MILLIMAN RESEARCH REPORT

2016 survey of Indonesian employee benefit obligations

An analysis of employee benefit obligations presented in financial statements for the year ended 31 December 2015

March 2017

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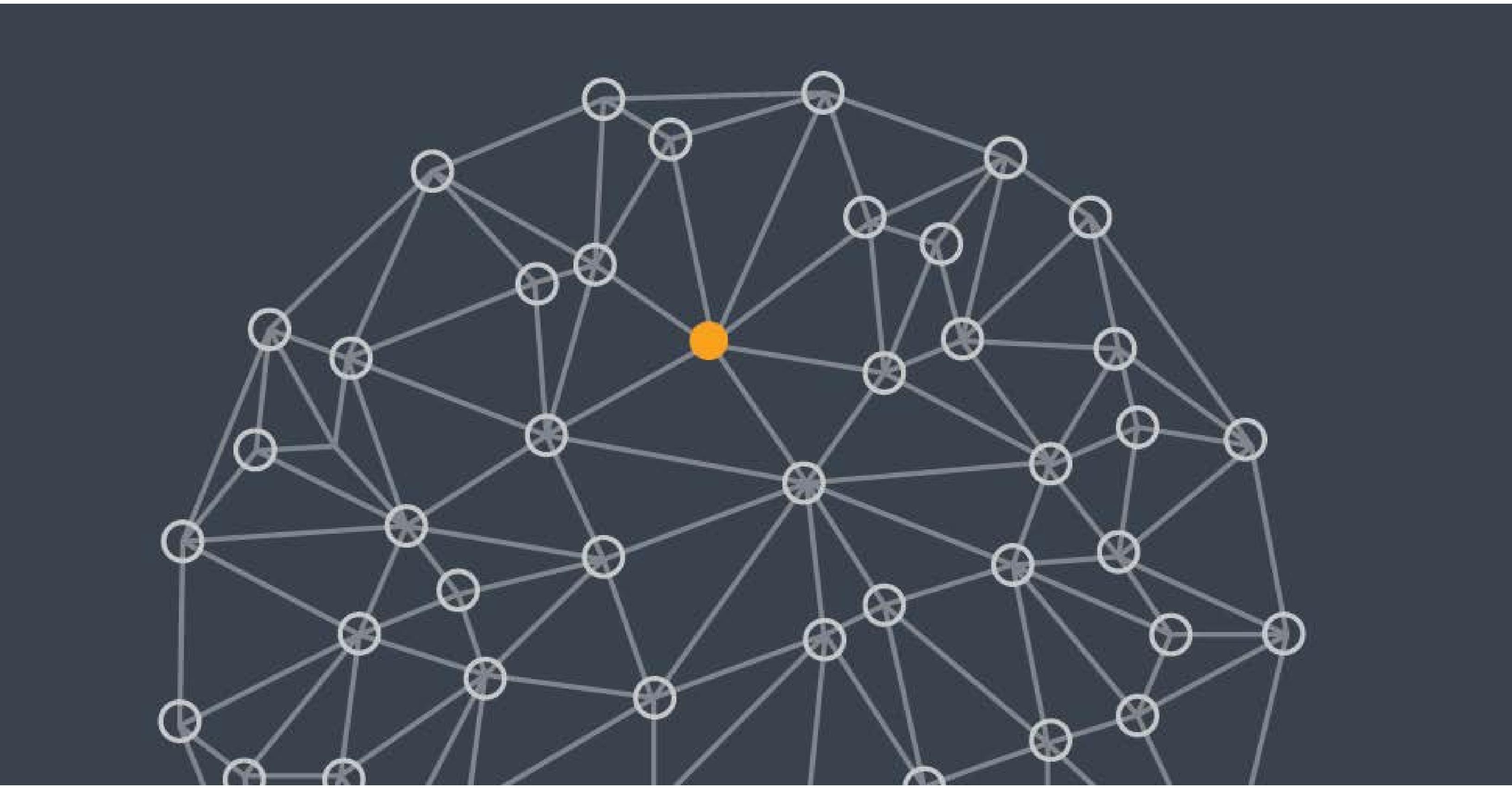

Milliman

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Introduction

Milliman conducts continual and extensive research on issues connected to the employee benefits offered by Indonesian companies.

