



PRESIDENT OF
THE REPUBLIC OF INDONESIA

UNOFFICIAL TRANSLATOR

LAW OF THE REPUBLIC OF INDONESIA

NUMBER 19 OF 2003

CONCERNING

STATE-OWNED ENTERPRISES

BY THE GRACE OF GOD ALMIGHTY

PRESIDENT OF THE REPUBLIC OF INDONESIA,

- Considering :
- a. Whereas State-Owned Enterprises constitutes one of the actors of economy activity in the national economic pursuant to economic democracy;
 - b. Whereas State-Owned Enterprises have an important role in the establishment of national economic in order to actualize public welfare; Whereas the enforcement of role of State-Owned Enterprises in the
 - c. national economic to actualize public welfare has not been done optimally; Whereas in order to optimize the role of State-Owned Enterprises, the
 - d. management and supervision must be conducted professionally; Whereas the laws and regulations which govern the State-Owned Enterprises are no longer appropriate with the rapid enhancement of
 - e. economy and business world, both nationally and internationally; Whereas in accordance with the consideration as intended in letter a,
 - f. letter b, letter c, letter d, and letter e, it is necessary to form a Law concerning State-Owned Enterprises; Article 5 Paragraph (1), Article 20, Article 23 Paragraph (4), and Article
- In view of:
- 1. 33 of Constitution Law of the Year 1945; Decree of the People's Consultative Assembly of the Republic of
 - 2. Indonesia Number IV/MPR/1999 concerning Major Guidelines of State Policy of the Year 1999 – 2004;



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Law Number 1 of the Year 1995 concerning Limited Liabilities Companies

3. (State Gazette of the Republic of Indonesia of the Year 1995 Number 13, Supplement to the State Gazette Number 3587);

Law Number 17 of the Year 2003 concerning State Finance (State

4. Gazette of The Republic of Indonesia of the Year 2003 Number 47, Supplement to the State Gazette Number 4286);

With the Joint Approval between

THE HOUSE OF REPRESENTATIVES OF

THE REPUBLIC OF INDONESIA

AND

THE PRESIDENT OF THE REPUBLIC OF INDONESIA

HAS DECIDED:

To stipulate:

LAW CONCERNING THE STATE-OWNED ENTERPRISES

CHAPTER I

GENERAL PROVISIONS

Article 1

Under this Law, the meaning of:

1. State-Owned Enterprise, hereinafter referred to as SOE, is an Enterprise which capital owned by the state either majority or entirely through direct equity participation deriving from the Restricted State Assets.
2. State-Owned Limited Liability Company, hereinafter referred to as Limited Corporation (*Perusahaan Perseroan- PERSERO*), is a SOE in the form of limited liability company which capital is divided into shares which entirely or at least 51% (fifty one percent) of the shares are owned



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by the State of The Republic of Indonesia with main objective is to gain profits.

3. State-Owned Listed Company, hereinafter referred to as Listed Limited Corporation (*Perusahaan Perseroan- PERSERO*), is Limited Corporation (*Perusahaan Perseroan- PERSERO*) which capital and number of shareholders has fulfilled specific criteria or Limited Corporation (*Perusahaan Perseroan- PERSERO*) which has conducted Public Offering in accordance with the laws and regulations in the sector of capital market.
4. State-Owned Public Company, hereinafter referred to as General Corporation (*Perusahaan Umum - PERUM*), is a SOE which capital entirely owned by the state and not divided into shares, which objective is for public expediency in the form of high quality goods and/or service provision and at the same time to gain profits under the principles of corporate governance.
5. Minister is the Minister appointed and/or given the power of attorney to represent the government as the shareholder of the state in Limited Corporation (*Perusahaan Perseroan- PERSERO*) and owner of the capital in General Corporation (*Perusahaan Umum - PERUM*) with regard to the laws and regulations.
6. Technical Minister is the minister having the authority to govern the sectoral policy where SOE is conducting its business activity.
7. Board of Commissioners is the organ of Limited Corporation (*Perusahaan Perseroan- PERSERO*) which duties are to conduct supervision and advise the Board of Directors in performing management activity of Limited Corporation (*Perusahaan Perseroan- PERSERO*).
8. Board of Supervisors is the organ of General Corporation (*Perusahaan Umum - PERUM*) which duties are to conduct supervision and advise the Board of Directors in performing management activity of General



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Corporation (*Perusahaan Umum - PERUM*).

9. Board of Directors is the organ of SOE which responsible for the management of SOE for the interest and objective of SOE, also to represent SOE both in and out of the court of law.
10. Restricted State Assets is the Asset of the State deriving from the State Budget (APBN) to be included as State Equity Participation to Limited Corporation (*Perusahaan Perseroan- PERSERO*) or General Corporation (*Perusahaan Umum - PERUM*) also other limited liability companies.
11. Restructurization is the effort conducted in order to solvent SOE which constitutes one of the strategic steps for the improvement of internal conditions of the company to improve the performance and enhance the corporate value.
12. Privatization is the sale of shares of Limited Corporation (*Perusahaan Perseroan- PERSERO*), either partially or entirely, to other party in order to enhance the corporate performance and value, to enhance the expedience to the state and the public, also to broaden the ownership of shares by the public.
13. General Meeting of Shareholders, hereinafter referred to as GMS, is the organ of Persero holding the ultimate power in Limited Corporation (*Perusahaan Perseroan- PERSERO*) and holding all authority which are not delegated to the the Board of Directors or the Board of Commissioners.

Article 2

- (1) Views and Objectives in the establishment of SOE are as follows:
 - a. To contribute generally in the development of national economic and specifically in the development of government revenues;
 - b. To gain profits;



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- c. To perform public expediency in the form of high quality and satisfactory goods and/or services provision to fulfill the live needs of many people;
 - d. To become the pioneer of business activities which are not yet performed by private and cooperative sector;
 - e. To be actively involved in providing guidance and assistance to lower economic class entrepreneurs, cooperative and the public.
- (2) SOE activities must be in accordance with the views and objectives also not in contradiction with the laws and regulations, public order and/or decency.

Article 3

This Law, Articles of Association, and stipulations of other Laws and Regulations are applicable to SOE.

Article 4

- (1) The capital of SOE constitutes and deriving from the Restricted State Assets.
- (2) State Equity Participation due to establishment or equity participation to SOE is sourced by:
 - a. State Budget;
 - b. Reserve Capitalization;
 - c. Other sources.
- (3) Any State Equity Participation due to establishment of SOE or limited liability company which source of fund is from the State Budget shall be determined with a Government Regulation.
- (4) Any changes on State Equity Participation as intended in Paragraph (2), either in the form of addition or deduction, including the change of ownership structure of the state on the shares of Limited Corporation (*Perusahaan Perseroan- PERSERO*) or limited liability company; is determined with a Government Regulation.



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- (5) For addition to State Equity Participation deriving from reserved capitalization and other sources is exempted from the stipulation as intended in Paragraph (4).
- (6) Further Stipulations concerning procedures of equity participation and administration of capital of the state due to establishment or equity participation to SOE and/or limited liability company which shares are partially owned by the state, is regulated with the Government Regulation.

Article 5

- (1) Management of SOE is performed by the Board of Directors.
- (2) The Board of Directors is fully responsible for the management of SOE for the interests and objectives of SOE also to represent SOE, both in and out of the court of law.
- (3) In performing their duties, members of the Board of Directors must comply to the articles of association of SOE and the laws and regulations, also obliged to perform the principles of professionalism, efficiency, transparency, independency, accountability, responsibility, and fairness.

Article 6

- (1) Supervision on SOE is performed by the Board of Commissioners and the Board of Supervisors.
- (2) The Board of Commissioners and the Board of Supervisors are fully responsible for the supervision of SOE for the interests and objectives of SOE.
- (3) In performing their duties, the Board of Commissioners and the Board of Supervisors must comply with the Articles of Association of SOE and the stipulations of laws and regulations also obliged to perform the



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principles of professionalism, efficiency, transparency, independency, accountability, responsibility, and fairness.

Article 7

Members of the Board of Directors, the Board of Commissioners, and the Board of Supervisors are prohibited from taking any personal profit either directly or indirectly from the activities of SOE, other than legitimate profits.

Article 8

- (1) Members of the Board of Directors, the Board of Commissioners, and the Board of Supervisors are not authorized to represent SOE, if:
 - a. a dispute occurs before a court between SOE and the respective member of the Board of Directors or the Board of Commissioners or the Board of Supervisors; or
 - b. a respective member of the Board of Directors or Board of Commissioners or Board of Supervisors have an interest which conflicting the interest of SOE.
- (2) The articles of association determine the person entitled to represent SOE if there are any circumstances as intended in paragraph (1).
- (3) In terms of the articles of association do not determine the stipulation intended in paragraph (2), GMS appoints 1 (one) shareholder or more to represent Limited Corporation (*Perusahaan Perseroan- PERSERO*) and the Minister appoints 1 (one) person or more to represent General Corporation (*Perusahaan Umum - PERUM*).

Article 9

SOE consists of Limited Corporation (*Perusahaan Perseroan- PERSERO*) and General Corporation (*Perusahaan Umum - PERUM*).



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CHAPTER II

LIMITED CORPORATION (*PERUSAHAAN PERSEROAN- PERSERO*)

Section One

Establishment

Article 10

- (1) Establishment of Limited Corporation (*Perusahaan Perseroan-PERSERO*) is proposed by the Minister to the President accompanied by considerations subsequent to joint assessment with the Technical Minister and the Minister of Finance.
- (2) Establishment of Limited Corporation (*Perusahaan Perseroan-PERSERO*) is conducted by the Minister with due regard to the stipulations of laws and regulations.

Article 11

All provisions and principles applicable to limited liability companies as regulated in the Law Number 1 of 1995 concerning Limited Liability Companies is applicable to Limited Corporation (*Perusahaan Perseroan- PERSERO*)

Section Two

Views and Objectives

Article 12

The views and objectives of establishment of Limited Corporation (*Perusahaan Perseroan- PERSERO*) are:

- a. To provide high quality and highly-competitive goods and/or services;
- b. To gain profits in order to increase the corporate value.



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Part Three

Organs

Article 13

Organs of Persero are GMS, the Board of Directors, and the Board of Commissioners.

Part Four

Authority of GMS

Article 14

- (1) The Minister shall act in his/her capacity as GMS in terms of all shares of Limited Corporation (*Perusahaan Perseroan- PERSERO*) are owned by the state and acting in his/her capacity as a shareholder of Limited Corporation (*Perusahaan Perseroan- PERSERO*) and limited liability company in terms of not all of the shares are owned by the state.
- (2) The Minister may grant a power of attorney to an individual or a legal entity with the substitution right to represent him/her in GMS.
- (3) The party accepting the power of attorney as intended in paragraph (2), is obliged to firstly obtain approval from the Minister in order to make decisions in GMS concerning:
 - a. Change of amount of capital;
 - b. Amendment to the articles of association;
 - c. Retain of Profits Plan;
 - d. Merger, consolidation, aquisition, division also dissolution of SOE
 - e. Long term investment and financing;
 - f. Cooperation of Limited Corporation (*Perusahaan Perseroan- PERSERO*);



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- g. Formation of subsidiaries or equity participation;
- h. Transfer of assets;

Part Five

The Board of Directors of Limited Corporation (*Perusahaan Perseroan- PERSERO*)

Article 15

- (1) Appointment and dismissal of the Board of Directors shall be effected by GMS.
- (2) In terms of the Minister is acting in his/her capacity as GMS, appointment and dismissal of the Board of Directors shall be determined by the Minister.

