

# **AUDIT COMMITTEE CHARTER**

**PT ADARO ENERGY Tbk.  
2017**

## **CHAPTER I INTRODUCTION**

### **1.1. BACKGROUND**

PT Adaro Energy Tbk (“**the Company**”), as a company publicly listed on the Indonesia Stock Exchange, is required to comply with all capital market regulations and other regulatory requirements applicable to its business activities.

The Audit Committee Charter was constituted as a part of the Company’s compliance with the Financial Services Authority’s Regulation Number 55/POJK.04/2015. The Audit Committee is committed to complying with the Audit Committee Charter in carrying out their duties and functions in such a manner to support the management of the Company consistently in accordance with the principles of Good Corporate Governance (GCG) by referring to the applicable rules and regulations.

### **1.2. VISION AND MISSION**

#### **Vision**

to be an audit committee with a high level of integrity to work professionally and independently in carrying out duties.

#### **Mission**

to assist the Board of Commissioners in carrying out the supervisory functions for the Company to apply the GCG principles.

### **1.3. PURPOSE AND OBJECTIVES**

The Audit Committee Charter is constituted to serve as guidelines for the Audit Committee to carry out their duties and responsibilities in an efficient, transparent, professional, independent and accountable manner, in such a way that is acceptable by all stakeholders.

## **CHAPTER II THE CONSTITUTION, ORGANIZATION, AND TERM OF OFFICE OF THE AUDIT COMMITTEE**

### **2.1. DEFINITION**

According to the Financial Services Authority Regulation Number 55/POJK.04/2015, an audit committee is a committee established by the Board of Commissioners, who works collectively in assisting the Board of Commissioners in carrying out its duties and functions.

### **2.2. CONSTITUTION**

The Audit Committee of PT Adaro Energy Tbk was established based on a decree of the Board of Commissioners.

## **2.3. ORGANIZATION**

### **a. Structure of membership**

- 1) The Audit Committee has 3 (three) members, consisting of at least 1 (one) Independent Commissioners and 2 (two) experts who are not an employee of ADARO.
- 2) The member of the Audit Committee who is an Independent Commissioner can take the position as the Chair of the Audit Committee.

### **b. Membership**

- 1) The members of the Audit Committee are appointed and terminated by the Board of Commissioners and announced at the General Meeting of Shareholders.
- 2) The Chair of the Audit Committee has the right to propose for a replacement of a member of the Audit Committee in the case that one of the member of the Audit Committee reaches the end of his/her period, resigns, or is terminated.

### **c. Requirements for members**

- 1) Competency requirements
  - a) The members of the Audit Committee must have a high level of integrity, capability, knowledge and experience relevant to his/her educational background, can communicate well, and must allocate the time to perform their duties.
  - b) The members of the Audit Committee must have sufficient knowledge to review and understand financial statements, the Company's business, audit process and risk management.
  - c) The members of the Audit Committee must have sufficient knowledge on the capital market regulations and the regulations applicable to the Company's operations.
  - d) At least one member of the Audit Committee must have an educational background or experience in accountancy or finance, in which he/she or another member shall be declared the committee's financial expert.

The members of the Audit Committee must constantly improve their competence, including to build better understanding on the Company's activities in order to obtain sufficient knowledge on the Company's activities.
- 2) Independency requirements
  - a) The members of the Audit Committee must not have any affiliated relationship with the Company, the Company's Board of Directors, the Board of Commissioners, or the controlling shareholders of the Company.
  - b) The members of the Audit Committee must not have any direct or indirect relationship with the Company's business activities.
  - c) The members of the Audit Committee must not be the Company's key personnel in the last 1 (one) year prior to being appointed by the Board of Commissioners.
  - d) The members of the Audit Committee must not own shares in the Company, directly or indirectly. In the case that a member of the

Audit Committee receives shares due to a legal consequence, within 6 (six) months after such receipt, the shares must be transferred to another party.

- e) The members of the Audit Committee must not be the personnel of the public accounting office, legal consultancy office, or other parties who provide audit and/or non-audit services or other consultancy services to the Company within the last 1 (one) year prior to being appointed by the Board of Commissioners.

