

# *Unleashing Opportunity* Drilling into your tax matters

*Helping you make  
the most of Oil & Gas  
opportunities in  
Malaysia*



*“..... after decades of oil & gas production, our domestic resources will inevitably start to deplete. To prepare for this we will strengthen other value creating activities in the oil & gas value chain....”*

YAB Dato' Seri Mohd Najib Tun Razak





# The oil & gas landscape

Oil, Gas and Energy is one of the 12 National Key Economic Areas (NKEAs) identified under Malaysia's Economic Transformation Programme (ETP), with an annual growth target of 5% from 2010 to 2020. This will more than double the sector total gross national income (GNI) contribution to RM241 billion by 2020 from RM110 billion in 2009.

Under the ETP, Malaysia is focused on becoming the No. 1 Asian hub for oil and field services. We hope to attract multinational corporations to bring a sizeable share of their global operations to Malaysia. Opportunities abound through strategic partnerships and joint ventures - from consolidating domestic fabricators to developing engineering, procurement and installation capabilities and capacity.

With our strong global network and diverse tax capabilities, PwC Malaysia can help you take on these opportunities.

*The regulatory and compliance landscape is particularly complex for oil & gas companies. Not only do you have to conduct operations in a variety of regulatory and tax regimes but you also have big upfront investment needs, which often go hand in hand with great uncertainty about long-term outcomes.*

*Whether a company is considering a transaction, joint venture agreement, production sharing agreement, or organic expansion our tax professionals have the experience and deep industry knowledge to help you unleash opportunities across the value chain*

**Value chain**

We service the full hydrocarbon value chain

**Key areas of consideration**

*PwC service offerings*

## Upstream

- National Oil Companies
- Integrated Oil Companies
- Independents



## Midstream

- LNG/PNG/CNG
- Pipelines
- GTL/CTL
- Oil Storage
- Gas Storage
- Shipping

## Downstream

- Petrochemical/Refining
- Wholesale
- Retail
- Trading



## Services

- Oilfield services
- Seismic
- Drilling
- Well intervention
- Offshore Services Vessels
- Subsea construction
- Mooring systems
- Rig/platform construction
- Fabrication

**Compliance**

**Project Economics**

**Structuring & Contract Terms**

Corporate tax consulting

International assignment services/ personal taxes

Transfer pricing

and investigations

Indirect taxes

Online tax services

Worldtrade management services

Corporate services – payroll & accounting outsourcing & company secretarial services

# Oil & Gas Industry Issues

## *Complying with regulatory & reporting requirements*

Energy companies expanding globally are increasingly affected by tax, and regulatory developments, eg. treatment of capital costs, tax shelters/incentives, foreign tax credits, etc.

## *New reserves are becoming more difficult to find and develop*

Some regions are off-limits due to nationalism, environmental issues, war or terrorism. As a result, energy businesses are increasingly undertaking acquisitions, disposals of non-core business, undergoing merger or joint venture to remain profitable.

## *Volatility in crude oil prices*

Hedging strategies during period of high volatility and the recent upward trend in oil prices have been evolving resulting in companies using a combination of exchange traded derivatives and longer-term physical contracts.

## *Rising cost of oilfield service and oil and gas development inputs*

The outlook for most companies is a continued tightness in labour availability, steel and drilling rigs.

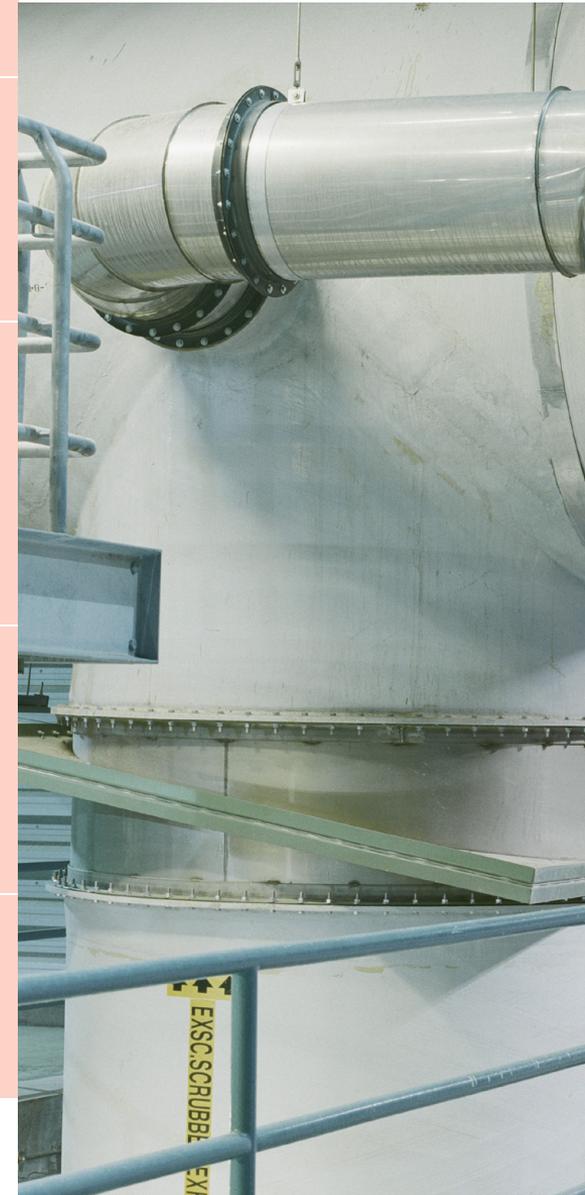
# Tax Implications

- Inefficient tax structure
- Excessive tax leakages
- Impact to the bottom line

- Exposure to tax risk
- Future net cash flows not optimised

- Taxation of derivative contracts is often complex
- Commodity price movements and the resulting tax effects have a material impact on business

- Given the volume of cost escalation involved there are potentially significant risk both in terms of indirect tax liability and indirect tax compliance



## Our past experiences

---

PwC was commissioned by the trade association Oil and Gas, UK to undertake a Total Tax Contribution survey of its members which includes not only the oil and gas producers, but also the supply chain for the upstream oil and gas industry in the UK. As a result of the survey, the members had greater knowledge of the wider fiscal base of the industry. PwC was able to provide better information of the total tax contribution to the Exchequer from across the industry, to help inform the ongoing consultation with HM Treasury regarding the future of the North Sea fiscal regime.

