Q&A:
How the European Financial Crisis Affects the Corporate Credit Ratings

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What is PEFINDO's outlook for the Indonesia macroeconomic condition in relation to the European financial crisis?

We expect that the impact of the European crisis on the domestic macroeconomic condition will not be severe. The prolonged European crisis has put pressure on global financial market, and there have been some effects to domestic macroeconomic condition. For example, the IDR exchange rate has weakened by 4% from July 31, 2011, to December 30, 2011 (although the figure was relatively in line with the rate at end of 2010), the stock market has been more volatile, and the foreign ownership of Indonesia's government debt has somewhat reduced as the foreign investors prefer to have safe haven investments. However, we view that the impact of the crisis should be limited as Indonesia's economy is relatively strong supported by high with stable foreign exchange reserve and more stringent regulations on banking and financial systems. Indonesia also has relatively minor exposure to European countries, in terms of trading volume, and investments. PEFINDO expected GDP to grow by 6.2% in 2012.

Which sectors and/or type of companies, in particular, will the uncertain economic condition affect?

The export oriented sectors and the businesses, which are linked to international or commodity markets could have been affected. Those industries may include shipping, textile and textile products, tourism, and resource-based commodity sectors. The shipping industry has negative growths during the past three years (2009-2011) due to weak international traffic, low freight rate and higher operating costs. Textile industry has suffered as its export to European and the USA markets experienced weakening demand. The threat for tourism industry is the slow down of growth of foreign tourist arrivals to Indonesia as visitors from Europe may cancel their trips to the country, potentially shorter length of stay and lower tourist spending. The resource-based commodity sectors could be negatively affected if the commodity prices drop due to weak demand.

The companies which have significant un-hedged USD debts while their revenues are mostly denominated in IDR, will also suffer if IDR exchange rate drastically weakens.

Will the impact of the crisis drastically change the credit ratings of corporates in PEFINDO's portfolio?

In general, PEFINDO views that there will be no significant effect of the crisis, which could drastically change our current rating distribution for the short term. Most of our rated companies are domestic oriented or are doing much of their trades with other Asian countries instead of with European countries. However, we should also monitor whether those Asian countries are also adversely affected by the European crisis.

In addition, less favorable global financial condition could reduce the access to funding. The companies' financial flexibility to obtain new loans for capital expenditures and/or debt refinancing will be limited as the creditors may limit their exposures to corporate loans anticipating the uncertain business prospects if the crisis worsens and finally reaches Indonesia.

Despite no major rating revision expected, we continuously monitor the performances of companies under our rating portfolio anticipating any negative effects if the crisis could not be contained.

Which company's ratings may be revised?

We expect to do some rating changes in the near term, but they are not primarily triggered by the effect of the global financial crisis. Most of the rating changes will be more attributable to the companies' individual financial performances that are caused by its internal financial policy, especially in terms of financial leverage level.

We will also closely monitor the financial liquidity and flexibility of companies which have significant maturing bonds and/or debts in 2012. In 2012, around IDR10 trillion Bond and Medium Term Notes issued by various companies (only in PEFINDO Corporate Sector) will mature, and some of them might need debt refinancing, which may not be easy if the global crisis is worsening and spreading into many other countries.

Some companies which have been assigned negative outlook to their ratings, such as PT Bakrieland Development Tbk. ($_{id}$BBB+) and PT Medco Energi Tbk. ($_{id}$AA-), are currently under review. In February 2012, the corporate and debt instrument ratings of PT Berlian Laju Tanker Tbk. were lowered to $_{id}$D as the Company announced debt standstill and failed to make the interest payment and Ijarah benefit installment on its Bond and Sukuk. The corporate and debt instrument ratings of PT Bakrie Telecom Tbk. were also lowered to $_{id}$BBB- and the corporate rating was put on Creditwatch with negative implication to anticipate the Company's continuing weakened performance and the raising refinancing risk for its maturing bond. The existing rating of PT Arpeni Pratama Ocean Line Tbk. ($_{id}$D) will also be reviewed after the Company is able to consistently fulfill its financial obligations according to the debt restructuring scheme.