PERTAMINA
TRANSFORMATION IN CHANGING ENVIRONMENT

May 2009
FOR MORE THAN 30 YEARS, PERTAMINA HAS CARRIED OUT THE GOVERNMENT’S MANDATE TO SUPPORT INDONESIAN ECONOMY


Transition Era: Upholding the Economy Post-Crisis 2000-2005

Open Era: 2006-onwards

Economic and Political Landscape

- Centralization of country’s economic and political power
- Emphasis on political stability for economic growth; use of subsidies to ensure social welfare
- Democratization and decentralization – with ‘transitional’ instability
- Slow economic recovery
- Transition towards open, competitive markets

PERTAMINA’s Roles

- PERTAMINA as a growth engine for national economic development
- Prepare for competition: relinquish regulator role
- Continue to ensure supply during transition

Since 1976, PERTAMINA …

- has been converted from a business to a state agency
- has not received working capital from the Government
- mainly served to carry out the Government’s demands to distribute fuel products
- has been told to take no risks upstream; let the PSCs take the risks
NOW, WE ARE FACING MULTIPLE CHALLENGES

Important shifts in external context...
- Laws and regulation increases focus on real performance
- Complex and challenging stakeholders

Significant internal challenges...
- Obligations as a state-owned company
- Lack of competitive mindset and skills
- Under-invested infrastructure and systems
- Significant leakage problem

Our starting position...
- Small by international standards
- Not as profitable as we should be
- Do not enjoy significant upstream position

Where do we go from here...
LAW #22/2001 IN PARTICULAR MADE PERTAMINA AS “JUST ANOTHER PLAYER” IN INDONESIA’S OIL AND GAS INDUSTRY

Pre Law #22/2001

- PERTAMINA
  - PERTAMINA as the industry monopoly
    - Sole operator for processing and downstream
    - Operator for upstream; contracting with private players through PSCs
  - PERTAMINA as government’s custodian – collect “rents” on behalf of government

Post Law #22/2001

- Overall policy/direction setting for the industry: Ditjen Migas
- Regulation and supervision of business entities is conducted by implementing bodies
  - Upstream: BP Migas
  - Downstream: BPH Migas
- PERTAMINA is just another player
  - Processing and downstream are opened for “any” operators licensed by the Government
  - Upstream is opened for “any” operators under PSCs with the Government
- Custodian role is conducted by regulatory bodies
Today

2007

June 14, 2006

“Do something
Create something
Achieve success
Build your legacy…”

2008 2013 2018 2023

ROADMAP OF TRANSFORMATION (2008-2023)

Phase 1: Build the foundation
Phase 2: Build operational excellence
Phase 3: Go international as an operator

NOC evolution

June 14, 2006

June 14, 2006

Lima tahun pertama: Membangun landasan untuk tumbuh di pasar domestik
- Perusahaan Indonesia no.1
- Keunggulan operasional
- Role model untuk reformasi Indonesia

Lima tahun kedua: Perusahaan minyak yang memimpin pasar Asia Tenggara
- Perusahaan minyak dan gas yang terbesar di wilayah ini
- Partisipasi internasional yang terus tumbuh
- Meningkatkan kapabilitas teknis

Lima tahun ketiga: NOC Kelas Dunia
- Setingkat dalam kapabilitas dengan IOC lainnya
- Partisipasi internasional yang meningkat
- Termasuk dalam 15 teratas perusahaan minyak dunia

Update

Best Practice

Transformation process

Foundational Theme of Transformation

Vision

Professionalism

Time

2007

2008 2013 2018 2023
PIAGAM PERTAMINA
Membangun Lokomotif Ekonomi Nasional

Menjadi Perusahaan Minyak Nasional Kelas Dunia

Menjalankan usaha inti minyak, gas, dan bahan bakar nabati secara terintegrasi, berdasarkan prinsip-prinsip komersial yang kuat

TATA TERTIB

STRATEGI PERUSAHAAN

Mencapai nilai tambah melalui kinerja komersial, menggalakkan kebijakan ekonomi, dan memastikan keberlanjutan bisnis

