



Myanmar Business Update and Outlook

KPMG Executive Briefing and Networking
31 May 2016

Disclaimer

This brief presentation on Myanmar tax managed by Internal Revenue Department and other regulatory issues is intended to provide an introduction to some of the key points and information to participants of the Seminar.

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Agenda

- **Business Environment**
- **Regulatory Environment**
- **Outlook and opportunities**
- **Question & Answer Session**



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Myanmar Fast Facts



ECONOMY

- Gross domestic product (GDP): US\$64.3 billion
- GDP growth rate: 8.5% (2015)
- Labor force: 34.3 million



PEOPLE

- Total population: 51.4 million (preliminary estimate)
- Total number of households: 10.9 million
- Total urban population: 14.9 million



RESOURCES

- 10 trillion cubic feet of proven natural gas reserves
- 47.7 million barrels of oil reserves
- Total length of costal line : 2,278 km



TRADE

- Exports: US\$13.3 billion (20.6% of GDP)
- Imports: US\$14.7 billion (22.9% of GDP)
- Generalized Scheme of Preference (GSP) provided by EU and Japan. It is also being considered by US



SOCIAL INDICATORS

- Mobile penetration rate: 50% (2014-15 est.)
- Electricity consumption: 6.1 billion kWh (2010 est.)
- 18,769 cubic meter per capita of renewable fresh water per year



OPPORTUNITIES

- Part of ASEAN with a combined market size of 625 million
- Strategically located between China, India, S.E. Asia, and near Indian Ocean shipping lanes
- Potential to achieve US\$200 billion+ GDP in 2030
- \$650 billion total investment needed by 2030 to support growth potential, \$320 billion in infrastructure alone
- 10 million people to move to large cities by 2030
- Hugely under-banked & underinsured population (<20% with access to formal financial services)

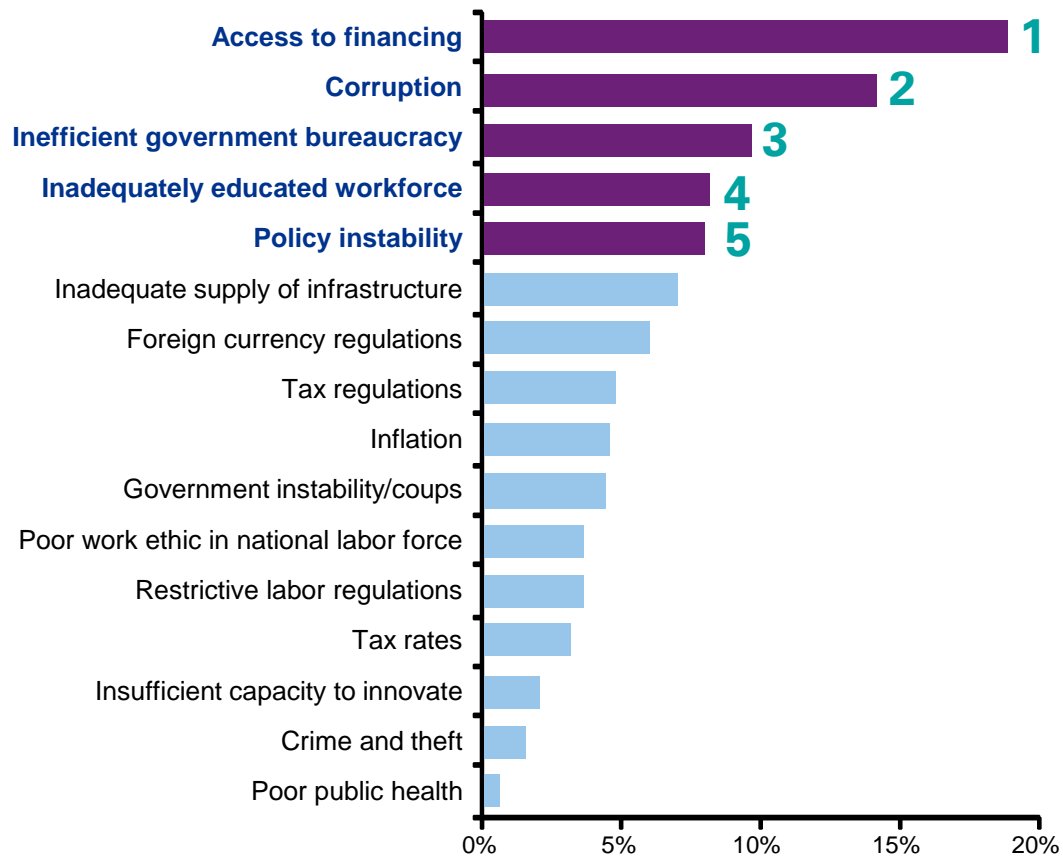


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Challenges in Doing Business

