

Understanding the Financial Performance of PT PLN (Persero): A Narrative on State-Owned Enterprise (SOE) with a Mandate of Electricity in Indonesia

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ABSTRACT

As the only electrical company that sells electric power to society and performs the assignments from the government, the financial performance of PT PLN (Persero) is attracting public attention. Some perspectives worry about PT PLN (Persero)'s financial condition and even give a negative sentiment. The research explored how to understand the financial performance of PT PLN (Persero) through a narrative constructed by data storytelling concept for neutralizing the public's tension. The research used the stories retrieved from interviews, e-mail correspondence, and annual reports. Based on the data collected in 2020, PT PLN (Persero) has shown improvement. The company has positive income growth, an increase in assets, a decrease in liabilities, and improved financial ratios compared with last year's performance. Even though PT PLN (Persero) gets government support, the company's initiative program also influences financial improvement. PT PLN (Persero) also has done some mitigation actions for the risk it faced, such as paying the principal debt and its interest on time, maintaining the financial ratio, and ensuring cash availability. In addition, the monitoring from the Ministry of Finance also helps PT PLN (Persero) to maintain its financial performance safe. Lastly, the Ministry of SOE hopes that society can consider PT PLN (Persero)'s effort to provide electricity to all Indonesian regions as part of the valuation of the company.

Keywords: financial performance, PT PLN (Persero), State-Owned Enterprise (SOE), narrative research, electricity

INTRODUCTION

In Indonesia, even though Law Number 30/2009 already allows private companies to participate in the electricity industry, their role is limited to being the partner of PT PLN (Persero), Indonesia's State-Owned Enterprise (SOE), as the electricity supplier (Febriza, Salim, & Munandar, 2019). In 2020, 40,6% of the power plants were owned by private companies. Moreover, PT PLN (Persero) controlled around 59,4% of the power plants and fully controlled the transmission and distribution infrastructure (Direktorat Jenderal Ketenagalistrikan, 2021). Therefore, PT PLN

(Persero) is often known as a monopoly company (Suryanto, 2017). Nevertheless, that practice is believed to protect the government's role in providing affordable electricity to society (Ansari, 2017).

As an SOE, PT PLN (Persero) can be given an additional duty by the government (Article 66, Law Number 19/2003, lastly revised by Law Number 11/2020). Aside from distributing the electricity, PT PLN (Persero) is mandated to diversify electricity resources with renewable energy (Presidential Regulation Number 4/2010, lastly revised by Presidential Regulation Number 48/2011). PT PLN (Persero) is also charged for the acceleration

program of the electricity infrastructure development (Presidential Regulation Number 4/2016, lastly revised by Presidential Regulation Number 14/2017). Recently, PT PLN (Persero) has been obliged to purchase electricity from waste energy administered by the private (Presidential Regulation Number 35/2018).

Within the tasks given, it affects the PT PLN (Persero)'s finances. First, from the liability side, relatively, there is a trend of inclining numbers. Based on the calculation, there is an increase of 43% from 2014 to 2020, from 454 trillion Rupiah to 649 trillion Rupiah. Next, PT PLN (Persero) also has an inclining trend in its revenue (not including subsidies and compensation). However, the operating expenses also rise (see Figure 1). As a result, it affects the fluctuating movement of the company's net income. Further, the

fluctuating net income is also affected by the amount of (Loss)/Gain on foreign exchange transactions (see Figure 2).

Due to its financial condition, it attracts public attention. For instance, based on the finding on the Twitter account of @kompascom, there are many responses with mainly negative tones from the citizen related to the disclosure of the PT PLN (Persero)'s 2020 financial statement. For example, a comment states that the high amount of liability has shown that PT PLN (Persero) is in loss condition. Some tweets also question the company's performance and governance, considering that the company does not have competitors in selling electricity to society. Lastly, there is a tweet stating that PT PLN (Persero) needs to be privatized.

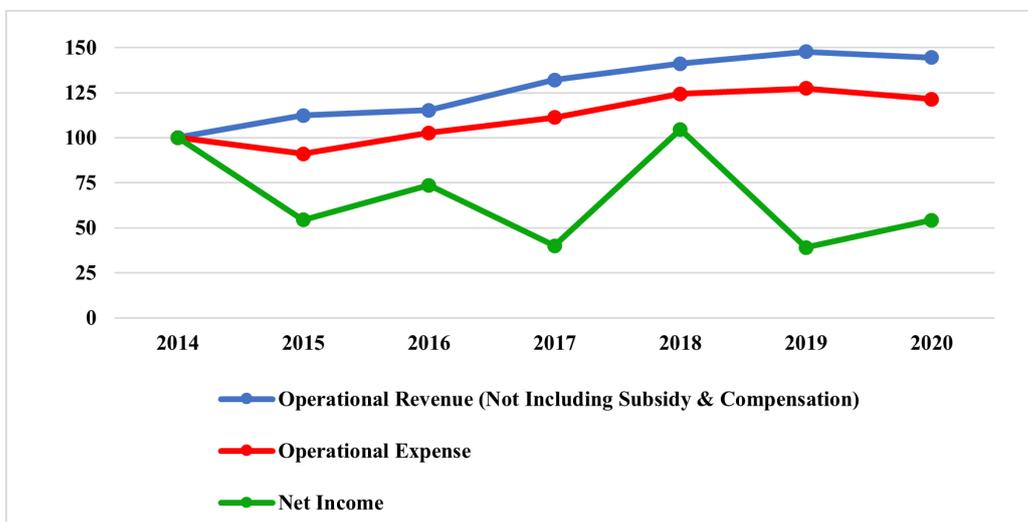


Figure 1 Trend of PT PLN (Persero)'s Revenue (Not Including Subsidies and Compensation), Operating Expenses, and Net Income (2014–2020)
(Source: Company's Financial Statement)

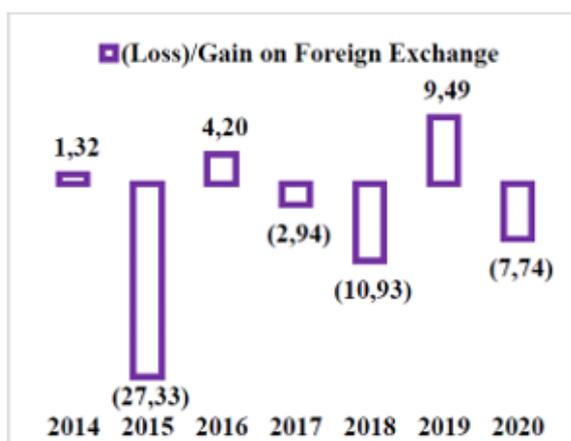


Figure 2 Nominal of (Loss)/Gain on Foreign Exchange of PT PLN (Persero) in 2014–2020 (in Trillion Rupiah)
(Source: Company's Financial Statement)

Generally, a private company or an SOE needs to handle the public's opinion. The purpose of controlling the public's opinion can be seen from two perspectives: market perspective and political perspective. Under the market lens, having a good reputation may help the company to maintain good relations with suppliers, investors, and customers. Meanwhile, under the political lens, supposed that the government owns an SOE, the issues that are spread in public may affect the government's decision toward the company's future (Rentsch, Liechti, & Finger, 2020). Thus, a company manager needs to give a clear explanation to neutralize the negative comments (Zinko et al., 2021).

Principally, a financial report released by the company is a tool to show the company's legitimacy in the middle of society (Suchman, 1995) and give the signal for a user's decision-making process (Hughes, 1986). In correlation with showing legitimacy, it is argued that an organization needs to give adequate information to its stakeholder to maintain its existence (Suchman, 1995). Meanwhile, in correlation with the signaling theory, the company's information is used to prevent misinformation of the stakeholder toward the company or the market failure (Hughes, 1986). Therefore, the company should provide helpful information reflecting their actual condition (Ong, 2018). In other words, based on the conceptual framework of financial reporting, the financial report needs to fulfill the essence of faithful representation (Tsugankov, 2021).

