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# *Energy, Utilities & Mining*
# NewsFlash

## *Staring down the barrel – An investor survey of the Indonesian oil and gas industry*

**Anthony J. Anderson & Paul van der Aa**

PwC Indonesia has released its fifth biennial survey of the Indonesian oil and gas sector, "Staring down the barrel – An investor survey of the Indonesian oil and gas industry". The survey responses come from companies representing approximately 75% of Indonesia's current petroleum production. The objective of the survey is to explain the contribution of the oil and gas industry to the Indonesian economy and explore the issues preventing the full realisation of the potential benefits for all stakeholders. Overall, survey participants indicated that Indonesia is still regarded as attractive; however the "shine" seems to be wearing off. We reported this trend in our 2010 survey and there is a continuation of this in our 2012 survey results.

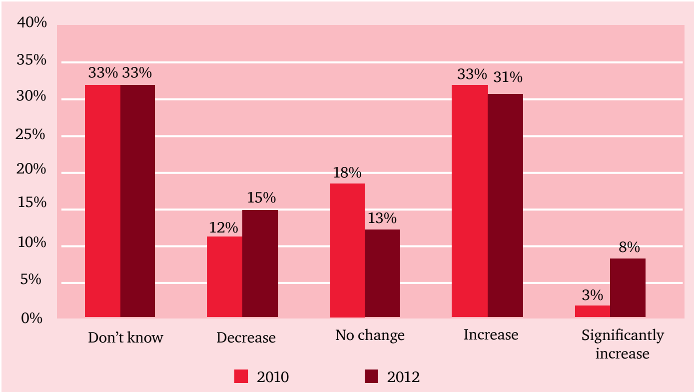
In short the five most critical issues facing the industry are as follows:

1. Contract sanctity
2. Taxation
3. Interference from other government agencies, such as the tax authorities
4. Uncertainty over cost recovery and BP Migas / BPKP audit findings
5. Confusion as the roles of the central, provincial & regional government

We noted that survey participants were slightly optimistic on the anticipated developments in a number of these "challenges" (is the critical issues) over the longer term as they expect some improvement within the coming five years. However, despite this, the survey participants also indicated that they don't expect any significant improvement for the remaining challenges (such as interference from other government agencies, such as the tax authorities, uncertainty over cost recovery and BP Migas / BPKP audit findings and contract sanctity). The main reason behind this somewhat pessimistic view may be that many of the challenges confronting Indonesia, such as KKN and judicial reform, require structural changes and this will take some time to implement.

As can be seen in the chart below, for the general view still seems to be that the capital spending will decline or stay the same over the coming 5 years. This is a worrying trend, especially since in our 2008 survey, over 90% of survey participants thought capital expenditures would increase or significantly increase. Approximately 33% of survey participants indicated that they "don't know" what capital expenditures will do over the next five years, also a negative trend given the long-term nature of the industry. For the first time, some survey participants indicated that they will not spend any money in Indonesia going forward.

## Capital spending in Indonesia for the coming 5 years




Not surprisingly, survey participants did see the number of employees working in the oil and gas industry in Indonesia increasing over the coming years. A number of survey participants commented that the decrease in expatriate numbers is a worry as they have a wealth of experience to share.

A large percentage of survey participants indicated that they expect to increase their hiring of local staff. However, a recurring theme was that attracting qualified and talented staff is one of the most significant challenges facing the industry. Consistent with our 2010 survey, several respondents commented on the trend for skilled (national) employees to work in other locations (mostly the Middle East) with the somewhat restrictive salary guidelines in Indonesia.

As was the case in the 2010 survey, industry participants indicated that geological prospectivity remains Indonesia's most attractive feature, followed by political stability. This is a positive sign however, this needs to be tempered with the survey participants' negative views on the contract and project approval process, and the existing fiscal framework.

Overall, one can conclude from our survey that in order to remain competitive with other jurisdictions, it is critical that the overall investment climate in Indonesia continues to improve.

Please refer to www.pwc.com/id for an electronic copy of the report. Should you wish to obtain more information regarding the survey results, please do not hesitate to contact:


***Anthony J. Anderson***
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# GR 79 updates

Rita Susanto & Shaun McCaffrey

Following the recent implementing regulations of GR 79 (PMK 256 and 257) at the end of last year, the Directorate General of Tax ("DGT") has been conducting public discussion and socialisation sessions. A summary of issues addressed by the DGT is set out below. These comments should be read in conjunction with our Newsflash Special Edition No.41.

## Parent Company Overhead ("PCO") Allocations - PMK 256

a) The cut off between exploration and exploitation stage is the year in which the Plan of Development (PoD) is approved, not the approval date. That is, the exploitation stage commences in the year after the POD is approved.

b) The PCO allocation cap is differentiated as follows:-
   i. During exploration phase: 2% of total expenditure during the entire exploration period (i.e. average over multiple years);
   ii. During exploitation phase: 2% of total expenditure during <u>each</u> year.

c) Although the regulation is silent on the exposure to WHT/ VAT, the DGT believes that the tax treatment should be that tax should be withheld on the PCO allocations based on the prevailing tax rules (whether or not the WHT is borne by the Government under S-604 remains unclear).

