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OPPORTUNITIES TO INVEST IN RESOURCES, RENEWABLE ENERGY + INFRASTRUCTURE IN INDONESIA

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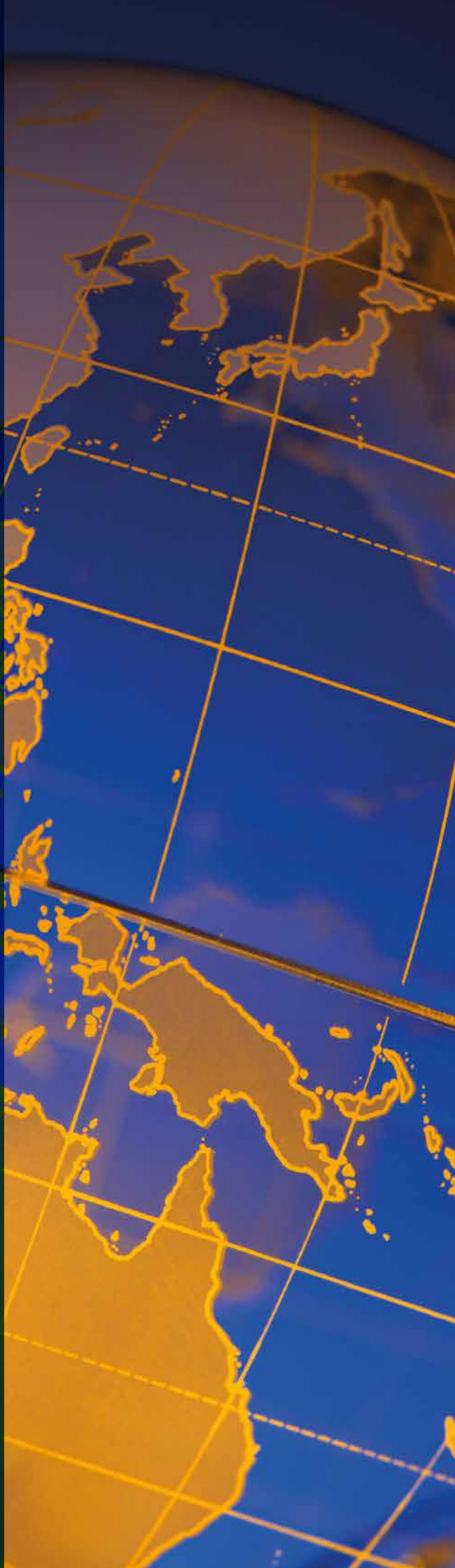


1 ECONOMIC OVERVIEW

1.1 ECONOMIC OVERVIEW OF INDONESIA

Indonesia is currently the largest economy in southeast Asia and is predicted to become the world's fourth largest economy by 2050.[1] Some of the main drivers of strong projected economic growth in Indonesia are its **favourable demographics** – it is estimated that approximately 50% of its population of 262 million (in 2017) are under the age of 30[2] – and its **emerging middle class:** real income growth will lift private consumption. Infrastructure investment will also remain high.[3]

As Indonesia fast approaches the position of the world's fourth largest economy by 2050, it will find itself with the power to influence the Indo-Pacific region, shape its economic and political architecture, and be a global influence.[4]

The level of ease of doing business in Indonesia is improving slowly, and since mid-2015, the Government has prioritised reforms aimed at improving the business climate, including streamlining procedures for setting up and running a business.[5]

Below are Indonesia's key economic indicators[6] which show that in 2017, Indonesia's Gross Domestic Product (**GDP**) was US $1.015 trillion, real GDP growth (% change year on year (**yoy**)) was 5.1% and its population was 262.0 million.

Indonesia's current account position has been deteriorating steadily for the past 18 months and now shows a very substantial deficit.[7] More precisely, the current account deficit increased to approximately US$8 billion in the second quarter of 2018 compared to a quarterly average of approximately US$4 billion over the period second quarter 2015 to first quarter 2017. There was a particularly dramatic increase in the current account deficit, of more than 67%, from approximately US$4.6 billion in the second quarter of 2017 to approximately US$8 billion in the second quarter of 2018.

The recent increase in the current account deficit has been accompanied by a significant weakening in the value of the Indonesian Rupiah which has slid from approximately Rp13,800:US$1 in early 2018 to Rp15,221:US$1 as at 19 October 2018,[8] a decline of approximately 10%.

Various reasons have been advanced for the rapidly increasing current account deficit but Indonesia's unfortunate position, as a growing net oil importer in a time of rising oil prices, is almost certainly one of the main reasons.

The above facts indicate that the macroeconomic outlook for Indonesia, as a whole, is positive. Indonesia is predicted to achieve a prolonged period of economic growth in order to become the world's fourth largest economy by 2050. Given Indonesia's expected rise to become an economic powerhouse, it is becoming increasingly important for Australia to cement itself as a key trading partner of Indonesia so we can capitalise on the economic opportunities that will flow as a result of this rise. However, it is clear that Indonesia will not achieve its ambitious growth trajectory without the support of foreign investment and capital, particularly in infrastructure and education which have been cited on a number of occasions as being of strategic importance to the Government. Although Indonesia has made some significant strides to improve the investment climate and the ease of doing business, there still remains areas for improvement to encourage greater foreign investment.

General Information

Capital	Jakarta					
Official language	Bahasa Indonesia					
Population	262.0 million (2017)					
Currency	Rupiah					
Economic indicators	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
GDP (US$b) (current prices)	916.6	891.1	860.7	932.4	1,015.4	1,075.0
GDP per capita (US$)	3,684.0	3,533.6	3,369.4	3,604.3	3,875.8	4,051.7
Real GDP growth (% change yoy)	5.6	5.0	4.9	5.0	5.1	5.3
Inflation (% change yoy)	6.4	6.4	6.4	3.5	3.8	3.5
Unemployment (% labour force)	6.3	5.9	6.2	5.6	5.4	5.2

1.2 AUSTRALIA'S TRADE AND INVESTMENT RELATIONSHIP WITH INDONESIA

Despite Indonesia being Australia's closest northern neighbour, the two-way bilateral trade and investment relationship between Indonesia and Australia is regularly described as "underdone".[9] The two countries have unexpectedly low levels of trade and investment links for economies which share a border.[10]

Analysis completed by the Perth USAsia Centre shows that trade relations among the G20 economies reveals the paucity of Australia-Indonesia economic ties.[11]

The share of two-way trade in 2016 among the sixteen contiguous dyads within the G20 (countries which share either a land or maritime border), reveals that Indonesia and Australia have the lowest bilateral trade volumes of any contiguous pairing within the G20, accounting for 2.8 and 2.0 percent of each other's two-way trade respectively. Even Russia, which was the subject of economic sanctions by some G20 members during 2016, had deeper trade relations with several of those countries with sanctions in place than the relationship between Australia and Indonesia. Australia's trade and investment relationship with Indonesia is illustrated in the table below:

Australia's trade and investment relationship with Indonesia

Australian merchandise trade with Indonesia, 2017 (A$m)		**Total share**	**Rank**	**Growth**	
Exports to Indonesia	7,030	2.3%	9th	16.7%	
Imports to Indonesia	4,212	1.5%	16th	-14.2%	
Total merchandise trade (export + imports)	11,242	1.9%	14th	2.8%	
Major Australian exports (2017 (A$m)		**Major Australian imports (2017 (A$m)**			
Wheat	1,365	Crude Petroleum		888	
Crude Petroleum	1,319	Refined Petroleum		351	
Live animals (excl seafood)	602	Wood, simply worked		201	
Coal	444	Footware		138	
Australia's trade in services with Indonesia, 2017 (A$m)		**Total share**	**Rank**	**Growth**	
Exports of services Indonesia	1,601	1.9%	12th	-2.3%	
Imports of services Indonesia	3,696	4.2%	5th	-0.7%	
Major Australian services exports, 2017 (A$m)		**Major Australian service imports (2017 (A$m)**			
Education-related travel	833	Personal travel excluding education		3,111	
Personal travel excluding education	380	Transport		229	
Australia's investment relationship with Indonesia, 2017 (A$m)			**Total**	**FDI**	
Australia's investment in Indonesia			10,734	7,541	
Indonesia's investment in Australia			1,044	np	

Indonesia's global merchandise trade relationships

Indonesia's principal export destinations, 2017		**Indonesia's principal import destinations, 2017**	
1 China	13.7%	1 China	21.9%
2 United States	10.6%	2 Singapore	10.8%
3 Japan	10.5%	3 Japan	9.0%
14 Australia	1.5%	*8 Australia*	4.5%

1.3 INDONESIA-AUSTRALIA COMPREHENSIVE ECONOMIC PARTNERSHIP AGREEMENT – OPPORTUNITIES FOR INCREASED TRADE AND INVESTMENT

(a) Introduction

In a joint media release made on 31 August 2018 by The Hon Scott Morrison MP, the Australian Prime Minister and Australian Senator, the Hon Simon Birmingham, Minister for Trade, Tourism and Investment, it was announced that Australia and Indonesia have successfully concluded the Indonesia-Australia Comprehensive Economic Partnership Agreement (**IA-CEPA**) negotiations which commenced in 2010.[13]

The IA-CEPA is the main bilateral initiative deployed to rectify the gap in Indonesia-Australia economic relations. The goal of the IA-CEPA is to create a framework for closer economic connections, by addressing barriers to trade (both tariff and non-tariff barriers) while improving mutual access to service markets. It also seeks to increase bilateral investments through facilitation and regulatory cooperation measures.[14]

(b) Key outcomes of the IA-CEPA for Australian business – services and investment

Market access outcomes on services and investment will provide increased certainty to Australian businesses and services suppliers in the Indonesian market, including guaranteed levels of Australian ownership. Indonesia's commitments are much stronger than they have ever agreed to before in a trade agreement. Indonesia will not be able to limit the level of Australian ownership – or require that ownership be divested – below the percentages agreed (with limited exceptions). IA-CEPA also contains a set of high-quality, modern rules governing the treatment of services and investment, as well as modern rules on digital trade.[15]

(c) Services and investment – highlights

(i) Mining and related services – Australian ownership not less than 67% of contract mining services and mine site preparation services is permitted (now a guaranteed minimum that can never be reduced by Indonesia)

(ii) Construction services – Australian ownership not less than 67% for most construction-related work is permitted (now a guaranteed minimum that can never be reduced by Indonesia).

(iii) Energy:

Indonesia committed to allow Australian ownership up to:

+ 95% of power plants (more than 10 megawatts);
+ 75% of oil and gas platform construction;
+ not less than 67% for electrical power construction, installation, operation and maintenance (now a guaranteed minimum that can never be reduced by Indonesia);
+ not less than 55% for electrical power installation constructions (now a guaranteed minimum that can never be reduced by Indonesia);
+ 51% of geothermal power plants (10 megawatts or less); geothermal surveying, drilling and operations; and offshore oil and gas drilling.

At the time of writing, there was limited information on the content of the IA-CEPA. However, we expect that additional information will become available in due course on the benefits of the IA-CEPA for Australian businesses. As such, we encourage our readers to monitor any further developments on the IA-CEPA so that you can capitalise on the opportunities to trade with or invest in Indonesia.

(d) Industry comments in support of the IA-CEPA[16]

Below we have set out a number of people that have been cited by the Australian Government Department of Foreign Affairs and Trade (DFAT) as supporting the conclusion of the IA-CEPA negotiations.

Mark Vassella, Managing Director and Chief Executive Officer of BlueScope

"BlueScope is very pleased that the Australian Government has secured a high quality, comprehensive agreement with Indonesia.

The outcome on hot rolled coil (HRC) and cold rolled coil (CRC) steel opens up the potential to more competitively export steel products from our Port Kembla Steelworks to BlueScope's operations in Indonesia. This is a win-win for Australia and Indonesia: it will boost Australian steel exports; while also ensuring that BlueScope's operations in Indonesia, which employ over 500 Indonesians, have access to a wider range of high quality, competitively priced feedstock.

We congratulate the government, including the former Trade Minister The Hon Steven Ciobo, for their hard work and close liaison with industry in achieving this important outcome."

Phil Turtle, National President of Australia Indonesia Business Council (AIBC)

"The Australia Indonesia Business Council, as the peak organisation involved with the promotion and facilitation of trade and investment between Australia and Indonesia, is delighted to see the finalisation of IA-CEPA and congratulates all involved in its formulation. The Australia-Indonesia relationship is an important yet historically underdone one, and this Agreement promises to kick-start a new era of Trade and Investment between our countries. With important outcomes delivered across a broad range of sectors, the AIBC looks forward to playing an important role in socialising IA-CEPA within the business community, ensuring the opportunities created are widely known and pursued."

Tania Constable, Chief Executive Officer of Minerals Council of Australia

"This is a good outcome for the Australian and Indonesian resources sectors.

The agreement's provisions will create more scope for Australia's world-leading mining services firms to partner with Indonesian businesses in developing that country's extensive minerals and energy resources.

This will not only provide new export opportunities for Australia – it will also support economic growth and development in one of Australia's nearest and most important neighbours.

The agreement's tariff reductions for copper cathodes and steel products will improve market access for these resources-based commodities. Cheaper input costs will also boost the competitiveness of a number of Indonesia's manufacturing industries."