Article 16

- (1) A member of the Board of Directors is appointed in consideration of his/her expertise, integrity, leadership, experience, trustworthiness, good behavior, and high dedication to enhance and develop Limited Corporation (*Perusahaan Perseroan- PERSERO*).
- (2) Appointment of member of the Board of Directors is conducted through the mechanism of fit and proper test.
- (3) Prospective member of the Board of Directors which has been declared to have passed the fit and proper test must sign a management contract prior to the determination of his/her appointment as a member of the Board of Directors.
- (4) The term of office of a member of the Board of Directors is determined for 5 (five) years, and he/she may be re-appointed for 1 (one) term of office.
- (5) In terms of the Board of Directors consists of more than one member, one of the members of the Board of Directors is appointed as president



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director.

Article 17

Member of the Board of Directors may be dismissed at any time pursuant to the resolution of GMS by stating the reasons.

Article 18

Further stipulations on the requirements and procedures for appointment and dismissal of member of the Board of Directors shall be governed by Ministerial Decree.

Article 19

In the performance of his/her duties, member of the Board of Directors must fully devote his/her energy, ideas and attention to the duties, obligations, and achievement of the objectives of Limited Corporation (*Perusahaan Perseroan-PERSERO*).

Article 20

In consideration to the specific nature of each Limited Corporation (*Perusahaan Perseroan- PERSERO*), The Board of Directors may appoint a corporate secretary.

Article 21

- (1) The Board of Directors is obliged to prepare a draft of long-term plan which constitutes a strategic plan containing targets and objectives of Limited Corporation (*Perusahaan Perseroan- PERSERO*) to be achieved within the period of 5 (five) years.
- (2) The draft of long-term plan which has been jointly signed with the Board of Commissioners is submitted to GMS in order to obtain ratification.



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Article 22

- (1) The Board of Directors must prepare a draft of work and budget plan of the company which constitutes an annual breakdown of the long-term plan.
- (2) The Board of Directors must submit the draft of work and budget plan to GMS in order to obtain ratification.

Article 23

- (1) Within 5 (five) months subsequent to the closing of the financial year of Limited Corporation (*Perusahaan Perseroan- PERSERO*), the Board of Directors is obliged to submit an annual report to GMS in order to obtain ratification.
- (2) The annual report as intended in paragraph (1) is signed by all members of the Board of Directors and the Board of Commissioners.
- (3) In terms of there is a member of the Board of Directors or the Board of Commissioners not signing the annual report as intended in paragraph (2), the reasons must be stated in writing.

Article 24

Further stipulations concerning the long-term plan, work and budget plan of the company, annual report and annual calculation of Limited Corporation (*Perusahaan Perseroan- PERSERO*) is governed by Ministerial Decree.

Article 25

Member of the Board of Directors is prohibited to hold concurrent position as:

- a member of the Board of Directors of a SOE, local-owned enterprises, private-owned enterprises, and other position that may cause a conflict of interest;



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- b. other structural and functional position in central and local government institution; and/or
- c. other position pursuant to the stipulations of laws and regulations.

Article 26

The Board of Directors is obliged to maintain the minutes of meetings and perform book-keeping of Limited Corporation (*Perusahaan Perseroan-PERSERO*).

Part Six

The Board of Commissioners

Article 27

- (1) Appointment and dismissal of the Board of Commissioners is conducted by GMS.
- (2) In terms of the Minister is acting in his/her capacity as GMS, appointment and dismissal of the Board of Commissioners is determined by the Minister.

Article 28

- (1) Member of the Board of Commissioners is appointed in consideration of his/her integrity, dedication, comprehension of company management issues which related with one of the management functions, having appropriate knowledge in the line of business of the Limited Corporation (*Perusahaan Perseroan- PERSERO*), and having the ability to provide sufficient time to perform his/her duties.
- (2) Composition of the Board of Commissioners must be determined in such a way that allows any decision to be made effectively, accurately and promptly, and able to take actions independently.



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- (3) The term of office of member of the Board of Commissioners is determined for 5 (five) years and he/she may be re-appointed for 1 (one) term of office.
- (4) In terms of the Board of Commissioners consists of more than one member, one of the members of the Board of Commissioners is appointed as president commissioner.
- (5) Appointment of member of the Board of Commissioners is not at the same time with the appointment of member of the Board of Directors, except for initial appointment at the time of establishment.

Article 29

Member of the Board of Commissioners may be dismissed at any time pursuant to the resolution of GMS by stating the reasons.

Article 30

Further stipulations on the requirements and procedures for appointment and dismissal of the Board of Commissioners is governed by Ministerial Decree.

Article 31

The Board of Commissioners has the duty to supervise the Board of Directors in the performance of the management of Limited Corporation (*Perusahaan Perseroan- PERSERO*) and to advise the Board of Directors.

Article 32

- (1) In the articles of association it may be determined regarding the granting of authorization to the Board of Commissioners to grant approval to the Board of Directors to perform certain legal action.
- (2) Pursuant to the articles of association or resolution of GMS, the Board of Commissioners may perform the management of Limited



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Corporation (*Perusahaan Perseroan- PERSERO*) in certain condition
for a certain period of time.

Article 33

Member of the Board of Commissioners is prohibited to hold concurrent position
as:

- a. member of the Board of Directors of a SOE, local-owned enterprises,
private-owned enterprises, and other position that may cause a conflict
of interest; and/or
- b. other position pursuant to the provisions of laws and regulations.

Part Seven

Listed Limited Corporation (*Perusahaan Perseroan- PERSERO*)

Article 34

The provisions of this Law and Law Number 1 of 1995 are applicable to Listed
Limited Corporation to the extent that they are not governed otherwise by
laws and regulations in the sector of capital market.

CHAPTER III

GENERAL CORPORATION (*PERUSAHAAN UMUM - PERUM*)

Part One

Establishment

Article 35

- (1) Establishment of General Corporation (*Perusahaan Umum - PERUM*) is
proposed by the Minister to the President accompanied by
considerations subsequent to joint assessment with the Technical
Minister and the Minister of Finance.



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- (2) The established General Corporation (*Perusahaan Umum - PERUM*) as intended in paragraph (1) has obtained the status as a legal entity since the promulgation of Government Regulation concerning its establishment.
- (3) Further stipulations on establishment, construction, management, and supervision of General Corporation (*Perusahaan Umum - PERUM*) is governed by Government Regulation.

Part Two

Views and objectives

Article 36

- (1) The views and objectives of General Corporation (*Perusahaan Umum - PERUM*) is to perform business which intended for the public expediency in the form of high quality goods and/or services provision at affordable price to public under the principles of good corporate governance.
- (2) In supporting activities in order to achieve the views and objectives as intended in paragraph (1), by approval of the Minister, General Corporation (*Perusahaan Umum - PERUM*) may conduct equity participation in other entities.

Part Three

Organs

Article 37

Organs of General Corporation (*Perusahaan Umum - PERUM*) consists of the Minister, the Board of Directors, and the Board of Supervisors.

Part Four



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Authority of the Minister

Article 38

- (1) The Minister grants approval for business development policy of General Corporation (*Perusahaan Umum - PERUM*) as proposed by the Board of Directors.
- (2) Business development policy as intended in paragraph (1) is proposed by the Board of Directors to the Minister subsequent to obtaining approval from the Board of Supervisors
- (3) Policy as intended in paragraph (1) is determined in accordance with the views and objectives of the relevant General Corporation (*Perusahaan Umum - PERUM*).

Article 39

The Minister is not responsible for any consequences arising from legal actions performed by General Corporation (*Perusahaan Umum - PERUM*) and not responsible for any losses of General Corporation (*Perusahaan Umum - PERUM*) which exceed the amount of the restricted state assets for General Corporation (*Perusahaan Umum - PERUM*), except if the Minister:

- a. either directly or indirectly, in bad faith, take advantage of General Corporation (*Perusahaan Umum - PERUM*) solely for personal interest;
- b. is involved in unlawful actions committed by General Corporation (*Perusahaan Umum - PERUM*); or
- c. either directly or indirectly, illegally use the assets of General Corporation (*Perusahaan Umum - PERUM*).

Article 40

The stipulation on the procedures for transfer, imposition on fixed assets of General Corporation (*Perusahaan Umum - PERUM*) as well as revenues from



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medium/long-term loans and the granting of loans in any form and method, and will no longer claim debts and write-off of account receivables and provision of goods by General Corporation (*Perusahaan Umum - PERUM*) are governed by Ministerial Decree.

Part Five

The Articles of Association

Article 41

- (1) The articles of association of General Corporation (*Perusahaan Umum - PERUM*) is determined by Government Regulation with respect to its establishment.
- (2) Amendments to the articles of association of General Corporation (*Perusahaan Umum - PERUM*) is determined by Government Regulation.
- (3) Amendments to the articles of association as intended in paragraph (2) is effective from the date of promulgation of the Government Regulation concerning amendments to the articles of association of General Corporation (*Perusahaan Umum - PERUM*).

Part Six

Retain of Profits

Article 42

- (1) In each financial year General Corporation (*Perusahaan Umum - PERUM*) is obliged to set aside certain amount of the nett profits for reserves.
- (2) The net profits being set aside as intended in paragraph (1) is performed until the reserves reaches at least 20% (twenty percent) of the capital of



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General Corporation (*Perusahaan Umum - PERUM*).

- (3) The reserves, as intended in paragraph (1), which has not reached the amount as intended in paragraph (2), may be used only to cover losses that are unrecoverable by other reserves.

Article 43

Retain of Profits of General Corporation (*Perusahaan Umum - PERUM*) including determination of amount to be set aside for reserves as intended in Article 42, is determined by the Minister.

Part Seven

The Board of Directors of General Corporation (*Perusahaan Umum - PERUM*)

Article 44

Appointment and dismissal of the Board of Directors is determined by the Minister in accordance with the mechanism and stipulation of laws and regulations.

Article 45

- (1) Eligible person to be appointment as member of the Board of Directors is individuals whom capable of performing legal actions and never been declared bankrupt or become member of the Board of Directors or Board of Commissioners or Board of Supervisors whom has declared as guilty of causing a company or General Corporation (*Perusahaan Umum - PERUM*) to be declared as bankrupt, or a person whom has never been convicted for conducting criminal offense which detrimental to the state finance.
- (2) In addition to the criteria as intended in paragraph (1), member of the Board of Directors is appointed in consideration of their expertise, integrity, leadership, experience, trustworthiness, good behavior, and



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high dedication to enhance and develop General Corporation (Perusahaan Umum - PERUM).

