



Supplier Relations

The economic, social and environmental impacts of our business can be felt through our own operations as well as those of our suppliers. In this section, we focus solely on suppliers who support our upstream and downstream businesses in Indonesia. Our upstream suppliers support our plantations and mills, while our downstream suppliers support our refinery plants and kernel crushing plants ("KCP"). Among upstream and downstream suppliers alike, there exists a diversity of firms, ranging from small, local suppliers, to larger nationwide businesses.

Overall, 60% of GAR Indonesia's revenues are spent on suppliers (see Chart 2.14 in the About GAR section). Hence, there is a huge impact in terms of small business development and job creation, which we are unable to quantify at present.

We recognise the importance of maintaining and developing good relationships with our suppliers. We select our suppliers based on a determined set of criteria that includes time of delivery, quality and cost competitiveness.

SPENDING ON UPSTREAM SUPPLIERS

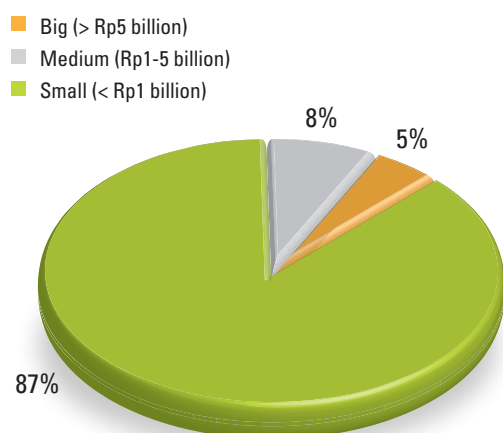
The impact on our supplier spending is most significant in the

rural areas of Indonesia. Over 99% of all supplier purchases by our plantations and mills come from within Indonesia. Excluding smallholder raw materials providers, our plantation operations have approximately 3,900 suppliers. The large majority of these are small businesses as Chart 8.1 shows.

About 89% of these suppliers are located close to our operations in less developed areas of Sumatra, Kalimantan and Papua, and are an important part of local economic development. In 2011, our plantation division spent almost Rp6.13 trillion (approximately US\$697 million) on raw materials, goods and services bought from local suppliers surrounding our estates. Chart 8.2 shows the three main categories of expenditure: fresh fruit bunches ("FFB") from smallholders and third parties, estate related expenditure such as transport expenses, and mill-related purchases such as transport expenses and spare parts.

Chart 8.3 shows estate and mill expenditure on major items such as food, fuel and tires, material, spare parts and services, as well as tools and consumables.

Chart 8.1 Number of suppliers by contract size in 2011 (Rp)



**Chart 8.2 Local spending on plantation suppliers in 2011
Rp6.13 trillion (US\$697 million)**

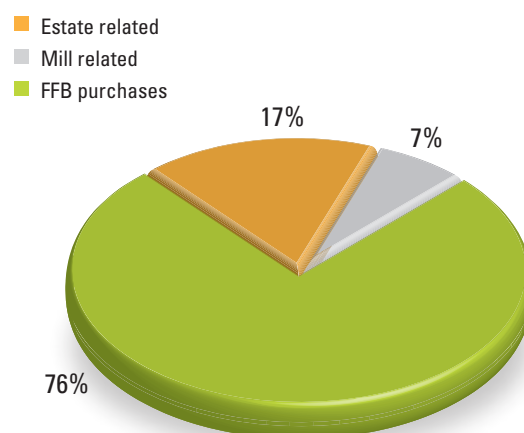
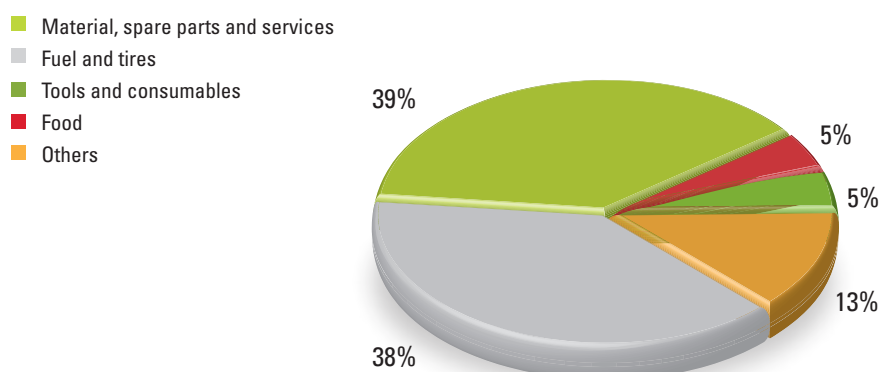