**d. Term of office**

The term of office of any independent commissioner who is also a member of the Audit Committee is the same as his/her appointment period as a commissioner in a general meeting of shareholders and he/she can be reappointed for only 1 (one) subsequent period.

- 1) The term of office of the member(s) of the Audit Committee who is(are) not an Independent Commissioner must not exceed the term of office of the Commissioners and he/she/they can be reappointed only for 1 (one) subsequent period.
- 2) The Board of Commissioners may at any time terminate any member of the Audit Committee who are not an Independent Commissioner in the event that he/she is deemed to have failed to carry out his/her duties as stated in any point of the letter of appointment.

### **CHAPTER III DUTIES, RESPONSIBILITIES AND AUTHORITY**

The Audit Committee has the duties and responsibilities to provide professional and independent opinions for the Board of Commissioners on the reports or matters submitted by the Board of Directors to the Board of Commissioners, and perform other duties related to the duties of the Board of Commissioners. In order to ensure that the Audit Committee performs its roles efficiently and effectively, its duties, responsibilities and authority are administered as follows:

#### **3.1 DUTIES**

**a Review on financial information**

The examination on the financial information to be published by the Company, such as the financial reports, projections, and other reports related to the financial information so that the financial information presented is accurate, reliable and credible. The examination can be carried out through:

- 1) review on the audit results of the independent auditor.
- 2) review on the process of preparing the financial information to be published.

**b The selection, appointment and supervision on the work of the independent auditor**

For the general audit on the Company's financial reports, the Audit Committee carries the roles to perform:

- 1) The selection and appointment of the independent auditor**
  - a) Recommend the candidate of the independent auditor which will audit the Company's financial reports to the Board of Commissioners based on the independence, scope of assignment, and compensation.
  - b) In the selection process on the candidates of the independent auditor, the Audit Committee must refer to the provisions on the legality, competence and independence of the public auditor applicable in Indonesia.
  
- 2) The supervision on the work of the independent auditor**
  - a) Review the audit plan and the sufficiency of the audit program and monitor the audit implementation on site.
  - b) Monitor the discussion on the audit findings by the independent auditor and the Board of Directors. If there are different opinions between the auditor and the management and other important matters that need the attention, the Audit Committee must submit independent (an) opinion(s) and report it(them) to the Board of Commissioners in writing.
  - c) Ensure that the independent auditor communicates the matters below to the Board of Directors and the Audit Committee:
    - the level of auditor's responsibility on the internal control in presenting the financial statements
    - the significant changes in accounting policies
    - the significant weaknesses in the design and implementation of internal control
    - the methods for recording, reporting and significant impacts of extraordinary transactions on the financial statements
    - fraud and deviation from the regulations committed by the management or employee which cause material misrepresentation of the financial statements
    - significant audit corrections
    - the procedure performed by the auditor on the annual reports which contain audited financial statements
    - the disagreement with the management on the application of the accounting principles, audit scope, disclosure in the financial statements and the words used by the auditor in the audit reports
    - the management consultancy with another public accounting office and the auditor's opinion on the matter consulted
    - constraint in audit implementation
  - d) Ensure that the draft of the financial statements audited by the independent auditor is received 10 (ten) days prior to being published for a review by the Audit Committee.
  - e) Provide independent opinions in the event of any disagreement in the opinion of the Board of Directors and the auditor on the service rendered.
  - f) The Audit Committee can propose for a termination of the independent auditor to the Board of Commissioners in the event of any strong indication that the auditor's independence can be

impaired or it is proven that the auditor has not perform the audit in accordance with the audit standard of public accountant.

**c The pre-approval on non-audit services**

Evaluate the auditor's independence for giving the pre-approval on the non-audit services to be assigned to the independent auditor who has been assigned to provide the audit service.

