

## transforming for sustainability



transforming



# for Sustainability

Throughout 2011, the gas industry experienced a significant change in paradigm and in the regulatory environment in which it operates as a result of the changing national and global economic conditions. In order to face these changes, PGN has conducted changes to its business scheme, transforming itself to become an integrated natural gas and supply business by entering upstream, midstream (infrastructure and transportation), and downstream industries part of the process.

The process of transformation that has been conducted to face these changes will lead the Company to achieve PGN vision 2020 to become a world-class gas company. In addition, this transformation will ensure that PGN is enabled to achieve sustainable development. A high level of carbon dioxide emissions resulting from the use of fossil fuels is currently the greatest threat to the achievement of sustainable development.

Sustainable development is intended to meet the needs of the current generation without sacrificing the ability of future generations to meet their own needs in the future. PGN is utilizing the momentum of change to improve the position of natural gas as an environmentally friendly fuel that is able to meet the needs of all stakeholders, including future generations.

As a State-Owned Enterprise (BUMN), with a significant proportion of the Company's stock owned by the public, the transformation being conducted by PGN is essentially intended to achieve sustainability. Sustainability has a particular strategic meaning, referring to our ability to preserve the planet for future generations so that they may live under appropriate conditions. (1.2)



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# Vision, Mission and Culture of PGN



**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 gas manufacturing business
- Developing operational, maintenance and engineering business associated with oil and gas industries
- Profiting from the Company's resources and assests 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



## ProCISE–5 PGN'S Corporate Values

### Profesionalism

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

### Continuous Improvement

Committed to continuously seek 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.





### About Natural Gas, Our Main Area of Business

"Natural gas is an environmentally friendly fuel source, the use of which may reduce carbon dioxide gas emissions."

Natural gas, also referred to as LNG, is a gaseous fossil fuel consisting primarily of methane (CH<sub>4</sub>). Methane is the lightest and shortest of all hydrocarbon chain molecules. Natural gas is derived from oil fields, natural gas fields, and from coal mines.

Natural gas is different from biogas or LPG. Biogas is a methane-enriched gas produced through the degradation of anaerobic bacteria and other organic matters in addition to fossil. Liquefied petroleum gas is the primary component in the production of propane gas (C<sub>3</sub>H<sub>8</sub>).

In addition, LPG is distributed in the form of canned gas, while natural gas is distributed through a pipe to network. Before use, natural gas must be processed to remove other gases, such as H<sub>2</sub>S, CO<sub>2</sub>, mercury, nitrogen and other materials.

The composition of distributed gas may vary depending upon its source. Natural gas is filtered in order to ensure that it reaches a level of quality that meets the needs of clients for a fuel source.

### FOSSIL FUEL EMISSION

Polutan	Natural Gas	Oil	Coal
Carbon Dioxide	117.000	164.000	208.000
Carbon Monoxide	40	33	208
Nitrogen Oxides	92	448	457
Sulfur Dioxide	1	1.122	2.591
Particulates	7	84	2.744
Mercury	0.000	0.007	0.016

Source: EIA - Gas Bumi Issue and Trend 1998



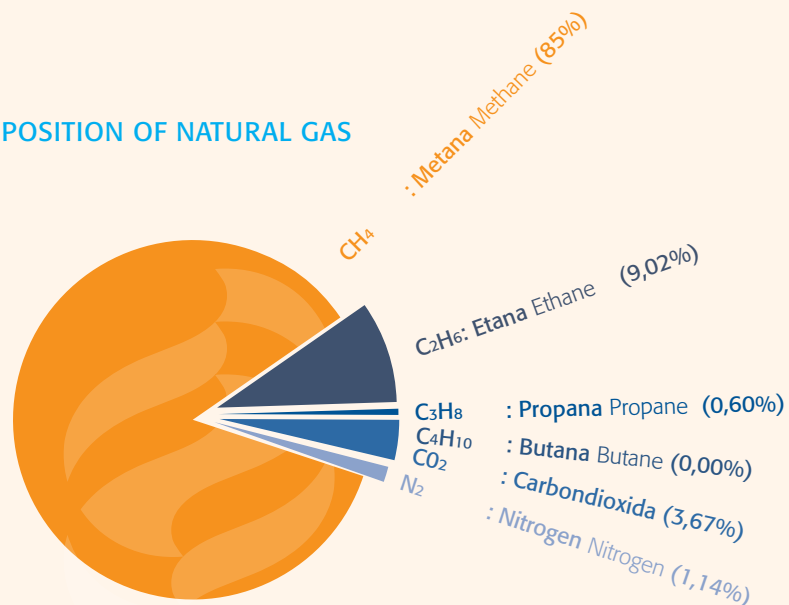
Compared to petroleum products and coal, natural gas burns more cleanly, meaning that it results in a low level of emissions. Its cleanburning character and its low level of pollutants may result in improved efficiency and reduce costs in processes related to operations and maintenance, as well as improving production processes throughout the operations of a number of our clients, including those in the ceramics, glass, and other industries.

The price of natural gas is relatively low and stable compared to that of petroleum products. With the increased price of crude oil since 2002, the abolition

of fuel subsidies in Indonesia since 2005, the demand for environmentally friendly fuels (Green policies), and the need to reduce production costs in order to participate in competitive free markets, the domestic demand for natural gas is increasing rapidly.

With a highly developed and ever evolving infrastructure, PGN is set to play a role as an agent of change in the provision of energy.

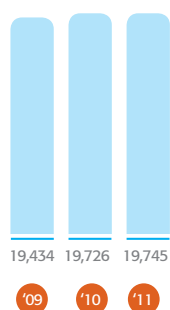
#### COMPOSITION OF NATURAL GAS



# Sustainability Performance Highlights 2011

## ECONOMIC VALUE RECEIVED AND DISTRIBUTED (Rp BILLION)

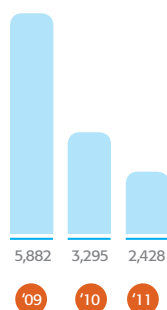
ECONOMIC VALUE RECEIVED



ECONOMIC VALUE DISTRIBUTED



ECONOMIC VALUE RETAINED

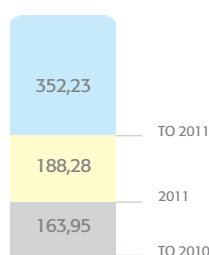


## ECONOMIC VALUE DISTRIBUTED

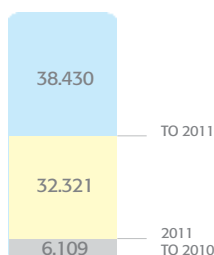
	2011	2010	2009
Supplier	10,677	9,823	9,521
Employee	1,130	873	786
Shareholders	3,839	3,743	1,242
Bank	244	372	558
Government	1,419	1,598	1,421
Community	7	23	24
Total	17,317	16,431	13,552

## PARTNERSHIP PERFORMANCE

SOFT LOAN DISTRIBUTED (Rp BILLION)

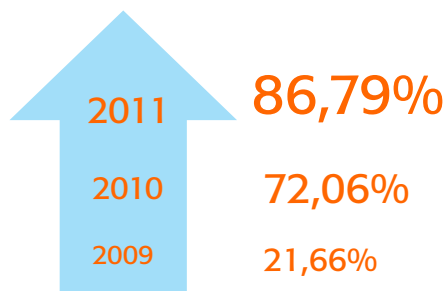


TOTAL MICRO ENTREPRENEURS

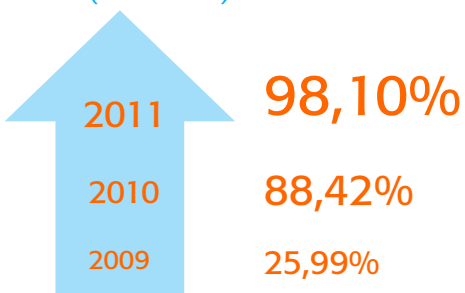




#### DEBT COLLECTIBILITY RATIO



#### SOFT LOAN DISTRIBUTED RATIO (2009-2011)



## HUMAN RESOURCES MANAGEMENT PERFORMANCE

Declaration of diversity, equality, and equal opportunity for both genders in the workplace;

Implementation of a revised Collective Work Agreement (PKB) as a means of protecting workers' rights;

No cases of child labour or forced labour;

A staff turnover rate of 0.03 percent;

Training throughout 2011: 167 programs, 4274 participants, 31,366 training days with a total expenditure of Rp22.7 billion;

Entry level wages for low-level workers at least 50 percent higher than the established Regional Minimum Wage (UMR);

No cases of infringements of human rights.

## OCCUPATIONAL SAFETY AND HEALTH PERFORMANCE

- No fatal accidents or accidents resulting in lost work time;
- Health awareness raising programs for members of staff and their families;
- Received the "Patra Nirbhaya Karya Utama" from the Ministry of Energy and Natural Resources.

## ENVIRONMENTAL PERFORMANCE

- Planting 934,638 trees, a figure of 43.79 percent higher than the established target of 650,000 trees;
- Waste management and transformation to composting five cities: Batam, Palembang, Lampung, Bogor, and Surabaya;
- A water management and transformation into freshwater on Panggang Island, Kepulauan Seribu, DKI, Jakarta;
- Establishment of a conservation and beach ecosystem community to improve the economic welfare and environmental quality in Kedawang, East Java;
- Implementation of renewable energy sources using micro hydro electric power in Tiris, Probolinggo, East Java.

## DEVELOPMENT OF INFRASTRUCTURE AND PUBLIC'S FACILITIES AND OTHER COMMUNITY ASSISTANCE

- Provided assistance to deploy 25 young teachers at schools throughout PGN'S areas of operation;

- Publication of 20 comic serial titles depicting Indonesian heroes the distribution to schools and community library and reading facilities;

- Training to improve teacher competencies or volunteer teachers at kindergartens preschools, as well as training to improve the writing skills of teachers at the junior secondary high school;

- The construction and renovation of 54 schools, of which 30 were in South Sumatra, 12 in Lampung, 11 in West Java, and one in Jakarta;

- Provision of scholarships to 1,050 students attending 14 state universities;
- The provision of assistance to construct and renovate worship and other associated facilities;

- Free health services through a hospital constructed in Sidoarjo;
- Health services for members of the community through a mobile health clinic for those returning to their home towns in holiday periods through PGN's Healthy Hometown Return Program for 2011;
- Improvements in roads and other general facilities throughout the Company's area of operations;
- The construction of sanitary facilities in economically disadvantaged areas;

- The provision of assistance for orphans and to facilitate mass wedding ceremonies;
- The provision of assistance for the purchase of four ambulances, in cooperation with an alms house;

- Assistance to survivors of the volcanic eruption in the area around Mount Bromo, East Java;
- Assistance to survivors of the earthquake in the Tarutung area, North Sumatra.



# Important Event in 2011

## 1 January 2011

Implementation of Hay-based remuneration system and refinements to the career development system, with full integration with other systems.

## 24 January 2012

Signing of the safety journey contract at the corporate, directorate and project levels.

## 29 April 2011

Establishment of the Occupational Safety and Health and Environmental Management Division (K3PL), under the direct control of the Director for Trade (Decision of the Board of Directors No.006300.K/OT.00/UT/2011 dated 29 April 2011) to fulfil functions and duties previously managed by the Occupational Safety and Health and Environmental Management Committee.

## 14 April 2011

Implementation of a PGN blood donor program as an integral part of PGN's 46th birthday.

## 22 June 2011

Assistance provided to survivors of the earthquake in Tarutung, North Sumatra, in the form of food packages, medical supplies, clothing and financial assistance to rebuild schools and places of worship.

## 24 May 2011

- Tree planting in Cinangka, Anyer, Banten in cooperation with PT Perum Perhutani (Persero);
- Renovation and official opening of renovated and constructed school buildings Bojonegara, Banten, West Java, in cooperation with PT WIKA (Persero);
- The launch of 20 comic serial books depicting Indonesian heroes in Bojonegara, Banten, West Java.

## 1 June 2011

Signing of the Collective Work Agreement (CWA) with the formal approval of the Ministry of Labor and Transmigration through Decision No 78/PHIJSKPKKAD/PKB/VI/2011 dated 13 June 2011.



## 28 July 2011

- Signing of cooperative agreement to channel soft loans to the development partnership program between PGN, with PTPN X and PTPN XI for the benefit of cane farmers and as a means to improve the productivity and the price stability of sugar;
- Signing of cooperative agreements with a state owned enterprise, PT Garam (Persero), to conduct the development partnership program for the benefit of salt farmers as a means to improve national salt production;
- Signing of a cooperative agreement with PT Sang Hyang Seri and PT Pertani (Persero) for the benefit of rice farmers and as a means to promote the Corporate-based Increased Food Productivity Program (GP3K);
- Signing of a cooperative agreement with the Badan Amil Zakat Nasional (Baznas) to build a hospital to provide free medical services as a manifestation of PGN's commitment to disadvantaged members of the community in Sidoarjo, East Java;
- Signing of a cooperative agreement with CV Mittran Mitra Mandiri for the development of an integrated waste disposal plan to transform waste into compost in five cities: Batam, Palembang, Lampung, Bogor, and Surabaya.



## 20 October 2011

Channelling of soft loans to the Cattle and Fish Husbandry Cluster in Lampung.





### 23 October 2011

Launch of PGN's new log of as a corporate branding exercise, with the new tagline: "Energy for Life."

### 14 December 2011

Launch of the village development by PGN and the development of a community library in the village of Pagardewa, Lubai, Muara Enim, South Sumatera.



### 25 October 2011

Holding of the first bipartate meeting with the Supreme Consultative Council as a means of reinforcing harmonious relationship, dynamic and fair to the workers.



### 23 December 2011

Establishment of Craft Persons Cluster in Yogyakarta and the Chili and Papaya Farmers Cluster in Magelang.



### 21 December 2011

Entered into cooperative agreement with PT Energi Manajemen Indonesia for the transformation of seawater into freshwater through a program to install drinking water facilities on Panggang Island, Kepulauan Seribu.



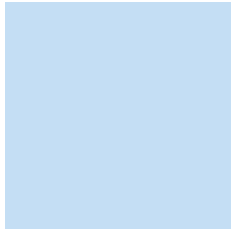
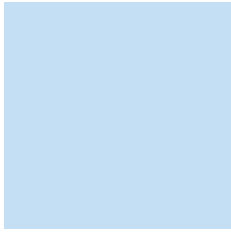
### 24 November 2011

Promulgation of a Safety Health and Environment (SHE) as part of the Company's transformation into a world-class company on International SHE Day in 2011.

### 29 December 2011

Establishment of cooperative endeavour with Baznas for the collection and distribution of alms for charitable and spiritual purposes.

# Award Won in 2011 (2.10)

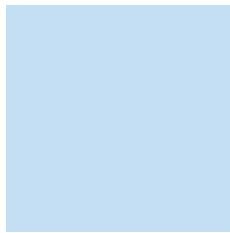
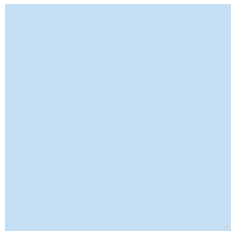
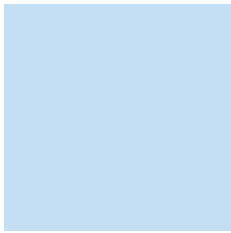
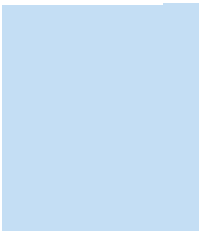
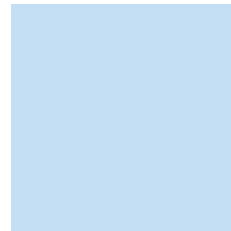
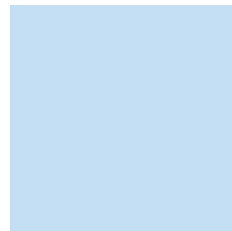
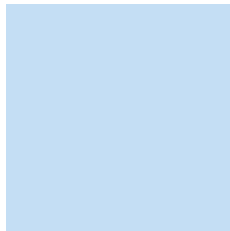


## Charta Peduli Indonesia 2011

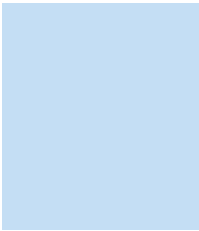
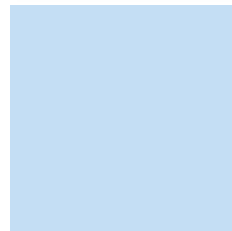
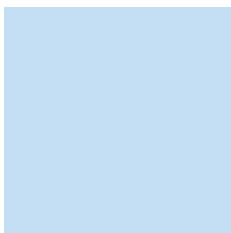
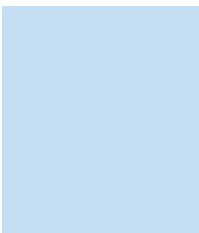
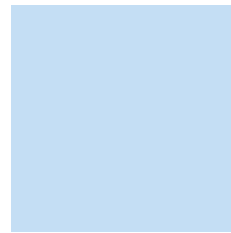
Top CSR in Agriculture  
Development Program,  
Dompet Dhuafa;



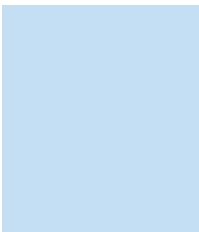
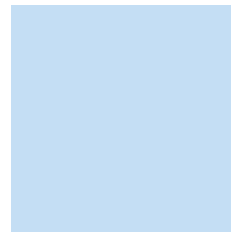
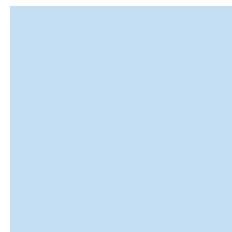
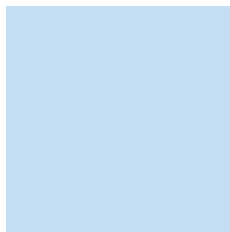
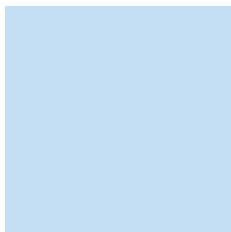
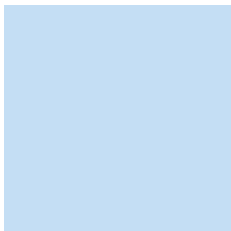
The Indonesian  
Museum of Records  
(MURI) granted an  
award for the Company's  
development of an  
educational comic book  
series depicting Indonesian  
heroes on 24 May 2011



Third Prize in the Indonesia  
Sustainability Reporting  
Awards (ISRA) 2010  
by the National Center for  
Sustainability Reporting  
(NCSR) in 2011



Award for  
Educational  
Commitment 2011  
"Seeds of Achievement"  
in the State-Owned  
Enterprise/CSR Category  
on 12 December 2011  
by the Minister for  
Education and Culture,  
Prof. Dr. Ir. Moh. Nuh,  
DEA;







The Patra  
Nirbhaya Karya  
Utama Award,  
an award for Zero  
Accidents in the  
Workplace, granted  
by the Ministry for  
Energy and Natural  
Resources;



An extension  
certificate for the ISO  
9001:2008 Quality  
Management System  
standard granted by  
LRQA and valid until  
2015.



