

3 RECONCILIATION REPORT

EITI INDONESIA REPORT
2016

EITI Extractive
Industries
Transparency
Initiative
INDONESIA



**COORDINATING MINISTRY FOR ECONOMIC AFFAIRS
OF
THE REPUBLIC OF INDONESIA**

**EITI INDONESIA REPORT 2016
RECONCILIATION REPORT**

VOLUME THREE



EITI
INDONESIA
REPORT 2016

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LIST OF ABBREVIATIONS AND DEFINITIONS

Accrual Basis	A basis for recognizing income and / or expenses is based on actual events, not when received or cash released from the company / reporting entity	DMO Fee	Compensation to be paid by the government to PSC Contractor on the delivery of oil and/or gas to meet domestic requirement using prices set by the minister whose duties and responsibilities include Oil and Gas business activities
ASEAN	Association of Southeast Asian Nations	DR	<i>Dana Reboisasi</i> Reforestation Fund
ASR	Abandonment and Site Restoration	Dry Hole	Drilling exploration wells where there is no discovery of proved oil and gas reserve
Bapepam - LK	<i>Badan Pengawas Pasar Modal dan Lembaga Keuangan / Capital Market and Financial Institution Supervisory Agency</i>	EITI	Extractive Industries Transparency Initiative
Barrel	Units for oil and condensate are equivalent to 42 US gallons or 158.99 liters at a temperature of 60 ° F (sixty degrees Fahrenheit)	ESDM	<i>Energi dan Sumber Daya Mineral</i> Energy and Mineral Resources (EMR)
BO	Beneficial Ownership	FOB	Free On Board
BPK	<i>Badan Pemeriksa Keuangan</i> Supreme Audit Board	Forex	Foreign Exchange
BPKP	<i>Badan Pengawasan Keuangan dan Pembangunan / Financial and Development Supervision Agency</i>	FQR	Financial Quarterly Report is a report that must be submitted by PSC Contractor to SKK Migas on quarterly basis, which presents information about activities of the PSC Contractor including: 1) Total Lifting of Oil and Gas 2) First Tranche Petroleum 3) Investment credit 4) Cost recovery 5) DMO at ICP 6) DMO Fees 7) Profit sharing between Government and PSC Contractor 8) Taxes on income related to the PSC
BP Migas	<i>Badan Pelaksana Kegiatan Usaha Hulu Minyak dan Gas Bumi / Regulatory Agency for Upstream Oil and Gas Business Activities</i>	FTP	First Tranche Petroleum is a certain amount of crude oil and/or gas produced from a working area in a calendar year, which can be taken and received by the Regulatory Body and/or PSC Contractor in each calendar year, before deducting cost recovery and own use
BUMN	<i>Badan Usaha Milik Negara / State-owned Enterprise, a business entity which share capital is wholly or partially owned by the state</i>	Gas	Hydrocarbon resulting from natural processes, which in the atmospheric pressure and temperature is in the form of gas phase, obtained from oil and gas extraction. Natural gas (gas) can be processed into piped gas, LNG and LPG
Cash Basis	An accounting method in recognizing income and or expense when cash is disbursed by company/reporting entity	Government	The Government of the Republic of Indonesia
Condensate	Gas oil, naphtha and other relatively light hydrocarbons (with some dissolved hydrocarbon gas such as butane and propane) that remain liquid at normal temperature and pressure. Derived mainly from the gas reservoir, condensate is very similar to light crude oil, stabilized and used as feed stock for refineries and other petrochemical industries	IA	Independent Administrator, appointed to prepare the 2016 EITI Report
Corporate Income Tax	Income tax payable by a corporate taxpayer on the taxable income within a fiscal year in accordance with prevailing tax regulations	IAPI	<i>Institut Akuntan Publik Indonesia</i> Indonesian Institute of Certified Public Accountants
Corporate & Dividend Tax	Income Tax and Dividend Tax owed by a taxpayer on taxable income in a tax year plus the dividend tax in accordance with the applicable tax provisions	ICP	Indonesia Crude Price – the price of Indonesian crude oil/condensate established by the Government of Indonesia with a certain formula for the implementation of the PSC and sale of Government share of crude oil/condensate resulting from the carrying out of the PSC
Cost Recovery	A return on operating costs incurred by the PSC contractor out of the production (in kind) derived from related working areas, in accordance with the provisions of the PSC and related regulations	IDR	Rupiah (Rp), currency of Republic of Indonesia
CSR	Corporate Social Responsibility	IFRS	International Financial Reporting Standard
DBH SDA	<i>Dana Bagi Hasil Sumber Daya Alam / Revenue Sharing Fund from Natural Resources</i>	IMB	<i>Izin Mendirikan Bangunan</i> Building Construction Permit
Development Bonus	Bonus that will be paid by PSC contractor to the government at the time of first commercial development of a working area in accordance with the PSC	Implementasi on Team	Multi Stakeholder Group (MSG) is the implementer of EITI, where its membership is in accordance with Clause 10 of Presidential Regulation No. 26/2010
DG	Directorate General	Investment Credit	Investment incentives in the form of a certain amount of additional refund of capital cost directly related to production facilities, granted as incentive for the development of a certain oil and/or gas field
DPHB	<i>Dana Hasil Penjualan Batubara / Coal Production Fund, obligation that must be paid by mining companies to the State in the amount of 13.5% of the sales value of coal regardless level of coal calorie</i>	IUP	<i>Izin Usaha Pertambangan</i> Mining Business License
Dividend	Profit sharing of net income generated by the company within a certain period to shareholders entitled under the Annual General Meeting of Shareholders		
DMO	Domestic Market Obligation – obligation of delivery from PSC Contractor's/company's share in the form of oil, gas or coal to fulfill domestic requirement		

IUPK	<i>Izin Usaha Pertambangan Khusus</i> Special Mining Business License is a license to carry out mining business in a special area
JOA	Joint Operating Agreement
JOB	Joint Operating Body, a joint operating entity formed between a subsidiary of PT Pertamina Hulu Energi and PSC Contractor to carry out upstream oil and gas operations in a working area
Joint Lifting	Lifting activities carried out jointly between the PSC Contractor and the Government using the same vessel/pipeline, where the result is shared based on provisional entitlement
KAP	<i>Kantor Akuntan Publik</i> Public Accounting Firm
KK	<i>Kontrak Karya / Working Contract</i> , an agreement between the Government of the Republic of Indonesia with an Indonesian legal entity in the frame of foreign investment to carry out mineral mining operation
KKKS	<i>Kontraktor Kontrak Kerja Sama / Cooperation Contract Contractor (PSC Contractor)</i> , a Business Entity or Permanent Establishment established to conduct exploration and exploitation in an oil and gas working area based on a PSC with the Regulatory Body
KKS	<i>Kontrak Kerja Sama / Cooperation Contract (PSC)</i> a form of cooperation contract in upstream oil and gas business activities based on production sharing principle
KLU	<i>Klasifikasi Lapangan Usaha</i> Field of Business Classification
KPPN	<i>Kantor Pelayanan Perbendaharaan Negara</i> State Treasury Service Office
KUP	<i>Ketentuan Umum dan Tata Cara Perpajakan</i> General Taxation Law
LAKIP	<i>Laporan Akuntabilitas Kinerja Instansi Pemerintah</i> Performance Accountability Report of Government Agencies
Landrent	Contributions to be received by the State in return of the opportunity granted for General Survey, Exploration or Exploitation in a working area
Lifting	A number of crude oil and/or gas sold or shared at the point of delivery (custody transfer point)
LKPD	<i>Laporan Keuangan Pemerintah Daerah</i> Local Government Financial Statements
LKPP	<i>Laporan Keuangan Pemerintah Pusat</i> Central Government Financial Statements
LNG	Liquefied Natural Gas is natural gas converted into liquid form through refrigeration process for easy transport
LO	<i>Lembar Otorisasi</i> Authorization Sheet
LPG	Liquefied Petroleum Gas is gas (usually butane and propane) stored and transported as pressured liquid. Unlike LNG, LPG does not require refrigeration process to be liquified
Migas	<i>Minyak dan Gas</i> Oil and Gas
Minerba	<i>Mineral dan Batubara</i> Mineral and Coal
MMBTU	Million British Thermal Units
MoEMR	Ministry of Energy and Mineral Resources

MSCF	Thousands Standard Cubic Feet. The amount of gas needed to fill the room of 1 (one) cubic feet, with a pressure of 14,73 psi (fourteen and seven three-tenths of a pound per square inch) or 14,696 psi (fourteen and six nine six per hundred pounds per square inch) and at 60°F (sixty degrees Fahrenheit) in dry condition
MSG	Multi Stakeholder Group
MT	Metric Ton
NGO	Non Government Organization
NJOP	<i>Nilai Jual Objek Pajak</i> Tax Object sales Value
NTB	<i>Nomor Transaksi Bank</i> Bank Transaction Number
NTPN	<i>Nomor Transaksi Penerimaan Negara</i> State Revenue Transaction Number
Offshore	Oil operations over the mainland
OJK	<i>Otoritas Jasa Keuangan</i> Financial Services Authority
Onshore	Oil operations in the mainland
Operator	Contractor, or in the case of the Contractor consists of several participating interest holders, one of the participating interest holder designated as the representative by the other participating interest holders in accordance with the PSC
Over/(Under) Lifting	Over Lifting is excess oil and natural gas lifting by one party more than its entitlement based on the PSC within a certain period. Under Lifting is a shortage of oil and natural gas lifting by one party less than its entitlement based on the PSC within a certain period
Partner	Holder of participating interest in a PSC other than the PSC Operator
PBB	<i>Pajak Bumi dan Bangunan / Land and Building Tax</i> is tax calculated based on the area of land and buildings built on it. PBB shall be paid by the taxpayer according to the Tax Payable Notice issued by the Tax Office
PDRD	<i>Pajak Daerah dan Retribusi Daerah / Local Taxes and Retributions</i>
Perda	<i>Peraturan Daerah</i> Local (government) Regulation
Persero	Liability Company
Perum	Public Company
PGN	Perusahaan Gas Negara, an Indonesian gas company
PHT	<i>Penjualan Hasil Tambang / Sales Revenue Share</i> is the obligation of PKP2B license holders set out in a separate contract. PHT is deducted by royalty (3%-7% of coal sales value, depend on coal calories)
PKP2B	<i>Perjanjian Kerjasama Pengusahaan Pertambangan Batubara / Coal Contract of Work (CCoW)</i> is an agreement between the Government of the Republic of Indonesia with an Indonesian legal entity in the frame of foreign investment or domestic investment to carry out coal mining operation
PLN	Perusahaan Listrik Negara, an Indonesian BUMN engaged in electricity sector
PMK	<i>Peraturan Menteri Keuangan / Regulation of Minister of Finance</i>
PNBP	<i>Penerimaan Negara Bukan Pajak / Non-tax State Revenue</i>
PNBP from the utilization of forest area	PNBP derived from the use of forest areas for development purposes other than forestry activities, in lieu of land compensation

Post-mining Fund	Funds provided by mining companies as guarantees for carrying out the activities of recovering natural environment and social functions in accordance to local conditions throughout the entire mining area	STP	<i>Surat Tagihan Pajak</i> Tax Collection Letter to collect tax and/or administrative sanctions in the form of interest and/or penalty
PP	<i>Peraturan Pemerintah</i> Government Regulation	SSBP	<i>Surat Setoran Bukan Pajak</i> Non-tax Payment Slip
PPh	<i>Pajak Penghasilan</i> Income Tax	Technical Team	A smaller team that represents the Implementation Team
PPK	<i>Pejabat Pembuat Komitmen</i> Commitment Signing Officer	TOR	Terms of Reference, the agreed-upon procedures applied in the implementation of EITI project in Indonesia
PPN	<i>Pajak Pertambahan Nilai</i> Value Added Tax	USD, US\$	Currency of the United States of America
Production Bonus	A bonus that will be paid by the PSC Contractor to the Government after reaching accumulation and/or a certain level of production in accordance with the PSC	WAPU	<i>Wajib Pungut</i> Mandatory Collector
Production Sharing	Represents the production available to be split (Lifting) between the government and the PSC contractor after deducting FTP (First Tranche Petroleum), investment credit (if any) and cost recovery	WNI	<i>Warga Negara Indonesia</i> Indonesian Citizen
PSC	Production Sharing Contract (see KKS)	(Year) 2016	In this Report, refers to Calendar Year 2016
PSDH	<i>Provisi Sumber Daya Hutan</i> Forest Resource Rent Provision		
Q	Quarter		
Reclamation Guarantee	Funds provided by IUP or IUPK holders as guarantees for reclamation activities carried out throughout the mining business stages to organize, restore and improve the quality of the environment and ecosystem		
Reconciliation	Process of comparing financial information and volume reported by the company/PSC Contractor and the relevant government agencies as well as explanation of the resolvable differences and identification of unresolvable differences		
Reporting Entity	In the context of this Report, the reporting entity is a company/PSC Contractor and Government Agency		
RKUN	<i>Rekening Kas Umum Negara</i> State General Treasury Account		
Royalty	Exploration and Exploitation Fees is production contribution that must be paid by the holder of mining licenses on the proceeds of exploration/exploitation opportunities		
SAK	<i>Standar Akuntansi Keuangan</i> Financial Accounting Standards		
SDA	<i>Sumber Daya Alam</i> Natural Resources		
Secretariat	Secretariat of EITI Indonesia Team		
Signature Bonus	Bonus that must be paid to the Government within 30 days upon signing of a PSC		
SKK Migas	<i>Satuan Kerja Khusus Pelaksana Kegiatan Usaha Hulu Minyak dan Gas Bumi</i> Special Unit for Upstream Oil and Gas Business Activities		
SKPKB	<i>Surat Ketetapan Pajak Kurang Bayar</i> Tax Underpayment Assessment Letter that specifies the amount of principle tax amount, tax under payment, administrative penalty and total tax payable		
SKPKBT	<i>Surat Ketetapan Pajak Kurang Bayar Tambahan</i> Additional Tax Underpayment Assessment Letter that specifies the additional amount to the specified tax payable		
SPKN	<i>Standar Pemeriksaan Keuangan Negara</i> State Finances Auditing Standards		

REPORT OF INDEPENDENT ACCOUNTANTS ON THE IMPLEMENTATION OF AGREED-UPON PROCEDURES

(Report No. 16/12/056/04/KAP-13/18 dated December 27, 2018)

To the Head of Extractive Industry Transparency Implementing Team
Coordinating Ministry for the Economic Affair

We have performed the procedures agreed with you solely to assist you based on our Contract Agreement No. PPK-14/PPK-EITI-IA/8/2018, dated August 28, 2018 with respect to information disclosed in the reporting templates of some identified companies in the sector of extractive industries and their related government agencies in Indonesia, for the year of 2016. Our engagement was undertaken in accordance with Indonesian Standard on Related Services, SJT. Section-4400, Engagements to Perform Agreed Upon Procedures Regarding Financial Information, published by The Indonesian Institute of Certified Public Accountants (IAPI). The relevancy or sufficiency of such procedures will be the responsibility of the user of this report. Accordingly, we will not give any representation about the relevancy or sufficiency of such agreed-upon procedures for this report or for any other purposes (The Terms of Reference/TOR/ or Agreed-Upon Procedures is presented in the appendices of this report).

The agreed-upon procedures (or TOR) as presented in the appendices of this report were performed in accordance with the implementation of the Extractive Industries Transparency Initiative (EITI) in Indonesia, and are ultimately the preparation of the Financial Reconciliation Report between the payments reported by some identified companies in the sector of extractive industries, and the related revenues reported by their related government agencies in Indonesia, for the year of 2016.

Our actual findings from this engagement were presented in the appendices of this report. We do not perform any audit or review procedures in accordance with Indonesian auditing and review standards on the reporting templates. Because the procedures do not constitute either an audit or a review made in accordance with Indonesian Standards on Auditing and Review engagements, we do not express any assurance on the information detailed in the reporting template based on the said standards. Had we performed additional procedures, or had we performed an audit or review procedures on the financial information as reported in the reporting template in accordance with such audit or review standards, other matters might have come to our attention that would have been reported to you.

Our report is intended solely for the purpose set forth in the first paragraph of this report and for your information only, and is not to be used for any other purpose or to be distributed to any other parties. In addition, this report relates only to information disclosed in the reporting templates submitted by some identified companies in the sector of extractive industries and their related government agencies in Indonesia, and does not extend to the financial statement of each entity taken as a whole.

Jakarta, December 27 2018

Ade Ikhwan
(Registered Public Accountant No. AP. 0916)

TERMS OF REFERENCE

1. Background

The Extractive Industries Transparency Initiative (EITI) is a globally developed standard to improve transparency and accountability of extractive industry sector activities (oil, gas, minerals and coal). This standard aims to create conditions of transparency and accountability that are a manifestation of good governance practice.

The initiative has a robust yet flexible methodology for disclosing and reconciling company payments and government revenues in the EITI implementing countries.

EITI implementation has two main components:

- **Transparency** : to disclose the payments from oil and gas, and mining companies to the government, and the government opens the receipts' information. The figures are reconciled by an Independent Administrator, and published annually in Transparency Reports along with other contextual information about the extractive industry sector.
- **Accountability** : a multi-stakeholder group with representatives from government, companies and civil society is established to oversee the process and communicate the findings of the EITI Report, and improve the integration of EITI into broader transparency efforts in the EITI implementing countries.

The EITI standard encourages multi-stakeholder groups to explore innovative approaches in order to extend the implementation of EITI; encouraging EITI reports to be more extensive and complete; encouraging public understanding of extractive sector revenue; and promotes high standards of transparency and accountability in the public eye, in government operations, as well as in the business world.

One of the EITI requirements is that a multi-stakeholder group (MSG) approves the Terms of Reference-TOR for the Independent Administrator (Requirement 1.4 of the EITI Standard), in accordance with objectives and agreed scope of the EITI as set out in the work plan.

EITI requires that the Independent Administrator must be a credible, trustworthy, and technically competent public consultant (Requirement 4.9 of the EITI Standard). MSG and Independent Administrator should address any concerns regarding conflicts of interest. The EITI report prepared by Independent Administrator will be submitted to the Implementing Team for approval and made publically accessible.

EITI implementing countries follow the procedures and requirements set forth in the EITI Standards.

EITI Implementation in Indonesia

Indonesia was ratified as the EITI candidate country in October 2010. Since becoming a member of EITI International, Indonesia has published 5 EITI Indonesia reports, the first report of the calendar year 2009, the second report of the calendar year 2010-2011, the third calendar year 2012-2013, the fourth report calendar year 2014 and the fifth report of the calendar year 2015.

This fourth report of EITI Indonesia officially submitted to the EITI International Council in Oslo, Norway and published on the EITI Indonesia website: www.eiti.ekon.go.id on February 28, 2017.

EITI in Indonesia is implemented based on Presidential Regulation No. 26/2010 concerning Transparency of State Revenue and Local Revenue derived from Extractive Industries. The provisions of Article 3 paragraph (1) of Presidential Regulation 26/2010 states that extractive industry transparency is implemented by a Transparency Team consisting of a Steering Committee and an Implementation Team consisting of representatives of government; representatives of oil & gas and mining companies; representatives of local governments; as well as representatives of civil society (MSG).

2. Objectives of the Assignment

On behalf of the Government of Indonesia and the Transparency Implementation Team, the Coordinating Ministry for Economic Affairs seeks a competent and credible firm, free from conflicts of interest, to provide Independent Administrator services in accordance with the EITI Standard. The objective of the assignment is to produce an EITI Report for calendar year 2016 (the 6th EITI Report) in accordance with the EITI International Standard (2016 EITI Standard).

3. Name and Organization of the Official in Charge of Making Commitments

The Official in Charge of Making Commitment (Pejabat Pembuat Komitmen – PPK) of EITI Indonesia activities is Agus Haryanto, Head of Extractive Industries of Mineral, Keasdepan Extractive Industries, the Deputyship of Energy and Mineral Resources in the Coordinating Ministry for Economic Affairs.

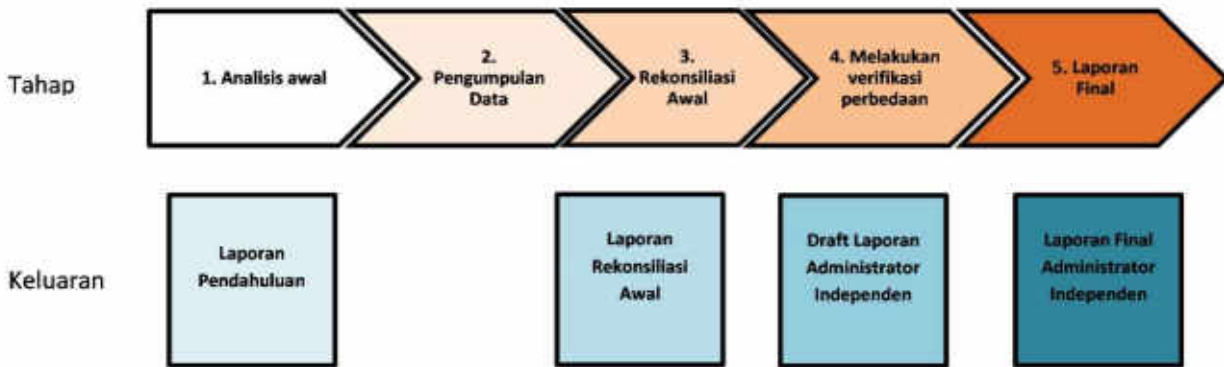
4. Scope of Services, Tasks and Expected Deliverables

The Implementation Team provides that the scope of the 2016 EITI Report includes a) Contextual Information on extractive industry governance and b) Reconciliation of state revenues from extractive industry.

The work of the Independent Administrator (IA) has five phases shown in Figure 1.

For every phase and activity of the meeting which is attended by Independent Administrator, IA is obliged to make recordings and minutes of the meeting result and deliver the result to the Secretariat of EITI Indonesia.

Figure 1 - Five Phases of the Report Preparation and Deliverables



This EITI Standard can be downloaded at the following link <http://eiti.ekon.go.id/the-eitistandard/>

4.1 Phase 1 – Preliminary Analysis and Inception Report

- a. The Inception Report includes relevant basic information on the governance of extractive industries in Indonesia, including the results of the EITI Indonesia 2016 Scoping Study along with the recommendations, which have been defined in the previous report of EITI Indonesia prepared by the Secretariat of EITI Indonesia.
List of documents and relevant information can be seen in the Appendix "Result of the 2016 EITI Report Scoping Study".
- b. The Independent Administrator prepares procedures and analysis of contextual information as well as other non-revenue information for the Inception Report. Procedures must be approved by the Implementing Team. The procedure should ensure that the information is clearly sourced and attributed. Such information as well as the specific duties which will be performed by the Independent Administrator are included in Appendix " Result of the 2016 EITI Report Scoping Study".
- c. Independent Administrators need to review " Result of the 2016 EITI Report Scoping Study " as approved by the Implementation Team taking into account the following points:
 - i. Identify all payment and revenue that will be included in the EITI Indonesia report in accordance with requirements for the EITI implementing countries point 4 along with the corporate and government entities required to report as approved by the Implementation Team.
 - ii. Assisting the Implementation Team in understanding audit procedures for government entities and participating companies in reporting. Includes explaining the applicable laws and regulations, and the reforms that are planned or being undertaken by the government. The report should also discuss the findings of previous EITI Reports that MSG should follow up as improvements to extractive industry governance.
 - iii. Identify and list related authorized government agencies over the data and information required for the data collection and reconciliation process.
 - iv. Identify any barriers to full government disclosure of total revenues received from each of the revenue streams agreed in the scope of the EITI report, including revenues that are below agreed materiality thresholds.

- v. Review and provide advice regarding the Scoping Study result report form to MSG regarding the revenue stream and the reporting entities. IA may revise and amend the reporting form through the approval of the Implementation Team.
 - vi. Declare the position of the Implementation Team regarding disclosure and payments reconciliation to and from the State-owned Enterprise (BUMN).
 - vii. Declare the position of the Implementation Team regarding materiality related to the deposit from the company to the local government.
 - viii. Declare the position of the Implementation Team regarding materiality related to transfer to the local government.
- d. Related to this matter, IA is required to create an Inception Report which contains information such as:
- i. Clear definitions of materiality, acceptance thresholds and revenue streams to be incorporated into reports as agreed upon by MSG. (Requirement 4.1).
 - ii. The proceeds from the sale of the production of the government part, the volume and value of sales of oil, gas, mineral and coal (in kind) which has been agreed by the Implementation Team. (Requirement 4.2).
 - iii. Provisions related to infrastructure and exchange agreements of goods or services by exploration and production of oil, gas and mining products. (Requirement 4.3)
 - iv. Transportation revenue from the transportation of oil, gas and mining products that have significant or material value. (Requirement 4.4)
 - v. Roles and transactions related to state-owned enterprises (BUMNs) including business relationships of oil, gas and other mining companies operating in Indonesia with BUMN, and transfers from/to other BUMNs. (Requirement 4.5)
 - vi. Direct payment by companies to local government, e.g. local taxes regulated in local regulations. (Requirement 4.6)
 - vii. Level of data disaggregation. The published EITI report is expected to include information up to the smallest or detailed units so as to produce a thorough analysis of the extractive sector. (Requirement 4.7)
 - viii. Quality and validity of data. The published EITI report should refer to international audit standards starting from data collection, reconciliation and presentation of data in reports. (Requirement 4.9)

4.2 Phase 2 – Data Collection

- a. The Independent Administrator is assigned by the Implementation Team to distribute the reporting form after the form has been finalized by the Implementation Team (see item 1.5); collect the completed forms and associated supporting documentation, as well as any other contextual or other information requested to be collected by the International EITI Standards. The collection is conducted directly from the Reporting Entity. The Government will provide contact details for the reporting entities to ensure that all reporting entities participate fully.
- b. The Independent Administrator forms a data collection mechanism to ensure the integrity of information transmitted to the Independent Administrator by reporting parties. The mechanism should be written in the form of template distribution and collection guidelines. The Secretariat of Transparency Team, when required, will assist with template distribution and data collection.
- c. The Independent Administrator is tasked to prepare a form-filling guide for the Reporting Entity, including data requests and additional information required.
- d. The Independent Administrator is authorized by the Coordinating Ministry for Economic Affairs to contact the reporting entities directly to obtain clarity on information gaps or discrepancies.
- e. Independent Administrator in consultation with the Implementation Team shall prepare contingency plans to anticipate reporting entities that are unable or unwilling to complete or return the reporting form in a timely manner.
- f. Independent Administrator must assess and apply international professional standards in carrying out the procedures to provide a sufficient basis for the preparation of comprehensive and reliable reports.

4.3 Phase 3 – Initial Reconciliation and Initial Reconciliation Report

- a. The Independent Administrator shall prepare a database, may be a spreadsheet, containing the data and information provided by the Reporting Entities.
- b. The Independent Administrator undertakes a thorough reconciliation of the information disclosed by the Reporting Entity, identifying any discrepancies (including offset differences in accordance with the agreed scope).
- c. The Independent Administrator prepares an Initial Reconciliation Report based on data and information from the Reporting Entity pursuant to point b above for discussion by the Implementing Team.
- d. The Independent Administrator shall identify any difference above the margin of error against a certain percentage of total revenue, as agreed by the Implementing Team. Total revenue is the total amount of extractive industry revenues reported to EITI Indonesia by either the industry reporters or government agencies.
- e. If there are other data collected by the Independent Administrator or given to the Independent Administrator by the government or Reporting Entities, the Independent Administrator will compile the data and prepare an initial report in a clear and understandable format by the Implementation Team.

4.4 Phase 4 - Verify the Differences and Draft of the Independent Administrator Report

- a. The Independent Administrator is mandated to contact the Reporting Entities in an attempt to seek clarity on the difference or discrepancies that arise in the reported data.
- b. The Independent Administrator shall prepare the draft of Third Stage Report which thoroughly contains the reconciliation of data and information of the Reporting Entities, identifies any discrepancies, and reports on contextual information and other matters as determined by the Implementation Team.
- c. The draft of Independent Administrator Report shall include the following:
 - i. A description of the methodology adopted in reconciling corporate deposits with government revenues, and an explanation of the application of international professional standards.
 - ii. Description of each revenue stream, related materiality definition and threshold (Requirement 4.1).
 - iii. An assessment of the extent and completeness of the data presented, including an informative summary of the work performed by the Independent Administrator along with the limitations of the assessment provided.
 - iv. The scope of reconciliation activities is based on government data on total revenue.
 - v. Assessment of whether all companies and government agencies included in the scope have provided the requested data and information. Any discrepancies in the delivery of information to the Independent Administrator should be written down in the report, including names of entities that failed comply with the agreed procedures, and an assessment of whether such conditions will have a material impact on the extent of the completeness of the report.
 - vi. Documentation of the Reporting Entities is one that has audited 2016 financial statements. If the audited financial statements of the reporting entity have been published, it should be submitted on how to access the audit report.
- d. If previous EITI Reports have recommended corrective actions and reforms, the Independent Administrator should comment on the progress in implementing those measures. The Independent Administrator should make recommendations for strengthening the reporting process in the future.
- e. The Independent Administrator is encouraged to make recommendations on strengthening the template Terms of Reference for Independent Administrator services in accordance with the EITI Standard for the attention of the EITI Board in the future.