With regard to the aspect of independence, the Audit Committee must consider non-audit services, which according to the applicable regulations in Indonesia and in the Company, can impair the independent auditor's independence. The non-audit services which may impair the independence are:

- 1) Book-keeping or other services related to the accounting records or financial statements
- 2) Financial information design and implementation services
- 3) Internal audit outsourcing services
- 4) Management consultancy services
- 5) Human resources consultancy services
- 6) Financial consulting or investment banking services
- 7) Tax consultancy services

The Audit Committee's approval does not include the tax services for representing a client in or outside the tax court and/or for acting for and on behalf of a client in tax calculations and reporting.

- 8) Other services, which according to the provision of the Board of Commissioners, according to the applicable regulations, are not permitted.

The non-audit services other than the above can be assigned to the independent auditor after obtaining the pre-approval from the Audit Committee and are subject to the following procedure:

- 1) The Board of Directors submits to the Audit Committee (through the Board of Commissioners) the detailed explanation on the service to be assigned to the independent auditor.
- 2) In the pre-approval process, the Audit Committee must conduct an evaluation and analysis to determine whether the non-audit service to be assigned to the independent auditor will impair the independence or conflict of interest.
- 3) The pre-approval from the Audit Committee can only be given if based on the evaluation and analysis the non-audit service will not impair the independence or lead to any conflict of interest.

The pre-approval from the Audit Committee on the non-audit services assigned to the independent auditor can be excepted if:

The amount of all non-audit services rendered by the independent auditor to the Company does not exceed 5% of the total amount of audit fee paid by the Company to the independent auditor in the same fiscal year as the year the non-audit service is rendered.

**d The effectiveness of internal control**

The Audit Committee examines the design and implementation of the policies and procedure to obtain sufficient confidence on the effectiveness of the internal control so as to prevent the errors in the presentation of the financial statements' material, the misuse of assets and the violations to laws and regulations, by doing the following:

- 1) The understanding on the Company's internal control is built from the presentation of the Board of Directors on the design and implementation of the internal control.
- 2) Conduct examination and provide recommendation to the Board of Commissioners in the event of any potential for the conflict of interest of the issuer or the Company.
- 3) The Audit Committee must receive the internal audit reports periodically from the Internal Audit Function as the material for identifying the potential for weaknesses within the Company's internal control.
- 4) For enhancing the effectiveness of the internal control, the Audit Committee can give inputs to the Board of Directors for improving the performance of the internal audit function ("**Internal Audit Function**").
- 5) The Audit Committee must coordinate with the Internal Audit Function for:
  - a) Organizing regular meetings (e.g. monthly) for discussing the findings of the Internal Audit Function and/or other matters that contain indications on the weakness in the internal control, including the errors in applying the accounting standards and monitoring the follow up by the Board of Directors on the findings of the Internal Audit Function.
  - b) When deemed necessary, the Audit Committee can instruct the Internal Audit Function to expand its review to assess the characteristics, scope, size and impacts of the significant weaknesses in the internal control and the impact on the financial statements.
- 6) In the process of examining the effectiveness of internal control, the Audit Committee can use the reports from the independent auditor to identify the potential for weaknesses in internal control.
- 7) At the beginning of each year, the Audit Committee provides inputs on the Annual Audit Plan prepared by the Internal Audit Function.
- 8) The Head of the Internal Audit Unit is appointed and terminated by the director with the approval of the Board of Commissioners.

**e The compliance on the regulatory requirements**

The Audit Committee conducts monitoring to ensure that the Company's operational activities are carried out in compliance with the applicable capital market regulations and other regulations relevant to the Company's operational activities, by doing the following:

- 1) Ensure that the Board of Directors provides a written representation stating that: (1) The Board of Directors is responsible for the Company's compliance with the laws and regulations, and (2) The Board of Directors does not violate the laws and regulations.
- 2) The monitoring can be done through:

- a) Review on the reports of the Board of Directors or the legal consultant appointed by the Company to provide certain legal advice.
- b) Review on the findings or results of the audit performed by the government institution, independent auditor and internal auditor.
- 3) In the event of any indication of violation to the laws and regulations, the Audit Committee can expand its review to include investigative audit to determine the impact and damage incurred by such violation. For performing this investigative audit, the Audit Committee can get the assistance of the Internal Audit Function or the independent auditor.

