

Japan Credit Rating Agency, Ltd. (JCR) announces the following credit ratings.

## **Perusahaan Perseroan (Persero) PT Perusahaan Listrik Negara (security code: -)**

### <Affirmation>

Foreign Currency Long-term Issuer Rating:	BBB+
Outlook:	Stable
Local Currency Long-term Issuer Rating:	A-
Outlook:	Stable
Bonds:	BBB+

### *Rationale*

- (1) Perusahaan Perseroan (Persero) PT Perusahaan Listrik Negara (PLN) is a state-owned electric power company 100% owned by the Government of Indonesia (GOI). Under the Electricity Law No. 30 of 2009, it supplies electricity throughout Indonesia. PLN's ratings strongly reflect GOI's credit standing (Long-term Issuer Ratings; FC: BBB+/Stable and LC: A-/Stable). PLN assumes a crucial role in GOI's energy policy, and therefore it has strong capital and personnel connections with GOI. Since PLN accepts a Public Service Obligation (PSO) under the provisions of the Law on State-Owned Enterprises No. 19 of 2003, GOI is obliged to compensate any losses incurred by PLN and has provided it with subsidies from its annual budget. PLN has also received a variety of financial support from GOI. JCR holds that the strong relationship between PLN and GOI will be maintained through such financial support including the subsidies and capital injections by GOI as the company will continue to assume a critical role in the electricity development in Indonesia.
- (2) PLN undertakes generation, transmission and distribution of electricity under the supervision of the Ministry of Energy and Mineral Resources (MEMR), based on the Law on State-Owned Enterprises No.19 of 2003 and the Electricity Law No. 30 of 2009. PLN's annual budget and long-term investment and financing plans are subject to approval by the Ministry of State-Owned Enterprises (MSOE), and its Commissioners and Directors are appointed by MSOE. Domestic electricity tariffs are approved by GOI and have been kept lower than PLN's cost of production. Moreover, the Law on State-Owned Enterprises requires GOI to compensate for the difference between the cost of production and the electricity tariffs. Such gap plus a certain margin has been earmarked in the annual national budget to be provided as subsidies to PLN. As of the end of 2019, PLN has a power generation capacity that accounted for 73% of Indonesia's total installed capacity, with the remaining 27% owned by IPPs. Power transmission and distribution are monopolized by PLN. GOI's plan calls for future power development to be primarily undertaken by private IPPs. However, PLN is the sole off-taker of IPPs, and therefore JCR believes that its leading position in the domestic electricity supply will remain unchanged.
- (3) Under GOI's Fast Track Program I (FTP-1) formulated in 2006 and Program II (FTP-2) formulated in 2010 as its electricity development plans to meet the growing power demand amid Indonesia's economic expansion, PLN has taken the initiative in ramping up the country's power generation capacity. Throughout these processes, GOI has supported PLN in various forms such as on-lending of the loans which it borrowed abroad, direct guarantees for PLN's bank borrowings related to FTP-1 and business viability guarantee letters (BVGLs) for IPP projects under FTP-2. In the 35GW power development plan drawn by the Joko Widodo administration in 2015, BVGLs have continued to be provided for the IPP projects listed in the Electricity Supply Business Plan (RUPTL) which has been managed by PLN. In addition, GOI's capital injections for PLN were implemented in 2015, 2016 and 2019. Another capital injection of IDR 5 trillion has also been stipulated in the 2020 national budget.
- (4) Under GOI's electricity tariff approval system, PLN's consolidated operating balance (excluding government subsidies) has been constantly in deficit. However, the balance after addition of the subsidies has been in surplus except for some years. In 2020, electricity demands from large corporate accounts are expected to decline amid the stagnation of business activities caused by the COVID-19 pandemic. Pursuant to the government policy to ease the effects of the pandemic on the population affected, PLN has been providing free electricity to 450VA household customers

and a 50% discount to 900 VA customers. However, the government plans to provide additional subsidies to PLN through supplementary budgets. Therefore JCR holds that PLN's operating balance after the subsidies will remain in surplus. PLN had planned to make high-level equipment investment in the 35GW power development project, but the amount for 2020 is now expected to be cut by 39% as compared to the initial plan. PLN's financial structure stayed sound, with its consolidated DER and equity-to-asset ratio standing at 0.57 times and 56.3%, respectively, at the end of March 2020. JCR is of the view that PLN's financial soundness is unlikely to deteriorate significantly in the future as it can expect to get various forms of financial support including capital injections from GOI.