We present here our first annual study of the employee benefit obligations among Indonesian companies, with the intention to report major trends in these obligations. We focus specifically on post-employment, termination, and other long-term employee benefits, such as long service awards, post-employment pension plans, and other long-term benefit structures.

The main aim of the study is to educate and create awareness about the state of employer-sponsored, long-term employee benefit programs and to foster a healthy dialogue among policy makers, employers, employees, and the general public about the future of such plans in Indonesia.

The following 45 companies participated in this survey:

COMPANY NAME	INDUSTRY
ASTRA ARGO LESTARI TBK	CONSUMER STAPLES
ADHI KARYA (PERSERO) TBK	INDUSTRIALS
ADARO ENERGY TBK	ENERGY
AKR CORPORINDO TBK	MATERIALS
ANEKA TAMBANG PERSERO (PERSERO) TBK	MATERIALS
ASTRA INTERNATIONAL TBK	CONSUMER DISCRETIONARY
ALAM SUTERA REALTY TBK	FINANCIALS
BANK CENTRAL ASIA TBK	FINANCIALS
BANK NEGARA INDONESIA (PERSERO) TBK	FINANCIALS
BANK RAKYAT INDONESIA (PERSERO) TBK	FINANCIALS
BANK TABUNGAN NEGARA (PERSERO) TBK	FINANCIALS
BANK MANDIRI (PERSERO) TBK	FINANCIALS
GLOBAL MEDIACOM TBK	CONSUMER DISCRETIONARY
BUMI SERPONG DAMAI TBK	FINANCIALS
CHAROEN POKPHAND INDONESIA TBK	CONSUMER STAPLES
ELNUSA TBK	ENERGY
GUDANG GARAM TBK	CONSUMER STAPLES
H.M. SAMPOERNA TBK	CONSUMER STAPLES
INDOFOOD CBP SUKSES MAKMUR TBK	CONSUMER STAPLES
VALE INDONESIA TBK	MATERIALS
INDOFOOD SUKSES MAKMUR TBK	CONSUMER STAPLES
INDOCEMENT TUNGGAL PRAKARSA TBK	MATERIALS
JASA MARGA (PERSERO) TBK	INDUSTRIALS
KALBE FARMA TBK	HEALTH CARE
LIPPO KARAWACI TBK	REAL ESTATE
MATAHARI DEPARTMENT STORE TBK	CONSUMER DISCRETIONARY
PP LONDON SUMATRA INDONESIA TBK	CONSUMER STAPLES
MEDIA NUSANTARA CITRA TBK	CONSUMER DISCRETIONARY
MATAHARI PUTRA PRIMA TBK	CONSUMER STAPLES
HANSON INTERNATIONAL TBK	REAL ESTATE

COMPANY NAME	INDUSTRY
PERUSAHAAN GAS NEGARA (PERSERO) TBK	UTILITIES
PT TAMBANG BATU BARA BUKIT ASAM TBK	ENERGY
PP (PERSERO) TBK	INDUSTRIALS
PAKUWON JATI TBK	FINANCIALS
SURYA CITRA MEDIA TBK	CONSUMER DISCRETIONARY
SILOAM INTERNATIONAL HOSPITALS TBK	HEALTH CARE
SEMEN GRESIK (PERSERO) TBK	MATERIALS
SUMMARECON AGUNG TBK	REAL ESTATE
SRI REJEKI ISMAN TBK	CONSUMER DISCRETIONARY
SAWIT SUMBERMAS SARANA TBK	CONSUMER STAPLES
TELEKOMUNIKASI INDONESIA (PERSERO) TBK	COMMUNICATIONS
UNITED TRACTORS TBK	COMMUNICATIONS
UNILEVER INDONESIA TBK	COMMUNICATIONS
WIJAYA KARYA (PERSERO) TBK	COMMUNICATIONS
WASKITA KARYA (PERSERO) TBK	COMMUNICATIONS

We focus our analysis on the companies featured in the LQ 45 index for the period August 2016 to February 2017. We have extracted data from their disclosed annual reports dated 31 December 2015.

