

**PT Sinar Mas Agro Resources and Technology Tbk**  
**Global Compact – Communication of Progress**  
**April 2016**

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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>	:	139,300 ha
Fresh Fruit Bunch Production <sup>2</sup>	:	3,068,000 tonnes
Mills Annual Capacity	:	4,200,000 tonnes
Crude Palm Oil Production	:	740,000 tonnes
Palm Kernel Production	:	181,000 tonnes
Kernel Crushing Plants		
Annual Capacity	:	480,000 tonnes
Refineries Annual Capacity	:	2,880,000 tonnes

## Products

- Crude Palm Oil
- Palm Kernel
- Palm Kernel Oil
- Palm Kernel Meal
- Cooking Oil
- Margarine
- Shortening
- Specialty Fats
- Stearin
- Oleochemicals

### Notes:

1. As at 31 December 2015
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

Together with our ultimate holding company, Golden Agri-Resources Ltd (“GAR”), in 2015 SMART launched an updated and enhanced sustainability policy, namely the GAR Social and Environmental Policy (“GSEP”). The GSEP integrates all our previous policies including the Forest Conservation Policy (FCP), Social and Community Engagement Policy (SCEP), Yield Improvement Policy (YIP) and Zero Tolerance Policy in one document. The main principles centre on environmental management, social and community engagement, work environment and industrial relations, marketplace and supply chain.

The policy applies to our entire operations, our subsidiaries and our suppliers.

# 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**

## SOCIAL AND COMMUNITY RELATIONS



We have been actively engaging the government, labour unions, NGOs and other institutions to address human rights issues within the palm oil sector.

- We recognise that wherever we operate, the local communities are important stakeholders. We respect and recognise the long term customary rights of the indigenous and forest dwelling communities to their traditional land and commit to ensuring free, prior and informed consent (FPIC) 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 will strengthen and benefit the local communities as important stakeholders. We are strengthening our procedures in community engagement to forge better understanding, and to plan and implement more effective programmes to meet community needs.
- We collaborate with The Forest Trust (“TFT”) to ensure that palm oil operations improve the lives of local communities. In 2015, we have developed new guidelines and continued to build capacity in areas such as mediation, conflict management and Participatory Mapping to facilitate the successful implementation of the GSEP on the ground.
- We mobilise stakeholders such as local communities and government bodies as we actively participate in and drive our comprehensive community programmes, which range from education and energy self-sufficiency, to healthcare and disaster relief.



# Area 1: Human Rights (Continued)



## EDUCATING THE NEXT GENERATION

- The Company believes that education is key to breaking the poverty cycle. In 2015, SMART supported 70 schools ranging from kindergarten to junior high. These schools employ 591 teachers and educate 10,033 students.
- In support of the nine years of compulsory education required by the Indonesian Ministry of Education, we ensure that each estate has educational facilities from kindergarten to sixth grade schooling. We also ensure that every region has a junior high school that adequately meets the needs of our employees and local communities.
- Children of our employees and casual workers living in the estate receive free education from kindergarten to junior high school and heavily subsidised higher education. In the wider community, children living around our estates receive heavily subsidised education at all levels. To further encourage our employees to send their children to school, we provide free school bus services for all students. During the year, we also donated books, teaching and learning materials to 470 students in Central Kalimantan, Jakarta, and South Kalimantan.
- In 2015, the Company started an early childhood education programme together with the Indonesia Heritage Foundation (IHF). The programme involves four teachers from two schools in South Kalimantan region.



# Area 1: Human Rights (Continued)



- The Sekolah Eka Tjipta (Eka Tjipta School) programme is a strategic collaboration between SMART and Eka Tjipta Foundation. It is a quality improvement programme for schools located in our plantations. By focusing on quality training for teachers, school management and community involvement, the programme aims to create schools that combine social conduct, ethics and academics to foster character development and care for the environment. Under the programme, English language lessons are also provided to give students a competitive advantage. To date, eight schools in Central and East Kalimantan have participated in the programme.
- In 2011, we started building Rumah Pintar (Smart House) in some of our concessions, in support of the programme initiated by Indonesia's former First Lady, Mrs. Ani Bambang Yudhoyono. To date, we have nine Rumah Pintar across our plantations in Indonesia. The goal of Rumah Pintar is to help create educated and prosperous communities throughout Indonesia. Each Rumah Pintar is designed as a community learning centre focusing on early childhood education and education of women. The Rumah Pintar contains a library, play room and an arts and culture corner. It is also equipped with computers and multimedia stations.

