

Communication On Progress

Year 2017

CORPORATE SUSTAINABLE REPORT



PT. Martina Berto, Tbk

Management commitment in implementing Sustainable Business

Statement of Support



Entering the year 2017, the government along with parliament in the draft of state budget set the economic growth by 5.10%. Regarding to improvement of export & import growth, government expenditure, consumption and investment, the target revised into 5.20% in the draft of revised state budget. However until the end of year 2017 the target never achieved, instead lower than the previous draft of state budget as 5.07%. However, functions of corporate governance have run well due to high commitment of management in seeking and using our competitive advantage to overcome weakness by looking for more creative efforts to face the heavier challenges.

We express our appreciation and thanks to stakeholders over the full trust and continuous support to us in 2017 that make it possible to grow and reach target on every milestone, while we are pleased to continuous support the ten principles of the Global Compact in line to the SDGs achievement for the next years and after as we have been engage both local and global network under the flag of UNGC for over the last 18 years covering area of human rights, labor, environment, and anti-corruption.

The world is now facing big challenges regarding make balance between supply (resources) and demand. The world's resources currently support more than seven billion people, and will need to support 150% more by 2050 means there will increase the gap between resources and demand if no serious intention on it. Sustainable efforts to reduce the gap of them are remain challenges for us.

Sincerely yours,

Brian David Emil
President Director
Board of Commissioners
PT. Martina Berto, Tbk

FORWORD FROM CHAIRWOMAN

Along the year 2017 was quite challenging moment for almost all private sectors. Commodities price was falling due to the global economic downturn such as the price decline of energy sector. The effect of the oil prices would pressing Indonesia foreign exchange revenue which many depends on commodity exports.

However, company has to be survived and run continuously as we are employing more than 500 people. By strong commitment and dedication company can still achieve small growth on sales. We are looking at the prospect of cosmetic business is still good. Beside the portion of women citizen of middle class and productive ages as well as the cosmetics and personal care which still growing, show a lot of opportunities to grow sustainably.

As a beauty company, we have blended business, social, and ecological principle by exploring the ancient wisdom of beauty care throughout the lifecycle. Based on the concept of “*RupaSampatWahyaBiantara*”, the beauty and health are of balance reflection about inner and outer performance. We have transformed and blended the richness of Eastern culture and Indonesian natural resources to be the soul of our brands and services to win the heart of consumers around the globe. While corporate social responsibility (CSR) is merged in the company mission that in-line to the business strategy and being highly committed by corporate management for the sustainable development. The 4-pillar of CSR activities consist of beauty green, beauty culture, beauty education and empowering women.

We do our business not just Profit oriented, but we commit in considering People and Planet. The reputation of our company is more internationally recognized as a trend setter producing natural techno beauty products that continuously merged with the richness of our Eastern culture, where we transform the local wisdom that supported by scientific data to meet the urban lifestyle and go global.



Founder of Martha Tilaar Group

DR. (HC) Martha Tilaar

COMPANY PROFILE

PT. Martina Berto, Tbk

Domicile in Jakarta, Jl. PuloKambing II no. 1, Jakarta Industrial Estate Pulogadung, East Jakarta 13930.

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Website :www.martinaberto.co.id

Stock Exchange where the Company's

Stock is listed Indonesia Stock Exchange

Capital Market Institution and Professional Share Registrar

PT. AdimitraJasaKorpora

RukanKirana Boutique Office. Jl. Kirana Avenue III Blok F3 no. 5, Kelapagading – Jakarta Utara 14250, Indonesia.

Public Accountant Office

Tanubrata, Sutanto, Fahmi,

BambangdanRekan. Jl. Jend. SudirmanKav.

79, Prudential Tower Lt. 16-17, Jakarta

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HISTORY

PT. Martina Berto, Tbk



Dr. HC Martha Tilaar started her business with a beauty salon in 1970. She continuously enhanced her knowledge about beauty and body care from American and European beauty centers. It motivated and gave her understanding that the raw materials from Indonesia, if professionally processed, will be able to produce natural cosmetics and traditional medicines that can beautify Indonesian women and those of the world in a holistic manner.

Being successful in the beauty salon business through opening many beauty salons in Jakarta, Mrs. Martha Tilaar established “Puspita Martha” School of Beauty to develop beauty specialists, make up artists, hair specialists and therapists. The beauty salons and beauty school were operated under the flagship of PT Martha Beauty Gallery.

Being successful in beauty salon and school, Mrs. Martha Tilaar and her partners, the late Mr. Bernard Pranata and Mrs. Theresia HarsiniSetiady founded PT Martina Berto 1st Juni 1977. The first brand produced and marketed was “Sari Ayu Martha Tilaar” as natural cosmetics with a holistic approach, with the salons and beauty school as teaching laboratories. This has enhanced Sari Ayu Martha Tilaar as education-oriented, practical and easy-to-apply products.