Robert Trzebski, Chief Operating Officer of Austmine

"Austmine welcomes news of the conclusion of IA-CEPA. For over 10 years now, Indonesia has consistently ranked among the top 5 export destinations for Australian exporters of Mining Equipment, Technology and Services (METS) and remains a region of future growth in the resources sector. IA-CEPA should encourage more Australian METS exports to Indonesia, to the mutual benefit of our countries".

2 AUSTRALIAN COMPANY PROFILES

Although the Indonesian mining sector is a key player on the international mining stage, the sector is far from reaching its full potential. This presents a significant opportunity for growth, development and an increase in foreign investment. Despite the availability of various investment opportunities, the regulatory climate has generated a number of challenges for foreign companies seeking to explore the possibilities in Indonesia. Against the backdrop of the existing challenges, there are a number of Australian companies with current and substantial operations in Indonesia with Australian companies among the leading investors in Indonesia's energy and resources sector. Indonesia has been a particular export target for Australian companies in the mining services sector with the 2015 Austmine National Survey indicating that almost half of Australian mining equipment, technology and services (METS) sector companies are exporting to Indonesia. Co-authors Julia Scott and Alena Stirton recently discussed the Indonesian investment experience with representatives of three Australian companies with current operations and projects in Indonesia. CEO of Nusantara Resources Limited, Mike Spreadborough, CEO of Bis Industries Limited, Brad Rogers and Vice President (Asia Pacific) of Orica Limited, Todd Peate each provided their unique insights. Although each representative was open about the investment challenges, the overall message is positive. The following company profiles set out a summary of these recent Q&A discussions.

2.1 MINING SECTOR

Nusantara Resources Limited

Nusantara Resources Limited (**Nusantara**) is a mining and resources company listed on the Australian Securities Exchange. Nusantara has a 100% interest in the Awak Mas Gold Project in Sulawesi, Indonesia through its wholly owned Indonesian subsidiary, PT Masmindo Dwi Area (**PT Masmindo**). The Contract of Work (**CoW**) between PT Masmindo and the Government of Indonesia was recently amended in March 2018, securing Nusantara's tenure over the Awak Mas Project until 2050. This is a significant achievement in Indonesia's growing gold mining industry. CEO of Nusantara, Mike Spreadborough, recently discussed the company's positive investment experience in Indonesia.

"I think it's a lower risk business environment compared to other places in the world…Indonesia is an Asian powerhouse," said Mike Spreadborough.

How would you describe Nusantara's experience operating in Indonesia?

Nusantara continues to promote its good relations with the Government, the local provincial governments and the local regency government. This has assisted Nusantara in ensuring a supportive environment for its business.

The Awak Mas Gold Project has received the required approvals (including environmental approvals) to commence construction. By reaffirming the CoW, it has consolidated Nusantara's position as the sole holder of that CoW until 2050, with possible extensions until 2070.

How has the business landscape changed over the years for Australian companies wanting to invest in long-term mining projects in Indonesia? Do the changes encourage more foreign investment in the mining sector?

In relation to Indonesia, most Australians are not familiar with the current business and investment landscape. A key message is that Indonesia is quite a sophisticated economy, growing at 5% a year. There is a focus on developing infrastructure, education, health and telecommunications projects commenting that "*it's really no different to the economy we see in Australia*".

Within the current regulatory and legal framework of the mining sector in Indonesia, what advice would you give companies looking to invest in Indonesia in the long-term?

Nusantara promotes heavily to investors that despite what people may think, the regulatory environment in Indonesia is quite stable.

Mike went on to say "*We don't find the regulatory environment is that much different to Australia...we don't see any great issues.*"

Nusantara endorses Indonesia as a great mining jurisdiction with good infrastructure and a highly qualified and educated workforce that are familiar with the mining industry.

It is unavoidable that foreign mining companies are required to divest 51% of the project 10 years after starting up. In Nusantara's experience, as a new project, 10 years provides a very stable period. There are also a range of great Indonesian partners that can assist in developing the projects and bringing them into production. Although it is not necessary, having an Indonesian partner early on in the project can assist in reducing any sovereign risk.

How does Nusantara incorporate capacity building or other initiatives involving the local Indonesian community into the operation of the Awak Mas Gold Project?

Nusantara works with the local community to build awareness around project development. The company has put funding aside to upgrade and develop medical and health facilities in local communities. Nusantara has also put a policy in place to attract the local workforce and build capacity to ensure local businesses are in a position to tender for contract work.

Mike concluded by saying, *"I think you can kind of sum up that we think it's a great area to invest. There's a great opportunity to do some mineral resource projects..."*

2.2 MINING SERVICES

Bis Industries Limited

Bis Industries Limited (**Bis**) is an Australian mining services company that provides logistics, materials handling, specialist underground equipment and consulting services to resources companies across Australia and Indonesia. Bis first entered the Indonesian market in 2014, securing a contract to provide handling, haulage and logistics solutions to a coal mining operation in Tabang in East Kalimantan (**Tabang Project**). The success of the Tabang Project promoted the further expansion of Bis' Indonesian operations. The company recently entered into a 5 year contract for load and haul services at the Gunung Bara Utama coal mine in East Kalimatan, with a two-year option to extend.

Bis CEO Brad Rogers discussed the company's entry into the Indonesian market and the various factors affecting Bis' ongoing investment decisions. In summarising Bis' decision to commence operations in Indonesia, Brad stated that:

> *"There were some positives and negatives in our estimation of Indonesia. Ranking Indonesia against every other mining jurisdiction in the world, we came up with the view that Indonesia was the best market to go into first."*

Why did Bis choose Indonesia as its first overseas market to invest?

Back in 2011 it was clear that the Australian iron ore and coal mining market was shifting towards steady, slow production. Although Bis' long term business relationships would ensure Australia remained a good market for the company, Bis recognised the availability of overseas investment opportunities. The company was looking to target a market with favourable conditions for its unique business offering.

Brad discussed the decision to extend Bis's off road load and haul business into the Indonesian market:

> *"So for the off road load and haul business, we literally did a kind of global search against an evaluation framework to determine what would be an attractive market for Bis, and Indonesia came up as the most attractive market in the world in that regard."*

Bis recognised that its dual cab technology and higher payload solutions equipped it with a disruptive and competitive advantage over other players in the Indonesian market.

Brad acknowledged Bis' intention to expand its existing strategy: *"…we want to be different, different and sustainable; different adds value, and let's take that thinking to the best market in the world and that was Indonesia for that particular role."*

Is Bis looking at other opportunities in Indonesia to expand its Indonesian footprint?

Bis' current operations are coal contracts in East Kalimantan. Bis is interested in expanding into non-coal contracts, potentially involving gold and nickel to allow the business to diversify and spread across other parts of Indonesia. Brad recognised that expanding across different commodities is beneficial from a risk management perspective. As it currently stands, a major change to the thermal coal market or unfavourable weather conditions in East Kalimantan has the potential to significantly impact both of its Indonesian operations.

What have been the greatest challenges to starting and running a business in Indonesia and how does this compare (if at all) to running a business in Australia?

Despite acknowledging that the requirement that foreign investors divest mining projects after 10 years has been a deterrent for many overseas investors in the mining sector, in relation to Bis' own experience Brad indicated that "*our own experience of investing in Indonesia has been very positive*". Prior to making the decision to invest, Bis took the time to properly understand the market, form the necessary relationships and develop sufficient confidence in the opportunities and risks. Brad offered the following reason for Bis' comparatively positive investment experience:

> *"I think maybe that's partly to do with us being quite diligent in who we choose to do business with and we are focused on the kind of quality corporate counterparties.."*

What advice would you give other Australian companies looking to invest in Indonesia?

Take the time to learn from the experiences of others. *"The reality is, no matter how good your homework and entry strategy is, you're going to get some things that go wrong."*

Although not unique to Indonesia, it is often said that it is difficult to find people with the right skills – how does Bis go about either finding the right people to ensure that you can meet your commitments to your clients?

> *"The usual part of going there, spending time, showing that you're serious and explaining your plan to good people…form proper relationships wherever in the world you are and make sure you bring value to your counterparty."*

Orica Limited

Founded in 1874, Australian company Orica Limited (**Orica**) is one of the largest global providers of commercial explosives and blasting systems to the mining, quarrying, oil and gas and construction markets. Orica's footprint extends over 100 countries, including Indonesia. Orica provides technical, operational and commercial services to customers in the mining and oil and gas sectors in Indonesia (through Indonesian subsidiary, PT Orica Mining Services (**OMS**)) and Indonesia's largest ammonium nitrate plant, Kaltim Nitrate Indonesia (**KNI**) is a joint venture between Orica Investment (Indonesia) Pty Ltd and local partners. The KNI plant was constructed in 2009 with production commencing in 2012. KNI is strategically located near some of the largest coal projects in East Kalimantan. Although design and construction of the KNI plant was primarily managed by foreign engineering experts, the current operating team comprises around 160 Indonesian nationals.

Orica's Vice President, Australia Pacific, Todd Peate, provided some insights into Orica's experience in Indonesia and its decision to invest in the KNI project. In relation to Indonesian investment opportunities generally, Todd summarised:

> *"There is a great optimism about business in Indonesia and as the mining sector conditions continue to improve, it's critical that any supplier takes a look to understand the possibilities for them."*

What were the main motivations for Orica to invest in Indonesia?

Orica has been providing services to the mining industry in Indonesia for many years. In the early stages of investment, Orica's operations were based on customer need. As a result, Orica would mobilise its emulsion plants and delivery systems. Earlier this decade, Orica and its joint venture partners commissioned the 330 kilotonne KNI facility. This was a significant investment that was driven by customer need and Indonesia's desire to reduce its reliance on critical imports for the mining industry. KNI's proximity to the large East Kalimantan coal market was viewed as the logical next step for Orica's Indonesian operations and aligned closely with overall growth in the industry.

What have been the greatest challenges to running a business in Indonesia and how does this compare (if at all) to running a business in Australia?

As a supplier to the Indonesian mining industry, the regulatory environment is an area that customers are consistently looking to navigate. The dynamic nature of the regulations have impacted investor confidence in the investment and expansion opportunities in the country. The impact of changing regulations is not an experience that is unique to Orica's customers in Indonesia. Todd acknowledged that over the past 10 years similar issues have been impacting Orica's Australian customers. To respond to the regulatory challenges in Indonesia, Todd provided the following insight:

> *"The key is patience, processes are not as straight forward so anyone doing business in Indonesia needs to be patient and work through any issues that arise."*

What are the top 3 pieces of advice you would give to other Australian companies in the METS sector looking to invest in Indonesia?

> *"**It cannot be done remotely.** You cannot be "remote control" in Indonesia. It is a market that works on a lot of relationships and the building of trust over time. It would be a mistake to believe you can fly in and fly out and be effective.*
>
> ***You need great partners.** Orica is really fortunate to have great, long term partners right across the value stream in Indonesia. We work collaboratively and it's important that you are aligned on a very frequent basis with your partners.*
>
> **Seek advice.** *It's likely whatever it is you are contemplating, others have tried before. There are many people that are open to assist and help you on your pursuit of investing in Indonesia. Spend time in the market, identify all of the relevant stakeholders and go about seeking their advice. One conversation may save you many nights of issues."*

And finally, in your opinion, would you recommend that other Australian METS companies look to Indonesia as a potential investment destination?

> *"Yes. I am always bullish about Australian companies opportunities in Indonesia but you need to have a clear plan in place before you decide to jump in."*

3 OPPORTUNITIES IN RESOURCES

3.1 MINING

(a) Overview of the mining law in Indonesia

Indonesia continues to be an important player in the global mining scene with significant levels of coal, copper, gold, tin and nickel. Global mining companies continue to rank Indonesia highly in terms of coal and mineral prospects. The modest uptick in global commodity prices has improved the outlook of the sector. Indonesia's commitment to substantially increasing its level of infrastructure investment should also reduce costs over time in getting commodities to market.[19]

Article 33 paragraph (3) of the Indonesian Constitution affirms that:

> *"the earth, the water, and natural resource wealth that are buried within the earth are to be under the control of the State and utilized for the greatest prosperity of the community."*

Pursuant to Article 8 of Indonesia's 1967 Mining Law, foreign parties could participate in large-scale Indonesian mining projects through Contracts of Work (**CoWs**) and Coal Contracts of Work (**CCoWs**) whilst relatively small-scale and medium-scale mining projects could only be conducted by Indonesian national parties by virtue of Mining Licenses (KPs). Neither (i) a foreign entity nor (ii) an Indonesian company in which foreign investors may legally hold shares (**PMA Company**) could hold a KP under the 1967 Mining Law. A PMA Company could, however, hold a CoW or a CCoW.

On 12 January 2009, the 1967 Mining Law was repealed and replaced by the 2009 Mining Law.

The 2009 Mining Law contemplates that:

(i) KPs will be replaced by Mining Business Licenses (**IUPs**);

(ii) CoWs/CCoWs will be replaced by Special Mining Business Licenses (**IUPKs**);

(iii) IUPs/IUPKs may be held by any type of Indonesian business entity, including a PMA Company, without any initial restriction or limitation on share ownership but with an unspecified divestiture obligation applicable to PMA Companies holding IUPs/IUPKs to be carried out starting after 5 years of production; and

(iv) mandatory local value added activities to be carried out in respect of both coal and metal minerals.