# Area 1: Human Rights (Continued)

## MEDICAL CARE

- We believe that having access to basic medical care is a basic human right. To meet this need, we have built healthcare facilities in most of our estates and staff them with qualified medical professionals to serve our employees and their families as well as the local communities.
- SMART's collaboration with the Tzu Chi Foundation is the cornerstone of our community efforts. Together, we have implemented many successful programmes to assist and enable the needy. Our initiatives in 2015 included:
  - Free medical services for approximately 300 patients in East Kalimantan;
  - Mobilisation of over 100 medical personnel in 56 plantation clinics to provide free treatment for more than 370 patients daily;
  - Surgery for more than 60 patients with conditions such as harelip, hernia and cataracts;
  - Health education, environmental, and other awareness programmes for approximately 9,800 participants in Central Kalimantan, East Kalimantan, Jakarta, Jambi, North Sumatra, and South Kalimantan;
  - Providing support for child health and nutrition (including multivitamins and supplementary feeding) to around 1,300 beneficiaries in East Kalimantan and West Java.
  - Providing aid for more than 370 victims of forest fire in Central Kalimantan and North Sumatra. Aid packages included blankets, clothes, beds, carpets and school clothing. Assistance for house construction was also provided;
  - Planting around 2,600 mangrove plants in riparian zones and mangrove areas as well as medicinal plants in East Kalimantan and Jakarta.



# Area 1: Human Rights (Continued)



## EMPOWERING THE COMMUNITY

- We also seek to meet the needs of our employees and the people living near our operations by:
  - Building and maintaining public infrastructures including roads, bridges, community hall (for cultural activities) and places of worship such as mosques and churches;
  - Providing the facilities and know-how to run cooperatives that ensure basic necessities are available at affordable prices;
  - Construction and rehabilitation of well-built dwellings and health, education and sporting facilities; and
  - Providing financial help for communities to celebrate festive and religious events.
- Our community efforts in 2015 included the sale of more than 414,000 litres of our branded cooking oil at below market prices in impoverished areas of Belitung, Central Java, East Java, East Kalimantan, Kotabaru, Lampung, Makassar, Medan, Nusa Tenggara Barat, Riau, Sampit, and West Java.
- As part of our humanitarian efforts, we continue to engage and mobilise our staff for various causes. For example, we urge employees and tenants at our corporate headquarters in Jakarta and our operations units in Jambi, North Sumatra and South Kalimantan to participate in regular blood donation drives for the Indonesian Red Cross. More than 1,900 employees participated in 2015. Our employees are also encouraged to contribute funds regularly to the Tzu Chi Foundation. A dedicated team sees to the distribution and responsible use of these donations.

**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**

- As part of our GSEP, we reinforced our commitment to ensuring that the rights of all people working in our operations are respected according to local, national and ratified international laws.
- We ensure that our manpower policy is aligned with Indonesian labour laws, 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 employment age and ensure that employees' rights are respected. Some of our policies such as pension plans, personal accident and health allowances surpass standards set by the government.
- Our commitment to fair labour practices is also emphasised in our employee handbook and employment practices. The Company has an equal opportunities policy on employment, banning discrimination based on race, national origin, religion, disability, gender, sexual orientation, union membership and political affiliation.
- We are totally against any form of child labour and we rigorously enforce these principles at all our plantations, mills and other places of work. Our recruitment officers check the identification card against the prospective employee's schooling records, such as their school diploma, to ensure that we do not employ children. In our plantations, we encourage parents to send their children to schools and complete nine years of compulsory education.