PRINSIP PRIA Tahap KOORDINASI

Kewajiban dan Kekuasaan

Menjamin keberlanjutan kebijakan perusahaan

Mengawal dan mengintegrasikan kebijakan yang telah ditetapkan

MEMORANDUM

Membangunan perusahaan minyak dan gas, dan penyedia produk minyak nabati dan gas bahan bakar alami

Memiliki unit pengendalian tingkat kebadian dan efisiensi, dan daya saing tinggi

Menjalankan kebijakan komersial secara efisien, dan memberikan manfaat bagi masyarakat, serta membuka peluang peluang untuk kepelbagaian

Berperan dalam pelaksanaan kebijakan yang telah ditetapkan

Pertamina

Jakarta, 16 Desember 2007

Direksi

Komitmas

Menangkai Negara Badan Usaha Milik Negara

Sekretaris

Pertamina

pertamina.com
OUR APPROACH TO CULTURAL TRANSFORMATION
DRIVERS OF A PERFORMANCE CULTURE: MINDSETS AND VALUES

“...“The way we do things around here” is driven by what we do not see...

<table>
<thead>
<tr>
<th>Description</th>
<th>Example in Pertamina context – with regards to performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Business performance</td>
<td>• $ EBITDA, millions bbl/day production</td>
</tr>
<tr>
<td>• Quality of management practices</td>
<td>• Frequency and quality of people performance review implemented</td>
</tr>
<tr>
<td>• Behaviors of key individuals</td>
<td>• How serious the GM/Kadiv is about preparing and conducting a performance review</td>
</tr>
<tr>
<td>• Employees satisfaction</td>
<td>• Only 31% agree to “This company recognises performance results that exceed an employee’s personal obligation to the company”</td>
</tr>
<tr>
<td>• Mindsets of individuals and groups of individuals</td>
<td>• “We are government agents to serve the country”</td>
</tr>
<tr>
<td>• Values the organization upholds</td>
<td>• “Keeping weak performers in the organization is better than giving them consequences”</td>
</tr>
<tr>
<td></td>
<td>• Public orientation</td>
</tr>
<tr>
<td></td>
<td>• Collectivism</td>
</tr>
<tr>
<td></td>
<td>• Bureaucracy</td>
</tr>
</tbody>
</table>
THE APPROACH TO TRANSFORMING CULTURE AT PERTAMINA

• PHASE I
  • Where are you today and where do you aspire to go?

• Organisational performance profile (OPP)

• PHASE II
  • What do you need to do to get there?

• “From-to” themes

• Influence model

• PHASE III
  • How do you implement for impact?

• Prioritized action plan

• Change program choices
WE DESIGNED THEME-O-METER TO CHECK THE EFFECT OF CULTURE CHANGE PERIODICALLY

- OPP 1
  • Theme-o-meter for “Pulse check” of culture change propagation
  Δ Δ Δ Δ
  • OPP 2

- Theme-o-meter survey overview
  • Preparation and setup
    • Designed and tested by groups of employees
    • 840 respondents (4.7%) is sufficient for 90% confidence level
    • Conducted every 3 months
  • Example question
    • *Silakan pilih 4 kata-kata saja di bawah ini yang menurut penilaian anda memberikan gambaran yang tepat tentang situasi di Pertamina berkaitan dengan tema sistem reward dan konsekuensi dasar kinerja pada saat ini.*
    - Bias
    - Keliru
    - Konsisten
    - Masuk akal
    - Transparan
    - Terhubung
    - Mengelak
    - Tidak terhubung
  • Analysis method
    • Each word is ‘secretly’ linked to four categories:
      – Actively supporting
      – Passively supporting
      – Passively resisting
      – Actively resisting
    • Outcome used to understand:
      – Whether there is critical mass (30%) for culture change
      – Environment ‘temperature’ within organization