## PSC Uplifts/PSC Transfers – PMK 257

*Uplifts*

a) Branch Profit Tax ("BPT") is due on uplift income at 20% of the gain from uplift income, less the 20% tax already paid on the gross uplift income. It seems that a reduction of the BPT rate under a tax treaty should be permitted.

b) Uplift income and BPT should be reported by the recipient in the annual Corporate Income Tax Return form and special attachment for Article 26(4).

*PSC Transfers*

a) PMK 257 applies to all share transfers imposing both the "final" transfer tax (5% or 7%) and BPT. The DGT public standard suggest that the taxes may only be applicable to the sale of shares involving a change of control.

   ***PwC Indonesia observation :*** *our review of PMK 257 suggests that a "change of control" is difficult to support in a technical sense and would require another implementing regulation.*

b) The DGT view is that the same form should be used to reflect both direct working interest transfers and share sales.

   ***PwC Indonesia observation:*** *The form to report PSC transfers is not suited to reporting transfers via share sales. This will make it difficult to accurately report share transfer transactions.*

c) Consistent with comments in the examples of PMK 257, the DGT has been indicating that a "substance over form" approach should be followed meaning that BPT should apply to share sales even though the proceeds are not attributable to the activity of the branch.

   ***PwC Indonesia observation:*** *As noted in our Newsflash Special Edition No.41, the technical basis for the application of BPT to foreign share sales is not strong.*

## Conclusion

Further work is needed in the implementation of GR 79 to provide greater certainty, particularly in relation to PSC transfers.

It is hoped that the DGT will participate in further discussions to assist taxpayers in understanding their tax obligations.

PSC companies should therefore ensure they the monitor developments if they are considering transferring any interest in a PSC.

PwC will continue to monitor and report on any significant developments.

# *New BI regulation on export revenue* – negative reaction from petroleum companies

**Hafidsyah Mochtar**

In the last few years, the Indonesian government has been concerned with how to accelerate domestic oil production. This is because domestic oil consumption has been exceeding domestic production levels since 2003. With this in mind, it is essential for Indonesia to create a momentum around investment in the oil and gas sector. However, recent regulations around foreign revenue issues by Bank Indonesia ("BI") may not be in line with this goal.

On 31 September 2011, BI simultaneously issued PBI no 13/20/PBI/2011, PBI no 13/21/PBI/2011, and PBI no 13/22/PBI/2011 (together "PBI no 13"). The standard purpose was to create stability of foreign exchange supplies in the domestic market.

PBI no 13 stipulates three main requirements:
a) that all export revenue must be allocated through accounts with Indonesian banks, including Indonesian branches of offshore banks ("onshore accounts") and to submit a report/supporting document to the bank once revenue has been on the onshore account;

b) that any discrepancy between the amount received on the onshore account and the export value stated in the Export Goods Notification ("PEB") must be explained in written form and supported by related evidence;

c) that if foreign exchange from external debt is to be withdrawn through onshore accounts, the debtor must report the withdrawal to BI.

Implementation of these regulations will have the following implications:

a) the exporter/contractors will need to report their export revenue and reconcile it should any discrepancy arise;

b) confidentiality around where contractors need to submit relevant supporting documents with some of these documents being sensitive and confidential to the contractors;

c) additional cost of debt since they cannot directly withdraw external debt to their offshore accounts. PBI no 13 was set to be implemented starting 2 January 2012. Non-compliance will result in the suspension of export activity.

PBI no 13 will therefore not only add an additional administrative burden, but will also impose limitations on the financial flexibility of the contractors. Certain industry players also see that this new requirement could also decrease contractors' attractiveness for global financial institutions to provide them project financing for capital projects in the future, considering the lower scope for flexible financial and banking arrangements (e.g. use of an offshore trustee on a cash waterfall for the sale of gas or LNG).

Under most PSC's Contractors, are granted the right to freely manage the lifting and sale of their share of petroleum. Liberty is granted to the contractors in managing aspects of the exporting, including the decision as to whether to retain the export proceeds abroad.

Up to now, there is no further response or clarification from BI or related authorities (e.g. BP Migas and Ministry of Energy and Mineral Resource) relating to these matters. PwC Indonesia will provide more information as further details come to hand.

# *Mandatory in-country processing/Export Tax –A general update*

Anthony J. Anderson and Tim Watson

Under the Mining Law, holders of Mining Business Licence's ("IUPs") and Special Mining Business Licences's ("IUPKs") are required to carry out in-country processing to increase the value of the relevant mineral or coal. This processing can, in certain cases, be undertaken by third parties which have already obtained a Special Production Operation IUP/IUPK for processing and refining. The timeline for the in-country processing requirements was as follows:

| Phase of operations | Deadline |
|---|---|
| Exploration IUP holders ; or<br><br>Exploration/Feasibility phase CoWs | 6 February 2015 |
| Production IUP holders undertaking<br><br>construction; or<br><br>Construction phase CoWs | 6 February 2016 |
| Production IUPs in production; or<br><br>Production phase CoWs | 12 January 2014 |

However, in respect of minerals, the MoEMR issued Regulation No.7/2012 ("PerMen 7") on 6 February 2012. PerMen 7 seeks to ban the export of ore and raw minerals effective 6 May 2012 (i.e. 3 years earlier than the processing deadline).