Concerning the mentioned considerations, the research discusses the financial performance of PT PLN (Persero). Previously, several researchers, such as Lafera (2020), Utari (2020), Rahmawati (2019), Sari (2018), and Sari, Husnah, and Fattah (2016), have conducted quantitative-descriptive research mainly through ratio analysis to explain the financial performance of PT PLN (Persero). Moreover, the results are varied. In the research by using the period time before 2018 (2013–2017, 2010–2017, 2011–2015), the researchers have found that the financial performance of PT PLN (Persero) is considered poor (Sari, Husnah, & Fattah, 2016; Sari, 2018; Rahmawati, 2019). Meanwhile, under the time frame of 2018 and above (2017–2018, 2016–2018, 2018–2022), the researchers have suggested that the financial performance of PT PLN (Persero) improves (Lafera, 2020; Utari, 2020; Rahmawati, 2019). However, the previous research lacks integration of their financial analysis result with the works and duties done by PT PLN (Persero) because it only identifies the financial performance.

Unlike the previous research, the research is qualitatively conducted using a narrative approach. Thus, the discussion uses a narrative to explore how to understand the financial performance of PT PLN (Persero). The narration is built from the stories of leading actors, PT PLN (Persero), and supporting actors, which are the Ministry of SOE (further mentioned as MSOE) and the Directorate of State

Financial Risk Management (further mentioned as SFRM). Furthermore, the narrative is constructed using numbers and narratives, known as the data storytelling concept (Matei & Hunter, 2021). Thus, the research presents the result of narrative interpretation from MSOE, SFRM, and PT PLN (Persero) alongside financial statement analysis (trend analysis, common-size analysis, ratio analysis, and Altman z-score analysis).

Presenting the discussion by combining numbers and narrative also considers several statements from Riduwan and Andayan (2019) and Tullio, Torre, Dumay, and Rea (2022). Both researchers have highlighted the importance of presenting information by combining the narrative and numbers to enhance the readers' understanding. Hence, presenting the research in a narrative aligns with the research purpose to escalate the readers' knowledge of PT PLN (Persero)'s financial performance. Furthermore, through the research, it is hoped that the readers have the appropriate stance on the issue of PT PLN (Persero)'s financial condition.

METHODS

Research using a narrative approach is meant to understand each individual's experience (Creswell, 2012). Further, the point of doing a narrative study is also to understand an event that is told verbally or written in systematic order (Czarniawska, 2004). In the end, through a narrative approach, there is a newly constructed narrative based on the result of the interpretation of collected stories/narratives to enhance the readers' understanding (Czarniawska, 2004; Creswell, 2012).

Narrative research data is usually collected through an interview, relevant documents, and observation (Miller, 2017; Tomaszewski, Zarestky, & Gonzalez, 2020). Further, some researchers use movies as their data sources, such as Tavares and Da Silva Dantas (2017). Their research discussed the behavior of an accountant portrayed in each observed movie. Moreover, Meutia and Putra (2017) used the company's annual report to understand organizational performance. They focused on the Management and Discussion Analysis (MDA) section to identify the difference in the type of narrative used among the firms generating a surplus and suffering a loss.

The stories/narratives from PT PLN (Persero) are retrieved from e-mail correspondence, and extensive reading of PT PLN (Persero)'s 2020 annual report. Meanwhile, MSOE and SFRM are retrieved through an interview with PA (MSOE representation) and PB (SFRM representation). It is suggested that it is better to construct a list of questions to ease the narration collection (Roberts, 2020). Therefore, a list of questions is prepared to get narratives from MSOE, SFRM, and PT PLN (Persero) (see Appendix). As for the data obtained from the interview, there is a process of transcribing the audio to understand better the story shared by the interviewee (Nasheeda, Abdullah,

Krauss, & Ahmed, 2019). After obtaining the answers, the following process is interpreting the collected data.

Since the narrative is constructed with numbers, data from the company’s financial statement is collected. The financial information that is used in the research is from 2014 to 2020. Besides financial information, relevant information retrieved from regulations, news, or other relevant reports is utilized to strengthen the building of the narrative.

As for analytical procedures, according to Creswell (2012), there are seven steps to conducting narrative research. In the research, the steps mentioned

by Creswell (2012) are modified into five stages (see Figure 3): 1) understanding the issues, 2) drafting the list of questions for interviewees, 3) collecting the stories/narratives from the source person, 4) interpreting the collected stories/narratives, and 5) constructing the narratives using data storytelling concept.

Regarding interpreting a narrative, one of the approaches for analyzing a narrative is through the “Paul Hernadi Triad” method, namely explication, explanation, and exploration. The explication technique is a way to interpret the narrative by understanding the

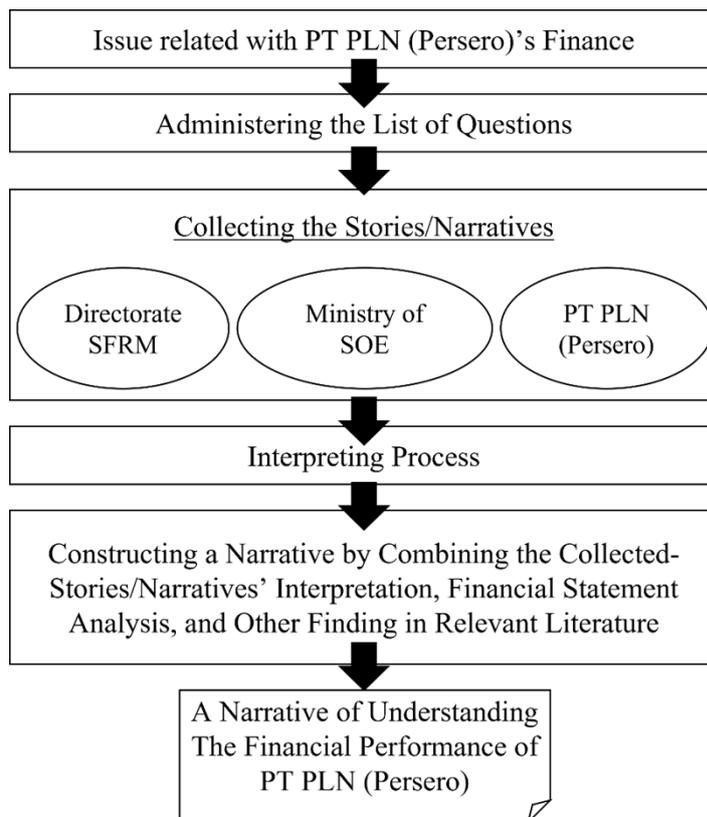


Figure 3 Research Framework

Table 1 Narrative Structure on Result and Discussion Section

Structure	Description
Introduction	There is a portrayal of the current financial condition of PT PLN (Persero) through a comparison of performances from 2014 to 2020. Through this section, the researcher invites the reader to look at other aspects to understand better the financial performance of PT PLN (Persero) before giving the final judgment.
Body	In the main body of the narratives, there are two details regarding <ul style="list-style-type: none"> the mandate that has been currently done by PT PLN (Persero) and explains how it affects PT PLN (Persero)'s finances. the explanation of current efforts done by PT PLN (Persero) to ensure the stability of companies' finances.
Conclusion	This section presents the interpretation of the researcher's version of the information provided in previous sections that can help the readers understand the financial performance of PT PLN (Persero).

entire content and summarizing it using the researcher's words. Then, the explanation technique is a way to interpret the narrative by seeking the background of why the narrative is made. Furthermore, it can be done by identifying the social situation during which the narrative is made or correlating the narration with the existing theory. Lastly, for the exploration, this technique is for a researcher to be an author of the narrative. The exploration technique is a step for a researcher to construct a new narrative according to the purpose of the research (Czarniawska, 2004).

In the research, the techniques that are used are explication and exploration. First, the explication technique is used for interpreting the oral narratives given by MSOE, SFRM, and written narratives given by PT PLN (Persero). After that, as the execution of the exploration technique, the narrative is constructed based on the result of interpretation using the explication technique and combined with the result of financial statement analysis. Furthermore, the narrative is constructed by considering the structure of a narrative essay consisting of an introduction, body, and conclusion (see Table 1).

