

Number : SE.01.01/A.SEKPER.00288/2020
Attachments : -

6 March 2020

To:

PT Bursa Efek Indonesia (Indonesia Stock Exchange, IDX)

Gedung Bursa Efek Indonesia Tower 1

Jl. Jendral Sudirman Kav. 52-53

Jakarta 12190

Attn.: Head of Services Sector Listings, PT Bursa Efek Indonesia

Subject : Clarification on the Implication of Adopting the Indonesia Financial Accounting Standards (PSAK) 71, 72, and 73

Dear Sir/Madam,

We refer to the Letter from the Indonesia Stock Exchange (*Bursa Efek Indonesia*, IDX) Number S-01457/BEI.PPU/03-2020 dated 3 March 2020 on Clarification on the Implication of Effectively Adopting the Indonesia Financial Accounting Standards (*Pedoman Standar Akuntansi Keuangan*, "PSAK") 71, 72, and 73 Year 2020 on a Company's Financial Statement. PT Wijaya Karya (Persero) Tbk. ("**Company**") wishes to provide the following clarification:

- 1. Effects of adopting the PSAK 71, 72, and 73 on the Company's financial performance in its sales and profit/loss accounts, particularly for the financial reporting period ending on 31 March 2020:**
 - a. Does adoption of the PSAK 71, 72, and 73 cause the Company to book an operating loss and/or net loss?**

Response:

Yes. Adopting the PSAK 71, 72, and 73 will affect recognition of the Company's operating loss and/or net loss.

- There will be an increase in the Allowance for Impairment Losses (*Cadangan Kerugian Penurunan Nilai*, "CKPN") for financial instruments used by the Company. This is because the new PSAK uses the Expected Credit Loss model, where credit losses are recognised before a loss triggering event has taken place. This approach is different from the PSAK 55, where impairment is recognised after the losses have been incurred.
- The CKPN is calculated based on assumptions of several conditions, i.e. historical, present, and forward looking.
- The increase in CKPN will affect the Company's retained earnings and current expense accounts.

However, up to 31 March 2020, the Company projects that it will book an operating profit and/or net profit from its production activities less the effects of adopting the new PSAK.

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- b. In relation to PSAK 72, does the Company have any revenue from contracts where the term is more than one year? If “yes,” does adoption of the PSAK cause the Company to not be able to recognise revenue from such contracts? Please explain.**

Response:

Yes. The Company has revenue from contracts where the term is more than 1 year.

- Adoption of the PSAK 72 significantly affects companies where their main source of revenue is contract-based, such as companies engaged in the property business. For the Company itself, the PSAK affects revenue recognition because the Company has a subsidiary engaged in the property business, i.e. PT Wijaya Karya Realty (“**WIKA Realty**”). The PSAK 72 states that revenues, particularly for property companies, can only be recognised after the transacted property units have been handed over. Consequently, property companies can no longer recognise revenues using the Presented Completion Method (despite the units being currently under construction). The new accounting practice affects a company’s financial performance, as is the case in WIKA Realty’s financial statement, and affects the Company’s consolidated financial statements. WIKA Realty engages in the construction of high-rise buildings for property developers, such as apartments and office buildings, where construction is time consuming. As a result, WIKA Realty’s financial results will fluctuate for some years to come after adopting the PSAK 72.
- The Company must revise revenue it has recognised before year 2020 for high-rise building projects that failed to meet the recognition criteria described in the PSAK 72.
- The correction significantly affects Inventories in the Retained Earnings account.

- c. In relation to PSAK 73, does the Company have any leases that will cause the Company’s leased assets to be recorded as right-of-use assets (*aset hak guna*)? If “yes,” please describe the effects on the Company’s assets and liabilities.**

Response:

- The PSAK 73 does not significantly affect the Company because equipment for its projects are mainly fulfilled by companies within the WIKA Group.
- The terms for lease contracts with companies outside of the WIKA Group are generally less than 1 year.

2. The Company’s measures to mitigate risks described in point (1) above:

Response:

1. In relation to PSAK 71:

- Improve timeliness of receivables payment in accordance with their date of maturity.
- The Company must be more selective when bidding for projects it will undertake, especially for their contract payment terms. Projects using long-term financing methods,

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such as Milestones, Contractor Pre-financing (CPF), and Availability Payment will significantly affect the CKPN after adoption of the PSAK 71 because it can affect the Company's profit and loss.

2. In relation to PSAK 72:

- Speeding up construction and handover of property units.
- Business management planning for the property business, such as entering the landed house business and balancing operations of the Company's various property segments to ensure a sustainable revenue stream.

3. In relation to PSAK 73:

- Preferring lease and rental transactions within the WIKA Group.

3. The Company's clarification on material information or other important events which may affect the Company's ability to continue as a going concern and may affect the Company's share price.

Response:

There are no material information or other important events which may affect the Company's ability to continue as a going concern and may affect the Company's share price.

We thank you for your kind attention.

PT Wijaya Karya (Persero) Tbk.
Corporate Secretary

[signed]

Mahendra Vijaya
Corporate Secretary

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