(b) Recent changes to the mining law

(i) Introduction

With effect from 21 February 2018, Indonesia issued the Minister of Energy and Mineral Resources (**MoEMR**) Regulation No. 11 of 2018 on The Procedures for Granting Areas, Licensing and Reporting in Mineral and Coal Mining Business, which makes some significant changes to the licensing regime. This new regulation revokes and replaces eight previous regulations.[20]

The new regulation does not make any changes to the basic metrics of IUPs/IUPKs being maximum area size, maximum term, number of permitted renewals and issuing authority, all of which are carried over from previous regulations.

The overview that follows looks, in turn, at the material changes only that the new regulation has introduced for mine owners who are CoW/CCoW holders and mine owners who are IUP/IUPK holders.[21]

(ii) Mine Owners — CoW/CCoW holders

Adjustment of activity stages

CoWs/CCoWs presently provide for five activity stages being (i) general inspection, (ii) exploration, (iii) feasibility, (iv) construction and (v) operation production.

The regulation adjusts the activity stages of CoWs/CCoWs to two only, being (i) exploration (covering general survey, exploration and feasibility study), and (ii) operation production (covering construction, mining, processing and/or refining, and transportation and/or sales).[22]

Each activity stage will be the subject of a decree (Surat Keputusan or SK) issued to the relevant CoW/CCoW holder. The intention is that the SK will refer only to either "exploration" or "operation production" so that general survey, exploration and feasibility study activities will all be covered by one SK for "Exploration" while construction and operation production will be covered by a second SK for "Operation Production".

Upgrades

To the extent that a CoW/CCoW holder is not already at the operation production stage, its activity stage is to be upgraded to that of "Operation Production" once its Work Plan has been approved by the Ministry of Energy and Mineral Resources (**Ministry**) and, in any case, not later than 21 August 2018.[23]

Amendment of CoWs/CCoWs

After many years of negotiation, substantially all CoW/CCoW holders finally signed CoW/CCoW Amendment Agreements with the Ministry in early 2018 which provide for, amongst other things, the relevant CoWs/CCoWs to be replaced by IUPKS not later than the expiry of the current terms of the relevant CoWs/CCoWs.

Those CoW holders who want to be able to export less than fully refined metal mineral products, must convert their CoWs into IUPKs before exporting less than fully refined metal mineral products as a pre-condition to obtaining the Ministry recommendation for an Export Permit.

All of those CoW/CCoW holders who signed CoW/CCoW Amendment Agreements were also obliged to accept a 51% divestiture requirement within 10 years and increased non-tax government revenue and other tax imposts although, in many instances, the applicable rate of corporate income tax was reduced.

(iii) Mine owners — IUP/IUPK holders

Security deposits

There has been a change in the calculation of the amount of the security deposit that must be included as part of an IUP/IUPK application following a party being declared the winner of a mining business license area tender. The previously required Security Deposit amount was 10% of the higher of the value of data compensation, total investment and replacement cost. This has now been changed to a fixed amount which is stated as being (i) Rupiah 5,000,000 in the case of IUPs/IUPKs less than or equal to 40 hectares and (ii) Rupiah 150,000 per hectares in the case of IUPs/IUPKs greater than 40 hectares.[24]

Rights and obligations of IUPK holders

The new regulation sets out what we understand is intended to be a comprehensive statement of all the rights and obligations of IUPK holders in one place (rather than across various laws and regulations as was previously the case). Accordingly, we now have a clearer and more comprehensive statement of the rights and obligations of IUPK holders,[25] which should go some way towards reducing the uncertainty surrounding IUPKs and otherwise make it possible to evaluate IUPKs, as an alternative to CoWs/CCoWs, in a more fully informed manner.

Ownership of minerals and coal

One of the rights of IUP/IUPK holders is the right to own and sell the minerals (including "associated minerals" but excluding radioactive minerals) and coal that they produce once the relevant production royalty or non-tax governmentrevenue, due in respect of such minerals and coal, is paid.[26]

The right to own minerals and coal is in the current mining law[27] but has been largely ignored by resource nationalists. This is despite the fact that, without this right, IUP/IUPK holders would not be in a position to sell the minerals and coal produced by them or otherwise transfer good title to those minerals and coal to the buyers, whether domestically or by way of export, unless they were acting as agents of the Government. We suggest that the restatement of the rights of IUP/IUPK holders in respect of the ownership of minerals and coal in the new regulation is an attempt to resolve the apparent inconsistency in MoEMR Regulation No. 9 of 2017 regarding procedures and the pricing mechanism for divestiture of shares in respect of mineral and coal business activities.[28] As mentioned above, the 2009 Mining Law contains a divestment obligation whereby foreign shareholders of companies holding IUPs/IUPKs must, following five years after commencement of production, divest shares to the central or regional government, state or regional owned enterprises or private Indonesian parties. The treatment of "Fair Market Value" in MoEMR Regulation No. 9/2017 has subsequently been amended by MoEMR Regulation No. 43 of 2018 which was only issued on 25 September 2018. Fair Market Value is now to be calculated not including mineral or coal reserves except for those mineral and coal reserves that can be mined during the term of the relevant Production Operation IUP/IUPK. MoEMR Regulation No. 43 of 2018 goes on to provide that Fair Market Value should be calculated on a discounted cash flow basis and having regard to comparable market data. Although MoEMR Regulation No. 43 of 2018 leaves a lot to be desired, in terms of clarity and certainty, it appears to envisage an earnings based calculation of Fair Market Value whereby the divestiture price is calculated on the basis that, once all taxes due to the Central Government in respect of mined production ore are paid, the mined ore belongs to the relevant Production Operation IUP/IUPK holder such that the Divestiture Price should be 51% of A x B – C, where:

> "A" is the estimated mineral ore production over the remaining term of the relevant Production Operation IUP/IUPK:
>
> "B" is the estimated average market price of the mined production ore over the remaining term of the relevant Production Operation IUP/IUPK; and
>
> "C" are the estimated taxes and charges payable by the relevant Production Operation IUP/IUPK to the Central Government in respect of the estimated mineral ore production over the remaining term of the relevant Production Operation IUP/IUPK; and
>
> It is beyond the scope of this Paper to set out the divestment obligations under the 2009 Mining Law. For further information on the divestment obligations of foreign companies, we recommend contacting the authors of this paper.

Foreign employees

IUP/IUPK holders may utilise the services of foreign employees subject to (i) approval of their work plans and budgets, which must now make express provision for existing and proposed foreign employees, if any, and (ii) approval of the employment of each proposed foreign employee by the Ministry of Manpower.[29] This is to be compared with the previous position which obliged IUP/IUPK holders, wanting to employ foreign workers, to submit an application to the Minister in the case of each foreign worker proposed to be employed.

Preference for local and national mining services providers

IUP/IUPK holders are no longer expressly required to give preference to Local Mining Services Providers and National Mining Services Providers (i.e., non-PMA Companies) or to otherwise only use an Other Mining Services Provider (i.e. a PMA Company[30]) if there is no National Mining Services Provider or Other Mining Services Provider "available" to do the required work in the sense of being willing to do and financially and technically capable of doing the required work. However, it has always been relatively easy for IUP/IUPK holders, wanting to use an Other Mining Services Provider, to appoint the Other Mining Services Provider of its choice by being careful to specify the required mining services in such a way that only the preferred Other Mining Services Provider is likely to be willing to do and financially and technically capable of doing the required work.

Summary and conclusions

With a couple of exceptions, the new regulation is a largely positive development.

It is entirely consistent with the Government's various reform packages that are said to be aimed at reducing the amount of "red tape" constraining the activities of investors, whether domestic or foreign.

Refer to section 6 of this Paper for a review of the principal changes made to the licensing regime for mining services providers as a result of the new regulation.

(c) Availability of new mineral exploration areas

It has been recently reported that new Indonesian mineral exploration areas will soon start to become available after a hiatus of almost seven years, namely 10 mining business license areas (**WIUPs**) (for iron ore, gold, asphalt and coal) and six special mining business license areas (**WIUPKs**) (for nickel and coal) (**New WIUP/ WIUPK Offerings**). In turn, this means that it should be possible, in the near future, to obtain new Exploration Mining Business Licenses and new Exploration Special Mining Business Licenses for metal minerals and coal which is a positive development for investors.

The impending resumption of the availability of new mineral exploration areas has been made possible, in part, by the issuance of MoEMR Regulation No. 11 of 2018, which sets out, among other things, the regulatory regime needed to make the New WIUP/WIUPK Offerings legally possible.

To highlight the potential opportunity for investors, there has been a huge drop-off in exploration activity in Indonesia over the course of recent years. While this drop-off can be partly explained by a decline in mining profitability, during the 2012 to 2016 downturn in the mineral commodity price cycle, Indonesia has fared significantly worse than other geologically prospective countries in terms of declining exploration activity. In November 2015, the Indonesian Forum for Mineral Exploration and Development Association made a very detailed, written submission to the Ministry on the problems facing the local mineral exploration industry and what was required to "encourage a healthy and contributory exploration sector" in Indonesia (2015 EMDI Submission). The 2015 EMDI Submission identified that Indonesia has, in recent years, been spending just the very modest amount of approximately US$100 million per annum on mineral exploration, most of which has gone towards "brown fields exploration" rather than towards "green fields exploration".

More recently, a 2017 World Bank Group presentation highlighted that Indonesia only attracted about 1% of global mineral exploration spending in 2015 compared to 5.2% of global mineral exploration spending in 1995. Indonesia's recent and quite dramatic underperformance, in mineral exploration activity, may also be partly explained by the impossibility of obtaining new Exploration IUPs/IUPKs, while the Moratorium was in place, as well as by the uncertainty that was created as a result of the struggle for licensing control of the local mining industry. To the extent that the new regulation and the New WIUP/WIUPK Offerings herald the end of the Moratorium and the impending resumption of the issuance of new Exploration IUPs/IUPKs, without the previous uncertainty created by the struggle for licensing control of the local mining industry, some people might see this as the beginning of a new and more promising time for mineral exploration activity in Indonesia. This depends, however, on whether or not the new regulation incorporates the much needed reforms required to ensure investor interest in WIUP/WIUPKs as they become available.

First, in the case of WIUPKs (which are meant to be areas determined to hold the most significant and strategically important deposits of metal minerals and coal), State Owned Enterprises (**SOEs**) and Regional Government Owned Enterprises (**BUMDs**) have priority rights to these WIUPKs. It is only if there is no SOE and no BUMD interested in exploring and qualified to explore a particular WIUPK that it is possible for private sector parties to participate in a tender for that WIUPK.

Second, it is the Ministry/MoEMR which ultimately determines which mining areas are designated as WIUPs and which mining areas are designated as WIUPKs. This means that the Central Government has substantially unfettered discretion to designate a particular mining area as a WIUPK, rather than a WIUP, thereby triggering the priority right of SOEs and BUMDs.

Third, while the winning BUMD in a WIUPK tender may offer an equity participation to a private sector party, that equity participation will be limited to a maximum of 49% and will certainly be of the basis of the private sector party assuming not less than 49% of the exploration costs.

Fourth, in the unlikely event that there is no SOE and no BUMD, interested in and qualified to explore a particular WIUPK and a private sector party is the winner of the resulting tender, the private sector party must offer a 10% participating interest to BUMDs in the relevant Province/Regency.

3.2 OIL AND GAS

(a) Overview

Indonesia is one of the world's major producers and exporters of oil and gas products such as crude oil and liquefied natural gas (**LNG**). Indonesia is currently focusing on building its energy security, spreading resources income across the regions and improving its taxation and regulatory framework to encourage investment in the sector.[31]

In January 2018 it was reported that the Ministry is aiming to achieve a US $17.04 billion investment target in the oil and gas sector in 2018.[32] This provides new opportunities for foreign companies to consider investing in Indonesia's petroleum industry.

There are various opportunities in the exploration, development and extension stages. There are several projects underway that have been recently given approvals by the Government, as discussed below.

Of note is the upcoming Abadi LNG Project (pre-Front End Engineering Design (pre-FEED)) which was recognised in June 2017 as a "National Strategic Project", and was given "Priority Infrastructure Project" status in September 2017.[33]

Indonesia has an established history of international investment with respect to petroleum operations and many established players have petroleum operations and interests in Indonesia, including:

Total

+ Total E&P Indonésie (TEPI) operates the Mahakam Block in East Kalimantan, and holds 82% of the Bontang LNG Plant's supply;
+ 15%-interest in the Ruby gas field located within the Sebuku Production Sharing Contract (**PSC**).

Shell

+ PSC operator of the deep-water block Pulau Moa Selatan, located in Moluccas of Eastern Indonesia;
+ Strategic partner of Inpex, Masela PSC operator which includes the Abadi gas field (located in the Arafura Sea), farmed-in a 30% interest in 2011 from the operator.

Chevron

+ Heavy oil operation in the Duri Field. Holds a 100%-owned and operated interest in the Rokan PSC. Duri is the largest producing field in the Rokan PSC. Produces crude oil and natural gas.
+ Indonesia Deepwater Development in the Kutei Basin includes two projects (natural gas);
  – 62% interest in the Bangka Project; and
  – Gendalo-Gehem.

Exxonmobil

+ Operates the Arun Gas Field in North Sumatra;
+ Affiliates operate, and hold a 100%-participating interest in the South Lhoksukon A and D and the North Sumatera Offshore gas field.

BP

+ Holds an interest in the Tangguh LNG Project (37.16%).

