

RISKS MANAGEMENT

The Company is committed to run the risk management in its efforts to maintain the performance that has been achieved at this time. The Company recognizes that the operation of the Company is inseparable from risks, whether the risks that are under control or risks that are beyond the control of the Company. Risk must therefore be managed in an integrated and sustainable manner, as part of good corporate governance practices.

As part of the Company's commitment to run the risk management, the Company has also established an Internal Audit unit, which is directly responsible to the President Director. This formation is one of the first steps taken by the management that lead to the implementation of a comprehensive risk management in the future. In addition, in recent years, several examples of the implementation of risk management undertaken by the Company are as follows:

- As risk mitigation related to dependence on certain customers, the Company continuously conducts business development in the form of product diversification to expand the customer network. In addition, the Company continues to maintain good relationships with customers and improve product quality and efficiency so that the

Company's customers will continue to purchase the Company's products.

- As risk mitigation related to business competition, the Company strives to continuously improve product quality and efficiency as well as product diversification, which is expected to improve the Company's position in the midst of increasingly competitive competition. The Company is also constantly innovating to reduce production costs in order to offer a more competitive selling price compared to its business competitors.
- As risk mitigation related to the rising of the price of raw material, the Company is entered into a long-term contract (blanket order) to obtain a low price of raw materials in a long period so that the price of raw materials purchased by the Company did not change significantly which could affect the performance of the Company's business.
- As risk mitigation related to the foreign currency exchange rates, the Company will continue to monitor closely the changes in foreign currency exchange rates. If at a later date the Company considers that there is a need to obtain protection against foreign exchange fluctuations, the Company may purchase hedging contracts against foreign exchange rates.
- As risk mitigation related to the labor strikes, the Company provides salaries, incentives, reasonable

facilities so that the labor will be satisfied and will not conduct any strike.

- As risk mitigation related to the failure of payment by the customer, the Company generally requests deposit from customers, especially for private customers, sends products with the same value with the down payment / deposit, or make stamped purchase contracts signed by the Company and new customers.

In addition, the Company after becoming a public company will comply with the regulations of Financial Services Authority and Indonesian Stock Exchange by applying procedures such as appointment of Independent Commissioners, Audit Committee and other procedures to protect the interests of minority shareholders.

BUSINESS RISK OF THE COMPANY

Investments in shares of the Company bear various risks. Before deciding to invest in the Shares Offered by the Company in this Initial Public Offering, potential investors are warned that this risk may involve the Company, the environment in which the Company runs its operational activity, the Company's shares and the conditions of Indonesia. Therefore, potential investors are expected to read, understand and consider all information presented in this Prospectus, including information relating to business risks faced by the

Company in conducting its business activities, before making an investment decision concerning the Company's shares. All risks presented in this Prospectus may have material and negative impacts on the Company's overall performance, including operational and financial performance, and may have a direct impact on the share price of the Company's shares, which may result in potential investors losing all or part of their investments. Risks not yet known to the Company or those deemed immaterial may also affect our business activities, cash flow, operating performance, financial performance or prospects.

The explanation of this business risk contains forward looking statements relating to events that contain elements of events and financial performance in the future. In general, investments in securities from firms in developing countries like Indonesia have risks that are generally unrelated to investing in securities in firms in other countries with more advanced economies. In the event of a change in global economic, social and political conditions, it is possible that the Company's stock price in the capital market may decline and investors may face potential investment losses.

The risks disclosed in the following Prospectus are material risks to the Company. While all of these risks are structured on the basis of risk weighting which has the greatest impact to the least impact on the business performance and financial performance of the Company, any risks stated in this

Prospectus may have a material and negative impact on business, cash flow, operational performance, financial performance or business prospects of the Company.

I. BUSINESS RISK OF THE COMPANY

A. RISKS RELATING TO THE BUSINESS ACTIVITIES OF THE COMPANY

The risks presented below have been prepared on the basis of risk that will have the greatest impact to the least impact on the Company.

1. Risks related to the dependence on specific customers

As a company engaged in the business of supporting electricity, the Company produces and sells electricity supporting equipment such as transformers, transformer's instrument, insulators, lightning arresters, and other equipment, especially for medium voltage distribution lines to PLN and other customers such as industrial estate development companies and residential. PLN as a state electricity company that provides general electricity services in Indonesia is the largest company engaged in electricity so that naturally every company engaged in the business of supporting electricity, including the Company, will sell most of its products to PLN. In 2016, approximately 57% of the Company's consolidated net sales are generated from the sales to PLN. The large percentage of consolidated sales of the

Company to PLN caused the Company's dependence on PLN as the Company's main customers. If PLN reduces the purchase amount of the Company's product or decides to lower the purchase price of the Company's product, it may negatively impact the business and financial performance and prospects of the Company.