The annual reports had disclosures of both the consolidated and company-specific obligations. We focus our analysis on the company-specific obligations. We do not consider in detail the consolidated obligations reflecting the combined undertakings of the company and its subsidiaries.

SCOPE OF DISCLOSURE

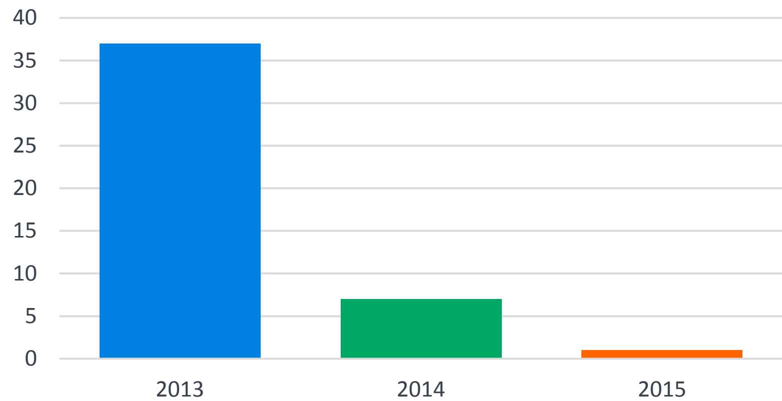
As required by the Indonesian Accounting Standard Statement No. 24, all companies should prepare a disclosure for their employee benefit plans. Among them, the defined benefit plans of post-employee benefits and other long-term benefits are typically the most significant. This report only covers disclosures for defined benefit post-employment benefits and other long-term benefits.

Changes in accounting standard

Indonesian Accounting Standard No. 24 (revised 2013), 'Employee Benefits,' amended some accounting provisions relating to defined benefit plans. The key amendments include elimination of the 'corridor approach,' modification of accounting for termination benefits, and improvement of the recognition, presentation, and disclosure requirements for defined benefit plans. Companies have been required to apply this standard for annual periods beginning on or after 1 January 2015.

A company can apply Standard No. 24 retrospectively, in accordance with Standard No. 25, Accounting Policies, Changes in Accounting Estimates and Errors. We found that 44 companies restated their historical figures, most of them back to 2013, some to 2014. The chart in Figure 1 shows the number of companies restating or first showing the relevant figures, starting in each of the last three years.

FIGURE 1: COMPANIES RESTATING FROM YEARS



FY 2015 defined benefit obligations disclosed in 2016

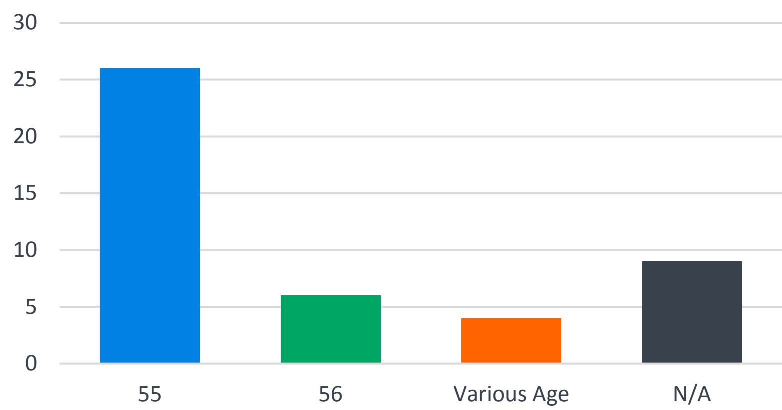
WHAT IS A DEFINED BENEFIT OBLIGATION?