CSR Award  
2011, Newspapers  
Seputar Indonesia,  
30 March 2011

# About This Report

transforming towards a greater  
transparency and accountability



## GRI G3.1

Reporting  
Guidelines  
Used

## A

GRI  
Application  
Levels

[About This Report](#)

Report from Board of Commissioners  
Report from Board of Directors  
Caring for the Planet Together with the Community  
Growing Together with the Community  
PGN Spreads Prosperity

Human Resource Development  
Prioritising Occupational Safety and Health  
Sustainability Governance  
About PGN  
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Welcome to PGN's 2011 Sustainability Report. This is the third annual sustainability report since the Company's first sustainability report was published in 2009. Through this report, we present information related to the Company's economic, environmental and social performances throughout 2011 for the benefit of all our stakeholders.

Amongst other purposes, this report is a fulfilment of our obligation to report on the implementation of PGN's Social and Environmental Responsibility (SER), as defined by section 66, paragraph 2c, Law Number 40, year 2007 concerning Limited Liability Companies. A portion of the material presented in this report was also included in PGN's Annual Report for 2011.

Environmental and Social Responsibility is a term synonymous with Corporate Social Responsibility (CSR) in its broadest interpretation, as defined in Section 1 of the legislation cited above. This section states that: "Social and Environmental Responsibility refers to a company's commitment to playing a role in sustainable economic development intended to improve the quality of life and to foster the development of an environment that benefits the Company itself, the community amongst which it operates, and the general community overall."

In line with this definition of SER, this Report contains complete information regarding PGN's performance in terms of its economic impact, environmental impact, workplace practices, human rights, community development, and product responsibility. This report has been prepared in accordance with international reporting standards, the Sustainability Reporting Guidelines version 3.1, published by the Global Reporting Initiative (GRI), which is based in Amsterdam, the Netherlands.

We hope to continue to improve PGN's Sustainability Reports into the future in order to meet the needs and expectations of all users of the report and other stakeholders. In order to achieve this, we invite readers to submit suggestions and feedback to enable us to improve our Sustainability Report for future years.

## About This Report

### Contact Details (3.4)

To submit inputs or questions regarding this report, please contact:  
Head of Corporate Communications Division

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**F** +633-3080  
**E** [contact.center@pgn.co.id](mailto:contact.center@pgn.co.id)  
[www.pgn.co.id](http://www.pgn.co.id)

### Reporting Period (3.1, 3.2, 3.3)

Together with the Company's annual report, in order to present a clear picture to facilitate the evaluation of management's performance on an annual basis, we prepare and publish a Sustainability Report each year. This report covers the period from January 1, 2011 to December 31, 2011. The last report prior to this one, which covered 2010, was published in April 2011.

### Selection of the Contents of This Report (3.5)

The selection of the topics and the determination of the contents of this report are based on consideration of material issues, particularly issues which may have a significant impact on stakeholders in the decision-making process. This is intended to meet the expectations of investors regarding the contents of the report. GRI Indicators G3.1 used in this report relate to issues considered to be of material significance and relevant to the conduct of PGN's operations.

A number of GRI Indicators G3.1 are not addressed in this report because they are considered not to be of material significance and not relevant to the conduct of PGN's operations. In addition, some GRI Indicators G3.1 are not addressed because the relevant data was not available. Management will endeavour to ensure that future reports address these areas, as part of ongoing improvements to our systems and procedures to achieve full compliance with GRI G3.1 standards.

On the basis of input from investors and other stakeholders, in the selection of material for this Report, priority has been given to issues related to sustainability, which relates, amongst other matters, to PGN's endeavours to deal with climate change, to foster community economic empowerment, to facilitate improvements to the quality of life of the communities amongst which it operates, to facilitate improvements to community health and educational facilities, and to provide material assistance to the victims of natural disasters.

In addition, we also include material related to the Company's day-to-day internal operations, with these topics being addressed as a manifestation of PGN's commitment to the fulfilment of its commitment to transparency in issues related to environmental, health, workplace safety, human resources management and sustainability governance.

On the basis of the priorities established above, we hope that this Report meets the needs of investors and other stakeholders and provides them with a firm basis on which to make decisions related to their engagement with the Company.

### Boundary Report and Data Measurement Methodology (3.6 to 3.9)

The data and information contained presented in this report relate solely to the performance in terms of

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sustainability of PGN as a holding company, and does not cover the performance of its subsidiary companies in these terms.

Financial data and information contained in this report, such as that related to received and distributed economic value (see EC 1), includes material related to subsidiary companies prepared on the basis of the equity method. Quantitative data presented in this report has been prepared on the principle of comparability, covering a period of at least two consecutive years, enabling readers of the report to conduct an analysis of year-to-year trends.

The methodology by which financial data has been measured adheres to the accounting standards applicable in Indonesia. Non-financial data and data related to sustainability have been measured on the basis of international standards. Thus, terms such as gigajoule are used to measure energy usage, and so on.

#### Changes in the Report from the Previous Year (3.10, 3.11)

We have adopted new standards for the preparation of the report this year, adopting new standards published by GRI. In the previous year, we endeavoured to achieve compliance with the GRI G3.0, while this year, this report is based on the GRI G3 .1 standard.

In order to achieve this, data presented in previous years has in some cases been reclassified in order to achieve compliance with the new standards, such as in the case of workplace practices, in which the presentation of gender data is now required. This reclassification should not have a significant impact on the use of this report as a basis for decision making.

In the period of this report, no fundamental changes have been made to PGN's business structure. Similarly, no fundamental changes have occurred since the period



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of the last report in matters related to boundaries, scope or technical measurements, other than the adoption of the GRI G3.1 standard in 2011 to replace the GRI G3.0 standard used in previous years.

**GRI Application Level and Index (3.12)**

As stated previously, this report has been prepared on the basis of the GRI G3.1 standard. According to the GRI Application Level System, sustainability reports can be classified according to 3 (three) levels, these being Levels C, B, and A.

The various levels indicate the degree to which a given report includes the sustainability indicators mandated by the GRI guidelines.

In terms of this system, we can declare that this report has fulfilled the criteria for a "Level A" report as defined by the application level systems promulgated by GRI. This statement has been checked and confirmed by the National Center for Sustainability Reporting (NCSR), as can be seen in the Statement GRI Application Level Checked section on page 104 of this report.

In order to enable readers of this report to determine which GRI indicators have been applied in this report, we have included a reference to the appropriate GRI indicator **in brackets in red text**, in each relevant section. A complete list of these GRI indicators are presented on page 105 of this report.

**Assurance (3.13)**

As of 2011, the Company has not yet appointed an external independent assurer to assure PGN's Sustainability Report. In order to improve the quality and reliability of data related to sustainability, we plan to appoint such an external independent assurer for the PGN's sustainability reports in future years.

# Report From the Board of Commissioners (1.1)



Dear Respected Stakeholders,

Climate change is a global issue that must be overcome through cooperative, synergistic means. As an archipelagic nation, Indonesia is particularly susceptible to the negative impacts of climate change, which may cause or exacerbate a number of natural disasters, including floods, landslides, drought, tornadoes and tidal waves. The impact of climate change may be experienced directly by all members of the community, from farmers, fishing folk, and other members of rural communities to members of urban communities. In financial terms, all industries may suffer negative impacts from climate change, including PGN.

The Government has expressed its commitment to reducing greenhouse gas emissions by 26% by 2020 through its internal efforts, and by a further 15% through international efforts and market mechanisms. In light of this commitment, the Board of Commissioners would like to express its appreciation to the management of PGN in its endeavours to reduce the emission of greenhouse gases, the primary cause of climate change.

The management of PGN has retained the services of a technically qualified consultant to conduct a carbon footprint analysis as an initial step by PGN in the management of the emissions of greenhouse gases resulting from its operational activities. This voluntary initiative indicates the high priority that the management of PGN places on environmental conservation.

The establishment of measurable targets for the reduction of greenhouse gases emissions, the awareness



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of all members of staff and management at PGN, the implementation of the appropriate environmental management practices, and participation in Government programs related to the conservation of natural environment, all provide a strong foundation for the Company to achieve optimal levels of sustainability.

With PGN's prominent position in the natural gas industry and as part of the transformation through which the Company is passing, PGN will play an increasingly important and strategic role in the reduction of greenhouse gas emissions. With an increasing number of consumers using natural gas as a source of energy, the conservation of the planet may be achieved, as natural gas has a much lower level of carbon dioxide than fossil-based fuels.

In addition, the Board of Commissioners would like to express its appreciation for the other achievements of PGN's management in terms of the achievement of sustainability goals throughout 2011. The zero accident target has been successfully achieved. Government programs to improve the economic welfare of members of the community have been successfully facilitated through the Company's Partnership Program. The development of facilities and infrastructure and the provision of other assistance to improve the conditions of members of the community have been instrumental in increasing the level of acceptance of PGN by the broader community.

In the future, the successful management of sustainability issues will face a number of significant challenges arising out of ever-changing macro conditions, such as

changes in the regulatory environment and pressures resulting from the as yet unresolved global financial crisis. However, by working hard, the Board of Commissioners, together with the management of PGN, will take the appropriate steps to overcome these challenges.

Finally, the Board of Commissioners would like to state that the involvement of shareholders and the increased participation of other stakeholders will serve to encourage management to even greater achievements in terms of sustainability into the future based on sustainable management principles.

Jakarta, May 2012

BOARD OF COMMISSIONERS  
 PT PERUSAHAAN GAS NEGARA (Persero), Tbk.

President Commissioner/  
 Independent Commissioner



Tengku Nathan Machmud

Commissioner



Kiagus Ahmad Badaruddin

Commissioner



Pudja Sunasa

Independent Commissioner



Widya Purnama

# Report from the Board of Director

(1.1)



Dear Respected Stakeholders,

This year, we present our third annual Sustainability Report. Through this report, stakeholders can obtain a clear, comprehensive picture regarding the economic, environmental and social impact of PGN's operations, with these three areas comprising the three main pillars of sustainability. In addition, this report is a manifestation of our commitment to the principles of transparency and accountability.

## Our Response to Climate Change

We are strongly committed to participation in global efforts to address climate change through the implementation of the environmental policies that fully comply with current relevant government regulations and internationally accepted standards and best practice.

In 2011, we have formulated a plan to evaluate the carbon footprint from the Company's operational activities. Through this evaluation, endeavors to mitigate against the impact of the greenhouse gases emission and to implement the necessary policies to achieve related targets can be planned appropriately. The results of this carbon footprint evaluation will serve as a blueprint for the management of greenhouse gas emissions resulting from PGN's operations for the next five years.

Throughout 2011, endeavors by PGN to mitigate against the impacts of the greenhouse gases emission have included reductions in the use of electricity, increases in the use of natural gas to power electric generation facilities, reductions in official travel, a minimization of the use of paper through the implementation of the paperless office concept, and promotion of the "3R principles": reduce, reuse, recycle.



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In addition, we have achieved a number of established environmental performance targets for 2011. This year, we did not receive any complaints from members of the community or other stakeholders on matters related to PGN's environmental management. As part of our Million Trees Program, PGN facilitated the planting of 934,638 trees in a number of areas, a figure 44 percent higher than the originally planned number of 650,000 trees.

In order to facilitate the achievement of targets established by the Millennium Development Goals (MDG) program, the Government has adopted a number of strategic measures and implemented a number of policies to encourage the private sector to make a greater contribution to the achievement of these goals by 2015.

As a State-Owned Enterprise, PGN addresses such global issues through its Partnership Program, which is intended to facilitate the improvement of the economic welfare of members of the community by fostering the development of micro-enterprises. In 2011, we distributed soft loans amounting to a total value of Rp175.8 billion to 32,321 partners to expand micro-enterprises in a number of different fields, including farming, trade, animal husbandry, plantation crop cultivation, fisheries, and other areas. This program has had a significant impact on poverty reduction and on improving the economic and social conditions of members of the community.

In addition, PGN also implemented a number of programs to improve the quality and extent of educational infrastructure, to improve the quality of life of members of marginal groups, and to provide other infrastructure and facilities to improve the overall welfare of the community as a whole.

### Looking to the Future

PGN is in the middle of a process of transformation which is intended to facilitate both its growth and its ongoing sustainability. PGN will continue to formulate and implement environmentally friendly policies and to manifest its commitment to improving the social welfare of the community within which it operates.

PGN will strive to formulate and implement environmentally friendly policies and to encourage business partners and community elements to participate in programs to preserve the environment. In addition, our endeavors to improve the social and economic conditions of the community and to fulfill their aspirations will be intensified to ensure that PGN continues to play a vital community role.

We are aware that our success in the achievement of sustainability is due to the support and guidance of the Board of Commissioners and Shareholders, and that of our other stakeholders. We would like to take our opportunity to express our appreciation for all the support and guidance that these parties are provided.

We hope that PGN's performance in terms of facilitating sustainability will continue to improve into the future, thereby facilitating the achievement of ongoing sustainability into the future.

Jakarta, May 2012



Hendi Prio Santoso  
 President Director







Caring for the Planet  
Together with the  
Community



## ENVIRONMENTAL PERFORMANCE

# Caring for the Planet Together with the Community

transforming to preserve the planet



## 934,638

Trees

Planting  
Program

## 6.3

of Billion Rupiah  
Environmental  
Preservation  
Cost  
2011

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In terms of the environment, sustainability has a particular strategic meaning. In these terms, sustainability refers to capacities and commitments to preserve the planet for future generations. Sustainability will be achieved if and when the environment is conserved appropriately. To achieve this, the participation of all parties, including PGN, is required.

The most pressing environmental issue in the world at present is that of climate change. Global warming is occurring as a result of the use of fossil fuels, the use of chemicals that damage the ozone layer, and deforestation. The environmental crisis will continue to have a negative impact on humanity and on other creatures. It will also have a negative impact on the Company if environmental management is not handled well.

Climate change has a number of potential financial implications for PGN. Thus, PGN is seriously committed to conducting its operations in an environmentally friendly manner. PGN strives to reduce the negative impact of its operations on the environment through the implementation of environmentally friendly policies and by encouraging working partners and members of the community in the areas in which it operates to participate in programs to preserve the environment. (EC2)

### Our Environmental Impact

We are aware that PGN's business operations may have an impact on the environment. The most significant impact may come from the use of electrical power for offices and other facilities; the use of fossil fuels for transportation for work-related travel; and the use of paper for a number of purposes. All of these activities have an impact on the environment, raising the level of greenhouse gas emissions, or carbon emissions, into the atmosphere, which may contribute to global warming.

In addition, the use of chemicals that may impact the ozone layer, such as the freon used in air-conditioning, also has the potential to contribute to global warming. The use of water in office buildings and other facilities throughout PGN's area of operations may also have an impact on the environment if it is not managed well. Water is a vital element for the sustenance of human and other life. Thus, water resources must be utilized responsibly in order to guarantee the supply of water for future generations.



## Caring for the Planet Together with the Community

### Environmental Responsibility

As a responsible company, we are seriously committed to overcome climate change. We achieve this through a number of strategic policies intended to ensure environmental sustainability. These policies are implemented through integration into the Company's day to day operations. In addition, we also conduct other activities specifically designed to preserve the environment. We are responsible for the impact of PGN's operations on the environment and make every effort to ensure that this impact is minimized to the greatest degree possible.

Environmental policies are formulated and implemented to achieve clear targets. In order to ensure that programs are conducted in accordance with these policies and to determine the extent to which the associated targets are reached, we have assigned one work unit to engage in monitoring and evaluation, and to report their findings to management. We remain convinced that environmental management integrated with all PGN's operational activities is not just good for the planet, but will also result in reductions in the Company's operational expenses.

### PGN'S Response to Climate Change

We are aware that PGN's operational activities may have an impact on climate change, as these activities, particularly those involving the use of electric power and fossil fuels, result in carbon emissions. Although we have not conducted a comprehensive evaluation of the total volume of these carbon emissions for 2011, since 2009 we have implemented a number of strategic measures to mitigate against the impact of these carbon emissions. These measures have remained in place throughout 2011.

### Environmental Policies (EN26)

PGN's commitment to be responsible for the environment is manifested through a number of programs managed by a specific work units; Workplace Health and Safety and Environmental Management Division (K3PL) and the Social and Environmental Responsibility Division (TJSL).

