



Re-Attracting Upstream Investment to Indonesia



Gunung Sardjono Hadi, Innovation and Synergy
become the keys to facing the challenges

PHE's CSR Footprints in Coastal Java and South Sumatra

Interview : Komaidi Notonegoro

Communication is The Key



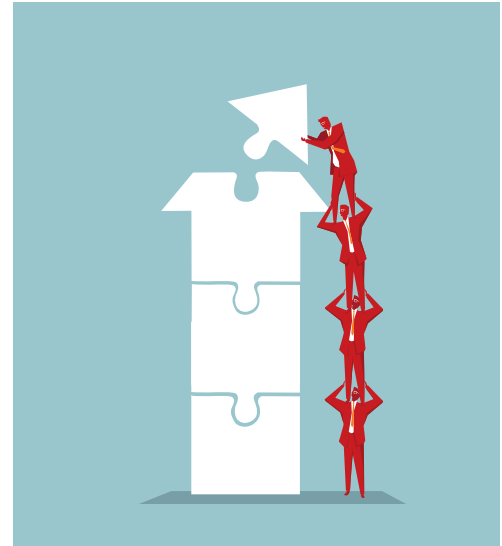
Time to Act!

The problem of oil and gas investment in Indonesia became the main focus of the IPA Convention and Exhibition 2017. Since it was established, the IPA has consistently engaged in dialogue with the government to find the best way to advance the oil and gas industry in Indonesia.

The 41st IPA Convention and Exhibition 2017 held on 17-19 May 2017 took the theme "Accelerating Reform to Re-Attract Investment to meet the Economic Growth Target". During the event, the Government of Indonesia and the IPA conducted various discussions and dialogues to determine the best steps that can be taken to increase oil and gas investment in Indonesia.

In this edition, IPA News will discuss many issues related to the results of the IPA Convention and Exhibition, specifically on how to make Indonesia's oil and gas sector attractive to investors. In the Focus section, we share the issue of making Indonesia attractive to investors and also the success stories that took place in Mexico where the country managed to re-attract oil and gas investors, including the major international upstream companies.

In the Interview section, the IPA interviewed the Executive Director of ReforMiner Institute, Komaidi Notonegoro, who explained what can be done by the Government and the oil and gas contractors in Indonesia to rebuild the attractiveness of the industry



here in Indonesia so that the upstream oil and gas industry can be reinvigorated. While in the Profile section, IPA News chose the President Director of PT Pertamina Hulu Energi, Gunung Sardjono Hadi, to tell his success story in leading one of the national oil and gas companies in the middle of challenging conditions.

Finally, we hope that the IPA News can provide an appropriate update for all members of the IPA in particular and for relevant stakeholders in general so that the passion that we all share to continue working and advancing the upstream oil and gas industry in Indonesia can be maintained for the benefit of all stakeholders. ○

Christina Verchere
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Bureaucratic Reform and Clear Regulations are key to Attracting Investors



JAKARTA - The Indonesian Petroleum Association held its 41st annual exhibition and convention this year. The event, which was opened by the Minister of Energy and Mineral Resources, Ignasius Jonan, representing the President of the Republic of Indonesia, took place on 17-19 May 2017 at the

Jakarta Convention Center (JCC).

This year's event was entitled "Accelerating Reform to Re-Attract Investment to Meet the Economic Growth Target", which highlighted that Indonesia needs a lot of new investment to support oil and gas exploration and exploitation activities in order to obtain

new sources of oil and gas. Admittedly, many efforts have been tried by the Government to improve the condition of upstream oil and gas in Indonesia, although it has not made investors immediately invest in Indonesia.

"The industry must continue to work with the government to carry out policy reforms so as to create favorable conditions for both the government and investors," said IPA President Christina Verchere, who was met on the sidelines of the recent IPA Convention and Exhibition event in Jakarta.

According to her, the event was a good opportunity to exchange ideas, opinions and success stories from all stakeholders in the upstream oil and gas sector.

From the Government's side, the Convention and Exhibition event was also used as an opportunity to offer new oil and gas blocks for exploration. Director General of Oil and Gas, I Gusti Nyoman Wiraatmaja, briefly announced the Offering of Oil and Gas Working Areas of the first round of 2017. ○

Implementing the National Energy Plan and its impact to the Oil and Gas Industry

Following the 41st Conference and Exhibition IPA (Convex IPA) 2017, the IPA held a Focus Group Discussion (FGD) in Jakarta on 12 June 2017 with the theme "Implementing Indonesia's Energy Plan – Status Update of Oil and Gas Exploration and Enhanced Oil Recovery". Executive Director of ReforMiner Institute, Komaidi Notonegoro, and National Energy Council, Andang Bachtiar, attended as keynote speakers.