The defined benefit obligation (DBO) is the present value of expected future payments required to settle various benefit promises made to employees in regard to their service. The framework for estimating the obligation is outlined in the relevant accounting standard, in this case PSAK No. 24.

NORMAL RETIREMENT AGE

Many companies set the normal retirement age at age 55. Companies should regulate the normal retirement age in their internal policies, typically in the company regulations or collective labor agreement. Among 36 companies that stated their retirement ages, four set a varied retirement age based on title or position. Nine companies did not disclose their retirement ages.

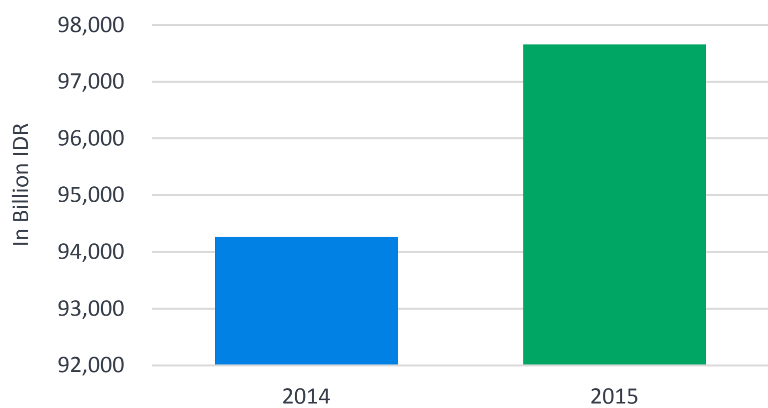
FIGURE 2: NORMAL RETIREMENT AGE



HIGHER DBO LEVELS RECORDED IN 2015

From 2014 to 2015, the aggregate DBO rose by 3.6% from approximately IDR 94.2 trillion to approximately IDR 97.7 trillion. Changes in the DBO can be attributed to several factors, including accrual of extra service, aging of covered populations, demographic experience, and changes in economic assumptions.

