

# REPORT FROM SIVE

PT PERUSAHAAN GAS NEGARA (PERSERO) Tbk

**2013**  
SUSTAINABILITY REPORT







# WELCOME TO PGN'S 2013 SUSTAINABILITY REPORT

We always give the best added value to our stakeholders

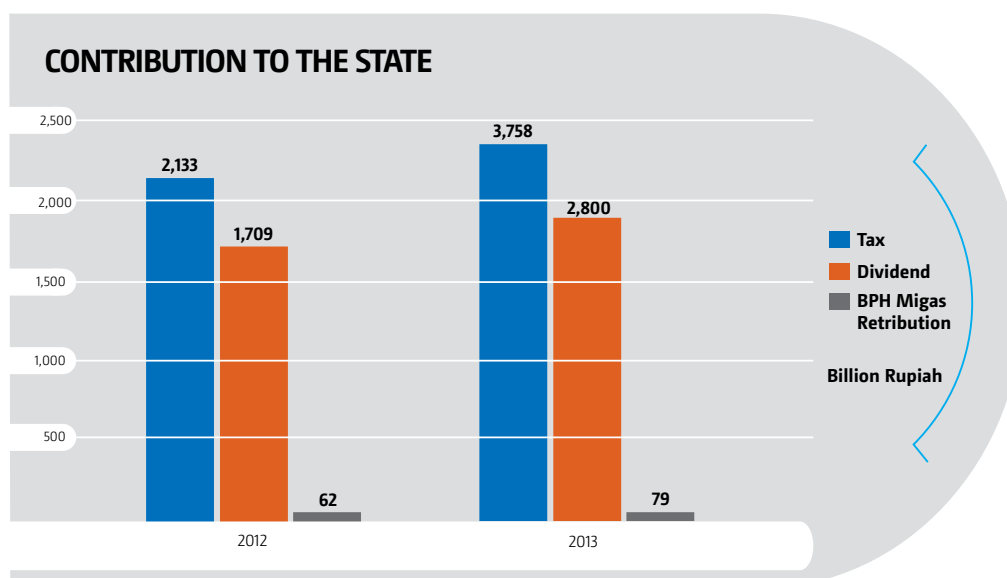
# Responsive

Responsiveness is a key word in sustainable business, a commitment to be implemented by all PGN's people. The Company is committed to an ongoing harmonious relationship with its stakeholders, responding to their expectations, starting from the shareholders, to the government, suppliers, customers, employees and communities. This responsive attitude demonstrates PGN's sense of responsibility to the environment and its social care.



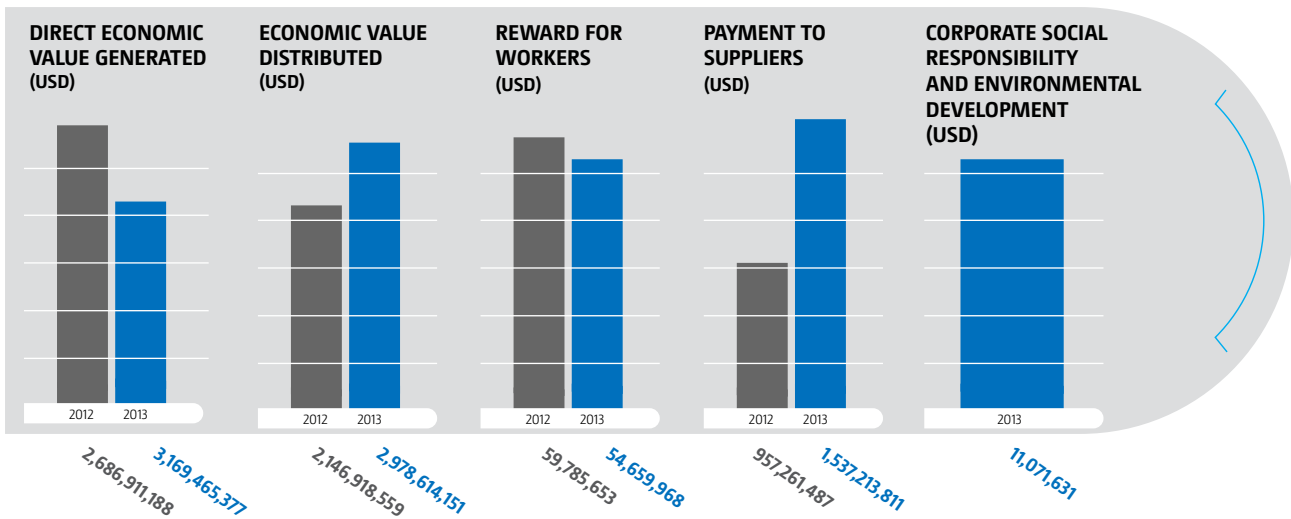


## ECONOMIC PERFORMANCE

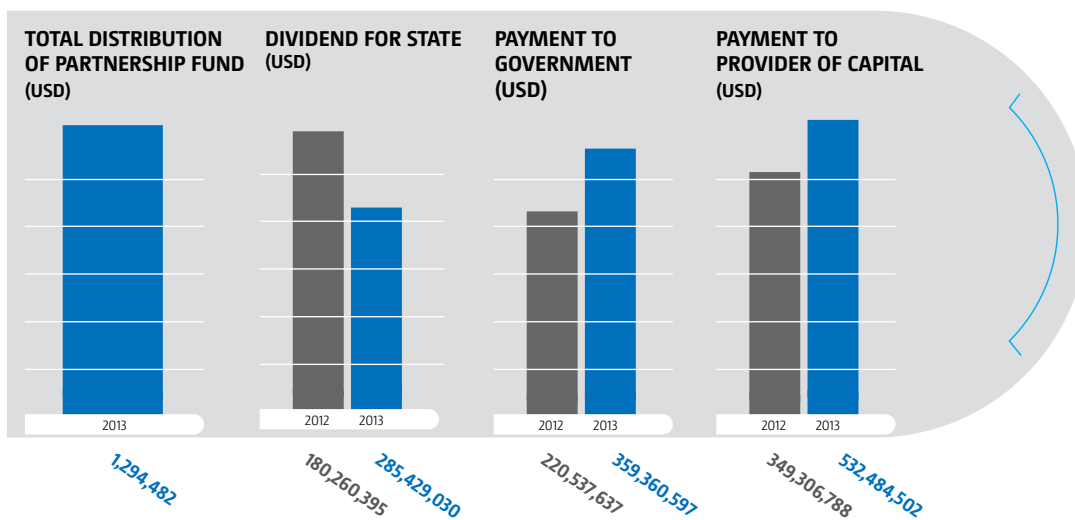
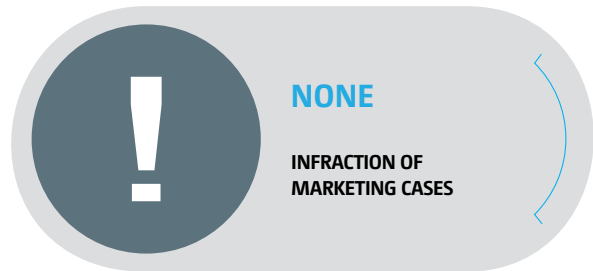
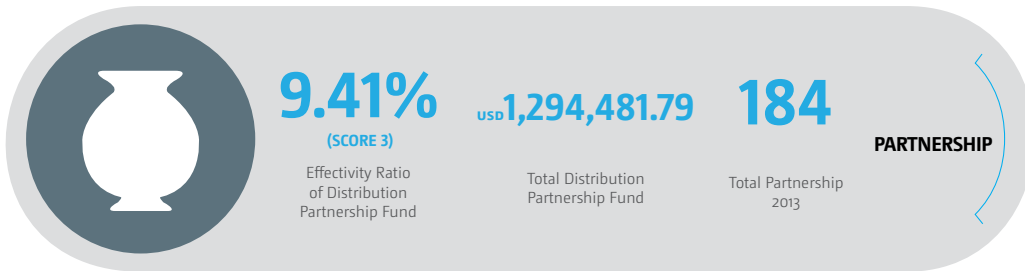


### DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTED

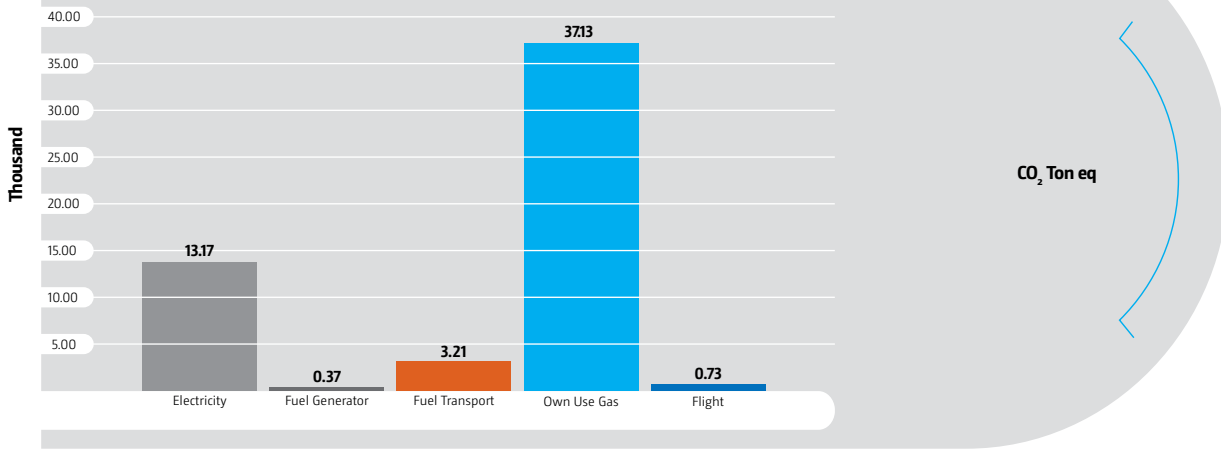
(USD)	2013	2012
<b>DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTED</b>		
Income	3,001,516,630	2,580,234,140
Interest income	26,910,239	27,824,136
Income from investment in subsidiaries	-	-
Income from sale of assets	-	-
Income from investment in foreign currency	83,899,214	49,757,553
Other income	57,139,294	29,095,359
<b>Total direct economic value generated</b>	<b>3,169,465,377</b>	<b>2,686,911,188</b>
<b>Economic value distributed:</b>		
Operating costs	1,956,638,879	1,451,856,938
Employee wages and benefits:		
- Operation department	38,391,494	41,392,899
- Administration department	83,715,450	83,087,327
Total employee wages and benefits	122,106,944	124,480,227
Payment to providers of capital:		
- Dividend payment	510,620,916	327,730,116
- Interest payment	21,863,585	21,576,672
Total payment to providers of capital:	532,484,502	349,306,787
Payment to government	359,360,597	220,537,637
Community investments	8,023,230	736,970
<b>Economic value distributed</b>	<b>2,978,614,151</b>	<b>2,146,918,559</b>
Economic value retained before dividend		
Economic value retained after dividend	190,851,226	539,992,629



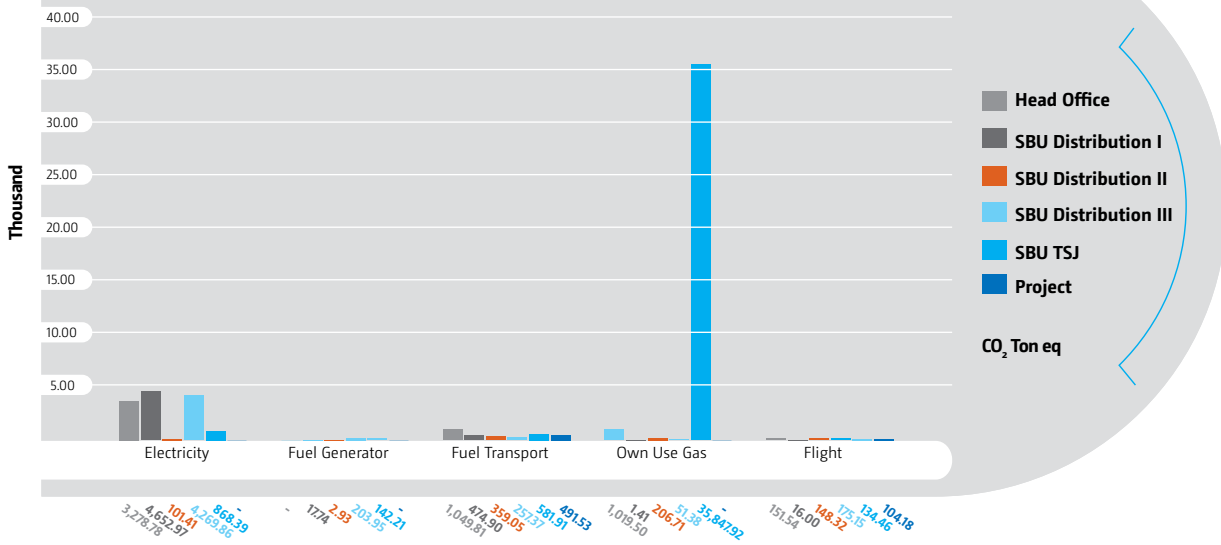
## ECONOMIC PERFORMANCE



### CARBON EMISSION COMPOSITION OF ENERGY CONSUMPTION ACTIVITY 2013

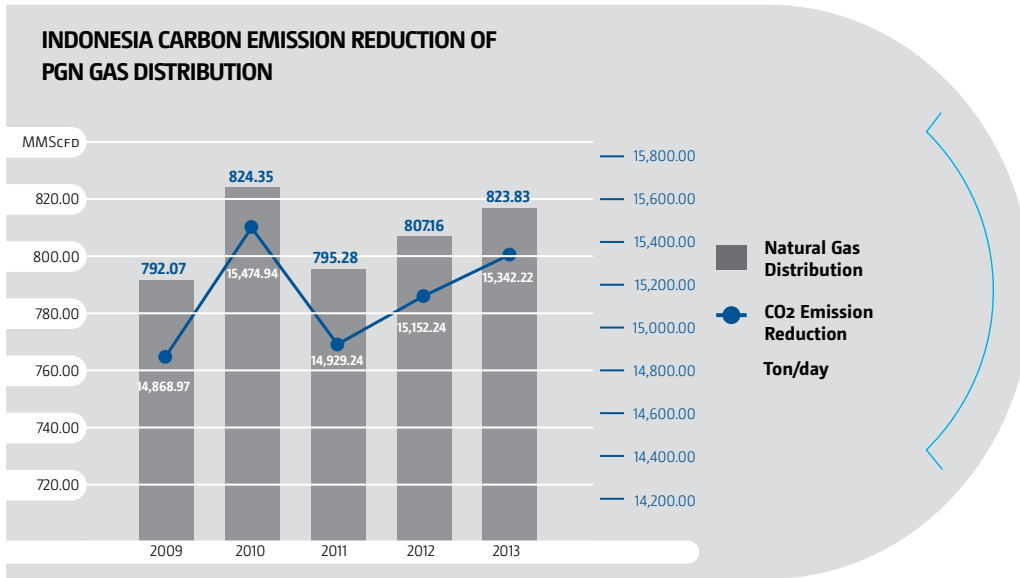


### CARBON EMISSION PER UNIT 2013





## ENVIRONMENT PERFORMANCE



\*) Assuming solar to natural gas delivery conversion

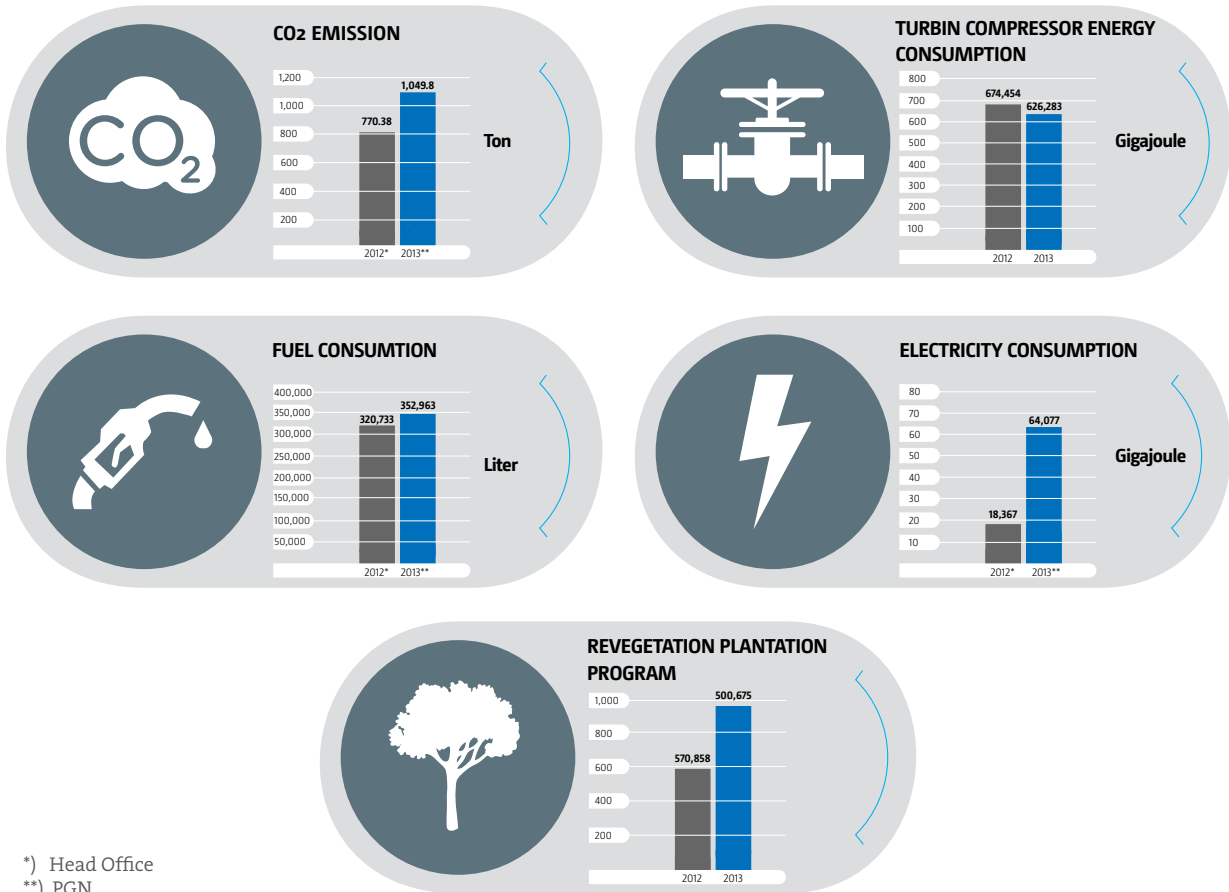
\*) Intergovernmental Panel on Climate Change (IPCC, 1996)

### TREES PLANTED IN REVEGETATION PROGRAM

Year	2010	2011	2012	2013
<b>Trees</b>	<b>1,062,517</b>	<b>934,638</b>	<b>570,858</b>	<b>500,675</b>

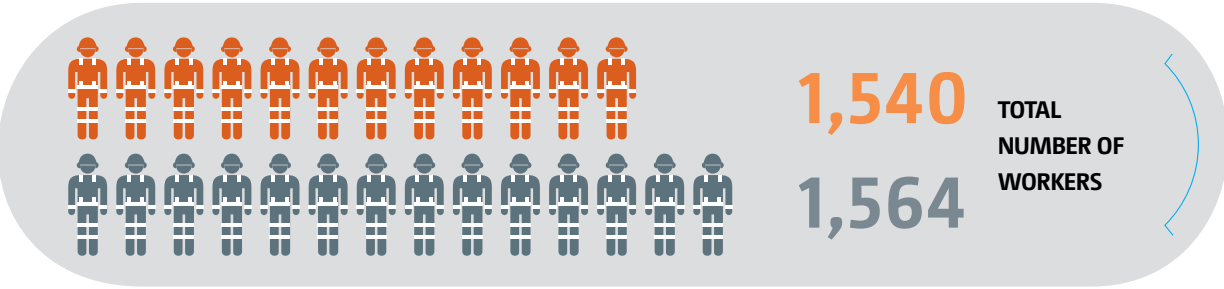
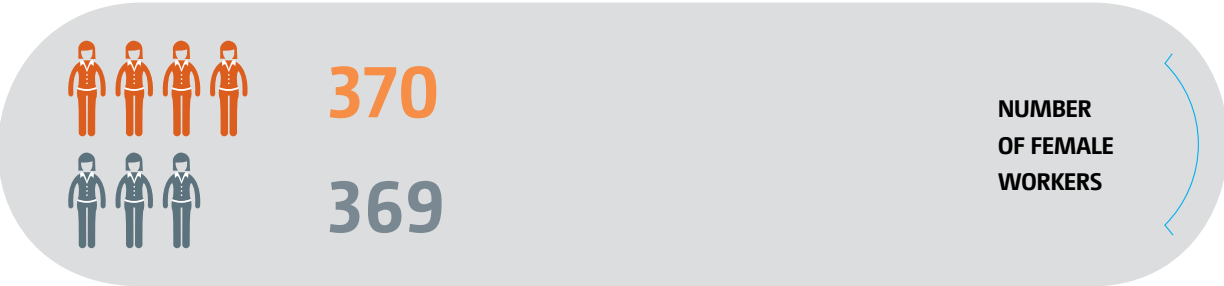
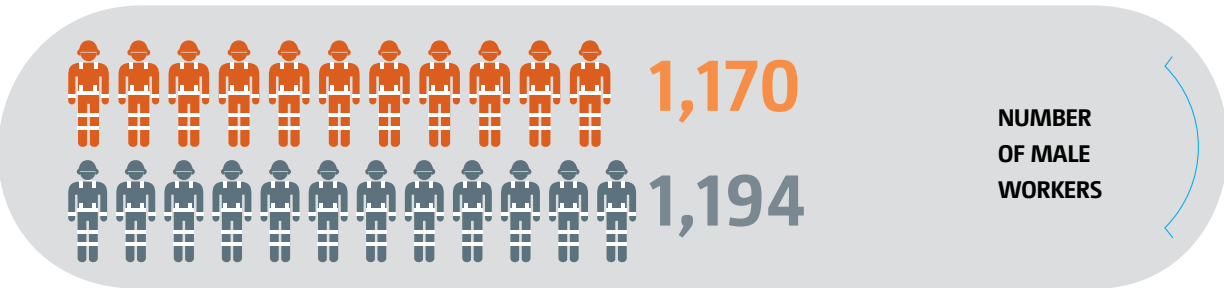


## ENVIRONMENT PERFORMANCE



NO	DESCRIPTION	TOTAL (RP)
1	Preparation of environmental document in marketing area	4,762,850,875
2	Environmental Monitoring in Strategic Business Units	2,148,161,875
3	Preparation catchment spot in Strategic Business Unit Distribution 1 and 3	368,720,000
4	Environmental Campaign	27,842,780
5	B <sub>3</sub> Waste Management in Strategic Business Units	1,603,878,000
6	PROPER	513,939,000
7	Noise Study in Strategic Business Unit Sumatera-Java Transmission	365,500,000
8	Environmental Measurement of Strategic Business Unit Sumatera Java Transmission	602,850,000
9	Environment Training Program	298,293,591
10	Environmental Transformation in Strategic Business Unit Distribution 1	554,241,000
<b>Total</b>		<b>11,246,277,121</b>

# SOCIAL PERFORMANCE



● 2012

● 2013



## SAFETY PERFORMANCE



## COMMUNITY DEVELOPMENT

### Aid for Natural Disaster Victims

- Soup kitchen and health services to flood victims in the area of Banten, East Jakarta, West Jakarta and Bekasi
- Post-disaster rehabilitation in Aceh
- Aid to victims the Gunung Sinabung volcanic eruptions in North Sumatera
- Food aid such as instant meals are distributed to disaster areas

### Education or Training Aid

- Sending 31 young students to 25 elementary schools in remote areas in South Sumatera and East Java, as well as being a recruitment partner. This program was implemented in cooperation with Yayasan Indonesia Mengajar (Indonesia Teaches Foundation)
- Construction and renovation of schools and other educational facilities around PGN operational areas, in synergy with WIKA and PP
- Provision of scholarships to 1,050 students in 14 state universities in Indonesia
- Provision of educational fees to 2,400 students in elementary, junior high and senior high schools around PGN operational areas
- Increase teachers competency in Lampung, Palembang dan Surabaya
- Training in tailoring and sewing machines help in Medan, North Sumatera

### Health Improvement Assistance

- Community health services offered by the PGN Health Vehicle, consisting of antenatal checks, supplements for pregnant women, contraceptive services, general health services and basic dental care, checking toddler development and providing supplemental food to children in PGN's six operational areas
- Provision of six ambulances in cooperation with Indonesian Army Special Forces
- Provision of five ambulances and one hearse in cooperation with Indonesian Army Brigif 1 Jaya/PIK TNI AD
- Provision of one ambulance in East Java
- Provision of x-ray equipment, endoscopes and pick up vehicles for cancer sufferers in cooperation with Yayasan Kanker Indonesia (Indonesia Cancer Foundation)
- Social assistance in providing walker stick, hearing aid, blood donation and cataract surgery
- Construction of a community health center in Lampung
- Establishment of a health center to serve travelers during the 2013 Idul Fitri exodus and return providing free health care, supplements, entertainment facilities such as television, internet, music, video games, door prizes and massage

### Developing Infrastructure or Public Facilities

- Clean water aid through a floating sea water reverse osmosis system.
- Construction of a bridge crossing Kali Mookervaart.
- Supporting construction of a suspension bridge and village office buildings in Lebak, Banten.
- Supporting building of a welcome gateway to Lampung city
- Lighting provision facilities to the public in Pemping Island, Batam

### Support for Religious Facilities

- To develop religious facilities, places of worship and religious support facilities.
- Compensation for orphans, poor compensation.
- The mass marriage.

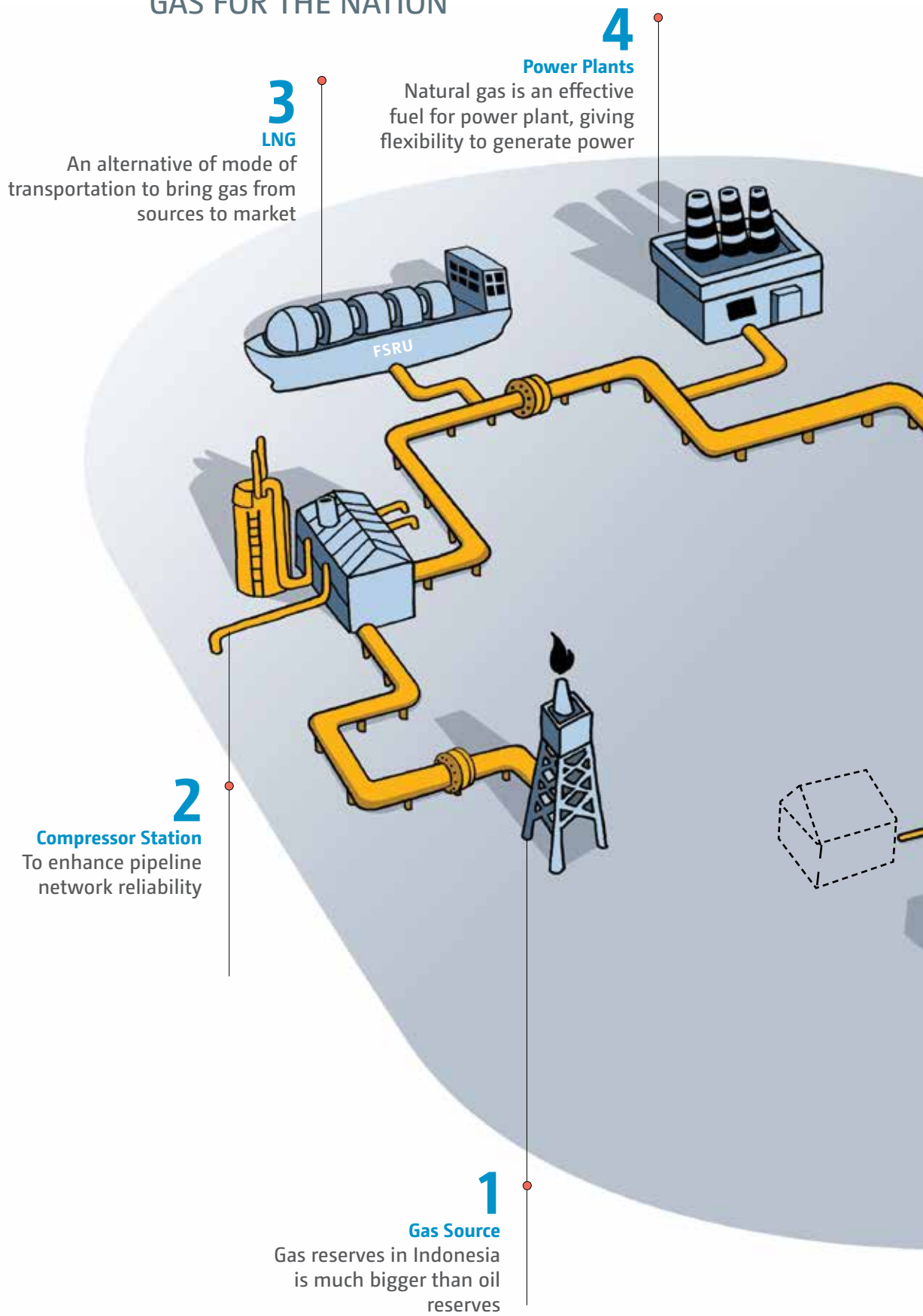
### Conservation of Nature

- Planting program of 488,175 trees in Sentul eco-edu-tourism forest area of 709 hectares, Sentul-Bogor, West Java
- 2,500 tree planting program in Sidoarjo, East Java
- Planting program of 10,000 trees in Kasongan tourism area, Yogyakarta

### BUMN (State Company)'s Education Care Program

- Construction and Renovation of 9 Schools in West Kalimantan.
- Teacher Appreciation and Gifted Students (AGSB) Program for Remote Areas, Outer Islands and Indonesian Border Areas.

