



Assurance Services

Financial Reporting Update

12 September 2007

Outline of Presentation

- Newly issued accounting standards – Indonesian GAAP
- In the pipeline
- IFRS update
- Plan to fully adopt IAS/IFRS

Accounting Standards effective in 2008 - 2009

Effective in 2008

- PSAK 13 (Revised 2007) – Investment Property
- PSAK 16 (Revised 2007) – Fixed Assets
- PSAK 30 (Revised 2007) – Leases

Effective in 2009

- PSAK 50 (Revised 2006) - Financial Instruments : Presentation and Disclosures
- PSAK 55 (Revised 2006) – Financial Instruments: Recognition and Measurement

Components of cost

Includes:

- Purchase price
- Costs of dismantling where the entity has an obligation
- Directly attributable cost
 - Employee benefits arising from construction or acquisition
 - Cost of site preparation
 - Initial delivery and handling costs
 - Installation and assembly costs
 - Costs of testing the asset
 - Professional fees

Depreciation – general rules

- Component approach
- Depreciation charge is recognised in P&L
- Depreciation is allocated on systematic basis
- Residual value and useful life reviewed at least at each financial year-end
- Depreciation begins when asset is available for use
- Depreciation method reviewed at least at each financial year-end

Revaluation

- Alternative for measuring fixed assets
- Revalued amount represents fair value of the asset
- Revalued amount should be presented deducted from accumulated depreciation and accumulated impairment losses
- FV of land and buildings: usually by professional appraisal
- FV of plant and equipment: usually market value according to appraisal
- If no market value, income or depreciated replacement cost approach is to be used

Exchange Involving Non-monetary Assets

Cost of asset acquired --> FV of asset received

Exceptions:

- Transaction has no commercial substance
- FV of asset received and FV of asset given up not reliably measurable

If asset acquired is not measured at FV --> cost is carrying amount of asset given up

Transitional Rules

- Initial measurement of fixed assets obtained in an exchange -> prospective
- Special rules on previously revalued asset:
 - Previously revalued, cost model -> deemed cost
 - Previously revalued, still has Revaluation Surplus -> reclassify the Surplus into Retained Earnings
- Change in accounting policies from cost model to fair value model: prospective (general rule, not only on transition)
- Effective date: 1 January 2008

Definition

- Property (land or a building - or part of a building - or both) held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both
 - May also include property interest held by a lessee under an operating lease if meeting certain criteria

Measurement and Disclosures

Initial measurement – at cost

Subsequent measurement

- Fair value
 - presumption that Fair Value can be determined
 - gains/losses to Income Statement **OR**
- Cost less depreciation (fair values disclosed)

Disclosures – significantly added

Transitional rules

Previous revaluations of investment property:

- Reclass revaluation surplus into retained earnings

Fair value model

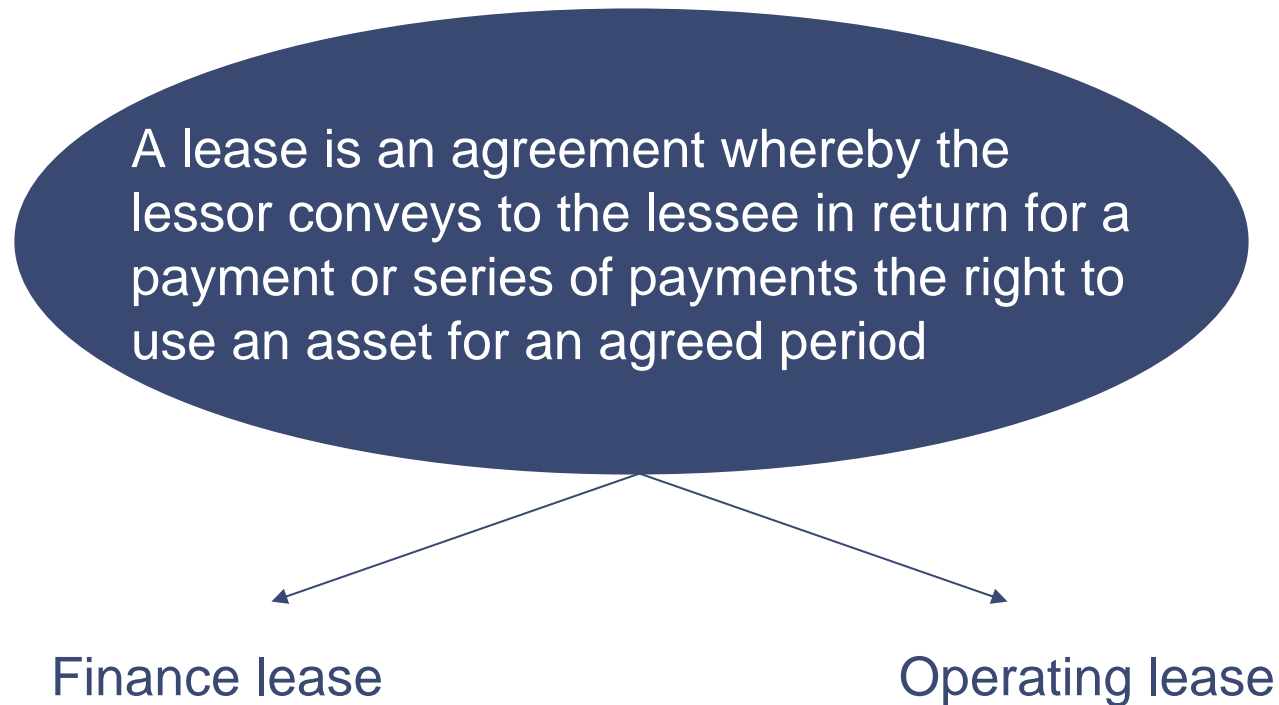
- For assets or rights in an operating lease qualifying as an investment property -> adjust beginning retained earnings

Cost model

- PSAK 25 applies
- Initial measurement of property obtained in an exchange of assets -> prospective basis
- Previous revalued amount and cost model -> deemed cost

Effective date – 1 January 2008

Definition



Finance vs. Operating lease

Finance Lease

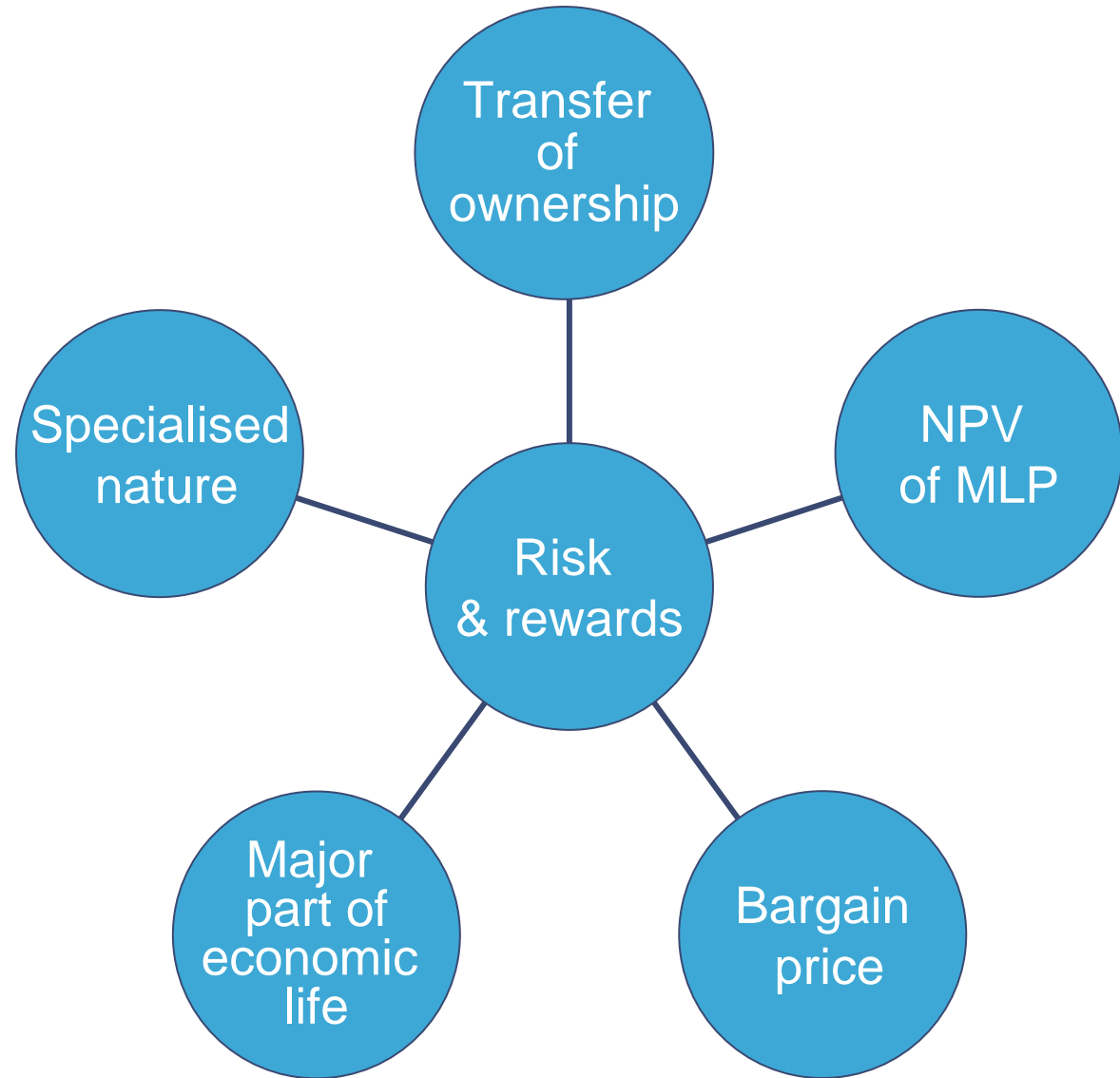
A lease is a finance lease if it **transfers** substantially all the risks and rewards incident to ownership