Myanmar issues identified by percentage of respondents



Note: (1) World Economic Forum "The Global Competitiveness Report 2014–2015" (2) Transparency International Corruption Perception Index 2012 (3) EIU Political Instability Index
Source: World Economic Forum; Transparency International Corruption Perception Index; EIU

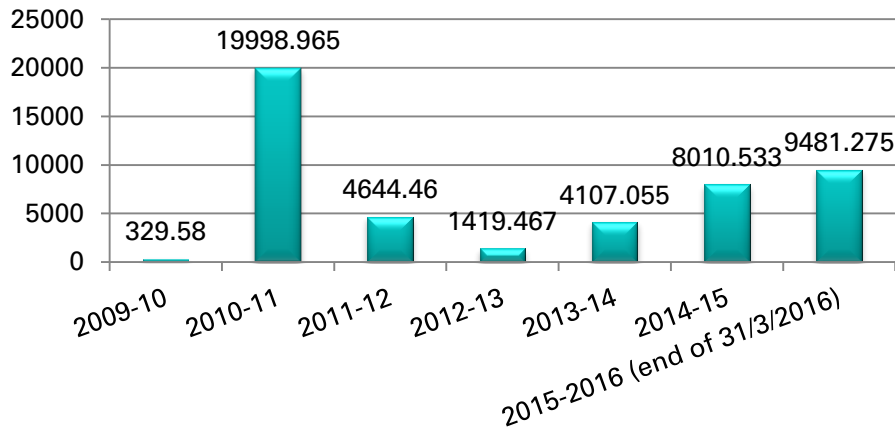


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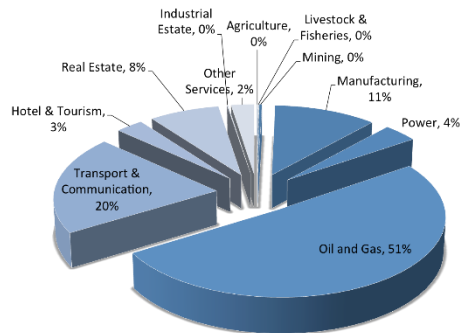
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M&A and Investment Activity

FDI Inflow to Myanmar (USD million)



Breakdown of FDI by Sector FY15



Notable deals & multinational entries

F&B, Consumer goods



Oil & Gas



Telecommunications



Note: Based on Myanmar fiscal year of 1 April to 31 March; FY15 data is 10 months to 31 January 2015

Source: FDI figures are approved foreign investment figures reported by Myanmar's Directorate of Investment and Company Administration (DICA)



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Common Deal Issues

Origination and identification of opportunities

- Availability of data to build an investment case
- Valuation – expectation gap
- Infrastructure

The importance of taking a long-term view

Execution obstacles and common due diligence issues

- Ability to complete due diligence
- Complex deal perimeters and carve-outs
- Ownership of key assets, licenses
- Legal concerns – contracts, legal framework, arbitration

Asset deals often preferable to share deals

Integration and operation

- JV operating framework – decision-making and strategy
- FCPA and regulatory compliance
- Accounting and management reporting
- Human resources

Pick the right local partner, for the right reasons



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Business Environment

Common misconceptions:

