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EITI INDONESIA REPORT  
**2012 - 2013**

**EXECUTIVE  
SUMMARY**





COORDINATING MINISTRY FOR ECONOMIC AFFAIRS  
REPUBLIC OF INDONESIA

# INDONESIA EITI REPORT 2012 - 2013 **EXECUTIVE SUMMARY**

VOLUME ONE



KAP Sukrisno, Sarwoko dan Sandjaja  
KMK RI No.: 665/KM.1/2013





## KATA PENGANTAR

Puji dan syukur ke hadirat Allah SWT, atas terbitnya Laporan Ketiga Inisiatif Transparansi Industri Ekstraktif (EITI) Indonesia ini, yang pertama kali disusun dengan mengacu standar EITI yang baru, yaitu Standar tahun 2013. Laporan ini merupakan laporan ketiga EITI Indonesia sejak menjadi negara pelaksana EITI (EITI Implementing Country) yang meliputi data dan informasi mengenai kegiatan dan kebijakan industri ekstraktif Indonesia tahun 2012 dan 2013. Laporan pertama yang disusun dan dipublikasikan pada tahun 2013, dan laporan ke-2 pada tahun 2014 masih mengacu pada EITI Rules tahun 2011 yang isinya berfokus pada aspek rekonsiliasi penerimaan negara dari industri ekstraktif.

Landasan hukum pelaksanaan EITI di Indonesia adalah Peraturan Presiden Nomor 26 Tahun 2010 tentang Transparansi Pendapatan Negara dan Pendapatan Daerah Yang Diperoleh Dari Industri Ekstraktif.

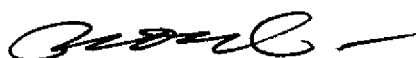
Sesuai dengan persyaratan dalam Standar EITI 2013, isi Laporan Ketiga EITI Indonesia ini lebih komprehensif karena tidak hanya berfokus pada aspek penerimaan negara, tetapi meliputi seluruh rantai nilai (value chains) industri ekstraktif yaitu mulai dari aspek perizinan, operasi produksi, penerimaan negara, mekanisme alokasi, dan kebijakan sektor industri ekstraktif. Penerapan Standar EITI 2013 diharapkan dapat mendekatkan tujuan dari transparansi EITI, yaitu memperbaiki tata kelola industri migas dan tambang.

Laporan ini disusun oleh Administrator Independen dari Kantor Akuntan Publik (KAP) Sukrisno, Sarwoko dan Sandjaja. Proses penyusunan laporan dimulai sejak akhir bulan Mei 2015 dan selesai disusun pada tanggal 24 Oktober 2015. Seluruh tahapan dalam proses penyusunan laporan diawasi oleh Tim Pelaksana Transparansi Industri Ekstraktif melalui rapat-rapat Tim Pelaksana maupun rapat-rapat Tim Teknis. Laporan Ketiga EITI Indonesia ini mendapatkan persetujuan untuk dipublikasi dari Tim Pelaksana Transparansi Industri Ekstraktif melalui rapat yang diselenggarakan pada tanggal 3 November 2015.

Maksud dan tujuan utama dari penerbitan Laporan ini adalah untuk memberikan penjelasan yang lengkap mengenai pelaksanaan kegiatan industri ekstraktif di Indonesia dalam rangka lebih meningkatkan pemahaman dan kesamaan persepsi dari para pemangku kepentingan EITI di Indonesia. Kami menyadari bahwa keberhasilan pelaksanaan EITI di Indonesia akan sangat ditentukan oleh adanya kesamaan pemahaman dan persepsi dari seluruh pemangku kepentingan.

Akhir kata, kami sampaikan terima kasih kepada Tim Pengarah, anggota Tim Pelaksana, Sekretariat EITI, serta seluruh pemangku kepentingan EITI Indonesia yang selama ini telah turut berkontribusi terhadap kelancaran pelaksanaan kegiatan EITI Indonesia. Tidak lupa juga kami sampaikan terima kasih kepada pihak Bank Dunia yang telah memberikan dukungan finansial melalui dana hibah dari beberapa donor (Multi Donor Trust Fund – MDTF) terhadap pelaksanaan kegiatan EITI Indonesia.

Deputi Bidang Koordinasi Pengelolaan Energi  
Sumber Daya Alam dan Lingkungan Hidup  
Selaku Ketua Tim Pelaksana Transparansi  
Industri Ekstraktif



Montty Girianna





## → EXECUTIVE SUMMARY

# INDONESIA EITI REPORT 2012-2013



*Production Facilities - Total E&P Indonesia*

The Indonesia EITI Report 2012 and 2013 is developed to demonstrate Indonesia's commitment to Extractive Industries Transparency Initiative (EITI) as well as to the principles of transparency and accountability in Indonesian extractive industry.

This report intends to promote stakeholder involvement in Indonesian extractive industry in providing better understanding to the Indonesian society on how the Government of Indonesia (GOI) manage their natural resources specifically in this

context; oil, gas, mineral, and coal, that the society has entrusted by law to the GOI.

EITI Indonesia Report Year 2012 and 2013 consists of four volumes:

**The first volume** contains executive summary encapsulating the overall content of Indonesia EITI Report 2012 and 2013.

**The second volume** contains contextual information of Indonesian extractive industry. This volume aims to provide comprehensive illustration on the sector's legal framework as well as governance mechanism, types of contract/license, current licensing process, payments of companies to central and local government, and share mechanisms between central and local government. This volume also explains the participation of State-Owned Enterprises (SOEs) in Indonesian extractive industry. The contextual information complies with the latest reporting standard issued by EITI International in order to provide better clarity to report readers when perusing the reconciliation content provided in the third volume of this report.

**The third volume** contains the reconciliation report, in which we reconcile total payment by companies in the upstream sector of oil and gas, mineral and coal (mining) compared to the total annual revenues received by GOI and SOEs. The revenues and payments include fiscal revenues (taxes, fees, charges) as well as non-fiscal (royalty, social charity, CSR program, rehabilitation fund, and others). Reconciliation report also covers all findings of discrepancy identified between the total government revenues and total payment made

by companies in the extractive industry business to the government. The report also includes recommendations to prevent future discrepancies.

**The fourth volume** contains lists the appendices from reconciliation process that verify and support the total and individual amount stated in the reconciliation report of the above third volume. This volume segregates the appendices into two categories that are reconciliation of oil and gas sector and reconciliation of mineral and coal (mining) sector. Tables and other attachments are also presented in detail in this volume, which covers amount of reconciliation and revenue sharing fund from the oil and gas sector, which all is a non-separated part of this report.

A Multi Stakeholder Group (MSG) or the Implementing Team from EITI Indonesia and EITI Secretariat in Indonesia has facilitated the production of this report by appointing Public Accountant's Office Sukrisno Sarwoko dan Sandjaja (KAP SSS) as Independent Administrator (IA) to conduct study and to compose contextual report and to compile reconciliation report. Indonesia EITI Report 2012 and 2013 can be accessed on EITI Indonesia webpage <http://eiti.ekon.go.id/en/laporan-eiti-indonesia-2012-2013>.

EITI 2012 and 2013 report is the third Indonesia EITI report. It briefly explains EITI project background, benefits and implementation for the government and companies as well as civil society. This report also elaborates the EITI reporting process in compliance with EITI International Standard. In short, the report comprises the following sections:



## ➔ EXECUTIVE SUMMARY ON CONTEXTUAL INFORMATION



*Grasberg Mining - PT Freeport Indonesia*

Contextual report discusses Indonesian extractive industry within the framework of EITI International Standard. The discussion encompasses governance, mining area allocation process, mining concession bidding process, revenue management, environmental and social responsibility, management of extractive industry, and participation of State-Owned Enterprises (SOE) in extractive industry.

Contextual report is a newly introduced standard from EITI International which is developed in the purpose of providing overview on Indonesian extractive industry so that Indonesian society could

understand better EITI reconciliation report and have it as discussion reference in public discourse. This report publication is meant to encourage a more active participation from the society in giving constructive input and feedback to Indonesian extractive industry governance.

According to EITI International Standard point 3, the MSG should first of all agree on the procedures and responsibilities of IA in composing contextual report (point 3.1.). The information must include summary description on legal framework and fiscal regime that governs Indonesian extractive



industry (point 3.2.), an overview on Indonesian extractive industry (point 3.3.), contribution of the extractive industry to Indonesian economy (point 3.4.), relevant production data (point 3.5.), participation of the government (and SOEs) in the development of extractive industry (point 3.6), distribution of revenues from extractive industry and the sustainability of those revenues (point 3.7 and 3.8), cadaster and license registration (point 3.9 and 3.10), relevant regulations and transparent list of beneficial ownership of extractive assets (point 3.11), and lastly disclosure on mining contracts and licenses to the exploitation of oil, gas, minerals and coal (point 3.12).

Contextual report 2012-2013 is divided into 7 (seven) sections that can be the key reference for the general public to understand extractive industry in Indonesia.

**The first section** in the contextual report discusses EITI background and legal framework of public information transparency with respect to EITI implementation in Indonesia. The overview on EITI includes definition, role, and benefit of EITI compliance for all stakeholders in the extractive industry, i.e. the government, companies, and the society. For the government, EITI promotes improved effectiveness and efficiency of extractive industry governance in countries that implement EITI in order to make sure that the citizens can enjoy revenues of central and local government derived from natural resources. For companies, joining EITI means ensuring transparency, which cultivates public trust on company responsibility to comply with all laws and regulations governing extractive industry. For the society at large, EITI provides reliable information that can be the basis for the people to demand accountability on the management of central and local revenues from extractive industry.

