Audited Project Financial Statements

Project Number: 50016-001
Loan Number: 3560
Period covered: 1 January 2018 to 31 December 2018

INO: Sustainable Energy Access in Eastern Indonesia-Electricity Grid Development Program

Prepared by Perusahaan Listrik Negara

For the Asian Development Bank
Date received by ADB: 26 September 2019

PERUSAHAAN PERSEROAN (PERSERO)
PT PERUSAHAAN LISTRIK NEGARA

Sustainable Energy Access in Eastern Indonesia – Electricity Grid Development Program (Sulawesi and Nusa Tenggara – Result Based Lending Program)

Special-Purpose Statements of Program Expenditures and Financing
For the Year Ended December 31, 2018

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RSM

Amir Abadi Jusuf, Aryanto, Mawar & Rekan

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Number : 00709/2.1030/AU.1/02/0572-1/1/VI/2019

Independent Auditors' Report

The Shareholders, Boards of Commissioners and Directors
Perusahaan Perseroan (Persero) PT Perusahaan Listrik Negara

We have audited the Special-Purpose Statements of Program Expenditures and Financing of Sustainable Energy Access in Eastern Indonesia - Electricity Grid Development Program (Sulawesi and Nusa Tenggara - Result Based Lending) (the "special-purpose report") of Perusahaan Perseroan (Persero) PT Perusahaan Listrik Negara ("the Company") as of and for the year ended December 31, 2018 and the basis of accounting and other explanatory information of the special-purpose report. The special-purpose report has been prepared by management of the Company on the basis of accounting described in Note 2 of the special-purpose report for the purpose of complying with section 4.02 of Loan Agreement of Asian Development Bank Loan 3560-INO between ADB and the Company.

Management's responsibility for the special-purpose report
Management is responsible for the preparation of the special-purpose report in accordance with the basis of accounting described in Note 2 of the special-purpose report, and for such internal control as management determines is necessary to enable the preparation of the special-purpose report that is free from material misstatement, whether due to fraud or error.

Auditors' responsibility
Our responsibility is to express an opinion on the special-purpose report based on our audit. We conducted our audit in accordance with Standards on Auditing established by the Indonesian Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the special-purpose report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the special-purpose report. The procedures selected depend on the auditors' judgement, including the assessment of the risk of material misstatement of the special-purpose report, whether due to fraud or error. In making those risk assessments, the auditors' consider internal control relevant to the entity's preparation and fair presentation of the special-purpose report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the special-purpose report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the special-purpose report as of and for the year ended December 31, 2018 present fairly, in all material respects, the actual program expenditures of Sulawesi and Nusa Tenggara - Result Based Lending for the year ended December 31, 2018, and the cumulative actual program expenditures as of December 31, 2018, in accordance with the basis of accounting described in Note 2 of the special-purpose report.

Basis of accounting and restriction of distribution and use
Without modifying our opinion, we draw attention to Note 2 of the special-purpose report which describes the basis of accounting. The special-purpose report is prepared to comply with Section 4.02 of Loan Agreement of ADB Loan 3560-INO between ADB and the Company. As a result, the special-purpose report may not be suitable for another purpose. Our report is intended solely for the Company and ADB and should not be distributed to or used by parties other than the Company.

Amir Abadi Jusuf, Aryanto, Mawar & Rekan

Rusli
Public Accountant License Number: AP.0572

Jakarta, June 28, 2019

Amir Abadi Jusuf, Aryanto, Mawar & Rekan
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Independent Accountant's Assurance Report
On Examination of the Compliance with the Financial Covenants of the ADB Loan No. 3560

The Shareholders, Boards of Commissioners and Directors
Perusahaan Perseroan (Persero) PT Perusahaan Listrik Negara

Introduction
We have examined Perusahaan Perseroan (Persero) PT Perusahaan Listrik Negara's compliance with the financial covenants requirements contained in the Asian Development Bank ("ADB") Loan 3560-INO: Sustainable Energy Access in Eastern Indonesia - Electricity Grid Development Program, inclusive in the Loan Agreement, dated October 10, 2017, with ADB and the Republic of Indonesia for the year ended December 31, 2018. Management is responsible for Perusahaan Perseroan (Persero) PT Perusahaan Listrik Negara's compliance with those requirements. Our responsibility is to express an opinion on Perusahaan Perseroan (Persero) PT Perusahaan Listrik Negara's compliance based on our examination.

Scope of Examination
Our examination was conducted in accordance with standard on assurance engagement established by the Indonesian Institute of Certified Public Accountants and accordingly, includes examining, on a test basis, evidence about Perusahaan Perseroan (Persero) PT Perusahaan Listrik Negara's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on Perusahaan Perseroan (Persero) PT Perusahaan Listrik Negara's compliance with specified requirements.