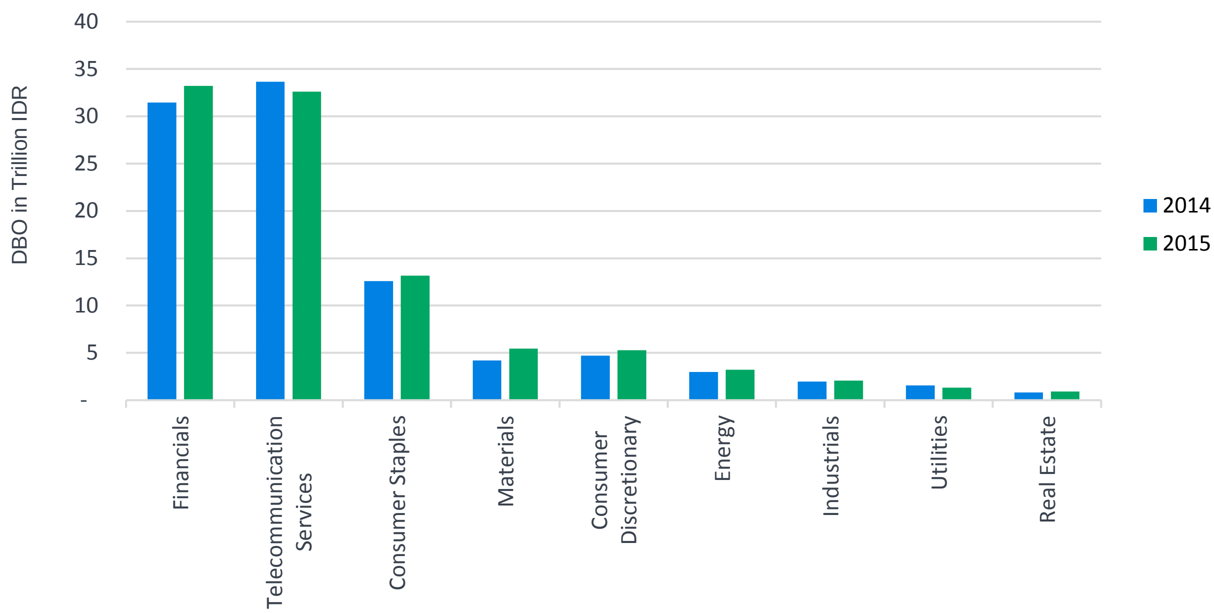
FIGURE 3: DBO, 2014-2015



INDUSTRY-SPECIFIC CHANGES IN DBO

The change in DBO varied in direction among the various companies and within the industrial sectors. The biggest increase was approximately IDR 1.8 trillion in the Financials sector. The biggest reduction in absolute terms was among the Telecommunication Services sector, with a decrease which amounted approximately to 1 trillion IDR. The biggest change in relative terms was among Materials with a rise of about 30% from approximately IDR 4.2 trillion to approximately IDR 5.4 trillion.

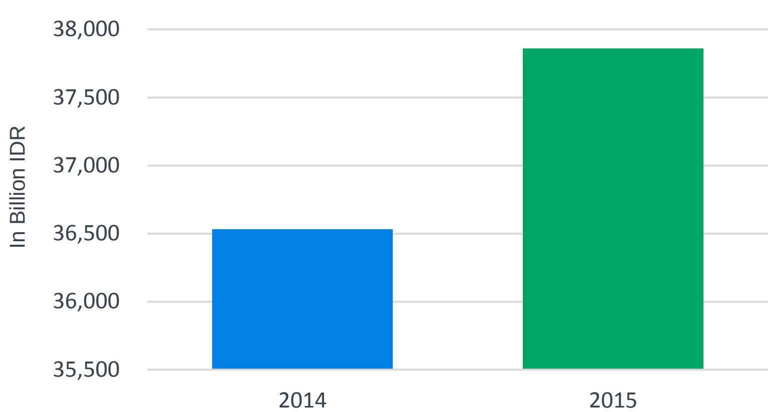
FIGURE 4: DBO BY INDUSTRY SECTORS



CHANGES IN LIABILITY

The companies registered an increase of IDR 1.3 trillion in their net liability (after allowing for attributable assets). From 2014 to 2015, their aggregate liability rose by 3.1% from approximately IDR 36.5 trillion to approximately IDR 37.8 trillion.

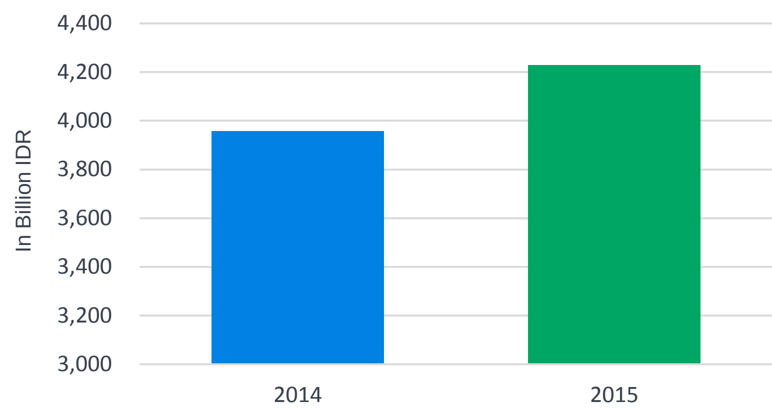
FIGURE 5: LIABILITY, 2014-2015



LIABILITIES FOR OTHER LONG-TERM BENEFITS

There were 20 companies that offered other long-term benefits such as long service awards, long leave awards, or post-retirement healthcare. These companies registered an increase in their liability from the prior year. From 2014 to 2015, their aggregate liability rose by 6.8%, from approximately IDR 4.0 trillion to approximately IDR 4.2 trillion.