Further, this section also addresses public information transparency in general that has been accommodated in a regulatory framework in Indonesia. Contextual information report also discusses the process of EITI implementation in Indonesia that currently governed by Presidential

Regulation (*Peraturan Presiden/Perpres*) No. 26/2010. The regulation stipulates the formation of Transparency Team, which consists of Steering Committee and Implementing Team that are tasked to bring about transparency of state and local government revenues from extractive industry. For the fulfillment of their responsibilities, these teams have the power to seek information, seek additional data, seek input, or consult with central government and local government agencies as well as extractive companies. However, the Perpres No. 26/2010 has not fully adopted the latest EITI International Standard.

**The second section** in the contextual report discloses extractive industry governance that entails regulations governing extractive industry, duties of government agencies relevant in the extractive industry, licensing system through permits and contracts, and reform of extractive industry governance practices that took place during the formulation of this report. This section is particularly useful for general readers to understand the current governance and management system of the Indonesian extractive industry.

The governance of Indonesian extractive industry refers to the 1945 Constitution of the Republic Indonesia, Article 33 paragraph 3: "The land, the waters and the natural resources within shall be under the powers of the State and shall be used to the greatest benefit of the people." In practice, a number of laws have been in place to govern this sector; today, the governing law is Oil and Gas Law No. 22/2011 and Mineral and Coal Law No. 4/2009. Under both laws, there are provisions that are intended to protect national interest.

There are several issues around the implementation of Mineral and Coal law which include adjustments of mineral and coal mining contracts provisions govern by previous law into the new prevailing law. Currently GOI is in the renegotiation process with the companies that are parties to Contracts of Work (*Kontrak Karya/KK*) and Coal Contracts of Work (*Perjanjian Karya Pengusahaan Pertambangan Batubara/PPKP2B*). This law also gave Regent/Mayor the authority to issue mineral dan coal license

which in its development, with the issuance of Law No. 23/2014 on Regional Government, their authority to issue Mining Business Permit (*Izin Usaha Pertambangan/IUP*) is revoked. However, implementing regulations to enforce the law have not been enacted.

Another topic addressed in this section is the efforts of the government to improve extractive industry governance, which include current or on going efforts. In the oil and gas sector, the government and the House of Representatives (*Dewan Perwakilan Rakyat/DPR*) are currently working to amend oil and gas law, while the central government and Aceh local government are in the transition process with respect to the setting up of Aceh Oil and Gas Management Body (*Badan Pengelola Migas Aceh/BPMA*). In the mining sector, the government is improving and exercising closer supervision on IUP issuance by developing Minerba One Map of Indonesia (MOMI), applying Clean and Clear (CNC) certification, and, through the Corruption Eradication Commission (KPK) carries out coordination and supervision activities in 12 provinces. In terms of improving both sectors governance, the government has improved its State Revenue-Generation Module (MPN) by adding billing system feature, also known as MPN generation 2. The government also creates single-window integrated services, pooling the services under the Indonesian Investment Coordination Board (BKPM).

**The third section** in the contextual report describes allocation of mining area and bidding process of mining license in Indonesia. This section focuses on the deliberation of mining concession, bidding procedure, and bidding activities in 2012 and 2013. To determine mining area, proposed areas are made based on the recommendations of Directorate General of Oil and Gas (DG Oil and Gas), which then are offered in bidding. An alternative to this process is to have recommendations from investors, based on feasibility study conducted by the investor and DG Oil and Gas, which are then proposed directly to potential partners. The

Minister of Energy and Mineral Resources has the power to award the winning party. Meanwhile, in mineral sector, the Minister of Energy and Mineral Resources ratifies the deliberation of a local government following consultation with the House of Representatives.

EITI Standard requires EITI countries to disclose winning parties, transfer of mining concession ownership, bidding criteria, and bidding participants. In 2012-2013, bidding and transfer of ownership only occurred in the oil and gas sector. List of winning parties and transfer of ownership are detailed in Appendix 1 and Appendix 2 in the Second Volume of EITI Report 2012-2013, while bidding criteria is stipulated by Ministerial Decree 35/2008. Names of bidding participants, however, are never disclosed by the DG Oil and Gas. With regards to the bidding process, the contextual acknowledges a statement from Indonesia State Audit Agency (BPK), which was made in the Summary of Semester II 2014 Audit Findings on revenues from oil and gas sector in 2012 –Semester I 2014. BPK noted that there were winners of block bids that failed to meet financial requirements. Further, there were contractors who had difficulty to meet their requirements and commitments in respect of bidding regulations. This report is available for access on BPK's website.

In addition, EITI standard also regulates disclosure of cadastre<sup>1</sup> system, disclosure of contracts<sup>2</sup>, and disclosure of beneficial ownership<sup>3</sup>. For oil and gas sector, public can access the majority of cadastral information in of oil and gas map from SKK Migas's annual report and for the detail of cadastral information for example coordinates numbers, public can access a paid geographic information system called Inameta, the payment is per one block information. Meanwhile, cadastral information in mining sector is available for interested parties by printing mining business licence map at DG Mineral and Coal's office. The map is available per regency or per mining business licence area for investor having Decision Letter along with the relevant coordinates.

1 EITI Standard requires publicly accessible cadastral information. Cadastral information is information regarding: i. license holder(s); ii. coordinates of the license area; iii. date of application, date of award and duration of the license; and iv. in the case of production licenses, the commodity being produced

2 EITI Standar encourages that the government disclose the full text of contracts/licenses, full text of annex or addendum, and full text of contract/license amendment.

3 EITI Standard recommends that EITI implementing countries maintain a publicly available register of the beneficial owners of the corporate entity(ies) that bid for, operate or invest in extractive assets.

The fourth volume of EITI Report 2012-2013 publishes a list of companies relevant in the period of reconciliation of 2012-2013 along with their cadastral information. In the list of oil and gas companies, published information comprises name of block, province where block is located, name of company (operator and partner), percentage of participation interest, date of contract and expiry date, and produced commodity. In the list of mining companies, information covers name of company, shareholders and its shareholding composition, type of license (contract or IUP), date of license and expiry date, produced commodity, and province.

Currently, publicly available contract/license list and beneficial owners in extractive assets are not available. General provisions of contract/license and direct ownership of extractive assets are available in EITI report 2012-2013. Companies in the extractive industry sector listed in the Indonesia Stock Exchange (IDX) are required to disclose their ultimate shareholders in financial statements accessible on IDX website. For this section, readers can observe the gap between information transparency in Indonesia and transparency requirement from EITI International.

**The fourth section** in the contextual report discusses management of state revenue from extractive industry. This section focuses on types of state revenue – tax as well as non-tax revenue – from extractive industry. The fourth section put forward information for the general public to have better understanding on calculation of state revenue from extractive industry, allocation of state revenue to local government, and budgeting process of extractive industry, and its revenue forecast.

Non-tax revenue (PNBP) from extractive industry is paid in cash, in the exception of several revenue posts from upstream oil and gas sector where, in accordance to agreed Production Sharing Contract (PSC), the GOI would receive in-kind (production) revenue sharing. The in-kind sharing is in the form of oil and natural gas lifting entitlement for the

government and DMO (less DMO fee) as agreed in PSC. In this case, PSCs are managed by SKK Migas. All tax revenue from extractive industry is paid in cash. Overall, all revenues from extractive industry are paid to the state treasury and recorded in the GOI Financial Statements (*Laporan Keuangan Pemerintah Pusat/LKPP*).

Also included in this section is planning and budgeting process, audit, and revenue allocation from the central to local government. Financial notes, LKPP, and audit result of LKPP performed by the State Audit Agency (BPK) are accessible to the public on the Ministry of Finance website and BPK website. Outlook of extractive industry are available in the MoEMR 2015-2019 Strategic Plan published on the MoEMR website and 2013-2050 energy sector outlook is available on the National Energy Council website.

Revenues allocation from the extractive industry, from the central to local government, is exercised under a revenue sharing fund (DBH) mechanism, governed by law No. 33/2004 on Fiscal Balance. Local government is entitled to 15% share from the oil revenue and 30% share from the natural gas revenue as well as 0.5% special allocation (earmarked revenues) for compulsory education. There are also specific DBH schemes for special autonomy regions, i.e. Aceh, West Papua, and Papua provinces that are entitled to 55% and 40% additional sharing from oil and gas revenues, respectively. The local governments in Papua and West Papua provinces are required to allocate at least 30% of the revenues for education and at least 15% for nutrition improvement, while Aceh is required to utilize at least 30% for education. Extractive revenues from general mining distributes to local government amount to 20%. DBH realization and budgeting are available in LKPP attachment or Directorate General of Fiscal Balance website.

**The fifth section** in the contextual report addresses

environmental and social responsibilities of extractive companies. Environmental responsibility in the oil and gas sector is governed by Government Regulation (GR) No. 35/2004 on fund allocation for post-operations of upstream businesses, while in MoEMR Regulation No. 7/2014 governs reclamation and post-mining guarantee in the mining sector.

In 2013, BPK conducted audit on the supervision on reclamation activities in mining concessions for 2013 to November 2014 period. The scope of audit was the Mining and Energy Office in the Karimun District. The audit concluded that the performance of supervisory duties on reclamation activities carried out by IUP-holding companies have been inadequate to the extent that the progress of reclamation activities against an agreed plan could not be identified<sup>4</sup>. Meanwhile, companies obtaining legal status as Limited Liability Company (*Perseroan Terbatas/PT*) have the obligation to carry out social responsibility, which the amount of funds required has not been regulated. On the other hand, SOEs are required to implement community partnership and environmental development programs with fund allocation maximum 2% of their after tax earnings for each program category.