Operating Lease

A lease is an operating lease if it **does not transfer** substantially all the risks and rewards incident to ownership



Finance lease



Lease accounting summary

Lease type	Balance Sheet	Income Statement
Finance- Lessee	Asset Lease obligation Accumulated depreciation Reduction in lease obligation	Finance charge Depreciation expenses
Finance – Lessor	Receivable Reduction in receivable	Finance income
Operating – Lessee	Off balance sheet	Rental expense
Operating – Lessor	Asset Accumulated depreciation	Rental income Depreciation expense

Sale and leaseback

Sale of asset by the vendor followed by
leasing of the same asset to the vendor

Finance Lease

Sales proceeds 100

Carrying amount (80)

20

*Defer and
amortise over
lease term*

Operating Lease

**Sales price
= FV**

→
*Recognise
any profit or
loss
immediately*

Sales price < FV

→ *Recognise profit or
loss immediately*

→ *If loss compensated
by lower future lease
payments at below
market price defer and
amortise it in proportion
to the lease payments*

**Sales price
> FV**

→ *Defer
and
amortise
excess over
period of
asset use*

Transitional provision

- Recommended: retrospectively
- If prospective
 - balance from existing lease transactions deemed correct
 - disclose impact on comparability of financial statements
- Effective date: 1 January 2008

Definition

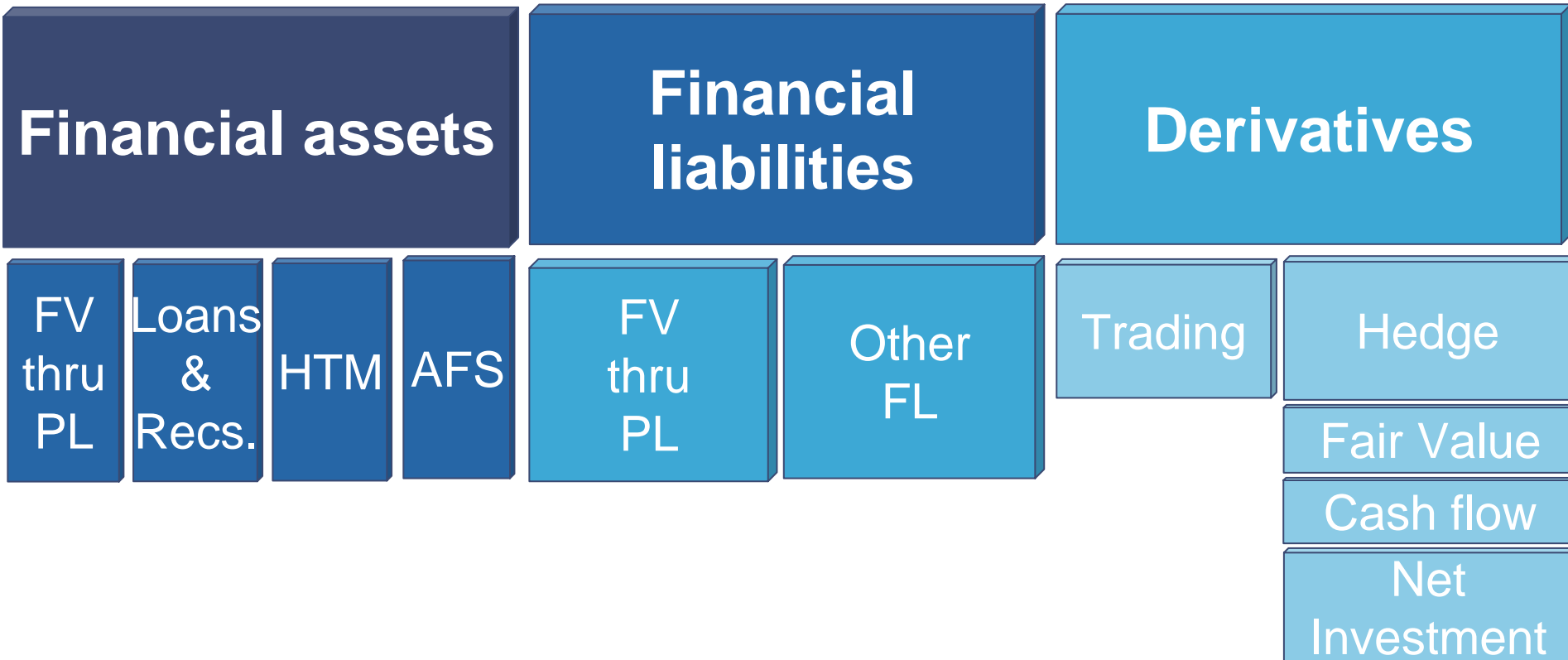
Financial instruments:

- Financial asset of one entity
- Financial liability or equity instrument of another entity

Initial recognition

- Party to contractual provisions
- All financial assets and liabilities at cost, i.e. fair value
- Include transaction costs

Overview – Rule based approach!



Held to maturity – training

- **HTM portfolio is tainted if** management sold or reclassified as AFS, before maturity, during the current or two preceding years more than an insignificant amount of HTM assets (Vs total HTM category)

There are three exceptions to the rule:

- The sale is close to maturity;
- Collected substantially all of original principal through schedule payments;
- Isolated event beyond entity's control may not invoke tainting.

Financial assets – subsequent measurement

	Financial assets			
	Held to maturity	Loans & Receivables	Fair Value thru PL	Available for sale
Subsequent measurement	Amortised cost / cost		Fair value	
Changes in carrying amount	Income statement			Equity

Additional consideration for AFS financial assets

Impairment charge to Income Statement immediately

Amortised cost interest to Income Statement

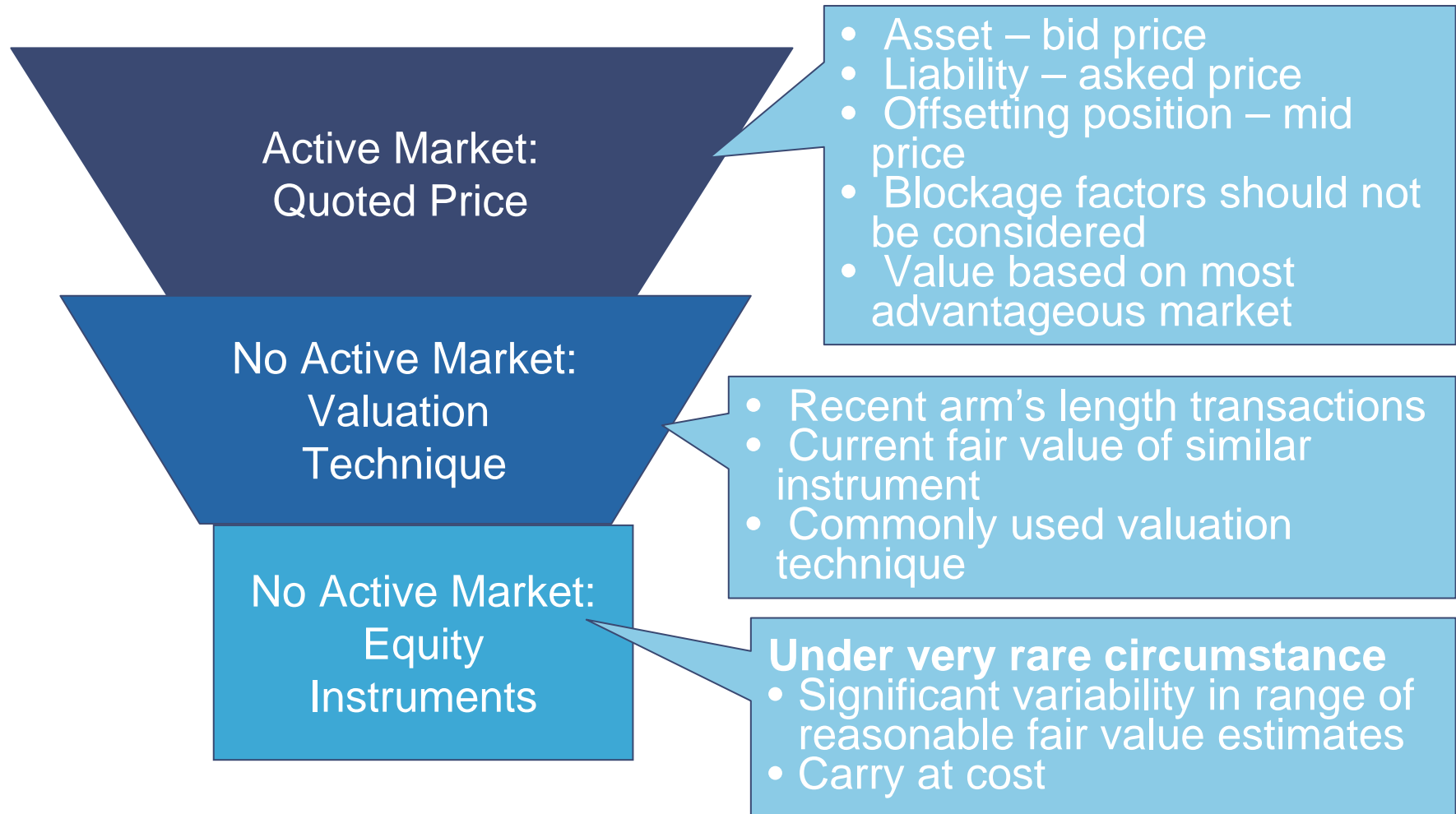
Monetary AFS assets – FX differences to Income Statement