Opinion
In our opinion, Perusahaan Perseroan (Persero) PT Perusahaan Listrik Negara complied, in all material respects, with the financial covenants of the ADB Loan 3560-INO: Sustainable Energy Access in Eastern Indonesia - Electricity Grid Development Program for the year ended December 31, 2018, and with the requirements to use all proceeds of the loan withdrawn from ADB only for the purposes of the ADB Loan 3560-INO: Sustainable Energy Access in Eastern Indonesia - Electricity Grid Development Program during the year ended December 31, 2018.

As discussed in Note 5 of these Special-Purpose Statements of Program Expenditures and Financing, Perusahaan Perseroan (Persero) PT Perusahaan Listrik Negara obtained a waiver on December 18, 2018 whereby ADB agreed to waive the financial covenants requirements relating to i) debt service coverage ratio, and ii) self-financing ratio for the year ended December 31, 2018. Our opinion is not modified in the respect of this matter.

Restriction on Distribution
This report is intended solely for Perusahaan Perseroan (Persero) PT Perusahaan Listrik Negara and ADB and is not intended to be and should not be used by anyone other than Perusahaan Perseroan (Persero) PT Perusahaan Listrik Negara and ADB.

Amir Abadi Jusuf, Aryanto, Mawar & Rekan

Rusli
Public Accountant License Number: AP.0572

Jakarta, June 28, 2019

PERUSAHAAN PERSEROAN (PERSERO) PT PERUSAHAAN LISTRIK NEGARA
Sustainable Energy Access in Eastern Indonesia – Electricity Grid Development Program
(Sulawesi and Nusa Tenggara – Result Based Lending Program)
Statement of Actual Program Expenditures and Financing
For the Year Ended December 31, 2018
(Figures in tables are stated in millions of Rupiah, unless otherwise stated)

Description	Plan Expenditures				Actual Expenditures				Actual / Plan Expenditures			
	ADB Rp	PLN Rp	Others Rp	TOTAL Rp	ADB Rp	PLN Rp	Others Rp	TOTAL Rp	ADB %	PLN %	Others %	TOTAL %
Distribution												
a. Capacity Expansion												
Additional Asset related to energy access	744,810	64,650	--	809,460	947,667	--	--	947,667	127.24%	--	--	117.07%
Rural Electrification	305,744	1,043,356	--	1,349,100	186,348	788,605	--	974,953	60.95%	75.58%	--	72.27%
Supporting Equipment	12,461	1,030	--	13,491	46,924	--	--	46,924	376.57%	--	--	347.82%
Subtotal	**1,063,015**	**1,109,036**	--	**2,172,051**	**1,180,939**	**788,605**	--	**1,969,544**	**111.09%**	**71.11%**	--	**90.68%**
b. Capacity Strengthening												
Network Reliability Enhancement	725,370	205,509	--	930,879	758,611	--	--	758,611	104.58%	--	--	81.49%
Efficiency	745,921	63,539	--	809,460	764,353	--	--	764,353	102.47%	--	--	94.43%
Subtotal	**1,471,291**	**269,048**	--	**1,740,339**	**1,522,964**	**--**	--	**1,522,964**	**103.51%**	**--**	**--**	**87.51%**
Total	**2,534,306**	**1,378,084**	**--**	**3,912,390**	**2,703,903**	**788,605**	**--**	**3,492,508**	**106.69%**	**57.22%**	**--**	**89.27%**

PERUSAHAAN PERSEROAN (PERSERO) PT PERUSAHAAN LISTRIK NEGARA
Sustainable Energy Access in Eastern Indonesia – Electricity Grid Development Program
(Sulawesi and Nusa Tenggara – Result Based Lending Program)
Statement of Actual Cumulative Program Expenditures
As of December 31, 2018 and 2017
(Figures in tables are stated in millions of Rupiah, unless otherwise stated)

Description	December 31, 2018				December 31, 2017			
	ADB Rp	PLN Rp	Others Rp	Total Rp	ADB Rp	PLN Rp	Others Rp	Total Rp
Distribution								
a. Capacity Expansion								
Additional Asset related to energy access	1,039,750	850,452	--	1,890,202	92,083	850,452	--	942,535
Rural Electrification	186,348	2,488,819	--	2,675,167	--	1,700,214	--	1,700,214
Supporting Equipment	46,924	7,028	--	53,952	--	7,028	--	7,028
Subtotal	**1,273,022**	**3,346,299**	--	**4,619,321**	**92,083**	**2,557,694**	**--**	**2,649,777**
b. Capacity Strengthening								
Network Reliability Enhancement	877,460	777,619	--	1,655,079	118,849	777,619	--	896,468
Efficiency	764,353	478,745	--	1,243,098	--	478,745	--	478,745
Subtotal	**1,641,813**	**1,256,364**	--	**2,898,177**	**118,849**	**1,256,364**	**--**	**1,375,213**
Total	**2,914,835**	**4,602,663**	--	**7,517,498**	**210,932**	**3,814,058**	**--**	**4,024,990**