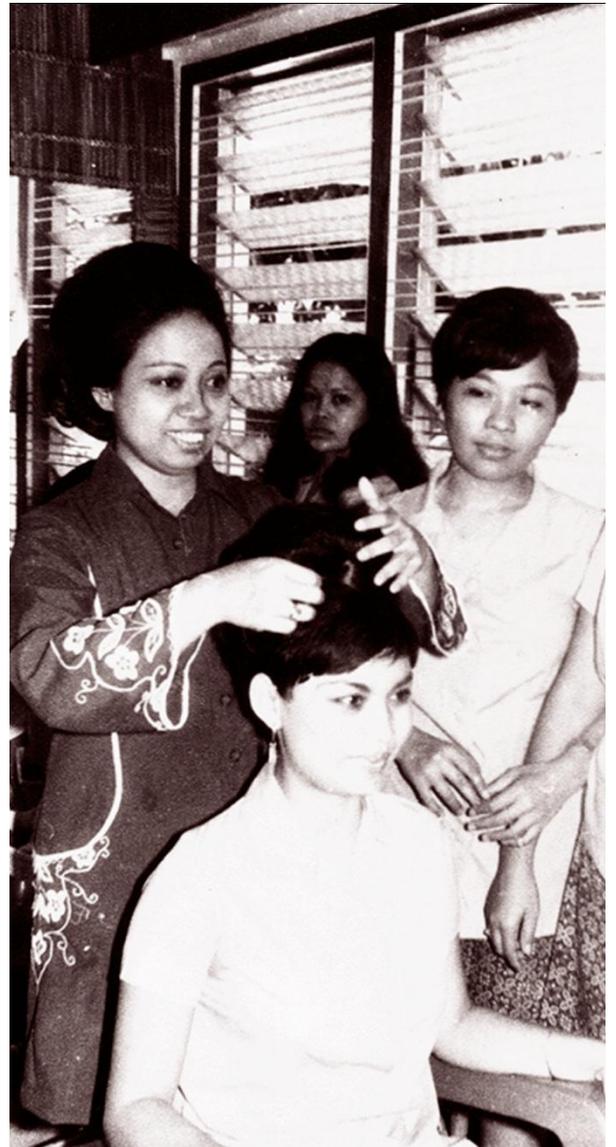
Since the market response was very positive, the Company built the first modern factory on Jl. PuloAyang, PuloGadung Industrial Estate in 1981. Along the years, this factory was short of production capacity, until the second factory was built at Jl. Pulokambing II/1, PuloGadung Industrial Estate, which focused on dry, semi solid cosmetics and herbal medicines, while the first factory focused on liquid cosmetics.

During the period of 1998-1994 in order to meet the increasing market demand, the Company developed new brands of cosmetics such as Cempaka, Martina, Pesona, Biokos Martha Tilaar, Caring Colours Martha Tilaar and Belia Martha Tilaar. All these products have helped utilize the factory capacity. Further strategic action done by the Company after year 2000 was to restructure the brand ownership between Martha Tilaar-labeled-brands under license from Dr. (HC) Martha Tilaar and her family, and other brands such as “Cempaka” and “Pesona” remaining the Company’s intellectual property.

During the period of 1993 – 1995, the Company acquired various subsidiaries in cosmetics business, i.e. PT Cedefindo (CDF), PT KurniaHarapan Raya (KHR) and PT Estrella Laboratories (Estrella).

To achieve efficiency in production, the Company conducted business restructuring process and factory relocation during 1995 – 1996 period. Further strategic development during 2001-2009 was among others remapping of brands in different market segments which will be discussed in a separate chapter.

In 2016, the Company acquired Rudy Hadisuwarno Cosmetics trade mark for cosmetics, beauty and personal care categories.



Glimpse on Milestone of PT. Martina Berto, Tbk.

PT. Martina Berto, Tbk is a manufacturing company, pioneering group of company under the flagship of Martha Tilaar Group (MTG) found by DR. Martha Tilaar in 1970 by launching her first beauty salon at her parents' house, at Jl. KusumaAtmaja No. 47 Menteng, Central Jakarta. For the time being, this company grows up to now as we can see here the milestone of the company.

1979- Started operations with the launch of Sariayu brand in own salon

1981- In this year the company (PT. Martina Berto) built its first modern factory at Puloayang - Pulogadung Industrial estate, as a manufacturing cosmetics and herbal products with "Sariayu – Martha Tilaar" brand.

