifications.

In 2002, we incorporated GMFAA, our subsidiary, in order to consolidate and integrate our maintenance engineering operations. GMFAA provides MRO services to us in Indonesia using facilities leased by us, as well as to third party airlines.

GMFAA is certified by the DGCA, the FAA and the European Aviation Safety Agency. GMFAA provides us with most of the airframe maintenance services for our aircraft. Engine maintenance is provided by GMFAA on our Boeing 737-300/400/500 aircraft under the Power by the Hour Program and by third parties, including Rolls Royce under the Total Care Program on our Airbus A330 aircraft and EGAT under on the Maintenance Cost per Hour Program for our Boeing 747-400 aircraft.

Hotel Services

Our subsidiaries, PT Aero Wisata, PT Mirtasari Hotel Development, PT Senggigi Pratama Internasional and PT Bina Inti Dinamika, own and operate five hotels, and manage and operate other hotels.

Travel Agency Services

Our subsidiaries, PT Aero Wisata, PT Biro Perjalanan Satriavi, PT Aero Jasa Perkasa, Garuda Orient Holidays, Pty. Limited, Garuda Orient Holidays Japan Inc. and Garuda Orient Holidays Korea Co. Ltd., promote holiday packages and operate travel agencies located in Indonesia, Korea, Japan and Australia and also act as general sales agent for other airlines.

Transportation Services

Our subsidiary, PT Aero Jasa Perkasa, provides transportation operations for flight crews and group travelers.

Information Technology Services

Our subsidiary, PT Aero Systems Indonesia, provides information technology engineering systems, including consultation and maintenance services, to air carriers as well as other industries. PT Abacus Distribution Systems Indonesia provides computerized reservation systems and solutions, including leasing computer equipment and providing technical support to travel bureaux used by our FSC Garuda Indonesia business that utilize the computerized reservation systems.

Revenue Management

Our business is impacted by the number of passengers flown and the fares charged. We have implemented a revenue management system to maximize revenues by flight, by market and across our entire operations. Revenue management is an integrated set of business processes used to calculate the optimal pricing and seat inventory for premium and budget passengers to maximizing revenue generated by the sale of tickets based on forecasting of demand behavior for each market. Through our current revenue management system used by our FSC Garuda Indonesia business, we seek to maximize revenue per flight by optimizing allocation of seat inventory in the different fare classes.

Similar to other airlines, we have a multiple pricing structure to meet the varying demands of each market segment. Our aircraft cabins are physically divided into executive and economy cabins and virtually divided into 10 fare sub-classes. We determine the number of seats offered at each fare through a continual process of competitive analysis, being one of the most critical processes in revenue management, forecasting and optimization. Generally, booking history and seasonal trends are used to forecast anticipated demand. We use historical forecasts, combined with current bookings, upcoming events, competitive pressures and other factors, to establish a fare structure to maximize revenues.

We use *REMBRANDT*, a revenue management software system used by certain other airlines. This system uses forecasting and optimization models to rapidly analyze the economic tradeoffs required to determine the number of seats offered at each fare, which enables us to maximize revenues from existing capacity. We have implemented this system with respect to all of our international and domestic routes since 2006.

Our revenue from international and domestic passenger services and passenger yield has historically correlated to our ability to apply fuel surcharges (which reflect fluctuations in the price of jet fuel) on top of our airfares.

Since April 2010, the DGCA has increased the domestic economy class fare cap and no longer permits us to add a fuel surcharge on top of the domestic economy class fare cap. The domestic economy class fare cap can now only be adjusted when fuel prices or the Rupiah — U.S. dollar exchange rate exceed certain thresholds established by the DGCA for a prescribed period. As a result of this new domestic regulatory regime, we have shifted the focus of our revenue management — particularly for domestic flights — to allocation of seat inventory in the different fare classes.

We believe that our current revenue management system has relatively limited capabilities when compared to certain of our competitors, and we are currently in the process of upgrading our revenue management software to improve our ability to manage seat inventory by origin and destination, allocate seat inventory among the different fare classes and better forecast demand. We are also in the process of upgrading our passenger service solutions system in order to improve our direct selling channels to consumers. We expect these upgrades will be completed in the next 12 to 18 months.

Citilink operates an integrated information technology system called “tikAero” provided by TIK Systems (Thailand), a subsidiary of Mercator, the information technology solutions provider of the Emirates Group, which includes components for revenue management, inventory and booking system, a business-to-business internet-booking engine for travel agents, a business-to-enterprise and business-to-customer internet-booking engine for direct consumer sales, a departure control system, revenue accounting and management information and reporting. Citilink also operates a revenue management and optimization module provided by AirRM, a company based in Seattle, Washington, United States. Citilink is also developing proprietary crew management and flight operations software to be used with the tikAero system.

See “Risk Factors — Risks Relating to Our Business — We rely heavily on automated systems to operate our business and our failure to maintain and upgrade these systems could harm our business.”

Marketing, Sales and Reservations

Passenger Services

Marketing

Our marketing strategy is to leverage our strong brand name to expand our market share in Indonesia’s growing passenger market and improve awareness of the “Garuda Indonesia” brand in the international market. We believe that, as the national flag carrier, the “Garuda Indonesia” brand is widely recognized in Indonesia and abroad. Moreover, we believe that providing chartered flight services to national leaders and VIP delegations enhances our prestige and reputation.

We advertise mainly through our internet website, outdoor billboards, newspapers and magazines and television and radio commercials. We also engage in numerous promotional activities, including sponsorship of important cultural and sporting events and serving as the designated airline of special Indonesian cultural and sporting delegations.

Our frequent flyer program, *Garuda Frequent Flyer*, established in 1999, was the first such program established by an Indonesian airline. We had approximately 435,000 members enrolled as of September 30, 2010 and GFF members collectively accounted for 28.8% of total passengers for the nine months ended September 30, 2010. We believe our frequent flyer program promotes loyalty, particularly among business travelers, by offering award redemption for continued patronage. Members can earn mileage credits on our flights, or by using services of other program participants, including credit card issuers, hotels and telecommunications service providers. Mileage credits can be redeemed for free, discounted or upgraded travel on our flights or exchanged for certain goods sold through in-flight sales.

In December 2009, we were awarded a four-star rating by Skytrax, a research company and owner of a website specializing in the air transport industry, confirming our improvement in product and service quality and, in May 2010, we were honored as winner of the Skytrax 2010 "World's Most Improved Airline" award.

We are currently working toward becoming a member of a global airline alliance in order to expand our international network and increase our market share for international air travel. We believe that our participation in the alliance will enable the alliance to bridge the gap between its networks in Southeast Asia and the Southwest Pacific region. We believe that we will also benefit from the wide networks covered by other members of the alliance, which include Europe, the Americas and Africa. In order to become a member of the alliance, we must fulfill membership requirements and pass several phases of audits, including audits of governance and organization, safety and security, purchasing and synergies, reservations and distribution, frequent flyer programs, airport customer services, lounges, IT and sales. As part of the initial phase, we signed a global airline alliance adherence agreement with all alliance members on November 23, 2010 and we aim to become a full alliance member by June 2012. We believe that the alliance will enable us to strengthen our image in the airline industry.

Sales and Distribution

We maintain a network of 32 domestic and 17 international and regional branch offices staffed by our own personnel. We operate regional sales offices in most major cities in Indonesia, including Jakarta, Surabaya, Denpasar, Medan and Makassar. We also maintain international sales offices in, among other cities, Singapore, Tokyo, Jeddah, Sydney and Perth. In the nine months ended September 30, 2010, approximately 23% of our passenger revenues were derived from our own sales offices.

As of September 30, 2010, we have a network of 2,988 travel agents (663 IATA agents and 2,325 sub-agents) in Indonesia and, to support our international sales, a network of 2,107 travel agents (1,967 IATA agents and 140 sub-agents) internationally. We have appointed eight general sales agents in eight countries, including US, Canada, India and New Zealand. The commission structure of agent sales varies depending on a number of factors, including whether the sale is for domestic or international flights and the fare structure of a particular route. For the nine months ended September 30, 2010, ticket sales from travel agents (excluding sales to our corporate customers) generated approximately 69% of our total passenger net sales.

We also make online direct sales through our call center or our website, which provides direct payment facilities. We launched our online booking and ticketing services for domestic routes in early 2009 and for international routes at the end of May 2010. For the nine months ended September 30, 2010, ticket sales from online direct sales generated approximately 2% of our total passenger net sales.

We also make direct sales to government and corporate customers, leveraging our geographic proximity to many Jakarta-based government and corporate customers, and have entered into long-term preferred service agreements with such customers.

Similar to other Indonesian airlines, all of our sales offices in Indonesia are connected to the ARGA computerized ticketing and reservations system. We have also entered into agreements with several international reservation system operators, including ABACUS in Southeast Asia, SABRE and GALILEO in the United States and AMADEUS in Europe. These reservation systems provide real-time information to facilitate the booking and management of reservations of airline tickets and are cost-effective ways to expand our sales channels.

Air Cargo Services

Our cargo strategic business unit is responsible for sales and marketing activities with respect to our air cargo services. Although we enter into direct sales with customers, our primary sales and marketing channel is through independent cargo agents. Such agents track available air cargo space among all airlines and act as an intermediary between the customer and the cargo service provider. We typically pay such agents a commission based on a percentage of the cargo freight rate.

We engage three types of agents:

- global transport and logistics companies with extensive overseas sales networks to serve the needs of multinational companies and import/export companies;

- domestic conglomerates with extensive domestic sales networks; and
- local agents (both Indonesian and abroad) that typically have large market shares in their local markets and are knowledgeable of local regulatory requirements and customs procedures.

Our principal competitors for cargo services are Lion Air in the domestic cargo market and Singapore Airlines, Malaysian Airlines, EVA Air, Korean Air and China Airlines in the international cargo market.

Code-share Agreements

Code-sharing is a marketing arrangement whereby the non-operating airline sells seats and/or space on flights operated by its code-share partner as its own product using its own two-letter airline designator code. Code-share typically allows free-sale, seat swap or space blocks.

We have successfully established code-share partnerships with various international airlines including Silk Air, China Airlines, China Southern Airlines, Korean Air, Malaysian Airlines, Philippine Airlines, Vietnam Airlines, KLM Royal Dutch Airlines, Singapore Airlines and Turkish Airlines, and believe that we have one of the most extensive code-share arrangements among Indonesian airlines. We typically seek code-share arrangements to service important markets outside our current international route network that cannot be profitably served due to low passenger volumes. We believe that code-share arrangements are a cost-effective means to expand the scope of our passenger services, increase our revenues and enhance our image in the international market. As of September 30, 2010, we had 223 scheduled code-share round-trip flights every week operated by our code-share partners, and we operated 55 scheduled code-share round-trip flights every week.

Management Information Systems

We believe that management information systems are critical to our business. We have implemented the following management information systems:

- a passenger service solutions system providing reservations, ticketing, seat inventory and departure control functions to enable us to manage flight scheduling and passenger seating, as well as providing us with a distribution and ticketing platform;
- an internet booking engine and online payment system providing reservations, e-ticketing, an interface between the booking engine and the payment gateway and email notifications;
- a revenue management system providing market data analysis (including changes in the airfares of our partners and competitors) to enable us to establish segmented pricing for our airfares and allocate our seat inventory across price segments in order to effectively maximize passenger yield;
- a data warehouse system, designed to effectively extract and integrate information from our financial, market and operating data;
- kiosk/self service, providing passengers with flight check in;
- integrated cargo solution that provides functionality for cargo reservations, airway bills, inventory, tracking/control system to manage the flight, capacity, cargo inventory and financial management of cargo revenue;
- a network and schedule management system for development and management of route networks and flight scheduling in order to reduce operating expenses and maximize revenues;
- a finance system, designed to help us prepare consolidated accounts and financial statements and reports, including airline standard forms and government report forms, manage cash flows, and prepare various financial statements;
- a human resources ("HR") system, automation of core HR processes including employee administration, payroll and legal reporting to increase efficiency and support our compliance with evolving global and local regulations;
- a logistics system including an enterprise resource planning module to meet needs for MRO services and a Fuel Online Garuda application at all branch offices to provide ease of management and control of aircraft fuel use for every flight.
- an aviation supplies management system, designed to help us minimize our inventory level while maintaining a sufficient inventory of spare parts;

- an integrated operations control system to manage aviation operations; and
- communications infrastructure updates by IP-based technology for both domestic and international networks which promotes cost efficiency in the communication network.

We also intend to implement a CRM in order to better manage our relationship with our GFF members, who collectively accounted for 28.8% of total passengers for the nine months ended September 30, 2010. We are also currently in the process of upgrading our passenger service and revenue management systems in conjunction with the establishment of a new data center. See "Risk Factors — Risks Relating to Our Business — We rely heavily on automated systems to operate our business and our failure to maintain and upgrade these systems could harm our business."

Competition

The airline industry is intensely competitive. We face various degrees of competition from FSCs and LCCs in each of the markets we serve. From time to time, certain of our domestic and international routes face significant fare discounting which reduces our passenger yields. The recent entry of new airlines, particularly LCCs, has served to further increase price competition. We cannot assure you that our present or future competitors will not engage in price-cutting or other tactics, including increasing capacity on existing routes or conduct fare discounting or low-cost operations, in an attempt to gain market share, which may have a material adverse effect on our financial condition and results of operations. See "Risk Factors — Risks Related to the Airline Industry — The airline industry is intensely competitive".

Scheduled International Passenger Services

We compete with many other well-established international airlines, both FSCs and LCCs, on our international routes. We compete in the international market with a variety of airlines, which vary on each route. We compete with Japan Airlines, Korean Air and China Southern Airlines in the Japan, China, Korea region. We compete with Singapore Airlines, Malaysia Airlines and Thai Airways in Asia (ex Japan, China and Korea) and in particular in Malaysia and Singapore. We compete with Qantas and Jetstar in the Australian market. We compete with Saudi Airlines, Emirates, Etihad and Qatar Airways in the Middle East. And we compete with a variety of airlines in the European market. The intensity of competition varies from route to route, depending on the number and nature of the competitors. Compared with us, many of our international airline competitors may have longer operating histories, substantially greater financial and technological resources, larger sales networks, greater name recognition and more widely accessible reservation systems. Moreover, we may face additional competition as a result of global airline alliances. Members of global airline alliances enjoy certain benefits such as code-sharing, shared airport lounge facilities, shared benefits of frequent flyer programs and increased brand enhancement.

International flight routes which are highly competitive include routes such as Jakarta — Singapore, Jakarta — Kuala Lumpur, Jakarta — Jeddah and Denpasar — Perth.

Scheduled Domestic Passenger Services

We are the only FSC and one of only two Indonesian carriers with IOSA safety certification serving the domestic passenger market. As the only FSC, we believe that we have a strong brand position and enjoy strong brand loyalty among premium passengers in the domestic market, particularly among our GFF members.

We compete for budget passengers with Indonesian LCCs including Lion Air, Batavia Air and Sriwidjaya Air. The intensity of competition on our domestic routes varies from route to route, depending on the number and nature of the competitors. For our FSC Garuda Indonesia business, we believe that, given the lower operating cost structure for LCCs, the economy class fare caps applicable to LCCs versus FSCs can result in higher profitability for LCCs on economy class fares for domestic routes during peak periods when the fares we seek to charge to FSC Garuda Indonesia passengers are most often limited by price caps to which we are subject. We have and will continue to face competition from other forms of transport for domestic travel, including rail and coach services.

Domestic flight routes which are highly competitive include routes such as Jakarta — Denpasar, Jakarta — Surabaya, Jakarta — Medan and Jakarta — Ujung Pandang.

Air Cargo Services

The Indonesian air cargo sector is highly competitive. We compete in the international and domestic air cargo sectors with other passenger airlines, including Singapore Airlines, Malaysian Airlines, Korean Air and China Airlines, that offer air cargo services in connection with scheduled passenger services as well as with dedicated air cargo airlines. We also compete with dedicated air cargo carriers and integrated air cargo carriers such as DHL and UPS that have their own ground transport and offer door-to-door air cargo services. We believe that we are the leader in the domestic market due to our domestic network coverage and consistency in meeting scheduling demands. In the international air cargo market, our market share is low due to our limited cargo capacity as compared to other operators in the Asia region, including Singapore Airlines, Malaysian Airlines, Cathay Pacific, Korean Air and China Airlines, which operate a larger fleet of wide-body aircraft and freighters.

Pilots and Flight Attendants

We hire most of our pilots directly from Sekolah Tinggi Penerbangan Indonesia, the premier pilot training institute in Indonesia, Bali International Flying Academy and other domestic and international pilot training academies. We also hire pilots from other sources, including through occasional lateral hires from other airlines. We have in the past sent recruits to foreign pilot schools for additional training before they join us. The DGCA regulates the recruitment of pilots. As of September 30, 2010, the average experience of our pilots was 22 years.

We provide additional training for our pilots at our own training centers in Jakarta, which are equipped with full flight simulators for various aircraft. We combine classroom instruction with flight simulation training. We intend to send some of our pilots to attend the training programs of our airline affiliates. When a new aircraft type is introduced into our fleet, Airbus or Boeing typically offers training for our pilots. All pilots of Indonesian airlines, including ours, are licensed by the DGCA, which requires Indonesian pilots to undergo an annual recertification examination.

We train our flight attendants in our own flight attendant vocational schools, which provide a training program consisting of courses in safety, security and service. The training program consists of 64 days of ground training, three mentor training flights and one examination flight. We also conduct annual safety, security and service training sessions for our flight attendants.

We also recruit trainee flight attendants from all provinces in Indonesia as part of our strategy to develop our "Garuda Indonesia Experience" to provide our Indonesian passengers with a familiar onboard culture and to introduce our foreign passengers to Indonesian culture and hospitality. In order to meet the demands of our international passengers, we also recruit trainee flight attendants from Japan, Korea and China. Our flight attendants participate in periodic training programs and are licensed by the DGCA.

There is currently a shortage of experienced pilots in the Indonesian aviation sector and we intend to increase the proportion of pilots recruited overseas. In July 2010, the DGCA has given its recommendation for us to hire foreign pilots on one year (extendable) contracts. In addition, we also intend to address the shortage of pilots by internal promotion of co-pilots to pilots through our captaincy program and by external hiring of pilots in Indonesia. Our strategy for external hiring includes recruiting Indonesian pilots with experience from other international aircraft operators, hiring foreign nationals on a short-term basis and hiring pilots on a short-term basis from other Indonesian carriers where such pilots are underutilized. See "Risk Factor — Risks relating to Our Business — Our inability to recruit, train, retain and motivate key personnel may adversely affect our business."

Safety

We are subject to the safety standards promulgated by the Minister of Transport through the DGCA. The DGCA is a member of ICAO, which establishes global safety standards for the airline industry. The civil aviation administration authority of the country in which the airline is incorporated implements related regulations and is responsible for ensuring that the aircraft and flight crew meet such standards. Members of ICAO typically recognize the certification of compliance issued by the country of registry.

The DGCA has jurisdiction over operational safety, maintenance and training standards for all Indonesian airlines. The DGCA also issues rules and regulations relating to, among other things, aircraft maintenance and operations, equipment, dispatch, communications, flight personnel and other matters affecting air safety. The DGCA requires each Indonesian airline to provide flight safety records to the DGCA periodically, including the reports of flight incidents or accidents involving its aircraft during the relevant reporting period and other safety-related problems. To ensure compliance with its regulations, the DGCA conducts periodic safety inspections on each Indonesian airline. Failure to meet the safety standards may result in fines or other administrative penalties. We are in compliance with directives and measures of the DGCA and have not incurred any material fines or penalty for failure to comply with safety standards in effect.

In addition to safety standard certifications and compliance with DGCA safety regulations, we are required to comply with safety standards promulgated by the aviation regulatory authority of each international destination to which we operate flights, as well as international safety standards issued by associations such as the IATA. We are required to obtain certification from the appropriate authorities in each international destination to which we operate flight routes. Because airlines have responsibility for passenger safety, we are also subject to risks that may arise as a result of safety failures by airports.

We are dedicated to ensuring the safety of our passengers and maintaining strict compliance with all laws and regulations applicable to flight safety. We have established a safety committee consisting of members of our senior management to formulate safety policies and monitor the implementation of safety-related requirements. We prepare and distribute to our employees DGCA-approved safety manuals and training guidelines. We periodically evaluate the skills, experiences and safety records of our pilots.

We have adopted measures to eliminate factors that may impair flight safety. We had 0.53 flight incidents per 1,000 departures in 2009 and 0.35 flight incidents per 1,000 departures in the nine months ended September 30, 2010. A “flight incident” is defined by the DGCA as an occurrence, other than an accident, associated with the operation of an aircraft that affects or could affect the safety of its operations. The DGCA does not set standards for acceptable flight incident ratios.

Our various code-share agreements, including our agreements with Silk Air, China Airlines, China Southern Airlines, Korean Air, Malaysian Airlines, KLM Royal Dutch Airlines, Philippine Airlines, Vietnam Airlines, Singapore Airlines and Turkish Airlines, typically require code-share partners to audit each other’s safety management system. These safety audits are typically conducted prior to the implementation of the code-share arrangements. The reciprocal recognition of the other party’s safety standards is important to the successful implementation of code-share agreements. Our code-share agreements typically provide that each party’s audit obligations shall be deemed to be satisfied for such time as that party is registered as an operator under the IATA Operational Safety Audit (IOSA) program. Pursuant to the registration requirements of the IOSA program, airlines are required to renew their registration on a bi-annual basis through the conduct of a renewal audit. We became the first Indonesian airline to obtain registration as an operator under the IOSA program in 2008, and most recently renewed our registration in April 2010. This registration expires in September 2012, unless renewed.

On March 7, 2007, Garuda Indonesia Flight GA200 overran the runway on landing at Adisucipto International Airport in Yogyakarta. Of the 140 passengers and crew on board the flight, 21 passengers and crew members died. The NTSC accident investigation determined that the cause of the accident was pilot error, and that the pilot ignored multiple automated warnings of excessive landing speed and Company procedures to abort the landing. The pilot was subsequently convicted of criminal negligence, although this conviction was later overturned on appeal. Since 2007 until September 2010, we have paid approximately US$82.4 million in compensation to passengers and the families of the deceased passengers, and incurred losses of US$21.6 million relating to the write-off of the aircraft, and we have received an aggregate of US$104.0 million in compensation under our insurance policies. On July 30, 2010, the wife and child of a deceased crew member filed a suit in the Kyoto District Court of Japan claiming for an amount of JPY 188,990,530 for loss of spousal support and estimated loss of earnings. A pre-hearing was held on November 5, 2010. No findings or decisions have been released in connection with the hearing as of the date of this Offering Circular. This suit has not been settled as of the date of this Offering Circular. See “Risks Factors — Risk Related to the Airline Industry — Our reputation and business could be adversely affected if we experience an aircraft accident or incident.”

