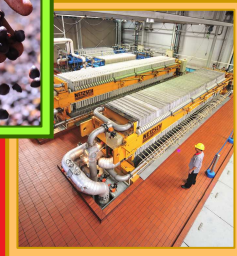




smart
agribusiness and food



PT Sinar Mas Agro Resources and Technology Tbk.

Global Compact - Communication on Progress

April 2010

Table of Contents



smart
agribusiness and food

Statement of Continued Support_____2

SMART at a Glance_____3

Implementation of Global Compact's Principles

Area 1 **Human Rights**_____5

Area 2 **Labour**_____9

Area 3 **Environment**_____11

Area 4 **Anti Corruption**_____20

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	:	134,500 ha
Fresh Fruit Bunch Production ²	:	2,459,000 tonnes
Mills Annual Capacity	:	3,700,000 tonnes
Crude Palm Oil Production	:	640,000 tonnes
Palm Kernel Production	:	142,000 tonnes
Kernel Crushing Plants		
Annual Capacity	:	354,000 tonnes
Refineries Annual Capacity	:	1,140,000 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 2009
2. Including plasma (plantations belong to smallholders, in which we assist them in terms of financing and 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

- 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 with 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 the business activity would strengthen and benefit local people as one of the most important stakeholders. Through a participatory community needs analysis and dialogue process, 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 (such as clinics) and doctors. We mobilise about 50 doctors and nurses in our plantation clinics to provide free treatment for more than 180 patients daily.
- Believing that education is an active way to secure the future of Indonesian children, we build elementary and junior high schools in the estates, hire and develop capable teachers, and equip the schools with adequate learning facilities. This complements the efforts of local authorities to provide a good education to our employees' children as well as the children living near our plantations. We also highly subsidise the school fees. To date, we have constructed and manage more than 50 schools with over 425 teachers catering to more than 9,000 students. Free transport to and from school is also provided for students who need it. Our investment in educating the young also includes providing free training and teaching materials for our teachers.



Area 1: Human Rights (continued)

- Our estates are also provided with other social facilities, such as mosque, church, village and sporting facilities. In addition, we are also involved in developing and maintaining public infrastructures, such as road, bridge and other public facilities.
- To strengthen our CSR efforts, a formal CSR Department has been established since 2008. It will play an increasingly important role in planning, coordinating and monitoring the Company's wide CSR activities covering the four dimensions of environment, communities, market place and work place.
- Some of the highlights of the CSR activities conducted during 2009 are:
 - Provided scholarships for talented students from communities around our operational areas through "SMART Diploma", "SMART Engineer" 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, South Kalimantan and several cities in Java island, totaling approximately 130,000 litres. Furthermore, we assisted the Government of Indonesia in executing its cooking oil market operation by producing and distributing 500,000 litres of "Minyakita" cooking oil in 2009.



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

Area 1: Human Rights (continued)

- Initiated humanitarian programmes that provide disaster relief, such as earthquake victims in Padang, Sumatra, flood victims in Greater Jakarta and fire victims in North Jakarta.
- Rolled out several free healthcare services surrounding our operation areas in the form of general medical services, surgery for needy patients, eye check-ups 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

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 opportunities to express their opinions responsibly through the 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 employees' age is above 18 years. This includes verifying 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)



- 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 manual labour, safety, security and the demand of physical challenge of the job, certain jobs are more suitable 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.

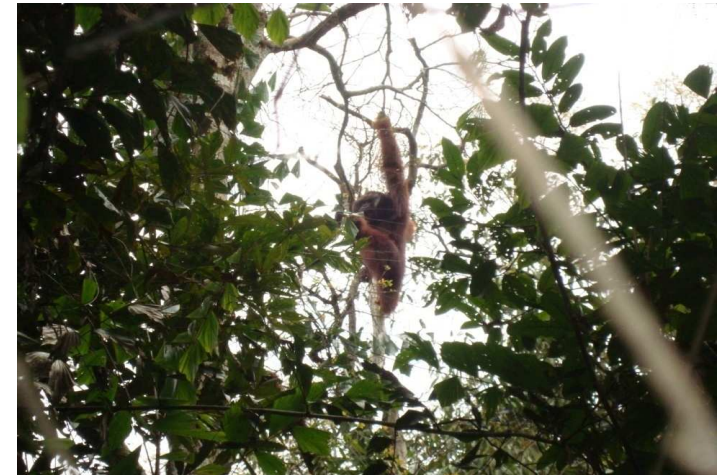
- **Cultivating on land designated and approved by the Indonesian government**