2. Risks related to business competition

The Company is experiencing a fairly tight business competition in the field of electricity supplementary business. Although the Company has a good reputation among its peers, its competitors can seize the Company's market share. If business competition becomes tighter and lasts for a prolonged period, then it may have a negative impact on the business and financial performance and prospects of the Company.

3. Risks related to rising raw material prices

The selling price of the Company's products is influenced by the cost of raw materials, especially the most widely used raw materials in the production of transformers such as silicon steel and copper and aluminum wires, so that fluctuations in raw material prices will affect the production costs of the Company. The acquisition of raw material price is determined by the supplier, so that the Company will generally follow the fluctuation of the raw material selling price of the supplier. If the price of

raw materials used in the Company's production process increases significantly, it may adversely affect our business and financial performance and business prospects.

4. Risk related to foreign currency exchange rate

Most of the raw materials used in the Company's products are raw materials imported from outside Indonesia. The Company makes payments on the purchase of raw materials in foreign currency, especially US Dollar. If the exchange rate of foreign currency, especially US Dollar, against the Rupiah weakens then the cost of purchasing imported raw materials will become more expensive after it is recorded as Rupiah. If the fluctuation of foreign exchange rates continues to take place significantly, then it may adversely affect the business and financial performance and prospects of the Company.

5. Risks related to labor strikes

In conducting business and operational activities, the Company requires a large number of manpower. As of December 31, 2016, the Company and its Subsidiaries have 1,710 employees, either permanent employees or contracted employees. If there is a mass strike of labor, then it can disrupt the production process resulting in unfulfilled production targets.

6. Risks related to customer's failure to make payment

Delays and failure of payment of the work of the customer can negatively affect the working capital turnover of the Company. This causes the remaining operational cash flow for short-term capital expenditure needs to be limited. The Company's contracts with suppliers and partners are conducted directly, therefore the Company has an obligation to pay compensation and fees in accordance with an agreed contract. Generally, the Company makes periodic payments on time to suppliers and partners regardless of whether the payment from customers has been received by the Company. Late payment or absence of payment from customers will negatively affect the Company's operating cash flow.

B. INVESTMENT RISKS

1. Risks relating to minority shareholdings

The responsibilities of the Company and the majority shareholder of the company's subsidiary, the Board of Commissioners and the Board of Directors to minority shareholders under Indonesian law may be more limited than other jurisdictions. Therefore, minority shareholders in Indonesia may not be able to protect their interests with existing laws in Indonesia, just as shareholders of companies domiciled in other

jurisdictions. The Company and its subsidiary legal principles, for example, the legality of actions taken by the Company and its subsidiaries, fiduciary debt by Management, the Board of Commissioners, the Board of Directors and the controlling shareholder, and the rights of minority shareholders are governed by Company Law and the Articles of Association of the Company and as well as the Articles of Association of the Company's subsidiaries.

Suppose that the Company and its subsidiaries operate within other jurisdictions outside Indonesia, the legal principles may differ from those already applicable. In particular, concepts relating to management fiduciary duties have not been tested in Indonesian law courts. Derivative lawsuits relating to the actions of the Board of Commissioners and the Board of Directors are rarely filed on behalf of the Company and also have not been tested in Indonesian law courts, and the rights of minority shareholders originally set out in 1995 are also not proven in practice. Although such lawsuits are considered appropriate under Indonesian law, the lack of a court precedent may preclude the civil proceedings. Therefore, there is no guarantee that the rights or guarantees of minority shareholders are the same, or comparable to other jurisdictions, or guarantees of

adequate protection for the interests of minority shareholders.

2. **Fluctuations related to the share price of the Company**

The share price of the Company after the Initial Public Offering may possibly fluctuate widely and may be traded at a price below the Bid Price determined after the initial bidding process and under an agreement between the Company and the Underwriter. This is due, among others, by:

- The difference between the financial and business performance of the Company with the expectations of investors and analysts on the Company's financial and business performance;
- Changes in the recommendations or perceptions of analysts against the Company and against Indonesia;
- Disclosure of material transactions that are announced by the Company;
- Changes in the condition of the Indonesian Capital Market fluctuating due to both domestic factors and the influence of capital markets of other countries;
- Changes in macro conditions in Indonesia as well as in property industry in its husk, and general political and social conditions in Indonesia; and
- The Company's involvement in litigation or dispute.

3. **Risks related to foreign currency exchange rates**

The exchange rate fluctuations between the Rupiah against other currencies will affect the value of foreign currency amounting to the value of Rupiah from foreign investors' investment. Such fluctuations will affect the amounts denominated in foreign currencies received by foreign investors at the time of conversion of cash dividends or other distributions paid in Rupiah by the Company, and the Rupiah proceeds of each sale of the Company's shares.