1. General

The role of the energy sector as a key enabler of inclusive growth has become more important as the Government of Indonesia (the "Government") is faced with the challenge of expanding its economy. The annual rate of growth declined from 6.4% in 2010 to 5.0% in 2016 and is expected to remain at 5.1% in 2017. Improved access to affordable and sustainable forms of energy is critical to enhance competitiveness, not only in the country's manufacturing and commercial centers, but also in remote areas. Lack of access to energy constrains efforts to transform the eastern part of Indonesia into a new growth engine with a focus on high-value agriculture, fisheries, small and medium-sized enterprises, and tourism, all of which rely on a stable energy supply. Uneven development across provinces has contributed toward widening income disparities, with several provinces in Eastern Indonesia lagging significantly behind Java and Bali.

To address this, the Government has prioritized accelerating investment in infrastructure under the National Medium-Term Development Plan (Rencana Pembangunan Jangka Menengah Nasional, or RPJMN) 2015-2019, which explicitly includes the "outer" and eastern regions as geographical priorities. One of its pillars is to improve access to electricity services significantly by adding 35 gigawatts of generation capacity and expanding power grids to raise the national electrification ratio from 84% in 2014 to 97% by the end of 2019. Eastern Indonesia, where power grids across the islands are isolated, and underdeveloped, presents the greatest challenge to the achievement of these targets. The electrification ratios in some eastern provinces are particularly low, 74% in West Sulawesi, 67% in Southeast Sulawesi, 68% in West Nusa Tenggara, 59% in East Nusa Tenggara, and 44% in Papua.

The overall investment needs for the government's generation, transmission, and distribution program are US$83.5 billion, of which US$43.5 billion is to come from the private sector (independent power producers) and the balance of US$40 billion is from the State Electricity Corporation, PT Perusahaan Listrik Negara (Persero) (the "Company" or "PLN"). PLN will not be able to meet the investment needs on their own and has an estimated funding gap of US$30.3 billion, which will have to be borne by other financing sources, including from development partners. In Eastern Indonesia, where there are many isolated grids, PLN is already using its own resources to establish 70 kilovolt ("kV") and 150 kV backbone transmission systems while seeking support from ADB and other partners to strengthen and expand local distribution networks.

The Result Based Lending ("RBL") program will finance a portion of the overall broader program needs as identified in PLN's RUPTL, 2017–2026 for strengthening and expanding the power distribution network in Eastern Indonesia. It builds on the experience and lessons learned from the ongoing RBL program for grid strengthening in Sumatra. The RBL is a suitable modality as (i) it uses PLN's own systems, such that the agreed program actions will directly contribute to institutional strengthening beyond the RBL program's geographical coverage; (ii) its focus on results rather than expenditures will help establish a stronger evaluation culture complementary to the government's intent to provide incentives based on corporate performance; (iii) it helps lower the transaction costs involved in managing thousands of small-scale activities and expenditures to develop the distribution network; and (iv) it will enable PLN, government stakeholders, and development partners to convene around achieving the results and outcomes of the program to enhance collaboration.

PLN is expected to finance around 50% of the RBL Program. PLN and the government may request Asian Development Bank ("ADB") and other development partners to provide additional financing during satisfactory implementation of the subsequent phases of the program to bridge any financing gap through to 2021 For the program, PLN has requested a loan to be guaranteed by the Republic of Indonesia in the amount of US$600 million from ADB's ordinary capital resources.

(Figures in tables are stated in millions of Rupiah, unless otherwise stated)

PLN and ADB have agreed on a RBL Program size of US$1,830 million dedicated to the eight provinces across Sulawesi and Nusa Tenggara ("SNT"). Program financing plan for the RBL Program are as follows:

	RBL Program	
Financing	**US$ million**	**Percentage Share (%)**
PLN [a]	915	50.00
ADB	600	32.79
Others [b]	315	17.21
Total	**1,830**	**100.00**

a. *From PLN's internal cash flows and equity injections from the Government of Indonesia.*
b. *Includes possible funding from the World Bank, the Islamic Development Bank, and other multilateral and bilateral financial institutions. If partner funding is insufficient, PLN is expected to secure the necessary funding from its internal cash flows or additional equity injections from the Government.*

The proposed US$600 million loan for the Sustainable Energy Access in Eastern Indonesia - Electricity Grid Development Program (the "Program") aims to support the development of electricity distribution networks to connect businesses and households and to enhance the quality of life in Eastern Indonesia by the sustainable use of electricity as a key driver of increased economic activity. The program will complement a proposed sector loan for small-to mid-sized natural gas-fired power stations across Eastern Indonesia.

