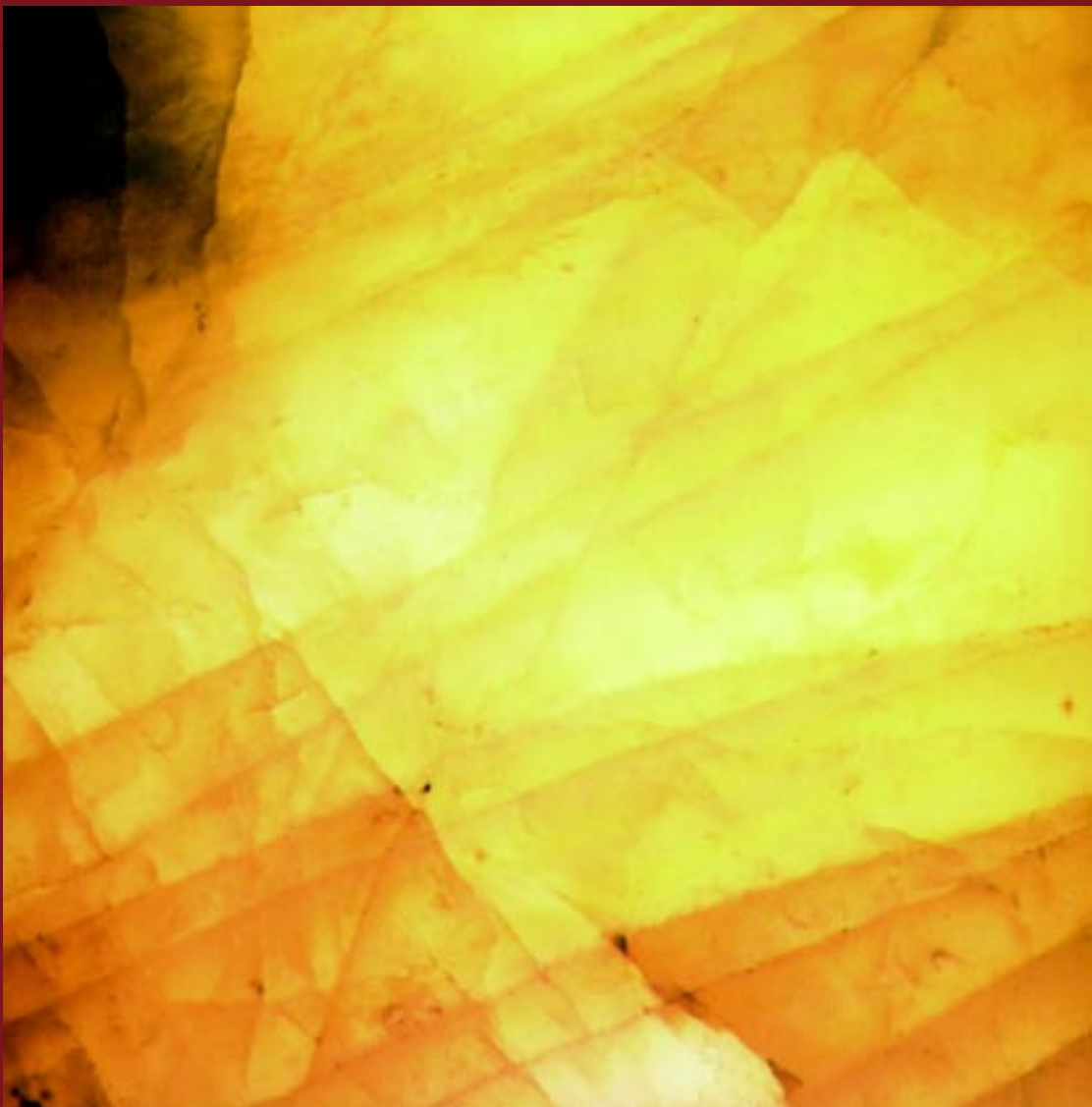


Mining in Indonesia: Investment and Taxation Guide



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Preface

Indonesia is a leading player in the global mining sector. Indonesia ranks first in tin production, third in coal production after China and Australia, fourth in copper production after Canada, Chile, and the United States, fifth in nickel production, and seventh in gold production. Indonesia hosts a number of world class mines, and is a favourite investment target for multinational corporations as well as junior companies.

The mining industry is important to Indonesia. In 1997, the industry (not including oil & gas) accounted for a substantial percentage of the country's GDP, and almost 6% of total exports. More than 70,000 Indonesians are employed directly in the mining industry, and almost 300,000 derive their jobs indirectly from this important sector. A significant portion of these jobs are high paying positions, and many employees actively participate in the development and expansion of advanced technology.

This booklet outlines the regulatory framework for investing in Indonesia's mining industry, and for the taxation of the industry. This booklet is not a substitute for professional advice, which the serious investor will want to seek before investing. The information in this booklet is based on legislation, and administrative practices and interpretations that are in effect as of November 15, 1998.

This booklet addresses investment and taxation in the mining industry only. If you are interested in information on investment and taxation in the oil and gas industry please contact +62-21-521 2901 and request a copy of PricewaterhouseCoopers' booklet Oil and Gas in Indonesia: Investment and Taxation Guide.

PricewaterhouseCoopers
November 1998

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1.

Introduction

- **Contract of work**
- **Taxation**
- **Outlook**

Under the Mining Law, the conduct of mineral exploration, development and production in Indonesia is regulated by:

1. The Kuasa Pertambangan (KP);
2. The Contract of Work (CoW); and
3. The Coal Contract of Work (CCoW), previously Coal Co-operation Agreement (CCA).

The KP can be owned only by Indonesian nationals or Indonesian owned companies. Foreigners are not permitted to hold KP's. A separate KP must be granted for each of the five stages of operation: general survey; exploration; exploitation (mining); processing and refining; and, transport and sale.

A CoW can be entered into only by an Indonesian company that is at least partly owned by foreigners. The CoW covers virtually all minerals except coal and petroleum, and addresses all stages of operation.

A CCoW can be entered into by an Indonesian company that is at least partly foreign owned, or by an Indonesian wholly owned company. The CCoW applies exclusively to coal operations.

CoWs and CCoWs are not available in respect of the island of Java, however KPs can be issued for Java.

Petroleum exploration and production in Indonesia is subject to a separate regulatory regime, which is explained in PricewaterhouseCoopers' booklet *Oil and Gas in Indonesia: Investment and Taxation Guide*.

CONTRACT OF WORK

The CoW system for regulating mining operations has played a key role in the success of Indonesia's contemporary mining industry. The CoW system, which was introduced in 1967, has been gradually refined and modernized over the past thirty years to reflect changing conditions in Indonesia and abroad. Soon, the Government will release the 8th generation of CoW for application to mining operations other than coal. The 3rd generation CCoW is in use by the country's coal industry.

The comments in this book relate specifically to the 7th generation CoW. A number of the CoW provisions have changed over the various generations. A comparison of the provisions of the various generations of CoWs is provided in Appendix 1. See chapter 9 for comments on the CCoW.

In essence, a CoW is a comprehensive contract between the Government of Indonesia and an Indonesian company. The company can be 100 percent foreign owned. However, if the company is 100 percent foreign owned, it may be subject to Indonesia's divestment requirements at a later time. As a practical matter, most CoWs have some level of Indonesian ownership.

The CoW sets out the company's rights and obligations with respect to all phases of a mining operation, including exploration, preproduction development, production, and mine closure. A CoW applies to a specifically defined geographic area (the "Contract Area"). Generally speaking, a CoW is a practical document that is relatively easy to understand.

Some of the important considerations that are covered by a CoW include: expenditure obligations; import and export facilities; marketing; fiscal obligations; reporting requirements; records, inspection, and work program; employment and training of Indonesian nationals; environmental management and protection; regional cooperation in regard to infrastructure; and local business development. It is a tribute to the Government and to the industry that these important matters can be appropriately addressed in a concise legal contract.

The CoW covers all tax, royalty, and other fiscal charges, including: dead rent in the Contract Area; production royalties; income tax payable by the company; employees' personal income tax; withholding taxes on

dividends, interest, rents, royalties, and similar payments; value added tax (VAT); stamp duty; import duty; and land and buildings tax. This booklet comments on most of these government charges.