As a responsible company, PGN is highly committed to conducting its operations in an environmentally friendly manner. This commitment is manifested through a number of specific policies, including the following:

- The implementation of an AMDAL (Analysis of Environmental Impact) for each new project, with this analysis involving independent external bodies;
- Implementation of a RKL (Environmental Management Plan) and an RPL (Environmental Monitoring Plan), involving routine half yearly reports to the relevant authorities;
- Measures to encourage the responsible use of electrical power by employees;
- The replacement of old machinery with new, energy-saving technology;
- Encouraging employees to implement paperless work practices.

### Our Activities

All work units are required to implement environmentally friendly practices throughout their operations. At the time of the preparation of this report, PGN was in the process of implementing a study to determine the Company's carbon footprint. The results of this study will be used as the basis for the determination of policies and the formulation of the appropriate solutions to reduce PGN's carbon dioxide (CO<sub>2</sub>) emissions. The implementation of the carbon footprint study is being conducted by independent, external assessors.

At the same time, through its Environmental Management Programs and its Corporate Social Responsibility Programs, PGN is conducting a number of activities intended to facilitate the preservation of the environment, with funding for these programs are amounting to a total of Rp 6.3 billion. In 2011, these activities included the following:

- Increasing the quality of the environment and improving forest coverage in order to conserve protected forests and community use forests to activities conducted in cooperation with PT Perhutani

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(Persero), IPB, Brawijaya University and the Forestry Agencies in Lampung and South Sumatra. Through this program, in 2011, PGN facilitated the planting of 934,638 trees, a figure 43.79 percent higher than the established target of 650,000 trees;

- Implementing an integrated waste management program, specifically involving the management of waste to serve as compost, as recommended by policies promulgated by the Ministry for the Environment. In 2011, this program was implemented in cooperation with local government agencies in five cities, including Batam, Palembang, Lampung, Bogor, and Surabaya;
- Transforming seawater into freshwater through participation in the Available Drinking Water Installation program on the island of Panggang, in the Thousand Island Archipelago in cooperation with PT Energi Manajemen Indonesia (Persero);
- Establishing a maritime ecosystem and conservation community to facilitate increased incomes and an improved environment in the Kedawang region;
- Providing renewable energy for village communities through micro-hydro electric power generating technologies in cooperation with the University of Brawijaya.

These activities are intended to have a positive impact on the environment and a manifestation of PGN's commitment to contribute the preservation of the natural environment and to reduce global warming and climate change. Through these programs, it is hoped that employees and members of the community will become increasingly aware of the importance of environmental preservation.

In 2011, the total expenditure on these environmental protection activities amounted to Rp 1.89 billion, with these funds being spent on the preparation of documents and reports related to environmental management and monitoring. (EN30)

PGN's primary activity involves the transmission and distribution of natural gas from suppliers to end users. Before natural gas is distributed, it is processed to ensure that it meets the required environmental specifications.

PGN's business is conducted on the basis of the utilization of natural resources. Thus, PGN is seriously committed to manage the environment wisely and responsibly. As a manifestation of this, PGN is seriously committed to achieve full compliance with relevant regulations governing environmental management, including Law Number 32, 2009 concerning Environmental Management and Protection.

As a manifestation of this commitment, all operational activities conducted by PGN are required to pay attention to the stipulations of the relevant AMDAL document and the Environmental Management Actions and Environmental Monitoring Actions documents. In this manner, PGN is able to anticipate negative impacts and to conduct meaningful evaluations to find alternative solutions to manage these impacts.

### Energy Used and Conservation (EN3, EN5, EN7)

Natural gas is a nonrenewable energy. Natural gas is used to power turbine generators in stations located in Sumatra. The total volume of natural gas used to power these turbine generators in 2011 was 621,965 MMBTU, representing a reduction of 21 percent compared to the volume of 771,498 MMBTU utilized in 2010.

The fuel utilized to produce energy for direct use by PGN is derived from natural gas, which is used to power turbine compressors, so that gaps in the pipes transmission network can flow to the installations of end users. In addition, turbine compressors function as an electric generator sets at compressor stations.

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The total consumption of fossil-based fuels throughout 2011 was 415,633 kiloliters, of which 16,971 kiloliters were solar fuel, while 398,622 kiloliters were diesel fuel. This represents a decline of the volume consumed in 2010, when the total volume stood at 810,869 kiloliters (59,759 kiloliters of solar fuel, 108,996 kiloliters of diesel oil, and 642,114 kiloliters of petrol). (EN3)

In addition, indirect energy included electric power. The need for electric power is supplied by PT Perusahaan Listrik Negara (Persero). The total usage of electric power throughout 2011 was 5,476,134 kWh, equivalent to 19,714 GJ, a reduction over the usage in 2010, when the total stood at 8 million in 22,622 kwh, equivalent to 28,881 GJ. (EN4)

As a company that operates mainly in the supply and transmission of energy, PGN is also obliged to ensure the effective and optimal use of energy throughout its own operations. During the period covered by this report, the Company has conducted a number of measures to improve the efficiency of and reduce energy usage. Measures to achieve reductions in the use of energy throughout the period of this report include the following:

1. Using energy-efficient lighting;
2. Limiting official, business-related travel in line with business priorities;
3. Using information technology facilities to conduct communications and meetings (teleconferences).

### Water Consumption

PGN's water consumption is limited primarily to its use as a cooling medium in its compressor pumps in the process producing natural gas. In addition, it is used for domestic purposes throughout the Company's offices and working units.

The total volume of water consumed throughout the Company's operations in 2011 was 82,437 m<sup>3</sup>, the entire supply of which was provided by locally-based

water supply companies. None of the water used in these operations was derived from groundwater.

However, throughout the period of this report, PGN had a number of pump units that were deployed in cases when supplies from the water companies were disrupted. (EN8)

The Company is fully aware of the importance of preserving supplies of groundwater. Thus, PGN's head office has been designed on the basis of a high open green space coefficient, which implies that it has a wide area open green space. This means that the area occupied by PGN's head offices can serve as a water catchment area, for which purpose it is equipped with biopore infiltration holes. This helps to preserve the condition of the water table, and there have been no complaints from either the surrounding community or the local authorities related to reduce ground water levels. (EN9)

PGN utilizes a number of wastewater management installations, which are used to recycle water. PGN's head office is equipped with simple recycling facilities that use a carbon filtration technology.

With these facilities, wastewater utilized for sanitary and other domestic purposes is processed and recycled for limited uses, such as the washing of operational vehicles and the watering plants. The total volume of recycled domestic water in 2011 was 4227 m<sup>3</sup>. (EN10)

Water used for cooling compressors operates on the basis of a closed loop system. This means the water that has been used for cooling processes is channeled into reservoirs where it remains until it has cooled to normal temperatures, after which it is again channeled for use in the cooling of compressors. In this fashion, no water used for cooling is disposed of through waste channels or into existing bodies of water. (EN10)



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## Caring for the Planet Together with the Community



### Biodiversity

For the development of its natural gas facilities and its transmission network, the Company implements policies to avoid protected forests and other areas with a high biodiversity value. However, despite these policies, under certain conditions it is not possible for PGN to entirely avoid crossing such protected forests or other areas with a high biodiversity value. In such cases, the issue is addressed by establishing the simplest, shortest route to minimize any negative impacts on the biodiversity of the given area. (EN14)

Throughout the period of this report, PGN did not engage in the construction of transmission facilities passing through all located in protected forests zones. PGN also strove to avoid all areas with a high biodiversity value. (EN11)

In general, pipes transmission facilities do not pass through and not located in protected forests zones. With its awareness of the importance of biodiversity, PGN is strongly committed to rehabilitate forests zones in

the areas through which its piped transmission network passes after this network has been installed. Amongst other rehabilitation endeavors, this involves reforestation programs. In 2011, a total of 934,638 trees were planted in areas in and around Serang, Bogor, Pasuruan, Bekasi, Jakarta, Pagardewa, Palembang and Banyu Asin. The main tree types to be planted through these programs include Jabon, Sengon, Mangrove, and various fruit trees. (EN12)

### Carbon and Other Gas Emissions (EN16, EN17, EN18, EN19)

Carbon emissions come from two main sources, from operational generating machinery and from operational vehicles. Both of these activities result in the direct commission of carbon dioxide, which is classified as a greenhouse gas.

Taking into consideration fossil fuels used to power the operational generating machinery and the operational vehicles rented from partner companies or vendors, the total volume of fossil fuels consumed in 2011 stood at 415,593 kiloliters.



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Another potential source of carbon dioxide emissions is from the use of electric equipment. However, the Company has not yet conducted a full calculation to determine the volume of carbon dioxide emissions resulting from the use of such electric equipment.

Greenhouse gases have a significant impact on global warming. In addition to calculate the total volume of carbon dioxide emissions resulting from its operations, PGN also conduct a number of endeavors in cooperation with other parties to reduce the release of carbon dioxide into the atmosphere. During the period of this report, such endeavors to reduce carbon dioxide emissions included the following: (EN18)

1. emission testing for operational vehicles to determine that the level of emissions from such vehicles complies with limits established by the government;
2. participation in reforestation and/or revegetation programs to absorb carbon dioxide in the field;
3. limitations on the use of electronic equipment such as computers during office hours.

Other relevant indirect greenhouse gas emissions that may also have an impact on global warming include chlorofluorocarbon or CFC. Once it is released into the air, CFC particles are transformed to become free radicals that can damage the ozone layer. This may result in the thinning of the ozone layer to the point where it is no longer able to prevent the penetration of solar rays.

The emission of CFCs from PGN's operations are usually the result of the use of air conditioners, freezers and other similar equipment. In light of the possible consequences of the emission of CFC into the atmosphere, the Company is striving to develop the use of natural gas from its internal networks as an alternative to CFC-based substances.

Throughout 2010, the use of natural gas and cooling systems has been tested in the PGN SBU II buildings located in Surabaya, East Java. With the results of this test being positive, natural gas will also be used as a chiller in the Gedung Graha PGAS. The use of natural gas as a chiller will make it possible for the Company to avoid the use of CFC-based substances in a number of cooling systems throughout its operations. (EN19)

PGN also pays attention to the emissions of other gases that may directly affect human health. Such gases include sulfur oxide (SO<sub>x</sub>), nitrogen oxide (NO<sub>x</sub>), and various others. The Company periodically conducts evaluations to determine the quality of ambient air in a number of its facilities. (EN20)

The results of such monitoring and measurements show that the level of emissions of such gases is within acceptable limits as defined by current laws and regulations governing such matters.

#### **Waste Management (EN21,EN22,EN24,EN25)**

Wastewater produced by PGN is derived from domestic usages, with such wastewater being treated for use in watering plants or washing operational vehicles. The Company has not yet specifically calculated the total volume of treated wastewater which is returned to open bodies of water, including those located around its head office and its other operational facilities.

However, it is clear that the quality of treated wastewater that is returned to these bodies of water is within acceptable limits as defined by current government regulation. This statement is supported by the fact that there have been no reports or complaints from community members or sanctions implemented by the authorities in relation to negative impacts on biodiversity in these bodies of water.

## Caring for the Planet Together with the Community

PGN has implemented a number of procedures to tightly monitor the disposal and use of fossil fuels, lubricants and other dangerous chemicals including toxic and dangerous waste products.

These tight procedures are intended to prevent spills and other incidents that might result in environmental damage. Throughout the period of this report, there have been no reports of spills of fossil-based fuels, lubricants or other dangerous chemicals throughout the area of the Company's operations. (EN23)

PGN never intentionally introduces dangerous waste products into its area of operations. However, in its management of such dangerous waste products, the Company assigns a third-party operator to manage and/or recycle these materials to third parties with the appropriate licenses issued by the Ministry for the Environment.

PGN is directly responsible for the process of temporary storage of dangerous waste materials in specially prepared locations. The storage system is supported by the use of a manifest and by the preparation of specially marked, sealed storage spaces. The transportation of such materials to the point where they are processed is assigned to responsible third parties under tight supervision.

PGN's primary product is natural gas, which is transmitted through distribution networks to end users. Thus, no use of packaging is required in the conduct of its operations. (EN27)

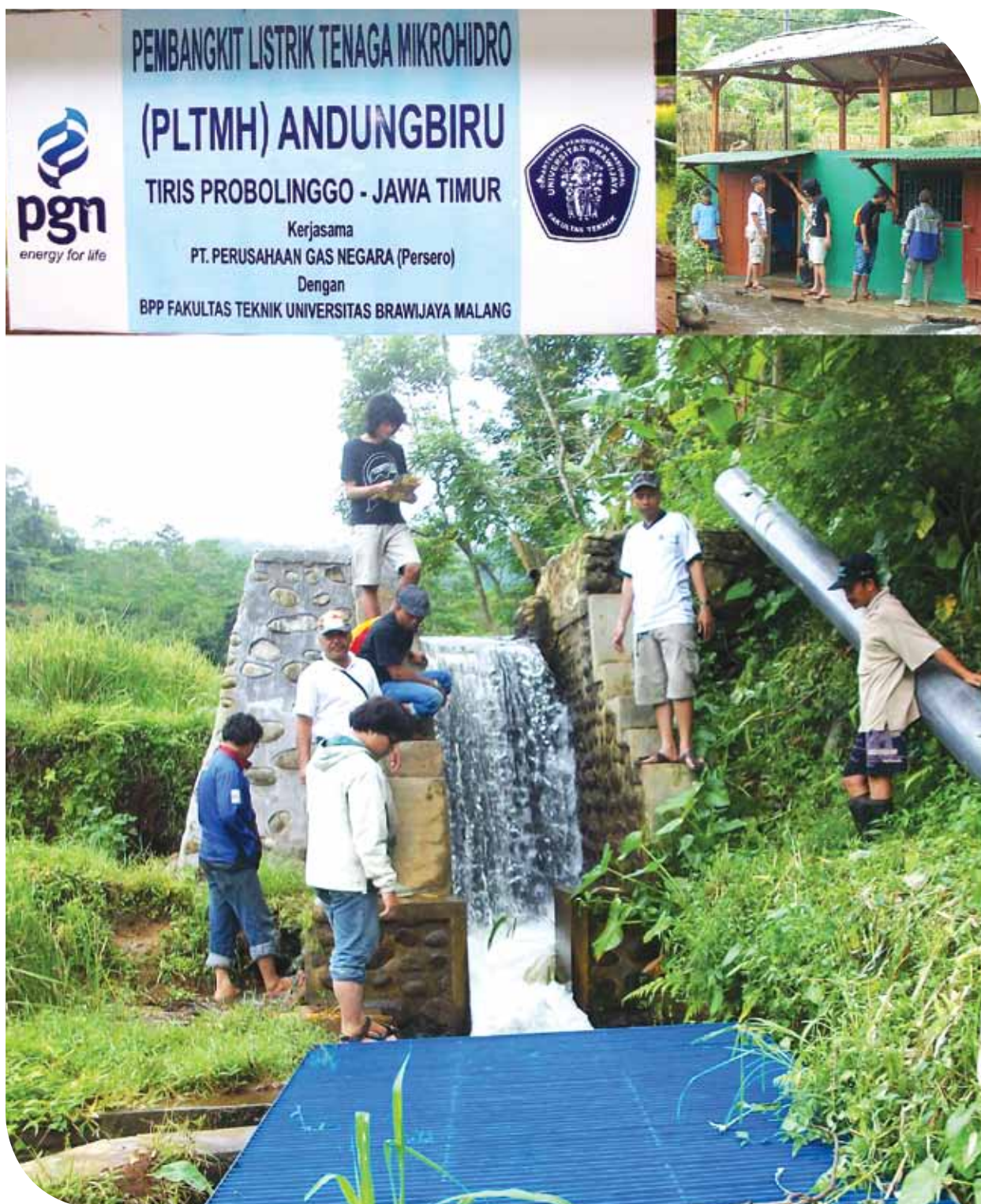
PGN does not specifically deploy vehicles for transportation and distribution of natural gas, although under certain conditions vehicles may be used for that purpose under tight supervision. The main use of vehicles is to support operational activities, both in the area of the Company's operations and at its head office and other facilities. The main impact from the use of operational vehicles is the emission of exhaust gases which include carbon dioxide. A complete description of these carbon dioxide emissions is contained in another section of this report. (EN29)

### Compliance and Environmental Expenditure

PGN's strong commitment to environmental preservation is also indicated by its high level of compliance with current laws and regulations related to the management of the living environment. In 2011, the Company was not subject to fines or other legal sanctions related to infringements of laws and regulations related to such matters. (EN28)

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with the Community



## ECONOMIC PERFORMANCE

# Growing Together with the Community

transforming to increase  
economic growth

## 19.75

Trillion of Rupiah

Total Economic  
Value  
Generated  
2011

## 17.32

Trillion Rupiah

Total Economic  
Value  
Distributed  
2011



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From the economic dimension, sustainability targets are intended to improve the economic conditions of stakeholders, to foster local economic growth, and to contribute to the national economic. PGN is strongly committed to achieve its targets and to play a role in facilitating these larger goals through the implementation of measures to promote growth within the Company and through the formulation and implementation of programs to develop the national and local economics.

#### **Economic Value Generated and Distributed (EC1)**

The key to facilitate the achievement of these targets is the revenue and net profits generated by the Company. The greater the revenues generated by the Company, the greater the economic value it can create for its stakeholders. The higher the profits generated by the Company, the greater is its ability to provide funding for community empowerment programs. Thus, to achieve this target, stakeholders must work together with management to promote the growth of the Company.

The table below graphically depicts economic value received and for the benefit of consumers. The table shows clearly that significant economic value flows to stakeholder groups, which consist of working partners, members of staff, shareholders, creditors, governments, agencies, and the broader community. The table provides a picture that shows the extent of the added value created by PGN to the national economic through its multiplier effect.