Deferred tax implication

Financial liabilities – subsequent measurement

Financial liabilities		
	Other financial liabilities	Fair Value thru PL
Subsequent measurement	Amortised cost / cost	Fair value
Changes in carrying amount	Income statement	

Determining fair value

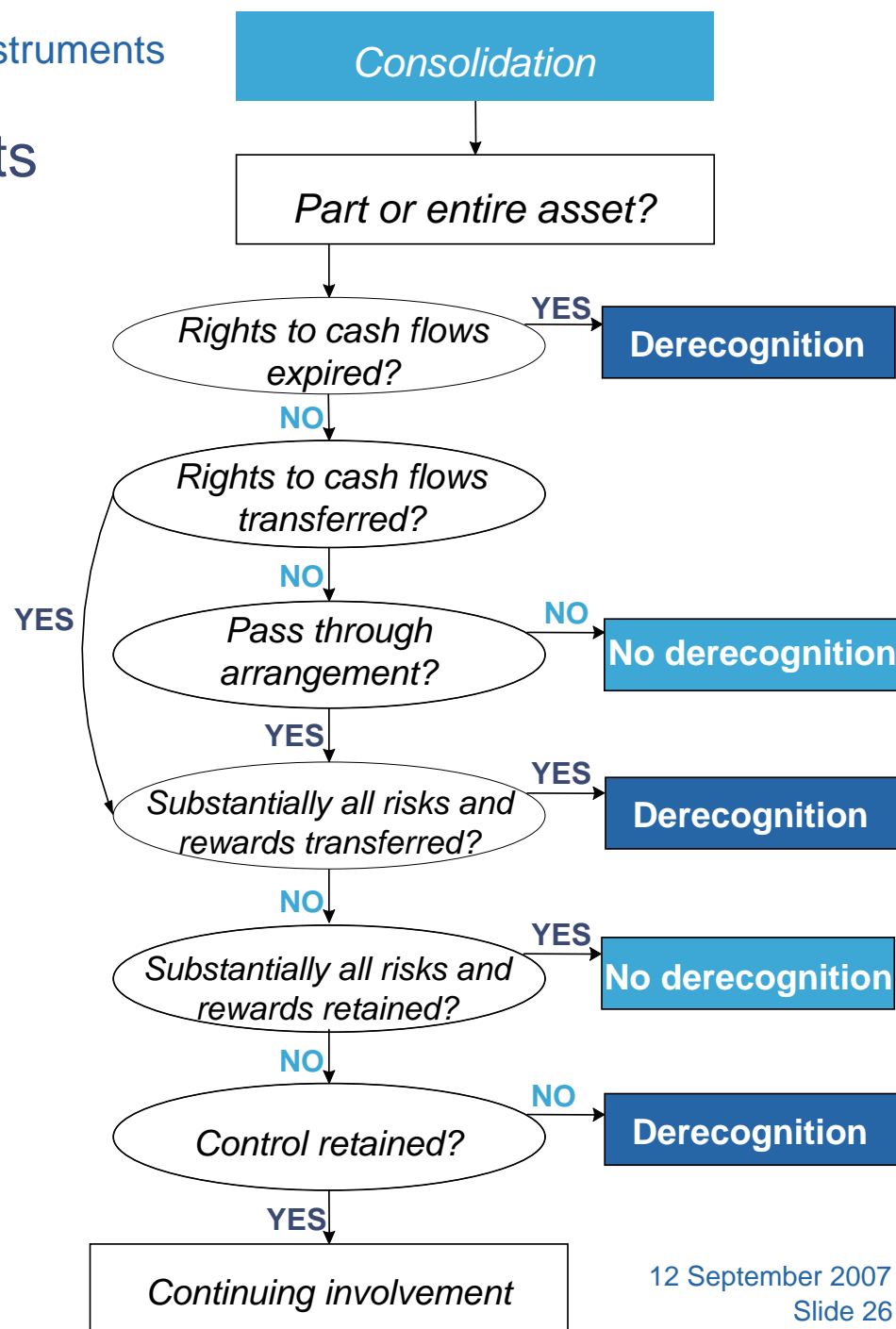


Impairment of financial assets

- Step 1 – Objective evidence of impairment
- Step 2 – Calculate recoverable amount/fair value
- Step 3 – Record impairment in profit & loss

De-recognition of financial assets

Strict rule for taking the financial assets off the balance sheet



De-recognition – financial liabilities

De-recognition when the liability is extinguished:

- Discharged e.g. repaid the liability
- Cancelled e.g. legally released
- Expired e.g. option passed its maturity date
- Restructured with substantially different terms

What is derivative?

Standalone or Embedded

- value changes in response to an underlying
- requires no or little initial net investment
- settled at a future date

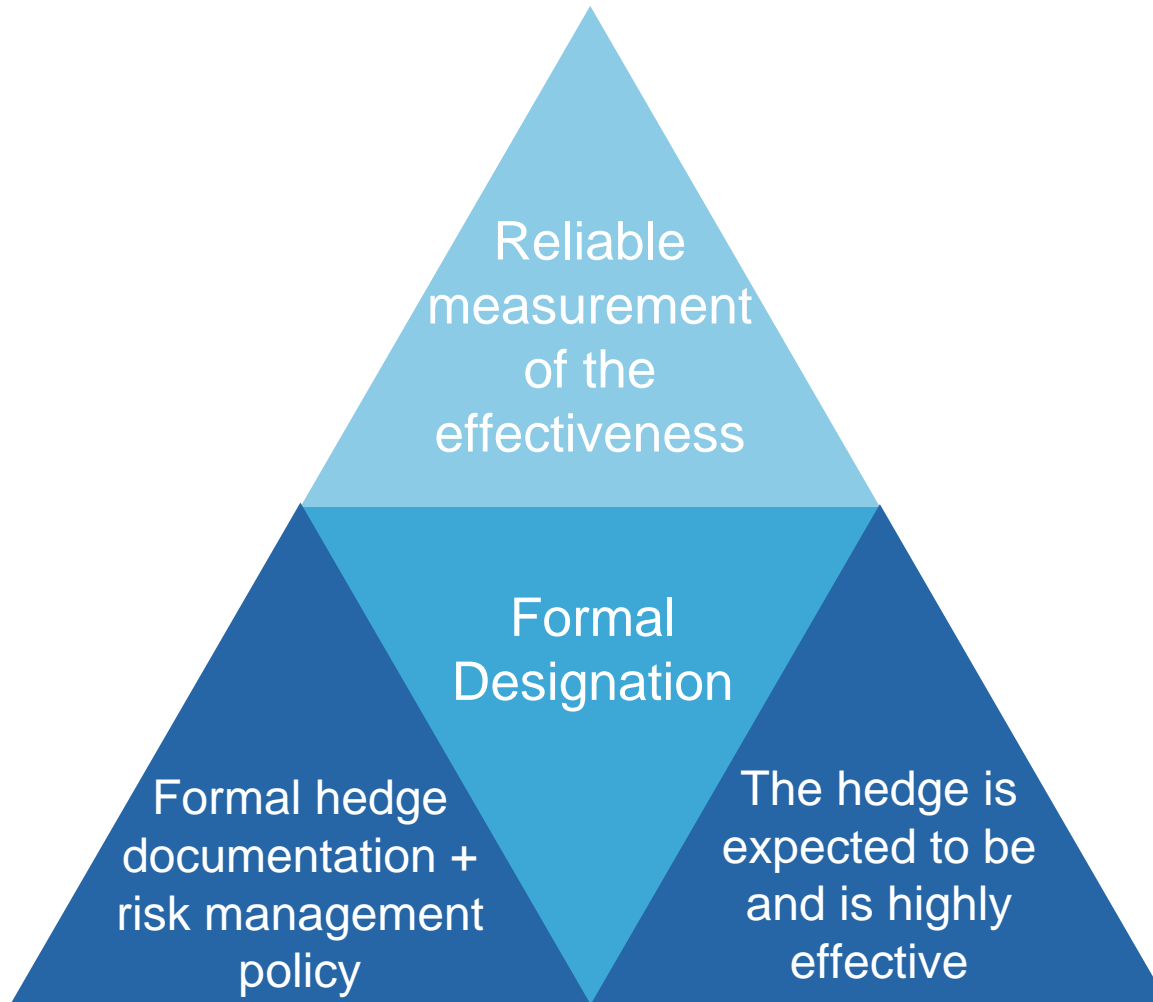
What are embedded derivatives?