RESULTS AND DISCUSSIONS

In 2020, PT PLN (Persero) recorded a net profit of 5,99 trillion Rupiah. The number increased by 38,67% from the previous year (see Figure 4). However, from the revenue side (not including subsidies and compensation), PT PLN (Persero) recorded a declining revenue of 2,14%, from 285,64 trillion Rupiah to 279,52 trillion Rupiah. Furthermore, the causes of the decline were due to the decreasing electric sales in business and industry segments. Besides, the implementation of the Indonesia Financial Reporting Standard (FRS) (further mentioned as Pernyataan Standar Akuntansi Keuangan (PSAK)) number 72 affected the recognition of customer connection fees.

Nevertheless, PT PLN (Persero)'s revenue (not including subsidies and compensation) has been relatively increasing since 2014 (see Figure 5). Also, the revenue in 2020 was still above the average of PT PLN (Persero)'s revenue in the last six years with 246,71 trillion Rupiah.

PT PLN (Persero) recorded the operating expenses at 301,01 trillion Rupiah from the operational expense side in 2020. The amount was lower by 4,58% compared with the previous year. The decline was caused by the decrease in the production volume of electricity from coal and gas, a decrease in gas prices, a reduction in the use of fuel oil, and the usage limitation on leasing a fuel oil power plant. From all operating expenses composition in 2020, only the purchased electricity account increased by 18,06% from the previous year. The increase was due to the rise in leasing the power plant administrated by the private under the Power Purchase Agreement (PPA) contract. Furthermore, the amount has continuously increased since 2014. However, until 2020, the expense of fuel and lubricants was the most significant spending among other expenses, with an average spending portion of 48,36% in the last six years (see Figure 6).

In calculating the operating profit, revenue from the government, which are subsidies and compensation, significantly impacts the number presented (see Figure 7). For instance, in 2020, if the PT PLN (Persero) did not include subsidies and compensation as part of its revenue, PT PLN (Persero) would suffer a loss of 21,49 trillion Rupiah. However, when subsidies and compensation were included as revenue, PT PLN (Persero) would record a surplus in operating profit at 44,41 trillion Rupiah. Nevertheless, even though the revenue coming from the government benefits PT PLN (Persero) to record a surplus, electricity sales dominate the portion of revenue (see Figure 8). From 2014 to 2020, the average composition of electricity sales was 75,9%, compared with revenue from the government at 21,5%.

In the balance sheet, PT PLN (Persero)'s assets have increased since 2014, with an additional average incremental at 22,73% (see Figure 9). Further, in 2020, PT PLN (Persero)'s assets consist of 93,89% non-current assets and 6,11% current assets. On non-current assets, the highest value is fixed assets (PPE). The PPE mainly consisted of assets related to electricity infrastructure (power plant, transmission equipment, and distribution equipment). For instance, in 2020, the value of power plant assets was 569,68 trillion Rupiah, an increase of 0,26% from the previous year. Meanwhile, on the current assets, the highest



Figure 4 PT PLN (Persero)'s Net Profit, 2014-2020 (in Trillion Rupiah)
(Source: Company's Financial Statement)

composition is cash and cash equivalents. Further, cash and cash equivalents accounts have relatively increased since 2014.

Next, PT PLN (Persero)'s liability is dominated by long-term liabilities (known as non-current liabilities). The average proportion of long-term liabilities has been 74,44% in the last six years (see Figure 10). In 2020, PT PLN (Persero)'s liabilities declined by 0,98% from the previous year. In detail, there was a decrease in short-term liabilities (known as current liabilities) by 6,05% from the prior year. However, there was an increase in long-term liabilities by 0,65% from the previous year.

As of 2020, the highest liabilities came from bonds payable and the Sukuk Ijarah account (see Figure 11), increasing by 207,82 trillion Rupiah or 14,67% from the previous year. Further, the cause of the increasing amount of bonds payable and the Sukuk Ijarah was due to the issuance of Midterm Global

Bonds using USD with 21,15 trillion Rupiah.

Based on the ratio calculation, the gross and net profit margins have a fluctuating trend (see Figure 12). However, in 2020, both ratios showed an improvement compared with the previous year. The gross profit margin ratio showed better progress from 2017 to 2020 (8,49% to 12,86%). Meanwhile, the net profit margin ratio grew from 1,20% in 2019 to 1,74% in 2020.

On the liquidity ratios, neither the cash ratio nor the current ratio has reached a value of 1 in the last six years (see Figure 13). As for the cash ratio, since 2018, PT PLN (Persero), the ratio has improved from 0,22 to 0,37. Furthermore, the cash ratio in 2020 is the highest. Meanwhile, for the current ratio, even though PT PLN (Persero) has almost reached the value of 1 in the last six years, the current ratio of 2020 was the lowest. The ratio declined from 0,95 to 0,65.

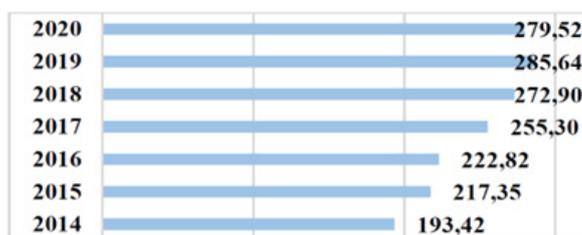


Figure 5 PT PLN (Persero)'s Revenue (Not including Subsidies and Compensation), 2014-2020 (in Trillion Rupiah)
(Source: Company's Financial Statement)

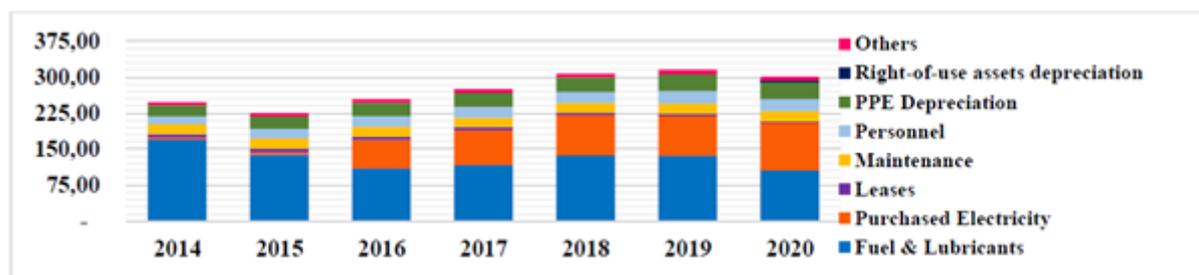


Figure 6 Operating Expenses Composition of PT PLN (Persero), 2014-2020 (in Trillion Rupiah)
(Source: Company's Financial Statement)

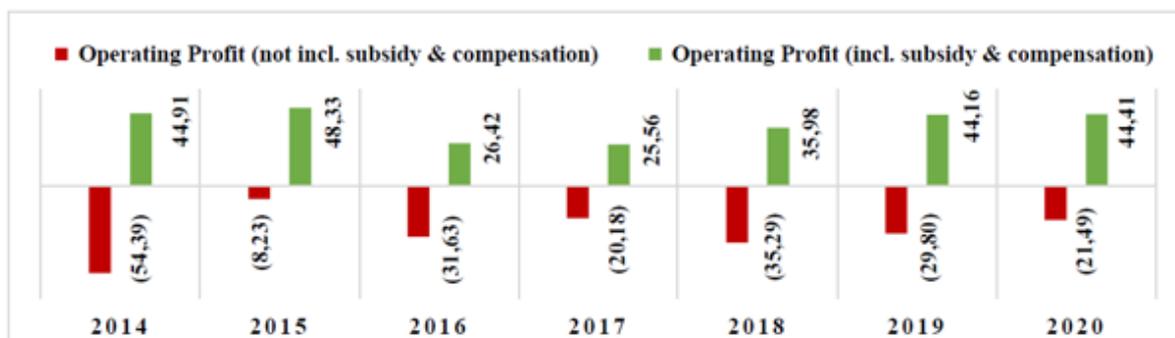


Figure 7 Comparison of PT PLN (Persero)'s Operating Profit Before and After Including Subsidies and Compensation, 2014-2020 (in Trillion Rupiah)
(Source: Company's Financial Statement)

