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PT Sinar Mas Agro Resources and Technology Tbk.

Global Compact - Communication on Progress

April 2009

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Statement of Continued Support



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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.

We steadily 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 intertwining the ten principles in the way we do business, which helps making us a better corporate citizen in Indonesia.

SMART at a Glance



- Listed on the Indonesia Stock Exchange since 1992
- The most prominent 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	:	Approx. 129,000 ha
Fresh Fruit Bunch Production ²	:	2,085,000 tons
Mills Annual Capacity	:	3,500,000 tons
Crude Palm Oil Production	:	535,000 tons
Palm Kernel Production	:	119,000 tons
Kernel Crushing Plants		
Annual Capacity	:	264,000 tons
Refineries Annual Capacity	:	1,140,000 tons

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 2008

2. Including plasma (plantations belong to smallholders, in which we assist them in terms of financing and managing their plantations)



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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

- We ensure that every policy concerning manpower is aligned with national manpower policy, that has been endorsed by the tripartite of company, employee (as represented by the Labor Union) and the Indonesian government.
- We comply to the standard regulation for working hours, minimum wages, overtime payment, minimum working age, and make sure that employees' rights are respected. Some policies surpass the government's standard; such as pension plan, personal accident and health allowance.
- 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 ensure that all the regulations are updated by continuously benchmarking the working conditions to other companies; such as housing and social facilities, meals and transportation, health issues, salary and benefit standards.



Area 1: Human Rights (continued)

- Before developing a new area for expansion, we carefully assess potential local humanitarian and cultural issues, and make sure that business activity would strengthen and benefit local people as one of the most important stakeholders. Through a participatory community needs analysis and dialogue process, a better understanding and more effective programs can be generated.
- We have been actively involved in open dialogue with government, labor, NGOs and institutions to regularly discuss human rights issues especially within the palm oil plantation sector.
- In most of our estates, we provide general health facilities (clinics) and doctors. To raise awareness of HIV - AIDS, we conduct seminars and invite employees to voluntarily join the blood test while maintaining utmost confidentiality.
- Believing that education is an active way to brighten the future of Indonesian children, we build elementary and junior high schools in the estate units, hire and develop capable teachers, and equip the schools with adequate learning facilities.
- Our estate areas are also provided with other needed facilities, such as mosque, church, village and sporting facilities. In addition to that, we are also involved in developing and maintaining public infrastructures, such as road, bridge, mosque, church and other public facilities.



Area 1: Human Rights (continued)

- Our Corporate Social Responsibility (“CSR”) mission has been actualised by contributing to all the communities in the various locations of our operations in the areas of education, society and healthcare. To strengthen our CSR efforts, a formal CSR Department has been established in 2008. It will play an increasingly important role in planning, coordinating and monitoring the Company-wide CSR activities to ensure their effectiveness and conformity with the Corporate Values.
- Following is a brief explanation of the CSR activities conducted during 2008
 - Provided scholarships for bright students from communities around our plantations through “SMART Diploma” and “Tjipta Agro” (in collaboration with Eka Tjipta Foundation) as a way to develop rural economy and reduce urbanisation.
 - Conducted cooking oil bazaar (*operasi pasar*/market operation) by selling cooking oil below market price in several rural areas mainly located in Jakarta, Greater Jakarta, Central and East Java, totaling approximately 372,000 litres. Furthermore, we assisted the Government of Indonesia in executing its cooking oil market operation activity in terms of production and distribution.



SMART Diploma beneficiaries



Mr. Franky O. Widjaja, our President Commissioner, is serving a customer in a market operation event

Area 1: Human Rights (continued)

- Initiated special humanitarian programmes that provide disaster relief, such as fire victims in South Kalimantan and flood victims in South Jakarta.
- Rolled out several healthcare services surrounding our operation areas in the form of general medical and dental services, surgery for needy patients, aids for malnutrition children, health enlightenment as well as organising regular blood donation activity.
- As most of our end products are consumer products, ensuring that the products are safe at the time of human consumption is a vital factor in our downstream production process. After obtaining Hazard Analysis and Critical Control Point (HACCP) certification in 2006, our refineries in Medan and Surabaya have also been accredited with ISO 22000:2005 certification in December 2008, being internationally-recognised for their standards fulfillment for food safety in our products of cooking oil, margarine and shortening.