Hybrid instrument =

The combination of a “Host contract” and an “Embedded derivative”

Entities should not be able to avoid recognition and measurement merely by embedding a derivative in a non-derivative financial instrument or other contract

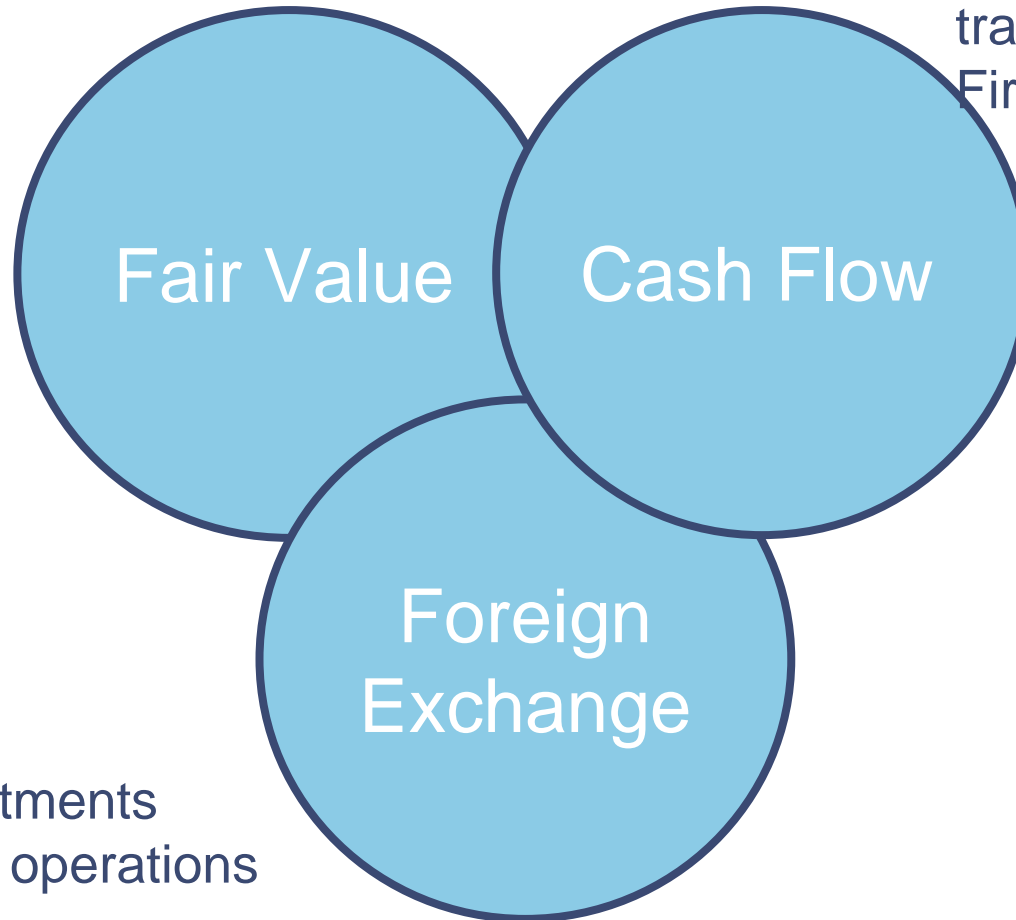
Hedge accounting → allows matching of income statement effect



Different types of hedges

Fixed rate
assets/liabilities
Assets/liabilities
in foreign
currencies
Firm
commitments

Net investments
in foreign operations



Variable rate
assets/liabilities
Highly probable
forecasted
transactions
Firm commitments

Disclosures

A lot to disclose!

Transitional rules – PSAK 50 (revised 2006)

- When PSAK 50 (Revised) is first applied, an entity
 - Should present the impact of adjusting the accounting treatment applied to financial instruments from prior period by using this new standard. The impact of the adjustment is recognised in profit and loss or equity in current period
- Standard applicable for annual periods beginning on or after 1 January 2009.
- Earlier application is recommended (but should be together with PSAK 55 Revised).

Transitional rules – PSAK 55 (revised 2006)

- When PSAK 55 (Revised) is first applied, an entity
 - Is permitted to adjust previous accounting treatment applied to prior financial statements by using this new standard. The impact of the adjustment is recognised in profit and loss or equity in current period
 - Does not comply with par. 8 provision relating to the restriction of classifying financial asset as held-to-maturity investment if in current period or within the last 2 years, the entity has sold or reclassified the held-to-maturity investment in more than insignificant amount before maturity date and the tainting rule as stipulated in par. 53
- Standard applicable for annual periods beginning on or after 1 January 2009.
- Earlier application is permitted.
- If an entity applies this Standard for a period beginning before 1 January 2009, it shall disclose that fact.
- This Standard shall be applied prospectively.

In the pipeline

- Accounting standards for Small Medium Enterprises
- Adoption of IFRS 7 – Financial Instruments: Disclosures
- Revision of PSAK 1 - Presentation of Financial Statements
- Revision of PSAK 22 - Business Combinations
- Adoption of IFRS 5 - Non-current assets held for sale and discontinued operations
- Revision of PSAK 12 – Reporting on interests in jointly controlled operations and assets

IASB Work Plan (as at 30 June 2007)

Exposure Draft

3 rd quarter of 2007	4 th quarter of 2007	1 st semester of 2008	2 nd semester of 2008
Joint ventures	Income tax		Fair value measurement guidance
Annual improvements	Phase A: Objectives and qualitative characteristics		Insurance contracts
Financial instruments: portions (IAS 39)			
Earnings per share: treasury stock method (IAS 39)			

IASB Work Plan (as at 30 June 2007)

IFRS

3 rd quarter of 2007	4 th quarter of 2007	1 st semester of 2008	2 nd semester of 2008
Business combination	First time adoption: cost of investment in subsidiary (IFRS 1)	Annual improvements	Joint ventures
Financial statement presentation (Phase A)		Related party disclosures (IAS 24)	Income tax
Financial instruments: puttable instruments (IAS 32)			Small and medium-sized entities

IASB Work Plan (as at 30 June 2007)

IFRS (continued)

3 rd quarter of 2007	4 th quarter of 2007	1 st semester of 2008	2 nd semester of 2008
Share-based payment: vesting conditions and cancellations (IFRS 2)			Liabilities
			Earnings per share: treasury stock method (IAS 33)

IAS/IFRS

- IFRS 8 – Operating Segments (issued in November 2006)
- IAS 23 – Borrowing Cost (Revised March 2007)
- IAS 1 – Presentation of Financial Statements (Revised September 2007)

IFRIC

- IFRIC 11, IFRS 2: Group and Treasury Share Transactions (issued in November 2006)
- IFRIC 12 – Service Concession Arrangements (issued in November 2006)
- IFRIC 13 – Customer Loyalty Programmes (issued in June 2007)
- IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction (issued in July 2007)

Full adoption of IFRS in Indonesia

- Lately most PSAKs are already based on IFRS
- Plan to eliminate the difference by 2008 – achievable?
- New target: 2012
- Full IFRS for certain types of companies only?

Questions?

Taxation Services

Keeping up with an ever changing tax environment

12 September 2007

Agenda/Contents

- 2007 Tax reform highlights by Lili Tjitadewi
- Tax incentives and the changing environment by Robertus Winarto
- Practical issues in tax compliance, refunds, and audits by Anton Manik

Taxation Services

2007 Tax reform highlights

Lili Tjitadewi
Director

Agenda

- One-month rule in tax audits
- Conditional tax penalty amnesty and “moratorium” for individuals
- The tyranny of “Pay first, argue later” has gone
- Directors must sign tax returns
- Payroll systems need adjustments
- Other changes under consideration

One-month rule in tax audits

Be prepared for tax audits

Relevant documents must be delivered within a month of the request

Documents not delivered during the audit will not be considered in the objection stage

Standard requirement for auditors:

- Written notice of tax audit findings
- Closing conference

Auditors' failure to satisfy the standard requirement may result in the cancellation of the corresponding tax assessments

- Book-related documents
- Statement re. unaudited F/S
- Document copies = originals
- Property ownership
- Estimated costs of living
- Accounting process
- Production process
- Explanation about certain particular transactions

Register now or you will lose the amnesty opportunity.

Amnesty & moratorium

- Exemption from admin. sanctions for years before registration
- No tax audit if tax returns are correct

Required condition:
Voluntary registration
by 31 Dec. 08

Consequence for non-compliance:

- Ex-officio registration by the DGT
- Retrospective assessments up to 5 years before registration
- No amnesty will be available

The tyranny of “Pay first, argue later” has gone

Will your stance survive?

Pay tax on what you think is properly payable.

Admin. penalty of 50% if you lose the objection.

Admin penalty of 100% if you lose the appeal

It looks clerical; however ignoring it may result in a disaster.

Three types of signatures:

- Conventional
- Stamp
- Electronic

A proxy may not release directors from signing tax returns

Directors' failure to sign tax returns may render the tax returns incomplete (= non-filing)

Payroll systems will need adjustments

Pay and report the correct amounts of monthly payroll tax (PPh 21). Estimates will no longer be tolerated.

Annual payroll tax (F1721) will be gone

Payroll tax to be accounted for only on a monthly basis

System adjustments may be required to ascertain correct calculation of payroll tax

Other changes under consideration

Discussions on the proposed bills income tax and VAT are still underway. Some changes are considered.