As a leader in the business, we play an important role in the stewardship of the primary rainforests and conduct thorough environmental assessments of the land that we cultivate. Furthermore, we strictly operate on land designated and licensed by the Indonesian government for oil palm cultivation. The land designated for oil palm cultivation is usually secondary forest or areas degraded by earlier widespread logging, shifting cultivation and other activities that have exposed the land to damaging erosion by rain and wind. Through our state-of-the-art rehabilitative agricultural techniques, we have progressively been nurturing degraded land into productive use to maximise our capacity.

Area 3: Environment (continued)

- **Preserving high conservation value areas**

We support efforts to preserve High Conservation Value (“HCV”) and we are committed to conducting careful and comprehensive risk assessments and subsequent identification of potential HCV before we start any new plantation. 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 inputs to these HCV assessments.



As good stewards of land, we do not cultivate in areas designated as HCV. However, if 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.

An example is our commitment to conserve the endangered orang utan. Together with a leading environmental and orang utan conservation organisations and the Indonesian Forestry Department, we play an active role in the national orang utan Working Group in drafting the Strategy and Action Plan to conserve the orang utan. Our efforts to conserve the orang utan are further strengthened by collaborating with a leading NGO in promoting the sustainability of the Borneo orang utan.

Area 3: Environment (continued)



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 Indonesian government. The assessment of the environmental parameters is conducted by Smart Research Institute ("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 burning policy**

As a pioneer in zero burning policy, we have established policies on zero burning and adhere to the ASEAN Policy on Zero Burning. All our land is cleared using manual methods such as bulldozing and stacking the trees, thereby preventing air pollution and preserving the soil structure and nutrients.

- **Peat land**

Peat is decaying plant material found under the ground. Over time, an accumulation of peat combined with water logged soils prevents the peat from decomposing and form a layer of peat soil commonly referred to as peat land. Developing peat land for agriculture releases carbon elements into the atmosphere and helps to trigger climate change. As a policy, we do not develop on land with high carbon stock such as peat soils and primary forest.

Area 3: Environment (continued)



smart
agribusiness and food

- **Environmentally friendly practices: zero waste and integrated pest management**

Our zero waste strategy is to reuse, recover and recycle. We recycle all production waste for 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, is used as fuel.



Application of empty fruit bunches ("EFB") as organic fertiliser



Application of palm oil mill effluent ("POME") as organic fertiliser

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.

Integrated pest management is an essential part of oil palm cultivation and we are careful 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 and used carefully in compliance with national laws. Their use is minimised throughout all growth phases of the palms.

Area 3: Environment (continued)

- **Pioneering 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. Riding on the extremely successful maiden International Conference on Palm Oil and Environment (“ICOPE”) in November 2007, our highly regarded research institute, SMARTRI, hosted the second ICOPE in February 2010 in Bali. This was again co-organised with Centre de coopération Internationale en Recherche Argonomoque pour le Développement (“CIRAD”), France and the World Wildlife Fund (“WWF”).



2nd ICOPE in Bali – Feb 2010

Since its launch, ICOPE has gained international status as a unique and valuable platform for experts to network and share best practices. ICOPE 2010 saw more than 400 leading scientists and practitioners from 14 countries participate in the three-day conference. The 2010 conference was launched by the Indonesian Minister of Agriculture, Mr H Suswono, with the keynote address delivered by the Indonesian Minister for Environment, Mr Gusti Muhammad Hatta.

The gathering of the Indonesian government, key industry players, NGOs and smallholders at ICOPE 2010 reflects the strategic role of palm oil in the economic and social development of Indonesia and as a major source of food amid rising global demand for affordable food sources, and also as an alternative source of fuel. Domestically, the palm oil industry provides direct employment for approximately 4.5 million persons and, in 2009, generated US\$10.4 billion worth of exports or 11% of Indonesia’s non oil and gas exports.