## GAS FOR THE NATION



## 5

### Industrial Customers

Efficient and environmentally friendly energy to improve industry's competitiveness

## 6

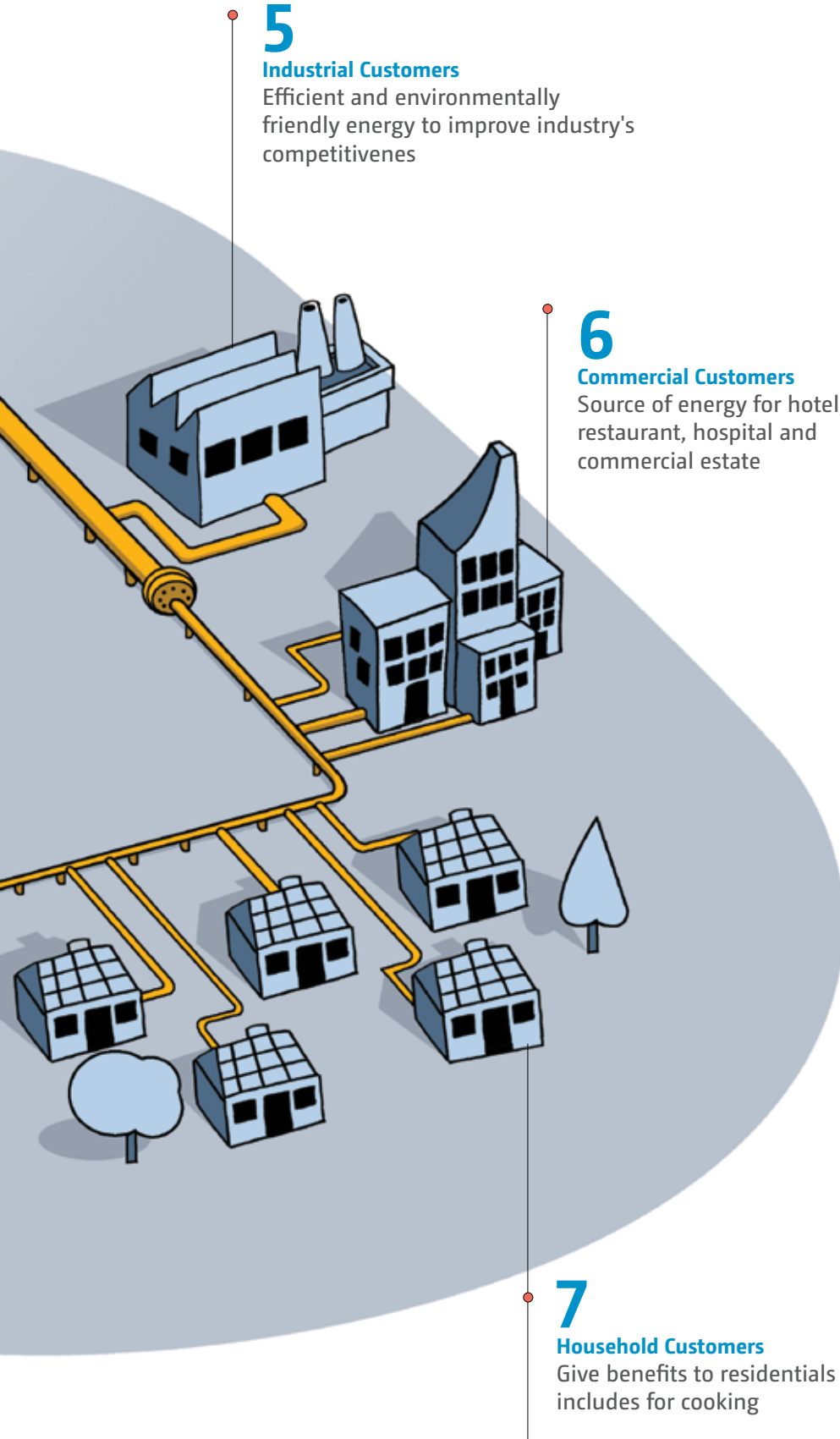
### Commercial Customers

Source of energy for hotel, restaurant, hospital and commercial estate

## 7

### Household Customers

Give benefits to residentials includes for cooking



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### IMPROVING ECONOMIC PERFORMANCE





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## REMARK FROM BOARD OF COMMISSIONERS



**Bayu Krisnamurthi**  
President Commissioner

Dear respected stakeholders,

The year 2013 marks out a year where the amount of supply and energy demand in Indonesia increase and whereas the Company struggles to obtain new resources in order to secure its gas supply in fulfilling demands from various industries, commercials and households. Healthy and growing economic in Indonesia keeps on inquiring energy from natural gas, therefore PGN also follows to keep on growing in accordance with Indonesia's potentials. As a state-owned company that serves particularly in domestic market, PGN plans to convert enriched gas resources in Indonesia to energy, supporting Indonesia's economic growth: Energy for Life.

At the end of the year where our management system is tested and our capability is developed, we were reminded once more of the meaning of continuity as for the Company that has been trans versing in energy business for long. That time PGN started to create and distribute regasified coal which was a very strategic product in that period. PGN recently really understands how meaningful is to have an excellent product knowledge and know how to present natural gas to the market.

*“Moving into upstream provides higher competency and creating opportunity more stable supply chain.”*

In order to have its sustainable operation, therefore the Company must be actively adapting its well-planned capability. Plans that had been made in 2010, i.e. to own and manage production fields have been generating outputs. They are a fully ownership of one field and minority ownerships towards another two fields. Hence, we already have better competencies and been establishing a strong foundation to create a more stable supply chain in which inevitably, securing the national supply.

Sustainability means also that we must admit that the ability to face new and more difficult challenges is an excellent achievement for dynamic and important company. To face occurring problems, just as in the previous years, in 2013 the Management of PGN strongly believes that the natural gas is the future's energy business. We realize that there is opportunity in the future from gas business that could be utilized by focusing on Indonesia and further, in the ASEAN market which later will be integrated with a total citizens of 600 million. This is a very bright prospect for the Company.

Whilst in the mid of huge investment made by the Company through its core business, that is transmission & distribution, PGN realizes by providing energy for domiciliary areas, offering options for gas mode of transportation and diversification in gas utilization are breeding a continuously business opportunities.

Through our proven excellent safety at work record and continuous improvement operations, PGN shows its firm commitment for sustainability business. Moreover, the success story of our CSR in creating consensus that is reflected from community mutual understanding and acceptance in using the potential offered by natural gas in their living place must be strengthened. This could be done by elaborately communicating all of positive aspects from natural gas a flexible energy resources for domestic electricity, fueling vehicle, cooking and many else.

PGN believes the fact that Indonesia's people need more and more energy as well as need more secure supply. PGN is fully aware that the Government movements in fulfilling this needs has been done and will continue beyond. PGN's extraordinary value as the expert of natural gas in Indonesia eventually is an evidence of PGN contribution to all stakeholders must be continuously well maintained.

Jakarta, March 2014



**Bayu Krisnamurthi**  
President Commissioner



## REMARK FROM BOARD OF DIRECTORS



**Hendi Prio Santoso**  
President Director

Dear respected stakeholders,

It is an honored for me to convey the 5th PGN Sustainability Report this year, remembering that current results has been reflecting our objectives when we started to discussing in detail, giving more breadth of point of views to our stakeholders with regard to the Company. Within this report, PGN has responded to the issues of our stakeholders in economy, financial and social community development and we have been creating a number of new expectations as well as new opportunities to achieve operation excellence.

In 2013, we sees a requirement of flexibility in managing the issues both over and lack of gas supply within our three operation areas. The effect of change in 2013, honestly, could not be properly evaluated just in weeks or months. Considering the expansion of huge energy demand which come from industry, commercial and residential customer, we need longer time in order to decide accurately the future direction of particular market movements in Indonesia.

*“We succeeded through the 49 million working hours without a major incident is a remarkable achievement and cooperation of all workers.”*

By Considering long term trend in our decision making and maintaining our daily operations performance, PGN show its commitment to environment preservation, safety, community involvement and customer satisfaction as well as a PGN’s proof to support nation sustainability development. We can get productive objective through accurate approaches to direct dialogue with many stakeholders from various sectors, that presenting new ideas, creating new solutions and eventually bringing PGN to be continuously providing energy for life.

PGN always evaluate its energy utilization by measuring the carbon track metric. This effort helps us to measure and control the carbon emission by reducing the carbon emission and creating cleaner environment. It is in line with the character of natural gas which is cleaner fuel. The measurement has been done throughout our distribution pipelines including detecting leak and noise. We also have been applying early warning system and alternative system to prevent various pollutions that affects the local community. The communities are involved by firstly communicating them the location of our facilities. By keeping the environment protected and community involvement, we could maintain our excellent record which is zero incidents in all of our facilities.

We are very proud of our zero incident record as we have been succeed getting 49 million working hours without major incidents. Basically, gas requires special handling so we always evaluate and monitor every detail of our system. We have been moving from

perspective which underlines details to long term perspectives to ensure that every employee could go home safely after work. Sustainable operation in gas industry needs action from all employees. Our new campaign in avoiding dangerous work contains positive message: employee owns a mechanism which has been spread out in the Company to protect himself (herself) by pointing out things which are considered as risks within their work environment. By doing so, not only he / she is protected but also protecting other employees, the Company and community.

Currently, the energy mixed in Indonesia is very competitive, including coal, diesel, geothermal, hydro & micro hydro, biogas, propane, methane and etc. Hence, PGN needs to ensure that, as natural gas and liquid gas customers increase,, excellent service must be prioritized. By executing quality survey, we do not wait until the problem occurs. We prevent problems and maintain good relationships with customers so we could benefit from emerging new opportunities.

PGN owns a unique position in participating Indonesia’s self-sufficiency program. This unique position comes from our belief that gas is the future energy in Indonesia which has the potential of giving quite amount of supply for long period. As for PGN, securing gas supply in long term is a target which must be achieved in all of sales areas by negotiating with producers from private and government sectors, using flexibility within existing supply chains and through new options for short distance distribution and small volume.

These implementations, surely shows how active PGN in achieving sustainability targets. Nevertheless, by only responding to the question of “where is the supply?” and “where is the demand” certainly are not the best long term perspectives. Sustainable development in Indonesia must be able to face the challenges in providing access for sustainable energy so that all of areas in Indonesia could build their own strengths, hence, reinforcing the nation’s economy. PGN run consistenly its investment policy which not only covers the employees and community surrounds in the facility but also supporting the existing customers and draw new customers with a commitment of providing gas energy through sustainable development - A development which gives benefit for all Indonesia’s area and fullfils the nation’s promises for the country.

Jakarta, March 2014



**Hendi Prio Santoso**

President Director



# OI | ABOUT PERUSAHAAN GAS NEGARA







## COMPANY PROFILE



Pursuant to Government Regulation No. 19/1965, PGN become a legal entity having the right to execute its business independently with the scope of business covering gas provider for power and industry primarily to improve the quality of the public life.

### NAME OF THE COMPANY

PT Perusahaan Gas Negara (Persero) Tbk

### ISSUED AND FULLY PAID CAPITAL

RP2,424,150,819,600

### LINE OF BUSINESS

Distribution and Transmission of Natural Gas

### LISTING

The stock has been listed on Jakarta Stock Exchange and Surabaya Stock Exchange on December 15, 2003 (Ticker: PGAS)

### OWNERSHIP

Government of Indonesia 56,97%  
Public 45,03%

### OPERATIONAL AREA

Indonesia

### HEAD OFFICE

PT Perusahaan Gas Negara (Persero) Tbk  
Jl. K.H. Zainul Arifin No. 20,  
Jakarta 11140, Indonesia  
T. (62-21) 633 4838, 633 4848, 633 4861  
F. (62-21) 633 3080,  
PO BOX 1119 JKT  
[www.pgn.co.id](http://www.pgn.co.id)

### LEGAL BASIS

BUMN, PP No.19/1965

### AUTHORIZED CAPITAL

RP7,000,000,000,000

### CONTACT CENTER

0-800-1-500 645





# VISION

*To be a world class energy company in natural gas utilization*





# MISSION

To enhance the value of the organization for stakeholders:

- Strengthening the core business in natural gas transportation and trading
- Developing a gas manufacturing business
- Developing an operational, maintenance and engineering business associated with oil and gas industries
- Profiting from the Company's resources and assets by developing other business



PGN's Vision is stipulated based on the Decree of the Board of PT Perusahaan Gas Negara (Persero) Tbk No: 015700.K/HM.03/UT/2011 issued on 20 September 2011



## CULTURAL VALUES (PROCISE)

Corporate culture is the values and philosophies that have been agreed upon and shared by the whole. Human PGN as the basis and reference for PGN to achieve the goal. PGN Corporate culture defines five values procise abbreviated and translated in 10 Conduct of the Company.

### PROCISE-5 PGN'S CORPORATE VALUES

#### PROFESSIONALISM

Always giving the best results by improving relevant competencies and being responsible for all decisions taken.

#### CONTINUOUS IMPROVEMENT

Committed to continuously seeking improvement.

#### INTEGRITY

Honest with oneself and with others. Consistent in mind, word and behavior by having a strong ethical core.

#### SAFETY

Always prioritizing health and safety at work, for oneself and for the surroundings.

#### EXCELLENT SERVICE

Prioritizing satisfaction for both to internal and external customers by giving excellent service.

# PGN'S 10 MAJOR BEHAVIORS





**PROFESSIONALISM**

- 1 Responsible
- 2 Competent



**CONTINUOUS IMPROVEMENT**

- 3 Creative and Innovative
- 4 Adaptive to Change



**INTEGRITY**

- 5 Honest, Open and Positive Thinking
- 6 Disciplined and Consistent



**SAFETY**

- 7 Prioritize Safety and Healthy Work Environment
- 8 Concern for Social and Natural Environment



**EXCELLENT SERVICE**

- 9 Prioritize Internal and External Customers' Satisfaction
- 10 Proactive and Quick Response



## SOCIALIZATION AND REALIZATION OF THE CORPORATE VISION AND MISSION

In order to ensure the realization of the Company's vision and mission, we periodically engage in a socialization process involving employees and staff at all levels. This process of socialization involves the periodic socialization of the corporate vision, mission, and corporate values to ensure the fulfillment of PGN's vision for 2020.

The internalization of PGN's vision, mission, and corporate values is implemented through a top-down approach in which senior management provides direct input to agents of change, who are then responsible for cascading the information down through all levels of staff. During this process, we simultaneously conduct a process to gather and assess the ideas and proposals of junior levels of staff as inputs for the development of strategies to achieve PGN's vision and mission.

In addition, just as importantly, the vision, mission and corporate culture of PGN is inculcated at a number of points during the career of members of staff, including when new staff are recruited into the Company, during work evaluations, and preceding promotion or transfer to a new position. These steps are intended to facilitate the internalization and implementation of PGN's business strategy and policies by all members of staff. A full comprehension of these matters by all members of staff is vital to the achievement of PGN's vision for 2020 and for ensuring the ongoing sustainability of the Company.



## ABOUT PERUSAHAAN GAS NEGARA

PGN's roots go back to a private Dutch gas company called L.J.N. Eindhoven & Co, which was established in 1859 and which introduced the use of town gas produced from coal to Indonesia. In 1958, this company was nationalized and in 1965 it became the Perusahaan Gas Negara ("National Gas Company"). PT Perusahaan Gas Negara (Persero) Tbk., abbreviated as PGN or PGAS, is a State-Owned Enterprise (BUMN) which operates in the field of the transmission and distribution of gas from the areas in which this gas is produced to its commercial, industrial, and household users. To facilitate the distribution of this gas, the Company manages a distribution network that pipes gas from the areas in which it is produced to commercial and domestic end users or to storage and transit stations, from whence it can be transported by ship to locations where the product is marketed. At the end of the period covered in this report, PGN controlled a 90% share of the market for the transmission and distribution of gas in Indonesia, with industrial clients accounting for approximately 97% of the Company's revenues, with the remainder being accounted for by commercial and domestic clients.



## BRIEF HISTORY

### DUTCH ERA

**1859** PT Perusahaan Gas Negara (Persero) Tbk, more usually referred to as PGN, or by its stock code at the Indonesia Stock Exchange of 'PGAS', is a state-owned company that has been leading the way in Indonesia's gas industry since 1859, when it went by the name of Firma L.I. Enthoven & Co.

### INDUSTRIAL REVOLUTION 20TH CENTURY

**1965** Company's change of status was accompanied by a broadening of the scope of its business to incorporate not just natural gas distribution but transmission as well, for which PGN functioned as a transporter.



**1994** Company's change of status was accompanied by a broadening of the scope of its business to incorporate not just natural gas distribution but transmission as well, for which PGN functioned as a transporter.



### TECHNOLOGY ERA 21ST CENTURY

**2003** The Company's shares were listed on the Jakarta Stock Exchange and the Surabaya Stock Exchange on 15 December 2003, with the stock code PGAS.

**2007** On 11 March 2007, the Company successfully conducted a Gas-In (first gas channelling), which was followed by the commercialization of gas from Pertamina's Pagaradewa gas field through the South Sumatera-West Java pipeline to the Company's customer in Cilegon (PT Krakatau Daya Listrik).

**2008** Pursuant to the provisions of Law No. 40 year 2007 regarding Limited Liability Companies, and in connection with a stock split, the Company's Articles of Association underwent their most recent amendment by Deed No. 50 dated 13 June 2008 jo. Deed No. 8 dated 2 July 2008.





**1998** In 1998 PGN successfully finished Transmission Pipeline Grissik - Dorsal followed by the establishment of a subsidiary in the transmission line, PT Transportasi Gas Indonesia.

**2009** To optimize the Company's accumulated strengths and competencies by taking advantage of opportunities to develop the business and realize PGN's vision, the Company established another subsidiary, PT PGAS Solution.

**2011** In 2011 PGN established two subsidiaries that each engaged in the upstream and downstream natural gas business. The subsidiary in the upstream is PT Saka Energy Indonesia (SAKA) while the subsidiary in the downstream is PT Gagas Energi Indonesia (GAGAS). PGN's Ownership in both subsidiary is 99% with 1% ownership by PT PGAS Solution.

**2012** PGN established subsidiaries PT PGN LNG Indonesia (PGN LNG). The scope of PGN LNG business includes procuring LNG supply, LNG and natural gas transportation activity, inventory activities includes regasification to the buyer, as well as performing other business activities.



### The Company's Shares

PGN shares were listed on the Indonesian Stock Exchange (ISX) on 5 December 2003, under the ticker PGAS. As of 31 December 2013 the price of PGN shares stood at Rp 4,475,- per share. As of 31 December 2013, the Government of Indonesia held a 56,97% stake in the Company, with the remaining 43,03% being held by members of the public.

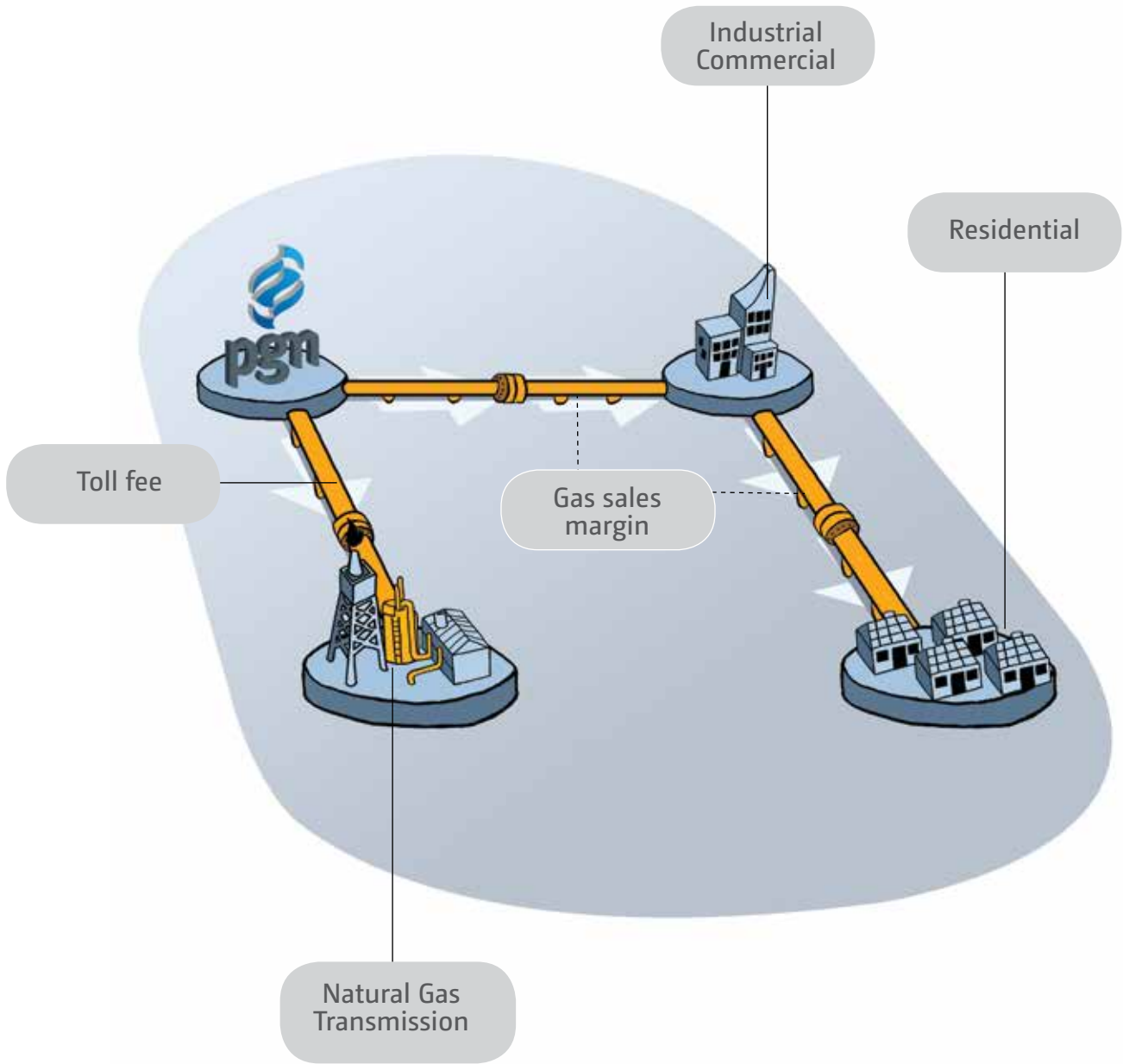
### Economic Scale

PGN operates throughout Indonesia, with its operations being supported through the activities of 1,540 employees. To facilitate investment activities related to the development of the piped distribution network, the total value of PGN's equity at the end of 2013 stood at USD 2,727 million with total net sales, as much as USD 3,001 million. Further information related to PGN's economic scale can be derived from the following table:

#### ECONOMIC SCALE PT. PGN (Persero), Tbk.

	Period	
	2013	2012
Employees	1,540	1,564
Net Sales (USD million)	3,001	2,576
Capitalization (USD million)		
Liabilities	1,636	1,553
Equity	2,727	2,355
Sales Volume (MMScfd)	824	807
<b>Total asset (USD million)</b>	<b>4,363</b>	<b>3,908</b>

# OPERATIONAL STRUCTURE OF PGN



In addition to these two business segments, PGN also operates businesses in a number of areas, including the upstream exploration for and exploitation of gas, the downstream management and utilization of gas products, the leasing of fiber optical networks, and the provision of construction and renovation services to clients.



## THE PGN GROUP

To provide an optimal level of services to its clients, PGN maintains four Strategic Business Units (SBU), as follows:

1. SBU Distribution Area I, which covers West Java and Palembang. This unit provides sales and services to Banten, Jakarta, Bogor, Bekasi-Karawang, Cirebon and Palembang areas
2. SBU Distribution Area II, which covers East Java. This unit provides sales and services to the Surabaya-Gresik, Sidoarjo-Mojokerto and Pasuruan-Probolinggo areas
3. SBU Distribution Area III, which covers North Sumatra, Riau and Batam. This unit provides sales and services to the Medan, Batam and Pekanbaru areas
4. SBU Transmissions Sumatra-Java, which covers South Sumatra, Lampung, Banten and West Java

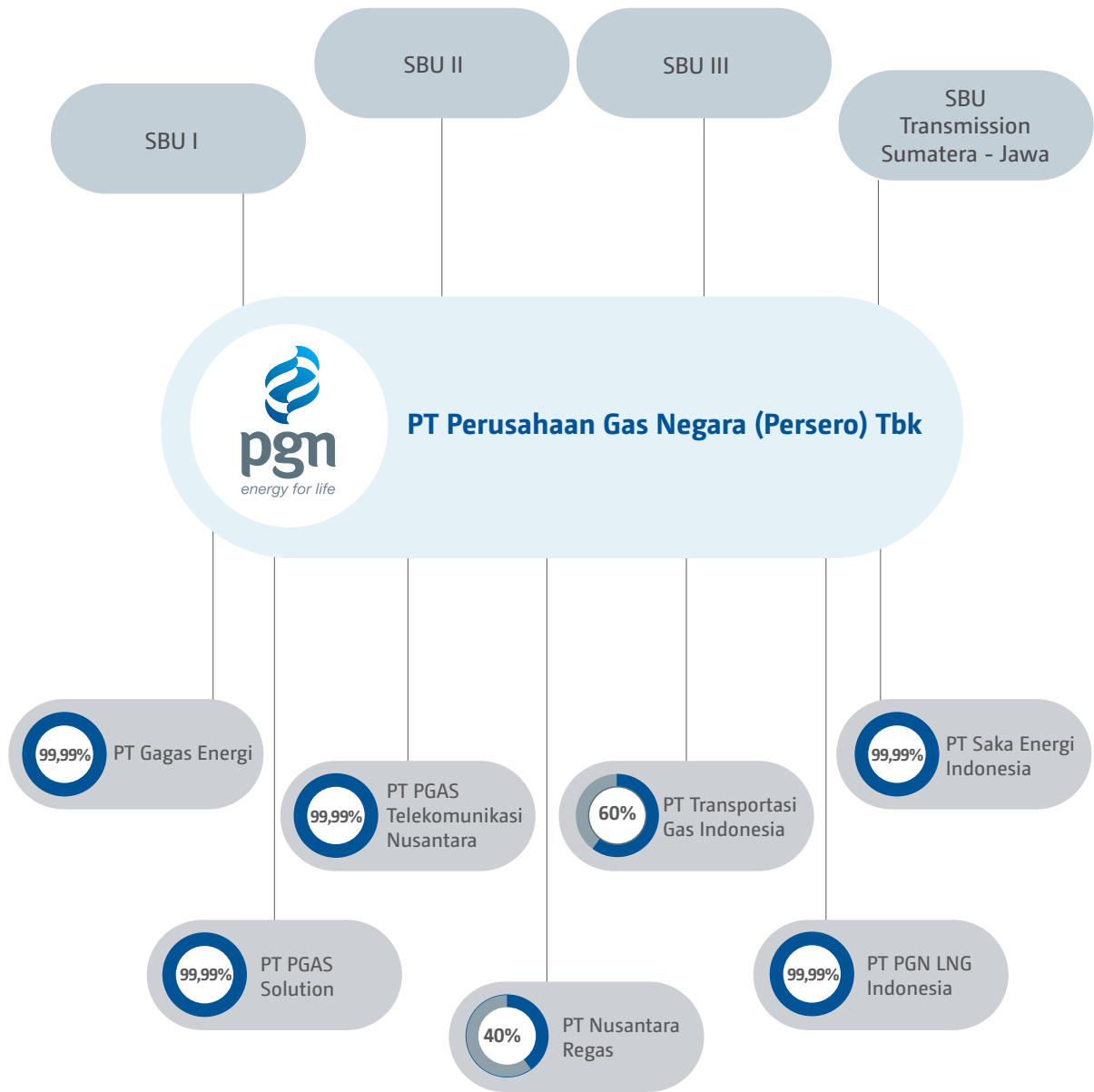
### Supply Chain

Seen from the perspective of potential negative impact on the Company, we categorize our suppliers into two groups. The first group consists of suppliers of general goods and services, and whose environmental and/or social policies and their implementation do not directly affect the Company's performance, and therefore are largely inconsequential to the Company's image and reputation. These suppliers do not constitute a part of the Company's operational segment. Nor are their businesses dependent on the Company, and that being said, their environmental and/or social policies cannot be directly controlled by the Company. Examples of this type are suppliers of stationery, office equipment, and spare parts. This first group of suppliers is not included in the discussions in this report.

The second category consists of suppliers of specific goods and services, whose performance may immediately affect how the Company's image and reputation is perceived. Their businesses are indirectly related to the Company's business segments. Their businesses also depend greatly on the Company. Therefore, their environmental and/or social policies and their implementation become a crucial consideration for us in evaluating their eligibility as PGN suppliers. This second group of suppliers is included in the discussions of this report. They are suppliers of security personnel, transportation services along with drivers, and cleaning service personnel. Although these personnel are not employees of PGN, their performance directly affects the image and reputation of the Company.

As a consequence, to minimize their negative impact on the Company, PGN applies a strict set of rules on these suppliers, requiring them to abide by all the relevant labor laws and regulations, and to respect human rights and the provision on the minimum regional wage. We have stipulated these points in our contracts with the pertinent suppliers.

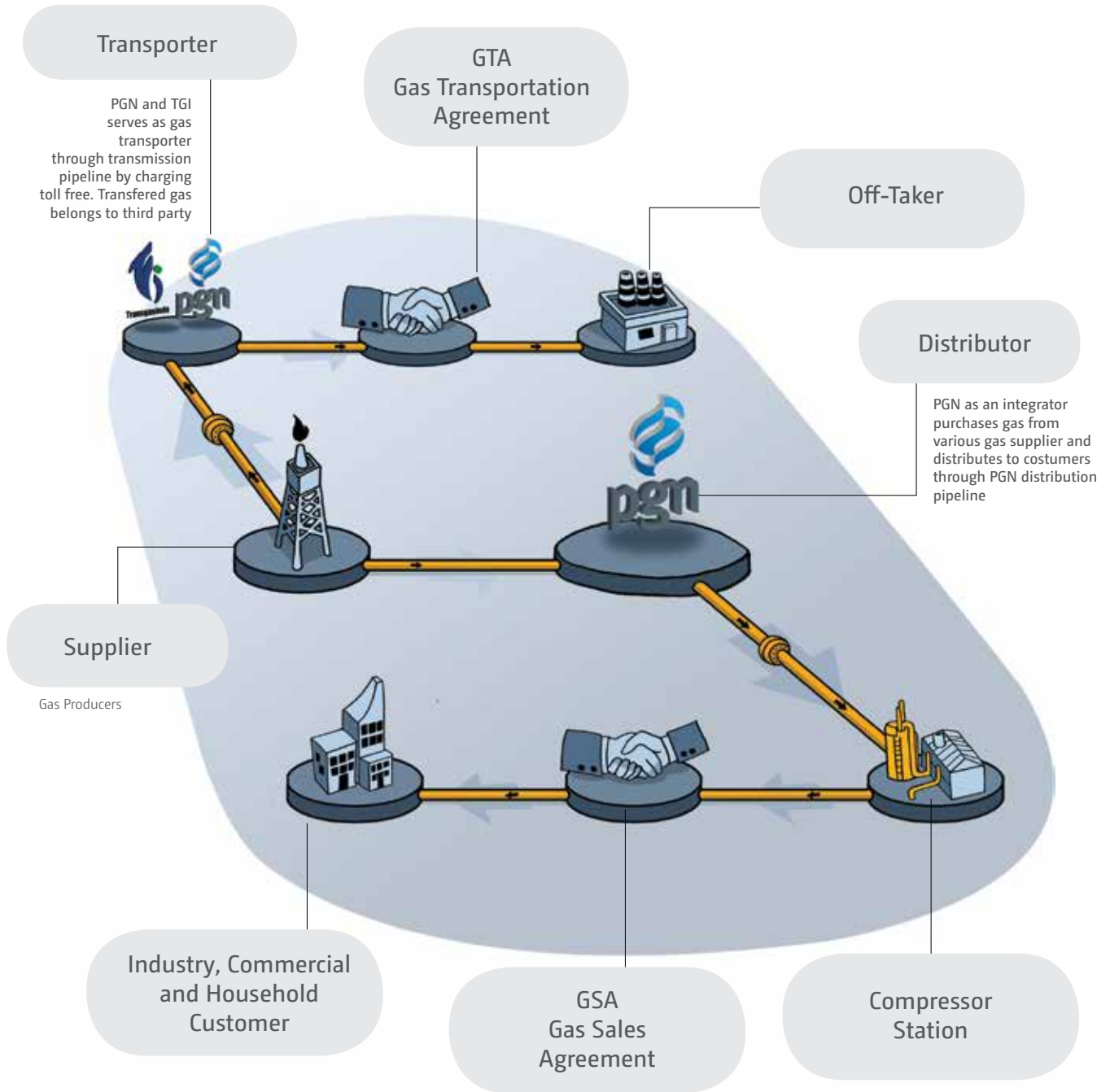
## SBU, SUBSIDIARIES AND AFFILIATES



PGN has three sales areas in the distribution business (SBU I, II and III) and one area in the transmission business (SBU Transmission Sumatera-Java) as well as seven subsidiaries in several businesses.

- Percentage of Share Ownership
- Strategic Business Unit (SBU)
- Subsidiaries

# BUSINESS MODEL



**GAS TRANSPORTATION AGREEMENT (GTA)**

Between PGN/Transgasindo as gas transporter and suppliers in transferring gas to suppliers from off taker point.

**GAS SALES AGREEMENT (GSA)**

Sales Agreement between PGN as gas distributor and costumers.