The following is a summary of our other major flight accidents in the past fifteen years:

- On January 16, 2002, GA Flight 421 on a Boeing 737-300 aircraft flying from Ampenan to Yogyakarta, crashed when both of its engines flamed out while encountering severe turbulence during the flight. The flight crew was unable to restart the engines and crash landed the aircraft on the Bengawan Solo River. Of the 60 passengers and crew members on board the flight, one crew member died, with 13 passengers and crew members suffering severe injuries. We paid approximately US$1.4 million in compensation to passengers and the family of the deceased, and incurred losses of US$21.5 million relating to the write-off of the aircraft. We received an aggregate of US$22.9 million in compensation under our insurance policies.

- On September 26, 1997, GA Flight 152 on an Airbus 300 flying from Jakarta to Medan, struck trees at the top of a ridge in Buah Nabar, North Sumatera while in automatic pilot mode. None of the 234 passengers and crew members on board the flight survived the crash. We paid approximately US$37.7 million in compensation to the families of the deceased passengers, and incurred losses of US$14.4 million relating to the write-off of the aircraft. We received an aggregate of US$52.1 million in compensation under our insurance policies.
- On June 13, 1996, GA Flight 865 on a McDonnell Douglas DC10-30 aircraft flying from Fukuoka, Japan to Denpasar, Indonesia, aborted its take-off from a runway at Fukuoka International Airport, and caught fire. Of the 275 passengers and crew members on board, three passengers died and 16 passengers and two crew members were seriously injured. We paid approximately US$6.35 million in compensation to passengers and the families of the deceased passengers, and incurred losses of US$29.17 million relating to the write-off of the aircraft. We received an aggregate of US$35.6 million in compensation under our insurance policies.

All claims made in relation to these three accidents have been settled.

Our Properties and Facilities

Our headquarters is located at Garuda City at Soekarno-Hatta International Airport in Cengkareng near Jakarta and includes hangars, food preparation centers and other related services. We also own certain properties located in various destinations to which we operate routes for the housing of our crew, as well as certain buildings for training of pilots and flight attendants and housing certain flight equipment such as simulators. We also own certain properties in connection with our hotel operations.

Leased Properties

As of September 30, 2010, we leased 21 properties with an aggregate gross floor area of approximately 9,000 square meters from independent third parties or Government-affiliated state-owned entities throughout our service regions in Indonesia.

As of September 30, 2010, we leased 15 properties in overseas countries with an aggregate gross floor area of approximately 4,927 square meters from independent third parties to use as sales offices and offices.

Airport Facilities

We lease substantially all of our facilities at each of the domestic and international airports that we serve. Leases for our passenger service facilities in the terminals, which include ticket counter and gate space, operations support area and baggage service offices, generally have a lease term ranging from one year to five years, and contain provisions for periodic adjustments of lease rates. From time to time, we are also responsible for maintenance, insurance and other facility-related expenses and services. We also lease aircraft maintenance facilities at certain airports. In general, we pay for the cost of providing, operating and maintaining these facilities. In most airports that we fly to, we enter into service agreements and pay for the usage of airport facilities. On November 9, 2010, we entered into a Memorandum of Understanding with AP II for a dedicated terminal for Garuda and other members of the global airline alliance which we intend to join at Soekarno-Hatta International Airport in Cengkareng. We expect our dedicated terminal to commence operation in July 2011. On November 18, 2010, we also entered into a Memorandum of Understanding with AP I for a dedicated terminal for Garuda and other members of the global airline alliance which we intend to join at Ngurah-Rai International Airport in Denpasar, Bali.

Insurance

We maintain comprehensive all risk insurance policies with respect to hulls and spare parts, as well as hull, war and allied perils risk insurance and aircraft hull all risks deductible insurance of the types and in the amounts customary for international airlines. We are insured for liabilities arising from (i) deaths or bodily injuries of passengers, crew members and third parties, (ii) damage to baggage, cargo and mail, (iii) loss of pilot license and (iv) damage to aircraft hull and third-party property. For bodily injury, personal injury and property damage including declared values on cargo and baggage, we are insured for a combined single limit of US$1.5 billion (or the currency equivalent) for any one occurrence. For damage to aircraft hull, we are insured up to the "agreed value" of the aircraft in each case.

Indonesia is a party to the Warsaw Convention, which establishes the principle of limited liability of air transport companies based on a presumption of fault. As a member of the IATA, we are a party to both the IATA Intercarrier Agreement on Passenger Liability and the Agreement on Measures to Implement the IATA

Intercarrier Agreement pursuant to which the signatory airlines have agreed that injured passengers or survivors of deceased passengers can receive compensation of up to 100,000 Special Drawing Rights ("SDR"). SDR is an artificial currency unit created by the International Monetary Fund and 100,000 SDR represents an equivalent of approximately US$154,546 as of September 30, 2010.

We believe that we maintain reasonable levels of insurance coverage given the maximum civil liability that can be imposed due to injuries to passengers under Indonesian law, the Warsaw Convention or any other applicable bilateral agreements.

Environmental Issues

We are subject to Indonesian noise regulations and our aircraft noise levels are certified by the DGCA. The Indonesian airports where we operate are subject to regulations relating to discharges to surface and subsurface waters, the management of hazardous substances, oils and waste materials, and noise levels. We are also subject to the environmental and noise regulations in each country where we fly. We are in compliance with the relevant Indonesian environmental and noise regulations. See also, "Regulation of the Airline Industry in Indonesia — Environment and noise regulation."

Intellectual Property

We have various domestic intellectual property rights relating to our business. Such rights are granted in the ordinary course of our business and generally are ancillary to our procurement of equipment from independent third parties on non-exclusive and non-transferable bases. We own various trademarks, including the name "Garuda Indonesia" and our logo.

Our Employees

The following table sets forth, as of the dates indicated, the number of our employees:

	As of December 31,			As of September 30,	
	2007	2008	2009	2009	2010
Flight crew:					
Pilots	558	563	579	574	626
Flight attendants	1,909	1,724	1,608	1,710	1,859
Ground Personnel:					
Ground services	431	406	397	436	373
Maintenance	95	104	102	103	99
Other centralized functions:					
Marketing, reservations and sales	871	706	764	842	749
Cargo	372	354	295	348	286
Medical Centre	81	78	59	73	64
Others	1,491	1,613	1,271	1,442	1,434
Total employees	5,808	5,548	5,075	5,528	5,490

Four labor unions represent the interests of our cabin crew, cockpit crew, flight attendants and other employees (*Serikat Karyawan Garuda*), respectively. Our collective bargaining agreement with these unions expired in 2008. We negotiated a new collective bargaining agreement with these unions through mediation assisted by the regional labor authorities (*Dinas Tenaga Kerja dan Transmigrasi/Disnaker*). The regional labor authorities suggested to us and the labor unions to agree on certain proposed provisions that the regional labor authorities have approved. On December 6, 2010, we conveyed our consent to the proposal of the regional labor authorities. We have been verbally informed, although we have not received formal notice, that the labor unions have rejected the suggested proposal, hence any of the parties may bring a dispute regarding the collective bargaining agreement before the Industrial Relations Court (*Pengadilan Hubungan Industrial*). See "Risk Factors — Labor activism could adversely affect us, our customers and Indonesian companies in general, which in turn could affect our business, financial condition, results of operations and prospects."

Our employees receive cash remuneration consisting of salary and other cash subsidies. In general, employee salaries are determined based on the employee's qualification, position, seniority and performance. Cash subsidies may include living subsidies, and may vary depending on circumstances. We also provide non-cash benefits, including medical insurance, unemployment insurance, early retirement and other social welfare benefits, as required under Indonesian law. In addition, all of our full-time employees in Indonesia are covered by a defined contribution retirement scheme, to which we are required to make annual contributions at a rate of 5.5% of our employees' base salaries.

Human Resources Development

Our strategy to develop our human resources is implemented through our Human Capital Management System, which cover the various stages of human resources development including talent acquisition, learning and development, performance management and rewards, employee relations and talent management and organizational development. The Human Capital Management System allows us to monitor and allocate resources to manage the development of our employees. For example, we provide training programs based on the needs of our employees in order to support their development and improve their performance and career. In addition, development programs for future leaders are prepared through management development programs. We also implemented an integrated reward and performance management system to motivate employees to deliver their full potential and competence to support our performance.

In order to maintain sustainable growth, we also implement talent management strategies which include talent acquisition and talent pool development. Our talent management strategies include building and developing talent, recruiting experienced talent or expertise and borrowing for temporary periods by cooperating with other aircraft operators.

We have also introduced measures to benchmark each position and employee with a view to improving productivity characterized by transparency and meritocracy. We have also developed and implemented the FLY-HI program aimed at promoting our corporate culture and values, including efficiency and effectiveness, loyalty, customer centricity, honesty and openness and integrity. We believe that these values will provide guidance to our employees to work towards achieving our common goals.

Corporate Social Responsibility

We are committed to fulfilling our corporate responsibility to the community. We have focused on a variety of areas such as education, community development and environment.

As part of our commitment to education, we have corporate social responsibility programs in place for providing tuition for impoverished students and opportunities to take part in activities abroad. We also provide technical and marketing assistance to small and medium-sized enterprises to improve the quality of their products and develop their marketing capabilities.

We also successfully implemented the "One Tree One Passenger" program, where we set aside a portion of our income attributable to passenger revenues from Japanese and Australian passengers and donated the funds to Sebangau National Park in Central Borneo and Jogyakarta, Central Java for reforestation projects. Together with the World Wildlife Fund, we planted trees covering approximately 300 hectares for both regions in aggregate. As a result of the reforestation projects, both Sebangau National Park and Jogyakarta have now developed into eco-tourism destinations with increasing community business.

Litigation and Other Legal Proceedings

On May 4, 2010, the Indonesian Business Competition Supervisory Commission (*Komisi Pengawas Persaingan Usaha* or "KPPU") fined us Rp. 187.0 billion for alleged anti-competitive practices with respect to passenger fuel surcharges in violation of Article 11 of Law No. 5 of 1999 on Prohibition of Monopolistic Practices and Unfair Business Competition (Law No. 5 of 1999) (the "Competition Law"). On June 17, 2010, we submitted an appeal of the decision of the KPPU to the Central Jakarta District Court. On December 8 and 15, 2010, the District Court held hearings and ordered the KPPU to hold additional examinations of expert witnesses designated by us. The KPPU is scheduled to submit a dossier of expert testimony to the panel of judges on January 26, 2010. No decision has been reached in connection with this appeal as of the date of this Offering Circular. In September 2009, the Australian Competition and Consumer Commission commenced proceedings against our Company, together with other international airlines, for alleged participation in a global cargo fuel surcharge cartel. Between October 2009 and June 2010, pre-hearings were held with respect to the charges against us and, on June 2, 2010, the Federal Court of Australia, New South Wales District Registry, rejected our motion to dismiss based on grounds under the Foreign States Immunities Act 1985. On October 17, 2010, we submitted an appeal against the dismissal which is currently pending review by the court. No other findings or decisions have been made in connection with the proceedings as of the date of this Offering Circular. In 2008, the New Zealand Commerce Commission published a statement of issue against us, together with other international airlines, for alleged participation in a global cargo fuel surcharge cartel. The joint defense hearing with respect to the charges against us and the other international airlines in New Zealand is scheduled to commence in 2011. No findings or decisions have been released in connection with the New Zealand hearing as of the date of this Offering Circular. See "Risk Factors — Risks Relating to Our Business — Our fuel surcharges have been challenged in Indonesia and Australia."

On October 27, 2010, the KPPU fined us Rp. 1 billion and ordered us to pay damages of Rp. 7,075 billion for alleged anti-competitive practices in violation of Article 19(d) of the Competition Law with respect to the direct appointment of PT Gaya Bella Diantama and PT Uskarindo Prima in connection with the procurement of merchandise for distribution to passengers on our *hajj* flights for the year of 2009 until 2011. We received the decision of the KPPU on November 30, 2010 and we subsequently filed an appeal to the District Court for Central Jakarta on December 20, 2010. No hearing has been held and no decision has been reached in connection with this appeal as of the date of this Offering Circular.

On March 7, 2007, Garuda Indonesia Flight GA200 overran the runway on landing at Adisucipto International Airport in Yogyakarta. Of the 140 passengers on board the flight, 21 passengers and crew members died. Since 2007 until September, 2010, we have paid approximately US$82.4 million in compensation to passengers and the families of the deceased passengers, and incurred losses of US$21.6 million relating to the write-off of the aircraft, and we have received an aggregate of US$104.0 million in compensation under our insurance policies. On July 30, 2010, the wife and child of a deceased crew member filed a suit in the Kyoto District Court of Japan claiming for an amount of JPY 188,990,530 for loss of spousal support and estimated loss of earnings. A pre-hearing was held on November 5, 2010. No findings or decisions have been released in connection with the hearing as of the date of this Offering Circular. See "— Safety" and "Risk Factors — Risks Relating to the Airline Industry — Our reputation could be adversely affected if we experience an aircraft accident or incident."

On August 6, 2004, we entered into a rental agreement with PT World Simulator Technology ("WST") to provide space for WST to install its flight simulator of Boeing 737-200 at our flight simulator facility. On December 14, 2006, WST filed a suit at the District Court of Central Jakarta claiming that we (i) defaulted in providing supporting facilities and did not permit the use of the facility and (iii) demanded higher than agreed rental fees. On June 4, 2007, the District Court of Central Jakarta accepted WST's claim and ordered us to pay damages to WST in the amount of US$1,360,800 plus Rp. 1,590,000,000. Both we and WST appealed this decision to the Jakarta High Court, which on June 4, 2008 decided in WST's favor and ordered us to pay material damages to WST of US$1,984,500 plus Rp. 1,590,000,000. On November 19, 2008, we submitted an appeal to the Indonesian Supreme Court. On November 3, 2010, we were notified that the Supreme Court denied our appeal. On November 19, 2010, we filed a civil review against the decision. No findings or decisions have been released in connection with the review as of the date of this Offering Circular. Notwithstanding the submission for civil review, we decided to comply with the decision of the Jakarta High Court and will pay the damages to WST as ordered.

On August 1, 2008, PT Metro Batavia ("Batavia") filed a claim to the Central Jakarta District Court against GMFAA and us. The claim relates to an invoice issued by GMFAA to Batavia for services rendered by GMFAA on Batavia's engine and the rental fee paid by Batavia for a rental engine during the service period. Batavia claimed that the machine was still within the warranty period provided by GMFAA and GMFAA should not have issued an invoice for the services rendered. Batavia demanded that GMFAA and us jointly and severally pay compensation for material damage in the amount of Rp. 500 million per day and US$50,000 per month from October 23, 2007 until the serviced engine was returned to Batavia and became operational. Batavia also demanded compensation for immaterial damages in the amount of US$10,000,000 or Rp. 92 billion. Both the Central Jakarta District Court and the Jakarta High Court have rejected Batavia's claim. On March 25, 2010, Batavia filed a cassation to the Supreme Court against the decision of Jakarta High Court. No decision has been made with regards to this case as of the date of this Offering Circular.

Our collective labor agreement entered into with our labor unions expired in 2008. We negotiated a new collective bargaining agreement with the labor unions through mediation assisted by the regional labor authorities (*Dinas Tenaga Kerja dan Transmigrasi/Disnaker*). The regional labor authorities have suggested to us and the labor unions to agree on certain proposed provisions that the regional labor authorities have approved. On December 6, 2010, we conveyed our consent to the proposal of the regional labor authorities. We have been verbally informed, although we have not received formal notice, that the labor unions have rejected the suggested proposal, hence any of the parties may bring a dispute regarding the collective labor agreement before the Industrial Relations Court (*Pengadilan Hubungan Industrial*).

On August 4, 2010, Hutomo Mandala Putera ("Tommy Suharto") submitted a claim against several defendants, including us, in relation to an article published by our in-flight magazine, Majalah Garuda, December 2009 edition. Tommy Suharto argued that the defendants have invaded his personal rights, reputation and privacy in an article on the Pecatu Indah Resort which noted that Tommy Suharto is a convict in relation to a homicide. Tommy Suharto submitted a claim to the South Jakarta District Court and demanded payment for material damages of Rp. 13,710,580 and immaterial damages of Rp. 25 billion to be paid jointly and severally by the defendants. PT Bali Pecatu Graha ("BPG") as the operator of Pecatu Indah Resort also submitted a claim against several defendants including the Company on the same basis. BPG's claim was submitted to the South Jakarta District Court on September 7, 2010. In this case BPG demanded material damages of Rp. 1,690,839,062 and immaterial damages of Rp. 25 billion to be paid jointly and severally by the defendants. Tommy Suharto and BPG have also demanded an apology from the defendants to be published in Majalah Garuda and several other national media. Both cases are pending review by the District Court of South Jakarta.

Other than the foregoing, we are not currently involved in any litigation or regulatory actions, the outcome of which would, in our management's judgment, have a material adverse effect on our results of operations or financial condition, nor is management aware of any such litigation or regulatory actions threatened against us.

Management

Our Board of Commissioners and Board of Directors each consist of five members. Members of our Board of Commissioners and our Board of Directors are elected for a five year term commencing as of the date of the general meeting of shareholders appointing such member, except that our commissioner Abdulgani, our president director Emirsyah Satar and our director Agus Priyanto have been elected for indefinite terms at our most recent general meeting of shareholders. Such appointments are made without prejudice to the rights of the general meeting of shareholders to dismiss a Commissioner or a Director during their term of office or to reappoint a Commissioner or Director whose term of office has expired. Members of our Board of Directors and Board of Commissioners are each appointed through a general meeting of shareholders. The duties and authority of each member of the Board of Commissioners and the Board of Directors are regulated by our articles of association.

Board of Commissioners

Our Board of Commissioners is responsible for providing supervision and advice to the Board of Directors. As of the date of this Offering Circular, our Board of Commissioners consisted of five members:

Name	Age	Commissioner Since	Position
Hadiyanto	48	2007	President Commissioner
Abdulgani	67	2005	Independent Commissioner
Adi Rahman Adiwoso	57	2007	Commissioner
Sahala Lumban Gaol	58	2007	Commissioner
Wendy Aritenang	45	2007	Commissioner

Hadiyanto has served as President Commissioner since June 2007. Hadiyanto currently also serves as a member of the Board of Directors of Indonesia Eximbank and a Director General of State Assets at the Department of Finance. He has previously served as President Commissioner of Bank Ekspor Indonesia, Commissioner of PT Bahana Pembinaan Usaha Indonesia, Commissioner of Bank BTPN, Commissioner of Tugu Reinsurance, member of Supervisory Board of Perum Perhutani, Head of Legal Division — Department of Finance, Alternate Executive Director of World Bank in Washington DC and Head of Legal and Public Relations Division — Department of Finance. Hadiyanto graduated with a Bachelor of Law from Universitas Padjadjaran. He obtained a certificate of International Tax Program from Harvard University, United States and received an LLM from Harvard University Law School in the United States.

Abdulgani has served as Commissioner since March 2005. He served as President Commissioner from 2005 to 2007 and President & CEO of the Company from 1998 to 2002. He previously served as Secretary of the Minister of the State Owned Enterprises, President Director of Bank Duta, President Commissioner of Bank Bukopin, Commissioner of PT Amro Duta Leasing and member of the Board of Directors of the Asean Finance Corporation in Singapore. Abdulgani obtained his degree in Economics from Universitas Indonesia and his Master degree in Economics from the University of Colorado at Boulder, United States. In our General Meeting of Shareholders convened on February 15, 2010, Abdulgani was appointed as Independent Commissioner.

Adi Rahman Adiwoso has served as Commissioner since June 2007. He currently also serves as Chairman of the Indonesian Institute of Corporate Governance (IICG), Chairman & CEO of ACeS and founder of PT Pasifik Satelit Nusantara. He was previously Director of Marketing of PT Satelit Palapa Indonesia, Board Member and COO of Orion Satellite Asia Pacific in Washington, D.C., Managing Director of PT Rajasa Hazanah Perkasa and active in Rasikomp Nusantara and Hughes Aircraft. Adi Rahman Adiwoso obtained a Bachelor of Science (BSc) in Aeronautical and Astronautical Engineering from Purdue University and received Master of Science from California Institute of Technology in the same field.

Sahala Lumban Gaol has served as Commissioner since June 2007. He currently also serves as Commissioner of PT Perusahaan Pengelola Aset (Persero). He was previously Commissioner of PT PGN (Tbk), Chairman of Working Group of the Board of Commissioners of Pertamina (DKPP), Supervisory Board of Fatmawati Hospital, Alternate Governor of Opec Fund as well as Lecturer at Universitas Indo Nusa Esa Unggul. Presently, he is active in the Coordinating Ministry of Economy with the current position of Deputy in Macro Economy & Finance. Sahala Lumban Gaol graduated with a Bachelor of Husbandry from Bogor Institute of Agriculture, completed his Masters studies in Economy from the University of Illinois, United States and received a Doctor of Philosophy in Economy with specializations in Economics, Finance, Monetary Economics, International Economics and Econometrics from Iowa State University, United States.

Wendy Aritenang has served as Commissioner since June 2007. He currently also serves as Advisor to the Minister of Transportation. He was previously a Secretary General of Department of Transportation, Directorate General of Rail Transportation, Deputy Minister of Research and Technology in Utilization and Socialization of Sciences and Technology, Commissioner of PT PLN Batam, Deputy of Administration & Planning of Batam Authority, Commissioner of PT Aditirta Batam, Assistant to Chairman in Monitoring & Evaluation of Development — BP3 Natuna, Head of Planning Division — BPP Teknologi, Head of General Division — HOH Bureau, Head of Pavilion of Indonesia (Expo Sevilla Spanyol), Project Leader for Exhibition of Tourism and Industrial Technology at BPP Teknologi, Site Engineer at PT Pembangunan Perumahan (Persero). Wendy Aritenang earned a Bachelor of Civil Engineering at the lnstitut Teknologi Bandung In 1979. Master of Science & Diploma (DIC) degree In 1986 and Doctorate in 1989 from the University of London at Imperial College of Science & Technology for Structure (Civil Engineering).