**f Risk reporting and risk management implementation**

The Audit Committee takes the overview on the process of identifying the risk and the implementation of risk management by the management. The Audit Committee ensures that the Internal Audit Function in its audit plan has taken into account the Company's high risk activities and ensures that the Risk Management Unit performs regular assessment on the risk priorities, under the following measures:

- 1) The Audit Committee must coordinate with the Company's business unit which has the role as the facilitators of risk management ("**Risk Management Unit**") to:
  - a) hold regular meetings (such as monthly) to discuss the main risks to which the Company is exposed;
  - b) if necessary, the Audit Committee can instruct the Risk Management Unit to get better understanding of certain risks in order to assess the characteristics, scope, size and impact of the significant weakness of the internal control and the impact on the financial statements.

**g Examination on the Complaints of Third Parties**

The Audit Committee is required to receive, examine the third party complaints and refer them to the parties of concern, and monitor the follow up of the complaints related to the Company, including and especially the complaints from the Company's employees regarding the accounting, internal control and fraud, as well as any improper behavior of the Board of Directors which can affect the Company's operations.

The improper behavior of the management includes: dishonesty, unethicity, conflict of interest, misleading or inaccurate information to the public and the incompliance with the laws and regulations, including those of the capital market.

**1) Requirements for Complaints**

- a) Complaints must be conveyed in writing.
- b) If the complainants disclose their identity, the Audit Committee must keep the identity confidential.
- c) Provide indicators on the violation to the accounting standard, the weakness of internal control, and fraud as well as the improper behavior of the management which can affect the Company's operations.

## **2) Examination of Complaints**

In handling third-party complaints, the Audit Committee can request for an investigative audit by collaborating with the Internal Audit Function and/or management and/or assign an independent consultant and/or expert from outside the company.

## **3) Results of Examination**

If the result of examination proves that the complaint made by a third party is credible, then:

- a) The Audit Committee will submit the result of examination to the Board of Commissioners.
- b) The Audit Committee will monitor the follow up of the result of examination, if instructed by the Board of Commissioners.

## **h The Performance of Special Tasks**

1) The assignment of special tasks to the Audit Committee by the Board of Commissioners is conveyed through a written instruction which explains:

- a) The name of the Audit Committee's member assigned
- b) The characteristics and scope of work
- c) The objectives and goals of work
- d) The period of assignment
- e) The administrative matters related to the special task

2) The performance of the Audit Committee's special tasks can among others:

- a) Be performed through a review on all records, documents and other necessary information, including the minutes of meetings of the Board of Directors and the Board of Commissioners
- b) convey inquiries to the Board of Directors the results of which are explained in the Question and Answer Minutes signed by the relevant parties
- c) If deemed necessary, conduct investigative audit through collaboration with the Internal Audit Unit or the external auditor.

3) The Audit Committee must submit the report on the performance of the special tasks with the highest level of confidentiality to the members of the Audit Committee and the members of the Board of Commissioners.

## **i Protecting the Confidentiality of Documents**

The chair and members of the Audit Committee must protect the confidentiality of the Company's documents, data, and information.

## **j Conduct Self Assessment on the Performance of the Audit Committee's Tasks**

The Audit Committee conducts self assessment on the effectiveness of the performance of its tasks, and periodically update the Audit Committee Charter.

## **3.2. AUTHORITY**

- a. The Audit Committee is authorized to have full access, and it is not limited to the documents, data, and information on employee records, employees,

funds, assets, and the Company's resources which are relevant to the performance of its duties.

- b. The Audit Committee has the authority to collaborate and communicate directly with the employees, including the Board of Directors and any party who carry out the internal audit function, risk management, and the Accountant, with regard to the committee's duties and responsibilities.
- c. The work mechanism as referred to in point 3.2.b above must follow the work procedure according to the applicable regulations.
- d. If necessary, with the approval of the Board of Commissioners, the Audit Committee can hire an expert and/or consultant to assist in the performance of the Audit Committee, under the Company's expense.
- e. If necessary, in carrying out its duties and responsibilities, the Audit Committee can establish an ad hoc team, with the criteria and assignment period determined according to the work.
- f. Review the independence, objectiveness and recommend the external auditor to be selected by the Company to audit the financial reports of the Company, its business units and its subsidiaries.
- g. Perform other authority assigned by the Board of Commissioners.

