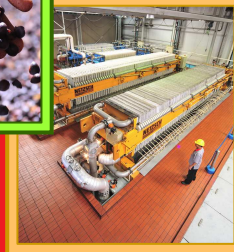




**smart**  
agribusiness and food



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## **PT Sinar Mas Agro Resources and Technology Tbk.**

### **Global Compact - Communication on Progress**

**April 2011**

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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 Statistics<sup>1</sup>

Planted Area <sup>2</sup>	:	138,100 ha
Fresh Fruit Bunch Production <sup>2</sup>	:	2,453,000 tonnes
Mills Annual Capacity	:	3,700,000 tonnes
Crude Palm Oil Production	:	625,000 tonnes
Palm Kernel Production	:	139,000 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 2010
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**

- 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. Continuing our effort in strengthening this area, we conduct training programmes for our Health and Safety Specialists.
- 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)

- 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.
- We have been actively engaging the government, labour unions, NGOs and other institutions to address human rights issues within the palm oil sector.
- We are currently reviewing our approach to community and social engagement as we recognise that there have been disputes in the past with some communities. Moving forward, we will play a more active role in facilitating a peaceful resolution with support from all stakeholders. Together with The Forest Trust (“TFT”), an international NGO based in Geneva, we are developing a Social and Community Engagement Policy to guide our approach to conflict resolution and will be seeking input from Indonesian palm oil industry stakeholders to ensure that it represents best practice.



## Area 1: Human Rights (continued)

- 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 harmonised and healthy environment.
- 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 five scholarship schemes.
- Our latest scholarship programme, "Tjipta Permuda Bangun Palma" was launched in 2010 in collaboration with Eka Tjipta Foundation ("ETF"), the Institute of Agricultural STIPER Yogyakarta of Palm Oil Industrial Engineering Programme and University of Tadulako, Central Sulawesi for bachelor degree students. In its inaugural year, 24 students received funding for their education and living costs.
- 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 near our plantations. To date, we have constructed and manage approximately 50 schools for almost 7,000 students in the estates.
- Free education is provided from kindergarten to high school, while education for higher school levels is heavily subsidised for children of our employees in the estates. For the wider community, education is heavily subsidised for all levels for children living around our estates. Free transport to and from school is also provided for students who need it.





## Area 1: Human Rights (continued)

- In 2010, we launched Sekolah SMART, a strategic collaboration with ETF. It 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.
- 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 2010 included:
  - Free medical and dental services for more than 1,800 patients in Java and Sumatra;
  - Mobilisation of 88 medical personnel in our plantation clinics to provide free treatment for about 200 patients daily;
  - Eye check-ups for almost 11,400 students and teachers in Sumatra, Java and Kalimantan, where about 2,300 were provided with free spectacles;
  - Surgery for about 280 patients with conditions such as harelip, hernia, cataracts and tumors.



*A teacher trying his new spectacles provided by SMART*

## Area 1: Human Rights (continued)

- 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 2010 included assistance to the Government of Indonesia in executing its cooking oil market operation by producing and distributing 33,000 litres of “Minyakita” cooking oil in 2010. As part of the programme, we also sold approximately 61,000 litres of our branded cooking oil at below market prices in rural areas, mainly in Jakarta, Sumatra, Kalimantan and several cities in Java island.
- As part of our humanitarian efforts, we provided disaster relief to flood victims in Padang and Sumatra, and earthquake victims in the aftermath of the Mt. Merapi eruption in Java, and fire victims in East Jakarta. In collaboration with ETF, we rebuilt a government school in Jambi, Sumatra that had been damaged in an earthquake.
- 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.



*The school in Jambi repaired after being damaged by an earthquake*

## 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 provide day care centres in all of our units. 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 while creating employment, empowering the communities where we operate and maximising shareholder value.

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.

### **PROACTIVE MULTI-STAKEHOLDER ENGAGEMENT**

We have a commitment to engage with all our key stakeholders to develop solutions for sustainable palm oil production. Processes are in place to listen and respond to our customers, the government, key players in the palm oil industry, non-government organisations (“NGOs”), local and indigenous communities, employees and the wider society.

## Area 3: Environment (continued)

- **Partnering with TFT to conserve forests**

On 9 February 2011, we announced our Forest Conservation Policy (“FCP”), in collaboration with The Forest Trust (“TFT”), a Geneva-based international NGO. The FCP seeks to conserve forests while creating long-term sustainable growth for the Company and the palm oil industry. The policy is an example of initiating and creating a platform for multi-stakeholders to find solutions for sustainable palm oil

The FCP implemented in collaboration with TFT is an example of our commitment to ensure environmental sustainability. We want to ensure that our palm oil operations have a no deforestation footprint. The FCP ensures that we conserve High Carbon Stock (“HCS”) forests while building on our existing commitments not to develop on High Conservation Value (“HCV”) forest areas and peat lands regardless of depth. The FCP also focuses on respect for indigenous and local communities and compliance with all relevant laws and national interpretation of RSPO Principles and Criteria.

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 (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.

### 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.



## 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.

- **Environmentally friendly practices: 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.



*Empty fruit bunches ("EFB") are recycled as organic fertiliser*



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

## Area 3: Environment (continued)

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.

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)



### 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. 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. We also encourage prudent use of pesticides and biological pest control to enhance productivity of the entire industry. As approximately 29,500 hectares or 21% 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 2010, the CPO yield per hectare of our plasma was 4.3 tonnes, higher than the industry average. To reach out to smallholders who have not yet taken advantage of our expertise, largely because of limited financial means, we supply fertilisers together with the usual agricultural advice to these smallholders and allow them to pay in affordable installments. Together with TFT, we are developing a Yield Improvement Policy which aims to further enhance our collaboration with our 16,000 smallholders.

- **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. 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.

## Area 3: Environment (continued)

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)



### **SUPPORTING AND PROMOTING THE ROUNDTABLE ON SUSTAINABLE PALM OIL (“RSPO”)**

As a RSPO member, 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.

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.

- **Achieving RSPO certification**

The RSPO certification is a seal of approval that palm oil is produced sustainably according to the RSPO Principles and Criteria. 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.

## 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-Indonesia (“WWF-Indonesia”).

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.

The next ICOPE is being planned for the first half of 2012.



*2nd ICOPE in Bali was launched by the Indonesian Minister of Agriculture, Mr H Suswono*

## 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**

**[www.smart-tbk.com](http://www.smart-tbk.com)**