The objective of the Program is to support expanded access to more reliable electricity services for residential, commercial, and industrial customers in the eastern provinces of the Republic of Indonesia in SNT, namely North Sulawesi, Gorontalo, Central Sulawesi, West Sulawesi, South Sulawesi, Southeast Sulawesi, West Nusa Tenggara, and East Nusa Tenggara.

The Program shall comprise the following result areas:

1. Distribution system strengthening and expansion
   Under this results area, the Program shall help address the financing needs for the expansion and strengthening of the distribution system and consequently improve electrification rates, reduce overloading and address reliability issues for the local population and businesses.

2. Innovation and institutional capacity enhancement
   Under this result area, the Program shall support the PLN's effort in innovation and strengthen institutional capacity for environmental management and increased efficiency through:
   1. Supporting innovation through pilot-scale smart grid projects;
   2. Expanding the use of digital pre-paid and smart meters to reduce non-technical losses, payment defaults, and servicing costs in remote areas;
   3. Improving the PLN's assets and waste management with safe disposal of several years backlog of used equipment;
   4. Tracking the timely implementation of distribution system contracts.

On October 10, 2017, PLN and ADB entered into Loan Agreement No. 3560-INO under which ADB agreed to lend to the PLN from ADB's ordinary capital resources an amount of US$600 million.

The loan is to be guaranteed by the Republic of Indonesia ("Guarantor") under the terms of the Guarantee Agreement of even date herewith between the Guarantor and ADB. The Loan Agreement effective as of December 14, 2017.

The Company is required to comply with certain covenants, as stated in the Loan Agreement dated October 10, 2017. Among other things, the Company has to comply with financial covenants including (1) self-financing ratio shall be at least 15% from the period beginning January 1, 2017, (2) debt service coverage shall be at least 1.35 times from the period beginning January 1, 2017 to December 31, 2017 and shall be at least 1.5 times for the period beginning January 1, 2018, of its estimated maximum debt service requirements of the Company for any succeeding fiscal year on all its debts including the debt incurred, (3) the ratio of debt to equity shall not be greater than 75 to 25, and the covenant that all proceeds of the loan withdrawn from ADB should be utilized developing the Program as agreed in the ADB Loan No. 3560-INO.

The maturity date of the ADB Loan No. 3560-INO is on May 15, 2037 and the last date for disbursement of the ADB Loan No. 3560-INO is on June 30, 2022.

(Figures in tables are stated in millions of Rupiah, unless otherwise stated)

The RBL Program shall be completed by December 31, 2021. Summary of Program Expenditure Framework for the RBL Program 2017-2021 are as follows:

Description	2017		2018		2019		2020		2021		Total	
	US$ million	Equivalent Rp	US$ million	Equivalent Rp	US$ million	Equivalent Rp	US$ million	Equivalent Rp	US$ million	Equivalent Rp	US$ million	Equivalent Rp
Distribution												
a. Capacity Expansion												
Additional Asset related to energy access	70	942,535	60	809,460	102	1,376,082	78	1,052,298	58	782,478	368	4,962,853
Rural Electrification	126	1,700,214	100	1,349,100	92	1,241,172	73	984,843	52	701,532	443	5,976,861
Supporting Equipment	1	7,028	1	13,491	17	229,347	13	175,383	10	134,910	42	560,159
Subtotal	**197**	**2,649,777**	**161**	**2,172,051**	**211**	**2,846,601**	**164**	**2,212,524**	**120**	**1,618,920**	**853**	**11,499,873**
b. Capacity Strengthening												
Network Reliability Enhancement	66	896,468	69	930,879	84	1,133,244	63	849,933	45	607,095	327	4,417,619
Efficiency	39	520,913	60	809,460	73	984,843	57	768,987	42	566,622	271	3,650,825
Subtotal	**105**	**1,417,381**	**129**	**1,740,339**	**157**	**2,118,087**	**120**	**1,618,920**	**87**	**1,173,717**	**598**	**8,068,444**
Interest											79	1,065,789
Physical Contingencies											145	1,956,195
Price Contingencies											155	2,091,105
Total											**1,830**	**24,681,406**

Sources: ADB and PLN estimates

US$ 1 = Rp 13,491 (Using October 10, 2017 as date of loan signing)

(Figures in tables are stated in millions of Rupiah, unless otherwise stated)

Disbursement Linked Indicator ("DLI") is the indicators set forth in Loan Agreement which the Borrower is required to achieve in order to withdraw the amount of Loan proceeds allocated in the withdrawal table.