- (3) Appointment of member of the Board of Directors is performed through the mechanism of a fit and proper test.
- (4) Prospective member of the Board of Directors which has been declared to have passed the fit and proper test must sign a management contract prior to the determination of his/her appointment as a member of the Board of Directors.
- (5) The term of office of a member of the Board of Directors is determined for 5 (five) years, and he/she may be re-appointed for 1 (one) term of office.
- (6) In terms of the Board of Directors consists of more than one member, one of the members of the Board of Directors is appointed as president director.

Article 46

Member of the Board of Directors may be dismissed at any time pursuant to the Ministerial Decree by stating the reasons.

Article 47

Further stipulations on the requirements and procedures for appointment and dismissal of member of the Board of Directors is governed by Ministerial Decree.

Article 48

In the performance of his/her duties, member of the Board of Directors must fully devote his/her energy, ideas and attention to the duties, obligations, and achievement of the objectives of General Corporation (*Perusahaan Umum - PERUM*).



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Article 49

- (1) The Board of Directors is obliged to prepare a draft of long-term plan which constitutes a strategic plan containing targets and objectives of Limited Corporation (*Perusahaan Perseroan - PERSERO*) to be achieved within the period of 5 (five) years.
- (2) The draft of long-term plan which has been jointly signed with the Board of Commissioners is submitted to GMS in order to obtain ratification.

Article 50

- (1) The Board of Directors must prepare a draft of work and budget plan of the company which constitutes an annual breakdown of the long-term plan.
- (2) The Board of Directors must submit the draft of work and budget plan to GMS in order to obtain ratification.

Article 51

- (1) Within 5 (five) months subsequent to the closing of the financial year of Limited Corporation (*Perusahaan Perseroan- PERSERO*), the Board of Directors is obliged to submit an annual report to GMS in order to obtain ratification.
- (2) The annual report as intended in paragraph (1) is signed by all members of the Board of Directors and the Board of Commissioners.
- (3) In terms of there is a member of the Board of Directors or the Board of Commissioners not signing the annual report as intended in paragraph (2), the reasons must be stated in writing.

Article 52

Further stipulations concerning the long-term plan, work and budget plan of



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the company, annual report and annual calculation of General Corporation (*Perusahaan Umum - PERUM*) is governed by Ministerial Decree.

Article 53

Member of the Board of Directors is prohibited to hold concurrent position as:

- d. member of the Board of Directors of a SOE, local-owned enterprises, private-owned enterprises, and other position that may cause a conflict of interest;
- e. other structural and functional position in central and local government institution; and/or
- f. other position pursuant to the stipulations of laws and regulations.

Article 54

The Board of Directors is obliged to maintain the minutes of meetings and perform book-keeping of General Corporation (*Perusahaan Umum - PERUM*).

Article 55

- (1) The Board of Directors is may file an application to the district court for General Corporation (*Perusahaan Umum - PERUM*) to be declared as bankrupt only by approval of the Minister.
- (2) In terms of bankruptcy occurs due to errors or negligence of the Board of Directors and the assets of General Corporation (*Perusahaan Umum - PERUM*) are insufficient to cover losses caused by such bankruptcy, each member of the Board of Directors will be jointly and severally responsible for such losses.
- (3) A member of the Board of Directors who can prove that the bankruptcy is not caused by his/her error or negligence will not jointly and severally be responsible for such losses.



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- (4) In terms of the actions performed by the Board of Directors have caused losses to General Corporation (*Perusahaan Umum - PERUM*) as intended in paragraph (2), the Minister representing General Corporation (*Perusahaan Umum - PERUM*) will file a claim or suit against the Board of Directors through the court of law.

Part Eight

The Board of Supervisors

Article 56

Appointment and dismissal of member of the Board of Supervisors is determined by the Minister in accordance with the mechanism and stipulation of laws and regulations.

Article 57

- (1) Eligible person to be appointment as member of the Board of Supervisors is individuals whom capable of performing legal actions and never been declared bankrupt or become member of the Board of Directors or Board of Commissioners or Board of Supervisors whom has declared as guilty of causing a company or General Corporation (*Perusahaan Umum - PERUM*) to be declared as bankrupt, or a person whom has never been convicted for conducting criminal offense which detrimental to the state finance.
- (2) In addition to the criteria as intended in paragraph (1), member of the Board of Supervisors is appointed in consideration of his/her integrity, dedication, comprehension of company management issues which related with one of the management functions, having appropriate knowledge in the line of business of the Limited Corporation (*Perusahaan Perseroan- PERSERO*), and having the ability to provide



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sufficient time to perform his/her duties.

- (3) Composition of the Board of Supervisors must be determined in such a way that allows any decision to be made effectively, accurately and promptly, and able to take actions independently.
- (4) The term of office of member of the Board of Supervisors is determined for 5 (five) years and he/she may be re-appointed for 1 (one) term of office.
- (5) In terms of the Board of Supervisors consists of more than one member, one of the members of the Board of Commissioners is appointed as Chairman of the Board of Supervisors.
- (6) Appointment of member of the Board of Supervisors is not at the same time with the appointment of member of the Board of Directors, except for initial appointment at the time of establishment.

Article 58

Member of the Board of Supervisors may be dismissed at any time pursuant to the Ministerial Decree by stating the reasons.

Article 59

Further stipulations on the requirements and procedures for appointment and dismissal of a member of the Board of Supervisors is governed by Ministerial Decree.

Article 60

The Board of Supervisors has the duty to supervise the Board of Directors in the performance of the management of General Corporation (*Perusahaan Umum - PERUM*) and to advise the Board of Directors.

Article 61



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- (1) In the articles of association it may be determined regarding the granting of authorization to the Board of Supervisors to grant approval to the Board of Directors to perform certain legal action.
- (2) Pursuant to the articles of association or ministerial decree, the Board of Supervisors may perform the management of General Corporation (*Perusahaan Umum - PERUM*) in certain condition for a certain period of time.

Article 62

Member of the Board of Supervisors is prohibited to hold concurrent position as:

- a. member of the Board of Supervisors of a SOE, local-owned enterprises, private-owned enterprises, and other position that may cause a conflict of interest;
- b. other position pursuant to the stipulations of laws and regulations.

CHAPTER IV

MERGERS, CONSOLIDATIONS,
ACQUISITIONS, AND DISSOLUTION OF SOE

Article 63

- (1) Merger or consolidation of SOE may be performed with other existing SOE
- (2) A SOE may acquire other SOE and/or limited liability companies.

Article 64

- (1) Dissolution of a SOE is determined by Government Regulation.
- (2) Unless determined otherwise by Government Regulation as intended in paragraph (1), the remaining proceeds from liquidation or dissolution of



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a SOE shall be deposited directly to the State Treasury.

Article 65

- (1) Further stipulations on mergers, consolidations, acquisitions, and dissolution of SOE is governed by Government Regulation
- (2) In the performance of actions as intended in paragraph (1), the interest of SOE, shareholders/capital owners, third parties, and employees of SOE must remain attended.

CHAPTER V

PUBLIC SERVICE OBLIGATION

Article 66

- (1) The government may grant specific assignment to SOE to perform functions of public expediency with due regard to the views and objectives of the activities of SOE.
- (2) Any assignments as intended in paragraph (1) must first obtain approval of GMS/the Minister.

CHAPTER VI

THE INTERNAL SUPERVISORY UNIT,
THE AUDIT COMMITTEE, AND OTHER COMMITTEES

Part One

The Internal Supervisory Unit

Article 67

- (1) Internal Supervisory Unit is formed at each SOE which constitutes internal supervisory apparatus of the company.
- (2) Internal Supervisory Unit as intended in paragraph (1) is led by a chief



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whom responsible to the president director.

Article 68

Upon written request of the Board of Commissioners/Board of Supervisors, the Board of Directors provides statements on the results of examination or the results of duties performed by unit.

Article 69

The Board of Directors must have due regard to and immediately take necessary steps against anything presented in every report on the results of examination made by the internal oversight unit.

Part Two

The Audit Committee and Other Committees

Article 70

- (1) The Board of Commissioners and the Board of Supervisors of SOE must form an audit committee which work collectively and function to assist the Board of Commissioners and the Board of Supervisors in the performance of their duties.
- (2) The audit committee as intended in paragraph (1) is led by a chairperson that is responsible to the Board of Commissioner or the Board of Supervisors.
- (3) In addition to the audit committee as intended in paragraph (1), the Board of Commissioners or the Board of Supervisors may form other committees which determined by the Minister.
- (4) Further stipulations on the audit committee and other committees governed by Ministerial Decree.



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CHAPTER VII
EXTERNAL AUDITS

Article 71

- (1) Audit of corporate financial report is conducted by an external auditor as determined by GMS for Limited Corporation (*Perusahaan Perseroan-PERSERO*) and by the Minister for General Corporation (*Perusahaan Umum - PERUM*)
- (2) The Audit Board of the Republic of Indonesia have the authority to audit SOE pursuant to the stipulation of laws and regulations.

CHAPTER VIII
RESTRUCTURIZATION AND PRIVATIZATION

Part One

Views and objectives of Restructurization

Article 72

- (1) Restructurization is conducted with the objective to solvent SOE in order to operate efficiently, transparently, and professionally.
- (2) The purposes of restrukturization shall be to:
 - a. improve the corporate performance and value;
 - b. provide expedience through dividends and taxes to the state;
 - c. produce products and services at competitive prices to consumers; and
 - d. facilitate the implementation of privatization.
- (3) The performance of restrukturization as intended in paragraph (1) remain to have due regard to cost and expedience obtained.



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Part Two

Scope of Restructurization

Article 73

Restructurization includes:

- a. sectoral restructurization which performance is adjusted to the sectoral policy and/or the stipulations of laws and regulations;
- b. Restructurization of company or corporation, includes:
 - 1) Enhancement of intensity of business competition, mainly in sectors in which monopoly occurs, either the regulated and natural monopoly;
 - 2) organization of functional relationship between the government as regulator and SOE as enterprise, including application of principles of good corporate governance and determine the direction in order to perform obligations of public service;
 - 3) internal restructurization which include finance, organization/management, operational, system, and procedures.

Part Three

Views and objectives of Privatization

Article 74

- (1) Privatization is conducted by means to:
 - a. expand the public ownership of Limited Corporation (*Perusahaan Perseroan- PERSERO*);
 - b. enhance the efficiency and productivity of company;
 - c. create good/strong financial structure and financial management;
 - d. create healthy and competitive industrial structure;



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- e. create a competitive and global-oriented Limited Corporation (*Perusahaan Perseroan- PERSERO*);
 - f. grow a business climate, macro economy, and market capacity.
- (2) Privatization is conducted by means of enhancement of corporate performance and added value of the company and enhance public participation in the share ownership in Limited Corporation (*Perusahaan Perseroan- PERSERO*).