TAXATION

An important general principle of Indonesian law is that the CoW and CCoW have the status of *lex specialis* – that is, the contract terms override the general law. For example, the income tax rules that are set out in the CoW take precedence over the Law on Income Tax. Generally speaking, the tax rules in the CoW and the CCoW reflect the general tax rules that are in effect at the time that the contract is signed, although there are some exceptions. Importantly, the typical CoW or CCoW fixes the tax rules for the duration of the contract, again with some exceptions. The downside to this is that the company may not always be able to take advantage of favourable changes in the general law.

A taxpayer that conducts mining operations under a KP is subject to the Indonesian tax rules of general application – that is, the KP regulatory regime does not specify distinct tax rules.

Although Indonesia's investment approval and mining tax regimes are relatively straight forward, care must be taken in structuring an investment in the mining industry. The reasons for this include:

- A company can be party to only one CoW. The “one company, one COW” rule, together with the fact that there is no group relief for income tax purposes, requires careful planning;
- The Government relies heavily on withholding taxes and VAT as sources of tax revenues. The rules governing these taxes are quite specific, and require special attention in order to avoid overpayment and penalties for underpayment;
- While the Government's attitude towards foreign investment is generally positive, approved company incorporation documents and investment approvals tend to be very specific as to the nature of the business that a company and its employees can undertake. Sometimes, it is necessary to set up more than one company; and
- Indonesia has signed tax treaties with a wide range of countries. These treaties offer a number of opportunities for planning inbound investment structures. At the same time, the Indonesian Tax Office is diligent in enforcing its right to tax foreign companies that carry on business in Indonesia.

Professional advice should be obtained at an early stage of the investment process.

OUTLOOK

During the 1990's, the process of political change in many parts of the globe has opened up more than two-thirds of the earth's land mass to mineral investment. Both developed and developing countries recognize the net benefits of hosting a prosperous mining industry, and are actively competing to attract mineral investment. While geological prospectivity, the existence of infrastructure, the availability of an educated work force, political stability, and a conducive regulatory regime are important factors in the investment decision-making process, it is also important that a country's tax regime be internationally competitive.

A competitive mining tax regime will take into account the unique characteristics of the mining industry. Although there is always room for improvement, the CoW system does a very good job in recognizing these unique features of the industry. Perhaps most importantly, the thirty year track record of the CoW system, and Indonesia's consistently positive attitude towards investment in the mining industry, allow Indonesia to offer something very important that few other countries can offer - namely, regulatory stability. The investor in Indonesia's mining industry can have a relatively high degree of confidence that the "rules of the game" will not be substantively altered part way through the life of a project.

In 1998, Indonesia's Department of Mines and Energy announced a programme to reform the mining and energy sector, and released an Agenda for Reform.

The sector reforms are intended to improve business efficiency and productivity in the bureaucracy. The Department will review the various rules and regulations that impede development, simplify permit requirements, accelerate administrative procedures, and identify and eliminate corruption, collusion, and nepotism practices in the Department.

The Agenda for Reform, which was released in May 1998, lists a wide range of steps to be taken, including: to release data and information that is more than five years old into the public domain; to review Government Regulation No. 20/1994, which allows 100 percent foreign ownership; to allocate additional revenues for regional sharing; to develop small-scale mining businesses; and to regulate the channels for obtaining data from the CoW in order for it to be utilized by new investors.

Reform of any kind brings with it some added degree of uncertainty. However, Indonesia's thirty-year track record of continuous improvement in regulating and encouraging mining investment bodes well for the future of the industry in this country.

2.

Preliminary Investigation and Exploration

- Indonesian nationals and Indonesian owned companies
- Foreign investors

The permitting system for both Indonesian nationals and Indonesian owned companies, and foreign investors, distinguishes between general survey (preliminary investigation) and other exploration work.

INDONESIAN NATIONALS AND INDONESIAN OWNED COMPANIES

Indonesian nationals and wholly owned Indonesian companies conduct general survey work and exploration under a permit called Kuasa Pertambangan (KP).

The application process for a KP for general survey work may be summarized as follows:

- A prescribed application form is filed with the Department of Mines and Energy;
- The application is accompanied by two copies of a geological map of the reserved mining area, the deed of establishment of the mining company as approved by the Ministry of Justice, audited financial statements, and a refundable security deposit;
- The Minister of Mines approves the application "in principle";
- The application is reviewed by the Technical Directorate;
- The Director General of Mining gives final approval to the KP;
- The applicant pays the required dead rent for the geological area; and
- The applicant takes possession of the original KP document.

The KP for general survey work is valid for one year.

The application for a KP for exploration follows a similar process, although more detailed information concerning the work programme is required, and the dead rent is higher. The KP for exploration is valid for two years plus a one-year extension.

FOREIGN INVESTORS

Prior to applying for a CoW, a foreign investor normally carries out some preliminary investigative work in Indonesia. This preliminary investigation could include geological research, reconnaissance, site visits, sampling, and similar activities. This kind of work can be carried out under the authority of a Permit for Preliminary Survey (Surat Keterangan Izin Peninjauan) or SKIP. The SKIP is issued by the Department of Mines and Energy following approval of an application that has been filed in prescribed form. The SKIP is valid for one month.

The foreign investor who wants to conduct exploration work in a particular area must apply for a CoW. In conjunction with this application, the investor needs to establish an Indonesian limited liability (PT) company following the approval of the first draft of the CoW. The particular kind of limited liability company, which is allowed to have foreign shareholders, is called a PMA company. The CoW will be signed by the PMA company and the Minister of Mines and Energy.

Several months can pass between the date of applying for a CoW and the date of signing. During this period, the applicant may wish to conduct general survey or exploration work in the Contract Area. This work can be conducted under the authority of a Letter of Permit for Preliminary Survey (Surat Izin Penyalidikan Pendahuluan) or SIPP.

A SIPP, once granted, gives the holder exclusive exploration rights over the Contract Area while the terms of the CoW are being finalized. The Area is closed to applications and work by other parties during the term of the SIPP. A SIPP is not a mining authorization, and is not transferable. The SIPP period is usually one year, but can be renewed if required.

A refundable interest bearing bond calculated at US\$5.00 per hectare must be deposited with the Department of Mines upon granting the SIPP.

Where the work under a SIPP is conducted by a shareholder of the CoW company, the relevant preproduction expenses incurred by the shareholder can be transferred in due course to the CoW company for deduction by the CoW company under the terms of the CoW.

3.

Application for Contract of Work

- Application for CoW
- Tax registration
- Bookkeeping in US dollars
- Pre-contract of work expenses

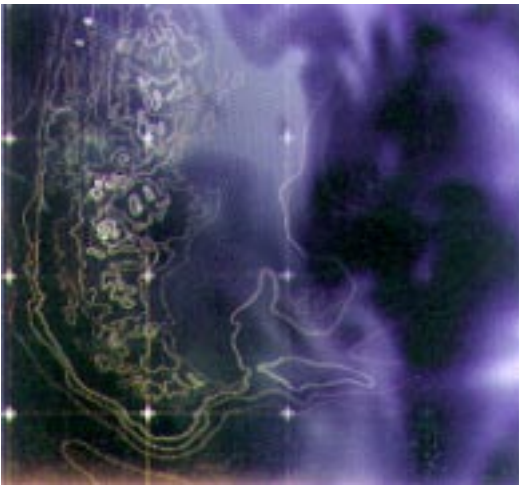
APPLICATION FOR CoW

A foreign investor that wishes to conduct general mining in Indonesia is required to incorporate an Indonesian subsidiary company (a PMA company) under the framework of Foreign Investment Law No. 1/1967. The newly incorporated company will enter into a CoW with the Indonesian government. However, the company cannot be incorporated before the President of the Republic of Indonesia approves the draft CoW.

The steps involved in the CoW application process are as follows.

1. The applicant requests a geological map of the mining reserve applicable for the CoW from the Department of Mines and Energy. A registration fee of Indonesian rupiah IDR 100,000 is payable at this time.
2. The Department will provide a map indicating the mining area reserved for the applicant. The applicant then has to pay IDR 10,000,000 for the area to be reserved.