Mitsubishi Corporation

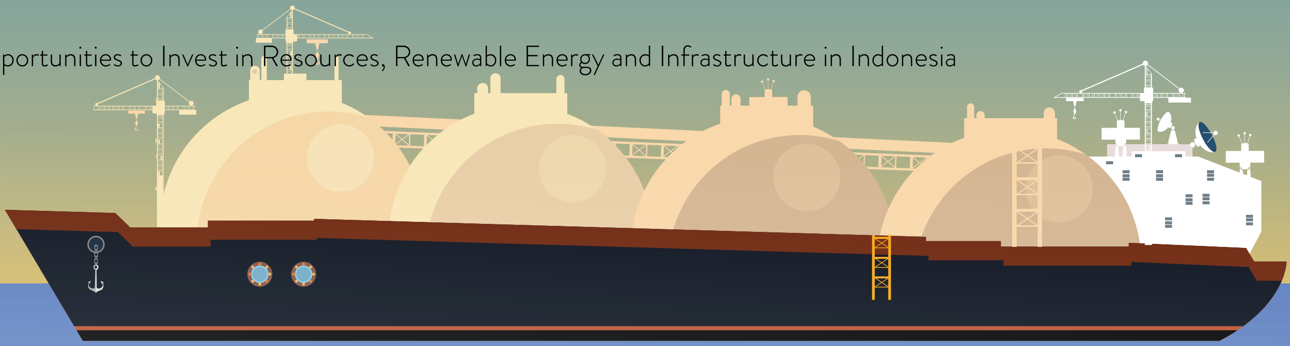
+ Engages in exploration, development, production and sales of natural gas in the Berau and Tangguh blocks.

Kogas

+ Joint venture with Mitsubishi Corporation in relation to PT Donggi Senoro LNG Project.

Santos

+ Four producing assets: the Peluang gas project which started production in March 2014, and the existing Oyong, Wortel and Maleo gas projects;
+ 50% operated interest in the Ande Ande Lumut oil field, and work is underway on the proposed development plan for the field.



(b) Upstream regulatory regime

(i) Production Sharing Contracts

Indonesia was the first country to implement a PSC, a model of which has developed and been used widely throughout petroleum producing jurisdictions. In Indonesia, Pertamina is the state owned oil company that participates in PSCs with international contractors.

Indonesia introduced the first PSC in 1966. It operates on the premise that the Government provides the contractor the right to explore a certain area and the contractor provides the necessary funds and technical skills in order to explore and, if successful, produce. The Government and the contractor split production through a formula set out in the PSC.

In 2017 Indonesia introduced a new type of PSC which no longer permits cost recovery and instead, adopts a gross-split model. The implications of this model are still being considered by industry. All new PSCs (or extensions of existing PSCs) going forward will be under the new gross-split model. A key feature of this new gross-split model is that contractors will no longer be required to submit cost recovery for approval by the upstream regulator (**SKK Migas**).

(c) Downstream opportunities

The Government has identified the following types of projects in which they are actively looking for international participation:

(i) upgrading of existing plants;

(ii) new grass root refinery plant projects;

(iii) small and mini LNG plants; and

(iv) LNG receiving terminal and regasification facilities.

(d) LNG snapshot

Indonesia's first LNG plant production was in 1978. For many years, Indonesia positioned itself as the world's largest LNG exporter. Indonesia is now also an importer of LNG.

(i) Currently operating LNG facilities

There are three current LNG liquefaction facilities in Indonesia:

+ Bontang in East Kalimantan: held by Pertamina (55%), VICO Ltd (20%), Japan Indonesia LNG Co Ltd (JILCO) (15%) (JILCO is a subsidiary of LNG Japan Corporation), Total (10%).
+ Tangguh in West Papua: held by BP (37.16%), CNOOC (13.9%), Mitsubishi Corporation (16.3%), Nippon Oil Exploration (Berau) Ltd (12.23%), KG Berau Petroleum Ltd (8.56%), Indonesia Natural Gas Resources Muturi Inc (7.35%), KG Wiriagar Overseas Ltd (1.44%), Talisman Wiriagar Overseas Ltd (3.06%).
+ Donggi Senoro in Sulawesi: held by Mitsubishi Corporation (59.9% held indirectly through Sulawesi LNG Development Limited, a joint venture company with Korea Gas Corporation (KOGAS)), PT Pertamina (29%), PT Medco LNG Indonesia (11.1%).

Indonesia's newest liquefaction plant, Donggi Senoro, shipped its first LNG cargo in August 2015 after a 4.5 year development phase.

(ii) Regasification

After operating as a liquefaction facility for over 30 years, one of Indonesia's earliest LNG facilities, Arun LNG (held by Pertamina (55%), ExxonMobil (30%), JILCO (15%)), was converted into a regasification terminal in 2014.

In the same year, the Lampung floating storage and regasification unit (**FSRU**) terminal commenced operations. The FRSU vessel 'PGN FRS Lampung' is owned by Hoegh LNG Partners LP (Hoegh). Indonesian natural gas transportation and distribution company PT Perusahaan Gas Negara (PGN) operates the vessel on a 20 year time charter with Hoegh.

(iii) New projects/extensions

We understand that there are several new upstream projects underway that have recently received approvals from the Government, including:

+ The Jambaran Tiung Biru Project (gas processing facilities). The EPC contract was signed in December 2017 and it is expected to commence production in 2021. There are term contracts for 172 million cubic feet per day of sales gas. The project is estimated to have reserves of 1.9 trillion cubic feet of gas.
+ Capacity expansion of the Jangkrik field in the Makassar strait. The participants are Eni, Engie and Pertamina. The Merakes field is estimated to hold 2 trillion cubic feet of gas. In April 2018, Eni received development plan approval.
+ Tangguh Train III project, Papua's Bintuni Bay which will add a liquefaction unit of 3.8 million tons per year of production capacity to the existing facility, bringing the total plant production capacity to 11.4 million tons per year (a 50% increase). It is expected to be operational from 2020. A fourth LNG train is also proposed.
+ The Abadi LNG Project (INPEX Masela 68%, Shell 35%) FEED contract was awarded to KBR in May 2018. This project was recognised in June 2017 as a "National Strategic Project", and was given "Priority Infrastructure Project" status in September 2017. Masela is expected to produce 150 million cubic feet per day of natural gas and 9.5 million tons per year of LNG, once it starts up in 2027.

Securing domestic supplies

As mentioned above, energy security is a major priority for Indonesia.

Indonesia is now an importer of LNG and is looking to grow its portfolio of gas suppliers to cater for domestic demand. Pertamina has entered into long-term LNG sale and purchase agreements (**SPAs**), including with the following companies.

Woodside

In 2017, Pertamina entered into a long-term LNG SPA with Pertamina. It is expected to commence in 2019, providing 0.6 million tonnes per annum (2022–2034), with an option of 1.1 million tonnes per annum (2024–2038).

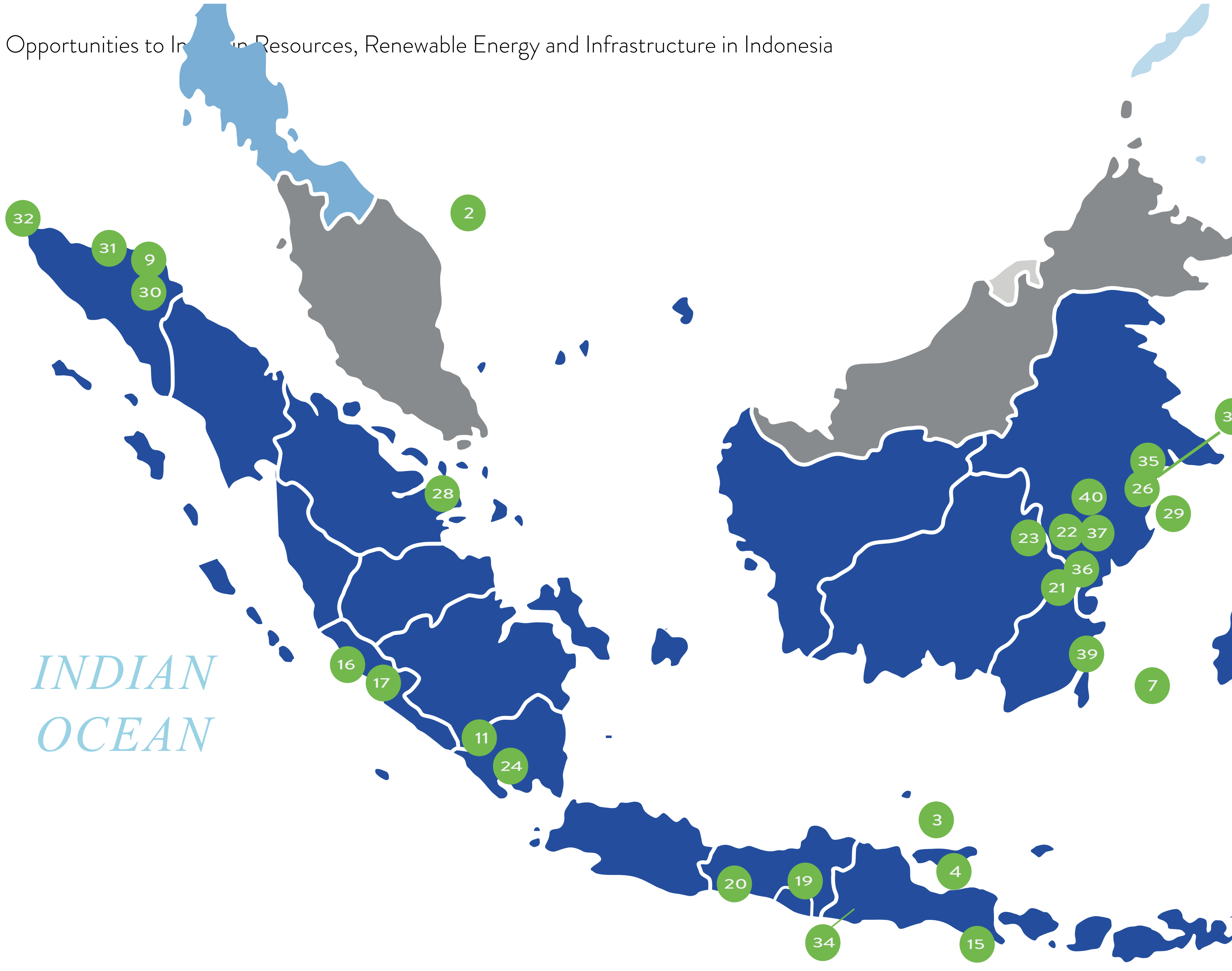
Total

Total signed LNG SPAs with Pertamina:

+ for volumes ranging from 0.4 to up to 1 million metric tons per year over a period of 15 years starting in 2020 (LNG will be supplied from Total's global portfolio);
+ for 0.4 million metric tons of LNG per year over a period of ten years starting in 2020 (from the Corpus Christi Plant which is under construction in the US).

Exxonmobil

Pertamina will buy 1 million tonnes of LNG per year from ExxonMobil starting in 2025.



3.3 OVERVIEW OF INVESTMENTS IN INDONESIAN RESOURCES PROJECTS

In the map of Indonesia above, we have identified a number of key resources projects in Indonesia.

For further information on the projects of Nusantara Resources Limited, PT Bis and Orica Limited highlighted on the map above, we refer you to section 2 of this Paper for details of an interview that we undertook with a member of their executive team about each of their investments in Indonesia.