According to Andang Bachtiar, the oil and gas industry in Indonesia is one of the main foundations of national economic growth. Unfortunately, as time has progressed, the upstream oil and gas industry has been facing many challenges. This condition has been proved by the reduction in oil and gas exploration and production activities

in Indonesia since a few years ago.

It was noted that the President of the Republic of Indonesia Joko Widodo has signed a document that contains the General Plan of National Energy (RUEN) through Presidential Regulation no. 22 of 2017. This document described the state and long-term plan for energy in Indonesia, including the efforts that can be made to achieve its objectives, namely increased exploration activities and enhanced oil recovery (EOR).

Therefore, Andang suggested that the IPA members and all stakeholders in the oil and gas sector should keep actively reminding the Government of the RUEN in order to achieve the goals. At the same time, the Government is also expected to synergize all existing

regulations and policies to be in line with the RUEN.

Meanwhile, Komaidi Notonegoro said that there was a tendency that Government will choose to import oil and gas to meet domestic oil and gas needs. According to him, this is a very dangerous strategy, because Indonesia will be very dependent on other countries. And of course the cost to import will undermine the state finances.

On this same occasion, the IPA President Christina Verchere said that IPA will consistently communicate with the government through meetings or discussions as a form of proactive action to convey the voice of oil and gas industry players. "The Indonesian government has tried to change, but the change is not enough. Therefore, the IPA will continue to give suggestions to stakeholders in the upstream oil and gas sector to improve the investment climate and improve the current situation", she concluded. ○



Re-Attract Investment for a Better Indonesia

The upstream oil and gas industry in Indonesia is facing severe challenges. The declining of oil production and reserves and the increasingly aging well condition have become significant factors. Amid these conditions, oil and gas investors are reluctant to conduct exploration and Indonesia has become less attractive to oil and gas investors.

In fact, according to the Director of the Indonesian Petroleum Association, Daniel L. Wiczynski, Indonesia actually has huge oil and gas potential. Unfortunately, there are some obstacles that make Indonesia less attractive for oil and gas investors. "Investors still see great potential in Indonesia but some existing fiscal policies make Indonesia less attractive than other countries in the region," he said on the sidelines of the 41st IPA Convention and Exhibition in 2017, in Jakarta.

In addition to unattractive oil prices, according to him, there are still other problems that also hamper investment in the oil and gas sector in Indonesia. Investors complain about the difficulty of obtaining the necessary permits to conduct exploration and production activities and also with the unclear rules of the implementation of the scheme for the gross split in Indonesia after the ESDM Regulation No. 8/2017, but sufficient changes to this regulation will make it possible for the gross split scheme to become attractive.

At the beginning of 2017, the Government of Indonesia announced a new scheme that will replace the cost recovery scheme for future Indonesian oil and gas production contracts. This scheme is considered to be a fairer scheme for both parties, namely oil and gas contractors and the Government, and will encourage contractors to work effectively and efficiently. In this case, the contractor is believed to be more careful when issuing funds to finance all of its

operations.

The Chairman of APINDO, Hariyadi B. Sukamdani, said that the government has not regarded the oil and gas industry as an urgent problem. So many ad-hoc rules are made. "The government looks like it is considering about Non-Tax Revenue from Oil and Gas. The revenue (PNBP) from oil and gas is to be less than the cost and process that must be undertaken, so this industry is not considered as urgent, whereas non-tax revenue from the oil and gas sector is still the highest," he said.

Therefore, Hariyadi argued that oil and gas sector players in Indonesia should start to dare to speak firmly to the Government. "The country needs investors in the oil and gas sector. Although we know that the Government has handed over the management of several oil and gas blocks that have expired to Pertamina, it is not easy for Pertamina to invest heavily because it requires huge financial capability," he said.

Based on data obtained from Special Unit for Upstream Oil and Gas Business

Activities (SKK Migas), the realization of investment in 2015 touched USD 15.34 billion. The figure declined by 27% the following year, to USD 11.15 billion.

"We have to be loud and clear to the Government, so we can find the best solution for the growth of the oil and gas industry and other derivative industries. The government should also listen to the private sector so that the regulations made will provide great benefits for both parties," he said.