Under IDX Listing Regulation No. I-A, we are required to have independent commissioners comprising at least 30.0% of the total number of members of the Board of Commissioners. As of the date of this Offering Circular, only one of the five members of our Board of Commissioners is an independent commissioner, and we therefore do not have the requisite number of independent commissioners. Our shareholders resolved in November 2010 to convene a General Meeting of Shareholders to appoint another independent commissioner. Subsequently, we have requested the Government to convene such General Meeting of Shareholders to appoint another independent commissioner, and we intend to continue renewing this request. See "Risk Factors — Risks Relating to an Investment In Our Shares — We are not in compliance with certain IDX listing regulations and may become subject to IDX sanctions."

Board of Directors

Our Board of Directors is responsible for the overall management and day-to-day operations of the Company. As of the date of this Offering Circular, our Board of Directors consisted of five members:

Name	Age	Director Since	Position
Emirsyah Satar	51	2005	President Director
Achirina	53	2007	Director
Agus Priyanto	52	2005	Director
Ari Sapari	55	2007	Director
Elisa Lumbantoruan	50	2007	Non-Affiliated Director
Hadinoto Soedigno	57	2007	Director

Emirsyah Satar has served as President Director since March 2005 and has 11 years of service with the Company. He previously held key managerial positions at Citibank NA., Jakarta, Jan Darmadi Group, Niaga Factoring Corporations and Niaga Finance in Hong Kong. He first joined Garuda Indonesia in 1998 as EVP Finance, overseeing the Company's financial restructuring process. Emirsyah Satar left the Company in 2003 and was appointed as Deputy CEO of Bank Danamon, before rejoining Garuda Indonesia as President & CEO. At present, Emirsyah Satar also serves as President of INACA (Indonesia National Air Carriers Association). Emirsyah Satar received several awards including as Marketer of the Year Indonesia 2009 from MarkPlus Inc. and The Best of the Best CEO 2009 from Warta Ekonomi Magazine. Emirsyah Satar holds a degree in Accounting from Universitas Indonesia and has accomplished diploma programs at Sorbonne University in Paris.

Achirina has served as Director since October 2007 and has 24 years of service with the Company. She previously held key managerial positions within the Company including VP Business Support, VP Controllor, VP of Finance Administration, VP of Revenue and Financial Accounting. Member of the Marketing Revitalization team, Member of the Supervisory Board of Kokarga and Director of Finance Report Consolidation Section. Achirina earned her degree in Accounting from Universitas Padjadjaran, Bandung.

Agus Priyanto has served as Director since March 2005 and has 24 years of service with the Company. He has held various key managerial positions within the Company including General Manager in Frankfurt, Germany, Sydney, Australia, Zurich, Switzerland, Bandar Seri Begawan, Brunei Darussalam and Stockholm. Agus Priyanto earned his degree in Economics from Universitas Jenderal Sudirman, Purwokerto, and he has attended numerous aviation and airline-related training courses held by institutions in Indonesia and abroad.

Ari Sapari has served as Director since October 2007 and has 33 years of service with the Company. Has held various key managerial positions within the Company including President of the Association of Garuda Pilots, Section Head of Line Operations DC-10, Route Check Pilot DC-10, Simulator Instructor DC-10, Route

Instructor DC-10, Line Operations Manager DC-10, WIP (Presidential) Pilot and Instructor and Government Check Pilot. Ari Sapari received his Commercial Pilot Licence from Oxford Air Training School, England.

Elisa Lumbantoruan has served as Director since October 2007 and has 3 years of service with the Company. On November 15, 2010, our shareholders appointed Elisa Lumbantoruan as Non-Affiliated Director. He previously served as Director of PT Hewlett Financial Services, Regional Director of Hewlett Packard South East Asia Ltd., President Director of PT Hewlett Packard Indonesia, Director of Marketing of PT Compaq Computer Indonesia, Director of Marketing of PT Digital Astra Nusantara, Country Alliances Manager of Oracle Systems Asia Tenggara Pte. Ltd., Unit Sales Manager of PT Digital Astra Nusantara, Sales Manager of PT Cipta Arta Graha Informasi and Account Manager of PT Astra Graphia. Elisa Lumbantoruan obtained his Bachelor Degree in Mathematics from Bandung Institute of Technology.

Hadinoto Soedigno has served as Director since October 2007 and has 33 years of service with the Company. He was previously the CEO of GMFAA and has been involved with that company since its establishment, serving as Director, Executive Vice President and Head of Business Unit, among others. He has also served as Vice President at the Workshop Division, Garuda Indonesia. Hadinoto Soedigno obtained his Bachelor Degree in Mechanical Engineering from Bandung Institute of Technology and his Masters Degree in Management from Universitas Indonesia.

Term of Office

Members of our Board of Commissioners and Board of Directors of the Company were elected for a term of 5 years at several Extraordinary General Meetings of Shareholders held in 2005 and 2007, except that our commissioner Abdulgani, our president director Emirsyah Satar and our director Agus Priyanto have been elected for indefinite terms at our most recent general meeting of shareholders.

Compensation

The total compensation paid to our Board of Directors in 2007, 2008 and 2009 was Rp. 6,217.3 million, Rp. 8,142.8 million and Rp. 21,876.6 million, respectively.

Audit Committee

As a state-owned enterprise, under Decree of Ministry of State-Owned Enterprises No. PER-05/MBU/2006 (the "SOE Regulation"), we are required to have an audit committee. Under the regulations of BAPEPAM & LK and the IDX, we are also required to establish an audit committee within six months of our listing on the IDX. The audit committee must comprise of at least three members, one of which shall be the independent commissioner who will be the chairman and at least two additional committee members who are not from state-owned enterprises (SOE).

Abdulgani — see "Board of Commissioners" above.

Endang Mudiman has been a member of the Audit Committee since September 1, 2010. He currently serves as a member of the Audit Committee and Division Head of Accounting, Finance and Tax of PT Perusahaan Pengelola Aset (Persero). Endang Mudiman obtained a degree in accounting from STAN and is currently studying for a masters degree in management at Institut Bisnis Nusantara.

Adi Dharmanto has been a member of the Audit Committee since May 1, 2009. He is also currently employed by PT Nura Kapital and responsible for Business Development, Corporate Restructuring, Equity Financing & Project Financing. Adi Dharmanto obtained a degree in Civil Engineering from lnstitut Teknologi Sepuluh Nopember Surabaya (ITS) in 1987.

Corporate Governance Committee

Wendy Aritenang — see "Board of Commissioners" above.

Baitul Ihwan has been the member of the Corporate Governance Policy Committee since November 2008. He is also presently the Legal Division Head at the Railway Directorate General. His previous positions included Section Head of Driver Instructions; Head of Safety Sub-Directorate; Traffic & Road Directorate; Directorate General for Land Transportation; Passenger Transportation Section Head, Land Transportation Directorate; Cargo Transportation Section Head, Public Transportation Sub-Directorate, Traffic & Road Directorate, Land Transportation Directorate General. Baitul Ihwan obtained his Bachelor of Law in Semarang and Magister in Transportation Law from De Droit University in France.

G. Suprayitno has been a member of the Corporate Governance Policy Committee since November 2008. Presently he is a consultant for the GCG Clinic at the Indonesian Chamber of Commerce and Industry (Kadin), Executive Secretary of DPPK Program Implementation, and a member of the Remuneration and Nomination Committee and Risk Management Committee of PT Semen Baturaja. Previously he served as the consulting Team Head for HR Development at PT IGLAS, Head of the Development Team for competency and performance based Academic and Non-Academic HR Management System at ITB, and a member of the consulting team at PT Indonesia Power.

G. Suprayitno was born on February 14, 1956, obtained his bachelor's degree in Agriculture Mechanization from IPB, Magister in Management from Labora Management School, and Doctorate in Technical and Industry Management from ITB.

Risk Policy Committee

Sahala Lumban Gaol — see "Board of Commissioners" above.

Asril Fitri Syamas has been a member of the Risk Policy Committee since 2008. Presently he is also Researcher at the Directorate of Industrial Infrastructure, Deputy for Industrial Analysis, BPPT; and a member/Chairman of the Board of Directors for IPTN North America Inc. Seattle, United States. Previously he was the Chief of Team Selection, Monitoring and Evaluation for the Research Program in Industrial Technology and Engineering Development; Commissioner of PT IPTN; Assistant to the President Director of PT BPIS; Commissioner/President Commissioner of PT Nusantara System International; Senior Executive Vice President (Director of Finance) of PT IPTN; President Commissioner of IPTN Europe Gmbh, Hamburg, Germany; Vice President of Finance for PT IPTN; seconded to the Coordinating Ministry for Economy Finance and Industry as Assistant to the Ministerial Assistant for Industry, Mining and Energy. Asril Fitri Syamas obtained his bachelor's degree in Electrical Engineering from the University of Indonesia and Technological Economics from University of Stirling, United Kingdom.

Lily Rosilawaty Sihombing, has been a member of the Risk Policy Committee since 2008. Presently she is also the Deputy Senior Manager of PT Perusahaan Pengelola Aset (PPA). She was seconded from PT PPA to the Secretariat for the Indonesian Minister of Finance; Manager of PT PPA, Manager of IBRA, Operations Group of ASPAC Bank, National Committee of Asia APEC, Marketing Executive for Cakrawala Tours & Travel. Lily Rosilawaty Sihombing obtained an Accounting Diploma from Perbanas University, a bachelor's degree in Accounting from YAI University and an MBA from La Trobe University, Melbourne.

Internal Audit

Sri Mulyati has served as VP Internal Audit since May 2000. Prior to joining the Company, she worked at the Financial Supervisory Agency since 1984, ending her term there as the Section Head of Foreign Oil Contractor Supervision. Sri Mulyati graduated from the Faculty of Economics at Airlangga University in Surabaya in 1982 and has attended various courses and training programs in accounting and auditing by both local and foreign institutions.

Corporate Secretary

Ike Andriani has served as a Corporate Secretary since October 2009. Previously, she was a Corporate Secretary and Head of Corporate Legal & Governance Management of PT Excelcomindo Pratama Tbk. (previously PT Excelcomindo Pratama Tbk.) since 2005. She began her career as an Associate and Senior Associate at Hadiputranto, Hadinoto & Partners and Lubis Ganie Surowidjojo Law Firm, where she specialized in capital market transactions and general corporate work. Ike Andriani obtained her Law degree from Parahyangan Catholic University, Bandung, 1994.

Corporate Communication

Pujobroto has served as Vice President Corporate Communication since 2009. Previously he served as Vice President Corporate Secretary from 2007, and held various positions at the Company 1988 to 1998. Prior to rejoining the Company, Pujobroto worked at Indo-PR, a public relations consultant. Pujobroto completed his studies and was awarded a Master of Arts in Public Relations from Pittsburg State University, United States and obtained his bachelor degree from Faculty of Social and Political Studies, University of Indonesia in 1987. In 1991, He also attended a special program at the Economic Institute in Boulder, Colorado, United States.

Management and Employee Share Allocation Program

At an extraordinary meeting of our shareholders held on November 15, 2010 as amended by circular resolutions of our shareholders dated January 26, 2011 (the "EGM"), a management and employee share allocation program (the "Share Allocation Program"), consisting of (a) a reward/bonus share grant and (b) a discounted share purchase plan, was approved.

The Share Allocation Program must comply with BAPEPAM-LK Rule No IX.A.7 which permits a maximum of 10% of the Offer Shares being offered to the public in the Global Offering to be reserved on a preferential basis for employees of the Company. The aggregate number of Offer Shares offered pursuant to the Share Allocation Program will be up to 5% of the Offer Shares which are being offered by us to the public in the Global Offering, consisting of 1% under the reward/bonus share grant and 4% under the discounted share purchase plan.

The following are entitled to participate in the Share Allocation Program (i) members of our Board of Directors; (ii) members of our Board of Commissioners (other than our Independent Commissioners) and employees that are registered as of November 30, 2010 (together, the "**Participants**").

Reward/Bonus Share Grant

We will be granting a number of Offer Shares to Participants as a reward for their contribution to the Company. Such reward/bonus shares will be subject to a lock-up period of 12 months from the date of the listing of our Shares on the IDX, during which time the reward/bonus shares cannot be transferred by the Participant.

Discounted Share Purchase Plan

Under the discounted share purchase plan, Participants will have the opportunity to purchase Offer Shares in the Global Offering. We are paying 10% of the Offer Price of Offer Shares purchased by Participants in the Global Offering. Offer Shares purchased under the discounted share purchase plan will be subject to a lock-up period of 12 months from the date of the listing of our Shares on the IDX, during which time the discounted share purchase plan shares cannot be transferred by the Participant.

Management and Employee Stock Option Plan

A management and employee stock option plan (the "MESOP") was also approved at the EGM. The MESOP is an incentive program which gives participants the right to buy Shares in the future at a predetermined price.

Under BAPEPAM-LK Rule No IX.D.4, a maximum of 10% of new Shares issued by the Company over a two year period can be subscribed under the MESOP. The maximum amount of new Shares we will issue in relation to the MESOP program is 0.97% of our issued and paid up capital after the Global Offering. The mechanism for the implementation of the MESOP program must also be in accordance with IDX Rule No. I.A.

The MESOP will be implemented in three phases:

- during phase one, a maximum of 40% of the options in the MESOP will be distributed on the listing of the shares on the IDX;
- during phase two, a maximum of 30% of the options in the MESOP will be distributed at the latest in December 2011; and
- during phase three, a maximum of 30% of the options in the MESOP will be distributed at the latest in December 2012.

The redemption period for the options has not yet been determined. Under IDX Rule No. I.A, appendix item V.2.2, the redemption price of the options must be at least 90% of the average closing price over the 25 days prior to redemption. The Board of Directors will determine the terms and conditions for the redemption of the options distributed under the MESOP. Options distributed under the MESOP have a one year vesting period and have a life time of five years. After the end of vesting period, there will be determined a period of exercise for the options, up to two times per year.

Principal and Selling Shareholders

As of the date of this Offering Circular, our authorized share capital is 30,000,000,000 shares comprised of one Series A Dwiwarna Share and 29,999,999,999 Series B shares, each with a par value of Rp. 500 per share, and our issued and paid-up share capital was 18,240,996,000 shares comprised of one Series A Dwiwarna Share and 18,240,995,999 Series B shares. The Offer Shares are comprised of 6,335,738,000 Series B shares, of which 4,400,000,000 Series B shares are being offered by us and 1,935,738,000 Series B shares are being offered the Selling Shareholder. The following table sets forth certain information with respect to the beneficial ownership of our shares before and after the Global Offering:

	Ownership Before the Global Offering		Maximum Number of Offer Shares to be Sold in the Global Offering	Ownership After the Global Offering	
Shareholders	**Number of Shares**	**Percentage**		**Number of Shares**	**Percentage**
Series A Dwiwarna Share					
Government of the Republic of Indonesia	1	100%	—	1	100
Series B shares					
Government of the Republic of Indonesia	15,653,127,999	85.8%	—	15,653,127,999	69.14
Bank Mandiri	1,935,738,000	10.6%	1,935,738,000	0	0
AP I	403,634,000	2.2%	—	403,634,000	1.78
AP II	248,496,000	1.4%	—	248,496,000	1.10
Public	–	–	–	6,335,738,000	27.98
Total	18,240,996,000	100%	1,935,738,000	22,640,996,000	100

Bank Mandiri

The Selling Shareholder, Bank Mandiri, was established in 1998 through a merger of four state-owned banks. As of the date of this Offering Circular, the Government owns 66.8% of the shares of Bank Mandiri. Bank Mandiri's shares have been listed on the IDX since Bank Mandiri's initial public offering in July 2003. Bank Mandiri become our shareholder in December 2009 through conversion of the MCB as part of our debt restructuring. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Description of Material Indebtedness — Debt Restructuring".

Related Party Transactions

The following discussion is a summary of the significant transactions with our affiliates in the nine months ended September 30, 2010 and the years ended December 31, 2007, 2008 and 2009. The Company and its subsidiaries conduct transactions with related parties in the ordinary course of business. The Company believes each of these arrangements have been entered into on arm's-length terms or on terms that it believes have been at least as favorable to it as similar transactions with non-related parties would have been.

Nature of Relationships

We have ownership interests in PT Gapura Angkasa (an associate company) and Abacus International Holdings Ltd.

Lufthansa System Group GMBP was a shareholder of PT Aero Systems Indonesia (formerly PT Lufthansa System Indonesia) in 2008.

Revenue, receivables from and payables related to related parties are as follows:

	September 30, 2010 (Audited)			September 30, 2009 (Unaudited)		
	Revenue (nine months)	Trade accounts receivable	Trade accounts payable	Revenue (nine months)	Trade accounts receivable	Trade accounts payable
	(Rp. billions)	(Rp. billions)	(Rp. billions)	(Rp. billions)	(Rp. billions)	(Rp. billions)
PT Gapura Angkasa	18,129.1	15,990.6	35,440.1	21,577.1	11,977.5	53,103.7
Abacus International Pte., Ltd.	16,921.8	3,617.1	—	17,110.1	4,818.4	8,390.2
Total	35,050.9	19,607.7	35,440.1	38,687.1	16,796.0	61,493.8

	December 31, 2007 (Audited)			December 31, 2008 (Audited)			December 31, 2009 (Audited)		
	Revenue (one year)	Trade accounts receivable	Trade accounts payable	Revenue (one year)	Trade accounts receivable	Trade accounts payable	Revenue (one year)	Trade accounts receivable	Trade accounts payable
	(Rp. billions)	(Rp. billions)	(Rp. billions)	(Rp. billions)	(Rp. billions)	(Rp. billions)	(Rp. billions)	(Rp. billions)	(Rp. billions)
PT Gapura Angkasa	22,916.5	15,406.4	34,345.5	26.033.3	11,078.3	44,971.4	27,936.9	13,620.8	45,238.1
Abacus International Pte., Ltd.	19,718.2	5,240.8	16,259.8	20,012.6	3,363.4	4,335.6	22,217.5	3,179.6	3,516.0
Lufthansa System Group GMBP	—	—	13,702.3	—	—	19,624.3	—	—	—
Total	42,634.7	20,647.1	64,307.7	46,045.9	14,441.7	68,931.3	50,154.4	16,800.3	48,754.1

Description of our Shares

Historical Share Capital Information

Our authorized share capital as of September 30, 2010 was 15,000,000 shares with a par value of Rp. 1,000,000 per share and our issued share capital was comprised of 9,120,498 shares. Pursuant to an extraordinary meeting of our shareholders on November 15, 2010, as set forth in Deed No. 24 dated November 16, 2010, approved the reclassification and subdivision of (i) our authorized share capital into 30,000,000,000 shares with a par value of Rp. 500 per share, comprised of one Series A Dwiwarna Share and 29,999,999,999 Series B shares and (ii) our issued and paid-up share capital into 18,240,996,000 shares at Rp. 500 per share, comprised of one Series A Dwiwarna Share and into 18,240,995,999 Series B shares.

The following is a summary of material rights and restrictions related to our Series A Dwiwarna Share and our Series B Shares under applicable provisions of Indonesian law and the provisions of our articles of association. This description does not purport to be complete. All references to "our shares" are references to Series B shares.

Series A Dwiwarna Share

All of our shares are registered shares and registered under the name of the holder as recorded in the register of shareholders. Our shares consist of one Series A Dwiwarna Share ("Special Share"), which may only be owned by the Republic of Indonesia, and Series B shares, which may be owned by any person. The Special Share is not transferable and its holder has special rights which are not available to the Series B shares holders. All candidates for election to the Board of Commissioners and to the Board of Directors must be nominated by the holder of the Special Share. The approval of the holder of the Special Share is also required for certain decisions of our Company, including:

- election and dismissal of directors and commissioners;
- approval of any amendments to our articles of association, including any change to our capital;
- approval of any merger, consolidation, acquisition or spin-off of our company; and
- approval of any submission in relation to dissolution and liquidation or bankruptcy.

The holder of the Special Share is also entitled to request report and explanation regarding certain matters to directors and commissioners with due regard to regulations, particularly capital market regulations. Otherwise, the material rights and restrictions which are applicable to the Series B shares are also applicable to the Special Share.

Our Shares

Any transfer of our shares must comply with rules and regulations applicable in the Indonesian capital market and rules of the IDX. Transfers of shares only take effect after the transfer is registered in our register of shareholders (the "Register"). The transferor of any shares will be treated as the owner of such shares until the name of the transferee has been recorded in the Register by the Board of Directors, through our Share Registrar. Under the scripless system, PT Kustodian Sentral Efek Indonesia ("KSEI") will be registered as the holder of the shares in our Register, in its capacity as the central securities depositary institution which holds the shares on behalf of KSEI participants which in turn hold the shares on behalf of the investors (the "Beneficial Shareholders").

The holders of shares whose names are recorded in the Register ("Registered Shareholders") are entitled to pre-emptive rights in the event we issue new shares, convertible bonds, warrants or other securities convertible into equity securities except as provided below. See "Risk Factors — Risks Relating to an Investment in Our Shares — Your right to participate in future rights offerings could be limited, which would cause dilution to your holdings." For shares deposited with KSEI, all ownership rights are automatically distributed by the KSEI, through KSEI participants, to investors ultimately holding the shares as Beneficial Shareholders (or their assignees). Such pre-emptive rights may be sold and transferred to third parties without the consent of any party to the extent permitted by the rules and regulations applicable in the Indonesian capital market and rules of the IDX. If the Registered Shareholders or the Beneficial Shareholders (or their respective assignees) do not exercise their pre-emptive rights within a period of time determined by the Board of Directors (in accordance with the prevailing regulations) after the issuance of new securities, the Board of Directors may issue such shares, convertible bonds, warrants or other securities to third parties on the same terms and conditions.

In accordance with our articles of association and the prevailing regulations in capital markets, we may increase our capital without providing a pre-emptive right to the Registered Shareholders or the Beneficial Shareholders to subscribe for securities if, within any two year period, the increase in our issued share capital without pre-emptive rights for existing shareholders is no more than 10% of the paid-in capital.

Other than as described above, our authorized share capital may be increased or decreased by a resolution of general meeting of shareholders and subsequently our articles of association shall be amended. Any such amendment will be effective only after obtaining approval from the Minister of Law and Human Rights. In the case of a decrease in our authorized share capital, the approval from the Minister of Law and Human Rights may only be given if (i) such decrease has been approved at a general meeting of shareholders; (ii) there are no objections from our creditors; (iii) a settlement has been reached on any objection raised; and (iv) any creditors' lawsuit as the result of objections by creditors has obtained a final and binding judgment rendered by the court.