4.5 Phase 5 – Final Report

- a. The Independent Administrator shall revise according to the recommendations of the Implementation Team on the draft report.
- b. The report should be written in two languages, Indonesian and English. If there is any difference, then the reference version is a report in the Indonesian language.

- c. The Independent Administrator must create electronic data files that can be published together with the Final Report. The Independent Administrator must submit files that can be processed by machine readable and/or reportable code and data files that can be processed in computer machine (using Excel format (.xlsx) and CSV format (Comma Separated Value), and according to the format of the data portal extractive managed by the EITI Secretariat and the template format determined by the International EITI Secretariat.
- d. The report is considered complete when it has been approved by the Implementation Team.
- e. If another party wishes to provide a response or opinion to the report, then the source should be clearly written.
- f. After the Implementation Team approves the Final Report, the Independent Administrator is required to submit electronic report summary data to the International EITI Secretariat based on the standard reporting format provided by the International EITI Secretariat

Material/Equipment/Personnel from PPK

To carry out the assignment, the material / equipment / personnel to be provided by EITI Indonesia's PPK include:

- a. Administrative support and payment verification;
- b. Scoping study result that has been approved by the Implementation Team, which will also include draft reporting templates that should be verified and revised if necessary, and then distributed according to number 4.2 above.

5. Qualifications for the Independent Administrator

The implementation of reconciliation of company payments and government revenues must be undertaken by the Independent Administrator applying international professional standards (Requirement 4.9). EITI requires the Implementation Team to appoint the Independent Administrator who is credible, trustworthy and has technical competence.

The Independent Administrator must have the following qualifications:

- Experience in accounting, auditing and financial analysis and experience in the oil, gas and mining sectors in Indonesia, within the last three years.
- Good and comprehensive understanding of companies in the field of extractive industry in Indonesia, as well as state revenues obtained from extractive industry and government agencies that receive and manage these revenues.
- Good understanding of the governance of extractive industries in Indonesia and internationally, the latest issues and challenges faced by extractive industries, the demand for transparency, improvement of governance and the contribution of extractive industries to the prosperity of society.

Bidders must include the application of professional standards for reconciliation assignment in the proposal based on agreed procedures (agreed upon procedures) in preparing this report.

In order to ensure the quality and independence, Independent Administrators are required, in their proposal, to disclose any actual or potential conflicts of interest. This should be stated in the proposal, including a statement of how the conflict of interest can be overcome, and if so, how it can be anticipated.

Estimated qualification and minimum number of experts required, as follows:

- Two (2) Partners (one person as the main partner), with a minimum of an undergraduate education; and at least 15 years working experience in accounting, auditing, and/or financial analysis, and at least one Partner is experienced in extractive industry governance;
- Two (2) Managers, with a minimum of an undergraduate education; at least 10 years working experience in accounting/auditing/financial analysis, and development economics especially in extractive industry governance;
- Three (3) Senior Staffs, with a minimum of an undergraduate education, and 7 years working experience in accounting/audit/financial analysis, and development economics especially extractive industry governance;
- Three (3) Staffs, with a minimum of an undergraduate education, and 4 years working experience in accounting/auditing/financial analysis, and development economics especially extractive industries.

6. Reporting Requirements and Time Schedule for Deliverables

6.1 Inception Report

The Inception Report contains the following information:

- a. Contextual information on governance arrangements and tax and levy policies in the oil and gas sector as well as mineral and coal mining sector, with reference to the result of scoping study (2016 Scoping Study);
- b. Review of the conclusions and recommendations of the 2015 Indonesia EITI Report;
- c. The definition of materiality and thresholds, and the resulting revenue streams to be included in accordance with Requirement 4.1(b);
- d. The sale of the state's share of production or other revenues collected in-kind in accordance with Requirement 4.1(c);
- e. The coverage of infrastructure provisions and barter arrangements in accordance with Requirement 4.1(d);
- f. The coverage of social expenditure in accordance with Requirement 4.1(e);
- g. The coverage of oil and gas transportation revenues in accordance with Requirement 4.1(f);
- h. The level of the detail of the EITI Report in accordance with Requirement 5.2(e);
- i. List of the companies that make material (significant) payments to the state and which is designated as the Reporting Entities, in accordance with Requirement 4.2(a), that is elaborated in brief profile of reporting companies, including types of contract/license, ownership (shareholders and group, if any), production volume, province and district of production, particular condition (e.g: onshore/offshore);
- j. List of the government entities that receive and/or record material payments and which is designated as the Reporting Entities report in accordance with Requirement 4.2(a) that is elaborated in brief profile of central government reporting entities who recorded and/or collect the revenue streams from extractive companies;
- k. The barriers to full government disclosure of total revenues received for each of the revenue streams agreed in the scope of the EITI report, including revenues that fall below agreed materiality thresholds (Requirement 4.2(b));

- l. The statement regarding the Implementation Team's position on disclosure and reconciliation of data to and from state owned enterprises (BUMN) in accordance with Requirement 4.2(c);
- m. The statement regarding the Implementation Team's position of the materiality and inclusion of payments from companies to local governments in accordance with Requirement 4.2(d);
- n. The statement regarding the Implementation Team's position on the materiality and inclusion of transfers from central government to local governments in accordance with Requirement 4.2(e);
- o. Reporting templates ready to be distributed;
- p. Provisions regarding the safeguarding of confidential information;
- q. Other unresolved or possible obstacles in the effective implementation of transparency, and possible solutions to such barriers.

6.2 Data Collection and Initial Reconciliation Reports

The Data Collection and Initial Reconciliation Reports comprises the following:

- a. Data Collection Report:
 - i. Description of method of data collection used to ensure the integrity of information;
 - ii. List of technical persons in charge and contact persons from each company and government entity that filled out the reporting templates, in the form of a spreadsheet that includes: names, street addresses, phone and fax numbers, and e-mail addresses;
 - iii. Lists of companies and government entities which have reported and fully completed templates, entities that have reported, but not provided fully completed templates, and entities that have not reported at all
 - iv. Statement signed and stamped by the company; and a statement sheet from the company's external auditor, if any;
 - v. Description of obstacles and difficulties encountered in the distribution and collection of templates, and steps being taken to address the challenge posed by companies or government entities that decline to report.
- b. Initial Reconciliation Report:
 - i. Tables that consist of recapitulations of figures reported by all reporting entities, in Excel format;
 - ii. Tables including, but not limited to:
 - Tables that consist of figures for each revenue stream reported by each company compared with figures reported by corresponding government entities; the amount of discrepancy between each pair of figures; adjustments to one or both sides after a verification process has taken place; any remaining unreconciled discrepancies; a short explanation how each discrepancy was solved, or if any, the short explanation why it was not solved;
 - Tables for each oil and gas production unit on the value of government lifting, of over/under lifting, and the Domestic Market Obligation (DMO) fee; the columns that consist of any discrepancies found between the reports of these two government agencies, any adjustment made after inquiring into these discrepancies; any remaining unreconciled discrepancies; and a short explanation of how each discrepancy was solved, or why it was not solved;

- Tables that consist of recapitulation of production volumes of oil, gas, minerals and coal for each reporting company;
- Tables recapitulating oil and gas deduction factors for each production unit;
- Relevant tables according to points 4.3.a to 4.3.e above for each State-owned Enterprises (BUMN);
- Relevant tables according to: (a) Requirement 4.1(c) on the sale of the state's share of production or other revenue collected in-kind; (b) Requirements 4.1(e) on social expenditures (including CSR funds); (c) Requirement 4.2(c) of BUMN; and (d) Requirements 4.2(d) on deposits to regions;
- Tables of revenues originating from each oil, gas, mineral and coal reporting unit that were subsequently shared with each provincial and district government, via the central government's revenue sharing mechanism;
- Tables of local revenues paid by companies to entities at the local level including to the Local Government;
- All information related to oil and gas, mining and coal industry governance as required by 2016 EITI Standard, additional information identified in the Study Result of the Scope of the 2016 EITI Report and other information set out in the meeting of the Implementation Team.

6.3 Independent Administrator's Draft Report

The draft report, as point out in 4.4.c above, should include the following:

- a. Description of the methodology adopted for the reconciliation of company payments and government revenues, and explanation about the application of international professional standards.
- b. Description of each revenue stream, related materiality definitions and thresholds (Requirement 4.1).
- c. An assessment on the comprehensiveness and reliability of the data presented, including an informative summary of the work performed by the Independent Administrator and the limitations of the assessment provided.
- d. The scope of reconciliation activities is based on government data on total revenue as per Requirement 4.2(b).
- e. An assessment of whether all companies and government entities within the agreed scope of the EITI reporting process has provided the requested information. Any gaps or weaknesses in information submitted to the Independent Administrator must be disclosed in the EITI Report, including the name of any entities that failed to comply with the agreed procedures, and an assessment of whether the condition is likely to have had material impact on the comprehensiveness of the report (Requirement 5.3(d)).
- f. Documentation of the reporting companies and government entities is one that has audited 2016 financial statements. If the audited financial statements have been published, This Report should include information on how to access the audit report (Requirement 5.3(e)).

- g. Recommendations for strengthening the reporting process in the future, including any recommendations regarding audit practices and reforms needed to bring them in line with international standards.
- h. Recommendations to the International EITI Board to strengthen the template of Terms of Reference for Independent Administrator services in accordance with the EITI Standard.
- i. Result of analysis and descriptive explanation of all contextual information as required in 2016 EITI Standard, Scope of 2016 Indonesia EITI Report and decision of Implementation Team Meeting.

6.4 Final Independent Administrator's Report

The final report should:

- a. Include revisions of the draft as recommended by the Implementation Team;
- b. Be approved by the Implementation Team;
- c. Include an easy-to-read executive summary;
- d. Be written in two languages, Indonesian and English. The authoritative version is the report in the Indonesian language;
- e. Be in the form of electronic data files, 5 (five) compact disks, and 5 (five) hardcopies and 25 (twenty-five) sets of hard copy of Complete Report, consisting of 20 (twenty) sets of complete report books in Indonesian language version, 5 (five) sets of complete report book in English version, and 150 (one hundred and fifty) hardcopy books of executive summary, consisting of 120 executive summary books in Indonesian language version and 30 executive summary books in English version.
- f. The final report file consists of two formats: Word (.docx) and PDF (.pdf). Particularly for parts that contain data, files are created in machine-readable formats such as (Excel format (.xlsx) and CSV (.csv); and files are also created in a format that is ready to print (In-design).
- g. Collecting reconciliation report data and arranging reconciliation report data in compliance with standard template format of extractive industry data, and template of International EITI Standard;
- h. Contains data summaries based on the standard reporting format provided by the International Secretariat (Requirement 5.3 (b)). A summary of this data will be sent electronically to the International Secretariat;
- i. The report will include color maps showing the location of each oil and gas production unit, and mineral and coal unit included as reporting entities;
- j. Other things such as Layout format, paper size, paper type, font size, margin, image etc. in the report book must be approved by the Secretariat of EITI Indonesia.

6.5 Reporting completion and time schedule for deliverables

This assignment is expected to last for 4 (four) months beginning in August 2018, and ends after the finalization that is expected in December 2018.



EXECUTIVE SUMMARY

The Extractive Industries Transparency Initiative (EITI) is a global standard for improving transparency in the extractive industry sector (oil, gas, mineral and coal sectors). This standard aims to create conditions that are transparent and accountable as a manifestation of good governance practices.

The two components of EITI implementation are transparency and accountability. Transparency is to disclose payments from oil and gas and mining companies to the government, and the government discloses its receipt. The number is reconciled by the Independent Administrator and published in the Transparency Report annually along with other contextual information about the extractive industry sector, while accountability is the formation of multi-stakeholder groups with representatives of government, corporations and civil society to oversee the process and communicate the findings of the EITI Report, and encourage EITI integration into broader transparency efforts in EITI implementing countries.

The EITI standard serves as a tool to improve the management of the oil, gas and mining sectors in the countries that implement them.

Proportion of State Revenue

The state revenue that is focused in this report is revenue derived from the extractive industry, especially from the oil and gas sector and the mineral and coal sector.

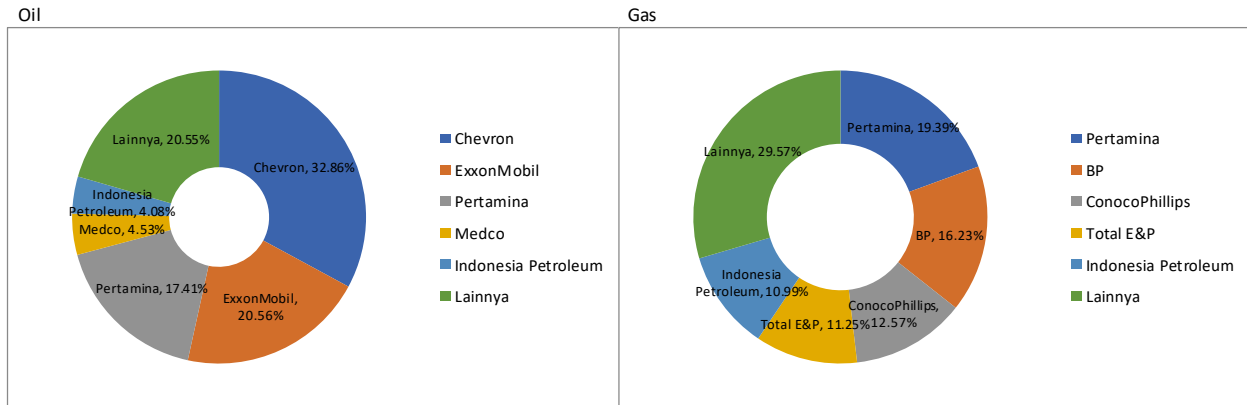
In Central Government Financial Statements (LKPP) 2016, state revenues from oil and gas and mineral and coal sectors contributed Rp159.38 trillion or 10.24% of total state revenues, consisting of revenue from oil and gas sector of Rp107.29 trillion (6.90%) and revenue from mineral and coal sector amounting to Rp52.54 trillion (3.40%).

The revenue decreased from the previous year, which contributed 15% of total state revenues, consisting of revenue from oil and gas sector of Rp161.76 trillion (11%) and revenue from mineral and coal sector amounting to Rp62.48 trillion (4%).

In the oil and gas sector, the largest revenue in 2016 is derived from the oil lifting and gas lifting generated by Chevron Pacific Indonesia with 32.86% lifting share of oil and Pertamina with 19.39% lifting share of gas.

- Value Added Tax (PPN) reimbursement PPN paid by the Directorate General of Budget to the KKKS (Company) based on the KKKS (Company) bill verified by SKK Migas and paid every month.

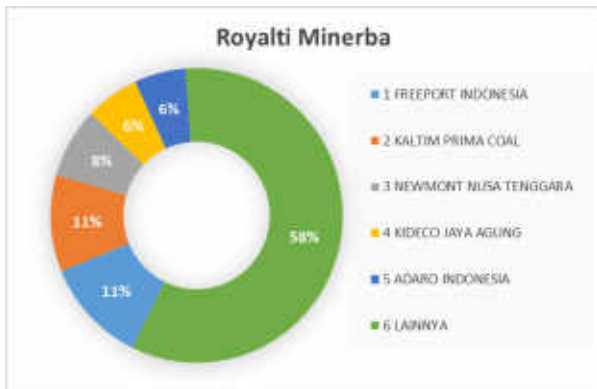
Figure 2 - Largest Oil and Gas Company Groups Contributor to Total Lifting in 2016



Source: Data of EITI for the period of 2016

In the mineral and coal sector, 5 companies became the largest royalties contributor with contributions of 42% of total royalty payments during 2016, as shown in the figure below.

Figure 3 - Largest Mineral and Coal Mining Companies Contributor to Royalty in 2016



Source: Data of EITI for the period of 2016

Component of Reconciled State Revenue

The component of reconciled state revenue according to TOR and the Scope of the 2016 EITI Indonesia Report:

- Corporate income tax (including income tax article 26 on dividend (oil and gas sector))
- Land and Building Tax (PBB) (mineral and coal sector)
- Government lifting and DMO received in kind (oil and gas sector)
- Signature Bonus and Production Bonus (oil and gas sector)
- Royalty, Sales Revenue Share (PHT), Landrent and Dividend paid in cash (mineral and coal sector)
- Payment of fees for transportation reported by BUMN (mineral and coal sector)

Reduction of reconciled state revenue according to the TOR and the Scope of the 2016 EITI Indonesia Report:

- Land and Building Tax (PBB) PBB paid by the Directorate General of Budget to the Local Government due to the assume and discharge provisions in the Cooperation Contract (PSC) clause.

In accordance with the Scope of the 2016 EITI Indonesia Report, the materiality limit of reconciled state revenue is determined to be above 1% of the total state revenue of each extractive industry sector that has been approved by the Implementation Team, and the difference limit in reconciliation is set at 5% of total reconciled value, so that any differences of 5% will be analyzed and explained.

The results of reconciliation between government payments made by companies in the extractive industry sector, and revenues received by the state, through the relevant government agencies, show the final differences ranging from 0.00% -100.00% after reconciliation.

In the oil and gas sector, the biggest difference is in the state revenue component of Oil and Gas Income in the form of DMO of Oil Volume amounted to 583,682 Barrels or 2.35% of the total DMO of Oil Volume reconciled caused by the dispute related to differences in contract interpretation in calculating production sharing. Meanwhile, the difference in PPN Reimbursement is amounting to Rp1,083,609 million or as much as 7.53% of the total value reconciled. This is because until the specified deadline the reporting entity does not provide confirmation or explanation of the difference.

For the mineral and coal sector, the difference in the state revenue from Income Tax Article 25/29 (Corporate Income Tax) amounts to Rp89,340 million or 0.81% of total reconciled Corporate Income Tax. The difference cannot be analyzed because the reporting entity does not provide confirmation of the difference up to the given deadline. The difference in PBB revenue amounted to Rp392,185 million or 99.81% of total reconciled PBB. The difference cannot be analyzed because DG of Taxes submit the data after the specified deadline. The difference in non-tax state revenue (PNBP) amounted to Rp12,094 million or 0.05% of total reconciled PNBP. The difference cannot be analyzed because the reporting entity does not provide confirmation of the difference up to the given deadline.

Component of Non-Reconciled State Revenue and Information

The component of non-reconciled state revenue according to TOR and the Scope of the 2016 EITI Indonesia Report:

Oil and gas Sector

- Domestic PPN Revenue (PPN WAPU)
- Other Revenues from Upstream Oil and Gas Activities
- Local (Government) Tax and Retribution (PDRD)
- CSR Payment reported by companies
- Payment for transportation reported by BUMN

Mineral and Coal Sector

- Local Tax and Retribution reported by companies
- Direct payment to Local Government reported by companies
- CSR reported by companies
- The provision of infrastructure reported by companies
- Other payments to BUMN reported by companies
- The utilization of Forest Area reported by companies
- Reclamation Guarantee reported by companies
- Post-mining Fund reported by companies
- DMO of Coal reported by companies

Infrastructure Provision and Barter Arrangement

In the oil and gas sector as well as in the mineral and coal sector, in general, there is no requirement for the provision of infrastructure by the government with respect to cooperation contracts or mining licenses. However, based on the production sharing system in the oil and gas sector, all assets purchased and imported by KKKS in Indonesia used in operational activities are belong to the state, including the infrastructure used in the operational process.

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

Corporate and 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 2014 Accountability Report of Government Agency Performance from the Ministry of Energy and Mineral Resources:

1. Utilization of Company Facilities and Infrastructure for the Benefit of the Community.
2. Community Empowerment in the form of Increasing the Economy of Residents of Surrounding Areas
3. Community Service (Natural Disaster Assistance and Donations / Charity / Philanthropy)
4. Education Improvement for Residents of Surrounding Areas (Providing Scholarships for outstanding school students, Providing educational facilities and infrastructure assistance)
5. Infrastructure Development in the Form of Facilities (such as Worship Facilities, Public Facilities, Health Facilities, etc.)

Total payments made by extractive companies included in the coverage of this report in 2016 amounted to Rp286,431 million and US\$92,661 thousand from mineral and coal companies and Rp10,320 million and US\$17,552 thousand from oil and gas companies.

ASR, Reclamation Guarantee dan Post-Mining Fund

Based on the recommendation contained in the Scoping Study of the 2016 EITI Indonesia Report, information on the Reclamation Guarantee and Post-Mining Fund shall be included in the 2016 EITI Report and included in the 2016 EITI Indonesia reporting form. The Reclamation Guarantee and Post-Mining Fund are reported on side of the company only.

In the oil and gas sector, the total Abandonment and Site Restoration (ASR) funds that have been deposited in 2016 amounts to US \$ 117,759 thousand.

Total reclamation guarantee and post-mining fund payments by mineral and coal companies included in the coverage of this report in 2016 is amounting to Rp368,534 million and US\$58,275 thousand for reclamation guarantee and amounting to Rp42,928 million and US\$25,253 thousand for post-mining fund.

Transportation

PT Pertamina (Persero) received transportation fees (toll fee) from KKKS, PT Perusahaan Gas Negara (Persero) / PGN and other companies for the transportation of oil and gas through pipe network owned by PT Pertamina (Persero). In 2016, the total toll fee obtained is US\$112,401 thousand, of which the amount does not reach 1% of the total state revenue from oil and gas sector. Hence, no reconciliation is required.

Meanwhile, PT Perusahaan Gas Negara (PGN) revenues from transportation services (toll fee) obtained from transporting gas through pipes owned by PGN in 2016 amounted to US\$7.87 thousand.

In the mineral and coal sector, based on data collected, the cost of coal transportation that PT Bukit Asam (Persero) Tbk paid to PT Kereta Api Indonesia (Persero) in total was over 1% of the total state revenues in the mining sector. As this constituted significant revenues, this report reconciled the amount. The total amount paid by PT Bukit Asam (Persero) Tbk to PT Kereta Api Indonesia (Persero) in 2016 is amounting to Rp1.9 trillion and US\$67.4 million.

State-Owned Enterprise (BUMN) in the Extractive Industry

There are 5 extractive BUMNs in Indonesia, namely PT Pertamina (Persero), PT Perusahaan Gas Negara (PGN), PT Aneka Tambang (Persero) Tbk., PT Bukit Asam (Persero) Tbk. and PT Timah (Persero) Tbk.

PT Pertamina (Persero) is the only BUMN in the oil and gas sector and is the largest lifting of oil and gas contributor in the country (see Figure 2).

PT Perusahaan Negara (PGN) is a BUMN that operates gas distribution, gas pipelines, and transmission networks.

With the issuance of Government Regulation No. 6/2018, the Government established BUMN Holding in the oil and gas sector and appointed Pertamina as a holding company owned by the Government engaged in oil and gas. The establishment of the oil and gas BUMN holding is a combination of Pertamina and PGN's business activities.

Direct Payment to the Local Government

Direct payments from companies to local governments are based on local regulations (Perda) and based on commitments between companies and local governments.

In the oil and gas sector, the PDRD is based on the concept of assume and discharge in the Cooperation Contract (PSC). For this reason there are two ways of PDRD payment made by the Companies (PSC Operators), namely:

1. Paid by the central government (Directorate General of Budget) to local government based on the concept of assume and discharge. PDRD in this case is a deduction factor in the calculation of Oil and Gas PNBPNBP
2. PDRD paid by oil and gas companies can be calculated as a component of cost recovery

Total PDRD paid by:

- Central Government (Directorate General of Budget) to the Local Government (assume and discharge) is Rp 48,540 million
- Oil and gas companies (operators) directly to the local government is Rp 3,464 million.

In the mineral and coal sector, direct payments to local governments based on formal agreements paid by the companies during 2016 amounted to Rp286,819 million and US \$ 403 thousand. A list of companies that make direct payments to the local governments can be seen in Table 16.

Entities within Scope of Reconciliations

This report identified extractive companies based on the share of contribution of each company to total state revenues from extractive industry.

In the oil and gas sector, the coverage rate of the reporting companies is 100%, whereby all KKKS operators and KKKS partners who have entered the exploitation and producing stage are the reporting companies. In accordance with the Scoping Study of 2016 EITI Indonesia Report the number of oil and gas companies reporting in 2016 is 177 companies from 63 oil and gas working areas, consisting of 71 KKKS Operator and 106 KKKS Partners.

In the mineral and coal sector, in accordance with the Scoping Study of 2016 EITI Indonesia Report, mineral and coal companies participating in the 2016 EITI Indonesia Report are contributing to the PHT, royalty and landrent more than Rp 16 billion. Using this materiality limit, the total amount of EITI reporting companies in 2016 is 112 companies consisting of 21 mineral companies and 91 coal companies. These reporting companies contributed 94% of the total mining non-tax revenue, comprising royalty revenue amounts to 56.54%, PHT revenue amounts to 41.97% and landrent revenue amounts to 1.49%.

Government entities covered in the reconciliation report are DG of Taxes, DG of Budget, DG of Oil and Gas, DG of Mineral and Coal and SKK Migas. State revenue components presented unilaterally (not included in the reconciliation process) are from DG of Fiscal Balance, Riau Provincial Government, Kalimantan Timur Provincial Government, Jawa Timur Provincial Government, Sumatera Selatan Provincial Government and Kalimantan Selatan Provincial Government. BUMNs covered in 2016 EITI report are PT Pertamina (Persero), PT Perusahaan Gas Negara Tbk (PGN) and PT Kereta Api Indonesia.

Non-complying Companies

In the oil and gas sector, out of 177 oil and gas companies expected to report, there are 22 companies do not report consisting of 1 KKKS operators and 21 KKKS partners. Based on reports from SKK Migas and DG of Budget, the total Government Lifting and Over / (Under) Lifting of Oil and Gas from non-complying companies is 0.50% of total Government Lifting and Over / (Under) Lifting of Oil and Gas in 2016.

In the mineral and coal sector, out of 112 companies that are expected to report, there are 32 companies do not report. Hence, no information on how much royalty, PHT, landrent, Corporate Income Tax and PBB paid to the State Treasury can be obtained.

Using PNBPNBP data obtained from DG of Mineral and Coal, the amount of non-tax revenues of 30 companies that do not report because of late submission amounted to Rp1,472,738 million or 5.06% of the total reconciled non-tax revenues. While the amount of PNBPNBP from 2 companies that do not produce is amounting to Rp170,931 million or 0.66% of the total amount of reconciled PNBPNBP.

Revenue Sharing Fund (DBH)

The calculation for the allocation of DBH-SDA follows the scheme set forth in the Government Regulation No. 55/2005. DBH-SDA is calculated from PNBPNBP-SDA received by the central government and reported in the LKPP, then shared to local governments with a certain percentage rate based on the producing region to fund the needs of the region in the context of decentralization implementation.

Throughout 2016, the realization of the allocation of DBH-SDA of Oil and Gas and General Mining from the Central Government to Local Government amounted to Rp21.66 trillion (2016 EITI Report and DG of Fiscal Balance).

01 BACKGROUND



Natural resources, such as oil, gas, coal, metals and minerals, belong to people of a country. The extraction of these resources can lead to economic growth and social development, but poor management often results in corruption and even conflict. To ensure that these resources can benefit all citizens, the transparency on how a country manages its natural resources is required.

Extractive activities are exploration for and discovery of natural resources at their sources, namely crude oil, natural gas, minerals, and coal. Extractive industry is broadly categorized into two sub-sectors: upstream and downstream.

Upstream sector includes activities that focus on exploration and exploitation. Exploration activities are series of activities to obtain geological information in order to identify and estimate the volume of deposits. Exploitation activities are series of activities to produce oil, gas, coal, and other minerals, which include drilling/mining, construction of transport facilities, storage, processing, and separating, and refining.

Meanwhile, activities in the downstream sector mostly deal with the process of refining, quality enhancement, development of added value, transporting, storing, and/or trading.



Current EITI Standard focuses on upstream activities so that this report is prepared with a focus on upstream business activities. This report only covering oil, gas, mineral and coal mining in accordance with the definition of the extractive industry in Presidential Regulation No. 26/2010.

1.1 EITI Overview

The Extractive Industries Transparency Initiative (EITI) is a global standard for improving transparency in the extractive industry sector (oil, gas, mineral and coal sectors). This standard aims to create conditions that are transparent and accountable as a manifestation of good governance practices.

The EITI standard requires information along the extractive industry chain from the point of extraction, how revenue goes through the government, to how it benefits society. Such information includes how licenses and contracts are allocated and registered, who the beneficial ownership of the operation is, how the fiscal and legal rules, how many products are produced, how much they are paid, where the income is allocated, and how much it contributes to the economy, including employment¹.

The EITI implementation has two main components²:

1. **Transparency:** companies engaged in the extractive industry disclose their payments to the Government and the Government discloses its revenue. The figures are reconciled by the Independent Administrator Team which is subsequently reported and published in the Annual Report of EITI along with a contextual report of extractive industry.
2. **Accountability:** The establishment of the Multi-Stakeholder Group (MSG) consisting of government representatives, representatives of companies and representatives of non-governmental organizations, who are required to engage in supervising the process and communicating the findings in the EITI report. The existence of MSG Team is expected to enhance integrity into wider transparency effort in EITI implementing countries.