Area 2: Labour



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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

- Whether it is internal or external, our employees are given constructive opportunity to express their opinion responsibly through labor union. The labor unions are considered a mutual partner whose opinion is respected and we work together towards increasing productivity as the way to prosperity.
- To ensure that we do not employ child labour, thorough checks are made during recruitment and selection process that the candidate's age is above 18 years. This mechanism starts when we receive applications and verify the candidates' date of birth from their identity cards or birth certificates.
- In our plantations, parents are encouraged to send their children to schools and complete the nine years compulsory study instead of helping them to work in the estates. This is also to protect the children against any form of safety and health risks.



Area 2: Labour (continued)



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- Our recruitment policy clearly states that the hiring decision is based on organization planning and focuses on competency; eliminating any form of discrimination (race, religion, gender or ethnicity). The same applies for salary setting, training opportunity and career development.
- We always care and strive to provide adequate facilities to enhance the quality of life of our workers and staff who work in our plantations. However, due to the hardship, safety, security and the demand of physical challenge of the job, certain jobs are more attractive to male than female candidates.
- SMART respects the rights of its employees of different religions or beliefs to perform religious activities without interrupting working hours. We also encourage all employees to respect each other and maintain a harmonious relationship with fellow employees and the community around us.
- In line with Roundtable on Sustainable Palm Oil (RSPO) Principles and Criteria, SMART has provided extensive training for its workers and staffs including safety training for chemicals handling (such as fertilisers and pesticides), prevention of sexual harassment and other mandatory trainings that are specifically designed for the job safety and 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

SMART's fundamental guiding principle in managing the plantations is environmental sustainability. We are committed to institutionalise best practices of Environmental Management in our operations, while making concrete efforts to adhere to the stringent sustainability guidelines, so as to conserve the natural resources and biodiversity in all the communities we operate in. The environmental principles have materialised in a series of ongoing and/or specific programmes, as discussed below.

- Zero Burning

As one of the pioneers in the industry, we established our zero burning programmes in land clearing for both new planting and replanting more than 15 years ago, in conformity with the Guidelines for the Implementation of the ASEAN Zero Burning Policy. This policy reflects our commitment to preventing air pollution and preserving the soil nutrient content. Instead, we adopt manual methods, such as cutting and chopping the trees with chainsaws and other mechanical tools.



Area 3: Environment (continued)

- Zero Waste

Our zero waste policy advocates the “3R” (Reuse, Recover, and Recycle) principle, executed through the Cleaner Production Programme. In this programme, we harness most of production waste for use as organic fertiliser and as a source of energy. We apply nutrients-enriched waste, i.e. empty fruit bunches and palm oil mill effluent (a liquid waste from the extraction process of the fruits), back to our fields as organic fertiliser using Land Application method. Prior to this, the effluent is treated in the waste water treatment plant to decrease several parameters in accordance with Decree of Minister of Environment of Indonesia Number 29 Year 2003. The solid waste from the fibre mills (the fibre of husks from fresh fruit bunches) is used as fuel, to increase energy efficiency.

- Fertiliser Management

In addition to recycling waste and by-products as an organic substitute for fertiliser, we also apply a very accurate, site specific fertiliser plan conducted through leaf sampling (similar to a blood test for human beings), thereby limiting the usage of mineral fertilisers. In order to reduce usage of Nitrogen fertiliser, we maximise the use of leguminous cover crop, to take advantage of Biological Nitrogen Fixation. We manage the dose of fertiliser to achieve the optimum economic performance as well as the maintenance of soil fertility, while preserving natural resources.