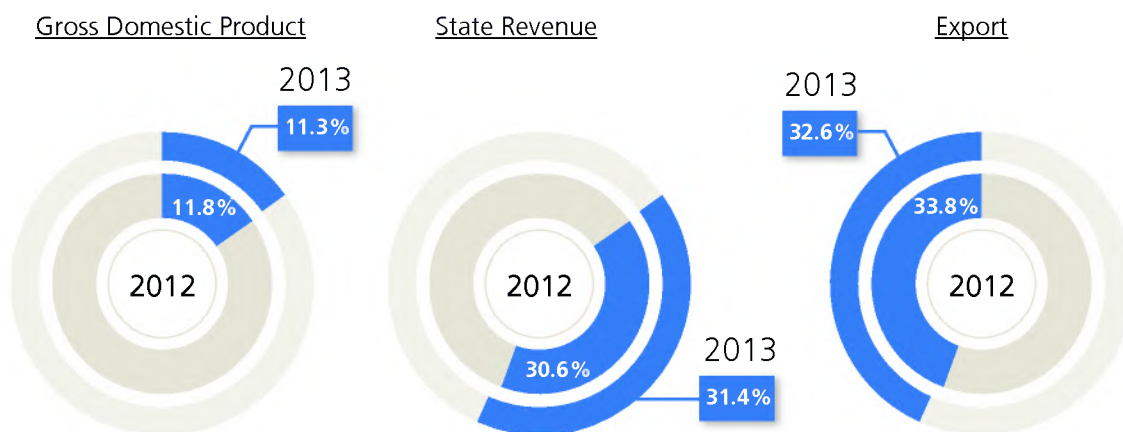
The sixth section in the contextual report discusses

extractive industry overview and its contribution to Indonesia's economy. The discussion, among others, describes Indonesia's extractive industry contribution at global level, Indonesia production data and production values, production concentrated areas, development projects in the upstream sector of oil and gas industry, overview on mining exploration activities, extractive industry contribution to the GDP growth, extractive industry contribution to total export, and job creation.

In 2012, extractive industry contributed 11.8% to the total GDP and 11.3% in 2013. In several regions, mining sector plays a prominent role, namely in West Papua, Bangka Belitung, and East Kalimantan Provinces. Extractive industry contributes significantly to state revenues and national export; it contributed 30.6% of total state revenues in 2012, which increased to 31.4% in 2013. In terms of export, extractive industry accounted for 33.8% of the total national export in 2012 and 32.6% in 2013. Job creation in extractive industry contributed to the employment of 1.6 million people (1.4% of the total workforce) in 2012 and 1.5 million people (1.3% of total workforce) in 2013.

This section also takes a look at two studies regarding

### Extractive Industry Contribution to Indonesia's Economy



Source: LKPP and Indonesia Statistics/BPS

<sup>4</sup> Indonesia Audit Board, Ikhtisar Hasil Pemeriksaan Semester II tahun 2014, pg. 122



lost revenue potential, which may be caused by illegal trading and by IUPs that fail to meet Clean and Clear (CNC). The first study is a comparative study, which compares BPS consumption data with MoEMR production data. Drawing on data from a policy paper of a focused group discussion organized by Indonesian Coal Mining Association (*Asosiasi Pertambangan Batubara Indonesia/APBI*), the study noted 56.3 million<sup>5</sup> tonnes of unverified coal production, suspected to be sourced from illegal trade. The second study is from Civil Society Coalition Againsts Mining Corruption that reports Rp1.3 trillion (US\$96 juta)<sup>6</sup> of lost revenue potential. The potential revenue is identified from PNBP in 23 provinces due to IUPs failing to meet CNC criteria.

**The seventh section** in the contextual report highlights regulatory framework and practices of SOEs as well as financial relations between the government and SOEs. SOEs mentioned in this report are PT Pertamina (Persero), PT Aneka Tambang (Persero) Tbk., PT Bukit Asam (Persero) Tbk., dan PT Timah (Persero) Tbk. Financial statements of these SOEs are audited by independent auditors and are accessible for the public through their respective websites. This report focuses on concession ownership – for oil and gas and mining – change of ownership (if any), fuel subsidy mandated to Pertamina, and social responsibility of each SOE.

SOEs play fairly significant roles in Indonesian

extractive industry. Operational areas managed by PT Pertamina (Persero) contributed an average of approximately 20% of the total national oil and gas lifting in 2012 and 2013. Meanwhile, mining SOEs contributed 7% in 2012 and 6% in 2013 of the total royalties paid to the central government. Moreover, extractive SOEs paid Rp9.2 trillion in dividend to the central government in 2012 which accounts for 30% of the total revenues from total SOE dividend – and Rp9.3 trillion in 2013, or 27% of the total state's revenues derived from SOE dividend. This part aims to provide clarity to the public regarding the role and contribution of extractive SOEs.

All information contained herein is sourced from the Implementing Team. This report also cites information readily and publicly available as well as data provided by the Implementing Team.

<sup>5</sup> Data was not verified by Independent Administrator

<sup>6</sup> Idem ditto

# ➔ EXECUTIVE SUMMARY ON RECONCILIATION



*Production Facilities - PetroChina International Bermuda Ltd.*

## Overview

EITI is a global standard that promotes transparency and accountability of state revenues from extractive industry. Industry sectors covered in this report are mineral, coal, oil, and gas. In principle, EITI reconciliates payment made by extractive

companies with revenues received by government agencies and publishes its findings. If discrepancies are identified, verification and analysis processes ensue to look for the causes.



This report is published with the purpose to educate the public on information transparency as a form of the government’s accountability in managing natural resources. This report also seeks to garner input from stakeholders in order to enhance and improve governance for the welfare of the people.

### State Revenues by Industry Type

Revenues from oil and gas sector in 2012 amount to Rp322.14 trillion, representing 24.1% contribution to the total state revenues. In 2013, the revenues amount to Rp326.78 trillion, or 22.7% of the total state revenues.

State Revenues 2012 and 2013 from Oil and Gas Sector

Type of Revenue	2012 (in trillion Rupiah)	2013 (in trillion Rupiah)
<b>TAX INCOME</b>		
Oil and Gas Revenue Tax	83.46	88.75
Land and Building Tax (PBB)	19.79	20.94
<b>NON TAX INCOME</b>		
Oil Revenue	144.72	15.33
Natural Gas Revenue	61.11	68.30
Revenue from Upstream Activities	13.06	13.46
<b>TOTAL OIL AND GAS REVENUE</b>	<b>322.14</b>	<b>326.78</b>
<b>TOTAL STATE REVENUE</b>	<b>1,338.11</b>	<b>1,438.89</b>
Ratio	24.1 %	22.7 %

Source: LKPP 2013

Revenue from mining in 2012 is Rp87.58 trillion which contributes 6.5% to total state revenues. This number increases in 2013 to Rp125.57 trillion and contributes 8.7% of total state revenues.

State Revenues 2012 and 2013 from Mining Sector

Type of Revenue	2012 (in trillion Rupiah)	2013 (in trillion Rupiah)
TAX	63.10	96.57
NON TAX		
Royalty	15.51	18.03
Sales Revenue Share (PHT)	8.14	9.79
Land Rent	0.36	0.59
Revenue from Forest Utilization	0.47	0.59
<b>TOTAL MINING REVENUE</b>	<b>87.58</b>	<b>125.57</b>
<b>TOTAL STATE REVENUE</b>	<b>1,338.11</b>	<b>1,438.89</b>
Ratio	6.5 %	8.7 %

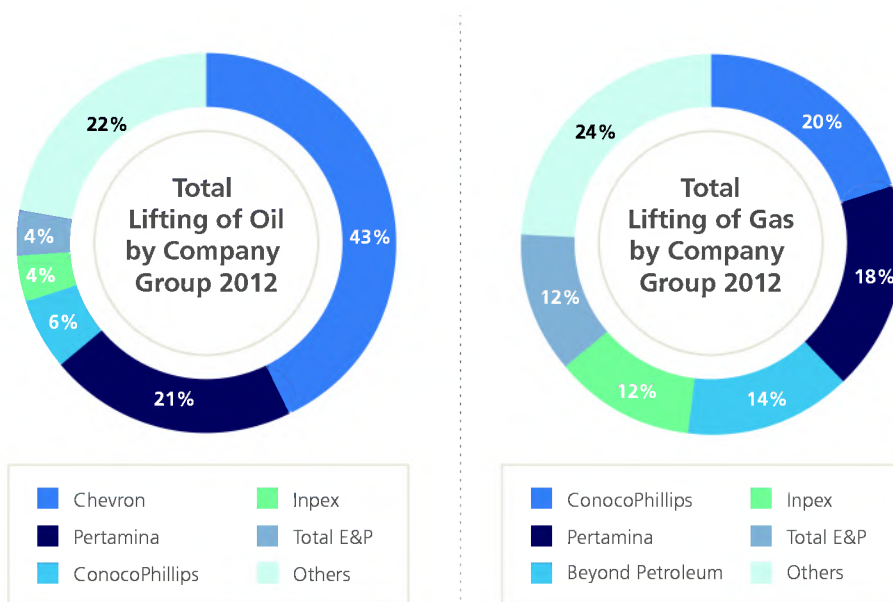
Source: Scoping Study

Major Private Contributors

Based on scoping study, the biggest oil lifting is delivered by Chevron (as a group) with production share of 43% in 2012 and 42% in 2013. For gas, ConocoPhillips (as a group) generates the highest gas lifting of 20% in 2012 and 19% in 2013.