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### DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTED (EC1)

(in millions of Rp)

	2011	2010	2009
Direct economic value generated			
Revenues:	19,567,407	19,765,716	18,024,279
Interest income	307,175	248,716	160,066
Gain (Loss) on foreign exchange	(239,493)	(368,690)	1,244,544
Other income	110,159	80,641	5,387
Total direct economic value generated	19,745,249	19,726,383	19,434,276
Economic value distributed:			
Operating costs	10,676,895	9,823,383	9,520,555
Employee wages and benefits:			
- Operation department	402,234	259,099	260,099
- Administration department	727,765	613,463	525,938
Total employee wages and benefits	1,130,000	872,562	786,037
Payment to providers of capital:			
- Dividend payment	3,839,267	3,742,603	1,242,397
- Interest payment	243,930	371,632	558,262
Total payment to providers of capital:	4,083,198	4,114,235	1,800,659
Payment to government	1,419,496	1,597,981	1,420,815
Community investments	7,483	22,723	24,002
Total Economic value distributed	17,317,072	16,430,884	13,552,068
Economic value retained	2,428,177	3,295,499	5,882,208

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### Indirect Impact of PGN's Business on the Economy (EC9)

From the table showing economic value received and distributed, it can be concluded that PGN's business provides a strong positive indirect impact on Indonesia's economy. In addition, because the price of natural gas is relatively stable compared to the price of fossil fuels, which have been increasing significantly, PGN's business create stability for the Indonesian national economy.

The construction of PGN's pipes transmission and distribution network and the construction of receiving stations the natural gas, together with the transportation of liquid natural gas, has a multiplier effect that can generate significant economic benefits for the national economy.

In addition to paying out dividends, PGN also contributes to the nation through its payment of taxes, royalties and other dues. PGN's indirect contribution to the state has a positive effect both on national and regional economic growth.

The gas sector is relatively environmentally friendly and offers products at stable prices, is well positioned to attract investors to provide capital to stimulate economic growth through its multiplier effect, by means such as creating employment opportunities, increasing the circulation of cash, and promoting increased consumption and community investment.

### Partnership Program

To achieve specific targets towards the fulfillment of the Millennium Development Goals (MDG's), the government has adopted a number of strategic measures and developed a number of policies, including encouraging the business sector to make a contribution towards the achievement of the 2015 MDG's.

PGN has followed up on these global issues through its Partnership Program, which is intended to foster the economic growth and independence of the community. The Partnership Program is an integral part of the Community Development and Partnership Program, with a specific goal of developing the economy at the community level, particularly amongst communities in the areas of operations of PGN, and to foster the independence of its members. In essence, this program is operated together with government programs to reduce poverty.

To fund the Partnership Program, a portion from the government's share of net profits is set aside, the value and terms of which are decided at the AGMS. These funds are used to provide soft loan facilities to micro-entrepreneurs who fulfill certain criteria, who are referred to as Development Partners. These Development Partners are obliged to make monthly repayments on these low interest loans. Our Partnership Program has had a significant impact on the development of the community by providing support to expand micro-enterprises.

In 2011, a total of Rp 188.27 billion in funds was distributed through the Partnership Program, with an effectiveness rate in 2011 of 96%, an increase of 8% over the figure of 88% recorded in 2010. The number of Development Partners increased dramatically, by 529% compared to the number in 2010. In 2010, the number stood at only 6,109 Development Partners, while by 2011, this number had grown to 38,430. Development partners engage in a range of different businesses, which can be divided into a number of broad groups, including animal husbandry, agriculture, plantation crops and creative industry. Assistance takes the forms of loans and capacity building or conditional grants and promotional activities.



## Growing Together with the Community

Not only do we provide loans to our Development Partners, we also conduct a number of capacity building activities to improve their skills and their level of independence.

In order to ensure the stability of supplies and prices of agricultural products on domestic markets, we engage in synergistic and cooperative endeavors with a number of other State-Owned Enterprises to implement our Partnership Program. These cooperative endeavors include the following:

- Support for the Movement of Corporate-Based Food Production Improvement (GP3K) in cooperation with PT Pertani (Persero) and PT Sang Hyang Seri (Persero). This program is intended to improve the production of rights;
- The provision of funds for producers of sugar cane in East Java in order to ensure the stability of production and price of sugar in cooperation with PTPN X (Persero) and PTPN XI (Persero);
- The provision of loans to partners to sell producers to ensure the increased production of salt at the national level in cooperation with PT Garam (Persero).

In the implementation of the Partnership Program in 2011, we have established clusters of micro enterprises to facilitate the provision of capacity building, coordination and communication with our Development Partners, and to enable better monitoring. These clusters include the following:

- The animal husbandry cluster in South Sumatra and Lampung, as a means of ensuring the supply of meat in these areas and to provide training. Activities in this cluster are conducted in cooperation with the relevant government agencies in the areas of animal husbandry and the disposal of husbandry waste;
- The weaving cluster in Garut and Majalaya, as a means of preserving weaving culture and developing weaving industry, as well as to increase the sales value of weaving products. Activities in this cluster are conducted in cooperation with Cita Tenun Indonesia;

- The silver and tin smithing cluster. Activities in this cluster are conducted in cooperation with the Yogyakarta Chamber of Commerce.

To improve the technical skills, administrative skills, marketing skills and product quality of our development partners, we provide capacity building activities for these partners in the form of financial management and marketing training, as well as sponsoring their participation in local, national, and international trade shows.

Capacity building activities for our Development Partners throughout 2011 involve the provision of training in areas such as Management of finance, marketing and motivation, goats and cattle husbandry, rice farming techniques, sugar cane cultivation techniques, and design, coloring and other skills related to weaving.

In order to market and promote our Development Partners, in 2011 we engaged in a number of activities with these partners, including a Trade Show for the Development Partners of State-Owned Enterprises, Inacraft, the Interior & Craft Trade Show (ICRA); the Indonesian Product Expo, Amman, Jordan; the Trade Expo Indonesia; the World Batik Summit; the Asia Expo, Singapore; the Inacraft Style trade show, Malaysia; and a number of other similar trade shows and industry events.

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PGN Spreads Prosperity



## SOCIAL PERFORMANCE

# PGN Spreads Prosperity

(S01, EC8)

transforming to improve the  
quality of life of the community



## 54

Schools building  
Construction/  
and Renovation

## 1,050

Students  
Were Awarded  
Scholarship

## 37,633

Peoples  
Received  
Health Care  
Services with  
Free

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As an integral part of the community, we share a portion of the economic value we create to develop infrastructure and public facilities to improve the quality of life of members of the broader community, particularly the communities in the areas surrounding PGN's operations. Such activities are funded through the Community Development and Partnership Program and through funds set aside in annual budgets to fulfill our commitment to Corporate Social Responsibility (CSR).

This program has not only had a significant positive impact on improving the social conditions and welfare of the communities that are directly involved in the program, but also on other communities. Activities funded through the program throughout 2011 involve the provision of educational facilities, health facilities, religious worship facilities and general infrastructure. In addition, the program also funded assistance for survivors of natural disasters.

### Education

In 2011, the program facilitated the following activities:

- The encouragement of community reading through the publication of 20 titles of a serial comic featuring Indonesian heroes, which was distributed to schools throughout PGN's operational areas. A community library was also established in PGN's community development village, Pagardewa, in cooperation with PT Balai Pustaka (Persero).
- The construction and/or renovation of 54 schools, involving light, medium and intensive renovation, and the construction of new classrooms in PGN's operational areas in cooperation with PT WIKA (Persero) Tbk.
- As a manifestation to its commitment to improving the quality of education in remote areas, PGN worked with Indonesia Mengajar to send 25 young teachers to remote schools throughout its operational areas.
- To improve the level of competence of teachers, PGN facilitated the provision of teacher training to volunteer teachers at kindergartens preschools. It also provided training to improve the writing skills of teachers at junior high schools.
- PGN increased the number of recipients of scholarships and the value of these scholarships to 1,050 students at 14 state universities.

## PGN Spreads Prosperity



### Religious Worship Facilities

This program is intended to encourage healthy religious practices and increased diligence in spiritual matters. Throughout 2011, we provided assistance to renovate and develop worship facilities and other supporting facilities, as well as providing other assistance for spiritual activities. In addition, through this program, support was provided to orphans, assistance was provided to conduct mass weddings and support for other activities of spiritual and religious significance.

### Health

Throughout 2011, this program facilitated the provision of assistance to improve health, including the following:

- The provision of four ambulances in cooperation with an Alms House to improve health facilities or members of the community in remote areas in which PGN operates.
- The provision of free health services for disadvantaged citizens through the building of a Health Facility in Sidoarjo in cooperation with the Baznas Foundation.

- The provision of health services for those returning to their villages in peak holiday periods through PGN's Healthy Holiday Period Returnee Program for 2011.

### General Infrastructure

Throughout 2011, the program facilitated the provision of assistance to improve general infrastructure, including the following:

- The provision of clean water to members of the community on Panggang Island, Kepulauan Seribu, through the management of seawater. This program improved the health and economic status and resulted in improved conservation of water resources, and was implemented in cooperation with PT Energi Management Indonesia (Persero).
- The provision of assistance to improve road facilities for general use throughout the area of the Company's operations.
- The provision of sanitary facilities in economically disadvantaged areas.
- The provision of assistance to build road lighting facilities based on solar power and to build community meeting facilities in PGN's community development village, Pagardewa, South Sumatra.



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Assistance for Survivors of Natural Disasters  
 Throughout 2011, the program facilitated the provision of assistance to survivors of natural disasters as a manifestation of our concern and human empathy to those afflicted, including:

- Assistance to those affected by the Mount Bromo eruption in East Java in the form of food packages, clean water facilities and water pumps
- Assistance to those affected by the earthquake in Tarutung, North Sumatra, in the form of food packages, medicine, clothing, and funding to restore schools and worship facilities as part of the post earthquake recovery process.

#### Cooperation and Synergy with Other State-Owned Enterprises and Other Institutions

##### a) PT Wika (Persero) TBK

PGN worked in synergy with this company to construct and renovate 54 schools, including 30

schools in South Sumatra, 12 schools in Lampung, 11 schools in West Java, and one school in Jakarta.

##### b) PT Balai Pustaka (Persero)

PGN worked in synergy with this company to develop a community library in the village of Pagardewa in order to encourage the habit of reading amongst members of the community through an informal community library provided with easy to read books.

##### c) Perum Perhutani

PGN worked in synergy with this company to improve environmental quality and to restore forests loans as an Endeavour to serve both protected and community use forests.

##### d) PT Energi Manajemen Indonesia

PGN worked in synergy with this company to develop a system to transform seawater into clean drinking water through the implementation of a drinking water installation program on the island of Panggang, Kepulauan Seribu.



## SUCCESS STORIES FROM THE COMMUNITY DEVELOPMENT

### Pagardewa Hall Residents



### Pagardewa Mosque



### Pagardewa Kindergarten



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## Sports Facilities



## Pagardewa

### A Village Development by PGN

At the beginning, in 2005, PGN provided assistance to build electric power facilities, sanitation facilities and freshwater facilities for the members of the community in the village of Pagardewa, Muara Enim, South Sumatra. This village is within the area of PGN's business operations.

After conducting an intensive and coordinated investigation with the local government, PGN decided to take its commitment further by reconstructing the village through its community Development Program in order to improve the quality of life of members of the community.

In 2011, PGN facilitated the reconstruction of the village by renovating or constructing the following infrastructure and general facilities:

- renovation and building of additional classrooms, together with the provision of computer and other equipment for the benefit of the Preschool (PAUD);
- the building of two new classrooms and the renovation of four existing classrooms for the 02 Primary School;
- the construction of a manager's house and community health sub-centre;
- renovation of the teacher's house to serve as a community health sub-centre and a house for the manager of the village development program, together with the provision of health equipment for the community health sub-centre;
- the construction of a mosque together with the necessary equipment (prayer mats, lighting, a sound system and a pulpit);
- the development of a community meeting hall and its provision with the necessary equipment;
- the development of a Community Library and Play Facilities;
- the construction of infrastructure such as paving, part, wastewater disposal systems and street lights.

## Puskesmas House Heads



## PGN Spreads Prosperity



### A Comic Serial: Indonesian Heroes

In addition to its village development program, PGN has launched 20 well-designed, attractive comic serial titles under the rubric "Indonesian heroes". The launching of the series was a manifestation of its commitment to the education of the community, serving to encourage children to take a greater appreciation of history by presenting it in a more interesting and attractive fashion.

PGN's endeavours in this area have been recognised by the Indonesian Museum of Records (MURI), which has praised its role as an initiator of comics that raise children's awareness of Indonesia's heroes.



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## Words from the Governor of South Sumatra

The guided development village of Pagardewa, Lubai, Muara Enim, is a manifestation of PGN's commitment to improving the economic welfare, environmental quality, and quality of life of the community and all its members.

On behalf of the Provincial Government of South Sumatra, we would like to express our deepest appreciation to PGN for their role in improving the economic welfare of the people of South Sumatra.

GOVERNOR OF SOUTH SUMATRA

The block contains a handwritten signature in black ink over a circular official seal. The seal features the Garuda Pancasila emblem in the center, with the text 'GUBERNUR' at the top and 'SUMATERA SELATAN' at the bottom. Below the signature, the name 'H. ALEX NOERDIN' is printed in a bold, sans-serif font.





## Human Resource Development



# Human Resource Development

transforming to achieve good working conditions



4,274

Employees  
Participated in  
the Training

22.7

Billion of Rupiah

Total  
Training  
Cost  
2011

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PGN regards its employees as partners in its endeavors to achieve improved performance, not only in terms of generating profits, but also in terms of improving mutual welfare (people) and ensuring the preservation of the environment (planet).

With employees forming a significant stakeholder group, the management of staff is focused on building the strengths of our high-quality, trustworthy human resources. We remain aware that its human resources is one of PGN's major competitive strengths in terms of winning market share in an increasingly competitive environment.

The "people first" strategy adopted by PGN is manifested through a commitment to significant investment, clearly explicated through the "Human Resources Roadmap", which is intended to facilitate the achievement of PGN's Vision: to be a world-class energy company in natural gas utilization.

Towards the end of 2011, a system of competency was fully integrated with the Company's operations. This system was intended to develop both soft competencies and hard competencies as the foundation for the development of employees' career paths, including the preparation of these employees for leadership positions within PGN.

#### **Labor Unions and the Collective Work Agreement (LA4)**

One of the factors in the successful management of the Company's human resources and in its endeavors to ensure the welfare of its workers is the development of healthy labor relations. In order to foster such relations, PGN has worked with union representatives throughout 2011 to formulate a new Collective Work Agreement (PKB).

The PKB has been established to replace a Corporate Regulation established on the basis of Letter of the Board of Directors No.001705.K/KP.06/UT/2009 regarding Corporate Regulations, which was effective from January 2009 until April 2011. The new PKB is intended to define and regulate the rights and obligations of employees and to provide a sound basis for their relationship with the Company.

The establishment of the PKB between PGN and its employees, represented by their trade union, is clear evidence that PGN fully supports the freedom of association, with this support based on the principle that the PGN Trade Union serves as management's partner in the achievement of corporate goals. PGN consistently strives to eliminate practices that might have a negative impact on harmonious industrial relations.

This support is also a manifestation of PGN's compliance with Regulation Number 21/2000 regarding Labor Unions, which in turn is a manifestation of the Indonesian government's commitment to compliance with the ILO Convention 87 of 1948 regarding the freedom of workers to establish representative organizations. The labor union which represents the employees of PGN is serikat pekerja PT Perusahaan Gas Negara (Persero), Tbk. or SP-PGN. This union was registered with the West Jakarta Labor Office under Registration Number 387/II/P/IX/2009 on September 19, 2009.

## Human Resource Development

The union management is spread throughout the various organizational units of PGN, and is coordinated by the central management at the PGN Head Office. PGN provides operational support to the SP-PGN in the form of facilities, funding, and dispensations to staff involved as organizers of union activities.

The successful formulation of the PKB by PGN together with the SP-PGN is a clear manifestation of the Company's commitment to developing harmonious industrial relations.

The PKB defines the rights and obligations of both the Company and its employees in a balanced fashion. The PKB is intended to:

- Provide legal certainty regarding the rights and obligations of the Company and the Employees, including working relations, working conditions, and the Company's Code of Conduct;
- To reinforce and strengthen cooperation between the Company and the Employees;
- To regulate the fair settlement of differences of opinion by ensuring that differences are settled through deliberation and consensus and do not result in disputes.

Thus, the rights of all permanent employees of PGN (100%) are protected by Corporate Regulations. Refinements to the PKB will be conducted into the future in order to provide further assurance that the rights of employees are not infringed. One revision under immediate consideration involves the need to include a clause in the PKB that guarantees that the Company will provide employees with at least one month's notice before making any fundamental changes to the structure of the Company, including such changes as acquisitions, mergers or organizational restructuring. (LA5)

### Profil of Workforce (LA1)

Total of PGN workforce in 2011 is 1,516 peoples, with the breakdown by gender and region as follow:

#### TOTAL WORKFORCE BY LEVEL

Level	2011			2010		
	Men	Women	Total	Men	Women	Total
Senior Management	54	12	66	22	5	27
Middle Management	107	26	133	24	8	32
Junior Management	350	139	489	502	209	711
Staff	646	182	828	603	148	751
Total	1,157	359	1,516	1,151	370	1,521

#### TOTAL WORKFORCE BY REGION

Region	2011			2010		
	Men	Women	Total	Men	Women	Total
Head Office	260	133	393	238	133	371
SBU Distribution Region I	389	87	476	401	89	490
SBU Distribution Region II	164	39	203	168	40	208
SBU Distribution Region III	117	38	155	114	40	154
SBU Transmission Sumatra-Jawa	149	32	181	147	34	181
PPT Project LNG	47	19	66	61	20	81
Subsidiaries	31	11	42	24	12	36
Total	1,157	359	1,516	1,153	368	1,521





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## Human Resource Development

### Diversity, Equality and Equal Opportunity (LA13)

PGN provides equal opportunities to all individuals working or serving as employees within the Company's sphere of operations. In 2011, PGN conducted a recruitment and selection process that differed from the process conducted in previous years. By the end of the period covered by this report, three recruitment and selection programs were conducted by PGN, including the following:

1. Regular Recruitment from External Sources

This recruitment and selection program was intended to facilitate the hiring of new, highly qualified employees who have graduated from universities. To assure independence and transparency, PGN conducted the selection process with the assistance of a number of independent third parties.