Mining / Oil & Gas

Nusantara Resources Limited (ASX)
1. Awak Mas Gold Project

Santos Limited (ASX)
2. Ande Ande Lumut Oil Project (Northwest Natura PSC)
3. Maleo & Peluang (Madura Offshore PSC)
4. Oyong & Wortel (Sampang PSC)

Newcrest Mining Limited (ASX)
5. Gosowong Gold Mine

Inpex Corporation
6. Abadi LNG Project
7. Sebuku Block Ruby Gas Field
8. Tangguh LNG Project (Berau Block)

Lion Energy Limited (ASX)
9. South Block A PSC
10. Seram (Non-Bula) PSC

Jadestone Energy
11. Ogan Komering PSC

Rio Tinto Group (via Freeport McMoran's Gransberg Mine)
12. Grasberg Mine

Finder Resources Limited
13. Wetar Copper Project

Gulf Manganese Corporation (ASX)
14. Kupang Smelting Hub

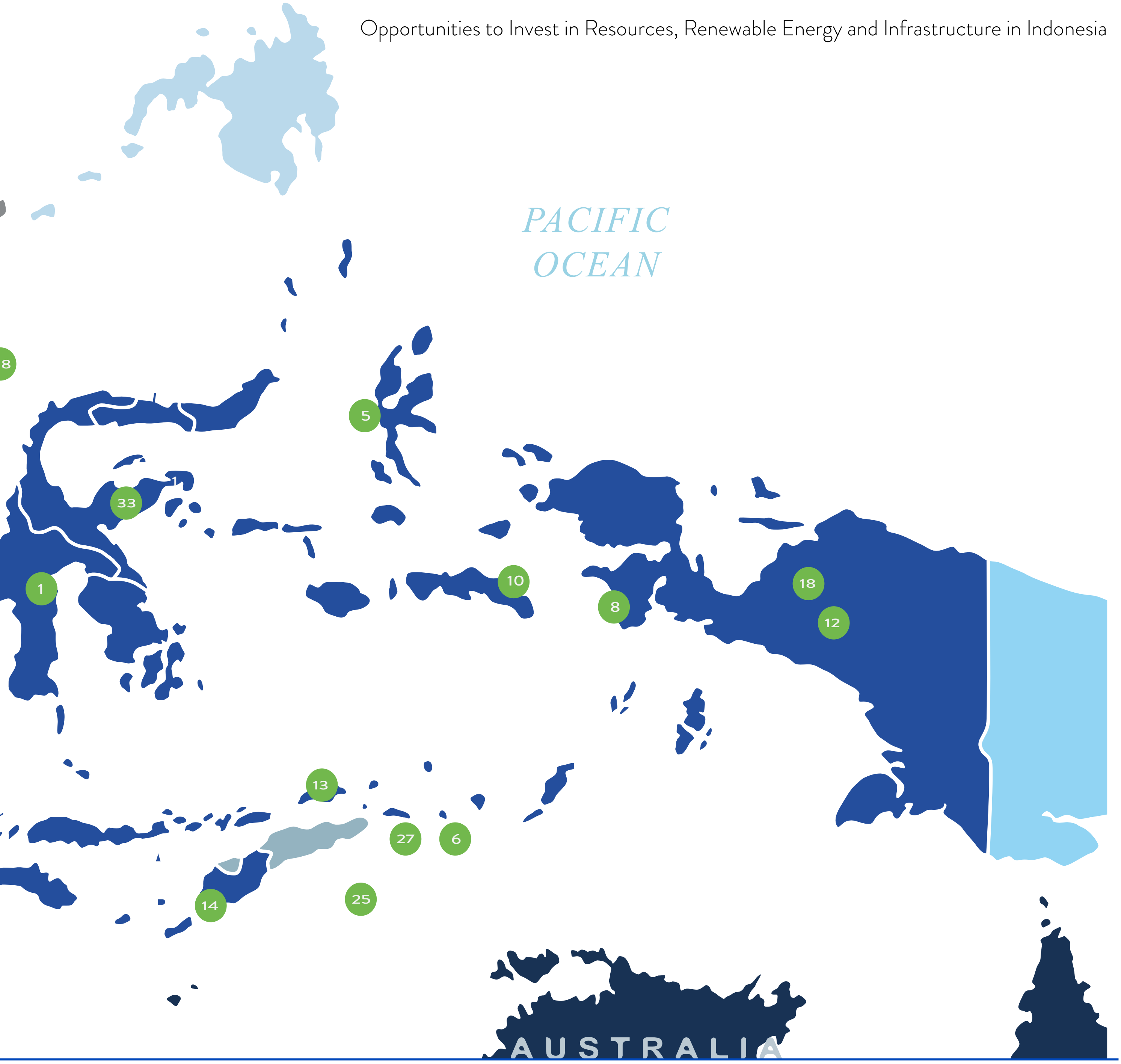
PT Merdeka Copper Gold Tbk
15. Tujuh Bukit Project

Sumatra Copper & Gold (ASX)
16. Tembang Gold-Silver Project
17. Tendai Project

West Wits Mining Limited (ASX)
18. Derewo River Gold Project

Collerina Cobalt Limited (ASX)
19. Wonogiri Gold Copper Project

Indo Mines Limited (ASX)
20. Jogjakarta Pig Iron Project



Kangaroo Resources Limited (ASX)

21. Graha Panca Karsa (GPK) Project
22. Pakar
23. Mamahak

Kingsrose Mining Limited (ASX)

24. Way Linggo Project

Woodside Energy Limited (ASX)

25. Sunrise LNG

Other projects

26. Bontang (includes Total)
27. Pulau Moa Selatan block (includes Shell)
28. Duri field (includes Chevron)
29. Indonesia Deepwater Development: Bangka Project and Gendalo-Gehem (includes Chevron)
30. Arun gas field (includes ExxonMobil)
31. South Lhoksuko (includes ExxonMobil)
32. North Sumatra Offshore gas field (includes ExxonMobil)
33. Donggi Senoro LNG Project (includes Mitsubishi Corporation)
34. Jambaran Tiung Biru (expected to commence prodcution in 2021)

MINING SERVICES

Orica Limited

35. Kaltim Nitrate Indonesia

Bis Industries Limited

36. Logistics for Gunung Bara Utama, Coal
37. Logistics for Bayan Resources, Coal

Thiess

38. Sangatta Coal Mine
39. Senakin Coal Mine
40. Melak Coal Mine

4 OPPORTUNITIES IN RENEWABLE ENERGY

4.1 OPPORTUNITIES

Indonesian energy demand is predicted to grow strongly over the medium term due in part because Indonesia's middle class will expand dramatically over the next decade and a half. This will put extreme pressure on Indonesia's creaking energy infrastructure and make identifying new energy sources increasingly important for sustaining growth.

Indonesia's 2014 National Energy Policy (**NEP 2014**) highlights the importance of Indonesia achieving energy independence and energy security, by 2050, on the basis of an optimal energy mix that seeks to balance the country's traditional reliance upon coal and other fossil fuels, as the primary energy source, with a future emphasis on new and renewable energy.

NEP 2014 sets ambitious targets for achieving the optimal energy mix, with new and renewable energy sources to contribute at least 23% of Indonesia's total required energy by 2025 and at least 31% of Indonesia's total required energy by 2050, both of which are **minimum** targets.[34]

NEP 2014 provides that energy independence and energy security for Indonesia is to be achieved by, among other things:

(a) using energy resources, including coal, for national capital development rather than as a mere export commodity; and

(b) managing energy resources, including coal, in an optimal, integrated and sustainable way.

NEP 2014 goes on to provide that, for the purpose of ensuring that there is sufficient available energy to meet national demand on a long-term basis, Indonesia must among other things:

(a) reduce fossil energy exports gradually, especially for gas and coal, and set a deadline for the cessation altogether of fossil energy exports; and

(b) increase fossil energy reserves by limiting the production of fossil energy resources.

NEP 2014 further mandates that Indonesia must achieve power generation capacity of approximately 115 GW by 2025 and of approximately 430 GW by 2050.

Notwithstanding the existence of NEP 2014 and the Government's support for new and renewable energy, very little progress has been made, to date, in reducing Indonesia's dependence on coal. The heavily promoted and ongoing 35GW expansion of Indonesia's electricity generating capacity only envisages some 2.9 GW or 8.1% of this additional electricity generating capacity coming from new and renewable energy resources.

Various reasons, both good and bad, can be put forward for this lack of progress in realising any meaningful rebalancing of Indonesia's energy mix towards a greater reliance upon new and renewable energy resources. One reason for this is arguably the incentives for the State electricity company, PLN, which may not be sufficient for it to move away from its traditional reliance on electricity generated by fossil fuel-fired power plants and, more particularly, coal-fired power plants given that coal continues to be a cheaper fuel source than Indonesia's abundant renewable energy resources being solar power, wind power, hydro power, biomass power, biogas power, city waste power, geothermal power and tidal power.

However, we understand that there are a number of "instruments" being used by the Government to ensure PLN has enough incentive to buy electricity from new and renewable energy sources, including, among others:

(a) Government Guarantee of Viability of PLN to buy the electricity from an Independent Power Producer (**IPP**) issued by the Indonesian Minister of Finance (a Minister of Finance Decree to guarantee that, should PLN fail to pay, the Government will pay for PLN); and

(b) Tax incentives (import tax free and reduction of income tax) to the new and renewable energy based IPP developers.

Furthermore, it should be noted that MoEMR Regulation No. 50 of 2017 has replaced the previous and controversial MoEMR Regulation No. 12 of 2017 which provided for the pricing strategy for determining the price that PLN pays for electricity generated from renewable energy sources.

Importantly, MoEMR Regulation No. 50 of 2017 provides that where the local grid price (**BPP**) is equal to or less than the national BPP (currently US $0.0766), the tariff is negotiated between the IPP developer and PLN on a case by case basis. In the event that the local grid BPP is higher than the national BPP, the maximum tariff will be equal to the local grid BPP.

By way of example, for the Kamojang geothermal power project in West Java, the local grid BPP was US $0.0681, however the agreed tariff between the IPP developer and PLN was higher than the local grid BPP, being US $0.0940 per kWh.

Furthermore, in the case of the Rantau Dedap geothermal power project in South Sumatra, the local grid BPP was US $0.0718 and the negotiated tariff was higher, being $0.1176 per kWh.

An example includes the recently negotiation result whereby the agreed power purchase/selling price was US $0.0940 per kWh for the Kamojang geothermal IPP (West Java Area with local grid BPP of US $0.0681 and an agreed power purchase/selling price at US $0.1176 per kWh for Rantau Dedap geothermal IPP (South Sumatra Area where the local grid BPP was US $0.0718).

The Rantau Dedap project is a 220MW power plant that is being developed by PT Supreme Energy Rantau Dedap (SERD), a special-purpose company formed by a joint venture of Marubeni (35%), Supreme Energy (30%) and Engie (35%). On 16 November 2017, it was announced that SERD and PLN signed an amendment of Power Purchase Agreement (**PPA**) for the Rantau Dedap Geothermal Project (with the original PPA having been signed on 12 November 2012). The amendment of PPA was to reflect the tariff adjustment required for developing the project based on the results of the feasibility study report. The price adjustment and PPA amendment process began in 2016 and in early November 2017, the Minister approved the price adjustment. A spokesperson from Supreme Energy was quoted as saying:

"This successful adjustment process is a result of intensive and constructive negotiations between the parties, driven by the goal congruence for accelerating the development of geothermal energy as part of renewable energy in Indonesia."[35]

4.2 INCENTIVES

We understand that some of the incentives that are available for Australian and foreign investors to invest in renewable energy in Indonesia are as follows:

(a) higher pricefeed-in-tariff or higher power selling price (Government);

(b) tax incentives (Government):

   (i) exemption of import duties on equipment and machineries and two years exemption of import duties on materials;

   (ii) reduction of income tax;

   (iii)tax holiday for 5-15 years where the project value is over US $80 million,

(c) simplification of Llicensing and permitting;

(d) easier access to funding from multilaterals (for example, the Asian Development Bank, International Finance Corporation/World Bank);

(e) compare to coal fired and gas fired power projects, obtaining project financing for renewable energy based power projects from bilateral financiers such as the Japan Bank for International Cooperation and KfW(Germany) is easier and they offer competitive interest rates.

4.3 OPPORTUNITIES IN POWER / ELECTRICITY

For opportunities in new and renewable energy projects, we refer our readers primarily to the revised and adjusted master plan for 2018 – 2027 which sets out the actual number of the committed projects that fall into the following categories:

(a) Independent Power Producers (IPPs)

(i) Hydro IPPs:

A. run-off-river hydropower;

B. pumped storage hydropower; or

C. small and mini hydropower,

(ii) geothermal IPPs;[36]

(iii)solar photovoltaic (solar PV);

(iv)wind farm;

(v) minemouth coal fired IPPs;

(vi)gas fired well head IPPs;

(vii)captive power producers associated to smelter plants (copper, ferronickel, aluminium, gold, iron and steel);

(viii)biomass power projects including that utilise palm oil waste;

(ix)biogas power projects;

(x) tidal power projects (mainly in the outer islands of eastern Indonesia). However, we understand that the Government perceives tidal power as a "long term" opportunity, hence sea current (including tidal) power generation is not really a committed project (refer to the table below).

(b) Public sector power projects developed and operated by PLN.

(c) Power projects under a Public Private Partnership (**PPP**) Scheme.

Target additional capacity of new and renewable energy power plants 2018 – 2027[36]

No.	New and renewable energy sources	Capacity	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	Total
1	Geothermal	MW	210	150	221	235	405	445	355	2537	20	5	**4583**
2	Hydro	MW	66	287	193	755	315	196	635	4461	-	564	**7472**
3	Mini hydro	MW	108	202	366	103	31	-	-	-	-	-	**810**
4	Solar PV	MW	5	22	214	281	-	200	-	325	-	-	**1047**
5	Wind Power	MW	70	60	5	45	10	30	309	-	-	60	**589**
6	Biomass inc. MSW	MW	53	53	41	19	235	-	-	-	-	10	**411**
7	Sea Current inc. Tidal	MW	-	-	-	-	-	-	-	-	-	-	**0**
	Total	**MW**	**512**	**774**	**1040**	**1438**	**996**	**871**	**1299**	**7323**	**20**	**639**	**14912**

For further information on renewable energy opportunities, we refer our readers to the Directorate General of New, Renewable Energy and Energy Conservation (EBTKE) of the MoEMR, and PLN.

4.4 BANKABILITY OF IPP PROJECTS

MoEMR Regulation No. 10 of 2017 was amended by MoEMR Regulation No. 49 of 2017[38] and MoEMR Regulation No. 10 of 2018[39] to address the concerns in relation to the bankability of IPP projects.

Some of the concerns in MoEMR Regulation No. 10 of 2017 were as follows:

+ The risk of changes in Government policies and regulations (Government Force Majeure) was borne by both PLN and the IPPs;[40]
+ In circumstances where the project is terminated or the power plant to becomes non-operational, as a result of Government Force Majeure, both PLN and the IPP would be relieved from their obligations.;[41] and
+ where a change in law resulted in an adjustment to the costs to the IPP, the tariff would be adjusted accordingly so that the IPP was no better or worse off.