Part Four

Principles of Privatization and
the Criteria of Privatizable Enterprises

Article 75

Privatization is conducted with due regard to the principles of transparency, independence, accountability, responsibility, and fairness.

Article 76

- (1) Privatizable Persore must at least meet the following criteria:
 - a. The industry/business sector is competitive;
 - b. The industry/business sector has the technology element which is rapidly changing.
- (2) A part of assets or activities of Limited Corporation (*Perusahaan Perseroan- PERSERO*) which perform the obligations of public service and/or by Law its business activities are required to be performed by SOE, may be restricted to be used as participation in the establishment of a company to further be privatized if required.

Article 77

Limited Corporation (*Perusahaan Perseroan - PERSERO*) which are



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unprivatizable:

- a. Limited Corporation (*Perusahaan Perseroan- PERSERO*) which business under the laws and regulations may only be managed by SOE;
- b. Limited Corporation (*Perusahaan Perseroan - PERSERO*) which engaged in business sector associated with the state defense and security;
- c. Limited Corporation (*Perusahaan Perseroan - PERSERO*) which engaged in certain sector and has been given special assignments by the government to perform certain activities associated with public interest;
- d. Limited Corporation (*Perusahaan Perseroan- PERSERO*) which engaged in the sector of natural resources which under the stipulations of laws and regulations is expressly prohibited from being privatized.

Article 78

Privatization shall be conducted by:

- a. sale of shares under the stipulations on capital markets;
- b. direct sale of shares to investors;
- c. sale of shares to the management and/or respective employees.

Part Five

The Privatization Committee

Article 79

- (1) To discuss and decide the policies privatization in relation to inter-sectoral policy, the government formed a privatization committee as coordination forum.
- (2) The privatization committee shall be led by the Coordinator Minister for economics which has the Minister, the Minister of Finance, and the



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Technical Minister where Limited Corporation (*Perusahaan Perseroan- PERSERO*) performs its business activity as members.

- (3) Membership of the privatization committee as intended in paragraph (2) is determined by Presidential Decree.

Article 80

- (1) The privatization committee has the duties to:
- a. form and determine the general policy and requirements for the performance of privatization;
 - b. determine the required steps to smoothen the process of Privatization;
 - c. discuss and provide a solution on the strategic issues arising during the process of Privatization, including issues relating to the sectoral policy of the government
- (2) The privatization committee in performing their duties as intended in paragraph (1), may invite, request for input and/or assistance from government institution or other parties as deemed necessary.
- (3) Chairman of the privatization committee reports periodically regarding the progress of the performance of his/her duty to the President.

Article 81

In conducting Privatization, the Minister has the duties to:

- a. Compose annual program of Privatization;
- b. Submit an annual program of Privatization to the privatization committee for direction;
- c. To conduct Privatization.

Part Six

Procedures for Privatization



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Article 82

- (1) Privatization must be preceded by action of selection on companies and refer to the criterias which has been determined in a Government Regulation.
- (2) Companies that have been selected and met the determined criteria, subsequent to obtaining recommendation from the Minister of Finance, shall be further socialized to the public and consulted with the House of Representatives.

Article 83

Further stipulations on the procedures for Privatization is governed by Government Regulation.

Article 84

Any person and/or legal entity having the potential to have a conflict of interest is prohibited from being involved in the process of Privatization.

Part Seven

Confidentiality of Information

Article 85

- (1) Parties involved in the program and process of privatization is obliged to keep confidential any information obtained to the extent that such information has not been disclosed.
- (2) A breach of the provision as intended in paragraph (1) is imposed with sanctions under the provisions of laws and regulations.

Part Eight



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Privatization Proceeds

Article 86

- (1) Privatization proceeds through sale of state-owned shares are directly deposited to the State Treasury.
- (2) Further stipulations on the procedures for deposit of Privatization proceeds is governed by Government Regulation.

CHAPTER IX

MISCELLANEOUS PROVISIONS

Article 87

- (1) Employees of SOE are workers at SOE whose appointment, dismissal, position, rights and obligations is determined pursuant to collective labor agreement in accordance with the stipulations of labor laws and regulations.
- (2) Employees of SOE may form a workers union under the provisions of laws and regulations.
- (3) A workers union is obliged maintain security and order within the company and enhance work discipline.

Article 88

- (1) A SOE may set aside a part of its net profits for construction of small-scale businesses/cooperatives and construction of the public in the surrounding of SOE.
- (2) Further stipulations on the appropriation and utilization of profits as intended in paragraph shall be governed by Decision of the Minister.

Article 89



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Member of the Board of Commissioners, the Board of Supervisors, the Board of Directors, and employees of SOE are prohibited from offering or receiving, either directly or indirectly, anything valuable to or from customers or government officials to persuade or as reward for what they have conducted and other action in accordance with the stipulations of laws and regulations.

Article 90

SOE within a reasonable manner may only give donations for charity and social objectives pursuant to the stipulations of laws and regulations.

Article 91

In addition to the organs of SOE, any other party is prohibited from having interference in the management of SOE.

Article 92

A change in the legal entity form of SOE is governed by Government Regulation.

CHAPTER X

TRANSITIONAL PROVISIONS

Article 93

- (1) Within 2 (two) years since the enactment of this Law, all SOE in the form of Service Corporation (*Perusahaan Jawatan - PERJAN*) must have been changed into General Corporation (*Perusahaan Umum - PERUM*) or Limited Corporation (*Perusahaan Perseroan- PERSERO*).
- (2) All stipulations which govern on SOE is declared to remain effective to the extent that it is not in contradiction or not yet replaced by new stipulations pursuant to this Law.



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CHAPTER XI
CONCLUDING PROVISIONS

Article 94

By the enactment of this Law:

1. *Indonesische Bedrijvenwet* (State Gazette of 1927 Number 419), as amended and added several times, most recently by Law Number 12 of the year 1955 (State Gazette of the Republic of Indonesia of the year 1955 Number 49, Supplement to State Gazette Number 850);
2. Law Number 19 Prp of the year 1960 concerning State Enterprises (State Gazette Number 59 of the year 1960, Supplement to State Gazette Number 1989);
3. Law Number 9 of 1969 concerning Enactment of Government Regulation in Lieu of Law Number 1 of the year 1969 (State Gazette of the year 1969 Number 16, Supplement to State Gazette Number 2890) concerning Forms of State-Owned Enterprises into a Law (State Gazette of the year 1969 Number 40, Supplement to State Gazette Number 2904);

are declared to no longer in effect

Article 95

This Law is in effect since the date it is promulgated.

In order that every person may know, to order the promulgation of this Law by placement in the State Gazette of the Republic of Indonesia.



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Legalized in Jakarta

on 19 June 2003

PRESIDENT OF THE REPUBLIC OF INDONESIA

signed

MEGAWATI SOEKARNOPUTRI

STATE GAZETTE OF THE REPUBLIC OF INDONESIA OF 2003 NUMBER 70



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ELUCIDATION

ON

LAW OF THE REPUBLIC OF INDONESIA

NUMBER 19 OF THE YEAR 2003

CONCERNING

STATE-OWNED ENTERPRISES

GENERAL

- I. Improvement of the welfare of all people as mandated by the Preamble of the Constitution Law of the year 1945 and as further elaborated by Article 33 of the Constitution Law of the year 1945 constitutes the constitutional duty of all components of the nation. In relation to the above, It is deemed necessary to enhance the possession over all national economic powers either through sectoral regulation or state ownership on certain business units by means to give expediency as much as possible for the prosperity of the people.
State-Owned Enterprises (SOE) which entire or most of its capital is derived from the Restricted State Assets constitutes one of the economic actors in the national economic system, in addition to private entities and cooperatives. In the performance of their business activities, SOE, private entities, and cooperatives play the role which mutually support pursuant to economic democracy.
- II. In the national economic system, SOE also contribute to the production of goods and/or services required in order to actualize prosperity of the people as much as possible. The role of SOE is deemed to be more important as leader and/or pioneer in business sectors which private business has lack of interest. In addition, SOE also have a strategic role as public service performer, balancer of large private business powers, and contribute to the development of small-scale business/cooperatives. SOE are also one of the significant sources of government revenues through various taxes, dividends, and privatization proceeds.



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The performance of such role of SOE is actualized in the business activities of almost all of economic sectors, such as sectors of agriculture, fisheries, plantation, forestry, manufacture, mining, finance, post and telecommunications, transportation, electricity, industry and trade as well as construction.

- III. In fact, although SOE has achieved the initial objective as agent of development and motivator of the creation of corporations, however such objective was achieved at a relatively high cost. The corporate performance is deemed to be insufficient, as demonstrated by the low profits obtain in comparison to the invested capital. Due to various obstructions, SOE has not yet fully provide high-quality goods and/or services for the public at affordable prices and less competitive in global business competition. In addition, due to lack of resources, the function of SOE, either as leader/pioneer or as balancer of power of large private business powers, also not yet fully actualized.

On the other hand, the world economic development has been running very dynamically, especially in relation to trade liberalization and globalization which have been agreed by the international world such as agreements regarding World Trade Organization (WTO), ASEAN Free Trade Area (AFTA), ASEAN Framework Agreement on Service, and Asia-Pacific Economic Cooperation (APEC).

- IV. In order to optimize their role and to enable survival of its existence in the world economic development which is more open and competitive, SOE need to grow corporate culture and professionalism among others through the reorganization of their management and supervision. The management and supervision of SOE must be performed under the principles of good corporate governance.

Enhancement of efficiency and productivity of SOE must be performed through restructurization and privatization steps. Sectoral restructurization is performed to create a



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conducive business climate in order to achieve efficiency and optimal service.

While corporate restructurization which include reorganization of forms of entities, business activities, organization, management, and finance. Privatization is not solely meant as the sale of company, instead to be the tool and method to reorganize SOE to achieve several targets at once, including to enhance corporate performance and added value, improved financial and management structure, the creation of healthy and competitive industrial structure, empowerment of SOE which able to compete and global oriented, dissemination of public ownership as well as development of domestic capital market. By the performance of Privatization of SOE, it does not mean the state control or sovereignty of the state on the respective SOE become less or gone because of matters as stated above, the state continues to perform the function of control through sectoral regulation where the privatized SOE perform their business activities.

The importance of sustainable organization of the role of SOE in the national economic system, especially efforts to enhance corporate performance and value, has been also mandated by the People's Consultative Assembly through Decree Number IV/MPR/1999 concerning Major guidelines of State Policy of the year 1999- 2004. The decree has set the line whereas SOE, particularly those engaged in the public interest, is required to be continuously organized and solvent through restructurization and for SOE which business is not related to the public interest and existed in the sector which has become competitive are encouraged to be privatized.

- V. Organization of the management and supervision system of SOE has been performed by the government in the past and expected to be sustainable. One of the steps that has been taken is the organization of the laws and regulations which govern SOE. In the year 1960 Law Number 19 Prp of 1960 has been issued with the objective to establish the uniformity of the management and control as well as legal forms of the existing state enterprises.