1986- This year the company built its second modern factory at Pulokambing – Pulogadung Industrial estate, as the second manufacturing company.

1993- In order to diversify to the upstream industry, in year 1993 the company acquired PT. Cedefindo whose main business was in contract manufacturing (of private labels) for cosmetics products.

1995- Due to fast growing sales, in year 1995 the company relocated the manufacturing facilities of herbal products to Gunungputri Factory, Cibinong. Meanwhile, Puloayang factory was then transferred to the subsidiary company, PT. CempakaBelkosindo Indah which manufactured cosmetics producing "Mirabella" and "Cempaka" brands.

1996- the company obtained ISO-9001 Certificate (Quality management system).

1999- The Company fully owned by Martha Tilaar family after passed the monetary crisis

2000- the company obtained ISO-14001 (Environmental management system) and GMP (Good Manufacturing Practices) certificates on cosmetics and herbal products.

2005- this year PT. CempakaBelkosindo Indah (CBI) was merged with the company (PT. Martina Berto) so, "Mirabella" and "Cempaka" brands were also transferred to the company and being manufactured in PuloKambing factory. Puloayang factory (ex PT. CBI, was then converted to Sales office next to company distribution centre (DC) located at Puloayang, Pulogadung.

2010- Opened a new retail outlet "Martha Tilaar shop" (MTS) in Singapore to boosts the International market.

2011 – There were two important moments this year, ie.

- a. Initial stock listing and
- b. Establishing a subsidiary Eastern Beautypelago, Pte.Ltd. in Singapore to operate Martha Tilaar Shop (MTS) in Singapore and outside Indonesia.

2012 – Groundbreaking construction of new herbal product factory at the area of *KampoengDjamoeOrganik (KaDO) in Cikarang.*

2013 – Established the packaging production facility in PuloAyang Factory

2016 - Acquired Rudy Hadisuwarno trade mark for cosmetics, Beauty and personal care categories.



CURRENTLY, MARTHA TILAAAR GROUP CONSIST OF :



Company Strategy on Sustainable Business

Since the beginning of this company, management committed to run business inclusively by involving all stakeholders in the company program and activities related to sustainable business. By implementing clean and green process, company will continue to expand its wings by releasing international quality products. In order to be able to enter global market and take the position beside multi-national companies, all of the companies under the Group have to comply the ten principles of the UN Global Compact.

In implementing the Ten Principles of UNGC, company has developed strategy to translate those principles into practical works and later become company attitude to gain every tied competition in the market. In some cases we do business processes from the beginning through the marketing communication and program activities by involving other parties as our stakeholders such as government and non-government organizations.

Combining the ten principles into business strategies

Our business strategies, as reflected company's vision, "To be one of leading companies in beauty and spa industries with eastern atmospheres and value through modern technology", are designed by combining UNGC principles. These strategies involve stakeholders along the supply chains. Labor, human rights, and environment issues altogether colorize company and become the model of company's strategy. This is the most valuable point in improving our product competitiveness.

Bringing along the ten principles in CSR activities

From the very first start, company has been running the business by involving all stakeholders along from the production chain to product distribution. CSR activities are embedded in business processes from upstream to downstream by empowering all people involved in the production processes. From farmers, the supplier of raw materials, to end users of our products, mainly women, have to be touched and involved in our program. While principle 10, Anti-corruption, has played more important role and it is big challenges in building good performance in competing global market.

Above all, the application of GC principles through CSR activities has made the efforts to create high impact to communities and to achieve our targets more effective. We unite the values of our business and operations to meet the expectations of stakeholders, which include customers, employees, regulators, investors, suppliers, communities, and environments.

We combine our social, economic, and environmental responsibilities to the stakeholders by actions and in our corporate policies. We openly communicate our strategies, targets, performance and management to the stakeholders in a continuous commitment to company's sustainability development. Finally, we also measure the implementations and results of the CSR activities, and then continuously improve them to fulfill company's short-term and long-term goals.

Pilars

Inspired by the values and culture of the Eastern, Founder and Chairwoman of Martha Tilaar Group, DR. (H.C.) Martha Tilaar, has the spirit to continue to explore the richness of nature and culture of Indonesia to beautify Indonesian women and the world. The spirit is implemented into the 4 Pillars of Martha Tilaar Group which is the foundation in every CSR activity and every business unit run by Martha Tilaar Group.

Beauty Green

Beauty Green is one of the main pillars of the company's commitment to maintain and preserve the green environment for a better life. Through the **KampoengDjamoeOrganik** (KaDO) program we do some activities in term of Company green movements.