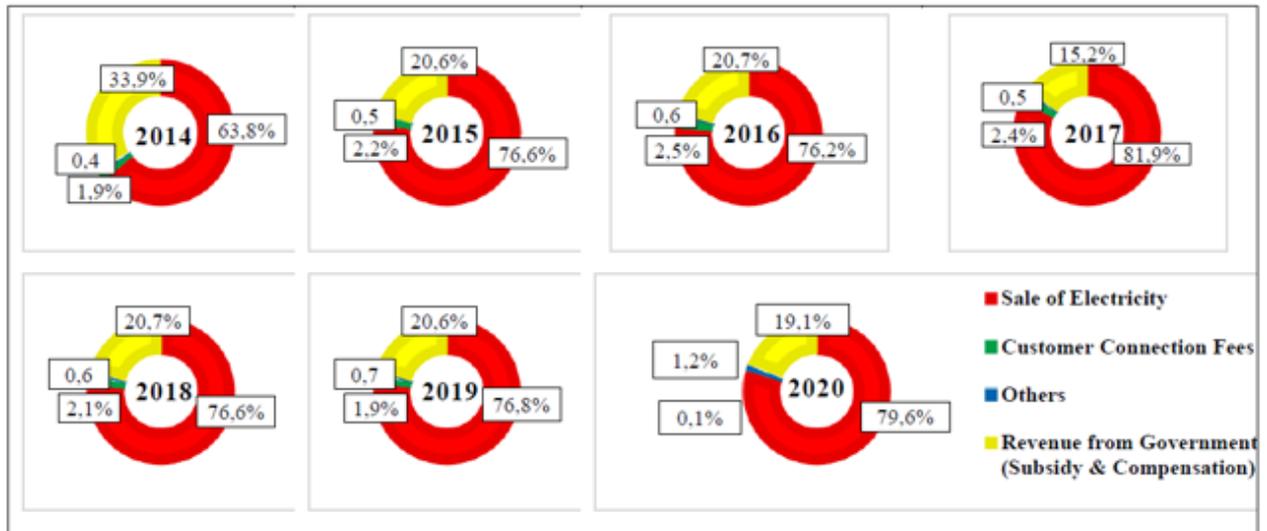


Figure 8 Composition of PT PLN (Persero)'s Revenue, 2014-2020
(Source: Company's Financial Statement)

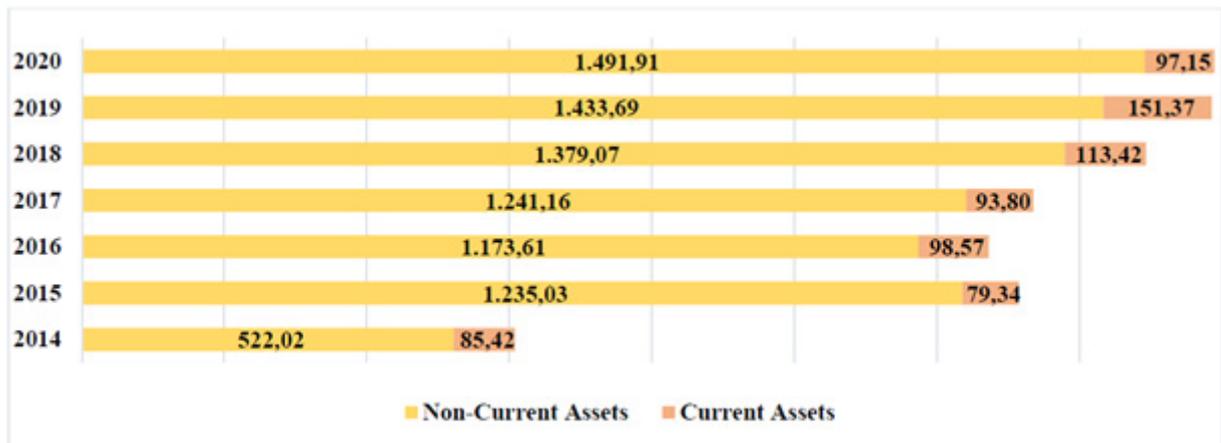


Figure 9 PT PLN (Persero)'s Assets Position, 2014-2020 (in Trillion Rupiah)
(Source: Company's Financial Statement)



Figure 10 PT PLN (Persero)'s Liabilities Position in 2014-2020 (in Trillion Rupiah)
(Source: Company's Financial Statement)

On the solvency ratios, such as the Debt to Equity Ratio (DER), and debt to asset ratio (debt ratio), the ratios show improvement according to the calculation (see Figure 14). For example, PT PLN (Persero)'s DER declined from 0,71 to 0,69 in 2020. However, the company recorded relatively stagnant progress on the debt ratio. The ratio has remained stable at 0,41 since 2019.

Furthermore, when it is calculated using the Altman z-score (see Table 2), the result does not sound satisfying. In 2020, the z-score of PT PLN (Persero) was lower than the z-score in 2019 (1,77 in 2020 compared with 1,91 in 2019). Moreover, PT PLN (Persero)'s z-score during the last six years was below 2,6, except in 2016. According to the Altman z-score criteria for the non-manufacturing firm, the company is considered in the grey zone if its z-score is between 1,1–2,6 (Al-Manaseer & Al-Oshaibat, 2018; Djaja, 2021; Alcalde, Amino, & Garcia, 2022). Therefore, based on the calculation, PT PLN (Persero) has been in the grey zone since 2014, except for 2016. It indicates PT PLN (Persero) has a default risk.

Even if the Altman z-score shows an unfavored result, it is a question of whether it makes the financial

performance of PT PLN (Persero) look terrible. Before judging the result, PA (MSOE representation) believes that other factors must be considered, especially for SOEs that get a mandate from the government, such as PT PLN (Persero). PA states as follows.

From the finance aspect, we can compare the performance among the SOEs using a simple financial statement analysis. However, the user needs to reckon that SOE's financial condition is affected by the operations done by the company. Further, there are SOEs that work under the mandate of the government (PA, MSOE representation, translated from Bahasa).

When PT PLN (Persero) is discussed, there is the need to understand the company's role, which is 1) providing electricity for people's livelihood and 2) procuring electricity infrastructure in Indonesia and also the government assistance toward the company. According to Article 33 verse 2 of the 1945 State Constitution of Indonesia, the government controls resources that are entitled to people's livelihood, and electricity is one of them. Therefore, the government



Figure 11 The Top 5 Accounts with the Highest Amount of Liabilities in 2020 (in Trillion Rupiah)
(Source: Company's Financial Statement)



Figure 12 Profitability Ratios (Gross Profit Margin and Net Profit Margin) of PT PLN (Persero) in 2014–2020
(Source: Researcher's Calculation and Company's Financial Statement)

regulates the electricity tariff as a form of intervention. Hence, society can have access to electricity at an affordable price. However, as PA (MSOE representation) mentioned during the interview, the regulation on tariffs makes private companies lose interest in administering the electricity, so the government gives a mandate to PT PLN (Persero) to manage the electricity of Indonesia.

On the other hand, the regulated tariff impacts the potential of PT PLN (Persero) to generate revenue. Therefore, the government helps PT PLN (Persero) by giving subsidies and compensation, which PT PLN (Persero) recognizes as government revenue. Subsidies are given as a government obligation to procure electricity for a targeted vulnerable group. Meanwhile, compensation is given if the government opts to hold the adjustment on the tariff (known as the Automatic Tariff Adjustment (ATA) policy), especially on non-subsidized electricity tariffs. For information, the tariff for the non-subsidized groups should be adjusted following the fluctuation of the exchange rate, inflation, crude oil price, and coal price. Furthermore, if the compensation calculation is already complete, yet the government has not allocated it to PT PLN (Persero), the company recognizes the compensation as receivables.