Tax rate reduction to:

- 28% flat for corporate taxpayers in 2008, further down to 25% by 2010
- Earlier reduction to 25% for public companies (Subject to a GR)
- Top rate of 32% for individuals, down to 30% by 2010

Higher wh tax for those not having NPWP

- PPh 21: 20% higher
- PPh 22 and 23: 100% higher

Tax exemption on inbound inter-co dividends (with minimum share ownership of 25%)

VAT changes:

- Zero-rated on export of services
- Refund during pre-production stage

Taxation Services

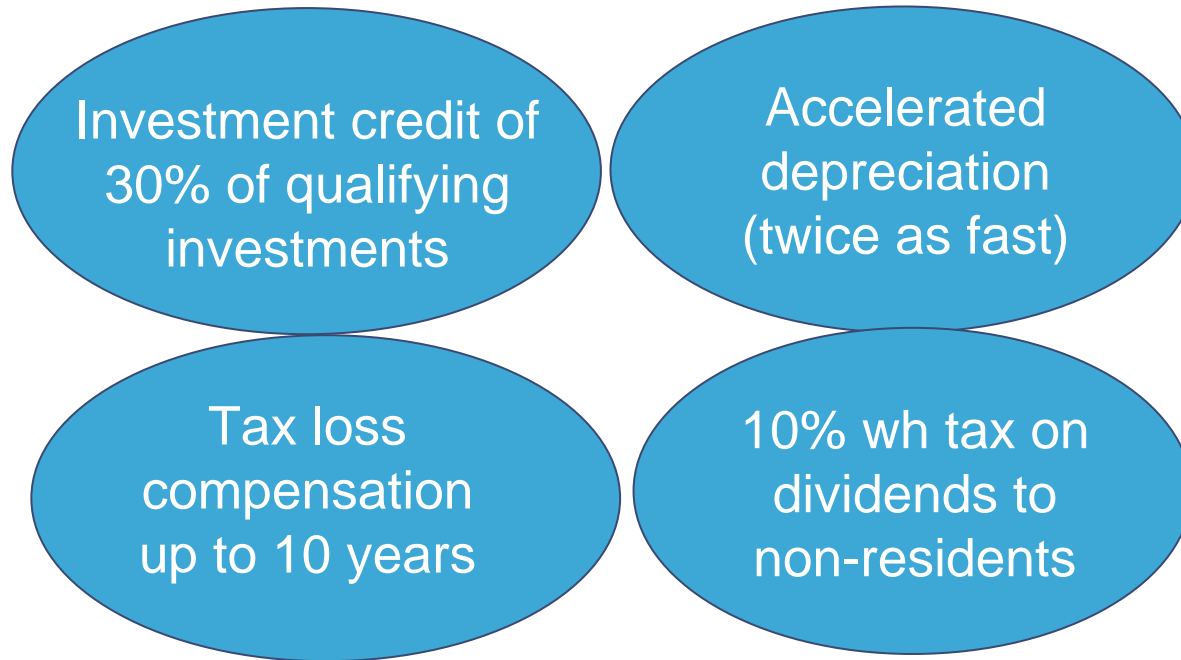
Tax incentives and the changing environment

Robertus Winarto
Director

Agenda

- Tax incentives for new investments
- Research & development activities
- Corporate Social Responsibility (CSR)
- Free Trade Zones (FTZ)

Tax facilities offered by the government



Tax incentives for new investments

One-year extension of tax loss compensation is granted for the satisfaction of each particular condition.

New investment in
a BZ in qualifying
business areas

Employment of
500 persons
consecutively for
5 years

Spent Rp 10 bl for
economic and
social infrastructure

Spent 5% of
investment for
R&D in Indonesia

Local content of
70% from the 4th
year

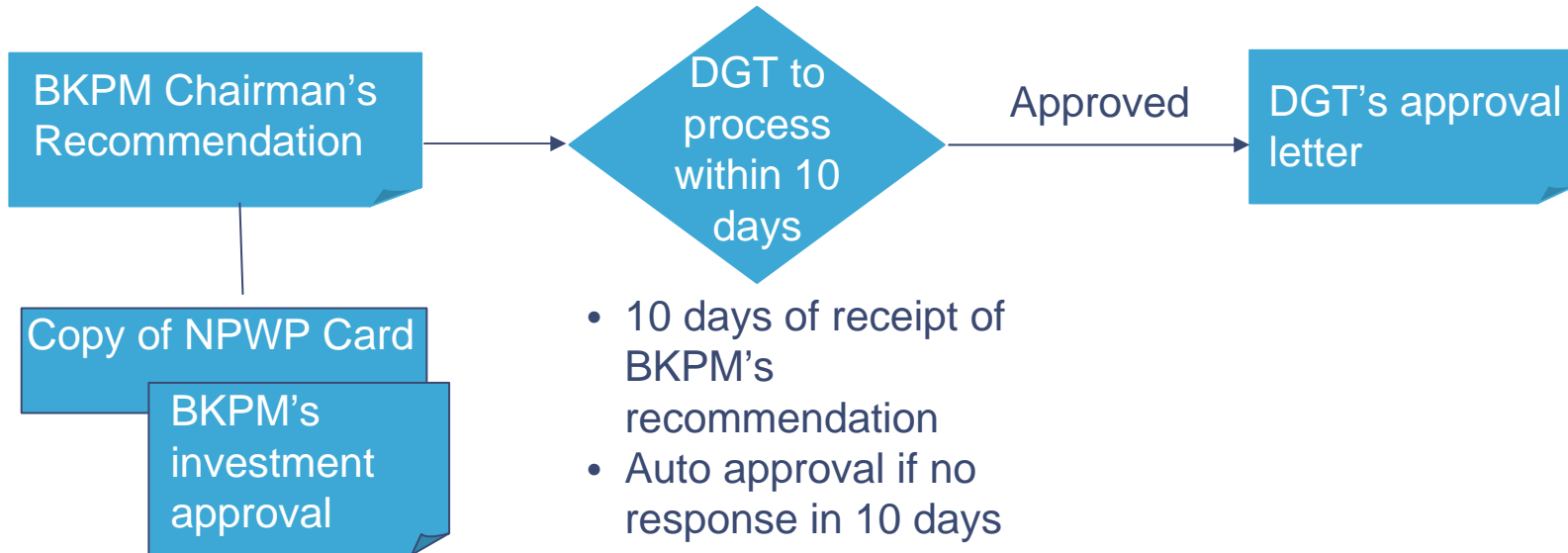
Qualifying Business Areas (General)

Business areas	Business classification Code (KBLI)
1. Food industry (cooking spices, flavour)	1597
2. Garment and textiles	17111-17114,1801
3. Pulp & paper	21011, 21012, 21015
4. Industrial chemical materials	2411-24132
5. Pharmaceutical & other chemical materials	24231
6. Rubber and rubber-made products	25192
7. Porcelain-made products (laboratory, electrical/technical instruments)	26203
8. Iron and steel making and rolling	27101-27102
9. Non-iron metal industry	27201-27204
10. Machinery and equipment	29111-29299
11. Electric motor, generator, and transformer	31101-31102
12. Electronics and telematics	30003-32303,72200
13. Land and transportation vehicles	29211-35912
14. Ship building and reparation	35111-35112
15. Non-iron basic metal manufacturing	27201

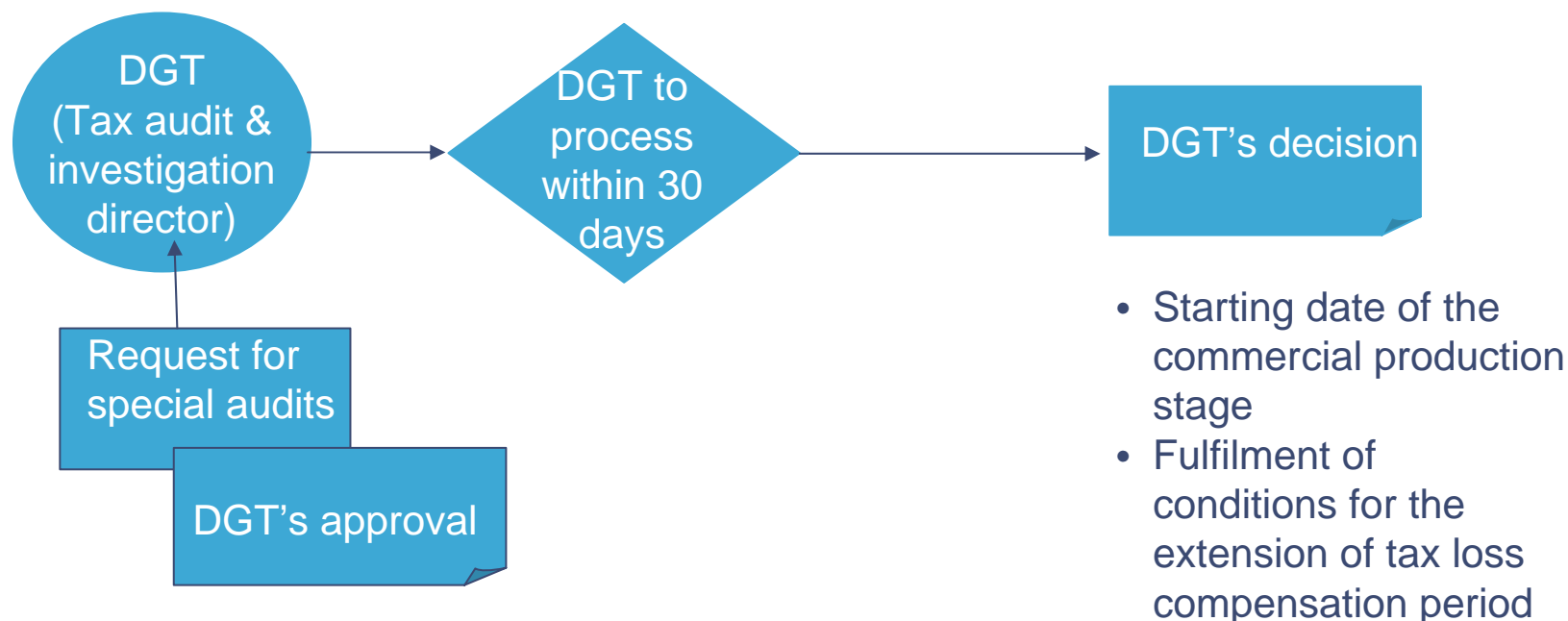
Qualifying Business Areas (in certain regions)