KampoengDjamoeOrganik (KaDO) is a garden built to preserve a wide range of Medicinal, Cosmetic and Aromatic (MAC) plants. KaDO becomes organic herbal garden (the one and only in Indonesia) and as an educational tourism place that introduces and teaches various types of plants and

ways of organic cultivation of MAC plants. In addition, here is also explained the procedure of making compost fertilizer and how to fertilizing soil in good ways. Furthermore, KaDO also provide counseling to farmers throughout Indonesia in term of organic cultivation system and how to grow MAC plants organically. KaDO also contributed to the cultivation knowledge of Family Medicinal Plant (TOGA/live Apotec) in the community, schools, and campus, such as in the University of Indonesia forest and Bandung Institute of Technology.

Figure 1. Planting awareness from the beginning



Companies running a business on all activities must keep the balance of natural ecosystems. This is by creating companies that save natural resources such as electricity and water use. Not only that, we also strive to create a company with a controlled impact by reducing the waste generated, both solid and liquid waste. Organic wastes are collected at a special shelter for later processed into compost. This fertilizer is applied in the garden to fertilizing plants surrounding factory and office areas.

Figure 2. Organic waste collector and composter



SDGs

Goals 15 Life On Land



Empowering Women

The company has also help women of over Indonesia, especially those with less economic potential from low income families. We have Martha Tilaar Training Center (MTTC) which is a professional spa therapist training center aimed to empowering young women to avoid the women trafficking in poor areas and left behind. Therefore, the company wants Indonesian women to be more independent and able to improve their quality so they can have a chance to work based on skill they have.



Figure 3. Guidance to Jamu seller, JamuGendong dan JamuRacik business

Empowerment is a form to achieve equality and improve the position of women in various areas of life. Currently, progress is quite rapid in gender equality, although discrimination is still being found. The Company helped to improve the economy of Indonesian women with the Workshop on Technical Development and Business Competitiveness of *JamuGendong* and *JamuRacikan* business (jamu seller) in collaboration with the Ministry of Health Directorate General of Pharmaceutical and Medical Devices.



Figure 4. Views of Martha Tilaar Training Center

Beauty Education



The importance of quality education becomes the reason for the company to be one of its pillars. Education can provide a lot of knowledge about various things and provide a view of life. Moreover, education is also the main foundation needed to achieve a better and prosperous life. Not only conducted in Martha Tilaar Training Center, but the company also helped women and empowered women in communities of all Indonesia to beautify themselves by giving the program of Beauty Class.

Figure 5. Empowering women through Beauty Class program



The company also provides scholarships to outstanding employee children ranging from elementary to high school levels with an average grade requirement above 7.5. In the year 2017 recorded the following scholarship recipients:

No.	Tingkat Sekolah	2015	2016	2017
1.	SD	30	30	29
2.	SMP	16	20	20
3.	SMA	10	10	10
Total		56	60	59

Puspita Martha Beauty School

Puspita Martha International Beauty School is a well-known beauty school in Indonesia founded in 1970 and has given a huge role in the provision of professionals. Many alumni have become successful and independent creative insane because they succeeded in creating jobs for themselves and others

SDGs

Goals 4 Quality Education



Goals 5 Gender Equality





Beauty Culture

Beauty culture pillar is a company's commitment to preserve Indonesian culture. As a national private company, we strive to lift the culture of every region in Indonesia from year to year through Color Trend Sariayu. Starting from 1987 until now 2017 with Sariayu Color Trend 2017 Inspiration of Jakarta with colors that are very compatible to Indonesian women which are energetic, confident, and full of activity throughout the day. With the Sariayu Color Trend, the characteristics of each region in Indonesia can be recognized by all Indonesian people and is expected to have a positive impact to the surrounding local community.

We are also proud to be trusted to be an official cosmetic to beautify the members of the Hedgehog Flag of Indonesia Flag at the Anniversary of Republic of Indonesia at the Merdeka Palace for 33 years.



The Ten Principles of UNGC and Sustainable Business strategy of the Company

Human Right

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights



The Company undertakes various efforts to develop and improve welfare by providing employment opportunities to the nation's next generation. One of them in 2017 with the Management Trainee program (Martha Tilaar Development Program / MTDP).

Training program is an effort to develop employee's knowledge and skills. In line with the MTDP program which also involves senior leaders and managers for knowledge transfer with leadership training, lean six-sigma, and the 4 discipline of execution. These trainings are also given to existing employees at every level of both general and functional training. Required materials include ISO, GMP, SMK3, and Halal.



SDGs

Goals 9 Industry, Innovation and Infrastructure



Principle 2: Business should ensure that they are not complicit in human rights abuses.

Employee Award Program

Awards are awarded to employees based on dedication and loyalty according to length of service. In 2017, this award is given to employees with a term of service ranging from 5 years to 30 years.