---

PwC was engaged by our client, an Asian major with significant Exploration & Production portfolio, to carry out due diligence and other advisory services for a cross-border opportunity in a contiguous market. Our team was able to identify real deal issues that saved considerable dollars for our client through purchase price and valuation adjustments. We also added value to the deal process by assisting in formalising specific representations and warranties in the Sales and Purchase Agreement.

---

PwC was engaged by our client, an Asian major with significant Exploration & Production portfolio, to carry out due diligence and other advisory services for a cross-border opportunity in a contiguous market. Our team was able to identify real deal issues that saved considerable dollars for our client through purchase price and valuation adjustments. We also added value to the deal process by assisting in formalising specific representations and warranties in the Sales and Purchase Agreement.



# *PwC's oil & gas credentials*

## *delivering value outcomes*

## *Upstream*



### **Project economics**

- Assisted an international O&G company structure its first RSC contract in Malaysia. Ensured the terms were fair, minimise risk exposure and safeguarded profitability.
- Advised and validated financial modeling for an integrated oil company in undertaking a PSC in Malaysia. Ensured the terms enabled our clients to receive maximum economic returns from the venture.

### **Structuring & contract terms**

- Assisted a major upstream player in structuring their Malaysian investment. Ensured their cashflows from their sizeable investment were ideally utilised.
- Assisted an oil company in structuring their financing for operations in Malaysia in a tax efficient manner. Savings were significant given the size of the financing.
- Assisted with structuring the movement of client's staff from overseas to Malaysia in the areas of personal tax ensuring staff need not fret over complying with overlapping tax regulations between home and base country.

### *Tax compliance across the value chain*

*We have assisted our clients in the area of:*

## Midstream

### Structuring & contract terms

- Performed due diligence exercise on RM100m acquisition of a shipping company.
- Assisted an OSV client in structuring for tax efficiency, including contractual arrangement of vessel ownership, crew management services and financing concerns. The client was able to derive the best deal possible and achieved substantial savings in the process.

*Production Sharing Contracts (“PSC”)  
Risk Service Contracts (“RSC”)  
Offshore Support Vessels (“OSV”)*

## Downstream

### Project economics

- Assisted in structuring and negotiations of incentives as well as advised on tax issues pertaining to the Refinery/ Petrochemical projects for various companies ensuring terms were fair and in line with global best practices.

### Structuring & contract terms

- Advised an oil company in setting up a petrol station retail business in Malaysia. Areas of focus included entity structure, funding, people movement, waiver of obligations, treatment of certain costs and capital allowance maximisation.
- Advised a foreign company in setting up a Natural Gas Hydrate plant in Malaysia including tax implications on the contracting and transfer of technology structure.
- Reviewed a financial model of a refinery for tax efficiency purpose. Prevented excessive tax leakages.

## Services

### Seismic acquisition

- Advised on the merger of two large seismic companies in relation to their operation in Malaysia.

### Drilling companies

- Assisted in field, tax investigations, structuring of assets and operations in Malaysia.

### Oilfield services

- Performed a withholding tax review of a client’s entire Malaysian operations spanning several businesses and entities.

### Subsea contractor

- Structured investment as a manufacturing hub in Malaysia including dealing with the relevant authorities to obtain incentives.

### Miscellaneous O&G companies

- Advised various companies in the O&G value chain in undertaking contracts in the Joint Development Area.
- Due Diligence on a company involved in fabrication of platforms and installation / commissioning of offshore structures.

Our approach to corporate income tax compliance helps companies seeking better tax management across a number of territories or with multiple entities in one territory. This is particularly relevant when a company is entering new countries or where accounting and finance resources are being moved into shared service centres.

preparation and administration of tax returns and other related requirements

dispute resolution with the tax and customs authorities in terms of audits and investigations

indirect taxes by structuring the company’s activities so as to avoid the tax or assist in complying with the filing requirements

# *Our practice people*

*Practical, far-sighted advice that gets straight to the heart of issues and delivers results.*

**27% audit  
market share**

*PwC is the leading service provider to Global Exploration and Production Companies, auditing 27% of companies with sales of above USD500 million.*



## 13 regional COEs

*We provide you with the unique experience our professionals gain from tours of duty in foreign offices. With 13 regional Energy Centres of Excellence (COE) around the world, our people work and train in diverse industry locations.*

## 3,100 specialists

*More than 3,100 specialists are assigned full time to the Global Energy Group, giving our clients access to Oil & Gas specialists around the world. We have over 300 partners serving global energy companies worldwide.*

# Our Team



***Khoo Chuan Keat***

Senior Executive Director

chuan.keat.khoo@my.pwc.com

**03-21731368**

PricewaterhouseCoopers Taxation Services Sdn Bhd



***Lavindran Sandragasu***

Executive Director

lavindran.sandragasu@my.pwc.com

**03-21731494**

PricewaterhouseCoopers Taxation Services Sdn Bhd



***Dorothy Ooi***

Executive Director

dorothy.ooi@my.pwc.com

**03-21731444**

PricewaterhouseCoopers Taxation Services Sdn Bhd