EITI standard is implemented in EITI implementing countries. This standard serves as a tool for these countries to improve the management of the oil, gas and mining sectors.

The EITI Standard implementation is controlled by an international board consisting of 21 members, who is the representatives from the government of EITI implementing countries, supporting countries, non-governmental organizations, industry and institutional investors³. EITI board decides the status of implementing countries based on EITI standard and develops policies.

Countries that have intention to improve the management of their natural resources can apply to become an EITI implementing country.

The country must meet 5 (five) registration requirements before becoming an EITI candidate country, ie government commitment, corporate and civil society engagement, formation of multi-stakeholder groups and EITI work plan agreements. To become an EITI compliant country, the first EITI Report must be published within 18 months and the validation process should commence within 2.5 years since the date of the acceptance of candidate country. Based on the EITI website in October 2017 there are 52 EITI implementing countries around the world.

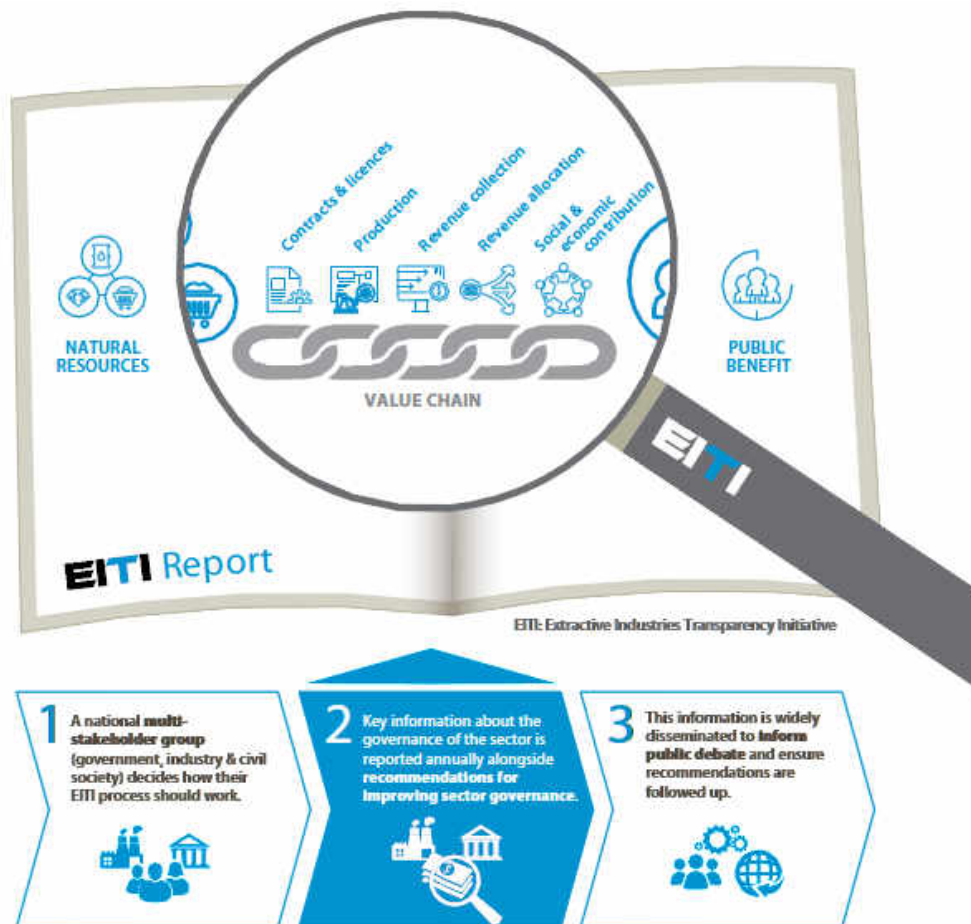
2016 EITI Standard can be obtained from <https://eiti.org/document/standard#r1>

¹ <https://eiti.org>

² Terms of Reference of Independent Administrator Transparency Report of the Indonesia Extractive Industry 2015 Coordinating Ministry of Economic Affairs of Republic of Indonesia

³ <https://eiti.org/about/board>

Gambar 4 Proses EITI



Sumber: Standar EITI 2016

1.2 EITI Implementation in Indonesia

Implementation of EITI in Indonesia was initiated by Mrs. Sri Mulyani Indrawati, who served as Minister of Finance in 2007. She expressed her support to Transparency International Indonesia representative. Finally, in 2010 the President of the Republic of Indonesia, Susilo Bambang Yudhoyono signed the Presidential Regulation No. 26/2010 on Transparency of National/Local Extractive Industry Revenues.

Indonesia officially became an EITI candidate in October 2010 and has published four EITI reports. Indonesia became an EITI compliant country in October 2014 and become the first ASEAN country to obtain compliant status based on EITI Standard 2011 (applicable until 2015 assessment). With the change of the EITI Standard in 2016, Indonesia currently is waiting for the assessment based on 2016 EITI Standard.

1.3 Transparency of National and Local Revenues Generated from Extractive Industry

Information transparency on national and local revenues for revenue streams from the extractive industry is specifically stipulated under Presidential Regulation No. 26/2010, which defines extractive industry and state and subnational extractive revenues, formation of Transparency Team, and the structure and responsibilities of Transparency Team.

The Transparency Team is tasked to implement transparency in the management of national and local extractive revenues. To perform this responsibility, the Team may seek information, additional data, input, and/or consult with agencies of the central and subnational government as well as extractive companies.

Transparency Team consists of Steering Committee and Implementation Team. Steering Committee is chaired by Coordinating Minister for Economic Affairs who reports at least annually to the President. Members of Steering Committee are:

1. Minister of Energy and Mineral Resources;
2. Minister of Finance;
3. Minister of Home Affairs;
4. Head of Financial and Development Supervision Agency (BPKP);
5. Prof. Dr. Emil Salim

Steering Committee formulates general policies, provides direction to Implementing Team, establishes the work plan of Transparency Team, and evaluates transparency with regards to national and local extractive revenues.

Meanwhile, the personnel of MSG as Implementation Team consists of representatives from the Coordinating Ministry for Economic Affairs, Ministry of Energy and Mineral Resources, Ministry of Finance, Ministry of Home Affairs, BPKP, Special Unit for Upstream Oil and Gas Business Activities in Indonesia (SKK Migas), PT Pertamina (Persero), local government representatives, representatives from associations of mining and oil and gas companies, and NGO representatives. Implementation Team reports to the Steering Committee.

Implementation Team is tasked to develop 3-year work plan of Transparency Team, develops reporting format, selects persons to perform reconciliation, disseminates result of reconciliation, and formulates Steering Committee report to the President, and other tasks from the Steering Committee.



02

SCOPE OF RECONCILIATION

The scope of reconciliation includes information on reconciled state revenues, non-reconciled national/local revenues and companies engaged in oil and gas sector and mineral and coal sector that are material to be reconciled. The purpose of this reconciliation is to meet the Requirements 4 of 2016 EITI Standard on Revenue Collection

2.1 State Revenue

The state revenue in LKPP consists of Tax Revenue and Non-tax State Revenue (PNBP). The state revenues to be reviewed in this report are revenues derived from extractive industry especially from the oil and gas sector and the minerals and coal sector. Oil and gas company is a company engaged in exploration and production of oil and gas mining products, while mineral and coal company is engaged in mineral mining (copper, gold, silver, nickel and others) and coal.

According to LKPP 2016, state revenues from the oil and gas sector and mineral and coal sector accounted for 10.24% of total state revenues, declining from the previous year that amounted to 15% of total state revenues.

Revenue from oil and gas sector in 2016 amounting to Rp107.29 trillion contributed 6.90% of total state revenues. This contribution decreased compared to 2015 with the amount of oil and gas sector revenue amounting to Rp161.76 trillion, which contribute 10.73% of total state revenues. The significant factor that caused the decline was the decline of world oil price.

Table 1 - State Revenues in 2015 and 2016 from Oil and Gas Sector

Revenue Stream	2015	2016
	(in Trillion IDR)	(in Trillion IDR)
TAX REVENUE		
Oil and Gas Income Tax	49.67	36.10
Oil and Gas PBB	25.72	15.27
PNBP		
Oil Revenue	47.99	31.45
Gas Revenue	30.18	12.65
Upstream Activities Revenue	8.20	11.83
TOTAL OIL & GAS REVENUE	161.76	107.29
TOTAL STATE REVENUE	1,508.02	1,555.93
Revenue Ratio	10.73%	6.90%

Source: LKPP 2016

Revenue from mineral and coal sector in 2016 amounting to Rp52.09 trillion contributed 3.35% of total state revenue. This contribution decreased compared to 2015 with the amount of mineral and coal sector revenue amounting to Rp62.48 trillion which contribute 4.14% of total state revenue.

multi-stakeholder groups must determine the types of payment and revenue that are material and should be disclosed, including appropriate materiality definition and thresholds.

Table 2 - State Revenues in 2015 and 2016 from Mineral and Coal Mining Sector

Revenue Stream	2015	2016
	(in Trillion IDR)	(in Trillion IDR)
TAX REVENUE		
Mining income	32,85	24,93
Other Tax	-	-
PNBP		
Royalty	16,73	15,35
Land Rent	0,95	0,41
Sales Revenue Share (PHT)	11,95	11,40
TOTAL OIL & GAS REVENUE	62,48	52,09
TOTAL STATE REVENUE	1.508,02	1.555,93
Revenue Ratio	4,14%	3,35%

Source: LKPP 2016

2.1.1 Component of Reconciled State Revenue

In the Presidential Regulation No. 26/2010, a transparency mechanism is established, in which the Government, Local Government, Regulatory Agency for Upstream Oil and Gas (BP Migas, now SKK Migas), and Companies engaged in the Extractive Industry in this case companies in the oil and gas sector and mineral and coal sector submit report on state revenues to the Transparency Team through the Implementation Team for reconciliation.

Requirement 4.1.a of 2016 EITI Standard requires that prior to the reporting process,

Therefore, based on the Scoping Study of 2016 EITI Indonesia Report which has been approved by the Implementation Team, it has been determined that the reconciled revenue from the extractive industry is the type of revenue that is material, which is above 1% of the total of each type of revenue of oil and gas sector and mineral and coal sector. The limit of difference is 5%, which means that the difference of 5% and more will be analyzed and explained.

The types of revenue from the oil and gas sector and mineral and coal sector both tax revenues and non-tax revenues that are reconciled are as follows: (Requirement 4.1.b of 2016 EITI Standard):

Table 3 - Material State Revenues & Reconciled Information of Oil and Gas Sector

Material State Revenue (According to MA's Code)	Reconciled Information – 2016 EITI Indonesia Reporting Form	Reporting Entity
42111 – Oil Revenue	<ul style="list-style-type: none"> Total Lifting of Oil & Condensate Government Lifting of Oil & Condensate Over/(Under) Lifting of Oil 	KKKS, DG of Oil and Gas, DG of Budget, SKK Migas
42121 – Gas Revenue	<ul style="list-style-type: none"> Total Lifting of Gas Government Lifting of Gas Over/(Under) Lifting of Gas 	KKKS, DG of Oil and Gas, DG of Budget, SKK Migas
423133 – Crude Oil Revenue (DMO)	<ul style="list-style-type: none"> DMO of Oil / DMO Fee 	KKKS, SKK Migas
423139 – Other Revenues from Oil and Gas Upstream Activities	<ul style="list-style-type: none"> Signature Bonus – Contract Extension 	KKKS, DG of Oil and Gas
423132 – Sales Revenue from Oil and Gas Upstream Activities	<ul style="list-style-type: none"> Production/Development/Compensation Bonus 	KKKS, DG of Oil and Gas
41111 – Oil and Gas Income Tax	<ul style="list-style-type: none"> Corporate and Dividend Tax 	KKKS, DG of Taxes
411316 – PBB of Migas	<ul style="list-style-type: none"> Land and Building Tax (PBB) of Migas 	KKKS, DG of Taxes
411211 – Domestic PPN Revenue (Combined with PPN from other sectors)	<ul style="list-style-type: none"> Value Added Tax (PPN) of Oil and Gas (PPN Reimbursement) 	DG of Budget

Source: Scope of 2016 EITI Indonesia Report

Material Deduction Factor of State Revenue (According to MA's Code)	Reconciled Information - 2016 EITI Indonesia Reporting Form	Reporting Entity
411316 – PBB of Migas	<ul style="list-style-type: none"> Land and Building Tax (PBB) of Migas 	KKKS, DG of Taxes
411211 – Domestic PPN Revenue (Combined with PPN from other sectors)	<ul style="list-style-type: none"> Value Added Tax (PPN) of Oil and Gas (PPN Reimbursement) 	DG of Budget

In 2015, there was a change in the procedure of depositing and reporting of Oil and Gas income tax, which pursuant to the Regulation of Minister of Finance No. 70 / PMK.03 / 2015 on Amendment to Regulation of the Minister of Finance No. 79 / PMK.02 / 2012 concerning Procedure for Depositing and Reporting State Revenue from Upstream Oil and / or Gas Business Activities and Income Tax Calculation for the Need of Payment of Oil and Gas Income Tax in the form of Volume of Oil and / or Gas.

Oil and Gas income tax previously paid by KKKS to the account of the Ministry of Finance Number 600,000411980 at Bank Indonesia and reported to the Directorate General of Taxes after validated by the Directorate General of Budget. Since July 2015, tax payment is deposited to State Treasury at Foreign Currency Perception Bank managed by the DG of Taxes and the payment is validated if it has obtained NTPN (State Revenue Transaction Number) and NTB (Bank Transaction Number). Hence, since July 2015, the reconciliation of oil and gas income tax is conducted between KKKS and Directorate General of Taxes.

Table 4 - Material State Revenues & Reconciled Information of Mineral and Coal Sector

Material State Revenue (According to MA's Code)	Reconciled Information – 2016 EITI Indonesia Reporting Form	Reporting Entity
421312 – Production Fee Revenue / Mineral and Coal Mining Royalty	<ul style="list-style-type: none"> Royalty/Production Fee 	Company, DG of Mineral and Coal
423113 – Sales Revenue Share	Sales Revenue Share / PHT	PKP2B Company, DG of Mineral and Coal
421311 – Landrent Revenue of Mineral and Coal Mining	Landrent	Company, DG of Mineral and Coal
411315 – Revenue from PBB	Land and Building Tax (PBB)	Company, DG of Taxes
411126 – Revenue from Corporate Income Tax (combined with other sectors)	Corporate Income Tax (Articles 25 and 29)	Company, DG of Taxes
42212 – Revenue from Profit of Non-Bank BUMN	Dividend paid to the Government	Company, DG of Budget

Source: Scope of 2016 EITI Indonesia Report

2.1.2 Component of Non-Reconciled State Revenue and Information

In addition to reconciled state revenues, there are different types of national / local revenues and other information from the oil and gas sector and mineral and coal sector reported by one side only of either government or company and not reconciled. Types of non-reconciled state revenues and other information have been set forth in the Implementation Team Meeting, as follows:

and other non-tax revenues, that is crude oil (DMO – Domestic Market Obligation). Meanwhile, in the mineral and coal sector, all state revenues are cash

Oil and Gas Sector

State revenue from the oil and gas sector consists of tax revenues and non-tax state revenue (PNBP) which can be seen in the following table:

Table 5 - Non-reconciled National/Local Revenue & Information of Oil and Gas Sector

Type of National/Local Revenue	Non-reconciled Information – 2016 EITI Indonesia Reporting Form	Reporting Entity
423139 – Other revenues from Oil and Gas Upstream Activities	<ul style="list-style-type: none"> Signature Bonus – new contract Firm Commitment 	DG of Oil and Gas
Local Tax and Retribution (PDRD)	<ul style="list-style-type: none"> PDRD 	DG of Budget
Social Payment	<ul style="list-style-type: none"> CSR 	KKKS
Payment for Transportation (for BUMN only)	<ul style="list-style-type: none"> Transportation Service 	PT Pertamina (Persero)

Source: Scope of 2016 EITI Indonesia Report

Table 6 - Non-reconciled National/Local Revenue & Information of Mineral and Coal Sector

Type of National/Local Revenue	Non-reconciled Information – 2016 EITI Indonesia Reporting Form	Reporting Entity
Local Tax and Retribution (PDRD)	<ul style="list-style-type: none"> PDRD 	Mineral and Coal Companies
Other revenue streams to Local Government other than PDRD	<ul style="list-style-type: none"> Direct payments to Local Government 	Mineral and Coal Companies
Social Payment – paid directly to the community	<ul style="list-style-type: none"> CSR 	Mineral and Coal Companies
Infrastructure Provision – paid to the community or local government	<ul style="list-style-type: none"> Infrastructure Provision 	Mineral and Coal Companies
42144 – Forest Area Utilization Fee Revenue	<ul style="list-style-type: none"> Forest Area Utilization Fee 	Mineral and Coal Companies
Other payments to BUMN/Government	<ul style="list-style-type: none"> Other payments to BUMN 	Mineral and Coal Companies
DMO of Coal	<ul style="list-style-type: none"> DMO of Coal 	Mineral and Coal Companies
Reclamation Guarantee	<ul style="list-style-type: none"> Reclamation Guarantee 	Mineral and Coal Companies
Post-mining Fund	<ul style="list-style-type: none"> Post-mining Fund 	Mineral and Coal Companies

Source: Scope of 2016 EITI Indonesia Report

In the mineral and coal sector, the result of the Implementation Team meeting on March 2, 2018 recommends State Revenue from Land and Building Tax (PBB) to be included in 2016 EITI Indonesia Reporting Form as a reconciled component. Non-reconciled national and local revenue as well as non-reconciled information in mineral and coal sector can be seen in Table 6.

2.1.3 State Revenue from the Extractive Industry

Requirements 4.2 of 2016 EITI Standard requires the reporting of sales from in-kind revenue of government. The production-sharing scheme for the oil and gas sector in Indonesia applies the in kind revenue sharing in the form of oil and gas natural resources PNBP (Government Lifting)



Table 7 - State Revenues from Oil and Gas Sector

MA's Code	2016 EITI Indonesia Reporting Form
Tax Revenue	
41111 – Oil and Gas Income Tax Revenue	• Corporate and Dividend Tax
Non-tax State Revenue (PNBP) – Oil and Gas Natural Resources (SDA)	
42111 – Oil Revenue	• Government Lifting of Oil & Condensate • Over/(Under) Lifting of Oil
42121 – Gas Revenue	• Government Lifting of Gas • Over/(Under) Lifting of Gas
Deduction factor:	
411211 – Domestic PPN Revenue	• Value Added Tax (PPN) of Oil and Gas
411316 – Land and Building Tax of Oil and Gas Sector	• Land and Building Tax (PBB) of Oil and Gas
Local Tax and Retribution	• PDRD
Non-tax State Revenue (PNBP) – Others	
423132 – Crude Oil Revenue (DMO)	• DMO of Oil / DMO Fee
423139 – Other Revenues from Oil and Gas Upstream Activities	• Signature Bonus • Production/Development/Compensation Bonus

Source: Scope of 2016 EITI Indonesia Report

1 Tax Revenue

Tax revenue on the oil and gas sector is derived from taxes deposited by oil and gas companies (KKKS - Cooperation Contract Contractor) to the State Treasury, consisting of Corporate Income Tax and Income Tax Article 26 on dividend.

Corporate Income Tax is levied on the contractor's share of oil and / or gas revenues using the tax rate in accordance with the rates stated in the Cooperation Contract, whereas Income Tax Article 26 on dividend is charged at the rate of 20% on net income after deducting the corporate income tax.

For contracts signed after the enactment of the Government Regulation No. 79/2010, Corporate Income Tax and Income Tax Article 26 shall be imposed on oil and / or gas revenues of the contractor and other income outside the cooperation contract in the form of:

(a) uplift, (b) income from transfer of participating interest. The tax rate used to calculate Corporate Income Tax and Income Tax Article 26 is the tax rate determined in accordance with the laws and regulations regarding income tax.

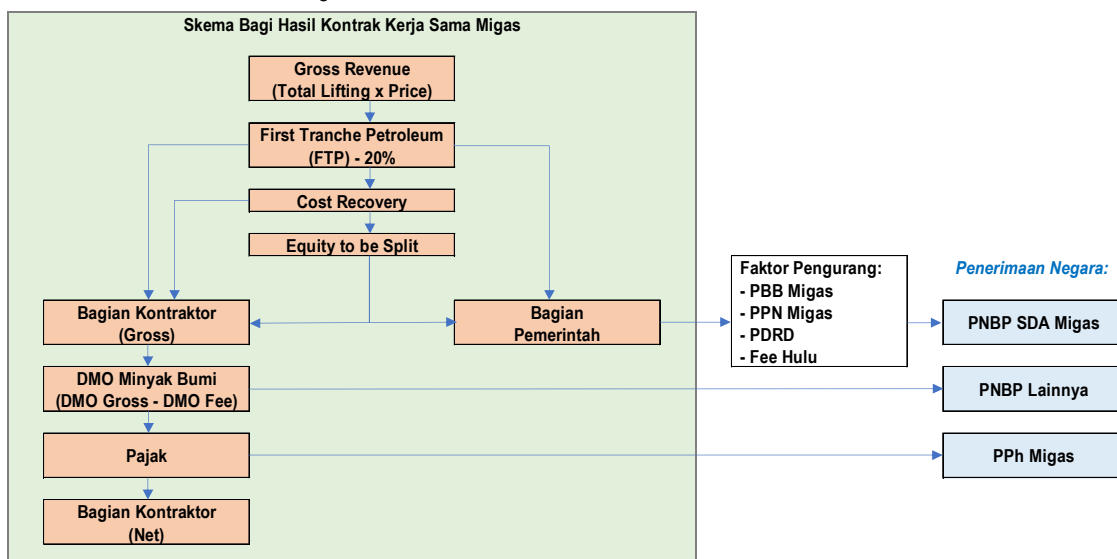
2 Non-tax State Revenue (PNBP)

PNBP from oil and gas sector consists of 2 types, namely: (a) oil and gas natural resources PNBP and (b) Other PNBP from Upstream Oil and Gas Activities.

Oil and Gas Natural Resources PNBP (PNBP SDA Migas)

Oil and gas companies that already produce and do lifting have contributed to state revenue managed by the Directorate General of Budget - Directorate of PNBP pursuant to the Law No. 20/1997. In this case, the Special Unit for Upstream Oil and Gas (SKK Migas)

Figure 5 - Chart of State Revenues from Oil and Gas Sector



Source: Data of EITI for the period of 2015

) serves as a controller of operational management through the approval of work and budget plans of oil and gas companies, field development plans and supervision of the realization of the plan.

In-kind PNBP SDA Migas is obtained from the government's oil and gas lifting (Government Lifting).

Calculation of PNBP SDA Migas is as follows:

$$\text{PNBP SDA MIGAS} = \text{Government Lifting} + \text{Over/(Under) Lifting} - \text{PPB Migas} - \text{PDRD} - \text{PPN Reimbursement} - \text{Fee Hulu}$$

PBB Migas which is a deduction factor is PBB of Oil and Gas based on the assume and discharge concept in PSC contract and is overbooked by the DG of Budget to revenue of DG of Taxes.

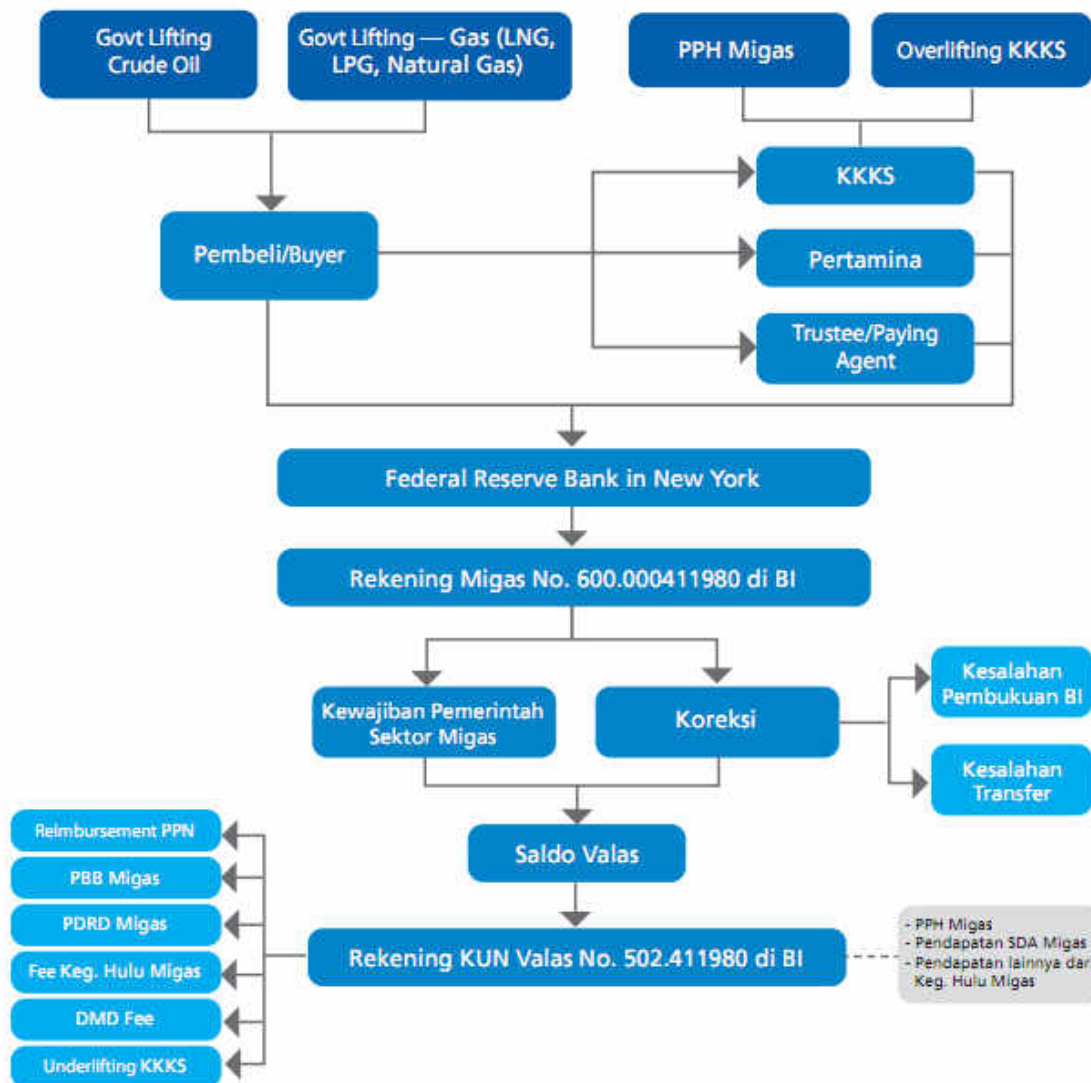
PDRD which is a deduction factor is the PDRD based on the assume and discharge concept in the PSC contract and paid by the DG of Budget to the Local Government.

PPN Reimbursement which is a deduction factor is PPN of oil and gas that is requested back by the oil and gas operator based on the assume and discharge concept in the PSC contract and paid by the DG of Budget to the Oil and Gas Operator.

Fee Hulu is a fee given to PT Pertamina (Persero) for the sale of the Government's oil and gas

The correctness of the calculation for the government's share and the recoverable cost of the oil and gas in production sharing scheme is determined by the government auditor, namely SKK Migas, the Supreme Audit Agency (BPK), the Financial and Development Supervisory Board (BPKP) and the Directorate General of Taxes (DG of Taxes). The tax calculation is checked by the examiner of the DG of Taxes. If there is a shortage in the tax payment, SKPKB will be issued. The mechanism of the payment is direct deposit into the account of the DG of Taxes.

Figure 6 - Flow of PNBP SDA Migas Revenue in USD



Source: 2010-2011 EITI Indonesia Reconciliation Report and 2015 EITI Indonesia Reconciliation Report

All Government Lifting payments in US Dollar are deposited through the Federal Reserve Bank in New York to an account at Bank Indonesia with account number 600.000411980 (USD) under the name of the Ministry of Finance / Oil Production of Production Sharing Contract. The proceeds are used to pay government obligations in the oil and gas sector, such as under lifting of KKKS (if any), DMO Fee and Deduction Factor. The remaining balance is put into the account of State Treasury with account number 502.411980 (USD) at Bank Indonesia.

Figure 7 - Flow of PNBP SDA Migas Revenue in IDR



Source: 2010-2011 EITI Indonesia Reconciliation Report and 2014 EITI Indonesia Reconciliation Report

Government Lifting payment denominated in Rupiah is derived from government oil and DMO shipment to Pertamina's domestic refinery. Pertamina pays to the government through State Treasury account number 502.000.000980 at Bank Indonesia.