Application of empty fruit bunches as organic fertilisers

Area 3: Environment (continued)



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- Integrated Pest Management

We are mindful in the usage of chemical substances, such as pesticide, in controlling pests and diseases, to ensure minimal impact on the environment. Pesticide is applied in due care, in compliance with the national regulation, only in the case of outbreak and must be approved by the Indonesian Pesticide Committee. As an alternative, we develop Integrated Pest Management, as an environmentally-friendly method to minimise any risk of crop losses due to pests and diseases through biological and mechanical or manual controls. Above all, it also promotes biodiversity in our plantations. Biological controls deploy beneficial plants, natural predators and pathogens or bacteria; while mechanical or manual controls include handpicking or using light traps. In addition to that, weeding is done selectively, in order to take out only those plants that result in significant negative impact on palm growth.

- High Conservation Value Forest

Areas with High Conservation Value (“HCV”) are areas of considerable importance due to their environmental, socio-economic, biodiversity or landscape value, and thus need to be protected. As our commitment to conserve natural resources and biodiversity in our operation area, we identify the HCV area both in newly-planned and existing oil palm estates, manage it and monitor the identified HCV area within the plantations. The identification process is done internally as well as externally, in collaboration with third party professionals and non-profit organisations.



Owls are used as a predator for pest control in the estates

Area 3: Environment (continued)

- Research Institute

We have an in-house research institute called SMARTRI (SMART Research Institute) established in Riau, Sumatra. SMARTRI undertakes a full range of research in agronomic and environmental activities and these research activities are undertaken in collaboration with national and international research institutions and universities, including Centre de coopération Internationale en Recherche Agronomique pour le Développement (CIRAD) from France. SMARTRI has been certified by ISO 9001:2000 for its Quality Management System in 2003 and ISO 17025 in Laboratory Accreditation for its analytical laboratory in 2006. Research and Development efforts of SMARTRI continually support SMART in achieving greater sustainability in the cultivation of oil palm through increasing productivity and efficiency, as well as preserving the environment for the well-being of future generations



- Environmental Impact Assessment (EIA)

For every new project development, EIA is carried out as part of our permitting process. The assessment includes social and environmental baseline scans, stakeholders' engagement process, public consultations, etc. The main purpose of the assessment is to ensure that the stakeholders are well informed about the risks associated with them, alternatives are investigated, and residual impacts are mitigated.

Area 3: Environment (continued)



- Regular Environmental Management and Monitoring Reporting

We manage and regularly assess every environmental aspect in order to minimise adverse impact to the natural environment. Every six months, SMART submits an environmental management and monitoring report to the local government. The report includes our commitment and activities in managing and monitoring the environmental and social impact of our operations.

- Environmental and Quality Management System

Our regular monitoring and assessments are guided by the ISO 14001:2004 Environment Management System and ISO 9001:2000 Quality Management System. Since 2003, two of our palm oil estates in North Sumatera and our palm oil mill in South Kalimantan have attained ISO 14001:2004. Since 2002, two of our palm oil mills in North Sumatera have also been granted ISO 9001:2000.

- Participation in Roundtable on Sustainable Palm Oil (“RSPO”)

SMART has been an active member of the RSPO since February 2005. RSPO is an organisation formally established in April 2004 to promote the growth and use of sustainable palm oil through co-operation within the supply chain and open dialogue with its stakeholders.

We have been actively involved in developing verification systems as guidelines for sustainable and environmentally-friendly plantation practices in the palm oil industry. We supported and led programmes with the Indonesian National Interpretation Working Group (“INA-NIWG”) in furthering the national interpretation of RSPO Principles and Criteria for Indonesia, which was completed in May 2008. Our plantations in North Sumatra and South Kalimantan were registered with the RSPO Executive Board as trial locations of the RSPO principles and criteria model.