The annual DLI indicators which known as DLI matrix are as follows:

Disbursement-Linked indicators (DLI)	Baseline and Year	2017	2018	2019	2020	2021
DLI 1: number of PLN customers increased by an average annual rate of at least 5.6% to reach at least 6.99 million customers by 2020	2016 baseline: At least 5.62 million customers	At least 5.90 million customers connected	At least 6.27 million customers connected	At least 6.62 million customers connected	At least 6.99 million customers connected	--
DLI 2: total annual electricity sales increased by an average annual rate of at least 8.5% to reach at least 15,710 GWh by 2020, with an equal or higher growth rate for commercial customers to reach at least 3,234 GWh annual sales by 2020	2016 baseline: Energy sales 11,336 GWh (2,287 GWh to commercial customers)	At least 12,300 GWh, or more of energy sales to customers (at least 2,532 GWh to commercial customers)	At least 13,345 GWh, or more of energy sales to customers (at least 2,747 GWh to commercial customers)	At least 14,480 GWh, or more of energy sales to customers (at least 2,981 GWh to commercial customers)	At least 15,710 GWh, or more of energy sales to customers (at least 3,234 GWh to commercial customers)	--
DLI 3: feeder line permanent interruptions in the distribution system reduced by an average annual rate of at least 5% each year to reach less than 15.82/100 ckm by 2020	2016 baseline: medium voltage feeder permanent interruptions: 19.91/100 ckm	Medium-voltage feeder permanent interruptions less than: 18.45/100 ckm	Medium-voltage feeder permanent interruptions less than: 17.53/100 ckm	Medium-voltage feeder permanent interruptions less than: 16.66/100 ckm	Medium-voltage feeder permanent interruptions less than: 15.82/100 ckm	--
DLI 4: number of distribution transformer unit installed increas by an average annual rate of at least 5.6% each year to reach at least 50.721 by 2020	2016 baseline: 40,760 total distribution transformer units installed	At least 43,072 total distribution transformer units installed	At least 45,484 total distribution transformer units installed	At least 48,031 total distribution transformer units installed	At least 50,721 total distribution transformer units installed	--
DLI 5: additional length of medium-voltage distribution lines installed increased by an average annual rate of at least 5.6% each year to reach at least 58,764 ckm by 2020, with an equal or higher growth rate in Lombok and Flores combined to reach at least 7,388 ckm by 2020.	2016 baseline: 45,917 ckm of medium-voltage distribution lines installed (5,941 ckm in Lombok and Flores combined)	At least 49,902 ckm of medium-voltage distribution lines installed (at least 6,274 ckm in Lombok and Flores combined)	At least 52,697 ckm of medium-voltage distribution lines installed (at least 6,626 ckm in Lombok and Flores combined)	At least 55,648 ckm of medium-voltage distribution lines installed (at least 6,997 ckm in Lombok and Flores combined)	At least 58,764 ckm of medium-voltage distribution lines installed (at least 7,388 ckm in Lombok and Flores combined)	--
DLI 6: Pilot-scale smart grid projects implemented in the last 4 area by 2021	2016 baseline: no smart grid projects that are in line with corporate smart grid roadmap	Smart grid guidelines based on corporate smart grid roadmap issued, pilot project selected	Project design developed, 2 pilot grid projects start procurement	At least 2 more pilot smart grid projects start procurement	At least 2 more pilot smart grid project, operational	At Least 4 pilot smart grid projects operational
DLI 7: operational efficiency and resource optimization enhanced with digital pre-paid meter or smart meters use increased to at least 75% of total customers by 2021	2016 baseline: 50.65% of total customers use digital pre-paid meters of smart meters	At least 55% of total customers use digital pre-paid meters or smart meters	At least 60% of total customers use digital pre-paid meters or smart meters	At least 65% of total customers use digital pre-paid meters or smart meters	At least 70% of total customers use digital pre-paid meters or smart meters	At least 75% of total customers use digital pre-paid meters or smart meters

(Figures in tables are stated in millions of Rupiah, unless otherwise stated)

Disbursement-Linked indicators (DLI)	Baseline and Year	2017	2018	2019	2020	2021
DLI 8: asset and waste management improved with at least 90% of used PLN equipmment from the 2016 disposal inventory safely disposed by 2021	2016 baseline: 0 disposal rate. Accumulated used equipment, including hazardous waste and slow procedures for review, approval and disposal	(i) 2016 inventory of used equipment for disposal prepared and approved by PLN (ii) PLN Guidance for asset management (1998) policy revised to accelerate disposal of hazardous waste	(i) 2016 inventory of used equipment for disposal prepared and approved by Ministry of State-Owned Enterprises, (ii) Existing oil spills cleaned in accordance with MoEF regulation No.33/2009. (iii) at least 20% of PLN's used equipment in the 2016 inventory safely disposed	(i) All warehouse equipped with oil containment / protection measures (ii) at least 50% of PLN's used equipment in the 2016 inventory safely disposed	at least 80% of PLN's used equipment in the 2016 inventory safely disposed	at least 90% of PLN's used equipment in the 2016 inventory safely disposed

2. Basis of Accounting of the Special-Purpose Statements of Program Expenditures and Financing

a. Presentation of Statements of Program Expenditures and Financing

The special-purpose statements of program expenditures and financing have been prepared in the format and basis agreed between ADB and the Company. The special-purpose statements of program expenditures and financing were prepared for the purpose of complying with Section 4.02 of Project Agreement of ADB Loan 3560-INO between ADB and the Company.