3. Based on the mining area reserved, a CoW application is submitted to the Department. The area reserved is usually 250,000 hectares for general mining and 100,000 hectares for coal mining.
4. Before a CoW application is submitted to the Department, the applicant has to pay a refundable deposit of IDR 10,000 per hectare for the mining area reserved.
5. The following is required to be attached to the CoW application:



- a. The map of the mining area reserved provided by the Department;
 - b. Copy of bank transfer/deposit slip for the payment of the IDR 10,000,000;
 - c. Copies of the last three years of audited financial statements of the applicant or its parent company;
 - d. Power of Attorney for the person who is making the application and who will represent the applicant company;
 - e. Memorandum of Understanding if the applicant is more than one party; and
 - f. If the applicant is an Indonesian company, a copy of the latest corporate tax return.
6. The Department will make an in principle decision as to whether the application is approved or not.
 7. While waiting for the approval, the applicant may request a Preliminary Survey Permit (SIPP) from the Department. The permit is valid for one year and may be extended. If the applicant for the CoW is a foreign company, the holder of the SIPP is required to pay a refundable deposit of US\$5.00 per hectare.
 8. If the CoW application is approved, the Directorate General of Mines will establish a negotiation team to discuss the draft CoW with the applicant.
 9. The agreed draft CoW is submitted by the Minister of Mines and Energy to the Parliament for consultation, and a copy is submitted to the Indonesian Investment Coordinating Board (BKPM).

10. The response from the Parliament is submitted by the Minister of Mines and Energy to the President.
11. BKPM also submits a recommendation to the President.
12. The President grants approval to the draft CoW, and authorizes the Minister of Mines and Energy to sign the CoW on behalf of the Indonesian Government.
13. The PMA company is incorporated to sign the CoW.

TAX REGISTRATION

The PMA company will be required to register for tax and to obtain a tax registration number. The tax registration number is called NPWP (Nomor Pokok Wajib Pajak).

Tax registration must occur within one month of the company commencing its business activities. However, many companies register for tax soon after the completion of the deed of establishment.

For corporate tax purposes, the company should register for tax at the PMA tax office in Jakarta. The company is also obligated to register at the tax office located at the mine site, or at the tax office that covers the mine site area.

In addition to the tax registration, the company must also register with the Ministry of Trade.

BOOKKEEPING IN US DOLLARS

The Indonesian tax law allows certain companies, including mining companies engaged under the CoW framework, to maintain their books in US dollars subject to approval from the Director General of Tax.

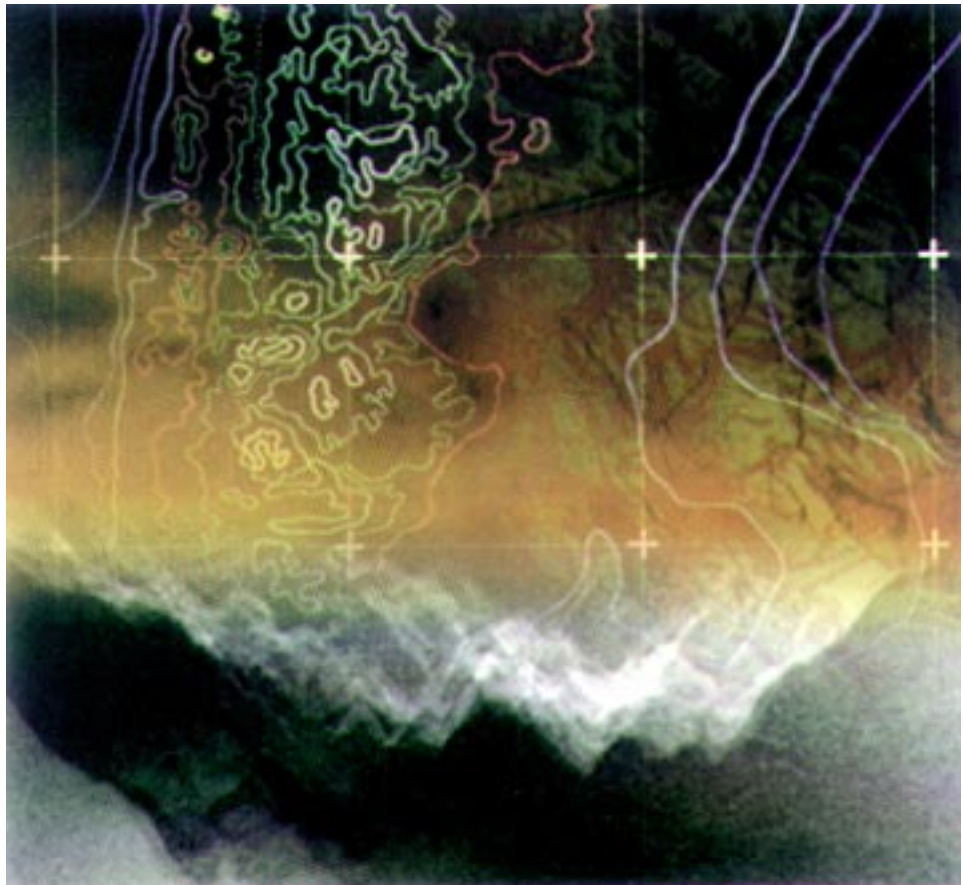
Although the CoW itself allows the company to maintain its books in US dollars, most companies also apply for the approval from the Director General of Tax. Transactions dominated in currencies other than US dollars are converted to US dollars using the prevailing exchange rate at the date of the transaction.

The annual corporate income tax return must be prepared in Indonesian rupiah and the conversion of financial statements from US dollars into rupiah is based on an exchange rate stipulated by the Minister of Finance.

PRE-CONTRACT OF WORK EXPENSES

The shareholder of the CoW company will typically incur significant expenditures before the CoW company is incorporated and signs the CoW. These pre-incorporation expenditures may be transferred from the shareholder to the CoW company as deferred pre-operating costs, and may be claimed as deductions in the calculation of the CoW company's corporate tax by way of amortization starting from the period in which production commences. These expenses must be audited by a public accountant and approved by the Department of Mines and Energy and the Directorate General of Tax.

There are a number of taxation issues to be addressed in relation to the transfer of pre-incorporation expenditures to the company, in particular VAT and withholding tax obligations. It is very important that any pre-incorporation expenditures are subject to proper and careful planning to ensure the maximum tax benefit can be obtained from the expenditures.



4.

Exploration and Development

- CoW obligations
- Tax treatment of expenditure
- Loss carry forward
- VAT
- Importation of capital equipment

The CoW company is the sole contractor for all mining in the CoW area other than for oil and gas, coal and uranium. The company has control, management and responsibility for all its activities, which include all aspects of mining from exploration, development, production, refining, processing, storage, transport and sale.

The CoW outlines a series of stages with defined terms:

Stage	Term (Years)	Available extension
General survey	1	1
Exploration	2	2
Feasibility study	1	1
Construction	3	-
Production	30	20

The stages coincide with decision points for the relinquishment of part of the Contract Area. This chapter deals with the general survey, exploration, feasibility and construction stages.

CoW OBLIGATIONS

On signing the CoW, the company is required to lodge a US dollar security deposit with the Department of Mines and Energy, which is released on completion of the following:

- Satisfactory completion of the General Survey period (25%);
- At the end of the first year of the Exploration stage and after the company has submitted satisfactory quarterly reports (25%);
- On submission of a general geological map to the Department within 12 months of completion of the Exploration Stage (25%); and
- On submission of the completed Feasibility Study to the Department (25%).

During the preproduction stage the company is required to submit detailed quarterly progress reports to the Department. Under the CoW, the company has responsibility for all financing requirements of the project and details are to be reported to the Department of Mines and Energy.

The CoW imposes obligations on the company throughout the life of the CoW with respect to environmental restoration, the employment and training of Indonesian nationals, preference to Indonesian suppliers, and the provision of infrastructure for the use of the local population.

In addition, the company has the following obligations under the CoW.

GENERAL SURVEY STAGE

In the General Survey stage, the company is obliged to spend an agreed amount during the 12-month period. At the end of the period, the company has to submit a report detailing the items and amount of expenditure.

At the end of this period the company is required to relinquish at least 25% of the original Contract Area.

EXPLORATION STAGE

In the Exploration stage, the company is obliged to spend an agreed amount per year on exploration activities. At the commencement of this stage, the company must submit an annual program and budget to the Department.

At the end of the Exploration stage, the company is required to file with the Department:

- A summary of its geological and metallurgical investigations and all data obtained; and
- A general geological map of the Contract Area.

On or before the second anniversary of the Exploration stage the company is required to have reduced the Contract Area to not more than 50% of the original Contract Area.

FEASIBILITY STUDY STAGE

At the end of the Feasibility Study stage the company is required to submit a feasibility study, including environmental impact studies, to the Department and to design the facilities.

At the end of the Feasibility Study, the company is required to have reduced the Contract Area to not more than 25% of the original Contract Area. The Contract Area at this point cannot be greater than 62,500 hectares.