Toshihiko Naito, Shinichi Endo

## Rating

Issuer: Perusahaan Perseroan (Persero) PT Perusahaan Listrik Negara

### <Affirmation>

Foreign Currency Long-term Issuer Rating: BBB+      Outlook: Stable  
 Local Currency Long-term Issuer Rating: A-      Outlook: Stable

Issues	Amount (bn)	Issue Date	Due Date	Coupon	Rating
Japanese Yen Bonds - First Series (2019)	JPY 3.7	September 20, 2019	September 20, 2022	0.43%	BBB+
Japanese Yen Bonds - Second Series (2019)	JPY 18.5	September 20, 2019	September 20, 2024	0.87%	BBB+
Japanese Yen Bonds - Fourth Series (2019)	JPY 1	September 20, 2019	September 20, 2029	1.05%	BBB+

Rating Assignment Date: July 22, 2020

The criteria used for identifying matters which serve as assumptions for the assessment of the credit status, and the criteria used for setting of grades indicating the results of the assessments of the credit status are published as "Types of Credit Ratings and Definitions of Rating Symbols" (January 6, 2014) in Information about JCR Ratings on JCR's website (<https://www.jcr.co.jp/en/>).

Outline of methodology for determination of the credit rating is shown as "Sovereign and Public Sector Entities" (November 7, 2014) and "Electric Power" (May 29, 2020) in Information about JCR Ratings on JCR's website (<https://www.jcr.co.jp/en/>).

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JCR publishes its press releases regarding the rating actions both in Japanese and in English on the same day. In case that it takes time to translate rating rationale, JCR may publicize the summary version, which will be replaced by the full translated version within three business days. (Regarding Structured Finance products, JCR only publicize the summary version in English.)

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## INFORMATION DISCLOSURE FORM

Japan Credit Rating Agency, Ltd.

### Disclosure Required by Paragraph (a)(1)(ii) of Rule 17g-7

Issuer:	Perusahaan Perseroan (Persero) PT Perusahaan Listrik Negara
Rating Publication Date:	July 29, 2020

**1** The Symbol, Number, or Score in the Rating Scale used to Denote Credit Rating Categories and Notches and, the Identity of the Obligor or the Identity and a Description of the Security or Money Market Instrument as Required by Paragraph (a)(1)(ii)(A) of Rule 17g-7

- Please see the news release.

**2** The version of the procedure or methodology used to determine the credit rating; as Required by Paragraph (a)(1)(ii)(B) of Rule 17g-7

- Please see the news release.

**3** The Main Assumptions and Principles used in Constructing the Procedures and Methodologies used to Determine the Credit Rating as Required by Paragraph (a)(1)(ii)(C) of Rule 17g-7

- The credit rating methodology assumes, in principle, to be applied to assess the likelihood of a given debt payment in light of its issuer's condition and business environment, etc. in the relevant future. There is certain limitation, however, in the time horizon that the rating foresees.
- The credit rating methodology assumes, in principle, that the factors posted in the below are particularly important for such likelihood to be determined, and that the rating determination is made by evaluating each of them not only quantitatively but also employing qualitative analyses.

**A) Legal Protection and Support Provided by the Government**

The likelihood of a given debt payment is highly conditional to the issuer's legal protection provided by the government, personnel and capital relationship with the government, importance in the government's policy, credit enhancement, and other forms of the government's supporting policy, framework and the strength thereof.

**B) Business Bases**

The likelihood of a given debt payment is highly conditional to its issuer's business bases - how they can be maintained/ expanded into the future and thereby secure earnings and cash flows in adequacy and in a sustainable way.

**C) Financial Grounds and Asset Quality**

The likelihood of debt payment is highly dependent on the degree of the issuer's indebtedness and loss absorption capacity in terms of equity capital. Also notable is that a financial institution might see a significant loss of financial grounds as a result of changes in value of the assets under its possession.

D) Liquidity Positions

The likelihood of debt payment is highly dependent on the adequacy of the issuer's cash and other sources of repayment (liquidity positions).

E) Order of Seniority in Debt Payment

The likelihood of debt payment can be different between given debts of the same issuer. The likelihood of debt payment for an individual debt is dependent on the issuer's discretion, and/ or its rank relative to other debts of the same issuer in the order of seniority in principal/ interest payment which is determined by design as financial product or by laws, etc.

4 The Potential Limitations of the Credit Rating as Required by Paragraph (a)(1)(ii)(D) of Rule 17g-7

- The credit rating herewith presented by JCR is its summary opinion with regard to the likelihood of given debt payment and hence not necessarily a perfect representation of such likelihood. The credit rating is not intended to estimate the probability of default or the loss on given default, either.
- The objective of the credit rating herewith presented does not include any concerns other than the likelihood of debt payment, such as risks of price changes, market liquidity, etc.
- The credit rating herewith presented is necessary to be reviewed along with possible changes of the issuer of rated objects in its business performance and/ or circumstances which include regulatory environment, and hence subject to possible alteration.