Shareholders' Meeting and Voting Rights

Each share entitles the owner thereof to cast one vote in a general meeting of shareholders. In the case of shares held by KSEI, prior to our taking corporate action, KSEI must provide details to us concerning the share entitlements of all the Beneficial Shareholders on whose behalf shares are held. A KSEI participant holding the shares on behalf of a Beneficial Shareholder is obliged to notify such Beneficial Shareholder of the exercise of any pre-emptive rights, deliver offering circulars and other notices issued by us as well as notices of general meetings of shareholders. Beneficial Shareholders or their legal representatives have the right to be present and vote at our general meetings of shareholders. See "Indonesian Capital Markets."

Our annual general meeting of shareholders must be held by no later than May 31 of each year. At such annual general meeting, the Board of Directors must (i) submit for approval the report on our affairs and management and the results for the most recent financial year; (ii) submit for ratification the audited balance sheet and audited profit and loss statement for the most recent financial year; (iii) submit for ratification the report of the Board of Commissioners relating to its supervision of our Company for the most recent financial year (iv) submit a plan for the use of profits and the amount of dividends, if any, to be declared with respect to the most recent financial year; (v) to the extent necessary, propose, for election and appointment by the shareholders, members of the Board of Commissioners and the Board of Directors; (vi) submit all other matters to be addressed in the meeting; and (vii) propose, for appointment by the shareholders, the registered public accountant. All materials associated with the matters described above must be made available in our office for inspection by any shareholder from the day such shareholder is notified of the annual general meeting through the date of the annual general meeting. Proposals duly submitted by one or more shareholders owning an aggregate of at least 10% of our issued shares must be included in the agenda of such meeting, provided that such proposals are received by the Board of Directors at least seven days prior to announcement of such meeting and if in the Board of Directors' opinion, the proposal is deemed directly related to the company's business activities.

Either the Board of Directors or the Board of Commissioners may convene an extraordinary general meeting of shareholders. An extraordinary general meeting of shareholders must be convened upon receipt of written notice requesting a meeting from one or more shareholders owning an aggregate of at least 10% of our issued shares. In the event neither the Board of Directors nor the Board of Commissioners provide notice of a meeting within 30 days of receipt of such written notice, the applicable shareholders may call a meeting at our expense after obtaining approval from the District Court.

At the latest of 14 days, excluding the date of announcement and the date of the notice, prior to the issuance of notice of both extraordinary general meetings and annual general meetings of shareholders, an announcement that a shareholders' meeting is to be called must be made by placing an advertisement in at least two daily newspapers published in Indonesia, which must have a wide circulation in Indonesia. Notice to the shareholders of the meeting must also be made by newspaper advertisement, as described above, published at the latest of 14 days before the date of the meeting (excluding the date of the notice and the date of the meeting).

The quorum for an annual general meeting of shareholders requires shareholders and/or authorized proxies representing more than 50.0% of the issued shares with voting rights to be represented either in person or by a power of attorney at such meeting. The quorum requirement for an extraordinary general meeting of shareholders may be greater, depending on the nature of the resolutions to be considered at such meeting.

Shareholders may be represented in a general meeting of shareholders by any person holding a power of attorney. However, if the proxy is a commissioner, director or employee of ours then the vote of any such proxy shall not be counted. In order to be adopted, resolutions must receive the affirmative votes of shareholders holding more than 50.0% of the shares which are either present or represented in the meeting (except for resolutions concerning certain transactions such as (i) the transfer or disposal of rights of the net assets of the company or the encumbrance of all or a majority of our total assets, (ii) amendments to our articles of association, (iii) a merger, consolidation, acquisition or spin-off or (iv) transaction which constitutes a conflict of interest).

Dividends

A portion of our net profit, as determined during an annual general meeting of shareholders, after deduction of reserve funds as required under law, may be used as dividends and certain other purposes. Dividends, if any, are paid in accordance with a resolution adopted at an annual general meeting of shareholders, which resolution must establish the amount, the time and manner of payment of the dividends. All shares which are fully paid, issued and outstanding at the time a dividend or other distribution is declared are entitled to share equally in such dividend or other distribution. Dividends are payable to the persons whose names are recorded in the Register. Our articles of association provide that dividends payable to the holder of the Series B Share that are unclaimed after a period of five years will be placed in a special reserve fund. However, based on the Company Law, shareholders may still exercise their rights to collect their dividends from the special reserve fund in compliance with the applicable procedures, as determined by the general meeting of shareholders. Dividends which have been placed in a special reserve fund and which have not been collected by shareholders within a 10-year period shall become the property of the company.

A reserve fund, up to an amount of at least 20% of our issued capital, shall only be appropriated to cover our future losses. Amounts in the reserve fund that exceed 20% of our issued capital may be used for working capital or other purposes in our interest, subject to the approval of our shareholders at a general meeting. Any interest or other profit earned from such reserve fund must be entered in our profit and loss account.

Amendments to the Articles of Association

Our articles of association may only be amended pursuant to a resolution at a general meeting of shareholders attended by shareholders or their lawful proxies representing at least two-thirds of the total number of shares outstanding with the holder of the Special Share present and approved by the holder of the Special Share and holders of more than two-thirds of our shares present and voting at the meeting. Pursuant to the Company Law, any amendment that would change the name, domicile or the objectives and purpose of our company, or would increase or reduce our authorized capital, reduce the issued capital or change the status of our company will only be effective upon approval by the Minister of Law and Human Rights. Notice of other amendments must be delivered to the Minister of Law and Human Rights and will be effective as of the date of the letter from the Minister of Law and Human Rights confirming acceptance of the notice. Our creditors must be notified of a resolution reducing the capital through publication of the same in one or more newspapers published in Indonesia with wide circulation within nine days after such resolution. If a quorum is not obtained at a general meeting convened for such purpose, then no earlier than 10 days and no later than 21 days after such original general meeting, a second meeting and a third meeting may be held to render a legal and binding resolution on matters which were not resolved at the previous meeting. The second meeting must be attended by shareholders representing at least three-fifths of the total number of shares outstanding with the holder of the Special Share present, and resolutions adopted at such a meeting must be approved by the holder of the Special Share and holders of more than 50% of our shares present and voting at the meeting.

Liquidation

A resolution for our dissolution must be approved at a general meeting of shareholders attended by the holder of the Special Share and holders of at least three-quarters of the total number of shares outstanding. and approved by the holder of the Special Share and holders of at least three-fourths of shares present and voting at the meeting. Pursuant to the Company Law, if a quorum is not obtained at a general meeting convened for such purpose, then no earlier than 10 days and no later than 21 days after such extraordinary general meeting, a second meeting and a third meeting may be held to render a legal and binding resolution on matters which were not resolved at the previous meeting. The second meeting must be attended by the holder of the Special Share and shareholders representing at least two-thirds of the total number of shares outstanding, and resolutions adopted at such a meeting must be approved by the holder of the Special Share and holders of more than three-fourths of our shares present and voting at the meeting.

In the event we are wound up, dissolved or declared bankrupt, subject to insolvency or for any other reason provided under the Company Law, the general meeting of shareholders must appoint a liquidator to perform certain liquidation procedures. If the general meeting of shareholders fails to appoint a liquidator, the Board of Directors shall act as liquidator.

The liquidators, within 30 days of the resolution for our dissolution, shall notify the creditors by publishing in the State Gazette and the daily newspapers published in Indonesia, and notify the same to the Minister of Law and Human Rights, the IDX, as well as BAPEPAM & LK.

Rights of Shareholders

In general, Indonesian law has traditionally afforded shareholders fewer rights than those available in common law jurisdictions such as the United States and the United Kingdom. See "Risk Factors — Risks Relating to an Investment in Our Shares — You may be subject to limitations on minority shareholders' rights." The Company Law affords certain rights to shareholders, and certain additional rights to one or more shareholders collectively representing at least 10% of all voting shares of a company ("Minority Shareholders").

A shareholder generally has the right to lodge a legal action against us if it has been harmed by any unfair and unreasonable action we have taken. In addition, each shareholder of a public company has the right to request us to repurchase the shareholder's shares at the then prevailing market price if such shareholder believes certain of our actions would harm the interests of such shareholder or us. These actions include the amendment of our articles of association; transfer or disposal of rights or encumbrances of more than 50% of our assets; or our merger, consolidation, acquisition or spin-off. Under the Company Law, we may repurchase shares, provided that such repurchase (i) must not cause our net assets (as stated in our most recent balance sheet, as approved by the shareholders within the last six months) to fall below paid-in capital and reserves; (ii) may not cause the total number of shares having been repurchased by us and pledge or other encumbrance of shares held by us or by other company which shares directly/indirectly owned by us, to become more than 10% of our outstanding shares; and (iii) in compliance with the procedure and the requirement under the Indonesian Capital Market Law, in particular BAPEPAM & LK's regulation No. XI.B.2 attached to the decision of BAPEPAM & LK No. KEP-105/BL/2010 on Share Buy Back by the Issuer or Public Company dated April 13, 2010. To the extent that a request to repurchase shares exceeds these limitations, we are required to seek a third-party purchaser for such shares. Under Article 40 of the Company Law, shares repurchased by us may not be used to cast a vote in a general meeting of shareholders, and will not be counted in determining the quorum that has to be achieved in accordance with the Company Law and our articles of association.

Our Minority Shareholders have certain other rights. These include the rights to call a general meeting of shareholders in the event that the directors or commissioners fail to convene such meeting within the stipulated time. Minority Shareholders also have the right to lodge a derivative action on our behalf against our Directors or Commissioners who, through error or negligence, have caused us losses. Under the Company Law, directors and commissioners are obliged to act in good faith, with full responsibility and in the best interests of our company when carrying out their corporate duties. Our minority shareholders may request that we be examined by a court-appointed third party if there is suspicion that we or any of our Directors or Commissioners has committed an act contrary to law. Minority Shareholders may also apply to a court for our dissolution.

Indonesian Capital Markets

The following information has been derived from publicly available information and has not been independently verified by the Company, the International Selling Agents, the Underwriters, or any of their respective advisors.

Background and Development

In 1976, the Government established the Capital Market Executive Agency (*Badan Pelaksana Pasar Modal*, or "BAPEPAM"), the Capital Market Development Agency (*Badan Pembina Pasar Modal*) and a national investment trust company, PT Danareksa (Persero), to reactivate and promote the development of a securities market in Indonesia. In 1990, the Capital Market Executive Agency and the Capital Market Development Agency became the Capital Market Supervisory Board (*Badan Pengawas Pasar Modal*) or BAPEPAM. The first share issue listed on the Jakarta Stock Exchange (the "JSX") took place in August 1977. Until the end of 1988, the shares of only 24 companies were listed on the JSX and the volume of shares traded was relatively low.

Since 1988, a number of reform measures affecting the Indonesian capital markets were introduced. These have led to the privatization of the JSX and its establishment in December 1991 as a limited liability company, PT Bursa Efek Jakarta, incorporating 221 securities trading companies as its shareholders. On July 13, 1992, the operation of the JSX was transferred from BAPEPAM to PT Bursa Efek Jakarta with the principal goal of ensuring the orderly and fair operation of the securities exchanges. At that time, BAPEPAM operated under its new name, the Capital Markets Supervisory Board or *Badan Pengawas Pasar Modal*, and its principal function was to ensure the orderly and fair operation of the securities exchanges.

In December 2005, BAPEPAM merged with the Financial Institution Supervisory Agency or *Badan Pengawas Lembaga Keuangan* under the Department of Finance, and changed its name to the Capital Markets and Financial Institution Supervisory Board or *Badan Pengawas Pasar Modal dan Lembaga Keuangan* ("BAPEPAM & LK").

The various reforms over the past few years have sought to strengthen the operational and supervisory framework of the Indonesian securities market and to improve the Indonesian securities market's trading environment. The measures also established an over-the-counter market (the "Bursa Paralel") and private stock exchanges outside Jakarta, the first of which was the Surabaya Stock Exchange (the "SSX"), which was established in Surabaya. In July 1995, the Bursa Paralel and the SSX were merged to form a single exchange intended to focus on small and medium sized companies. A company could elect to list shares on the JSX, the SSX or both.

The JSX and the SSX were effectively merged on November 30, 2007, with the JSX as the surviving Entity. As the result of the merger, the JSX is now operating under a new name, being PT Bursa Efek Indonesia (the "Indonesia Stock Exchange" or "IDX").

Other reforms were also introduced to provide increased protection for minority shareholders, to improve disclosure requirements and to clarify listing procedures. As of September 30, 2010, 401 companies were listed on the IDX with a total market capitalization of Rp. 2,422.6 trillion as compared to 24 listed companies with a capitalization of Rp. 100 billion in December 1987, shortly prior to the introduction of the capital market reform measures.

Overview of the IDX

As of September 30, 2010, the IDX was comprised of 401 members and the top 20 most active members in total trading volume handled transactions for 64,216 million shares and 53.73% of total shares traded on the IDX for the month ended September 30, 2010. The 20 most active members accounted for Rp. 32,365 billion in terms of trading value, or about 29.30% of the overall value of buying and selling transactions on the IDX for the month ended September 30, 2010.

Trading rules on the IDX are at present generated in the form of decisions issued by the IDX. There are currently two daily trading sessions for the regular market, the negotiated market, and the cash market from Monday to Thursday: a morning session from 9:30 am to 12:00 noon, followed by an afternoon session from 1:30 pm to 4:00 pm. There are two trading sessions on Friday, from 9:30 am to 11:30 am and from 2:00 pm to 4:00 pm. There is only one cash market trading session from Monday to Thursday, 9:30 am to 12:00 noon, and on Friday, 9:30 am to 11:30 am.

Trading of securities is divided into three market segments: regular market, negotiated market and cash market (except for rights issues, which may only be traded in the cash market and in the first session of the negotiated markets). The regular market is the mechanism for trading stock in standard lots on a continuous auction market during exchange hours. Regular market and cash market trading must be carried out in unit lots of 500 shares. Price movements of traded securities are as follow:

- for shares with a previous price of less than Rp. 200, in multiples of Rp. 1 and each price movement should be no more than Rp. 10;
- for shares with a previous price between the range of Rp. 200 up to less than Rp. 500, in multiples of Rp. 5 and each price movement should be no more than Rp. 50;
- for shares with a previous price between the range of Rp. 500 up to less than Rp. 2,000, in multiples of Rp. 10 and each price movement should be no more than Rp. 100;
- for shares with a previous price between the range of Rp. 2,000 up to less than Rp. 5,000, in multiples of Rp. 25 and each price movement should be no more than Rp. 250; and
- for shares with a previous price of Rp. 5,000 or more, in multiples of Rp. 50 and each price movement should be no more than Rp. 500.

Auctioning takes place according to price priority and time priority. Price priority gives priority to buying orders at a higher price or selling orders at a lower price. If buying or selling orders are placed at the same price, priority is given to the buying or selling according to the time the order is placed (i.e. time priority).

Negotiated market trading is carried out by (i) direct negotiation between members of IDX, (ii) between clients through one member of IDX, (iii) between a client and a member of IDX or (iv) between member of IDX and the Indonesian Stock Clearing and Guarantee (*PT Kliring dan Penjaminan Efek Indonesia*, or the "**KPEI**"). Negotiated market trading does not use round lots.

Transactions on the IDX regular market are required to be settled no later than the third trading day after the transactions except for cross trading. Transactions on the negotiated market are settled based on agreement between the (selling) exchange member and the (buying) exchange member, and are settled per transaction. In the event that the selling and buying exchange members do not determine the period of settlement, the settlement is required to be completed no later than the third trading day after the transaction. Transactions on the IDX cash market are required to be settled on the trading day of the transactions. In case of a default by an exchange member on settlement, cash market trading takes place, pursuant to which trading of securities by means of direct negotiation on cash and carry terms will be conducted. All cash market transactions must be reported to the IDX. An exchange member is obliged to pay a transaction cost as regulated by the IDX, and delay in payment of the transaction cost will be subject to a fine of 1.0% of the outstanding amount for each day of delay. For any violation of IDX rules, IDX may impose on an exchange member, any of the following sanctions: (i) a fine up to Rp. 500 million; (ii) a written warning; (iii) a written admonition; (iv) a temporary suspension from trading activities; or (v) a revocation of license as an exchange member.

All transactions involving shares listed only on the IDX which use the services of exchange members must be conducted through the IDX. In order for a trade (except a block trade) to be made on the IDX, both the cash and securities settlement must be conducted through the facilities of the IDX. Short selling and margin trading are allowed, subject to fulfillment of certain requirements such as: (i) the maintenance of a regular securities account that shows the transaction records of the trader, (ii) the maintenance of a margin trading or short selling financing securities account, and (iii) an initial deposit of at least Rp. 200,000,000 into the margin trading or short selling financing securities account. Under the prevailing laws, only a member of the IDX that has obtained approval from the IDX can enter into a short selling transaction or margin transaction. Furthermore, the IDX may cancel a transaction if proof exists of fraud, market manipulation or the use of insider information. The IDX may also suspend trading if there are indications of fraudulent transactions or artificial inflation of share prices, misleading information, use of insider information, counterfeit securities or securities blocked from trading, or any other material event. The IDX may suspend trading of certain securities or suspend certain members of the stock exchange.

Members of the IDX charge a brokerage fee for their services, based on agreement with their clients up to a maximum of 1.0% of the transaction value. When conducting share transactions on the IDX, exchange members are required to pay a transaction costs equal to 0.03% of the transaction value (for transactions in the regular and cash markets) and a transaction cost in the amount of 0.03% of the transaction value or based on the exchange policy (for transactions in the negotiated markets). Exchange members generally pass on these costs to their clients. The transaction cost is minimum Rp. 2.0 million per month as contribution for the provision of exchange's facilities (which continues to apply for exchange members in suspension or with frozen membership). The clients are also responsible for paying a 10.0% value-added tax on the amount of the brokerage fee and transaction costs. Indonesian sellers are also required to pay a withholding tax of 0.1% (plus an additional 0.5% for founder shares) of the total transaction value. A stamp duty of Rp. 3,000 is also payable on any transaction with a value between Rp. 250,000 and Rp. 1,000,000 and stamp duty of Rp. 6,000 is payable on every transaction with a value of more than Rp. 1,000,000. See the chapter titled "Taxation — Indonesian Taxation."

Shareholders or their appointees may request, at any time during working hours, that the issuer or a securities administration bureau appointed by the issuer register their shares in the issuer's registry of shareholders. Reporting of share ownership to BAPEPAM & LK is mandatory for members of the Board of Directors, members of the Board of Commissioners and shareholders whose ownership has reached 5.0% or more of an issuer's issued and fully paid-up capital. Upon meeting such shares ownership threshold or upon a change of the level of one's ownership of an issuer, such reporting must occur at the latest within 10 days of changes after the transaction.

The following table sets forth key figures for the IDX for the years 2005 to 2009:

	2005	2006	2007	2008	2009
Market capitalization (Rp. trillions)	801	1,249	1,988	1,076	2,019
Trading volume (million shares)	401,868	436,936	1,039,542	787,846	1,467,659
Average daily trading volume (million shares)	1,654	1,806	4,226	3,283	6,090
Trading value (Rp. billions)	406,006	445,708	1,050,154	1,064,528	975,135
Average daily trading value (Rp. billions)	1,671	1,842	4,269	4,436	4,046
Number of listed companies	336	344	383	396	398

Source: IDX summary statistics for the years 2005-2009.

Offering, Listing and Reporting Regulations

BAPEPAM & LK regulates and monitors securities issues that are publicly offered or listed in Indonesia. Initial securities offerings are generally conducted as underwritten public offers for sale by subscription. BAPEPAM & LK regulates offering and allocation procedures.

Unless waived, companies are required to meet certain requirements in order to become listed on the IDX which are set out respectively in the Decision of the Board of Directors of JSX No. Kep-305/BEJ/07-2004 dated July 19, 2004 regarding Listing of Shares and Equity-Linked Securities other than Shares Issued by Listed Company ("IDX Listing Regulation No. I-A").

Listed companies are required to submit to BAPEPAM & LK and IDX, among other things, the following documents:

- an annual report to be submitted no later than four months after the end of the financial year of the company;
- consolidated financial statements consisting of:

  (i) an annual financial report audited by an accountant registered with BAPEPAM & LK, to be submitted not later than three months after the date of such report;

  (ii) any of the following mid-year reports: (a) a mid-year report (unaudited), to be submitted not later than one month after the date of such report; (b) a mid-year report with limited review by an accountant registered with BAPEPAM & LK, to be submitted not later than two months after the date of such report; or (c) a mid-year report audited by an accountant registered with BAPEPAM & LK containing a full opinion on the fairness of such report, to be submitted not later than three months after the date of such report; and

  (iii) quarterly reports, the preparation of which is required by the rules of the IDX, to be submitted to the IDX not later than one month after the date of such report for a non-audited report, two months after the date of such report for a limited audit report, and three months after the date of such report for a fully audited report;

material information that is important and relevant according to BAPEPAM & LK regulations and which may affect the value of the security or an investment decision, such as a merger, acquisition, consolidation, stock split, stock dividend, change in management, replacement of public accountant, replacement of trustee, material legal claims and other important information possibly affecting share prices on the exchange no later than two working days after the occurrence of such material information;

- a copy of any amendment to a company's articles of association;
- the purpose of the utilization of net proceeds from the initial public offering;
- notice of any change in the composition of a company's Board of Directors or Board of Commissioners;
- notice of any material deviation from projections published by such companies;
- report on shareholding and any change in shareholding; and
- notice on appointment and replacement of corporate secretary.

Based on the Circular Letter of the Chairman of BAPEPAM & LK No. SE-01/BL/2007, a company that consolidates its subsidiaries into its financial statements and that wishes to submit a registration to BAPEPAM & LK in relation to a public offering or rights issue is required to submit the following documents:

- the consolidated financial statements of the company;
- individual/stand alone, unconsolidated financial statements of the company; and
- individual/stand alone, unconsolidated financial statements for each subsidiary whose financial statements are consolidated into the financial statements of the company.

In addition, the annual financial statements submitted to BAPEPAM & LK for any subsidiary of a listed company must be audited by a public accountant if the subsidiary in question fulfils any of the following requirements:

- such subsidiary is a public company;
- such subsidiary is engaged in a line of business related to the generation of public funds;
- such subsidiary issues an acknowledgement of indebtedness;
- such subsidiary has assets equal to or greater than Rp. 50 billion;
- the terms of any such subsidiary's existing debt require it to audit its annual financial statements;
- such subsidiary is a state enterprise; or
- such subsidiary is otherwise required by law.