Chart 1 and 2 below illustrate the total oil and gas lifting in 2012 and 2013:

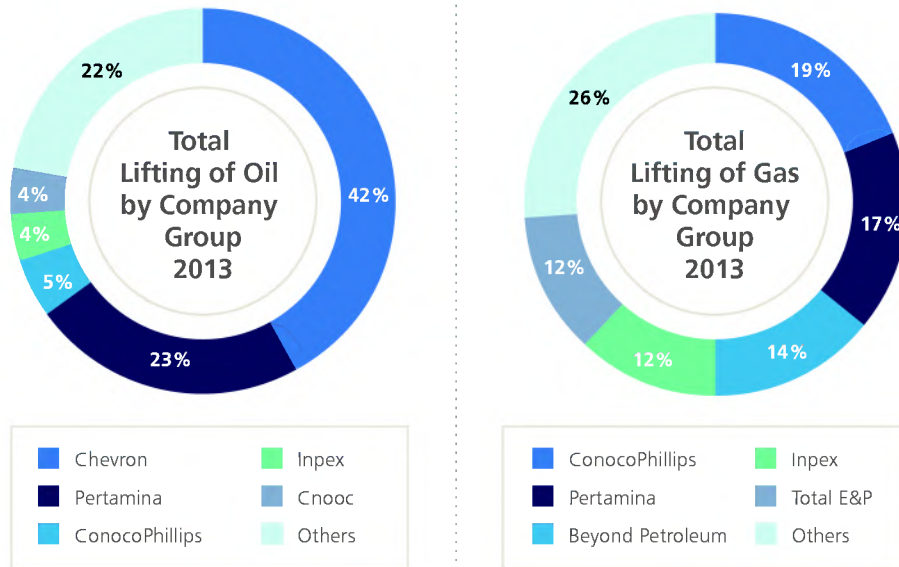
Chart 1 - Total Oil & Gas Lifting, 2012



Source: EITI Indonesia Data Analysis Year 2012-2013



**Chart 2 - Total Oil & Gas Lifting, 2013**

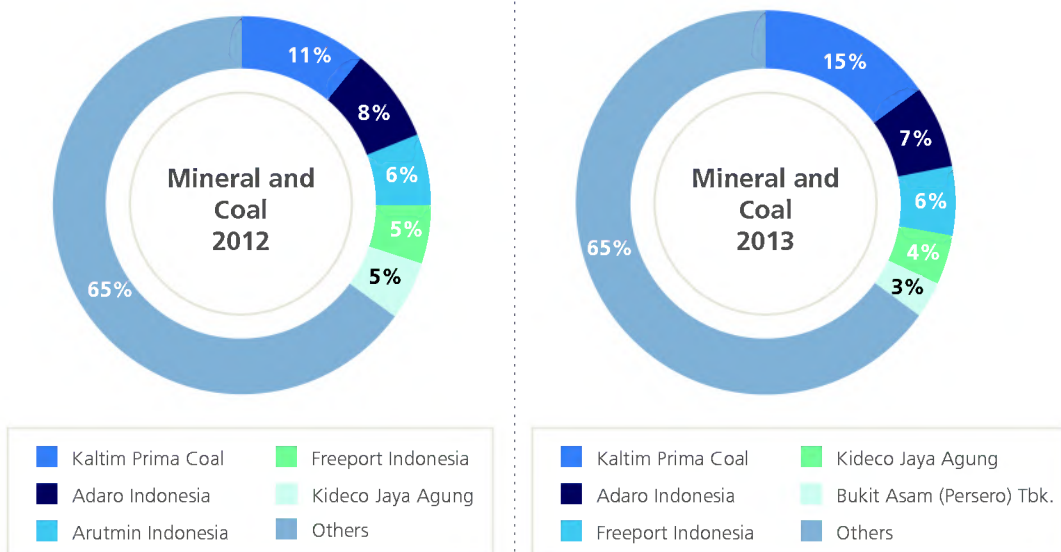


Source: EITI Indonesia Data Analysis Year 2012-2013

In mining sector, there are 5 companies as major royalty contributors. Their combined contribution accounts for 35% of the total royalty received from mining sector in 2012 and 2013. PT Bukit Asam (Persero), Tbk. is the only SOE in the top-five list of royalty contributors in 2013.

Mining companies as major royalty contributors in 2012 and in 2013 are illustrated in the following charts:

**Chart 3 - Mining companies as major royalty contributors in 2012 and in 2013**



## State Revenues Reconciliation

Based on term of reference (TOR) and scoping study, types of state revenues reconciliated are:

- Corporate income tax and dividend (oil and gas sector)
- Government lifting and DMO received in kind (oil and gas sector)
- Signature Bonus and Production Bonus (oil and gas sector)
- Royalty, PHT, Corporate income tax and dividend paid in cash to state's treasury (mining sector)
- SOE transportation services received by SOE (only for mining sector)

Total tax revenue reconciliated from oil and gas sector in 2012 and 2013, as reported, is USD 8.85 billion and USD 8.04 billion, respectively. Reconciliated non-tax revenue is USD 26.93 billion in 2012 and USD 23.60 billion in 2013. The results of oil and gas reconciliation show significant decline between the beginning amount (before adjustments) and end amount (after adjustments) to total reconciliation value. In 2012, initial discrepancy is around 0.08% to 14.28% to reconciliated amount, while ending discrepancy after reconciliation at range of 0.001% to 2.32%. In 2013, initial discrepancy is around 0.005% to 234.07% to reconciliated amount, while ending discrepancy after reconciliation is at a range of 0.005% to 3.83%.

Based on team analysis, the final difference is caused by, among others:

- Payment error of Corporate Tax and Dividend payment which paid not to the State Treasury at the bank perception but directly to the State Treasury at Bank Indonesia that have not been recorded as revenues for 1 company in 2012.

This difference has been confirmed by IA to DG Treasury and confirmed that it had accepted by the State Treasury.

- Deposit on legal obligation (Tax Collection Notice/STP, Tax Underpayment Notice/SKPKB) not to the State Treasury account at the Bank perception but directly to the State Treasury at Bank Indonesia that have not been recorded as revenues for 9 companies in 2012 and 9 companies in 2013. This difference has been confirmed by IA to DG Treasury and confirmed that it has been accepted by the State Treasury.
- Correction of tax payment in 2004-2007 from Directorate Upstream – PT Pertamina (Persero) to Directorate PNB/DG Budget which is not included in the list of reporting entities in 2013.
- Correction of GOI oil and gas lifting of previous year includes premium. This is identified in 13 companies in 2012 and 11 companies in 2013.
- Correction of GOI oil and gas lifting due to adjustments (correction) of previous year lifting that are made in the current fiscal year. This is identified in 4 companies in 2012 and 7 companies in 2013.
- Payment from TAC which is a non-reporting entity for 1 company in 2012.
- Until the dateline, the confirmation from 6 reporting entities in 2012 and 8 entities in 2013 have not been acquired.
- The following tables show oil and gas reconciliation results:

## Oil and Gas Sector Result of Reconciliation, 2012

Revenue Streams	unit	Reconciliation Result			%	
		PSC Contractor	SKK Migas	Unreconciled Difference		
		(1)	(2)	(3)=(2)-(1)	(4)=(3):(2)	
Government Lifting of Oil	Barrel	179,733,566	179,733,566	-	-	
Government Lifting of Gas	MSCF	582,930,485	582,930,485	-	-	
Domestic Market Obligation	Barrel	25,688,134	25,712,827	24,693	0.10	
Total Lifting of Oil	Thousand USD	35,305,658	35,305,658	-	-	
Total Lifting of Gas	Thousand USD	27,246,718	27,246,718	-	-	
Domestic Market Obligation Fee	Thousand USD	1,431,736	1,431,520	(216)	0.02	
Over/(Under) Lifting of Oil	Thousand USD	344,157	352,339	8,182	2.32	
Over/(Under) Lifting of Gas	Thousand USD	130,069	130,384	315	0.24	
			<b>DG Oil &amp; Gas</b>			
Total Lifting of Oil	Barrel	314,302,234	314,305,913	3,679	0.001	
Total Lifting of Gas	mscf	2,403,191,958	2,389,212,121	(13,979,837)	0.58	
Signature Bonus	Thousand USD	-	-	-	-	
			<b>DG Budget</b>			
Corporate & Dividend Tax	Thousand USD	8,978,931	8,849,495	(129,436)	1.46	
Production Bonus	Thousand USD	3,750	3,750	-	-	
		<b>SKK Migas</b>	<b>DG Budget</b>			
Government Lifting of Oil – Export & Domestic	Thousand USD	20,219,167	20,242,558	23,391	0.12	
Government Lifting of Gas – Export & Domestic	Thousand USD	7,633,221	7,633,442	221	0.003	