Lifting of Gas and Liquefied Natural Gas (LNG)

Lifting of gas and LNG is generally done through joint lifting mechanism, in which the lifting value is based on the price stated in the contract and divided between KKKS and the government.

The management of 2 (two) LNG refineries operating in Indonesia, namely the Bontang LNG Refinery in Kalimantan Timur, currently managed by SKK Migas, and the Tangguh LNG Refinery in Papua Barat, currently managed by BP Indonesia, uses upstream schemes, by integrating the investment of LNG refinery with upstream operations. The management of LNG refinery with upstream schemes is conducted with consideration of providing maximum benefits to the country compared to downstream schemes, in which the state control of shipped gas reaches up to the point of delivery to the buyer.

LNG sales proceeds are paid through a trustee mechanism. The distribution of such LNG proceeds is prioritized to settle debt service for the construction of an LNG refinery and refinery operating expenses. Further, the remainder shall be recognized as "net back" lifting revenue that distributed to the Contractor

and the Government on their respective contractual basis, through instructions given to the LNG trustee.

Over / (under) lifting will be determined annually based on actual operation cost for oil and gas upstream activities, including LNG operation activity. If the KKKS is in an overlifting position at the end of the year, the settlement of over / (under) lifting is done through an instruction issued to the LNG trustee to be accounted with the sale of LNG in the first quarter of the following year, to reflect the additional government share of the proceeds. Furthermore, the government's share will be transferred directly by the trustee to the State Treasury account at Bank Indonesia, vice versa if the KKKS is in an underlifting position. This method of over / (under) lifting settlement is known as the cargo mechanism settlement.

For lifting related to the sale of gas other than LNG, which uses the services of a bank trustee / paying agent, such as gas sales to PT Perusahaan Listrik Negara (PLN), PGN, or to consumers in Singapore, the mechanism of settlement of over / (under) lifting generally through cash settlement.

Mineral and Coal Sector

State revenue in the mineral and coal sector comes from tax revenue and non-tax state revenue deposited to the State Treasury in both USD and / or IDR.

1 Tax Revenue

Income Tax

Tax revenue in minerba sector includes the Corporate Income Tax deposited by the minerba company to the State Treasury. IUP contract holders pay taxes in accordance with the tax rate based on applicable tax laws and regulations, while KK and PKP2B contract holders use tax rates applicable at the time of the contracts were signed.

Land and Building Tax

Based on the Regulation of Directorate General of Taxes No. PER-47/PJ/2015, the object of the Mineral and Coal PBB is the land and / or building within the area used for mineral and coal mining business activities.

The outstanding amount of the mineral and coal PBB is calculated by multiplying the tax rate with the Taxable Sales Value which is a certain percentage of the Tax Object Sales Value (NJOP) which the amount is determined by the Government Regulation governing the determination of the amount of the Taxable Sales Value. NJOP is the sum between the NJOP of the land and the NJOP of the building.

Land NJOP consists of: 1) Land/earth's surface NJOP, which is the result of multiplication between total area of tax object imposed and land NJOP per square meter, 2) Land/earth's body NJOP of exploration or production operation, which is the result of multiplication between mining license area and NJOP per square meter.

Building NJOP is the result of multiplication between total building area and NJOP of building per square meter which is the result of the conversion of building value per square meter into the NJOP building classification as referred to in the Minister of Finance Regulation concerning NJOP classification.

2 Non-tax State Revenue (PNBP)

Royalty

Royalty is imposed on PKP2B, KK and IUP holders in connection with the mineral and coal that have been produced. Royalty is calculated on a percentage of the FOB per ton or kilogram value of the metal sold or exported, or contained within the exported material concentrate.

Based on the Government Regulation No. 9/2012 on the types and rates of non-tax state revenues from mineral and coal mining companies, royalty rates for commodity types produced by mineral company that is KK and IUP holders, unless otherwise specified in the contract, can be seen in the following table:

Table 8 - Rates of Royalty for Mineral Mining Companies

Commodity	Unit	Royalty
Nikel	Per Ton	5% of selling price
Tin	Per Ton	3% of selling price
Copper	Per Ton	4% of selling price
Bauxite	Per Ton	3,75% of selling price
Gold	Per Kilogram	3,75% of selling price
Iron ore	Concentrate	3,75% of selling price
Silver	Per Kilogram	3,75% of selling price

Source: PP No. 9/2012

Meanwhile, royalty rates based on calorie type for coal company, holders of PKP2B and IUP contracts, can be seen in following table:

Table 9 - Rates of Royalty for PKP2B and IUP

Calories	Unit	Open Cut Mining Operation	Under Ground Mining Operation
≤ 5.100	Per Ton	3% of selling price	2% of selling price
> 5.100 – 6.100	Per Ton	5% of selling price	4% of selling price
> 6.100	Per Ton	7% of selling price	6% of selling price

Source: PP No. 9/2012

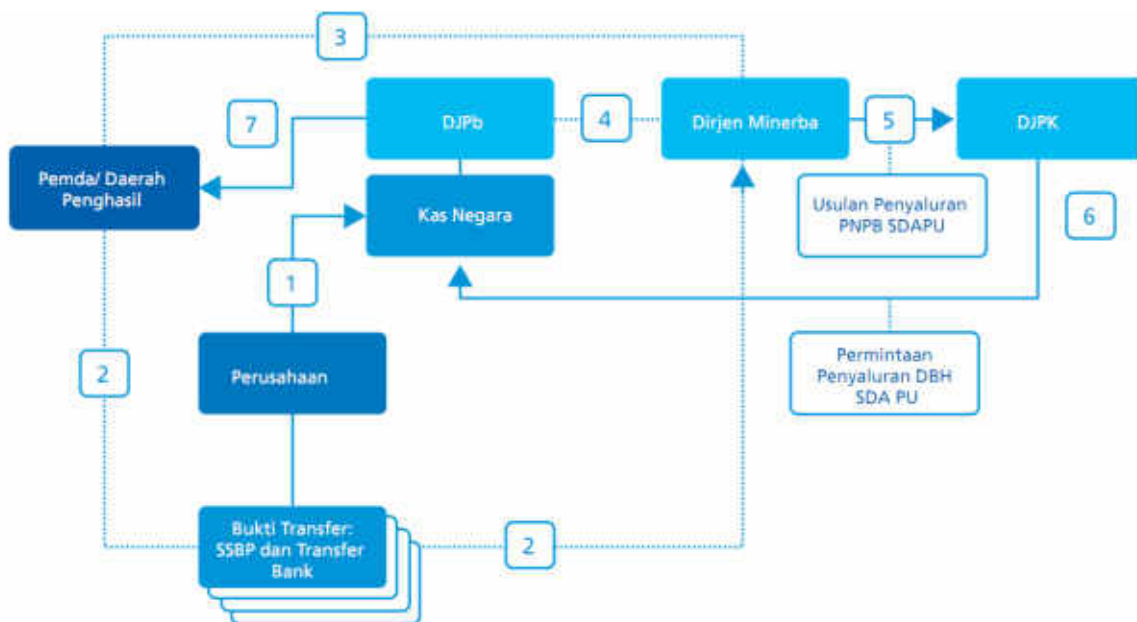
Sales Revenue Share (PHT)

Sales Revenue Share (PHT) is imposed on PKP2B holders. The formula to calculate PHT is 13.5% of Coal Production Fund (DHPB) less royalty rate. The state's share according to PKP2B consists of coal PHT rate ranges between 6.5%-8.5% and royalty between 5%-7%, depending on calorific content. The total of PHT and royalty is 13.5%.

Landrent

Landrent apply in areas managed by the company under contracts of PKP2B, KK and IUP. The rate depends on the stage of mining activity in each mining concession. In accordance with the Government Regulation No. 9/2012, landrent rate for mineral and coal mining business of IUP and IUPK at the exploration activity stage is US \$ 2 per hectare / year. While landrent rate for mineral and coal mining business of IUP and IUPK at production operation stage is US \$ 4 per hectare / year. As for the types of contracts of PKP2B and KK, the amount of rate follows the contract or agreement. The non-tax state revenue mechanism is as follows:

Figure 8 - Mechanism of Non-tax State Revenue in Minerba Sector (in foreign currency & IDR)



Source: 2010-2011 EITI Report

The above mechanism can be explained as follows:

1. Based on the Circular Letter of the Director General of Mineral and Coal No. 04E / 84 / DJB / 2013 concerning the Optimization of Non-tax State Revenue, the company deposits general mining natural resources PNPB in the form of landrent, royalty and sales revenue share (PHT) directly to the State Treasury.
PNBP denominated in IDR for landrent, Royalty and PHT are deposited using Non-tax Deposit Letter (SSBP) through Perception Bank / Post with account code as follows:
 - a. Landrent: 421311
 - b. Royalty : 421312
 - c. PHT : 423113 (PKP2B)

PNBP denominated in USD for landrent, royalty and PHT paid to Commercial Banks by transfer order to the State General Treasury Account (RKUN) in US \$ Forex with account number 600.502411980 at Bank Indonesia Jakarta;
2. The Company shall deliver copies of SSBP / proof of deposit (transfer receipt, proof of transfer) along with supporting data to the Director of Mineral and Coal Program Development - Directorate General of Mineral and Coal of the Ministry of Energy and Mineral Resources, with copies letter to:
 - a. Director of Coal Business Development/ Director of Mineral Business Development
 - b. Head of Finance Bureau of the Ministry of Energy and Mineral Resources
 - c. Head of Mining and Energy Office of related province
 - d. Head of Mining and Energy Office of related regency/city
 - e. Head of Local Revenue Office of related province
 - f. Head of Local Revenue Office of related regency/city;
3. Reconciliation of general mining natural resources PNPB data between DG of Mineral and Coal of the Ministry of Energy and Mineral Resources and Local Government/producing region on quarterly basis;
4. Reconciliation of general mining natural resources PNPB data recorded by DG of Mineral and Coal of the Ministry of Energy Mineral Resources and data recorded by State Treasury (Directorate of Accounting and Financial Reporting and Directorate of State Treasury Management, DG of Treasury) on monthly basis;
5. Secretary General of the Ministry of Energy and Mineral Resources on behalf of the Minister of Energy and Mineral Resources submits a transfer proposal to the Minister of Finance c.q Director General of Fiscal Balance in accordance with PMK 165 / PMK.07 / 2012 on a quarterly basis;
6. DG of Fiscal Balance submits a request for distribution of general mining natural resources Revenue Sharing Fund (DBH) to DG of Treasury;
7. DG of Treasury transfers general mining natural resources DBH to Local Government/Producing Region.

2.1.4 Infrastructure Provision and Barter Arrangement

Requirement 4.3 of 2016 EITI Standard requires Implementation Team and IA to examine whether contracts addressed goods and services provision (including loans, grants and infrastructure provision), either partially or completely in exchange of oil, gas

or exploration or mining product concession or physical delivery of these commodities.

In general, there is no requirement of infrastructure provision in cooperation contract or mining license in both oil and gas sector and mineral and coal sector. However, all oil and gas contracts in Indonesia apply Production Sharing Contract (PSC) mechanism, in which all assets of KKKS in Indonesia used in operational activities are owned by state, including the infrastructure used in operational process.

Out of all companies covered in 2016 Reconciliation Report in mineral and coal sector, there is one company that applies infrastructure provision stipulated in mining contract / license, namely PT Kaltim Prima Coal with the amount of US\$ 3,667 thousand.

In principle, extractive industry in Indonesia does not apply barter arrangement.

2.1.5 Corporate Social Responsibility (CSR)

CSR is inseparable from companies' activities, manifesting the commitment and responsibilities of companies to stakeholders (direct and indirect) as well as surrounding environment. CSR activities are implemented directly by companies and sustainably, having the purpose of maintaining the economic, social, and environmental balance.

Initially, CSR cost in oil and gas sector was included in cost recovery. However, PP No.79/2012 stipulates as follows:

- Cost of community empowerment programs executed by KKKS at exploration stage may be calculated in cost recovery.
- Cost of community empowerment programs executed by KKKS at exploitation stage cannot be calculated in cost recovery

Social responsibility obligations are stipulated in Law No. 40/2007 on Limited Liability Company, although the amount of funds allocated for community empowerment programs are not specified. CSR obligations are also stated in Government Regulation No. 47/2012. The regulation states that social and environmental responsibility is an obligation for a company that conducts its business activities in the field and / or related to natural resources based on law.

CSR programs captured in this report refer to program classification of the Minister of Energy and Mineral Resources Government Agency Performance Accountability Report (LAKIP) 2014, which are:

1. Utilization of Company Facilities and Infrastructure for the Benefit of the Community.
2. Community Empowerment in the form of Increasing the Economy of Residents of Surrounding Areas
3. Community Service (Natural Disaster Assistance and Donations / Charity / Philanthropy)
4. Education Improvement for Residents of Surrounding Areas (Providing Scholarships for outstanding school students, Providing educational facilities and infrastructure assistance)

5. Infrastructure Development in the Form of Facilities (such as Worship Facilities, Public Facilities, Health Facilities, etc.)

Based on Scoping Study of 2016 EITI Indonesia Report and decision of Implementation Team, CSR fund is not reconciled and reported unilaterally by the companies. This decision drew upon the fact that the definition of CSR in Indonesia is too broad and not yet clear cut, in addition to beneficiaries of CSR that can be communities or community institutions.

CSR activities reported by oil and gas companies and mineral and coal companies during 2016 can be seen in the tables below:

Table 10 - CSR of Oil and Gas Companies in 2016

Activity in 2016	IDR (in million)	USD (in thousand)
Community Relation	162	883
Community Service	-	168
Community Empowerment	1.291	7.885
Infrastructure Development	8.387	3.058
Environment	480	5.559
TOTAL	10.320	17.553

Source: Data of EITI for the period of 2016

The implementation of the ASR refers to the Working Guidelines of SKK Migas No. 40 issued in 2010 and revised in 2018, whereby KKKs are required to deposit the funds reserved for ASR activities into Joint Accounts of SKK Migas and KKKS at designated management banks. In 2016, the total amount of ASR funds paid is US \$ 117,759 thousand.

In mineral and coal sector, in accordance with Regulation of Minister of Energy and Mineral Resources Number 7/2014, reclamation guarantee is fund provided by holders of IUP or IUPK as guarantee for reclamation activities, conducted throughout mining stages to arrange, restore and improve the quality of environment and ecosystem in order to functioning again according to its designation. While post-mining funds are funds provided by mining companies as guarantees to conduct post-mining activities that are planned, systematic and continuous activities after the end of part or all of the mining business activities to restore the function of the natural environment and social according to local conditions throughout the mining area.

Of the 112 mineral and coal companies included in the 2016 reconciliation scope, there are 36 companies reporting their payments for the Reclamation Guarantee and 11 companies reporting their payments for the Post-mining Fund during 2016.

Table 11 - CSR of Mineral and Coal Companies in 2016

Activity	<i>In Kind</i>		<i>In Cash</i>	
	IDR (in million)	USD (in thousand)	IDR (in million)	USD (in thousand)
Utilization of facilities and infrastructures	8.865	338	19.921	1
Community Empowerment	20.936	196	42.958	40.025
Community Service	30.155	34.608	31.976	1.262
Education Improvement	19.187	5.349	40.070	69
Infrastructure Development	62.885	12.665	86.404	53
TOTAL	141.488	53.518	221.329	41.410

Source: Data of EITI for the period of 2016

Detailed report on CSR funds of each company covered by this report is presented under Appendix 5.2 for oil and gas sector and Appendix 5.3 for mining sector.

2.1.6 ASR, Reclamation Guarantee and Post mining Fund

In the oil and gas sector, activities to stop the operation of Production Facilities and other supporting facilities permanently and to eliminate their ability to be re-operated and to restore the environment in upstream oil and gas business activities are known as Abandonment and Site Restoration (ASR).

Table 12 - Reclamation Guarantee and Post-mining Fund from Mineral and Coal Mining Companies in 2016

Type of Fund	IDR (in million)	USD (in thousand)
Reclamation Guarantee	42.459	40.026
Post-mining Fund	40.070	69
Total	82.529	40.095

Source: Data of EITI for the period of 2016

2.1.7 Transportation

Requirement 4.4 of 2016 EITI Standard requires the disclosure of transportation-related revenues generated by commodity transportation services received by BUMN as transport provider. This disclosure includes types of transported commodity, route, and name of BUMN as well as applicable taxes, transport fees, and commodity volume. In accordance with the Scoping Study of 2016 EITI Report, the transportation income received by state-owned enterprises from mineral and coal companies will be reconciled while transportation revenue received from oil and gas companies is reported only from the side of income-generating state-owned enterprises.

Oil and Gas Sector

PT Pertamina (Persero) received transportation fees (toll fee) from KKKS, PT Perusahaan Gas Negara Tbk (PGN) and other companies for the transportation of oil and gas through pipe network owned by PT Pertamina (Persero). In 2016, the total toll fee obtained is US \$ 140,380 thousand, of which the amount does not reach 1% of the total state revenue from oil and gas sector. Hence, no reconciliation is required.

Meanwhile, PT Perusahaan Gas Negara (PGN) revenues from transportation services (toll fee) obtained from transporting gas through pipes owned by PGN in 2016 amounted to US \$ 7.87 thousand.

Table 13 - Oil and Gas Transportation Revenue

PT Pertamina (Persero)		
Company	USD (in thousand)	
Oil		
PT. Hexindo Gemilang Jaya	28.808	
PT. Samudra Energy BWP Meruap	3.525	
MontD'Or OIL TUNGKAL LTD.	2.903	
TAC. PBMS	1.339	
Tately N.V	1.266	
TAC- EMP GELAM	818	
PT. GEO MINERGI KSO	513	
Gas		
Kangean Energy Indoensia Ltd.	66.623	
PGN (Persero) Tbk	10.004	
PUSRI	9.467	
Medco EP Indonesia	7.978	
PT PKT	7.937	
PT Perusahaan Gas Negara		
Company	Rp (in million)	USD (in million)
Gas		
SPBG Pertamina	2.034	7.716
PLN Jambi Merang		

Source: Data of EITI for the period of 2016

Mineral and Coal Sector

Transportation revenue is revenue received by BUMN, or PT Kereta Api Indonesia (Persero) in this context, generated from the transportation of coal produced by PT Bukit Asam Tbk.

PT Bukit Asam Tbk entered into coal transport agreement with PT Kereta Api Indonesia (Persero) for two transport routes:

1. Tanjung Enim Baru – Tarahan
PT Kereta Api Indonesia (Persero) agrees to transport coal of PT Bukit Asam Tbk from coal loading terminal in Tanjung Enim to coal port in Tarahan, Lampung. Pursuant to agreement signed on 14 December 2011, transport fee applied in 2016 is Rp428 (full amount)/ton/ kilometer exclusive of 10% PPN.
2. Tanjung Enim Baru - Kertapati
PT Kereta Api Indonesia (Persero) agrees to transport coal of PT Bukit Asam Tbk from coal loading terminal in Tanjung Enim to coal port in Kertapati, Palembang. Pursuant to agreement signed on 14 December 2011, transport fee applied in 2016 is Rp563 (full amount)/ton/kilometer exclusive of 10% PPN.

PT Kereta Api Indonesia (Persero) applies 10% PPN in addition to agreed fees.

The coal volume of PT Bukit Asam Tbk, which is transported by PT Kereta Api Indonesia (Persero) for 2016 and 2015 is 17,383,804 tons and 15,622,180 tons, respectively. Meanwhile, the revenue of PT Kereta Api Indonesia (Persero) for coal transportation services provided for PT Bukit Asam Tbk in 2016 amounted to US \$67 million and Rp1.9 trillion. The revenue increased compared to the revenue obtained in 2015, which amounted to US \$ 72 million and Rp1.7 trillion.

The coal volume of PT Bukit Asam Tbk, which is transported by PT Kereta Api Indonesia (Persero) in 2016 has increased. The increase in volume is followed by an increase in the revenue of transportation services obtained by PT Kereta Api Indonesia (Persero) compare to the previous year.

Table 14 - Transportation Fees Received by PT. Kereta Api Indonesia in 2016

Company	IDR (in million)	USD (in thousand)
PT. Bukit Asam (Persero) Tbk.	1.955.712	67.402
PT Kereta Api Indonesia (Persero)	1.955.712	67.402
Difference	-	-

Source: Data of EITI for the period of 2016

After the numbers were reconciled, IA found no discrepancies between transport fees payment made and received by PT Bukit Asam (Persero), Tbk. and PT Kereta Api Indonesia (Persero).

2.1.8 BUMN in the Extractive Industry

Requirement 4.5 of 2016 EITI Standard requires the report to explain roles of BUMN in the flow of state revenues.

Governed by Law No.19/2003 on BUMN, BUMN is a business entity that is wholly owned by the state, or with majority ownership of the state, through direct equity placement from the state's capital. BUMN's management and operation comply with Law No. 40/2007 on Limited Liability Companies, Capital Market Law and its implementing regulations – specifically for listed BUMN, State Finances Law, and Examination and Oversight Law.

Pursuant to Law No.19/2003 on BUMN, a BUMN is established with the following goals and purposes:

- to contribute to the national economic growth in general and particularly to state revenue;
- to seek profit;
- to deliver public benefits in the form of the procurement of quality and adequate goods and/or services to fulfill public needs;
- to be the pioneer of business activities that cannot be implemented by the private sector and cooperatives;
- to actively participate in providing guidance and support for smallscale companies, cooperatives and communities.

BUMN Law also categorizes BUMN into two types:

- Public Company (Perum)
Public company is 100% owned by the government, not divided into shares. None of the state-owned companies engaged in the extractive sector are public companies.
- Liability Company (Persero)
BUMN with over 50% or all of the shares owned by the government. Liability, state-owned companies seek profits.

Given the context of this report, there are five extractive BUMNs covered by this report, namely PT Pertamina (Persero) and its subsidiaries, PT Perusahaan Gas Negara (PGN), PT Aneka Tambang Tbk., PT Bukit Asam Tbk. and PT Timah Tbk.

PT Pertamina (Persero) and its subsidiaries as BUMN in the oil and gas sector are the third largest lifting of oil and gas contributor in the country with total oil lifting amounted to 52,830,096 barrels and total gas lifting amounted to 450,399,852 mscf in 2016. PT Pertamina (Persero) is also the largest dividend contributor among other BUMNs. In 2016, Pertamina paid Rp6.8 trillion of dividend. In the list of companies included in the scope of reconciliation there are several subsidiaries of PT Pertamina (Persero), namely PT Pertamina Hulu Energi, PT Pertamina EP and PT Pertamina EP Cepu which contributes revenue for government lifting of oil and gas and corporate & dividend tax amounting to US \$ 1,541 million or 17.1% of the total value reconciled in oil and gas sector in 2016.

In addition to PT Pertamina (Persero), there is another BUMN that also engaged in oil and gas sector, namely PT Perusahaan Gas Negara (PGN). PGN business including transportation and trading of gas as a provider for transmission pipe and gas distribution. In 2016, PGN paid dividend to the Indonesian Government of Rp.2.2 trillion. PGN has a subsidiary engaged in the upstream oil and gas sector, namely PT Saka Energi Indonesia. PT Saka Energi Indonesia contributed a total oil lifting of 1,606,355 barrels and total gas lifting of 19,100,993 mscf in 2016.

Payment from mining BUMNs in this report consisted of royalty, income tax, land and building tax, landrent, transport fee, and forest area utilization fee as detailed in the table below.

Table 15 - Payment from Mineral and Coal Mining Sector BUMNs to State Treasury in 2016

Type of Payment	PT Bukit Asam (Persero)		PT Antam (Persero)		PT Timah (Persero)	
	IDR (in million)	US\$ (in thousand)	IDR (in million)	US\$ (in thousand)	IDR (in million)	US\$ (in thousand)
Royalty	398.406	21.845	12.605	10.414	-	13.131
Corporate Income Tax	509.520	-	-	-	77.090	-
Landrent	-	248	-	1.189	232	2.029
Transportation Service	1.955.712	67.402	-	-	-	-
Dividend	434.041	-	-	-	19.810	-
Land and Building Tax	61.447	-	17.453	-	71.376	-
Forest Area Utilization	26.862	-	27.086	-	4.144	-
PDRD	57	-	7.455	-	5.726	-
Direct Payment	47.000	-	8.029	-	1.296	-
Reclamation Guarantee	39.146	-	1.127	-	25.213	-
Post-mining Fund	15.369	-	-	-	-	-
Other Payment to BUMN	641	-	-	-	19.202	-
Total	3.385.485	89.495	57.144	11.603	172.652	13.961

Source: Data of EITI for the period of 2016

2.1.9 Direct Payment to the Local Government

Requirement 4.6 of 2016 EITI Standard requires disclosure of direct payment to the local government.

Payment made directly by companies to the local government are categorized into two types:

1. Payment stipulated by Local Regulation (Perda)
Payment to the local government in the form of local taxes is mandatory contribution by individuals or companies. Other form of payment is regional tax retribution as imposed on services or certain permits. The Law No.28/2009 governs the types of taxes imposed by Provincial and Regency/City Government. Local Government is prohibited from imposing taxes other than stipulated by law. Taxes applicable in extractive industry are Ground Water Tax, Road Lighting Tax, and Specific Permit Retribution. The following rate applies pursuant to Law No.28/2009:
 - Ground water tax, maximum 20% and enforced by Local Regulation.
 - Road lighting tax, maximum 10%. For power utilization generated by other sources by industry and mining sector, 3% rate applies.
 - Specific permit retribution, namely for Building Construction Permit (IMB).
 In the oil and gas sector, the PDRD is paid by:
 - the central government (DG of Budget) to local government based on the concept of assume and discharge. PDRD, in this case, is a deduction factor in the calculation of Oil and Gas PNBP
 - oil and gas companies, this PDRD can be calculated as a component of cost recovery
 Meanwhile, mineral and coal companies pay PDRD directly to local government (see Appendix 5.3).
2. Payment resulting from the agreement between the company and the local government.
Payment made directly to local government refer to commitment that have been made by mining company. These payments reflected companies' participation and contribution to sustainable regional development.

Direct payment to the local government refer to commitments paid by mineral and coal companies in 2016 amounting to Rp286,819 million and US \$ 403 thousand. The amount does not exceed 1% of state revenue from the mineral and coal sector so it does not need to be reconciled, and only reported unilaterally by the company. Out of 112 minerba companies included in the reconciliation scope, 11 companies made direct payments to local governments. A list of companies making direct payments to the local governments can be seen in Table 16.

Table 16 - Direct Payment from Mineral and Coal Mining Companies to Local Government in 2016

No.	Company	Total	
		IDR (in million)	US\$ (in thousand)
1	Kaltim Prima Coal	-	260
2	Adaro Indonesia	21.299	-
3	Kideco Jaya Agung	1.945	143
4	Arutmin Indonesia	1.067	-
5	Marunda Graha Mineral	154	-
6	Bukit Asam Persero Tbk	47.000	-
7	Freeport Indonesia	122.233	-
8	Vale Indonesia Tbk	39.188	-
9	Nusa Halmahera Minerals	44.491	-
10	Timah	1.296	-
11	Aneka Tambang	8.029	-
12	Trisensa Mineral Utama	30	-
13	Refined Bangka Tin	89	-
	Total	286.819	403

Source: Data of EITI for the period of 2016

2.1.10 Land and Building Tax

The principle of Land and Building Tax (PBB) imposed on oil and gas companies is assume and discharge, in which oil and gas operator companies are not required to pay for the PBB. Based on tax regulation, the PBB is imposed on land, buildings, in which the location of the tax object is located. In the oil and gas sector, PBB payment is paid:

1. PBB of Oil and Gas paid by the central government to the local government based on the assume and discharge concept and the PBB payment is a deduction of oil and gas PNBP. (see explanation in Sub Chapter 2.1.3)
2. PBB of Oil and Gas paid directly by oil and gas companies to State Treasury, and the payment can be calculated as a component of cost recovery (see discussion in Sub-Chapter 5.1)

2.1.11 Value Added Tax (PPN)

In the Cooperation Contract (PSC), Value Added Tax (PPN) is an assume and discharge component or component that is not a liability of the oil and gas operator company. With the issuance of PMK No. 11 / PMK.03 / 2005, oil and gas operator companies must pay in advance for PPN (Mandatory Collector/WAPU) of 10% of the value of goods / services to the Directorate General of Taxes every month.

When the Oil and Gas Operator (KKKS) enters a period of exploitation (Production), it may submit for the reimbursement (requesting back) to the government through SKK Migas which is then forwarded to the Directorate of PNPB for the payment. The PPN Reimbursement is a deduction factor in the calculation of state revenue.

With the issuance of PP No. 79/2010, PPN which was previously an assume and discharge component becomes a cost component and is presented in the FQR report. The PPN is included in the component of cost recovery. The PPN is not included in the PPN Reimbursement payment mechanism.

2.1.12 Signature Bonus

Bonus paid to the government subsequent to signing of Cooperation Contract, both for new contract and extension contract.

2.1.13 Firm Commitment

It is a definite commitment from the Oil and Gas Contractor for the first three years. If the commitment is not implemented, the contractor is required to pay a penalty in the amount of the agreed value in firm commitment.