PGN has two business models: transmission and distribution business. 90% of PGN revenue is generated from distribution and 10% from transmission





## IMPORTANT EVENTS IN 2013



**7 FEBRUARY 2013**

PGN incorporated in SOE Care Program Education gives appreciation of 450 teachers and remote students



**30 MAY 2013**

Weavers craft training in Garut



**7 MARCH 2013**

SOE Care Program Education "Teacher Appreciation and Student Achievement from Remote Areas, Outlying islands and Territory Indonesian border "



**29 JUNE 2013**

PROPER assessment Compressor Station Pagardewa SBU Transmisi Sumatera-Java



**19 APRIL 2013**

PGN-Kopassus partnership in donation of 6 ambulances



**4 JULY 2013**

PGN Care for free groceries



**19 MAY 2013**

Mobile Refueling Unit (MRU) inaugurated by Minister of Energy and Mineral Resources in Jakarta



**16 JULY 2013**

Best Agent Contact Center Award 2013



**20 MAY 2013**

Directors Teaching Days in commemoration National Awakening Day



**26 JULY 2013**

PGN Help Give and Donation to the Foundation Orphanage and Orphan





**2 AUGUST 2013**  
PGN Release 1,200 participants homecoming together



**20 NOVEMBER 2013**  
Craf Ina exhibition in Jakarta



**2 OCTOBER 2013**  
OHSAS 18001:2007 and SMK3 Certificate audit surveillance



**21 NOVEMBER 2013**  
HSE Management Review Meeting



**5 OCTOBER 2013**  
Indonesia Teaching Festival



**22 NOVEMBER 2013**  
HSE Gathering



**15 OCTOBER 2013**  
PGN donation for Idul Adha commemoration



**26 DECEMBER 2013**  
First Gas Fuel Station in Pondok Ungu inaugurated by Minister of Energy and Mineral Resources



**30 OCTOBER 2013**  
Marriage mass of 75 spouses in Banten



**26 DECEMBER 2013**  
Social Activity Cataract Surgery for Labuan Maringgai Communities



# AWARD AND CERTIFICATE



Company Rating Performance Award in Environment Management for SBU Transmission Sumatera-Java PGN (Persero) Tbk



Company Rating Performance Award in Environment Management for SBU Distribution 2 PGN (Persero) Tbk



Zero Accident Award by Ministry of Labor and Transmigration to SBU Distribution 3 PT PGN (Persero) Tbk



Zero Accident Award by Ministry of Labor and Transmigration to SBU Transmission Sumatera-Java PT PGN (Persero) Tbk





Zero Accident Award by Ministry of Labor and Transmigration to SBU Distribution 1 PT PGN (Persero) Tbk



Zero Accident Award by Ministry of Labor and Transmigration to SBU Distribution 2 PT PGN (Persero) Tbk



Indonesia Green Company and Sri Kehati Award by Yayasan Keanekaragaman Hayati Indonesia



Best Sustainability Reporting Award 2012 by National Center for Sustainability Reporting (NCSR)



OHSAS 18001: 2007 and SMK3 Certified





# 02 | SOCIAL RESPONSIBILITY



## MANAGING THE ENVIRONMENT WITH PGN



Develop standard calculation of carbon emissions to design appropriate policies for mitigation of carbon due to operations conducted through carbon accounting

## CLIMATE CHANGE AS A GLOBAL ENVIRONMENTAL ISSUE

Research by experts is now even more intensely highlighting atmospheric environmental disturbances on the effects of carbon dioxide emissions and greenhouse gases (GHG), such as CO<sub>2</sub>, methane, Freon and similar, resulting from human activities, including: industry, transportation and households. Human activities are deemed to pay insufficient attention to environmental conservation.

Climatologists state there are six components to climate change that result in extreme weather, namely atmosphere (air), lithosphere (land), hydrosphere (water), cryosphere (ice cover), biosphere (environment of living things), and the humanosphere (human environment). Environmental conditions at this time clearly demonstrate disturbances to one or more of the six climate components, resulting in extreme weather events becoming even more massive across the globe. A concrete example is the extreme winter temperatures in the United States and Canada and the extreme heat in Australia.

In Indonesia, the main feature of the extreme weather is the extended dry seasons and intense rainy seasons accompanied by strong winds causing extensive flooding time and time again, including in Jakarta. The most recent conditions demonstrate environmental damage as a result of human activity, with the scale of flooding expanding and reaching areas previously unaffected despite the rainfall intensity changing relatively little.

These conditions give rise to concern and global-scale movements encouraging all components of society to work together to protect the sustainability of the earth and its contents for future generations and to improve local environmental conditions. Maintaining and conserving the environment requires all parties to participate, including PGN (Indonesia's State Gas Company).



## GREENHOUSE GAS EMISSIONS FROM PGN'S BUSINESS ACTIVITIES

Our main operational activity is the management of our gas distribution and transmission pipeline from our production wells to our key consumers, be they industrial or households. While our activities do not include large-scale extraction, processing or land clearing damaging the contour of the Earth, we realize that PGN's activities still have an effect on the environment.

In carrying out our operational activities, we make use of electricity to light offices and other buildings, use fuel oil for our operational vehicles, use paper for various purposes, as well as utilize refrigerants to cool rooms. All this has an effect on the environment, adding to GHG emissions, also known as carbon (CO<sub>2</sub>) emissions, in the atmosphere and the emission of ozone-depleting substances. Both contribute to global warming.

## THE EFFECTS OF CLIMATE CHANGE ON PGN'S BUSINESS ACTIVITIES

The global-scale of climate change has also had an effect on our operational activities. Although there has been no direct damage to our key assets and supporting facilities, the extreme weather has disrupted the smooth running of our operations. Flooding has returned to Jakarta and the surrounding areas, disturbing administrative activities and disrupting routine maintenance of our network and facilities.

Noting the current scale of disasters, extreme weather due to climate change could in the long term ultimately have a direct impact on our key facilities. As an example, rough seas in the future would disrupt gas distribution by ship.

As is publically known, we are in the midst of completely construction of our offshore Floating Storage and Regasification Unit (FSRU) terminal close to Lampung and Jakarta. Clearly extreme weather would have a financial impact on PGN.

Noting the extensive effects of climate change, PGN is even more committed to realizing environmentally sound operations and participating in global mitigation efforts to conserve the environment. We control the environmental impact in the company's operational area by implementing environmentally friendly operational policies, encouraging our business partners to realize similar efforts and supporting public movements to realize environmental protection programs.

## BUSINESS OPPORTUNITIES RESULTING FROM CLIMATE CHANGE

In addition to impacting operational activities, climate change has also provided opportunities to develop PGN's business. This is supported by growing awareness across society of the importance of participating in efforts to reduce CO<sub>2</sub> emissions and conserve the environment.

The public nowadays are aware that using gas as a fuel produces the lowest CO<sub>2</sub> emissions in comparison to other fossil fuels. Based on this consideration, the public fully supports conversion to gas as an alternative fuel source, which has in turn resulted in rising demand for gas. This in turn provides business opportunities for PGN to increase its capacity, reach and the reliability of its distribution and transmission facilities.

Rising demand has encouraged us to realize upstream and downstream investments in the gas business chain. The goal is to increase the supply of gas to the distribution and transmission network facilities, to ensure availability and satisfy the needs of the public and industrial gas users.



## TRANSFORMING THE ENVIRONMENT, PGN'S PARTICIPATION IN MITIGATING GHG

The tangible manifestation of PGN's commitment to efforts to conserve the environment and participate in GHG mitigation is environment transformation for the entire scope of business management activities. This environmental transformation is aimed at making PGN a more environmentally friendly company with a spirit of green and clean energy for life.

To ensure the "environment transformation" continues to grow into a new work culture, we have applied our Environment and Integrated Energy Management System, which is based on PGN's Roadmap to Environment Transformation. We completed design of the 2013-2017 Environment Transformation Roadmap based on the achievements of environment program targets from previous years. In 2013, we started the implementation stage in accordance with the determined program as follow up to the initial stages of the previous year's environmental programs. The realization of these programs is to ensure that PGN as a company not only complies but exceeds expectations and is beyond compliance in running and participating environmental conservation activities.

As we have reported in the 2012 sustainability report, we have prepared systems, facilities and infrastructure, human resources and other resources to evolve PGN into a company fully compliant with all regulations.

Policies to implement this environment transformation roadmap have included various mutually supportive programs, such as:

- Participating in the PROPER (Program to Assess and Rank Company Performance in Environmental Management) awards from the Environment Ministry for Pagardewa Gas Compressor Station in South Sumatera and the Distribution II eastern Java Strategic Business Unit
- Developing a carbon footprint calculation
- Implementing Environmental Impact Analysis (EIA) or Environmental Management and Monitoring Plans (UKL-UPL) and completing all environmental permits
- Conducting an energy audit on SBU I in follow up to the previous year's program. The 2012 audit was on head office, SBU Distribution II and SBU TSJ

A brief explanation of each of these activities is as follows.

### Energy Audit at SBU Distribution I

The aim of this energy audit is to identify opportunities to improve energy efficiency, which can then be followed up for positive impact, such as:

- Reducing energy costs
- Improving energy management systems with the expectation of eventually achieving green level energy
- Identifying places/facilities with the largest energy consumption or which have low efficiency
- Improving the understanding and care of personnel to save energy and change their habits from not caring to caring

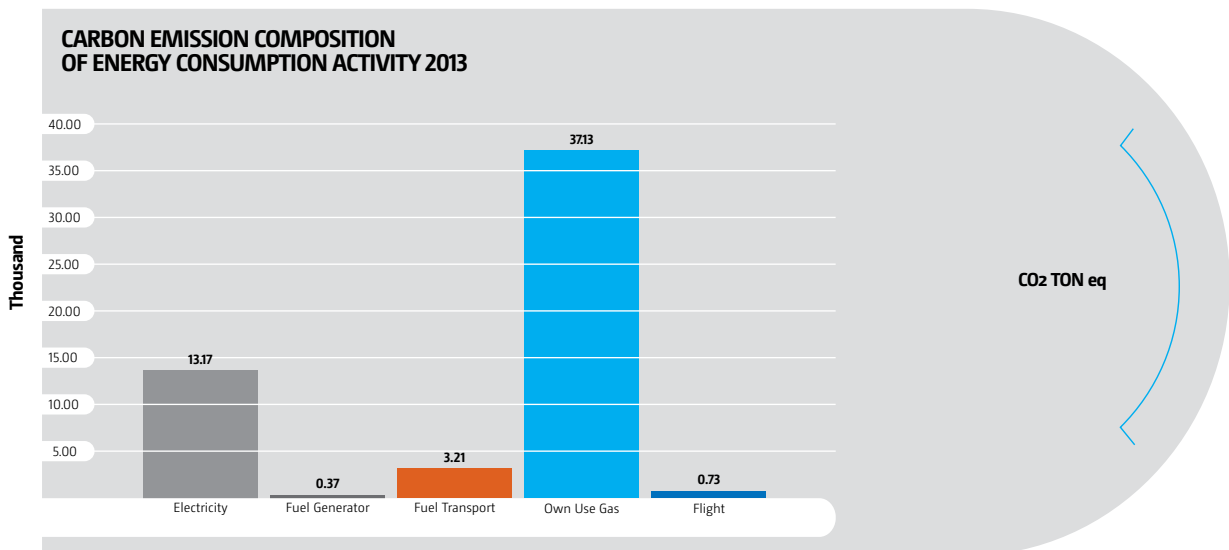
### Carbon Calculator

As an initial step in environment management with the aim of optimally reducing CO<sub>2</sub>, PGN is working to standardize calculation of carbon emissions as a basis for determining the correct policy to mitigate carbon generated by operations. Our efforts to determine our carbon footprint started in 2013 with the application of a carbon accounting system, also known as the PGN Carbon Calculator, which now covers:

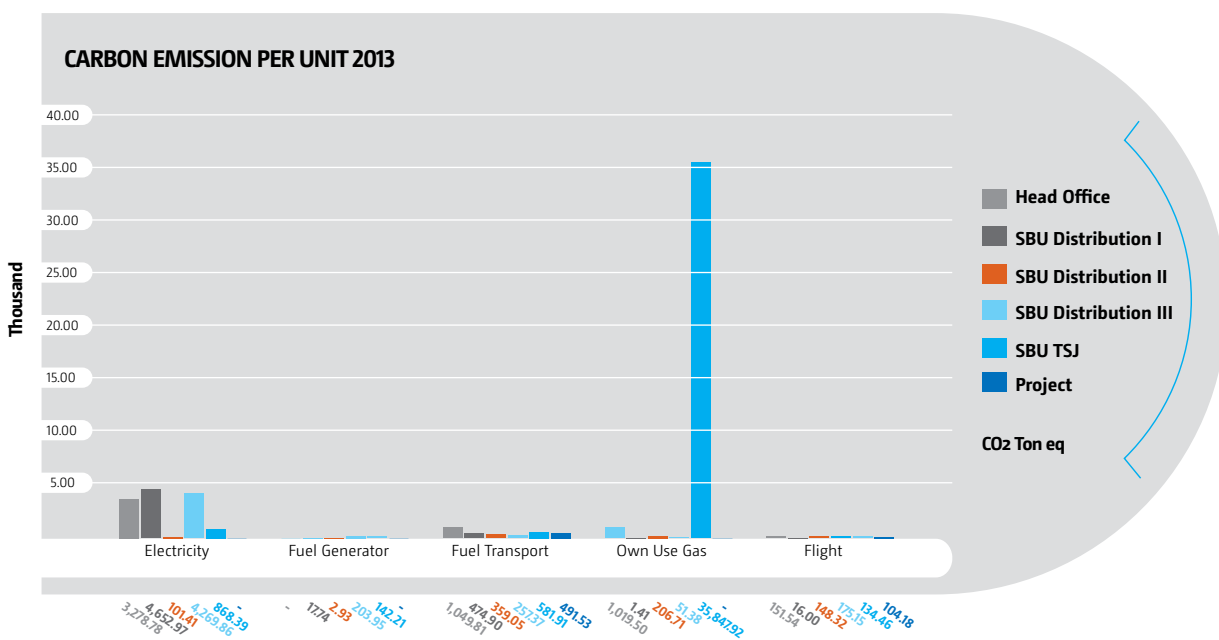
- Emissions from electricity use in buildings and stations
- Emissions from fuel use for generators
- Emissions from motor vehicles
- Emissions from the use of gas for chillers and compressor turbines,
- Emissions from business trips taken by plane
- Reducing emissions from PGN's gas transmission business

PGN's Carbon Calculator is easily applied by just entering data such as the amount of Kwh of electricity consumed from an electricity meter, vehicle fuel consumption or volume of gas used in m<sub>3</sub> for the specific location and year. The system we have developed makes the conversion based on international standards, then shows the carbon emissions result in the form of a table or graph.

Based on our carbon calculator system, in 2013, PGN successfully reduced CO<sub>2</sub> emissions by 54,609.38 tons equivalent, with the composition illustrated in the following graph.

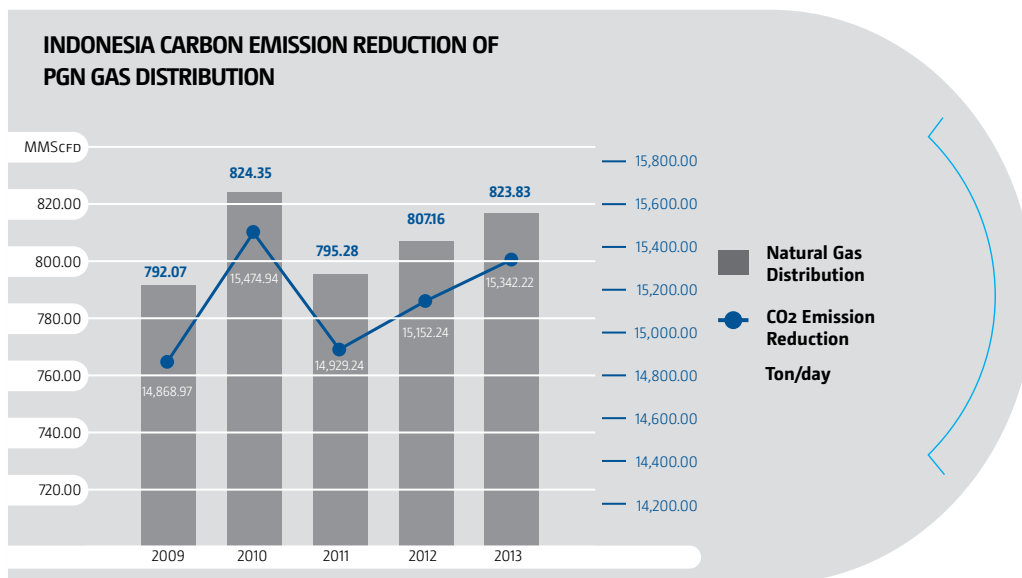


Based on 2013 carbon emission data, with carbon emission values compared directly with energy consumed, it can be seen that electricity consumption is one of the contributors to carbon emissions that has the potential for emission reduction.



Having completed our carbon calculator, we have prepared various environmental programs and initiatives in follow up to demonstrate PGN's commitment to conserving the environment. At each stage of program implementation, we reduce our carbon emissions, thus are able to implement improvements and adjust our programs to ensure that PGN's carbon emissions continue to approach the most economic level.





\*) assuming solar to natural gas delivery conversion

\*) Intergovernmental Panel on Climate Change (IPCC, 1996)

PGN's business contributed approximately 15,000 tons per day to the reduction of carbon emissions in Indonesia.

## Implementing EIA or UKL-UPL

An overview of environment management practices in PGN can be seen from the implementation of Planned Environmental Management and Monitoring Plans and Environmental Impact Analyses (EIA) and actual Environmental Management and Monitoring Plans (UKL-UPL), as evidenced through their implementation reports with every PGN activity having the required EIA, or UKL-UPL and appropriate environmental permits from the relevant agencies. One example of PGN's compliant attitude to government regulations is the environment-related documentation prepared during 2013, including:

- Environment Permit for Planned Construction of Gas Transmission Distribution and Facilities for the Duri-Dumai Pipeline in Bengkalis regency and Dumai municipality in Riau province
- Environment Permit for Development of the Palembang Distribution Pipeline in Ogan Ilir regency in South Sumatera province
- Environment Permit for Planned Distribution Pipe Development at Labuhan Maringgai – Tanjung Karangdi in Lampung province
- Environment Permit for Construction of the Kalisogo – Waru Pipeline in East Java
- Environment Permit for Construction of the Ajinomoto - Cheil Jedang Pipeline in East Java
- Environment Permit for Construction of the Otsuka – Purwosari Pipeline in East Java
- Environment Permit for Construction of Japanan Metering in East Java
- Environment Permit to Install Distribution Pipes in Tangerang, Banten province and Bogor and Depok in West Java

## Participating in PROPER implementation

In 2013, PGN's application to take part in the PROPER assessments was approved by the Environment Ministry and the company awarded encouraging assessments. Two PGN assets, Pagardewa Gas Compressor Station in South Sumatera and the Distribution II Strategic Business Unit for eastern Java became participants for PROPER 2013 and successfully attained BLUE rankings in their first year. In fact, SBU Distribution II was a finalist for a GREEN level PROPER award in its first year of participation.

One of the programs in the Environment Transformation Roadmap for the 2013-2017 period was the achievement of PROPER ranking. Thus, in principle, the 2013-2017 Environment Transformation Roadmap refers to development goals, objectives and programs compiled in the initial stages in 2012. Environment programs in 2012 were aimed at preparing the system, facilities and infrastructure, human resources and other resources to achieve a BLUE ranking in the PROPER assessments in 2013, namely compliance with environmental regulations. In the follow up stage, programs have been developed to achieve GREEN ranking (beyond compliance) in 2014-2016 and GOLD ranking (environmental excellence) in 2016-2017.

## Environment Training

To support the successful implementation of this environment transformation, we have implemented a training program for involved and relevant PGN staff. These key environmental training programs are:

- Internal Audit ISO 14001
- PROPER training,
- Management of Dangerous and Toxic Materials (B3) and B3 Waste



## REVISIONS TO ENVIRONMENTAL POLICY

To achieve complete sustainability, we are not only focused on the management of health, safety and the environment, but also active in optimizing energy use. As an integral part of our programs, we have renewed our vision, policies and commitment to the scope of HSE (Health, Safety, Environment) and specifically environmental management.

We have integrated our environment and energy policies into our Health, Safety and Environment Management (HSE) Policy. We have named this integrated policy the Occupational Health and Safety, Environment and Energy Management Policy Management System (SMK<sub>3</sub>PL-E).

As part of the planned implementation of this new policy we will continue to implement various policies and working programs related to the environment, covering:

- Preparing an Environmental Impact Analysis (EIA) for every new project, involving independent external parties
- Conduct RKL (Planned Environmental Management)–RPL (Planned Environmental Monitoring), and make periodic routine reports each semester to the relevant authorities
- Encourage employees to save electricity
- Replace machinery with new energy saving technology
- Installed convertor kits on all operational cars to facilitate the use of gas fuel

## MANAGING AND MONITORING THE ENVIRONMENT FOR SUSTAINABILITY

As well as transforming environment policy, we continue to apply environmental management and monitoring as a tangible form of our company's commitment to conserving the environment. Implementation of these programs is in accordance with recommendations made in environment management documents (EIA or UKL-UPL).

Generally, the transmission and distribution network installation project, as well as the actual gas distribution, does not have a significant negative impact on the environment. However, PGN's operational activities continue to fulfill the principle of environmental sustainability by maintaining environmental quality through compliance with environmental standards issued by the government, and with environmental monitoring results reported each semester to the relevant authorities, namely the Environment Ministry, Bapedalda (regional environmental impact agency), and Migas.

### Monitoring Environmental Conditions

In accordance with EIA and UKL-UPL documents, we monitor the following:

- Waste and surface water quality
- Air quality / ambient air emissions
- Noise levels

The results of this monitoring demonstrate that for all our key operational areas, the measured parameters are always below the regulated environmental standards. The results of emissions monitoring in the area around the Pagardewa compressor facility are as follows:

#### QUALITY MEASUREMENT OF WASTE WATER ANALYSIS

NO	PARAMETER	UNIT	STANDARD QUALITY	RESULT								
				Apr 2013	May 2013	June 2013	July 2013	Aug 2013	Sept 2013	Oct 2013	Nov 2013	Dec 2013
1	pH	-	6 – 9	7.28	8.3	7	7.2	7.23	7.26	7.6	7.01	7.8
2	Oil & Grease	mg/L	25	< 1	< 1	0.6	0.8	1	6	0.1	3	0.08
3	Total Organic Carbon (TOC)	mg/L	110	2.9	1.7	1.25	1.5	1.7	8.4	2.12	24.5	2.1

Note:

Standard Quality : Governor of South Sumatera Decree No. 18/2012



## QUALITY MEASUREMENT OF AIR EMISSION

NO	PARAMETER	UNIT	STANDARD QUALITY	RESULT	
				May 2013	Sept 2013
<b>A PHYSICS</b>					
1	Opacity	%	-	-	-
2	Particle	mg/Nm <sup>3</sup>	50	8.65	42.24
<b>B CHEMICAL</b>					
1	Carbon Monoxide (CO)	mg/Nm <sup>3</sup>	NA	174	-
2	Nitrogen Dioxide (NO <sub>2</sub> )	mg/Nm <sup>3</sup>	320	< 1	<15
3	Sulfur Dioxide (SO <sub>2</sub> )	mg/Nm <sup>3</sup>	150	< 1	12

Note:

Standard Quality : Governoor of South Sumatera Decree No. 18/2012

In addition to monitoring emissions in our main operational areas, we also manage several other operational parameters, including: fuel use and waste management.

### Material Use

We have applied a series of steps that can conserve the use of natural resources and other energies as tangible participation in environmental conservation and protection.

To minimize the environmental impact, we use pipes made of steel or PE plastic with a thickness that has been carefully calculated for the construction of our transmission and distribution networks. The pipes are covered with a layer of PE and other protective materials to ensure they will not rust, are durable and can be buried underground for long periods (approximately 30 years).

To support our business development, we use new pipe as a replacement or addition to new networks. As of end 2013, the accumulated length of our transmission and distribution network under our management had reached 4,991.25 km. This is a 1.74% increase on the previous year's 4,906 km. An illustration of the accumulated length of our pipe network for the last 2 (two) years is shown in the following table.



## LENGTH OF TRANSMISSION AND DISTRIBUTION PIPELINE (KM)

SBU	Length (km)		Additional Jan - Dec
	Dec 2012	Dec 2013	
<b>DISTRIBUTION</b>			
- SBU I	2,433	2,496.45	63
- SBU II	758	769.53	11
- SBU III	674	684.27	10
<b>TRANSMISSION</b>			
- SSWJ	1,004	1,004	-
- North Sumatera	37	37	-
<b>Total</b>	4,906	4,991.25	

Another important material in our key operational activities is the impurities absorber, or filter, that we place in the pipes, precisely in front of the intake from the exploitation well. The function of this filter is to remove dirt in the form of steam or dissolved minerals to maintain the gas quality.

At certain time periods, the filter is replaced with a new one, while old filters are treated as solid waste and processed as legislated to prevent environmental pollution. Filters used in 2013 amounted to a total of 0.76 tons and 0.4 m<sup>3</sup>.

## Waste Management

We also need paper routinely for administrative purposes to support operations. We have a policy to always treat used paper as a recyclable for further processing. Policies related to paper use are:

- Using both sides of paper, for draft letters
- Recycling waste paper
- Making efficiencies in paper usage.

In one month, from all PGN's supporting offices requiring paper, approximately 85% is recycled. The recycling not only involves waste paper, but also inactive files. PGN works in cooperation with another competent party to manage the used paper for recycling purposes. In 2013, 6.74 tons of inactive files were recycled into 1,400 recycled agendas for PGN.

To support efficiencies in paper use, we have developed a technology-based administrative system, with an electronic secretariat management system (e-sms) to reduce the amount of solid waste from paper. Since this IT-based operational policy came into effect, use of paper at PGN has reduced substantially, from 19,288 reams in 2011 to approximately 17,292 reams in 2012, and 15,652 reams in 2013.

Meanwhile, other materials that cannot be used by PGN but can be recycled are sent to a more competent party for processing. Non-reusable material is handled in three ways: sale, donation and destruction.



## MANAGING CARBON EMISSIONS, PARTICIPATING IN GHG MITIGATION

As a form of participation in efforts to mitigate GHG emissions and demonstrate tangible environment transformation, we have realized a carbon emission management program, namely structured efforts to reduce carbon emissions in operational activities. Our operational activities do not involve the processing, extraction or use of raw materials other than water, they do however make use of energy, both directly and indirectly. Therefore, carbon emissions are directly proportional to energy consumption, thus overall carbon management is based on energy saving results from processes identified in the energy audit.

To realize efforts to reduce carbon emissions, we have three main programs:

- Applying recommendations from the energy audit
- Applying new innovations
- Conducting vegetation programs to absorb CO<sub>2</sub>.

We started our emissions management program in 2013, with the target of reducing carbon by approximately 3% in the first year.

### Applying Energy Audit Recommendations Energy Use

PGN's operational activities make direct and indirect use of energy. Direct energy use is running compressor turbines so the gas in the transmission network can flow to the final consumer installations, namely electricity generators, ceramic industry, commercial consumers (hotels and shopping centers) and households.

There are two sources of energy used to move the compressor turbines economically, diesel fuel and gas. On the recommendations of the energy audit, we use gas as the energy source, bearing in mind its use reduces emissions by 25.3% more than diesel.

Total direct energy used to move the compressor turbines in 2013 amounted to 626,283 gigajoules, while in 2012 it amounted to 673,454 GJ. The energy source utilized was gas, which is more environmentally friendly.

Year	Total Gas (MMBTU)	Conversion	Energy Consumed (GJ)
2009	860,884	1.055	908,232
2010	771,498	1.055	813,930
2011	621,965	1.055	656,173
2012	638,345	1.055	673,454
<b>2013</b>	<b>579,72</b>	<b>1.055</b>	<b>626,283</b>



Indirect energy used is electricity for offices at head office, SBU offices, and lighting around operational areas. Electricity is supplied by PLN and from our own generators (using gas, as shown in the table below).

Total energy supplied by PLN for 2013 amounted to 17,799.2 MWh or 64,077.186 GJ, while in 2012 it amounted to 5,101.94 MWh or 18,367 GJ. Electricity use in 2011 totaled 5,957.34 MWh or 21,446.1 GJ.

We have implemented various efficiency steps to reduce indirect energy use as follows.

We have realized various improvement programs to reduce electricity use:

1. Gradually rewiring lights based on need and function and making use of energy saving LED light bulbs, Realization of this program has helped reduce carbon emissions by reducing electricity consumption by 6.16%.
2. Installed occupation sensor units for outdoor lighting, and Carbon emission reductions through 6.18% reduction in electricity use.
3. Retrofitting (replacing R-22 coolant with hydrocarbon). Helped reduce emissions by saving electricity amounting to 16.34%, over 81 AC units which were retrofitted in 2013 in SBU I western Java.
4. Using solar cells for outdoor lighting at PGN Head Office, with a generating capacity of 9,000 watts, temporary B3 waste storage facilities at SBU II eastern Java with a generating capacity of 100 watts in 4 units and repeater towers along the Grissik-Labuan Maringgai transmission pipeline.

## Replacing Refrigerant in Room Coolers

One of the chemical gases that damages the ozone layer and affects global warming is Freon, which is usually used as a refrigerant or heat exchange medium in cooling equipment (room air-conditioners, refrigerators, cooling towers, and such like). At certain periods, usually when being serviced, some of this refrigerant is disposed of, further polluting the Earth's atmosphere.

We have already pioneered the use of gas from our internal installation network as a replacement for non-environmentally friendly refrigerants. The results have worked well. Gas that has been used as a refrigerant can still be used as a fuel.

PGN now plans to expand the use of gas as a refrigerant based on the following considerations:

- Implementation of the government's blue sky program,
- Use of a refrigerant already tested in the PGN SBU II Surabaya building with good cooling results.

The use of gas as a refrigerant since 2011 in Gedung Graha PGAS has resulted in the company no longer using and emitting ozone depleting materials such as Freon.



## Applying Operational Innovations Converting from Fuel Oil Use to Gas

In addition to generating stations that are outside the reach of the electricity grid, our CO<sub>2</sub> gas emissions originate from operational vehicles, most of which use non-renewable fossil fuels, namely petrol and diesel.

Having made calculations in our energy audit, we found our consumption of fuel oil for generators and operational vehicles, which are leased from a partner company or vendor, during 2011 amounted to 415,593 kiloliters, while for 2012 this figure was 320,733 kiloliters. Based on the calculations of the carbon calculator we developed, fuel oil consumption in 2011 was equivalent to CO<sub>2</sub> emissions into the atmosphere of 1,194.30 tons. While for 2012, total CO<sub>2</sub> emissions were equivalent to 770.38 tons.

Since the end of 2012 and on into 2013, we have intensified the implementation of our program to reduce CO<sub>2</sub> emissions from operational vehicles by using gas as a replacement for fuel oil. The gas we use is CNG (compressed natural gas) with an emission level 20% lower than fuel oil. As of end 2013, we had converted 114 of our operational vehicles to use gas. This conversion program will continue until all possible PGN operational vehicles have been converted.

In summary, the use of fuel oil and gas as a fuel for PGN Head Office during 2013 was respectively 352,963 liters fuel oil and 98,207.9 LSP of gas. Total CO<sub>2</sub> emissions for 2013 according to the PGN carbon calculator were 864.9 ton eq CO<sub>2</sub> for

fuel oil and 184.9 ton eq CO<sub>2</sub> for gas, totaling xxx ton eq CO<sub>2</sub>. It is clearly demonstrated that this CO<sub>2</sub> emission reduction conversion program is successful.

In addition to converting from fuel oil, concurrently we implemented other efforts to reduce CO<sub>2</sub> emissions, including:

- Emissions testing for operational vehicles to ensure emissions did not exceed government thresholds,
- Limiting the use of electronic equipment, including computers and such like, during office hours.

In addition, to reduce polluting gas emissions, NO<sub>x</sub> and SO<sub>x</sub>, from the process of combusting fuel oil in generators installed at compressor stations and in operational vehicles, we periodically service the generators. To monitor the machinery performance, we continuously take measurements of ambient air quality in certain locations, so as not to exceed the determined environmental quality standards. Examples of these measurements can be seen in the summary "Monitoring the Environment".



### Provision Provision of MRU (Mobile Refueling Units)

As part of PGN's active participation in supporting the conversion program from fuel oil to gas, we have realized the development of MRU (mobile refueling units). MRU are mobile gas refueling stations for motor vehicles and are currently a pilot project in the campaign to use clean and environmentally friendly gas. They are located in the grounds of PGN head office.

We have provided MRU to supply fuel for operational vehicles in PGN, the SOE Ministry, Energy and Mineral Resources Ministry, Telkom and PT Bianglala and Transjakarta with a capacity of 5 MMscfd across Indonesia, while for Jakarta this totals 2,000m<sup>3</sup>/day at Monas in Central Jakarta.

### Greening to Absorb CO<sub>2</sub>

We have realized a greening program around our operational area and areas local to construction of major transmission pipelines in our efforts to reduce CO<sub>2</sub> emissions. By using the ability of vegetation to absorb CO<sub>2</sub>, we have selected various types of plants with a high absorption ability and that do not affect the transmission pipeline or operational activities at the supporting offices.

