

### Ratings of PPNX Lowered to “**idBBB+**”, Outlook “**Negative**”

PEFINDO has lowered the ratings for PT Perkebunan Nusantara X (Persero) (PPNX) and its Bond I/2013 to “**idBBB+**” from “**idA**”. The downgrade reflects the Company's weaker than expected business and financial performances, following sluggish performance of its sugar business unit as a result of low sugar price in domestic market. We have considered the Company's significant sales in the fourth quarter of 2014, which was mostly derived from the sales of 61,626 tons of sugar in October and 45,891 tons of sugar in November. However, we maintained the Company's corporate rating outlook as “**negative**” to anticipate slower than expected recovery in the sugar industry, which could further deteriorate its capital structure and cash flow protection. The ratings reflect PPNX's stable productivity from the sugar cane plantation and its vertically integrated operations. However, the ratings are constrained by its high financial leverage, high dependency on farmers' sugar cane supply, and risks related to the bio-ethanol business.

PPNX is a state-owned plantation company, engaging in sugar cane and tobacco plantation and processing. At the end of September 2014, its total plantation area amounted to 49,592 hectares (ha). It consisted of the plasma farmers' plantation area of 47,091 ha and self-owned plantation area of 2,501 ha. The sugar cane plantation area was 47,839 ha, while tobacco plantation area was 949 ha. The production facilities include 11 sugar cane mills and one bio-ethanol plant, all of which are located in East Java. As of September 30, 2014, PPNX was fully owned by the Government of Indonesia.

Rating Period: December 2, 2014 – April 1, 2015  
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