2.1.14 Forest Area Utilization

All non-forestry companies operating in areas that the government has delineated as forest area (pursuant to PP No. 2/2008), must pay Forest Resource Rent Provision (PSDH) and Reforestation Fund (DR). Around 90% of revenues from these streams came from mining companies.

2.1.15 Other Payment to BUMN

Requirement 4.5 of 2016 EITI Standard requires a comprehensive report explaining the role of BUMN, including other payments to BUMNs, which are material from oil and gas companies (Table 13) and mineral and coal mining companies, and transfer between BUMNs and the Government. In the 2016 EITI Report, in mineral and coal sector, other payment to BUMN was included in the reporting form but unilaterally reported only from the side of the company and not reconciled. Of the 112 companies included in the scope of reconciliation there are 26 companies that submit other payments to BUMNs, namely:

Table 17 – Mineral and Coal Mining Companies Payment to BUMN/Government in 2016

No.	Company Name	IDR (in million)	USD (in thousand)
1	Adaro Indonesia	2.958.564	13.319
2	Berau Coal	859	-
3	Indominco Mandiri	23.258	-
4	Trubaindo Coal Mining	2.202	88
5	Antang Gunung Meratus	11.413	-
6	Bharinto Ekatama	1.637	44
7	Wahana Baratama Mining	1.304	-
8	Multi Harapan Utama	204	-
9	Firman Ketaun Perkasa	1.342	-
10	Tanito Harum	34	-
11	Jorong Barutama Greston	1.109	-
12	Perkasa Inakerta	1606	-
13	Teguh Sinar Abadi	657	-
14	Multi Tambangjaya Utama	184	-
15	Bukit Asam Persero Tbk	641	-
16	Adimitra Baratama Nusantara	6.751	-
17	Bhumi Rantau Energi	2.273	-
18	Sungai Danau Jaya	898	-
19	Binuang Mitra Bersama Blok Dua	319	-
20	Alamjaya Barapratama	685	-
21	Kitadin	126	-
22	Baramulti Suksessarana	1.107	-
23	Indomining	2.731	-
24	Nusa Halmahera Minerals	6.648	181
25	Timah	19.202	-
26	Trisensa Mineral Utama	-	14
	Total	3.046.200	13.647

Source: Data of EITI for the period of 2016

2.2 Companies within Scope of Reconciliation

To select extractive companies for the purpose of this report, the team assessed contribution of each company to total state revenues generated from extractive industry. The selection of companies was also aligned with Scoping Study of 2016 EITI Indonesia Report and approved by the Implementation Team (Requirement 4.1.c of 2016 EITI Standard).

In oil and gas sector, all oil and gas companies in production phase are covered by and asked to participate in this report.

Based on the Scoping Study of 2016 EITI Indonesia Report, not all mineral and coal companies that contribute to state revenue are the reporting companies for the purposes of this reconciliation. Mineral and coal companies participating in the 2016 EITI Indonesia Report are contributing to the sales revenue share (PHT), royalty and landrent more than Rp 16 billion. Using this materiality limit, the total amount of 2016 EITI reporting companies is 112 companies. These reporting companies contributed 94.00% of the total non-tax state revenues with a composition of 56.54% of total royalty revenue, 41.97% of total PHT revenue and 1.49% of landrent revenue.

According to the Scoping Study of 2016 EITI Indonesia Report which is further verified by IA and the Implementation Team, the number of companies included in the scope to be reconciled for the period of 2016 is 177 oil and gas companies (consisting of 71 KKKS and 106 Partners). As for mineral and coal sector, there are 112 companies consisting of 21 mineral companies and 91 coal companies included in the reconciliation.

Government entities covered in the reconciliation report are DG of Taxes, DG of Budget, DG of Oil and Gas, DG of Mineral and Coal and SKK Migas. State revenue components presented unilaterally (not included in the reconciliation process) are from DG of Fiscal Balance, Riau Provincial Government, Kalimantan Timur Provincial Government, Jawa Timur Provincial Government, Sumatera Selatan Provincial Government and Kalimantan Selatan Provincial Government.

A list of all companies included in the scope of the reconciliation report is contained in Appendix 1.

2.2.1 Oil and Gas Companies

Total number of oil and gas companies included in the reconciliation process in 2016 is 177 companies, consisting 71 KKKS and 106 Partners, and a total of 63 working areas.

Table 18 - Distribution of KKKS by Working Area 2016

Working Area	Operator
Aceh Province	1
Jambi Province	4
Riau Province	6
Kepulauan Riau Province	4
Sumatera Utara Province	1
Sumatera Selatan Province	11
DKI Jakarta Province	1
Jawa Barat Province	1
Jawa Tengah Province	1
Jawa Timur Province	11
Kalimantan Utara Province	2
Kalimantan Timur Province	8
Kalimantan Tengah Province	1
Sulawesi Tengah Province	1
Sulawesi Selatan Province	1
Maluku Province	2
Papua Barat Province	2
Papua Province	3
Indonesia	1
TOTAL	62

Source: Data of EITI for the period of 2016

Since several partners shall report as operators, the total number of working area (62 working areas) is not the same with the total number of operators (71 KKKS). List of partners that report as operators as follow:

1. PT Pertamina Hulu Energi (8 companies) – reporting as Operator given its 50% ownership over JOB/JOA working area and sharing between government and contractor, i.e. 32.7731 % for the government and 67.2269% for PHE contractor.
2. INPEX Corporation (1 company) – provided report as Operator over 50% of Inpex's share in Mahakam field and 50% of Inpex' share in Attaka field pursuant to Pertamina Letter No.1911/Keu/BKKA/77 dated 10 May 1977.

2.2.2 Mineral and Coal Companies

Total number of mineral and coal companies included in the reconciliation process in 2016 is 112 companies, consisting 91 coal companies with PKP2B and IUP contracts, and 21 mineral companies with KK and IUP contracts, spread in 16 provinces of operating areas.

Table 19 – Mineral and Mining Companies within the Scope of Reconciliation

Year/Type of Contract	PKP2B	KK	IUP	Total
2016	33	8	71	112

Source: Scope of 2016 EITI Indonesia Report

Table 20 - Distribution of Mineral and Coal Mining Companies by Mining Area in 2016

Mining Area/Type of Contract	PKP2B	KK	IUP	Total
Provinsi Sumatra Utara	-	1	-	1
Provinsi Sumatra Selatan	-	-	5	5
Provinsi Bangka Belitung	-	-	8	8
Provinsi Bengkulu	-	-	3	3
Provinsi Jambi	1	-	-	1
Provinsi Jawa Barat	-	-	1	1
Provinsi Kalimantan Selatan	8	-	18	26
Provinsi Kalimantan Tengah	5	1	1	7
Provinsi Kalimantan Timur	18	-	29	47
Provinsi Kalimantan Utara	1	-	4	5
Provinsi Sulawesi Tengah	-	-	1	1
Provinsi Sulawesi Selatan	-	1	-	1
Provinsi Sulawesi Utara	-	2	-	2
Provinsi Maluku Utara	-	1	1	2
Provinsi Nusa Tenggara Barat	-	1	-	1
Provinsi Papua	-	1	-	1
Total	33	8	71	112

Source: Data of EITI for the period of 2016

03

METHODODOLOGY

3.1 Reconciliation Method

IA gathered and reconciled data of payment made and received by business entities and the government. Reconciliation process is undertaken in five of the following sequence:

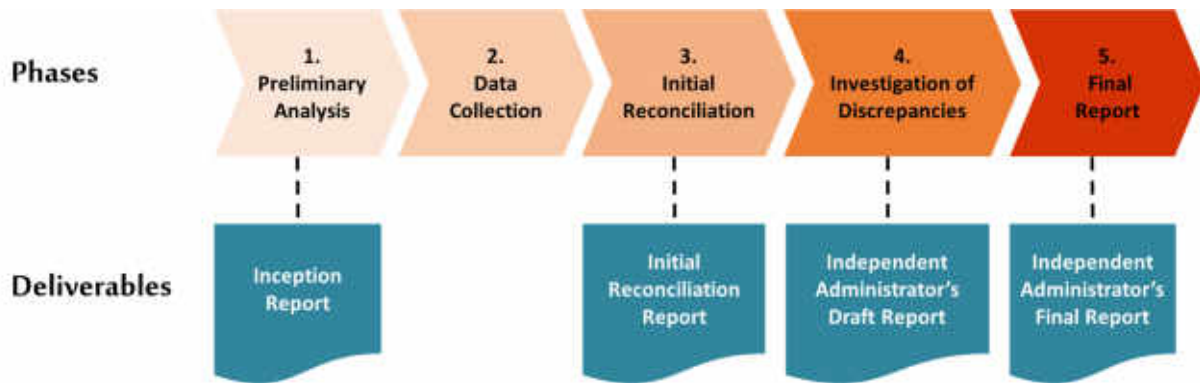
1. Preliminary data analysis and procedure – entailing planning of entity scope, reporting format design, and identifying procedures that would be employed when executing reconciliation.
2. Information dissemination, data collection (including circulating reporting template to all reporting entities), data request, and data acceptance according to template and within established timeline.
3. Reconciliation – comparing information from two sides of the entities, i.e. companies and government entities.
4. Confirmation – verifying and tracking data to related entities to clarify gaps and differences. Data compilation, compilation process of all data in both monetary and volume units.

5. Result analysis and formulation of IA reconciliation report.

Communications between IA and reporting entities – companies as well as government agencies – in order to conduct further inquiries to clarify differences of numbers are appropriately documented and have been agreed by both parties. This measure is taken to ensure that information and/or data presented and/or reconciled in this report are genuine and accurate (complying with Requirement 4.9.b of 2016 EITI standard). IA gathered details on data or complementing documents by employing various means of communications – phone/email, or meeting and visits (if necessary) to relevant reporting entities.

IA activities are conducted in 5 phases as shown in the following table:

Figure 9 - Five Phases of EITI Indonesia Report Preparation Process



IA is responsible to undertake each sequence described above.

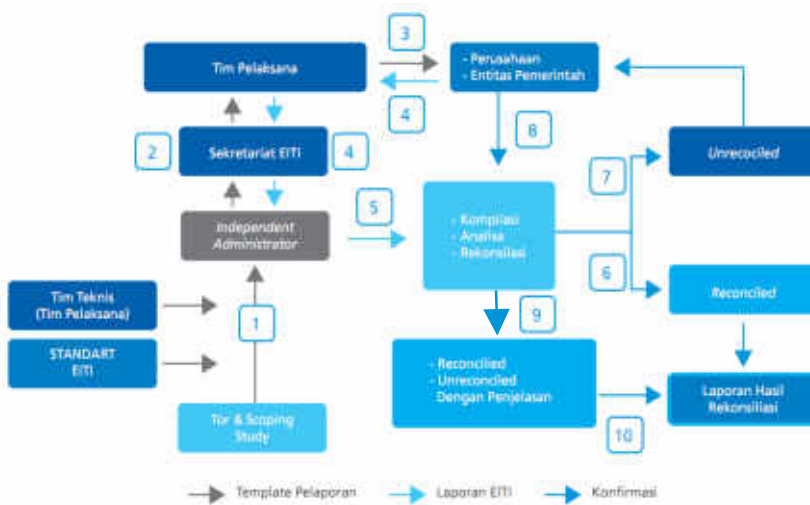
3.2 Reconciliation Activities and Focus

The purpose of reconciliation was to compare payments made by companies in oil and gas and mineral and coal sector with revenues received by the state through five government agencies. IA must analyze and provide reasoning for any discrepancies identified in this process.

Subsequent to IA's appointment by the Coordinating Ministry for Economic Affairs on 28 August 2018, IA verified company data listed in the Terms of Reference (TOR) together with relevant agencies, namely SKK Migas and DG of Mineral and Coal.

6. Result of reconciliation is captured in Reconciliation Report.
7. Clarified discrepancies with reporting entities.
8. Re-compiles and re-analyzes clarification provided by reporting entities.
9. Result of compilation and analysis grouped into 'unreconciled data' and 'data with discrepancies' which are complemented with explanation.
10. Presentation of reconciliation result.

Figure 10 - Flow of Reconciliation Report Preparation



Source: Data of EITI for the period of 2012-2013

In details, the flow of Reconciliation Report development is as follows:

1. IA verifies reporting template provided in TOR and Scoping Study 2016 in accordance to EITI Standard and consultation with Technical Team (Implementation Team).
2. Verified reporting template submitted for approval from Implementation Team.
3. Implementation Team distributes reporting template to reporting entities.
4. Reporting entities return EITI's reporting template to Implementation Team, addressed to Transparency Team Secretariat.
5. IA compiles and analyzes reports, followed with reconciliation process.

3.2.1 Preparation of Reporting Format

In order to determine appropriate reporting template, IA has reviewed the template presented in Scoping Study of 2016 EITI Indonesia Report and made a number of adjustments to comply with EITI Standard. Template adjustments were consulted with relevant agencies and submitted to Implementation Team for approval on September 14, 2018.

Adjustments made for oil and gas sector template are:

1. Part I (Company Identity Information)
No adjustment, still the same as the 2015 EITI format
2. Part II (Working Area Ownership Information)
No adjustment, still the same as the 2015 EITI format
3. Part III (Human Resources Information)
No adjustment, still the same as the 2015 EITI format
4. Part IV (Reconciled Information)
No adjustment, still the same as the 2015 EITI format
5. Part V (Non-reconciled Information)
The addition of "submission of in-kind oil and gas" table

6. PPN (Value Added Tax) Sheet
 - a. Table of Value Added Tax (WAPU)
Collected PPN which was deposited to the State Treasury during 2016
 - b. Table of Value Added Tax (PPN Reimbursement)
The amount received by the KKKS for the PPN Reimbursement paid by the DG of Budget during 2016
7. Beneficiary Ownership (BO) Template
In accordance with Presidential Regulation No. 13/2018, each Corporation must determine the Beneficial Owner of the Corporation.
8. Statement Letter
No adjustment, still the same as the 2015 EITI format
9. Authorization Sheet for Opening Tax Data and Information
The addition of a request to open Land and Building Tax (PBB) and Value Added Tax (PPN) data

Adjustments made for mineral and coal sector template are:

1. Part III
In this part information on Indonesian Citizens (WNI) workers is classified as a permanent / contract employment status with the status of the Head Office Hire / Local Hire.
2. Part IV
 - a. Social Cost (CSR)
 - 1) Template format for CSR is adjusted to the classification based on LAKIP 2014 of the Minister of Energy and Mineral Resources, which are:
 - Utilization of Company Facilities and Infrastructure for the Benefit of the Community
 - Community Empowerment in the form of Increasing the Economy of Residents of Surrounding Areas
 - Community Service (Natural Disaster Assistance and Donations / Charity / Philanthropy)
 - Education Improvement for Residents of Surrounding Areas (Providing Scholarships for outstanding school students, Providing educational facilities and infrastructure assistance)
 - Infrastructure Development in the Form of Facilities (such as Worship Facilities, Public Facilities, Health Facilities, etc.)
 - 2) The addition of 'In Cash/In Kind' and 'Beneficiary' columns in CSR table
 - b. The addition of 'Sales Volume by the Load Place' and 'Sales Volume by the Origin Province' tables.
 - c. The unit of volume for gold and silver commodities is kilogram.
3. Authorization Sheet for Opening Tax Data and Information
The addition of a request to open Land and Building Tax (PBB) information and data.
4. Statement Letter
The adjustment in the signing column, in which the statement letter was signed by Director of production unit in Indonesia.
5. Template of Beneficiary Ownership (BO)
In accordance with the Presidential Regulation No. 13/2018, every corporation is obliged to determine the Beneficial Owner of the Corporation.

Socialization of 2016 EITI reporting format for oil and gas and mineral and coal was conducted in two phases, namely Phase I on September 18, 2018 and Phase II on September 24, 2018.

The number of participants from oil and gas companies who attend Phase I socialization activity was 61 participants who represent 57 companies, while the number of participants who attended Phase II socialization activity was nil. Therefore, the total number of participants from oil and gas companies who attend socialization activities in phase I and phase II was 61 participants representing 57 companies or 80% of total oil and gas companies included in the reconciliation.

The number of participants from mineral and coal companies who attend Phase I socialization activity was 84 participants who represent 68 companies, while the number of participants who attended Phase II socialization activity was 2 participants who represent 2 companies. Therefore, the total number of participants from mineral and coal companies who attend socialization activities in phase I and phase II was 86 participants representing 70 companies or 62.5% of total mineral and coal companies included in the reconciliation.

3.2.2 Distribution of Reporting Format to Companies and Government Agencies

To distribute reporting formats, IA has obtained corporate address information, corporate email, phone number and Person in Charge by:

- Requesting SKK Migas and DG of Mineral and Coal
- Searching the information in the company website
- Searching the information from previous year's extractive industry annual report
- Requesting data from Local Government
- Requesting data from operators for partner companies for the oil and gas sector
- Visiting the company directly

DG of Taxes may provide tax data and information of government entities if it has received an authorization sheet for the opening tax data and information from the companies. IA submitted the authorization sheet gradually to speed up the reconciliation process.

Following the Implementation Team meeting held on September 14, 2018 which approves the reporting format, IA together with the EITI Secretariat prepared letters for the distribution of reporting formats to companies and government entities. On September 14, 2018, a cover letter from the Coordinating Ministry for Economic Affairs attached with the 2016 EITI reporting form was distributed to companies within the scope of reconciliation. The deadline to return the form was October 5, 2018 for both oil and gas sector and mineral and coal sectors. Meanwhile, the EITI reporting form for government entities was sent on September 14, 2018 and the deadline to return the form was October 10, 2018.

Since a lot of oil and gas companies and mineral and coal companies that have not submitted EITI reporting form on October 5, 2018, based on the meeting decision of Implementation Team on October 23, 2018, the deadline for submitting the 2016 EITI Indonesia reporting form was extended to October 31, 2018.

Tables 21 and 22 below show the progress of returning the reporting form until the last deadline set by the Implementation Team:

Table 21 - Progress of Reporting Form Submission in Oil and Gas Sector

Progress Status of Government Entities as of:	Reporting Entities	Report Submitted	Delayed	Percentage of Report Submitted
11 October 2018	13	2	11	15%
21 October 2018	13	7	6	54%
04 December 2018	13	13	0	100%

Source: Data of EITI for the period of 2016

Progress Status of KKKS as of:	Reporting Entities	Report Submitted	Delayed	Percentage of Report Submitted
11 October 2018	71	54	17	76%
21 October 2018	71	61	9	86%
04 December 2018	71	70	1	99%

Source: Data of EITI for the period of 2016

Progress Status of Partner as of:	Reporting Entities	Report Submitted	Delayed	Percentage of Report Submitted
11 October 2018	106	53	53	50%
21 October 2018	106	62	44	58%
04 December 2018	106	85	21	80%

Source: Data of EITI for the period of 2016

The progress of submitting the EITI reporting form in the oil and gas sector up to November 23, 2018 for government entities reached 100% or as many as 13 government entities have submitted EITI reporting form. However, there is a government entity (DG of Taxes) with incomplete submitted data.

The company entities that have submitted EITI reporting forms are 70 Operators or 99% of the total operators included in the scope of reconciliation and 85 Partners or 80% of total partners included in the scope of reconciliation. The number of companies that have not submitted reporting form is 1 Operator and 21 Partners. List of oil and gas companies that have not submitted reporting forms can be seen in Table 23.

namely Directorate General of Taxes. DG of Taxes submitted the Corporate Income Tax data on November 19, 2018 and PBB data on November 30, 2018.

The company entities that have submitted EITI reporting forms are 80 companies or 71.43% of total 112 companies included in the scope of reconciliation. The number of companies that have not submitted reporting form is 32 companies. List of mineral and coal companies that have not submitted reporting forms can be seen in Table 24.

Table 22 - Progress of Reporting Form Submission in Mineral and Coal Sector

Progress Status of Government Entities as of:	Reporting Entities	Report Submitted	Delayed	Percentage of Report Submitted
10 October 2018	10	1	9	10,00%
31 October 2018	10	9	1	90,00%

Source: Data of EITI for the period of 2016

Progress Status of Company Entities as of:	Reporting Entities	Report Submitted	Delayed	Percentage of Report Submitted
5 October 2018	112	40	72	35,71%
23 October 2018	112	66	46	58,93%
7 November 2018	112	80	32	71,43%

Source: Data of EITI for the period of 2016

The progress of submitting the EITI reporting form in the oil and gas sector up to October 31, 2018 for government entities reached 90% or as many as 9 government entities have submitted EITI reporting form.

There is one government entity that have not submitted the reporting form until the time limit specified,

3.2.3 List of Non-complying Companies

For oil and gas sector, out of the 177 companies expected to report, as many as 22 companies do not report consisting of 1 KKKS and 21 partners. The KKKS that does not report is EMP (Bentu) Ltd., a subsidiary of Mega Persada Energy Group.

Based on the comparison of state revenues of Oil Revenue and Gas Revenue in the form of Government Lifting and Over / (Under) Lifting, the amount of Government Lifting and Over / (Under) Lifting from companies that do not report is not significant with a total percentage of 0.50%, as listed in the following table, and not affecting the result of reconciliation.

For mineral and coal sector, out of 112 companies expected to report, as many as 32 companies do not report, so that there is no information on how much royalty, PHT, landrent, PBB and Corporate Income Tax that have been deposited by these companies to the State Treasury.

Table 23 - List of Non-complying oil and gas companies

(in thousand USD)

No.	Name of Company	Working Area	SKK Migas				Total
			Government Lifting Oil	Government Lifting Gas	Over/(Under) Lifting Oil	Over/(Under) Lifting Gas	
KKKS							
1	EMP (Bentu) LTD.	Bentu Segat, Ons. RIAU	-	34.361	-	860	35.322
Partner							
1	LION International Investment Ltd.	Seram Non Bula	The value of Government lifting and Over/(Under) Lifting is in KKKS Operator				
2	KUFPEC Regional Venture (Indonesia) Ltd	South East Sumatera					
3	Chevron South Natuna B Inc	South Natuna B					
4	OOGC Malacca	Malacca Strait					
5	PT Imbang Tata Alam	Malacca Strait					
6	Malacca Petroleum Ltd	Malacca Strait					
7	PT Prakarsa Brantas	Brantas					
8	PT Minarak Brantas Gas	Brantas					
9	PT. Pertamina EP Cepu	Cepu					
10	Fuel-X Tungkal Ltd.	Tungkal					
11	EMP ONWJ Ltd.	Northwest Java Sea					
12	KUFPEC Indonesia ONWJ BV	Northwest Java Sea					
13	PC Ketapang II Ltd.	Ketapang					
14	Kingswood Capital Ltd.	Langgak					
15	Opicoil Houston Inc.	Sanga-Sanga					
16	Virginia International Co. LLC	Sanga-Sanga					
17	Universe Gas & Oil Company Inc.	Sanga-Sanga					
18	Eastwin Global Investment Limited	Lemang					
19	BUT AWE (Satria) NZ LTD	Bulu					
20	PT Satria Energindo	Bulu					
21	PT Satria Wijaya Kusuma	Bulu					
Total			-	34.361	-	860	35.322
Total PNBP of Migas			4.741.974	2.161.876	134.904	69.398	7.108.152
PERCENTAGE			0,00%	1,59%	0,00%	1,24%	0,50%

Source: Data of EITI for the period of 2016

32 mineral and coal companies that do not report can be classified as follows:

1. Company with no production
Based on information from the relevant Provincial Energy and Mineral Resources Office and result of visiting the reporting companies, it was found that there are 2 companies that are no longer producing:
 - a. PT Asmin Koalindo Tuhup (Kalimantan Tengah), the company stop producing since facing legal case.

- b. PT Rinjani Kartanegara (Kalimantan Timur), the company stop producing since June 2017.
2. Companies that up to the specified deadline have not submitted their reports, which is amounting to 30 companies.

The amount of royalty, PHT and landrent payments from companies included in the reconciliation scope that do not report can be seen in Table 24. This information is obtained from the DG Mineral and Coal.

Table 24 - List of Non-complying mineral and coal companies

(in million IDR)

No.	Company	Contract	Mining Area	Reason for Not Reporting	DG of Mineral and Coal Report (Royalty, PHT, Landrent)
1	Asmin Koalindo Tuhup	PKP2B	Kalimantan Tengah	No production	118.906
2	Kayan Putra Utama Coal	IUP-BB	Kalimantan Timur	Exceed the deadline	239.890
3	Jembayan Muarabara	IUP-BB	Kalimantan Timur	Exceed the deadline	182.185
4	Metalindo Bumi Raya	IUP-BB	Kalimantan Timur	Exceed the deadline	69.740
5	Arzara Baraindo Energitama	IUP-BB	Kalimantan Timur	Exceed the deadline	68.252
6	Kaltim Jaya Bara	IUP-BB	Kalimantan Timur	Exceed the deadline	64.697
7	Bara Alam Utama	IUP-BB	Kalimantan Selatan	Exceed the deadline	60.100
8	Rinjani Kartanegara	IUP-BB	Kalimantan Timur	No production	52.024
9	Indoasia Cemerlang	IUP-BB	Kalimantan Selatan	Melebihi tenggat waktu	48.776
10	Bara Kumala Sakti	IUP-BB	Kalimantan Timur	Exceed the deadline	45.767
11	Inti Bara Perdana	IUP-BB	Bengkulu Utara	Exceed the deadline	35.480
12	Surya Sakti Dharma Kencana	IUP-BB	Kalimantan Selatan	Exceed the deadline	30.461
13	Cahaya Energi Mandiri	IUP-BB	Kalimantan Timur	Exceed the deadline	29.734
14	Sinar Kumala Naga	IUP-BB	Kalimantan Timur	Exceed the deadline	26.716
15	Firman Ketaun	IUP-BB	Bengkulu Utara	Exceed the deadline	32.075
16	Artha Pratama Jaya	IUP-BB	Kalimantan Timur	Exceed the deadline	23.920
17	Astri Mining Resources	IUP-BB	Kalimantan Selatan	Exceed the deadline	22.521
18	Berau Usaha Mandiri	IUP-BB	Kalimantan Timur	Exceed the deadline	24.166
19	Lamindo Inter Multikon	IUP-BB	Kalimantan Utara	Exceed the deadline	18.648
20	Kusuma Raya Utama	IUP-BB	Bengkulu Utara	Exceed the deadline	17.399
21	Satui Terminal Umum	IUP-BB	Kalimantan Selatan	Exceed the deadline	17.191
22	Globalindo Inti Energi	IUP-BB	Kalimantan Timur	Exceed the deadline	16.775
23	Mahakam Prima Akbar Sejati	IUP-BB	Kalimantan Timur	Exceed the deadline	16.787
24	Fazar Utama	IUP-BB	Kalimantan Timur	Exceed the deadline	16.688
25	Supra Bara Energi	IUP-BB	Kalimantan Timur	Exceed the deadline	16.707
26	Agincourt Resources	KK-M	Sumatera Utara	Exceed the deadline	37.362
27	Kasongan Bumi Kencana	KK-M	Kalimantan Tengah	Exceed the deadline	26.029
28	Venus Inti Perkasa	IUP-M	Bangka Belitung	Exceed the deadline	32.333
29	Tinindo Inter Nusa	IUP-M	Bangka	Exceed the deadline	25.351
30	Fajar Bhakti Lintas Nusantara	IUP-M	Maluku Utara	Exceed the deadline	19.120
31	Menara Cipta Mulia	IUP-M	Bangka Belitung	Exceed the deadline	19.142
32	Bangka Prima Tin	IUP-M	Bangka	Exceed the deadline	17.796
	Total PPNB of companies that do not report because they exceed the deadlines (30 companies)				1.301.807
	Total PPNB of companies with no production (2 companies)				170.931
	Total PPNB of 112 companies after reconciliation				25.720.697
	Percentage of PPNB of companies that do not report because they exceed the deadlines				5,06%
	Percentage of PPNB of companies with no production				0,67%

Source: Data of EITI for the period of 2016

Based on PNBP data received from the Directorate General of Mineral and Coal, the amount of PNBP of 30 companies that do not report is Rp1,472,738 million or 5.06% of the total reconciled value, while PNBP of 2 companies with no production amounted to Rp170,931 million or 0.67% of the total reconciled value.

The amount of the reconciled tax revenue from mineral and coal sector is as follows:

- Based on the 2016 Annual Report of DG of Taxes, total net revenue per type of tax for Non-Oil and Gas income tax in 2016 is Rp630.12 Trillion.
- Based on LKPP 2016, the amount of PBB revenue from mineral and coal mining sector amounted to Rp1,037 Trillion.

Minerba companies that have submitted the 2016 EITI reporting form are as many as 80 companies. Out of the 80 companies, only 71 companies attached an authorization sheet for opening tax data and information, 9 companies did not attach an authorization sheet for opening tax data and information. The total value of PPh Article 25/29 (Corporate Income Tax) from 71 companies after the reconciliation process amounted to Rp 11,043,274 million. Meanwhile, total amount of corporate income tax payment from companies that submit the EITI reporting form but did not attach the original authorization sheets amounted to Rp260,567 million. As for the amount of tax paid by 32 companies that do not submit the EITI reporting form is unknown.