Business Areas		KBLI	Regions
1.	Food processing (fish canning)	15121	Maluku, Papua, Sulawesi
2.	Agro-based natural resources manufacturing	15143-17111	Celebes, outside Java
3.	Carton and paper-made packaging materials	21020	Outside Java
4.	Plastic-made products and packaging materials	25205	Outside Java
5.	Cement, chalk, and gypsum	26411	Papua, Celebes, Nusa Tenggara
6.	Furniture (wood, rattan, bamboo)	36101,36102	Outside Java
7.	Crustacean, mollusca, and sea fish catching and processing	05011-15129	Certain beaches of Java, Sumatra, Maluku, Papua, and Bali before the Indian Ocean

How to obtain DGT's approval?



The investment credit facility is effective from the starting date of the commercial production stage. The extension of tax loss compensation period is subject to the satisfaction of certain relevant conditions. Special tax audits are required to obtain these facilities.



Tax incentives and technical assistance are available for companies undertaking R&D activities

Not mandatory

- In-house; or
- Outside (but in Indonesia)

Government 's assistance:

- Facilities
- Experts

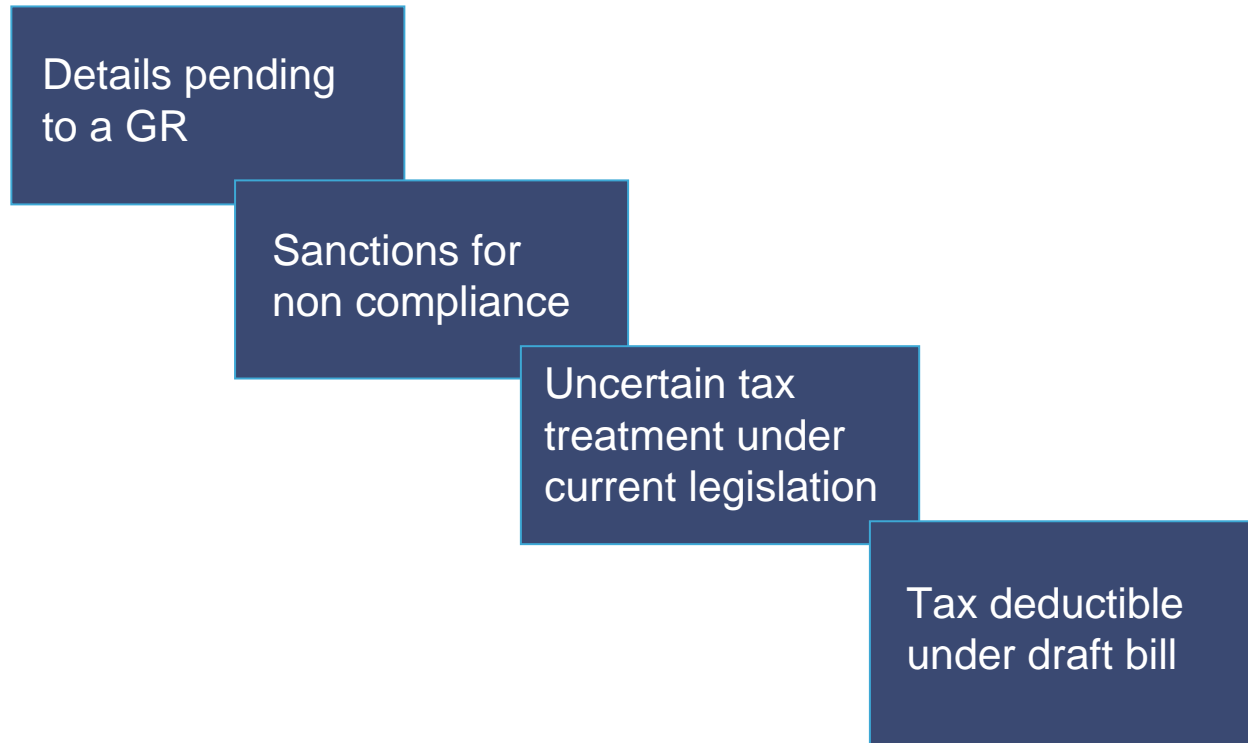
Tax incentives (current legislation):

- One-year extension of tax loss compensation
- Min. 5% of qualifying investments

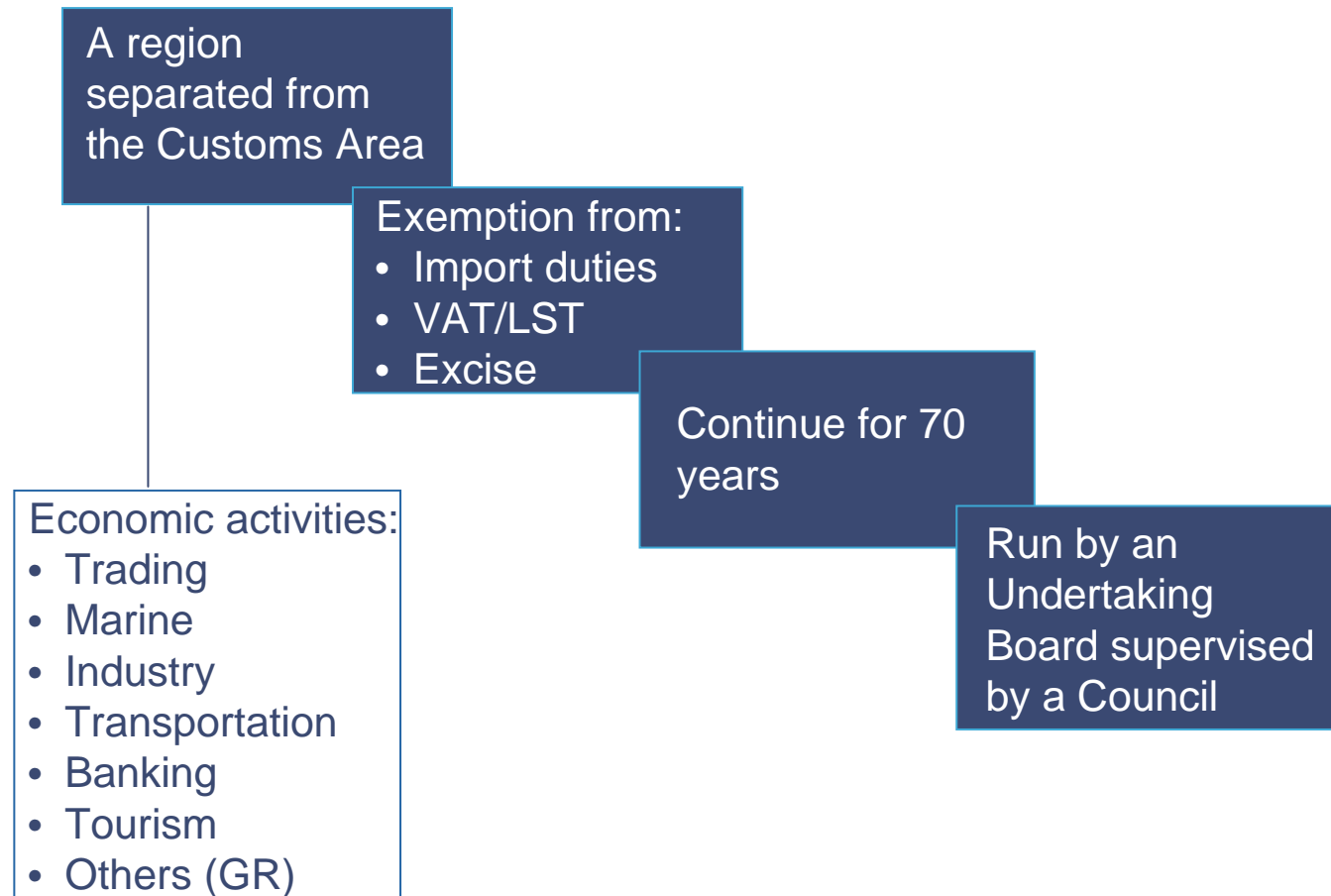
Tax incentives (draft bill):

R&D expenditures are tax-deductible including donations to R&D organizations

CSR is mandatory for companies engaged in natural resources-related business activities



Batam, Karimun, and Bintan have just been announced as free-trade zones and free ports effective from 20 August 2007



The FTZ&FP councils and undertaking board will have been established by end of 2008. In the meantime.....

Existing govt's
licenses prevail

Batam:
Run by the Batam Authority and
the Regional Administration
until the establishment of the
Council and the Board

Exemption
effective from 20
Aug. 2007?