Insider trading, fraud and market manipulation of securities are prohibited under Indonesian capital markets laws. In such circumstances, a transaction may be cancelled or suspended by the IDX or BAPEPAM & LK may suspend or revoke the license of the capital market supporting institution and supporting professionals involved. A party engaging in (i) misleading conduct, fraud or falsification in connection with the sale of securities; (ii) other actions to mislead the public regarding trading activities, market conditions or price or (iii) insider trading, is liable for the loss incurred and faces a fine of up to Rp. 15 billion and imprisonment of up to ten years.

IDX Listing, Delisting and Corporate Governance Rules

The IDX listing rules for equity securities and regulations are aimed at enhancing good corporate governance and clarifying listing, relisting and delisting criteria, sanctions for violation of stock exchange rules and e-reporting and monitoring. The listing rules also introduced the two board system, comprising the Main Board and the Development Board.

The Main Board serves as the flag-carrier of the IDX and is intended for companies fulfilling regional listing standards relating to size, track record and net tangible assets. The Development Board allows both large and small companies with prospects but not yet qualify to list on the Main Board, as well as companies in the recovery phase, to be listed on the IDX.

A company is deemed qualified to undertake an initial listing on the Main Board of the IDX if it fulfils certain requirements including:

- a registration statement declared effective by BAPEPAM & LK;

- having conducted an operational activity in the same core business at least for 36 consecutive months;
- having audited financial reports for the last three financial years, provided that the audited financial years for the last two financial years and the last interim audited financial report (if any) obtain an unqualified opinion;
- having net tangible assets pursuant to the last audited financial report of at least Rp. 100 billion;
- total shares owned by non-controlling shareholders (minority shareholders) after a public offering of a company that has been listed at another stock exchange or an unlisted public company in the period of five trading days prior to the listing application of at least the lower of (a) 100 million shares or (b) at least 35% of the paid in capital; and
- having at least 1000 shareholders holding in securities accounts at securities exchange members, provided as follows:
  (i) for a candidate listed company conducting an initial public offering, the total number of shareholders shall be the number of total shareholders following the completion of the initial public offering;
  (ii) for a candidate listed company originated from an unlisted public company, then the total number of shareholders shall be the total shareholders as of, at the latest, one month prior to the listing application;
  (iii) for a candidate listed company listing at another stock exchange, the total number of shareholders shall be calculated based on the monthly average during the last six months.

Under the listing rules, a company is deemed qualified to undertake an initial listing on the Development Board if it fulfills certain requirements including:

- a registration statement declared effective by BAPEPAM & LK;
- having been duly incorporated as a limited liability company at least for the past 12 consecutive months;
- having net tangible assets of at least Rp. 5 billion;
- having operated at least for the past 12 consecutive months in the same core area of business activity;
- having an unqualified audit opinion from the auditor covering its financial reports for the last 12 months and the last audited interim report (if any);
- for a company which has experienced loss or has not booked any profit or has been operated for less than two years, (1) based on its financial forecast to be announced in the stock exchange, at the latest at the end of the second financial year as of the listing date, it obtains business and net profits; or (2) based on its financial forecast by no later than at the end of the company's sixth financial year as of the listing date, it obtains business and net profits, especially if the proposed listed company is a company that by nature of its business will likely require a longer period of time to reach a break even point (such as infrastructure, plantation, forestry concession right (HPH), or industrial forest concession right (HPH) or other business related to public service);
- having at least 500 shareholders holding securities accounts with the stock exchange members, provided as follows:
  (i) for a candidate listed company conducting an initial public offering, the total number of shareholders shall be the number of total shareholders following the completion of the initial public offering;
  (ii) for a candidate listed company originated from an unlisted public company, then the total number of shareholders shall be the total shareholders for the latest one month prior to the listing application;
  (iii) for a candidate listed company listing at another stock exchange, the total number of shareholders shall be calculated based on the monthly average during the last six months;
- shares owned by minority shareholders immediately after the initial listing within five stock exchange days before the listing application which numbers at least total 50 million shares or comprise 35.0% of the total paid in capital, whichever is lower; and
- full commitment underwriting from underwriters.

The rules allow a company listed in the Development Board to be promoted to the Main Board if it fulfills the requirement for listing on the Main Board.

A company can be delisted voluntarily or involuntarily by the stock exchange. A company can be delisted by the stock exchange if it fulfils one of the following conditions: (i) suffers certain conditions which adversely affect the going concern of the company, financially or legally, or adversely affect the continuing status of the company as a publicly listed company and the company has not shown any sufficient remedial actions; or (ii) the shares are suspended from regular market and cash market and have only be traded in the negotiation market at least for the last 24 months.

Under IDX Listing Regulation No. I-A, a listed company must have:

- independent commissioners comprising at least 30.0% of the total number of members of the Board of Commissioners;
- an audit committee;
- a corporate secretary;
- at least one non-affiliated director; and
- a nominal value of shares of at least Rp. 100.

Based on a decision of the Chairman of BAPEPAM No. Kep-29/PM/2004 on Regulation No. IX.I.5 concerning the Formation and Implementation Guidance for Audit Committee, issued in September 24, 2004 ("BAPEPAM & LK Regulation No. IX.I.5") and IDX Listing Regulation No. I-A, an independent commissioner in a listed company must:

- come from outside of the listed company;
- not own any shares of the listed company, directly or indirectly;
- not have an affiliated relationship with the listed company, or with any commissioner, director or controlling shareholder or principal shareholders of the listed company concerned;
- have no business relationship which is directly or indirectly related to the listed company's business activity;
- may not hold a dual position as a director of another company which is an affiliate of the listed company; and
- must have adequate knowledge of all relevant capital markets regulations.

A listed company's audit committee must be comprised of at least three members, one of whom must be an independent commissioner who will serve as chairman of the audit committee. The other members must also be independent persons, at least one of whom must be an expert in the field of accounting and/or finance.

Pursuant to BAPEPAM & LK Regulation No. IX.I.5 and a Circular Letter by the IDX issued in 2001, the following persons are prohibited from becoming members of the audit committees of a listed company:

- any inside person of the public accountant, legal consultant or other party who gives audit, non-audit and or other consultation services to the company that personally audits the financial statements of the listed company in the last six months before his appointment as a member of the audit committee;
- any person that has the authority and responsibility to plan, direct or control the activity of the listed company in the last six months before his appointment as a member of the audit committee, except an independent commissioner;
- any person which owns shares, either directly or indirectly, in the listed company;
- any person which has a family relationship, either by marriage or blood, up to the second degree vertically or horizontally with commissioners, directors or a principal shareholder of the listed company; and
- any person which has a business relationship which is directly or indirectly related to the listed company's business activity.

In addition to the above, each member of the audit committee must:

- have high integrity, ability, knowledge and adequate experience (including any relevant educational qualifications) and be able to communicate properly;
- be capable of reading and understanding financial reports, and at least one of the members of the audit committee must have an educational qualification in accountancy or finance; and
- have adequate knowledge of all relevant capital market regulations.

Pursuant to IDX Listing Regulation No. I-A, a non-affiliated director in a listed company:

- may not have an affiliated relationship with the company's controlling shareholders for at least six months before his appointment as a non-affiliated director in a listed company;
- may not have an affiliated relationship with commissioners or other directors of the listed company;
- may not act as a director of another company; and
- may not be an insider at a capital market supporting professional or institution of which his/its service was used by the listed company for six months before his appointment as a director of the listed company.

The function of the corporate secretary is performed by one of the directors of the listed company, or an official of the listed company designated to carry out such function. The corporate secretary acts as a liaison or contact person between the listed company, Government authorities, including BAPEPAM & LK, and the public. The corporate secretary must have access to material and relevant information relating to the listed company and must be familiar with all statutory regulations relating to capital markets, particularly on disclosure matters.

Scripless Trading

On December 23, 1997, a private limited company, the Indonesian Central Securities Depository (PT Kustodian Sentral Efek Indonesia, or KSEI), was established to serve as Indonesia's central securities clearing house. On November 11, 1998, KSEI obtained a license from BAPEPAM & LK to act as an approved central securities depositary and settlement institution. The shareholders of KSEI are currently comprised of 30 securities firms, holding 31.5% of KSEI's shares, nine custodian banks, holding 36.0% of KSEI's shares, four Share Registrars (*Biro Administrasi Efek*), holding 4.0% KSEI's shares, the IDX and KPEI, holding 27.5% of KSEI's shares and one Treasury Stock, holding 1% of KSEI's shares. In 2000, KSEI introduced the Central Depositary and Book Entry Settlement System ("C-Best"), a computerized system for the registration and settlement of securities.

In 2000, BAPEPAM & LK implemented regulations to provide for the scripless trading system. Under the scripless system, a member broker, sub-broker or local custodian ("KSEI Participant") may deposit with KSEI certificates evidencing ownership of securities in an account kept for such purpose, making KSEI the registered holder of those securities. Any institution becoming a KSEI participant, is required to open at least one account with KSEI for deposit, withdrawal or transfer of securities. After KSEI has accepted a deposit of any securities, it will hold such securities on behalf of its participant or the participants' clients and, as such, investors obtain a beneficial (rather than direct) interest in the shares, which is convertible into a physical share certificate at the direction of the investor. Thus, to establish ownership rights, each holder of an account for deposit, withdrawal and/or transfer of securities ("KSEI Account Holder") is obliged to maintain a list of the owners of securities deposited with it. Sales and purchases of securities are settled on the relevant securities deposit account via a computer system. At the end of each trading day, KSEI delivers a statement showing the balance of securities held for each participant.

A company that intends to register their securities with KSEI enters into a standard registration agreement with KSEI. Subsequently, KSEI Account Holders or KSEI Participants must issue confirmations for the benefit of KSEI for the entire value of the securities deposited with KSEI.

Securities registered with KSEI are recorded and administered electronically in securities accounts opened with KSEI ("KSEI Securities Accounts,") and KSEI Account Holders administer deposits, withdrawals and transfers of securities through their KSEI Securities Accounts. Parties that are eligible to become KSEI Account Holders are (i) securities companies, (ii) custodian banks and (iii) other parties determined by the prevailing capital market laws and regulations. In addition, any institution becoming a KSEI Participant is required to open at least one securities account with KSEI. Each KSEI Account Holder who maintains subscribers' securities and funds must also open sub-accounts for the deposit of securities and funds on behalf of their customers.

In accordance with the KSEI rules on Central Depository Services, C-Best is the central computerized system for depository services and the settlement of securities transactions by book entry settlement. C-Best is provided by KSEI to KSEI Account Holders. Sales, purchases and conveyances of securities are settled through the C-Best system by setting off the relevant securities in the appropriate KSEI Securities Accounts. At the end of each trading day, KSEI delivers, through the C-Best system, a statement to each KSEI Account Holder showing the balance of securities held by that KSEI Account Holder.

Pursuant to a circular letter issued by BAPEPAM & LK dated November 23, 2001, issuers of shares were required to register their shares with the central depositary prior to June 30, 2002. Further, on January 15, 2003, BAPEPAM & LK issued a new regulation, effective as at May 1, 2003, which requires each KSEI Participant holding securities on behalf of client to:

- establish a securities sub-account on behalf of each client and record each client's securities account in such sub-account;
- ensure that the balance in the customer's security account in the KSEI Participant's books is always equivalent with the balance in the sub-account with KSEI;
- take measures to ensure that the identity of each client is properly recorded by the KSEI Participant; and
- take measures to ensure that the securities sub-account balance of each client is and remains correct.

KSEI

KSEI is a self-regulating organization and is licensed and regulated by BAPEPAM & LK. Under KSEI's rules, securities companies or custodian banks fulfilling certain criteria and authorized by BAPEPAM & LK may become KSEI Participants. The principal shareholders of KSEI are large custodian banks, broker dealers, share registrars (*Biro Administrasi Efek)*, IDX and KPEI. In the scripless system, the role of KSEI is to settle the transaction and act as central securities depositary, while fund settlement is conducted by KPEI.

KSEI is managed by a Board of Directors as supervised by a Board of Commissioners who are subject to the provisions of the Company Law. KSEI is also a member of several international associations that are related to securities depositories, including the Association of National Numbering Agency ("ANNA"), the International Society of Securities Administrators ("ISSA"), the Society for Worldwide Bank Inter-bank Financial Telecommunications ("SWIFT") and Asia Pacific Central Securities Depositories Group ("ACG").

BAPEPAM & LK sets strict standards for the internal controls of KSEI. These standards call for daily reconciliation of account balances between KSEI and the issuers whose securities are held in the name of KSEI. This daily reconciliation is required to be verified continuously by the head of the audit unit of KSEI who must report this verification to the Internal Control Committee of KSEI, the Board of Directors of KSEI and BAPEPAM & LK. Each KSEI Participant has the right to send auditors to KSEI to verify the reconciliation of its accounts with those of KSEI including the right of the KSEI Participant to send auditors to verify the registry of the securities on the books of the issuer.

The internal control systems of KSEI are required to be audited annually by an independent auditor with international experience and an international reputation, including a review of the protections against fraud, embezzlement, natural disruptions and electronic damage. This report is to be sent to all KSEI shareholders along with KSEI's Offering Circular.

The regulations call for a number of fundamental security measures to ensure the integrity of KSEI:

- access to the data processing functions, record-keeping functions and customer account services areas of KSEI is required to be restricted;
- KSEI must have a primary computer and back-up computer at a different location that allows continued processing within two hours of a breakdown of the primary computer;
- duplicate electronic records are required to be maintained in repositories that are at least 30 kilometers apart from each other;
- software development and maintenance are required to be segregated from data processing operations; and
- a special security division of KSEI's own funds is required to be segregated from data processing operations; all debits and credits to securities accounts must be based on instructions of account holders and controlled by a division that is separate from the data processing division.

In addition to the oversight of internal controls and specific regulations regarding recovery and security, the legal basis for securities accounts permits recovery of an investor's assets even in the event of destruction of all records of KSEI. This is done based on investor's confirmations and statements and records of the issuer, all of which are maintained independently from records of KSEI. With daily reconciliation of key records, strong internal control supervision by major banks, special security measures, and legal safeguards, recovery is possible even if there is a catastrophic occurrence.

Transfers of Shares

Transfers of listed shares on the IDX are governed by the Company Law and IDX Rules. Under the Company Law, as a general matter, ownership of shares is based on the registration of ownership in the relevant company's share register. To be valid against the issuing company, a request for an entry of the transfer into a share registry must be received by the company. To be valid against a third party, the entry of the transfer must actually be made into the share register.

Transfers of scripless shares are made by way of appropriate instructions to the relevant brokers, sub-brokers or custodians with whom the transferor and the transferee involved maintain securities accounts in accordance with the individual arrangements with such brokers, sub-brokers or custodians. Upon receipt of such instructions, the relevant brokers, sub-brokers or custodians will, in accordance with such arrangements, effect the relevant changes in the register they are required to maintain for rights and entitlements purposes.

As at June 30, 2002, only shares held through KSEI (and which have not been pledged, foreclosed upon based on a court order or seized for the purpose of criminal proceedings) may be traded on the IDX.

Securities transaction settlement services are part of the central depository services provided for the fulfillment of the rights and obligations as the results of stock exchange transactions or over-the counter transactions by means of the transfer of securities and or funds between securities accounts. The settlement of stock exchange transactions is performed by KSEI based on transfer instructions received from both a selling Clearing Member (defined as a member of the stock exchange registered as the KSEI Clearing Member) and a buying Clearing Member. Alternatively, the KSEI may settle over-the-counter transactions based on a transfer instruction from a selling KSEI Account Holder and acceptance from a buying KSEI Account Holder and the availability of sufficient securities in the sub-account, which must include the requirement of payment or without payment. Upon the complete transfer of securities and or funds, KSEI submits a report to KPEI or to the Clearing Member on the settlement of stock exchange transaction and confirmation is given to the relevant KSEI Account Holder on the settlement of over-the-counter transactions.

An acquisition of more than 50% of the shares of a public company or acquisition of direct or indirect control of the management or policy of a public company will be deemed as an acquisition of a public company and thus trigger a tender offer by the new controlling shareholder. The new controlling shareholder will have to conduct a tender offer for all the other shares in the public company, except for: (i) shares owned by shareholders which conduct the acquisition in conjunction with the new controlling shareholders, (ii) shares owned by other parties which received an offer on the same terms and conditions with the new controlling shareholder, (iii) shares owned by other parties which are conducting a tender offer at the same time on the same public company's shares, (iv) shares owned by the majority shareholders, and (v) shares owned by the other controlling shareholders in the public company. If the tender offer results in the new controlling shareholder holding more than 80% of the total paid-up capital in the public company, the new controlling shareholder must transfer a certain amount of the shares to the public so that 20% of the total paid-up shares in the public company is owned by the public, comprising of more than 300 parties within two years after the completion of the tender offer. If the acquisition results in the new controlling shareholder obtaining more than 80% of the total paid-up capital in the public company, the new controlling shareholder will have to transfer the shares to the public equal to the percentage of shares obtained in the tender offer, at a minimum, and the shares must be owned by at least 300 parties within two years after the completion of the acquisition.

Reporting Requirements

According to the decision of the Chairman of BAPEPAM No. Kep-82/PM/1996, dated January 17, 1996 on Regulation No. X.M.1 concerning the Disclosure Requirements for Certain Shareholders, the director or commissioner of a listed company or a public company must report to BAPEPAM & LK with regard to their ownership and the changes of ownership of the shares in the listed company or public company within 10 days of the transaction. Such reporting obligation also applies to a shareholder that owns 5% or more of the paid up capital in the listed company or public company.

Taxation

The following summary is based on tax laws of Indonesia and the United States as in effect on the date of this Offering Circular, and is subject to changes in United States or Indonesian law, including changes that could have retroactive effect. The following summary does not take into account or discuss the tax laws of any countries other than the United States and Indonesia. Prospective purchasers in all jurisdictions are advised to consult their own tax advisors as to United States, Indonesian or other tax consequence of the purchase, ownership and disposition of the Offer Shares.

Indonesian Taxation

The following is a summary of the principal Indonesian tax consequences of the ownership and disposition of our shares for a non-resident individual or non-resident entity (a "Non-Indonesian Holder") that holds shares in an Indonesian company. As used in the preceding sentence, a "non-resident individual" is an individual who does not reside in Indonesia or is not physically present in Indonesia for more than 183 days during any twelve month period, during which period such non-resident individual receives income in respect of the ownership or disposition of shares, and a "non-resident entity" is a corporation or non corporate body that is established under the laws of a jurisdiction other than Indonesia, is not domiciled in Indonesia and does not have a fixed place of business or permanent establishment in Indonesia during an Indonesian tax year in which such Non-Indonesian entity receives income in respect of the ownership or disposition of shares.

Taxation of Dividends

Dividends declared by us out of retained earnings and distributed to a Non-Indonesian Holder in respect of shares are subject to Indonesian withholding tax, currently at the rate of 20.0%, on the amount of the distribution (in the case of cash dividends) or on the shareholders' proportional share of the value of the distribution (normally par value in the case of stock dividends). A lower rate provided under certain double taxation treaties may be applicable provided that, among others, the recipient is a resident of a treaty country and is the beneficial owner of the dividend. The recipient has to provide us with the original Certificate of Tax Residence issued by the competent tax authorities or its designee, of the jurisdiction where the recipient Non-Indonesian holder is domiciled. This Certificate is only valid for one year from the date of issuance and must be renewed subsequently. However, if the Certificate is issued in respect of a bank, it will continue to be valid for as long as the bank has not changed its address as stated in the Certificate and a copy of the Certificate is submitted to the appropriate Indonesian tax office that has jurisdiction over us. The Certificate of Tax Residence must be made available to us in timely manner for us to submit to Indonesian tax office latest by the 20th or the previous working day should the 20th fall to Indonesian public holiday, of the next month when the withholding tax is due. Unavailability of Certificate of Tax Residence in timely manner could cause inapplicability of a treaty benefit.

Tax Treaties

If a Non-Indonesian Holder is a resident of a country that has entered into a double-taxation treaty with the Indonesia Government, a Non-Indonesian Holder may be entitled to a reduction in the amount of tax withheld, if any, imposed on the payment of dividends. Indonesia has concluded double taxation treaties with a number of countries including but not limited to Australia, Belgium, Canada, France, Germany, Japan, Luxembourg, The Netherlands, Singapore, Sweden, Switzerland, the United Kingdom and the United States of America. Under the US-Indonesia tax-treaty, the withholding tax on dividends is generally, in the absence of a 25% voting interest, could be reduced to 15.0%.

Taxation on the Disposition of Shares

Under the Indonesian Income Tax Law, the sale of unlisted shares by a Non-Indonesian Holder is subject to final Indonesian withholding tax, currently at the rate of 20.0%, on the estimated net income. In accordance with Decree of the Minister of Finance No. 434/KMK.04/1999, effective August 24, 1999, the estimated net income for the sale of unlisted shares is 25.0% of the sale price resulting in an effective final withholding tax rate of 20.0% multiplied by 25.0%, or 5.0% of the sale price (irrespective of whether or not there is a profit on the sale of the unlisted shares). The obligation to pay the final withholding tax lies with the buyer (if it is an Indonesian taxpayer) or us (if the buyer is also a Non-Indonesian Holder). Exemption from the 5.0% final withholding tax on the sale of unlisted shares may be available to non-resident sellers of shares depending on the provisions of the applicable double taxation treaties. In order to benefit from the exemption under the relevant double taxation treaty, the non-resident seller must provide a Certificate of Tax Residence issued by the competent authority, or its designee, of the jurisdiction where the non-resident seller is domiciled to the buyer (or us if the buyer is a Non-Indonesian Holder) and to the Indonesian tax office that has jurisdiction over the buyer (or over us if the buyer is a Non-Indonesian Holder).

Pursuant to Government regulation No. 41 of 1994 regarding Withholding Tax on Income from Share Trading Transactions on the Stock Exchange dated December 23, 1994 and its amendments in Government Regulation No. 14 of 1997 dated May 29, 1997, the sale or transfer of shares that are listed on an Indonesian stock exchange is subject to final withholding tax of 0.1% of the gross amount of the transaction value and should be withheld by the broker handling the transaction. An additional 0.5% final tax (amounting to a total tax of 0.6%) is imposed on the share value for the holding of the founder shares (except for the founder shares of a mutual fund). The imposition of 0.5% withholding tax will occur at the time of the initial Public Offering for shares traded on the stock exchange on or after January 1, 1997. The imposition of 0.5% withholding tax on the founder shares is not compulsory. The tax regulations provide an option for the taxpayer to elect to substitute the 0.5% additional final tax with the taxation of actual capital gains (if any) resulting from the sale of the founder shares subject to the normal tax rates (currently, flat tax rate of 25.0% for corporate taxpayers or progressive tax rate with a maximum rate of 30.0% for individual taxpayers). Currently, the tax regulations for listed shares do not contain any provision in respect of treaty protections. In practice, the 0.1% final withholding tax is applied irrespective of the fact that there may be treaty exemptions. Indonesian tax authorities have a general rule regarding refunds, which may be used in case of an applicable treaty exemption.