List of 9 (nine) companies that do not attach the original authorization sheet for opening tax data and information up to the specified deadline, can be seen in Table 25.

Table 25 - List of Companies that do not Submit the Authorization Sheet

No.	Name of Company	Type of Contract
1	Borneo Indobara	PKP2B
2	Indexim Coalindo	PKP2B
3	Tunas Inti Abadi	IUP Batubara
4	Khotai Makmur Insan Abadi	IUP Batubara
5	Amanah Anugerah Adi Mulia	IUP Batubara
6	Lembuswana Perkasa	IUP Batubara
7	Energi Batu Bara Lestari	IUP Batubara
8	Dwinad Nusa Sejahtera	IUP Mineral
9	Sago Prima Pratama	IUP Mineral

Source: Data of EITI for the period of 2016

Minerba companies that submit EITI reporting form in 2016 and attach authorization documents for opening data and tax information are 71 companies. Out of the 71 companies, there are 33 companies which the PBB payment data released by the DG of Taxes. It means that there are 38 companies with unreleased PBB payment data up to the specified deadline.

The total amount of PBB payment of 33 mineral and coal companies according to company records is Rp 789,082 million, while according to the Directorate General of Taxes is Rp 396,897 million, meaning that there is a difference of Rp 392,185 million or amounting to 99.81%. The difference cannot be analyzed because the DG of Taxes submits PBB data after the specified reporting date, so that IA cannot reconcile, confirm and clarify the difference.

3.2.4 Reconciliation Process

The purpose of reconciliation conducted by IA was not to perform audit. Information completeness and accuracy was gathered based on statement made by senior management from reporting entities (declared in written and signed). Section 6 on Audit Procedure discussed this process in more details.

Assessing the data that came in from government and business entities, IA would take follow-up inquiries for any discrepancies found by requesting for details and supporting data from reporting entities. IA would contact the entities via email and telephone, or make a visit to the entities' offices.

For the purpose of reconciliation and data collection, IA visited a number of government and business entities, detailed in the following table:

Table 26 - Schedule of Visits to the Reporting Entities

Migas	Periode
Pre-Reconciliation	
Visited government agencies, such as DG of Oil and Gas, DG of Taxes and DG of Budget	October 2018
Visited company entities, such as PGN	October 2018
Post Reconciliation	
Visited government agencies: SKK Migas, DG of Oil and Gas	October 2018 and November 2018
Invited and Visited DG of Budget – Directorate of PNBP	November 2018
Conducted reconciliation with SKK Migas, DG of Oil and Gas	November 2018
Visited DG of Taxes to Collect Data	November 2018

Minerba	Periode
Pre-Reconciliation	
Visited government agencies : DG of Taxes and DG of Mineral and Coal	October 2018
Post Reconciliation	
Visited government agencies: Provincial Energy and Mineral Resources Offices of Kalimantan Tengah, Kalimantan Selatan, Kalimantan Timur and Kalimantan Utara.	October 2018
Visited mineral and coal companies located in Jakarta, Kalimantan Selatan, Kalimantan Timur and Kalimantan Utara.	October 2018
Held a socialization of filling out the 2016 EITI Indonesia Reporting Form in Palembang, Sumatera Selatan	October 2018
Visited government agencies :DG of Taxes, DG of Mineral and Coal	November 2018

Source: Data of EITI for the period of 2016

3.2.5 Obstacles in Collecting Data

IA has difficulty in collecting data, especially in relation to government agencies. After the Implementation Team meeting on September 14, 2018 approved the 2016 EITI reporting format, the report format was distributed on September 18, 2018 with reporting deadline of October 31, 2018. However, until the specified time limit, IA team had not received the complete data for 2016 EITI reporting.

IA encountered several difficulties in collecting data from reporting entity:

1. Company entity:
 - The information about company database containing company address, mining area, corporate email, person in charge and phone number was incomplete and not up to date.
 - The Company was not familiar about EITI and the process of filling out the EITI form due to a change of person in charge handling the EITI form in the company or due to the company was a new reporting company.
 - The EITI reporting was voluntary in nature which means that company would not accept any legal sanctions even the company did not complete and submit the report.
 - There were several changes in the ownership, authorized personnels, status of operator and partner of several companies in 2016.
 - Company management did not know the beneficial owner of the operator and partner Companies.

2. Government entity
 - EITI form submission by DG of Oil and Gas encountered difficulties due to different unit of measurement used in Gas Lifting data.
 - The data obtained from the DG of Budget did not match with the data requested. We have requested for Government lifting data, but we obtained total lifting data instead.
 - The provision of tax data and information by DG of Taxes constrained by the internal bureaucracy.
 - Regarding the data from DG of Fiscal Balance, there were two versions of data provided to IA, namely BPK audit data that were different from the local government realization data, and real realization data for the relevant year consisting of regular DBH plus underpaid realization DBH minus overpaid DBH in the previous year that can be reconciled with data from the local government.

3.2.6 Confidentiality of Data

Article 34 under General Taxation Law (KUP) stipulates concerning confidentiality of taxpayer's data. In the interest of data collection required for this report, this policy hampered data gathering process on mining companies – specifically tax-related data.

DG of Taxes, with consideration to the law, required for original authorization letter from companies and copy of company deed to be submitted to enable data disclosure. This procedure slowed data provision from DG of Taxes given the time needed to gather the documents. In addition, some companies declined to provide the necessary requirements.

3.2.7 Sanctions for Non-complying Companies

Company participation in EITI reporting is voluntary in nature, and failure to provide data would not result in any penalties. Some companies, particularly from mining sector, used this as an excuse especially since there was no institution in mining sector that had the power to enforce EITI report submission.

04

RECONCILIATION RESULT

When the initial reconciliation process was started, by comparing the total state revenue recorded by government entities for values reported by corporate entities, there were significant differences because:

- Incomplete reporting form filling.
- Form filling was inconsistent with the data in Final FQR.
- Filling by JOB or JOA contractor was inconsistent with the Contractor's FQR, eg JOB fills in 100% including PHE share of 50% and JOA contractor fills in only its share, not included its partner's share.
- Error in classifying the Contractor's share and the State's share.
- Error in filling basis, cash basis section was filled with accrual basis and vice versa.
- Unit filling that was inconsistent with the form filling instructions, such as mscf was filled with mmscf or mmbtu, or USD was filled with thousands of USD.
- Companies have not reported, among other things: payment of legal products (Tax Collection Letter (STP), Tax Underpayment Assessment Letter (SKPKB), Additional Tax Underpayment Assessment Letter (SKPKBT), periodic Income Tax and / or Income Tax Article 29).



- Error in filling the payment currency.
- Error in filling between royalty and PHT sharing.
- Directorate General of Mineral and Coal has not yet allocated royalty payments and PHT to each company because the information in the proof of deposit is lack of information.
- Directorate General of Mineral and Coal has not recorded the royalty and PHT because it has no proof of deposit.
- Dispute between SKK Migas and KKKS regarding differences in contract interpretation in calculating production sharing.

The differences were addressed through confirmation and discussions with, and visits to government and company entities. Tables 27 – 39 (oil and gas), 40 – 43 (mineral and coal) show the final results after reconciliation with explanation about the causes of the differences.

4.1 Oil and Gas Companies

4.1.1 Reconciliation between Oil and Gas Contractors (KKKSs) and SKK Migas

Table 27 - Reconciliation between KKKS and SKK Migas for the period of 2016

State Revenue	Before Reconciliation			After Reconciliation			%
	KKKS	SKK Migas	Initial Difference	KKKS	SKK Migas	Un-reconciled diff.	
	(1)	(2)	(3) = (2)-(1)	(4)	(5)	(6) = (5)-(4)	
Total Lifting – Oil	12.642.364	12.091.449	(550.914)	12.091.488	12.091.487	(1)	0,00%
Total Lifting – Gas	15.061.719	12.611.982	(2.449.737)	13.556.603	13.556.604	1	0,00%
Domestic Market Obligation Fee	596.823	574.439	(22.385)	577.539	578.580	1.041	0,18%
Over/(Under) Lifting – Oil	174.415	134.904	(39.510)	145.782	146.539	757	0,52%
Over/(Under) Lifting - Gas	66.684	68.435	1.751	71.417	71.417	0	0,00%
Total	28.542.005	25.481.209	(3.060.796)	26.442.829	26.444.627	1.798	0,01%

Source: Data of EITI for the period of 2016

A summary of reconciliation is available at Appendices 2.1 to 2.5.

In general, the initial differences shown in Table 27 were caused by the following reasons:

- Rounding
- Incomplete or incorrect initial reporting form filling
- Form filling was inconsistent with the data in Final FQR
- Error in classifying the Contractor's share and the State's share
- Companies using cash basis data before final review process of FQR 2016 conducted by SKK Migas
- Total Tengah uses the filling data amounted to Total Tengah share only, which is 22,50%, while SKK Migas filling data is in accordance with the JOA between Total Tengah and Pertamina which is 50% for the Total and partner.

General causes of unreconciled differences shown in Table 27	Number of Companies	Appendix	In thousand USD
The difference in Domestic Market Obligation Fee caused by the billing of the DMO that has not been made	1	2.3/12	1.041
The difference in over/under lifting caused by the dispute between operator and SKK Migas regarding the calculation	1	2.4/12	757
TOTAL			1.798

The final difference in Table 27 is US \$ 1,798 thousand or 0.01% of the total reconciled value in Table 27. The final difference is due to:

- The difference in Domestic Market Obligations is US \$ 1,041 thousand or 0.18% because CNOOC SES has not made DMO Fee bills to SKK Migas, but SKK Migas has already recorded the DMO Fee.
- The difference in Over / (Under) Oil lifting is US \$ 757 or 0.52% due to the dispute regarding the difference in contract interpretation in calculating production sharing between SKK Migas and CNOOC SES Ltd. as a KKKS in the South East Sumatra Working Area which results in data difference in Over / (Under) Oil Lifting.

However, the difference only covers 0.01% of the total reconciled value, so the final difference in reconciliation does not have a significant impact on the final results of reconciliation of state revenues from the oil and gas sector as a whole.

The reconciled numbers between KKKS and SKK Migas in Table 27 above do not include numbers for companies that did not submit the reporting form. Based on data from SKK Migas, PNBP of oil and gas from companies that did not submit the reporting form can be seen in Table 23 in Section 3.2.3, in which the total PNBP of oil and gas from the companies that did not submit the reporting form only covers 0.50% of the total reconciled PNBP, so it has no significant impact.

Table 28 - Reconciliation between KKKS and SKK Migas for the period of 2016 (Volume)

State Revenue	Before Reconciliation			After Reconciliation			%
	KKKS	SKK Migas	Initial Difference	KKKS	SKK Migas	Un-reconciled diff.	
	(1)	(2)	(3) = (2)-(1)	(4)	(5)	(6) = (5)-(4)	
Government Lifting - Oil (Barel)	124.683.251	115.837.025	(8.846.226)	115.837.024	115.837.025	1	0,00%
Government Lifting - Gas (MSCF)	536.055.941	426.371.315	(109.684.625)	424.352.573	424.352.574	1	0,00%
Domestic Market Obligation (Barel)	25.137.825	24.457.896	(679.929)	24.242.674	24.826.357	583.682	2,35%

Source: Data of EITI for the period of 2016

A summary of reconciliation is available at Appendices 2.6 to 2.8.

In general, the initial differences shown in Table 28 were caused by the following reasons:

- Rounding
- Error in unit
- Form filling was inconsistent with the data in Final FOR
- Incomplete or incorrect initial form filling

Because of the constraints in reconciling Total Oil Lifting and Total Gas Lifting between KKKS and the Directorate General of Oil and Gas, according to the agreement at the Implementation Team Meeting on September 14, 2018, the data agreed to be reconciled with the Directorate General of Oil and Gas is in currency (USD) instead of volume. Data received on November 6, 2018 was in volume, not in currency (USD). The difference occurred because there was a difference between the units reported by the Company and the Directorate General of Oil and Gas.

General causes of unreconciled differences shown in Table 28	Number of Companies	Appendix	Value	Unit of Volume
the dispute regarding the difference in contract interpretation in calculating production sharing between SKK Migas and CNOOC SES Ltd. as a KKKS in the South East Sumatra Working Area	1	2.10/12	583.681	Barel
TOTAL	1		583.681	

The final difference in Table 27 is 583.681 Barrels or 2.35% due to the dispute regarding the difference in contract interpretation in calculating production sharing between SKK Migas and CNOOC SES Ltd. as a KKKS in the South East Sumatra Working Area.

The data displayed is data from SKK Migas because the data is in accordance with a scoping study in which reconciliation of data on total oil lifting and total gas lifting uses currency (USD) rather than using volume.

According to the scope, the total oil lifting and total gas lifting in currency (USD) is reconciled between oil and gas companies (KKKS) and the Directorate General of Oil and Gas.

4.1.2 Reconciliation between Oil and Gas Contractors (KKKSs) and DG of Oil and Gas

Table 29 - Reconciliation between KKKS and SKK Migas for the period of 2016 (Total lifting in Volume)

Type of Data	Before Reconciliation			After Reconciliation			%
	KKKS	SKK Migas	Initial Difference	KKKS	SKK Migas	Un-reconciled diff.	
	(1)	(2)	(3) = (2)-(1)	(4)	(5)	(6) = (5)-(4)	
Total Lifting Oil (Barrel)	316.517.489	303.397.989	(13.119.500)	303.398.057	303.398.059	2	0,00%
Total Lifting Gas (MSCF)	2.230.799.708	1.942.826.187	(252.147.036)	2.304.992.096	2.304.992.096	-	0,00%

Source: Data of EITI for the period of 2016

Table 30 - Reconciliation between SKK Migas and DG of Oil and Gas for the period of 2016 (Total lifting in Volume)

Type of Data	Before Reconciliation			After Reconciliation			%
	SKK	DG of Migas	Initial Difference	SKK	DG of Migas	Un-reconciled diff.	
	(1)	(2)	(3) = (2)-(1)	(4)	(5)	(6) = (5)-(4)	
Total Lifting Oil (Barrel)	303.398.057	305.619.475	2.221.418	303.400.052	303.400.052	-	0,00%
Total Lifting - Gas (MMBTU)	2.503.956.041	2.461.974.347	(41.981.694)	2.503.956.041	2.503.956.041	-	0,00%

Source: Data of EITI for the period of 2016

Table 31 - Reconciliation between KKKS and SKK Migas for the period of 2016 (Total lifting in thousand USD)

Type of Data	Before Reconciliation			After Reconciliation			%
	KKKS	SKK Migas	Initial Difference	KKKS	SKK Migas	Un-reconciled diff.	
	(1)	(2)	(3) = (2)-(1)	(4)	(5)	(6) = (5)-(4)	
Total Lifting Oil	12.642.364	12.091.449	(550.914)	12.091.488	12.091.487	(1)	0,00%
Total Lifting - Gas	15.061.719	12.611.982	(2.449.737)	13.556.603	13.556.604	1	0,00%

Source: Data of EITI for the period of 2016

When IA conducted the 2016 EITI data collection, it was found that the Directorate General of Oil and Gas could not present the information and that they could only present the total oil lifting and total gas lifting data in volume.

In the Implementation Team Meeting on November 16, 2018, it was agreed that in line with the scope, IA would provide additional tables of reconciliation, namely:

- Table 29 - Reconciliation of total oil and gas lifting in volume between KKKS and SKK Migas
- Table 30 - Reconciliation of total oil and gas lifting in volume between SKK Migas and DG of Oil and Gas
- Table 31 - Reconciliation of total oil and gas lifting in currency (USD) between KKKS and SKK Migas

In general, the initial differences were caused by:

In table 29

- KKKS in submitting data has not yet presented it in accordance with the proportion of ownership of the participating interest.
- SKK Migas has not separated the LPG and LNG figures.

In table 30

- The difference in recording the total oil and gas lifting unitization between the Directorate General of Oil and Gas and SKK Migas.

In table 31

- SKK Migas has not separated the LPG and LNG figures.
- In total oil lifting (USD) there is a difference in recording due to participating interest in the working area.

4.1.3 Reconciliation between Oil and Gas Contractors (KKKSs) and DG of Taxes

In general, the initial differences shown in Table 32 were caused by the following reasons:

- Form filling using accrual basis instead of cash basis

- Incomplete or incorrect initial reporting form filling
- Companies and DG of Taxes have not reported, among other things: payment of legal products (STP, SKPKB, SKPKBT, periodic Income Tax and / or Income Tax Article 29)
- Not all companies that submit the EITI reporting form sent the LO form to the EITI Secretariat.

The final difference in Table 32 were caused by the following reasons:

- Until the specified deadline, both companies and DG of Taxes had not provide confirmation on the difference
- Not all companies that submit the EITI reporting form sent the LO form to the EITI Secretariat
- NTPN was not identified

General causes of unreconciled differences shown in Table 30	Number of Companies	Appendix	In thousand USD
NTPN provided by the company was not available at the DG of Taxes	6	2.15/1, 2.15/43, 2.15/59, 2.16/44, 2.16/70, 2.16/97	(2.536) (4) (18) (30) (2.058) (25)
The difference cannot be confirmed because it has passed the cut-off date of reporting	2	2.15/31, 2.15/31	(279) 14
The company did not provide confirmation on the difference	6	2.15/60, 2.15/65, 2.15/67, 2.16/21, 2.16/34, 2.16/53	(18.314) 261 (20.316) (29.052) 381 3.054
Rounding	4	2.15/13, 2.15/30, 2.16/32, 2.16/47	1 1 1 1
TOTAL	18		(68.946)

Table 32 - Reconciliation between KKKS and DG of Taxes for the period of 2016

in thousand USD

State Revenue	Before Reconciliation			After Reconciliation			%
	KKKS	DG of Taxes	Initial Difference	KKKS	DG of Taxes	Un-reconciled diff.	
	(1)	(2)	(3) = (2)-(1)	(4)	(5)	(6) = (5)-(4)	
PPh of Migas-Operator	1.647.888	1.657.057	9.169	1.772.186	1.730.967	(41.218)	-2,38%
PPh of Migas-Partner	1.241.651	1.197.224	(44.427)	1.309.978	1.282.250	(27.727)	-2,16%
Total	2.889.539	2.854.281	(35.258)	3.082.163	3.013.218	(68.946)	-2,29%

Source: Data of EITI for the period of 2016

Table 33 - Reconciliation between KKKS and DG of Taxes for the period of 2016

in million IDR

State Revenue	Before Reconciliation			After Reconciliation			%
	KKKS	DG of Taxes	Initial Difference	KKKS	DG of Taxes	Un-reconciled diff.	
	(1)	(2)	(3) = (2)-(1)	(4)	(5)	(6) = (5)-(4)	
PBB Migas-Operator	1.408.687	212.045	(1.196.642)	1.408.687	212.045	(1.196.642)	-564,33%

Source: Data of EITI for the period of 2016

The final difference in Table 33 were caused by the following reason:

- DG of Taxes released the data of 1 KKKS only, namely PHE WMO.

And the following table shows the KKKS Companies that pay PBB directly to the state treasury (component that can be included in cost recovery):

In million IDR

KKKS	Working Area	PBB
BP Berau Ltd.	Berau	184.040
Conocophillips (Grissik) Ltd.	Corridor	971.975
PHE Siak	Siak	15.358
PHE Kampar	Kampar	25.269
PT PHE WMO	West Madura	212.045
Total		1.408.687

The total tax revenue from the mining and quarrying sector amounted to Rp73,851 trillion (2016 Annual Report of DG of Taxes).

The reconciled oil and gas income tax in Table 32 exclude data from companies that do not complete the Authorization Sheet (LO) to disclose the tax data, amounting to 8 companies of KKKS and 7 companies of KKKS Partner as listed in Table 34 below.

Based on data reported by the reporting companies, the total oil and gas income tax (PPH of migas) paid by companies that do not complete the LO (excluding non-reporting companies) amounted to US \$ 16,789 thousand or 0.54% of the total PPH of migas reported by the companies. Hence, it has no significant impact.

Table 34 - List of Oil and Gas Companies that do not Complete the Tax LO

No.	Company that do not Complete the LO	PPH of Migas (in thousand USD)
1	EMP Malacca Strait S.A	-
2	Lapindo Brantas Inc.	-
3	Petrogas (Basin) Ltd.	686
4	Vico CBM	7
5	Benuo Taka Wailawi	-
6	JOB Pertamina - Petrochina East Java	-
7	Virginia Indonesia Company (VICO), Llc.	2.832
8	JOB Pertamina - Medco Tomori Sulawesi	-
9	RHP Salawati Basin B.V.	522
10	ENI Rapak Limited	-
11	BUT Eni CBM Ltd.	18
12	RHP Salawati Island B.V.	-
13	Virginia International Co. CBM Limited	15
14	BUT Lasmo Sanga Sanga Limited	12.708
15	Petrogas (Island) Ltd.	-
Total PPH of Companies that do not Complete the Tax LO		16.789
Total PPH of Oil and Gas		3.082.163
Percentage		0,54%

Source: Data of EITI for the period of 2016

4.1.4 State Revenue Managed by SKK Migas and Received by DG of Budget

Table 35 - Reconciliation between SKK Migas and DG of Budget for the period of 2016

in thousand USD

State Revenue	Before Reconciliation			After Reconciliation			%
	KKKS	DG of Budget	Initial Difference	KKKS	DG of Budget	Un-reconciled diff.	
	(1)	(2)	(3) = (2)-(1)	(4)	(5)	(6) = (5)-(4)	
Government Lifting – Oil							
- Export	11.522	12.237	714,81	11.522	11.522	-	0,00%
- Domestic	4.730.452	4.730.452	0,00	4.730.452	4.730.452	-	0,00%
Government Lifting – Gas							
- Export	627.342	565.048	(62.294)	627.342	627.342	-	0,00%
- Domestic	1.534.534	1.458.571	(75.962)	1.534.508	1.534.508	-	0,00%
Total	6.903.850	6.766.309	(137.541)	6.903.824	6.903.824	-	0,00%

Source: Data of EITI for the period of 2016



A summary of reconciliation is available at Appendices 2.18 and 2.19.

In general, the initial differences shown in Table 35 were caused by the following reasons:

For Government Lifting – Oil

- Net off between Medco Rimau and Medco South Sumatera

- The difference between data reported by SKK Migas and DG of Budget on Government Oil Lifting of PT Pertamina EP for Indonesia Working Area because DG of Budget included premium value.

For Government Lifting – Gas

- According to the data provided by SKK Migas, BOB Pertamina – Bumi Siak Pusako does not have lifting gas value (US\$1,378).
- The differences in recording between SKK Migas and DG of Budget on several KKKs.

4.1.5 Reconciliation of Land and Building Tax (PBB) which is a deduction factor of Oil and Gas PNB

The Land and Building Tax (PBB) displayed in table 36 between KKKs and DG Budget in 2016 is a PBB for assume and discharge mentioned in the KKKs contract. According to the data submitted to IA, not all KKKs reported PBB figures that were assume and discharge because a lot of PICs of KKKs did not know how much PBB value that had been transferred by the DG of Budget to the DG of Taxes.



Table 36 - Reconciliation of PBB of Migas between KKKs and DG of Budget for the period of 2016

in million IDR

Deduction Factor	Before Reconciliation			After Reconciliation			%
	KKKS	DG of Budget	Initial Difference	KKKS	DG of Budget DJA	Unreconciled Diff.	
	(1)	(2)	(3) = (2)-(1)	(4)	(5)	(6) = (5)-(4)	
PBB	6.193.866	15.154.272	8.572.941	-	-	-	0%

Source: Data of EITI for the period of 2016

The PBB reporting process for assume and discharge is:

- KKKS submits information related to the area of working, both onshore and offshore, public building, special building and the body of the earth. This information is submitted through the form of PBB's Tax Object Notification Letter (SPOP PBB).
- SPOP PBB is submitted to the Tax Office of Migas (DG of Taxes) to calculate how much the outstanding PBB of the Working Area.
- The result of the calculation is submitted to the Directorate General of Budget for the basis of transfer (overbook) from the Directorate General of Budget to the Directorate General of Taxes.

There was a misunderstanding in confirming with the agency when IA further confirmed the initial differences, because based on the 2016 EITI scope, it is stated that the reconciliation of the PBB of Oil and Gas is carried out between the KKKs and the DG of Taxes. (Further information is explained in Recommendation No. 8).

Following are the KKKs companies that report on PBB of oil and gas which are overbooked (assume and discharge):

in million IDR

KKKS	Working Area	PBB
BOB Pertamina - Bumi Siak Pusako	Coastal Plains Pekanbaru (CPP)	127.633
Kangean Energy Indonesia Limited	Kangean	246.580
Exxonmobil Cepu Ltd.	Cepu	448.167
Petrogas (Basin) Ltd.	Kepala Burung	76.334
PT Medco E&P Lematang	Lematang	39.139
PT Medco E&P Rimau	Rimau	114.572
PT Medco E&P South Sumatera	South Sumatera	149.147
PT Medco E&P Tarakan	Tarakan	14.653
PT Pertamina EP	Indonesia	2.256.709
PT Sarana Pembangunan Riau	Langgak	6.287
Saka Indonesia Pangkah Ltd.	Pangkah	86.404
Tately N.V	Palmerah	5.521
Total E&P Indonesia	Mahakam	2.015.136
Virginia Indonesia Company (VICO), Llc.	Sanga – Sanga	471.666
JOA Total Indonesia E&P Indonesia	Tengah	107
JOB Pertamina - Petrochina Salawati	Salawati	9.334
JOB Pertamina - Talisman Jambi Merang	Jambi Merang	126.476
Total		6.193.866

Source: Data of EITI for the period of 2016



4.1.6 Reconciliation of Value Added Tax (PPN) Reimbursement which is a deduction factor of Oil and Gas PNB

while the payment of invoice issued in the previous year but paid in 2016 were not reported in the 2016 EITI reporting form.

The final difference shown in Table 37 of Rp1,083,609 million occurred because there were several companies that have not answered IA's confirmation email regarding the difference.

The cause of the final difference is the same as in the initial difference, namely the KKKS Companies only provide payment data from the DG of Budget in the form of Invoices / Debit Notes that were issued in 2016, while the data regarding the payment for invoices issued previous year but paid in 2016 are not reported in the 2016 EITI reporting form. Thus, an accurate value is the value reported by the DG of Budget which is all payments during 2016. (A summary of the final differences is available at Appendix 2.20).

4.1.7 Reconciliation of Signature Bonus and Production Bonus between KKKS and DG of Oil and Gas

Signature Bonus and Production Bonus are included in reconciled information of oil and gas sector for the 2016 EITI.

Table 37 - Reconciliation of PPN Reimbursement of Migas between KKKS and DG of Budget for the period of 2016

in million IDR

Deduction Factor	Before Reconciliation			After Reconciliation			%
	KKKS	DG of Budget	Initial Difference	KKKS	DG of Budget DJA	Unreconciled Diff.	
	(1)	(2)	(3) = (2)-(1)	(4)	(5)	(6) = (5)-(4)	
PPN Reimbursement	13.087.881	13.007.745	(80.136)	13.304.897	14.388.505	1.083.609	7,53%

Source: Data of EITI for the period of 2016

Table 38 - Reconciliation of Signature Bonus between KKKS and DG of Oil and Gas for the period of 2016

State Revenue	Before Reconciliation			After Reconciliation			%
	KKKS	DG of Migas	Initial Difference	KKKS	DG of Migas	Unreconciled Diff.	
	(1)	(2)	(3) = (2)-(1)	(4)	(5)	(6) = (5)-(4)	
Signature Bonus for the Contract extension (US\$'000)	5.000	49.600	44.600	6.000	6.000	-	0%
Production Bonus (US\$'000)	-	-	-	-	-	-	-%

Source: Data of EITI for the period of 2016

Value Added Tax (PPN) reconciled between KKKS and DG of Budget in 2016 is a PPN Reimbursement. The PPN Reimbursement reconciliation was conducted for the PPN Reimbursement paid by the DG of Budget in 2016. The data we used is all payments for the PPN Reimbursement paid to the KKKSs by the DG of Budget in 2016 after being verified by SKK Migas.

The initial difference in Table 37 occurred because KKKS Companies only provide payment data based on the Invoice / Debit Note issued in 2016,

The initial difference in Table 38 was caused by the following reasons:

- The KKKS reported in the 2016 EITI report is Mandala Energy (PT Hexindo Gemilang Jaya), which amounted to US \$ 5 million
- Meanwhile, according to the report of DG of Oil and Gas, companies reported are:

No	Name of Contractor	Working Area	Date of Contract	Signature Bonus
1	PHE Kampar	Kampar	1/25/2016	5.000.000
2	PHE Tengah	Tengah	2/3/2016	41.000.000
3	Triangle Pase	Pase	1/3/2016	1.500.000
4	MNK Central Bangkanai	Central Bangkanai	5/17/2016	1.500.000
5	East Ambalat	East Ambalat	5/26/2016	100.000
6	Medco E&P Lematang	Lematang	5/26/2016	1.000.000
TOTAL				49.600.000

Out of companies reported by the Directorate General of Oil and Gas above, only PHE Kampar and Medco E & P Lematang which included in the scoping study. Meanwhile, DG of Oil and Gas has not recorded the payment of signature bonus that has been reported by Mandala Energy.

