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Energy and Mineral Resources Minister Ignatius Jonan, left, Finance Minister Sri Mulyani, Environment Minister Siti Nurbaya, right, and SOE Minister Rini Soemarno witness the signing of the head of agreement between Inalum president director Budi Gunadi, third right, and Freeport McMoran president director Richard Adkerson, second left, on Freeport Indonesia divestment, in Jakarta on Thursday (12/07). (Antara Photo/Wahyu Putro A)

By : Adinda Normala | on 5:03 PM July 13, 2018

Jakarta. State-owned miner Indonesia Asahan Alumunium, or Inalum, has signed a head of agreement with Freeport-McMoran to acquire a 51.38 percent share worth \$3.85 billion in the Grasberg copper and gold mine in Papua, officials said on Thursday (12/07).

The transaction is expected to be complete in the next two months.

Indonesia will pay the agreed amount after Inalum has completed the process of acquiring shares from Freeport subsidiary Indocopper Investama and participating interest from Rio Tinto,

which will be converted into shares. Inalum currently owns a 9.36 percent stake in Freeport Indonesia.

Indonesia will pay \$3.5 billion to Rio Tinto and the rest will go to Freeport McMoran.

"There are already 11 banks ready to help fund the transaction ... only one or two banks are not local. We hope all paperwork will be finished within two months," Inalum chief executive Budi Gunadi Sadikin told reporters.

The government sees the agreement as binding, locking in the structure and price of the transaction, State Enterprises Minister Rini Soemarno said.

Future

When Freeport signs the final agreement to divest 51 percent of its shares, it will be able to extend its operations in Indonesia by upgrading the existing contract, which will expire in 2021, to a special mining permit (IUPK) valid until 2041.

In August last year, the Arizona-headquartered company agreed to give up its majority stake, pay higher taxes and have a smelter in Indonesia.

According to Energy and Mineral Resources Minister Ignasius Jonan, the smelter in Gresik, East Java, which is worth \$2.1 billion, in the next five years should have a capacity of melting between 2 million and 2.6 million tons of copper concentrate.

Jonan said that when the requirements are fulfilled and Freeport obtains a recommendation letter from the Ministry of Environment and Forestry, ensuring "there are no serious problems related to environmental issues," it will receive the IUPK.

Environment Minister Siti Nurbaya said there are 48 weaknesses in Freeport's environmental processing, of which the worst is in mine tailings — the ore waste — which up until now have been dumped by the company into nearby rivers. A team is now assessing its environmental impact, the minister said.

Freeport accepted far less than it could have got for its majority Grasberg stake, indicating the company's desire to end an acrimonious chapter that had weighed on its shares for more than six years. The company risked getting nothing had the case moved to arbitration.

"This is a very important day for Freeport. For a long time we have been working with the government, and this is our historical contract in 50 years ... We're enthusiastic about the new partnership and totally committed to make this partnership a success story," Freeport chief executive Richard Adkerson said.

Thursday's deal could be a boon for Freeport's stock, which has fallen behind peers. Most analysts believe the stock should trade about 14 percent above current levels, according to Thomson Reuters data.

"Just to have clarity is critically important because for many investors, Freeport has been uninvestable because of the uncertainty around Grasberg," Jefferies mining analyst Christopher LaFemina said in an interview.

Freeport Indonesia is one of the biggest taxpayers in Indonesia, having paid more than \$16 billion to the government in royalties, taxes and dividends, between 1992 and 2015, the company said.

The company posted a total revenue of \$4.44 billion last year, up from \$3.3 billion in the previous year, its audited financial report showed. It also recorded a net profit of \$1.28 billion, up from \$580 million.

Additional reporting by Reuters