The special-purpose statements of program expenditures and financing were compiled from account held by the Company which were prepared in accordance with Indonesian Financial Accounting Standards, therefore the special-purpose statements of program expenditures and financing only presents account that directly related to the Sustainable Energy Access in Eastern Indonesia - Electricity Grid Development Program.

The special-purpose statements of program expenditures and financing are presented in Rupiah.

b. Basis for Withdrawal

- **ADB**

The withdrawal table sets out the amount available for withdrawal upon the Borrower's achievement of the corresponding DLI targets as set out in the DLI Matrix. Except as otherwise condition that agreed by ADB, the withdrawal table shall form the basis for withdrawal from the Loan Account. Amount allocated for ADB Financing is as follow:

Indicator	2017 US$ million	2018 US$ million	2019 US$ million	2020 US$ million	2021 US$ million	Total US$ million
DLI 1	30	30	30	30	--	120
DLI 2	24	24	24	24	--	96
DLI 3	12	12	12	12	--	48
DLI 4	12	12	36	36	--	96
DLI 5	12	12	36	36	--	96
DLI 6	6	6	12	12	12	48
DLI 7	6	6	12	12	12	48
DLI 8	6	6	12	12	12	48
Total	**108**	**108**	**174**	**174**	**36**	**600**

- **PLN**

The withdrawal are performed according to the approval sets by management through the issuance of Surat Kuasa Investasi ("SKI").

- **Others**
  The withdrawal from the others account will be set and agreed with parties according to the respective loan agreement.

c. Financing Disbursement

- **ADB**
  The disbursement is based on the result of verification of DLI matrix by Independent Verification Agency (“IVA”). The verification is performed on every semester. For withdrawal process, the Borrower prepares withdrawal application and submits it to ADB. Disbursements are recognized based on the Withdrawal Authorization (“WA”) issued by ADB.

- **PLN**
  The disbursement is based on the Payment Voucher issued by the Company.

- **Others**
  The disbursement will be set and agreed with parties according to the respective loan agreement.

d. Plan Program Expenditures

The plan program expenditures for respective provinces in Sulawesi and Nusa Tenggara are presented based on ADB and PLN estimation.

e. Actual Program Expenditures

- **ADB**
  Eligible Expenditures means the total expenditures incurred by the Borrower under the Program during its fiscal year minus the expenditures for (i) procurement of goods and service from countries which are not members of ADB, and (ii) any prohibited investment activites provided in Appendix 5 of ADB’s Safeguard Policy Statement, incurred by the Borrower under the Program during the same fiscal year.

  The units within Region of Sulawesi and Nusa Tenggara paid to contractor for any transactions related to the Program with PLN budget (“APLN”). Regional Development of Sulawesi (“PR-SUL”) and Regional Development of Jawa Timur, Bali and Nusa Tenggara (“PR-JBTBN’) who acts as Project Management Unit must screen the eligible expenses for reimbursement with ADB-RBL fund. Based on the approval from PR-SUL and PR-JBTBN, the eligible expenses will be forwarded to Treasury Division and will transfer a certain amount of money from the defined escrow account related to ADB-RBL to PLN’s account.

  All of the expenditures funded by the ADB in 2018 amounting to Rp2.703.903 were reimbursed during year 2018.

- **PLN**
  Expenditures are based on the Payment Voucher issued by the Company.

- **Others**
  Expenditures incurred will be settled according to the respective loan agreement.

f. Deposit Account

Prior to submitting the first application to ADB for withdrawal from the Loan Account, the Borrower shall nominate a Deposit Account at a commercial bank acceptable to ADB into which all withdrawals from the Loan Account shall be deposited. The Deposit Account shall be managed and liquidated in accordance with terms and conditions satisfactory to ADB.

Later on July 11, 2018, PLN has received a confirmation letter from ADB that disbursements are meant to provide pooled program financial support and not directly linked to specific transactions. The SNT RBL escrow account may be transferred, and all future disbursements may be deposited to the general account. However referring to paragraph 2 and 3 of schedule 3 to the Loan Agreement, PLN shall maintain separate records in respect of the Deposit Account in accordance with accounting principle acceptable to ADB.

(Figures in tables are stated in millions of Rupiah, unless otherwise stated)

3. Allocation and Withdrawal of Loan Proceeds

Since the loan from ADB is already effective on December 14, 2017, the Company has withdrawn an financing according to DLI matrix amounting to US$150 million and in 2018 the amount disbursed under the Loan ADB 3560 was US$184.5 million, in which as of December 31, 2018, the use of proceeds from the Loan Account was Rp2,914,835.