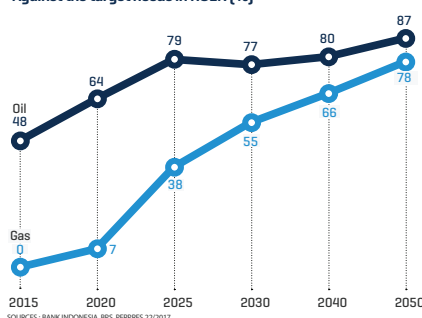
OPEN TO DISCUSSION

From the government side, Minister of Energy and Mineral Resources, Ignasius Jonan, said that the Government is currently trying to find solutions for oil and gas industry players in Indonesia in order to carry out its exploration and production activities. "We have implemented simplified licensing and increased the efficiency of the bureaucracy in the upstream industry in order to revive oil and gas invest-

ECONOMIC THREATS IN TO THE NATIONAL ENERGY PLAN

The government projected the supply of oil and natural gas Relying on massive imports in decades forward. In the long term, import dependence can be Threatening energy security and burdening the state's finances.

Portion of Oil and Gas Import Against the target needs in RUEN (%)



IMPACT OF GAS IMPORT:

- ⚡ Weakening the rupiah and foreign exchange reserves
- ⚡ Supply stability unsecured
- ⚡ Burdening the balance of payments and trade
- ⚡ Threatening energy security

AVERAGE DAILY IMPORT VALUE (2006-2015)

- Crude oil and derivatives**
US\$ 82 million per day
Rp 862.7 billion per day
- Gas**
US\$ 17.5 million per day
Rp 183.5 billion per day
- Average BI Rate Rp 10,494/US\$ (2006-2015)

CONSEQUENCES OF RUEN AGAINST FOREIGN EXCHANGE NEEDS OF OIL AND GAS IMPORTS

Foreign Exchange Needs of Import	Period (Million USD)						
	2012	2016	2017	2018	2019	2020	2025
Crude Oil & Fuels (Million USD)	37,702	15,969					
1. Oil Price 50 USD/bbl	-	-	20,838	24,187	27,182	30,375	41,875
2. Oil Price 70 USD/bbl	-	-	29,174	33,862	38,055	42,525	58,625
3. Oil Price 50 USD/bbl	-	-	20,838	24,187	28,795	31,988	67,240
4. Oil Price 70 USD/bbl	-	-	29,174	33,862	40,314	44,784	94,137
Gas [LPG]	2,483	1,741	2,086	2,225	2,411	2,550	2,225

Source: ReforMiner Institute

Notes: The position of Indonesia's foreign exchange reserves per May 31, 2017 amounted to 124,950 million USD. Data for 2012 & 2016 are realization data. The first assumption: points 1 & 2: the plan for the construction of refineries and points 3 & 4 refinery construction is not running. The second assumption: the price of LPG is assumed to be equal to the price of 2016.

ment in Indonesia," he said during a press conference following the opening of the 41st IPA Exhibition and Convention of 2017.

Jonan acknowledged that there are several obstacles in the reform process in the energy sector. Many policies adopted by the Government should be discussed firstly in the existing political process. "Not easy. But we keep working on it. If there are regulations that need to be discussed further, we are very open to suggestions and input from the industry," he said.

The government plans to simplify the licensing procedure which is considered as one of the causes of the difficulty of investors entering the oil and gas sector. The amount of licensing in the oil and gas sector is considered too much and has complicated the process. Previously, just for the Ministry of Energy and Mineral Resources, there are 104 permits. This amount will increase sharply if added from other agencies outside EMR.

Currently, the ESDM Ministry has successfully cut 60 percent of the existing licensing requirements to only 42 permits. The step of cutting the permits is in line with the vision and mission of the President of RI to reduce the bureaucracy to increase investment in Indonesia.

Deputy Minister of Energy and Mineral Resources, Arcandra Tahar, who was also a speaker at the 41st IPA Exhibition and Convention 2017 also said that they had opened a discussion room with oil and gas contractors who may still consider that the scheme for the gross split is unattractive. "We are open to discussion. If there is anything to discuss, please let us know. We hope that this new regulation will be a win-win solution for all parties," he said.

LEARN FROM MEXICO

Prior to energy reforms in 2013, the Government of Mexico had a problem in the upstream oil and gas sector that is similar to what is happening today in Indonesia. The decrease in production, regulations that do not benefit oil and gas investors, to the complexity of licensing bureaucracy, are problems that existed in the upstream oil and gas industry in Mexico.