FIGURE 6: OTHER LONG-TERM BENEFIT LIABILITY, 2014-2015



Expense charge for 2015

WHAT IS THE EXPENSE CHARGE?

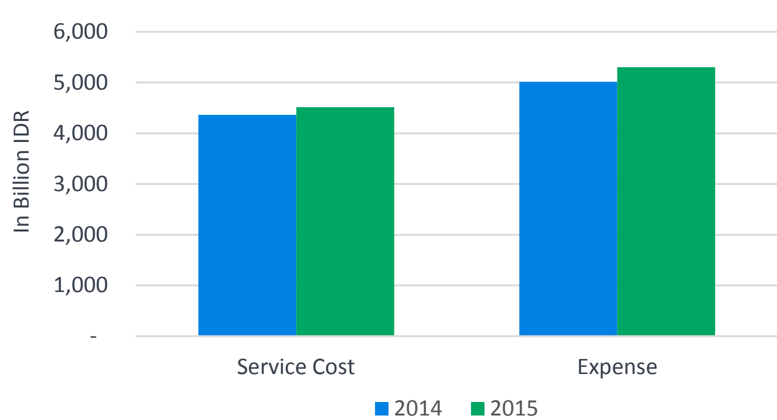
The annual expense charge in a given year is the amount recognised in an employer's comprehensive income account that is arising due to the sponsorship of the benefit plans for employees. There are various components to this charge. The portion relating to the additional benefit entitlement earned during the year is known as the service cost. Other aspects include an adjustment for obligations becoming one year closer to payment by the end of the fiscal year (known as the interest cost) and a possible allowance for the remeasurement of the benefit obligation because of updated data and actuarial assumptions. Additional components are possible as well.

(Note that in some instances, the expense charge may not be explicitly specified in a company's annual report, but in these instances, we may make inference about the charge from the other statements made in the accounts.)

HIGHER CHARGE RECORDED IN 2015

The companies registered an increase in their annual expense charges from the prior year. From 2014 to 2015, their combined expense rose about 5.8%, from approximately IDR 5.0 trillion to approximately 5.3 trillion. The aggregate service cost recorded in 2015 was approximately IDR 4.5 trillion.

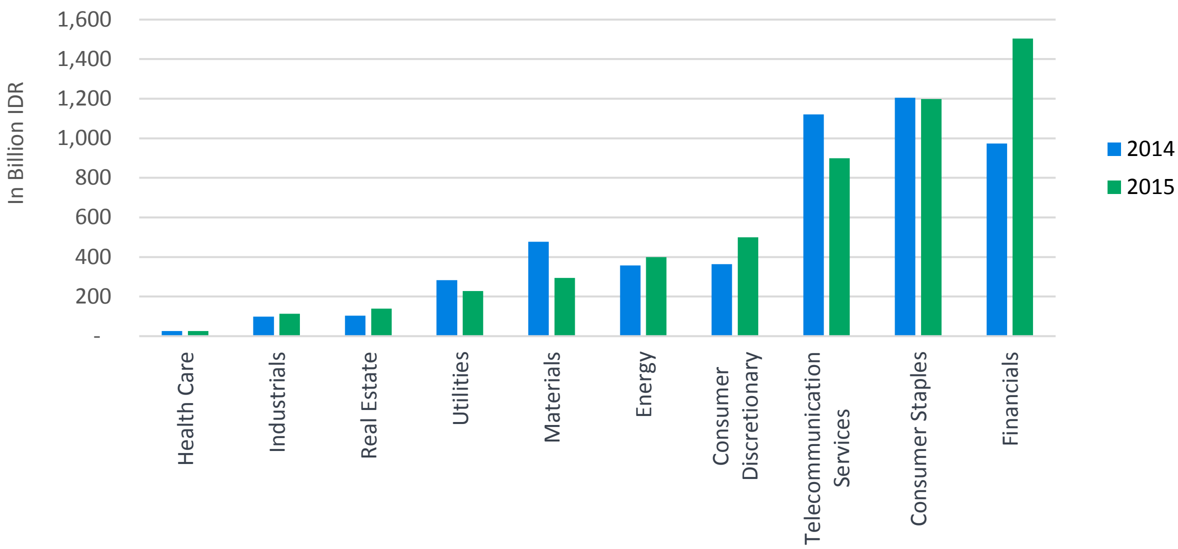
FIGURE 7: SERVICE COST AND EXPENSE, 2014-2015



