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PT Sinar Mas Agro Resources and Technology Tbk. Global Compact - Communication on Progress

April 2012

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Statement of Continued Support



PT Sinar Mas Agro Resources and Technology Tbk. (SMART) has been a participant of the United Nations Global Compact (“UNGC”) since May 2006. We understand the importance of UNGC’s ten principles in the areas of human rights, labour, environment, and anti-corruption.

Progressively, we take appropriate actions in line with the principles, as fundamental guidelines for sustainable and socially responsible development of our business. We continue to support UNGC by incorporating the ten principles in the way we do business, which helps make us a better corporate citizen in Indonesia.

SMART at a Glance



- Listed on the Indonesia Stock Exchange since 1992
- The leading integrated producer of palm oil-based products in Indonesia
- Filma and Kunci Mas are the flagships of our leading value-added branded cooking oil



Operational Statistics¹

Planted Area ²	:	139,000 ha
Fresh Fruit Bunch Production ²	:	2,742,000 tonnes
Mills Annual Capacity	:	3,900,000 tonnes
Crude Palm Oil Production	:	709,000 tonnes
Palm Kernel Production	:	158,000 tonnes
Kernel Crushing Plants		
Annual Capacity	:	444,000 tonnes
Refineries Annual Capacity	:	1,380,000 tonnes

Products

- Crude Palm Oil
- Palm Kernel
- Palm Kernel Oil
- Palm Kernel Meal
- Cooking Oil
- Margarine
- Shortening
- Butter Oil Substitute
- Stearin
- Cocoa Butter Substitute

Notes:

1. As at 31 December 2011
2. Including plasma (plantations belong to smallholders, in which we assist them in terms of managing their plantations)



Implementation of Global Compact's 10 Principles

Area 1: Human Rights

Principle 1 : Support and respect the protection of internationally proclaimed human rights

Principle 2 : Make sure that we are not complicit in human rights

LABOUR RELATIONS

- We ensure that our manpower policy is aligned with national manpower policy, and is endorsed by the tripartite partners – the company, employee (as represented by the Labour Union) and the government.
- We comply with the standard regulation for working hours, minimum wages, overtime payment, minimum working age, and ensure that employees' rights are respected. Some of our policies such as pension plan, personal accident and health allowance surpass standards set by the government.
- We apply a strict Health and Safety Management System as an essential working condition at all levels of our business units, in accordance with the Decree of Minister of Manpower of Indonesia Number PER-05/MEN/1996 regarding Health and Safety Management System. We conduct training programmes for our Health and Safety Specialists on a continuous basis.
- We ensure that all our regulations are updated by continuously benchmarking our working conditions against other companies; such as housing and social facilities, meals and transportation, health issues, salary and benefit standards.



Area 1: Human Rights (continued)



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SOCIAL AND COMMUNITY RELATIONS

- We have been actively engaging the government, labour unions, NGOs and other institutions to address human rights issues within the palm oil sector.
- We recognise that wherever we operate, the local communities are important stakeholders. We respect and recognise the long term customary rights of the indigenous and forest dwelling communities to their traditional land and commit to ensuring free, prior and informed consent from these communities prior to commencing any operations. Before developing a new area, we carefully assess the potential local social and cultural issues, and ensure that the business activity would strengthen and benefit the local communities as important stakeholders. Through participatory community needs analyses and open dialogues, better understanding can be forged and more effective programmes can be planned and implemented to better meet community needs.
- Together with The Forest Trust (“TFT”), an international NGO based in Geneva, we launched a Social and Community Engagement Policy (“SCEP”) in November 2011 to ensure that our palm oil operations improve the lives of the communities they impact. The SCEP guides and shapes the company’s decisions in engaging with communities.
- Wherever we operate, our social activities will continue to focus on the empowerment of surrounding communities, which range from education and energy self-sufficiency, to healthcare and disaster relief, with the goal of helping them to flourish in a harmonious and healthy environment.