The final difference shown in Table 38 was caused by the following reasons:

- Mandala Energy (PT Hexindo Gemilang Jaya) could not provide payment proof of Signature Bonus amounting to US\$5 million so that the payment is taken out of the Signature Bonus Reconciliation Table
- PHE Kampar and Medco E&P Lematang confirmed the payment of Signature Bonus in 2016
- DG of Migas confirmed that signature bonuses included in Table 38 are signature bonuses from the companies included in the scoping study

4.1.8 Non-reconciled Information of Oil and Gas Sector

Local Tax and Retribution (PDRD)

PDRD is included in non-reconciled information of oil and gas sector for 2016 EITI because the value of materiality does not reach 1% of Oil and Gas PNBPN.

The following is the PDRD paid by the DG of Budget in 2016 which is the assume and discharge component and as a deduction of oil and gas PNBPN.

Table 39 - Non-reconciled Information of Oil and Gas Sector for the period of 2016

Non-reconciled Information	IDR (in million)	
	Total	% of Oil and Gas Revenue
- Local Tax and Retribution (PDRD)	48.539	0,05%
Oil and Gas Revenue (LKPP 2016)	107.292.545	

And the following is the PDRD paid by the KKKS in 2016 directly to the Local Government which is a component that can be included in cost recovery.

Non-reconciled Information	IDR (in million)	
	Total	% of Oil and Gas Revenue
- Local Tax and Retribution (PDRD)	3.646	0,00%
Oil and Gas Revenue (LKPP 2016)	107.292.545	

Firm Commitment

Firm Commitment is included in non-reconciled information of oil and gas sector for 2016 EITI.

In association with Firm Commitment, there was no penalty payment in 2016 for the Firm Commitment which was not carried out in accordance with the terms of the cooperation contract (PSC).

Corporate Social Responsibility

CSR is included in non-reconciled information of oil and gas sector for 2016 EITI.

The following is the CSR data obtained by IA from the 2016 EITI Reporting Form submitted by the Oil and Gas Operator Companies (KKKSs) for the period of 2016.

Non-reconciled Information	US\$ (in thousand)	IDR (in million)
	Total	Total
CSR:		
1. Community Relation	883	162
2. Community Empowerment	168	-
3. Community Service	7.885	1.291
4. Infrastructure	3.058	8.387
5. 5. Environment	5.559	480
Total CSR	17.553	10.320

4.2 Mineral and Coal Companies

4.2.1 Reconciliation between Mineral and Coal Mining Companies and DG of Mineral and Coal

Table 40 - Reconciliation between Minerba Companies and DG of Minerba for the period of 2016

in million IDR and thousand USD

State Revenue	Before Reconciliation			After Reconciliation			%
	Minerba Companies	DG of Minerba	Initial Difference	Minerba Companies	DG of Minerba	Un-reconciled diff.	
	(1)	(2)	(3) = (2)-(1)	(4)	(5)	(6) = (5)-(4)	
1. Reported in USD							
Royalty	1.249.851	761.114	(488.737)	742.829	741.872	(957)	-0,13%
PHT	1.139.847	664.769	(475.078)	683.634	684.024	390	0,06%
Landrent	7.379	7.481	102	7.429	7.482	53	0,71%
Total USD	2.397.077	1.433.364	(963.713)	1.433.893	1.433.378	(514)	-0,04%
2. Reported in IDR							
Royalty	2.514.445	2.530.378	15.933	2.439.110	2.433.931	(5.179)	-0,21%
PHT	2.598.662	2.458.342	(140.320)	2.554.789	2.554.789	(0)	0,00%
Landrent	348	371	24	373	371	(2)	-0,57%
Total IDR	5.113.455	4.989.091	(124.363)	4.994.273	4.989.091	(5.182)	-0,10%
IDR Equivalent	37.320.578	24.247.765	(13.072.813)	24.260.053	24.247.959	(12.094)	-0,05%

Exchange rate: Rp 13,436 (rate of LKPP in 2016)

A summary of reconciliation is available at Appendices 2.23 to 2.25.

In general, the initial differences shown in Table 40 were caused by the following reasons:

- Incomplete or incorrect initial reporting form filling
- Incorrect payment currency

- Incorrect in dividing between royalty and PHT
- Form filling using accrual basis
- DG of Mineral and Coal has not allocated royalties and PHTs to each company due to the lack of information in the proof of deposit

4.2.2 Reconciliation between Mineral and Coal Mining Companies and DG of Taxes

ROYALTY

No	General causes of unreconciled differences shown in Table 40	Number of Companies	Appendix	In Thousand USD	In Million IDR
a	Until the specified deadline, the reporting entity does not provide confirmation or explanation regarding the difference	5	3.2/4, 3.2/4, 3.2/25, 3.2/65, 3.2/57, 3.2/91, 3.2/91	(2.439) 1.456 14 (54)	(8.264) 2.769 121
b	Time difference (The company deposits the payment at the end of the year while DG of Mineral & Coal records it at the beginning of the following year)	1	3.2/48		194
c	Understated, either by the Company or DG of Minerba	1	3.2/19	66	
	Total			957	5.1.79

SALES REVENUE SHARE (PHT)

No	General causes of unreconciled differences shown in Table 40	Number of Companies	Appendix	In Thousand USD	In Million IDR
a	Until the specified deadline, the reporting entity does not provide confirmation or explanation regarding the difference	2	3.2/4, 3.2/25,	223 167	
	Total			390	-

LANDRENT

No	General causes of unreconciled differences shown in Table 40	Number of Companies	Appendix	In Thousand USD	In Million IDR
a	Until the specified deadline, the reporting entity does not provide confirmation or explanation regarding the difference	5	3.2/39, 3.2/57, 3.2/44, 3.2/65, 3.2/91	(0) 0 (8)	2 (4)
c	Understated, either by the Company or DG of Minerba	1	3.2/19	62	
	Total			54	(2)

Table 41 - Reconciliation between Minerba Companies and DG of Taxes for the period of 2016

in million IDR and thousand USD

State Revenue	Before Reconciliation			After Reconciliation			%
	Minerba Companies	DG of Minerba	Initial Difference	Minerba Companies	DG of Minerba	Un-reconciled diff.	
	(1)	(2)	(3) = (2)-(1)	(4)	(5)	(6) = (5)-(4)	
1. Reported in USD							
Corporate Income Tax	637.024	686.639	49.615	699.331	706.315	6.984	0,99%
PBB	-	-	-	-	-	-	-
Total USD	637.024	686.639	49.615	699.331	706.315	6.984	0,99%
2. Reported in IDR							
Corporate Income Tax	1.669.307	1.504.288	(165.018)	1.557.728	1.553.230	(4.498)	-0,29%
PBB	804.373	396.897	(407.476)	789.082	396.897	(392.185)	-98,81%
Total IDR	2.473.680	1.901.186	(572.494)	2.346.810	1.950.128	(396.682)	-20,34%
IDR Equivalent	11.032.734	11.126.869	94.135	11.743.016	11.440.171	(302.845)	-2,65%

Exchange rate: Rp 13,436 (rate of LKPP in 2016)

A summary of reconciliation is available at Appendices 2.26 - 2.27.

In general, the initial differences shown in Table 41 were caused by the following reasons:

- Form filling using accrual basis
- Incomplete or incorrect initial reporting form filling
- Companies have not reported, among other things: payment of legal products (STP, SKPKB, SKPKBT, periodic Income Tax and / or Income Tax Article 29)

- DG of Taxes data has not included, among other things: payment of legal products (STP, SKPKB, SKPKBT, periodic Income Tax and / or Income Tax Article 29)
- Incorrect payment currency

4.2.3 Reconciliation between Mineral and Coal Companies and DG of Budget

CORPORATE INCOME TAX

No	General causes of unreconciled differences shown in Table 40	Number of Companies	Appendix	In Thousand USD	In Million IDR
a	Until the specified deadline, the reporting entity does not provide confirmation or explanation regarding the difference	3	3.2/43, 3.2/45, 3.2/93,	5.797 1.186	(283)
b	Data was received after the cut-off date of the reconciliation	5	3.2/25, 3.2/27, 3.2/65, 3.2/83, 3.2/86		1.419 2 (4.982) (223) (502)
Total		8		6.983	(4.497)

PBB

No	General causes of unreconciled differences shown in Table 40	Number of Companies	Appendix	In Thousand USD	In Million IDR
b	Data was received after the cut-off date of the reconciliation	18	3.2/5, 3.2/7, 3.2/11, 3.2/13, 3.2/20, 3.2/22, 3.2/24, 3.2/26, 3.2/29, 3.2/32, 3.2/34, 3.2/43, 3.2/56, 3.2/59, 3.2/69, 3.2/92, 3.2/99, 3.2/105		(79.482) (42.943) (1.191) (6.189) (1.797) (1.592) 1.856 (2.789) (886) (958) (2.451) (2.596) (2.789) 3.220 (4) (250.792) (7) (785)
Total		18		-	(392.185)

Table 42 - Reconciliation between Minerba Companies and DG of Budget for the period of 2016

in million IDR and thousand USD

State Revenue	Before Reconciliation			After Reconciliation			%
	Minerba Companies	DG of Budget	Initial Difference	Minerba Companies	DG of Budget	Un-reconciled diff.	
	(1)	(2)	(3) = (2)-(1)	(4)	(5)	(6) = (5)-(4)	
1. Reported in USD							
Dividend	-	-	-	-	-	-	0%
Total USD	-	-	-	-	-	-	0%
2. Reported in IDR							
Dividend	453.850	453.850	-	453.850	453.850	-	0%
Total IDR	453.850	453.850	-	453.850	453.850	-	0%

A summary of reconciliation is available at Appendix 2.28.

In general, the initial difference shown in Table 42 was caused by incomplete or incorrect initial reporting form filling.

Components and amount of state revenues, as well as data on production and sales of mineral and coal that are not reconciled from 80 mineral and coal companies that submit 2016 EITI reporting form can be seen in Table 44.

4.2.4 Reconciliation between PT Bukit Asam Tbk and PT Kereta Api Indonesia (Persero)

Table 43 - Reconciliation between PT Bukit Asam and PT Kereta Api for the period of 2016

in million IDR and thousand USD

State Revenue	Before Reconciliation			After Reconciliation			%
	PT Bukit Asam	PT KAI	Initial Difference	PT Bukit Asam	PT KAI	Un-reconciled diff.	
	(1)	(2)	(3) = (2)-(1)	(4)	(5)	(6) = (5)-(4)	
1. Reported in USD							
Transportation Fee	67.402	67.663	260	67.402	67.402	-	0%
Total USD	67.402	67.663	260	67.402	67.402	-	0%
2. Reported in IDR							
Transportation Fee	1.955.712	1.998.734	43.022	1.955.712	1.955.712	-	0%
Total IDR	1.955.712	1.998.734	43.022	1.955.712	1.955.712	-	0%
IDR Equivalent	2.861.331	2.907.848	46.517	2.861.331	2.861.331	-	0%

Exchange rate: Rp 13,436 (rate of LKPP in 2016)

A summary of reconciliation is available at Appendix 2.29.

In general, the initial differences shown in Table 43 were caused by incomplete or incorrect initial reporting form filling.

4.2.5 Non-reconciled Information of Mineral and Coal Sector

Based on the Scoping Study of 2016 EITI Indonesia Report and the Implementation Team's decision, the state revenues below do not need to be reconciled, only need to be shown unilaterally from the side of the company.

Table 44 - Non-reconciled Information of Mineral and Coal Sector for the period of 2016

State Revenue	Total		
	IDR (in million)	USD (in thousand)	Volume (in thousand tons)
Local Tax and Retribution	845,281	12,666	-
Direct Payment to Local Government	286,819	403	-
CSR:			
1. Utilization of facilities and infrastructures	8,866	338	
2. Community Empowerment	30,155	34,608	
3. Community Service	20,396	196.196	
4. Education Improvement	19,187	5,350	
5. Infrastructure Development	62,885	12,666	
Total CSR – In Kind	141,489	53,158	
1. Utilization of facilities and infrastructures	19,921	1	
2. Community Empowerment	31,997	1,262	
3. Community Service	42,959	40,026	
4. Education Improvement	40,070	69	
5. Infrastructure Development	86,404	54	
Total CSR – In Cash	221,332	41,412	
Infrastructure Provision	-	11,603	
Forest Area Utilization	696,927	175	
Reclamation Guarantee	394,058	58,884	
Post-mining Fund	42,928	25,404	
Volume of Production			363,633.01
Volume of Domestic Sales	36,592,405	3,284,363	105,181.36
Volume of Foreign Sales	8,070,655	22,180,937	256,495.54
Volume of Sales by the Load Place	42,892,575	14,351,177	290,846.10
Volume of Sales by the Province	43,320,065	15,959,668	300,059.61
DMO of Coal			57,348.87
Other Payment to BUMN	3,053,890	13,633	
Total	136,554,424	55,993,483	1,373,564

Source: Data of EITI for the period of 2016

Data on the production and sales of mineral and coal in 2016 for 80 mineral and coal companies submitting EITI reporting form can be seen in Table 45.

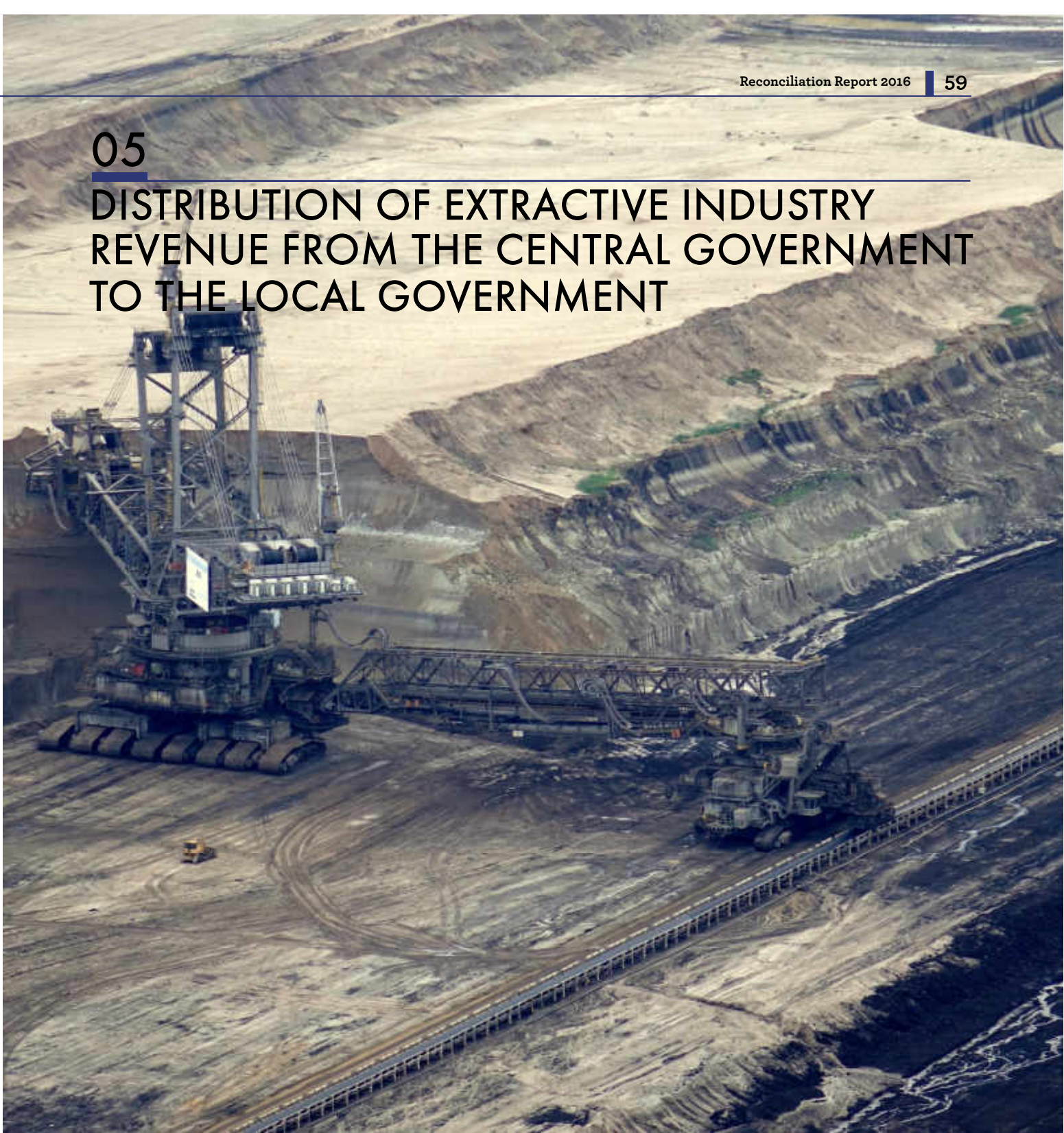
Table 45 - Minerba Production and Sales Data in 2016

Commodity	Volume (million tons)		Sales Value	
	Production	Sales	Rupiah (in million)	USD (in thousand)
Domestic				
Coal	354.747	99.359	35.823.055	1.599.168
Mineral	8.886	5.822	769.350	1.685.195
Total	363.633	105.181	36.592.405	3.284.363
Foreign				
Coal	-	254.365	7.445.985	10.697.704
Mineral	-	2.131	624.670	11.483.234
Total	-	256.496	8.070.655	22.180.937

Source: Data of EITI for the period of 2016

05

DISTRIBUTION OF EXTRACTIVE INDUSTRY REVENUE FROM THE CENTRAL GOVERNMENT TO THE LOCAL GOVERNMENT



Requirement 5.2 of 2016 EITI Standard stipulates that transfer of revenue derived from the extractive industry from the national to local government governed by laws must be elaborated in EITI reporting.

For the scope of this report, there are two types of distribution of extractive industry revenue from the central government to the local government, namely:

1. Payment of taxes in which local government has an authority to collect them, comprising Land and Building Tax (PBB) and Local Tax and Retribution (PDRD).
2. Revenue Sharing Fund (DBH) allocation from oil and gas sector and mineral and coal sector.

5.1 Payments of PBB and PDRD from the Central Government to the Local Government

These PBB and PDRD payments only apply to the oil and gas sector. Before the issuance of PP No. 79/2010 on Cost Recovery and Income Tax Treatment in the Upstream Oil and Gas Business Activities, the 'assume and discharge' concept is applicable, in which both PBB and PDRD are paid by the national government that are taken from Non-Tax State Revenue to be allocated to local government. The list of oil and gas companies whose direct taxes are paid by the national government is presented in Appendix 2.17.

For oil and gas cooperation contracts signed after PP No. 79/2010,

payments of PBB of oil and gas and PDRD done by oil and gas companies, but can be calculated as cost recovery component. PBB payments are made through a designated perception bank, and at the end of the concerned day the perception bank shall delegate revenue of PBB of oil and gas to the account of SUBBRKUN KPPN at Bank Indonesia.

Provisions on the calculation of revenue sharing funds (DBH) allocation of oil and gas to local government based on the Regulation of the Minister of Finance No. 250 / PMK.07 / 2014 are as follows:

1. PBB of onshore oil and gas: divided based on the location and position of the tax object.
2. PBB of offshore oil and gas and PBB of Earth Body:
 - Formula for PBB of oil and gas paid by the Government:
 $PBB \text{ per regency/city} = (20\% \times \text{population ratio} + 10\% \times \text{area ratio} + 5\% \times \text{inverse ratio of PAD} + 65\% \times \text{oil and gas liftings ratio}) \times \text{PBB of offshore and PBB of earth body for oil and gas}$
 - Formula for PBB of oil and gas paid directly by oil and gas company to perception bank:
 $PBB \text{ per regency/city} = \text{oil and gas liftings ratio} \times \text{PBB of offshore and PBB of earth body for oil and gas}$
3. The calculation of PBB of offshore oil and gas and PBB of Earth Body for each regency/city from PBB of oil and gas paid by the government:

- 10%: using the formula above
- 90%: divided proportionally with the prognosis of oil and gas PBB realization in the previous budget year

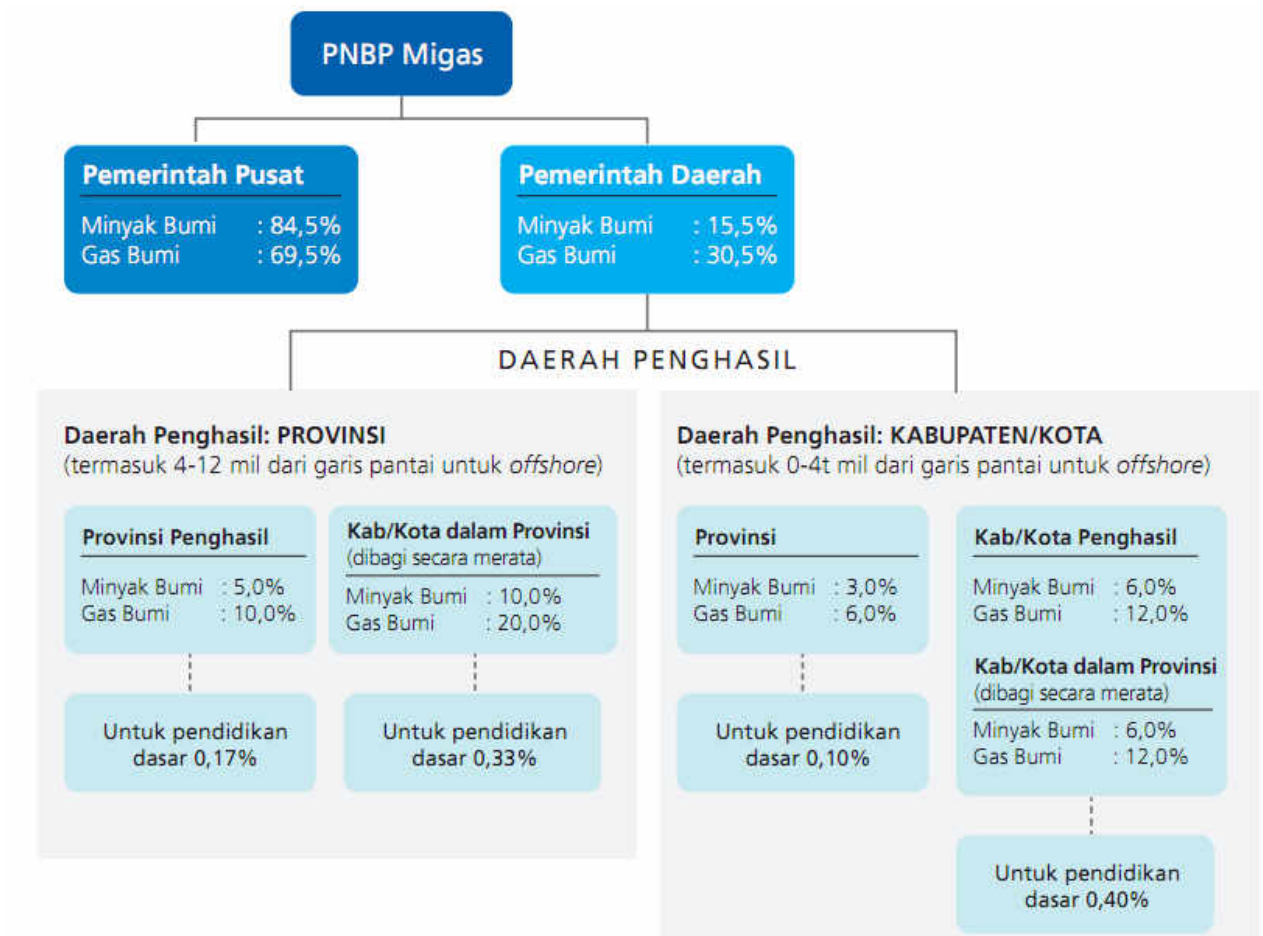
5.2 Allocation of Revenue Sharing Fund from the Central Government to the Local Government

5.2.1 Scheme of Oil and Gas Revenue Sharing Fund (DBH)

Oil and gas DBH scheme follows the scheme stipulated by Law No. 33/2004 and PP No. 55/2005. From oil and gas non-tax state revenue (PNBP), 15% from oil and 30% from gas are transferred to local (subnational) government as oil and gas DBH. The PNBP shared to local government is only PNBP from blocks operating within 12 miles from the coastline, while PNBP generated by operations located more than 12 miles from the coastline is entirely allocated to central government. Shared PNBP is further divided to producing regions – province or regency/city– as illustrated by Figure 11. The realization of annual revenue sharing fund must ultimately be audited by the BPK which results in under/overpayment of DBH for the relevant year, so that the net realization for that year is calculated from the regular DBH of the year plus the underpayment of the relevant year and minus the previous year's overpayment.

The following is a scheme for the calculation of oil and gas revenue sharing fund:

Figure 11 - Scheme of Natural Resources Revenue Sharing Fund (DBH-SDA) of Oil and Gas



Specific allocation (earmarked) for certain programs

0.5% of oil and gas DBH is specifically allocated (earmarked) to education fund in the region.

Sharing Scheme Pursuant to Special Autonomy Law

Table 46 - Revenue Sharing Scheme of Special Autonomy Region

Commodity	% For Region under special autonomy arrangement	Additional share for special autonomy province	Province as producing region		Regency / city as producing region		
			Province	Regency/ City in the Province	Province	Producing Regency/City	Other Regency/ City in the Province
Oil	70%	55%	5%	10%	3%	6%	6%
Gas	70%	40%	10%	20%	6%	12%	12%

Pursuant to Special Autonomy Law, there are three provinces granted with status as Special Autonomy Region, namely Aceh, Papua and Papua Barat⁴. These provinces are entitled to higher percentage of oil and gas DBH compared to other regions⁵.

The distribution of oil and gas revenue derived from those special provinces is 30% for central government and 70% for local government in the form of Oil and Gas DBH. Hence, provinces under special autonomy receive additional of 55% from oil revenue and the remaining 15% is distributed according to scheme in above figure. As for gas revenue, provinces under special autonomy receive additional of 40% and the remaining 30% distributed in according to scheme in Figure 11. In summary, the distribution of oil and gas DBH portion for Special Autonomy Region is shown in Table 37.

Article 36 of Law No. 21/2001 required Papua to allocate oil and gas DBH minimum of 30% for education and minimum of 15% for health and nutrition improvement.

Meanwhile, Aceh Province is required to allocate minimum of 30% oil and gas DBH for education.

5.2.2 Scheme of Mineral and Coal Revenue Sharing Fund (DBH)

Local government share from royalty and landrent is 80%. The following table presents the share for producing regions and non-producing regions.

5.2.3 DBH Distribution Process

Revenue-sharing fund report is obtained from the DG of Fiscal Balance, the Ministry of Finance, the Republic of Indonesia, containing data on the allocation and realization of revenue sharing from oil, gas, and general mining. This data is presented from one side and not reconciled.

Revenue sharing fund is distributed quarterly. Distribution in the first and second quarters is based on estimation, while in the third and fourth quarters the distribution is based on realization amount. Indonesia's EITI Report does not show the amount transferred every quarter, but only annual oil and gas revenue sharing realization amount in 2016.

The distribution is based on oil and gas revenue estimation and realization in the ongoing year, every quarter as shown in the Table below. The revenue shared is disbursed through transfer from the central government's account to each local government's account.