INDUSTRY-SPECIFIC EXPENSE CHARGE

There was a mixed pattern of changes in expense charges between the industrial groupings. There were increases among Real Estate, Energy, Consumer Discretionary, Industrials, and Financials. The Telecommunication, Materials and Utilities, and Consumer Staples saw reductions in their expense charges.

FIGURE 8: EXPENSE BY INDUSTRY SECTORS



Actuarial assumptions chosen for 2015

BASIS FOR ACTUARIAL ASSUMPTIONS

In estimating the employee benefit obligation, a company must make certain assumptions about future experience. These assumptions should reflect an entity's best estimate of future experience. The assumptions in the estimation of the employee benefit obligation that usually have the biggest impact on the calculations are:

- Discount rate
- Future salary increases
- Rates of employee turnover
- Mortality

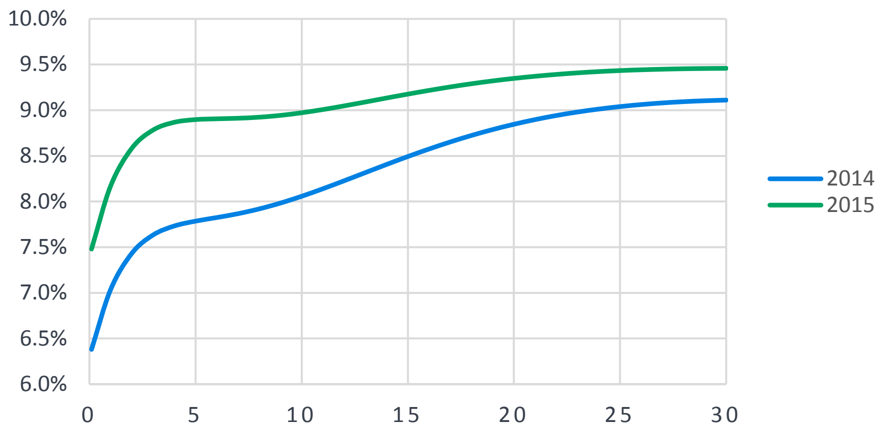
We focus our analysis on the assumed discount rate and future salary increases.

SELECTION OF THE DISCOUNT RATE

In Indonesia, the primary reference point for setting the discount rate is the yield on Indonesian government bonds. The rate chosen should reflect the notional yield as at the end of the company's fiscal year on a bond with the same duration as the weighted average expected future working lifetime of the covered employees. All else being equal, a higher discount rate results in a lower disclosed benefit obligation.

The chart in Figure 9 shows the yield curves as at the end of 2014 and 2015.

FIGURE 9: YIELD CURVES, 2014-2015

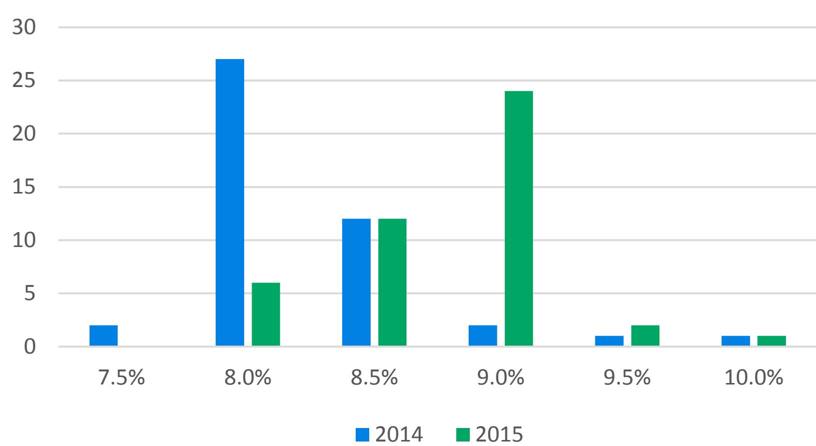


Source: Indonesia Bond Pricing Agency, at http://www.ibpa.co.id/.