Area 1: Human Rights (continued)

EDUCATING THE NEXT GENERATION

- Education is a key pillar of community development. We continue to support the Government of Indonesia's efforts, especially among promising but under-privileged students, through six scholarship schemes.
- In addition to scholarships, we provide funding to build and maintain schools and other educational facilities in our plantations. This complements the efforts of local authorities to provide a good education to children of our employees as well as children living around our plantations. To date, we have built 83 schools for more than 12,700 students in our estates
- In Free education is provided from kindergarten to junior high school, while education for higher school levels is heavily subsidised for children of our employees in the estates. For the wider community, children living around our estates receive heavily subsidised education at all levels. Free transport to and from school is also provided for students who need it.



Area 1: Human Rights (continued)



- Our investment in educating the young also includes providing free training and teaching materials for our teachers. Sekolah SMART, a strategic collaboration with Eka Tjipta Foundation (“ETF”), is a school quality improvement programme for schools located in our plantations. Its main aim is to prepare those schools for National Standard School certification from the Ministry of National Education. The programme also focuses on character development in students within an environmentally friendly school community, and quality training for teachers, school management and community involvement. Participating teachers receive instructions on pedagogical approaches to school principal leadership and capacity building.
- Starting mid-2011, we have been building 9 Rumah Pintar (“Smart House”) in some of our concessions, in support of the programme initiated by Indonesia’s First Lady, Mrs. Ani Bambang Yudhoyono who is a member of Solidaritas Istri Kabinet Indonesia Bersatu (“Solidarity of Spouses of United Indonesia Cabinet”). The goal of Rumah Pintar is to improve the quality of Indonesian people through the empowerment of children, mothers and other community members, in order to create smart and prosperous communities throughout Indonesia. Each Rumah Pintar is designed as a community learning centre focusing on early childhood education, education of women in empowerment activities and nurturing of family health.

Area 1: Human Rights (continued)

MEDICAL CARE

- We believe that having access to basic medical care is a basic human right. To meet this need, we have built healthcare facilities in most of our estates and staff them with qualified medical professionals to serve the local communities.
- Our community initiatives in 2011 included:
 - Free medical and dental services for more than 1,800 patients in Jambi and South Kalimantan;
 - Mobilisation of 122 medical personnel in our plantation clinics to provide free treatment for about 230 patients daily;
 - Eye check-ups for almost 17,300 students and teachers in Java and Kalimantan, where about 3,700 were provided with free spectacles;
 - Surgery for about 270 patients with conditions such as harelip, hernia, cataracts and tumors.



Area 1: Human Rights (continued)

ENGAGING OUR EMPLOYEES IN THE COMMUNITY

- We also seek to meet the needs of our employees and the people living near our operations by:
 - building and maintaining public infrastructure such as roads, bridges, and places of worship such as mosques and churches
 - constructing well-built dwellings, health and sporting facilities
- Our community efforts in 2011 included the sale of more than 285,000 litres of our branded cooking oil at below market prices in impoverished areas, mainly in Jakarta, Lampung, Medan, South Kalimantan and several cities in Java island.
- As part of our humanitarian efforts, we mobilised employees and tenants at our corporate headquarters in Jakarta to participate in regular blood donation drives for the Indonesian Red Cross. About 1,050 donors responded in 2011.
- To strengthen our CSR efforts, a formal CSR Department has been established since 2008. The team continues to play an important role in planning, coordinating and monitoring the Company's wide range of CSR activities covering the environment, community, market place and workplace.



Area 2: Labour

Principle 3 : Uphold the freedom of association and the effective recognition of the right to collective bargaining

Principle 4 : Elimination of all forms of forced and compulsory labour

Principle 5 : Effective abolition of child labour

Principle 6 : Elimination of discrimination in respect of employment and occupation

- We continuously maintain industrial peace and productivity of the company and the welfare of our workers through maintaining harmonious working relations with focus on open dialogue, fair labour practices, care and respectful communication in the workplace. Almost all our employees are represented by labour unions.
- Employees enter into our employment freely. As a policy, we do not require our employees to deposit identity papers nor deposit money.
- Our commitment to fair labour practices is also emphasised in our employee handbook and employment practices. The company has an equal opportunities policy for employment banning discrimination based on race, caste, national origin, religion, disability, gender, sexual orientation, union membership and political affiliation.