PT PLN (Persero) also has the mandate to procure electricity infrastructure. There are two existing projects currently held by PT PLN (Persero): 1) acceleration program of infrastructure electricity development through 35.000 MW program and 2) transition of renewable energy utilization. According to the Press Release of the Ministry of Energy and Mineral Resources Number 25/SJI/2015, Indonesia's president, Joko Widodo, has launched a program called 35.000 MW to achieve the national goal of fulfilling the electricity ratio target of 99,4% at the end of 2024. Further, to achieve the target of 35.000 MW, the government has asked private companies (known as Independent Power Producer (IPP)) to participate. However, the participation of the IPPs is limited to being the counterpart of PT PLN (Persero), as mentioned in Constitutional Court Decision No. 111/PUU-XIII/2015, to prevent unbundling practices (Ansari, 2017; Febriza et al., 2019).

Alongside the acceleration program, the government is committed to using renewable energy (Widyaningsih, 2019). According to the General Plan of National Electricity (known as Rencana Umum Ketenagalistrikan Nasional (RUKN)) in 2019–2038, the government will target 23% of renewable energy to be utilized at the end of 2025 and 31% at the end

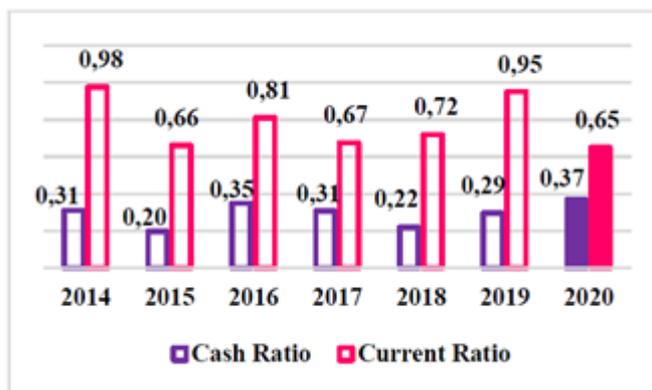


Figure 13 Liquidity Ratios (Cash Ratio and Current Ratio) of PT PLN (Persero) in 2014–2020
(Source: Researcher's Calculation and Company's Financial Statement)

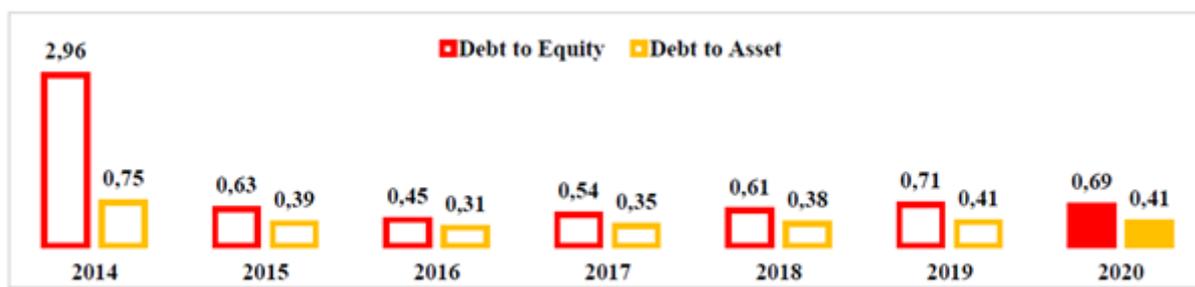


Figure 14 Solvency Ratios (DER & Debt Ratio) of PT PLN (Persero) in 2014–2020
(Source: Researcher's Calculation and Company's Financial Statement)

of 2050. That move is a form of the government's commitment to the Paris Agreement, in which the government has ratified the agreement of that convention through Law Number 16/2016. As for PT PLN (Persero), the company needs to adjust the target as it has planned under the General Plan of Electricity Supplies (known as Rencana Usaha Penyediaan Tenaga Listrik (RUPTL)).

PT PLN (Persero) also has an agreement contract with the IPPs under the take-or-pay scheme. According to the interview with PA (MSOE representation), the take-or-pay scheme is chosen to attract IPPs. As a result, PA (MSOE representation) explained that PT PLN (Persero) needs to pay for the electricity produced by the IPPs even though the electricity is not sold to society (in other words, it exceeds the required capacity).

To help the burden of PT PLN (Persero), the government has issued guarantees. According to PB (SFRM representation), there are three types of guarantees, as mentioned in the Regulation of Ministry of Finance No. 130/PMK.08/2016, lastly revised by No. 135/PMK.08/2019 regarding guarantees for loan/creditor, business feasibility, and direct lending. Furthermore, the guarantees aim to assure the third party that PT PLN (Persero) can meet its commitment. However, when PT PLN (Persero) fails to meet its commitment, the government will pay the obligation of PT PLN (Persero).

The government has also released a regulation under the Financial Services Authority's Regulation Number 6/POJK.04/2017 (POJK 6/POJK.04/2017). The law is established following the 35.000 MW program. Furthermore, the regulation that purchasing electricity needs to be recognized as an expense instead of a lease. As a result of the implementation, in 2016, there were a decrease in PT PLN (Persero)'s liabilities and an increase in PT PLN (Persero)'s purchased electricity expense, which also affected the DER (see Figures 6, 10, and 14) and the Altman z-score (see Table 2).

After knowing the role of PT PLN (Persero) and how the government is involved, it is necessary to understand how PT PLN (Persero) managed its company. On April 21, 2020, PT PLN (Persero) initiated some programs under the tagline of Power Beyond Generation. PT PLN (Persero) believed that the initiative programs reflect the company's commitment to transforming into a better organization. There are four initiatives: 1) Green, 2) Innovative, 3) Lean, and 4) Customer Focused. Through the breakthroughs on each program (see Table 3), PT PLN (Persero) hopes that it will 1) reduce the cost of electricity supply by 88,3 Rupiah per kilowatt-hour (Kwh) at the end of 2024, 2) increase the power plant from renewable energy up to 13,7 gigawatts (GW) or achieve the target of renewable energy used at 23% at the end of 2025, and 3) improve the company's revenue up to 79,9 trillion Rupiah. Following the order of the government to provide an affordable price of electricity to society, PT PLN (Persero) conducts efficiency programs on the cost of electricity supply (further mentioned as BPP). As a result, up until 2020, PT PLN (Persero) decreased the BPP up to 1.348 Rupiah per Kwh from 1.385 Rupiah per Kwh in 2019.

The existence of an efficiency program on BPP indirectly affects the number of subsidies and compensation given since it is one of the components of the formulation. Moreover, BPP's efficiency is done as a PT PLN (Persero) mitigation when the government has limited fiscal, resulting in lower subsidies and compensation. Having a transaction using a foreign currency is one of the risks faced by PT PLN (Persero), as it affects the net income calculation. As mitigation, PT PLN (Persero) has implemented a hedging transaction. Apart from that, according to 2020 financial statement notes number 56c, PT PLN (Persero) has discussed with Bank Indonesia to understand market conditions better so that the company may be aware of when to execute a transaction using foreign currency.