Source: McKinsey
BREAKTHROUGH PROJECT
BREAKTHROUGH PROJECTS DELIVERED TANGIBLE AND INTANGIBLE BENEFITS

Why we launched BTPs

• Catalyzing the transformation journey

• Build momentum for change by delivering quick & visible (big or small) wins

• Engage the whole organization in transformation effort

• Develop capabilities and leadership

100 days

BTPs delivered tangible and intangible impact

Example of 4 successful breakthrough projects (out of a total of 22 projects)

1. From Pondok Tengah Field Devt
   • Jumlah SDM yang menangani proyek 30 % dari yang diharapkan
   • First oil production dapat dilakukan 2 bulan lebih awal dari rencana awal berdasarkan POD yang telah disetujui oleh BP Migas.
   • Produksi rata-rata 1500 BOPD sejak tgl. 9 Agustus 2006 dan 3000 BOPD sejak 24 Oktober 2006

2. Significant improvements in critical depots
   • Target penurunan transportation loss dari 0.15 % menjadi 0.1% (20 kapal)
   • Keterlambatan pembentukan Tim kira-kira 1 bln
   • Musibah kebakaran membakar habis sistim informasi dan monitoring kegiatan kapal
   • Berkat kerjasama tim yang baik BTP selesai tepat waktu dan melampaui target awal, mencapai 0.06 %

3. Million US $ savings from transportation loss control

4. New travel policy implemented

11
BTP SELECTION PROCEDURE

Review progress of BTPs

List of corporate BTPs

Screen the list of key directorate initiatives for

List of directorate/unit BTPs

Reflect/review directorate strategies

Source: Team analysis
**PORTFOLIO OF PRIORITY INITIATIVES ESTABLISHED BOTH AT CORPORATE AND AT DIRECTORATE LEVELS**

### “Earn the Right to Survive”
- **Upstream**
  - Drilling plan
  - Regulatory management
  - Reserve Certification and Production Audit
- **Refining**
  - Operational Performance Improvement (OPI)
- **M&T**
  - Achieving lowest cost possible

### “Develop the Core”
- **E&P**
  - PT EP CEPU production acceleration and capability building
  - Operational excellence
  - Domestic expansion strategy
    - Investing in new PSC’s
    - PHE JV management
    - Offshore E&P
- **Refining**
  - Plant upgrading
- **M&T**
  - LPG business

### “New Sources of Growth”
- **E&P**
- **Refining**
  - Natuna
  - Refining capacity expansion
  - Petrochemical Strategy

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**Main Activities of RJPP** are large complex projects that require comprehensive planning and substantial resources commitment.

About 700 people directly involved on RJPP project.

First step to becoming a world class NOC.
### PORTFOLIO OF PRIORITY INITIATIVES ESTABLISHED BOTH AT CORPORATE AND AT DIRECTORATE LEVELS, 2009

<table>
<thead>
<tr>
<th>Upstream</th>
<th>Refining</th>
<th>M&amp;T</th>
<th>GA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manpower Plan and Policy</td>
<td>OPI</td>
<td>M&amp;T Endgame Plan - Radical Ideas</td>
<td>Manpower Planning And Recruiting</td>
</tr>
<tr>
<td>CBM Strategy</td>
<td>Pengembangan RU III Plaju</td>
<td>Improving LPG Business</td>
<td>Early Professional Development Program</td>
</tr>
<tr>
<td>Long-term Gas Business Strategy</td>
<td>Bottom Upgrading RU V - Balikpapan</td>
<td>Accelerate and Optimize LPG Service Infrastructure</td>
<td>HSE Improvement &amp; Implementation Program</td>
</tr>
<tr>
<td><strong>Build Commercial Capabilities on Business Development</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Corporate Secretary</th>
<th>Finance</th>
<th>Corporate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preparing for Public Company Status</td>
<td>SAP Implementation</td>
<td>Business Information Integrity</td>
</tr>
<tr>
<td>Pertamina Clean</td>
<td>Enterprise Risk Management</td>
<td>Biofuels Strategy</td>
</tr>
<tr>
<td>Corporate Asset Image Make-over</td>
<td></td>
<td>Badak – LNG Business Transformation</td>
</tr>
</tbody>
</table>