Table 47 - Scheme of DBH of General Mining

Type of DBH of General Mining	% For Local Government	Share (%)		
		Province	Producing Regency/City	Other Regency/City in the Province
A. Landrent from Producing Regency/City	80	16	64	-
B. Landrent from Producing Province	80	80	-	-
C. Royalty from Producing Regency/City	80	16	32	32
D. Royalty from Producing Province	80	26	-	54

Source: UU No 33/2004 and PP No 55/2005

Table 48 - Allocation Pattern of Oil and Gas DBH

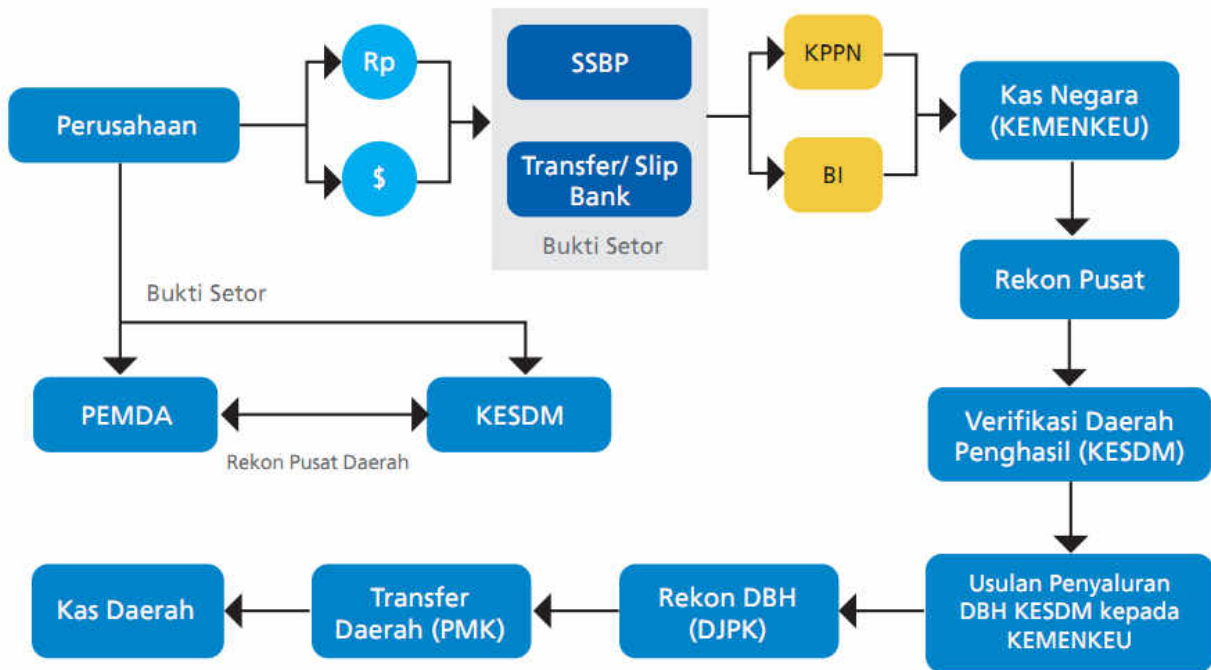
Quarter	Realization Period	Distribution Amount	Distribution Time
I	Not Considering Realization	20% of the estimated allocation	March
II	Not Considering Realization	20% of the estimated allocation	June
III	December to May	Realization minus distribution of QI and Q II	September
IV	December to August	Realization minus distribution of QI to Q III	December
V	December to November	Realization minus distribution of QI to QIV	February (the following year)

Source: DG of Fiscal Balance

⁴ Currently Oil and Gas SDA is only available in Papua Barat in accordance with the information from the Head of Sub Directorate of Fiscal Balance in the EITI Journalist Workshop, Bogor, September 7, 2015.

⁵ Presentation of Head of Sub Directorate of Fiscal Balance. "Kebijakan DBH SDA". EITI Journalist Workshop, Bogor, 7 September 2015.

Figure 12 - Mechanism Flow of DBH Transfer and Proposal



Source: 2012-2013 EITI Indonesia Reconciliation Report

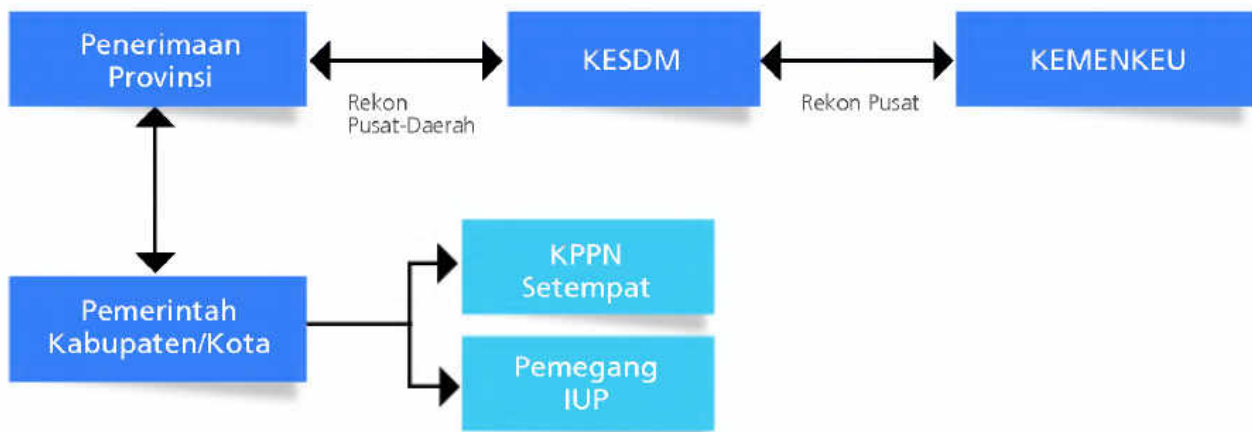
After oil and gas revenue sharing that will be distributed to each province/regency/city has been calculated, the data set from the government (represented by SKK Migas, the Ministry of Home Affairs, the DG of Oil and Gas, the DG of Budget and the DG of Fiscal Balance) and that from the producing area are reconciled. This is in line with the mandate of Article 28 of PP No. 55/2005 stipulating that natural resources revenue sharing realization is calculated quarterly through data reconciliation between the government and the producing areas. The reconciliation result is reported in the reconciliation notes which will be a basis for oil and gas revenue sharing distribution to the treasury account of the province/regency/city that receives the oil and gas revenue sharing.

Explanation about Oil and Gas DBH SDA in Appendix 6

Numbers resulted from the calculation of oil and gas non-tax state revenue to be shared by producing area in Appendix 6 are calculation realization numbers for each area based on non-tax state revenue realization for 2016. Furthermore, numbers in the local treasury are the realization of natural resource revenue sharing distribution in 2016, and thereby it is possible for differences to exist, called 'overdistributed/ underdistributed'.

The aforementioned differences are classified as follows:

Figure 13 - Reconciliation Flow of Mineral and Coal Mining DBH



Source: 2012-2013 EITI Indonesia Reconciliation Report

- Overdistributed in the previous year covered for underdistributed in 2016, including potential deduction from the disbursed amount due to overdistribution of other types of revenue sharing in the previous year
- The underdistributed amount in the previous years is distributed in 2016
- The fifth quarter realization or the 2015 escrow account is distributed in first quarter of 2016
- Underdistributed natural resources revenue sharing in 2016 is distributed in the next years

Flow of DBH SDA Allocation Calculation (Oil and Gas)

Based on PMK No. 48/2016 which was later revised with PMK No. 187/2016, the flow for calculating the allocation of natural resources DBH (oil and gas) is as follows:

1. The basic data for calculating the allocation of Oil and Gas DBH derived from:
 - a. DG of Oil and Gas, Ministry of Energy and Mineral Resources send the Decision Letter (SK) of Producing Region along with lifting data and/or Gross Revenue per region (PMK No. 48/2016 article 14 paragraph 3)
 - b. DG of Budget, Ministry of Finance is obliged to send PNBP per Cooperation Contract Contractor hereinafter abbreviated as KKKS (Article 16 paragraph 2)
2. Based on these data DG of Fiscal balance c.q. Subdit of DBH:
 - a. grouping the data based on data from MoEMR which consists of data on Producing Region, KKKS and types of oil with data from the DG of Budget, Ministry of Finance which consists of data on KKKS and types of oil. Both types are regrouped based on the KKKS, the type of oil and the producing region.
 - b. calculating the ratio and portion of oil and gas natural resource revenues per producing region. For calculation of estimated allocation, LIFTING RATIO is used, while for realization calculation, because the realization of PNBP per KKKS is in the form of a unit of currency (value), the GROSS REVENUE RATIO approach is used.

- c. after finding the lifting ratio per region, calculating oil PNBP per region by multiplying the lifting ratio with oil PNBP per KKKS.
- d. calculating 15% oil DBH allocation for the province, producing region and other regions in the province.

Table 49 - Realization of DBH-SDA Allocation in 2016

in million IDR

Year	Oil & Gas	General Mining	Total Allocation
2014	40.997.307	14.966.190	55.963.498
2015	18.229.013	13.354.231	31.583.244
2016	9.082.124	12.578.116	21.660.240

Source: Data of DG of Fiscal Balance for the period of 2016

A summary of receiving provinces/regencies/cities is available at Appendix 4.1. The amount represents the total realization of DBH in 2016 based on the BPK audit that its under/overpayment can be paid in the following year. For information, the additional amount of real realization in 2016 for the oil and gas sector is Rp 16,863,593 million (DBH for the oil and gas sector based on the BPK audit result is Rp 9,082,124 million as stated in the table above). A summary of 2016 real DBH recipients of provinces / regencies / cities is available at Appendix 4.1.1.

5.2.4 Producing Region

Based on a meeting held by the implementation team, five provinces have been selected as samples for producing regions that reported their revenues from the extractive industry. They are Kalimantan Timur, Kalimantan Selatan, Jawa Timur, Sumatera Selatan and Riau.

This revenue is reported from the government's side only and thereby does not need to be reconciled:

Table 50 - Producing Region

In million IDR

Revenue	Kalimantan Timur Province	Jawa Timur Province	Riau Province	Kalimantan Selatan Province	Sumatera Selatan Province
DBH - Oil	263.074	737.251	1.560.653	3.655	113.822
DBH - Gas	616.581	80.538	71.288	-	800.424
DBH - Royalty	2.210.235	1.162	4.591	1.221.278	299.652
DBH - Landrent	61.041	639	5.521	10.752	15.258
PBB - Oil and Gas	579.106	-	1.024.811	65.013	679.734
PBB - Mineral and Coal	-	-	-	-	-
PBB P3	64.053	-	3.694	-	-
Local-own Source Revenue (PAD)	3.127.250,9	12.772.227	154	7.662,18	817,166
Revenue based on Agreement	-	-	-	-	-
Total	6.921.341	13.591.817	2.670.712	1.308.360	2.726.057

Source: Data of Provincial Local Revenue Office for the period of 2016

A summary of each province's reporting shown in Table 50 is available at Appendices 6.1 to 6.5.

06

AUDIT AND ASSURANCE PROCEDURE



Reporting Companies

- Article 14 paragraph 2c of Presidential Regulation No. 26/2010 stipulates that report/information provided by companies for the purpose of EITI reporting shall be based on the companies' financial statements audited by independent auditor.
- The information produced by companies in EITI report on signature bonus, production bonus, royalty, PHT, dividend and corporate and dividend tax was presented using cash basis approach, and accrual approach for other information.
- Companies operating in Indonesia have applied Indonesia Financial Accounting Standards (SAK). Since 2009, SAK adopted International Financial Reporting Standard/IFRS, in which case financial statements of extractive companies were presented using accrual basis approach.

In the oil and gas sector, since January 1, 2015 in the preparation of financial statements in the form of a Financial Quarterly Report (FQR), KKKS operators have implemented Working Guidelines Number PTK-059 / SKKO0000 / 2015 / S0 on Accounting Policies of Cooperation Contract for Upstream Oil and Gas Business Activities issued by SKK Migas as the basis of accounting.

There is a significant difference between the KKS accounting bases, Indonesian SAK and IFRS primarily in the accounting treatment of intangible costs of exploration and development as well as well development costs in the case of dry holes.

Oil and Gas Lifting and cost recovery are important parts of KKS to determine the Government's share and Contractor's share of FTP, production sharing on oil and gas and ultimately determining the taxable income for KKS contractors.



SKK Migas and government auditors (BPKP, BPK, and DG of Taxes) conduct annual audits on KKSs that are already in production stage. The scope of the audit includes oil and gas lifting and cost recovery aspects, including compliance with accounting policies and other policies in accordance with KKS, compliance with statutory provisions relating to cost recovery, and compliance with regulations relating to upstream oil and gas operations.

Government Agencies/Institutions

- Article 14 paragraph 2a and 2b in Presidential Regulation No. 26/2010 regarding data and information stipulated that: (2a) the Government, Oil and Gas Upstream Business Activities Regulatory Body shall refer to Central Government Financial Statements (LKPP) reviewed by the Financial and Development Supervision Agency (BPKP); and (2b) Local Government shall refer to Local Government Financial Statements (LKPD) reviewed by the BPKP as internal auditor of the government.
- Financial statements of government agencies/institutions followed cash basis approach, i.e. it matched the flow of revenues and expenditure for the year.
- The Indonesia Audit Board (BPK) examines financial statements of government agencies/institutions using State Finances Auditing Standards (SPKN), while BPKP applies Audit Standards of Government Functional Supervisory Officers. Both standards also include opinions on compliance with applicable laws and regulations as well as internal control.

Based on the above considerations, the conclusions are:

- The results of audit conducted by SKK Migas and government auditors over annual report of KKSs are able to provide adequate assurance and determine the government's share over lifting as well as corporate and dividend tax.
- The results of review conducted by BPKP over financial statements of government's agencies are in the form of recommendations.
- In general, mineral and coal companies that are identified as samples in this EITI report (see Appendix 1) are large and medium-scale companies with royalty payments of over Rp14 billion. These companies are in the category that required their financial statements to be audited by independent auditors. This is seen as a positive aspect and is conducive to provide adequate assurance on financial information provided by extractive companies in their Reporting template submitted to EITI's Implementation Team and IA for reconciliation.

In addition, large and medium-scale extractive companies generally have been audited by top local Public Accounting Firms (KAPs) affiliated with international KAPs for the purpose of financial statements consolidation with their holding companies (the majority of which are international companies). These large and medium-sized companies are subject to audits by independent auditors, which generally require the implementation of good corporate governance.

- There are differences between audit standards applied by BPK, BPKP, SKK Migas with the International Auditing Standards. Nevertheless, the standards of BPK, BPKP, and SKK Migas are still, to some extent, coherent with the International Standards.

- Financial statements of companies operating in Indonesia that fit one of the following categories must be audited by independent auditors:
 - i. Managing total assets of above Rp25 billion – stipulated by Industry and Trade Minister Regulation
 - ii. Managing total assets of minimum Rp50 billion or equivalent to US\$ 5 million – stipulated by Limited Liability Company Law (Law No. 40/2007)
 - iii. Engaged in the banking, insurance, stock brokerage, fund management, and pension fund management sectors as well as listed companies or bonds issuing companies (Capital Market and Financial Institution Supervisory Agency/Bapepam – LK, now Financial Services Authority/OJK and Indonesia Stock Exchange Authority).

The audit standards that are applicable in Indonesia and are applied by independent auditors, substantially in accordance with internationally accepted auditing standards.

The audit standards have been designed to accommodate specific audit needs that might differ from audit on public companies. In some aspects, these standards were more extensive than the international standards, while varying in other aspects.

- The Implementation Team requires the reporting entities to submit more detailed information and written statement (attestation) in relation to the audit standards applied to the financial statements referred to in the delivery of financial information / data in the EITI report.
- Regarding the differences between audit standards implemented by BPK, BPKP and SKK Migas and international audit standards, the Implementation Team express that they are not in positions / capacities that may order BPK, BPKP and SKK Migas to make their auditing standards equal to the international audit standards.

Data Assurance

For the 2016 EITI reporting, statement (attestation) on the reporting form is as follows:

KKS Operator

"I certify that the contents of the above information are true, complete and reconcilable, independent and consistent with the mechanism set forth in the production sharing contract and have been reported in the final Financial Quarterly Report (FQR)"

Non-KKS Operator

"I certify that the contents of the above information are true, complete and reconcilable, independent and consistent with the mechanism set forth in the production sharing contract and have been reported in the final Financial Quarterly Report (FQR)"

SKK Migas

"I certify that I am responsible only for the presentation and disclosures for the year ended 31 December 2016"

DG of Oil and Gas and DG of Mineral and Coal – Ministry of EMR, DG of Non-tax State Revenue – DG of Budget – Ministry of Finance, DG of Taxes – Ministry of Finance

"I certify that the content of the above information is true and has been consistent with the standard of government audit procedures"

Mineral and Coal Companies

"I certify that the contents of the above information are true, complete and reconcilable referring to the financial statements audited by the public accounting firm or an independent auditor"



07

FINDING AND RECOMMENDATION

Pursuant to Requirement 7.4.a.iii of 2016 EITI Standard, IA is required to prepare recommendations for the purpose of enhancing the preparation process of the future report, including auditing practices referring to international standard. IA is also required to comment on the implementation of recommendation made from the previous report.

Previous reports apply 2013 EITI Standard, whereas the reporting for the period of 2016 applies 2016 EITI Standard.

The following table lists the recommendations made for 2015 Indonesia EITI Reconciliation Report and the implementation of recommendations in 2016 EITI Report.

Table 51 - Recommendation in 2016 Indonesia EITI Reconciliation Report

Review of 2015 EITI Report	Recommendation for 2016 EITI Report	Implementation in 2016 EITI Report
There was a difference in unit of measurement in reporting the realization of lifting.	- Reconciliation of the total oil and gas lifting volume should be carried out between the KKKS and SKK Migas using the same data unit, namely FQR.	In Reporting Form Template of 2016 EITI, there are some adjustments to the unit of measurement. IA has adjusted to the unit of measurement used by all parties, by the Operator, SKK Migas, and the Directorate General of Oil and Gas.
Changes in partners and ownership of Participating Interest can occur at any time in an oil and gas KKS	- The EITI Secretariat is recommended to obtain data on Participating Interest owner, both KKKS Operator and KKKS partner, in the format of comparison between owners in the year scope of EITI reporting and year of reporting.	IA has prepared the data list from the beginning of coordination with SKK Migas.
The management of oil and gas PPh payment that was initially only handled by the DG of Budget is now also handled by the DG of Taxes	- It is necessary to emphasize the importance of the LO (Authorization Sheet) and its requirements for the purposes of socialization to the oil and gas sector entities.	Because of the importance of the Authorization Sheet (LO) to open Tax data of Operators and Non Operators, at the time of Socialization IA will emphasize and educate so that the LO is filled carefully and correctly. According to IA, this should have been anticipated because it is currently the 2nd year of the usage of the LO.
The guideline for filling the form and the reporting form are not updated - Limitation on the state deposit recording system which is only based on cash inflow transactions - The conversion rate from MMBTU to MSCF between the company and the DG of Oil and Gas is different. And the quality / grade of gas varies from one company to another	- Guideline for filling out the reporting form will be prepared based on FQR - An agreement on the basis of the transaction used is needed, whether cash-basis or accrual-basis. However, it is recommended to keep using cash-basis, following the government system. - An agreement on unit of oil and gas volume is needed.	- In the reporting form, transactions using the cash-basis and accrual-basis have been separated - Unit of measurement used for oil and gas volume in the reporting form is MSCF.
Provincial samples for DBH data are always the same, namely Jawa Timur, Riau and Kalimantan Timur	MSG agreement is needed to add reporting provinces	According to the result of Ratimlak's (Implementation Team Meeting) decision, the provincial sample of DBH data involved 5 local governments, namely Jawa Timur, Riau, Kalimantan Timur, Sumatera Selatan and Kalimantan Selatan.
Transactions with BUMN outside the extractive industry have not been accommodated	The Implementation Team is expected to conduct a study of the need to accommodate the reporting of Other Payment to BUMN and/or the government. If based on the study, the report is deemed necessary, the template for Other Payment to BUMN and / or Government will be added in the EITI Reporting Form for the following year.	Based on the result of Ratimlak's decision, Other Payment to BUMN and / or Government is needed to be added to the EITI Reporting Form, and have been accommodated in the 2016 EITI Report.
The Socialization of EITI Reporting Form Filling for mineral and coal companies should involve the Provincial Energy and Mineral Resources Office in which the mine area is located.	For future EITI socialization activities, the EITI Secretariat needs to contact and invite all Provincial Energy and Mineral Resources Offices, in which mining areas are located, to equalize perception about EITI and for coordination purposes when a visit to the reporting company is carried out.	Regarding the collection of EITI data, coordination with the Provincial Energy and Mineral resources Office has been carried out to increase participation of Minerba companies included in the scope of reconciliation in filling the EITI Reporting Form.
Reconciliation of Non-tax State Revenue (PNBP) for the minerba sector is carried out between Minerba Companies and Directorate General of Treasury, the Ministry of Finance	PNBP reconciliation should be carried out between the reporting company and the Directorate General of Treasury, the Ministry of Finance as a government entity that directly receives PNBP, so that the search for sources of difference will be easier.	Based on the result of the Ratimlak's decision, the reconciliation of Non-tax State Revenue (PNBP) for the mineral and coal sector is still implemented between the Minerba Company and the Directorate General of Mineral and Coal, the Ministry of Energy and Mineral Resources.

Finding and Recommendation in 2016 Reporting

This section covers the issues encountered during the reconciliation process and the recommendations outlined in relation to the improvement in the implementation of reconciliation and the preparation of the Indonesia EITI report in the following period.

These recommendations are expected to serve as a reference for the Steering Committee, Implementation Team and IA in the preparation of the EITI report as well as the basis for reference and discussion among the public, including corporate entities and related government agencies, and thus expected to influence the change of the extractive industry governance to a better direction.

1. Reconciliation of oil and gas lifting volume data between KKKS and DG of Oil and Gas

Background:

Data on the total volume of oil and gas lifting is a component of the state revenue from oil and gas sector that is reconciled between the KKKS and the Directorate General of Oil and Gas.

Observation:

Based on the explanation of the Directorate General of Oil and Gas, the data sources used for EITI reporting are different. KKKS reports the total lifting volume based on FQR, which is the KKKS quarterly report to SKK Migas, in which the gas lifting volume uses MSCF as unit of measurement for gas / LNG and MT for LPG. Meanwhile, DG of Oil and Gas reports the lifting volume based on the monthly Lifting Realization Report of the KKKS, in which the unit of measurement of gas lifting volume is MMBTU. The 2016 EITI Report Scoping Study stipulates the reconciliation process between KKKS and DG of Oil and Gas using the USD currency (in the form of lifting value). However, the Directorate General of Oil and Gas does not have data on the total oil and gas lifting in USD.

Implication:

Because the data sources used and volume unit are different, there are difficulties in tracing the differences.

Recommendation:

The reconciliation of the total oil lifting volume and total gas lifting volume should be carried out between the KKKS and DG of Oil and Gas in the currency (USD).

2. Change in ownership of Participating Interest in the Oil and Gas Cooperation Contract

Background:

Due to the high risk factors in the oil and gas mining industry, KKS is managed and funded by more than one company entity in the framework of risk sharing. Therefore, it is normal to change partner and ownership of Participating Interest in an oil and gas KKS.

Observation:

During the 2016 EITI Reporting Form submitting period, it was found that in 2018 the ownership of Participating Interest had changed, both for KKKS operators and KKKS partners, whereas the EITI Reporting Form had been sent to the old Participating Interest owners.

Implication:

The distribution of the EITI Reporting Form to the old Participating Interest owner will slow down the process of collecting the data because the data has been transferred to the new Participating Interest owner and thus the reconciliation process will take longer because the Reporting Form must be sent to the new owner.

Recommendation:

For forthcoming EITI Reporting, the EITI Secretariat is recommended to obtain data on Participating Interest owner, both KKKS Operator and KKKS partner, in the format of comparison between owners in the year scope of EITI reporting and year of reporting. The data are to be obtained before the Reporting Forms are distributed.

3. More in-depth socialization is needed for oil and gas sector companies, related to the completeness of Authorization Sheet to Open Tax Data

Background:

Oil and gas PPh are paid to the State Treasury managed by the Directorate General of Taxes, and in Ratimlak's decision on September 14, 2018, it was decided that the tax data needed to be included in the reconciliation are Oil and Gas PPh (Corporate and Dividend Tax), Land and Building Tax (PBB) and those not included for reconciliation is the Value Added Tax (PPN).

Observation:

The DG of Taxes can only open tax payment data if the company entity has submitted an Authorization Sheet (LO) to Open Tax Data. Until the 2016 EITI reporting, there were still many companies that did not submit LOs or there were still many errors on the LO sheet submitted.

Implication:

IA cannot obtain data regarding the Oil and Gas PPh paid by company entity that has not submitted LO that is in accordance with the requirements of the Directorate General of Taxes, so that the reconciliation process cannot cover all data that need to be reconciled and reported.

Recommendation:

The need to emphasize the importance of the LO and its requirements in the socialization for the oil and gas sector companies. In addition, the LO requirements need to be clarified in the EITI reporting form, which is to be equipped with a duty stamp, company seal and accompanied by supporting documents regarding the identity of the LO signer, both as company directors and tax authorities.

4. Changes in management in the oil and gas sector company entity and the status change from the operator to a Partner

Background:

Management members of the companies have changed at the time of reconciliation process and the new management members are not willing to authorize and carry out the reconciliation process. In terms of KKKS, there has also been a change in status from operator in 2016 to partner at the time of reconciliation process or vice versa and / or are no longer active.

Observation:

The new management members in the companies and the KKKSs with the current status are not willing to authorize or provide data for the period of 2016.

Implication:

It is difficult to determine and ask the parties concerned to provide the authorization and data needed in the reconciliation process.

Recommendation:

The need for additional socialization to determine the responsibilities in filling out the reconciliation data for the year concerned both in terms of the management and the company. The year period of reconciliation is expected not to be too far away from the period of reconciliation is carried out (2018 and 2016 are two years apart). It is expected that in 2019, reconciliation can be carried out for the periods of 2017 and 2018.

5. Difficulties in determining BO**Background:**

The authorized parties in company entities have difficulty determining the information needed regarding BO.

Observation:

Information about BO of KKKS companies is difficult to obtain in general because of two things, namely BO is a holding company that has a complex structure located abroad and is not reflected in the company group web and shares owned by many parties and evenly distributed, for example, the ownership in public companies.

Implication:

It is difficult to determine BO of KKKS companies.

Recommendation:

The need for in-depth socialization and research from the KKKS group of companies to find out information about the ownership structure and BO needed.

6. Tax information disclosure by the Directorate General of Taxes**Background:**

The DG of Taxes can only open tax payment data if the company entity has submitted a complete Authorization Sheet (LO) in accordance with the criteria determined by the DG of Taxes. The presence of the DG of Taxes at the time of Ratimlak is also needed to determine the official letters and the bureaucracy needed from the beginning of the assignment so that it will not hinder the process of reconciliation.

Observation:

With the additional information needed for the 2016 EITI Report (Oil and Gas PPh, PPB and PPN), data from the DG of Taxes takes a long time to be obtained.

Implication:

The data presented by IA cannot be maximized and cannot be reconciled.

Recommendation:

It should be emphasized to the Reporting Companies at the time of socialization that the original LO document is an absolute requirement to open tax data. For this reason, the LO can be submitted earlier and correctly, so that the necessary correspondence can be prepared in accordance with the needs of the reconciliation process.

In order to avoid misunderstandings in translating the type of tax data needed it is expected that from the beginning it can be communicated between the parties concerned.

7. Regular updating of database information (addresses, e-mails, mining areas) of reporting companies is required, especially for mineral and coal mining companies**Background:**

Information on address, contact person, email address of the companies is not up to date.

Observation:

In the early stages of the EITI report preparation process, Independent Administrators experienced obstacles in delivering information to the reporting company, because address, contact person and email address information were inaccurate, there were even companies' addresses that had not yet been registered.

Implication:

The process of sending out socialization invitation letters for filling the EITI Reporting Form to the reporting company is hampered, especially if there is new information in the Reporting Form, or the company is a new reporting company of EITI. It causes a delay in the submission of EITI Reporting Form by the reporting company, which has an impact on the Independent Administrator's time limitation in reconciliation and confirmation process.

Recommendation:

The EITI Secretariat always updates the EITI reporting company database, in coordination with related institutions (Association, Directorate General of Mineral and Coal and Provincial Energy and Mineral Resources Offices).

8. Scoping study of reconciliation of Land and Building Tax (PBB) in oil and gas companies must be determined and socialized at the beginning of the assignment**Background:**

In the oil and gas sector, the PBB is regulated in 2 schemes, namely:

- PBB of Oil and Gas based on the assume and discharge concept in the clause of the Cooperation Contract (PSC) which is transferred from the DG of Budget to the DG of Taxes, in which the Oil and Gas KKKSs are not obliged to pay for the PBB. This transfer is an addition to tax revenue but a deduction factor in the calculation of Oil and Gas PNBP.
- PBB of Oil and Gas paid directly by the KKKS to the State Treasury is an additional tax revenue.

In accordance with the TOR and the Scope of the 2016 Indonesia EITI Report, it is stated that the reconciliation of the Oil and Gas PBB is carried out between the KKKS and the DG of Taxes. In the future, the PBB that must be reconciled is PBB of oil and gas which is tax revenue derived from the addition of the PBB transferred by DG of Budget to DG of Taxes and the PBB paid directly by the KKKS to the State Treasury, which is a total reconciliation of the number of PBB cash flows from both schemes. Currently, DG of Taxes is reviewing further whether the PBB data from the Directorate of TIP of DG of Taxes is the most appropriate data to be reconciled with data from the DG of Budget and KKKS companies based on these two schemes.

Observasi:

There are differences in perceptions regarding the PBB intended to be reconciled, thus hindering the reconciliation process.

Implication:

The desired final results of reconciliation according to the TOR cannot be accurately known.

Recommendation:

The review result of DG of Taxes on the most appropriate PBB data to be reconciled with data from DG of Budget dan KKKS based on these two schemes is highly expected to prepare the following year's report, which consists of:

- Reconciliation of PBB of oil and gas based on assume and discharge concept in the clause of Cooperation Contract (PSC) between DG of Taxes and DG of Budget.
- Reconciliation of PBB of oil and gas paid directly by KKKS to the State Treasury, which is an additional tax revenue for DG of Taxes, between KKKS and DG of Taxes.

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EITI INDONESIA REPORT 2016 RECONCILIATION REPORT

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