CONSTRUCTION STAGE

The company undertakes the construction of the facilities.

DEAD RENT

Throughout the life of the CoW, the company is required to pay dead rent. This is an annual amount based on the number of hectares in the CoW area and the stage of the CoW. For example, during the first year of the Exploration stage, the dead rent is US\$0.10 per hectare.

TAX TREATMENT OF EXPENDITURE

Note that the tax treatments described in this booklet relate specifically to the 7th generation CoW. Appendix 1 sets out the differences between the various generations of CoWs.

Appendix 2 demonstrates the operation of a number of the tax provisions described below.

FIXED ASSETS

Fixed assets in the Contract Area may be depreciated under either the diminishing value or straight-line method. The rates of depreciation are specified in the CoW and are generally accelerated, with most equipment being depreciated over an 8-year effective life (25% diminishing value; 12.5% straight-line). A full year's depreciation is allowed in the first year of use. Table 1 sets out the rates of depreciation.

Infrastructure assets such as buildings, roads, bridges, educational and medical facilities are also depreciable.

Assets are required to be accounted for on an individual basis rather than a pool of undepreciated cost.

Depreciation Rates

Group of Assets	Life time	Rates of depreciation and amortization	
		Straight Line	Declining balance
Non building or intangible asset			
Group 1	2 years	50%	100%
Group 2	4 years	25%	50%
Group 3	8 years	12.5%	25%
Group 4	10 years	10%	20%
Building			
Permanent	20 years	10%	-
Non-permanent	10 years	20%	-

Group 1 assets include furniture and equipment constructed of wood/rattan; motorcycles; office equipment, special tools for specific industries/services, kitchen equipment and light machinery for the food and drink industry.

Group 2 assets include furniture and equipment constructed of metal, air conditioners, computers, printers, scanners, cars, buses, trucks, containers and the like; equipment for construction, heavy vehicles for transportation, warehousing, and communication and telecommunication equipment.

Group 3 assets include machinery for general mining other than oil and gas, heavy equipment, docks and vessels for transportation and communication and other assets not included in the other categories.

Group 4 assets include heavy machinery for construction, locomotives, railway coaches, heavy vessels and docks.

PRE-PRODUCTION EXPENSES

Expenses incurred prior to production with a useful life greater than one year should be capitalized for amortization under either the diminishing value or straight-line method once production has commenced. These expenses can also include expenditures incurred by the CoW company's shareholders prior to the formation of the CoW company, provided the expenditure has been audited.

Where the useful life of the expenditure is less than one year, the expenses are required to be expensed in the year they are incurred. This will give rise to a tax loss, which can be carried forward. In practice, many companies treat all expenditure as having a useful life greater than one year.

Care needs to be taken with the transfer of pre-production costs accumulated in either the offshore investor's accounts or a service company, as there may be VAT and withholding tax implications.

INTEREST EXPENSE

Interest expense paid on loan capital is deductible as long as the debt to equity ratio does not exceed:

- 5:1 for investments up to US\$200 million
- 8:1 for investments greater than US\$200 million

and the interest does not exceed commercially available rates. Where interest is paid to an offshore lender, withholding tax will be payable subject to the relevant tax treaty. Where funds are provided interest free, unless agreement has been sought from the tax authorities, it is likely that interest will be deemed on the funding.

LOSS CARRY FORWARD

Under the CoW, tax losses can be carried forward for up to eight years and are recouped on a first-in, first-out basis. Tax losses cannot be carried back.

VAT

CoW companies are designated as VAT Collectors by the State Treasury. This means that they pay VAT directly to the Treasury, rather than to their suppliers.

During the pre-production stage of the CoW, the company will have no output VAT and will collect and pay all its input VAT to the Government. The company can claim back input VAT on an annual basis. In order to receive a refund the company must undergo a thorough tax audit.

All VAT payments are denominated in rupiah. Where a company keeps its books in US dollars, this can give rise to an exchange risk and should be carefully managed.

IMPORTATION OF CAPITAL EQUIPMENT

The 7th generation CoW provides exemptions from import duties, VAT and income tax on the importation of capital equipment in accordance with the prevailing law. Exemptions may be available under the general law and careful planning is recommended to take advantage of any such exemptions.

Where a company has imported capital equipment free of VAT and import duties, if the company does not subsequently re-export the equipment, it may be subject to VAT and import duties at a later time.



5.

Production

- CoW obligations
- Operating structure
- Income tax rates
- Calculation of taxable profit
- Tax provisions
- Mine services
- Dividends
- VAT collector status
- Loss carry forward
- Other taxes

CoW OBLIGATIONS

During the production stage, the company is required to provide the following Exploitation reports to the Department of Mines and Energy:

- Fortnightly statistical report;
- Monthly statistical report
- Quarterly report concerning progress of operations;
- An annual report; and
- Other reports to various departments.

The company may export its production, but is encouraged to meet domestic demand first. Sales to associates are required to be at arms' length prices. Sales contracts exceeding three years are subject to Government approval.

OPERATING STRUCTURE

The CoW company may choose to operate the mine itself or it may sub-contract operation of the mine (see below for comments relating to service companies).

INCOME TAX RATES

The company pays income tax at the following rates:

- 10% on taxable income up to IDR 25,000,000
- 15% on taxable income exceeding IDR 25,000,000 and up to IDR 50,000,000
- 30% or the prevailing rate, whichever is lower, on taxable income exceeding IDR 50,000,000.

Should the brackets change, the rates above will be applied to the new tax brackets.

TAXABLE PROFIT

Taxable profit is calculated in accordance with the provisions included in the CoW. Where the CoW is silent on a particular matter, the general Income Tax Law applies. Tax is imposed on net taxable income which, subject to the provisions of the CoW, is defined as income determined in accordance with “sound, consistent and generally accepted accounting principles in the mining industry”.

An example tax calculation can be found in Appendix 2.

TAX PROVISIONS

Note that the tax treatments described in this booklet relate specifically to the 7th generation CoW. Appendix 1 sets out the differences between the various generations of CoWs.

OPERATING EXPENSES

Operating expenses are defined in the CoW to be “the amount paid or accrued for all expenditures attributable to the Enterprise in such year to the extent that the useful life is less than one year.” Operating expenses include supplies, contracted services, insurance, losses, royalties on intellectual property, processing expenses, repairs and maintenance and so forth and are deductible in the year incurred.

DEPRECIATION

Fixed assets may be depreciated under either the diminishing value or straight-line method. The rates of depreciation are generally favourable, with most equipment being depreciated over an 8-year effective life (25% diminishing value; 12.5% straight-line). A full year’s depreciation is allowed in the first year of use. Chapter 4 sets out the depreciation rates available to a CoW company.

Infrastructure assets such as buildings, roads, bridges, educational and medical facilities are also depreciable.

AMORTIZATION

Intangible assets such as patents, rights, concessions, licences and rental contracts can be amortized under either the diminishing value or straight-line methods based on their useful life.

In addition, all pre-production costs, including expenses to obtain mining or survey rights or information, general survey, exploration, feasibility, development, employee training and assistance for education, which have been capitalized, can also be amortized from the commencement of production.

ASSET REVALUATIONS

Fixed assets, not intended for transfer or sale, may be revalued to market value, provided all current tax obligations have been settled. The difference between market value and tax book value of the assets is first offset against prior and current years' tax losses. Any excess is subject to a 10% final tax.

The revalued assets are depreciated in the normal manner based on the revalued amount. If a revalued asset is sold less than five years after the revaluation, an additional final income tax is imposed.

Bonus shares issued from the revaluation surplus are not considered a dividend for tax purposes.

CURRENT ON-SITE EXPLORATION AND DEVELOPMENT EXPENSES

Current on-site exploration expenses are deductible in the year incurred where the expenses relate to the Contract Area or the Mining Area.

OFF-SITE EXPLORATION EXPENSES

Off-site exploration expenses are subject to the general tax laws relating to amortization.

RECLAMATION RESERVE

For accounting purposes, the company is required to maintain a reclamation reserve to provide for management of the environment and reclamation work required to be carried out during the contract period and at the end of the life of the mine. If the reserve is audited by the Government and is funded by a deposit by the company in a State Bank, the amount deposited in any year is deductible when deposited. The actual cost of management of the environment and reclamation work is

drawn first from the reserve. If the actual cost exceeds the reserve, the balance is deductible.