In 2013, we planted trees around an area formerly used for a transmission-distribution pipeline, and supporting office. We planted approximately 500,675 trees around Serang, Bogor, Pasuruan, Bekasi, Jakarta, Lampung, Pagar Dewa, Palembang and Banyu Asin.

#### TOTAL TREES PLANTED IN THE PGN REVEGETATION PROGRAM

Year	2010	2011	2012	2013
<b>Total Trees</b>	<b>1,062,517</b>	<b>934,638</b>	<b>570,858</b>	<b>500,675</b>

## WATER CONSERVATION EFFORTS

Our use of water is limited to a cooling medium at compressor pump installations and for washing and personal hygiene in supporting operational offices. The water source for supporting offices is mainly PDAM, the regional tap water company, with additional water pumped from wells when the PDAM supply is interrupted.

The use of groundwater in key offices is always within regulated quantity thresholds. Total PDAM supplied water during 2013 amounted to 51,785 m<sup>3</sup>. Meanwhile, the consumption of PDAM water in 2012 amounted to 47,398 m<sup>3</sup>, and in 2011 to 48,088 m<sup>3</sup>.

To support groundwater conservation efforts, PGN uses a large open area around the head office as a water catchment area. In areas determined as water catchment areas, we have installed biopore holes as an additional way of absorbing rain water or runoff. As such, the condition of the groundwater has been relatively well maintained and there have been no complaints from local communities or relevant authorities about the reduction of groundwater levels. As of end 2013, we had constructed 51 biopore holes across PGN managed areas.

Where we use water as a coolant, we have applied a closed-loop system, so the water is not disposed of. All the water we use, after open cooling, is re-used as a coolant. Any water not used in this system is immediately returned to the nearest water source without being recycled.

We recycle at operational head office through the use of carbon-based filters. The water discharged from this recycling process is used in limited ways, such as washing operational vehicles and watering plants, before being discharged into nearby waterways.



## CONSERVING NATURE THROUGH THE ENVIRONMENTAL DEVELOPMENT PROGRAM

As well as through our operational activities, we demonstrate our nature conservation commitment through activities under the Environment Development Program and CSR Program. Conservation under these programs is more education based, with participation and aid aimed at growing and developing wider community awareness of the importance of nature conservation for life now and for future generations.

Total funds utilized for these purposes in 2013 amounted to Rp7.76 billion, or approximately USD637,560.39. Such activities included:

- Planting program of 488,175 trees in Sentul eco-edu-tourism forest area of 709 hectares, Sentul-Bogor, West Java
- 2,500 tree planting program in Sidoarjo, East Java
- Planting program of 10,000 trees in Kasongan tourism area, Yogyakarta

Activities such as these demonstrate PGN's commitment to conserving the environment and inspiring the public generally, including employees, to understand the importance of a clean and sustainable environment for life now and in the future.



## ENVIRONMENT PROGRAM BUDGET

As a form of our commitment to implementing the variety of natural conservation programs, with one of the key goals being the management and reduction of CO<sub>2</sub> emissions from operational activities, we allocated funds to support the smooth running of these programs. In 2013, we used Rp11.24 billion funding, with spending details as follows. This total does not include any conservation activities conducted under the Environment Development and CSR Programs.

NO	DESCRIPTION	TOTAL (RP)
1	Preparation of environmental document in marketing area	4,762,850,875
2	Environmental Monitoring in Strategic Business Units	2,148,161,875
3	Preparation catchment spot in Strategic Business Unit Distribution 1 and 3	368,720,000
4	Environmental Campaign	27,842,780
5	B <sub>3</sub> Waste Management in Strategic Business Units	1,603,878,000
6	PROPER	513,939,000
7	Noise Study in Strategic Business Unit Sumatera-Java Transmission	365,500,000
8	Environmental Measurement of Strategic Business Unit Sumatera Java Transmission	602,850,000
9	Environment Training Program	298,293,591
10	Environmental Transformation in Strategic Business Unit Distribution 1	554,241,000
	<b>Total</b>	<b>11,246,277,121</b>



**03**

**COMMITMENT TO  
OCCUPATIONAL HEALTH  
AND SAFETY**



## PRIORITIZING OCCUPATIONAL HEALTH AND SAFETY



*SHE Goals are zero incident and inherently safe and environmental friendly performance in all activities to reach safety excellence*



## COMMITMENT TO OCCUPATIONAL HEALTH AND SAFETY

Our business is the transmission and distribution of gas from gas producing areas, namely gas wells in oil and gas exploitation areas, to industrial users and residential areas. We manage a transmission and distribution pipe network from the gas fields to industrial, commercial and household customers through gas pressure regulating stations. The high risk element of operational activities to manage and operate gas has made PGN commit to applying Occupational Health and Safety aspects to the maximum for operational activities. The commitment of the management and all levels of PGN employee to maintain occupational health and safety is reflected in the company culture values. One of these points is, “to always prioritize occupational health and safety, both for employees and the surrounding environment.”

We understand that OHS has a great influence on business continuity. For this reason, we uphold the implementation of safe operations that exceed regulated requirements as stated in Law No. 13/2003 on Employment. Article 86 paragraph 2

asserts the company’s obligation to implement occupational health and safety, “To protect the safety of employees and laborers for optimum productive work, implementing efforts to ensure occupational health and safety.”

In addition, to create a binding work culture, we also implement OHS regulations in several paragraphs of the Collective Labor Agreement (CLA) signed by the PGN Employees Union (SP-PGN) and the management and include the aspects in employee’s KPI as much 10%.



## MANAGEMENT ROADMAP

We believe that efforts to protect the workforce from work-related dangers, the achievement of a high degree of health and safety and the improvement of work comfort, ultimately has a positive impact on increasing productivity for all levels of employee in PGN. For us, the proper handling of problems related to occupational health and safety means:

- Improving the welfare of employees and their families,
- Reducing the need for accident compensation costs to be paid
- Reducing the cost of repairs
- Low prevention costs compared to the average cost industry of handling accidents
- Maintaining the company's widely held positive image

To affirm our commitment to applying an occupational health and safety program for employees and to ensure the achievement of various positive angles, we have formed an organizational structure to manage OHS involving all levels of PGN employees, from the top management to laborers, as discussed below.

### Policy Changes and OHS Management Objectives

We have demonstrated our commitment to enforce OHS through the simultaneous setting up and implementing of the Safety Excellence Journey program, which has resulted in improvements to OHS implementation, as demonstrated by improvements to OHS performance statistics. As part of our efforts to create a work culture that prioritizes OHS, in 2012, we introduced an OHS management policy, which also accommodates environmental aspects, while also introducing energy management in PGN's operational activities.

These policy changes also reflect our efforts to create sustainability not only through commitment to occupational health and safety and the environment, but also actively optimizing the use of more environmentally friendly gas-based energy as an integral part of our programs. With these updates, the policy and organization structure to manage OHS has been brought in line with policy statements contained in the PGN Directors Decree, as follows:

## POLICY ON SAFETY, WORK HEALTH AND MANAGEMENT OF ENVIRONMENT AND ENERGY (K3PL-E)

PT. Perusahaan Gas Negara (Persero) Tbk. Is an energy company with zero incident target in safety, health, and management of environment and energy. In its implementation, the company has a zero target in death, sickness and environmental pollution caused by the company's business management. Therefore the company set these policies as follows:

1. Implementing Safety Management System, Work Health, Environment and Energy Management (SMK3PL-E), and also by observing Law and other related terms.
2. Delivering proactive and preventive measure to achieve a safe and hygienic working environment, zero environmental destruction and efficient in energy usage.
3. Delivering an energy conservation effort to achieve efficient and optimal energy utilization.
4. To deliver coaching to every staff by organizing K3PL-E education and training continuously, and also develop a reward and punishment culture.
5. Performing investigation to every incident, work accident and sickness caused by working activity and environmental destruction, and also ensuring a follow up action as a prevention step.
6. To evaluate K3PL-E system performance regularly for a continuous improvement.

Jakarta, October 31<sup>st</sup>, 2012



Hendi Prio Santoso  
President Director

Marking policy changes to achieve a culture of safety, the directors have determined PGN’s vision to achieve Safety Excellence, namely:

1. zero incidents
2. inherently safe and environmentally friendly performance in all activities

### Targets and Progress Implementing the OHS Roadmap

To ensure the successful implementation of the OHS culture, we have determined several parameters as achievable targets for each operational reporting period. The achievement targets for the period 2011-2013 are as follows.

TARGET K3PL-E					
	Item	Target 2011	Target 2012	Target 2013	
LAGGING INDICATOR	INCIDENT	Fatality	0	0	0
		Heavy Accident	0	0	0
		Moderate Accident	0	0	0
		LTIF	0	0	0
		Minor Accident	≤ 3	≤ 3	≤ 3
		Heavy Vehicle Accident (Vehicle worth > Rp. 50,000,000)	≤ 12	≤ 3	≤ 2
		Nearmiss and First Aid	Non Target	Non Target	Non Target
HEALTH	TSAF	≤ 0.5	≤ 0.45	≤ 0.45	
LEADING INDICATOR	RISK CONTAINMENT AUDIT	% Participation	100%	100%	100%
		% Severity 4/5	Non Target	Non Target	Non Target
		% Severity 4/5 Repair	80%	100%	100%
		% Severity 3 Repair	Non Target	Non Target	80%
		% RCA Training and Refresh (Permanent and Outsource)	Non Target	Non Target	100%
		Average Of Severity	Non Target	Non Target	< 2.8
	OBSERVATION	% Participation	100%	100%	100%
		Safe Index	Non Target	Non Target	Non Target
		Unsafe Act/Hour	Non Target	Non Target	Non Target
			Non Target	Non Target	100%
AUDIT	% Settlement follow up of audit results (Head Office: monitoring result)	70%	70%	70%	

Based on evaluation of the OHS program implementation results, conducted periodically since it first started in 2009, we have demonstrated meaningful progress. The awareness gap of the importance of OHS continues to reduce, while incident frequency and fatal work accidents have reduced. The audit results for various PGN work units demonstrate the Safety Excellence Journey has successfully built a culture of employee awareness of OHS. In addition, transformation from the reactive level to independent level has been achieved, as illustrated in the following section.



However, from the audit results on program implementation, we acknowledged some weakness remain. This reality has caused us to be even more motivated to apply preventative programs to reduce the incidence of work accidents and to create an OHS-aware culture. Our target is interdependent level by 2015.

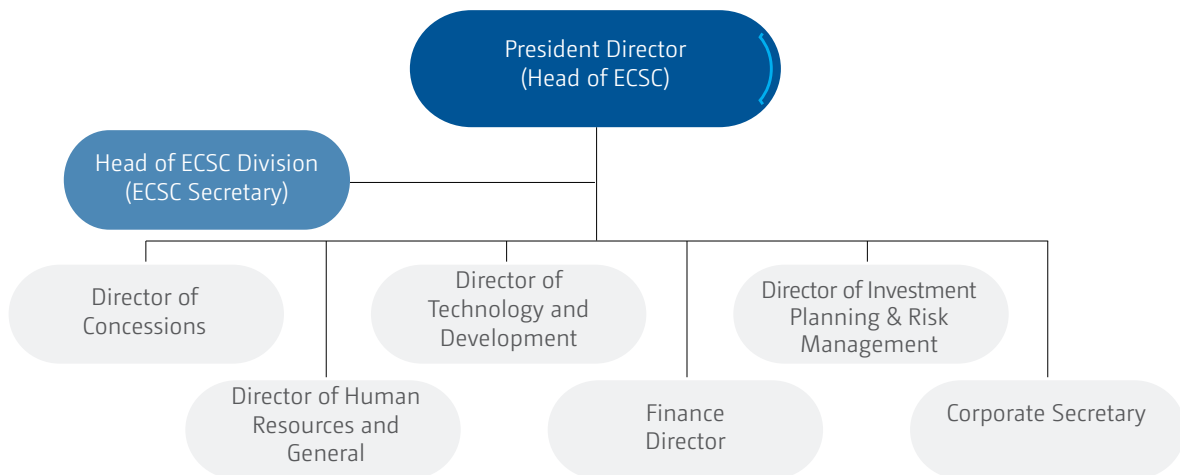
## IMPLEMENTING OHS

### OHS Management Organization

Occupational Health and Safety management in a hierarchical organization is the responsibility of the HSE Division under Director of Commercial and Operation, with OHS Managers in each SBU and Project as the extended arm of the HSE Division, totaling 42 people, or 2.7% of all PGN employees. However, implementing the PGN safety excellence journey has made the Company more mature in the managing of its Occupational Health and Safety, and a safety committee has been formed (Occupational Health and Safety Steering Committee) at corporate level, as well as SBU and project level. This demonstrates that the responsibility for OHS is not only shouldered by HSE Division, but by all parts of the company overall.

The existence of the safety committee as the driving pulse for safety activities has contributed significantly for the company, and this can be seen in the ECSC (Executive Central Safety Committee) and CSC (Central Safety Committee) output for each directorate or unit can make strategic policy decisions related to OHS, as well as to monitor implementation of the OHS program in all the Company's business units, as well as ECSC and CSC Directorates as the source of CSC activities implemented by all units. As of end 2013, there were five CSC Directorates: Commercial and Operation Directorate CSC, Technology and Development Directorate CSC, PIMR (Investment Planning and Risk Management) and Finance Directorate CSC, HR and General Affairs Directorate CSC and Main Directorate CSC. Ratification of corporate ECSC was made by the Manpower Ministry on 5 October 2012.

### ECSC STRUCTURAL GRAPHIC



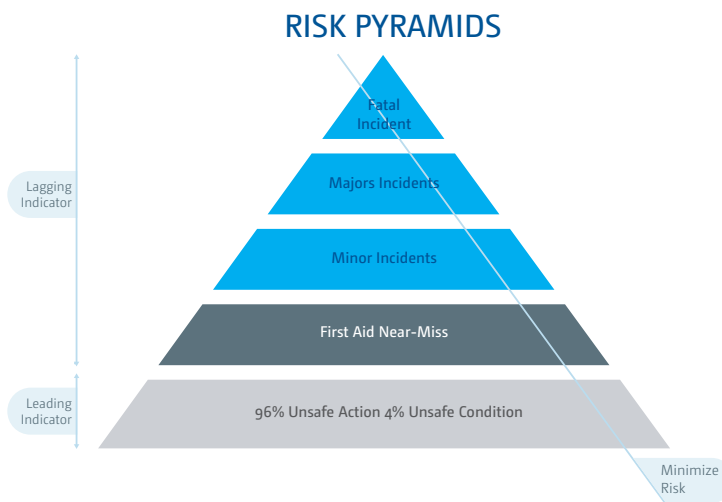
## Internalizing OHS Culture

An OHS-aware culture is an important element in achieving the Safety Excellence Journey. Therefore, internalization of an OHS-aware culture is one of the programs intensively implemented by all levels of OHS management. Internalizing the OHS culture is the source of growth and development of a common perception of OHS risks for all PGN employee levels.

Too wide a range of perceptions of OHS risks is one of the triggers for repeated serious accidents. If the common perception of OHS risks can be improved, the range of different perceptions reduces and automatically accident frequency falls. This is illustrated in the following section.



A common perception also encompasses the creation of a common understanding for all PGN employees of the danger pyramid, as illustrated below.



## 2013 OHS Application Improvement Program

To accelerate the formation of an even safety culture (safety excellence) across all levels of PGN employees, in accordance with the determined roadmap, during 2013 we realized various activities related to OHS. These were as follows.

- **Management visits**

Visits by top management to SBUs and other work units were aimed at motivating and exemplifying OHS rule implementation. Through direct interaction between top management and the lowest level workers, significant feedback was expected for top management as to what occurs at the lower level, in particular in relation to the implementation of OHS.



- **OHSAS 18001:2007 and SMK3 Certification**

One internationally recognized Occupational Health and Safety (OHS) Management System is OHSAS 18001 (Occupational Health and Safety Management System:18001) issued by the BSI (British Standards Institution) in 1999 and effective since 15 April 1999. As manifestation of the implementation of an international standard OHS management system at PGN, including the fulfillment of OHS regulations applied by the government, in 2013 we conducted OHSAS 18001:2007 and SMK3 certification in all operational units and at head office.

As a result, all operational units, head office and the project site have fulfilled certification standards for OHSAS 18001:2007. Moreover, for SMK3 application standards based on Government Regulation 50/2012, we have obtained a satisfactory result for advanced level. This success has made us even more determined to demonstrate our commitment to applying the best OHS standards in all operational aspects. This certification also facilitates us in entering into business cooperation with global-scale gas companies, both to purchase and supply gas.





- **OHS Campaigning**

To improve the awareness of all employees to OHS risks, we routinely and continually run an OHS safety campaign. These efforts are intended to ensure all PGN employees can prevent and mitigate OHS risks or dangers. We run diverse campaign models, including HSE gatherings, installing posters and banners, and running OHS education.

- **Management Review Meeting (RTM)**

RTM is a periodic top management evaluation on implementation of sustainable improvements. At this time, management representatives report to the top management about the status of OHS management system implementation in the company. As a concrete commitment, the top management follow up with various improvements to OSH management system application patterns. A general outline of an RTM agenda is:

- Evaluate HSE (Health, Safety, Environment, Energy) policy implementation
- Follow up on incidents in 2013
- Participation and consultation
- Human resource management and organization
- Evaluation and determining of HSE targets
- Evaluation of compliance with regulations
- Audit results & recommendations



**SAFETY TRAINING 2013**

No	Training	Attendance	Days	Mandays	Sesion
1	Safety Management for Manager	14	3	42	1
2	Observation	63	1	63	4
3	Risk Containment Audit	565	1	565	29
4	Contractor Safety Management	76	1	76	3
5	Incident Investigation	20	2	40	1
6	Process Hazard Analysis	20	3	60	1
7	SMK3 Internal Auditor	20	3	60	4
8	Health Risk Assesment	20	4	80	1
9	Fire Fighting	94	3	282	5
10	Authorized Gas Tester (OHS LSP Certified)	14	3	42	1
11	First Aid	79	3	237	5
12	General OHS Expertise	9	12	108	4
13	Awareness OHSAS 18001 : 2007 dan SMK3	40	2	80	2
14	Job Cycle Check	34	1	34	2
15	OHS Electricity Certified	1	2	2	1
16	High Rise Worker	4	2	8	1
17	Sea Survival	3	2	6	1
18	Forklift Operator	3	3	9	1
19	Defensive Driving Course	37	2	74	2
	<b>Total</b>	<b>1,073</b>	<b>48</b>	<b>1,779</b>	<b>65</b>

- **OHS Training**

OHS training is a way of improving employee competence in relation to procedures, risks and knowledge of OHS audits, which can support and facilitate achievement of targets. OHS training was conducted at various levels during 2013, as follows.

- **High Risk Employees**

Employees assigned to the field, especially in the gas operational areas, are the group at highest OHS risk, both because they could be exposed to gas leaks and the danger of fire. We have a total of 219 employees working in the field, or 15% of PGN employees. Bearing in mind the higher risk, employees working in these areas are provided with special training, including firefighting and rescue training for fire emergencies where employees are trapped in a room.

- **Health Program**

We have designed and realized various programs to improve occupational health as a form of PGN's commitment to maintaining the occupational health and safety of its employees. Safeguarding occupational health results in improved employee productivity and a reduction in the number of hours lost to illness.

One of our efforts is to improve the awareness of employee and their families to serious diseases such as HIV, TB and others. In addition, we conduct routine health checkups for all employees based on the risks they face at work, as well as periodic health training and education as to preventative measures that can be used by employees' families and the public. We also conduct Dissemination and Standardization of Health Services, Assessment of Occupational Health Risks, as well as preparing health reference documents to ensure compliance with health management under a legal umbrella.

- **OHS Reporting**

We routinely submit reports on implementation and the condition of OHS implementation to the regulator/government. These reports are submitted quarterly to the Manpower and Transmigration Agency and monthly to the Migas Directorate General.



## 2013 OHS PERFORMANCE STATISTICS

The top management's high commitment and the serious efforts of all levels of PGN employees to create a culture aware of OHS risks has made various parameters as a guidance for improvement of OHS performance. In 2013, there were no work accidents resulting in loss of working hours, a great improvement compare to 2012. This is illustrated in the following tables and graphs.

### 2013 Safety metrics

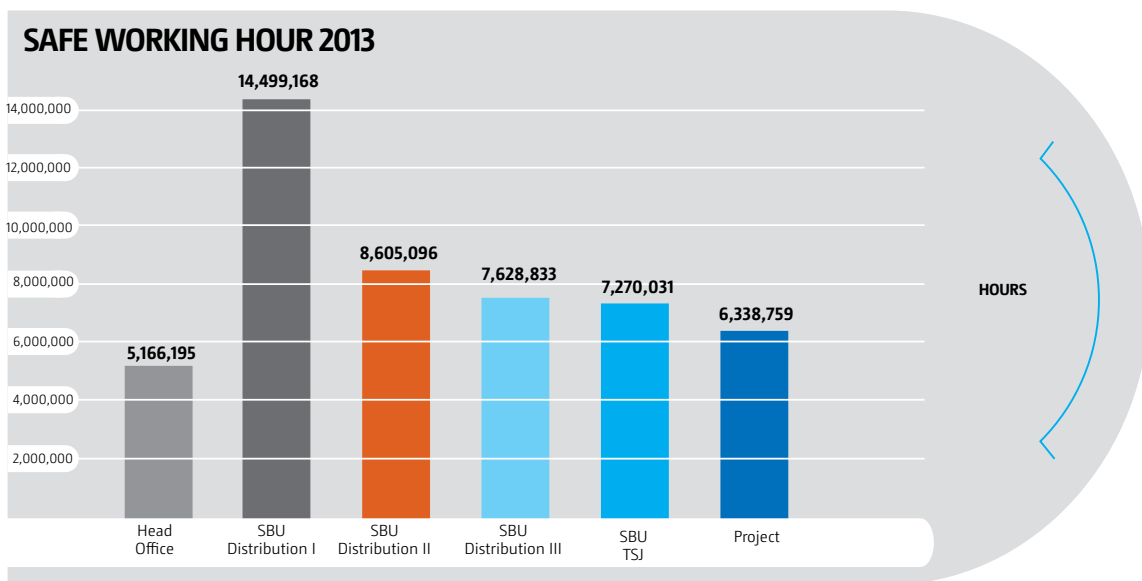
Safety metrics are performance indicators for each SBU and for head office to manage and apply OHS. Through these metrics, PGN can monitor, evaluate and determine steps to improve OHS performance each month.

#### SAFETY METRIC 2013

No	Item	Head Office	SBU Distribution I	SBU Distribution II	SBU Distribution III	SBU TSJ	Project	Target
1	Fatality	0	0	0	0	0	0	0
2	LTIF	0	0	0	0	0	0	0
3	Minor Accidents	0	3	0	1	0	2	3
4	First Aid	3	3	3	11	24	10	
5	Near Missed	4	10	2	23	18	25	
6	Vehicle Accident	18	3	2	2	8	0	
7	TSAF	0.81	0.21	0.20	0.31	0.20	0.09	0.45
8	Safe Working Hours (Hours)	5,66,195	14,499,168	8,605,096	7,628,833	7,270,031	6,338,759	
9	Safe Driving Distance (km)	7,091,557	10,449,037	4,679,274	14,456,748	7,676,471	4,394,412	
10	Risk Containment Audit							
	- % Partisipation	70.97%	99.50%	100%	100%	99.90%	99.00%	100%
	- % Severity 4/5	2.74%	4.41%	0%	0%	0.50%	0%	
	- % Fixed Severity 4/5	75.00%	100%	100%	100%	100%	100%	100%
11	Observation							
	- % Partisipation	27.20%	99.04%	100%	100%	99.70%	98.00%	100%

### Safe working hours

Achieving safe working hours in all units and projects demonstrates that there has been no lost time injury/LTI as of the end of the 2013 reporting period. This achievement has required extraordinary effort and cooperation from all employees. Until 2013 total safe working hours of PGN is 49,508,082 hour.

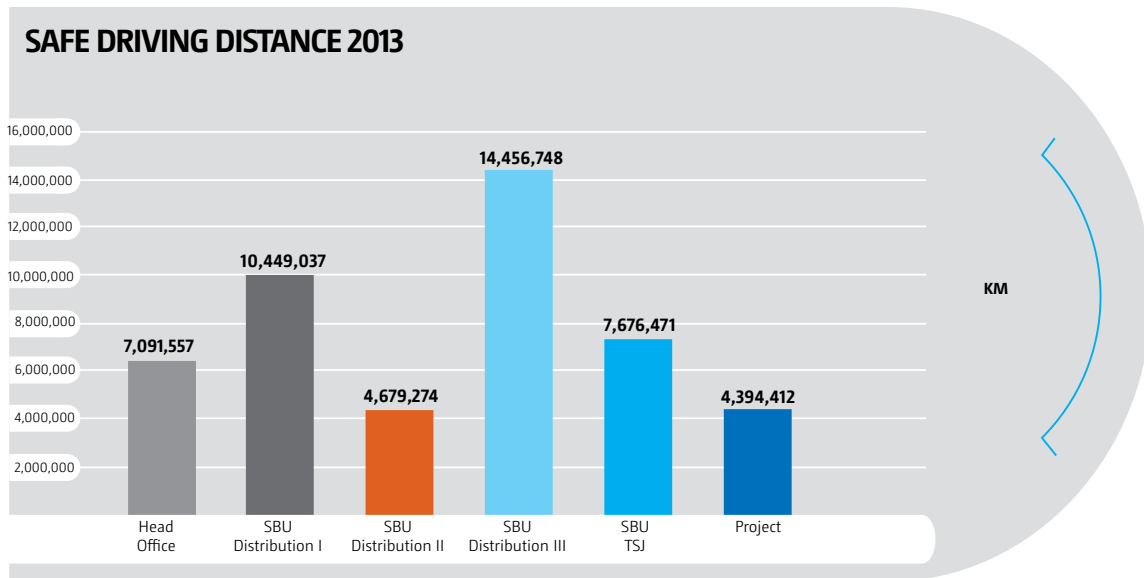


### Lost time injury frequency (LTIF)

PGN’s LTIF performance parameter demonstrates that during 2013, across all SBU areas and head office, the target of zero had been achieved, as in 2012 and 2011.

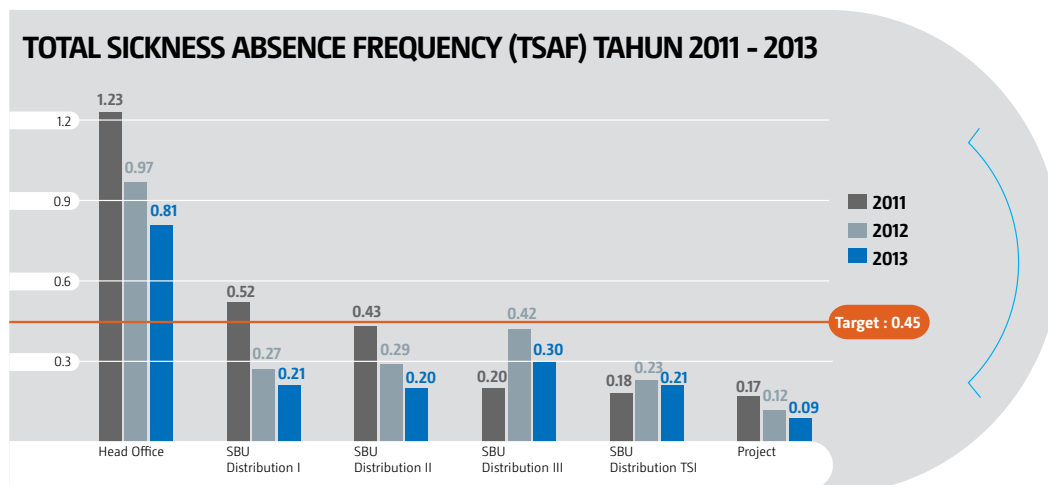
### Safe driving distance

In 2013, there were no accidents involving operational vehicles across all SBU and at head office. The safe driving distance until 2013 was 48,747,499 km.



### Total sickness absence frequency (TSAF)

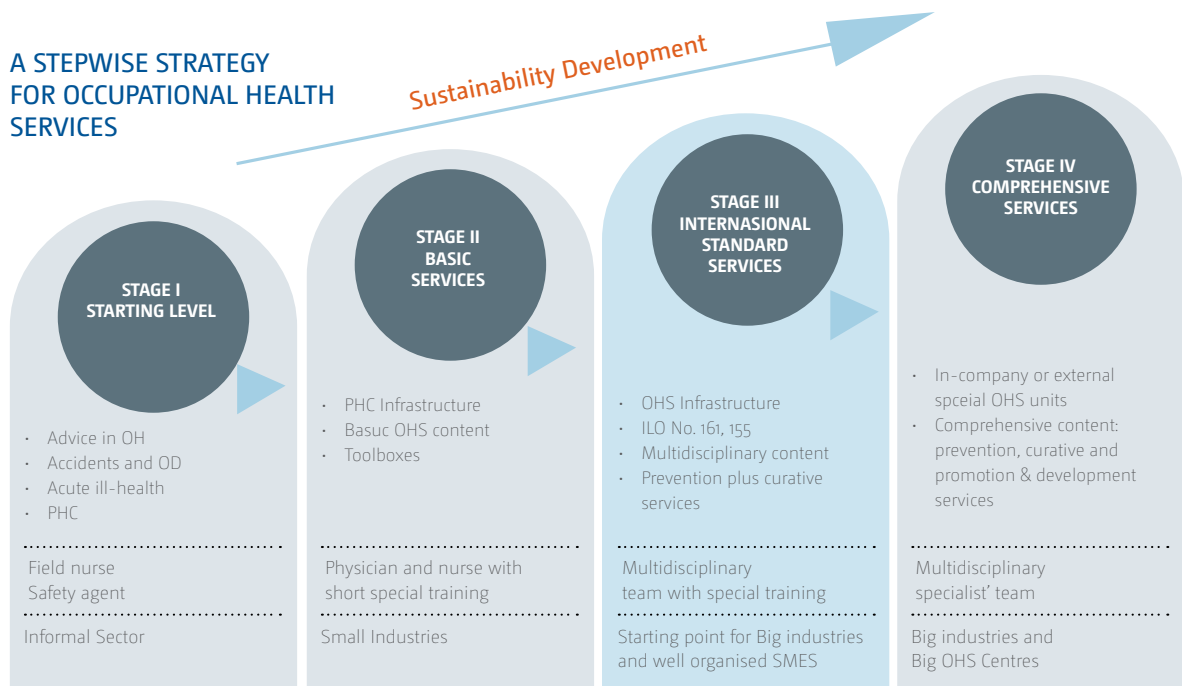
This parameter measures the level of occupational health based on the total number of employees who have lost work time due to illness. We prioritize improving occupational health to continually reduce the level of hours lost so that employee productivity will improve. The results show that three SBU are still not achieving the TSAF target of 0.45. In 2013, the level of employee sickness at PGN head office was lower than in 2012, however is still not in line with the TSAF target. The results of compiled TSAF data are as follows.



## HEALTH TRAINING

In addition to work-related accidents, we are also concerned about and highly committed to efforts to develop a culture of good health for PGN employees at all levels, through the preparing and realization of various health and healthcare programs. We have defined and compiled an occupational healthcare service roadmap to achieve a comprehensive level service, as illustrated below.

### Health Roadmap



## 2013 OHS AWARDS

PGN has been acknowledged and received awards from independent parties for its commitment and achievements implementing operational activities free from work-related accidents, with attention to and implementation of occupational health programs.



Award for 10,067,006 Zero Accident Hours in 2013 for SBU Distribution Region I from the Manpower and Transmigration Minister.



Award for 6,542,850 Zero Accident Hours in 2013 for SBU Distribution Region II from the Manpower and Transmigration Minister.





Award for 5,217,814 Zero Accident Hours in 2013 for SBU Distribution Region III from the Manpower and Transmigration Minister.



Award for 5,441,024 Zero Accident Hours in 2013 for SBU Sumatera Java Transmission from the Manpower and Transmigration Minister.



OHSAS 18001:2007 certification for Head Office and the Project.



Head Office and the Project.



SBU Distribution Region I



SBU Distribution Region II



SBU Distribution Region III



SBU Sumatera Java Transmission





# 04 | INCREASE SOCIAL WELFARE



## IMPROVING COMMUNITY WELFARE



Implement corporate social and environment responsibility in harmony with the profitability, society and environment



## IMPROVING COMMUNITY WELFARE

The local community is an important stakeholder. They have great expectations to grow and develop alongside the company. To fulfill these expectations, we have developed various social welfare programs with our Corporate Social Responsibility Program. Our CSR Programs cover Environment Development and Social and Environmental Responsibility.