## Area 2: Labour (Continued)



- 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, all of our units provide a day care centre.
- We also have a clear anti-sexual harassment policy integrated into our Standard Operating Procedure ("SOP") to protect our female employees. The implementation of this SOP includes extensive training and socialisation for all estate and mill workers. We also establish gender committees, comprising representatives from the labour unions and management, to promote female participation and advancement in the workplace. These committees also handle sexual harassment complaints. When a case of harassment is reported either formally or informally, the relevant committee investigates to determine whether further sanctions or law enforcement action are needed. During the investigation, the committee provides assistance and support to the victim.
- 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.
- We apply a strict Occupational Health and Safety (OHS) Management System as an essential working condition at all levels of our business units, in accordance with the Decree of Minister of Manpower of the Republic of Indonesia Number PER-05/MEN/1996 regarding Health and Safety Management System. We conduct training programmes for our Health and Safety Specialists on a regular basis.
- In recognition of our good OHS management and implementation, SMART received the OHS management system certification (Sistem Manajemen Keselamatan dan Kesehatan Kerja or "SMK3" Certification) for six mills, of which two are valid until 2017 and four others are until 2018. During 2015, we also received Zero Accident Awards from the Indonesian Minister of Manpower and Transmigration for one smallholder scheme (KKPA) for one million accident-free hours.

# 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**



As a leading palm oil company, we continue to work on strengthening the implementation of our sustainability commitments. Sustainability has always been an integral part of our business and is supported by our management and Board of Commissioners. Our sustainability strategy focuses on engaging multiple stakeholders proactively, implementing the best practices holistically, benchmarking against industry standards, and reporting our progress in a timely and open manner.

## **Working on the Long-term Prevention of Forest Fires**

- Climate change and sustainable agriculture were at the forefront in 2015 as Indonesia and its neighbours suffered the worst haze crisis since the late 1990s. The haze had a direct impact on many of our own employees and the communities living around our plantations as it disrupted daily lives, prevented children from going to school and affected overall health.
- SMART will continue to prioritise fire management and prevention efforts. To date, we have trained more than 3,000 personnel in fire management and suppression. These Emergency Response personnel are stationed across our estates, ready to be deployed in the event of a fire.
- Climate change took centre stage globally with countries reaching consensus on climate change action at the United Nations Climate Change Conference of the Parties 21 (“COP21”) meeting in Paris. In the run-up to COP 21, we joined 77 leading companies in signing an open letter urging world leaders to take bold action on climate change. In launching these projects and continuing to work towards sustainable palm oil we will play our part in helping Indonesia achieve its Green House Gas (“GHG”) emissions reduction target and move toward a low-carbon economy.

## Area 3: Environment (Continued)



### Driving Change through Engagement, Partnership and Collaboration

We remain focused on engaging, partnering and collaborating with stakeholders including government, smallholders, local communities, NGOs and industry to drive change on the ground while maintaining long-term growth for the industry and community.

#### Supporting smallholders

- A key focus of SMART's sustainability policy is to ensure positive social, economic and community development in the areas where we operate. Helping smallholders improve their livelihoods through increased productivity and helping them build capacity in sustainable practices is a critical component.
- To boost the productivity of one million independent palm oil smallholders in Indonesia, the Indonesian Chamber of Commerce and Industry ("KADIN") initiated an Innovative Financing Scheme which was formally endorsed by the Government of Indonesia in 2014. Through the scheme, independent farmers are able to secure loans with affordable interest rates through cooperatives to fund their replanting. This financial support will help to sustain the living expenses of these smallholders in the initial four years before the oil palms reach maturity.
- The goal of the scheme is to increase smallholders' annual CPO yield from the current two to three tonnes per hectare to five to six tonnes per hectare. This could help avoid opening additional land for palm oil development, through the use of high-yielding certified seeds and implementation of best agronomy practices by the farmers.
- SMART will assist farmers to obtain loans under the Innovative Financing Scheme. SMART has also pledged to support farmer estate development by supplying farmers with high-yielding certified seeds and good quality fertilisers as well as ensuring knowledge transfer and capacity building.