Stamp Duty

According to Government Regulation No. 24 of 2000, a document that effects a sale of Indonesian shares is subject to stamp duty. Currently, the nominal amount of the Indonesian stamp duty is Rp. 6,000 for transactions having a value greater than Rp. 1,000,000 and Rp. 3,000 for transactions having a value of up to Rp. 1,000,000. Generally, the stamp duty is due at the time the document is executed.

Certain United States Federal Income Tax Considerations

The following is a summary of certain United States federal income tax considerations relating to the acquisition, ownership, and disposition of the Offer Shares by U.S. Holders (as defined below) that will hold the Offer Shares as “capital assets” (generally, property held for investment) under the United States Internal Revenue Code of 1986, as amended (the “Code”). This summary is based upon existing United States federal income tax law, which is subject to differing interpretations or change, possibly with retroactive effect. This summary does not discuss all aspects of United States federal income taxation that may be important to particular investors in light of their individual circumstances, and does not address the tax consequences to investors subject to special tax rules (for example, financial institutions, insurance companies, broker-dealers, partnerships and their partners, regulated investment companies, real estate investment trusts, and tax-exempt organizations (including private foundations)), holders who are not U.S. Holders, holders who own (directly, indirectly, or constructively) 10% or more of our voting stock, investors that will hold the Offer Shares as part of a straddle, hedge, conversion, constructive sale, or other integrated security transaction for United States federal income tax purposes, or investors that have a functional currency other than the United States dollar, all of whom may be subject to tax rules that differ significantly from those summarized below. In addition, this summary does not discuss any non-United States, state, or local tax considerations. Investors are urged to consult their tax advisors regarding the United States federal, state, local, and non-United States income and other tax considerations of an investment in the Offer Shares.

TO ENSURE COMPLIANCE WITH UNITED STATES TREASURY DEPARTMENT CIRCULAR 230, HOLDERS OF OFFER SHARES ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF FEDERAL TAX ISSUES IN THIS OFFERING CIRCULAR IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY HOLDERS OF OFFER SHARES FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON HOLDERS OF OFFER SHARES UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS INCLUDED HEREIN IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) OF THE TRANSACTION DESCRIBED HEREIN; AND (C) HOLDERS OF OFFER SHARES SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

General

For purposes of this summary, a "U.S. Holder" is a beneficial owner of Offer Shares that is, for United States federal income tax purposes, (i) an individual who is a citizen or resident of the United States, (ii) a corporation, or other entity taxable as a corporation for United States federal income tax purposes, created in, or organized under the laws of, the United States or any State or political subdivision thereof, (iii) an estate the income of which is includible in gross income for United States federal income tax purposes regardless of its source, or (iv) a trust (A) the administration of which is subject to the primary supervision of a United States court and which has one or more United States persons who have the authority to control all substantial decisions of the trust or (B) that has otherwise elected to be treated as a United States person under the Code.

If a partnership is a beneficial owner of the Offer Shares, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. Partnerships holding Offer Shares and partners in such partnerships are urged to consult their tax advisors as to the particular United States federal income tax consequences of an investment in the Offer Shares

Threshold PFIC Classification Matters

A non-United States corporation, such as the Company, will be treated as a "passive foreign investment company" (a "PFIC"), for United States federal income tax purposes, if, in any particular taxable year, either (i) 75% or more of its gross income for such year consists of certain types of "passive" income or (ii) 50% or more of the quarterly average of its assets (as determined on the basis of fair market value) during such year produce or are held for the production of passive income. For this purpose, cash is categorized as a passive asset and passive income generally includes, among other things, dividends, interest, rents, royalties, and gains from the disposition of passive assets. For purposes of these tests, a non-U.S. corporation will be treated as owning a proportionate share of the assets and income of any other corporation in which it owns, directly or indirectly, more than 25% (by value) of the stock.

Based upon an analysis of our current income and assets and taking into consideration this offering, we presently do not believe that we should be classified as a PFIC for the current taxable year. While we do not anticipate becoming a PFIC in future taxable years, the composition of our income and our assets will be affected by how, and how quickly, we spend our liquid assets and the cash raised in this offering. Under circumstances where we determine not to deploy significant amounts of cash for capital expenditures on expanding operations or on fleet expansion, our risk of becoming classified as a PFIC may substantially increase.

In estimating the value of our goodwill and other unbooked intangibles, we have taken into account our anticipated market capitalization following the close of this offering. Among other matters, if our market capitalization is less than anticipated or subsequently declines, we may be or become classified as a PFIC for the current or one or more future taxable years. Further, while we believe our valuation approach is reasonable, it is possible that the Internal Revenue Service may challenge the valuation of our goodwill and other unbooked intangibles, which may result in the Company being or becoming classified as a PFIC for the current or one or more future taxable years. If we are classified as a PFIC for any year during which a U.S. Holder holds Offer Shares, we generally will continue to be treated as a PFIC for such U.S. Holder for all succeeding years during which such U.S. Holder holds Offer Shares.

Because PFIC status is a fact-intensive determination made on an annual basis, no assurance can be given that we are not or will not become classified as a PFIC and will depend on whether we continue to follow our capital expenditure plans and the continued existence of our goodwill and other unbooked intangibles. The discussion below under "— Dividends" and "— Sale or Other Disposition of Offer Shares" is written on the basis that we will not be classified as a PFIC for United States federal income tax purposes.

Dividends

Any cash distributions paid on the Offer Shares (including any Indonesian taxes withheld, as described above under "— Indonesian Taxation) out of our earnings and profits, as determined under United States federal income tax principles, will be includible in the gross income of a U.S. Holder as dividend income. Because the Company does not intend to determine its earnings and profits on the basis of United States federal income tax principles, any distribution paid will generally be treated as a "dividend" for United States federal income tax purposes. For taxable years beginning before January 1, 2013, a non-corporate U.S. Holder will generally be subject to tax on dividend income from a "qualified foreign corporation" at a maximum United States federal tax rate of 15% rather than the marginal tax rates generally applicable to ordinary income provided that certain holding period requirements are met. A non-United States corporation (other than a PFIC or a corporation that was a PFIC in the year preceding the taxable year in which a dividend is paid) generally will be considered to be a qualified foreign corporation (i) if it is eligible for the benefits of a comprehensive tax treaty with the United States which the Secretary of Treasury of the United States determines is satisfactory for purposes of this provision and which includes an exchange of information program or (ii) with respect to any dividend it pays on stock which is readily tradable on an established securities market in the United States. There is currently a tax treaty in effect between the United States and Indonesia which the Secretary of Treasury has determined is satisfactory for these purposes and we believe we should be eligible for the benefits of the treaty. Dividends received on the Offer Shares will not be eligible for the dividends received deduction allowed to corporations.

The amount of any cash distribution paid in Rupiah should equal the U.S. dollar value of the Rupiah on the date of receipt of the distribution, regardless of whether such Rupiah are actually converted into United States dollars at that time. Gain or loss, if any, recognized on a subsequent sale, conversion, or other disposition of Rupiah generally will be United States source ordinary income or loss.

Dividends generally will be treated as income from foreign sources for United States foreign tax credit purposes. A U.S. Holder may be eligible, subject to a number of complex limitations, to claim a foreign tax credit in respect of any foreign withholding taxes imposed on dividends received on the Offer Shares. A U.S. Holder that does not elect to claim a foreign tax credit for foreign income tax withheld may instead claim a deduction for United States federal income tax purposes, in respect of such withholdings, but only for a year in which such U.S. Holder elects to do so for all creditable foreign income taxes.

Sale or Other Disposition of Offer Shares

A U.S. Holder will generally recognize capital gain or loss upon the sale or other taxable disposition of the Offer Shares in an amount equal to the difference between the United States dollar value of the amount realized upon the disposition and the holder's adjusted tax basis in such shares. Any such capital gain or loss will be long-term if such shares have been held for more than one year prior to disposition and generally will be United States source gain or loss for United States foreign tax credit purposes. The deductibility of a capital loss may be subject to limitations.

If the disposition of Offer Shares by a U.S. Holder is subject to Indonesian tax, a U.S. Holder may not be able to credit such taxes against their United States federal income tax liability under the United States foreign tax credit limitations of the Code since such gain generally would be United States source income, unless such tax can be credited (subject to applicable limitations) against tax due on other income treated as derived from foreign sources.

Passive Foreign Investment Company Considerations

If we were to be classified as a PFIC in any taxable year, a U.S. Holder would be subject to special rules generally intended to reduce or eliminate any benefits from the deferral of United States federal income tax that a U.S. Holder could derive from investing in a non-United States company that does not distribute all of its earnings on a current basis. In such event, a U.S. Holder may be subject to tax at ordinary income tax rates on (i) any gain recognized on the sale of Offer Shares and (ii) any "excess distribution" paid on Offer Shares (generally, a distribution in excess of 125% of the average annual distributions paid by us in the three preceding taxable years or, if shorter, the U.S. Holder's holding period for such shares). In addition, a U.S. Holder may be subject to an interest charge on such gain or excess distribution. Finally, the 15% maximum rate on our dividends (see discussion above under "Dividends") for taxable years beginning before January 1, 2013 would not apply if we are classified as a PFIC (or were classified as a PFIC in our prior taxable year). Each U.S. Holder is urged to consult its tax advisor regarding the potential tax consequences to such holder if the Company is or becomes classified as a PFIC, as well as certain elections that may be available to mitigate such consequences.

As an alternative to the foregoing rules, a holder of "marketable stock" in a PFIC may make a mark-to-market election, provided that the shares are regularly traded on a "qualified exchange." Under applicable Treasury regulations, a "qualified exchange" includes a foreign securities exchange if (i) the foreign exchange is regulated or supervised by a governmental authority of the country in which the exchange is located; (ii) the foreign exchange has trading volume, listing, financial disclosure, surveillance and other requirements designed to prevent fraudulent and manipulative acts and practices, remove impediments to, and perfect the mechanism of, a free and open, fair and orderly, market, and to protect investors; (iii) the laws of the country in which the exchange is located and the rules of the exchange ensure that these requirements are actually enforced; and

(iv) the rules of the exchange ensure active trading of listed stocks. For these purposes, the Offer Shares will be considered regularly traded during any calendar year during which they are traded, other than in de minimis quantities, on at least 15 days during each calendar quarter. Any trades that have as their principal purpose meeting this requirement will be disregarded.

If the mark-to-market election is validly made, the electing U.S. Holder will generally (i) include as income for each taxable year the excess, if any, of the fair market value of such holder's Offer Shares at the end of the taxable year over the adjusted tax basis of such Offer Shares and (ii) deduct as a loss the excess, if any, of the adjusted tax basis of the Offer Shares over the fair market value of the Offer Shares at the end of the taxable year, but only to the extent of the amount previously included in income as a result of the mark-to-market election. The electing U.S. Holder's adjusted tax basis in the Offer Shares would be adjusted to reflect any income or loss resulting from the mark-to-market election. Gain on the sale or other disposition of Offer Shares would be treated as ordinary income, and loss on the sale or other disposition of Offer Shares would be treated as an ordinary loss, but only to the extent of the amount previously included in income as a result of the mark-to-market election. U.S. Holders should be aware, however, because a mark-to-market election cannot be made for any lower-tier PFICs that the Company may own, a U.S. Holder may continue to be subject to the PFIC rules discussed above with respect to any indirect interest in any lower-tier PFICs that the Company may own.

Under recently enacted legislation, each U.S. Holder of a PFIC is required to file an annual report containing such information as the United States Treasury may require. In addition, if a U.S. Holder holds Offer Shares in any year in which we are a PFIC, such holder may be required to file Internal Revenue Service Form 8621. Each U.S. Holder is urged to consult its tax advisor regarding the potential tax consequences to such holder if we are or become classified as a PFIC, as well as the availability of the mark-to-market election to mitigate such consequences.

Backup Withholding and Information Reporting

Recently enacted legislation imposes new reporting requirements on certain United States investors in connection with holding interests of a non-United States company, including the Offer Shares, either directly or through a "foreign financial institution". This new legislation also imposes penalties if such investor is required to submit such information to the Internal Revenue Service and fails to do so. In addition, U.S. Holders may be subject to certain information reporting to the Internal Revenue Service with respect to dividends on and proceeds from the sale or other disposition of Offer Shares. Dividend payments with respect to the Offer Shares and proceeds from the sale or other disposition of the Offer Shares are not generally subject to United States backup withholding (provided that certain certification requirements are satisfied). U.S. Holders are urged to consult their tax advisors regarding the application of the United States information reporting and backup rules to their particular circumstances.

Plan of Distribution

The Global Offering

The Company and the Selling Shareholder intend to offer the Offer Shares in the Global Offering. The Global Offering consists of a concurrent International Offering and Indonesian Offering. The closing of the International Offering is conditional upon the closing of the Indonesian Offering.

The International Selling Agents are Citigroup Global Markets Limited and UBS AG, Hong Kong Branch. The Underwriters participating in the Indonesian Offering are PT Bahana Securities, PT Danareksa Sekuritas and PT Mandiri Sekuritas, as the Joint Lead Managing Underwriters, and the other Underwriters named below.

The Company and the Selling Shareholder have agreed to reimburse the International Selling Agents for certain expenses and taxes in connection with the Global Offering. The expenses of the Global Offering, not including the underwriting fees and commissions, are estimated at approximately Rp. 67.8 billion (US$7.6 million).

The Underwriters and the International Selling Agents are procuring subscribers for or, in the event of under-subscription, purchasing Offer Shares, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the Offer Shares, and other conditions contained in the Underwriting Agreement, the International Coordination Agreement and the Selling Agency Agreement (each as defined below).

The International Offering

In connection with the International Offering, the Joint Lead Managing Underwriters and the International Selling Agents have entered into a Selling Agency and Managers' Agreement dated February 9, 2011 (as amended from time to time, the "Selling Agency Agreement") pursuant to which the International Selling Agents have agreed, subject to certain conditions, to procure foreign investors to subscribe for Offer Shares at the Offer Price. If any such Offer Shares are not subscribed or purchased and paid for by subscribers pursuant to the International Offering, the International Selling Agents have agreed to purchase and pay for such Offer Shares at the Offer Price. Subject to the terms and conditions of the Selling Agency Agreement, the International Selling Agents have severally agreed to purchase the following minimum number of Offer Shares:

International Selling Agents	Number of Shares	(%)
Citigroup Global Markets Limited	7,321,000	26.7
UBS AG, Hong Kong Branch	20,105,000	73.3
Total	27,426,000	100%

As compensation to the International Selling Agents for services performed in connection with the International Offering, the Joint Lead Managing Underwriters have agreed to pay each International Selling Agent a management fee equal to Rp. 1.5 billion and an amount equal to 0.75% of the gross proceeds of the offering of Offer Shares for which it procures subscribers or purchases. Purchasers of the Offer Shares in the International Offering may be required to pay stamp duty and other similar charges in accordance with the laws and practices of the country of purchase, in addition to the Offer Price. Purchasers of the Offering Shares in the International Offering will be required to pay a brokerage fee of 1% per Offer Share.

Pursuant to an International Coordination Agreement dated February 9, 2011, made between the Company, the Selling Shareholder and the International Selling Agents (the "International Coordination Agreement"), the Company and the Selling Shareholder have agreed to indemnify the International Selling Agents against certain liabilities, including liabilities under the U.S. Securities Act, in connection with the offer and the sale of the Offer Shares, and to contribute to payments which the International Selling Agents may make in respect thereof.

The Indonesian Offering

In connection with the Indonesian Offering, the Company and the Selling Shareholder have entered into an Underwriting Agreement dated December 3, 2010 (as amended and supplemented, the "Underwriting Agreement"),with the Joint Lead Managing Underwriters and the other Underwriters. The Underwriters have agreed, upon the terms and conditions specified in the Underwriting Agreement, to offer, on the Company's and the Selling Shareholder's behalf, the Offer Shares at the Offer Price.

If any of the Offer Shares are not subscribed or purchased and paid for by subscribers pursuant to the Indonesian Offering, the Underwriters have agreed to subscribe or purchase and pay for such Offer Shares at the Offer Price, less certain expenses, underwriting fees, commissions, taxes and other amounts. No offer of Offer Shares is being made to Indonesian citizens or Indonesian residents domiciled or residing in Indonesia pursuant to this Offering Circular.

As compensation to the Underwriters for services performed in connection with the Indonesian Offering, the Company and the Selling Shareholder have agreed to pay the Joint Lead Managing Underwriters, on behalf of the Underwriters, an amount equal to 2.0% of the gross proceeds of the offering of Offer Shares in the Global Offering. Purchasers of the Offer Shares subject to fixed allotment in the Indonesian Offering will be required to pay a brokerage fee of 1% per Offer Share.

The issue of Offer Shares to Indonesian citizens and/or Indonesian residents will be made pursuant to a registration statement with a form of prospectus attached thereto (the "Registration Statement") filed with BAPEPAM & LK.

Pursuant to the Underwriting Agreement, the Company has agreed to indemnify the Joint Lead Managing Underwriters against certain liabilities in connection with the offer and the sale of the Offer Shares.

The Offer Shares may be re-allocated from the International Offering to the Indonesian Offering and vice versa in the event of an under-subscription in one and an over-subscription in the other.

The table below sets forth each of the Underwriters in the Indonesian Offering and the respective underwriting portion of each Underwriter:

	Underwriting Portion	
	Number of Shares	**(%)**
Joint Lead Managing Underwriters		
PT Bahana Securities	1,733,010,500	27.5
PT Danareksa Sekuritas	1,733,009,500	27.5
PT Mandiri Sekuritas	1,733,009,500	27.5
Other Underwriters	1,109,282,500	17.6
Total	6,308,312,000	100%

Important Dates

The following events have taken place or are expected to take place on or about the following dates in connection with the Global Offering (subject to change):

Event	Date
Effective date of BAPEPAM & LK Registration Statement	February 1, 2011
Commencement of offer period in Indonesian Offering	February 2, 2011
End of offer period in Indonesian Offering	February 8, 2011
Allotment of Offer Shares to successful applicants	February 9, 2011
Payment due by investors in the International Offering	February 10, 2011
Closing Date	February 10, 2011
Listing of Offer Shares on the IDX	February 11, 2011

Registration with BAPEPAM & LK

The Company submitted the Registration Statement to BAPEPAM & LK on December 6, 2010. The Registration Statement was declared effective by the Chairman of BAPEPAM & LK on February 1, 2011, thereby permitting the Company to proceed with the Indonesian Offering and the listing of our Shares.

Offer Period in Indonesian Offering

The offer period in connection with the Indonesian Offering began on February 2, 2011 and ended on February 8, 2011. The Joint Lead Managing Underwriters and the International Selling Agents may offer their customers preferential allocations through a fixed allotment of Offer Shares (as described under "— Allotment of Offer Shares" below). The Company expects the Joint Lead Managing Underwriters, on behalf of the

Underwriters and the International Selling Agents, to make payment of the net proceeds of the Global Offering to it on February 10, 2011 and the listing of our Shares on the IDX to occur on February 11, 2011.

Application for Offer Shares

Each non-Indonesian citizen and non-Indonesian resident must properly complete and submit a share application form in order to be eligible to purchase Offer Shares in the International Offering. The Joint Lead Managing Underwriters and the International Selling Agents may prepare share application forms on behalf of non-Indonesian citizens and non-Indonesian residents. Share applications and allocations in connection with the Indonesian Offering are regulated by BAPEPAM & LK regulations. Each International Selling Agent will be responsible for preparing share application forms on behalf of investors purchasing Offer Shares through it in the International Offering. Share applications must be for a minimum amount of 500 Offer Shares and multiples thereof. Each investor may only submit one share application form. The Joint Lead Managing Underwriters and the International Selling Agents are entitled to accept or refuse a share application in full or in part at their discretion and without notice. Multiple share applications submitted using more than one share application form may either be treated as a single application for allotment purposes or treated, in full or in part, as invalid applications at the discretion of the Joint Lead Managing Underwriters and the International Selling Agents.

Allotment of Offer Shares

Fixed Allotment and Pooling

At the conclusion of the offer period in connection with the Indonesian Offering, the allotment of the Offer Shares will be made by PT Bahana Securities (“the Allotment Manager”) using a combined system of “fixed allotment” and “pooling” in accordance with BAPEPAM & LK rules. Under BAPEPAM & LK rules, underwriters may determine how to apportion the allotment of the Offer Shares between the “fixed allotment” and “pooling” systems. The last date by which the Joint Lead Managing Underwriters will determine the number of Offer Shares allotted for each applicant is expected to be February 9, 2011.

The Allotment Manager has determined that the equivalent of 95% of the Offer Shares being offered will be subject to a fixed allotment system, subject to BAPEPAM & LK approval. The allotment of the equivalent of 5% of the Offer Shares being offered will be by a system of pooling.

Up to 5% of the Offer Shares being offered to the public by us in the Global Offering will be allocated under the Share Allocation Program

Share Allocation Program

Under our Share Allocation Program, which covers up to 5% of the Offer Shares being offered to the public in the Global Offering, we are paying:

- 100% of the Offer Price of Offer Shares purchased by us on behalf of our employees as a reward/bonus share grant. These shares will be subject to a lock-up period of 12 months from the date of the listing of our Shares on the IDX; and
- 10% of the Offer Price of Offer Shares purchased by employees under our discounted share purchase plan. These shares will be subject to a lock-up period of 12 months from the date of the listing of our Shares on the IDX.

For more information, see “Management — Management and Employee Share Allocation Program.”

Allocation to Affiliated Applicants

“Affiliated Applicants” include the Company’s commissioners, directors or employees (except those employees who have been allocated Offer Shares under the Share Allocation Programme) seeking to purchase Offer Shares, or other parties holding at least 20.0% of the share capital in any Joint Lead Managing Underwriter or any International Selling Agent or any other party affiliated with persons involved in the Global Offering. Affiliated Applicants will only be allotted Offer Shares if there are excess Offer Shares once the applications of non-Affiliated Applicants are satisfied. Affiliated Applicants may be allocated the remaining Offer Shares on a pro rata basis.

Allocation to Foreign Institutions

There is generally no limit on the purchase of our Shares by foreign institutions. Allocation to foreign institutions will be on the same basis as to domestic institutions.