2. Recruitment from Non-Permanent Staff (Internal Sources)

This recruitment and selection program was intended to facilitate the hiring of new workers from amongst third-party contract workers (outsourcing) or from amongst Workers on Fixed Term Contracts. This program was intended to recognize the loyalty and contribution made by many of these workers.

3. Recruitment from Amongst National Athletes

This program was established to express the PGN support for government programs to facilitate the personal development of national athletes and to express appreciation for athletes who have served to increase Indonesia's national prestige.

A table below describing the composition profile of employees at all levels, from management to operational staff, in 2011 is included below, including a breakdown by gender. This table demonstrates PGN's commitment to respecting diversity and equality of opportunity for members of all groups.

Category	Total Workforce 2011			By Age Group/Gender (Men)			By Age Group/Gender (Women)		
	Men	Women	Total	<30	30-50	>50	<30	30-50	>50
Senior Management	54	12	66	-	23	26	-	8	4
Middle Management	107	26	133	-	89	18	-	25	1
Junior Management	350	139	489	21	306	23	13	121	5
Staff	646	182	828	299	267	80	114	64	4
Total	1,157	359	1,516	320	685	147	127	218	14

### New Employees and Staff Turnover (LA2)

In 2011, the employee recruitment process was conducted in a centralized manner, beginning with the selection of candidates in five major cities, including Jakarta, Surabaya, Medan, Palembang and Yogyakarta, and then progressing to a final selection process in Jakarta. In 2011, PGN recruited 13 new members of staff.

Over the same period, the number of members of staff who left PGN's employment stood at 43, or 0.03% of the total number of staff, which stood at 1,516 individuals.

The majority of those who left PGN's employment did so following the completion of their contracted period of employment or because they had reached retirement age.

The low employee turnover rate indicates that PGN has successfully managed to foster a good working environment. This is confirmed by the result of an employee satisfaction survey conducted in 2011, which confirmed that all of the employees were satisfy with the work condition (Employee Satisfaction Survey/ESS is 3.68 of the scale of 1-5).

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## TOTAL NUMBER and RATE OF NEW EMPLOYEE HIRES

Description	2011			2010		
	Men	Women	Total	Men	Women	Total
New employee by age group						
< 30	10	2	12	154	64	218
30 - 40	-	-	-	2	-	2
>40	1	-	1	-	-	-
Total	11	2	13	156	64	220
New Employee by work region						
Head Office	2	1	3	27	24	51
SBU Distribution Region I	4	0	4	62	14	76
SBU Distribution Region II	2	1	3	25	8	33
SBU Distribution Region III	3	-	3	5	4	9
SBU Transmission Sumatra-Jawa	-	-	-	33	8	41
PPT Project LNG	-	-	-	4	6	10
Total	11	2	13	156	64	220
Employee out:						
Voluntary Resigned	2	6	8	2	1	3
Disciplinary Sanction	1	-	1	2	-	2
Death	4	1	5	4	-	4
Retired	18	-	18	21	2	23

### Elimination of Forced Labor (HR7)

As part of its endeavors to foster harmonious workplace relations, PGN actively strives to foster a safe, healthy working place. The development of a conducive working environment is achieved through a number of means and policies. One of these policies relates to the regulation of working hours, which is intended to ensure that staff are not required to work excessively long hours.

PGN strives to avoid all practices that might be suggestive of forced labor or of undue compulsion by establishing clear limits to working hours in accordance with the specific nature of the area of operations and of the specific work force in question. Staff may work during normal working hours or on shift work, or during other specified hours in specific operations in certain areas.



## Human Resource Development



When employees are required to work for periods in excess of the defined working hours, they are entitled to be paid overtime payments calculated at a rate defined by internal regulations.

### Gender Equality in Remuneration (LA14)

A significant factor in the establishment of a conducive working environment is the provision of the appropriate remuneration to employees. PGN has established its own mechanisms for determining the entitlements of staff, with these mechanisms being based on the principle of equality between male and female workers.

PGN also strives to ensure equal opportunities through the provision of health facilities that meet the specific needs of female employees, ensuring that female

employees have the same level of security and opportunity as male employees. Similarly, the principle of equal opportunity is implemented through the provision of equal wages for similar work conducted by male and female workers.

The table below demonstrates that differences in entitlement packages between employees of different genders are less than 10 percent. On average, the female employees in operational and lower to mid-level managerial positions receive higher entitlement packages than male employees. The only level at which male employees receive higher entitlement packages on average than female employees is that of the senior management level.

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PGN ensures that the basic salaries of entry-level staff are set at least at the level of the Regional Minimum Wage (UMR). In fact, the table below shows that the basic salaries of entry-level staff at the lowest levels are higher than the UMR.

#### **Contributions To Political Parties (SO5, SO6)**

In accordance with regulations wick by the State Minister for State-Owned Enterprises that forbid SOEs from making contributions, financial or otherwise political parties, politicians and related institutions, PGN forbids

the use of company funds or assets to promote the interests of political parties or political candidates, either directly or indirectly.

The Company's involvement in public policy-making is limited to presenting its views before parliament or at the invitation of the parties concerned in relation to the formulation of policy related to meeting the demand for natural gas for domestic consumption, whether the needs of the fertilizer industry or for other uses as an environmentally friendly fuel.

## Human Resource Development

## GENDER EQUALITY IN REMUNERATION

	Men	Women
Senior Management	1.01	1.00
Middle Management	1.00	1.01
Junior Management	1.00	1.06
Staff	1.01	1.00

## BASIC SALARY RATIO (EC5)

No	Region	Local Minimum Wage (UMR) (Rp)	PGN's Standard Entry Level Wage (Rp)	Ratio
1	Head Office	1,290,000	2,017,900	164%
2	SBU Distribution Region I	1,290,000	2,017,900	164%
3	SBU Distribution Region II	705,000	2,017,900	135%
4	SBU Distribution Region III	1,035,500	2,017,900	151%
5	SBU Transmission Sumatra-Jawa	1,290,000	2,017,900	164%
6	PPT Project LNG	1,290,000	2,017,900	164%
7	Subsidiaries	1,290,000	2,460,000	152%

## Entitlement Packages of Non-Organic Workers (LA3)

In general, the entitlement packages of organic workers may vary from those of non-organic workers. The variance between these packages is related to a number of factors, including differences in the facilities and support provided to workers in the different classes, as the following table shows:



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

No	Description	Organic Worker	Non-Organic Worker
A	Wages	✓	✓
B	Support Facilities		
1	Workplace Accident and Disability Insurance	✓	✓
2	Work-Related Death Benefits	✓	✓
3	Non-Workplace Accident and Disability Insurance	✓	
4	Non-Work-Related Death Benefits	✓	
5	Health Benefits for Employees	✓	✓
6	Health Benefits for Employees' Spouses	✓	✓
7	Health Benefits for Employees' Children	✓	✓
8	Leave Entitlements	✓	✓
9	Maternity Leave	✓	✓
10	Menstrual Leave	✓	✓
11	Pilgrimage Leave and Leave for Spiritual Purposes	✓	✓
12	Facilities for the Celebration of Religious Holidays	✓	✓
13	Pension Fund	✓	
14	Severance Payments	✓	✓
15	Special Needs Facilities and Support	✓	

### Compliance with Human Rights

PGN respects diversity and human rights. Thus, its conduct towards and evaluation of employees is not influenced by employees' gender, ethnic background, religion, race, or group affiliation, or any other characteristic that might suggest discriminatory practices.

Throughout the period of this report, PGN has not received complaints of claims related to discriminatory practices involving its employees (HR 4). One of the benefits created by PGN's operations is the establishment of employment opportunities, with employment involving selection processes conducted in a number of major cities throughout Indonesia. This is intended to ensure that candidate employees originate not just from Jakarta and its surrounding areas, but also from other areas throughout Indonesia. PGN never employs underage workers. The minimum age at which an individual can be selected for appointment as a member of staff at PGN is 18. (HR6)

## Human Resource Development

### Career Development (LA12)

As a professionally managed business entity, PGN has implemented a number of mechanisms to manage the career development of its employees. Amongst others, these mechanisms include regular annual employee evaluations. In 2011, PGN implemented the Work Performance Evaluation System, which is based on Key Performance Indicators (KPI) or the Cascade system, with these evaluations involving all employees from the president director to operational staff.

The results of these evaluations are integrated with a staff career database formulated to measure Human Asset Value (HAV), on the basis of which final evaluations and to determine promotion or rotation are determined. Promotions, rotations and other changes in position are based on specific assessments conducted at least once every two years. By the end of 2011, all employees (100%) had received assessments in terms of KPI for the 2010 evaluation period.

In addition to considerations related to performance assessments, promotions are made on the basis of three main considerations, these being the needs of the Company, an assessment of the employees level of competence, and his or her work experience. PGN does not consider gender, age, ethnic background, religion, race, or other group affiliations that might be considered discriminatory to enter its considerations.

### Training and Competency Development (LA10)

An important aspect of the Company's management of its human resources is the competency development of its staff. Programs to develop the professionalism of members of staff at PGN are established on the basis of the needs of the Company for both competencies in specific fields (technical) and generic competencies (managerial). In order to improve the effectiveness of the implementation of the staff development program,

beginning in 2011, PGN implemented Position Competency Needs program and a Competency Dictionary program. Through these programs, all programs intended to develop staff competencies can be conducted in a focused fashion to achieve PGN's strategic targets.

Programs to improve the competencies and professionalism of employees were realized through a number of training activities. The Training and Educational Program for 2011 was established on the basis of the Human Resources Division's Corporate Work Plan and Budget for 2011, which established a target of conducting AT programs involving 23,320 aggregate days of training with a total budget of Rp24,933,167,000.

In the Fourth Quarter of 2011, the Human Resources Development division conducted six diploma level educational programs, 84 in-house training programs, 104 domestic public training programs and one international public training program, with 19 different types of training provided. The training and educational programs conducted in the Fourth Quarter of 2011 involved a total of 2675 participants from a number of different groups and positions within the Company, with a total number of individual training days amounting to 27,722 (including domestic diploma level training). Total expenditure on these programs by the Human Resources Development Division amounted to Rp22,716,439,411.

The SBU Distribution Area I conducted a total of 36 in-house training programs and 48 external public training programs, involving 626 participants and a total of 1499 individual training days.

The SBU Distribution Area II conducted a total of 16 in-house training programs and 48 external public training programs, involving 343 participants and a total of 686 individual training days.

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The SBU Distribution Area III conducted a total of seven in-house training programs and 21 external public training programs, involving 347 participants and a total of 702 individual training days. The SBU transmission conducted a total of 14 in-house training programs and 31 external public training programs, involving 283 participants and a total of 757 individual training days.

In the Fourth Quarter of 2011, including all SBU and the HRD Division at central office, the Company overall conducted a total of 167 training and educational programs involving a total of 4274 participants and 31,366 individual training days. The total number of individual training days spent on training and educational programs facilitated by the HRD Division amounted to 27,722 (the aggregate total of days spent on training by individuals).

In addition to training programs to develop the competencies and professionalism of its employees, PGN also conduct special training for members of staff approaching retirement. This training takes the form of special support to enable employees receiving pensions to engage in productive activities to supplement their incomes to meet their basic requirements after retirement. Retirement Preparation Training is provided to members of staff three years before they are eligible to receive a pension. (LA11)

### Human Rights Training and Awareness Raising (HR3, HR8, HR9)

Employees who work in security units, both in extraction areas and in other remote areas where PGN operates, are given specific training and awareness raising on human rights.

Such training is provided in cooperation with the police. In 2011, some 80% of PGN's security officers had been provided with materials related to human rights through their security refresher training programs.

In the conduct of all projects and activities to develop the piped network distribution system, the Company completely refrains at all times from forcing affected communities to comply with the wishes of the Company. Rather, it conducts socialization activities to raise awareness of the importance of the pipe distribution network to the development of the affected area, so that members of affected communities support the Company's programs to utilize natural gas. Throughout the period of this report, no reports were received related to infringements of human rights by the Company in the areas in which it conducts its operational activities.

### Preventing Corruption (SO3, SO4)

PGN employees are not permitted to engage in corruption or take any actions that encourage corruption. PGN also urges employees to report any knowledge of corrupt actions or actions that are potentially corrupt. PGN protects the identity of employees who report actual or potential acts of corruption. PGN prohibits all employees from giving or accepting bribes.

These policies on the reporting of violations have been formulated and implemented as a means by the Company to prevent corruption and the abuse of authority. Any employee found to be engaging in corrupt practices will be processed strictly according to the relevant laws and regulations.

In addition, the Company also conducts a corruption training programs in the form of seminars and workshops involving all employees of the Internal Monitoring Unit and Supply Units.









Prioritising  
Occupational  
Safety and Health

# Prioritising Occupational Safety and Health

transforming to achieve safety excellence



0%

Zero  
Incident



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Issues related to occupational safety and health have a significant impact on the achievement of the Company's operational goals. The fulfilment of its responsibility to implement sound occupational safety and health practices throughout its operations is an significant, integral goal of the Company's strategic planning.

As a company that operates in the field of the distribution and transmission of natural gas, we are compelled to pay particular attention to issues related to Occupational Safety and Health (OHS) and to implement best practice policies to address these issues.

The main reason for the high priority placed on the management of occupational safety and health is that natural gas is highly inflammable, a fact that compels us to give full consideration to OHS issues throughout all our operational activities.

The high priority placed by the Company on OHS issues is in accord with the spirit of Article 86 (2) of Law number 13/2003 regarding Labor, which states that "To protect the safety of employees or laborers in order to ensure optimal productivity, measures shall be taken to ensure occupational safety and health". The underlying principle expressed is that employees are entitled to work in healthy, safe conditions and under acceptable working conditions. Such guarantees are reinforced by the terms of the Collective Work Agreement (PKB) entered into between the trade union representing PGN's workers and management. (LA9)

### **OHS Policies and the Internalization of OSH Culture**

Given the importance of OHS issues in the context of the achievement of the Company's Vision, by Decision of the Board of Directors No. 006300.K/OT.00/UT/2011 dated 29 April 2011, the Occupational Safety and Health and Environmental Management Committee has been transformed to become the Occupational Safety and Health and Environmental Management Division, responsible directly to the Director of Commerce.

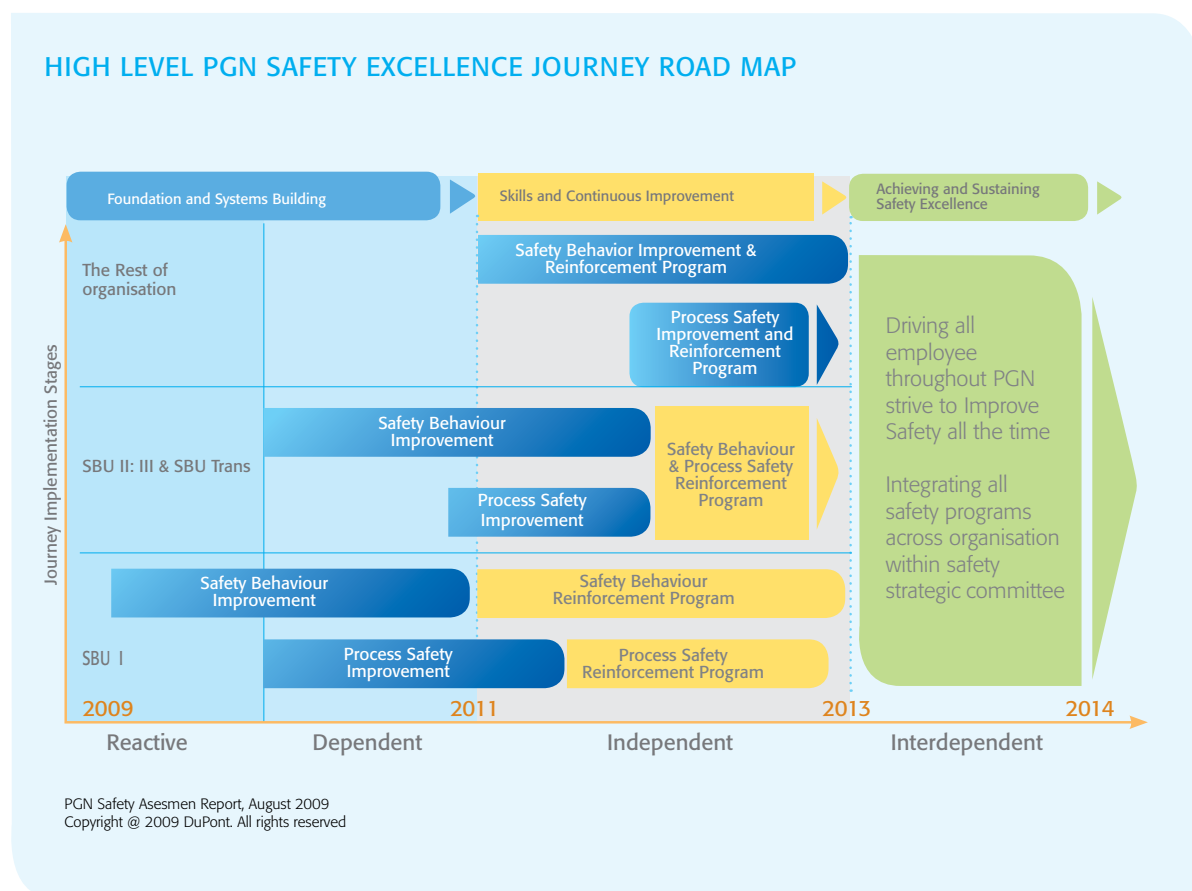
As stated in ProCISE, all members of staff and management within the PGN sphere must internalize a culture in which occupational safety and health issues are made a top priority. The objective is to protect and guarantee the Company's employees and assets against all risk of injury or damage due to work accidents. To realize a culture that prioritizes safety, the Board of Directors has formulated the PGN vision to achieve Safety Excellence, the fundamental principles of which are as follows:

1. Zero incidents
2. Inherently Safe and Environmental Friendly Performance in all activities

## Prioritising Occupational Health and Safety

### OHS Culture Road Map

In 2011, we transformed PGN's work culture into an OSH culture and developed a RoadMap for the creation of a workplace safety culture, as shown in the chart.