Source: EITI Indonesia Data Analysis Year 2012-2013

## Oil and Gas Sector Result of Reconciliation, 2013

Revenue Streams	unit	Reconciliation Result			%
		PSC Contractor (1)	SKK Migas (2)	Difference (3)=(2)-(1)	
Government Lifting of Oil	Barrel	161,441,148	161,441,148	-	-
Government Lifting of Gas	mscf	599,343,313	599,343,313	-	-
Domestic Market Obligation	Barrel	24,620,394	24,620,394	-	-
Total Lifting of Oil	Thousand USD	31,333,441	31,333,441	-	-
Total Lifting of Gas	Thousand USD	26,246,329	26,246,329	-	-
Domestic Market Obligation Fee	Thousand USD	1,224,647	1,224,647	-	-
Over(Under) Lifting of Oil	Thousand USD	381,198	381,216	18	0.005
Over/(Under) Lifting of Gas	Thousand USD	(4,143)	(3,990)	153	3.83
<b>DG Oil &amp; Gas</b>					
Total Lifting of Oil	Barrel	298,374,390	298,432,033	57,643	0.02
Total Lifting of Gas	mscf	2,406,327,046	2,357,703,962	(48,623,084)	2.06
Signature Bonus	Thousand USD	200	200	-	-
<b>DG Budget</b>					
Corporate & Dividend Tax	Thousand USD	8,048,312	8,034,236	(14,076)	0.17
Production Bonus	Thousand USD	26,500	26,500	-	-
<b>SKK Migas DG Budget</b>					
Government Lifting of Oil – Export & Domestic	Thousand USD	17,013,989	17,000,881	(13,108)	0.08
Government Lifting of Gas – Export & Domestic	Thousand USD	7,423,089	7,423,089	-	-

Source: EITI Indonesia Data Analysis Year 2012-2013

In accordance with submitted reports, total reconciliated tax revenues from mining sector are Rp5,897 billion and USD2,442 million in 2012 and Rp4,435 billion and USD 1,307 million in 2013. Reconciliated non-tax revenues, including dividend, are Rp3,792 billion and USD 1,930 million in 2012 and Rp4,037 billion and USD 2,093 million in 2013.

A number of companies do not return reporting format and authorization letter for tax disclosure. In total, during the period of this report, 21 companies fail to return reporting format – consisting of 6 companies in 2012, 9 companies in 2013, and 6 companies in both 2012 and 2013. Meanwhile, 7 companies in 2012 and 11 companies in 2013





*Underground - PT Freeport Indonesia*

do not return authorization letter. Consequently, reconciliation process fails to cover the entire companies in this report. Based on data from DG Mineral and Coal, total percentage of royalty and Sales Revenue Share (*Penjualan Hasil Tambang/PHT*) payments from the 21 companies in 2012 and 2013 is 2.52% and 3.02% respectively out of the total reconciliated non-tax revenues from the mining sector. Meanwhile, the share of Corporate Income Tax of companies that do not provide authorization letter cannot be identified; without authorization letter, data/information disclosure on tax payments of the companies is not feasible.

Reconciliation in the mining sector shows significant decrease between the initial discrepancy (before adjustments) and end discrepancy (after adjustments) to the total reconciliated amount. In 2012, initial discrepancy is approximately at a range of 0.78% to 6.90% of total reconciliated amount, while end discrepancy after reconciliation is at a range of 0.47% to 4.92% of total reconciliated amount. In 2013, initial discrepancy is between 0.43% and 21.38% and end discrepancy is between 0.02% and 2.32%.

Our analysis identifies a number of factors that cause end differences:

- Timing difference (companies report at year's end, while the DG Minerals and Coal record in the following year). This is identified in 5 companies in 2012 and 4 companies in 2013
- Inconsistency of distribution of royalty and PHT stated in the DG Mineral and Coal's report and company report. This is identified in 1 company in 2012 and 3 companies in 2013
- DG Mineral and Coal wrongly allocated/verified payments of 2 companies in 2012
- Income tax payment of 1 company in 2012 and in 2013 is made on behalf of the company's group
- Up until the determined deadline, 20 companies in 2012 and 34 companies in 2013 fail to provide clarification on some inconsistencies found in the data.

The following tables present the overall reconciliation result for mining sector:

Mining Sector Reconciliation Result, 2012

State Revenue (1)	Currency (2)	Mining Company (3)	Govt. Agency (4)	Difference (5)=(4)-(3)	% (6)=(5):(4)
			DG Mineral & Coal		
Royalty	Thousand USD	1,109,030	1,086,664	(22,366)	2.06
Sales Revenue Share (PHT)	Ribuan USD	847,758	843,026	(4,732)	0.56
			DG Tax		
Corporate Income Tax	Thousand USD	2,453,582	2,442,127	(11,455)	0.47
			DG Budget		
Dividend	Thousand USD	-	-	-	-
			PT KAI (Indonesian Railway)		
Transportation Fee	Thousand USD	-	-	-	-
<b>Sub Total</b>	Thousand USD	<b>4,410,370</b>	<b>4,371,817</b>	<b>(38,553)</b>	<b>0.88</b>
			DG Mineral & Coal		
Royalty	Million Rupiah	1,577,061	1,607,493	30,432	1.89
PHT	Million Rupiah	279,539	279,539	-	-
			DG Tax		
Corporate Income Tax	Million Rupiah	5,607,031	5,897,183	290,153	4.92
			DG Budget		
Dividend	Million Rupiah	1,904,971	1,904,971	-	-
			PT KAI (Indonesian Railway)		
Transportation Fee	Million Rupiah	1,822,170	1,822,170	-	-
<b>Sub Total</b>	Million Rupiah	<b>11,190,771</b>	<b>11,511,356</b>	<b>320,585</b>	<b>2.78</b>
<b>Total Equivalent</b>	Million Rupiah	<b>53,697,914</b>	<b>53,646,929</b>	<b>(50,985)</b>	<b>0.10</b>

Source: EITI Indonesia Data Analysis Year 2012-2013

Mining Sector Reconciliation Result, 2013

State Revenue (1)	Currency (2)	Mining Company (3)	Govt. Agency (4)	Difference (5)=(4)-(3)	% (6)=(5):(4)
			DG Mineral & Coal		
Royalty	Thousand USD	1,213,481	1,235,638	22,157	1.79
Sales Revenue Share	Thousand USD	847,557	857,682	10,125	1.18
			DG Tax		
Corporate Income Tax	Thousand USD	1,276,966	1,307,342	30,376	2.32
			DG Budget		
Dividend	Thousand USD	-	-	-	-
			PT KAI (Indonesian Railway)		
Transportation Fee	Thousand USD	-	-	-	-
<b>Total USD</b>	<b>Thousand USD</b>	<b>3,338,005</b>	<b>3,400,663</b>	<b>62,658</b>	<b>1.84</b>
			DG Mineral & Coal		
Royalty	Million Rupiah	1,660,580	1,667,313	6,733	0.40
Sales Revenue Share	Million Rupiah	857,743	857,873	130	0.02
			DG Tax		
Corporate Income Tax	Million Rupiah	4,381,419	4,434,872	53,453	1.21
			DG Budget		
Dividend	Million Rupiah	1,511,957	1,511,957	-	-
			PT KAI (Indonesian Railway)		
Transportation Fee	Million Rupiah	1,812,104	1,812,104	-	-
<b>Total in Rupiah</b>	Million Rupiah	<b>10,223,803</b>	<b>10,284,119</b>	<b>60,316</b>	<b>0.59</b>
<b>Rupiah Equivalent</b>	Million Rupiah	<b>42,395,492</b>	<b>43,059,707</b>	<b>664,216</b>	<b>1.54</b>

Source: EITI Indonesia Data Analysis Year 2012-2013

## Non-Reconciliated State Revenues

State revenue streams from oil and gas sector that are outside reconciliation scope according to Term of Reference and Scoping Study are:

- Signature Bonus for the signing of new contracts reported by DG Mineral and Coal
- Land and Building Tax reported by DG Budget
- Value Added Tax reported by DG Budget
- Regional Tax and Restitution reported by DG Budget
- CSR reported by PSC holders

The following table details the amount of each stream:

Revenue Stream	2012	2013
Signature Bonus (thousand USD)	28,700	15,500

Revenue Stream	2012	2013
Land and Building Tax (million Rp)	14,394,500	15,438,789
Regional Taxes and Retribution – PDRD (million Rp)	46,532	97,816
Value Added Tax (million Rp)	6,963,798	9,385,488
CSR (in thousand USD):		
1. Community relations	3,267	4,538
2. Community empowerment	1,680	1,553
3. Community service	397	253
4. Infrastructure development	1,994	2,091
5. Environmental management	252	385

Source: EITI Indonesia Data Analysis Year 2012-2013

State revenue streams from mining sector that are outside reconciliation scope according to Term of Reference and Scoping Study are:

- Land rent reported by companies
- Land and Building Tax reported by companies
- Regional Tax and Restitution reported by companies
- Direct subnational payments reported by companies
- CSR reported by companies
- Infrastructure provision
- Forestry fee
- Domestic Market Obligation

The following table details the amount of each stream:

In million Rupiah and thousand USD

Revenue stream	2012			2013		
	Rupiah	USD	Ton	Rupiah	USD	Ton
Land Rent	20,307	5,039	-	21,116	5,816	-
Land and Building Tax	359,790	-	-	380,692	-	-
Regional Taxes and Retribution (PDRD)	608,766	48,334	-	634,676	46,480	-
Direct Subnational Payments	600,486	4,803	-	413,797	4,830	-
CSR:						
1. Community relations	101,134	3,660	-	76,797	3,158	-
2. Community empowerment	240,448	134,831	-	162,815	105,129	-
3. Community service	12,182	3,180	-	11,169	4,874	-
4. Infrastructure development	83,014	14,077	-	126,182	9,598	-
5. Environmental management	2,728	193	-	3,504	184	-
Infrastructure Provision	3,584	1,526	-	3,411	2,061	-
Forestry Fee	350,150	3	-	368,963	-	-
DMO – Coal	-	-	44,398,363	-	-	53,448,032

Source: EITI Indonesia Data Analysis Year 2012-2013

## Infrastructure Provision and Barter Arrangement



Oil and gas industry in Indonesia applies Production Sharing Contract (PSC), where PSC holder is the party authorized by the state to carry out natural resources exploration and exploitation activities. The state remains as the ultimate owner and maintains its right over natural resources. The ownership of equipment purchased and imported by Contractors for the purpose of contract execution and utilized in operational activities belongs to the state at the time the equipment enters or lands in import port. This ownership is recognized in LKPP.