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In the year 1969 Law Number 9 of the year 1969 was enacted. The Law simplifies the forms of SOE into three forms of state enterprises, i.e., Service Corporation (*Perusahaan Jawatan - PERJAN*) that is fully subject to the provisions of *Indonesische Bedrijvenwet* (State Gazette of 1927 : 419), General Corporation (*Perusahaan Umum - GENERAL CORPORATION (PERUSAHAAN UMUM - PERUM)*) which is fully subject to the stipulations of Law Number 19 Prp of 1960, and Limited Corporation (*Perusahaan Perseroan- PERSERO*) which is fully subject to the Commercial Code (State Gazette of 1847 : 23), especially articles which govern limited liability companies which at present has been replaced by Law Number 1 of the year 1995 concerning Limited Liability Companies. In line with the mandate of Law Number 9 of the year 1969, the Government composed the guidelines of the construction of SOE which provide in detail matters in connection with the mechanism of construction, management, and supervision as contained in Government Regulation Number 3 of the year 1983, as then revised by Government Regulation Number 12 of the year 1998 concerning State-Owned Limited Corporation (*Perusahaan Perseroan- PERSERO*), Government Regulation Number 13 of the year 1998 concerning General Corporation (*Perusahaan Umum - PERUM*) and Government Regulation Number 6 of the year 2000 concerning Service Enterprises (*Perusahaan Jawatan - PERJAN*). Those various Government Regulations provide a more definite direction regarding the system which adopted in the effort to enhance the performance of SOE, that is through the application of corporate mechanism which performed clearly and expressly in the management of SOE.

However, the existing various laws and regulations have set out strong legal fundamentals in the development of state enterprises to keep in line of the development of the corporation world, as well as privatization efforts and the actualization of the principles of good corporate governance.

- VI. Pursuant to the foregoing facts and with due regard to mandate of the Decree of the People's Consultative Assembly Number IV/MPR/1999, therefore it is deemed necessary to determine a new Law which govern SOE more comprehensively and in accordance with



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the development of business world.

The Law is intended to fulfil the visions of future development of SOE and to set out fundamentals or principles of good corporate governance. Application of those principles is very important in performing management and supervision of SOE. Experience has proven that the economic downturn in various countries including Indonesia among others is caused by companies in those countries is not performing the principles of good corporate governance in a consistent manner.

SOE Law is designed to create management and supervision system under the principles of efficiency and productivity for improvement of the performance and value of SOE as well as to prevent SOE from actions of exploitation other than the principles of good corporate governance. This Law is also designed to organize and affirm the role of the institution and position of government representatives as shareholders/capital owners in SOE as well as to affirm and clarify the relationship between SOE as business operators and the government institution as regulator.

In addition, this Law also govern the stipulations on restructurization and privatization as tools and methods to reorganize SOE in order to achieve their goals as well as other important issues which are supportive and able to be the fundamental on efforts to solvent SOE.

Specifically concerning the privatization program, This law affirm whereas privatization may only be conducted by a SOE in the form of Limited Corporation (*Perusahaan Perseroan- PERSERO*) to the extent that it is permitted by the laws and regulations on business sector in which the Limited Corporation (*Perusahaan Perseroan- PERSERO*) is engaged. SOE in the form of Limited Corporation (*Perusahaan Perseroan- PERSERO*) may be privatized because not only permitted by the stipulations of capital markets also because in general only SOE in the form of Limited Corporation (*Perusahaan Perseroan- PERSERO*)



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which has been engaged in the competitive sector. Privatization always considers the public expediency.

- VII. With due regard to the nature of business of SOE, that is to gain profits and perform public expediency, in this Law SOE is simplified into two forms, that are State Owned Limited Corporation (*Perusahaan Perseroan- PERSERO*), which purpose is to gain profits and fully subject to the stipulations of Law Number 1 of 1995 concerning Limited Liability Companies and State-owned General Corporation (*Perusahaan Umum- GENERAL CORPORATION (PERUSAHAAN UMUM - PERUM)*) which is formed by the government to perform business as the implementation of the obligations of the government in order to provide certain goods and services fulfill the public needs. For the form of business as General Corporation (*Perusahaan Umum - GENERAL CORPORATION (PERUSAHAAN UMUM - PERUM)*), although its existence is to perform public expediency, nevertheless as an enterprise it is endeavored to remain independent and therefore General Corporation (*Perusahaan Umum - GENERAL CORPORATION (PERUSAHAAN UMUM - PERUM)*) must also be endeavored to gain profit for its continuance.

VIII. ARTICLE BY ARTICLE

Article 1

Sufficiently clear

Article 2

Paragraph (1)

Letter a

SOE is expected to enhance its service quality for the public and at the same time contribute in the enhancement of national economic growth and support the state finance revenues.

Letter b

Notwithstanding the means and objectives of Limited Corporation (*Perusahaan Perseroan- PERSERO*) is to gain profit, however, in certain cases with respect to



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public service, Limited Corporation (*Perusahaan Perseroan- PERSERO*) may be assigned with specific duties with due regard to the principles of good corporate governance. Therefore assignment by the government must be accompanied with compensation pursuant to business or commercial calculation, while General Corporation (*Perusahaan Umum - GENERAL CORPORATION (PERUSAHAAN UMUM - PERUM)*) which objective is to provide goods and services for public interest, in the performance must consider the principles of good corporate governance.

Letter c

Under these means and objectives, any proceeds of SOE, either goods or services, must fulfill the public needs.

Letter d

Pioneering activities constitutes a business activity to provide goods and/or services which are needed by the public, however such activities is not yet able to be performed by private and cooperative because of commercially not profitable. Therefore, such activities may be performed through assigning SOE.

In terms of urgent public needs, the government may also assign a SOE which have the function of public expediency service to perform partnership program with entrepreneurs of low economic group.

Letter e

Sufficiently clear

Paragraph (2)

Sufficiently clear

Article 3

Which intended by other laws and regulations are stipulations of Law Number 1 of the Year 1995 including its amendments if any and its ancillary regulations and sectoral laws and regulations which govern the business of SOE and private which issued by department/non-department institutions.

Article 4



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Paragraph (1)

Which intended as restricted is the restriction of state finance from the State Budget to be used for equity participation of the state in SOE, and further the construction and management are no longer based on the State Budget system, however the construction and management is based on the principles of good corporate governance.

Paragraph (2)

Letter a

The State Budget also include projects which funded by State Budget-funded projects and managed by SOE and/or state receivables in the which are used as equity participation of the state.

Letter b

Which intended as Reserved Capitalization is addition to the paid-up capital deriving from the reserves.

Letter c

Which intended as other resource is, among others, asset revaluation proceeds.

Paragraph (3)

Restriction of the state assets to be used for the equity participation of the state in a SOE may only be conducted by direct participation of the state in the capital of the SOE, so each participation requires determination through Government Regulation.

Paragraph (4)

To monitor and organize state finance which are invested in SOE and limited liability companies including addition and reduction of the state assets as well as the change of state ownership structure as a result of transfer of state-owned shares or issuance of new shares that are not subscribed by the state, requires to be determined by Government Regulation.

Paragraph (5)

Addition to the participation deriving from capitalization of reserve and other sources is sufficient by Resolution of the GMS/Minister and shall be reported to the Minister of Finance because in principle those state finance have been restricted from the State



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Budget.

Paragraph (6)

The Government Regulation governs, among others, the mechanism of relationship between the Minister and the Minister of Finance as well as the Technical Minister in accordance with their respective positions and functions, that are the Minister of Finance as manager of the state finance, the Minister whom appointed to represent the government as shareholder, and the Technical Minister as regulator.

Article 5

Paragraph (1)

Sufficiently clear

Paragraph (2)

Sufficiently clear

Paragraph (3)

The Board of Directors in their capacity as an organ of SOE which assigned to perform the management is subject to all regulations applicable to SOE and remain to the application of the principles of good corporate governance which include:

- a) transparency, that is the openness in decision-making process and openness in disclosure of material and relevant information concerning the company;
- b) independence, that is a condition in which a company is managed professionally without any conflict of interest and influences/pressures from any party whatsoever which are not in accordance with the laws and regulations and the principles of good corporate governance;
- c) accountability, that is the clearness of functions, performance and of the Organs with respect to the effective management of the company;
- d) responsibility, that is the consistency of the corporate management with laws and regulations and the principles of good corporate governance.
- e) fairness, that is, the reasonableness of the corporate management against the laws and regulations and the principles of good corporate governance.



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Article 6

Paragraph (1)

Sufficiently clear

Paragraph (2)

Sufficiently clear

Paragraph (3)

See the elucidation of Article 5 Section (3)

Article 7

Taking personal profit means to abuse his/her authority as member of the Board of Directors or the Board of Commissioners or the Board of Supervisors of SOE for the interest of his/her own, group, or class.

Article 8

Paragraph (1)

Which intended by this stipulation is to prevent a conflict of interest arising among members of the Board of Directors or the Board of Commissioners or the Board of Supervisors of the SOE they manage/supervise.

Paragraph (2)

Sufficiently clear

Paragraph (3)

Sufficiently clear

Article 9

Sufficiently clear

Article 10

Paragraph (1)

Assessment as intended in this paragraph is to determine whether or not the Limited Corporation (*Perusahaan Perseroan- PERSERO*) is feasible for establishment through an assessment on the business plan and ability to be independent as well as to develop the business in the future. Assessment in this matter involves the Technical Minister to the extent that sectoral policy is concerned.



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Paragraph (2)

Actualization of the establishment of the Limited Corporation (*Perusahaan Perseroan-PERSERO*) is conducted by the Minister in consideration that the Minister is the representative of the state as shareholder of the Limited Corporation (*Perusahaan Perseroan-PERSERO*) by reference to laws and regulations.

Article 11

In consideration that Persero is basically a limited liability company, all the stipulations of Law Number 1 of 1995 concerning Limited Liability Companies, including the ancillary regulations is also applicable to Limited Corporation (*Perusahaan Perseroan-PERSERO*).

Article 12

A Limited Corporation (*Perusahaan Perseroan-PERSERO*) as one of the national economic actors is demanded to meet the market demands through the provision of high-quality and highly competitive goods and/or services in both domestic and international markets. Therefore, it may increase the profits and value of the respective Limited Corporation (*Perusahaan Perseroan-PERSERO*) and therefore will give optimal expedience to the relevant parties.

Article 13

Sufficiently clear

Article 14

Paragraph (1)

For Limited Corporation (*Perusahaan Perseroan-PERSERO*) which entire capital (100%) is owned by the state, the Minister designated to represent the state as shareholder in any written resolution concerning Limited Corporation (*Perusahaan Perseroan-PERSERO*) constitutes a resolution of the GMS. For Limited Corporation (*Perusahaan Perseroan-PERSERO*) and a limited liability company which shares owned by the state are less than 100% (one hundred percent), the Minister has the capacity as shareholder and his/her resolution is made together with other shareholders in the GMS.