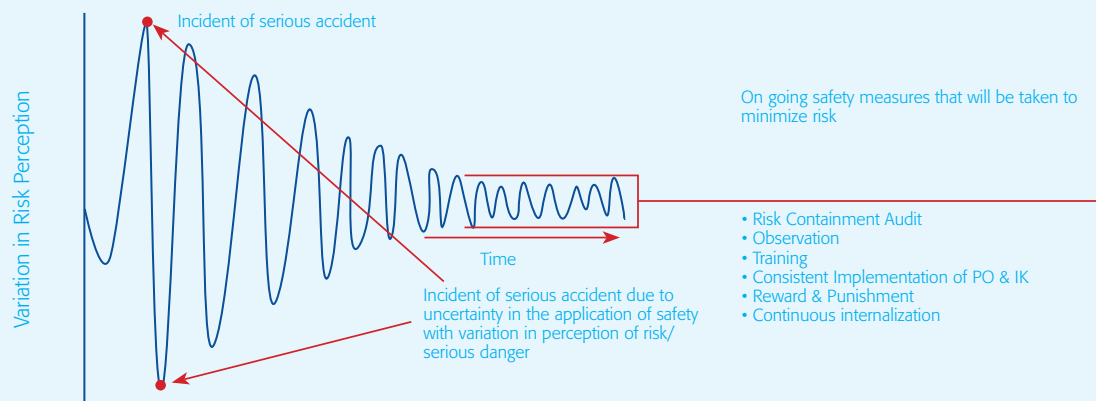
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Efforts are made to develop shared perceptions on the grounds that widely differing perceptions about OSH risks can lead to repeated and serious accidents. On the other hand, if employees can be brought to a common perception of OSH risks, the frequency of accidents will decrease. This is illustrated in the following diagram.

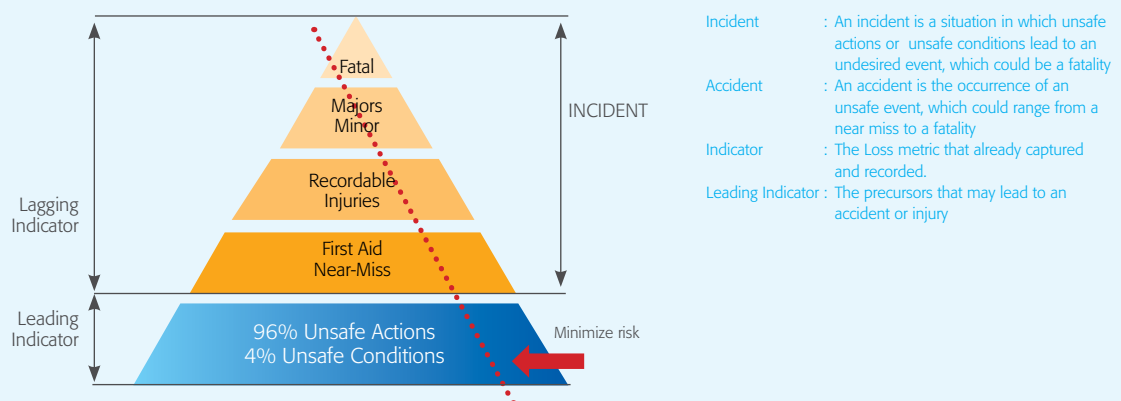
## SAFETY APPROACH

To reduce the variance in perception of risk throughout the organization



Developing a common perception on OSH also includes the creation of a shared understanding among all PGN's employees about the meaning of the accident pyramid, as follows:

## ACCIDENT PYRAMID





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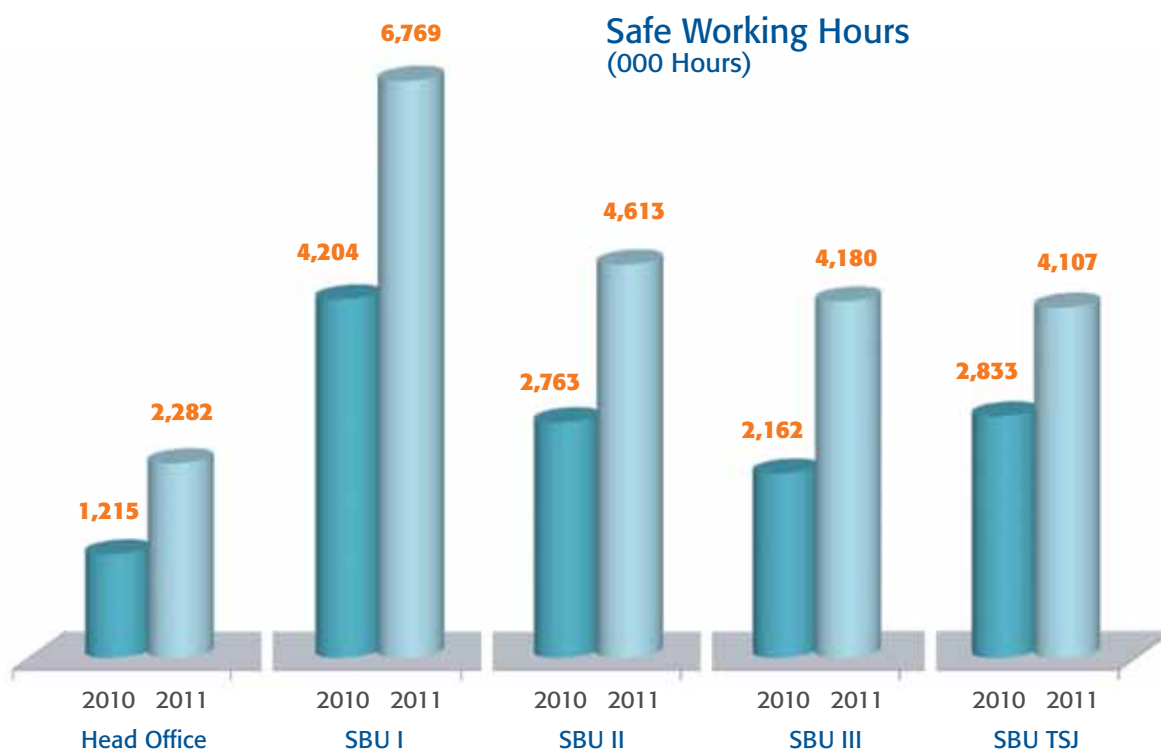
Building on programs first initiated in 2009 within the sphere of SBU-DA 1, these initiatives have been continued with the implementation of a “process safety” system within the area of this SBU’s operations. In 2011, the safety system implemented by SBU-DA 1 as a pilot study has now been also implemented in the area of operations of SBU-DA 1, SBU-DA 2, and SBU-UTSJ.

### Workplace Accidents (LA7)

As a result of PGN’s endeavors to socialize greater awareness regarding OSH issues, a number of parameters established to guide OSH management have been improved. In 2011, there were no reports of fatal accidents and accidents resulting in lost work time. In general, conditions have significantly improved throughout 2011. This is demonstrated by the following graphics:

- **Safe Working Hours**

Accumulated reports from the various SBU’s show that there has been a significant increase in the total number of safe working hours in 2011. This increase was largely attributable to the absence of fatal accidents and accidents resulting in lost work time, as shown in the following graph:



## Prioritising Occupational Health and Safety

- *Lost Time Injury Frequency*

In 2011, all SBU's performance in terms of LTIF was better than prescribed by established targets, as shown in the following graph:

Year	Head Office	SBU I	SBU II	SBU III	SBU STJ
Target	0.5	0.5	0.5	0.5	0.5
2010	0	0	0	0	0
2011	0	0	0	0	0

### SAFETY METRIC FOR EACH QUARTER OF 2011

- **Safe Driving Distance**

In 2011, accidents occurring in the area of operations of SBU I, SBU 2, SBU TSJ and the Head Office reduced the safe driving distance value. There were no vehicular accidents in the area of operations of SBU 3.

- **Total Sickness Absence Frequency (TSAF)**

This parameter measures the level of workplace health in terms of the number of working hours lost by employees due to sickness. PGN is strongly committed to improving workplace health, amongst other reasons as a means of reducing the number of working hours lost and thereby increasing overall productivity. The results of the compiled TSAF data show that three of PGN's SBU's are still recording rates of TSAF above the established target of 0.5. In 2011, the rate of sickness among employees in PGN's Head Office was lower than in 2010, although still higher than the established target.

Year	Head Office	SBU I	SBU II	SBU III	SBU STJ
Target	0.5	0.5	0.5	0.5	0.5
2010	2.16	0.66	0.52	0.27	0.38
2011	1.23	0.52	0.43	0.20	0.18



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No	Item	Head Office	SBU Distribution I	SBU Distribution II	SBU Distribution III	SBU TSJ	Description	Target
1	Fatality	0	0	0	0	0	Current Year	0
2	LTIF	0	0	0	0	0	Current Year	1
3	Minor Incident	0	0	1	0	0	Current Year	
4	First Aid	2	0	0	2	7	Current Year	
5	Near Missed	14	0	37	0	4	Current Year	
6	Vehicular Accident	21	8	0	0	0	Current Year	
7	TSAF	1.23	0.52	0.43	0.22	0,18	Current Year	0,5
8	Safe Working Hours	2,281,601	6,768,643	4,612,735	4,180,401	4.107.097	Accumulated to 2011	
9	Risk Containment Audit							
	- % Participation	100.00%	100.00%	100.00%	99.12%	98.00%	Occupational Safety and Health Committee Conducted RCA in Head Office (in December 2011)	100%
	- % severity 4/5	7.14%	12.00%	8.73%	14.53%	1.00%		20%
	- % maintenance severity 4/5	100.00%	62.22%	12.11%	22.02%	76.00%		80%
10	Observation							
	% Participation	-	100%	100.00%	69.43%	98.00%		100%
11	BOD Site Visit	-	Done	-	Done	Done		100%

#### • Application of OHS Expertise

Through various intensive training programs and other targeted programs, the level of OHS expertise amongst PGN's OHS and EM personnel has improved significantly. With this level of expertise, these personnel have been able to overcome a number of emergency situations on the basis of the Company's own resources. Such emergency situations include:

1. The replacement of a gas transmission pipeline bridge in the Cerme area, Surabaya, that had been damaged due to flooding.
2. The emergency handling of leak occurred in the gas transmission pipeline from Conoco Philips – Grissik in South Sumatra to PT. Chevron - Duri in Riau province by personnel at PT. Transportasi Gas Indonesia (Transgasindo), a subsidiary of PGN.

## Prioritising Occupational Health and Safety

### Health Awareness Programs (LA8)

As one among several endeavors by PGN to raise the awareness of it is staff and their families concerning serious conditions such as HIV, TBC and others, PGN is conducting training and awareness programs to foster greater understanding amongst members of staff, their families, and other members of the community as to how these conditions can be prevented. This has the additional benefit of reducing the risk of absences due to health reasons that may have an impact on the Company's performance.

### Awards for OSH Management

PGN's achievements in 2011 in implementing good OSH management have been recognized with the granting of the "Patra Nirbhaya Karya Utama" Award by the Ministry for Energy and Natural Resources for its achievements in terms of the number of safe hours recorded throughout all its SBU.

### The Occupational Safety and Health Committee (LA6, LA9)

In order to supervise and monitor the effectiveness of the implementation of occupational safety and health programs and as a means of achieving excellence in terms of safety practices, the Executive Central Safety Committee is responsible directly to the President Director. All directors and all heads of divisions are members of this committee. In order to ensure that workers interests are represented at the committee, in the near future it is planned to appoint a representative of the Trade Union as a member.

The committee was formerly established in November 2011 at the "SHE day to become a world-class company" forum. This forum was attended by all members of the Board of Directors and other senior executives at PGN. This strategic for was intended to strengthen the commitment of all elements within PGN to achieving its Zero Accident goals. In addition, the forum was intended to facilitate the full integration of excellent occupational safety and health practices throughout all aspects of PGN's operations.





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Sustainability  
Governance

# Sustainability Governance

transforming to strengthen  
corporate governance



## ISO 9001

Valid Thru  
2015

## 83%

Customer  
Satisfaction  
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2011



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In addition to provide systems and mechanisms to govern the relationships between, and define the respective authorities and responsibilities of Commissioners, Directors, and executive managers, sustainable governance also provides a solid basis for the management of social and environmental issues. The implementation of good sustainable governance provides a solid foundation to the achievement Of PGN's 2020 Vision to become a world-class energy company.

#### **Sustainable Governance**

In terms of sustainability, the implementation of Good Corporate Governance (GCG) is not merely about achieving full compliance with the current, relevant laws and regulations, but also about applying and implementing standards, principles, ethical systems and good habits that conform to international best practice.

Evaluations of the performance of the members of the Board of Commissioners and the Board of Directors in terms of the performance of their implementation of sustainable governance, particularly as it relates to the economic, social and natural environment in which it operates, has been assessed by independent consultants as an integral part of the assessment of PGN's corporate governance.

The same consultants have also been assigned with the duty of assessing the implementation of GCG, with their terms of reference including an assessment of the performance of the Board of Directors in economic, environmental and social terms. (4.10)

#### **Structure of the Board of Commissioners Boards of Directors (4.1, 4.2, 4.3)**

##### **Board of Commissioners**

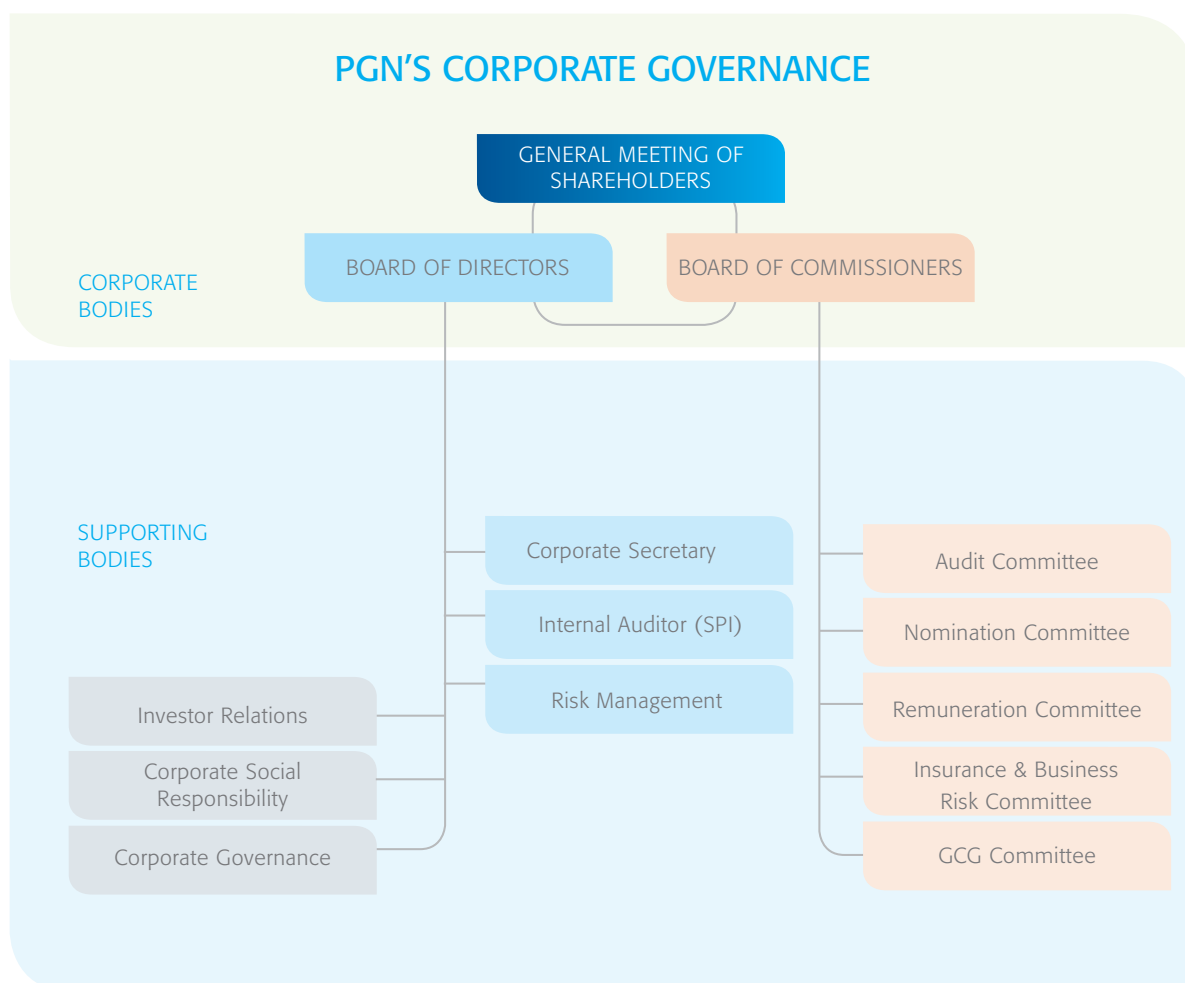
As stipulated by Law Number 40/2007 concerning Limited Liability Companies, the management structure of such corporations in Indonesia follows the two board system, in which there is a Board of Commissioners and a Board of Directors, with the roles and duties of the two different bodies clearly defined. The unitary board system is not valid in Indonesia. Thus, members of the Board of Commissioners may not concurrently serve as a Director. Similarly, members of the Board of Directors may not concurrently serve in an executive position below that of director.