Chart 8.3 Estate and mill expenditure by major items



Supplier Relations

Chart 8.4 Location of downstream suppliers relative to operations

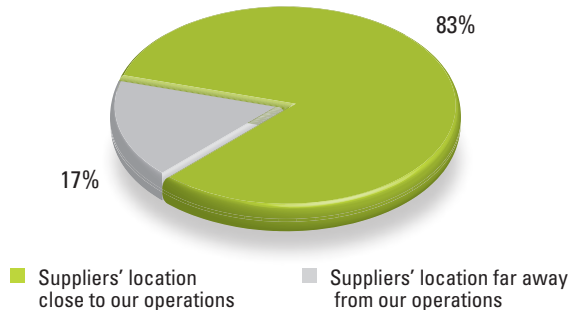
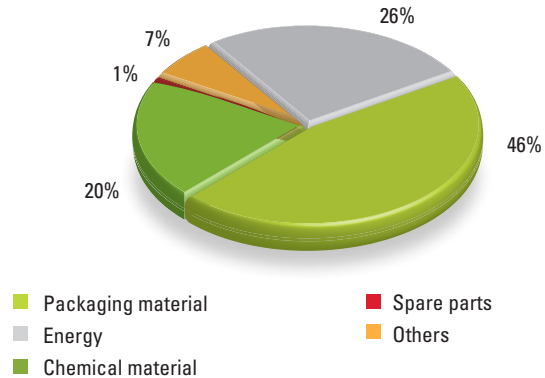


Chart 8.5 Breakdown of major expenditure items



SPENDING ON DOWNSTREAM SUPPLIERS

This year, we are able to report on our downstream suppliers (excluding CPO and PK suppliers), who support our refining and manufacturing businesses that produce finished products for the bulk and consumer markets. Our refinery and KCP operations have approximately 6,130 suppliers. Most of these are small and medium-sized businesses, and as Chart 8.4 shows, about 83% of these suppliers are located close to our operations in Jakarta, Surabaya (East Java), Medan (North Sumatra), Tarjun (South Kalimantan), and Lampung (South Sumatra). In 2011, our refinery and KCP operations spent almost Rp463 billion (approximately US\$52.7 million) on goods and services from local suppliers.

Chart 8.5 shows the breakdown of expenditure on major items.

OPEN PROCUREMENT AND FAIR TREATMENT OF SUPPLIERS

Suppliers are important stakeholders in our business. From their point of view, they want the Company to be transparent in its selection process, to treat them fairly once selected and, on some occasions, to help them be successful and effective in providing goods and services to the Company. From the point

of view of the wider society, particularly the Government, it is important to show that all our contracts are in compliance with national laws and our stringent ethical standards.

Our supplier selection is conducted in a transparent and open manner. To qualify, all suppliers have to meet the same basic criteria of legal and commercial requirements of:

- Legal compliance, with no pending legal issues;
- Tax compliance, including tax identification and Value Added Tax ("VAT") registration certification;
- Certification of Competence for the type of business they are conducting.

Once entered into our supplier database, the procurement process is very transparent. At least three qualified suppliers are invited to tender for purchases above Rp1 billion, and a formally constituted Tender Committee makes the decision to award the contract based on price, quality and delivery capacity. The Tender Committee is comprised of representatives from Central

Developing entrepreneurship and organisational skills in the community



In Siak, Riau province, GAR helped the local tailors form a cooperative and guided them on how to run the cooperative as a business entity. We provided information on where and how to source materials in a cost-effective manner. Our estate provides the design and material specifications for each type of uniform (for security guards, engineers, operators, etc.) and instructions on how to distribute orders among the cooperative members. If needed, we also supply fabrics and/or material to the cooperative to help members conserve their working capital.

Procurement, Business Control Division and the operating units within the purchasing unit.

We seek to treat our suppliers fairly and ethically, particularly with respect to the prompt payment of bills. Unless otherwise agreed, our payment terms are within 30 days of receipt of a complete and proper invoice, which includes VAT tax form and completion of works or goods received notice. When a supplier presents the invoice at our Head Office or regional office, our treasury officer checks for the completeness of the documentation and informs the supplier if any documents are missing or inaccurate, so that the supplier can make the necessary corrections promptly and resubmit the documents. If the invoice is complete and accurate, our treasury officer provides a payment advice slip stating when payment will be made. We generally meet the 30-day deadline, and should any supplier inform us of delayed payment, we follow up quickly.

In rural areas, we make provision to help small suppliers with their cash flow, by giving them cash advances for certain types of projects. This helps overcome any shortages of operating capital that they may face.

PROMOTING COMPLIANCE WITH LAWS AND REGULATIONS

We provide guidance to our small suppliers and contractors to help ensure proper documentation, invoicing and, if necessary, appropriate tax forms. We conduct training to help local

contractors understand the national tax requirements and encourage them to be a registered tax entity as required by law. If needed, staff are assigned to work with the local contractors to ensure that they prepare the invoicing documents fully and accurately as required.

Our contract terms specify that suppliers must respect Indonesian labour laws. If a supplier is found to have breached Indonesian laws, including labour laws such as adopting proper health and safety standards, their contract is immediately terminated.

As we move towards higher standards of sustainability, we are conscious that we must take our suppliers with us on this journey, and we are committed to working with them to ensure that they adopt the appropriate social and environmental standards. Increasingly, we are working with our suppliers to encourage environmentally friendly practices, such as the proper collection and recycling of empty grease and oil containers where possible.

CAPACITY BUILDING

As a large business, GAR assists the economic development of Indonesia by actively helping to improve the production capacity of small and medium-sized businesses in the country. This approach is encouraged by the Government as part of the national strategy to develop enterprise and employment. We fully support this goal, which also helps us to obtain the range and quality of goods and services we require, particularly in remote areas.