Table 2 PT PLN (Persero)'s Financial Performance Assessed Using the Altman Z-Score

Component	2014	2015	2016	2017	2018	2019	2020
Working Capital/Total Assets (A)	-0,004	-0,031	-0,018	-0,034	-0,030	-0,005	-0,033
RE/Total Assets (B)	0,109	0,052	0,092	0,090	0,088	0,083	0,086
EBIT/Total Assets (C)	0,074	0,037	0,021	0,019	0,024	0,028	0,028
Equity/Liability (D)	0,338	1,579	2,231	1,868	1,641	1,417	1,448
Z Score	1,18	1,87	2,66	2,16	1,97	1,91	1,77
<i>Z-Score Formula: 6,56A + 3,26B + 6,72C + 1,05D</i>							
0–1,1: Distress Zone	Grey Zone		Safe Zone		Grey Zone		
1,1–2,6: Grey Zone	Grey Zone		Safe Zone		Grey Zone		
>2,6: Safe Zone	Grey Zone		Safe Zone		Grey Zone		

(Source: Researcher's Calculation and Company's Financial Statement)

In 2020, PT PLN (Persero)'s capital structure comprised 41% liabilities and 59% equities. PT PLN (Persero) disclosed that the capital structure resulted from government mandates, especially for the 35.000 MW program. PT PLN (Persero) spent 69,05 trillion Rupiah to develop the electricity infrastructure. The amount came from the subsidiary loan agreement (2,10 trillion Rupiah), the company's budget (47,86 trillion Rupiah), bank loans (16,86 trillion Rupiah), and state equity participation (2,24 trillion Rupiah). In addition, PT PLN (Persero) issued 23 series of Sukuk Ijarah and two series of Global Bond to finance electricity infrastructure development. Moreover, PT PLN (Persero) mentioned that all capital expenditures aimed to 1) meet the needs for electricity capacity and energy with the desired level of reliability at the least cost, 2) overcome the shortage of electricity supply in several regions, 3) reduce the price of primary energy supply from natural gas and coal, 4) increase the ratio of New Renewable Energy (NRE) power plants such as geothermal, water, and solar, 5) achieve the electrification ratio target, and 6) realize better reliability and quality of electricity so that electricity can be a driver of economic activities.

In addition, the aim of the capital expenditure of PT PLN (Persero) is to align with the company's current focus, building environmentally sustainable infrastructure. Therefore, PT PLN (Persero) hopes it will attract current investors who care about the environmental issue. Within the current capital structure, PT PLN (Persero) assures that the liabilities are used proportionally to maintain the company's ability to pay the loan principal and its interest (for the performance, see Figure 15). Furthermore, PT PLN (Persero) discloses that the company maintains the ratio, such as DER fulfilling the standard and the number of amounts of cash to be sufficient for emergency needs in the future.

Commenting on the performance of PT PLN (Persero), PA, as the representative of MSOE, stated that PLN has made a tremendous effort to do the given mandates. As evidence, PA (MSOE representation) mentioned there is a significant improvement in the electricity operation which can be seen from several indicators, such as 1) System Average Interruption Duration Index (SAIDI), 2) System Average Interruption Frequency Index (SAIFI), 3) electrification ratio, and 4) electricity index.

Table 3 Breakthroughs of Each Initiative Program of PT PLN (Persero)

Initiative Programs	Breakthroughs
Green	1. Implementation RJP NRE 2019–2024 (5 GW) 2. Launch of “Green Booster” 3. Launch of “Large Scale Renewables”
Innovative	1. Billing and Collection Optimization 2. Rollout Fiber Optic 3. Electric Vehicle Infrastructure 4. Captive Power
Lean	1. Digital Power Plant 2. Digitally Enabled Distribution Excellence 3. Dispatch Optimization 4. Investment Prioritization (Short-Term, Mid-Term, & Long-Term) 5. Optimizing Primary Energy 6. Anti Blackout
Customer Focused	1. Outage Management (Notification & Yantek Optimization) 2. PLN Mobile's new version

(Source: Company's 2020 Annual Report)

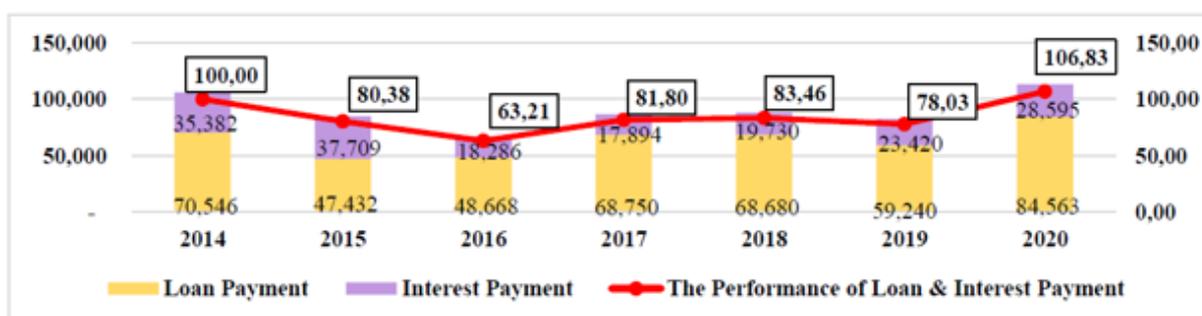


Figure 15 Trend of Loan & Interest Payment and its Relative Performance in 2014–2020 (in Trillion Rupiah)
(Source: Company's Financial Statement)

Furthermore, PA (MSOE representation) mentioned that PT PLN (Persero) had managed its liabilities better through global bond issuance. It is believed it has pushed the PT PLN (Persero)'s financial expenses since it has lower interest fees than commercial bonds. Further, PA (MSOE representation) viewed the support from the government through subsidies, compensation, and guarantees as giving a safe signal toward the investor, lender, and IPPs.

As the representative from SFRM, PB also gave similar comments about the PT PLN (Persero) performance. Based on PB's experience in monitoring PT PLN (Persero), the company has cooperated well with SFRM. Furthermore, when talking about continuous improvement, based on PB's point of view, PT PLN (Persero)'s managerial has already improved in recent years since there has been a bureaucratic transformation. Further, it is believed that the transformation may result in better performance of PT PLN (Persero).

From all information given, the financial performance of PT PLN (Persero) needs to be understood as follows. In 2020, PT PLN (Persero) recorded a net income of 5,9 trillion Rupiah and a net profit margin of 1,74%. The result was better than the result in 2019 (see Figure 16). However, from the received revenue by not including subsidies and

compensation, PT PLN (Persero) suffered a decline of 2,14% in 2020 from the previous year or a fall to 279,52 trillion Rupiah (see Figure 16). One of the causes was decreased electricity production sales in business and industry segments. Nevertheless, despite a decline, the received revenue by not including subsidies and compensation in 2020 was above the average of the total received revenue (not including subsidies and compensation) in the last six years with 246,71 trillion Rupiah (see Figure 16).

When the subsidies and compensation are not included in the revenue calculation, PT PLN (Persero) suffers a loss in operating profit. However, when subsidies and compensation are included in the revenue calculation, PT PLN (Persero) records a surplus in operating profit. Furthermore, PT PLN (Persero) mentioned that the subsidies and compensation need to be recognized as revenue since it is still part of its business activity of selling electricity. In addition, subsidies and compensation should be given due to government intervention regulating the electricity tariff.

Related to receiving subsidies and compensation, PT PLN (Persero) already does mitigation if the given subsidies and compensation are limited. Currently, PT PLN (Persero) conducts an efficiency program on BPP. In addition, BPP is also a part of the

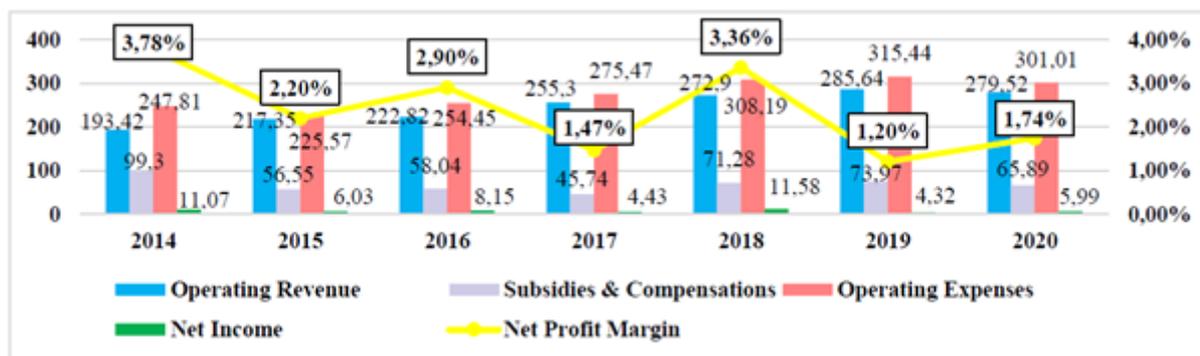


Figure 16 The Highlight of PT PLN (Persero)'s Profitability Performance in 2014–2020 (Source: Company's Financial Statement)