The primary task of the Board of Commissioners is to exercise oversight over the management policies executed by the Board of Directors and the management of the Company's business. In addition, it is their duty to provide advice to the Board of Directors on matters related to the interests of the Company.

## Sustainability Governance

PGN'S Board of Commissioners consists of five individuals and is chaired by the President Commissioner. Two of the members serve as Independent Commissioner's, thus such Commissioners constitute 40 percent of the total, the minimum level defined by the current regulations governing limited liability companies.

In compliance with the principles of accountability, the Board of Commissioners presents an accountability report on an annual basis, during the Annual General Meeting of Shareholders. In the implementation of their duties, the Board of Commissioners is assisted by a number of committees, which are established by and directly responsible to the Board of Commissioners. These committees include the Audit Committee, the Remuneration and Nomination Committee, the Business Risk and Assurance Committee, and the Good Corporate Governance Committee. A full description of the functions and duties of each of these respective committees can be seen in PGN's Annual Report for 2011.



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### The Board of Director

PGN's Board of Directors consists of five Directors and is led by the President Director. The duty of the President Director to coordinate the overall activities of the Board of Directors.

The Board of Directors has full authority and responsibility for the management of the Company. They may represent the Company in or outside a court of law, pursuant to the provisions of the Articles of Association. The Board of Directors works together and is jointly and collectively empowered to act in the name of the Company and make decisions related to their defined tasks and duties.

To support the effective management of the Company, the Board of Directors has established functional committees that are directly responsible to the Board of Directors. These committees include the Knowledge Management Committee and a number of others. A full description of these committees and their respective functions and responsibilities, can be seen in PGN's Annual Report for 2011.

### Mechanism for Appointment of Members of the Board of Commissioners and Board of Directors (4.7)

Members of the Board of Commissioners and Board of Directors are appointed on the basis of a decision made at the Annual General Meeting of Shareholders. As a State-Owned Enterprise, the right to appoint and dismiss members of the Board of Commissioners and Board of Directors rests with the majority shareholder, which is referred to as the shareholder series A, which is the Government of Indonesia, as represented by the Minister for State-Owned Enterprises.

Before proposing appointments or dismissals at the AGMS, the Minister for State-Owned Enterprises first conducts a fit and proper test on candidate members of the Board of Commissioners and Board of Directors. Their capacities and ability to address environmental and social issues is a significant part of this selection process.

The selected candidates are then presented for formal approval at the AGMS.

### Remuneration of the Board of Commissioners and Board of Directors (4.5)

Each member of the Board of Commissioners receives a monthly honorarium and certain allowances, together with a bonus related to PGN's performance and achievements, with the value of this bonus being determined by the AGMS.

Each member of the Board of Directors receives a monthly salary and certain other allowances, together with a bonus related to PGN's performance and achievements, with the value of this bonus also being determined by the AGMS.

In addition, members of the Board of Commissioners and Board of Directors are entitled to various other facilities and benefits, the nature and value of which are also determined by the AGMS. These facilities include benefits such as a vehicle or transportation allowance, a communication allowance, membership in clubs or professional associations, legal services, health insurance, other forms of insurance, leave entitlements, and representational support. The value of the remuneration and compensation packages of the members of the Board of Commissioners and Board of Directors is in all cases determined by the AGMS with reference to the achievements of PGN. These achievements include the implementation of environmental and social responsibility, particularly as it relates to economic, environmental and social issues.

Assessments and evaluations of the members of the Board of Commissioners and Board of Directors in terms of the implementation of social and environmental responsibility are based on the achievement of Key Performance Indicators (KPI). The parameters of these KPI are set each year, with adjustments made for the risks and opportunities faced by PGN. These KPI are presented for approval at the AGMS. Further refinements to the KPI system will be conducted, with particular reference to the achievement of environmental and social goals.



## Sustainability Governance

### Avoiding Conflicts of Interest (4.6)

In order to avoid conflicts of interest that may prevent them from fulfilling their functions, duties and responsibilities, members of the Board of Commissioners and Board of Directors have formulated codes of conduct that apply to all those within PGN's sphere of influence. In particular, it has formulated the "Employees Code of Ethics" and the "Leaders Code of Ethics".

In general outline, the Employees Code of Ethics provides a guide for the behavior of employees in the conduct of their daily working activities and in their relationship with stakeholders. The Employees Code of Ethics also provides a practical guide governing matters such as conflicts of interest, corruption, bribes, gratuities, information management, and other issues.

In general outline, the Leaders Code of Ethics provides a guide for the behavior of leaders within PGN's sphere of influence in the fulfillment of their duties. Both the Employees Code of Ethics and the Leaders Code of Ethics have been published. The codes are binding on all those within PGN sphere of influence.

### Membership in Industry Associations and Other Organizations (4.13)

To play a broader role in the business community and to extend its business network, PGN actively participates as a member in a number of organizations. Through its membership in such organizations, PGN actively participates in a number of forums intended to promote economic growth in Indonesia through the development of the natural gas industry.

At the end of 2011, PGN was listed as a member of the following organizations:

1. Indonesia Gas Association (President)
2. Indonesian Association of Emitents (Member)
3. International Gas Union (Member)
4. Indonesian Stock Exchange (Member)
5. Central Custodian of the Indonesian Stock Exchange (Member)
6. Internal Monitoring Units Communication Forum (Organizer and Member)
7. State-Owned Enterprises Information Technology Forum (Member)
8. State-Owned Enterprises Human Resources Development Forum (Member)
9. State-Owned Enterprises Public Relations Forum (Member)
10. State-Owned Enterprises Environmental Partnership Program Forum (Member)

PGN pays annual membership dues to these organizations, except for the forums intended specifically for state-owned enterprises, which do not require the payment of membership dues. In 2011, we acted as the sponsor for the Indonesia Gas Association conference held in Bali.

We actively participate in all the state-owned enterprise forums established by the Ministry for State-Owned Enterprises, with these forums meeting on a routine monthly basis. PGN currently serves as the organizer for the Internal Monitoring Units Communication Forum (FKSPI) at the central level.

The benefits derived by PGN from its participation in such professional organizations relate mainly to the extension of the Company's business network, to improvements in capacities, and to expanded vision. In addition, as a member of such organizations, we are able to make a significant contribution to their development.

### Implementation of International Standards (4.12, SO2)

An important aspect of the Company's transformation into a world-class business is the implementation of standards recognized by the international community. In light of this, PGN implements international standards throughout its management system.

An important aspect of PGN's system of governance involves the management of risk to prevent disruptions to the Company's operational activities. To facilitate the management of risk, PGN has implemented an ERM-COSO-based risk management system to map pre-diagnostic risk. This system is implemented by the Risk Management Division. The results of a mapping are addressed through remedial activities and the ongoing monitoring of the risk by those involved.

PGN has also formulated a blueprint and roadmap for the management of risk to guide the Company in the development of its risk management function. This is consistent with the focus on the development of

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management systems set out in the Corporate Long-Term Plan 2011-2015.

PGN has identified and conducted measures to mitigate against seven broad areas of risk that have the potential to affect its business operations, these being staked risk, regulatory risk, operational risk, supply risk, financial risk, competitive risk, and demand risk.

- **Global Reporting Initiative (GRI) Reporting Standards:** In addition to its reassessment of risk management systems, PGN is also striving to implement international standards that will facilitate its achievement of its Vision and Mission of becoming a world-class gas company. In order to improve the Company's level of accountability and transparency in areas related to its management of issues related to the environment, labor, human rights, community development, and product quality, PGN has implemented a system of sustainability reporting that adheres to the reporting standards published by the Global Reporting Initiative (GRI).
- **Millennium Development Goals (MDG) Program:** The Government has formulated a number of policies related to its program to achieve MDG's, which in turn is a manifestation of the Government's commitment to improving the social conditions and welfare of the broader community. PGN operates in compliance with these Government policies through its participation in the Environmental Partnership Program, which is intended to facilitate the achievement of the goals of the MDG Program.

PGN will continue to strive to improve its system of sustainable governance through intensified implementation of these and other international standards, such as the ISO 26,000 and UN Global Compact standards. In addition, PGN is taking steps to implement international standards intended to address issues related to global warming and climate change.

- **ISO 9001:2008:** The Company's fulfillment of ISO 9001:2008 Quality Management System standards has been certified by Lloyd's Register Quality Assurance, with this certification being valid until January 2015.

#### **Precautionary Approaches (4.9, 4.11)**

The Company's participation in a number of professional associations and its adoption of international standards and principles as described above can be described as a precautionary approach to the management of risk and to the development of the Company's business.

The Company has issued a number of policies to support its implementation of international standards. When necessary, the support of and evaluation by competent external parties has been sought to facilitate this.

PGN's Board of Directors monitor, guide and control the Company's endeavors to achieve compliance with these international standards through internal meetings and through an examination of reports submitted by relevant work units. In a number of areas, we appoint competent external parties to evaluate and to provide inputs and recommendations to improve these endeavors.

Evaluations of the Company's performance in terms of sustainability, particularly the implementation of its environmental and social responsibilities, are conducted on a routine monthly basis through work meetings with the relevant work units.

#### **Mechanisms for Delivering Complaints and Opinions to the Board of Director (4.4)**

In the Company's corporate governance structure, ultimate authority rests with the AGMS. General Meetings of Shareholders may take the form of either the Annual General Meeting of Shareholders (AGMS) or an Extraordinary General Meeting of Shareholders (EGMS). GMS are a forum through which shareholders express their will and make decisions related to the business interests of PGN. In formal terms, through the GSM, shareholders may exercise their rights and provide opinions, guidance and recommendations to the Board of Directors. Decisions made at GSM are binding on both the Board of Commissioners and Board of Directors. The interests of minority shareholders are represented by the Independent Commissioners.

## Sustainability Governance

In addition to the GSM, shareholders may provide input and offer their opinions to the Board of Directors through meetings involving the majority shareholders, in this case the Ministry for State-Owned Enterprises, through “Meet the Investor” programs, or during investor visits to PGN’s operations. An important part of the Company’s management system is the right of all employees of PGN to express their opinion and to provide inputs to the Board of Directors through formerly established mechanisms such as union-management meetings and through other corporate work meetings. In addition, they may express their opinions and provide inputs to the Board of Directors during meetings between staff and members of this board and during were visits conducted by directors. Members of staff may also express opinions provide inputs to the Board of Directors directly by mail or e-mail.

All the mechanisms for the delivery of opinion, inputs and recommendations described above operated efficiently throughout 2011. In addition to providing a valuable means for generating inputs related to company policy, these mechanisms also serve to foster healthy relations and a more conducive business environment for the growth of PGN’s business between internal stakeholders, particularly shareholders and employees.

### Internalization of PGN Culture and the Corporate Code of Conduct (4.8)

The Corporate Culture defines the values and philosophy agreed upon by all elements within PGN to be the foundation and guide by which PGN can achieve its goals. PGN has codified its corporate culture through five values, with this code known as “ProCISE” and further explicated through a ten-point Corporate Code of Conduct.

The internalization of this corporate culture and code of conduct, which addresses economic, environmental and social issues, is routinely implemented through a number of means, including through socialization by members of the Board of Directors in face-to-face meetings with members of staff, through in-house training programs, and through the publication of guide books that explain the code of behavior to which all elements of PGN must adhere. The internalization of this culture and code of conduct has been proceeding well. We will continue to update and reinforce these endeavors to ensure that all elements within PGN conduct themselves in a manner that facilitates the achievement of PGN’s vision and mission.





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## PGN'S 10 MAJOR BEHAVIORS



## Sustainability Governance

### PGN Culture

The corporate culture represents the values and philosophies that everyone in the Company have agreed to accept as the foundation and the guidance for the Company to achieve its goals. PGN has defined its corporate culture in terms of five values, which are abbreviated as 'ProCISE' and articulated as the 10 Major Corporate Behaviors.

### ProCISE—5 PGN'S Corporate Values

#### Profesionalism

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

#### Continuous Improvement

Committed to continuously seek 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.

### Relationships with Stakeholders (4.14 to 4.17)

Stakeholders are defined as groups that may influence decision making for the formulation of policy by PGN or, alternatively, those who may be affected by decisions or policies implemented by the Company. Because of the important role played by stakeholder groups in the management of the Company, we are strongly committed to maintaining harmonious relationships with all these stakeholder groups, taking into account their interests in the formulation of all policy and the making of all decisions affecting the Company.

PGN stakeholder groups include shareholders, employees, working partners, central and regional governments and their agencies, consumers, members of the community, and the media. In the management of relationships with the stakeholder groups, we strive to adopt best practice in the consideration of the expectations of each of these groups in order to ensure that no conflict between these groups emerge.

The following table describes the management of our relationships would be stakeholder groups. This table describes the composition of these stakeholder groups and the frequency and nature of meetings with their representatives throughout 2011, together with the issues of importance and the means by which these issues have been addressed.

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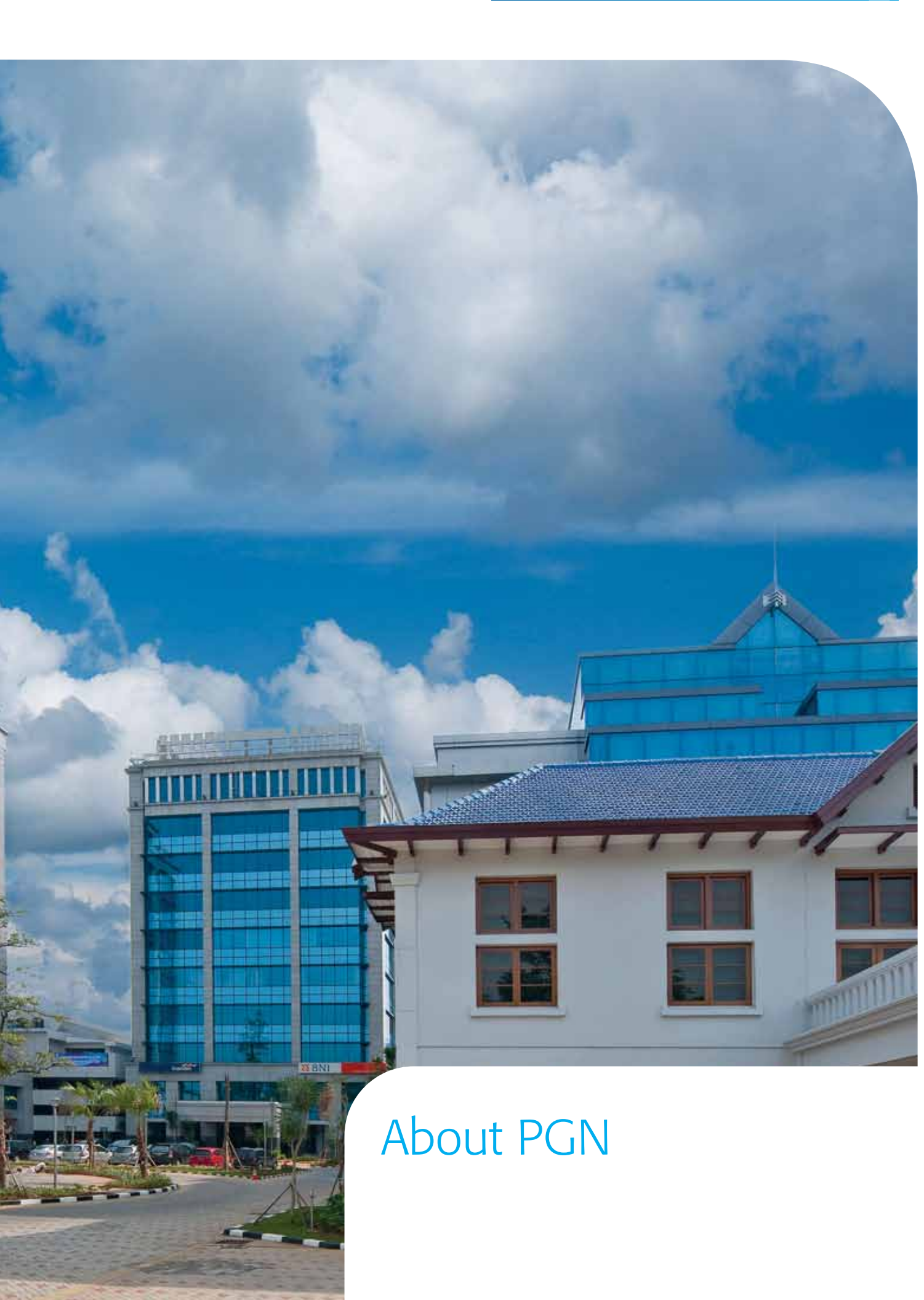
## STAKEHOLDER ENGAGEMENT