If the reserve is an accounting reserve only, no deduction is available until the expenditure is incurred. From a practical viewpoint, adoption of this approach may cause the company to incur losses at a stage when the company is earning little or no income.

OTHER EXPENSES

- Employee benefits

The CoW provides concessional tax treatment of benefits provided to employees in the Contract Area. The cost of most benefits provided to employees located in the project area is deductible to the company in the year incurred, and is not taxed in the hands of the employees. The CoW is very specific as to which benefits are deductible.

- Parent Company/Affiliate charges

Selling, general and administrative expenses are deductible when incurred including reasonably and directly attributable costs paid to affiliates. The amount of the deduction is limited to the amount that would have been paid to a non-related party for the same service.



Payments for services may be subject to withholding tax. Where payments for services are made to an Indonesian company, the payments will be subject to domestic withholding tax. This may be a prepayment of the payee company's income tax or a final tax, depending on the terms of the CoW and the nature of the service provided.

Where a payment for services is made to an offshore company, whether or not it is subject to withholding tax will depend on the nature of the service and the tax jurisdiction of the service provider.

The CoW company may be required to self-assess VAT on payments made to offshore companies.

- Employee facilities

The cost of education and training facilities, facilities for religious activities and an employee canteen are deductible when incurred.

MINE SERVICES

- VAT

The CoW company is obliged to collect VAT on all VATable payments for services.

- Withholding tax

The CoW company is obliged to withhold tax from most payments for services. The amount of withholding tax will depend on the type of service and whether the service provider is resident or non-resident. In many cases, even though the tax is creditable by the service provider, this will increase the cost of doing business in Indonesia.

The specified rate of withholding tax and determination of whether the withholding tax is a prepayment of the payee's income tax or a final tax may be different under the general income tax law and the payer's CoW. It is recommended that any differences are identified and reconciled prior to entering into agreements with service providers.

- Related parties

Where related parties provide services to the CoW, the transactions will be subject to Indonesia's transfer pricing provisions. This is relevant for transactions with resident and non-resident affiliates and for transactions between branches and head offices.

- Service companies

Because a company can be party to only one CoW, it is common for mining groups to have more than one company in Indonesia. Group overheads can be borne by yet another company formed to service the group CoW companies. This can provide operational efficiencies. However, tax inefficiencies may be created by the use of a service company. Technical and management services will be subject to withholding tax, which will either be a prepayment of the service company's corporate tax or a final tax depending on whether the services are considered to be consulting services. The rate of withholding will also depend upon whether the services are considered to be consulting services.

In either case, where the group is in the pre-production stage, it is likely that no regular income tax would have been payable by the group if the service company was not used. There are



no group tax relief provisions in Indonesia, so even where the group is taxable, it is important that withholding tax is prepaid by a company which will earn taxable income.

The charges and recoupment of direct expenditure will also be subject to 10% VAT.

DIVIDENDS

Withholding tax on dividends paid to founder shareholders is set at 7.5%. This rate is less than most treaty rates. Withholding tax on dividends paid to non-resident non-founder shareholders is set at 20%, though this rate is reduced by most of Indonesia's double tax agreements.

No dividend withholding tax is payable on dividends paid to Indonesian companies, except for resident founder shareholders, which are subject to 7.5% withholding tax.

VAT COLLECTOR STATUS

CoW companies are designated as VAT Collectors by the State Treasury. This means that they pay VAT directly to the Treasury, rather than to their suppliers.

The application of the VAT law to exports by mining companies is complex and companies are advised to obtain specialist tax advice in relation to this.

LOSS CARRY FORWARD

Under the CoW, tax losses can be carried forward for up to eight years and are recouped on a first-in, first-out basis. Tax losses can not be carried back.

OTHER TAXES

Royalties

Royalties are payable quarterly to the Government based on the actual volume of production according to details set out in the CoW. The royalty is tax deductible.

Dead rent and land and building tax

The company is required to pay dead rent and land and building tax as set out in the CoW. Dead rent is an annual charge based on the number of hectares in the Mining Area. Both taxes are deductible for income tax.

6.

Termination of Contract of Work

If at any time during the term of a CoW, the company believes the CoW area is unworkable, it may terminate the CoW. The procedures for terminating the CoW may be summarized as follows.

1. Submit a written notice to terminate the contract, attaching a closure plan, related documents, maps, plans, worksheets and other technical data and information.
2. Provided that the data and fulfilment of the company's obligations are considered acceptable to the Minister of Mines and Energy, the Minister will issue confirmation within six months from the date that the company submitted the notice. Otherwise, the contract is automatically considered terminated, and the company shall be relieved of its obligations.

A general summary of the implications of termination of the CoW at the various stages of the contract is set out below. All sales, removals or disposals of property will be subject to the tax rules as set out in the CoW.

a. General Survey and Exploration Periods

- The company has a period of six months to sell or remove its property, otherwise the property becomes the property of the Government.
- The company is required to provide any information gained from the work it has performed to the Department of Mines and Energy.

b. Feasibility Study Period

- The company is required to offer all property located in the Contract Area to the Government at market value.
- The offer is valid for 30 days. If the Government accepts the offer, it is required to settle within 90 days.
- If the Government does not accept the offer, the company then has six months to sell or remove its property, otherwise the property reverts to the Government without any compensation to the company.



c. Construction Period

- The conditions are identical to those for the Feasibility period except that, if the Government does not accept the offer, the company has 12 months to remove or sell its property.

d. Operating Period or Expiration of the CoW

- Once again the requirements are similar to those outlined in the Feasibility Period, however the offer price to the Government is the lower of cost or market value. As for the Construction Period, the company has 12 months to sell or remove the property if the Government does not accept the offer.

At the termination of the CoW, any property that is used for public purposes such as roads, schools, hospitals and school and hospital equipment immediately becomes the property of the Government without any compensation to the company.

7.

Transfer of Mineral Interests

- Purchase and sale of interest in CoW
- Purchase and sale of shares in a CoW company
- Unincorporated Joint ventures
- Farm-ins
- Royalty interests
- Transactions between related parties
- Corporate reorganisations

PURCHASE AND SALE OF INTEREST IN CoW

A CoW allows the CoW company to transfer all or part of its interest in the CoW, subject to the prior written consent of the Minister of Mines and Energy. On such a transfer, the CoW company is not relieved of any of its obligations under the CoW, except to the extent that the transferee assumes and performs such obligations.

Theoretically, the transferor must include the proceeds of sale in income for income tax purposes, and the transferee is entitled to write off the purchase price in accordance with the rules for deducting the cost of tangible and intangible assets. However, to date, transfers of interests in CoWs have been rare, and it is possible that the tax authorities might impose an alternative tax treatment as a condition of approving the transfer.

PURCHASE AND SALE OF SHARES IN A CoW COMPANY

The shareholders in the CoW company require the prior written consent of the Minister of Mines and Energy for a transfer of shares of the CoW company. Under the terms of the CoW, such consent shall not be unreasonably withheld or delayed. Consent is not required in the case of a transfer of shares to:

- Indonesian Participants (as defined); or
- An affiliate or subsidiary of the shareholder.

UNINCORPORATED JOINT VENTURES

As alluded to above, transfers of partial interests in CoWs are rare events, and require some degree of negotiation with the Minister of Mines and Energy. For this reason, joint venture ownership and operation is equally unusual. The CoW and the income tax legislation of general application are silent as to the tax treatment of joint ventures. The tax treatment of a joint venture is one of a number of matters to be negotiated with the Minister in conjunction with the transfer of an interest in the CoW that creates the joint venture.

FARM-INS

The CoW and the income tax legislation of general application do not address farm-ins per se. As a commercial matter, a typical farm-in to a mineral property involves an eventual transfer of an interest in the property. Accordingly, the farm-in arrangement, and the tax treatment thereof, will be considered by the Minister in conjunction with his consideration of approval of the transfer. A farm-in can usually be effected more easily by a transfer of shares in the offshore investing company.

ROYALTY INTERESTS

Commercially, two parties can contractually create a royalty interest in a mineral property under the terms of a joint venture arrangement, a farm-in, or other arrangement that involves a transfer of ownership in the property (for example, the creation of a retained royalty interest).

The tax treatment of royalty payments, which are made pursuant to the ownership of a royalty interest, is not prescribed in the CoW or the tax legislation of general application. It is understood that the Ministry of Finance is of the view that the ownership of a royalty interest is a form of equity participation in the company's business and, accordingly, the payment of a royalty is not deductible by the company. Whether or not dividend or royalty withholding tax is withheld from the payment, and the level of withholding tax, will depend on the view of the Director General of Tax and the jurisdiction of the recipient.