5 Information on the Uncertainty of the Credit Rating as Required by Paragraph (a)(1)(ii)(E) of Rule 17g-7

- The information used for the determination of credit rating as herewith presented is obtained by JCR from the issuer of rated objects and other sources that JCR trusts in terms of accuracy and reliability but possibly contains errors due to human, non-human or other causes. Consequently, the credit rating determined on the grounds of such information does not constitute, explicitly or implicitly, any representation or warrant of JCR on the information itself or any consequences of its use in terms of accuracy, relevance, timeliness, wholeness, market value, or usefulness for any specific purposes.

6 Use of Due Diligence Services of a Third Party in Taking the Rating Action as Required by Paragraph (a)(1)(ii)(F) of Rule 17g-7

- There is no use of any third-party due diligence service in the determination of the credit rating herewith presented.

7 Use of Servicer or Remittance Reports to Conduct Surveillance of the Credit Rating Required by Paragraph (a)(1)(ii)(G) of Rule 17g-7

- There is no use of any servicer or remittance report to conduct surveillance of the credit rating herewith presented.

8 The Types of Data Relied Upon for the Purpose of Determining the Credit Rating as Required by Paragraph (a)(1)(ii)(H) of Rule 17g-7

- The information posted in the below, which includes data, is used for the determination of the credit rating herewith presented.

A) Audited financial statements presented by the rating stakeholders

B) Explanations of business performance, management plans, etc. presented by the rating stakeholders

## 9 Overall assessment of the Quality of Information Available and Considered in Determining the Credit Rating as Required by Paragraph (a)(1)(ii)(I) of Rule 17g-7

- JCR holds its basic policies for securing the quality of information as a base of due diligence for the determination of credit ratings. The information used as a base for the determination of credit rating herewith presented satisfies such policies, which include the audit by an independent auditor, the publication by the issuer or some independent media or, otherwise, JCR analyst's scrutiny, etc.
- JCR sees no particular weakness in the quality of information used for the determination of the credit rating herewith presented as compared to the information used in other cases of the credit rating for comparable issuers or ratable objects.

## 10 Information Relating to Conflicts of Interest as Required by Paragraph (a)(1)(ii)(J) of Rule 17g-7

- JCR receives payment of compensation for the determination of the credit rating herewith presented from either one of those parties who are issuer, underwriter, depositor or sponsor.
- JCR did not receive in the last fiscal year in the past payment of compensation from the same party for any kind of JCR's service other than the determination of credit rating, such as one in the ancillary business.

## 11 Explanation or Measure of the Potential Volatility of the Credit Rating as Required by Paragraph (a)(1)(ii)(K) of Rule 17g-7

### A) Legal Protection and Support Provided by the Government

The credit rating is subject to alteration if there is a change in the issuer's legal support by the government, personnel or capital relationship with the government, importance in the government's policy, credit enhancement and other forms of the government's supporting policy, framework and the strength thereof. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is large.

### B) Business Bases

The credit rating is subject to alteration if there is improvement or deterioration of the issuer's business bases, since its revenue, etc. may improve or deteriorate by the change in its business management policies, clients' preferences, competitive situation, or a technological innovation. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change in the business bases is large.

### C) Financial Grounds and Asset Quality

The credit rating is subject to alteration if the issuer increases/ decreases its debt/ capital or vice versa and thereby makes its individual debt payment liability less or more bearable and its loss absorption capacity into the future decreased or increased. Also, the changes in the quality of asset under the issuer's holding may affect the credit rating, since such changes could raise or lower the likelihood of future loss of the issuer's financial grounds. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change in the financial grounds and/ or asset quality is large.

#### D) Liquidity Positions

The credit rating is subject to alteration if there is a change in the issuer's financial management policy or in the relations with fund procurement sources and the change thereby makes its liquidity positions improve or deteriorate. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is large.

#### E) Order of Seniority in Debt Payment and Non-Payment Forgiven by Contract

The credit rating is subject to alteration if there is a change in the rated debt's status in the order of seniority relative to other debts caused by the improvement/ deterioration of the issuer's financial condition. The resultant alteration of the credit rating is usually a notch, with possibility of a few notches if and when the change is large. Also, in case of the financial products for which non-payment of interest/ principal is contractually permissible, the credit rating is subject to alteration if and when the likelihood of such non-payment is projected to increase or decrease. The resultant alteration of the credit rating could be by a notch but often as much as a few notches.

#### F) Creditworthiness of the Government, etc. that Constitute the Framework of Credit Enhancement

The credit rating is subject to alteration if there is a change in the creditworthiness of the government, etc. that constitute the framework of credit enhancement. The resultant alteration of the credit rating is usually a notch, with possibility of a few notches if and when the change on such framework is exceptionally large.

#### G) Rise and Fall in General Economy and Markets

The credit rating is subject to alteration if there is a rise/ fall in the general economy and/ or the markets inducing the issuer's revenues/ expenses to increase/ decrease and vice versa, etc. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is exceptionally large.