All oil and gas contracts in Indonesia in 2012 and 2013 follows this PSC mechanism. All assets utilized by PSC holders in Indonesia for their operational activities belong to the state, and this include infrastructure built during operational process.

In the mining sector, among other companies included in the 2012 and 2013 reconciliation processes, only one company, i.e. PT Adimitra Baratama Nusantara that fulfill the government's requirement under mining contract/permit to provide infrastructure. PT Adimitra Baratama Nusantara constructed underpass with project value of Rp18,296 million in 2012 and Rp23,917 million in 2013. The value of this infrastructure project is less than 1% of the state's total revenues from mining sector, and is therefore not reconciliated.

In general, Indonesian extractive sector does not recognize barter concept and arrangement.

### Corporate Social Responsibility (CSR)

The presence of a company should also benefit local communities. With that in mind, the government has issued several regulations to ensure the performance of corporate responsibilities. Companies demonstrate their commitment to community and the environment through community empowerment programs.

In reporting CSR programs, this report refers to program classification in the 2012 Government Institution's Performance Accountability Report of



*Sepinggan Field - Chevron Indonesia*

Ministry of Energy and Mineral Resources (MoEMR):

1. Community Relations – religious, social, cultural, sports activities
2. Community Service – disaster relief and donation/charity/philanthropy
3. Community Empowerment – health, education, economy, and agriculture.
4. Infrastructure Development – places of worship, public facilities, health facilities, and so forth
5. Environmental management

CSR fund in the oil and gas sector was initially under cost recovery provision, however The Presidential Regulation No. 79/2010 stipulates that:

- Cost of community empowerment program for PSC holders at exploration stage can be recognized as cost recovery
- PSC holders may no longer recognize the cost of community empowerment program as cost recovery once they enter exploitation stage

In the mining sector, Law No. 40/2007 on Limited Liabilities Company stipulates social responsibility without specifying the amount of funds allocated for community empowerment. The responsibility to develop and execute community empowerment programs is also stated in Mining Law No. 4/2009 that governs IUP and IUPK holders.

CSR funds include in reporting format and disclose in this report unilaterally hence they not include in reconciliation scope.

In total, CSR funds expended by extractive companies (covered in this report) are in the amount of Rp439,506 million and USD165,531 thousand in 2012 and Rp380,467 million and USD 131,763 thousand in 2013 in oil and gas and mining sectors, respectively.

## Transportation

EITI Standard point 4.1.f requires the disclosure of revenues received by SOEs from the transportation of extractive goods.

Based on reporting format collection, the cost of coal transportation that PT Bukit Asam (Persero) Tbk pays to PT Kerata Api Indonesia (Persero) in total is over 1% of the total state revenues in the minerals and coal sector. As this constitutes significant revenues, this report reconciles the amount. In 2012, PT Kereta Api Indonesia (Persero) received Rp1,822,169 million and Rp1,812,104 million in 2013.

PT Pertamina (Persero) receives transportation payment (toll fee) from PSC holders, PGN, and other companies for the transmission of oil and gas through pipe network owned by PT Pertamina (Persero). This report does not reconcile the amount given that the total amount is less than 1% of the total state revenues from oil and gas sector. Toll fee paid in 2012 amounted to USD 99,827 thousand and USD 128,686 thousand in 2013.

## Subnational Payments

EITI Standard 4.2.d requires all material subnational payments to be disclosed and reconciled.

Subnational payment occurs in the mining sector, where companies make direct payments to subnational government. In addition to taxes stipulated in the bylaws, company payments follow formal agreement between the company and the subnational government. The Implementing Team agreed that direct subnational payments should be included in the companies' reporting formats, but not reconciled, as the reports are unilateral.

The amount of Regional Taxes and Retribution (*Pajak Daerah dan Retribusi Daerah/PDRD*) paid by extractive companies (covered in this report) is Rp615,298 million and USD 48,334 thousand in 2012 and Rp732,492 million and USD 46,480 thousand in 2013.

Direct subnational payments from mining companies (covered in this report) pursuant to their formal agreements is Rp600,486 million and USD 4,803 thousand in 2012 and Rp413,797 million and USD 4,830 thousand in 2013.

## Extractive SOEs

SOEs are profit-driven business enterprises that are wholly or partially owned by the state. There are 4 extractive SOEs in Indonesia, namely PT Pertamina (Persero), PT Aneka Tambang (Persero) Tbk., PT Bukit Asam (Persero) Tbk. dan PT Timah (Persero) Tbk.

PT Pertamina (Persero) is the only SOE in the oil and gas sector and is the second largest production contributor in the country (see chart 1 and 2).

## Scope of Reconciliation

The scope of extractive companies of this report is based on another Independent Consultant (Ernst &

Young Jakarta – Scoping Study) and it is identified based on the share of contribution of each company to total state revenues from extractive industry. In the oil and gas sector, this report covers all companies in production stage, which means 100% of oil and gas companies that are carrying production activities are requested to join in this reporting activities. In mining sector, this report covers two groups of companies: companies that contribute to 80% of revenues from corporate income tax in the mining sector, and companies that pay over Rp25 billion royalty to the state (contributing 81.67% and 84.65% of the state revenues from royalty in 2012 and 2013, respectively).

Implementing Team has agreed that the threshold of revenues materiality for this reconciliation is 1% of the total state revenues from each extractive sector.

Based on the Scoping Study verified by IA and Implementing Team, there are 158 oil and gas companies that meet the threshold (consisting of 67 operators and 91 non-operators) in 2012 and 76 companies in the mining sector (consisting of 62 coal companies and 14 mineral companies). In 2013, there are 174 companies from oil and gas sector (consisting of 72 operators and 102 non operators) and 99 mining companies (consisting of 69 coal and 30 mineral companies).

In the mining sector, this report identifies companies covered only in 2012 report (10 companies), only in 2013 report (33 companies), and in both 2012 and 2013 reports (66 companies). In total, there are 109 companies that need to submit reports. One company is excluded from reconciliation scope given its business nature as mining operator (non IUP holder).

Government entities covered in the reconciliation report are DG Tax, DG Budget, DG Oil and Gas, DG Mineral and Coal, and SKK Migas. Meanwhile, state revenues presented unilaterally (not included in the reconciliation process) are from DG Fiscal Balance, Riau Provincial Government, East Kalimantan Provincial Government, and East Java Provincial Government.

### Non-Complying Companies

There are a total of 174 oil and gas companies in reconciliation report, comprising 72 operators and 102 partners. However, 10 partners fail to report.



Front Building - Pertamina

These partners account to 1.09% and 0.37% of the total tax revenues from oil and gas sector in 2012 and 2013, respectively. The following table lists non-complying partners:

PSC Name	Block	Reason for Not Reporting	DG Budget Reported (C and D Tax)	
			2012 (in Thousand USD)	2013 (in Thousand USD)
1. EMP ONWJ Ltd.	Offshore North West Java (ONWJ)	no response	25,461	24,524
2. Risco Energy ONWJ / Salamander	Offshore North West Java (ONWJ)	transfer of ownership	4,376	1,244
3. Hess	Natuna Sea Block A	transfer of ownership	63,321	3,472
4. PT Imbang Tata Alam	Malacca Strait	no response	-	-
5. PT Surya Kencana Perkasa	Tonga	no response	-	-
6. PT Petross Petroleum Production	Tonga	no response	-	-
7. Gulf Petroleum Investment Co.	Seram Non Bula	no response	-	-
8. Lion International Investment Ltd.	Seram Non Bula	no response	-	-
9. Fuel X Tungkal	Tungkal	no response	-	-
10. Orchard Energy Sumatra BV / Risco Energy SES	South East Sumatra	transfer of ownership	4,413	328
<b>TOTAL</b>			<b>97,571</b>	<b>29,568</b>
<b>TOTAL OF REVENUE TAX</b>			<b>8,947,066</b>	<b>8,063,804</b>
<b>PERCENTAGE</b>			<b>1.09%</b>	<b>0.37%</b>

Note:

1. There are 3 partners that have transferred their ownership, namely Risco Energy ONWJ (ONWJ Block), Hess (Pangkajene Block), and Risco Energy SES (SES Block)
2. 7 companies fail to submit their reports until the end of reporting deadline.