No.	Length of Working	2017
1	5 years	20
2	10 years	1
3	15 years	19
4	20 years	36
5	25 years	22
6	30 years	16

The Best Employee

The Company rewards not only for dedicated employees and loyalty, but is also awarded to Exemplary Employees with career value and track records while working in the Company. In 2017, this exemplary employee award was awarded to Sudarno who has joined the Martha Tilaar Group for more than 15 years. With persistence, professionalism, perseverance and dedication that lead him to success.

Employment, Health, and Safety

The Company applies the Health and Safety Management System (SMK3) consistently and continuously. Since 2015, the company has been awarded the gold flag, even the company set up HSE department (Health, Safety, Environment) to ensure the company implements the Health and Safety Management System (SMK3) within the company's. In 2017, the company has made procurement of facilities and infrastructure about work safety such as Apar and Fire Alarm. In addition to the procurement of facilities & infrastructure, the company also implements 5R on every line and routinely performs medical check-up of employees at the end of each year. Furthermore, to support the Occupational Health and Safety Management System, selected employees are provided with certified training to support occupational health and safety at the company.

Emergency Preparedness and Response (SMK3)

No.	Items	Status
1.	Hidran	Available
2.	Fire Alarm	Available
3.	Heat & Smoke Detektor	Available
4.	APAR	Available
5.	Tangga Darurat	Available
6.	Generator Listrik	Available
7.	Poliklinik	Available
8.	Kotak P3K	Available
9.	Ambulance	Available
10.	Tandu	Available
11.	Oksigen Klinik	Available
12.	Lemari Safety	Available
13.	Pamphlet Informasi K3	Available
14.	Megaphone	Available

Accident Rate of Work Year 2017

By conducted the OHSAS program, the Company did optimally to drop the work accident by applied the standard and procedure tightly.

Month	Total Employee
January	5
February	0
March	1
April	3
May	0
Jun	0
July	1
August	0
September	2
October	0
November	2

Labour

Principle 3: Business should uphold the freedom of association and the effective recognition of the right to collective bargaining

Labour Union

In order to achieve harmonious industrial relations between the company and its employees, the Company has various programs and activities that have been implemented throughout 2017 such as conducting a bipartite communication forum in order to create a good partnership in employee welfare. With this union, employees are free to voice their opinions to the company.

Principle 4: The elimination of all forms of forced and compulsory labour

In accordance with principle 4, namely the elimination of all forms of violence and burdens on workers, the Company has a policy in the form of Collective Labor Agreement (CLA) which regulates the position of trade unions on the rights of companies and trade unions, facilities and activities as well as meeting and membership fees bared from labor union. The written agreement also covers everything from employee acceptance, wages, regulations, rules to settling complaints and disputes. Termination of employment, social security and welfare are also included in the Collective Labor Agreement. This agreement is signed by the Workers' Union Team and the Company's Management Team up to the President Director.

Principle 5: The effective abolition of child labour

In accordance with Principle 5, the company does not employ children under the age of 18. In 2017 the highest average age of employees is 20-29 years. This amount is very large compared to the previous year. In 2016 the highest average was at the age of employees around 40-49 years. This proves that there is regeneration in the company.

Ages	2015	2016	2017
Less than 18 years old	0	0	0
18-20 years old	0	0	110
20-29 years old	95	31	1024
30-39 years old	197	205	457
40-49 years old	274	291	311
above 50 years old	75	87	99

Principle 6: The elimination of discrimination in respect of employment and occupation

Employees in companies are not chosen based on religion or gender. Evidently the number of employees with female gender is not much different from that of men. Every human being has the same job opportunity.

- **Number of employees by gender and religion**

Sex	2015	2016	2017
Women	345	319	1521
Men	296	295	480
Total			

Environment

Principle 7: Businesses should support a precautionary approach to environmental challenges

Environment Program (electricity, water, and waste)

The company has a commitment to running every business in all activities must keep maintaining the balance of natural ecosystems. This started by creating a company that saves natural resources such as the use of electricity and water. The company also strives to create a company with controlled impacts by reducing the amount of waste produced, both solid and liquid waste. It was noted that electricity usage, electricity usage ratio, and liquid waste amount decreased from the previous year as listed in the following table:

Principle 8: Undertake initiatives to promote greater environmental responsibility

- **Organic compost processing for organic fertilizer**

The visitors of KaDO were not only introduced to plants but also taught about making compost. Waste from plants such as dried leaves is collected in one place and then given treatment to be used as compost.