PGN's Social and Environmental Responsibility programs are implemented through development of the performance balanced and in harmony with economic performance (profit), community (people) and the environment (planet). To realize such a balance, in particular in social welfare development around our operations, we have designed and developed programs that meet the basic needs of the communities, so they can grow in line with the company's growth. We expect our CSR programs to be able to:

- Contribute positively to empower the community and areas around PGN operations
- Improve public understanding of PGN through information disseminated in community social welfare activities
- Demonstrate the smooth running of PGN operations with the support of units/areas/rayon supporting the implementation of CSR programs
- Build community empathy for PGN
- Create a positive public image of PGN
- Raise the company's value through reputation strengthening

In carrying out the CSR programs, PGN refers to five basic commitments called "PGN Share":

- contributing to improving community WELFARE
- creating HARMONIOUS relationships with stakeholders
- partnership programs and environmental development that are sustainable and TRUSTED;
- RESPONSIVE to the communities' problems
- showing EMPATHY for communities' problems

## ACTIVITY REALIZATION

CSR activities implemented during 2013, including environmental conservation programs, have been related primarily with our initiative to reduce carbon (CO<sub>2</sub>) emissions. We have also implemented programs related to employment, health and work safety, partnership programs and empowering the local economy, building public facilities and infrastructure, natural disaster aid programs and community aid.

Realizing that knowledge is one of the main blocks in creating prosperity, we have developed a special education program through BUMN PEDULI (SOE CARING) for Education and Indonesia Teaches Movement Festival. Overall, in 2013, we have implemented three community development programs, as summarized below.

### CSR PROGRAM

Implementation of this program was based on reference to Environment Development programs, consisting of several key activities: natural disaster aid, educational aid, health aid, construction of public facilities, construction of places of worship and environmental conservation. Following is an outline of these programs.

#### Aid for Natural Disaster Victims

In 2013, we provided aid to victims of natural disasters to show our care and empathy for those affected. This aid consisted of:

- Soup kitchen and health services to flood victims in the area of Banten, East Jakarta, West Jakarta and Bekasi
- Post-disaster rehabilitation in Aceh
- Aid to victims the Gunung Sinabung volcanic eruptions in North Sumatera
- Food aid such as instant meals are distributed to disaster areas

#### Education and Training Aid

In the education sector, we have assisted in the construction of public facilities and provided training, which is expected to improve the education of Indonesia's younger generation. Education aid provided included:

- Sending 31 young students to 25 elementary schools in remote areas in South Sumatera and East Java, as well as being a recruitment partner. This program was implemented in cooperation with Yayasan Indonesia Mengajar (Indonesia Teaches Foundation)
- Construction and renovation of schools and other educational facilities around PGN operational areas, in synergy with WIKA and PP
- Provision of scholarships to 1,050 students in 14 state universities in Indonesia
- Provision of educational fees to 2,400 students in elementary, junior high and senior high schools around PGN operational areas
- Increase teachers competency in Lampung, Palembang dan Surabaya
- Training in tailoring and sewing machines help in Medan, North Sumatera

#### Health Improvement Assistance

In the health sector, we have implemented the following activities:

- Community health services offered by the PGN Health Vehicle, consisting of antenatal checks, supplements for pregnant women, contraceptive services, general health services and basic dental care, checking toddler development and providing supplemental food to children in PGN's six operational areas
- Provision of six ambulances in cooperation with Indonesian Army Special Forces
- Provision of five ambulances and one hearse in cooperation with Indonesian Army Brigif 1 Jaya/PIK TNI AD

- Provision of one ambulance in East Java
- Provision of x-ray equipment, endoscopes and pick up vehicles for cancer sufferers in cooperation with Yayasan Kanker Indonesia (Indonesia Cancer Foundation)
- Social assistance in providing walker stick, hearing aid, blood donation and cataract surgery
- Construction of a community health center in Lampung
- Establishment of a health center to serve travelers during the 2013 Idul Fitri exodus and return providing free health care, supplements, entertainment facilities such as television, internet, music, video games, door prizes and massage

**Developing Infrastructure and/or Public Facilities**  
To develop public facilities, we have implemented various programs, as follows:

- Lighting provision facilities to the public in Pemping Island, Batam
- Clean water aid through a floating sea water reverse osmosis system
- Construction of a bridge crossing Kali Mookervaart
- Supporting construction of a suspension bridge and village office buildings in Lebak, Banten
- Supporting building of a welcome gateway to Lampung city.

### Support for Religious Facilities

To develop religious facilities, we have provided assistance for the construction and renovation of places of worship and religious support facilities. We also supported religious activities, such as compensation for orphans, poor compensation, the mass marriage and assistance activities related to other religious events and holy days.

### Conservation of Nature

As part of PGN's commitment to conserve nature, we have implemented the following programs:

- Planting program of 488,175 trees in Sentul eco-edu-tourism forest area of 709 hectares, Sentul-Bogor, West Java
- 2,500 tree planting program in Sidoarjo, East Java
- Planting program of 10,000 trees in Kasongan tourism area, Yogyakarta

### BUMN (State Company)'s EDUCATION CARE PROGRAM

The BUMN (state company) Care Program is a follow up of the direction from the President of the Republic of Indonesia at a cabinet meeting in the presence of BUMN leaders in Yogyakarta. BUMN asked to spearhead programs to handle impoverished areas and help eradicate poverty. One of the programs currently being executed is the BUMN Village Building Program, with targets villages/towns in which the population is highly impoverished.

The BUMN Ministry, through Letter of the BUMN State Minister No. S-648/MBU/2012 dated 14 November 2012 regarding BL Care 2012 appointed PGN as BL Care Coordinator for the Education sector. The duty of this coordinator is to prepare the BUMN Education Development 2012 program and allocate collected funds to remote and border areas that have been selected for synergy with BUMNs competent in the field.

As a result, PGN created the Teacher Appreciation Program and Scholarships for Gifted Students in remote and border areas of Indonesia for 450 people. In addition, PGN also built and renovated 9 schools in West Kalimantan.



### Construction and Renovation of 9 Schools in West Kalimantan

The program was implemented in three regencies in West Kalimantan that fulfill the criteria for remote areas, outer islands and Indonesian border areas. These three regencies are Ketapang, Sanggau and Bengkayang. The program was implemented in cooperation with PT Wijaya Karya (Persero) Tbk which is in the field of EPC (engineering procurement and construction).

### Teacher Appreciation and Gifted Students (AGSB) Program for Remote Areas, Outer Islands and Indonesian Border Areas

The AGBS program followed by 450 teachers and students in 30 regencies that fulfill the criteria of being remote areas, outer islands and Indonesian border areas. Each location was allowed 15 participants consist of 2 elementary school, 3 junior high school, 2 high school gifted students and 8 dedicated teachers.

All the program's participants were awarded a plaque by the BUMN State Minister and a gadget to interact online via the internet. Participants also received ICT technology training, comparative study on the implementation of pilot schools, visits to an ICT museum and took part in a series of culture and tourism based activities, including visits to Taman Mini Indonesia Indah (TMII) and Trans Studio Bandung or Dunia Fantasi. This program was run synergistically between PGN and PT Telkom, Tbk.

### INDONESIA TEACHES MOVEMENT FESTIVAL

The uneven deployment of teachers and education facilities, especially in remote areas, has resulted in unequal student quality. Through the Indonesia Teaches Movement Festival (GIM Festival), PGN making efforts to help address this issue by sending young teachers as volunteers to remote areas of Indonesia.

GIM is supported by PGN and has successfully facilitated thousands of volunteers to help address the education gap in this country. The volunteers have different backgrounds include teachers, school principals, regional civil servants, public figures, soldiers serving in border areas and doctors in remote areas, who have genuinely helped and assisted Indonesia's children in remote areas to learn with the support of teaching tools they have made themselves.

In 2014, PGN will again encourage the Indonesian public to get involved in the GIM Festival. To support this program, 100 PGN employees and their families also joined thousands of people who volunteered to make and collect a variety of teaching materials. The creative results of these participants will be donated and used as creative teaching tools for 22,208 elementary school students in 146 remote areas across Indonesia.



Donating basic need for community in Petojo Utara



Trees planting in leisure are, Kasongan Yogyakarta



**05** | IMPROVING  
ECONOMIC  
PERFORMANCE



## IMPROVING THE ECONOMY



Revenue increase add economic value to stakeholders and running national economy

## THE COMPANY'S PRODUCTS AND SERVICES

PGN is a company operates in gas transmission and distribution.

### Gas Transmission

Gas transmission is transporting gas from gas field owned by the producer through a network of high pressure transmission pipes to the consumer custody transfer gas stations. In this business, PGN acts as the transporter, and for this service PGN earns a toll fee.

As a legal basis for gas transmission transactions, PGN enters into a Gas Transportation Agreement (GTA) with the Shipper for a period of 10 to 20 years. PGN has also formed a strategic business unit (SBU), namely SBU Sumatera-Java Transmission to support this business.

### Gas Distribution

Gas distribution is the distribution of gas directly to the consumer. For this activity, PGN is in a trading business (selling directly to end users), by using a distribution pipe network and earns income from sales of gas. To improve the effectiveness and efficiency of gas distribution, strategic business units (SBU) have been formed, namely SBU DW I western Java, SBU DW II eastern Java and SBU DW III northern Sumatera.

The process of distributing gas to consumers is either through the distribution pipe network or by a special fleet. The gas pressure in the pipes is maintained to be compliant with gas distribution contracts. The main components of the gas are examined regularly to remain compliant with applicable regulations and in line with parameters set in the gas distribution contracts.

The company's customers are divided into three categories: households, commercial and industry. Bynumber of customers, approximately 96.8% of all customers are households, while the remaining 3.2% are commercial and industry. However, by volume consideration, industrial customers absorb 97.8% of total volume, while the remaining 2.2% is taken up by households and commercial customers. PGN controls approximately 90% of the market for gas distribution and transmission in Indonesia.

A more completely description of the company's products and services can be seen in our annual report.

## ECONOMIC VALUE DISTRIBUTION

The national economy is expected to return to a positive growth in 2014, thus impacting with a rising demand for gas. PGN will in turn benefit through its role as a provider of gas transmission and distribution services, because the rising demand will result in a rising volume of gas passing through PGN's transmission and distribution network.

This reality will result in PGN's revenue increasing. At the end, the company will be able to increase its contribution to state revenue through taxes and dividends, as well as community welfare realized through community development and the company's Partnership and Environment Development Program (PKBL). Generally, this condition will also increase the economic value enjoyed by stakeholders.

As shown in the following table summarizing economic performance, a rising revenue causes PGN to be able to add to the economic value distributed to its stakeholders. The table clearly shows how much economic value is channeled to stakeholders, which includes work partners, employees, shareholders, creditors, the government and the public. The table also demonstrates the amount of added value channeled from PGN into the national economy as a chain reaction caused by the stakeholders, including more intense awareness of the use of gas as a primary energy source that is more economical and more environmentally friendly.



## DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTED

(USD)	2013	2012
<b>DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTED</b>		
Income	3,001,516,630	2,580,234,140
Interest income	26,910,239	27,824,136
Income from investment in subsidiaries		-
Income from sale of assets		-
Income from investment in foreign currency	83,899,214	49,757,553
Other income	57,139,294	29,095,359
<b>Total direct economic value generated</b>	<b>3,169,465,377</b>	<b>2,686,911,188</b>
<b>Economic value distributed:</b>		
Operating costs	1,956,638,879	1,451,856,938
Employee wages and benefits:		
- Operation department	38,391,494	41,392,899
- Administration department	83,715,450	83,087,327
Total employee wages and benefits	122,106,944	124,480,227
Payment to providers of capital:		
- Dividend payment	510,620,916	327,730,116
- Interest payment	21,863,585	21,576,672
Total payment to providers of capital:	532,484,502	349,306,787
Payment to government	359,360,597	220,537,637
Community investments	8,023,230	736,970
<b>Economic value distributed</b>	<b>2,978,614,151</b>	<b>2,146,918,559</b>
Economic value retained before dividend		
Economic value retained after dividend	190,851,226	539,992,629



## CONTRIBUTION TO THE STATE

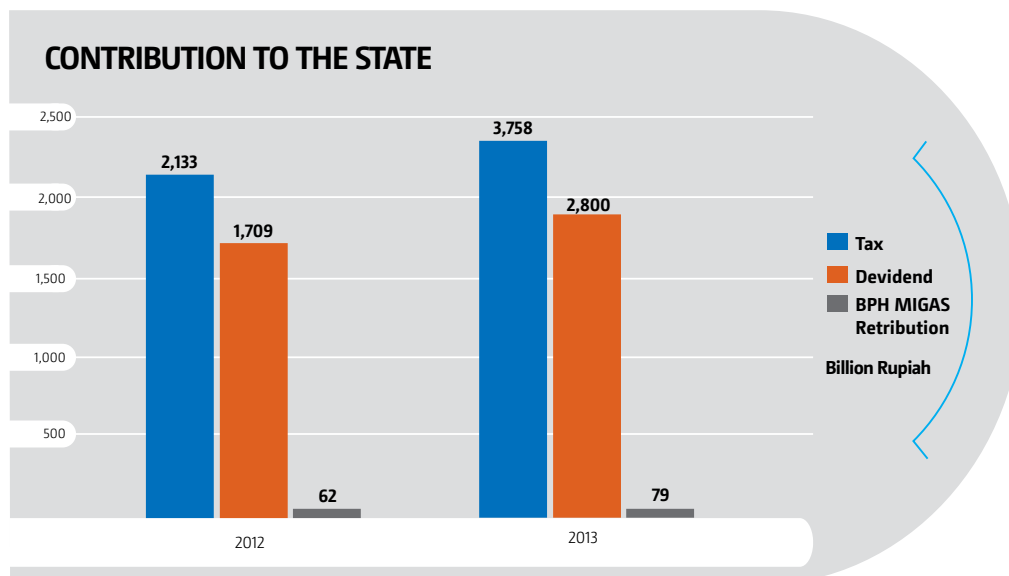
PGN contributes to the state in the form of cash dividends allocated from the net profit of the current year and determined by the Annual General Meeting (AGM), in accordance with the percentage of state ownership. In recent years, the pay-out ratio for dividends distributed has been around 50-60% of the current year's net profit.

Based on the decision of the AGM, in 2013, total dividends paid to the state as the majority shareholder amounted to Rp2,800 billion, while in 2012, total dividends amounted to Rp1,709 billion.

In addition to dividend payments, PGN also makes other direct financial contributions to the state, through the payment of taxes and dues to the Regulatory Agency for Downstream Oil and Gas (BPH Migas). Tax contributions to the state in 2013 amounted to Rp3,758 billion, while in 2012 tax payments were Rp2,133 billion. Meanwhile, total dues to BPH Migas in 2013 amounted to Rp79 billion, which in 2012 totaled Rp62 billion.

Therefore, PGN's total contribution to the state for 2013 amounted to Rp6,637 billion, while in 2012 the total was Rp3,903 billion. As in previous years, PGN has received no direct assistance from the state to realize any of its operations. Any assistance is limited to a reduction on tax duty for certain capital goods required for business development programs.

Illustration of PGN's contribution to the state:





## CONTRIBUTION TO REGIONAL ECONOMIC GROWTH

In addition to the direct contributions to the state in the form of dividends, taxes and dues to BPH Migas, PGN has a significant influence on regional economic growth, specifically in the areas where it has its operational offices and supporting offices around the company's gas transmission and/or distribution pipe network.

A supply of gas in an area can attract investors to invest capital to establish new industrial areas. Thus, these areas grow and make arising to housing, shopping centers, hotels and other real sectors, so area where PGN operates become new economic areas.. Additional impact is seen in the areas' ability to absorb labor, to generate revenue from the use of natural resources, as well as to increase direct regional revenue (PAD) from fees, local taxes, advertising taxes and such like. All these activities demonstrate the indirect impact of PGN activities in an area.

In addition to the indirect economic impact arising from PGN's operational activities, PGN also designs and realizes activities that are intended to stimulate economic growth and development that will ultimately impact on community welfare around the operational area.

These activities are community development programs and PKBL activities, as explained in a different section of this report.

## MAINTAINING GOOD RELATIONS WITH WORK PARTNERS

In conducting operational activities, PGN maintains both short and long term good relations with its suppliers of goods and services. To fulfill its goods and services requirements, PGN applies the basic principle of supply that is efficient, effective, open and competitive, transparent, non-discriminative and accountable. These principles are applied to achieve targets that have been determined and which are accountable. PGN requires work partners to be qualified to supply goods / services of the appropriate quality and to provide good, reliable service, based on clean business ethics and on terms that are mutually beneficial.

The procurement cooperation with work partners is managed in four stages, covering: procurement specification, procurement method, contract agreement and contract management. To maintain the quality of the cooperation with the suppliers of its goods and services, PGN conducts periodic assessments. The purpose of this is to ensure a sustainable quality of goods and services supplied, which are economic and on time. Meanwhile, for low value contracts (below Rp500 million), for the sake of contractual efficiency and to provide equal opportunities, PGN prioritizes local partners.

With a procurement system based on IT (e-procurement) since 2013, PGN has made periodic assessments of all work partners recorded in its database.



## BUSINESS DEVELOPMENT

PGN has carefully observed the upward trend for gas demand to support economic activities and people's day-to-day activities. The trigger for this is believed to be two things, better economic value from the use of gas, and gas being environmentally friendly. Besides the additional demand from households and the commercial sector, PGN has also carefully observed the plans to meet future energy demands compiled by the government.

As contained in the Master Plan for the Acceleration and Expansion of Indonesian Economic Development (MP3EI), the government is determined to improve infrastructure deficiencies, including electricity supplies and transportation. Both of these in future will rely more on gas as a primary energy source.

On the other hand, research conducted by independent institutions, such as WoodMckenzie have stated that Indonesia's gas reserves in 2014 reached 8,000 MMscfd and are forecast to continue to increase in line with increasingly keen efforts to explore for new sources of gas. This figure for total reserves is sufficient for use as a primary energy source replacing fuel oil, the reserves of which are running low.

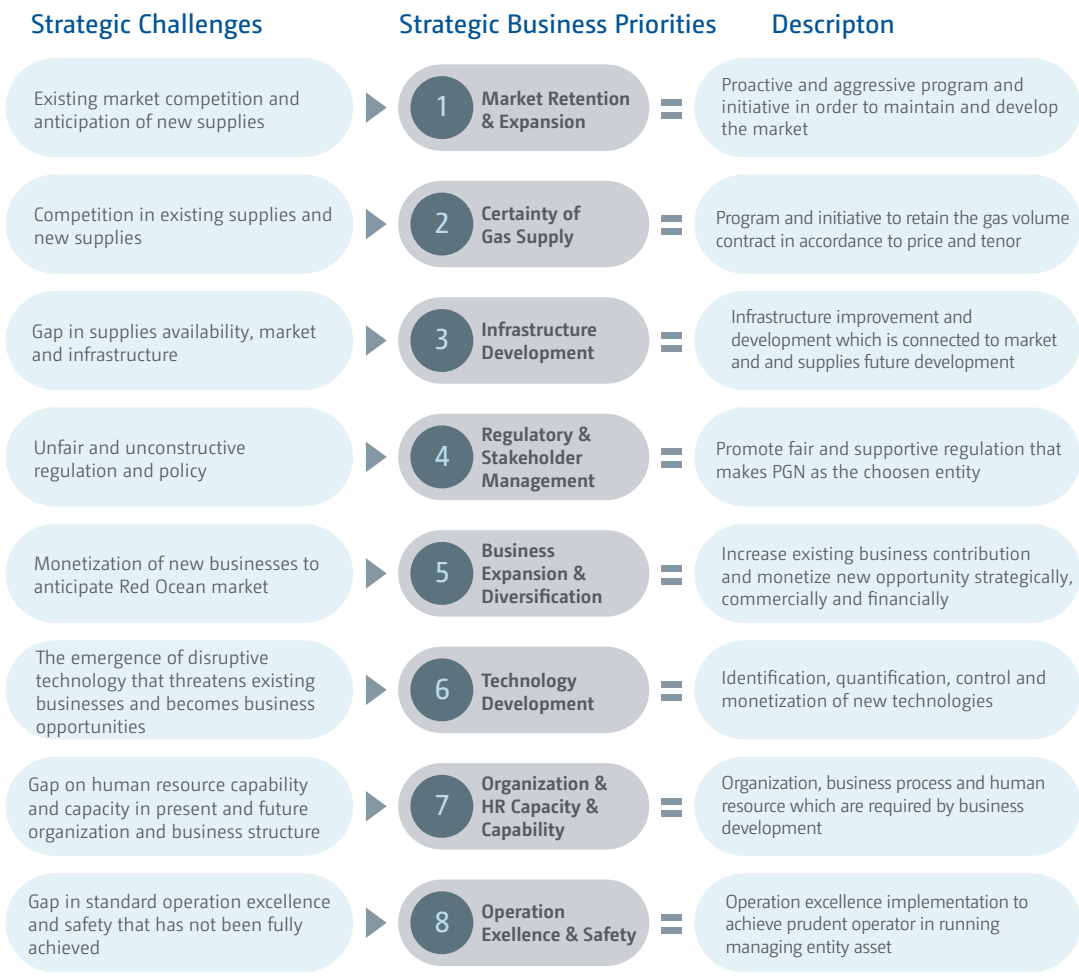
The abundance of reserves and the growth in gas consumption provide business opportunities for PGN. In addition, the government has also opened the way, through more accommodating regulatory arrangements, for efforts to utilize gas as a primary energy source to meet Indonesia's energy needs, both for electricity generation, as well as to directly support economic activity.

### Development Strategy

To capture business opportunities and face the challenges ahead, increase revenue, operating income and market capitalization value, as well as to provide maximum benefit to stakeholders, PGN has determined various strategic business opportunities that will be applied as of 2014. These strategic business priorities are as follows:

- **Market Retention & Expansion**  
(retain the existing market and develop new market)
- **Certainty of Gas Supply**  
(to secure supply of gas)
- **Infrastructure Development**  
(developing and strengthening integrated infrastructure for both transmission and distribution in areas with potential)
- **Regulatory & Stakeholder Management**  
(developing regulation management and improving cooperation with stakeholders)

- **Business Expansion & Diversification**  
(expanding and diversifying business along the gas value chain)
- **Technology Development**  
(simplifying business procedures through the use of technology and information systems)
- **Organization & HR Capacity & Capability**
- **Operation Excellence & Safety**



## Planned and Realized Business Development

PGN has set up and done various business development programs to achieve its vision “Becoming a World Class Company”, including determining strategic steps and targets to achieve from developments in each field of business. The strategic steps prepared by PGN to fulfill the rising demand for gas are to strengthen PGN’s core business downstream and also to control the upstream business. Planned business development will be applied through a series of physical infrastructure developments and organizational developments, as follows:

- **Construction of Lampung LNG Receiving Terminal**

PGN to relocate its liquefied natural gas (LNG) receiving terminal in Medan to Lampung in follow up to the stipulation of the SOE State Minister regarding the relocation of the LNG terminal project in Belawan, Medan, and the revitalization of the Arun LNG terminal in Lhokseumawe, Aceh. The construction of the Lampung Receiving Terminal is aimed at fulfilling the domestic demand for gas, in particular in Lampung, West Java and the surrounding areas.

The Lampung LNG Receiving Terminal and the FSRU (Floating Storage and Regasification Terminal) is now in the construction phase.. The Lampung LNG Receiving Terminal is expected to start operating at end 2014.

- **Upstream Minority Participation**

To expand access to the gas supply, PGN will participate in minority ownership of companies engaged in upstream gas businesses. In addition, PGN is also investing in gas refineries, refineries which have approved Plan of Development (POD) from BP Migas, and refineries with small to medium scale remaining reserves.

- **Trading Gas**

PGN will develop its trading gas business to expand the value chain of the gas industry. Associated with this plan, PGN will work with regionally-owned enterprises (BUMD) to supply and distribute gas. The development of the trading gas business will be implemented by PT. Gagas Energi as a subsidiary of PGN. Currently, PT. Gagas Energi has started operations and has gas sales agreements (GSA) with a number of suppliers.

- **Mini LNG**

PGN will develop and operate small-scale LNG terminals in eastern Indonesia and areas where our pipe network cannot reach to fulfill the gas needs in these areas. These developments are planned for eastern Indonesia.

- **Compressed Natural Gas (CNG) Point-to-Point**

PGN will build CNG Point-to-Point to meet current gas needs in the industrial and transportation sector in West Java, as well as those areas beyond the reach of our existing gas distribution network. The government policy to convert from fuel oil to gas fuel (BBG) has provided a business opportunity for PGN to build CNG Point-to-Point in areas that are not covered by our gas pipe network.

- **City Gas Distribution**

PGN will expand its city gas distribution in existing areas, i.e. Purwakarta-Subang and Bogor-Ciawi-Sukabumi, as well as penetrating new areas like Dumai and Semarang, to fulfill requirements for electricity generation, small industries, commercial businesses, transportation and households. The relatively strong demand for gas in these areas with potential has convinced PGN to expand its distribution network in both existing and new areas.

- **Electricity Generation**

The high cost of crude oil is pressuring the domestic electricity industry to move to gas as an alternative fuel. Therefore, the government has provided DMO (Domestic Market Obligations) to various industries, including electricity generation. PGN will enter the electricity supply business as a strategy to obtain a supply of gas and improve the added value of gas utilization. This electricity generation business will be conducted by a downstream PGN subsidiary.

PGN is also in the midst of designing strategic steps to enable this growth. These enabling initiatives include:

- **Regulatory management,**  
An initiative on attitude toward the impact of gas regulations on the company's future growth. PGN has formed a special team to handle matters related to legislation, with a clear organization structure and business process
- **Stakeholder management,**  
An initiative aimed at creating and maintaining harmonious relations with our stakeholders;
- **Integrated project management,**  
An initiative aimed at determining strategy, business process and organizational structure to conduct integrated and effective project management
- **Supply chain management,**  
An initiative aimed at creating a reliable, effective and efficient supply chain to support PGN's business, covering procurement, asset management, inventory management and asset transportation
- **Integrated IT and operating technology implementation,**  
An initiative aimed at developing and implementing an integrated IT system and operation technology (SCADA, GMS, and others) to improve the business process to achieve Operation Excellence
- **Enterprise risk management,**  
An initiative aimed at encouraging and implementing risk management in PGN based on world-class best practice risk management;
- **PGN transformation & business process reengineering,**  
An initiative aimed at developing the company as a corporation and organization, covering:
  - Preparation to structure PGN as a holding company
  - Improving synergy and clarifying relationship patterns between PGN and its subsidiaries
  - Preparation of synergistic and efficient businesses across divisions and between PGN as a corporation and subsidiaries and PGN with its SBU
- **Integrated H resources management,**  
An initiative aimed at preparing strategic development of human resources in line with the organization roadmap and the creation of human resources who are a competitive advantage for the company
- **Culture and change management,**  
An initiative aimed at creating a competitive culture that favors the company's transformation

- **Corporate branding & reputation,**

An initiative aimed at improving the company's brand image in the stakeholders' eyes to improve the value of the company, as well as to improve the loyalty of customers and employees;

- **Safety excellence,**

An initiative aimed at ensuring Safety Excellence in all PGN operational areas, subsidiaries and SBU.

PGN believes that the realization of all these planned business developments will provide greater benefit to all stakeholders.





## PARTNERSHIP PROGRAM

As part of its efforts to reduce unequal economic development, PGN attempts to stimulate economic growth and development for communities in its operational areas and the surrounding area through the implementation of its Partnership Program (PK). For this implementation, PGN has adopted the spirit “Raising Partnership for the Nation”. In line with the slogan, PGN has implemented various programs to develop community economy potential with one aim, to increase the capabilities of small and micro business units to facilitate their growth and development into strong, independent businesses. The PK program is part of the Partnership and Environmental Development Program (PKBL), which is a community development program for operational areas around SOE operations, including PGN, with the ultimate goal of improving community welfare and improving the nation’s economy.

This program, as mandated by legislation, is an attempt to distribute economic value derived from the company’s profits. The program is in line with the government’s efforts to reduce the national poverty level as defined in the Millennium Development Goals (MDGs), one of which is asserting the importance of joint efforts with the whole international community to eradicate poverty.

PGN channels PK funding in the form of:

- **Soft loans for business development,** Providing capital loans for guided partners for a period of approximately three years and an annual administration fee of 6%/pa. The administration fee is set by a regulation issued by the SOE State Minister, No.05/MBU/2007 on the SOE Partnership Program with Small Businesses and the Environmental Development Program.

- **Grants.**

Grants are given in the form of entrepreneurial development, education and training, as well as marketing/promoting small and micro businesses.

PGN realizes fund disbursement by three basic methods:

- Direct disbursement by PGN
- Disbursed in cooperation with SOE
- Disbursed in cooperation with a competent and integrity third party

As in previous years, PGN prioritizes channeling funds to develop clusters of businesses in the interest of positive impact with efficient supervision, ease of coordination and communication with guided businesses. In addition, the cluster system facilitates sharing between guided businesses and the ability to assist each other developing their businesses.

Examples of clusters guided by PGN are:

- **Ikat weaving cluster in Garut** (developed into Weaving Village – PGN Guided Partner)
- **Cattle and goat breeding cluster in Sukabumi**
- **Copper and silver handicraft cluster in Gunung Kidul** (developed into two PGN Guided Villages (KMB), Pampang Silver Village and Sodo Silver and Copper Village –PGN Guided Partners).

To ensure an increased entrepreneurial ability, improved economy and welfare of guided partners, PGN runs various programs. These programs cover training in technical production, financial management, English lessons and marketing, as well as participation in local, national and international exhibitions.

PGN also conducts various programs to guide partners in accordance with their field of business, including management and finance, marketing and motivation, cattle and goat breeding, rice cultivating, sugar cane cultivation, motif design, dyeing and weaving techniques.

PGN also assists in opening up markets to its guided partners. This is done by including them in various exhibitions and product promotions, including the following:

- **Guided Partner Product Exhibition**  
Facilitating the participation of guided partners in various types of exhibition in Indonesia and overseas, including: Indonesia Fashion Week 2013 in Jakarta, Adiwastra 2013 in Jakarta, INACRAFT 2013 in Jakarta, Gelar Batik Nusantara 2013 in Jakarta, CRAFTINA 2013 in Jakarta, SME and Cooperative Expo 2013 in Surabaya, Exhibition and HKTDC Houseware Fair di Hong Kong.
- **Guided Partner Product Promotion**  
Assisting in product promotion by creating and distributing profile products and sending samples to product galleries and reporting guided partner activities to various media. Media used include newspapers, magazines, internet, TV, brochures, books and other media. These include: PKBL Action Magazine; newspapers Kompas, Media Indonesia, The Jakarta Post and Investor Daily; websites detik.com and republika.co.id; Bali TV; SCTV; PGN Guided Partner Catalogue; INACRAFT 2013 Directory, and galleries established by PGN in Pampang and Sodo villages in Gunungkidul, Yogyakarta.

Total funding for the Partnership Program, both in provision of capital and guidance, from PGN in 2013 amounted to Rp15,778,438,527, or equivalent to USD1,294,481.79. This funding was provided to 184 guided partners. The total is lower than that of the 2012 program due to changes in PKBL policy by the SOE Ministry, including not issuing new loans, as stated in an SOE Minister letter dated 3 April 2013 No. S-92/D5.MBU/2013, until this policy was revoked with the issuance of SOE Ministerial Decree dated 10 September 2013 No. PER-08/MBU/2013.

## PGN GUIDED PARTNER SILVER AND COPPER VILLAGE



Silver and copper handicrafts in Gunung Kidul regency have regain its bright.. The silver and copper artisans in Gunung Kidul, previously just silver and copper handicraft laborers in Kota Gede, Yogyakarta, are now businesspeople and no longer have to go to Kota Gede to work, leaving their families behind. Thanks to a program to improve the economies of people involved in small and microbusinesses conducted by PGN under the spirit “Raising Partnership for the Nation”.

One realization of this program was implemented simultaneously in two villages in Gunung Kidul regency, Sodo and Pampang. PGN has provided support to the silver and copper artisans in these villages since 2012.