TRANSACTIONS BETWEEN RELATED PARTIES

Where a "special relationship" exists between two parties, a transfer of property from one party to the other must be effected at the fair market value of the property. The term "special relationship" is specifically defined. For example, a special relationship exists where one company owns 25 percent or more of another company.

CORPORATE REORGANISATIONS

In late-1998, the Government introduced income tax regulations that, in certain circumstances, allow property to be transferred at written down tax values on a merger of companies, or a liquidation of one company into another. Also, in certain defined cases, prior years' losses can be transferred on a merger or liquidation.

8.

Tax Administration

- Tax compliance
- Tax disputes process

TAX COMPLIANCE

INCOME TAX

Corporate tax returns for the financial year must be filed within three months of the end of the financial year. Generally, an extension will be granted if a request is lodged before the due date and the provisional final tax payment (on an estimated basis) is made by the 25th of the third month following year-end. The extension period can range from three to six months. Any underpayment of the final tax instalment is subject to an interest charge of 2% per month. Returns can be amended within two years of the end of the tax year. Subject to certain conditions, a tax return may be amended after the two-year period and prior to a tax audit. Where an amendment results in an increase in the tax liability, interest penalties are applied.

Books of account must be maintained for at least ten years. Approval (a formality) is required for use of English by foreign enterprises. At the end of every financial year, a balance sheet and an income statement must be drawn up in accordance with Indonesian accounting principles or the recognized equivalent.

A tax return is normally accompanied by audited financial statements and selected additional supporting schedules. Under the self-assessment system, a return is final within ten years of filing a "complete" return. If a tax audit is conducted within this period and an assessment is issued, it must be paid within 30 days unless the Director General of Taxation approves postponement of payment during the process of appeal.

PAYMENT AND COLLECTION

Under the prepayment system, companies make monthly instalment prepayments of their income taxes. The basis of the taxpayer's monthly payment is 1/12 of the amount of the tax due as reflected in the previous year's return, after deduction of the amount of tax withheld by other parties. Where tax assessments have been issued within the last two years, they are used as the basis. A procedure is available to apply for reduction of instalments or for exemption or relief from the various other forms of withholding tax. A request for a reduction of the monthly instalments can be filed after the fourth month of a tax year, provided the projected income tax liability for the year is less than 75% of the income tax liability used as the basis to calculate the current month's instalment.

The obligations of taxpayers are as follows:



1. Payment must be made by the 15th day of the next month;
2. The forms supporting the monthly payment must be lodged with the State Treasury by the 20th day of the next month;
3. Within three months after the end of a tax year, the taxpayer is required to calculate final tax liability, i.e., to calculate the amount of tax that has already been prepaid and to determine the balance of tax still payable;
4. When the final calculation and payment are completed, a tax return (SPT) must be filed with the Tax Service Office three months after the year-end unless an extension has been granted; and
5. If previous prepayments fall short of the amount due, the taxpayer is obliged to pay the difference to the State Treasury by the 25th of the third month following the tax year-end.

Where prepayments exceed the total tax liability for the year, a tax refund should be requested. Prepayments may not be offset against other current tax obligations, but they may be used to satisfy outstanding prior-year tax assessments. The law provides that a decision on the request for a refund should be made within 12 months from the date of filing of the return on the basis of an investigation or audit. If after 12 months no decision has been made, the full amount of the refund is granted. If the refund is not realized within 13 months from the date the return was filed, interest at 2% per month accrues to the taxpayer on the amount owed by the government.

WITHHOLDING TAXES

Withholding tax is normally due on the 10th of the month following the month of the accrual or payment, whichever is earlier.

Taxpayers are required to lodge monthly returns setting out the taxpayer's liability with respect to withholding tax withheld on behalf of other taxpayers.

EMPLOYEE TAXES

Companies are required to submit monthly and annual returns with respect to income tax paid on behalf of employees.

VAT

Companies are required to report VAT to the Government on a monthly basis.

TAX DISPUTES PROCESS

Taxpayers may object to an assessment by filing an objection with the Director General of Taxes. Objections must be lodged within three months after the issue date of the Tax Office's document (e.g., assessment or collection notice) and must be submitted in Bahasa Indonesia. Filing an objection does not normally stop or postpone the obligation to pay the tax in question. After receiving an objection from a taxpayer, the Director General must issue a decision on the appeal within 12 months of the date of the filing of the objection. If the Director General does not issue a decision within 12 months, the objection is deemed successful.

Where a taxpayer disagrees with the objection decision of the Director General of Taxes, an appeal can be lodged with the Tax Court within three months of the objection decision. One appeal letter is allowed

for each objection decision, and this letter must clearly state the reasons for the appeal.

The Tax Court will only process an appeal if the tax due and payable by the taxpayer has been fully paid. The Tax Court must finalize the appeal within 12 months of receiving the appeal letter. The decision of the Tax Court is final. Any overpaid tax is refunded plus interest of 2% per month.

To date, the Tax Court has not formally or publicly reported cases. However, an unofficial line of precedents is slowly emerging, and this should provide investors with increased certainty.



9.

Other Matters

- Coal Contracts of Work (CCoW) and Coal Co-operation Agreements (CCA)
- Earlier CoW generations
- Service providers to the mining industry
- Accounting and audit

COAL CONTRACTS OF WORK AND COAL CO-OPERATION AGREEMENTS

Foreign ownership in Indonesian coal mining was until recently conducted through CCAs. Since November 1997, coal mining has been brought more in line with general mining through the CoW structure. There have been two generations of CCAs and one generation of CCoW, which is typically referred to as the 3rd generation CCoW.

COAL CO-OPERATION AGREEMENTS

The key difference between the CCA and the CoW system is that under a CCA, the foreign mining company acted as a contractor to the Indonesian state-owned coal mining company, PT Tambang Batubara Bukit Asam (PTBA). Legislation has since been decreed and CCAs amended to transfer the rights and obligations of PTBA in respect of CCAs to the Indonesian Government represented by the Minister of Mines and Energy.

Under the CCA, the coal contractor is entitled to an 86.5% share of the coal produced from the area, and the contractor bears all costs of mine exploration, development and production. The Indonesian Government (previously PTBA) retains entitlement to the remaining 13.5% of production. However, in many cases, the coal contractor may be requested to sell all or part of this coal on behalf of the Government.

Equipment purchased by the coal contractor becomes the property of the Indonesian Government (previously PTBA), although the contractor has exclusive rights to use the assets and is entitled to claim depreciation.

Foreign shareholders under CCAs are required to offer shares to Indonesian nationals or companies so that, after ten years of operating, foreign ownership in the company is reduced to a maximum of 49%.

COAL CONTRACTS OF WORK

The terms and conditions under the current Coal Contract of Work (CCoW) are more in line with the 7th generation CoW.

Under the CCoW, the mining company is, in effect, entitled to 100 percent of the coal production, however, a royalty of 13.5% of sales revenue is paid to the Indonesian Government.

EARLIER COW GENERATIONS AND CCAS

Many earlier generation contracts, including CCAs, are based on the taxation and other laws and regulations in place at the time the agreements were signed. In many circumstances, this means that the regulations affecting mining companies operating under such contracts differ from current regulations, which often creates difficulties in interpreting the agreements as well as doing business with other companies. Potential investors in mining properties covered by earlier generation CoWs or CCAs should seek professional assistance to examine such issues.

Many earlier generation CoWs and CCAs also include divestment requirements for foreign shareholders.

SUPPLIERS TO THE MINING INDUSTRY

Service providers and suppliers to the mining industry are regulated by the general laws and regulations of Indonesia. However, many transactions with mining companies are also impacted by the terms of the CoW, CCoW, or CCA. For example, the mining contract specifies the types of services subject to withholding taxes and the applicable rates, which may differ from the general regulations.