Source: Discussions with each directorate – Oct 2008
# THE PERTAMINA CLEAN BTP ACROSS THREE DIMENSIONS

<table>
<thead>
<tr>
<th>Activity</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Education and communication</strong></td>
<td>• Roll out Clean program and Pertamina Mendengar during Dialogue Days</td>
</tr>
<tr>
<td>• Designed the Clean Dialogue</td>
<td>• Allows role modeling by top team and emphasis on importance of Pertamina Mendengar</td>
</tr>
<tr>
<td>• Integrating Pertamina Mendengar in Ramadan Safari</td>
<td>• Allows all procurement staff and Managers and above to understand grey areas and conflict of interests</td>
</tr>
<tr>
<td>• Re-launching ethics workshop for vendors and also to vendors (new)</td>
<td>• Reduce leakage from Pertamina</td>
</tr>
<tr>
<td>• Integrating Pertamina Mendengar in Ramadan Safari</td>
<td>• Improve confidence of employees due to clearer measures</td>
</tr>
<tr>
<td><strong>Prevention</strong></td>
<td>• Identified potential annual savings across non-hydro spend in Refining, Upstream and GA, potential for efficiency gains and improvement to image</td>
</tr>
<tr>
<td>• Syndicated BoD top concerns and collaborating with stakeholders on designing preventive measures on some of these, e.g., upstream audit system</td>
<td>• Identified potential annual savings across non-hydro spend in Refining, Upstream and GA, potential for efficiency gains and improvement to image</td>
</tr>
<tr>
<td>• Procurement diagnostics</td>
<td>• Allows CEO and BTP owners to focus on top enforcement concerns</td>
</tr>
<tr>
<td><strong>Enforcements</strong></td>
<td>• Enabled the procurement of relevant services and the launch of Pertamina Mendengar</td>
</tr>
<tr>
<td>• Investigative and whistleblower services</td>
<td>• Provision of alternate channels for employees to complain about conflict of interests, fraud, violation of laws and regulations and corruption</td>
</tr>
<tr>
<td>• Launching Pertamina Mendengar on 1&lt;sup&gt;st&lt;/sup&gt; week of Aug 2008</td>
<td>• Allows CEO and BTP owners to focus on top enforcement concerns</td>
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<tr>
<td>• Syndicated BoD concerns</td>
<td>• Provision of alternate channels for employees to complain about conflict of interests, fraud, violation of laws and regulations and corruption</td>
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Source: Compliance team
## Communicate the Clean Messages

### Why Clean is critical

- Pertamina has been transformed into a new organization.
- There is a need for core values and consequences that are clear.
- Customer focus is now more important.
- Implementing Clean in a Refining Operational Improvement Program (CHIP) was a success.
- An unhappy customer is a free advertisement.
- Clean practices at Pertamina are being reinforced.

### What does Clean comprise

- **Program Pertamina Clean**
  - Comprehensive look at the importance of maintaining a high standard.
- **Pertamina Clean**
  - Critical issues in the workplace.
- **Art of Compliance**
  - Leadership in the workplace.
- **Pertamina Clean in Leadership**
  - Integration of Clean in the workplace.

### What are unethical practices

- **Unethical Practices**
  - Taking credit for someone else's work.
- **Unethical Conduct**
  - Misuse of company resources.

### What is the role of AsMan and above

- **AsMan and above**
  - Leadership role in maintaining Clean practices.
- **Role of AsMan**
  - Mentoring employees to maintain Clean standards.

### Unethical Practices

- **Unethical Practices**
  - Misuse of company resources.
- **Unethical Conduct**
  - Taking credit for someone else's work.