The activities started through coordination with Yogyakarta Chamber of Commerce to determine the economic potential of the Yogyakarta communities and ended with the selection of these two villages. The artisans here were considered to have the highest potential for development. The artisans were then provided with capital loans from PGN to add to their own capital, including for the purchase of equipment and raw materials.

In the next step, PGN provided training that included financial management, followed by technical training to develop their products. This training was conducted by inviting arts and crafts lecturers from the Indonesian Arts Institute Yogyakarta for product design material. As a result, iconic silver and copper handicraft products were created in the form of a grasshopper and teak leaves, both of which are prevalent in the area.

To gain market access, the artisans joined various craft exhibitions, including INACRAFT 2013 and CRAFTINA 2013 in Jakarta. The products were also promoted in INACRAFT 2013 Trade Directory which was distributed across the Indonesia Trade Promotion Center (ITPC), including to countries with trade cooperation with Indonesia.

In addition, in 2013, PGN built two galleries, one each in Sodo and Pampang villages in Gunung Kidul, to serve as a place to promote their handicrafts. The galleries have Javanese style interior decor, computers and other supporting facilities, such as prayer halls and toilets. The galleries were officially opened by the Gunung Kidul regent (represented by the deputy regent), alongside PGN’s Finance Director, and witnessed by the regional council (DPRD) head and local leaders from Gunung Kidul.

Now the silver and copper grasshopper and teak leaf icon handicrafts from Gunung Kidul are becoming recognized by the public. The welfare of the Pampang and Sodo artisans has improved thanks to the expanded market and additional orders from Indonesian companies ordering company souvenirs directly from the artisans.



Silver and copper handcraft of Sodo and Pampang villages, Kidul Mountain





# 06 | HUMAN RESOURCE DEVELOPMENT



## HUMAN RESOURCE DEVELOPMENT



Human resource transformation with competencies improvement in line with long-term strategy planning

## ROLE AND POSITION OF PGN HUMAN RESOURCES

PGN considers its human resources (HR) to be a vital and strategic part of its long term goals and the achievement of its business sustainability principles, i.e. the achievement of a balance between profit, community welfare (people) and conserving the environment (planet).

In line with changes in external conditions, our targets and business development strategy continue to develop dynamically. Therefore, our HR management is always in accordance within the framework and strategic position of PGN to realize our long term goals, which are periodically reviewed.

Changes to HR patterns and development programs are implemented through intensive communication with employees and understanding of the expectations of our employees as a stakeholder in the company. The main expectations our employees, as stakeholders, have are: a productive work environment, a clear career path and performance appraisal, remuneration based on performance, and guaranteed welfare.

We thus formulated and applied a series of programs and mechanisms for HR management to achieve a balance between fulfilling company interests, i.e. optimizing HR performance and improving employee competency in line with business developments and the challenges faced by the company, with the fulfillment of employee expectations. These programs and management mechanisms are described as follows.



## TRANSFORMATION OF HR MANAGEMENT ORIENTATION

We have long established ourselves to grow as a world-class energy business. To achieve this goal, we have devised and are in the midst of applying our long term plan through the implementation of various programs that encompass all operational lines, including HR management. Each time we complete one stage, we evaluate the results and then start the next stage followed by changes to patterns and goals for each relevant operational segment.

According to the development phase of the company's long term plan, we are now entering phase two, namely "Competence Enhancement for New Business Areas", which is marked by investment spending to develop business upstream and downstream. In line with this phase, the orientation of HR management is undergoing on transformation from "Strengthening the Fundamentals of HR Management" to "Competence Enhancement for New Business Areas".

This transformation has resulted in changes to several 2013 HR management programs. We are intensifying the introduction and realization of several HR management programs with the aim of enhancing employee competencies through training, management of talented workers, realizing creative programs and applying attractive performance-based remuneration packages, as well as career paths. The development of some of these HR management programs is described below.



## INDUSTRIAL RELATIONS WITH EMPLOYEES

We remain consistent to building healthy labor relations, providing balanced reciprocal benefits as a basic framework and placing employees as partners in the creation of PGN's vision, namely as a World-Class Energy Company in Gas Utilization. We have placed labor relations into a Collective Work Agreement (CWA), a reciprocal agreement created as a result of intensive mutually respectful discussions.

Our CWA has been compiled alongside employee representatives from the PGN Employee Union. The CWA has been agreed and will be reviewed every two years, demonstrating the success of the industrial relations we have implemented. The current CWA was jointly approved and ratified on 1 July 2013 and remains valid through 30 June 2015. The CWA contains the rights and obligations of the company and its employees equally.

The CWA is intended to:

- Provide legal certainty regarding the rights and obligations of the Company and employees including: working relations, working conditions and company's code of conduct
- Strengthen and improve cooperation between the company and employees; and
- Regulate the fair settlement of any difference of opinion by ensuring that differences are settled through deliberation and consensus and do not result in disputes.

Therefore, all PGN employees (100%) have their rights protected in the CWA.

The CWA also regulates a notice period for the implementation of important changes related to key operational activities. In certain cases, for example when implementing fundamental changes to the company structure, such as in the case of planned acquisition, merger or restructuring, PGN will notify the employees at least one month prior to the change taking place.



## A PRODUCTIVE WORK ENVIRONMENT

As part of PGN's proof to develop into a world-class gas-based energy company, we have made every effort to create a productive work environment. This allows all employees to carry out their activities and duties to the maximum. With a productive work environment, we target all employees feeling encouraged to work to their best ability, striving to improve their competencies, carrying out their duties with a high level of dedication and feeling certain that the results of all their work will be evaluated through a fair assessment system. Finally, employees have the rewards and career path they deserve.

To ensure the creation of a productive work environment, we apply high quality HR management, conduct effective communications and comply with employment conditions contained within the CWA. Various basic programs we implement in relation to this are outlined below.

### Freedom to Participate in Unions

We guarantee the employees the right to engage in collective action through participation in an employee union. We consider that the employee-company relationship should be cooperative and mutual beneficial. Moreover, the right of workers to form an employee union is mandated in Law No. 21/2000 on Employee Unions.

We give our employees the freedom to become members of the employee union. We believe that the company's relationship with the employee union to date and into the future will run well.

The employee union at PGN at this time is the PT Perusahaan Gas Negara (Persero) Tbk Employee Union, abbreviated to SP-PGN. The status of this union is independent and it is not affiliated

with any other unions. SP-PGN was officially recorded with the West Jakarta Manpower Agency under Record Number 387/II/P/IX/2009, dated 19 September 2009. The union management is spread across all PGN organization units, while overall management is coordinated within a forum at PGN head office.

We expect that the formation of this employee union is able to support the manifestation of the three principles of partnership (partner in profit, partner in responsibility, and partner in production) in day-to-day industrial relations. To ensure the creation of a good relationship, we routinely carry out an employee satisfaction survey to obtain direct feedback from employees regarding their working conditions and improvements that can be implemented in future.

### Applying the Principle of Equality

We ensure the principle of equality is applied in HR management at every stage, from recruitment, to training programs, assessment, determining career paths and the provision of remuneration. Through the application of the principle of equality, we believe that PGN will attract the interest of talented labor to join us and work together with us to attain our goals. We also believe that equality will encourage all employees to give their best and attempt to grow with us. In the early stage of taking on labor, we guarantee the salary paid to employees will be above the government-set minimum wage. We also apply a policy of providing a higher than normal annual holiday bonus (THR), the provision of annual leave not required by law, the payment of an annual service bonus, as well as employee performance incentives.



The minimum wage received by a new PGN employee at the lowest level is guaranteed to be higher than the regional or provincial minimum wage for each PGN location. This is demonstrated in the table below. This table shows that the lowest base salary for new recruits is always above that stipulated as the regional minimum.

### RATIO BASIC SALARY

No.	Operation Region	Amount of Basic Salary in Region / Province (IDR)	New Worker Amount Basic Salary (IDR)	Ratio (%)
1	Head Office	2.400.000	2.400.000	100%
2	SBU Distribution Region I	2.400.000	2.400.000	100%
3	SBU Distribution Region II	2.200.000	2.400.000	92%
4	SBU Distribution Region III	1.851.500	2.400.000	70%
5	SBU Transmission Sumatera - Jawa	2.400.000	2.400.000	100%
6	Gas Pipeline Construction Project	2.400.000	2.400.000	100%
7	Subsidiary	2.400.000	2.400.000	100%

We also ensure there is equality in health insurance for female workers, in which the dependents of female workers are acknowledged in the same way as the dependents of male workers. This level of equality is also reflected in salary provision for male and female workers, as shown in the table below. The earning difference between genders does not exceed 10% and this difference is purely due to differing service periods and employee level. Female workers at operator level, junior and middle management on average receive a higher salary than male workers.

### AVERAGE RATIO OF GENDER REMUNERATION

Position	Men	Women
Senior Management	1.00	1.05
Middle Management	1.02	1.00
Junior Management	1.00	1.01
Staff	1.00	1.05

In addition to salary, we also apply the principle of equality in determining organizational level in the promotion process. The application of performance and competency assessment means that the number of managers based on either age or gender is not dominated by any one group.



To demonstrate that we uphold diversity and equal opportunities in recruitment, placement and employee development, following is a table showing the employee profile for the 2013 reporting period according to position and age that shows the employee spread and gender diversity.

## EMPLOYEES PROFILE

Classification	Number of Employees 2013			Employees based on Age			Employees based on Age		
	Men	Women	Total	Men			Women		
				<30	30-50	>50	<30	30-50	>50
Senior Management	57	12	69	0	23	34	0	4	8
Middle Management	126	33	159	0	102	24	0	29	4
Junior Management	397	166	563	40	329	28	18	137	11
Staff	590	159	749	316	213	61	108	46	5
<b>Total</b>	<b>1170</b>	<b>370</b>	<b>1540</b>	<b>356</b>	<b>667</b>	<b>147</b>	<b>126</b>	<b>216</b>	<b>28</b>

## Developing Performance Appraisal Management

As part of the work to strengthen the HR management foundations suitable for a world-class company, we have developed the Individual Performance Management System (SMKI) program as a tool to manage employee performance assessment and career paths. This system has been implemented since 2012 with the aim of creating employee competence and performance synergy for the long term development of the business.

In its implementation, each employee target must refer to a Strategic Business Priority (SBP) and be related to targets set by the relevant superior. The company's targets are then directly cascaded become the targets of each director, and continue to be cascaded up to lowest level of employee. This reflects the unity of effort to achieve the corporate vision and mission in accordance with abilities at every level of the business.

SMKI is supported by a web-based application that is used by all employees to record information related to performance management. By using of an internet connection at anytime and anywhere, our employees can manage their performance management activities throughout the year.

At the end of the period, we assess the individual's achievements and divided the results into five categories: Outstanding, Exceeds Expectation, Meets Expectation, Reasonable and Unsatisfactory. All these categories are measured quantitatively and qualitatively through Key Performance Indicators (KPI).



These assessment categories provide the basis to determine individual remuneration and career. We determine our promotion, transfer and rotation policy with reference to achievements and special assessments, which are conducted once every two years. Through this transparent and accountable performance assessment, we believe that every employee with PGN will always feel encouraged to provide their best performance.

As of end 2013, all PGN employees (100%) had accepted the KPI for the 2012 assessment period.

## Effective Communication

Effective and high quality communication between the management and the employees to publicize policies, implement various programs and conduct evaluations, is greatly beneficial in the creation of a productive work environment. To ensure the effective and quality of the communications among employees, as well as between management and employees, we own and have developed a corporate portal that can be used and optimized by all employees to support communications in their day-to-day work. This corporate portal has the following features:

- Corporate e-mail application,
- E-sms application to identify incoming and outgoing letters,
- E-attendance application, for employees to record their attendance online; and
- Knowledge Management Online application as a tool to share knowledge and best practices in daily work.

Effective communication has resulted in PGN being able to create a good and healthy work environment, causing the employees to feel they are in a united extended family with strong teamwork. Effective teamwork has also prevented

the occurrence of unnecessary demonstrations, which would ultimately only disrupt the smooth implementation of duties and the achievement of goals.

## Employee Turnover

Our efforts to create a productive work environment have provided tangible results, as shown by our low employee turnover rate. This low turnover rate results in the costs of developing employee competencies and recruitment being more efficient, ultimately having a positive effect on the company's performance.

During the 2013 reporting year, 37 (thirty seven) employees ceased working for PGN. The majority of these were for common reasons, including retirement and death. Only a few left PGN by resigning for personal reasons.

**2013 EMPLOYEE TURNOVER RATE**

Classification	2013			2012		
	Men	Women	Total	Men	Women	Total
<b>New employee by age group</b>						
<30	6	4	10	63	18	81
30-40	1	0	1	12	1	13
>40	2	0	2	3	0	3
<b>Total</b>	<b>9</b>	<b>4</b>	<b>13</b>	<b>78</b>	<b>19</b>	<b>97</b>
<b>New employee by work region</b>						
Head Office	3	2	5	30	7	37
SBU Distribution Region I	1	2	3	22	5	27
SBU Distribution Region II	0	0	0	10	1	11
SBU Distribution Region III	0	0	0	3	3	6
SBU Transmission Sumatera - Jawa	5	0	5	11	3	14
Project	0	0	0	2	0	2
<b>Total</b>	<b>9</b>	<b>4</b>	<b>13</b>	<b>78</b>	<b>19</b>	<b>97</b>
<b>Employee Out</b>						
Voluntary resigned	4	2	6	8	5	13
Disciplinary sanction	0	0	0	0	0	0
Death	4	0	4	5	2	7
Retired	18	2	20	29	3	32
Early Retired	7	0	7	0	0	0
Others	0	0	0	2	0	2
<b>Total</b>	<b>33</b>	<b>4</b>	<b>37</b>	<b>44</b>	<b>10</b>	<b>54</b>



## PGN HUMAN RESOURCE DEVELOPMENT PROGRAM

As previously stated, the orientation of HR management at PGN is now “Competency Enhancement for New Business Areas”. The change in HR orientation has resulted in increases to its budget and training, as well as raising developments in HR management patterns. Other activities supporting the enhancement of competencies for PGN employees have also increased. Similarly, the basic criteria for HR fulfillment, i.e. the recruitment program, has also become more active.

Various changes, the initiation of the new program and improved quality of training programs in 2013 related to this orientation change are described in the following section.

### Recruitment Program

Business development and in order to achieve our long term goals has made PGN need more people competent in their fields and suitable with the qualification standards required by the company. To ensure that we recruit competent people of the required standards, we provide the same and equal opportunity to everyone to become a PGN employee.

During the recruitment process, we ask competent independent parties to obtain the best talent efficiently and place open recruitment announcements. We conduct the selection process through three programs.

#### 1. Regular Recruitment from External Sources

This recruitment program and selection is aimed at obtaining new, qualified, university graduate recruits. The selection process is transparent and involves an independent third party as the implementer.

#### 2. Internal Recruitment from Non-Permanent Employees

This recruitment program and selection is aimed at obtaining new recruits from outsourced workers and fixed contract workers. The aim is to appreciate the performance and loyalty of these workers.

#### 3. Recruitment from National Athletes

This program is PGN’s support for a government program that fosters athletes, while at the same time appreciating accomplished athletes who have honored the country.

In those recruitment process, if all conditions and selection results are equal, we prioritize recruitment of candidates from the local area. Prior to being appointed permanent employees, candidates must first undertake the orientation program and a trial period. Then, after having been recruited as permanent employees, they take part in development programs in accordance with their individual field of work and specifications.

### Education and Training Program

#### a. Education Program

In addition to our regular recruitment program, we also make efforts to obtain quality candidate workers through our education scholarship program. We run a Pre-Employee Candidate Selection Scholarship Program in cooperation with Taruna Nusantara high school in Magelang and an Energy and Mineral college in Cepu, PTK AKAMIGAS, a college run under the auspices of the Mineral and Energy Resources Ministry to educate and prepare candidate workers with skills in the gas industry. Every year, PGN recruits 10 students who have graduated from Taruna Nusantara high school to take 1, 2 and 3 year diplomas at PTK AKAMIGAS institute of higher learning.







To develop the quality and competence of employees, as well as to expand knowledge horizons in the global gas industry, we also have an overseas master degree scholarship program with respected international universities, as well as an internship program to world-class companies involved in the gas industry. The aim of this is to improve competence and business horizons in relation to the gas industry on a global scale. During 2013, PGN sent six manager-level employees and assistant vice presidents to pursue master degree in respected universities in America.

In addition, in 2013, in cooperation with Osaka Gas (March 2013) and Gaz de France (June 2013), we did an internship program involving 36 employees. We also had the “Observation Program for Enhancement of Employees Capabilities” in cooperation with international consultant Booz & Co as a facilitator to study and benchmark open access and unbundling with gas business regulators in Europe, such as France, Italy and Holland.

#### **b. Training Program**

To improve employee competencies to meet the demands of their rank and the company's business needs, we planned and implemented a training program that was planned, systematic and focused. In line with business developments, we intensified training programs to increase competencies in certain fields, not just required or generic competencies. Hence, there was a dominant percentage of trainee participants taking part in technical development / specialist training compared to participants of other modules, as shown in the following table.

## CORPORATE EDUCATION AND TRAINING BASED ON COMPETENCE

No. Training Category	Program	Participants	Man Days
<b>1 Required Competencies</b>			
Required Competencies	6	149	409
<b>2 Supporting Competencies</b>			
2.a Generic Competencies	22	856	1,571
2.b Specific Competencies			
2.b.1 Technical and Operational	95	1,358	4,397
2.b.2 Finance	19	218	698
2.b.3 Administration and General Affairs	37	506	1,434
2.b.4 Domestic Public Training	349	736	2,376
2.b.5 Overseas Public Training	30	76	447
2.b.6 Education	14	64	11,268
<b>Total</b>	<b>572</b>	<b>3,963</b>	<b>22,600</b>

During 2013, we provided 22,600 mandays for our employee training program with a total cost of Rp 35,888,349,940.

### Executive Program

In the interests of developing the skills of future leaders, PGN has a periodic event named “Executive Leadership Forum”, which take the form of a leadership seminar by invite speakers from the nation’s leaders. Through this event, we hope to be able to provide greater understanding on leadership practices through the experience of our speakers.

During 2013, we ran four events, in February, July, September and December, with speakers Henry Satriago (CEO General Electric), Joko Widodo (Jakarta Governor), Yusuf Kalla (former Deputy President of Indonesia and Chair of the Indonesian Red Cross), H. Marsudi Suhud (Secretary General of PBNU - Nahdlatul Ulama Executive Board). These events were attended by a total of 468 managers, assistant vice presidents and vice presidents.



## STAR PGN Program

After successfully laying the foundations for competency-based human resources, we are currently making efforts to prepare the company's leaders of the future in a more mature way through a comprehensive and integrated program.

In addition to the Executive Program, in 2013, PGN released the STAR Program, a combination of succession and talent management programs based on the company's needs and conditions. The company is preparing two types of pools for candidate company leaders, based on leadership level, namely the Strategic Leader Pool and Operational Leader Pool.

In the early stages of this implementation, we remain focused on managing talent at middle and senior management level. Through three stages in a closed cycle, the talent is selected through tight criteria, developed through a comprehensive program with real study approach and periodic reviews.

## Retirement Preparation Training

In addition to training to develop employee competencies and professionalism, we also run special training for employees pre-retirement. This training is provided to help PGN employees to prepare them to continue participating in productive activities to fulfill their life needs in their retirement ages. Retirement Preparation Training is prepared 3 (three) years prior to an employee retiring.

## Employee Career Management

In follow up to the training and competency development programs, PGN assesses employee performance to determine the career path most suited to the additional competencies attained, in line with their performance contribution to the company.

Every year, we review employee performance and decide on promotions for employees satisfying performance assessment criteria that have been previously explained. In addition to considering the performance assessment results, promotions are also based on three other key points: company requirements, competency assessment and work experience. In line with the basic HR management policy, we apply the principle of equality for employee promotion. At certain levels, we also consider leadership criteria and several other criteria required in roles that call for wise and accurate decision making.

In 2013, based on KPI assessment, position requirements and business development, we promoted 103 employees to a new level, with the following summary.

**NUMBER OF EMPLOYEES PROMOTED BASED ON GENDER**

Level Jabatan	Men	Women	Total
Senior Management	6	0	6
Middle Management - 1	18	7	25
Middle Management - 2	27	3	30
Middle Management - 3	13	4	17
Junior Management - 1	17	8	25
<b>Total</b>	<b>81</b>	<b>22</b>	<b>103</b>

## BENEFITS PACKAGE

As a form of commitment to becoming a world-class company, in addition to demanding improving competencies and optimum performance from our employees, PGN provides very competitive benefits packages compared to other companies of a similar class. This is implemented to ensure the company can always attract the best talent in the field to join it. At the same time, talented labor with continually improving competencies remain committed to working optimally and growing together. An outline of various benefits packages currently applicable at PGN are as follows.

### Employee Remuneration

We mostly have two employee status, permanent, also known as organic, employees, and temporary, or non-organic, employees. In the 2013 reporting year, almost all our employees were permanent, with only one on a fixed term contract.

There are several differences in the overall remuneration structure provided to the two groups of employees, based on status, namely the type of benefits and allowances that form a part of the overall remuneration paid in return for services, as shown in the following table.

Meanwhile, for outsourced employees, we ensure their normative rights are always above applicable rules and regulations, even though the responsibility for these people is in the hands of the company providing the labor.



### BENEFITS PROVIDED TO ORGANIC WORKERS THAT ARE NOT PROVIDED TO NON-ORGANIC

No	Return Type Services	Organic Workers	Non-Organic Workers
A	Wages	✓	✓
B	Support Facilities:		
	Workplace Accident and Disability Insurance	✓	✓
	Work-Related Death Benefits	✓	✓
	Non-Workplace Accident and Disability Insurance	✓	✓
	Non-Work-Related Death Benefit	✓	✓
	Health Benefits for Employees	✓	✓
	Health Benefits for Employees' Spouses	✓	✓
	Health Benefits for Employees' Children	✓	✓
	Leave Entitlements	✓	✓
	Maternity Leave	✓	✓
	Menstrual Leave	✓	✓
	Pilgrimage Leave and Leave for Spiritual Purposes	✓	✓
	Facilities for the Celebration of Religious Holidays	✓	✓
	Pension Fund	✓	
	Severance Payments	✓	✓
	Special Needs Facilities and Support	✓	✓

### Employee Assistance Program

As of mid-2013, we have provided additional health facilities for employees through the Employee Assistance Program (EAP). EAP provides counseling for employees and their families. Every employee is entitled to consult either face-to-face or by telephone with a counselor, whether they wish to discuss a private, family or work-related problem. EAP data is confidential and does not become part of the employees' health record or personal performance record and is only known to the EAP counselor and the related employee.

Through the existence of EAP, employees are aided in resolving problems they face. With the problem resolved, it is expected that the employee would be better able to focus on their work. As of end 2013, 120 PGN employees had made use of the EAP service.

## Elderly Health Program

We also care deeply about the health of our employees and our retired employees. Therefore, as of this January, we are implementing an Elderly Health Program, to help ensure the welfare of our employees and retirees. This program is the result of hard work by the PGN Management, which involved SP-PGN as a partner in setting up the program.

The Elderly Health Program aims to answer and fulfill the cost of health needs for employees of retirement age. The program is run through a management scheme by a foundation that we are currently revitalizing in preparation for the smooth running of the Elderly Health Program, as well as to guarantee transparent and accountable management of the funding, based on the spirit “from us, by us, for us”.

The program has been structured in realization of the principle of mutual assistance, which is at the root of Indonesian culture. Active employees make a periodic payment to support the PGN retirees, based on the principle “those who can afford it, pay for those who can’t”.

Through this program, PGN retirees and their spouses, who currently approximately 1,200 people, can enjoy guaranteed health care across the archipelago by using of a health insurance health card.

For retirees, this program is a form of appreciation from the active workers and management of PGN for their services and for expanding and fostering PGN so that it could grow into its

current form. Meanwhile, for active employees, this program serves to remind them that at some time, everyone retires. By supporting passive retirees, this indirectly supports active employees themselves when it is time for them to retire.

## Golden Handshake Program

To accommodate the wishes of employees who would like to continue their lives through entrepreneurship before they reach retirement age, we have provided the opportunity to join the Voluntary Early Retirement Program (PPDS), more popularly known as the Golden Handshake, provided they satisfy certain requirements, including being at least 45 (forty-five) years old.

The purpose of the program is:

1. To provide the opportunity to interested employees who fulfill the criteria of PPDS and have the rights outlined in this regulation
2. Improve employee motivation and productivity
3. Realignment of human resource composition.

Since the introduction of this program in 2011, until the writing of this report, 15 (fifteen) employees, ranging from staff to vice president level, have taken advantage of the program. Participants in PPDS have the right for severance pay calculated in the same way as employees retiring normally. This program clearly demonstrates PGN’s care for the welfare of their employees post-pension.



## Pension and Insurance Program

In addition to the programs above, since 2009, the company has enrolled its employees in a Fixed Fee Pension Program, where previously employees were enrolled in an old age welfare insurance. By taking part in this Fixed Fee Pension Program, every employee can choose the pension fund they wish to join and the investment portfolio they prefer.

To ensure the welfare of its employees, PGN also enrolls its employees in the Jamsostek program (the state-run insurance program). In addition to the normal standard provisions, the company also provides hospital care for its employees and their dependents for whom the company is responsible. For the employees themselves, individually, PGN provides a private pension fund (DPLK), personal accident insurance, protection against work-related accidents in the form of hospital treatment, an allowance on the death of a family member and funeral costs.

For the pension program through the private pension fund, the company allocates pension fund payments of 15 % of the employee's basic salary, while the remainder of the pension contribution is paid by the employee at a maximum of 5 % of their basic wage.

### EMPLOYEE COMPOSITION BASED ON POSITION

Level	2013			2012		
	Male	Female	Total	Male	Female	Total
Vice President	57	12	69	55	12	67
Assistant Vice President	126	33	159	115	28	143
Manager	159	60	219	144	60	204
Assistant Manager	130	57	187	130	52	182
Supervisor	108	49	157	100	45	145
Senior Staff	80	37	117	88	40	129
Staff	510	122	632	562	132	694
<b>Total</b>	<b>1,170</b>	<b>370</b>	<b>1,540</b>	<b>1,194</b>	<b>369</b>	<b>1,564</b>



## EMPLOYEE PROFILE

In 2013, we had 1,540 employees, a reduction of 1.5% from the total of 1,564 in 2012. This reduction in employee numbers is in line with the company's development plan, which emphasizes increased productivity. In future, we will increase the number of employees and raise the basic skill requirements for employees in relation to PGN's business expansion to become a world-class gas-based energy company.

### EMPLOYEE COMPOSITION BASED ON WORK REGION

Level	2013			2012		
	Male	Female	Total	Male	Female	Total
Head Office	279	133	412	300	140	440
SBU I Region	348	91	439	377	89	466
SBU II Region	166	34	200	172	41	213
SBU III Region	105	39	144	113	40	153
SBU TSJ Region	159	32	191	156	339	189
Project Site	69	23	92	64	24	88
Subsidiaries	44	18	62	12	2	15
<b>Total</b>	<b>1,170</b>	<b>370</b>	<b>1,540</b>	<b>1,194</b>	<b>370</b>	<b>1,564</b>

### EMPLOYEE COMPOSITION BASED ON EDUCATION

Education	2013	2012
	Permanent	Permanent
Doctorate	1	1
Master degree	115	114
Bachelor degree	627	633
Diploma	496	494
High School Equivalent	301	322
<b>Total</b>	<b>1540</b>	<b>1564</b>



## RESPECT FOR HUMAN RIGHTS

As a company in the midst of becoming a world-class corporation, PGN upholds respect for human rights, both in society and for its employees. Several policies and operational activities implemented that demonstrate our high respect for human rights are as follows:

- a. Freedom to participate in Unions as previously discussed;**
- b. Freedom to participate in politics and to made donations to political parties:**

We uphold our employees' rights to channel their political aspirations and undertake political activities, provided they do so outside working hours. However, we do forbid employees from forcing their political will and ensure that PGN is not involved in any activity or provides donations to any politicians or political parties. The code of conduct that all employees must comply with related to political activity includes:

- not being involved in the running of a political party and not making use of company facilities for political party interests,
- not providing donations in any form whatsoever beyond that regulated in applicable legislation

In addition, PGN asserts that as a state-owned enterprise, we must comply with the regulations of the SOE Ministry, which prohibits all SOE from providing contributions, financial or otherwise, to political parties, politicians and related institutions. Therefore, we also forbid the use of funds and company assets for the benefit of political parties or political party candidates, both directly and indirectly.

Our involvement in the forming of public

policy is limited to providing our viewpoint to the House of Representatives at the invitation of the relevant parties as related to policy for the fulfillment of gas demand for domestic consumption, both for the fertilizer industry and as an environmentally friendly fuel.

- c. Rejection of forced labor and child labor;**

We strive to ensure we are not involved in child labor or forced labor. Our minimum age of employment requirement and the implementation of our Health, Safety and Environment policy confirms this stance.

- d. Training and Raising Awareness of Human Rights.**

To ensure all operational activities in the field are in accordance with Human Rights principles and to avoid any violations of Human Rights due to a lack of knowledge, we provide special training on the subject. Our security teams are provided with special training and refresher courses on knowledge of Human Rights.

Training to strengthen knowledge of Human Rights for our security teams is implemented in cooperation with the police. As of the end of the 2013 reporting year, all (100%) of our security personnel had completed their special Human Rights training and refresher courses.



## Anti-Corruption and Anti-Bribery Commitment

Corruption and bribery are reprehensible acts and violate Human Rights by taking another party's rights illegally. These reprehensible acts are closely related to the mentality and integrity of a person, as well as due to imperfect working and supervisory procedures. The eradication and prevention of acts of corruption requires a firm attitude and commitment from all parties, in particular those in authority, in this case the management, to provide an example and to enforce the regulations that exist. Therefore, since 2012, all our directors, commissioners, officials and employees at PGN are committed to controlling gratuities to support efforts to eradicate corruption within the PGN environment and to apply the following principles.

1. Basic Principle
  - a. PGN does not offer or give bribes, gratuities or kickbacks in any form, as prohibited by applicable legislation, to government agencies, individuals, institutions, local or international companies to obtain business benefits.
  - b. PGN does not solicit or accept bribes, gratuities or kickbacks in any form from individuals or institutions, local or international companies in relation to conducting its duties and function.
2. Is committed to rejecting bribes, gratuities and kickbacks from any party in relation to conducting its duties/function or role and will report such to the PGN Gratuity Control Unit or KPK (Corruption Eradication Commission).
3. Supports the application and implementation of gratuity control, as well as submitting state official's wealth reports (LHKPN).
4. PGN and the KPK will maintain confidentiality of the reporting party of any gratuity/gift to any party, unless required by applicable legislation to disclose the information.

These principles are contained in a commitment signed by all PGN's senior management. In addition, PGN also works in cooperation with the KPK to apply the Clean SOE principles, as follows:

- Promote LHKPN and how to fill in the required forms to all officials in PGN;
- Require all PGN officials to make an LHKPN report;
- Include a regulation in the Collective Labor Agreement regarding the prohibition of accepting bribes, gratuities, tips and such like from customers or partner companies for individual benefit and/or the benefit of another party for any reason whatsoever; and
- Terminating employment of any employee caught violating these rules.

We have assigned our Internal Audit (IA) team to personally carry out periodic audits, in addition to use input from the whistleblowing system to conduct in-depth investigations. For this reason, we regularly hold special training and education for IA personnel to maintain and improve the quality of audit results, in accordance with applicable audit standards.



We have identified several areas in the organizational structure that are prone to corruption, such as procurement, finance, development and project implementation. To prevent corruption, we impose strict rules and procedures, including the formation of a separate independent unit between budgeting, procurement of goods and services, as well as accounting. In addition, we also hold anti-corruption training and education in the form of seminars and workshops in which all Internal Audit Unit personnel take part, as well as the procurement unit.

Through this variety of preventative efforts, during the 2013 reporting year, there were no cases indicating misuse of authority or corruption within the company.



# 07 | IMPROVING SERVICE



## IMPROVING SERVICES, MEETING CUSTOMER EXPECTATIONS



Customer satisfaction  
by providing service excellence  
in accordance with corporate culture



Gas customers have expectations, specifically to benefit from the best gas supply in terms of quality and quantity, good service and an economic price. PGN is highly committed to meet these expectations as stated in one of its corporate goals, *“Prioritizing customer satisfaction internally and externally by providing the best service.”*

Customers, or consumers, for PGN are one of its stakeholders and play a central role in ensuring business sustainability through the purchase of its services. This is why customers are also key partners in developing the business in future. Based on this consideration, we place customer satisfaction as an important fundamental. To demonstrate our commitment and meet customer expectations, we have developed various programs aimed to increase customer satisfaction, as explained below.