### Knowing and working with our suppliers

- We see our suppliers as key partners and we engage continuously with them to understand the challenges they face, share what we have learned in the management of our own plantations and help them implement sustainable practices. This will ultimately help improve the entire palm oil industry. As a first step towards achieving this we embarked on a major exercise to map and verify our supply chain to the mills in 2015.
- Our mapping is based on gathering and verifying information about mills supplying our refineries. This includes exact coordinates and sustainable palm oil certification status. As of end 2015, we had completed 100% mapping of our supplying mills which include our own, affiliate and third party mills. In the next phase, SMART will be working with suppliers to map our supply chain to the plantation.
- Since 2015, we conducted site visits to our third party supplying mills. These site visits allow us to understand our suppliers better and to identify critical areas where they need help and support as they seek to adopt and apply sustainable practices.

### Environmental Management

Under the GSEP, we are committed to no development of High Carbon Stock (“HCS”) forests, High Conservation Value (“HCV”) areas and peatlands; Zero Burning; reducing GHG emissions and improving waste management.



## Area 3: Environment (Continued)



- Working with the HCS Approach Steering Group

The HCS Approach was initially developed by GAR and SMART in collaboration with Greenpeace and The Forest Trust (“TFT”) in 2011-2012. Many other plantation, trader and consumer companies in the palm oil industry have since adopted the HCS Approach.

GAR is a member of the HCS Approach Steering Group, which in 2015 published the HCS Toolkit (<http://highcarbonstock.org/the-hcs-approach-toolkit>). It provides complete technical guidance for the practical implementation of the HCS Approach and outlines the steps in identifying HCS forest, from initial classification of the vegetation using satellite images and field plots to making the final conservation and land use map.

- Preserving HCV areas and protecting rare and endangered species

HCV areas are made up of wildlife habitats, rare ecosystems and cultural areas. They are found across land for development and in our existing plantations. Currently, the HCV and HCS areas found in our existing plantations areas are 8,738 hectares and 719 hectares respectively. We continue to work with experts in HCV to improve assessment, management and monitoring processes.

## Area 3: Environment (Continued)

We recognise the need to protect and conserve the habitats of rare and endangered species and we have a Zero Tolerance Policy towards hunting, injuring, possessing and killing of rare and endangered wildlife within our plantations. We have been educating our employees, local communities and related stakeholders on the importance of protecting rare and endangered species.

Through a partnership programme with Orangutan Foundation International (“OFI”) we have supported the release of 40 wild-born, ex-captive orangutans into their natural habitat in Seruyan Forest in Central Kalimantan, Indonesia. In 2014, we extended the partnership with OFI by three years to support the release of another 60 ex-captive orangutans to their natural habitat. In 2015, 11 of these orangutans were released.



Eleven of the 40 orangutans that were released into the Forest as part of our partnership with OFI.

## Area 3: Environment (Continued)

- Reducing GHG emissions

To reduce our GHG emissions, we have invested in the development of a closed biodigester facility (a covered lagoon) to capture methane gas from liquid waste at Sei Pelakar Mill at Jambi, Sumatra. This facility provides an alternative source of electricity for our mill operations and helps to reduce fossil fuel consumption. Through this we achieved a GHG emission reduction (from the methane gas capture together with the emissions avoided from non-use of fossil fuels for electricity generation) of nearly 37,000 tonnes CO<sub>2</sub>e.



Our Closed biodigester facility at Sei Pelakar Mill, Jambi.

## Area 3: Environment (Continued)



- Waste management and integrated pest management

We aim to improve our waste management by reusing, recovering and recycling. All production waste is recycled 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.

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. For example, we use beneficial plants to promote natural parasitoids against oil palm herbivories, natural predators such as barn owls to control the population of rats, and pathogens or bacteria, and handpicking or mechanical traps.

We recognise the concerns about the use of chemical fertilisers and pesticides. Over the long term, by collaborating with national and international institutions, we will continue to research and investigate ways to phase out the use of such chemicals. In January 2016, the Company stopped using paraquat.

- Monitoring environmental impact

We manage and regularly monitor every aspect of our operations in order to minimise adverse impact on 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 set out in the Environmental Impact Assessment (Analisa Mengenai Dampak Lingkungan) documents submitted to the Government of Indonesia.

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.

## Area 3: Environment (Continued)

### Increasing Productivity through R&D

- Under the GSEP, SMART is committed to improving CPO yield through technology and innovation. Increasing productivity enables SMART to produce more palm oil from less land, reducing the need to open more land. SMART has been leading the industry in palm oil productivity. In 2015, the Company achieved a CPO yield of 5.12 tonnes per hectare, higher than the industry estimated average of 3.61 tonnes per hectare. Our plasma smallholders attained 4.31 tonnes per hectare last year.