PerMen 7 applies to metal and non-metal based minerals and rocks, and provides further details on the minimum processing (which is generally to finished product stage- or near to it). Processing may still be undertaken by a third party where it would be "uneconomical" for the IUP holder (although "uneconomical" is not defined).

The window between the start date for the ban on exporting ore and the processing requirements has caused concern. This is particularly given the time and capital required for some types of processing operations to be set up.

Although PerMen 7 applies to CoWs, the lex specialis nature of a CoW arrangement could make application difficult for the Government (at least until the end of the CoW). However, as in-country processing appears to be a priority of the Government it could alternatively be included as part of the current round of CoW renegotiations.

A further twist arose with the issue on 4 May 2012 when the MoEMR issued a Press Release No. 17/HUMAS/KESDM/2010 in relation to PerMen 7, to the effect that it has been agreed that it was necessary to control exports of ores and raw minerals through certain export procedures and a new export duty or tax. As a result, Trade Regulation No. 29/M-DAG/PER/5/2012 regarding Mineral Exports (including ores) was issued with effect from 7 May 2012. This regulation imposes conditions on the export of 14 ores/minerals. At the time of publication, this regulation had just been supplemented by a Minister of Finance regulation, levying an Export Duty at the average rate of 20%, on the export of 65 mineral and ore categories.

As readers begin to contemplate building processing facilities, you may wish to review Government Regulation No. 62/2008 (as amended by GR 52/PJ/2011) which provides incentives for certain downstream processing companies (as new investments or as expansions to existing projects). The incentives are as follows:

- a 30 percent investment allowance on qualifying capital spending spread over six years (i.e. 5 percent each year)
- accelerated depreciation/amortisation entitlements (twice the normal rate)
- a 10 percent WHT rate on dividend payments to non-residents
- an extended tax loss carry forward (maximum of ten years).

Please refer to our commentary on GR 52 in our January 2012 EuM Newsflash (Issue No. 42) for further details.

# *Are you safe?*

Premala Ponnusamy

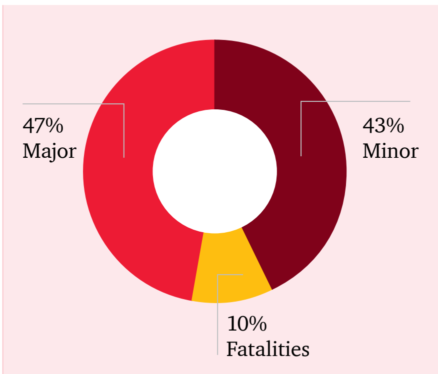
*Safety is now an issue that can impact bottom line significantly. In Indonesia, we have seen fatalities and major injuries which lead to costly compensation, community outrage, wage increases, halted operations and reduced production. So the question to ask is "Are You Safe?" Safe from physical harm? Safe from financial loss? Safe from reputational damage?*

The rapid growth in the mining industry in Indonesia has realized significant value for local and foreign investors as well as the country as a whole. However, with rapid growth comes increased exposure to risk and challenges. Beyond international investor and funding institution expectations, local Indonesian companies are also going abroad, acquiring assets in other regions including Africa and South East Asia. These developments imply the need for increased executive attention on issues such as safety.

The gap between safety practices in local mining companies against international good practices* and leading organisations is still a sizeable one. As local companies take steps to address the gaps, international standards and investor expectations for safety practices continue to rise. Globally and increasingly in Indonesia, mining companies and related stakeholders have identified safety as a key risk and a priority for sustainable production.

Locally, companies are starting to increase attention on safety, aware that a significant shift in mindset and a transformation of working practices is required to ensure the issue is being addressed. "Band-aid" solutions whilst costing less have no real value to the organisation.
The chart below illustrates the number of reported safety incidents in 2011 in mining in Indonesia. Actual cases may exceed this number where cases go unreported. Based on the regulatory definitions in Indonesia, a mining company is only responsible for incidents within the mining area. However, safety of communities in the surrounding area is also a key concern for companies, as this could lead to significant financial loss due to community outrage as a result of safety incidents.

**2011 Incidences**



*A sample of international and local standards on safety:

- *International Labour Organisation (ILO)*
- *International Finance Centre (IFC)*
- *EU Directives*
- *OHSAS 18001 UK Health and Safety Executive*
- *(HSE) Publication HSG 652*
- *Indonesian Law No. 1/ 1970*
- *Ministerial Decree of Energy and Mineral Resources No. 555.K/26/M. PE/1995*

For example, many reader will already be aware that workers' strikes in PT Freeport Indonesia resulted in over three (3) months of halted operations contributing to the company's 59% dip in profits[1].

Similarly, a recent incident resulting in two fatalities had caused the suspension of an exploration company's permit in Indonesia.

The challenge in Indonesia is further exacerbated by the common operating model by most mining companies, where operations are mostly, if not wholly contracted out to contract mining companies. We discuss contractor management further in our next issue of the EU&M Newsflash.

Some of the leading companies in Indonesia are leading the way by looking at transformational initiatives involving revamping operations and management practices to embed and emphasise safety within the company. In the longer term, companies have realised benefits from improving safety through reduced costs, increased productivity and most importantly, the increased ability to employ, if viewed as a preferred employer.