## PROVIDING PRODUCT INFORMATION EXPLANATIONS

To ensure the gas quality stated in the sales agreement conforms with the gas supplied to the customer, we always ensure that everything is done in accordance with standard operating procedures (SOP). SOP implementation results, particularly related to the quality of gas being transmitted as a result of routine quality checks, are conveyed to the customer as proof of supply contract fulfillment.

We take samples of the gas to check for components at production points and customer input points. We pay attention to several key components when testing, including methane, ethane, propane and butane. We also check for contamination by several dangerous pollutants, especially at production points or points prior

to entering the transmission network to ensure the health and safety of our customers, as well as PGN’s form of responsibility for the quality of the gas supplied. There are several gas pollutants that we always control, including carbon dioxide, nitrogen, mercury and hydrogen sulfide.

The gas pressure in our pipes is carefully regulated to ensure it remains compliant with gas supply agreements focusing on the safety aspect. The results of periodic pressure tests are also attached in the manifest bill for the transmission contract. The aim is that gas product information received by the customer are clearly and accountable.

## MAINTAINING PRODUCT QUALITY IN ACCORDANCE WITH REGULATIONS AND STANDARDS

PGN applies the accredited quality management standard ISO 9001:2008 to maintain the quality of product flowing through its transmission and distribution network. In accordance with this standard, prior to entering into a contract with a gas supplier, we conduct an inspection covering gas availability, worthiness of gas production equipment and gas quality from the supplier. Gas samples are assessed from the intake point of the transmission pipe randomly and samples are tested by a competent and independent assessor. The assessment also covers the quantity of gas to be supplied. The quality test file, in the form of a notification, always accompanies the supply contract for the customers, so the customers know the quality of the gas used.



We continually control the quality and amount of gas supplied and notify the customer as soon as possible if the quality or total reduces significantly, which would ultimately disrupt supply to the customer. In this way, our customers have the option to take action to maintain production continuity.

To maintain the quality and pressure of the gas in the transmission pipeline, we have installed filters and scrubbers at the offtake stations, as well as filters at the customers' meters.

We implement all the above steps to eliminate complaints from customers related to gas quality and pressure flowing through PGN's transmission and distribution pipeline.





## PROVIDING BEST SERVICE TO CUSTOMERS

To increase commitment to our customers and uphold the application of Service Excellence as part of the company culture, PGN runs an information and customer complaints center under the name PGN Contact Center. This service can be easily contacted by phone on 500645 and e-mail on [contact.center@pgn.co.id](mailto:contact.center@pgn.co.id), which have replaced the previous toll free number, 0800-1-500-645 (toll free) or 021-633-3000. This change is intended to improve service management and act as hotline branding to facilitate customers and prospective customers attain complete information, submit complaints, or ask questions about PGN's products and services.

PGN Contact Center operates 24 hours a day and 7 days a week. Every question about general PGN information is handled directly by a Contact Center agent. Complaints have a maximum response time of 24 hours from receipt. Overall, both questions and complaints are recorded in the Contact Center database. The Contact Center is centered at PGN Head Office and integrated with three regional PGN Strategic Business Units (SBU), which are in Jakarta, Surabaya and Medan.

To improve service quality to our customers, we have also developed a program to improve the competencies of our human resources assigned to customer service, applied a minimum service standard policy and enforced service quality provisions as part of KPI assessment. In addition, we have also improved our work system to ensure that:

- There are no violations of provisions in gas purchase agreements,
- There are no violations in the form of disseminating customer identities per contract,
- there is no loss of customer data recorded in the PGN customer identification system.

Fulfillment of all provisions in purchase agreements and the settlement of all customer complaints through improved service quality have enabled us to avoid all forms of sanction and penalty.

As well as our Contact Center service, improving the competencies of our frontline people and ensuring the fulfillment of all contractual provisions to improve service quality, we routinely conduct two other programs. These programs are Customer Gatherings and Customer Satisfaction Survey, as described below.

### CUSTOMER GATHERINGS

PGN routinely holds Customer Gatherings, one of our proactive programs held to improve customer service quality, while creating a harmonious relationship between the company and its customers. Through this program, we seek to establish effective communication, exchange the latest information, provide market education and establish a closer sense of family. As such, both parties will understand each other and this can reduce the gap between customer demands and PGN's ability to provide services.

The series of activities conducted by PGN SBUs related to Customer Gatherings during 2013 varied between SBU. However, the activities had the same spirit, namely the service provided by the SBUs to narrow the gap between customer demands and PGN's ability to provide such services. These Customer Gatherings are held to promote and market the use of gas products and PGN's distribution and transmission pipe network. Promotional activities include participation as sponsor in various events related to the use of environmentally friendly energy and environmentally friendly energy exhibitions, Customer Gatherings, public/local government



expos, family gatherings with customers and meeting prospective customers. All these activities had a positive impact on the company's image and customer loyalty.

Through these various face-to-face events, we obtained feedback in the form of mutual understanding on the company's service abilities and customer expectations. In addition, we had the opportunity to educate and explain about how to use gas safely, including providing understanding about participation in maintaining and securing gas pipeline safety for routes passing through industrial and residential areas.

We also held Customer Gatherings for household customers, which were usually activities to disseminate ways to use gas safely for the surrounding area and fulfill safety regulations.

In addition to formal meetings with customers, PGN, through its account executives and technical service, actively makes visits to customers and potential customers to establish harmony and synergy in gas distribution operations. On such visits, account executives and technical service staff actively provide input to customers and prospective customers to improve efficient use of their equipment and gain understanding of customer and prospective customer businesses, which is valuable input for management when determining gas customer policies.

## MONITORING CUSTOMER SATISFACTION LEVELS

PGN conducts customer satisfaction surveys to obtain feedback on service quality improvements that can lead to Service Excellence. In 2013, customer satisfaction was again measured in each sales and service area. The results of these surveys were summarized in a matrix showing Customer Satisfaction Index (CSI), Customer Loyalty Index (CLI), Customer Referral Index (CRI) and Net Promoter Score (NPS). In contrast to previous years when measurements were done internally, in 2013, customer satisfaction level was measured by an independent party. The purpose of this was to improve the accuracy and quality of measurements.

In 2013, the measurement process identified various expectations and problems that have been arising during this time, which serve as input for us to provide the best service and improve service performance. For 2013, we have focused on customer satisfaction measurements for each service encounter and customers' future expectations in the midst of gas market competition. We surveyed all customer segments, namely households, the commercial and industrial sectors. From the results of our research in 2013, we attained a score of CSI = 5.22.

In addition to our attempts to design and realize various improvements to service based on the results of our customer satisfaction measurements, we are also working to resolve the root causes of all matters arising from customer complaints. In relation to customer complaints on recurring reduced pressure in gas distribution pipelines in areas close to end-user outlets caused by insufficient supply from the producers, we have followed up by investing substantially in the upstream sector of the gas business chain.

As such, in future, when the gas supply from producers is low, we will be able to compensate for this shortfall with supplies from our own wells and FSRU (Floating Storage Regasification Unit) facility, CNG (Compressed Natural Gas) facility and LNG Receiving Terminal, which are being worked on in areas near our key customers, namely industrial and commercial areas. *(Also see discussion in “Improving Economic Performance”)*

## CUSTOMER CARDS

As part of our efforts to improve service quality to our loyal customers, in 2013 we officially issued 91,000 Customer Cards. These cards were issued to all PGN customers in appreciation for their loyalty to PGN. The PGN Customer Card functions as:

- a. PGN customer identity card
- b. Facilitates interaction with PGN
- c. Facilitates customers in obtaining area codes, customer identification number  
PGN Contact Center number and nearest PGN office

The entire program to improve the quality of those services is evidence of the seriousness of the company in improving customer satisfaction and the sincerity of all company employees to prepare themselves to develop the company to be a world class supplier of gas-based energy in the future.



08

SUSTAINABILITY  
GOVERNANCE



## SUSTAINABILITY GOVERNANCE



Sustainability in good corporate governance  
implementation as vision towards a  
world-class energy company

## QUALITY OF GOVERNANCE IMPLEMENTATION



PGN's 2020 vision to become a world class energy Company requires a solid foundation, not only in terms of capital and human resource competence, but also in terms of management. Therefore, PGN is committed to improving the quality of its Good Corporate Governance (GCG) implementation for the whole Company's operational aspects. We believe that the application of GCG best practices will facilitate the prevention of corruption, collusion and nepotism (CCN) practices, as well as enhance the supervisory function over Company management. Other benefits, of course, include preventing the risk of losing stakeholder trust, which could signify the end of the Company.

To improve the quality of our GCG implementation, we periodically have GCG assessment executed by an independent, competent consultant. In 2013, the results of this GCG assessment were

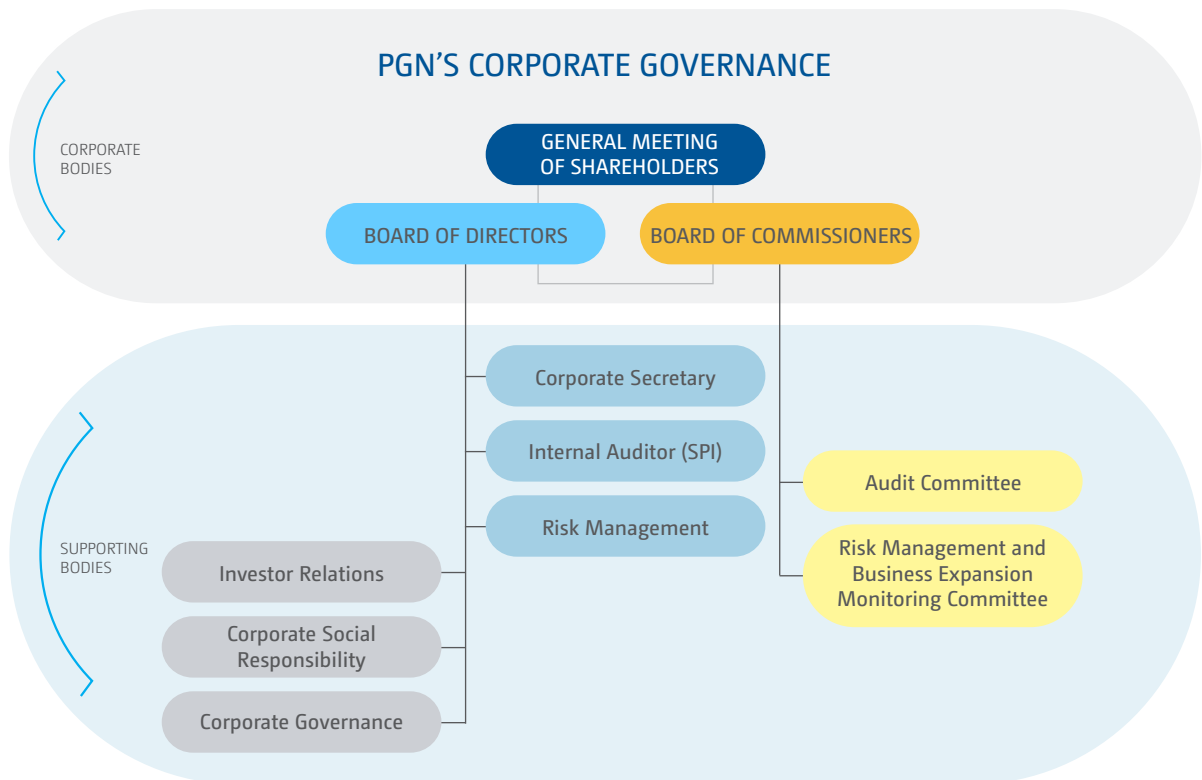
"Very Good", with an improved score of 91.616 (In 2012 was 90.72). PGN followed it up by putting into practice the recommendations made from the audit related to several institutions and infrastructures that required improvement.

Thus, for PGN, the implementation of GCG best practices is not only a means of the Company to comply with regulations, per se, but also a means to achieve excellent performance and maintain the trust of stakeholders, increase Company value and ensure long term business sustainability. Considering the importance of GCG implementation for long term growth of the Company, we are fully committed to continually improving the quality of GCG implementation within the Company management.



## GOVERNANCE STRUCTURE

As with most of companies in Indonesia, the majority of which adopt a two-tier board system, PGN's governance structure involves interaction between the Company's Corporate Bodies, consisting of the General Meeting of Shareholders (GMS), Board of Commissioners (BOC) & Board of Directors (BOD), as well as the Supporting Bodies, namely the Committees under the Board of Commissioners. This structure has been designed to



### GENERAL MEETING OF SHAREHOLDERS (GMS)

The GMS is the highest body in our governance structure. The GMS consists of the Annual GMS (AGM) and the Extraordinary GMS (EGM). The GMS is a forum for shareholders to make important decisions related to and based on the Company's interests.

Through the GMS, shareholders can exercise their rights and express their opinions and vote on significant decisions independently and proportionally between the interests of the shareholders and the Company.

One of the important decisions made through the GMS is the composition of the Board of Commissioners and Board of Directors, as well as the performance assessment of both boards in relation to the achievement of operational targets contained in the Company's Work Plan and Budget (WPB) set at the beginning of the year. Through the GMS, the performance of both of them is measured by the accomplishment of their Key Performance Indicators (KPI), which then would be assessed and accounted for in the GMS. The stipulation of the KPIs is reviewed annually and adjusted to mitigate risks and create opportunities faced by PGN. The performances which are prerequisite and accounted for includes economic, environmental and social aspects.

To ensure PGN's performance achievement is balance across the economy, social and environmental aspects, the GMS also decides on the appointment of directors to serve in each specified area, as well as the stipulation of performance targets that must be achieved during the implementation of operational duties.

Besides selecting and assessing the performance of the commissioners and directors, the GMS also makes important decisions related to various planned corporate actions, including: increasing the Company's capital; mergers, consolidation, acquisition or separation of the Company's business units with other companies, or creating other business units. The GMS could also collateralize the Company's assets; ratify material transactions; and even change the Company's core business, and similar.

Formally, through the GMS, the shareholders could exercise their rights and voice their opinions, give advice and recommendations to the Board of Directors. Every decision made by the GMS binds the Board of Commissioners and Board of Directors and must be implemented. Meanwhile, the interests of minority shareholders are represented by the independent commissioners.

Other than from the GMS, the shareholders could advise and give opinions to the Board of Directors through meetings with the majority shareholder, in this case the SOE Ministry, through the Investors forum meetings or during investors visit.

## PGN BOARD OF COMMISSIONERS

### PGN BOARD OF COMMISSIONERS

The main task of PGN's Board of Commissioners is to supervise the policy management implemented by the Board of Directors, both for corporate and business activities, and to advise the directors in the interests of PGN. This supervision coverage is to ensure all of strategic operational decisions related to the Company management stipulated in the GMS are executed.

As part of the delegation mechanism of GMS authority, PGN's Board of Commissioners is bestowed with certain authorities in accordance with the GMS decisions, including approving and making recommendations determining the work plan and business development budget (Rencana Kerja Anggaran Perusahaan/RKAP), approving changes to the vision, mission and Company core value statements recommended by the Board of Directors, approving transactions up to certain limits, selling assets to a certain value and similar. Therefore, not all strategic operational decisions related to economy, environment or society need to be determined through the GMS.

Currently, there are five members of PGN Board of Commissioners, led by the President Commissioner. Two of these five commissioners are Independent Commissioners. As such, the percentage composition of Independent Commissioners on the Board of Commissioners is 40%. This means that the composition of the Board of Commissioners meets the minimum standards stipulated in the Limited Liability Companies Law.

The Board of Commissioners submits its accountability report at least once a year at the GMS. This accountability report also encompasses economic, social and environmental performances.

Conducting its tasks, the Board of Commissioners is assisted by various committees and teams formed by and responsible to the Board of Commissioners. These committees are: Audit Committee, Risk Management and Business Development Monitoring Committee, and the Remuneration and Nomination Committee. A full description of the functions and tasks of each committee and team can be seen in the 2013 PGN Annual Report.

### BOARD OF DIRECTORS

The Board of Directors has the full authority and responsibility to manage the Company and to represent PGN both inside and outside a court of law, in accordance with provisions in the Articles of Association. The duties and responsibilities of the Board of Directors are shared collegially, while they may also act and make decisions based on division of duty and authority, including in terms of economic, environmental and social aspects.

To ensure the achievement of the various targets in these three fields, in accordance with the mandate of the GMS, PGN has assigned its directors to serve in specific fields according to their competency. There are currently six PGN directors on the board, led by the President Director who serves as *primus inter pares*, coordinating the activities of the Board of Directors. As part of the implementation of the GMS mandate and provisions of the Articles of Association, the Board of Directors has the authority to elect and appoint officials one level below the Board of Directors, at the Division Head level, to carry out operational tasks and assist the Board of Directors in carrying out its duties to manage the Company.

In addition, to support effective Company management, the Board of Directors has formed two functional committees – Knowledge Management Committee and Safety Committee. To support future business development and attain operational efficiencies, the Knowledge Management Committee is tasked with identifying, managing and utilizing the knowledge that has been accumulated across all operational aspects. Structurally, Knowledge Management is managed by a division and directorate under HR management.

A full description of the composition of the committees, their function and responsibilities can be seen in the PGN 2013 Annual Report.

## BOARD OF COMMISSIONERS AND BOARD OF DIRECTORS

Pursuant to Law No. 40 Year 2007 on Incorporated Companies, PGN adheres to the two-tier board system, namely a Board of Commissioners and Board of Directors, each with its own clear tasks and authority according to their respective functions, as mandated in the Articles of Association and applicable laws and regulations (fiduciary responsibility). Both together have the responsibility to maintain the sustainability of PGN.

Members of the Board of Commissioners are not permitted to hold a joint, concurrent, role as a director, neither are members of the Board of Directors allowed to hold a joint, concurrent, role with one level below them, except in an emergency. Thus, the independence of decision making is always maintained.

## Board of Commissioners & Board of Directors Nomination and Appointment Mechanism

All the commissioners and directors are nominated, appointed and dismissed through the GMS mechanism. As an SOE, the initiative right to propose appointments to and dismissals of the Board of Commissioners and Board of Directors in the GMS is held by the majority shareholder, also called the A series shareholder, namely the Indonesian government, which is exercised by the SOE Minister.

Prior to making proposals in the GMS, the SOE Minister first conducts a selection process for prospective commissioners and directors through a fit and proper test. The candidates' abilities and views on how to resolve environmental and social issues are highlighted in this process. To ensure independent operational decisions are made, PGN prohibits family relationships, financial relationships and dual roles between members of the Boards of Commissioners and Directors. The results of the selection process are then taken to and decided in the GMS.

## Commissioners and Directors Remuneration

Each member of the Board of Commissioners receives a monthly honorarium and certain allowances, as well as commission based on PGN's performance and achievements which is determined in the GMS. The commission is a share of the profits provided to directors and commissioners by the shareholders based on a certain percentage of the Company's profit after tax.

Meanwhile, each member of the Board of Directors receives a monthly salary and other allowances, as well as a commission based on PGN's performance and achievements. Tax on the commissions paid to the commissioners and directors is borne by each recipient. Members of the Boards of Commissioners and Directors are also provided with facilities and positional allowances, such as a vehicle or transportation allowance, communication allowance, club/professional membership, legal protection cover, health & life insurance, religious holiday allowance and representation allowance. The total honorarium for commissioners, directors' salaries, commissions and allowances are evaluated and decided upon in the GMS based on the Company performance achievements. Several performance parameters are considered in determining the remuneration for commissioners and directors, including:

- PGN being profitable in the relevant financial year
- KPI achievements are greater than 70%
- Key performances calculated for a maximum 150% commission calculation

The proportion of the commission for the President Commissioner is 40% of the President Director's amount, while other members of the Board of Commissioners can be awarded 36%. Meanwhile, the amount and stipulation of remuneration refers to provisions in Decree of the State Owned Enterprise Minister No. PER-07/MBU/2010 with regard to Income Determination for the Board of Directors, Board of Commissioners and SOE Supervisory Boards Guidelines.

The mechanism to determine the remuneration packages for the Board of Commissioners and the Board of Directors generally follows a series of procedures, as follows:

- Assigning an Independent Consultant to conduct a study of remuneration for the Directors and Commissioners
- Discussing the results of the Independent Consultant's study on remuneration for Directors and Commissioners
- Submitting the remuneration recommendation for Directors and Commissioners to the Board of Commissioners
- Together with the Board of Commissioners, discussing remuneration for the members of the Board of Directors and Board of Commissioners for proposal to the GMS
- Proposing prospective members of the Board of Directors to the Board of Commissioners.

In formulating remuneration recommendations for the commissioners and directors, PGN involves an independent consultant to act as a resource and to take responsibility for conducting a market survey on remuneration for jobs with similar positions and responsibilities.



## KEY PRINCIPLES OF GOVERNANCE

### Performance-based Remuneration

To ensure all lines of employees contribute their best effort, PGN applies a performance-based remuneration policy. Promotions and rates of remuneration increase are based on performance results, namely individual and team KPIs that have been previously determined.

In accordance with KPI results, the Company's financial ability and reasonable increases in the cost of living in the main operational areas, PGN has set its basic salary increases for 2013 at 16.21% for those with "exceptional" achievement, 14.18% for those with "very good" achievement and 12.22% for "good" achievement. Meanwhile, overall PGN has set the minimum basic salary rise at the same level as annual inflation.

Increases to allowances and incentives are generally adjusted alongside basic salary for each employee level. Meanwhile, for employee performance incentives/bonuses, PGN will pay according to its ability at the amount determined in the GMS, together with the determined performance bonus for members of the Board of Directors and Board of Commissioners.

To prevent wide gap in income between the highest and lowest levels of employees, while at the same time attracting employees with the best basic competencies at each level, PGN sets an outline ratio between the highest and lowest salaries. This ratio is 1:15x between salaries for employees at the highest level and those at the lowest level.

A more complete description on remuneration packages can be seen in the discussion "Developing PGN's People".

### Internal Supervision and Control

PGN implements a risk-based internal supervision and control system based on Internal Audit Operating Procedures and referring to the Statement of Financial Accounting Standards (Pernyataan Standard Akuntansi Keuangan/PSAK) and the Internal Audit Guidelines (Audit Charter). This provision has been stipulated in the Board of Directors' Decision that refers to the Decision of the Chair of the Capital Market and Financial Institutions Supervisory Board (Bapepam-LK) No. KEP-496/BL/2008.

The Internal Supervisory Unit (Satuan Pengawas Intern/SPI) and External Auditor are the two work units assigned the function of internal supervision and control, using the Audit Management Information System (Sistem Informasi Manajemen Audit/SIMA) and Audit Command Language (ACL) as reference. As part of the efforts to improve accountability, we provide high quality human resources and assign SPI staffs who have internal auditor professional certification, including "Qualified Internal Auditor" (QIA), "Professional Internal Auditor" (PIA), and Certified Internal Auditor (CIA). The total number of SPI employees holding professional certification in the audit field as of end 2013 amounted to 8 people, or 42% of the total SPI employees, of whom there are 19 people. (2012: 9 people or 40.9% of a total SPI staff of 22 people).

As part of the intensification movement to prevent corruption and in connection with supervision implementation, we require all employees working in supervision function to take part in satisfactory education and training programs on audit procedures and detecting irregularities, such as fraud auditing, investigative audit and advanced internal auditing.



To assure the efficiency of the supervision process, audits is prioritized in units prone to corruption and irregularities, such as procurement, project construction, finance and sales. During 2013, every business unit (100%) in the Company was audited and no fraud cases were identified.

### Preventing Corruption

We engage an internal Company policy declaring that PGN employees are not allowed to commit acts of corruption or take part in any act that encourages corruption, or to give or receive bribes, as part of our strong commitment to prevent acts of corruption and fraud.

We also exercise a whistleblowing system to ensure the effectiveness of our movement to prevent acts of corruption and other fraudulent acts that harm all parties.

Through this whistleblowing system, we encourage all PGN employees to report when they are aware of any acts of corruption or any acts with a potential to become corrupt. We protect the identity of PGN employees who make such reports on acts or potential acts of corruption.

We have prepared this whistleblowing system and implemented it as one of the methods of the Company to prevent acts of corruption or misuse of authority. Anyone committing the criminal act of corruption will be processed in accordance with applicable laws and regulations.

To reassure a common perception and determination, as well as the effectiveness of the movement to prevent corruption, we are also implementing anti-corruption education and training programs in form of seminars and workshops for all employees functioned in SPI,

procurement business unit and other units prone to corruption, fraud, bribery and similar.

See also the section “Anti-Corruption and Anti-Bribery Commitment” in the PGN Employees chapter.

### Procedure and Policy of Disclosure

PGN always makes every attempt to disclose information completely, accurately and on time to its stakeholders, especially the shareholders, in the context of implementing the principle of transparency, as one of implementation pillars for best practice GCG. We disclose information in fair manner, taking into account the Company's interests, the interests of the stakeholders in overall and applicable legislation. We regulate confidentiality and disclosure in the Company through Decision of the Board of Directors No. 01100.K/132/UT/2006 concerning the Company Information Management Policy.

We disclose information through various media, including the Company's website [www.pgn.co.id](http://www.pgn.co.id), the mass media, our Annual Report, customer meetings, public presentations, analyst visits, field visits, conference calls, conference participation and non-deal road shows.

## Avoiding Conflict of Interest

We apply a policy on conflict of interest prevention that could hamper the implementation of the function, duties and authority of the Board of Commissioners, Board of Directors and other PGN executives. We set this policy forth in the Business Code of Conduct and Work Code of Conduct.

By implementing the Business Code of Conduct and Work Code of Conduct, the Executives and Employees Code of Conducts are no longer valid.

## Integrity Pact

As one of the manifestations of applying business ethics, PGN requires all parties involved in the procurement of goods and services to sign an integrity pact to prevent fraud and discrepancies in goods and services procurement process.

## Goods and Services Procurement

We implement Goods/Services Procurement Guideline P-001/0.57 REV.04 year 2013 in accordance with Decision of the Board of Directors No. 005000.K/HK.00.01/UT/2013 dated 12 February 2013, with the following principles a). Efficient b). Effective; c). Competitive; d). Transparent; e). Fair/ non f discriminatory; f). Accountable. The goal of this guideline are:

- Improving efficiency;
- Supporting the creation of added value for the Company
- Supporting the creation of a goods/services procurement process with a strategic and integrated orientation
- Simplifying and accelerating the decision making process
- Increasing independence, responsibility and professionalism

Specifically for the procurement of certain goods and services, we have applied a bidding process, making use of an e-auction system to ensure the procurement process is more transparent, efficient and ability to provide the lowest price.

## Mechanism to Express Opinions to the Board of Directors

PGN has created a procedure for all of its employees to be able to express their opinions and make suggestions regarding operational improvements to the Board of Directors through formal mechanisms, such as meetings between the Employees Union & the Management, and Company work meetings. In addition, suggestions and opinions could be conveyed to the Board of Directors in meetings between the employees and directors, and during work visits made by the directors. Employees may also express their opinions and advice to the Board of Directors by letter or email.

The mechanisms to express opinions, advice and recommendations mentioned above are all running well. In addition to obtaining a variety of thoughts related to improving various Company policies, the mechanism has also forged a more conducive relationship with the internal stakeholders, especially the shareholders and employees, as well as promoting improved, optimum business growth for PGN.



## Applying International Standards

To achieve the vision of becoming a world class Company, we apply International standards which are generally recognized and accepted by the International community. We have been implementing various key operational standards in accordance with International standards, including: risk management, quality assurance, sustainability reporting, GCG application assessment and MDG program implementation.

- **Risk Management**

Risk management is an important part of good corporate governance implementation with the main objective of providing confidence in the achievement of PGN's operational and business goals. Therefore, we exercise a risk management system based on ERM-COSO in form of enterprise-wide risk management implemented by the Risk Management Division with its relevant business units as the process owners. Mapping results have been followed up with mitigation activities alongside the relevant risk owners and periodic monitoring is conducted.

To improve awareness from all employees as to the importance of risk management, with the initiation of the Risk Management Committee, we have formed a Risk Champion Team comprising risk management representatives as agents of change in the work units. Alongside this, we have also run workshops, refresher courses and group discussions to promote awareness.

In order to actualize effective implementation of risk management involving all levels of management, we have formulated a blueprint and roadmap for risk management as a

reference for the implementation of the risk management function development. This is in line with one of the management development foci in the Company's 2010-2020 Long Term Plan (RJPP).

We have identified and mitigated the key risks that are potential influencing operations and business sustainability, including regulation risks, operational risks, supply risks, currency risks, social risks and market risks.

- **Quality Assurance**

PGN applies the International standard ISO 9001:2008 accredited by LQRA (Lloyd's Register Quality Assurance), which is valid through January 2015, in managing quality assurance management services and products.

- **Sustainability Reporting to Global Reporting Initiative (GRI) Standards**

PGN periodically publishes sustainability reports by applying a sustainability reporting system according to reporting standards issued by Global Reporting Initiative (GRI). This demonstrates our commitment to further increase our accountability and transparency in reporting PGN's efforts to manage the Company in relation to the environment, labor, human rights, society and product responsibility.

To ensure the report content quality meets standards, the PGN management has assigned a contributing team with members from all operational divisions responsible for the range of aspects being reported. Added to this, to ensure compliance with determined standards, the management has appointed a certified consultant to assist in the report preparation.

Responsibility for the completion and quality of the sustainability report has been assigned by the management to the Corporate Secretary Division as coordinator.

- **Improving Governance Systems**

PGN continues to improve its sustainable governance system by sharpening the execution of other International standards, such as ISO 26000 and UN Global Compact. In addition, we are exploring several International initiatives managing global warming and climate change.

- **Millennium Development Goals (MDGs) Program**

PGN is fully committed to and supports the implementation of the MDG program conveyed by the government to improve welfare and social condition of communities across Indonesia. PGN implements the government's policy through its Partnership and Environment Development Program (PKBL), which is in line with the MDGs Program.

## Code of Conduct and Corporate Culture Internalization

The Corporate Culture constitutes the values and philosophy agreed upon and adhered to by all parties in PGN as a foundation and reference for PGN in achieving its goals. PGN defines Corporate Culture in form of five values abbreviated as "ProCISE" and elaborated it in 10 key conducts of the Company. (See the description in "About PGN"). The implementation of these 10 key conducts is described in the Business and Work Codes of Conduct Guidelines.

Internalizing this culture and key conducts, which also include economic, environmental and social aspects, is conducted routinely through various approaches, such as dissemination by the Board of Directors in face-to-face meetings with employees, counseling through in-house training and the publishing of a handbook that contains the rules of conduct. The internalization of this culture and principles adopted by PGN has been running well, and we will be continuously updating them, such that the conduct of all parties in PGN would always be in line with PGN's vision and mission.

## MANAGING STAKEHOLDER ENGAGEMENT

PGN always works to increase communication quality in an effort to identify the expectations of its stakeholders, while at the same time presenting various stakeholder-related programs. The mechanism we use to increase the intensity and quality of our communications is through community relations, the AGM, bipartite and tripartite forums, as well as the Partnership Program and Environment Development Program.

Through these various meetings and relationships, we show a transparent, fair and clear implemented programs to create business development, while also developing the community, improving welfare and maintaining the environment in line with stakeholder expectations. At the same time, stakeholders can provide their assessment, appreciation and input to enable us to improve the quality of our CSR programs and business development.

### MEMBERSHIP IN INDUSTRY ASSOCIATIONS AND OTHER ORGANIZATIONS

To improve efficient communications with various stakeholder groups, expand our business network and improve management of stakeholder engagement to resolve problems that arise during operational activities, PGN actively participates in various associations. We participate in initiating various activities aimed at improving Indonesia's economic growth through the gas industry. Through membership in these associations, we also obtain input, advice and constructive criticism to resolve issues together more effectively and efficiently. As of end 2013, PGN is a registered member of the following organizations:

1. Indonesia Gas Association (President)
2. Indonesian Listed Companies Association (Member)
3. International Gas Union (Member)
4. Indonesia Stock Exchange (Member)
5. Indonesia Central Securities Depository (Member)
6. SPI Communication Forum (Leadership and Member)
7. SOE IT Forum (Member)
8. SOE HR Forum (Member)
9. SOE PR Forum (Member)
10. SOE CSR Forum (Member)

We routinely pay our annual membership fees as part of our membership participation for the holding of various organizational activities, except for membership in the SOE forums, which have no annual fee. We are actively engaged in each SOE forum held by the SOE Ministry routinely each month, or once a year.