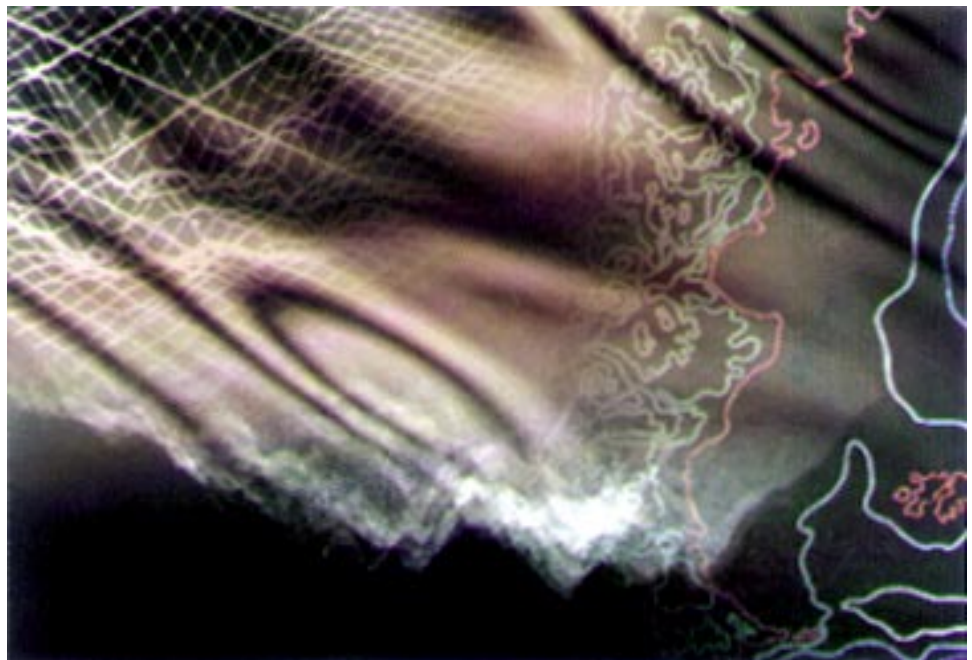
Potential investors into mining services companies or suppliers considering establishing operations in Indonesia are referred to the PricewaterhouseCoopers Doing Business in Indonesia publication.

ACCOUNTING AND AUDIT

As stated earlier, mining companies are usually permitted to maintain their accounts and records in US dollars, subject to approval from the Director General of Tax.

Indonesia has a specialised accounting standard on accounting for the mining industry. The standard covers exploration, development and construction, production and environmental management. The accounting framework in Indonesia largely follows International Accounting Standards, with some exceptions. Accounting and financial reporting considerations of mining companies in Indonesia are set out in the PricewaterhouseCoopers publication Financial Reporting in the Mining Industry.

Mining companies are required to lodge annual audited financial statements. Other Indonesian companies are required to lodge annual audited financial statements with the Minister of Trade and Industry, if the company has total assets of at least IDR 50,000,000.



Appendix 1

Summary of main features
of CoW generations

Summary of Main Features of Contracts of Work

	7 th Generation CoW	6 th Generation CoW	5 th Generation CoW	4 th Generation CoW	3 th Generation CoW signed post-1983
1. Deadrent – in US\$ per hectare per annum					
General Survey	0.025 - 0.05	0.025 - 0.05	0.025 - 0.05	0.025 - 0.05	0.01 - 0.03
Exploration	0.10 - 0.35	0.10 - 0.35	0.10 - 0.35	0.10 - 0.35	0.08 - 0.20
Feasibility	0.50	0.50	0.50	0.50	0.20
Construction	0.50	0.50	0.50	0.50	0.20
Operation (depends on type of deposits)	1.50 – 3.00	1.50 – 3.00	1.50 – 3.00	1.50 – 3.00	1.00 – 2.00
2. Production Royalties – in US\$ per oz or kg of gold					
Sales price <US\$300/oz	-	-	-	1%	-
Sales price US\$300-\$400/oz	-	-	-	1% - 2%	-
Sales price >US\$400/oz	-	-	-	2%	-
US\$/kg <2,000 kg	\$225.00	\$225.00	\$225.00	-	\$11.00
US\$/kg >2,000 kg	\$235.00	\$235.00	\$235.00	-	\$11.00
3. Export Royalty/Tax US\$/kg gold					
Export of dore bullion	Nil	Nil	Nil	Nil	Nil
Other exports of gold	As above	As above	As above	As above	As above
4. Corporate income tax					
a. Tax Rates	30%, but can change to lower prevailing rate.	30%, but can change to lower prevailing rate.	35%	35%	Maximum of prevailing rates and: years 1-5: 35% years 6-10: 40% years 11+: 45%
b. Depreciation Rates					
Non-buildings					
Diminishing value (%)	100, 50, 25, 20	100, 50, 25, 20	50, 25	25	-
Straight line (%)	50, 25, 12.5, 10	50, 25, 12.5, 10	12.5	-	12.5
Buildings					
Diminishing value (%)	-	-	50, 25	25	-
Straight line (%)	20, 10	20, 10	12.5	-	12.5
c. Amortization Rates (from commencement of commercial production):					
Diminishing value (%)	100,50,25,20	60 – 10	25	25	-
Straight line (%)	50,25,12.5,10	25 – 5	-	-	12,5
d. Accelerated Depreciation	-	-	-	-	Buildings – 10% Other assets – 25%
e. Investment Tax Credits	-	-	-	-	20% of total investment
f. Employee benefits					
Employer	Deductible	Deductible	Deductible	Deductible	Deductible
Employee	Not taxable	Not taxable	Not taxable	Not taxable	Not taxable
g. Employee facilities at site					
Employer	Deductible	Deductible	Deductible	Deductible	Deductible
Employee	Not taxable	Not taxable	Not taxable	Taxable	Taxable

	7 th Generation CoW	6 th Generation CoW	5 th Generation CoW	4 th Generation CoW	3 th Generation CoW signed post-1983					
h. Interest deductibility										
Maximum debt : equity										
Investment <US\$200m	5:1	5:1	5:1	3:1	2.5:1					
Investment >US\$200m	8:1	8:1	8:1	3:1	2.5:1					
5. Withholding Tax										
	R	NR(i)	R	NR(i)	R	NR(i)	R	NR(i)	R	NR(i)
Interest	15	20	15	20	15	20	15	20	15	20
Dividends	15	20	15	20	15	20	15	20	15	20
Dividends (founder s'holder)	7.5	7.5	7.5	7.5	15	20	15	20	15	20
Royalties	15	20	15	20	15	20	15	20	15	20
Rentals, tech, management fees	6	20	6	20	9	20	15	20	15	20
Fees for other services	-	20	-	20	-	20	-	20	-	20
Fees for other services performed outside Indonesia by a non-resident	-	20	-	20	-	-	-	-	-	-
(i) Subject to relevant Tax Treaty										
6. Value Added Tax Rate	10%	10%	10%	10%	10%					
7. Stamp Duty	Current law	Current law	Current law	Current law	Current law					
8. Import Duty										
i. On imported capital goods	Per prevailing regulations and Article 12 of CoW	Per prevailing regulations and Article 12 of CoW	Per Foreign Investment Law and Article 12 of CoW	Per Foreign Investment Law and Article 12 of CoW	Current Law					
ii. Other goods incl. personal effects	Prevailing import duty regulations	Prevailing import duty regulations	Prevailing import duty regulations	Prevailing import duty regulations	Prevailing import duty regulations					
iii. Excise tobacco liquor	Prevailing import duty regulations	Prevailing import duty regulations	Prevailing import duty regulations	Prevailing import duty regulations	Prevailing import duty regulations					
9. Regional Taxes										
i. Land & building tax (PBB)										
a. Pre-production	Dead rent	Dead rent	Dead rent	Dead rent	-					
b. Production	Dead rent + 0.5% of 30% of gross revenue	Dead rent + 0.5% of 30% of gross revenue	Dead rent + 0.5% of 20% of gross revenue	Dead rent + 0.5% of 20% of gross revenue	-					
c. Other facilities closed to the public	Per PBB Law 1985 (as amended by Law No. 12 1994)	Per PBB Law 1985 (as amended by Law No. 12 1994)	Per PBB Law 1985	Rates generally applicable to mining Industry	-					
ii. IPEDA	-	-	-	-	In accordance with old laws					
iii. Other levies	Generally fixed to levels as approved by Government at the date of CoW	Generally fixed to levels as approved by Government at the date of CoW	Generally fixed to levels as approved by Government at the date of CoW	Generally fixed to levels as approved by Government at the date of CoW	Generally fixed to levels as approved by Government at the date of CoW					
10. Other										
Administrative fees	For special rights	For special rights	For special rights	For special rights	For special rights					
Tax on transfer of ownership of motor vehicles	As currently applicable	As currently applicable	As currently applicable	As currently applicable	As currently applicable					

Appendix 2 illustrates the calculation of income tax for a hypothetical Indonesian mine over a thirteen year period. This period includes three years of pre-production development and ten years of operations.