We, at PwC Indonesia have assisted clients locally and globally in this journey towards adopting and embedding good safety practices. Based on our experience in this field, we have identified several key areas that require considerable change to support a safe and sustainable working environment:

1. Embedding a **safety philosophy** within all aspects of the organisation to be reflected in processes, company values and mindset, decision making, performance measure, etc.
2. Establishing a structured **monitoring and reporting** framework that provides for sufficient and useful management information enabling better resource planning, proactive safety mitigation measures and optimises the use of resources.
3. Ensuring improved capabilities and competencies for **safety supervision** as an important control to identify and manage safety risks.
4. Ensuring improved **contractor management**, where the relationship between owners and contractors / contractors and sub-contractors are based on a partnership model resulting in a mutually beneficial alliance

There are many other aspects to improving safety that are specific to a company's situation, operational model and environment, which can be identified through a safety practices review against expected safety standards. Expected safety standards are determined by management taking into account stakeholder expectations, business objectives and growth plans.

PwC Indonesia takes a very pragmatic approach to safety; we understand that as a business with limited resources, any safety improvement plan needs to prioritise efforts against safety objectives set. Our approach looks at identifying, prioritising and managing key safety risks at the outset whilst establishing a model for continuous improvement. We also understand that safety cannot be addressed as a stand alone issue. Safe operations are an outcome of a combination of factors hence requiring longer term solutions rather than quick fixes.

For more information, please contact Gopinath Menon, Technical Advisor or Premala Ponnusamy, Technical Advisor (see the contacts section under Advisory on the back page of this publication).

1 Freeport sees profits dip 59% as Indonesia strikes hurt, BBC News, 20 January 2012

# *Update on the import tax and duty facilities*

## Oil & gas and geothermal

**Felix MacDonogh & Gadis Nurhidayah**

### *Update*

On 8 February 2012, MoF Regulation No. 27/ PMK.011/2012 was enacted providing a general VAT exemption on the import of goods for upstream oil & gas and geothermal businesses receiving an Import Duty exemption under MoF Regulation No. 177/ PMK.011/2007.

This follows a number of regulations issued since 2005 providing exemptions from the various forms of import taxes (VAT and Article 22 Income Tax) and import duties. This update sets out the current facilities available for oil & gas and geothermal businesses.

### *Oil & Gas*

**"Old" PSCs**

For PSCs signed prior to the Oil and Gas Law No.22/2001 (referred to as the "Old PSCs"), the contracts typically provide that Pertamina (now BP-Migas) is to discharge, out of its share of production, all Indonesian taxes (other than Income Tax). These included VAT, transfer tax, import and export duties on material equipment and supplies brought into Indonesia by the Contractor (subject to documentary proof).

The discharge of import taxes and duties has been historically accommodated via a Master List, which effectively led to an out right exemption of all import taxes and duties on import of the approved capital items. Post Law.22/2001, the availability of import tax exemptions for Old PSCs has been provided through MoF Regulation No.20/PMK.010/2005 and is effective until the end of the PSC contract term.

**"New" PSCs**

For PSCs signed post Law No.22/2001 (referred to as "New PSCs"), the import taxes and duties facilities are no longer available under the Masterlist. However, limited facilities are continued by the Ministry of Finance via a number of separate regulations as noted below.

Pursuant to Article 25(10) of GR79, prima facie the Contractor should be protected from import taxes and duties for goods used in petroleum operations during both exploration and exploitation. However, since GR-79 defers the implementation of these facilities to "*the statutory law and regulations*", PSC Contractors must look beyond GR79 in order to obtain exemptions from import taxes and duties.

| | | Import Duty | VAT | Art. 22 Income Tax |
|---|---|---|---|---|
| **Old PSC (Pre-2001 )** | | ✓ | ✓ | ✓ |
| **New PSC** | Exploration Stage | ✓ | ✓ | ✓ |
| | Exploitation Stage | ✓ | - | ✓ |

*1. Import Duty*

MoF Regulation No.177/PMK.011/2007 ("PMK-177") provides an Import Duty exemption for New PSCs effective from 16 July 2007. In contrast to VAT (see below), the regulation arguably applies to both exploration and exploitation activities, although it restricts the facilities to goods that are yet produced, or not produced to the required specifications, or not produced in sufficient quantity in Indonesia.

In addition, MoF Regulation No.179/PMK.011/2007 ("PMK-179") provides for a 0% Import Duty on the import of drilling platforms and floating or submarine production facilities.

*2. VAT*

On 8 February 2012, the MoF issued regulation No 27/PMK.011/2012 ("PMK-27") which provides an exemption from import VAT on certain goods exempted from Import Duty. Under PMK-27, the import of goods used for upstream oil and gas exploration business activities, as well as temporarily imported goods are among those that are explicitly exempted from Import Duty. This marked an end to the previous "VAT borne by Government" mechanism provided via the annual State Budget, and which required the issuance of an MoF Regulation on an annual basis.

As noted above, PMK-27 limits the facilities to "exploration stage" only, in contradiction to GR-79 (PMK-27 does not refer to GR-79). Therefore import VAT remains an issue for Contractor during exploitation, although it may represent a cash flow concern only if the PSC contract allows for VAT reimbursement (post GR-79 VAT may only be recoverable/deductible).