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Paragraph (2)

Which intended as individual is a person who hold a position ranked under the Minister who technically has the duty to assist the Minister as shareholder of the respective Limited Corporation (*Perusahaan Perseroan- PERSERO*). However, if deemed necessary, it is possible to authorize a legal entity pursuant to the laws and regulations.

Paragraph (3)

Although the position of the Minister as government representative have been delegated to an individual or legal entity to represent him/her in GMS, for certain matters, the authorized party must first obtain approval of the Minister before such matters are resolved in GMS. This matter requires prior approval from the Minister due to its strategic characteristics for the continuance of Limited Corporation (*Perusahaan Perseroan- PERSERO*).

Article 15

Paragraph (1)

Sufficiently clear

Paragraph (2)

In his/her position as GMS, his/her appointment and dismissal by Ministerial Decree is sufficient. Such Ministerial Decree has the same force of law as the resolution validly made by the GMS.

Article 16

Paragraph (1)

Sufficiently clear

Paragraph (2)

In consideration to the position of the Board of Directors as an organ of a *Limited Corporation (Perusahaan Perseroan- PERSERO)* is strategic in the management of the company in order to achieve the views and objectives of the company, to fill the position requires a prospective member of the Board of Directors having expertise, integrity, honesty, leadership, experience, good behavior, and high dedication as well as vision



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of the company development.

In order to obtain the best prospective member of the Board of Directors, it is required to make a selection through a fit and proper test that is administered transparently, professionally, independently, and accountably.

The fit and proper test of is administered by a team which appointed by the Minister as GMS in terms of all shares are owned by the state, and appointed by the Minister as shareholder in terms of shares are partially owned by the state, specifically for Board of Directors representing the elements of the government.

Members of the team as appointed by the Minister must meet the criteria of, among others, professionalism, comprehension of the management and business of the respective SOE, not having conflict of interest with the respective prospective member of the Board of Directors; and have a high integrity and dedication. The Minister may also appoint an independent professional institution to administer a fit and proper test to the prospective member of the Board of Directors of the Limited Corporation (*Perusahaan Perseroan- PERSERO*).

Paragraph (3)

Which intended as management contract is a statement of corporate intent (SCI) which, among others, contains promises or statements of the Board of Directors to meet all targets determined by the shareholders. The management contract shall be subject to renewal every year to be adjusted with the condition and development of the company.

Paragraph (4)

Member of the Board of Directors who has completed his/her term of office may be taken into consideration for re-appointment under the performance assessment of the previous term.

Paragraph (5)

Sufficiently clear

Article 17

Which intended as dismissal at anytime is the dismissal before his/her term of office expires. such dismissal is conducted if the Board of Directors, among others, fail to fulfil their



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obligations that have been agreed in the management contract, fail to perform their duties properly, violate the stipulations of the articles of association and/or laws and regulations; is declared guilty by a court decision that has permanent legal force, passed away, and resignation.

Article 18

Sufficiently clear

Article 19

Sufficiently clear

Article 20

A corporate secretary functions to ensure that the Limited Corporation (*Perusahaan Perseroan- PERSERO*) is in compliance with the regulations on requirements for transparency in line with the application of the principles of good corporate governance, provide information to the Board of Directors and the Board of Commissioners periodically, if requested. A corporate secretary must meet the qualifications of adequate professionalism.

A corporate secretary shall be appointed and dismissed by the Board of Directors and responsible to the Board of Directors.

Article 21

Paragraph (1)

A draft long-term plan shall contain, among others:

- a. evaluation of the implementation of the previous long-term plan;;
- b. current position of the company
- c. assumptions that are made in the arrangement
- d. determination of mission, targets, strategy, policy, and work program of the long-term plan.

Paragraph (2)

The Board of Commissioners before signing the draft of long-term plan as delivered by the Board of Directors, the Board of Commissioners is obliged to discuss with the Board of Directors.



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Upon the joint signing, all members of the Board of Directors and the Board of Commissioners shall be responsible for the contents of the respective draft of long-term plan.

Article 22

Paragraph (1)

A draft work and budget plan of the company contains, among others:

- a. the mission of the Limited Corporation (*Perusahaan Perseroan- PERSERO*), business targets, business strategy, policy of the company, and work/activity programs;
- b. the budget of the company detailed into every budget for work/activity programs
- c. the financial projections of the Limited Corporation (*Perusahaan Perseroan- PERSERO*) and its subsidiaries;
- d. other matters that requires a resolution of GMS

Paragraph (2)

As a work and budget plan is ratified by GMS, any amendments thereof must also be ratified by GMS, except provided otherwise by a resolution of GMS concerning ratification of the work and budget plan of the company.

Article 23

Paragraph (1)

An annual report contains, among others:

- a. Annual statements which consist of end of year balance sheet of the proceeding year and profit/loss statement of the same proceeding year as well as the explanations of those documents;
- b. The consolidated balance sheet of the company of the same group, in addition to the respective balance sheet of each company of the same group;
- c. The report on the condition and operation of the company and the result which has been achieved;



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- d. The main business activity of the company and changes during the relevant financial year;
- e. The details of issues arising during the financial year which affected the activities of the company;
- f. The names of members of the Board of Directors and the Board of Commissioners; and
- g. The salaries and other benefits of the members of the Board of Directors and honorarium as well as other benefits of the members of the Board of Commissioners.

Paragraph (2)

The Board of Commissioners prior to signing the annual report submitted by the Board of Directors, must discuss together with the Board of Directors. Upon the joint signing, all members of the Board of Directors and the Board of Commissioners are responsible for the contents of the annual report.

Paragraph (3)

The reasons of the members of the Board of Directors not signing must be explained in writing to GMS so that GMS may use it as one of the considerations in the assessment of the report.

Article 24

In addition to organizing a long-term plan, work and budget plan, annual report, and annual statements, the Ministerial Decree govern, among others, the solvency level of the Limited Corporation (*Perusahaan Perseroan- PERSERO*).

Article 25

Prohibition from holding concurrent position is intended to allow the members of the Board of Directors to fully devote their energy and ideas and/or attention to the duties, obligations and achievement of the objectives of the Limited Corporation (*Perusahaan Perseroan- PERSERO*).



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and prevent a conflict of interest from arising.

Article 26

Which intended as minutes of meeting in this article is the minutes of meeting of the Board of Directors, the Board of Commissioners, and GMS. The Board of Directors is required to maintain the minutes of meetings because it constitutes a formal documents that contain matters discussed and resolved in the meeting and constitutes an evidence which become the background any action is taken, either by the Board of Directors, the Board of Commissioners, or shareholders in the management of the company.

Bookkeeping of the Persero is prepared pursuant to the financial accounting standards which reflect the prevailing accounting principles.

Any change either caused by transactions or other events which occur in the Limited Corporation (*Perusahaan Perseroan- PERSERO*) and affecting the asset, liabilities, capital, expenses, and income must be booked under an accountable accounting system and performed under the principles of internal control, especially restriction of functions in the management, recording, storage, and supervision.

Article 27

Paragraph (1)

Sufficiently clear

Paragraph (2)

See elucidation of Article 15 Paragraph (2).

Article 28

Paragraph (1)

Sufficiently clear

Paragraph (2)

Which intended as acting independently is whereas the Board of Commissioners may not have an interest that may affect their ability in the performance of their duties



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independently and critical on relationship with one another and the Board of Directors.

Paragraph (3)

See elucidation of Article 16

Paragraph (4).

Sufficiently clear

Paragraph (5)

Appointment of member of the Board of Commissioners which is not at the same time with the Board of Directors is intended to prevent a vacant position if the term of office of the members of the Board of Commissioners and the Board of Directors has expired, except for initial appointment at the time of establishment of a Limited Corporation (*Perusahaan Perseroan- PERSERO*).

Article 29

See elucidation of Article 17.

Article 30

Sufficiently clear

Article 31

The Board of Commissioners In the performance of its duties is obliged to:

- a. give advices and recommendations to GMS regarding work and budget plan of the company as proposed by the Board of Directors;
- b. follow the development of company's business, to give advices and recommendations to GMS concerning any issues deemed important for the management of the Limited Corporation (*Perusahaan Perseroan- PERSERO*);
- c. promptly report to the shareholders if there is any occurrence of degradation of performance of the Limited Corporation (*Perusahaan Perseroan- PERSERO*);
- d. give advice to the Board of Directors in the performance of the management of the Persero;



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- e. perform other supervisory duties as determined by the articles of association of the Limited Corporation (*Perusahaan Perseroan- PERSERO*) and/or by the resolution of GMS. In addition, for the Board of Commissioners to be able to perform their duties properly in accordance with their duties and functions, the Board of Commissioners shall have the following authority:
- a. inspect books, letters, and other documents; audit cash for verification purpose; and audit the assets of the Limited Corporation (*Perusahaan Perseroan- PERSERO*);
 - b. enter into premises, buildings, and offices which are used by Limited Corporation (*Perusahaan Perseroan- PERSERO*);
 - c. request for explanations from the Board of Directors and/or other officials with regard to all issues relating to the management of Limited Corporation (*Perusahaan Perseroan- PERSERO*);
 - d. request the Board of Directors and/or other officials, by acknowledgement of the Board of Directors, to attend the meetings of the Board of Commissioners;
 - e. attend the meetings of the Board of Directors and give advices on matters discussed;
 - f. suspend the Board of Directors by stating the reasons;
 - g. other authorities which are deemed necessary as governed by the articles of association of the Limited Corporation (*Perusahaan Perseroan- PERSERO*).

Article 32

Paragraph (1)

Sufficiently clear

Paragraph (2)

This stipulation grants an authorization to the Board of Commissioners to perform the management of Limited Corporation (*Perusahaan Perseroan- PERSERO*) which actually may only be performed by the Board of Directors in terms of the Board of Directors is unavailable. If the Board of Directors is available, the Board of Commissioners may only



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perform certain actions as determined by GMS in the articles of association and laws and regulations.

Article 33

Prohibition on holding concurrent position is intended for the member of the Board of Commissioners to fully devote his/her energy and ideas and/or attention on duties, obligations, and achievement of the objectives of the Limited Corporation (*Perusahaan Perseroan- PERSERO*) as well as to prevent a conflict of interest from arising.

Article 34

Sufficiently clear

Article 35

Paragraph (1)

Establishment of General Corporation (*Perusahaan Umum PERUM*) must meet the following criteria, among others:

- a. the business field or its activities is associated with the interest of many people;
- b. not solely established to gain profit (cost effectiveness/cost recovery);
- c. pursuant to an assessment has meet the economical condition which necessary for the establishment of an enterprise (independent).

Proposal for establishment of General Corporation (*Perusahaan Umum - PERUM*) to the President by the Minister may be conducted at the initiative of the Minister and may also at the initiative of the Technical Minister and/or the Minister of Finance to the extent that it meets the aforesaid criteria.