Area 3: Environment (continued)



Subsequently, INA-NIWG established a working group together with the Indonesia HCV Consortium to facilitate the needs of HCV toolkit in Indonesia. As a result, HCV-RSPO Indonesia Working Group was formed in July 2008. Its main duties are to develop guidance for maintaining and monitoring HCV in the oil palm plantation sector and guidance for a compensation mechanism for indentified HCV areas within the oil palm estates planted during November 2005 to November 2007.

As an active member of RSPO Indonesia Smallholder Taskforce, we play an integral role in establishing national standards for RSPO applications for smallholders (farmers), together with other palm oil stakeholders in Indonesia.

Since 2005, we have conducted in-depth RSPO gap analysis, an evaluation of current performance of palm oil production, as stipulated by the RSPO generic principles and criteria, for some of our estates and mills. The positive gap analysis results will go further in strengthening our application for RSPO Certification. We also carry out comprehensive training programmes for RSPO Principles and Criteria for our new and existing workers, to provide a strong foundation and understanding to our employees before the application of RSPO Certification. We target to obtain RSPO certification in 2009 for certain estates and mills.

- Other activities

As part of our continuing commitment to sustainable oil palm cultivation, we participated in the Indonesian Palm Oil Conference and Price Outlook 2009, organised by the Indonesian Palm Oil Association (“GAPKI”) in December 2008. The conference took place in Bali and gathered associations and practitioners from more than ten countries. Mr. Jo Daud Dharsono, our President Director, who is also Head of Research and Environmental Affairs of the GAPKI, presented a paper on Challenges and Solutions of the Implementation of Indonesian National Interpretation of RSPO Principles and Criteria.

Area 3: Environment (continued)



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The mangrove tree is tropical vegetation that serves an important role in balancing the quality of the ecosystem and neutralising pollution in coastal environments by preventing shore abrasion and sea water intrusion. With participation of our employees, we planted approximately 3,000 mangrove trees in Pantai Indah Kapuk Conservation Forest in North Jakarta.



Area 4: Anti-Corruption

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

- We set a strict policy on corruption and bribery with zero tolerance for such actions. Built by our founder, Eka Tjipta Widjaja, more than 30 years ago, we strongly believe in the values of Integrity, part of our Corporate Shared Values. One of the key behaviors of integrity is honesty; meaning that all employees of SMART must be honest about the data, report, and process. The spirit is internalized by top management as the role models; and spread down to each level of staff.

As a part of our continuous commitment to internalise the Corporate Shared Values, all of our staff have attended the VIP (Value is Power) one-day training conducted several times during 2007 and 2008, to assist them in better implementing the Shared Values in their daily work activities.



- We apply zero tolerance for actions such as corruption and bribery by imposing a severe penalty for employees who are proven conducting these illegal actions; i.e. punishment by law.
- Activities involving purchasing, for example, must follow certain procedures. Before the purchase decision is made, there must be comparison of more than one supplier to ensure that SMART gets the best benefit in terms of price, service and product quality.

Area 4: Anti-Corruption (continued)



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- There is a separate mechanism for payment of purchased goods. The invoice must be verified by another department before getting approval for payment. The process takes place in a different department (i.e. finance) to eliminate the opportunity of collusion or corruption.
- To avoid conflict of interest, we also prohibit employees' spouse to work in SMART. This policy also applies to those who get married to their workmate; one of them must voluntarily resign.
- The Company has developed a firm internal control framework to safeguard its assets, which includes corruption prevention. We have three separate internal audit departments, i.e.:
 - Corporate Internal Audit
 - Plantation Internal Audit
 - Downstream Internal Audit

The responsibility of internal audit is to review the above-mentioned control framework in a periodic and systematic manner, so as to provide reasonable assurance that the internal control 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 true enforcement of appropriate control policies, prevailing laws, rules, and regulations in the Company's business. Internal audit departments report the results of their audit to the Audit Committee on a regular basis.



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Thank You

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