#### H) Various Events

The credit rating is subject to alteration on occurrence of various events, such as change in the issuer's major shareholders, M&A and other organizational change, accident, violation of the law, litigation, legal/ regulatory change, natural disaster, etc., which are unforeseeable at the time when the credit rating is determined, causing a significant change on the issuer's business bases, financial grounds, etc. The resultant alteration of the credit rating could be by a notch but more often than not as much as a few notches.

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Information on the Content of the Credit Rating, Including the Historical Performance of the Credit Rating and the Expected Probability of Default and the Expected Loss in the Event of Default as Required by Paragraph (a)(1)(ii)(L) of Rule 17g-7

- Historical records of the credit rating herewith presented are posted in the end of this paper.
- The credit rating herewith presented by JCR is its summary opinion with regard to the likelihood of given debt payment and hence not necessarily a perfect representation of such likelihood. The credit rating is not intended to estimate the probability of default or the loss on given default, either.
- Facts of the probability of default are posted as Form NRSRO Exhibit 1 on the JCR website under the URL:

<https://www.jcr.co.jp/en/service/company/regu/nrsro/>

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Information on the Sensitivity of the Credit Rating to Assumptions Made as Required by Paragraph (a)(1)(ii)(M) of Rule 17g-7

A) Legal Protection and Government Support

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's legal protection provided by the government, personnel and capital relationship with the government, importance in the government's policy, credit enhancement and other forms of the government's supporting policy, framework and the strength thereof. The resultant change of the credit rating is most likely by one notch, as JCR stipulates, but possibly as much as a few notches if the change in the government's supporting policy is significant.

B) Business Bases

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's business bases and powers of earning or cash flow generation, etc. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's business bases on some drastic change in the operational environments, etc.

C) Financial Grounds and Asset Quality

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's financial grounds and asset quality. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's financial grounds and/ or asset quality on some drastic change in its business bases.

D) Liquidity Risks

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's liquidity positions. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's liquidity positions on some drastic change in its financial management policy or relations with fund procurement sources, etc.

E) Creditworthiness of the Government, etc. that Constitute the Framework of Credit Enhancement

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the creditworthiness of the government, etc. that constitute the framework of credit enhancement. JCR assumes the resultant change of the credit rating is most likely by a notch. The change could be as much as a few notches should the creditworthiness of said government, etc. change so greatly.

14 Information on the Representations, Warranties, and Enforcement Mechanisms of an Asset-backed Security as Required by Paragraph (a)(1)(ii)(N) of rule 17g-7

- The credit rating herewith presented is not for an ABS product, and hence no relevant issue.

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## The Historical Performance of the Credit Rating

Issuer Name	Issue Name	Publication Date	Rating	Outlook/Direction
Perusahaan Perseroan (Persero) PT Perusahaan Listrik Negara	Issuer(Long-term)(FC)	August 23, 2019	BBB	Positive
Perusahaan Perseroan (Persero) PT Perusahaan Listrik Negara	Issuer(Long-term)(FC)	January 31, 2020	BBB+	Stable
Perusahaan Perseroan (Persero) PT Perusahaan Listrik Negara	Issuer(Long-term)(LC)	August 23, 2019	BBB+	Positive
Perusahaan Perseroan (Persero) PT Perusahaan Listrik Negara	Issuer(Long-term)(LC)	January 31, 2020	A-	Stable
Perusahaan Perseroan (Persero) PT Perusahaan Listrik Negara	Japanese Yen Bonds - First Series (2019)	September 12, 2019	BBB	
Perusahaan Perseroan (Persero) PT Perusahaan Listrik Negara	Japanese Yen Bonds - First Series (2019)	January 31, 2020	BBB+	
Perusahaan Perseroan (Persero) PT Perusahaan Listrik Negara	Japanese Yen Bonds - Second Series (2019)	September 12, 2019	BBB	
Perusahaan Perseroan (Persero) PT Perusahaan Listrik Negara	Japanese Yen Bonds - Second Series (2019)	January 31, 2020	BBB+	
Perusahaan Perseroan (Persero) PT Perusahaan Listrik Negara	Japanese Yen Bonds - Fourth Series (2019)	September 12, 2019	BBB	
Perusahaan Perseroan (Persero) PT Perusahaan Listrik Negara	Japanese Yen Bonds - Fourth Series (2019)	January 31, 2020	BBB+	

## Attestation Required by Paragraph (a)(1)(iii) of Rule 17g-7

I, Toshihiko Naito, have responsibility to this Rating Action and to the best of my knowledge:

- A) No part of the credit rating was influenced by any other business activities.
- B) The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated.
- C) The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument.



Toshihiko Naito  
General Manager of International Rating Department

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