In mining sector, 21 companies fail to report from a total of 108 companies identified for reconciliation. Based on information from DG Mineral and Coal,

percentage of royalty and sales revenue share (PHT) from unreported companies compares to total royalty and total PHT (calculated from all companies included in reconciliation) is as follow:



*in million Rupiah*

Name of Mining Company	Province	Reason for Not Reporting	DG Mineral & Coal Reported (Royalty dan Sales Revenue Share)	
			2012	2013
1. PT Riau Baraharum	Riau	no response	33,869	-
2. PT Sumber Kurnia Buana	South Kalimantan	no response	89,646	-
3. PT Sebuku Iron Lateritic Ores	South Kalimantan	no response	-	25,402
4. PT Bara Alam Utama	East Kalimantan	no response	39,258	40,648
5. PT Bhumi Rantau Energi	South Kalimantan	reluctant to report	54,709	62,516
6. PT Energi Batubara Lestari	Central Kalimantan	no response	30,714	43,697
7. PT Gema Rahmi Persada	East Kalimantan	no response	38,864	-
8. PT Karya Gemilang Limpah Rejeki	Central Kalimantan	no response	30,777	-
9. PT Kayan Putra Utama Coal	East Kalimantan	no response	94,561	236,611
10. PT Padang Anugerah	East Kalimantan	no response	26,711	-
11. PT Tunas Muda Jaya	East Kalimantan	no response	-	30,560
12. KUD Gajah Mada	South Kalimantan	no response	26,800	25,085
13. PT Bukit Merah Indah	Riau	no response	-	29,625
14. PT Citra Silika Mallawa	Southeast Sulawesi	no response	-	31,091
15. PT Fajar Mentaya Abadi	Central Kalimantan	closed	-	80,378
16. PT Gunung Sion	Riau Islands	no response	-	33,139
17. PT Serumpun Sebalai	Bangka Belitung	no response	-	26,016
18. PT Stargate Pasific Resources	Southeast Sulawesi	no response	-	29,617
19. PT Telaga Bintang Jaya	Riau Islands	no response	-	28,324
20. PT Tinindo Inter Nusa	Bangka Belitung	no response	34,932	-
21. PT Tujuh SW	Bangka Belitung	closed	27,692	36,969
<b>TOTAL</b>			<b>528,533</b>	<b>759,678</b>
<b>TOTAL OF REVENUE</b>			<b>21,013,917</b>	<b>25,149,591</b>
<b>PERCENTAGE</b>			<b>2.52%</b>	<b>3.02%</b>

Note:

1. PT Fajar Mentaya Abadi is no longer in operation by virtue of letter of Kotawaringin Timur Head of District No.188.45/476/HUK-DISTAMBEN/2014 on Revocation of Mining Business Permit of the Operations of PT Fajar Mentaya Abadi dated 2 December 2014
2. PT Tujuh SW is no longer in operation by virtue of deed of Affirmation of the Dissolution of PT Tujuh SW from notary Wahyu Dwi Cahyono, SH, M.kn as per 6 September 2013
3. PT Bhumi Rantau Energi officially declines to report via official email
4. 18 companies fail to submit their reports until the end of deadline

## Revenue Sharing Fund

Revenue Sharing Fund (DBH) of natural resources is regulated by GR No. 55/2005. The source of DBH

is non-tax state revenues (PNBP) paid to the central government and reported in the State Budget (ABPN). PNBP is distributed to resources-producing regions using certain percentage. DBH is utilized to fund the regions' needs with regards to decentralization.

Natural resources DBH streams in Indonesia are:

- a. Crude oil production;
- b. Natural gas production;
- c. General mining (including mineral and coal);
- d. Geothermal mining;
- e. Forestry activities;
- f. Fishery activities.

For the purpose of this report, we identify natural resources DBH from the production of oil, natural gas, and general mining (including mineral and coal). The central government distributes DBH in

the amount of Rp59.5 trillion and Rp40.9 trillion in 2012 and 2013, respectively.

## Findings and Recommendations:

### A. Recommendation to Follow-Up the Previous EITI Report (2010 - 2011)

Pursuant to EITI International Standard Year 2013 point 5.3.f, IA requires to comment on the recommendation implementation made from the previous report.

The following table lists the recommendations made for EITI Indonesia Reconciliation Report for Oil and Gas Sector in 2010-2011.

#### Recommendations from EITI Indonesia Reconciliation Report for Oil and Gas Sector in 2010-2011, and Recommendations Follow-up in Reporting Cycle 2012-2013

Name of Revenue Streams	Previous Report Recommendations	Follow-up in current report
<b>Revenues in Currency</b>		
Corporate income tax, including oil and gas dividend	Reporting format and guidelines should be designed and socialized appropriately to avoid errors in completing reporting format.	IA has conducted format design and socialization before reporting cycle, ensuring improved reporting quality.
Over/under lifting of oil/gas	To use volume base instead of currency	Analysis shows that this is at the moment impractical given that the payment is made in currency
DMO fees	To use volume base instead of currency	Analysis shows that this is at the moment impractical given that the payment is made in currency
Bonus	Payment should comply with regulation – 30 days after billing	PSC has implemented the obligation according to provision
<b>In kind revenues</b>		
Volume information	<ul style="list-style-type: none"> <li>- Need to understand how to complete reporting format</li> <li>- Completing guidelines</li> <li>- Need to add columns for LPG and LNG</li> </ul>	IA has conducted format design and socialization before reporting cycle, ensuring improved reporting quality.
<b>Others</b>		

Name of Revenue Streams	Previous Report Recommendations	Follow-up in current report
Relations between reconciliated oil and gas revenues of the state with DBH	To ensure full public transparency, reconciliation process needs to link revenues covered in the report with DBH	Several barriers to include this in IA Scoping Study are: <ol style="list-style-type: none"> <li>1. Components that deduct revenues (VAT on reimbursement, land &amp; building tax, PDRD, and fee on upstream activities) that are not covered in reconciliation</li> <li>2. Different currencies</li> </ol>
Non-renewable natural resources and sustainable development	Future report needs to reveal DBH utilization, which is initially distributed to preserve and maintain non-renewable resources and to safeguard sustainable development	Based on Scoping Study and Term of Reference (TOR), this revenue stream is not included in the 2012-2013 EITI scope.

The following table lists the recommendations made for EITI Indonesia Reconciliation Report in 2010-2011 for mining sector.

Recommendations from EITI Indonesia Reconciliation Report for Mining Sector in 2010-2011, and Recommendations Follow-up in Reporting Cycle 2012-2013

Name of Revenue Streams	Previous Report Recommendations	Follow-up in current report
Royalty & PHT	<ul style="list-style-type: none"> <li>- Emphasize to mining companies that proof of payment must include clear and accurate information, especially on the detail of Coal Production Contribution (DHPB) into royalty and PHT to avoid error in payment distribution to producing regions from government agencies.</li> <li>- Reporting format must be completed with completion guidelines detailing types of payment that need to be reported.</li> <li>- Reporting format needs to be disseminated beforehand to ensure that information on payment of current year, payment on previous year, or penalty/find uses cash basis approach</li> </ul>	IA has conducted format design and socialization before reporting cycle, ensuring improved reporting quality

Name of Revenue Streams	Previous Report Recommendations	Follow-up in current report
Corporate Income Tax	<ul style="list-style-type: none"> <li>- Reporting format must be completed with completion guidelines detailing types of payment that need to be reported, complemented with the instruction to fill the information in single currency, either IDR or USD, following the currency that the company uses in its accounting.</li> <li>- Differences due to error in identifying payment of periodic Corporate Income Tax as royalty should be followed up with reporting entities.</li> </ul>	IA has conducted format design and socialization before reporting cycle, ensuring improved reporting quality
Civil society members	<ul style="list-style-type: none"> <li>- Other than the involvement of reconciliator and EITI secretariat, representatives of civil society also need to be present in the process of technical clarification with reporting entities (government, companies) and relevant agencies</li> <li>- Verification process regarding the follow up and EITI reconciliation settlement needs to be explained transparently. Updates should be provided to Implementing Team with support from EITI secretariat.</li> </ul>	Carried out in workshops/ socialization session with technical team, discussion, and Focused Group Discussion (FGD)

**B. Findings and Recommendations on current EITI report (2012 – 2013)**

EITI Standard point 5.3.f also requires IA to make recommendations for the EITI's current activities including auditing practices recommendation in order to improve future reports, and for strengthening the reporting process in the future, and it is also a part to bring them into line with EITI's International Standard

This section contains recommendations that outline some input and feedback to improve EITI implementation in Indonesia as well as suggestions to improve EITI future reports. The

recommendations are expected to be utilized by Steering Committee, Implementing Team, and IA in order to formulate EITI report that can become reference and source of public discussion. EITI report should be able to help the Indonesian public to understand the country's extractive industry, which will eventually lead to better extractive industry governance.

**1. Some information is not publicly available**

**Background Statement**

EITI standard requires and encourages public accessibility of information of extractive industry maintain by government agencies. The



standard requires EITI implementing countries to publish cadastral information on: i. license holder(s); ii. coordinates of the license area; iii. date of application, date of award and duration of the license; and iv. in the case of production licenses, the commodity being produced. The standard also requires disclosure of bid applicants and recommends disclosure registry of beneficial ownership, as well as registry of contracts and licenses.<sup>7</sup>

### Observation

#### Upstream oil and gas

- Informasi on coordinates<sup>8</sup> are only provided in Inameta, a paid application.
- DG Oil and Gas has not been able to disclose list of bid applicants
- EITI Report 2012-2013 discloses names of direct participating interest, however it is not yet discerned whether the ownership also translates into beneficial ownership
- General provisions in contracts are publicly accessible. DG Oil and Gas argues that contract is confidential as it is a legal agreement between two parties. For full access to the contracts, the public can submit formal request for disclosure, a mechanism pursuant to Public Information Disclosure Act (Law No. 14/2008).

#### Mining sector

- Cadastral information is accessible by the Central Government (KPK, relevant ministries/institutions) and subnational government that hold username and password granted through formal request mechanism. The public can access this

information through DG Mineral and Coal office by printing the mining business area per regency or by printing specific mining business area if interested party holds mining permit decision letter and concession coordinates.