4. Actual Program Expenditures by Category

4.1 Capacity Expansion

Capacity expansion is in the form of additional capacity. Additional capacity includes additional asset related to energy access, rural electrifications and supporting equipment. For this investment activity, PLN conducts activities to support new installment, power upgrading and addition of networks to rural areas that are not yet electrified. Including the addition or replacement of distribution transformers/ distribution line as a result of greater demand from new/ existing consumers.

a. Additional Asset related to Energy Access

Actual disbursement fo additional asset related to energy access as of December 31, 2018, are as follows:

	ADB Financed Rp	PLN Financed Rp	Others Financed Rp	Total Rp
Balance at beginning of year	92,083	850,452	--	942,535
Additions	947,667	--	--	947,667
Balance at end of year	**1,039,750**	**850,452**	**--**	**1,890,202**

b. Rural Electrifications

Actual disbursement for rural electrifications as of December 31, 2018, are as follows:

	ADB Financed Rp	PLN Financed Rp	Others Financed Rp	Total Rp
Balance at beginning of year	--	1,700,214	--	1,700,214
Additions	186,348	788,605	--	974,953
Balance at end of year	**186,348**	**2,488,819**	**--**	**2,675,167**

c. Supporting Equipment

Actual disbursement for supporting equipment as of December 31, 2018, are as follows:

	ADB Financed Rp	PLN Financed Rp	Others Financed Rp	Total Rp
Balance at beginning of year	--	7,028	--	7,028
Additions	46,924	--	--	46,924
Balance at end of year	**46,924**	**7,028**	**--**	**53,952**

(Figures in tables are stated in millions of Rupiah, unless otherwise stated)

4.2 Capacity Strengthening

From the existing distribution network, for better served customers, the Company perform activities for upgrading its quality, network reliability enhancement and efficiency improvements, such as barrier installment along the distribution lines to prevent from tree disturbances or animals, network reconfiguration and additional insertion transformers to repair shrinkage and provision of appropriate voltage. These activities are not intended to add the distribution lines or transformers that is to increased supply of power, but rather improve network quality and capacity-related services.

a. Network Reliability Enhancement
Actual disbursement for network reliability enhancement as of December 31, 2018, are as follows:

	ADB Financed Rp	PLN Financed Rp	Others Financed Rp	Total Rp
Balance at beginning of year	118,849	777,619	--	896,468
Additions	758,611	--	--	758,611
Balance at end of year	**877,460**	**777,619**	**--**	**1,655,079**

b. Efficiency
Actual disbursement for efficiency as of December 31, 2018, are as follows:

	ADB Financed Rp	PLN Financed Rp	Others Financed Rp	Total Rp
Balance at beginning of year	--	478,745	--	478,745
Additions	764,353	--	--	764,353
Balance at end of year	**764,353**	**478,745**	**--**	**1,243,098**

5. Financial Covenant Calculations

As per the loan agreement dated October 10, 2017, the Company is required to satisfy with the self-financing ratio, debt service coverage ratio and debt to equity ratio requirements as part of its compliance with financial covenants stipulated by ADB. Prior to December 31, 2018, ADB granted waiver No. SR-294/MK.08/2018 dated December 18, 2018 addressed to the Ministry of Finance of the Republic of Indonesia. The waiver relieves the Borrower from the requirement to comply with the aforementioned financial covenants effective until December 31, 2018.

(Figures in tables are stated in millions of Rupiah, unless otherwise stated)

Financial covenant calculations as of and for the year ended December 31, 2018, are as follows:

i. Self-financing ratio (should be greater than 15%)