On the basis that PMK-179 provides a rate reduction on Import Duty (to 0%), rather than an exemption, the Contractor may not be able to make use of PMK-27 in order to benefit from a VAT exemption on the import of drilling platforms and floating or submarine production facilities (it is assumed that this is an unintentional drafting error and was subject to enquiry with the Director General of Taxation at the time of writing). As a consequence of PMK-177, the VAT exemption will also be subject to the restrictions noted above regarding goods produced in Indonesia.

*3. Art. 22 Income Tax*

MoF Regulation No.154/PMK.03/2010 ("PMK-154") dated 31 August 2010, provides an exemption from Art. 22 Income Tax for *"goods used for upstream activities of Natural Oil and Gas, the importation of which is conducted by the Contractor"* that are exempted from Import Duty and/or VAT.

Please note that per the implementing regulation of the above, the exemption is provided without the requirement to seek a Certificate of Exemption (SKB) from the Director General of Taxation, but is granted directly when the import declaration for the goods is submitted to the Heads of Primary Service Offices or Heads of Customs and Exercise Service Offices (see Director General of Customs and Excise Circular SE-31/BC/2010).

Whilst there are no specific restrictions regarding the type of goods imported, as the exemption is provided through exemptions for VAT and Import Duty, the same restrictions noted above regarding goods produced in Indonesia will also apply. However, the regulation also applies where the imported goods are subject to a 0% import duty rather than an outright exemption.

## Geothermal

In general, similar income tax and duty facilities are available for Geothermal businesses. In addition, Geothermal business can use of a number of facilities intended for the producers of electricity.

### JOC Regime

Older geothermal businesses with Joint Operation Contracts ("JOC") should be able to make use of MoF Decreee No.766/1992 ("MoF-766") which indicates that the import of operational goods for the exploitation of geothermal resources shall not be subject to Import Duty, VAT or Art. 22 Income Tax as provided by the Joint Decree No.1122.K/92/M./PE/1997; 321/KMK.01/1997; 251/MPP/Kep/7/1997 of 18 July 1997, which to our knowledge has not been revoked.

In addition, MoF Regulation No.78/PMK.010/2005, issued on 6 September 2005, provided an exemption for Import Duty for Geothermal businesses under the Joint Operation Contract ("JOC") regime.

### New Regime

For contracts entered into after the Geothermal Law No.27/2003, separate regulations should apply to provide facilities for Import Duty, VAT and Art. 22 Income Tax, as discussed below.

| | | Import Duty | VAT | Art. 22 Income Tax |
|---|---|---|---|---|
| **JOC Regime** | | ✓ | ✓ | ✓ |
| **New Regime** | Exploration Stage | ✓ | ✓ | ✓ |
| | Exploitation Stage | ✓ | ✓* | ✓ |

* See point 2 on VAT below.

*1. Import Duty*

As for oil & gas, PMK-177 also provides an Import Duty exemption for Geothermal businesses during exploration and exploitation, subject to the conditions regarding availability in Indonesia (as described above).

In addition, MoF Regulation Mo.154/PMK.011/2008 ("PMK-154") provides an exemption from Import Duty for qualifying electricity producers and suppliers, subject to same local production restrictions as noted above for PMK-177. In order to benefit from this facility, the power producer must submit an application to the Director General of Customs and Excise.

*2. VAT*

PMK-27 also applies for Geothermal exploration business in a similar manner to that described above for oil & gas.* In addition, an exemption is available on the import of capital goods used for the delivery of certain strategic goods, including electricity, under MoF Regulation No.31/PMK.03/2008. As a result, an energy producer may be able to make use of this additional regulation to obtain a VAT facility during the exploration stage.

*3. Art. 22 Income Tax*

MoF Regulation No.21/PMK.011/2010 provides an exemption from Art. 22 Income Tax subject on the import of machinery and equipment. The exclusion is available without use of a Certificate of Exemption.


## Deals Review

Anthony J Anderson

# Renewables M&A hits new record highs


As Indonesia endeavours to build the percentage of its energy supply derived from renewable energy ("RE") with a mix of tax incentives and the promise of feed-in-tariffs for the wind and geothermal sectors, it is instructive to observe the extent of development of the RE industry on a global basis. The growing value of global M&A deals and the activity of RE equipment manufacturers, suggest that there is a whole spectrum of economic activity from RE that Indonesia is currently not participating in.

Deals for 'new generation' renewable technologies – wind, solar, biomass - are entering the big time driving the market to new record highs, reports PwC in its annual global analysis of merger and acquisition (M&A) transactions in the renewable sector ("Renewables Deals 2012 Outlook and 2011 review").

- Total renewables deal value leaps 40% worldwide, driven by industry shake-out
- Billion dollar deals dominate
- Reappraisal of nuclear post Fukushima gives extra boost to renewables' generation and prospects

- Significant deal flow expected throughout 2012 despite industry and economic uncertainty

Deal values rose 40% year on year, from US$38.2bn in 2010 to a record level of US$53.5bn in 2011. Billion dollar deals dominated, as solar, wind and energy efficiency deals overtook hydropower as the driver for big deal values for the first time. One in every three deals last year was solar and overall deal value for the sector is up 56% from US$10.2bn to US$15.8bn.