The calculation of tax illustrated in the model is based on a medium size gold mine producing 250,000 ounces (approx 9,500 kg) of gold annually.

Model inputs		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13
Tonnes milled		0	0	0	4,500,000	4,500,000	4,500,000	4,500,000	4,500,000	4,500,000	4,500,000	4,500,000	4,500,000	4,500,000
Metal price (US\$ per oz)	\$300													
Metal price (US\$ per kg)	\$10,560													
Operating cost/tonne	\$13.00													
Operating costs					58,500,000	58,500,000	58,500,000	58,500,000	58,500,000	58,500,000	58,500,000	58,500,000	58,500,000	58,500,000
Realization expenses	1.00%				585,000	585,000	585,000	585,000	585,000	585,000	585,000	585,000	585,000	585,000
Net operating costs					57,915,000	57,915,000	57,915,000	57,915,000	57,915,000	57,915,000	57,915,000	57,915,000	57,915,000	57,915,000
Preproduction develop.			11,000,000											
Preproduction explor.		15,000,000												
Processing assets				39,000,000										
Mining assets				98,000,000										
On-going exploration					500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000
Income tax rate	30.00%													
Govt royalty (US\$/kg)	\$235													

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13
Govt royalty													
Tonnes milled	0	0	0	4,500,000	4,500,000	4,500,000	4,500,000	4,500,000	4,500,000	4,500,000	4,500,000	4,500,000	4,500,000
Metal produced (kg)	0	0	0	9,468	9,468	9,468	9,468	9,468	9,468	9,468	9,468	9,468	9,468
Metal price	\$10,560	\$10,560	\$10,560	\$10,560	\$10,560	\$10,560	\$10,560	\$10,560	\$10,560	\$10,560	\$10,560	\$10,560	\$10,560
Gross sales	0	0	0	99,982,080	99,982,080	99,982,080	99,982,080	99,982,080	99,982,080	99,982,080	99,982,080	99,982,080	99,982,080
Government royalty	0	0	0	2,224,980	2,224,980	2,224,980	2,224,980	2,224,980	2,224,980	2,224,980	2,224,980	2,224,980	2,224,980
Net revenues	0	0	0	97,757,100	97,757,100	97,757,100	97,757,100	97,757,100	97,757,100	97,757,100	97,757,100	97,757,100	97,757,100
Income tax													
Net revenues	0	0	0	97,757,100	97,757,100	97,757,100	97,757,100	97,757,100	97,757,100	97,757,100	97,757,100	97,757,100	97,757,100
Operating costs	0	0	0	58,500,000	58,500,000	58,500,000	58,500,000	58,500,000	58,500,000	58,500,000	58,500,000	58,500,000	58,500,000
Exploration expenses	0	0	0	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000
Depreciation/amortization	0	0	0	20,375,000	20,375,000	20,375,000	20,375,000	20,375,000	20,375,000	20,375,000	20,375,000	0	0
Net profit	0	0	0	18,382,100	18,382,100	18,382,100	18,382,100	18,382,100	18,382,100	18,382,100	18,382,100	38,757,100	38,757,100
Loss carry forward	0	0	0	0	0	0	0	0	0	0	0	0	0
Taxable profit	0	0	0	18,382,100	18,382,100	18,382,100	18,382,100	18,382,100	18,382,100	18,382,100	18,382,100	38,757,100	38,757,100
Income tax rate	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%
Income tax payable	0	0	0	5,514,630	5,514,630	5,514,630	5,514,630	5,514,630	5,514,630	5,514,630	5,514,630	11,627,130	11,627,130
Loss carry forward													
Opening balance	0	0	0	0	0	0	0	0	0	0	0	0	0
Current loss	0	0	0	0	0	0	0	0	0	0	0	0	0
Available	0	0	0	0	0	0	0	0	0	0	0	0	0
Claimed in year	0	0	0	0	0	0	0	0	0	0	0	0	0
Closing balance	0	0	0	0	0	0	0	0	0	0	0	0	0
Depreciation/amortization													
Opening balance	0	15,000,000	26,000,000	163,000,000	142,625,000	122,250,000	101,875,000	81,500,000	61,125,000	40,750,000	20,375,000	0	0
Current year additions	15,000,000	11,000,000	137,000,000	0	0	0	0	0	0	0	0	0	0
Available	15,000,000	26,000,000	163,000,000	163,000,000	142,625,000	122,250,000	101,875,000	81,500,000	61,125,000	40,750,000	20,375,000	0	0

Summary

CASH FLOW	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Total
Gross sales	0	0	0	99,982,080	99,982,080	99,982,080	99,982,080	99,982,080	99,982,080	99,982,080	99,982,080	99,982,080	99,982,080	999,820,800
Government royalty	0	0	0	2,224,980	2,224,980	2,224,980	2,224,980	2,224,980	2,224,980	2,224,980	2,224,980	2,224,980	2,224,980	22,249,800
Operating costs	0	0	0	58,500,000	58,500,000	58,500,000	58,500,000	58,500,000	58,500,000	58,500,000	58,500,000	58,500,000	58,500,000	585,000,000
Income tax	0	0	0	5,514,630	5,514,630	5,514,630	5,514,630	5,514,630	5,514,630	5,514,630	5,514,630	11,627,130	11,627,130	67,371,300
Fixed assets	0	0	137,000,000	0	0	0	0	0	0	0	0	0	0	137,000,000
Exploration expenses	15,000,000	0	0	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	20,000,000
Development expenses	0	11,000,000	0	0	0	0	0	0	0	0	0	0	0	11,000,000
Opening cash	0	(15,000,000)	(26,000,000)	(163,000,000)	(129,757,530)	(96,515,060)	(63,272,590)	(30,030,120)	3,212,350	36,454,820	69,697,290	102,939,760	130,069,730	
Cash flow for year	(15,000,000)	(11,000,000)	(137,000,000)	33,242,470	33,242,470	33,242,470	33,242,470	33,242,470	33,242,470	33,242,470	33,242,470	27,129,970	27,129,970	
Closing cash	(15,000,000)	(26,000,000)	(163,000,000)	(129,757,530)	(96,515,060)	(63,272,590)	(30,030,120)	3,212,350	36,454,820	69,697,290	102,939,760	130,069,730	157,199,700	157,199,700

Combined cash flow

246,820,800

100.00%

Appendix 3

Selected Royalty Rates

Mineral	Total production per calendar year	Royalty tariff (US\$)
Gold	< 2,000 kg ≥ 2,000 kg	\$225.00 /kg \$235.00 /kg
Silver	< 25,000 kg ≥ 25,000 kg	\$1.90 /kg \$2.00 /kg
Copper	< 80,000 tonne ≥ 80,000 tonne	\$45.00 /tonne \$55.00 /tonne
Nickel ore (Garnierite)	< 1,250 tonne ≥ 1,250 tonne	\$70.00 /tonne \$78.00 /tonne
Nickel ore (Limonite)	< 750 tonne ≥ 750 tonne	\$62.00 /tonne \$63.00 /tonne
Tin	< 50,000 tonne ≥ 50,000 tonne	\$59.00 /tonne \$64.00 /tonne
Coal		13.5 % of sales value

PricewaterhouseCoopers is available to advise and assist with any aspect of investment and taxation in Indonesia.

For further information, please contact one of the following specialist advisers to the mining industry:

Taxation:

Bob Parsons	bob.b.parsons@id.pwcglobal.com
Firdaus Asikin	firdaus.asikin@id.pwcglobal.com
Ruth Davis	ruth.davis@au.pwcglobal.com

VAT:

Glyn Roberts	glyn.roberts@id.pwcglobal.com
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Investment:

Laksmi Djuwita	laksmi.djuwita@id.pwcglobal.com
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**Assurance and
Business Advisory:**

Greg Nairn	greg.nairn@id.pwcglobal.com
Marc Upcroft	marc.upcroft@id.pwcglobal.com

Management Consulting:

Will King	will.king@sg.pwcglobal.com
Alec Hutcheon	alec.hutcheon@id.pwcglobal.com

PricewaterhouseCoopers / Drs Hadi Sutanto & Rekan
JL HR Rasuna Said, Kav C-3, Jakarta 12940 – INDONESIA
PO Box 2473 JKP 10001
Telephone: +62 21 5212901, 5212902, 5212903
Facsimile: +62 21 5212911, 5212912



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