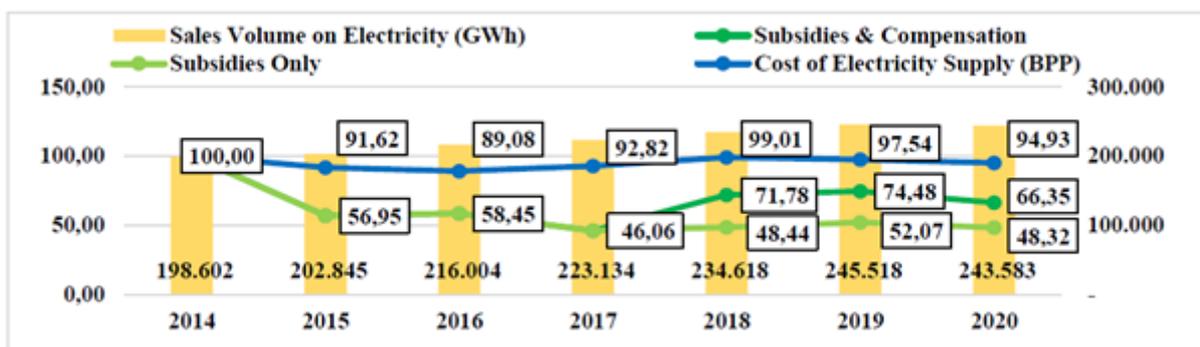


Figure 17 Trend of Revenue From Government, BPP Performances, and Realization of Sales Volume on Electricity (GWh) in 2014–2020 (Source: Company's Financial Statement and Annual Report)

component in formulating the number of subsidies and compensation. Looking at the trend in the last six years, declining in BPP is parallel with declining in subsidies and compensation received (see Figure 17). Nevertheless, PT PLN (Persero) can grow electricity production despite a declining trend in BPP.

Besides the BPP's efficiency, PT PLN (Persero) has already set other breakthroughs (see Table 3). Through the breakthroughs that have been planned, PT PLN (Persero) hopes that it will push the BPP up to 88,3 Rupiah per Kwh by the end of 2024 and improve the revenue up to 79,9 trillion Rupiah. Even though currently PT PLN (Persero) produces a surplus in operating profit due to subsidies and compensation given, in the future, there is a potential for the company to optimize its revenue on its own. From the expenses side, there is a challenge in purchasing electricity expenses in the future, even though there is a commitment from PT PLN (Persero) to decrease the amount of BPP. There has been an inclining trend in purchased electricity expenses (see Figure 6) because more contracts will be executed with the IPPs.

Other challenges come from foreign currency transactions since PT PLN (Persero) has few foreign currency transactions. As a result, it affects the

company's net income calculation. Moreover, PT PLN (Persero) already does some mitigation, such as implementing hedging transactions on foreign currency and discussing with Bank Indonesia to understand the market condition better.

Currently, PT PLN (Persero) is charged with developing Indonesia's electricity infrastructure. The 35.000 MW Program is in progress alongside the transition to a renewable energy program. For that project, PT PLN (Persero) seeks finance through loans and bond issuance. As a result, PA (representation of MSOE) and PB (representation of SFRM) believed that it might be the cause of the high amount of debt of PT PLN (Persero). However, the need for a vast amount of liabilities is used to procure the high value of the power plant asset.

Next, PT PLN (Persero) has committed to maintaining its liability within a safe range regarding liability management. PT PLN (Persero) ensures that the company pays the debt on time, keeps the ratios to meet the minimum standard, and secures sufficient cash for emergency needs. As of 2020, even though PT PLN (Persero) paid a vast amount of debt (principal and its interest), the company could stable its cash growth and cash ratio (see Figure 18).

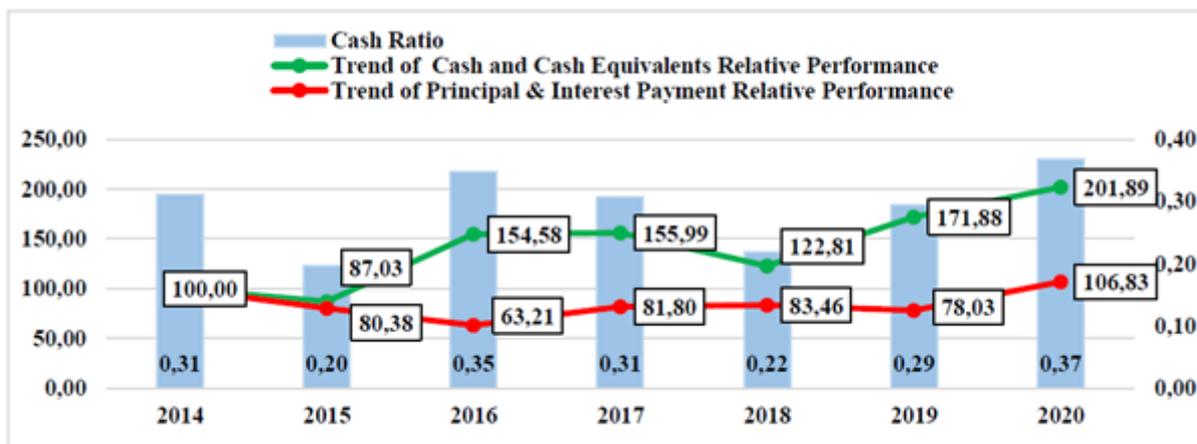


Figure 18 Highlight of PT PLN (Persero)'s Cash Management (Source: Company's Financial Statement)

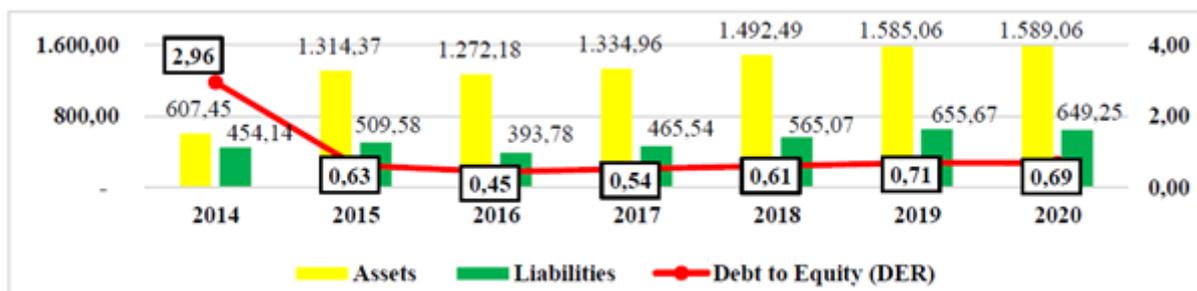


Figure 19 Highlight of PT PLN (Persero)'s Balance Sheet in 2014–2020 (in Trillion Rupiah) (Source: Company's Financial Statement)

Despite the Altman z-score assessment result showing that the company is categorized under the grey zone (see Table 2), the government's guarantee might neutralize the worries of the investor, lender, and supplier. Furthermore, besides the government guarantee, the current focus of PT PLN (Persero) on environmental sustainability, such as building a renewable energy power plant, may attract investors to invest in the company's project. Moreover, since the government financially supports PT PLN (Persero), there is monitoring conducted by the Ministry of Finance through SFRM. Thus, PT PLN (Persero) financial conditions are kept safe under the supervision of the Ministry of Finance.

In the last six years, PT PLN (Persero) has had a relatively inclining trend in liabilities, with a total incremental average of 7,36%. However, in 2020, PT PLN (Persero) decreased the number of its liabilities from the previous year, declining by 0,98%. As a result, the DER of PT PLN (Persero) in 2020 fell to 0,69 from 0,71 in 2019 (see Figure 19).

PA (MSOE representation) argues that an SOE that gets a mandate from the government cannot be solely valued using financial indicators. PA (MSOE representation) believes that a mandate given to an SOE affects that SOE's finances. Thus, PA (MSOE representation) adds that the SOE's contribution to the country should be considered when valuing its performance.