When the Mexican President, Enrique Peña Nieto ruled, the Mexican Government began to make major changes in fiscal policy and incentives for oil and gas investors. Directorate General of Investor Relations and Promotion Secretaria de Energia de Mexico Nicole David Palau, who attended as one of the speakers at the 41st IPA Exhibition and Conventi-

"WE LEARNED EVERYTHING FROM SCRATCH, WE HEARD FROM THE PRIVATE SECTOR AND STARTED REFORMING THE EXISTING RULES."

on of 2017, explained how the policy reforms that were undertaken by the Government of Mexico could drastically change the ability of a country to attract investment in the oil and gas sector. "We learned everything from scratch, we heard from the private sector and started reforming the existing rules," she said.

Nicole added, one key to their success is to open opportunities as much as possible for foreign companies to manage oil and gas blocks. Previously, oil and gas management in Mexico was highly monopolized by Mexican Petroleum (PEMEX), a Mexican government oil and gas company. "The oil and gas sector was closed to foreign investors for 75 years. Now we have channeled energy from

hydrocarbons and electricity by providing opportunities for investors from outside Mexico to contribute," Nicole said.

The opportunity for foreign parties to participate in this investment was opened after the Mexican Government changed some regulations in oil and gas management. The regulatory reform also has the support of all stakeholders, including the Mexican House of Representatives. One of the regulatory reforms occurred in the oil and gas block management contract scheme which is based on the work area of each block. Thus, the management of one oil and gas block with another block is different.

Currently, there are about 15 contracts for exploration blocks in shallow seas with a total area of 8,900 square kilometers. The blocks are scattered in a number of areas, such as Veracruz, Tabasco and Campeche. The existence of 15 cooperation contracts added oil and gas investment value of approximately US \$ 11.3 billion.

On a different occasion, the President of the Indonesian Petroleum Association (IPA), Christina Verchere, conveyed the belief that currently the Government is quite transparent. The simplification of licensing procedures undertaken by the ESDM Ministry will be followed by other relevant agencies. It is considered as a real agreement to solve the field problems faced by investors in the oil and gas sector in Indonesia.

Christina said the Oil and Gas Draft Law is one of the key reforms of oil and gas investment in Indonesia. Therefore, investors need the certainty of regulation when it will invest in a country. "Investors need certainty. So I think this is a very important aspect. Moreover, this business takes a long time to find the reserves to be produced," she said.

She hopes the discussion that has been opened by the Government can be utilized well by the industry to find the best solution. Industry and Government must work together to overcome challenges so that Indonesia becomes more competitive and attracts global investors to invest.

In addition, added Christina, Indonesia should be politically stable and secure so that there is positive economic growth. ○

Innovation and Synergy Become the Keys to Facing the Challenges

Gunung Sardjono Hadi has become the President Director of PT Pertamina Hulu Energi (PHE) when the oil and gas industry is facing a serious challenge.

The price of oil being eroded by up to 35% becomes one of the challenges that must be faced as a leader in one of the subsidiaries of PT Pertamina (Persero). "Upon entering PHE on June 1, 2015, we were immediately challenged. At that time oil prices are down dramatically by up to 35 percent," he said when met by IPA News in his office some time ago.

According to him, the challenge is already a daily issue for the man who has had a career in Pertamina since 1989. Therefore, when starting to lead PHE he immediately implemented a re-strategy. "There are 10 strategies designed to restore the company's condition," he explained.

The first strategy is to perform cost efficiency. Unnecessary costs incurred in running the operational activities were immediately reduced. This is accompanied by the renegotiation of contracts with subcontractors so that under challenging conditions, operational activities will continue and production can be maintained. The company, according to Gunung, is also making a business transition from petroleum to natural gas. PHE began searching for new gas fields to explore. "This is an important and big step for PHE," he said.

This approach was proven, and the strategies were able to boost PHE performance in the fiscal year 2015. Profit earned also exceeds the target set previously.

Going further, Gunung will continue to take strategic steps in the next year. Improvements in the company's body began to take place, including bureaucratic cuts until the revamping of existing human resources. Through that step, he explained, the work process becomes faster, is maximised and done in a timely manner. "In addition, we are also starting to standardize the process," he added.

Facing 2017, Gunung continued, oil and gas companies need to think intelligently and work hard to see the opportunities that exist. Moreover, facing the various regulatory changes related to the oil and gas industry in Indonesia lately, with one contract for gross proceeds split, the oil and gas industry must find the right way in an effort to find new reserves that will be explored while continuing to carry out the

work effectively and efficiently.