No.	Target, Objective and Program	2016	2017	
1.	Create a save natural resources company	a. Usage of monthly electricity (KwH/month)	121	104
		b. Electricity usage ratio (pcs product/KwH)	22,441	24,14
		c. Average usage of water (m ³ /month)	2482	2594
2.	Create a low destructive impact company	a. Average amount of waste (kg)	1859,77	2699,74
		b. Amount of liquid waste (m ³)	958,6	685,6
		c. Average amount of discharge (m ³ /month)	119,16	102,77

- **MAC plant conservation at KaDO (*KampoengDjamoeOrganik*)**

KampoengDjamoeOrganik (KaDO) is one of the Company's initiatives as a form of environmental responsibility. KaDO is an area of conservation and environmental studies. There are 650 species of medicinal, cosmetic and aromatic (MAC) plants from all over Indonesia. Visitors are educated about the importance of love for the environment. They were introduced to various types of plants and their benefits. Not only that, visitors can also try to plant MAC plants organically.



SDGs

Goals 15 Life On Land



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

Waste Water Treatment Plan

The company is committed to running its business while remaining environmentally responsible. The company has a Waste Water Treatment Plant (WWTP). This facility serves to eliminate contaminants from industrial wastewater. Industrial waste is processed until the water is safe to be disposed of so as not to damage the environment. This treated water can be used to water plants in factory and office environments.

ISO 14001

Since 2000 we have been implementing the ISO 14000 management systems related to environmental policy in running our production process. Thus, there is no doubt that our company conducts monitoring and evaluation of implementation of the ISO requirements. Company management, from the top down, give their full support. Some steps made in strengthening environmental awareness among company members can be described as follows:

- a. Continuing the environmental program on the waste water treatment arrangement by

conducting, monitoring, and processing the evaluation. There are about 38 tons on average per month of recycled water from the WWTP used for garden irrigation and other uses such as washing vehicles, and flow directly into the drainage of the city.

- b. Continuing electricity-saving program by changing the current electrical equipment to new energy-efficient appliances, including light bulb and air conditioner. Trial in applying solar cell for office electricity.
- c. Reviewing the environmental program documents related to government regulations and communicating environmentally friendly activities so that we got the BLUE Label of PROPER policy from the Ministry of Environment. Blue label means that we have met the requirements in handling the environmental impacts of the production process in our plant. The next step is to get GREEN label next year, which means that our business activities undertake CSR programs involving community as the stakeholders.
- d. Promoting Green & Healthy action and movement program and eco-friendly activities among stakeholders through:

Anti-Corruption

Principle 10: Businesses should work against corruption in all forms, including extortion and bribery

Anti-corruption commitment is stated by the management, supported and implemented by all levels of employees, suppliers, and other stakeholders. This program is an ongoing action in our company, continuously monitored, and evaluated at all levels and all fields related to government policy and corporate policy. This are mentioned in company values called *DJITU* or accurate in English, but this word stands for *Disiplin* (discipline), *Jujur* (honesty), *Iman/Inovatif* (faith/innovative), *Tekun* (diligent), and *Ulet* (persevering). Honesty is one of value that have to be put deeply in everyone heart for not doing bad things especially corruption and all forms including bribery.

We seriously identify potential areas prone to corruption, including bribery, to eliminate the potentials. We also apply this policy to all related stakeholders in the supply chain, including suppliers, partners, and government.

Internal audits in our business

In order to the implementation of good corporate governance, the board of commissioners has formed the audit committee. The formation of audit committee is conducted based on: The resolution of Jakarta Stock Exchange Board of Directors No. Kep-305/JSE/07-2004 dated 19 July 2004, Decree of BAPEPAM Chairman No. 29/PM/2004 on 24 September 2004 which has been renewed with Financial Service Authority Rules no. 55/POJK.04/2015 concerning the implementation of the guidelines for the establishment and work of the Audit Committee.

Internal audit is applied to all processes of production, management, and also financial matter. Regarding to the production process, quality control, GMP, and environmental

systems are conducted every year to evaluate our suppliers and the principle of materials. Internal audit has also applied to ISO 140001 and management. We have run the ISO-2000 and ISO-14000 simultaneously since 2000. So, regular audits are performed to meet the requirements by an independent regulatory body.

Internal audits on the company's financial

The Audit Committee fulfills its duties in accordance with the Audit Committee Charter approved by the Board of Commissioners. The Charter is reviewed annually, and was last updated by the Board of Commissioners on April 2017. The Audit Committee provides independent and professional recommendations to the Board of Commissioners on a range of issues regarding compliance, internal and external audits, financial statements, and other matters reported by the Board of Directors to the Board of Commissioners. The Audit Committee also identifies matters requiring the attention of the Board of Commissioners, and carries out special duties assigned to it by the Board of Commissioners.