Area 2: Labour (continued)

- We are totally opposed to any form of child labour and we rigorously enforce this principle in all our plantations, mills and other places of work. Thorough checks are made during our recruitment and selection process. Our recruitment officers check the identification card against the employees' schooling records such as their school diplomas. In our plantations, we encourage parents to send their children to schools and complete nine years of compulsory education instead of getting them to help out in the estates.
- We promote the employment of women. However, due to the manual labour required in our field operations, certain jobs are more suited to male employees rather than female employees. To support our female employees and care for our employees' children at the same time, we started a programme to provide day care centres in our units two years ago. We also have a clear anti-sexual harassment policy which is integrated into our Standard Operation Procedure ("SOP") to protect our female employees against sexual harassment. The implementation of this SOP includes extensive trainings and socialisations to all estates and mill workers. We also establish local gender committees to handle any case related to sexual harassment and to promote women participation in the workplace.
- We provide extensive training for our workers and staff, including safety training for the handling of chemicals (such as fertilisers and pesticides) and other mandatory trainings that are specifically designed to enhance job safety and the protection of the environment.



Area 3: Environment



Principle 7 : Support a precautionary approach to environmental challenges

Principle 8 : Undertake initiatives to promote greater environmental responsibility

Principle 9 : Encourage the development and diffusion of environmentally friendly technologies

Our mission and values commit us to being the leader in sustainable palm oil production by adopting the best industry practices and standards, managing the environment responsibly, creating employment and empowering the communities where we operate, while maximising long-term shareholder value.

Sustainability has always been an integral part of our business and has the full backing of our management and Board. Our sustainability strategy focuses on engaging multi-stakeholders proactively, implementing the best practices holistically, benchmarking against industry standards, and reporting our progress in a timely and open manner.

ADVANCING THE MULTI-STAKEHOLDER ENGAGEMENT PROCESS

Recognising that SMART cannot act alone, we have made a commitment to engage with all our key stakeholders to develop solutions for sustainable palm oil production. Throughout FY2011, we have been actively engaging with our customers, the Government of Indonesia, civil society organisations, local and indigenous communities, and other key players and stakeholders in the palm oil industry.

Area 3: Environment (continued)

- **Partnering with TFT to conserve forests**

On 9 February 2011, we launched our Forest Conservation Policy (“FCP”), in collaboration with TFT. The FCP seeks to conserve forests and ensure that SMART has a no deforestation footprint, while creating long-term sustainable growth for the Company and the palm oil industry.

Building on the company’s pre-existing sustainability commitments, the FCP focuses on no development on High Carbon Stock (“HCS”) forests, High Conservation Value (“HCV”) areas and peat lands; free, prior and informed consent from indigenous and local communities; and compliance with all relevant laws and internationally accepted certification principles and criteria.

Since the launch of the FCP, SMART and TFT have been conducting fieldwork to develop guidelines in identifying HCS areas to be conserved.

We recognise that the Government of Indonesia plays a critical role in HCS conservation, particularly with respect to adopting new regulations and enacting relevant legislation to enable the transformation of the palm oil industry (including establishing and implementing a land swap process).



Press conference to announce FCP: (from right) Daud Dharsono (President Director of SMART), Mahendra Siregar (former Vice Minister of Trade of Indonesia), Scott Poynton (Executive Director of TFT), Peter Heng (Managing Director of Communications and Sustainability, Golden Agri-Resources, the parent company of SMART)

Area 3: Environment (continued)



Key players in the Indonesian palm oil industry should address the conservation policy with respect to HCS while civil society organisations, local and indigenous communities and other stakeholders must engage in the process to transform the industry.

- **Holistic approach : complementary policies**

The FCP is part of SMART's holistic approach towards sustainability. In addition to the SCEP launched in November 2011 to ensure that our palm oil operations improve the lives of the communities we impact (see Social and community relations on slide 6), we also launched a Yield Improvement Policy in February 2012, to leverage technology and innovation to improve CPO yield, in order to improve the livelihoods of smallholders and also to reduce the pressure to open new land.

SMART has taken a multi-stakeholder approach in developing these policies. We have collaborated with TFT and consulted the Government of Indonesia, local stakeholders and NGOs.