### MANAGING STAKEHOLDERS

We believe that intensive communication with stakeholders and engaging stakeholders within reasonable limits will be of great benefit for the sustainability of our business. We are determined to continue to improve the quality of our communications and manage relationships to become closer to our stakeholders. In addition, we are also working to take on and understand stakeholder expectations, prepare work programs, realize these and communicate them to our best ability. The following outline explains these efforts.



Overall, PGN has seven main stakeholders that directly affect the sustainability of the company's business. To communicate effectively and manage the engagement of each group of stakeholders, PGN prioritizes specific approaches suitable to the character of each stakeholder group, time availability and the expectations of each group of stakeholders. Following are various efforts to manage stakeholder engagement specifically, based on the character of the stakeholders.

#### • Shareholders

The shareholders are stakeholders with a direct interest in PGN through share or capital investment. Shareholders are very concerned with operational and financial performance, which will be directly reflected in rising share prices, as well as the desire to enjoy the results of their investment promptly each period, in the form of rising share price (company value) and dividend payout for each operational period.

We manage PGN shareholder engagement through routine communications and through the AGM mechanism, at least once a year, with an agenda reporting on the company's performance overall. Through discussions of the agenda points, the shareholders (through the AGM) can participate in determining the direction of the company and strategic company policy, including making investment decisions and determining the size of dividends to be paid out.

We also communicate intensively and transparently with the shareholders through our website, quarterly and semester performance reports, mass media and the issuing of a routine annual report, sustainability report and other media representation.

#### • Employees

All PGN's achievements and performance are reached through the dedication and hard work of our employees at every level. As well as being a prime asset for PGN, they are also a stakeholder with significant direct influence on the company's performance. The employees' expectations are certainly the provision of a positive work environment, with a clear career path and performance assessment, remuneration based on performance and the guaranteed well-being of employees and their families.

To manage employee engagement in achieving the company's goals and also to identify common ground between employee expectations and the company's financial capacity, we routinely hold meetings between the company and the PGN Employees Union (SP-PGN) and representatives of the All Indonesia Employees Union (SPSI), as representatives of the employees. Through this bipartite forum, which is held at a frequency to maintain efficiency and effectiveness, we work to resolve all matters related to labor relations and employee issues.

- **Work Partners**

PGN always relies on the principles of work and work ethics to cooperate with all work partners to build a common interest and maintain harmonious and accountable relations. We work to satisfy the company's work partner expectations by using a procurement process that is fair and transparent, with on time payments and an evaluation process based on facts and accurate data.

- **Government and Regulator**

In addition to its interest in financial performance reflected in share distribution, the government as one of our key shareholders, has high expectations of PGN's operational performance. Smooth operational performance in the distribution and transmission of gas of the correct volume, pressure and quality to consumers results in the optimum running of production in the industrial sector and activities in gas-consuming commercial businesses and households. These conditions will lead to the availability of employment, rising tax payments and increased macro-economic activity, all of which benefit the government.

To continue to achieve common ground between government expectations and PGN's limitations, especially related to allocation of gas through the transmission and distribution network we manage, we have taken the initiative to hold routine meetings with government representatives through bipartite and tripartite forums. The agenda for these meetings is to discuss, plan and realize the operational expansion of PGN, decide on gas allocations and decide the price range for gas sales. We also hold routine meetings to hear

the opinion of the regulator, or institutions that make regulations, to find common ground related to management, exploration and exploitation of Indonesia's gas resources to provide the optimum results to all relevant parties.

- **The Public**

The public, especially those who live around the company's operational areas, have expectations to grow and develop in line with the company's growth and development. To realize this expectation, we design and realize CSR programs and other community developments.

We realize partnership programs with the aim of growing economic potential and community welfare in accordance with the potential and situation in each area. We designed our partnership program and provide it with funding each year to engage community figures and the local government to identify and develop economic potential and realize activities in line with the company's capabilities and the community's readiness.

We also foster good relations with various non-governmental organizations who act as our partners to implement social control and act as a connecting medium between the company, government and community both before and after CSR activities take place. In addition, we also work together with academics and consultants who provide expert opinions and advice on improvements to achieve optimum program implementation.

- **Consumers**

Given that the consumer, or customer, is one of the main pillars in ensuring the sustainability of PGN's business in the long term, we work hard to fulfill customer expectations, namely reliable supply, product quality and gas pressure, as well as an affordable economic price. To realize these efforts, we conduct various activities, including maintaining product quality and communicating intensely with consumers through Customer Gatherings and our customer complaints service, improvements to customer service quality, maintenance and expansion of our distribution and transmission network, as well as expanding business both upstream and downstream. To obtain feedback for service improvements, we periodically evaluate and survey customer satisfaction regarding PGN quality and service through an independent party.

- **Media**

PGN holds various events to meet the press, or media gatherings, to maintain the trust and relationship with the media to communicate the company's performance to all stakeholders.





Details of each communication program, engagement or interaction with stakeholders as above, is shown in the following summary.

## STAKEHOLDERS ENGAGEMENT

Stakeholders	Engagement/Communication	Frequency	Aspiration of Stakeholders
Investors	Company Visit	Min 12x/quarter	<ul style="list-style-type: none"> <li>• Maintain and increase investment value through better corporate performance.</li> <li>• Annual Dividends.</li> <li>• Financial statement accountability</li> <li>• Transparent and accurate operational performance.</li> <li>• Honor on rights of shareholders as stipulated in any law article of association.</li> </ul>
	Conference Call	Min. 3x/year	
	Site Visit	Min. 1x/year	
	Analyst Meeting	Min. 1x/year	
	Non-deal Roadshow	Min. 4x/year	
	Investor Summit	1x/year	
	RUPS	Min. 1x/year	
	Public Expose	Min. 1x/year	
Employees	Labour Union	In accordance with need	<ul style="list-style-type: none"> <li>• Equality</li> <li>• Wealth</li> <li>• Career path</li> <li>• Fair treatment</li> <li>• Conducive and secure environment</li> </ul>
	Mangement and Employee Forums		
Authorities and Regulators	Bipartite meeting	In accordance with need, minimum 2x per year	<ul style="list-style-type: none"> <li>• Operational excellence and optimum</li> <li>• Harmonious and constructive relationship with regulatory body and comply to any law and regulation.</li> </ul>
	Parliament hearing		
	Tripartite meeting		
Vendor, supplier, contractor	Goods and services contract procurement	In accordance with need, minimum 1x per year	<ul style="list-style-type: none"> <li>• Fair and transparent procurement process</li> <li>• Objective selection and evaluation in process</li> <li>• Mutually beneficial growth.</li> </ul>
	Performance evaluation of suppliers and any partners		
Community	Implementation of corporate social responsibility and environmental management Beneficial philanthropic activities for community.	In accordance with need to achieve excellent program implementation	<ul style="list-style-type: none"> <li>• Mutualism relationship with community in network location.</li> <li>• Support economic growth in operational area</li> </ul>



Customers	Customers gathering Tripartite forums between government, regulatory body and gas producers Customer service Call center Customer satisfaction index	In accordance with need	<ul style="list-style-type: none"> <li>• Gas supply reliability</li> <li>• Stable gas pressure with quality</li> <li>• Acceptable and reasonable price</li> <li>• Excellence services</li> </ul>
Media	Press Release Media Gathering Correspondence	In accordance with need	<ul style="list-style-type: none"> <li>• Accurate, accountable and reliable news</li> <li>• Credible source</li> </ul>

By managing the engagement of our stakeholders accountably, maintaining harmonious relations, mutual respect for all stakeholders to improve the nation's development, we believe that PGN will evolve into a world class gas-based energy business in the future.





# 09 | ABOUT THIS REPORT



## ABOUT THIS REPORT



The report contains information to stakeholders, performance in the economic, environmental and social throughout 2013




## ABOUT THIS REPORT

This Sustainability Report of PT Perusahaan Gas Negara (Persero) Tbk 2013 is our fifth sustainability report since the first for 2010 was published in 2011. As a Public Company, this report is intended to satisfy the requirements of the Financial Services Authorities, through the Decision of the Chair of the Capital Market and Financial Institutions Supervisory Board (Bapepam-LK) No. KEP-431/BL/2012 dated 1st of August 2012 with regard to the Submission of Annual Reports for Publicly Listed Companies, that requires Public Companies to submit their Corporate Social Responsibility information in an annual report or in a separate report, such as a sustainability report.

### GRI G4 as the Reference for Report Preparation

We have prepared this Report based on the fourth-generation (G4) Sustainability Reporting Guidelines issued by Global Reporting Initiative (GRI). This report is the first time use of GRI G4, thus the presentation format is slightly different from those in previous years, which still used GRI G3.1. Even so, these changes do not create a significant difference to the comparability of data with previous years as there are no significant restatements.

Based on G4 principles, there are two format options for sustainability reporting, namely Core and Comprehensive. Both options contain sustainability information which is fundamental and important for the stakeholders to know. The “Comprehensive” option is an expansion of the “Core” option, thus the substance reported is more complete and deeper than in the “Core” option. As this is the first year of our G4 report, this 2013 sustainability report has been prepared “According to G4-Core Guidelines”.

We have provided specific G4 indicators  on each relevant page so that the reader could easily find the information related to each indicator, meanwhile the complete G4-Core index list can be found on page 181.

### Reporting Period

We have been preparing sustainability reports annually since 2010. Last year’s report was issued in May 2013. This year’s report contains data and sustainability information for the period of 1st of January 2013 to 31st of December 2013, encompassing PGN’s triple bottom line performance in the economy, environment and society.

This report is aimed at investors and other stakeholders, including creditors, labor union, suppliers, customers, the government and other parties for whom PGN’s sustainability information is important, to be used as a basis for decision making. In addition, stakeholders are also able to evaluate the extent to which PGN has fulfilled its obligations in implementing its social and environmental responsibilities, as mandated in Article 1 of Law No. 40 year 2007 with regard to Limited Liability Companies.



## Report Boundaries

PGN has prepared consolidated financial reports with its subsidiaries. PGN has a majority share in 6 subsidiaries and 1 affiliate, as described in the following business unit, subsidiary and affiliate structure on page 35.

This sustainability report, for certain aspects, includes the subsidiaries. A part of our operations is outsourced to third parties (suppliers), which is also contained in this report with consideration of the risk potential for PGN's image and reputation.

## Assurance

We appointed an external independent assurer to assure PGN's 2013 Sustainability Report. We present the report from the external independent assurer on page 178.



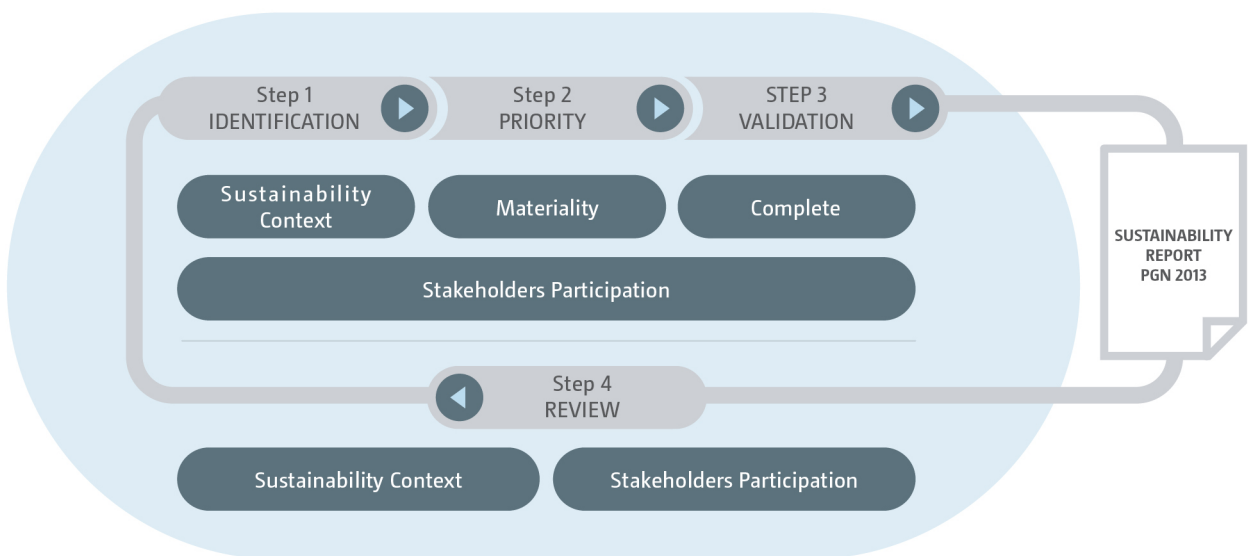
### Report Content Determination Process

In accordance with GRI G4, we have determined this report content based on 4 (four) principles, namely: stakeholder inclusiveness, materiality, sustainability context and completeness.

In defining the content of this report, we have incorporated the expectations of stakeholders, including attention to input/feedback received from last year’s report (Stakeholder inclusiveness). This report contains issues and aspects which are regarded to be important and required by stakeholders to make decisions (Materiality). Similarly, this report has considered sustainability issues relevant for the report issuer (Sustainability context). Moreover, this report is also supported by complete data for the period and scope of the report (Completeness).

As can be seen in the Report Content Determination Flowchart, the content of the report was determined through 4-step processes. The First Step identified the relevant sustainability aspects and their boundaries. The Second Step prioritized the sustainability aspects or issues identified in the first step to determine the materiality level of those being reported. The Third Step validated these material aspects. The Fourth Step reviewed the previous year’s report. Further, this year’s report will be reviewed after publishing to provide input in order to improve the following year’s report.

### Report Materiality Determination Process







### Material & Boundaries Aspects Determination

The process of defining the material aspects and their boundaries was implemented with the involvement of PGN staff from various work units through a G4 workshop. Workshop participants comprised the PGN 2013 Sustainability Report Compilation Team. A resource person from the designated consultant presented an explanation about G4 and, together with the workshop participants, determined the material aspects and where they took place (the boundary). The results of this workshop can be seen in the following Material Aspects and Boundaries chart.

#### MATERIALITY ASPECTS AND BOUNDARY

Materiality Aspect	Boundary		
Economic Performance	PGN	Subsidiary	
Indirect Economic Impacts	PGN	Subsidiary	
Materials	PGN		
Energy	PGN		
Emissions	PGN		
Overall	PGN		
Employment	PGN	Subsidiary	
Labor/Management Relations	PGN		
Occupational Health & Safety	PGN	Subsidiary	
Training & Education	PGN		
Diversity & Equal Opportunity	PGN		
Equal Remuneration for Women & Men	PGN		
Supplier Assessment for Labor Practices			Outside Company
Freedom of Association & Collective Bargaining	PGN	Subsidiary	
Security Practices	PGN		
Local Communities	PGN		
Anti-corruption	PGN	Subsidiary	Outside Company
Product and Service Labeling	PGN		

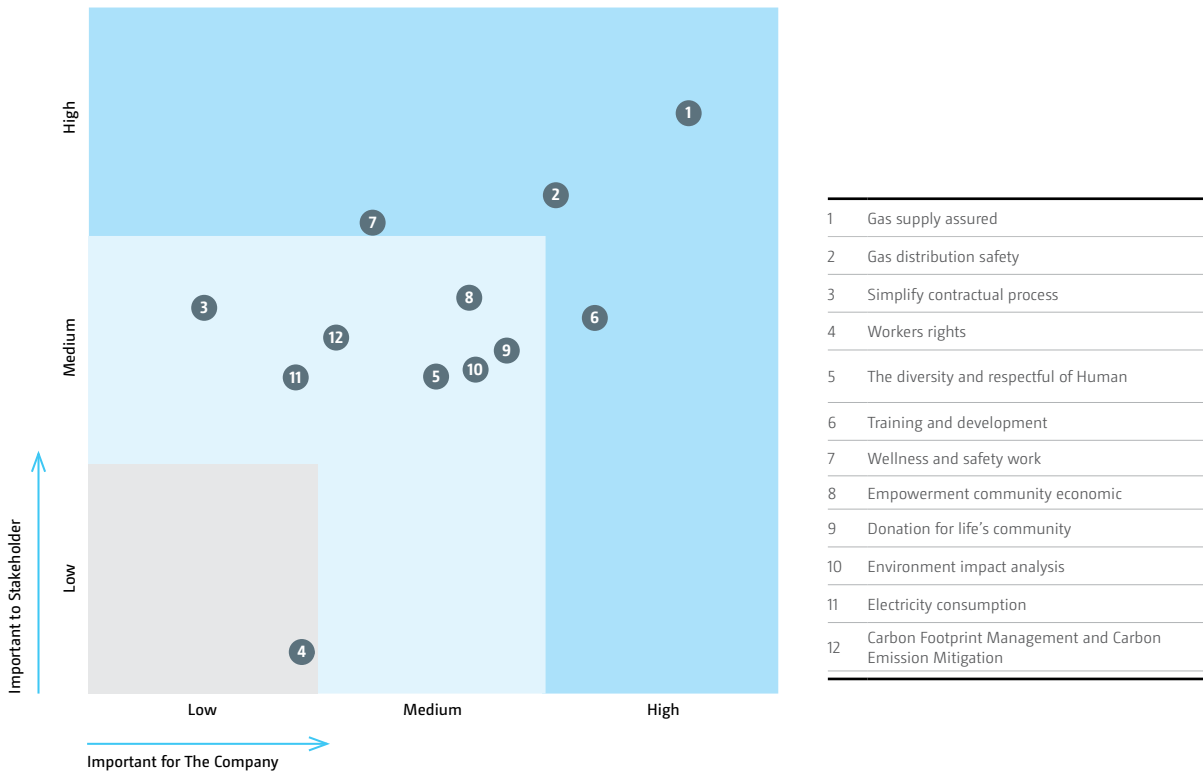


- PGN
- Subsidiary
- Outside Company



### Materiality Level Determination

To fulfill the principle of stakeholder inclusiveness, we organized a Stakeholder Group Discussion Forum (FSGD) attended by various groups of stakeholders, including: labor union, customers, the communities and NGOs. The purpose of this FSGD was to request the opinion of the stakeholders as to the materiality level of the issues identified that would be included in this report. From this forum, an illustration was obtained as to the materiality level of the issues will be reported, as shown in the Materiality Level graph below.





## Independent Assurance Statement

Report No. 0314/BD/0021/JK

### To the management of PT Perusahaan Gas Negara (Persero), Tbk

We were engaged by PT Perusahaan Gas Negara (Persero), Tbk ('PGN') to provide assurance in respect to its Sustainability Report 2013 ('the Report'). The assurance has been carried out by a multi-disciplined assurance team with a broad range of skills and depth of experience, thus providing a high level of competency for the assurance engagement.

### Independence

We were not involved in the preparation of any key part of the Report and carried out all assurance undertakings with independence and autonomy. We did not provide any services to PGN during 2013 that could conflict with the independence of assurance engagement.

### Assurance Standards

We conducted our work in accordance with ISAE3000 'Assurance Engagements other than Audits or Reviews of Historical Financial Information' issued by the International Auditing and Accounting Standards Board. In addition, we have also planned and carried out our work in accordance with AA1000AS (2008) 'AA1000 Assurance Standards (2008)', issued by AccountAbility.

### Level of assurance and criteria used.

Our evidence-gathering procedures have been designed to obtain a limited level of assurance based on SAE3000 and a moderate level of assurance engagement as set out in AA1000AS (2008) in order to provide confidence to readers by reducing risks or errors to a very low but not to zero. Moreover, the AA1000 AccountAbility Principles Standard (2008) of Inclusivity, Materiality and Responsiveness has also been used as criteria to evaluate the Report. We have confirmed that the Report has been prepared in accordance with G4 Core Criteria issued by the Global Reporting Initiative (GRI).

### Scope of Assurance

We provided Type 2 assurance engagement under AA1000AS (2008). This involved:

- 1) an assessment of PGN's adherence to the AA1000 AccountAbility Principles Standard (2008) and
- 2) an assessment on the accuracy and quality of specified sustainability performance information contained within the Report, in relation to the agreed scope. The scope of work consisted of:
  - Partnership and community development programme
  - Occupational health and safety
  - Environmental management

The assured indicator related to the agreed scope above is marked with the sign  $\checkmark$  at the GRI G4 Core Index section of the Report

### Responsibility

PGN is responsible for all information and claims contained in the Report, including established sustainability management targets, performance management, data collection and report preparation, etc. Our responsibility in performing this engagement is to the management of PGN only for the purposes of verifying its statements relating to its sustainability performance, more particularly as described in the agreed scope. Our responsibility is to express our conclusions in relation to the agreed scope.

### Methodology

We have assessed several assertions and specified data sets included in the report and the systems and processes used to manage and report these using the following methods:

- Reviewed report, internal policies, documentation, management and information systems
- Carried out interviews with staff involved in sustainability-related management and reporting.
- Followed data trails to initial aggregated source and checked sample data to a greater depth during the engagement process.

## Limitations

Our scope of work was limited to a review of the accuracy and reliability of specified data and interviews with data providers, persons in charge of data collection and processing, as well as persons in charge of sustainability performance-related information, and did not include any on-site validation of the mining site.

## Conclusions

### AA1000 AccountAbility Principles Standard (2008)

Findings and conclusions concerning adherence to the AA1000 AccountAbility Principles of Inclusivity, Materiality and Responsiveness include:

#### ▪ Inclusivity

An assessment has been made to determine whether PGN has included all key stakeholders in developing and achieving an accountable and strategic response to sustainability issues.

We found PGN demonstrates a strong commitment to stakeholder inclusivity. PGN has an effective system in place for key stakeholders to participate in the development of the organization's response in the context of sustainability. This is demonstrated for instance, by conducting needs assessment surveys in relation to the community development programme, and by conducting a Stakeholder Forum Discussion in order to determine the report content.

However, we recommend that PGN continues to improve stakeholder inclusivity systems and procedures on a regular basis to maintain their effectiveness.

#### ▪ Materiality

An assessment has been made as to whether PGN has included in the Report the material information required by its stakeholders in order to enable them to make informed judgements, decisions and actions.

We found PGN has a strong process in place to determine material issues. Key material issues were adequately reported and were found to provide balanced information about PGN's sustainability performance. A range of internal stakeholders are involved in PGN's materiality determination process. However, we recommend that PGN continues to conduct materiality test on a regular basis in future reports.

#### ▪ Responsiveness

An assessment has been made as to whether PGN demonstrates that it responds to its stakeholders and is accountable to them.

PGN was found to be responsive to key stakeholder concerns and expectations. This was achieved through the organization's allocation of resources to stakeholder engagement, the timeliness and accessibility of reported information, and the types of communication mechanisms regularly employed.

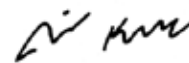
However, we recommend that PGN continues to improve stakeholder engagement procedures on a regular basis in future reports.

### Reliability of Sustainability Performance Information

Based on our limited assurance engagement, nothing has come to our attention that causes us to believe that the data of the Report has been materially misstated.

All key assurance findings are included herein, and detailed observations and follow-up recommendations have been submitted to PGN management in a separate report.

Jakarta, 7 March 2014



**James Kallman**  
President Director



*Mazars is an international, integrated and independent organization, specializing in audit and assurance, accountancy, tax, legal and advisory services. Mazars can rely on the skills of 13,000 professionals in the 61 countries that make up its integrated partnership in Europe, Africa, the Middle East, Asia Pacific, North America, Latin America and the Caribbean, whilst in Indonesia is served by PT Mazars, one of the leading sustainability assurance providers.*

## GRI G4 CORE INDEX

Indicator	Disclosures	Page	External Assurance
<b>GENERAL STANDARD DISCLOSURES</b>			
<b>Strategy and Analysis</b>			
G4-1 :	Statement from the Board of Commissioner and Boar of Director	16, 18	
<b>Organization Profile</b>			
G4-3 :	Name of the organization.	23	✓
G4-4 :	Primary brands, products, and services.	23	✓
G4-5 :	location of the organization's headquarters.	23	✓
G4-6 :	Location of the organization's operates that are covered in the report.	23, 34	✓
G4-7 :	Nature of ownership and legal form.	23, 32	✓
G4-8 :	Markets served	29	✓
G4-9 :	"Scale of the organization"	32	✓
G4-10 :	Profle of the employees	135	✓
G4-11 :	Collective bargaining agreements.	120	✓
G4-12 :	the organization's supply chain.	33	✓
G4-13 :	Significant changes during the reporting period	173	✓
G4-14 :	Precautionary approach or principle addressed	156	✓
G4-15 :	Externally developed economic, environmental and social charters, principles, or other initiatives	159	✓
G4-16 :	List memberships of associations	161	✓
<b>Identified Material Aspects and Boundaries</b>			
G4-17 :	The entities included in the organization's consolidated financial statements that are covered by the report.	35	✓
G4-18 :	"Process for defining the report content and the Aspect Boundaries and how the organization has implemented the Reporting Principles for Defining Report Content	173	✓
G4-19 :	List all the material Aspects identified in the process for defining report content.	175	✓
G4-20 :	Aspect Boundary within the organization	175	✓
G4-21 :	Aspect Boundary outside the organization.	175	✓
G4-22 :	Effect of any restatements of information provided in previous reports, and the reasons for such restatements.	172	✓
G4-23 :	Significant changes from previous reporting periods in the Scope and Aspect Boundaries.	172	✓
<b>Stakeholder Engagement</b>			
G4-24 :	List of stakeholder groups engaged by the organization.	166	
G4-25 :	Basis for identification and selection of stakeholders	162	

Indicator	Disclosures	Page	External Assurance
G4-26:	The organization's approach to stakeholder engagement	162, 166	
G4-27:	Key topics and concerns that have been raised through stakeholder engagement.	162, 166	
<b>Report Profile</b>			
G4-28:	Reporting period	172	✓
G4-29:	Date of most recent previous report (if any).	172	✓
G4-30:	Reporting cycle	172	✓
G4-31:	Contact point for questions regarding the report or its contents.	23	✓
<b>GRI G4 Index Content</b>			
G4-32:	The 'in accordance' option chosen, GRI Content Index and cross reference to External Assurance report	172	✓
<b>Assurance</b>			
G4-33:	The organization's policy and current practice with regard to seeking external assurance for the report.	173	✓
<b>Good Corporate Governance</b>			
G4-34:	Governance structure of the organization, including committees of the highest governance body.	151	✓
<b>Ethics and Integrity</b>			
G4-56:	the organization's values, principles, standards and norms of behavior	26, 28, 150	✓
<b>SPECIFIC STANDARD DISCLOSURES</b>			
<b>CATEGORY: ECONOMIC</b>			
<b>Aspect: Economic Performance</b>			
G4-EC1	Direct economic value generated and distributed	3, 102	✓
G4-EC3	Coverage of the organization's defined benefit plan obligations	134	✓
G4-EC4	Financial assistance received from government		
<b>Aspect: Market Presence</b>			
G4-EC5	Ratios of standard entry level wage compared to local minimum wage	122	
<b>Aspect: Indirect Economic Impacts</b>			
G4-EC7	Development and impact of infrastructure investments and services supported	106	✓
G4-EC8	Indirect economic impacts	104	✓
<b>CATEGORY: ENVIRONMENTAL</b>			
<b>Aspect: Materials</b>			
G4-DMA	Disclosure Management Approach (DMA)	57 - 58	✓
G4-EN1	Materials used by weight or volume	57 - 58	✓

Indicator	Disclosures	Page	External Assurance
<b>Aspect: Energy</b>			
G4-DMA	Disclosure Management Approach (DMA)	60-62	✓
G4-EN3	Energy consumption within the organization	60-62	✓
G4-EN4	Energy consumption outside of the organization	60-62	✓
G4-EN5	Energy intensity	60-62	✓
G4-EN6	Reduction of energy consumption	60-62	✓
G4-EN7	Reductions in energy requirements of products and services	60-62	✓
<b>Aspect: Emissions</b>			
G4-DMA	Disclosure Management Approach (DMA)	62	✓
G4-EN16	Energy indirect greenhouse gas (GHG) emissions (Scope 3)	62	✓
G4-EN18	Greenhouse gas (GHG) emissions intensity	62	✓
<b>Aspect: Overall</b>			
G4-DMA	Disclosure Management Approach (DMA)	65-66	✓
G4-EN31	Total environmental protection expenditures and investments by type	65-66	✓
<b>CATEGORY: SOCIAL</b>			
<b>SUB-CATEGORY: LABOR PRACTICES AND DECENT WORK</b>			
<b>Aspect: Employment</b>			
G4-DMA	Disclosure Management Approach (DMA)	124	
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G4-LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation	132	
<b>Aspect: Labor/Management Relations</b>			
G4-DMA	Disclosure Management Approach (DMA)	120	
G4-LA4	Minimum notice periods regarding operational changes, including whether these are specified in collective agreements	120	
<b>Aspect: Occupational Health and Safety</b>			
G4-DMA	Disclosure Management Approach (DMA)	70-81	
G4-LA5	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs	75	✓
G4-LA6	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of workrelated fatalities, by region and by gender	82	✓
G4-LA8	Health and safety topics covered in formal agreements with trade unions	70	✓
<b>Aspect: Training and Education</b>			
G4-DMA	Disclosure Management Approach (DMA)	126-129	



Indicator	Disclosures	Page	External Assurance
G4-LA9	Average hours of training per year per employee by gender, and by employee category	127	
G4-LA10	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	129	
G4-LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	123, 129	
<b>Aspect: Diversity and Equal Opportunity</b>			
G4-DMA	Disclosure Management Approach (DMA)	121	
G4-LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity	123	
<b>Aspect: Equal Remuneration for Women and Men</b>			
G4-DMA	Disclosure Management Approach (DMA)	123	
G4-LA13	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation	122	
<b>Aspect: Supplier Assessment for Labor Practices</b>			
G4-DMA	Disclosure Management Approach (DMA)	34	
G4-LA14	Percentage of new suppliers that were screened using labor practices criteria	34	
<b>SUB-CATEGORY: HUMAN RIGHTS</b>			
<b>Aspect: Investment</b>			
G4-DMA	Disclosure Management Approach (DMA)	136	
G4-HR2	Total hours of employee training on human rights policies or procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained	136	
<b>Aspect: Freedom of Association and Collective Bargaining</b>			
G4-DMA	Disclosure Management Approach (DMA)	121	
G4-HR4	Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and measures taken to support these rights	121	
<b>Aspect: Security Practices</b>			
G4-DMA	Disclosure Management Approach (DMA)	136	
G4-HR7	Percentage of security personnel trained in the organization's human rights policies or procedures that are relevant to operations	136	

Indicator	Disclosures	Page	External Assurance
<b>Aspect: Supplier Human Rights Assessment</b>			
G4-DMA	Disclosure Management Approach (DMA)	34	
G4-HR10	Percentage of new suppliers that were screened using human rights criteria	34	
<b>SUB-CATEGORY: SOCIETY</b>			
<b>Aspect: Local Communities</b>			
G4-DMA	Disclosure Management Approach (DMA)	92-94	✓
G4-SO1	Percentage of operations with implemented local community engagement, impact assessments, and development programs	92-95, 111	✓
<b>Aspect: Anti-corruption</b>			
G4-DMA	Disclosure Management Approach (DMA)	137	
G4-SO3	Total number and percentage of operations assessed for risks related to corruption and the significant risks identified	136,157	
G4-SO4	Communication and training on anti-corruption policies and procedures	136, 157	
G4-SO5	Confirmed incidents of corruption and actions taken	136	
<b>Aspect: Product and Service Labeling</b>			
G4-DMA	Disclosure Management Approach (DMA)	142-146	
G4-PR3	Type of product and service information required by the organization's procedures for product and service information and labeling, and percentage of significant product and service categories subject to such information requirements	142	
G4-PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes	142	
G4-PR5	Results of surveys measuring customer satisfaction	145	
<b>Aspect: Marketing Communications</b>			
G4-DMA	Disclosure Management Approach (DMA)	144	
G4-PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing and sponsorship, by type of outcomes communications, including advertising, promotion.	144	
<b>Aspect: Customer Privacy</b>			
G4-DMA	Disclosure Management Approach (DMA)	144	
G4-PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	144	

# 2013

SUSTAINABILITY REPORT



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