Pursuant to the Audit Committee Charter, the Audit Committee has unrestricted access to information and personnel of the Bank, and has direct communication channels with both independent auditors and internal auditors. The Audit Committee meets at least four times a year, and may call additional meetings at anytime. The independent and internal auditors have the right to appear and be heard at any Audit Committee meeting. Directors and other key officers may be invited to attend meetings at which their presence is considered appropriate. The Audit Committee

reports its activities to the Board of Commissioners.

The Audit Committee reviews the selection and independence of independent auditors, and provides recommendations for appointment to the Board of Commissioners. In 2017, the Audit Committee met by 20 (twenty) times.

Among others, the following issues were discussed:

- Provided the recommendation for appointment of Independent Auditors.
- Recommended the internal audit to assess the adequacy of internal controlling system, audit plan, significant audit findings along with the follow up. Emphasized on planning, especially inventories, sales and production as well as management information system.
- Reviewed the Accounting procedures and activities, financial reporting, recalculation and fixed asset inventorization.
- Reviewed the audit plan, scope of audit, independency and significant audit findings with Independent Auditors.
- Advised the Board of Directors regarding the organizational structure, based on supply chain basis.

In line with the spirit to implement good corporate governance as well as to comply the regulations of Capital Markets and Financial

- Perform evaluation and validation of the system that runs as well as new ones will be implemented regarding the management, control, monitoring of the effectiveness and efficiency of the systems and procedures for each organizational unit.
- Monitoring and evaluation on the results of the audit findings as well as give the suggestions to the improvement of the activities of the organization and the system/policy/regulations in

Institutions Supervisory Agency (Bapepam-LK), the Board of Commissioners has formed the Audit Committee.

Purpose of establishment of the Audit Committee is to assist the Board of Commissioners in the conduct of supervisory role by reviewing financial statements, internal control systems, audit process, compliance of the company on the regulations and applicable laws, code of ethics and risk management initiatives of the company. In carrying out its duties the Audit Committee cooperate with Internal and External Audit.

Internal Audit Unit

The Internal Audit Unit was established as the corridor organization in implementing strategies to achieve the targets that have been in charge, and to improve the functioning of the integrated control in order to ensure that operational activities had been well run and can increase the effectiveness of the Organization through value added implementation of risk management and the principles of Good Corporate Governance.

Duties and responsibilities of the internal audit:

- Carry out the inspection/audit of internal control system in the course of the implementation of GCG in rendering judgment in accordance with the regulatory/policy organization.
- Presenting an audit that have been implemented to the CEO (Chief Executive Officer)
- Carry out specific tasks in the scope of internal control that is assigned by the CEO (Chief Executive Officer)

The structure of the Internal Audit is a notch below the Board of Directors and has a position under the President Director. During the year

2017, internal audit had internal audit activities, such as:

- Review the 2017 work program and prepare the 2018 audit work program.
- Reviewed the company standard operation on business activities are still emphasizing in financial risk treatment and operational based on the findings examination and management needs.
- Examination of the marketing and sales, compatibility between promotion with branding activity, operational costs and sales target.
- Examination on the availability of finish goods and its distribution channel in sales location.
- Reviewed the availability of stocks by monitor dispersion and stock distribution to the outlet and stores, optimizing the days of inventory and the ability to fulfill the customer the service level.
- Reviewed, examination and renewed Compliance application implemented in order to integrate transaction information.
- Reviewed purchasing activity and their raw and packaging material availability

Internal Control System Internal Control that applied by the Company:

- Financial control, do with determination of budget planning that already allocated in beginning of financial year based on achievement plan expected by the Company and economic growth plan, financial realization plan ruled by expended procedure and cost responsibility focused on effective and proper financial management, cost efficiency aimed to focus on potential resources for maximum result.
- Operational control, referring to standard operational procedure which has been certified and audited as well as reviewing continuously according to the

as well as their adequacy to production planning in year 2017.

- Controlled on the stocks close to expired date and strategic program to sell them
- Examination on the repaired activities and asset procurement.
- Examination on the contract to suppliers, visited the supplier domicile for the suitability against legal document, as well as the suppliers ability and feasibility.
- Examination on security and comfortability aspects of work according to employment regulation as well as occupational health and safety assessment series.
- Follow up the outcome of audit findings by following up for the period audit year 2017 as well as the previous audit period in accordance with best recommendations required by the Company and exactly can be implemented by unit of work which is needed.

Improve internal audit personnel skill and ability as a step to improve supervision function in accordance with the Company needs

development of the Company business in order to obtain the best conditions and under control, the Company more active in involving each function in the department of as initial controller beside internal audit.