Area 3: Environment (continued)



ICOPE 2010 focused on the measurement and mitigation of the environmental consequences of the fast growing oil palm industry. The conference was an excellent opportunity for experts and practitioners to pool their experience and resources in developing sustainable palm oil to meet the growing demand for vegetable oil and fuel.

- **Supporting and promoting the Roundtable on Sustainable Palm Oil**

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.

In preparation for RSPO certification, we have been conducting training programmes to educate our plantation staff on RSPO principles and criteria.

As an active member of RSPO Indonesia Smallholder Taskforce, we have also played an integral role in establishing national standards for RSPO applications for smallholders (farmers), together with other Indonesian oil palm stakeholders. We work closely with our stakeholders to tailor the generic RSPO principles and criteria to our local context.

Area 3: Environment (continued)

- **Tailoring HCV to Indonesian oil palm industry**

We continue to support and lead programmes with the Indonesian National Interpretation Working Group (“INA-NIWG”) by establishing a working group with the Indonesian High Conservation Value Consortium to tailor the international HCV tool kit to the needs of Indonesia. The working group is in the process of developing guidance for managing and monitoring high conservation value areas in the oil palm plantation sector and guidance for a compensation mechanism for such areas identified within the oil palm estates that were planted between November 2005 and November 2007.

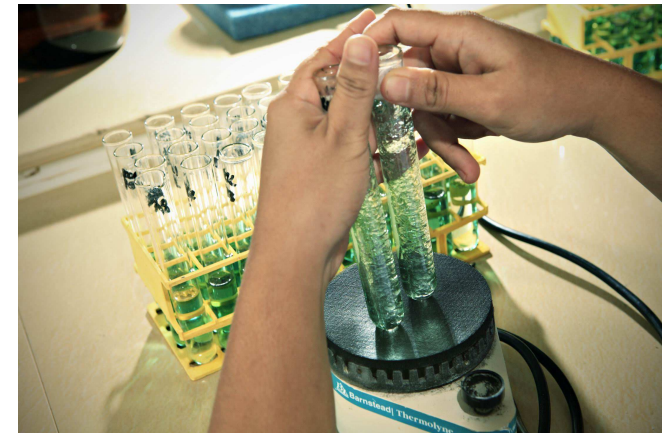
- **Promoting oil palm productivity**

Together with the Indonesian Oil Palm Association, smallholders and government bodies, we promote the use of seeds that are derived from selected highly productive oil palms, prudent use of pesticides and biological pest control to enhance productivity of the entire industry. Increasing productivity is part of the industry’s multi-pronged strategy to balance the growth of the oil palm industry and its impact on the environment. As approximately 3 million hectares or 40 percent of the plantations belong to smallholders, increasing the productivity of these plantations is crucial.

Our collaboration with smallholders (plasma) has been successful. In 2009, the yield per hectare of our plasma is 20.3 tonnes an improvement of 15 percent compared to a year ago. We are confident that over time, all of our more than 12,000 smallholders will collaborate with us to increase the productivity of their plantations.

Area 3: Environment (continued)

Our 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. 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. As part of the project, over 54,000 seeds were collected from 105 species of palm oil trees in Cameroon, the originating country of the palm oil tree, and distributed to all members of the project. SMARTRI has developed and is closely observing the more than 3,000 seeds that we received.



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 have been involved in related research activities in Spain and France.

Area 3: Environment (continued)

- **Participating in Earth Hour 2010**

We participated in the 2010 Earth Hour, a global campaign organised by WWF to initiatively invite people around the world to show their support towards environmental sustainability in this planet. We encouraged our employees to turn off their lights at their homes for an hour and invite their neighborhoods to do the same on 27 March 2010 from 8:30 pm.



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 Integrity, an integral 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 data, report, and processes. The spirit is internalized by top management as the role model; and cascaded to each level of staff.

As a part of our continuous commitment to internalise the Corporate Shared Values, all of our staff are required to attend the VIP (Value is Power) one-day training, 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 found conducting these illegal actions; which are also punishment by law.
- Activities involving purchasing, for example, must comply with strict 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)



- 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 employee spouse to work in SMART. This policy also applies to those who get married to their workmate; and one of them 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, 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 timely 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 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

www.smart-tbk.com