Taxation Services

Contemporary practical issues

Anton Manik
Director

Agenda

- VAT refunds
- Tax audits

Check whether you still have old VAT refund applications. All must have been settled by 14 August 2007.

Old application =
filed on or before
15 Aug. 06

DGT's acknowledgment that:

- 7800 unsettled on 15/8/06
- >3000 unsettled by 30/4/07

DGT instruction to
finalize old applications
by 14/8/07

Actions required if
you still have old
applications unsettled

The one-month rule applies to new VAT refunds applications.

New application
= filed after 15
/8/06

Risk-based approach:

- 2 months for low-risk applicants
- 4 months for high-risk applicants

Pre-audit refunds for golden
taxpayers:

- Standard time to complete: 1 month
- DGT's internal instruction: 7 days

VAT refunds call for payments of goods purchased or services procured?

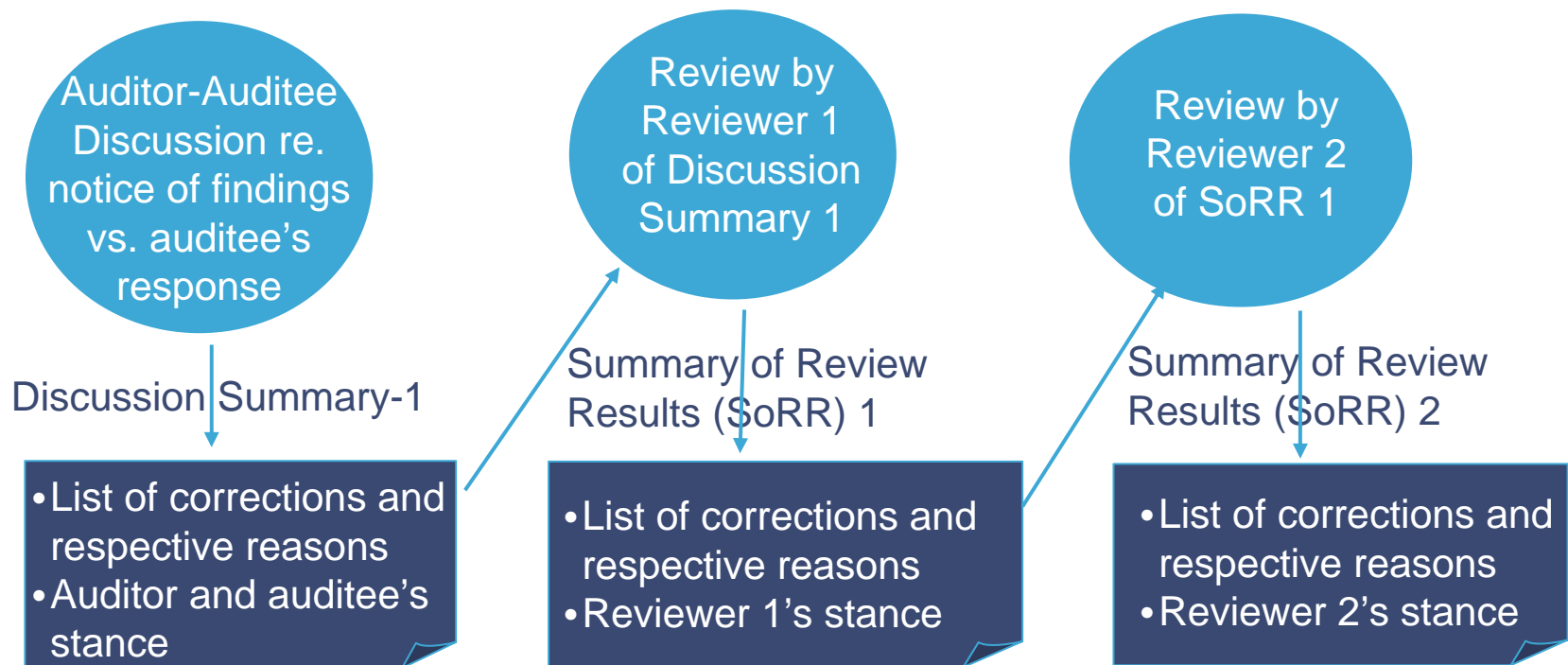
Per-122 calls for payments of goods/services purchased

Implementation in practice varies among district tax offices (KPP)

Possible approach:

- Adjust refund timing
- Contest the DGT's stance

Two review teams-possible



- **Reviewer Team:** Consists of at least 3 tax officials of the relevant tax audit unit and is formed by the head of the tax audit unit
- **Reviewer 1:** Reviewer Team from within the relevant tax audit unit
- **Reviewer 2:** Reviewer Team from within Regional Office

Thank you

A construction worker wearing a green hard hat, large earplugs, a grey long-sleeved shirt, and blue jeans with a tool belt is working on a wooden structure. The worker is seen from the back, reaching out to a large wooden beam. The background shows a complex network of wooden planks and metal supports, suggesting a construction site for a large building or bridge.

Advisory Services

2007 Negative List of Investment Highlights

12 September 2007

Agenda

- Investment regime
- Negative Lists
- Good news
- Bad news
- Further clarification
- Issues

- New investment law 26 April 2007
- Will continue to be enabling regulations
- All licenses will be granted through one door (Is this possible?)
- Government regulation on split authority Central vs Regional
- One law for all direct investment (foreign and local)
- The law does not apply to indirect investment
- Equal treatment – but not equal opportunity
- Foreign capital is defined – Anyone who is Foreign or Indonesian company within foreign ownership

- No nationalisation without compensation
- Free transfer of assets
- Tax facilities to come
- Immediate extension of land rights (no supporting land legislation)
- Others – extended visas, import facilities, international arbitration
- Nominee relations keys not allowed.

General comments

- Effective 3 July 2007 → apply to new investments and amendment to existing investments
- No significant liberalization
- The use of KBLI → more clarity but leaves some ambiguities
- More JV requirements
- Groups into following categories
 - Completely closed to any investments;
 - Open only to domestic investments; and
 - Open to foreign investments with certain requirements (joint venture, cooperation with Small, Medium Enterprises and Cooperatives, special government permit, or operating in certain designated regions)

- PP 76/2007 Article 2

All business sectors are open unless stated differently as set out under NLI.

- Not in NLI 2007, such as:

- Various oil and gas support services such as seismic, geological survey, etc.;
- Security Services;
- General Mining Services;
- Coal Mining Services; and
- Real Estate.

- Increase of Foreign Ownership, such as:
 - Specialized Medical Clinics (49% ↑ 65%)
 - Specialized Dental Clinics (49% ↑ 65%)
- Direct selling via media is now open (60% maximum foreign shareholding)

- Premium sectors still need JV with local party
 - Energy and Mineral Resources (95%)
 - Financial Services (80%, 85% and 99%)
 - Telecommunication (65% and 49%)
 - Public Works (55%)
- Retail trading is still reserved for domestic investor
- More line of business open now but with either 50% or minority foreign ownership, such as:
 - 50%: 1 – 2 star hotel, home stay/lodging, catering services and restaurant
 - 49%: Freight forwarding domestic

- Reduce foreign party's ownership, such as:
 - Telecommunication (95 % ↓ 65%)
 - International Shipping (95% ↓ 49%)
 - Freight Forwarding International (95% ↓ 49%)
 - Non Formal Education (100% ↓ 49%)
- More line of business reserved for domestic investor:
 - Wholesale trading: Pharmaceutical and Pharmaceutical raw material

Further clarification

- Any further investment guidelines?
- Any further divestment requirement?
- Some sectors remain unclear
 - Advertising agency → is it open or is film promotion closed?
 - Line of business which are not in the list but was open with requirements → is it open 100% without condition?

Issues

Grey areas – too many. Need more specific information on both General Issues and Sectoral Applications.

Interpretation KBLI classification – not clear

Definition of micro, small, medium (law to be passed)

Practical application of percentages of foreign ownership of 50% and above

Where to next?

Cliff Rees

Tel: +62 21 5212901

cliff.rees@id.pwc.com

Advisory Services

Business risks relating to corruption and associated legislation

12 September 2007

Agenda

- The Anti-Corruption Reform Process
- Pressure for Change
- FCPA Anti Bribery Provisions
- FCPA Books and Records Provisions
- FCPA Internal Controls
- Sanctions and Penalties
- FCPA Compared Against Indonesian Anti Corruption Law
- Increased Awareness of Corruption Risk by Investors
- What to look for as an Investor
- I want to comply with the law but it's impossible in Indonesia?
- What can I do?
- Behaviour that We should Avoid
- What can Trigger a Compliance Audit/Investigation...

The Anti – Corruption Reform Process



“Corruption is a symptom of underlying problems, not the problem itself. Therefore the trends that sustain it should be addressed. These problems include opaque legislation, weak enforcement mechanisms, barriers to business, inefficient government agencies, absence of dialogue on corruption, excessive discretionary power in the hands of public official and a lack of checks and balances.... Institutions that allow for sustainability of corruption should be reformed”

John Sullivan – Corruption, economic development and Governance.

Pressure for Change

Increasing number of countries enacting Foreign Corrupt Practices legislation

More Investigations and prosecutions by the SEC of both companies and individuals

Pressure from OECD for Countries to enforce Foreign Corrupt Practices Legislation

Significant penalties and legal risks for non compliance

Pressure from shareholders and the community

Enactment of Local anti corruption legislation and increased corruption between investigating agencies



FCPA Anti Bribery Provisions



It is a crime for any US person or company to directly or indirectly pay or promise anything of value to any foreign official in order to assist in obtaining or retaining business for or with, or directing business to, any person;.