- Compliance controlling refers to the rule set in compliance rule of each department function which involved each task function, stipulated in written rule or procedure that easy to understand and execute of all personnel. The compliance regulation reviewed by internal control function periodically or spontaneously.
- In implementing of work, the Company provided training as well as knowledge of Safety Inductions for each employee

so they have the ability to do the Company safety policy.

Effectivity of internal control during the year 2017, shown the awareness improvement of each employee as executor or as part of the Company control.

Sustainable Business for Sustainable Development Goals

The principle of a successful business is the commitment of company management to integrate all stakeholders, including workers and society. Our labors have a good performance in the work area based on their specialization. Company produces good quality products because of the support of labors and suppliers. The same is true with the high product sales in the market with the support of

It is the policy of company's marketing department to reward our loyal customers. As mentioned above in the event of annual customer gathering.

b. Implementation of the Global Compact principles in the value chain

Description of raw materials and semi-finished products used by the country or region from which they originate. Our company uses natural materials and chemicals for cosmetics and herbal products from local and global suppliers.

c. Strong relationships of supply and distribution

The company maintains strong relationships with suppliers and distributors. Distributors' network enables wide-scale distribution and serves as a channel of promotional activities, consumer education and awareness programs. In addition, the Martha Tilaar's outlets support brand development initiatives, acting as the company's customer support center together with retail centers.

Company's spa products are separately promoted and distributed through the spa chain operated by *PT Cantika Puspa Pesona*. A

distributors, media, and the facilities of government agencies. Thus, the success of company development lies on a good integration between us internally and also externally with other parties, including the government. This success can be seen through our supply chain which involves all stakeholders.

a. Loyal customers and Distributor Awards

There are loyal customer gathering events organized by each product brand to reward our loyal customers in various kinds of activities. There are also distributor gatherings to reward their good performance by achieving the target or even more, for both national and international distributors. The success of marketers is about how they can connect and integrate the products with their customers.

different subsidiary company also provides outsourced manpower for manufacturing facilities.

d. Strategic location and facilities are supported by distribution network and marketing activities

The company operates three strategically located manufacturing facilities in Indonesia, close to the main ports, both sea and air. Seamless logistics support results in excellent distribution system. Locations such as these become elements of important strategic advantages for the company.

The strategic locations make Company available across marketing channels with agents, branches and depots in Indonesia thus ensuring superior distribution. In addition, the company has strong relationships with suppliers and distributors that support it in various promotional activities.

e. Value chain policy, including policy for suppliers and subcontractors

We have standard operating procedures to evaluate and monitor the performance of suppliers. We have a principle based on the

supplier assessment policy which is evaluated every year. This policy also includes the allocation of responsibility in the value chain and procedures. Through this policy, we fix the problem of non-compliance, compliance checks in the value chain and value chain risk assessment to identify potential issues with suppliers and other business partners.

- **Transparency and Verification**

All information regarding to the company's profile and context of operation, the legal and organizational structure as well as countries where the organization operates and the market share can be found in the Company's Annual Report 2015.

Description of high standard of transparency and report disclosure

Detailed Description of the company's performance can be analyzed in company's annual report in 2015, consisting of several parameters, including data such as:

- a. Indonesian cosmetics industry: the Indonesian market size and growth, with the potency to maintain the momentum until 2015
- b. The main players in the Indonesian market
- c. Comparison of key performance indicators for the previous 2-3 years

COVERING

The UN Global Compact is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with the Ten universally accepted principles in the areas of Human rights, labour, environment, and anti-corruption. By doing so, business as a primary driver of globalization, can help ensure that markets, commerce, technology, and finance advance in ways that benefit economies and societies everywhere.

“The UN Global Compact Management Model” guides companies through the process of formally committing to, assessing, defining, implementing, measuring, and communicating a corporate sustainability strategy based on the Global Compact and its principles. It is a simple, yet broad and flexible, model to guide companies of all sizes through the process of organizational change to embrace corporate sustainability. This model is particularly helpful for those just entering the sustainability realm, but also offers guidance on Leadership Practices for more experienced companies.

Currently, the consumers expect that companies do more than just earn a profit, but only a few companies who believe that the effort will have a positive impact on the companies. Sariayu Martha Tilaar fought hard to close the gap between customer expectations with perceptions of CSR year after year. Sariayu Martha Tilaar recommends companies improve how they share their CSR efforts with the public and emphasizes that transparency and authenticity is the best approach.

“If they [companies] believe they are in business to serve people, to help solve problems, to use and employ the ingenuity of their workers to improve the lives of people around them by learning from the nature that gives us life, we have a chance.” (Paul Hawken)

Jakarta, September 2018

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