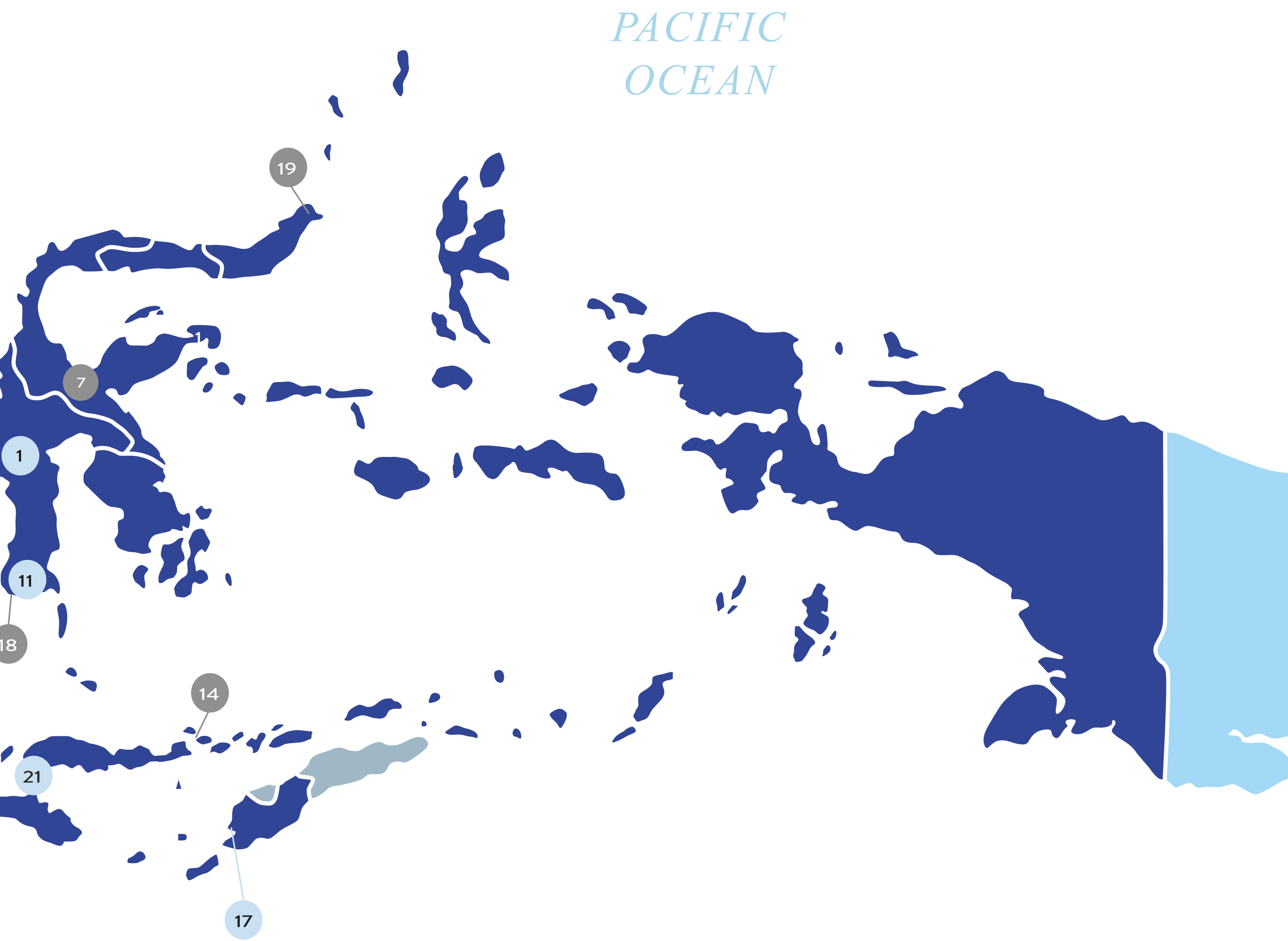
4.5 CONCLUDING REMARKS

In the medium term this is likely to see a greater emphasis on encouraging exploration in oil and gas and unconventional energy. The Government has already signalled it wants to see a substantial expansion of renewables, oil and gas exploration in particular. Australian companies providing exploration services should continue to monitor developments in Indonesia.[42]

Renewables Projects

1. Sidrap Wind Farm, Sidrap, South Sulawesi
2. Kamojang Geothermal Plant, West Java Province
3. Gunung Salak Geothermal Plant, West Java Province
4. Geothermal Power Station, South Sumatra Province
5. Star Energy Geothermal Darajat II, West Java Province
6. Wayang Windu Geothermal Plant, West Java Province
7. Poso Hydropower, Central Sulawesi Province
8. Matenggeng Pumped-Storage Hydro Power Plant, Central Java Province
9. Upper Cisokan Pumped Storage Power, West Java Province
10. Floating solar farm, West Java Province
11. Tolo Wind Farm, South Sulawesi Province

KEY Existing Planned



12. BioGas Plant, South Kalimantan Province
13. BioGas Power Plant, North Sumatra Province
14. Palmerah Tidal Bridge, East Nusa Tenggara
15. Sarulla Geothermal Power Plant, North Sumatra Province
16. Agam Hydro Power Plant, West Sumatra
17. Kuppang Solar Farm, Nusa Tenggara
18. Vena Energy wind power plant, Jeneponto, South Sulawesi
19. Vena Energy sola power plant, Likupang, North Sulawesi
20. Vena Energy solar PV power plant, Pringgabaya, Selong, Sengkol in Lombok, West Nusa Tenggara
21. Asahan One Hydroelectric power plant, North Sumatra Province

5 OPPORTUNITIES IN INFRASTRUCTURE

5.1 OPPORTUNITIES

The expansion of Indonesia's infrastructure has not kept pace with the country's robust economic growth that occurred following the recovery from the Asian Financial Crisis. As a consequence, Indonesia's economic growth has failed to reach its full potential. Lack of adequate infrastructure has also undermined the attractiveness of Indonesia's investment climate. However, this is set to change as the Government focuses on the roll-out of the most aggressive infrastructure development in Indonesia's history – the National Strategic Projects programme.

Whilst Indonesia's economy has reaped the rewards of the lucrative commodities boom, improved infrastructure is essential to the growth of the resources sector in Indonesia. The geography of Indonesia presents some big challenges for logistics and transport operators in the resources sector. Stretching across approximately 17,000 islands, 5 million square kilometres of sea and a total land area of 1,919,317 square kilometres, the archipelago country is huge and mines are frequently located long distances from water and transhipment facilities.

As is common in many resource-rich countries, a large share of resource production is sold onto world markets. Indonesia is the world's largest exporter of thermal coal, formerly the largest exporter of LNG (now Australia), the largest exporter of palm oil and (prior to the 2014 ban on the export of certain unrefined ores) one of the largest suppliers of nickel and bauxite. The Government is well aware of the importance of improving old ports and building new ones as Indonesia strives to tackle its notoriously high logistics costs and improve access to international markets.

The current Indonesian President His Excellency, Joko Widodo and his administration have pledged to drastically improve Indonesia's infrastructure, including updating the nation's roads, ports and railways and is ratcheting up infrastructure spending, with priorities set in logistics, energy and transportation sectors. National strategic projects, regarded as the most important infrastructure projects within the Government's ambitious infrastructure development program, have been identified by the Committee for Acceleration of Priority Infrastructure Delivery. Based upon the most recent evaluation and selection process, 223 projects and three programs have been shortlisted. The aggregate estimated investment value of such infrastructure projects is a staggering US$307.4 billion.

Through Presidential Instruction No. 1/2016 on the Acceleration of the Implementation of National Strategic Projects, signed on 8 January 2016 by the Indonesian President Joko Widodo, all relevant ministries and institutions are tasked to support the acceleration of Indonesia's national strategic projects. This is a demonstration of the significance which the Government attaches to this initiative.

The National Strategic Projects programme covers 15 sectors at project level and three sectors at program level.

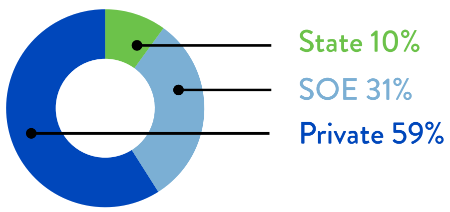
As at June 2018, 32 projects had been completed and 44 projects and one electricity program were in construction and partial operation phase. The number of projects scheduled to commence construction in 2018 is 29, with another 52 expected to commence in 2019 and another 37 thereafter.

As shown below, the initiative is not being fully funded by the Government budget, with over half of the required investment value to come from the private sector. Public-private partnerships have been historically used in Indonesia with varied success. In an attempt to incentivise private sector investment to plug the infrastructure funding gap the Indonesia Infrastructure Guarantee Fund has been established to arrange government guarantees for public-private partnership projects. This new measure has resulted in the successful tender for the Central Java Power Plant last year, the first public-private partnership deal under the new guarantee system.

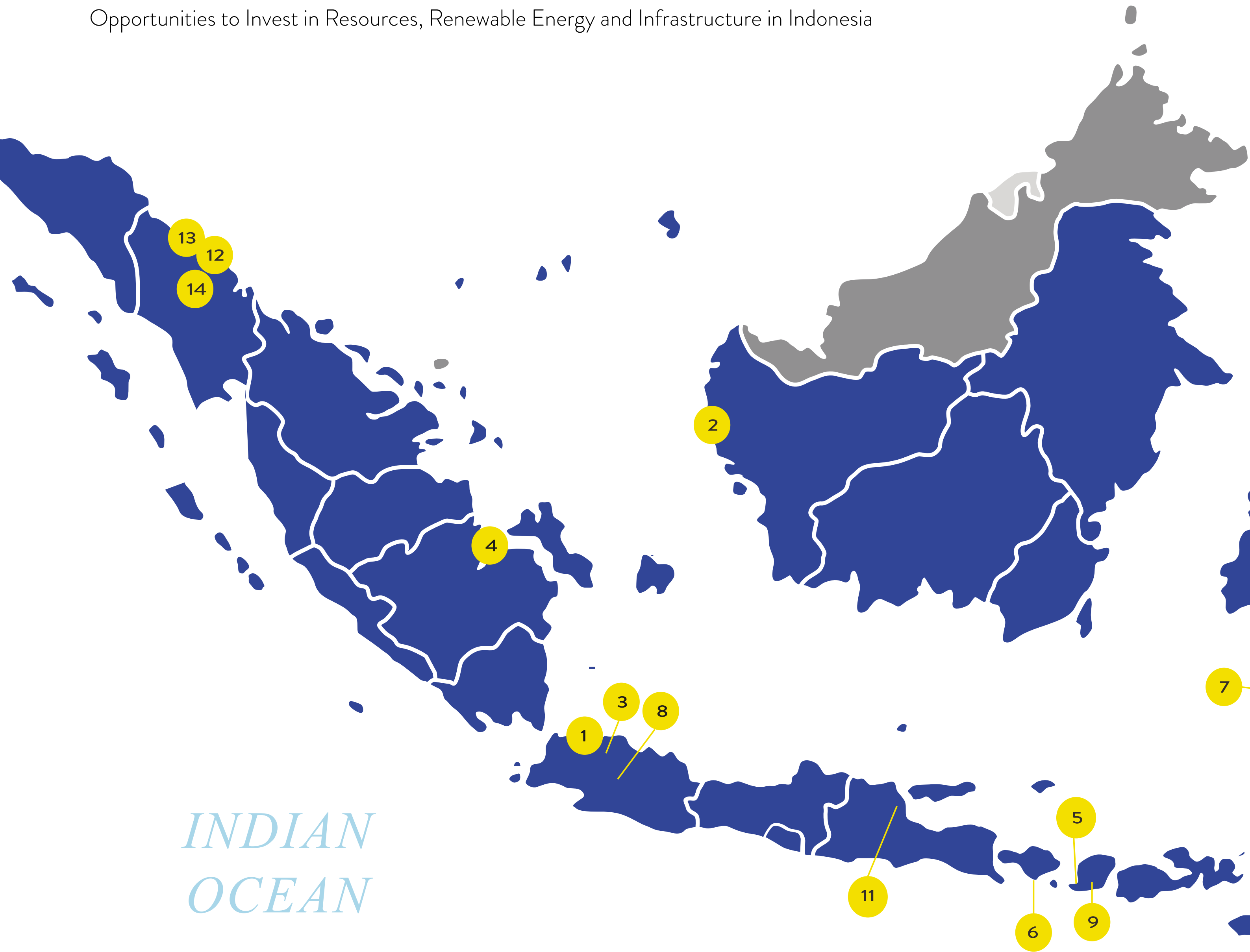
Opportunities for investment include several new port developments, including the proposed international deep-sea port at Kijing, which is located strategically in the resource-rich area of West Kalimantan, noted for its exports of bauxites, rubber, palm oil, and timber. The existing port in the area, the estuary port of Pontianak, is failing to keep up with increasing cargo demand. One of the most ambitious projects currently underway is the extension of the Tanjung Priok port. Once phase three is finished, the new seaport's annual capacity would rise from 5 million twenty-foot equivalent units (**TEU**) annually to 18 million. New Priok would also be able to facilitate Maersk Triple-E class container ships – amongst the largest in the world with 18,000 TEU capacities – in a 300 metre two-way sea lane. Other projects open to investors for cooperation are shown in the table below.