Delivery of Offer Shares

The Company expects that delivery of the Offer Shares through KSEI to be made against payment on or about February 10, 2011, which will be the business day immediately following the expected date of final allotment of the Offer Shares in the Global Offering. The Offer Shares may not be traded by the purchasers thereof prior to the listing of our Shares on the IDX.

Suspension or Cancellation of the Global Offering

Pursuant to the Underwriting Agreement and BAPEPAM & LK Rule No. IX.A.2, prior to the close of, and during the, the offer period, the Company retains the right to suspend or cancel the Indonesian Offering under certain circumstances as described in BAPEPAM & LK Rule No. IX.A.2. The completion of the Indonesian Offering and the International Offering are each conditional upon the completion of the other. In addition, the International Selling Agents are entitled to terminate the International Coordination Agreement and the Selling Agency and Managers' Agreement in certain circumstances, each as provided therein.

Restrictions on the Disposition of the Shares

For a period of twelve (12) months from the effective date of the Registration Statement with BAPEPAM & LK, the Company will not, and will procure that each of its subsidiaries will not, directly or indirectly, take any of the following actions with respect to any Shares of the Company or any securities convertible into or exchangeable for or exercisable for any Shares ("Lock-Up Securities"): (i) issue, offer, sell, contract to sell, pledge or otherwise dispose of Lock-Up Securities, (ii) issue, offer, sell, contract to sell, contract to purchase or grant any option, right or warrant to purchase Lock-Up Securities, (iii) enter into any swap, hedge or any other agreement that transfers, in whole or in part, the economic consequences of ownership of Lock-Up Securities, (iv) establish or increase a put equivalent position or liquidate or decrease a call equivalent position in Lock-Up Securities within the meaning of Section 16 of the U.S. Exchange Act, (v) file with the U.S. Securities and Exchange Commission a registration statement under the U.S. Securities Act relating to Lock-Up Securities or publicly disclose the intention to take any such action, or (vi) file with BAPEPAM & LK a registration statement relating to the Shares, or (in each case) publicly disclose the intention to take any such action, without (in each case) the prior written consent of the International Selling Agents, except for the issuance of the Offer Shares. For the avoidance of doubt, any actions by the Company solely to effect a disposition or transfer by any of its shareholders that are otherwise permitted by the terms of the lock-up provisions applicable to such shareholder shall be permitted. The Company will not, and will procure that the Company's affiliates (as such term is used in the International Coordination Agreement) will not, at any time directly or indirectly, take any action referred to in sub-clauses (i) through (vi) above with respect to any securities under circumstances where such action would cause the safe harbor of Regulation S under the U.S. Securities Act to cease to be applicable to the offer and sale of the Offer Shares.

The Government, acting through the Ministry of State-Owned Enterprises, which is our controlling shareholder, has informed the International Selling Agents and us that, for a period of six months following the listing date of our shares, it does not intend to offer, sell, contract to sell, pledge or otherwise dispose, directly or indirectly, of any of its shares in us. The Ministry of State-Owned Enterprises has further advised the International Selling Agents and us that any offer, sale, contract to sell or other arrangement to sell any of its shares in us would require the approval of the Indonesian Parliament. However, the Ministry of State-Owned Enterprises has not entered into any lock-up agreement with the Joint Lead Managing Underwriters or the International Selling Agents.

Registration of the Offer Shares in KSEI

The Offer Shares have been registered into the depository facilities of KSEI in accordance with the deposit agreement entered into between KSEI and the Company on December 3, 2010 (the "Deposit Agreement").

By registering the Offer Shares in KSEI, the Company will not issue individual share certificates to successful applicants, but any Offer Shares allotted to an investor will be distributed electronically. In order to submit an application for Offer Shares, each investor must hold a securities account with a securities company or custodian bank which is a KSEI Participant to manage and administer any Offer Shares allotted to it on the investor's behalf.

At the end of the offer period in connection with the Indonesian Offering, the Allotment Manager will undertake the allotment in the manner set out above and report the allotment result to the Company and the Selling Shareholder. The Company will issue to KSEI a confirmation of registration in its register of shares, in the name of KSEI, of the number of Offer Shares allotted as part of the Global Offering. The Company will then instruct KSEI to credit the Joint Lead Managing Underwriters and the International Selling Agents' securities accounts with KSEI to receive and hold the Offer Shares allotted to the successful applicants. The Joint Lead Managing Underwriters and the International Selling Agents will then instruct KSEI to distribute the number of Offer Shares allotted to a successful applicant from their securities accounts to the securities account of the relevant KSEI Participant.

As evidence of the allotment of the Offer Shares, the Allotment Manager will deliver allotment confirmation forms to the KSEI Participants, which must then be passed on to the relevant investor, in exchange for a subscription receipt. Distribution of the allotment confirmation forms is expected to occur at the latest two working days after the last day of the offer period in connection with the Indonesian Offering. Each International Selling Agent will receive the allotment confirmation forms on behalf of investors purchasing Offer Shares through it in the International Offering. Proof of ownership of the Offer Shares will be in the form of a written confirmation letter from KSEI or the KSEI Participant charged with managing the relevant investor's Offer Shares.

The transfer of our Shares held with KSEI will be by way of electronic book-entry between securities accounts. The shareholder holding our Shares through KSEI will be entitled to withdraw its Shares from central deposit and receive a share certificate registered in its name. Only those of our Shares which are registered in KSEI will be tradeable on the IDX.

Article 60 of Indonesian Law No. 8 of 1995 regarding the Capital Markets provides that all rights attaching to shares held with KSEI, including dividends, interest, bonuses and other ownership entitlements on securities will be automatically distributed by KSEI to a beneficial shareholder (as defined in Article 60 of Indonesian Law No. 8 of 1995) (the "Beneficial Shareholder") holding through the depository system via its KSEI Participant who holds the shares on such Beneficial Shareholder's behalf. The KSEI Participant is obliged to open a sub-account in the name of the relevant customers and immediately pass such rights and entitlements onto its customers.

Prior to corporate action being taken by the Company, KSEI must provide details to the Company concerning the share entitlements of all the Beneficial Shareholders on whose behalf our Shares are held. A KSEI Participant is obliged to notify a Beneficial Shareholder of the exercise of any pre-emptive rights, delivery of annual reports and other notices by the Company as well as notices of general meetings of shareholders. The Beneficial Shareholder, the KSEI Participant it holds through, or its legal representative, has the right to be present and vote at the Company's general meetings of shareholders.

KSEI is obliged to give the Company details of the KSEI Participants holding our Shares on behalf of Beneficial Shareholders either:

- within one working day after the record date set for the purposes of assessing the identity of the shareholders entitled to a dividend or other such rights attaching to our Shares which have been declared by the Company;
- prior to the holding of the Company's general meeting of shareholders; or
- at the Company's request based on an instruction from an authorized person or agency to the Company in accordance with the prevailing laws and regulations.

A Beneficial Shareholder that wishes to obtain a share certificate may withdraw its Shares from the depository once all of those Shares have been distributed to the securities account of its KSEI Participant. An application for the withdrawal of our Shares must be forwarded to KSEI by the KSEI Participant, on behalf of the Beneficial Shareholder, in a specified form. Collective share certificates in the name of the Beneficial Shareholder will be issued to KSEI for any shares that are withdrawn from KSEI no later than five business days from the receipt of the withdrawal request by the Company from KSEI, unless KSEI rejects the withdrawal of shares based on written orders from BAPEPAM & LK or certain other authorized persons if required for the purposes of civil or criminal court proceedings. Only shares remaining in KSEI, and which have not been pledged, foreclosed upon based on a court order or seized for the purposes of criminal court investigation, can be traded on the IDX. Investors wishing to trade withdrawn shares on the IDX must return them to KSEI. The process of depositing withdrawn Shares can take up to five business days.

No Public Trading Market for our Shares

Before this Global Offering, there has been no public market for our Shares. The Offer Price will be determined and agreed upon between the Company, the Selling Shareholder, the Joint Lead Managing Underwriters and the International Selling Agents after taking into consideration prevailing market conditions and the following factors:

- the financial performance and operating history of, and the prospects for, the Company;
- the Company's competitive strengths, business strategies and future plans; and
- the present state of the Company's development.

An active trading market for our Shares may not develop. It is also possible that after the Global Offering, our Shares will not trade in the public market at or above the Offer Price.

Other Relationships

The Joint Lead Managing Underwriters, the other Underwriters and the International Selling Agents and certain of their affiliates have engaged in, and may in the future engage in, investment banking or financial consulting activities and other commercial dealings in the ordinary course of business with the Company, the Selling Shareholder and companies controlled by the Company, and/or the Selling Shareholder. They have received and expect to continue to receive customary fees and commissions for these transactions.

Selling Restrictions

General

No action has been taken or will be taken that would permit a public offering of the Offer Shares to occur in any jurisdiction other than Indonesia, or the possession, circulation or distribution of this Offering Circular or any other material relating to the Company, the Selling Shareholder or the Offer Shares in any jurisdiction where action for such purpose is required. Accordingly, the Offer Shares may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any offering materials or advertisements in connection with the Offer Shares may be distributed or published in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction. The Indonesian Offering will be made in compliance with the applicable rules of BAPEPAM & LK.

Australia

This document does not constitute a prospectus or other disclosure document under the Corporations Act 2001 (Cth) ("Australian Corporations Act") and does not purport to include the information required of a disclosure document under the Australian Corporations Act. This document has not been lodged with the Australian Securities and Investments Commission ("ASIC") and no steps have been taken to lodge it as such with ASIC.

Any offer in Australia of the Offer Shares under this document may only be made to persons who are "sophisticated investors" (within the meaning of section 708(8) of the Australian Corporations Act), to "professional investors" (within the meaning of section 708(11) of the Australian Corporations Act) or otherwise pursuant to one or more exemptions under section 708 of the Australian Corporations Act so that it is lawful to offer the Offer Shares in Australia without disclosure to investors under Part 6D.2 of the Australian Corporations Act.

Any offer of Offer Shares for on-sale that is received in Australia within 12 months after their issue by the Company, or within 12 months after their sale by the Selling Shareholder under the Global Offering, as applicable, is likely to need prospectus disclosure to investors under Part 6D.2 of the Australian Corporations Act, unless such offer for on-sale in Australia is conducted in reliance on a prospectus disclosure exemption under section 708 of the Australian Corporations Act or otherwise. Any persons acquiring Offer Shares should observe such Australian on-sale restrictions and seek advice accordingly.

Bahrain

Each Joint Global Coordinator has represented and agreed that it has not offered, and will not offer, Offer Shares to (i) the public (as defined in Articles 142-146 of the Commercial Companies Law (Decree Law

No. 21/2001) of Bahrain) or (ii) any person in Bahrain who is not an "accredited investor". For this purpose, an "accredited investor" means:

- an individual holding financial assets (either singly or jointly with a spouse) of US$1,000,000 or more;
- a company, partnership, trust or other commercial undertaking which has financial assets available for investment of not less than US$1,000,000; or
- a government, supranational organization, central bank or other national monetary authority or a state organization whose main activity is to invest in financial instruments (such as a state pension fund).

Canada

The distribution of the Offer Shares in Canada is being made only on a private placement basis exempt from the requirement that the Company prepare and file a prospectus with the applicable securities regulatory authorities. The Company is not a reporting issuer in any province or territory in Canada and its securities are not listed on any stock exchange in Canada and there is currently no public market for the Offer Shares in Canada. The Company currently has no intention of becoming a reporting issuer in Canada, filing a prospectus with any securities regulatory authority in Canada to qualify the resale of Offer Shares to the public, or listing its securities on any stock exchange in Canada. Accordingly, to be made in accordance with securities laws, any resale of the Offer Shares in Canada must be made under available statutory exemptions from registration and prospectus requirements or under a discretionary exemption granted by the applicable Canadian securities regulatory authority. Canadian purchasers are advised to seek legal advice prior to any resale of the Offer Shares.

Dubai International Finance Centre

Each Joint Global Coordinator has represented and agreed, and each further Joint Global Coordinator appointed in connection with the International Offering will be required to represent and agree, that it has not offered and will not offer the Offer Shares to be issued in connection with the International Offering to any person in the Dubai International Financial Centre unless such offer is:

(i) an "Exempt Offer" in accordance with the Offered Securities Rules of the Dubai Financial Services Authority (the "DFSA"); and

(ii) made only to persons who meet the Professional Client criteria set out in Rule 2.3.2 of the DFSA Conduct of Business Module.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State") an offer to the public of any Offer Shares contemplated by this document may not be made in that Relevant Member State except that an offer to the public in that Relevant Member State of any Offer Shares may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

- to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;
- to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
- by the Joint Global Coordinators and Joint Lead Managing Underwriters to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive); or
- in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Offer Shares shall result in a requirement for the publication by us or any of the Joint Global Coordinators or Joint Lead Managing Underwriters of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer to the public" in relation to any Offer Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any Offer Shares to be offered so as to enable an investor to decide to purchase any Offer Shares, as the same may be varied in that Member State by any measure implementing the

Prospectus Directive in that Member State and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

Hong Kong

The Offer Shares have not been offered or sold and will not be offered or sold in Hong Kong, by means of any document, other than to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance, or in circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance. No person has issued or had in its possession for the purposes of issue, and will issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Offer Shares 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 the Offer Shares which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance and any rules made under that Ordinance.

Indonesia

This Offering Circular may only be distributed outside Indonesia to persons who are neither citizens of Indonesia (wherever located) nor residents of Indonesia.

Japan

The Offer Shares in this Global Offering have not been and will not be registered in Japan pursuant to Section 4, Paragraph 1 of the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948, as amended, the "FIEL") in reliance upon the exemption from the registration requirements as provided for in "ha" of Section 2, Paragraph 3, Item 2 of the FIEL ("Limited Number Investor Private Placement"), and the Offer Shares in this Global Offering may not be offered or sold, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person residing in Japan, including any corporation or other entity organized under the laws of Japan) or to others for re-offering or resale, directly or indirectly, in Japan or to any resident of Japan, except in accordance with the Limited Number Investor Private Placement, or otherwise except in compliance with the FIEL and other applicable laws and regulations of Japan.

Kuwait

This Offering Circular is not for general circulation to the public in Kuwait. The Offer Shares have not been licensed for offering in Kuwait by the Ministry of Commerce and Industry or the Central Bank of Kuwait or any other relevant Kuwaiti government agency. The offering of the Offer Shares in Kuwait on the basis a private placement or public offering is, therefore, restricted in accordance with Decree Law No. 31 of 1990, as amended, and Ministerial Order No. 113 of 1992, as amended. No private or public offering of the Offer Shares is being made in Kuwait, and no agreement relating to the sale of the Offer Shares will be concluded in Kuwait. No marketing or solicitation or inducement activities are being used to offer or market the Offer Shares in Kuwait.

State of Qatar

Each Joint Global Coordinator has represented and agreed, and each further Joint Global Coordinator appointed in connection with the International Offering will be required to represent and agree, that it has not offered, sold or delivered and will not offer, sell, or deliver, directly or indirectly, any Offer Shares in Qatar, except (a) in compliance with all applicable laws and regulations of Qatar and (b) through persons or corporate entities authorised and licensed to provide investment advice and/or engage in brokerage activity and/or trade in respect of foreign securities in Qatar. This Offering Circular has not been reviewed or approved by or registered with the Qatari Financial Markets Authority. This Offering Circular is strictly private and confidential and may not be reproduced or used for any other purpose, nor provided to any person other than the recipient thereof.

Singapore

This Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Cap. 289 of Singapore (the "SFA") and accordingly, the Offer Shares may not be offered or sold, nor may the Offer Shares be the subject of an invitation for subscription or purchase, nor may this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase of the Offer Shares be circulated or distributed, 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) pursuant to Section 275(1) of the SFA, or 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 Offer Shares are acquired by persons who are relevant persons specified in Section 276 of the SFA, namely:

- 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
- 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,

the shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Offer Shares pursuant to an offer made under Section 275 of the SFA except:

- 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;
- where no consideration is or will be given for the transfer;
- where the transfer is by operation of law; or
- as specified in Section 276(7) of the SFA.

Switzerland

The Offer Shares may not be publicly offered, sold or advertised, directly or indirectly, in Switzerland. Offer Shares shall be offered in Switzerland on a private placement basis only to a selected and limited group of investors that are not subscribing for the Offer Shares with a view to distribution to the public and without the use of any public means of information or advertisement. Neither this document nor any other offering or marketing material relating to Offer Shares constitutes an offer prospectus within the meaning of Art. 652a of the Swiss Code of Obligations or a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange Ltd. This document has not been filed with or approved by any Swiss regulatory authority or stock exchange. The Offer Shares will not be registered in Switzerland or listed at any Swiss stock exchange. Neither this document nor any other offering or marketing material relating to Offer Shares may be distributed or used in Switzerland without our prior written approval.

United Arab Emirates

Each Joint Global Coordinator has represented and agreed that Offer Shares 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 Joint Global Coordinator has acknowledged that the information contained this Offering Circular does not constitute a public offer of securities in the United Arab Emirates in accordance with the Commercial Company Law (Federal Law 8 of 1986 (as amended)) or otherwise and is not intended to be a public offer and the information contained in this Offering Circular is not intended to lead to the conclusion of any contract of whatsoever nature within the territory of the United Arab Emirates.

United Kingdom

Each Joint Global Coordinator has represented, warranted and agreed that:

- it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000, as amended (the "FSMA") received by it in connection with the issue or sale of any Offer Shares in circumstances in which section 21(1) of the FSMA does not apply to us; and
- it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Offer Shares in, from or otherwise involving the United Kingdom.

United States

The Offer Shares are being offered and sold (i) within the United States to "qualified institutional buyers" in reliance on Rule 144A under the U.S. Securities Act and (ii) outside of the United States to non-U.S. Persons in reliance on Regulation S. The Offer Shares have not been and will not be registered under the U.S. Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. Persons except in certain transactions exempt from the registration requirements of the U.S. Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the U.S. Securities Act.

Each of the Joint Global Coordinators has warranted that, except as permitted by the International Coordination Agreement it will not offer or sell the Offer Shares in the Global Offering:

- as part of their distribution at any time; or
- otherwise until 40 days after the later of the commencement of the Global Offering and the Closing Date,

within the United States or to, or for the account or benefit of, U.S. Persons, and that it will have sent to each dealer to which it sells Offer Shares (other than a sale pursuant to Rule 144A) during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Offer Shares within the United States or to, or for the account or benefit of, U.S. Persons. Terms used in this paragraph have the meanings given to them by Regulation S under the U.S. Securities Act.

The International Coordination Agreement provides that the Joint Global Coordinators may directly or through their respective U.S. broker-dealer affiliates arrange for the offer and resale of the Offer Shares within the United States only to qualified institutional buyers in reliance on Rule 144A.

In addition, until 40 days after the first date upon which the Offer Shares were bona fide offered to the public, an offer of the Offer Shares within the United States by a dealer may violate the registration requirements of the U.S. Securities Act.

Each purchaser of the Offer Shares will be deemed to have made the acknowledgements, representations and agreements as described in "Transfer Restrictions."

Transfer Restrictions

Because the following restrictions will apply to the Global Offering of our shares, purchasers are advised to consult their own legal counsel prior to making any offer, resale, pledge or transfer of the shares.

Our shares have not been registered under the U.S. Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except to (a) qualified institutional buyers in reliance on the exemption from the registration requirements of the U.S. Securities Act provided by Rule 144A and (b) persons in offshore transactions in reliance on Regulation S.

Rule 144A Restrictions

Each purchaser of our shares within the United States pursuant to Rule 144A, by accepting delivery of this Offering Circular, will be deemed to have represented, agreed and acknowledged that:

(1) It is (a) a qualified institutional buyer, (b) acquiring such shares for its own account or for the account of a qualified institutional buyer and (c) aware, and each beneficial owner of such shares has been advised, that the sale of such shares to it is being made in reliance on Rule 144A.

(2) It understands that such shares have not been and will not be registered under the U.S. Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a qualified institutional buyer purchasing for its own account or for the account of a qualified institutional buyer, (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S or (c) pursuant to an exemption from registration under the U.S. Securities Act provided by Rule 144 thereunder (if available), in each case in accordance with any applicable securities laws of any State of the United States.

(3) It understands that such shares (to the extent they are in certificated form), unless otherwise agreed by us in accordance with applicable law, will bear a legend to the following effect:

"THESE SHARES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "U.S. SECURITIES ACT") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE U.S. SECURITIES ACT TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT OR (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE U.S. SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE U.S. SECURITIES ACT FOR RESALES OF THESE SHARES.

(4) We, the International Selling Agents, the Underwriters, our and their respective affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements. If it is acquiring any shares for the account of one or more qualified institutional buyers, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each such account.

Prospective purchasers are hereby notified that sellers of the shares may be relying on the exemption from the provisions of Section 5 of the U.S. Securities Act provided by Rule 144A.

Regulation S Restrictions

Each purchaser of our shares outside the United States pursuant to Regulation S and each subsequent purchaser of such shares in resales prior to the expiration of the distribution compliance period, by accepting delivery of this Offering Circular and our shares, will be deemed to have represented, agreed and acknowledged that:

(1) It is, or at the time such shares are purchased will be, the beneficial owner of such shares and (a) it is located outside the United States (within the meaning of Regulation S), (b) it is purchasing such shares in an offshore transaction pursuant to Regulation S, and (c) it is not an affiliate of the Company or a person acting on behalf of such affiliate.

(2) It understands that such shares have not been and will not be registered under the U.S. Securities Act and that, prior to the expiration of the distribution compliance period, it will not offer, sell, pledge or otherwise transfer such shares except (a) in accordance with Rule 144A under the U.S. Securities Act to a person that it and any person acting on its behalf reasonably believe is a qualified institutional buyer purchasing for its own account or the account of a qualified institutional buyer or (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States.

(3) We, the International Selling Agents, the Underwriters, our and their respective affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

General

Each purchaser of our shares will be deemed to have represented and agreed that it is relying on this Offering Circular and not on any other information or representation concerning the Company or our shares and neither the Company nor any other person responsible for this Offering Circular or any part of it, nor the International Selling Agents, the Underwriters, or their respective affiliates, will have any liability for any such other information or representation.