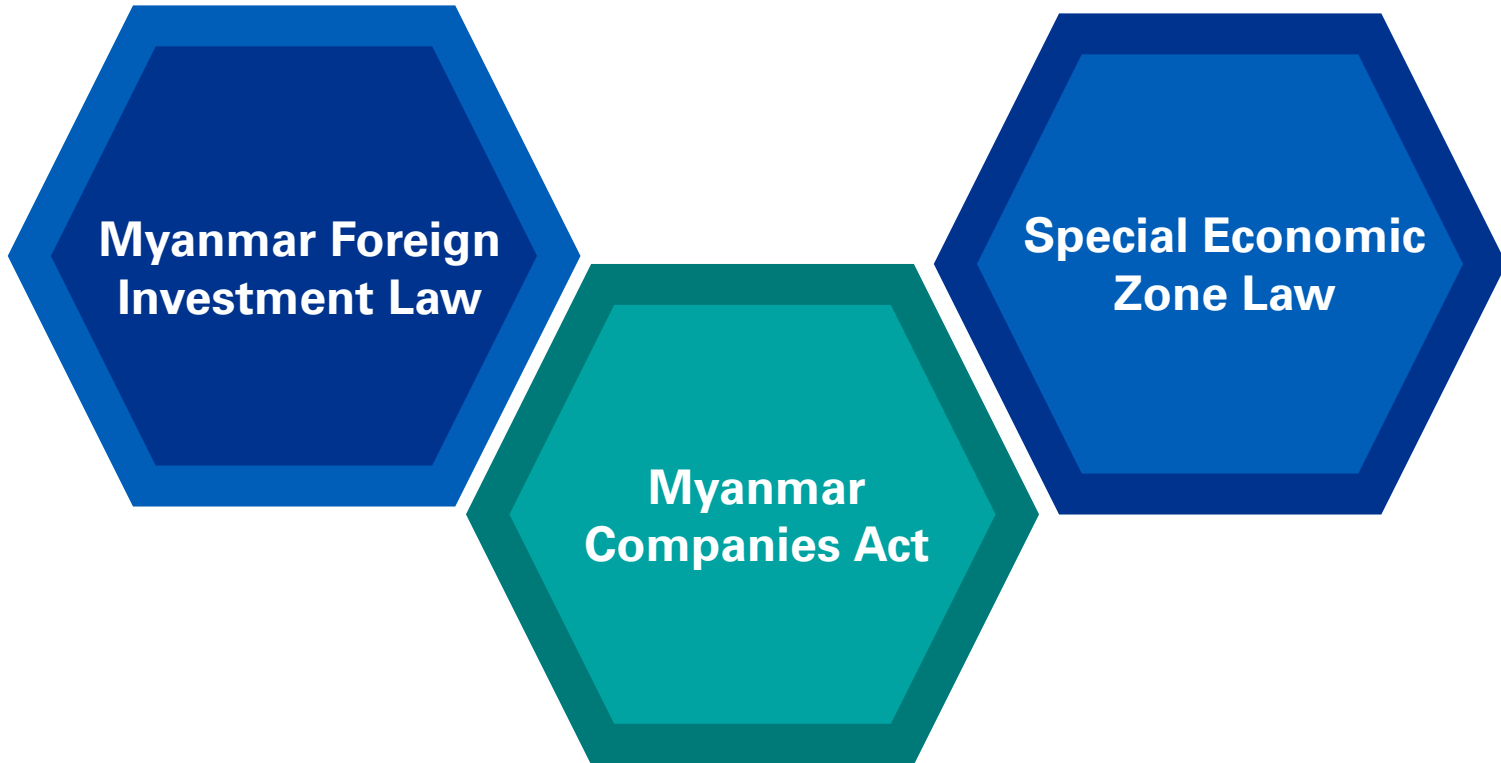
- Everything is negotiable
- Unclear boundaries so actually many things can be achieved through lobby efforts
- Cost structure is low
- It is more important to obtain state level approvals rather than national approvals for project to proceed

Fact:

- Strong desire to follow strict interpretation of legislation.
- Discussions on grey areas expected to be done up front
- Cost is high due to efficiency limitations
- Decision making is still very centrally controlled. Upward delegation is commonplace.
- Capacity building and a focus on business enablers



Regulatory Environment



- Strong influence from the UK on prior legislation
- Reform / Deregulation is impacting investment framework



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Regulatory Environment

- Activities that are restricted / **require** joint venture
 - Manufacturing of food and drink related products
 - Pharmaceutical and chemical products and arms
- Paper and plastic products
- Real estate related development
- Transportation related
- Hospitals, clinics and diagnostic services
- Railway, water borne transportation and air transportation
- Oil and Gas and Mining