Extimated Investment Value for 223 Projects + 3 Programs*:

Total investment value		
USD 307.4 Billion	State	USD 31.7 Billion
	SOE	USD 94.3 Billion
	Private	USD 181.4 Billion



*Excluding 7 projects with unknown investment value



Other Projects

1. New Priok Port Development Product Terminal, Jakarta; estimated project cost US $730 million
2. New Deep Port Development in Kijing phase 1, West Kalimantan; estimated project cost US $382 million
3. Inland Waterways of Cikarang Bekasi Laut, West Java; estimated project cost US $374 million
4. New Deep Port Development in Tanjung Carat, South Sumatra; estimated project cost US $462,8 million
5. Gili Mas New Port, Lombok Island, West Nusa Tenggara; estimated project cost US $153 million
6. Port of Benoa, Denpasar Bali; estimated project cost US $158 million
7. Makasar New Port, South Sulawesi; estimated project cost for phase 1 US $575 million
8. Bandung Metro Capsule, West Java; estimated project cost US $37 million

9. Lombok International Airport, West Nusa Tenggara; estimated project cost US $126 million
10. Makassar - Pare Pare Railway, South Sulawesi; estimated project cost US $376 million
11. Surabay Tram, East Java; estimated project cost US $870 million
12. Kuala Tanjung Hub Port, North Sumatra; estimated project cost US $2.6 billion
13. Kualanamu International Airport, North Sumatra; estimated project cost US $1.53 billion
14. Pematang Siantar – Parapat Railway, North Sumatra; estimated project cost US $ 4.26 million

Infrastructure is vital for the long-term growth and competitiveness of emerging economies. Many Asian countries are still facing constraints in developing and funding infrastructure projects, but the signs are positive in Indonesia that an environment is being created that is making infrastructure investments more attractive to investors and lenders.

5.2 RELEVANT INDUSTRY CONTACTS

+ Badan Koordinasi Penanaman Modal (Indonesia Investment Coordinating Board)
+ Indonesian Chamber of Commerce and Industry/ KADIN
+ Indonesia Infrastructure Initiative (IndII)
+ Committee for Acceleration of Priority Infrastructure Delivery (KPPIP)

6 OPPORTUNITIES IN METS

6.1 INTRODUCTION

Indonesia's scale and prospectivity has ensured that the resources sector continues to attract significant foreign interest. Australian Mining Equipment, Technology and Services (**METS**) companies enjoy a reputation as industry leaders in quality and innovation – this reputation is a valuable asset for Australian miners. Asian equipment suppliers generally retain the largest market share across the resources sector, while suppliers from Australia are perceived as being of higher quality but also higher cost. Demonstrating the productivity or efficiency benefits of your product or service is key.

METS companies still have significant opportunities to build market share in Indonesia. Opportunities exist for providers of mining technology who can clearly demonstrate productivity gains to Indonesian miners. Demand remains strong for mining and exploration software, specialised and innovative equipment, education and training services and specialised mining consulting. Like Australia, Indonesian miners are grappling with lower prices for commodities, so demand is strong for savings and productivity enhancements. The Indonesian mining industry has also suffered from considerable skills shortages – creating opportunities for training providers. Mine safety – an area of outstanding Australian capability – also looms large as a growth opportunity for Australian service providers.

As mentioned above, the Government has announced a series of ambitious targets for the construction of new energy generation capacity. The proposed energy mix sees coal continuing to play a key role meaning that domestic demand for Indonesian coal is likely to increase, generating more opportunities for METS companies.[43]

Should Indonesia's partial ban on unprocessed ore exports (**Export Ban**) remain in place, the next five years will likely see substantial investment in smelting facilities as part of the realisation of the Government's policy of requiring domestic processing and refining of all metal minerals (**DP&R Policy**) . The DP&R Policy has generated considerable challenges for ore miners but will create opportunities for Australian companies throughout the project lifecycle, from feasibility studies through construction and operation of smelters.

The steps the Government was forced to take in August and September to address the twin problems of the increasing 2018 account deficit and the weakening Rupiah, as well as the ongoing process of revising the Negative Investment List in an endeavour to attract more foreign investment, inevitably invite the question of whether the increasing current account deficit and the weakening Rupiah will also encourage the Government to reconsider other long-established policies in the energy and mining sectors. Of particular interest in this regard is what the implications of this changing policy environment may be for the Export Ban (bauxite ore and nickel ore in particular) and the DP&R Policy as a whole.

In the context of the Export Ban and the DP&R Policy, a greater focus by the Government on increasing exports (as advocated by the World Bank) could result in the Government either (i) relaxing the Export Ban and allowing a resumption of exports of larger quantities of lower value added bauxite ore, nickel ore and other unprocessed metal minerals or (ii) retaining the Export Ban in its current form, "doubling down" on the DP&R Policy and placing increased emphasis on "fast tracking" refinery/smelter construction so as ensure the export, at an earlier time than would otherwise have been the case, of large quantities of high value added fully processed and refined alumina, aluminium, matte nickel and other metal mineral products. As Government policy is being increasingly dominated by political considerations in the run-up to the April 2019 presidential elections, it is impossible to say at this time which of the highlighted alternatives for dealing with the increasing current account deficit and the weakening Rupiah, in the context of the Export Ban and the DP&R Policy, will prevail.

Further to section 3.1 of this Paper, the following overview looks at the material changes that MoEMR Regulation No. 11 of 2018 has introduced for a Mining Services Provider who is a holder of a IUJP (Mining Service Business Licence).

6.2 MINING SERVICES PROVIDERS – IUJP HOLDERS[44]

(a) Issuance of IUJPs

IUJPs or a business license for a mining services provider will now be issued by (i) the Minister if the relevant mining service business activities are to be carried on throughout Indonesia or if the relevant mining services provider is a foreign company or PMA Company or (ii) the relevant Governor if the relevant mining service business activities are to be carried on in one Province only. Regents or Mayors no longer have authority to issue IUJPs even if the relevant mining service business activities are only to be carried on in a single Regency or City.[45] Denying Regents and Mayors any authority to issue IUJPs is a logical step in the ongoing process of ensuring that Regional Governments are "kept at arms-length", as far as is feasible, from all aspects of licensing in the mining industry and where a foreign company or a PMA Company is involved

(b) Extension of IUJPs

Greater control over the timing of applications for extension of IUJPs has been introduced, with the permitted application period being limited to not later than one month prior to the expiry date of the relevant IUJP. This is consistent with the previous position where the only constraint on IUJP renewal applications was that they had to be submitted not later than one month before the expiry date of the relevant IUJP.[46]

(c) Categories of IUJP holders

The long established separate categories of Local Mining Services Providers, National Mining Services Providers and Other Mining Services Providers (i.e., PMA or foreign companies) has been dispensed with. The new regulation now only refers to "Mining Services Providers".

(d) Classification and qualification of IUJP holders

In addition to being categorised as Local Mining Services Providers, National Mining Services Providers and Other Mining Services Providers, IUJP Holders (regardless of category) were previously classified as "small", "medium" or "large" based on the net worth qualification of the relevant IUJP Holder. The significance of these classifications/qualifications was that it determined the types of mining service business activities the relevant IUJP Holder could carry on. The new regulation no longer recognises or uses this classification system.

(e) Individual IUJP holders

IUJP holders, which are individuals rather than companies, are now limited to carrying out mining service business activities in the nature of consultancy and/or planning. Previously, there was no officially prescribed limit on the types of mining service business activities that could be carried out by IUJP holders who were individuals rather than companies.[47]

(f) Categories of Mining Services

The new regulation no longer adopts the previous distinction between "Mining Services" and "Non-Core Mining Services", which distinction was used to determine whether a particular Mining Services Provider needed a business license (i.e., an IUJP) or a registration letter (i.e., an SKT) to operate.

7 KEY INDUSTRY CONTACTS

+ Australia Indonesia Business Council (AIBC) and Indonesia Australia Business Council (IABC)
+ Indonesia Investment Coordinating Board (BKPM)
+ Indonesia Mining Services Association
+ Indonesian Coal Mining Association (ICMA-APBI)
+ Indonesian Mining Association
+ The Indonesian Renewable Energy Society (METI-IRES)
+ Department of Foreign Affairs and Trade (DFAT)
+ Australian Trade and Investment Commission (Austrade)

8 RELEVANT EXPERTISE

8.1 ENERGY + RESOURCES

> **"THEY HAVE A CLIENT-CENTRIC CULTURE AND THEIR FORWARD-LOOKING APPROACH TO THE DELIVERY OF LEGAL SERVICES IS AN ELEMENT WHICH SETS THEM APART."**
>
> **Chambers Asia Pacific Energy & Natural Resources 2018**

Gilbert + Tobin has leading energy & resources specialists who advise on world-class transactions both in Australia and in key markets worldwide.

Our experience includes advising on the development of greenfield projects (including associated financings), upstream asset sales and joint ventures, long term sale agreements and providing general commercial contracting advice.

The team advises on all aspects of energy and resources projects, including finance, acquisitions and disposals, project development and delivery strategies, construction, procurement, regulation and operations. Our team's mix of corporate, regulatory and project experience enables us to advise on a project's entire lifecycle in all areas of this sector, including energy, mining, oil and gas.

We regularly advise publicly listed and private Australian and international companies involved in resource exploration, development, mine closure, remediation and mining. Commodities include base metals, coal, copper, diamonds, gold, iron ore, mineral sands, nickel, platinum, rare earths, uranium, pearls, salt and timber. We also have extensive experience in coal bed methane, gas and other hydrocarbons.

Gilbert + Tobin enjoys close "best friends" relationships with the leading firms in all key foreign jurisdictions. This means we are not tied to the pre-determined connections of larger international firms, but can provide seamless cross-border advice utilising the best lawyers in each jurisdiction. This gives our clients the benefit of global expertise, allowing us the flexibility to work closely with a specific firm on transactions, therefore avoiding the conflicts an alliance may bring.

Most of our partners and many of our lawyers have practised in other jurisdictions at top-tier overseas firms and we work constantly throughout the Asia Pacific, and have deep experience in developing countries including Indonesia.

+ Lion Energy on the acquisition, partial disposal and continued holding of its interests in a production sharing contract and joint operating agreement in Indonesia.
+ Meridian Energy on a number of PPAs in respect of its renewable electricity portfolio.
+ GDF Suez on its proposed acquisition of an international portfolio of renewable and non-renewable independent power projects in Asia and Africa.
+ Major petroleum project in Myanmar on negotiating and advising on large gas supply arrangements.
+ Advising PNG-government owned entity, NPCP Holdings Limited, regarding domestic supply and third party access arrangements in respect of greenfield gas pipeline developments
+ Advising UBS Investment bank and a syndicate of lenders on the project financing of Oil Search Ltd's Gobe Oil Project (PNG), and UBS Australia on a subordinated equity-bridge debt facility for Oil Search Ltd.
+ EIG Global Energy Partners in respect of its proposed investment and participation in a large upstream oil and gas exploration and development project in the PNG highlands.
+ CNOOC, on its interest in the North West Shelf LNG Project, including detailed contract review and advice.
+ Shell (as in-house counsel) advising on all legal aspects of the Prelude Floating LNG Project, including equity sell-down from Shell to Kogas, and preparation of key project agreements.
+ Woodside, advising on the Pluto LNG Project, including preparation of key project agreements and equity sell-down to Tokyo Gas and Kansai Electric.

- Horizon Oil Ltd on its sale of a significant interest in its PNG assets to Talisman.
- Kumul Petroleum Holdings Limited (Papua New Guinea's national oil company) on legislative and regulatory reform initiatives in PNG.
- Bis (as in-house counsel) on incorporating in Indonesia and supporting the establishment of its mining operations.
- Preparation and negotiation of key project agreements for the Bis and Bayan Resources project in Tabang.
- Contributed to briefing to Indonesian Economic Minster on issues faced in investing and establishing a business in Indonesia including research and preparation of memorandum outlining key 'manpower' issues and recommended changes to the Government.
- Contributions to the Indonesia-Australia Comprehensive Economic Partnership Agreement via the Indonesia-Australia Business Partnership Group on 'manpower' issues affecting foreign companies.
- Hong Kong based telecommunications company acting on the transformation of its business support and operational support IT systems.
- PT. Garuda Indonesia (Persero) Tbk with litigation strategy oversight and advice to Garuda in relation to an airline cartel prosecution by the ACCC.
- Advised Jemena Gas Network on the 2015-2020 access arrangement review process, from the proposal development stage through to the current merits and judicial review proceedings.
- Advised Consolidated Electric Power Asia Ltd on the 1,000 MW power station at Saul, the largest coal-fired power station in the Philippines
- Advised the State of the Philippines on the creation of competition policy and regulatory frameworks for the Philippine Electricity Sector (including drafting policy and legal advice as well as draft legislation and regulation).