- **Working with industry certification bodies**

As a RSPO member since 2005, we are committed to the National Interpretation of the Roundtable on Sustainable Palm Oil ("RSPO") Principles and Criteria. As of April 2011, Golden Agri-Resources ("GAR"), the parent company of SMART has become a member of RSPO.

Area 3: Environment (continued)



Since its inception in April 2004, we have been supporting and co-operating with RSPO and its member organisations to develop sustainable palm oil throughout the entire supply chain. For example, we have been actively involved in developing verification systems as guidelines for sustainable and environmentally friendly plantation practices in the palm oil industry. Our plantations in North Sumatra and South Kalimantan have been registered with the RSPO Executive Board as trial locations for developing the important RSPO principles and criteria model.

We aim to obtain RSPO certification for our palm oil operations by December 2015. TFT has been working closely with us to prepare for RSPO certification and meet our target timeline. We have progressed in our RSPO certification plans. In September 2011, we achieved RSPO certification for 14,955 hectares of plantations and one mill in North Sumatra.

SMART is also supportive of the Indonesian Sustainable Palm Oil System (“ISPO”). ISPO is a policy taken by the Indonesian Ministry of Agriculture to improve the competitiveness of Indonesian palm oil in world markets and to meet Indonesia’s commitment to reduce greenhouse gases and to focus on environmental issues. SMART took part in the ISPO field trials in early 2011 to provide feedback and input on the implementation of ISPO standards.

- **Engaging customers**

We remain committed to actively engaging all our customers to address any sustainability concerns they may have. For example, in order to meet Nestlé’s Responsible Sourcing Guidelines, SMART implemented innovative processes and supply chain controls to ensure that the delivered oil is fully traceable from the supplying plantations, through processing and transportation to the Nestlé factory in Indonesia.

Area 3: Environment (continued)



ENSURING ENVIRONMENTAL SUSTAINABILITY

As a natural resource based company, we have a fundamental responsibility for the effective management of the environmental impacts throughout the entire value chain of our activities – from the acquisition of land and its development to the management of our plantations and mills, our manufacturing operations, the use of our product, and where appropriate, its recycling and disposal.

- **Cultivating on land designated and approved by the Government of Indonesia**

We operate strictly on land designated and licensed by the Government of Indonesia for oil palm cultivation. The land designated for oil palm cultivation is described as degraded land, where earlier widespread logging, shifting cultivation and other activities have exposed the land to damaging erosion by rain and wind.

- **Conserving peat land and pioneering zero burning policy**

In February 2010, we made an important decision to stop any development on peat regardless of depth. This builds on our pioneering zero burning policy. Since 1997, we have established policies on zero burning and adhered to the ASEAN Policy on Zero Burning. All our land is cleared using manual methods such as bulldozing and stacking of trees, thereby preventing air pollution, preserving the soil structure and retaining nutrients in the soil as the biomass decomposes.



Area 3: Environment (continued)

- **Preserving High Conservation Value areas**

We support efforts to preserve HCV. Our HCV assessments are benchmarked against best practices and are incorporated into management plans for plantation development. Where necessary, we engage external experts to provide input to these HCV assessments.

If an HCV area is found in our plantations, we take the following measures to enhance its natural value and biodiversity:

- protecting the flora and fauna, especially endangered species, by eliminating threats from illegal activities such as poaching;
- avoiding degradation and deterioration;
- continuously reviewing management plans to conserve HCV; and
- monitoring the HCV regularly and enriching or rehabilitating, if necessary.



Fauna and flora biodiversity in established plantations is promoted through the conservation of adequate habitats. An example is our commitment to conserve the important orangutan. SMART has also entered into a two-year partnership programme with Orangutan Foundation International to further support the conservation and protection of orangutans.

Area 3: Environment (continued)

- **Monitoring environmental impact**

We manage and regularly monitor every environmental aspect in order to minimise adverse impact to the natural environment. The monitoring is in accordance with the Environment Management Plan (“Rencana Pengelolaan Lingkungan”) and the Environment Monitoring Plan (“Rencana Pemantauan Lingkungan”), as approved in the Social Environmental Impact Assessment (“Analisa Mengenai Dampak Lingkungan”) documents submitted to the Government of Indonesia. The assessment of the environmental parameters is conducted by SMARTRI, our ISO 9001:2008 and ISO 17025-accredited internal laboratory, as well as external laboratories referred by the Indonesian authorities.