- One of the factors that affects yield is disease, especially *Ganoderma boninense* (a disease caused by fungus found in the soil). In the last seven years, SMARTRI has screened more than 1,700 progenies, and identified several of them as having a relatively high resistance to the disease. Based on these results, two of our affiliate's proprietary Dami Mas seed families have been officially registered by Indonesian authorities and can now be commercially distributed to plantations. We estimate that these seeds will show an improvement of around 14 to 18 percent in resistance to the disease. These seeds are also among our high production potential seeds.
- In addition to this achievement, SMARTRI, continues to push the frontiers of innovation in enhancing productivity in our estates and smallholdings. The oil palm breeding programme at SMARTRI complements the traditional improvement of crops with new biotechnological techniques which enable important genetic enhancements of the plant.

## Area 3: Environment (Continued)



We are an active participant in 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. We have a dedicated team in our biotechnology division and our staff has been involved in related research activities in Spain and France. The third phase of the project began in 2015 and is expected to bring results in the coming years.

### **Working with Certification Bodies and Industry Standards**

Industry certification is part of SMART's on-going commitment to adopt best practices and standards in sustainable palm oil production. We comply with all relevant laws and internationally accepted certification principles and criteria.

- Roundtable on Sustainable Palm Oil (RSPO)

SMART continued to progress in its RSPO certification plans. To date, 104,875 hectares of its supplying estates (including smallholder plantations of 4,224 hectares), 12 mills, two kernel crushing plants, as well as three refineries, one bulking station and one oleochemical plant have received RSPO certification. In order to comply with ongoing changes in Indonesian Sustainable Palm Oil ("ISPO") regulations regarding the land ownership certification, we are extending the timeframe for completion of RSPO certification for the remaining mills (as at 30 June 2010). Under the current regulatory conditions, we expect to complete the RSPO certification process by 2020. Palm oil operations established after 30 June 2010 will be part of a separate time-bound plan.

SMART continues to be an active member of RSPO and we are part of the Dispute Settlement Facility Advisory Group, the Biodiversity and HCV Working Group and Innovation Lab.

## Area 3: Environment (Continued)



- Indonesian Sustainable Palm Oil System (ISPO)

SMART is also working towards ISPO certification. ISPO is a policy implemented by the Indonesian Ministry of Agriculture to improve the competitiveness of Indonesian palm oil in world markets; to meet Indonesia's commitment to reduce GHG emissions and to focus on environmental issues. To date, we have received ISPO certification for 44,643 hectares of plantations and seven mills.

- International Sustainability and Carbon Certification ("ISCC")

The objective of the ISCC is the establishment of an international, practical and transparent system for the certification of biomass and bioenergy. ISCC is oriented towards the reduction of GHG emissions, the sustainable use of land, the protection of natural biospheres and social sustainability. To date, we have obtained ISCC certification for 82,442 hectares of plantations including smallholder plantations of 3,987 hectares, 12 mills, one kernel crushing plant, three refineries and six bulking stations.

# 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 embraced by all our staff, from management to plantation workers on the ground. 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.
- In 2015, the Company has issued a Code of Conduct (“Code”). The Code serves as a guide for conducting ourselves ethically and in compliance with the law as we perform our work, everywhere, every day. It explains the standards we are all expected to follow in living our core values, as well as specific laws, regulations and policies that apply to us. In the Code, we iterate that we pursue our business objectives with integrity and in compliance with the law, no matter where we are operating. We comply with applicable laws in all the countries, in which we do business, that are designed to prevent bribery and corruption, including all the anti-bribery and corruption law.
- We have a transparent procurement process. 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 comprises representatives from Central Procurement, Business Control Division and the operating units within the purchasing unit.
- 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 different departments (e.g. Finance) to eliminate opportunity for corruption.



## Area 4: Anti-Corruption (Continued)



- To avoid any potential conflict of interests, we do not hire the spouses 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 prevention of corruption. 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 the review 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 audits to the Audit Committee on a regular basis.

# Thank You