See also elucidation of Article 10 paragraph (1)

Paragraph (2)

This Government Regulation contains, among others :

- a. determination of establishment of General Corporation (*Perusahaan Umum - PERUM*);



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- b. Determination on amount of Restricted State Finance;
- c. Articles of Association;
- d. Appointment of Minister as representative of the Government as the capital owner

Paragraph (3)

This Government Regulation, among others, governs the relationship between the Minister, the Minister of Finance, and the Technical Minister with respect to the establishment, construction, management, and supervision of General Corporation (*Perusahaan Umum - PERUM*).

Article 36

Paragraph (1)

General Corporation (*Perusahaan Umum - GENERAL CORPORATION (PERUSAHAAN UMUM - PERUM)*) is differed from Limited Corporation (*Perusahaan Perseroan-PERSERO*) because of their nature of business. General Corporation (*Perusahaan Umum - GENERAL CORPORATION (PERUSAHAAN UMUM - PERUM)*) in the conduct of its business emphasizes on service for public expediency through the provision of either service or goods and services. However, as an entity it is endeavored to remain independent, and therefore, General Corporation (*Perusahaan Umum - PERUM*) needs to gain profit for its continuance.

Paragraph (2)

Which intended as equity participation in this paragraph means direct participation of General Corporation (*PERUSAHAAN UMUM - PERUM*) in the share ownership in an entity in the form of a limited liability company, whether the existing or to be established.

Article 37

The Minister has the position as an organ with the highest authority in a General Corporation (*Perusahaan Umum - PERUM*) having all authority which are not delegated to the Board of Directors or the Board of Supervisors within limits as determined by this Law



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and/or Government Regulation concerning its establishment.

Article 38

The Minister as the representative of the government and as the capital owner of General Corporation (*Perusahaan Umum - PERUM*) determines the development policy of General Corporation (*Perusahaan Umum - PERUM*) which objective is to set directions in achieving the objectives of the company that involves the policy on investment, business financing, sources of financing, use of proceeds of the company, and other development policy. In view of the Board of Supervisors will be supervising the implementation of the policy, proposal of the Board of Directors to the Minister must obtain prior approval from the Board of Supervisors.

The Minister has very high interest in the state capital invested in General Corporation (*Perusahaan Umum - PERUM*) to be developed. Accordingly, issues on investment, financing and use of business proceeds of General Corporation (*Perusahaan Umum - PERUM*) should be clearly directed through the development policy of the company. In order to grant approval on the proposal of the Board of Directors, the Minister may hold a discussion at any time with the Technical Minister to discuss matters which related to sectoral policy.

Article 39

In view of capital of General Corporation (*Perusahaan Umum - PERUM*) is basically constitutes restricted state asset, the capital owner only be responsible up to the value of participation paid up and exclude the state assets other than such capital.

If any actions other than the corporate mechanism occurred as governed by this article, such limited responsibility shall cease

Article 40

The Ministerial Decree governs, among others, actions of the Board of Directors which require approval of the Board of Supervisors and/or approval of the Minister, which



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includes, among others, approval for:

- a. Loan withdrawal;
- b. Loan grantings;
- c. Release of assets;
- d. Write offs of bad debts and provision of goods

Article 41

Paragraph (1)

Government Regulation concerning Establishment of General Corporation (*Perusahaan Umum - PERUM*), in addition to determination of establishment of General Corporation (*Perusahaan Umum - PERUM*), at the same time also provide a decree to perform state equity participation in General Corporation (*Perusahaan Umum - PERUM*) and the articles of association of the respective General Corporation (*Perusahaan Umum - PERUM*).

The articles of association of a General Corporation (*Perusahaan Umum - PERUM*) shall contain, among others:

- a. Name and domicile of General Corporation (*Perusahaan Umum - PERUM*);
- b. Views and objective of business of General Corporation (*Perusahaan Umum - PERUM*);
- c. Period of existence of General Corporation (*Perusahaan Umum - PERUM*);
- d. Composition and amount of member of the Board of Directors and amount of the member of the Board of Supervisors; dan
- e. the determination of the procedures for holding a meeting of the Board of Directors, meeting of the Board of Supervisors, meeting of the Board of Directors and/or the Board of Supervisors with the Minister and the Technical Minister.

Paragraph (2)

Because the Government Regulation concerning the establishment of General Corporation (*Perusahaan Umum - PERUM*) also contains the articles of association of General Corporation (*Perusahaan Umum - PERUM*), any amendments to the articles of



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association of General Corporation (*Perusahaan Umum - PERUM*) shall be governed by Government Regulation..

Paragraph (3)

Sufficiently clear

Article 42

Sufficiently clear

Article 43

Pursuant to this stipulation, the Minister may determine whereas either partial or all of the net profits will be used for distribution of dividends to the capital owners, or other distribution, such as bonus (*tantiem*) for the Board of Directors and the Board of Supervisors, bonus for employees, social reserve funds, etc., or placement of the net profit as reserves of the General Corporation (*Perusahaan Umum - PERUM*) which may be used for, among others, business expansion of General Corporation (*Perusahaan Umum - PERUM*).

Article 44

In order to appoint the Board of Directors, the Minister may request for input from the Technical Minister, if deemed necessary.

Article 45

Paragraph (1)

Sufficiently clear

Paragraph (2)

Sufficiently clear

Paragraph (3)

In view of the position of the Board of Directors as an organ of General Corporation (*Perusahaan Umum - PERUM*) is strategic in the management of the company in order to achieve the views and objectives of the company, to fill the position requires



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the prospective member of the Board of Directors to have expertise, integrity, honesty, leadership, experience, good behavior, and high dedication as well as vision for the development of the company.

In order to obtain the best prospective member of the Board of Directors, a selection through a fit and proper test is required which performed transparently, professionally, independently, and accountably.

A fit and proper test shall be performed by a team appointed by the Minister.

Members of the team as appointed by the Minister must meet the criteria of, among others, professionalism, comprehension of the management and business of the respective SOE, not having conflict of interest with the respective prospective member of the Board of Directors; and have a high integrity and dedication. The Minister may also appoint an independent professional institution to administer a fit and proper test to the prospective member of the Board of Directors of the General Corporation (*Perusahaan Umum - PERUM*).

Paragraph (4)

See elucidation of Article 16 Paragraph (3).

Paragraph (5)

See elucidation of Article 16 Paragraph (4).

Paragraph (6)

Sufficiently clear

Article 46

Which intended as dismissal at anytime is the dismissal before his/her term of office expires. such dismissal is conducted if the Board of Directors, among others, fail to fulfil their obligations that have been agreed in the management contract, fail to perform their duties properly, violate the stipulations of the articles of association and/or laws and regulations; is declared guilty by a court decision that has permanent legal force, passed away, and resignation.



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Article 47

Sufficiently clear

Article 48

Sufficiently clear

Article 49

Paragraph (1)

Sufficiently clear

Paragraph (2)

The Board of Supervisors before signing the draft of long-term plan as delivered by the Board of Directors, is obliged to discuss with the Board of Directors.

Upon the joint signing, all members of the Board of Directors and the Board of Supervisors is responsible for the contents of the draft long-term plan.

Article 50

See elucidation of Article 22 Paragraph (1) dan Paragraph (2).

Article 51

Paragraph (1)

See elucidation of Article 23 Paragraph (1).

Paragraph (2)

See elucidation of Article 23 Paragraph (2).

Paragraph (3)

See elucidation of Article 23 Paragraph (3).

Article 52

See elucidation of Article 24.



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Article 53

See elucidation of Article 25.

Article 54

See elucidation of Article 26.

Article 55

Paragraph (1)

Sufficiently clear

Paragraph (2)

Error or negligence of the Board of Directors as intended by this section is an error or negligence that is committed, for example, through violation of the terms of the articles of association of General Corporation (Perusahaan Umum - PERUM) or the stipulations that have been outlined by the Board of Supervisors and the Minister and have been proven legally. In this matter, the process of proving is conducted by the Minister together with his/her apparatus. However, whether or not the respective member of the Board of Directors is guilty, is determined pursuant to the verdict of the competent court.

Paragraph (3)

Sufficiently clear

Paragraph (4)

Sufficiently clear

Article 56

Members of the Board of Supervisors may include the elements of officials of the Technical Minister, the Minister of Finance, the Minister, and officials of departments/non-department institutions, which activities are directly associated with General Corporation (Perusahaan Umum - PERUM).

Also see elucidation of Article 44.



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Article 57

Paragraph (1) dan (2)

Sufficiently clear

Paragraph (3)

See elucidation of Article 28 Paragraph (2).

Paragraph (4)

See elucidation of Article 16 Paragraph (4).

Paragraph (5)

Sufficiently clear

Paragraph (6)

See elucidation of Article 28 Paragraph (5).

Article 58

Which intended as dismissal at anytime is the dismissal before his/her term of office expires. such dismissal is conducted if the Board of Supervisors, among others, fail to fulfil their obligations that have been agreed in the management contract, fail to perform their duties properly, violate the stipulations of the articles of association and/or laws and regulations; is declared guilty by a court decision that has permanent legal force, passed away, and resignation.

Article 59

Sufficiently clear

Article 60

See elucidation of Article 31.

Article 61

Paragraph (1)

Sufficiently clear

Paragraph (2)



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See elucidation of Article 32 Paragraph (2).

Article 62

See elucidation of Article 33.

Article 63

Paragraph (1)

A Limited Corporation (*Perusahaan Perseroan- PERSERO*) may perform a merger or consolidation with another existing Limited Corporation (*Perusahaan Perseroan- PERSERO*) or General Corporation (*Perusahaan Umum - PERUM*), and vice versa. A merger and consolidation of SOE may be conducted without firstly performing liquidation. By such merger, the merging Limited Corporation (*Perusahaan Perseroan- PERSERO*) or General Corporation (*Perusahaan Umum - PERUM*) become dissolved. While by the merger of SOE which mutually merging shall become dissolved and form a new SOE.

Paragraph (2)

A legal action performed by SOE to acquire another SOE or limited liability company, either all or most of shares/capital may result in a transfer of control of the SOE or the limited liability company.

Article 64

Paragraph (1)

Because the establishment of SOE is conducted pursuant to Government Regulation which stated the amount of state equity participation in the establishment of the SOE, the dissolution of the SOE must also be performed by Government Regulation.

Paragraph (2)

In the Government Regulation concerning dissolution of SOE may also determine so that the remaining proceeds from liquidation to be used for the equity participation of the state in another existing SOE or used for participation to establish a new SOE. If



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not determined so, the remaining proceeds from liquidation is directly deposited into the State Treasury because it constitutes the right of the state as the shareholder or capital owner of the SOE.

Article 65

Paragraph (1)

As establishment of a SOE is performed pursuant to the Government Regulation, any changes in the SOE as a result of a merger, consolidation, acquisition, or dissolution must also be performed pursuant to the Government Regulation.