Our regular internal monitoring and assessments are guided by the ISO 14001:2004 Environment Management Systems and ISO 9001:2008 Quality Management Systems.

- **Zero waste and integrated pest management**

Our zero waste strategy is to reuse, recover and recycle. We recycle all production waste as organic fertiliser and as a source of energy. For example, we return nutrient-enriched waste from harvested fruit bunches and palm oil mill effluents to the plantations as organic fertiliser. This practice is fully integrated in our fertiliser management plan.

We have invested in technology to convert the methane gas that is produced by the nutrient-enriched waste into energy. This technology is being implemented progressively in our operations. In addition, solid waste from the mills, such as the fibre from oil palm mesocarp and shell from the nuts, is used as fuel.



Area 3: Environment (continued)



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The zero waste practices not only minimise the impact on the environment, but also result in significant cost savings. Regular control of soil fertility is implemented throughout our plantations in order to ensure that our nutrient management practices maintain, or when required, improve the soil fertility.

We are committed to implementing tight control over the use of chemical pesticides. We have been researching and applying alternative methods of managing pests and diseases that affect oil palms. Since the early development of our operations, we have advocated the use of Integrated Pest Management approach on our plantations to minimise and mitigate the impact of chemical pesticides on the environment. The preferred method is to deploy biological controls. We use beneficial plants, natural predators and pathogens or bacteria, and handpicking or mechanical traps. Pesticides are deployed only to control outbreaks of infestation when biological controls are not successful. In such cases, pesticide is used carefully in compliance with national laws.

We recognise the concerns over the use of chemical fertilisers and pesticides. Over the long term, by collaborating with national and international institutions, we will continue to research and investigate ways to phase out the use of such chemicals. We will then implement such solutions together with other key players in the industry.

Area 3: Environment (continued)

PROMOTING PRODUCTIVITY OF THE INDONESIAN PALM OIL INDUSTRY

Increasing productivity is part of the industry's multipronged strategy to balance the growth of the oil palm industry and its impact on the environment.

We achieved a significant milestone when we launched our Yield Improvement Policy ("YIP") in February 2012. The policy leverages technology and innovation to improve our CPO yield. Increasing productivity will enable us to produce more palm oil from less land, reducing the impact of the palm oil industry on the environment. Higher yields will also help improve the livelihoods of smallholders and at the same time reduce the pressure to open new land.

The YIP focuses on best practices in planting material, agronomical practices, plantation management and land suitability.



Our parent company, GAR, has been leading the industry in palm oil productivity. By 2015, GAR aims to achieve an average CPO yield of 5.8 tonnes per ha for our own plantations and 5.6 tonnes per ha for smallholders, from oil palms in the prime age of 7-18 years. This would represent a 12% increase from the average CPO yield GAR achieved in 2010. The average CPO yields for the Indonesian industry and Indonesian smallholders in 2010 were 3.8 tonnes per ha and 3.4 tonnes per ha respectively.

Area 3: Environment (continued)



We are committed to taking a multi-stakeholder approach in implementing the YIP. The consultations aim to provide a platform for all stakeholders to share experiences and challenges with regard to increasing productivity in the palm oil industry in order to move the industry forward in sustainable palm oil production.

Together with the Indonesian Palm Seed Producers Association, smallholders and government bodies, we promote the use of seeds that are derived from selected highly productive oil palms. As approximately 30,300 ha or 22% of plantations belong to smallholders, increasing the productivity of these plantations is crucial.

- **Collaborating with smallholders**

Our collaboration with smallholders (plasma) has been successful. In 2011, the CPO yield per hectare of our plasma was 4.6 tonnes, higher than the industry average.

We continue to fully support the development of plasma smallholders and are committed to improving the productivity of plasma smallholders. We provide them with high yielding seeds to improve productivity. We also provide transfer of knowledge and capacity building through training on best agricultural practices such as optimal fertiliser usage and application techniques, Integrated Pest Management, health and safety, and other agronomical support.