Source: Compliance Team
OUR “greatest hits” to date

Leadership & Culture
- Starting cultural shift (efficiency and cost awareness, customer focus) as seen in the Theme-o-meter (>70% supportive of the transformation); openness to best practices & external hires
- Leaders starting to behave as role models

Upstream
- Increased oil production (8% increase)

Refining
- OPI value creation (more than 150 MUS$)
- Pasti pas roll-out (ca 1778 stations)
- LPG conversion

M&T
- Increased investment realization (>70%)
- mySAP implementation underway
- Clean initiative underway (whistleblower, integrity pact)
- People reviews rolled out (15000 people)
THROUGH CULTURE CHANGE PROGRAMS, WE DEVELOP OUR PEOPLE

**People Review**

- 2,500 people (L4 above) received objective performance review with meaningful difference among them

**Breakthrough Projects**

- Around 1000 employees involved in three phases of BTP

**Core Culture Change Workshops**

- 1,724 people (L4 above) get upskilling on *culture change moduls*

**Transformation Leadership Engine**

- 145 qualified transformation leaders trained through Transformation Leadership Engine (TLE) program

**Community of Practices & Implementation**

- Around 150 top managers participated in CoPI Programs (Performance Dialogue, Coaching & Feedback)
...AND THEME-O-METER RESULTS SHOW SIGNIFICANT INCREASE IN NUMBERS OF PEOPLE WHO ACTIVELY SUPPORTING TO CULTURE CHANGE

Support to Performance Culture
% dari total people count

<table>
<thead>
<tr>
<th>Theme-o-meter survey</th>
<th>Actively Resisting (AR)</th>
<th>Passively Resisting (PR)</th>
<th>Passively Supporting (PS)</th>
<th>Actively Supporting (AS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jul ’07</td>
<td>841</td>
<td>49</td>
<td>33</td>
<td>14</td>
</tr>
<tr>
<td>Nov ’07</td>
<td>707</td>
<td>41</td>
<td>35</td>
<td>21</td>
</tr>
<tr>
<td>Apr ’08</td>
<td>6,479</td>
<td>28</td>
<td>42</td>
<td>28</td>
</tr>
<tr>
<td>Nov ’08</td>
<td>7,760</td>
<td>22</td>
<td>45</td>
<td>31</td>
</tr>
</tbody>
</table>

Perception on Environment
% dari total words count

<table>
<thead>
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<th>Theme-o-meter survey</th>
<th>Actively Resisting (AR)</th>
<th>Passively Resisting (PR)</th>
<th>Passively Supporting (PS)</th>
<th>Actively Supporting (AS)</th>
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</thead>
<tbody>
<tr>
<td>Jul ’07</td>
<td>20,160</td>
<td>26</td>
<td>28</td>
<td>28</td>
</tr>
<tr>
<td>Nov ’07</td>
<td>16,968</td>
<td>22</td>
<td>27</td>
<td>34</td>
</tr>
<tr>
<td>Apr ’08</td>
<td>154,987</td>
<td>31</td>
<td>43</td>
<td>43</td>
</tr>
<tr>
<td>Nov ’08</td>
<td>186,240</td>
<td>32</td>
<td>47</td>
<td>47</td>
</tr>
</tbody>
</table>

Tipping point ~ 30% actively supporting individuals

Source: Team Analysis; Cochran (Sampling Technique, 1963); Sudman (Applied Sampling, 1976)
NET PROFIT AND DIVIDEND, 2004 - 2009

CAGR

+24%

2004
2005
2006
2007
2008
2009

Net Profit
Devident

Net Profit
Devident
CONTRIBUTING IN TERM OF DIVIDEND (PERCENTAGE)

<table>
<thead>
<tr>
<th>Year</th>
<th>Non Pertamina</th>
<th>Pertamina</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>77.98%</td>
<td>22.02%</td>
</tr>
<tr>
<td>2005</td>
<td>68.84%</td>
<td>31.16%</td>
</tr>
<tr>
<td>2006</td>
<td>44.29%</td>
<td>55.71%</td>
</tr>
<tr>
<td>2007</td>
<td>52.08%</td>
<td>48.49%</td>
</tr>
<tr>
<td>2008</td>
<td>51.51%</td>
<td></td>
</tr>
</tbody>
</table>

- Pertamina share increased from 22.02% in 2004 to 48.49% in 2008, an increase of +22%.
- Non-Pertamina share decreased from 77.98% in 2004 to 51.51% in 2008, a decrease of -13.99%.

Note: The values are percentages of total dividends.
THANK YOU