- DG Minerals and Coal did not hold bidding process in 2012-2013
- EITI Report 2012-2013 report names mining concessions' direct owners, however it is not yet discerned whether the ownership also translates into beneficial ownership.
- General provisions in contracts are publicly accessible. For full access to the contracts, the public can submit formal request for disclosure, a mechanism pursuant to Law No. 14/2008.

### Implication

- Some materials that can be utilized as source of public discourse is limited.

### Recommendations

- Promote transparency of key information as put forward in EITI standard through study, multi stake holder agreement, or regulatory amendment.
- List of beneficial ownership is understandably difficult to acquire and compile given that corporate ownership is commonly set in complex layers. As a start, this report recommends that the Implementing Team defines "beneficial owner" so that this information can be accommodated in future reporting format.

<sup>7</sup> EITI Standard defines that disclosure of provisions under contracts is the disclosure of the full text of contracts/licenses, full text of annex or addendum, and full text of contract amendment.

<sup>8</sup> "Inameta Platinum" is a paid system that provides coordinates and historical background of operational areas.

## 2. Extracting Data and Information Can be Difficult and Slow

### Background Statement

As explained, the purpose to develop EITI report is to provide reference for the public and shaping better understanding on reconciliation process. EITI report also seeks to provide a basis for public discourse concerning the improvement of Indonesian extractive governance. To this purpose, it is pivotal that the public obtains information and clarification from parties that are directly involved in the extractive governance.

### Observation

The team frequently faces difficulty in obtaining data and confirmation due to, among others:

- Red tape challenge that hinders the process of gathering data and information
- Data on mining license issued by subnational government (governors, district heads/mayors)
- Data and information presentation from reporting entities inconsistent with reporting format

### Implication

The progress of EITI Report 2012-2013 development was not as expected; there was not enough time to perform analysis and some of information may need further explanations.

### Recommendations

- Implementing Team is expected to be more involved and to take more active role in providing data and information as well as to give comprehensive explanation and confirm elements in EITI report.
- Optimize monitoring and evaluation process by involving the Ministry of Home Affairs and other agencies that undertake similar tasks, e.g. the KPK's coordination-

supervision over mining sector.

- Reporting format and form should already be agreed when finalizing Scoping Study

## 3. Submission from Reporting Companies

### Background Statement

Company report is voluntary and binding sanction is not in place for entities that fail to report.

### Observation

- Total reporting companies that submit report is 252 companies out of 282 targeted companies, or account for 89%. In oil and gas sector, 164 companies submit their reports out of 174 targeted companies, or 94% - consisting of 72 operators (100%) and 92 partner companies (90%). Meanwhile, in mining sector, out of the targeted 108 companies, only 87 companies submit their reports or 81%. They consist of 5 Mineral KK Holders (83%), 16 Mineral IUP holders (64%), 33 Coal PKP2B holders (94%, and 33 Coal IUP holders (79%).
- The above percentage between oil and gas companies and mining companies is incomparable, especially considering that there are around 11,000 mining IUPs and taking into account the following conditions:
  1. The authority to manage oil and gas sector lies with the Central Government, while the authority of mining sector has been decentralized to subnational government pursuant to Law No. 32/2004 on Subnational Government (now Law No. 23/2014 on Subnational Government). Therefore, the Central Government exerts very limited control on mining licenses issued by subnational government. Further, there are no penalties for companies which have been granted IUP from local government yet failed to report to the Minister of Energy and Mineral

- Resources c.q DG Mineral and Coal.
2. The scope of extracted commodities in the mining sector is vast – e.g. coal (coal and asphalt), metallic mineral (gold, silver, copper, tin, bauxite, nickel, lead, manganese, zinc, iron, etc.), non-metal (loam, diamond, quartz sand, sulfur, talc, mica, gypsum, limestone for cement, zeolite, etc.), and rocks (andesite, volcanic rock, sandstone, overburden, sand, holystone, chalcedony, etc.)
  3. Coal and metallic mineral extractive activities are generally in large-scale operations; nonmetal activities are medium to large-scale operations, while the extraction of rocks is in small-scale operations. However, there are small-scale operations run by smallholders under People's Mining License (*Izin Pertambangan Rakyat/IPR*), with each concession cover 0.1 to 10 hectare that can exploit all types of extracted commodities.

#### Implication

Report content is not as expected due to missing reports

#### Recommendations

Advocate for the formulation of technical legal instrument that stipulates reporting obligation of mining companies to subnational government, and subnational government to the central government.

### 4. Tax Disclosure

#### Background Statement

Tax disclosure provided by Tax DG takes a lengthy process. Art. 34 General Provisions and Tax Procedures (*Ketentuan Umum dan Tata Cara Perpajakan/KUP*) Act prohibits the disclosure of taxpayers identities, unless companies attach Letter of Authorization (LoA) signed by an authorized official as registered in their company deeds.

#### Observation

- LoA and company deed requirements are the main barriers in reconciliation process. Companies hesitate to provide these documents. Without any formal consequences, companies have room to refuse producing LoA and company deed.
- DG Tax provides annual tax data instead of monthly data, while companies provide IA monthly tax data. This causes IA to experience difficulty in analysing the bulk of annual data.
- Implication
- Reconciliation process took longer than expected.
- Companies fail to provide confirmation due to limited timeframe.

#### Recommendations

For smoother reconciliation process, Chair of Steering Committee or Chair of Implementing Team should submit request to the Minister of Finance to provide written approval for the DG Tax to disclose Corporate Income Tax taxpayers' data.

### 5. Scoping Study

#### Background Statement

Materiality threshold on discrepancies that require further inquiry is not yet defined

#### Observation

- Scoping Study has not defined materiality threshold on discrepancy that can be exempted from reconciliation
- Materiality threshold is needed to ensure better reconciliation process and so that inquiry on discrepancies can be prioritized

### Implication

IA must inquire all identified discrepancies (regardless of the amount). Considering the timeframe, in consequence there may be major number of discrepancies that have not been verified.

### Recommendations

- Future Scoping Study needs to define materiality threshold for discrepancies, e.g. 5%, which follows the threshold of financial statements disclosure required by the Financial Services Authority.
- Scoping Study needs to delineate the level of data segregation and comprehensiveness that EITI report requires.

## 6. Gas Unit Presented in Reporting Format

### Background Statement

Differences in identifying gas volume.

### Observation

- Natural gas at production phase is recorded using mscf unit and mbtu when traded as commodity
- Conversion of unit from mbtu to mscf leads to inconsistent results depending on the gas composition
- Companies use real conversion, while the government uses average conversion
- Differences of LPG rate conversion between companies and the government

### Implication

- Inconsistencies during reconciliation due to mixed results of conversion

### Recommendation

- Reporting format should apply both mbtu and mscf
- Reporting format should also require data on conversion rate both for mbtu to mscf and ton to mscf conversion (for LPG)

## 7. Accounting Errors in Mining Sector

### Background Statement

DBH distribution for mining sector consists of royalty and landrent. PNPB streams from mining sector consist of landrent, royalty, and sales revenue share. Revenues allocated to DBH are landrent and royalty. Definition of each revenue stream is as follows:

- Land rent is the payment that the government receives as compensation for allowing activities of general assessment, exploration, and exploitation to take place in a **working area**. Account code for land rent is 421311.
- Royalty is production fee paid by mining concession owners **over commodities extracted** from exploitation activities. Account code for royalty is 421312.
- Sales revenue share/PHT is Coal Production Contribution (13.5%) less Royalty. This type of revenue stream is only imposed on contractors of PKP2PB and is not calculated in DBH. Account code for PHT is 421313.

### Observation

- Accounting errors still occur in the General Accounting System (*Sistem Akuntansi Umum/SAU*) of the Ministry of Finance given that taxpayers – IUP holders, KK holders, and PKP2B fail to make correct PNPB payment, e.g.:
  1. Companies pay PNPB from mining sector using bank deposit slip that is no longer applicable and cause error input by bank tellers.
  2. Companies neglect to write account code on deposit slip and cause bank tellers to wrongly input PNPB account data that will be captured by SAU.
  3. Companies' error in writing royalty account code as landrent or PHT codes, or vice versa, causing errors in SAU.
- Account correction in SAU for the errors has been performed



### Implications

- PNBP accounting system incompatibility between MoF's SAU and DG Mineral and Coal's Agency Accounting System (*Sistem Akuntansi Instansi/SAI*). SAU applies system-based accounting, while SAI uses payment slips submitted to DG Mineral and Coal by companies or subnational government (Revenue & Energy Office and Revenue Office). Given the incompatibility, DBH cannot be immediately distributed due to irreconcilable accounting and recognition in SAU and SAI.
- Account correction and reconciliation with the MoF takes more time and procedure, which causes delay in DBH distribution from the central government to subnational government.

### Recommendations

- Educating companies and subnational government on PNBP payment
- To create integrated payment and reporting system to eliminate SAU-SAI differences.

#### Notes:

Implementing Team needs to further discuss all recommendation items in EITI Report. The team also needs to monitor follow-up actions of the recommendations.

## **EITI INDONESIA REPORT 2012 -2013 EXECUTIVE SUMMARY**

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### **EITI Indonesia Secretariat**

Kementerian Negara BUMN Building,  
18<sup>th</sup> Floor,  
Jl. Medan Merdeka Selatan No.13, Jakarta  
10110 - Indonesia  
Telp: +62 21 3483 2642  
Fax: +62 21 3483 2645  
email: sekretariat@eiti.ekon.go.id