In the context of PT PLN (Persero), PA (MSOE representation) states that the company's liabilities are used to provide prosperity among Indonesia's citizens. Furthermore, PA sees an improvement from PT PLN (Persero). PA gives an example of how fewer regions currently suffer a blackout. Therefore, PA hopes that the user of PT PLN (Persero) needs to consider PT PLN (Persero) contribution before judging that PT PLN (Persero) has poor performance (see Table 4).

CONCLUSIONS

From 2014–2020, PT PLN (Persero)'s performance on profitability relatively shows improvement. Furthermore, the current execution of

the PT PLN (Persero) initiative program can create better performance in the future. Even though the contracts with the IPPs and the transactions using a foreign currency may challenge PT PLN (Persero) to optimize its profit, the support of the government (subsidies and compensation) may make PT PLN (Persero) profitability remain stable for now.

The mandate for accelerating electricity infrastructure development makes PT PLN (Persero) seek an alternative of finance. As a result, PA (representation of MSOE) and PB (representation of SFRM) believed that it might be the cause of the high amount of debt of PT PLN (Persero). Because of that condition, it worries the stakeholders of PT PLN (Persero). However, PT PLN (Persero) receives support from the government through a guarantee given to investors, lenders, and IPPs, which neutralizes the worries. Nevertheless, PT PLN (Persero)'s focus on environmental sustainability may retain current investors or add new investors.

Moreover, PT PLN (Persero) has already implemented some mitigation to prevent the company from default risk. The mitigations are ensuring that the company pays the debt on time, maintaining the ratios to meet the minimum standard, and providing sufficient cash for emergency needs. In addition, the surveillance from the Ministry of Finance, through SFRM, may help PT PLN (Persero) ensure its financial condition is safe.

Lastly, according to PA (MSOE representation), the financial performance of PT PLN (Persero) cannot be solely judged using financial indicators. PT PLN (Persero) is an SOE that gets a mandate from the government, which puts pressure on the company's financial condition. Thus, PA argued that when judging the performance of PT PLN (Persero), the user needs to consider the contribution that PT PLN (Persero) has given to the country. In other words, when valuing the PT PLN (Persero)'s financial performance, they should not only focus on the PT PLN (Persero)'s liability but also appreciate the achievement of PT PLN (Persero) in providing electricity access in all Indonesian regions.

For PT PLN (Persero)'s users (an investor,

Table 4 Highlight of PT PLN (Persero) Operational Performances, 2014-2020

Indicators	2014	2015	2016	2017	2018	2019	2020
Numbers of Customer (thousand customers)	57.671	61.168	64.282	68.068	71.917	75.706	79.000
SAIDI (minutes/customer)	348,6	318,6	1.532,00	1.159,82	958,35	1.136,72	763,13
SAIFI (times/customer)	5,58	5,97	15,09	12,65	9,90	11,51	9,25
Connected Power (MVA)	100.031	106.582	114.348	122.018	130.281	138.077	144.678
Installed Capacity (MW)	49.591	50.859	54.655	55.925	57.822	62.833	63.336
National Electrification Ratio (%)	84,38	88,30	91,16	95,35	98,30	98,89	99,20

(Source: Company's Annual Report)

creditor, lender, or society), there is a need to collect sufficient information during valuing the performance of PT PLN (Persero). The information can be retrieved from relevant literature, explanation on the annual report, or details on financial statement notes. As the readers of PT PLN (Persero)'s financial statement, collecting the needed information will make them understand and respond to the disclosure of financial information.

The research uses the narrative approach to analyze the narratives, written or orally, given by the source person. The given information may be broad and challenge the researchers to interpret the main idea. Thus, the information written in the research cannot be considered entirely objective, yet the researchers have ensured the subjectivity level is minimum. The main subject in the research is PT PLN (Persero). However, since there is a time limit for finishing the research, the data can only be obtained in a written format, resulting in the limit of having a deep understanding of the collected information. Lastly, the research uses the lens of accounting, so the discussion is limited to understanding the disclosure of financial information. As for future research, the discussion can be explained more by seeing the impact of subsidies or a monopoly market of electricity on the performance of PT PLN (Persero) through the lens of the economy or public policy.

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APPENDICES

List of questions for data collection (translated from bahasa Indonesia)

Questions asked during the interview with MSOE (PA & team)

- 1) How is the intervention of MSOE toward the SOEs in Indonesia?
- 2) Related to the research topic, according to MSOE, what does PT PLN (Persero) differ from other SOEs?
- 3) Some countries apply a competitive market for electricity. Why in Indonesia does the government still control electricity management through PT PLN (Persero)?
- 4) According to MSOE, how has the performance of PT PLN (Persero) recently been?
- 5) Related to the financial performance, should we compare the financial performance of PT PLN (Persero) with other SOEs? Is there any consideration before making the comparison?
- 6) According to MSOE, how does PT PLN (Persero) performance attract investors to invest in the company?
- 7) According to MSOE, does PT PLN (Persero) show a positive response after having a direction from MSOE?
- 8) What are MSOE's opinions regarding the negative tone from the public toward PT PLN (Persero)'s financial performance?

Questions asked during the interview with SFRM (PB & team)

- 1) Why does the Ministry of Finance, primarily through SFRM, monitor the performance of SOEs, especially PT PLN (Persero)? How does it affect state finance?
- 2) Please explain how is the evaluation process conducted on PT PLN (Persero)?
- 3) Following the recommendation given, how does PT PLN (Persero) respond? Does PT PLN (Persero) show positive feedback?
- 4) Based on PB experience, has PT PLN (Persero)'s performance improved recently?
- 5) What is SFRM's opinion regarding the negative tone from the public toward PT PLN (Persero)'s financial performance?

Questions answered by PT PLN (Persero) through e-mail correspondence and findings in 2020's Annual Report.

No.	Question	Answered through E-Mail Correspondence?	Found in Annual Report?
1.	What is the line business that is administered by PT PLN (Persero)?	√	√ (p. 85, pp. 90-91)
2.	Currently, what are the challenges faced by PT PLN (Persero)?	√	√ (p. 1, p. 15, pp. 241-242)
3.	What are the goals and targets of PT PLN (Persero) in the future?	√	√ (p. 64)
4.	PT PLN (Persero) currently implements a Green, Innovative, Lean, and Customer Oriented program. How does the program affect PT PLN (Persero) financially?	√	√ (p. 56)
5.	What are the accounting standards used for preparing the financial report?	√	√ (p. 236)
6.	Based on the profit/loss statement, there are different presentations between 2020's report and the previous year's report. For example, in 2020's report, the account of subsidies and compensation (revenue from the government) was presented in the Revenues post. However, in the previous years, those accounts were presented after the Operating Profit post before subsidies. In that case, what is the consideration to change the position on presenting subsidies and compensation?	√	√ (p. 195)
7.	Following the electric subsidies, PT PLN (Persero) needs to control the parameters of electric subsidies. However, based on the financial statement, there is a relative downturn in the number of subsidies. Therefore, for this case, is there any correlation between the effort of PT PLN (Persero) in controlling the parameter of electric subsidies?	√	√ (p. 361)
8.	Since 2017, the government has compensated PT PLN (Persero) because electric tariffs have no adjustment. However, on the other hand, PT PLN (Persero) may not receive full payment of the compensation. So, for this case, what is the mitigation from PT PLN (Persero)?	√	√ (p. 361)
9.	Following PSAK 72, how does this standard affect the revenue recognition of PT PLN (Persero)?	√	×
10.	On the operating expense side, there was a decline in 2020. What are the causes that make the condition happen?	×	√ (p. 194)
11.	The fluctuation of loss/gain on foreign currency seems to affect the company's profit during the year. So, what is the mitigation to solve this issue?	×	√ (p. 219)
12.	How does the 35,000 MW program affect the changes in the assets of PT PLN (Persero)?	√	√ (p. 182)
13.	Based on the financial statements, there is a trend of inclining the company's liabilities. Responding to this trend, what is the effort done by PT PLN (Persero) to ensure the nominal liabilities are manageable?	×	√ (pp. 216-217, pp. 219-220)