"PHE has done it in Sumur Parang, Nunukan Block, North Kalimantan Province. This shows how a job can be done with relatively little work cost but get a lot of relative results, and in accordance with the standard reference applicable in Pertamina, namely Exploration Way, Development Way, Drilling Way and Production Way," he said.

In this year, he hopes PHE can increase its investment even though the current condition is still challenging. "This year is quite difficult, but there are strategies that will be prepared to answer the challenge," he added excitedly.

Transmit Work Ethos

As a worker who has been pursuing a career in Pertamina for almost 28 years, Gunung must have felt the challenges related to his work. Such a long career experience ultimately forms a personal character that has a strong work ethic. The work ethic is even passed on to all employees at PHE. "In communicating with the workers here, I chose to take a more personalized approach than the official method and I try to equate perception with the workers," explained the alumni of Chemical Engineering from Diponegoro University.

Four things are always embedded during his career, namely legacy, responsibility, pride and gratitude. According to him, by having the legacy spirit, a worker will certainly strive to provide the best and always innovate in order to support the company's performance. "Wherever it works, one has to leave something meaningful for the company," Gunung said.

The next thing is responsibility. Every employee is required to perform his duties properly and responsibly. While pride will make employees feel proud to be part of the company, in accordance with the company core values namely to be professional, doing the best, team work and integrity. Finally, gratitude will make employees always feel grateful for what he or she has achieved during their work within the company.

Although currently occupying the top position in PHE, Gunung does not necessarily change its behavior every day. He remains humble, works hard and listens to his employees' ideas. "In accordance with the Javanese proverb, in life, someone must be Ojo Kagetan, Ojo gumunan and Ojo dumeh," he closed the discussion. ○



Communication is The Key

Indonesia is called less attractive to Oil and Gas Investors. Nevertheless, the potential is still huge. IPA News interviewed Komaidi Notonegoro, Executive Director of ReforMiner Institute to reveal what should be done to Re Attract Upstream Investment to Indonesia.

Are the government's revenue-sharing arrangements and schemes attractive enough? What needs to be improved from the scheme?

I consider the production sharing contract (PSC) system applied in the upstream oil and gas activities of Indonesia is still quite relevant to the existing conditions, both from the interests of the KKKS to minimize the risks as well as from the interests of the State due to the limited capability of investment. The PSC can provide a way out.

By this system, both the Regular PSC model with cost recovery and also the gross split scheme, can still be implemented in upstream oil and gas activities in Indonesia. The fundamental problem lies precisely in determining the rights and obligations of each party. For both parties, the determination of the amount of profit sharing and including other obligations in it is a very important aspect to note.

What needs to be improved lies in the communication between the KKKS and the Government especially concerning the understanding of the profit-sharing system and other obligations to be fulfilled by the KKKS, thus ensuring that the investments already issued are within reasonable and attractive economic levels.

In Convex IPA 2017, Mexico showed that they are a successful example of the State in implementing energy reform.

What can Indonesia learn and emulate from Mexico?

In my opinion, Mexico actually does what is mandated by the Constitution of the 1945 Constitution. The state places the energy sector as a strategic sector not only controlled by the State, but much more important is that the State prioritises the energy sector that provides the greatest benefit to the people.

I think what Indonesia needs to emulate is not a technical matter or energy management policy. However, what needs to be copied is the more fundamental way of thinking and how the Government places the energy sector as mandated in the Constitution of the 1945 Constitution.

What about the government's fiscal incentives, are they at-

tractive enough for Investors?

So far, I have seen differences in perceptions between the Government and KKKS in terms of fiscal incentives. The size or parameters used by both parties in seeing this are mutually different. The government has judged that it has provided incentives to the oil and gas sector that are more than enough. Many policies or conveniences are given to this sector but not given to other sectors.

While from KKKS, they considered that the incentive given by the Government is not enough if it is related to the difficult condition of investing in upstream oil and gas

in Indonesia because it is much more complex than a few years ago. As an indicator, the IRR (investment return rate) of the upstream oil and gas investment in Indonesia is still lower than some other countries that also have an oil and gas industry.

What should be the focus of the government to attract investors in the oil and gas sector?

I consider the main thing that needs to be done by the government is to know the condition of the upstream oil and gas industry in Indonesia today, including how it relates to the strategy to meet the energy supply needs for domestic interest now and in the future. The condition that this time is actually a crisis should be the basis for

the Government on how to formulate the way of fulfilling the domestic energy supply, including derivatives and how then the existing policies can be applied in the management of oil and gas in Indonesia.