Paragraph (2)

Actions to perform a merger, consolidation, acquisition, and dissolution of a SOE will have immediate impacts on the interest of the SOE, its shareholders, third parties, and employees of the SOE. Basically, by performing those actions, it is expected that the surviving and newly-formed SOE will be better. The interest of the shareholders may not be harmed, so are the third parties that should be first notified so that their rights are settled properly. Employees which represent assets of the SOE itself are endeavored not to be subject to termination of employment; or if initiated, the termination of employment is the last alternative and must be settled pursuant to the laws and regulations. Therefore, before the aforesaid actions are performed, the Board of Directors of a SOE conducting a merger, consolidation, acquisition, and dissolution is required to socialize it first to their respective employees

Article 66

Paragraph (1)

Notwithstanding that a SOE is established with the views and objectives to gain profit, in case of urgency, SOE is assigned with a special duty by the government. If such assignment in accordance with scientific assessment is financially not feasible, the government must give compensation for all costs incurred by the SOE, including the expected margin.



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Paragraph (2)

Given the assignment in principle changes the existing work and budget plan of the company, the assignment must be acknowledged and approved by GMS/the Minister. .

Article 67

The Internal Supervisory Unit is formed to assist the president director in conducting internal financial audit and operational audits of SOE as well as to assess his/her control, management, and performance of the relevant SOE, and to give recommendations for improvements. Because the internal supervisory unit is assigned with a duty to assist the president director, its accountability shall be reported to the president director.

Article 68

Sufficiently clear

Article 69

Sufficiently clear

Article 70

Paragraph (1)

In order to actualize effective supervision in the performance of their duties, the Board of Commissioners and the Board of Supervisors need the assistance of an Audit Committee which duty is to assess the performance of activities and the audit results which conducted by the internal supervisory unit or external auditor, provide recommendations on the perfection of the management control system and the performance, ensuring that there is already a satisfactory review procedures for all information released by the State-Owned Entity (SOE); identifying matters that requires attention from the Board of Commissioners and the Board of Supervisors as well as other duties of the Board of Commissioners and the Board of Supervisors.



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Paragraph (2)

The chairman of the Audit Committee shall be an independent member of the Board of Commissioners who is appointed by the Board of Commissioners.

Paragraph (3)

Other committees as intended herein, among others, a remuneration committee and nomination committee.

Paragraph (4)

Sufficiently clear

Article 71

Paragraph (1)

A financial audit is intended to obtain the auditor's advices on the fairness of the financial statements and annual statements of the respective company. The auditor's advices on the respective financial statements and annual financial statements are required by the shareholders/the Minister to, among others, in order to give full discharge (acquit et decharge) to the Board of Directors and the Board of Commissioners/the Board of Supervisors of the company.

In line with Law Number 1 of 1995 concerning Limited Liability Companies and Law Number 8 of 1995 concerning Capital Markets, an audit of financial statements and annual statements of a Limited Liability Company is conducted by a public accountant

Paragraph (2)

Sufficiently clear

Article 72

As mandated by the People's Consultative Assembly, the government is obliged to maintain the enterprises solvent, especially enterprises which lines of business related to the public interest. Efforts to maintain these enterprises solvent may be performed through restructuring so that the enterprises may operate more efficiently, transparently, and professionally so the enterprises are able to provide the best product/service at competitive prices to the customers also to give benefit to the state. Prior to performing restructurization, the government will



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consider the cost and benefit of the restructurization.

Article 73

Sectoral restructurization is mainly designated for sectors which receive protection in the past or sectors that have natural monopolies. Sectoral restructurization is intended to create a healthy business climate for fair competition, efficiency, and optimal service. Such industrial restructurization is related to business regulation. Reorganization and arrangement of regulation is conducted jointly with the relevant Departments.

Sectoral restructurization may be conducted through the following methods: separate sectoral segments to reduce the vertical integration of the sector; increase competition, introduction of competition from substitute industries, other suppliers of the same sector, and increase market competition as well as demonopolization through regulation.

For companies with public service obligation, these companies are still in the restructurization process. Notwithstanding the public interest, the companies will apply business principles in order to better improve the efficiency and productivity of the company. This effort is to clarify the levels of the government subsidies to the cost of public service.

Article 74

By performing privatization, it is expected that a change in the corporate culture occurs as a result of the entry of new shareholders, either through public offers (go public) or direct placement. Companies will face an obligation to meet the requirements of openness which represent the main requirements for a go-public process, or to meet the companies' targets that must be achieved as a result of the entry of new shareholders.

The changed corporate culture will encourage the improvement of performance of the company that will further increase the competitiveness of the companies in competing with the national, regional, and even with global competitors so that in the end will give a larger contribution to national economy in the form of goods and services which are better in its quality and at affordable prices, also state revenues in the form of tax will also increase. Therefore the views and objectives of privatization are basically to improve the role of Limited



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Corporation (*Perusahaan Perseroan- PERSERO*) in its efforts to increase public welfare by expansion of public ownership of Limited Corporation (*Perusahaan Perseroan- PERSERO*) as well as to uphold the national economic stability.

Although privatization is intended to perform efficiency, such privatization whenever possible will not cause anxiety to the employees. Therefore, in performing privatization, to the extent possible to that no termination of employment is effected. Termination of employment may only be effected after a definite period of the privatization, except if the employees have committed actions in violation of the provisions of law. Further, if termination of employment occurs, will be conducted in accordance with the laws and regulations. In relation thereto, in the effort so the employees and workers union or the public to be aware of the benefit of privatization, the government should socialize the benefit of privatization in a guided and consistent manner.

Article 75

Privatization shall be conducted transparently, either during its preparation process or its implementation. Privatization process shall be conducted by reference to the determined privatization procedures without intervention of other parties out of the corporate mechanism and prevailing laws and regulations. Privatization process will also be conducted by intensive consultation with the relevant parties so that its process and implementation can be accountable to the public

Article 76

Paragraph (1)

Which intended as Competitive industry / business sector is industry / business sector which basically engaged by whomever, either by a SOE or private enterprise. In other words, there are no laws and regulations (sectoral policy) that prohibit private enterprise from performing activities within that sector, or firmly speaking, that sector is not solely specialized for SOE.

Which intended as Industry/business sector with rapidly proliferating elements of



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technology is competitive industry/business sector that has the main characteristics of rapidly proliferating technology and requires very large investment to replace the technology.

Paragraph (2)

Sufficiently clear

Article 77

Sufficiently clear

Article 78

Letter a

Which intended as sale of shares under the provisions of capital markets is, among others, sale of shares through a public offer (Initial Public Offering/go public), issuance of convertible bonds and other equity securities. This also means sale of shares to strategic partners (direct placement) by SOE that have been listed in the stock exchange.

Letter b

Which intended as Direct sale of shares to investors is sale of shares to strategic partners (direct placement) or other investors, including financial investors. This method is especially applicable to sale of shares by that have not been listed in the stock exchange

Letter c

Which intended as sale of shares to the management (Management Buy Out/MBO) and/or the employees (Employee Buy Out/EBO)" is direct sale of major part or all of shares of a company to the management and/or the employees of the relevant company.

Article 79



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Paragraph (1)

Sufficiently clear

Paragraph (2)

The Technical Minister as regulator of business sector in which a SOE is performing its business activity becomes a member of the privatization committee for privatization of SOE only within his/her sector.

Paragraph (3)

Sufficiently clear

Article 80

Sufficiently clear

Article 81

In order to perform the duties as intended by this article, the Minister shall perform the following steps, among others:

- a. Determined the SOE to be privatized
- b. Determine the method of privatization to be used
- c. Determine the type and range of amount of shares to be released;
- d. Determine the range of share sale price;
- e. Determine the estimated value to be obtained from the privatization program of SOE.

Article 82

Sufficiently clear

Article 83

This government regulation is governed among others :

- a. determination of SOE which eligible for entry into a privatization program;
- b. submission of annual privatization program to the privatization committee;
- c. consultation with the House of Representatives and the relevant



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Departments/Non-Department Institutions

- d. performance of privatization.

Article 84

Which included in the definition of Person and/or legal entity that has a conflict of interest are including parties that have affiliation relationship, as follows:

- a. family relationship due to marriage and offspring up to the second degree both horizontally and vertically;
- b. relationship between a party and employees, Directors or Commissioners of the party;
- c. relationship between 2 (two) companies in which there is one or more members of the same Board of Directors or Board of Commissioners;
- d. relationship between a company and party that either directly or indirectly controls or is controlled by that company;
- e. relationship between 2 (two) companies that are controlled either directly or indirectly by the same party; or
- f. relationship between a company and its major shareholders.

Article 85

Paragraph (1)

Which intended as Information is a material and relevant fact on a situation, event, or fact that may affect prices and/or decisions of investors, prospective investors, or any other interested parties that are affected by such information or fact.

With respect to such information or fact, to the extent that the information or fact has not been determined as open information or fact, or to the extent that the information or fact has not been announced by the Minister, all parties involved must maintain confidentiality of such information.

Paragraph (2)

In terms of breach of this stipulations on confidentiality occurred in a SOE which has not been listed in the stock exchange, and its privatization uses another method other than a privatization method through sale of shares in the stock exchange, such SOE is subject



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to sanctions pursuant to public criminal law, while in terms of breach is committed in the privatization of SOE that has been listed in the stock exchange, the SOE is subject to sanctions pursuant to laws and regulations concerning capital markets

Article 86

Paragraph (1)

The privatization proceeds deposited into the State Treasury is the proceeds of divestment of shares owned by the state. While, in terms of sale of new shares, the proceeds is deposited into the treasury of company. In terms of the privatization proceeds of subsidiaries of the SOE, their privatization proceeds may be determined as interim dividends.

Which intended as net proceeds of privatization is the net profit after deduction of performance of privatization costs. The cost of the privatization must have due regard to the principles of fairness, transparency, and accountability

Paragraph (2)

Sufficiently clear

Article 87

Paragraph (1)

With this kind of status of employment of SOE, for SOE all stipulations of echelonment of position to civil officials is not applicable. The intended collective labor agreement is entered into between the employees of SOE and the employment provider, that is, the management of the SOE.

Paragraph (2)

Sufficiently clear

Paragraph (3)

Sufficiently clear

Article 88

Which intended as small-scale businesses/cooperatives includes small-scale



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businesses/cooperatives that meet the criteria as small-scale businesses pursuant to the laws and regulations.

Article 89

Sufficiently clear

Article 90

Sufficiently clear

Article 91

For the Board of Directors to perform their duties independently, any parties other than the organs of the SOE is prohibited from having interference to the management of the SOE. Interference includes an action or direction which directly affect the management of the SOE or on the decision making of the Board of Directors. This stipulation is intended to affirm the independence of SOE as an enterprise in order to be managed professionally so it may develop properly in accordance with the business objective..

This also applies to other Departments and government institutions because the need of funds of other Departments and Government institution has been governed and determined separately. Departments and Government institution are not allowed to encumber with any form of expenses, and otherwise, SOE are not allowed to defray the expenses of Departments and Government agencies in book-keeping..

Article 92

Sufficiently clear

Article 93

Sufficiently clear

Article 94

Sufficiently clear



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Article 95

Sufficiently clear

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