Besides educating plasma smallholders on the optimal usage and application of fertilisers, we help to supply good quality fertilisers to them. Since fertilisers account for a major part of the operation cost, we also allow them to pay in affordable instalments.

Area 3: Environment (continued)



- **Working with the industry and research institutes**

Our research institute, SMART Research Institute (“SMARTRI”), continues to push the frontiers of innovation to enhance productivity of palm oil production in our estates as well as in smallholdings. SMARTRI is actively collaborating with several reputable national and international research institutions and universities.

An ongoing project involving the research units of a dozen Indonesian palm oil producers to breed palm oil seeds that are disease resistant, drought tolerant and productive, is making good progress.

Another significant project involving SMARTRI is the Oil Palm Genome Project, a worldwide initiative by a consortium of 16 reputable research organisations from seven countries. The project uses molecular biology as a tool to support conventional breeding. The main objective is to map the entire genome spectrum of oil palm varieties, including identification of specific traits such as disease resistance, drought tolerance, superior quality oil, and high yield. The first phase started in 2009, and progress will be monitored closely over the next three years. As an active participant in this project, we have formed a separate team in our biotechnology division, and our staff has been involved in related research activities in Spain and France.

Area 3: Environment (continued)



LEADING THE INTERNATIONAL CONFERENCE ON PALM OIL AND ENVIRONMENT

As a leader in the Indonesian oil palm industry, we believe that we are in the position to lead and shape the industry by collaborating with all our stakeholders and leveraging on the vast resources in our network.

The first International Conference on Oil Palm and Environment (“ICOPE”), co-organised by SMART, WWF-Indonesia and CIRAD was held in November 2007, and was attended by scientists, supply chain stakeholders and representatives of institutions and NGOs. In 2010, Bali hosted the second ICOPE, centring on the environmental impacts of oil palm production.

The third ICOPE was held in February 2012 in Bali. This 2012 edition was entitled “Conserving Forests, Expanding Sustainable Palm Oil Production”, confirming both the importance and the long-term perspective of the ICOPE initiative in the scientific development and promotion of good practices aimed at ensuring sustainable oil palm cultivation.

Since its launch, ICOPE has gained international status as a unique and valuable platform for experts to network and share best practices.



Area 4: Anti-Corruption

Principle 10 : Work against corruption in all its forms, including extortion and bribery

- We do not tolerate any form of bribery and corruption in our company. The spirit of integrity, which is an integral part of our Shared Values, is to be internalized by all our staff, from management to our plantation. Any employee found to have engaged in bribery or corruption will be severely dealt with by the company and to the full extent of the law.
- All staff are required to attend “Value is Power”, a one-day training to assist them in implementing our Shared Values in their daily work activities.
- Our procurement process is very transparent. At least three qualified suppliers are invited to tender for purchases above Rp 1 billion and the decision to award a contract is made by a formally constituted Tender Committee based on price, quality and delivery capacity. The Tender Committee is comprised of representatives from Central Procurement, Business Control Division and the operating units within the purchasing unit.



Area 4: Anti-Corruption (continued)



- There is a separate mechanism for the payment of purchased goods. The invoice must be verified by another department before approval is given for the process of payment. The process takes place in a different department (e.g. Finance) to eliminate any opportunity for collusion or corruption.
- To avoid any potential conflict of interests, we do not hire the spouse of our employees to work in SMART. This policy also applies to employees who get married to their co-workers. In such marriages, one of the couple must voluntarily resign.
- The Company has developed a strong internal control framework to safeguard its assets, which includes corruption prevention. We have three separate internal audit departments, namely:
 - Corporate Internal Audit
 - Plantation Internal Audit
 - Downstream Internal Audit
- The responsibility of internal audit is to review our internal control framework in a timely and systematic manner, so as to provide reasonable assurance that framework is adhered to, and remains sound and effective.
- As a publicly listed company, we also have an Audit Committee that reports to the Board of Commissioners. Its responsibilities include ascertaining the enforcement of appropriate control policies, prevailing laws, rules and regulations in the Company's business. Internal audit departments are also required to report the results of their audit to the Audit Committee on a regular basis.



Thank You

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