	2018	
	Rp million	**US$[3]**
CASH FLOW FROM OPERATING ACTIVITIES[1]		
Operating revenues		
Cash receipts from customers[2]	275,178,934	19,002,758
Government subsidy received[2]	56,507,588	3,902,188
Proceeds from sale of assets not used in operations[2]	88,550	6,115
Net non-operating income		
Financial income[2]	804,321	55,543
Subtotal	**332,579,393**	**22,966,604**
ALL EXPENSES RELATED TO OPERATIONS[1]		
1. Total operating expenses[2]	308,188,889	21,282,293
Less non-cash expenses:		
Depreciation[2]	(30,744,712)	(2,123,107)
Amortization[2]	(221,851)	(15,320)
Employee benefit[2]	(1,273,098)	(87,915)
Bad debt expenses[2]	(213,327)	(14,732)
Allowance for inventories obsolence[2]	(20,780)	(1,435)
Income tax paid[2]	1,233,827	85,203
Net Total operating expenses	**276,948,948**	**19,124,987**
2. Debt service requirements		
Interest expense paid[2]	19,730,285	1,362,495
Payment of bonds payable[2]	914,000	63,117
Payment of two-step loans[2]	2,950,612	203,757
Payment of Government and non-bank Government financial institution loans[2]	1,043,793	72,080
Payment of bank loans[2]	13,704,479	946,377
Payment of electricity purchase payable[2]	368,142	25,422
Payment of KIK-EBA[2]	630,600	43,547
Payment of lease liabilities[2]	5,186,938	358,189
Total Debt Service Requirement	**44,528,849**	**3,074,984**
3. Decrease in working capital other than cash ending working capital of the year		
Total current assets[2]	113,415,251	7,832,004
Total current liabilities[2]	(152,022,396)	(10,498,059)
Less: Cash and cash equivalents[2]	(33,294,560)	(2,299,189)
	(71,901,705)	(4,965,244)
Beginning Working Capital of the year		
Total current assets[2]	93,797,251	6,477,263
Total current liabilities[2]	(130,511,731)	(9,012,619)
Less: Cash and cash equivalents[2]	(42,291,959)	(2,920,514)
	(79,006,439)	(5,455,870)
Decrease in working capital of the year	**7,104,734**	**490,626**
Cash dividends paid and other cash distributions of surplus[2]	309,817	21,395
Subtotal	**328,892,348**	**22,711,992**
NET INTERNAL OF CASH	**3,687,045**	**254,612**
Annual average of PLN's capital expenditures incurred, or expected to be incurred:[1]		
Current Year		
Additions in property, plant and equipment and construction in progress[2]	100,273,650	6,924,498
Previous Year		
Additions in property, plant and equipment and construction in progress[2]	85,210,519	5,884,298
Annual average of company's capital expenditures	**92,742,085**	**6,404,398**
Consolidated Self-Financing Ratio[3] (Minimum 15%)	**3.98%**	**3.98%**

(Figures in tables are stated in millions of Rupiah, unless otherwise stated)

ii. Debt Service Coverage Ratio (at least 1.5)

	2018	
	Rp million	US$[3]
OPERATING REVENUES[1,2]		
Sales of electricity	263,477,551	18,194,707
Government's electricity subsidy	48,101,754	3,321,715
Compensation income	23,173,464	1,600,267
Customer connection fees	7,309,172	504,742
Others revenues	2,111,019	145,779
Less: Bad debt expenses	(213,327)	(14,732)
TOTAL OPERATING REVENUE	**343,959,633**	**23,752,478**
OPERATING EXPENSES[1,2]		
Total operating expenses	(308,188,889)	(21,282,293)
Less: Non-cash expenses		
Depreciation	30,744,712	2,123,107
Employee benefit	1,273,098	87,915
Bad debt expenses	213,327	14,732
Amortization	221,851	15,320
Allowance for inventory obsolence	20,780	1,435
TOTAL OPERATING EXPENSES	**(275,715,121)**	**(19,039,784)**
NET OPERATING INCOME	68,244,512	4,712,694
NON OPERATING INCOME[1,2]		
Financial income	804,321	55,543
Other non-operating income	15,663,363	1,081,649
Income taxes	(8,325,082)	(574,897)
NET NON OPERATING INCOME	**8,142,602**	**562,295**
NET REVENUE	**76,387,114**	**5,274,989**
DEBT SERVICE REQUIREMENT		
Interest paid	19,730,285	1,362,495
Principal repayments	24,798,564	1,712,490
TOTAL DEBT SERVICE REQUIREMENT	**44,528,849**	**3,074,985**
CONSOLIDATED DEBT SERVICE COVERAGE RATIO[1] (MINIMUM 1.5)	**1.72**	**1.72**

iii. Debt to Equity Ratio (Should not be greater than a ratio 75 to 25)

	2018	
	Rp million	US$[3]
DEBT[1]		
Two-step loans[2]	38,635,552	2,851,753
Government and non-bank Government financial institution loans[2]	7,204,278	531,760
Lease liabilities[2]	17,092,965	1,261,660
Bank loans[2]	181,111,734	13,368,153
Bonds payable and sukuk ijara[2]	133,802,433	9,876,176
KIK - EBA loans[2]	2,907,986	214,643
Electricity purchase payable[2]	7,510,319	554,349
TOTAL DEBT	**388,265,267**	**28,658,494**
EQUITY[1,2]	**927,413,857**	**68,453,931**
CONSOLIDATED DEBT TO EQUITY RATIO[3] (MAXIMUM 3 TIMES)	**0.42**	**0.42**

Notes:

1). *As defined in the ADB LOAN 3560-INO: Sustainable Energy Access in Eastern Indonesia – Electricity Grid Development Program Loan Facility Agreement dated October 10, 2018.*

2). *As derived from audited consolidated financial statements of the Company and subsidiaries as of and for the year ended December 31, 2018.*

3). *Translated using Bank Indonesia middle rate as of December 31, 2018.*