FCPA Books and Records Provisions



Section 13 (b) (2) (A) of the Exchange Act

“Make and keep books, records and accounts, which in reasonable detail, accurately reflect the transactions and dispositions of assets”

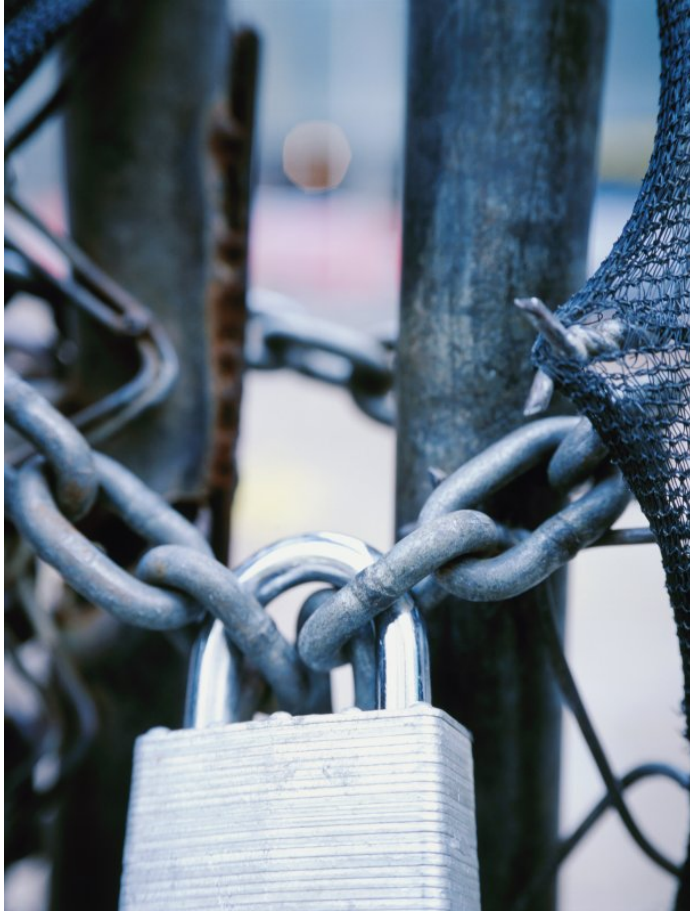
Reasonable – such level of detail that would satisfy prudent officials in the conduct of their affairs.

FCPA Internal Controls

- Section 13 (b) (2) (B) of the Exchange Act
- “Devise and maintain a system of internal accounting controls sufficient to provide reasonable assurance that transactions are recorded appropriately and in accordance with rules and regulations”



Sanctions and Penalties

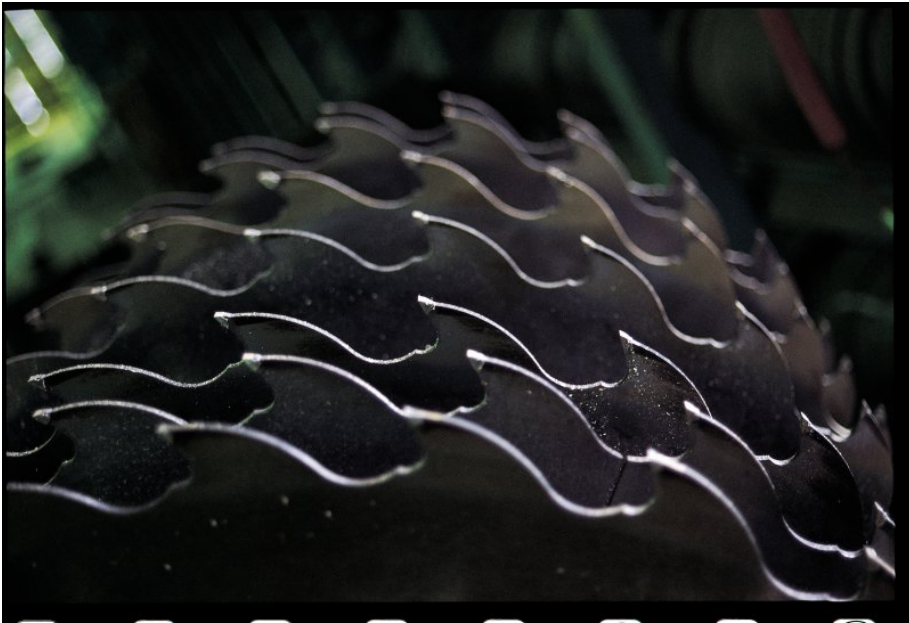


- Anti-bribery Provisions:
 - \$100,000 and/or five years imprisonment for individuals and \$2,000,000 for corporations.
 - \$10,000 civil penalty for both, individuals and corporations.
 - Fines imposed on individuals may not be paid by their employer or principal.
- Books and Records Provisions:
 - US\$5M and/or 20 years imprisonment for violations and US\$25M for corporations --- “Knowingly” violations

FCPA Compared Against Indonesian Anti Corruption Law

	FCPA	Anti-Corruption Law
Anti-bribery provision: Bribe payer	Yes	Yes
Anti-bribery provision: Bribe recipient	No	Yes
“Facilitation payment”	Not prohibited – however evaluation and proper recording is required	Offence for the Official to receive a gratification
Book & record provision	Yes	No
Criminal & Financial Sanction	Yes	Yes

Increased Awareness of Corruption Risk by Investors



- Due diligence relating to ethics, anti – corruption and organisational culture is becoming a mandatory part of the due diligence process for many international companies or investors
- Recognition of the high legal, operation and reputation risks of investing in companies that do not have effective anti corruption strategies
- Increased understanding of how the corrupt actions of a small subsidiary can impact on the global operations of a company.
- Investors are now insisting companies implement effective anti – corruption programs prior to the deal closing

What to look for as an Investor

- Does the company's Conduct of Conduct contain articles relating to anti bribery
- Does the company's business contract including anti bribery provisions with its suppliers, particular consultants
- Is there records show that management and staff have signed and read the code of conduct
- Do they have a compliance department, and does the compliance department have a role in approving payments to government or government relating parties
- Does the company do direct business or indirect business with government
- Does the company require licenses, permits or, government approval for its business activities. How does it obtain those approvals? What supporting documentation to they maintain?
- Does the company perform anti bribery due diligence on its business partners/consultants

I want to comply with the law but its impossible in Indonesia?



- Police
- Military
- Local Government
- Customs and Excise
- Tax
- Manpower
- State Owned Enterprises
- Regional Governments

Common Payment Methods;

Direct – Primarily using cash or provision of other benefits

Indirect – Subsidiary companies, via consultants, agents, donations, sponsorship, business partners, employee benefits

What Can I do?

- Establish a compliance division and include anti bribery as part of its function
- Ensure the code of conduct includes anti bribery provisions and that there is documentation showing that management and employees have read and understood the Code of Conduct
- Include anti bribery clauses in contracts with business partners
- Perform anti bribery due diligence on business partners
- Identify and assess the risk of all payments direct or indirect
- Develop a strategy to stop all payments that are potential in breach of anti bribery laws;
 - Is the payment a facilitation payment or could it be perceived as a bribe
 - Is the payment critical to the business operations
 - What are the alternatives
 - What is the business impact or security implication of stopping the payment

Behaviour that we should avoid

- Hiding payments in the accounting records by falsifying documentation or not recording the true reason for the payment?
- Assuming that because you believe the payment can't be stopped, then it's ok
- Assuming that because you are in Indonesia you are exempt from complying with anti bribery regulations
- Believing that by using consultants to make payments of this nature then this will protect your organisation
- Hiding or not disclose information to your head office
- Delegate the management of these payments to junior staff, distance yourself from the transactions and pretend they are not occurring
- Not considering the long term risks and associated problems that payments of this can cause

What Can Trigger a Compliance Audit/Investigation...



- Disgruntled Employee/Whistleblower
- Competitor
- Internal/External Auditor
- SEC/DOJ
- Due Diligence (M&A)
- Local Regulators – KPK, Police, PPATK
- Investigation into Government officials
- Investigation into agents

Rodney Hay

Tel: +62 21 52890956

rodney.hay@id.pwc.com



Update on revised Company Law

12 September 2007

New Company Law (no. 40/2007)

- Issued on 16 August 2007
- Significant changes:
 - E-registration is being formalized
 - Interim Dividend
 - Division * subject to further Government Regulation
 - CSR (Corporate Social Responsibility)
- What is the impact to the issuance of this new company law?

Other changes

- Mandatory audits for companies with assets and / or revenue of at least IDR 50 billion
- The BoD should prepare an annual workplan (including budgets)
- Deadline for preparing the annual report has been extended to 6 months
- Annual report includes report on the supervisory function of the BoC
- Shares bought back by the company -> max. 3 years
- Minimum amount of authorized capital increased to IDR 50 million
 - At least 25% of the authorized capital have been paid-in

Other changes – Cont'd

- Provide statutory reserve only when the company has a positive retained earnings
- Dividends:
 - Only distributed when the company has a positive retained earnings
 - If not collected by the shareholders within a certain period -> can be claimed by the company

Thank you