Stakeholders	Method of Engagement	Stakeholder Expectation
Customers	<ul style="list-style-type: none"> <li>Customer satisfaction survey Index (CSI)</li> <li>Customer Complaint</li> <li>Customer Service Centre</li> </ul>	Service that exceeds expectations
Shareholders and Investors	AGM Investor Road Shows Investor Gathering	<ol style="list-style-type: none"> <li>Maintain and increase investment value by improving Company performance</li> <li>Respect shareholder' right in accordance with law, regulations and Articles/ Rules of Association</li> </ol>
Employees	Trough the SP-PGN	<ol style="list-style-type: none"> <li>Equality</li> <li>No discriminatory practices</li> <li>Ensure workplace security, health, and safety</li> </ol>
Government Authorities and regulation	<ul style="list-style-type: none"> <li>Bipartit Meeting</li> <li>Parliamentary Hearings</li> </ul>	<ol style="list-style-type: none"> <li>Maintain honest, harmonious and constructive relations with the regulator</li> <li>PGN and all its employees are subject to and comply with the laws and regulation</li> </ol>
Partners (vendor, supplier, agent, reseller, installer)	<ul style="list-style-type: none"> <li>Training for value chain partners</li> <li>Contract bidding and procurement vendor management</li> <li>Supplier assessment and management</li> </ul>	<ol style="list-style-type: none"> <li>Fair and Transparent procurement process</li> <li>Objective selection and evaluation of partners</li> <li>Mutual beneficial growth</li> </ol>
Public	<ul style="list-style-type: none"> <li>Community engagement</li> <li>Philanthropic activities</li> <li>Outreach activities</li> </ul>	<ol style="list-style-type: none"> <li>Maintain harmonious relations with and provide benefits to the communities in and around the company's areas of operation</li> <li>Reduce the company's operational impact on the environment to the greatest extent possible</li> <li>Participate in environmental conservation activities</li> <li>Grow with the people</li> </ol>
Media	Press Release Media Gathering	<ol style="list-style-type: none"> <li>Accurate, accountable and reliable announcements</li> <li>Credible sources of news.</li> </ol>









About PGN

# About PGN

transforming for better  
performance



**56.97%**

of PGN's Share  
were Owned by  
the Government  
of Indonesia

**43.03%**

Were Owned  
by the Public

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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 to become 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 these gases produced to its commercial, industrial, and household users. By the end of the period covered in this report, PGN controlled a 90 percent share of the market for the transmission and distribution of gas in Indonesia. (2.1), (2.2), (2.7)

The Company has experienced a number of significant changes, including the following:

- 13 May 1965: The Company became known as the Perusahaan Gas Negara ("National Gas Company");
- 1974: The Company began distributing natural gas from its first location in Cirebon, West Java;
- 1979: The distribution of gas to Jakarta began;
- 1984: The Company underwent a transformation of status from a National Company (PLN) to a General Company (Perum), on the basis of Government Regulation Number 27, 1984;

- 1994: The Company underwent a further transformation of status to become a Limited Liability Company (PT);
- 15 December 2003: The Company became a publicly listed company with the listing of its stock on the Indonesian Stock Exchange;
- 2011: The Company replaced its existing logo with a new one;

The Company's head office is located in Jakarta, the capital city of the Republic of Indonesia. (2.4)

PGN's operates throughout the territory of the Republic of Indonesia. In addition, through a subsidiary company, PT Transportasi Gas Indonesia, PGN also manages the transmission of natural gas in the Grissik – Duri and Grissik –Singapore areas. (2.5)

At the end of the period covered by this report, the composition of the ownership of the Company's stock was as follows: (2.6)



## About PGN

Government of Indonesia : 56.97 percent  
Public : 43.03 percent

In addition, PGN also manages the transmission of natural gas in the Grissik – Duri and Grissik –Singapore areas through a subsidiary company: PT Transportasi Gas Indonesia.

Java. PGN has four subsidiary companies and two affiliate companies. A number of business activities are conducted by these subsidiary companies and affiliate companies, including the transmission of gas, telecommunications, construction, trade, natural gas and electricity. A full description of the activities of the subsidiary

### Scale of PGN (2.8)

	2011	2010
Number of employees	1,516	1,521
Net sales (Million of Rp)	19,567,407	19,765,716
Total Capitalization (Million of Rp):		
Total Liabilities	13,791,734	16,986,477
Total Equity	17,184,712	15,100,954
Quantity of Product Provided (MMScfd)	1,640,76	1,660,72
Total Assets (Million of Rp)	30,976,446	32,087,431

### PGN's Operational Structure (2.3)

PGN operates in two main areas of business:

1. The distribution of natural gas to industrial, commercial and household users;
2. The transmission of natural gas. PGN's business operations are conducted by four Strategic Business Units (SBU), each of which covers a specific territory:
  - a. 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;
  - b. SBU Distribution Area II, which covers East Java. This unit provides sales and services to the Surabaya-Gresik, Sidoarjo-Mojokerto and Pasuruan-Probolinggo areas;
  - c. SBU Distribution Area III, which covers North Sumatra, Riau and Batam. This unit provides sales and services to the Medan, Batam and Pekanbaru areas;
  - d. SBU Transmissions Sumatra-Java, which covers South Sumatra, Lampung, Banten and West

companies can be seen in PGN's Annual Report 2011.

Significant changes affecting the Company in 2011 include the replacement of PGN's logo as a part of PGN's rebranding endeavors and to mark the transformation of the Company in preparation for its achievement of the PGN Vision 2020.

### Information regarding Gas Distribution Services (PR3)

In the business of the distribution of natural gas, the Company conducts financial transactions (sales to clients and/or end users) on the basis of a piped distribution network from the margins on sales prices. Natural gas is distributed through the piped distribution network which is clearly marked with marker posts along the length of the network as a control and as a security measure. The pressure levels of the natural gas in the pipes controlled according to contracts governing the distribution of gas that emphasize safety aspects. The chemical composition

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of the natural gas is examined periodically in order to ensure compliance with current regulations and to determine that it meets the parameters established in contracts with end users.

### Compliance with Regulations and Standards (PR 1, PR4)

In order to ensure the quality of the product passing through the Company's transmission networks and other distribution networks, PGN adheres to ISO 9001:2008 Quality Management Standards. According to these standards, before entering into a contract with a supplier of gas, PGN conducts an inspection of reserves of gas, of the equipment used to produce the gas, and of the quality of gas coming from the supplier.

Gas samples examined at a number of points, at the intake point and a number of random points along the transmission pipes. Examinations of these samples are conducted by competent independent inspection agencies. These examinations are also intended to determine available quantities of gas. Reports related to these quality controls are published in the form of news releases for inspection by end users in order to enable consumers to accurately determine the quality of the gas that they use.

After entering into a contract with its suppliers, PGN conducts ongoing examinations to determine the quality and quantity of gas provided by these players, with its findings made available for end users as speedily as possible, particularly in cases where the findings indicate that supplies to end users may be disrupted. In order to ensure the quality of gas to its clients, amongst other measures, PGN may mix gas provided by a number of different suppliers, utilize filters and scrubbers in off take stations, or install filters and meters at end-use points. Through means such as these, complaints and claims related to the quality of gas distributed through PGN's piped transmission network or other distribution networks can be kept to a minimum.

In 2011, no cases of transgressions against relevant regulations and standards covering the transmission and distribution of gas were recorded.

### Customer Service (PR9)

The Company has established a customer complaints and information center known as the Gas Contact Center, which deals with inquiries and complaints from customers and the public alike. The Gas Contact Center can be reached by phone on 0800 1 500 645 (toll free) or 021 633 3000, or by email at center@pgn.co.id, and operates 24 hours a day, 7 days a week. Any general inquiries about PGN are dealt with directly by a Contact Center Agent, while complaints are forwarded to the person or department authorized to handle them, and are dealt with within no more than 24 hours of receipt. All complaints and inquiries are recorded in the Contact Center database. The Contact Center is a centralized unit in the Head Office and is integrated with the Company's three Strategic Business Units in Jakarta, Surabaya and Medan.

In order to facilitate customer service, in 2010 PGN settled a number of customer complaints that were received verbally or in writing. There were no recorded cases of violations of the stipulations of contracts regarding products or services provided by the Company.

### Customer Gatherings (PR2, EN26)

Customer gatherings are held by each SBU to narrow the gap between customers' expectations and the Company's capacity to provide such services. One program aimed at making customer service more proactive and intended to foster better relationships between the Company and its customers is the Customer Gathering program.

Activities conducted by PGN to promote and market its products include, amongst activities, sponsorship of events to socialize the use of environmentally friendly energy, participation in trade shows for the same purpose, gatherings for existing and potential customers,

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exhibitions for the public and for representatives of local governments, and family events involving clients. All these activities are intended to improve the public standing of the Company and to foster customer loyalty. Through various events of this kind, the Company gathers mutually beneficial feedback and input regarding its ability to meet the needs of its customers and their expectations. In addition, these events provide the Company with the opportunity to generate a greater awareness and to provide explanations related to the safe use of gas as a fuel, including explanations related to the security of the piped gas network located in both industrial and residential zones.

In addition to gatherings such as seminars, the Company facilitates routine visits to clients to foster a mutually beneficial awareness of issues related to the safe installation and use of gas. In addition, the Company facilitates visits to existing clients to check meters and installed pipes, to conduct routine maintenance, and to follow up on complaints made by these clients. These activities are conducted in order to minimize any possible negative effects resulting from the distribution of gas on the environment and in order to ensure full compliance with safety regulations.

### Measuring Customer Satisfaction

PGN consistently strives to improve its service through a number of means, including measuring customer satisfaction. The results of such surveys are then used as a reference for updating the Service Excellence Standards. In 2011, the Company conducted internal customer satisfaction surveys in each Sales and Service Area. In 2011, these indices revealed a number of issues and expectations that emerged during the period of this report. These findings will provide input for the Company to improve the provision of its services into the future. The customer satisfaction survey in 2011 emphasized the use of fossil-based fuels other than natural gas, the performance of Account Executives and online payments for residential customers. The following scores were

derived from the surveys conducted in 2011: CSI = 83.17%; CLI = 95.7% and CRI = 84%. The Company continued to update its Service Excellence Standards to enable it to meet the expectations of clients and to deliver excellent service to them. Working with an independent service provider, the Company has mapped customer expectations against the Company's current management policies and practices. On the basis of this mapping, the Company has published a Service Excellence Pocket Book, which has been socialized throughout its operations. This is a manifestation of the Company's commitment to customer satisfaction, which requires management and staff at all levels to prepare themselves to meet both the business challenges and the competitive challenges in the future. When implementing surveys of the type described above, PGN takes measures to ensure confidentiality to protect the privacy of its clients.

### Employees Retirement Benefits and Pension Fund (EC3)

PGN strives to guarantee the security of its employees into their senior years through the provision of a retirement fund. The Company enrolls its staff in a fixed contribution pension program, which is intended to provide security in their senior years. With the implementation of this fixed contribution pension program, each employee is able to choose a pension fund and/or investment portfolio according to their needs and expectations.

As a further measure to ensure the welfare of its employees, PGN also enrolls its employees in the Jamsostek health insurance program. In addition, the Company provides hospital and other medical benefits for employees and members of their families. For individual employees, PGN also provides a Financial Institution Pension Fund pension program, personal accident insurance programs, and other benefits in the case of workplace injuries, such as hospitalization, funeral benefits, and compassionate care facilities.



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## Statement GRI Application Level Checked Laporan Pengecekan Level Aplikasi GRI

The National Center for Sustainability Reporting (NCSR) hereby states that PT Perusahaan Gas Negara Tbk has presented its Sustainability Report 2011 with the theme "Transformation towards Sustainability" to NCSR Application Level Check Services, which have concluded that the report fulfills the requirement of Application Level A.

Application Levels communicate the extent to which the content of the GRI G3.1 guidelines has been used in the submitted sustainability reporting. The Check confirms that the required set and number of disclosures for that Application Level have been addressed in the reporting and that the GRI Content Index demonstrates a valid representation of the required disclosures, as described in the GRI G3 Guidelines.

Application Levels do not provide an opinion on the sustainability performance of the reporter nor the quality of the information in the report.

National Center for Sustainability Reporting (NCSR) dengan ini menyatakan bahwa PT. Perusahaan Gas Negara Tbk telah menyampaikan Laporan Keberlanjutan 2011 dengan tema "Transformasi untuk Keberlanjutan" kepada NCSR Application Level Check Services, dan menyimpulkan bahwa laporan telah memenuhi persyaratan Level Aplikasi A.

Level Aplikasi memberi gambaran tentang sejauh mana pedoman GRI G3.1 telah diterapkan dalam laporan yang disampaikan. Kami menyatakan bahwa laporan tersebut telah memuat seperangkat pengungkapan yang disyaratkan dalam Level Aplikasi tersebut, dan indeks GRI telah disajikan dalam laporan tersebut secara memadai, sesuai dengan Pedoman GRI G3.

Level Aplikasi ini bukan merupakan opini atas kinerja keberlanjutan maupun kualitas informasi yang dimuat dalam laporan tersebut.

Jakarta, 15 May 2012

Drs. Elmar Bouma, CSRA  
Director

*The National Center for Sustainability Reporting (NCSR) is an independent and non-for profit organization, established in 2005 to promote sustainability reporting in Indonesia, Malaysia and Thailand. NCSR is registered as an organizational stakeholder member of the Global Reporting Initiative (GRI) since 2006.*

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# The Evolution of PGN Sustainability Report



## 2009:

In this year, PT Perusahaan Gas Negara (Persero) published its first standalone Sustainability Report, separate from its Annual Report. This report is an integral part of the Company's reports on its performance throughout the year, and is intended to provide a broad picture of the Company's activities to ensure the sustainability of its business and the performance of its obligations to all stakeholders, including its environmental obligations.

In this report, the Company describes a range of initiatives to achieve this sustainability in a transparent, accountable and balanced fashion, including a full discussion of both positive and negative aspects of its performance, in accordance with the Sustainability Reporting Guidelines Version 3 published by the Global Reporting Initiative (GRI).

This first report focused on a number of major topics that were selected on the basis of their material relevance to the sustainability of the Company. These topics included those related to the development of the Company's business, corporate governance, human resource management, economic performance, environmental management, and the implementation of corporate social responsibility and environmental programs.

The information and data presented in this report includes the Company's consolidated financial data and that of its subsidiary companies as determined through the equity method.

With the compiled data contained in the report, the Company holds that this report has fulfilled the GRI standards for a B ranking, which has been confirmed by the National Centre for Sustainability Reporting (NCSR).



## 2010:

In this year, PT Perusahaan Gas Negara (Persero) published its second sustainability report. This report provided a general picture of the initiatives implemented by the Company in the context of achieving sustainability and as a manifestation of the Company's commitment to the principles of accountability to its stakeholders. This report covered the activities of PGN and subsidiary companies. This report was prepared on the basis of the equity method and on the basis of investments in financial information. Non-financial information and data was included on the basis of material information and on considerations of its relevance and influence on PGN's operations.

In its second annual sustainability report, the Company strove to include sustainable performance indicators that it was not possible to include in the previous report. In the period covered by the second report, there were no significant material changes related to the Company structure or to the composition of shareholders.

As in the previous report, this report adheres to the Sustainability Reporting Guidelines (SRG) Version 3 published by the Global Reporting Initiative (GRI), generally known as GRI-G3.0.



## 2011:

In 2011, the Company published its third annual sustainability report. Through this report, we strove to provide stakeholders with full information related to the Company's economic, social, and environmental performance in 2011.

In line with the reporting standards described above, this report contains information related to PGN's performance in terms of economic, environmental, labor, human rights, community development, and product responsibility.

This report was prepared in accordance with the Sustainability Reporting Guidelines Version 3.1, published by the Global Reporting Initiative (GRI), based in Amsterdam, the Netherlands. We will continue to work to improve PGN's sustainability reports into the future to ensure that they fulfill the needs and expectations of all our stakeholders and other users of the report. In order to achieve this, we invite comments and feedback from readers of this report in order to enable us to improve these reports in the future.

## Feedback on Sustainability Report 2011 PT Perusahaan Gas Negara (Persero) Tbk

Thank you for taking the trouble to read this Sustainability Report 2011. As a means to improve this report in future years, we invite you to submit your feedback and opinions by answering the following questions.

### Questions

1. In your opinion, did this report provide you with useful information concerning PT Perusahaan Gas Negara (Persero) Tbk's fulfilment of its Environmental and Social Responsibilities?

SD S RR TS STS

2. In your opinion, was the material in this report well presented and easy to understand?

SD S RR TS STS

3. In your opinion, was the material in this report comprehensive and covering all issues related to sustainability?

SD S RR TS STS

4. In your opinion, did the material in this report provide you with a sufficient basis for decision making?

SD S RR TS STS

#### Key:

SA: Strongly Agree

A: Agree

N: Neutral

D: Disagree

SD: Strongly Disagree

5. In your opinion, what information of significance did this report contains and how did it benefit you?

a. ....  
b. ....  
c. ....

6. In your opinion, what information did this report contains that you thought was not useful?
- .....
  - .....
  - .....
7. In your opinion, how would you assess this report in terms of content, design, layout and graphics?
- .....
  - .....
  - .....
8. In your opinion, what information was lacking from this report and should be contained in future Sustainability Reports?
- .....
  - .....
  - .....

### Your Details

Full Name : .....

Age and Gender : M/F (cross out if inapplicable)

Institution/Company : .....

Type of Institution/Company : ☐ Government ☐ Private Sector ☐ Media  
☐ NGO ☐ Community ☐ Other

This form and associated comments related to the 2011 Sustainability Report can be delivered to:

PT Perusahaan Gas Negara (Persero) Tbk.

Head of the Environmental and Social Responsibility Division

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