DISCOUNT RATES HAVE RISEN

Many of the companies stated a range of discount rates for 2015, either because different discount rates were selected for different benefit structures or in some case because the liabilities were only stated on a consolidated basis. If for these companies we take the representative discount rate to be the midpoint of the specified range, we observe a rise in discount rates between 2014 and 2015 for 35 companies and a fall in discount rates for four companies, with the remainder unchanged. Overall, the median discount rate rose from 8.0% in 2014 to 9.0% in 2015.

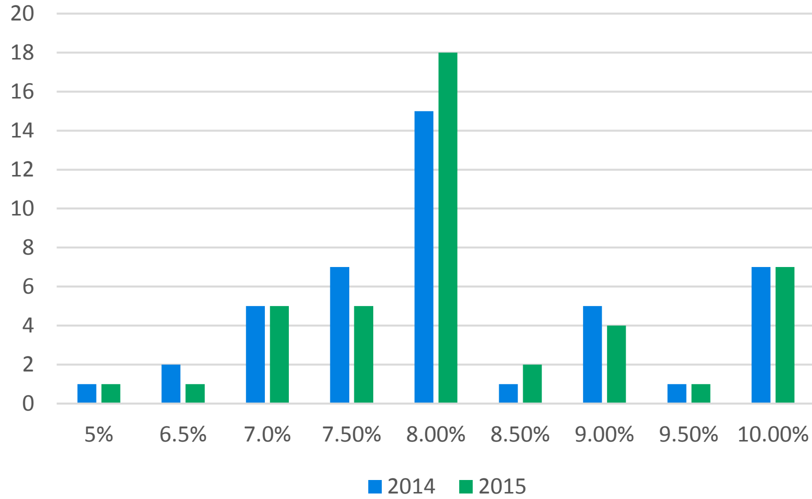
FIGURE 10: DISCOUNT RATE, 2014-2015



EXPECTED SALARY INCREASES REMAIN UNCHANGED

In measuring the obligation, an assumption is made about the expected long-term rate of increase in the salaries of prospective future recipients of the gratuity benefit. As per the discount rate, some companies disclosed a range of salary increases for 2015. If for these companies we take the representative salary increase assumption to be the mid-point of the specified range, we observe a rise in salary increase assumption between 2014 and 2015 for nine companies and a fall in salary increase assumption for one company, with the remainder unchanged. Overall, the median salary increase assumption remained as 8.0% between 2014 and 2015.

FIGURE 11: SALARY INCREASES, 2014-2015



MORTALITY RATES

Many of the companies use mortality rate table TMI III (2011). Some of the companies use TMI III with modification, CSO 1980, CSO 1958, GAM 1971, and TMI II (1999).

About this study

2016 SURVEY OF INDONESIAN BENEFIT OBLIGATIONS

This study covers 45 companies featured in the LQ 45 index as at 31 December 2015.

The results of this study are based on the employee benefit obligation accounting information disclosed in footnotes to the companies' annual reports for the 2014 and 2015 fiscal years. These figures represent the generally accepted accounting principle (PSAK) accounting information that public companies are required to report under Indonesia Statement of Financial Accounting Standard No. 24.

Milliman also publishes similar studies for other Asian and international industry groupings.

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Milliman is among the world's largest providers of actuarial and related products and services. The firm has consulting practices in life insurance and financial services, property & casualty insurance, healthcare, and employee benefits. Founded in 1947, Milliman is an independent firm with offices in major cities around the globe.

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