Issuance of import licenses

- Wholesale and retail businesses

Activities that do not require joint ventures

- Manufacturing of other products
- Manufacturing of non-restricted products in the SEZ
- Other business activities in the SEZ
- Other Services

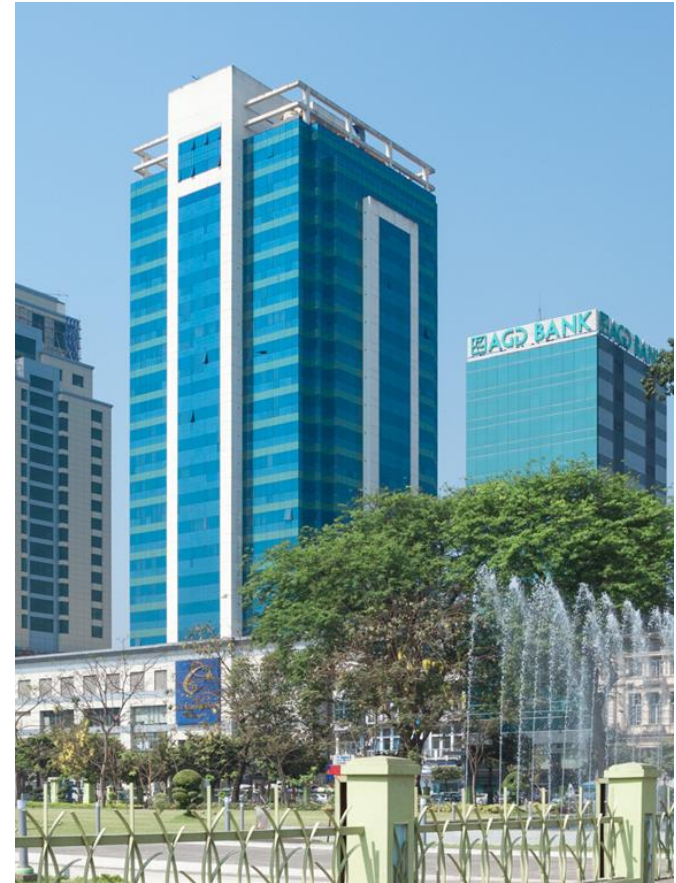


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Financial Statements

- Financial Statements will be based on Myanmar Financial Reporting Standards (close to IFRS).
- Fixed fiscal year end of 31 March
- Financial Statements can be presented in functional currency of foreign investors.
- Financial Statements can be in English or Myanmar.
- Annual audit required.