### **3.3. ACCOUNTABILITY REPORTING**

- a. The Audit Committee reports to the Board of Commissioners.
- b. The reporting of the Audit Committee is conveyed to the Board of Commissioners using the following reports:
  - 1) The annual report on the implementation of the Audit Committee's activities
  - 2) The report on the implementation of the Audit Committee's activities every quarter
  - 3) The report for each implementation of the Audit Committee's duties, which among others include findings or facts, evaluation, analyses, conclusions, and recommendations
  - 4) The report on the implementation of special tasks

## **CHAPTER IV MEETING, REPORTING, AND BUDGETING**

### **4.1. AUDIT COMMITTEE MEETINGS**

- a. The Audit Committee must hold a meeting at least once in three months.
- b. The meeting and decision making by the Audit Committee can be held with a quorum of 1/2 (one half) of the number of its members.
- c. The decision making in the meetings of the Audit Committee must be based on the consensus for deliberation, and in the event that deliberation cannot be reached, a voting is held. A decision is deemed valid if it is approved by at least 2/3 (two third) of the number of the Audit Committee members who are present.
- d. The meetings of the Audit Committee are chaired by the Chair of the Audit Committee or the most senior member of the Audit Committee, in the event that the Chair of the Audit Committee cannot attend the meeting.
- e. If it is deemed necessary, the Audit Committee can invite other parties who are relevant to the meeting material to attend the Audit Committee meetings.

- f. Each of the meetings of the Audit Committee is explained in a minute of meeting signed by all members of the Audit Committee.

#### **4.2. REPORTING**

- a. The Audit Committee must submit the report to the Board of Commissioners at the latest within 5 (five) business days for each of the assignment given to them.
- b. Regularly, at least 1 (one) time in 3 (three) months, the Audit Committee reports to the Board of Commissioners on the activities performed, problems found and the associated recommendations.
- c. The Audit Committee must prepare an annual report explaining its activities, which are disclosed in the Company's annual report.
- d. Every year, the Audit Committee, through the Board of Commissioners reports to the General Meeting of Shareholders on their responsibilities and achievements and other information necessary.

#### **4.3. BUDGETING**

- a. At the beginning of every year, the Audit Committee proposes for a budget which include among others:
  - 1) Honorarium, allowances and facilities for the Audit Committee
  - 2) Cost for attending training / seminars
  - 3) Cost for business trips
  - 4) Cost for general and administration
  - 5) Cost for the public accountant office, consultants and experts
  - 6) Routine investment budget for the procurement of work facilities
  - 7) Special assignment budget
  - 8) Contingency
- b. The budget of the Audit Committee is proposed to and approved by the Board of Commissioners.
- c. The budget of the Audit Committee is part of the budget of the Board of Commissioners and in order to protect the independency, the use of this budget does not need the management's approval.
- d. The use of the fund is monitored (audited) by a party appointed by the Company.

## **CHAPTER V CLOSURE**

### **Effective Period and Evaluation**

- 1. This Charter is effective as of November 30, 2017.
- 2. This Charter will be evaluated periodically to be refined.
- 3. The performance evaluation on the Audit Committee, individually or collectively, will be carried out every year under the self-assessment mechanism and the results will be reported to the Board of Commissioners together with the Annual Report on the Performance of the Audit Committee's Activities and/or the Board of Commissioners can conduct direct evaluation on the performance of the Audit Committee.

Enacted in Jakarta  
on: November 30, 2017

The Board of Commissioners of PT Adaro Energy Tbk

Edwin Soeryadjaya\*  
President Commissioner

Theodore P. Rachmat\*  
Commissioner

Aini Saraswati Subianto\*  
Commissioner

Raden Pardede\*  
Independent Commissioner

Palgunadi T. Setyawan\*  
Independent Commissioner

\*All members of the Board of Commissioners have signed the document in Indonesian version.