A reappraisal of the role of nuclear in many countries' national energy strategies after the Fukushima emergency has provided an extra impulse for renewable generation in certain markets. There was also continued strong momentum behind deal activity in the solar and energy efficiency sectors. Buoyed by the increase in big transactions, deal value in these two sectors nearly doubled year on year. Together, they account for the vast majority (79%) of the US$15.3bn increase in the total value of all renewables deals.

Paul Nillesen, partner, PwC Netherlands for renewables said:

*"Dealmaking in the renewables and energy efficiency sectors is intensifying as the sector evolves. Sustained high deal numbers and record total value reflect a maturing of the sector. The trend is all the more noteworthy given the uncertainty in the market and in government policies on renewables. We believe that deal flow will continue to be significant in the medium term."*

Falling solar prices are making solar power more economic and closer to grid parity in some markets. The entrance of pension and insurance funds, most notably via the $1.3bn investment by Danish pension insurance groups in offshore wind in Denmark, confirms the trend towards a maturing market and the creation of secondary markets, with assets sold for a second or third time. But the report warns that the sector is facing considerable growing pains.

Paul Nillesen, partner, PwC Netherlands for renewables, said:

*"US and European manufacturers are coming under cost pressures. They are not alone. Some Chinese manufacturers also face heavy debt and are coming under competitive strain. There is significant overcapacity in China. The result is likely to be a succession of tie-ups within and between the main manufacturing territories of the US, Germany and China leading to a smaller number of big global players."*

As well as expecting to see a smaller number of global players in the solar market, PwC UK also says that consolidation among larger players is likely to occur in the windpower sector. Two recent profit warnings from Danish company Vestas are the most high profile example of the challenges facing some windpower companies.

Ronan O'Regan, director, renewables and cleantech, PwC UK said:

*"As offshore wind projects increase in size, the need for a strong balance sheet to support the technology becomes more important. This creates scope this year for a landmark wind power combination between players from one or more of Asia Pacific, Europe and North America."*

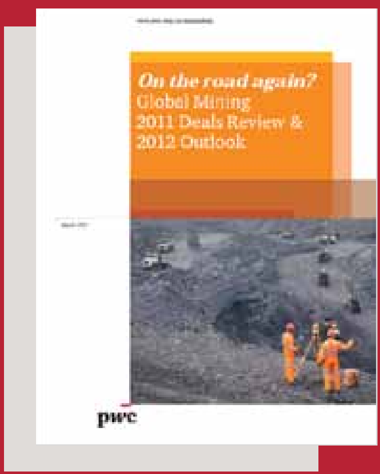
The new PwC publication Renewables Deals includes analysis of all global renewable energy and clean technology M&A deal activity. This year, the analysis is based on transactions from Clean Energy pipeline's proprietary M&A database, provided by Venture Business Research. Figures relate to the actual stake purchased and are not grossed up to 100%. The analysis also includes deals with undisclosed value. Deals where the transaction value is undisclosed are assigned an average transaction value using a methodology derived from Clean Energy pipeline's proprietary M&A data.

In summary, deal volumes and values were as follows:

- European deal volumes dipped 6%, but overall value rose 80% from US$16.7bn to US$30bn
- North American deal volumes dipped 5%, with deal value also down 5% from US$13bn to US412,4bn
- South American deal volumes rose 90%, with total value up from US$3.2bn to US$6.8bn
- Asia Pacific (including Australasia) deal volume was down 26% but value rose 15% from US$4bn to US$4.6bn.

Should you like to request a hard copy of the report, please contact Yan Stephanus on his email yan.stephanus@id.pwc.com or Arfianti Syamsuddin on her email arfianti.syamsuddin@id.pwc.com

# Mining growth markets continue to gain traction: Western markets beware




Whilst Indonesia continues to announce unsettling regulatory changes for the mining sector, it is interesting to review the recent observations of the PwC Global Mining 2011 Deals review, particularly in regard to emerging growth markets. We note also the expectation of an “African Renaissance” characterised by an investor friendly climate – see under the heading below “Predictions for the Year”.

Key findings were:

- Demand from emerging countries will continue to drive M&A - Africa will emerge as one of the most important mining geographies this year
- China dominates, representing close to half of the growth market- led deal activity in 2011
- Despite a weak macro backdrop and falling commodity prices, 2011 marked the second busiest year in mining M&A activity in history
- In 2011, growth market miners by value represented almost a quarter (24%) of global mining M&A. This is nearly 50% higher than the total deal value seen at the 2006 market peak and compares to the less than 1% penetration observed at the start of the millennium for the same group, according to PwC’s Global Mining 2011 Deals Review & 2012 Outlook: On the road again report.

Tim Goldsmith, global mining leader, PwC Australia, said:

*“While these markets aren’t yet dominant, with each passing year, growth market miners are increasingly becoming forces to be reckoned with.*

*“Africa is set to emerge as one of the most important mining geographies of 2012 with unparalleled resource potential and an increasing investor climate.*

*"Of course we have, and will continue to see, many deals for African assets and note that emerging nations such as China already have a major footprint in the mining industry throughout the continent."*

Regarding Western-led deals in 2011, many developed world buyers are ‘playing it safe’ – 72% involved acquisitions of projects in another developed world region. The report indicates that this trend may be a barrier to long-term growth, given that roughly three-quarters of known reserves lie in countries outside the developed markets.