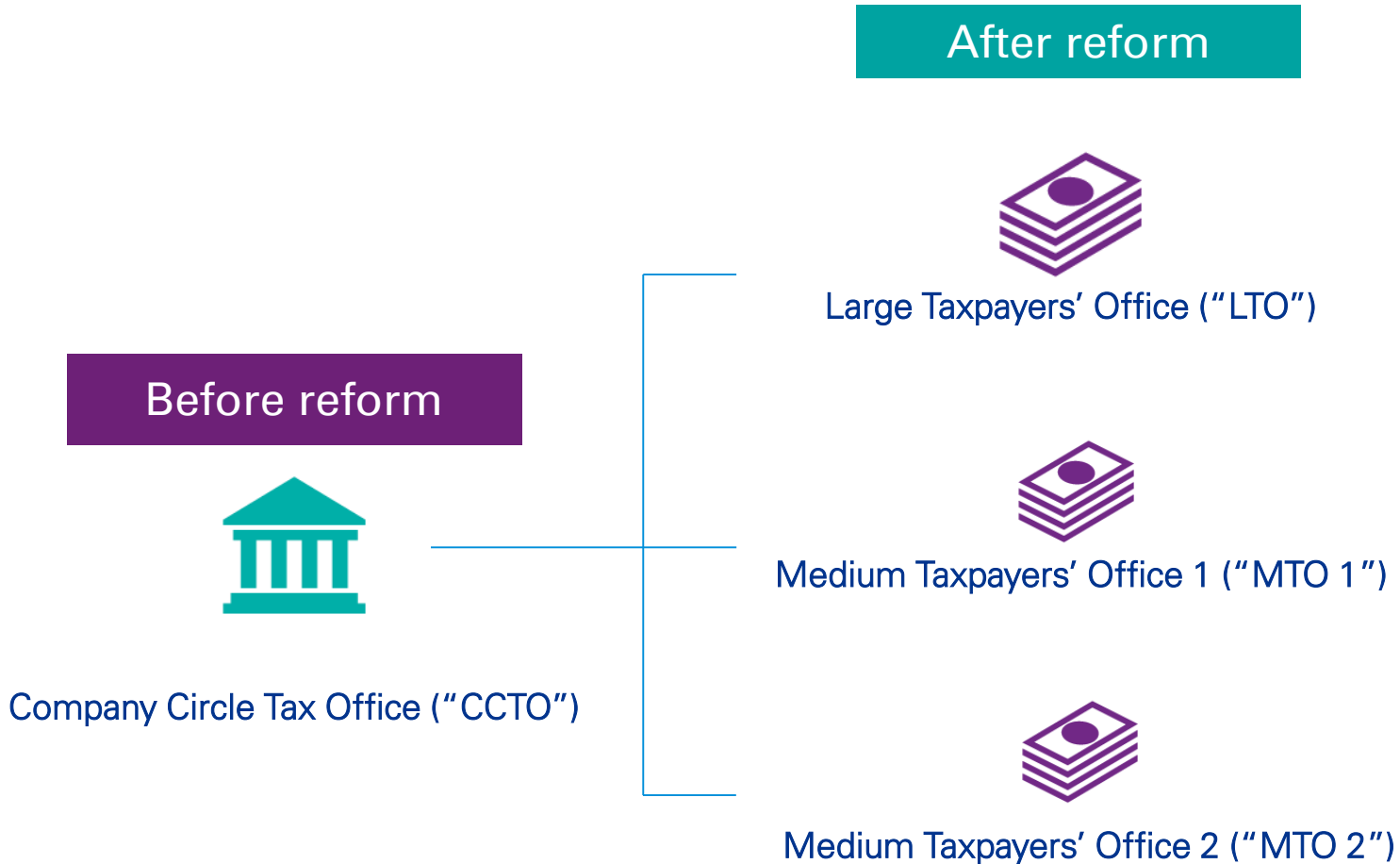


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IRD reforms



Brief introduction to tax



Tax Residency based on registration:

Myanmar incorporated companies are tax resident in Myanmar.



Corporate Income Tax Rates:

Resident companies, branches without MFIL incentives – 25%



Capital Gains Tax rates:

Resident/non-resident tax payers – 10%
Oil and gas industry – 40 to 50%



Withholding Tax on transactions with Non-Residents:

Dividends – 0%
Interest – 15%
Royalties – 20%
Services – 3.5%



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Commercial Tax



Exempt Goods & Services

- 86 types of goods
- 29 types of services



Commercial Tax on specific goods

- 5% commercial tax due on the sales proceeds inclusive of specified goods tax if manufacture locally;
- 5% commercial tax on the landed costs inclusive of specified goods tax if imported.



Concession

- 3% on Inbound air transport service
- 3% on sales proceeds of the building built and sold in the country



Export

- Export of Goods except crude oil & electricity - 0%
- Crude oil - 5%
- Electricity - 8%

Outlook



- With relatively smooth political transition, foreign investments are expected to increase with an increase in investments from the US a contributing factor
- New office holders installed in new fiscal year and are expected to take some time to “learn the ropes”
- Policies that have been set by previous governments are unlikely to be reversed immediately
- Expected increase in pace of infrastructure projects to meet demand
- Increase in enforcement action to raise revenue for infrastructure projects. Tax policy reform will continue at current pace with annual changes announced.



Opportunities

- Currently, goods imported through agent. This is starting to change with the authorities allowing more joint ventures to import certain goods. E.g. vehicles, medical equipment, certain agriculture related products. More are likely upcoming deregulations
- Exports still dominated by O&G, gems and agriculture related products. But authorities are trying to encourage more manufacturing / production in Myanmar to create jobs growth.
- Agricultural revolution still in the making, lack of financing, small sized farms, lack of application of technology. When this takes place, income levels expected to rise faster
- Recognition of international brands previously already being imported into country makes building brand easier
- Health care / Education / Agriculture has been clarified to be key sectors of focus for new government





Thank you

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