8.2 RENEWABLE ENERGY

> **“EXCELLENT: THE QUALITY OF LEGAL ADVICE IS OUTSTANDING AND THEY ALSO HAVE EFFICIENT TURNAROUND TIMES AND PROVIDE GOOD VALUE FOR MONEY.”**
>
> **Chambers Asia Pacific 2017**

Gilbert + Tobin is the leading independent Australian corporate law firm. We have become the legal adviser of choice for clients who value our entrepreneurial culture and determination to succeed. Key highlights of our offering include:

+ **Experience with renewables transactions.** We have a proven track record of advising on renewable energy transactions and in particular on solar and wind farm projects around Australia.
+ **Leading project development expertise**. We have advised major industry players on numerous solar and wind farm development projects around Australia. From concept to completion, we have the necessary legal expertise and industry experience to ensure successful project delivery across a wide range of renewable energy projects.
+ **Outstanding M&A and finance teams.** Our Corporate Advisory team are outstanding legal and strategic practitioners, both on acquisition agreements and equity financing. We are ranked as Tier 1 in Chambers in each of M&A, Private Equity and Capital Markets.
+ **Cross-practice expertise.** Our reputation for expert advice extends across a broad range of areas including Banking + Infrastructure, Real Estate + Projects, M&A, Capital Markets, Tax, Competition + Regulation, Infrastructure, Energy + Resources, Intellectual Property and Litigation + Dispute Resolution.
+ **Transparent and collaborative approach.** We understand that successful projects require an understanding of the processes, timing and drivers of the various stakeholders involved. It involves being able to work effectively and constructively with all stakeholders.
+ **Value for money.** We understand clients want value for money. We are innovative and flexible on our pricing without compromising quality of service. Our work practices and experience ensure we deliver first rate services at reasonable prices.

- Ausnet on the development, structuring and operation of a 'behind-the-meter' roof-top residential, commercial and industrial roof-top solar PPA business in Victoria.
- A leading Singaporean entity on the development, structuring and operation of a 'behind-the-meter' roof-top residential, commercial and industrial roof-top solar PPA business in Western Australia.
- H.R.L Morrison on their $532 million acquisition and project financing of AGL Energy's 50% stake in the Macarthur Wind Farm.
- Clean Energy Finance Corporation in connection with the establishment of its investment program and structuring matters.
- FRV on the structuring, development and subsequent sale of its 20 MW Royalla Solar Project.
- ACL Energy on the development and sale of the Hallett 1, Hallett 2, Hallett 4 and Wattle Point wind farms and in its bid to acquire certain renewable energy generation opportunities in Queensland.
- Austnet on the purchase of the Mortlake Terminal Station from Origin Energy.
- Eurus on its bid for the Emu Downs Wind Farm in WA including separate bids for the existing wind farm and associated development opportunities.
- Dong Energy on its acquisition of an interest in two UK offshore wind projects in the Round 3 Hornsea Zone and its joint venture with Siemens and Mainstream Renewable Power to co-develop the projects.
- Pacific Equity Partners on its joint bid for Pacific Hydro, a global owner, operator and developer of wind and hydro renewable energy assets.
- Infigen Energy on the development of the Capital, Woodlawn and Walkaway II wind farms.
- Sunseap Leasing, a leading Singaporean solar developer, on its Australian market entry and joint venture arrangements.
- Energy Developments on the limited recourse financing of seven renewable energy projects in the USA and separately the limited recourse financing of a portfolio of over 20 power projects in Australia.
- The proposed acquirer of the Williamsdale Solar Farm in the Australian Capital Territory.
- UBS International Infrastructure Fund and Retail Employees Superannuation Trust on the acquisition and project financing of the 206 MW, A$740m Collgar Wind Farm, which at the time was Western Australia's largest renewable energy project.
- Ratch on all aspects of the development of the 180 MW Collector wind farm in New South Wales and the 200 MW Mt Emerald wind farm.
- Karratha Airport on its Solar Project, including drafting and negotiating the full suite of project documentation and advising on the subsequent divestment of the project.
- Windlab and Eurus Energy on the development and financing of the $50 million Coonooer Bridge wind farm.

8.3 BANKING + INFRASTRUCTURE

> **"I REGARD THEM VERY HIGHLY: THEY'RE COMMERCIAL, THEY PROVIDE GOOD ADVICE… AND THEY'RE ALSO REALLY PLEASANT TO WORK WITH."**
>
> **Chambers Asia Pacific 2018**

Our Banking and Infrastructure Group advises leading Australian and international financial institutions, investment banks, corporations and private equity funds.

We combine a thorough understanding of Australian and international financial markets with a strong commercial focus and project management abilities to achieve our clients' objectives.

Because we act regularly for lenders, borrowers, arrangers and investors, our lawyers understand the different commercial drivers in any transaction and draw on that experience to ensure our clients' business objectives are met within the required timeframes. We are able to anticipate key legal and commercial issues likely to arise in any financial transaction and then guide our clients through them.

The members of our Banking and Infrastructure Group have strong experience in both domestic financing and crossborder transactions. Many of our lawyers have also practised in other jurisdictions, including Europe, Asia and the United States, and are thoroughly versed in the applicable market documentation standards (e.g. LMA).

We are one of the few firms in Australia that is on the legal panel of all four major Australian trading banks and that maintains strong relationships with all of the major global investment banks. This gives us a unique insight into these institutions' individual approaches and requirements, and also allows us to operate seamlessly for both lenders and borrowers.

Our expertise is recognised by the leading legal directories, including most recently being ranked at Band 1 for Banking & Finance – Acquisition Finance by Chambers Asia-Pacific for 2018.

Acquisition and Leveraged Finance	Advising a full range of stakeholders on the debt aspects of corporate mergers and acquisitions, as well as leveraged and management buyouts. We regularly advise on both senior and mezzanine structures, as well as those including high yield and other capital market products.
Corporate Finance	Advising on Investment-grade IPO facilities, transactional, working capital, leasing and trade finance facilities.
Debt Capital Markets, Securitisation and Derivatives	Advising on various debt issuance and securitisation programmes (RMBS and CMBS establishments), A$MTN, Kangaroo and EMTN programmes, Bank hybrids, US private placements, High yield bonds, CD, CP, ECP, USCP and global CP program establishments, social impact bonds, credit-wrapped notes, convertible notes and exchangeable notes and Tender offers and buy backs.
Project and Infrastructure Related Finance	Advising on debt and equity financing arrangements, project formation, structuring and implementation for a range of projects, regulated and unregulated infrastructure, property development, transport, power and energy, mining and resources and oil and gas.
Construction	Advising on construction-related aspects of major transactions and providing precise insights into the risk allocation of the construction aspects of a transaction.
Restructuring and Insolvency	Advising on restructuring and workouts, distressed debt investing, corporate distress, voluntary administrations, liquidations, receiverships and creditor schemes and associated disputes and applications.
Structured Asset Finance	Advising on structured asset finance transactions including aircraft and equipment leasing and off-balance sheet structures.

+ Various APAC telecommunications operators in 2G/3G/4G network infrastructure rollouts and network support arrangements, billing and CRM system implementation and upgrades, microwave, IN supply procurements, cloud computing and OTT implementation arrangements, IT infrastructure arrangements, AD&M arrangements and global licensing and resale and alliance arrangements.
+ XL Axiata in relation to its current RAN Turnkey Project, its end-to-end managed services outsourcing of its field services, network operations and maintenance of its entire telecommunications network, managed services of its VAS and digital merchant businesses, and outsourcing of its IT infrastructure services, including providing on-site support in Jakarta.
+ Reliance Rail PPP in relation to there financing of Australia's largest PPP (valued at A$3.6 billion) between the NSW government and Downer EDI, including the rolling stock PPP contract, credit wrapped bonds and bank debt, to deliver the Waratah trains on the Sydney Rail network.
+ Sunshine Coast Airport - advising Palisade Investment Partners on its successful bid to become operator of the Sunshine Coast Airport and commercial partner in the associated development of the Airport.
+ Trustpower/Tilt Renewables demerger - advising Trustpower and Tilt Renewables to implement a comprehensive financing package for Tilt Renewables.
+ Tilt Renewables on the financing of its newest wind farm development, Salt Creek, a 55 megawatt project in south west Victoria.
+ The Synergy Greenfield Renewable Fund – advising the lenders to the fund, a landmark investment fund.
+ Syrah Resources in relation to all aspects of the development of its Balama Graphite and Vanadium asset in Mozambique.
+ Cooper Energy on the project financing for its A$355 million Sole Gas Project.
+ Veolia and Infrastructure Capital Group on the proposal to build, operate and maintain a water treatment plant for Centennial Coal and Energy Australia.
+ Ooredoo Myanmar in relation to complex telecommunications network infrastructure deployment (including rollout of the first 4G/LTE network in Myanmar), mobile money, fibre sharing, tower co-location and technology transactions against multiple suppliers and operators, including undertaking various short term assignments on-site in Yangon, Myanmar.
+ National Australia Bank Limited and Sumitomo Mitsui Banking Corporation as financiers to Fotowatio Renewable Ventures, funding the multimillion-dollar construction of the Clare Solar Farm project.

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END NOTES

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7 The current account position is the sum of the balance of trade or exports minus imports of both goods and services plus net factor income plus next transfer payments.

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21 Refer to section 6 of this Paper for an overview of the material changes only that the new regulation has introduced for Mining Services Providers – IUJP holders and (ii) Processers & Refiners and Traders & Transporters of Mining Products – Special OP IUP Holders.

22 MoEMR Regulation No. 11 of 2018 Article 111(g).

23 MoEMR Regulation No. 11 of 2018 Article 111(i).

24 MoEMR Regulation No. 11 of 2018 Article 39(3).

25 The rights and obligations of IUPK holders are set out in detail in MoEMR Regulation No. 11 of 2018 Articles 58, 59, 60 and 61.

26 MoEMR Regulation No. 11 of 2018 Article 58(b).

27 Article 93 of the 2009 Mining Law.

28 MoEMR Regulation No. 9 of 2017 was issued in January with the apparent intention of, among other things, making the price payable for divestiture shares in foreign-owned Operation Production IUP/IUPK holders more realistic by providing that the (i) maximum Divestiture Price, in the case of Divestiture Shares that are offered to the Central Government and the relevant Provincial Government/Regional Government, and (ii) base Divestiture Price, in the case of Divestiture Shares auctioned to State-owned Enterprises and Regional-owned Enterprises or private Non-PMA Companies, is the fair market value of the Divestiture Shares but "not taking into account the underlying mineral or coal reserves" of the relevant foreign-owned Operation Production IUP/IUPK holder (MoEMR Regulation No. 9 of2017 Article 14 Paragraphs 1 and 2). This provision was a source of much controversy at the time. Recognising "fair market value", as the appropriate basis for determining the Divestiture Price, was a positive development and certainly an improvement on the previously mandated "recovery of investment" only basis. However, the significance of this positive development seemed to have been almost entirely diluted by excluding the underlying mineral or coal reserves from the calculation of "fair market value". The "fair market value" of a mining project is commonly understood as being almost entirely reflected in the assessed market value of the proven mineral or coal reserves underlying that mining project.

29 MoEMR Regulation No. 11 of 2018 Article 59(1)(d).

30 PMA is short for Penanaman Modal Asing which in English means a foreign investment.

31 Australian Trade and Investment Commission (Austrade), Resources and energy to Indonesia - Trends and opportunities (2018) <https://www.austrade.gov.au/australian/export/export-markets/countries-and-economies/indonesia/industries/resources-and-energy-to-indonesia>

32 As reported in the Jakarta Post, 10 January 2018 quoting Ego Syahrial, oil and gas director general of the Energy and Mineral Resources Ministry <http://www.thejakartapost.com/news/2018/01/10/indonesia-sets-sights-on-17-04b-oil-and-gas-investment-in-2018.html>

33 Inpex, Indonesia (2018) <https://www.inpex.co.jp/english/business/indonesia.html>

34 The Indonesian Master Plan for Electricity Supply 2018-2027

35 Supreme Energy, The signing of PPA Amendment for Rantau Dedap Geothermal Project (16 November 2017) <http://www.supreme-energy.com/the-signing-of-ppa-amendment-for-rantau-dedap-geothermal-project/>

36 At the time of writing, Indonesia is the world's second largest producer of geothermal power with the current installed capacity of geothermal power generation of 1,925 MegaWatts.

37 Revised and Adjusted Master Plan for Electricity Supply 2018-2027

38 MoEMR Regulation 49 of 2017 deletes (i) Article 8 paragraphs (1a), (2a) and (3a) and (ii) Article 28 paragraphs (2c) and (7) of MoEMR Regulation 10 of 2017.

39 MoEMR Regulation 10 of 2018 further amends Article 28 of MoEMR Regulation 10 of 2017 by deleting paragraphs (2b), (5) and (6).

40 MoEMR Regulation 10 of 2017; clauses 1(a) and 2(a) of Article 8.

41 MoEMR Regulation 10 of 2017; clauses 2(c) and 7 of Article 28.

42 Australian Trade and Investment Commission (Austrade), Resources and energy to Indonesia - Trends and opportunities (2018) <https://www.austrade.gov.au/australian/export/export-markets/countries-and-economies/indonesia/industries/resources-and-energy-to-indonesia>

43 Australian Trade and Investment Commission (Austrade), Resources and energy to Indonesia - Trends and opportunities (2018) <https://www.austrade.gov.au/australian/export/export-markets/countries-and-economies/indonesia/industries/resources-and-energy-to-indonesia>

44 Izin Usaha Jasa Pertambangan or IUJP means a business license for Mining Services Providers.

45 MoEMR Regulation No. 11 of 2018 Article 52.

46 MoEMR Regulation No. 11 of 2018 Article 54(5).

47 MoEMR Regulation No. 11 of 2018 Article 54.2.

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