Tim Goldsmith, global mining leader, PwC Australia, said:

*“Numbers don’t lie. Developed nations have to ask themselves what is the long-term cost of not doing business in the growth markets. They need to be more aggressive.*

*“The shifting centre of gravity, from the west to the east, will increasingly challenge the traditional economics behind mining M&A and force Western entities, especially boards and shareholders, to reconsider the protocol in which the balances of risk and reward are weighed.”*

### 2011 by numbers

- In 2011, more than 2,600 M&A deals worth $149 billion were announced in the global mining sector. Volumes were close to historic highs and values were 33% higher than 2010.
- The United States, Australia and Canada led the charge in mining sector deal making, accounting for 53% of annual acquisition values, up 46% from the previous year - while 30% of all 2011 global mining acquisitions involved a Canadian buyer, a greater proportion than any other one country.
- Although still only representative of a very small portion of the global mining M&A market, buyers based in India, Indonesia, South Korea and the Philippines made some notable moves in 2011.

### Outlook for 2012

- In 2012, the report forecasts continuing high M&A volumes and values in the global mining sector.

Tim Goldsmith, global mining leader, PwC Australia, said:

*"With demand for new projects, rising production costs and declining developed world reserves, miners will seek out targets to build scale and achieve cost efficiencies.*

*"Activity will be underpinned by the continued need for base and precious metals by the world's rapidly industrialising nations."*

Predictions for this year include:

- Financial buyers (Sovereign Wealth Funds , specialised private equity, large pension funds) eager to deploy capital will re-evaluate their approach to the resource sector
- Emerging nations remain the key drivers of global economic growth
- The "top five" resources (gold, copper, coal, iron ore, silver) are expected to be busy. However, it's not likely that M&A valuations in the gold sector will be bid up to bridge the gap between the price of gold and the price of gold equities
- Western buyers will be forced to identify business models that make the growth market deals "work"
- An increasingly friendly investor climate will prompt an 'African Renaissance' characterised by increased investment into Africa's unparalleled mining sector

**The Mining Deals Report**

For more information or to read the full Mining Deals report, visit: www.pwc.com/ca/MiningDeals. If you would like a hard copy thereof, please contact Yan Stephanus on his email yan.stephanus@id.pwc.com or Arfianti Syamsuddin on her email arfianti.syamsuddin@id.pwc.com

# Geothermal guarantee

Agung Wiryawan

The Government has issued incentives for geothermal projects in the form of "*Surat Jaminan Kelayakan Usaha*" (SJKU) – guarantee letter of business/ project's feasibility. Muara Laboh (in West Sumatra) and Rajabasa (in Lampung) are the first geothermal projects to receive the SJKU. Under SJKU, the Government guarantees the payment default risk by PT Perusahaan Listrik Negara (PLN) during the operation period.

The SJKU is based on the Ministry of Finance Regulation No. 139/ PMK.011/ 2011 (PMK 139) regarding the guarantee of a PLN's business feasibility. PMK 139 provides the framework for the Government guarantee letter for Independent Power Producers (IPP) participating in Fast Track Program II (FTP II). Important provisions under PMK 139 are:

a) the guarantee letter will be assigned for each project (in the form of SJKU) under FTP II
b) the guarantee can be provided during the operation period including certain period in the operation phase
c) the guarantee will not be applicable, should the IPP fails to reach financial close within:
    - 12 months of the issuance of the guarantee (for power projects other than geothermal)
    - 48 months of the issuance of the guarantee (for geothermal projects)

To be eligible, a project should be proposed by PLN. The proposal to be proposed to Ministry of Finance should include:

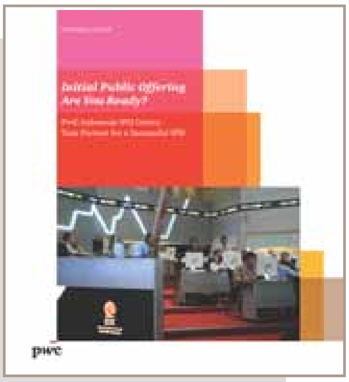
a. Operational feasibility study
b. Draft Power Purchase Agreement (PPA)
c. Project's financial model
d. Documents from the IPP:
    i) Letter from the Minister/ Governor/ Mayor/ Head of Regency – the authority issued the IUP
    ii) Reports, including: geoscience study (geology, geophysics, and geochemical, Magneto Telluric (MT) and reservoir study.

The proposal then will be evaluated by Ministry of Finance through Risk Management Unit under Fiscal Policy Body (Badan Kebijakan Fiskal).

This guarantee scheme can be seen as positive signal from the Government, particularly in endorsing renewable energy and should enhance the bankability of the projects, and is expected to improve the financing climate for power sector in Indonesia.

# *Capturing the IPO Market*

**Jasmin Maranan**




Indonesia is one of the largest and fastest growing economies in the Association of Southeast Asia Nations (ASEAN) region. Recently upgraded to investment grade by Fitch Ratings and Moody's Investor Service, Indonesia is expected to grow at the rate of 6.3% to 6.7% this year.