Legal Matters

Certain legal matters in connection with the Global Offering will be passed upon for us by Skadden, Arps, Slate, Meagher & Flom LLP with respect to matters of United States federal and New York laws and by Assegaf Hamzah & Partners with respect to matters of Indonesian law. Certain legal matters in connection with the Global Offering will be passed upon for the International Selling Agents by Clifford Chance Pte. Ltd. with respect to certain legal matters of United States federal and New York laws and by Soemarjono, Herman and Rekan with respect to matters of Indonesian law. In rendering such opinions, each of Skadden, Arps, Slate, Meagher & Flom LLP and Clifford Chance Pte. Ltd. may rely upon the opinions of Assegaf Hamzah & Partners and Soemarjono, Herman and Rekan, respectively, as to all matters of Indonesian law.

Independent Public Accountants

Our consolidated financial statements for the year ended December 31, 2009 and for the nine-month period ended September 30, 2010 included in this Offering Circular have been audited by Osman Bing Satrio & Rekan, independent public accountants in Indonesia, as stated in their report included in this Offering Circular. Our consolidated financial statements for the nine-month period ended September 30, 2009 included in this Offering Circular have been reviewed by Osman Bing Satrio & Rekan. Osman Bing Satrio & Rekan is a member firm of Deloitte Touche Tohmatsu Limited. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards established by the Indonesian Institute of Certified Public Accountants, the objective of which is the expression of an opinion regarding the financial statements taken as a whole, therefore the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

Our consolidated financial statements for the years ended December 31, 2007 and 2008 included in this Offering Circular have been audited by RSM Aryanto, Amir Jusuf, Mawar, and Saptoto, independent public accountants in Indonesia.

Industry Consultant

The section included in this Offering Circular entitled "The Airline Industry in Indonesia" has been prepared by The S-A-P Group, for incorporation in this Offering Circular. The S-A-P Group has given, and has not withdrawn, its written consent to the issue of this Offering Circular with the inclusion of its name and such section in the form and context in which they are included.

Financial Adviser

We have appointed PT Rothschild Indonesia ("Rothschild") as our financial adviser in respect of the Global Offering. The appointment of Rothschild was not made pursuant to the requirements of the IDX listing rules, and the appointment of Rothschild is separate and distinct from the appointment of the Joint Global Coordinators, International Selling Agents and Joint Bookrunners and Joint Lead Managing Underwriters (which is required to be made by us pursuant to the IDX listing rules). Rothschild's role in the Global Offering focuses on providing us with general corporate finance advice on matters relating to the listing of our Shares and the Global Offering.

Summary of Certain Principal Differences between Indonesian GAAP and U.S. GAAP

The consolidated financial statements have been prepared in accordance with Indonesian GAAP which differs in certain areas to U.S. GAAP. The preparation of this summary is the responsibility of the Company. This summary should not be taken as an exhaustive list of all the differences between Indonesian GAAP and U.S. GAAP. No attempt has been made to identify all recognition and measurement, disclosures, presentation or classification differences that would affect the manner in which transactions or events are presented in the consolidated financial statements (or notes thereto). Certain principal differences between U.S. GAAP and Indonesian GAAP that may have a material effect on the consolidated financial statements are summarized below. Management has not quantified the effects of the differences discussed below. Accordingly, no assurance can be provided to investors that the respective consolidated financial statements of the Company would not be materially different if prepared in accordance with U.S. GAAP.

Regulatory bodies that promulgate Indonesian GAAP and U.S. GAAP have issued accounting standards which are not yet effective and have significant ongoing projects that could affect the differences between Indonesian GAAP and U.S. GAAP described below and may have an impact on the consolidated financial statements of the Company and its subsidiaries in the future. In making an investment decision, investors must rely upon their own examination of the Company and its subsidiaries, the terms of the Offering and the financial information. Potential investors should consult their own professional advisors for an understanding of the differences between Indonesian GAAP and U.S. GAAP and how those differences might affect the financial information disclosed in this Offering Circular.

Business Combinations

Under Indonesian GAAP, the interest of the minority shareholders is stated at the minority's proportion of the historical cost of the net assets.

Under U.S. GAAP, effective for annual periods beginning on or after December 15, 2008, minority interest (now referred to as non controlling interest) is recorded at fair value. Before the effective date, there were no differences between U.S. GAAP and Indonesian GAAP.

Under Indonesian GAAP, minority interest is presented separately between liabilities and the parent shareholders' equity on the consolidated balance sheet and as a separate line item on the consolidated income statement to arrive at net income.

Under U.S. GAAP, non-controlling interest (previously referred to as minority interest) is reported as part of equity in the consolidated balance sheet.

Property and Equipment

Prior to January 1, 2008, Indonesian GAAP does not generally allow companies to recognize an increase in the value of property, plant and equipment occurring subsequent to its acquisition, although an exception is provided for revaluations made in accordance with specific government regulations. Effective January 1, 2008, the revised Statement of Financial Accounting Standard (PSAK) 16, Fixed Assets and Other Assets, allows the use of the cost or revaluation model in measuring the value of the asset subsequent to initial recognition. In case the cost model was chosen, for certain assets that have been revalued in the prior year in accordance with government regulation, the revaluation amount is considered as the asset's deemed cost and the balance of revaluation surplus previously presented as separate a item in equity, is reclassified to retained earnings on the initial adoption of the standard.

Under U.S. GAAP, property, plant and equipment may not be written up by an entity to reflect appraisal, market or current values that are above cost to the entity.

Under Indonesian GAAP, effective since January 1, 2008, residual values of property, plant and equipment need to be reviewed at least annually and if expectations of residual values differ from previous estimates, the change in residual value is accounted for prospectively as a change in estimate and may be adjusted upwards or downwards, as appropriate.

Under U.S. GAAP, if expectations of the residual values differ from previous estimates, the change in residual values is accounted for prospectively as a change in estimate only if the residual values have decreased (which would result in an increase in depreciation expense in future periods because of a corresponding increase in the depreciable amount of the asset). An upward adjustment of the residual value is not permitted under U.S. GAAP.

Land Rights

In Indonesia, all title to land rests with the state under Basic Agrarian Law No. 5/1960. Land use is regulated through the granting of land rights under which the holder of the rights enjoys the full use of the land for a stated period of time, subject to extensions. Land rights generally are freely tradable and may be encumbered as security under borrowing agreements. Under Indonesian GAAP, the cost of ownership rights are included in property and equipment and are not amortized unless the holder judges the likelihood of its obtaining an extension or renewal of the right to be remote.

Under U.S. GAAP, a land use right is generally treated as a prepaid operating lease; the cost of acquired land rights is expensed over the period for which the holder is expected to retain the land rights.

Major Inspection or Overhaul

Under Indonesian GAAP, the costs of major inspection or overhaul on owned aircraft or aircraft under finance lease are capitalized as part of the cost of the aircraft, as long as the capitalization criteria in Statement of Financial Accounting Standards (PSAK) 16 are met. At the time of scheduled major inspection or overhaul, the remaining carrying amount resulting from any previous inspection or overhaul is derecognized.

Moreover under Indonesian GAAP, should there be a commitment related to maintenance of aircraft held under operating lease arrangements and return conditions, a provision is made during the lease term for the lease return obligations as specified in the lease agreements.

U.S. GAAP, permits three alternative methods of accounting for planned major maintenance activities; which are (a) the direct expensing method, under which actual costs are expensed as incurred; (b) the built-in overhaul method, under which the cost of components subject to inspection or overhaul are segregated at date of purchase and are amortized to the date of the initial inspection or overhaul. The cost of the initial inspection or overhaul is then capitalized and amortized to the next inspection or overhaul, at which time the process is repeated; and (c) the deferral method, under which the actual cost of each planned major maintenance activity is capitalized and amortized to expense in a systematic and rational manner over the estimated period until the next planned major maintenance activity. The method chosen by an entity is an accounting policy decision and must be consistently applied. The use of the “accrue-in-advance method” is prohibited.

Investment Property

Prior to January 1, 2008, investment properties are carried at cost and adjusted for permanent decline in value. Effective January 1, 2008, under the revised PSAK 13, Investment Property, an entity can choose between the fair value model or cost model. When fair value is applied, the gain or loss arising from a change in the fair value is recognized in the income statement and the carrying amount is not depreciated. Revaluations must be made with sufficient regularity such that the carrying amount does not differ materially from the fair value.

U.S. GAAP does not have specific guidance for investment property, other than specific rules relating to entities that qualify as investment companies under the Investment Companies Act of 1940. For entities that are not investment companies, such property is accounted for in the same way as Property and Equipment.

Impairment of Long-Lived Assets

Under Indonesian GAAP, an enterprise should assess at each balance sheet date whether there is any indication that an asset may be impaired. If any such indication exists, the enterprise should estimate the recoverable amount of the asset. Impairment loss is recognized when the asset’s carrying amount exceeds the recoverable amount, which is the higher of net selling price or value in use. An impairment loss is only reversed to the extent that the asset carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

Under U.S. GAAP, an impairment loss shall be recognized whenever events or changes in circumstances indicate that the carrying amount of an asset is not recoverable and exceeds its fair value. The asset’s carrying amount is not recoverable if it exceeds the sum of the undiscounted cash flows, excluding interest charges expected to result from the use and eventual disposition of the asset. That assessment shall be based on the carrying amount of the asset at the date it is tested for recoverability, whether in use or under development. An impairment loss shall be measured as the amount by which the carrying amount of the asset exceeds the fair value of asset. Subsequent reversal of previously recognized impairment loss is prohibited.

Inventories

Under Indonesian GAAP, inventories are measured at the lower of cost or net realizable value. ("NRV") is defined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. An assessment is made at each subsequent period for any inventory write-downs. When the circumstances which previously caused inventories to be written down below cost no longer exist, the amount of the write-down is reversed so that the new carrying amount of the inventory is the lower of the cost or the revised NRV.

Under U.S. GAAP, a write-down of inventories to the lower of cost or market at the close of a fiscal period creates a new cost basis that subsequently cannot be marked up based on changes in underlying facts and circumstances. "Market" under U.S. GAAP is defined as replacement cost, provided that it does not exceed NRV or is not less than the NRV reduced by a normal profit margin. NRV is defined as the selling price in the ordinary course of business less reasonably predictable cost of completion and disposal.

U.S. GAAP also contains additional specific guidance on certain inventory items that relate to the airline industry. Expendable parts like spare parts and supplies which is similar in nature to a prepaid expense shall be recorded at cost in a current asset account. Reusable spare parts and supplies recovered in connection with construction, maintenance, or retirement of property and equipment shall be included with expendable parts at the average cost of comparable items. This valuation is typically based on the condition of the part or group of parts and their continuing utility. Materials and supplies held in small quantities and purchased as needed shall be charged to expense when they are purchased. Expendable parts recorded in a current asset account for spare parts and supplies shall be charged to expense as they are used.

Landing Right

Under Indonesian GAAP, there is no specific guidance on accounting for landing rights.

Under U.S. GAAP, a landing right is an intangible asset that shall be accounted for in conformity with the requirements of accounting for intangible assets. There are certain factors under U.S. GAAP that need to be taken into account when determining the useful life of landing rights.

Deferred Tax Assets and Liabilities

Under Indonesian GAAP, deferred tax assets are only recognized if it is probable that future taxable profit will be available against which the deferred tax assets can be utilized and is calculated at the tax rates that have been enacted or substantively enacted by the balance sheet date. The carrying amount of the deferred tax assets is reviewed periodically and reduced if appropriate. When an entity presents current and noncurrent classifications in its statement of financial position, it should not classify deferred tax assets (liabilities) as current assets (liabilities).

Under U.S. GAAP, deferred tax assets are recognized to the extent that available evidence supports their realization and are measured using enacted tax rates for the period in which the asset or liability is expected to reverse. The future reversals of taxable temporary differences, taxable income in prior carry back periods (as permitted by tax law), tax planning strategies, and future taxable income exclusive of reversing temporary differences and carry forwards must be evaluated in determining whether or not a valuation allowance is necessary. A valuation allowance is provided if it is more likely than not that all or a portion of the deferred tax assets will not be realized. An entity should present current and noncurrent deferred tax assets and liabilities separately in a classified statement of financial position on the basis of either (1) the underlying asset or liability or (2) the expected reversal of items not related to an asset or liability.

Finance Leases

Prior to January 1, 2008, under Indonesian GAAP, a finance lease is only recognized where all of the following criteria are met; (a) the lessee has the option to purchase the asset at the end of the period at a price agreed upon at the inception of the lease agreement; (b) the sum of all minimum lease payments plus the residual value is equal to or greater than the acquisition price of the leased assets and the related interest, which represents the leasing company's profit; and (c) there is a minimum lease period of two years. The asset is amortized over its useful life in a manner consistent with the lessee's normal depreciation policy for owned assets.

Effective January 1, 2008, a lease is classified as a finance lease if the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Under U.S. GAAP, finance (capital) leases are recognized if one or more of the following criteria is met: (a) ownership of the leased assets transfer to the lessee at the end of the lease period; (b) the lease contains a bargain purchase option; (c) the term of the lease is equal to 75.0% or more of the estimated useful life of the assets; or (d) the net present value of the minimum lease payment at the inception of the lease is equal or exceeds 90.0% of the excess of the fair value of the leased assets to the lessor over any related investment tax credit retained and expected to be realized by the lessor. If the lease meets the criterion of either (a) or (b) above, the asset is amortized in a manner consistent with the lessee's normal depreciation policy for owned fixed assets. If the lease does not meet the criterion of either (a) or (b) above, the asset is amortized in a manner consistent with the lessee's normal depreciation policy, except that the period of amortization shall be the lease term.

For leases not meeting any of the four criteria for a capital lease included above, lease payments are expensed as incurred (operating lease).

Sale and Leaseback Arrangements

Under Indonesian GAAP, when a sale and leaseback transaction results in an operating lease and the sale price is clearly established at fair value, the gain on the sale is recognized in profit or loss. If the sale price is at below fair value, any profit or loss should be recognized immediately, except that if there is a loss that is compensated for by future lease payments at below market rates, the loss should be deferred and amortized in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above fair value, the excess is deferred and amortized over the period for which the asset is expected to be used.

When a sale-leaseback transaction results in a finance lease, the gain is amortized over the lease term, irrespective of whether the lessee will reacquire the leased property.

Under U.S. GAAP, the gain on a sale-leaseback transaction generally is deferred and amortized over the lease term. Immediate recognition of the full gain is normally appropriate only when the seller retains only a minor portion of the remaining use of the property or the seller retains "more than a minor part but less than substantially all" of the remaining use of the property. If the seller retains only a minor portion of the remaining use of the property, the sale and leaseback should be accounted for as separate transactions on the basis of their respective terms. If the leaseback is more than minor but less than substantially all of the asset life, a gain is recognized as of the date of sale to the extent that the gain exceeds the present value of the minimum lease payments. If the lessee provides a residual value guarantee, the gain corresponding to the gross amount of the guarantee is deferred until the end of the lease and such amount is not amortized during the lease term.

Discounting of Provisions

Under Indonesian GAAP, where the effect of the time value of money is material, the amount of a provision should be the present value of the expenditures expected to be required to settle the obligation. The discount rate should be a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The discount rate should not reflect risks for which future cash flow estimates have been adjusted.

Under U.S. GAAP, discounting provisions is only acceptable when the aggregate amount of, and the timing of cash payments for, the liability are fixed or readily determinable.

Post-Employment Benefits and Other Long-Term Benefits

Indonesian GAAP requires that past service costs are recognized as an expense on a straight-line basis over the period until the benefits become vested. To the extent that the benefits are already vested immediately following the introduction of, or changes to, a defined benefit plan, an enterprise should recognize past service costs immediately. Expected returns on plan assets are based on the fair value of the plan assets.

Long-term benefits are determined using the Projected Unit Credit Method. Past service cost and actuarial gains (losses) are recognized immediately on the current operations.

U.S. GAAP requires that the prior service cost be amortized as a component of net periodic benefit cost over an employees (losses) during their service period, regardless of whether the benefits are vested or unvested. If substantially all of a plan's participants are inactive, the prior service cost is amortized over the participants' life expectancy. A negative plan amendment (i.e., reduction in benefits) creates prior service credit, which first reduces any unamortized prior service costs in other comprehensive income. Any remaining prior service credit is then recognized on the same basis as a positive plan amendment. Expected return on plan assets is determined based on market conditions and the nature of the assets.

Under U.S. GAAP, some of the other long-term benefits are outside the scope of the U.S. GAAP guidance on compensation (e.g., jubilee plans, which typically provide payments to employees while they are in active service, are typically not considered subject to long-term benefit valuation under ASC 712).

Revenue Recognition

The general principles for revenue recognition under Indonesian GAAP and U.S. GAAP are substantially consistent. However, under U.S. GAAP, more specific guidance should be followed, in particular for industry-specific issues. In addition, public companies must follow the more detailed guidance provided by the SEC.

Under Indonesian GAAP, entities can determine the stage of completion by using a variety of methods, including the cost-to-cost approach.

Under U.S. GAAP, no detailed guidance is provided on determining when performance is complete; the cost-to-cost approach is generally not deemed appropriate.

Loyalty Programs

Under Indonesian GAAP, a portion of passenger revenue attributable to the award of frequent flyer benefits are deferred until they are utilized. Any remaining unutilized benefits are recognized as revenue upon expiry.

Under US GAAP, there is no specific guidance on the accounting for customer loyalty programs. Because of the lack of specific guidance, two approaches have developed in practice: (1) the "multiple-element approach" in which a portion of the revenue from the initial transactions is generally deferred until redemption and (2) the "incremental-cost approach," in which the estimated cost of the award is recorded as a liability. The multiple-element approach is acceptable in most situations under US GAAP; however, the incremental-cost approach may only be acceptable in certain circumstances, for example, the incremental-cost approach may be inappropriate when the value of an award is significant in relation to the overall arrangement.

Other Comprehensive Income

Under Indonesian GAAP, there is no specific guidance on the presentation of other comprehensive income. Items of gain and loss that are not recognized in the income statements (such as foreign exchange translation gain or loss) are recognized in reserves separate from retained earnings and are disclosed in the statements of changes in equity.

U.S. GAAP requires disclosure of total comprehensive income and accumulated other comprehensive income, either as a separate primary statement or combined with the income statement, or with the statement of changes in shareholders' equity.

Functional Currency

Under Indonesian GAAP, there is no hierarchy of indicators for the purpose of determining the functional currency. Normally, the measurement and presentation currency is Indonesian Rupiah. However, other currencies may be used provided they meet the functional currency criteria.

U.S. GAAP provides primary indicators and secondary indicators for an entity to use in determining its functional currency. When the indicators are mixed and the functional currency is not obvious, management uses its judgment on which priority is given to the primary indicators. The entity shall use the functional currency as the measurement currency while the presentation currency may be a currency other than the functional currency.

Statement of Cash Flows

Under Indonesian GAAP, companies which present their cash flows using the direct method are not required to present a reconciliation of net income to net cash flow from operating activities. Furthermore, cash flows from interest received and paid are disclosed in a consistent manner from period to period as operating, investing or financing activities.

Under U.S. GAAP, companies which present their cash flows using the direct method are required to present, in a separate schedule, a reconciliation of net income to cash flows from operating activities. Such reconciliation should show: (a) the effects of all deferrals of past operating cash receipts and payments, such as changes during the period in inventory, deferred income, and all accruals of expected future operating cash receipts and payments, such as changes during the period in receivables and payables, and (b) the effects of all items which cash effects are investing or financing cash flows, such as depreciation, amortization of goodwill, gains or losses on sales of property, plant and equipment and discontinued operations and gains or losses on extinguishment of debt. Also, cash flows from interest received and paid are classified in the statement of cash flows as operating activity only.

Related Party Disclosures

Under Indonesian GAAP, Government departments and agencies are not considered related parties. Therefore, transactions with the Government and state-owned enterprises need not be disclosed.

U.S. GAAP states that if the reporting enterprise and one or more other enterprises are under common ownership or management control and the existence of that control could result in operating results or financial position of the reporting enterprise being significantly different from those that would have been obtained if the enterprises were autonomous, the nature of the control relationship should be disclosed even though there are no transactions between the enterprises. Also, under U.S. GAAP, related party transactions between state-owned enterprises must still be disclosed.

Segment Information

Under Indonesian GAAP, segment information is prepared and reported using the accounting policies adopted for preparing and presenting the consolidated financial statements. Reportable segments are identified using lines of business and geographical areas.

Under U.S. GAAP, segment information is reported based on operating segments, which are components of an entity with separate financial information available and evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. U.S. GAAP also permits the disclosure to use the accounting policies used for internal reporting purposes, which may not necessarily be consistent with the accounting policies used in the consolidated financial statements.

Convertible Bonds

Indonesian GAAP requires that non derivative instruments with both liability and equity components be separated into their component parts. The liability component is measured at fair value at inception, and any residual proceeds are allocated to the equity component. Convertible debt instruments that permit the issuer to settle in cash upon conversion do not contain an equity component.

Under U.S. GAAP, convertible debt generally is treated entirely as debt unless the conversion feature is "in the money" at inception (i.e., a "beneficial conversion feature") or requires or permits the issuer to settle in cash (including cash settlement that is at the option of the holder). In such cases, the conversion feature would be within the scope of derivative accounting or, for certain instruments that permit the issuer to settle in cash upon conversion, be separated as an equity component.

Disclosures

Certain additional disclosures not required under Indonesian GAAP are required to be disclosed under U.S. GAAP. Some of the areas where U.S. GAAP requires specific additional disclosures include, among others, concentration of credit risks, significant customers and suppliers and pensions.

Index to Consolidated Financial Statements

PT. Garuda Indonesia (Persero) and its subsidiaries' consolidated financial statements for the nine months ended September 30, 2010 and 2009 and the three years ended December 31, 2009, 2008 and 2007

PT. Garuda Indonesia (Persero) Tbk.
Jalan Kebon Sirih No. 44
Jakarta 10110
Indonesia

Auditors to the Company
Osman Bing Satrio & Rekan
a member firm of Deloitte Touche Tohmatsu Limited
4th Floor, Wisma Antara
Jl. Medan Mendeka Selatan No. 17
Jakarta 10110
Republic of Indonesia

Legal Advisors to the Company

as to New York law
Skadden, Arps, Slate, Meagher & Flom LLP
42/F, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

as to Indonesian law
Assegaf Hamzah & Partners
Menara Rajawali 16th Floor
Jalan Mega Kuningan Lot # 5.1
Kawasan Mega Kuningan
Jakarta 12950
Indonesia

Legal Advisors to the International Selling Agents

as to New York law
Clifford Chance Pte. Ltd.
One George Street
19th Floor
Singapore 049145

as to Indonesian law
Soemarjono, Herman & Rekan
Jalan Sultan Agung No. 62
Jakarta 12970
Indonesia