The understanding of the position should be the basis for policy makers to immediately resolve technical matters, including completing the revision of Oil and Gas Law No.22 / 2001 which has been running for a long time, more than 8 years. By knowing the current conditions, it is believed the Government will be fair in determining the rights and obligations of both parties, both Government and KKKS.

What are the future expectations for oil and gas investment in Indonesia?

I hope that the golden era of Indonesia's oil and gas sector can be repeated in the future. Therefore, upstream oil and gas investment activities, especially massive exploration, become the main requirement. Based on the existing situation and conditions, the upstream oil and gas industry stakeholders should be clean and transparent.

For the sake of the resilience and sustainability of the national energy supply, the Government has only one option, namely to optimize the potential of oil and gas resources within the country. The potential will be very difficult to optimize if the policy and investment climate is not attractive and not conducive. ○





PHE's CSR Footprints in Coastal Java and South Sumatra

The North Coast of Java Island or better known as Pantura was a busy and bustling port city in the past. However, the condition is quite different in modern times as it is today and Pantura is now associated with poverty.

The lack of infrastructure and the level of education as well as the community's economy is a challenge for the local government in order to improve the living standards of the community. To that end, PT. Pertamina Hulu Energi (PHE), the operator of the Onshore West Java (ONWJ) block, has begun to take a role in realizing a better life for the people around the operational area for the first time in the region.

PHE External Relations and Community Development Manager, Sudaryoko, who met IPA News in Jakarta recently, said that the number of burglaries that occurred in the PHE ONWJ working area before 2010 was very high. Most of the perpetrators, he continued, landed the items they stole from PHE's facilities through the Cilamaya River. "Therefore, we began to apply Community Based Security or a security approach by using a social approach, especially with people in the coastal areas that have river mouths," he said.

The first program created is Forest Education in Blanakan Sub District, Subang, West Java Province. The program is located in an area of approximately 2.5 hectares. From this, Daryoko encourages the emergence of educational media about forests, with one of its functions being to address climate change.

"The concept is that the forest is used as an environmental learning lo-

cation for the community as well as for non-formal education practices such as organic fertilizer, mangrove seedling, and others," explained the man who is usually called Pakde.

Meanwhile, in the field of education, PHE has helped communities in the vicinity of the operation area by building a school building at Cilamaya Girang State Elementary School, Blanakan District, Subang Regency. This development aims to help the community to access education. Currently, SD Negeri Cilamaya Girang has 227 students and six teachers, with the school receiving 40 new students annually.

Previously, many fishermen's children had to travel more than six kilometers to their school located in Karawang regency. The condition is getting worse in the rainy season because it is very dangerous for children to cross the river.

According to him, poverty can be overcome if the community is equipped with skills and creativity that can provide economic impact such as the Bank Trash and Waste Bank Program made by PHE based on the amount of garbage from the community. "We are thinking about how to keep the trash being transported but also by having people eager to transport them. We buy the garbage from the community and with the money they earned, we keep it for savings so they can use it at certain times, such as for school, holidays, or Angin Barat where fishermen cannot carry out fishing," he explained.

In collaboration with Yayasan Kumala, PHE also conducts recycling training for homeless children in the North Jakarta area. There are about 25

homeless children who participated in the training to manage the waste. The waste is recycled into creative products that have economic value, such as recycled paper, tissue boxes, photo frames and other products.

Jambi Merang

Apart from the coast of Java, through its other business unit JOB Pertamina-Talisman Jambi Merang, PHE has also showed its commitment to these program to the surrounding neighborhoods of Jambi Merang Block, Musi Banyuasin Regency, South Sumatera Province.

Starting from the condition of the people there who are still far from prosperous, JOB Pertamina-Talisman Jambi Merang brings the program "Barisrisan Seeblempang Cinta Bumi" to build independence to a prosperous society. This program is a series of activities aimed at making people self-reliant and who have love for the earth. The goal is to achieve sustainable prosperity of the community through a range of areas: education, environment, infrastructure, health, and economics.

For the environmental program, the company created an ATM program (Anjunga Tirta Mandiri) in the form of clean water supply for the community in Muara Medak Village, Musi Banyuasin Regency, South Sumatera Province. This ATM program adopts an idea from the unprecedented occurrence of water scarcity in India.

Daryoko explained that the entire CSR program is not merely for social action, but also to give a good impact for the people around the company's operational areas. By doing something for the community, this will give an inner satisfaction and the bond of brotherhood between the company and the society that exists around its operational areas. "That is the heart of the CSR program," he concluded. ○