According to the World Federation of Exchanges, in 2010, the Indonesia Stock Exchange ("IDX") was the fifth best performing stock exchange in the world. Against the dismal backdrop in the euro-zone, a sluggish US economy and heightened market volatility, IDX showed positive results for investors over 2011. Its market capitalization climbed to US$401 billion by the end of 2011 producing 25 listings compared to 23 in 2010 and 13 in 2009. As at the end of 2011, IDX has a total of 442 listed companies. In an announcement at beginning of 2011, IDX stated that it aims to increase the number of listed companies to 500-600 by 2015.

Given the sheer amount of preparation involved from a financial and legal perspective, the transition from a private company to a public status can be viewed as a long journey. The IPO path may be the long and winding and there will certainly be risks and hazards along the way. The simple truth is that there are no shortcuts through the IPO process and executives should be wary of anyone offering one. The good news, however, is that with rigorous planning and a clear roadmap, companies can cut through the massive complexities of the IPO process. Companies need not travel alone. At PwC Indonesia, we have experienced IPO professionals who can be your companion as you travel down the IPO path.

We have prepared a guide that outlines the many ways in which PwC Indonesia can help at every stage of the IPO process, either as independent auditors or IPO advisors. For a softcopy, please see the link below or speak to your regular PwC contact.

See: http://www.pwc.com/id/en/services/assets/IPO-Are_you_ready.pdf (for an electronic copy of the brochure).

***"IPO is a marathon not a sprint"***

***There are three phases to a successful IPO and PwC can provide the support you need in each of these phases:***

Pre-IPO → IPO → Post-IPO

Initial Planning and Preparation

"Going Public"
Execution of IPO Process

"Being Public"
Change programme to enable company to operate effectively as a public company

In today's economic climate, the market for IPOs can be volatile. Favourable conditions can vanish quickly as they arise. While market timing is outside a company's control, preparation is not. So instead of asking the question "Is the market ready?", let us help you answer this question...."Are you ready?"

# Newsbytes


## *Mining in Indonesia 2012*

In April 2012 PwC Indonesia launched the 4th edition of our popular Mining Investment and Taxation Guide. The guide provides a comprehensive introduction to the key regulatory and taxation issues applicable to Indonesian mining investments, including the Mining Law of 2009 and the recent implementing regulations. An essential read for new investors to Indonesia's mining sector, or a handy reference for established investors.

The 4th edition captures the latest developments in Indonesia's mining sector, including the recent Government Regulation on the minimum 51% divestment requirement for foreign held mining licenses, the new ban on ore exports and the associated in-country processing requirements as well as the broader eligibility for tax incentives and the new Tax Holiday. The 4th edition also includes the 2012 update of the PwC Indonesia Mining Map.

This publication can be downloaded from our website at http://www.pwc.com/id/en/publications under the Energy,Utilities & Mining tab. If you would like a hard copy, please contact Yan Stephanus on his email yan.stephanus@id.pwc.com or Arfianti Syamsuddin on her email arfianti.syamsuddin@id.pwc.com


## *Oil and Gas in Indonesia Investment and Taxation Guide 2012*

In May 2012 PwC Indonesia will release the 5th edition of the Oil and Gas in Indonesia Investment and Taxation Guide. The guide provides an extensive overview of the key regulatory and taxation issues associated with upstream and downstream oil and gas sectors, as well as the geothermal, unconventional gas and service sectors. The guide is an essential read for all stakeholders and those interested in the oil and gas sector in Indonesia.

The 5th edition captures the latest legal and regulatory changes that have occurred in the oil and gas industry during the last year. In particular, this edition covers the game changing Government Regulation 79 in greater detail, now that a number of highly anticipated implementing regulations have been released.

This publication can be downloaded when it is available from our website at http://www.pwc.com/id/en/publications under the Energy,Utilities & Mining tab. If you would like a hard copy, please contact Yan Stephanus on his email yan.stephanus@id.pwc.com or Arfianti Syamsuddin on her email arfianti.syamsuddin@id.pwc.com

## *PwC Indonesia to participate in the 36th Annual IPA Convention*

**IPA**
23 – 25
May 2012

PwC Indonesia will be hosting a booth at the upcoming IPA Convention and Exhibition at the Jakarta Convention Center. The event, with theme "Working Together to Meet Indonesia's Energy Needs", will provide in-depth discussion in country's issues and how to address the challenge and provide energy needs for the country. Come stop by our booth to meet our people for our latest industry publications. Our Technical Advisors, Anthony Anderson and Paul Van der Aa, will be presenting the Oil & Gas Survey results.

**Mark the date and be there!**

## *PwC Indonesia in the 18th Coaltrans Asia 2012*

**Coaltrans**
3 – 6
June 2012

PwC Indonesia will be sponsoring the lounge at the 18th Coaltrans Asia 2012 at Bali International Convention Centre Indonesia. Join us for the one of the world's largest coal industry events to reconnect your thinking with professional at the forefront of this industry. We will have senior members of our mining team available to discuss industry issues, with PwC Indonesia Tax Partner; Ali Mardi will be chairing the Commercial and Tax Considerations for investment in Indonesian coal session on Day 2.

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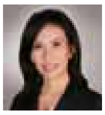
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