

SOCIAL
AFFAIRS





As one of the largest plantation companies in Indonesia, operating largely in rural and remote areas, we not only play an active role in the well-being of our employees, but also in the wider communities where we operate. We have found the most effective way to empower the surrounding communities is by open engagement and a collaborative approach with a range of stakeholders. It is by working together to help improve the lives of these communities as well as the people living and working in our plantations, mills, factories and offices that we can make a difference. Many of the programmes provided for employees also involve community members, and in addition there are programmes specifically designed to help the wider community.

For us, community acceptance is the key foundation for our sustainable growth, and in more than 20 years of operations, we have learned the importance of community support. Developing good relations with the community that are mutually beneficial is central both to our business and our aspirations of contributing to the economic and social development of Indonesia. This is particularly important when we are developing new plantations and is a guiding principle in how we run our business at the local level.

We continually develop and promote a range of programmes to improve education, health, social and economic empowerment, as well as supporting cultural and religious activities to enhance the quality of life for local communities. We also help with disaster relief. While we run most of our community initiatives ourselves, others are conducted in collaboration with the Eka Tjipta Foundation (an Indonesian charitable non-profit organisation) and the Indonesian branch of the Tzu Chi Foundation (a global charitable non-profit organisation). The work of the Eka Tjipta Foundation is addressed at the end of this section.

EDUCATING THE NEXT GENERATION

We see education as a key to unlocking the potential of Indonesia and as an effective way to break the cycle of poverty that affects many of our fellow citizens. By educating the children today, we are ensuring a better future for them and the country.

We have partnered with the Bogor Institute of Agriculture ("IPB"), a leading agricultural educational and research institute in Indonesia, and STIPER Jogjakarta, one of the

leading private agricultural institutes in Jogjakarta, to develop our educational programmes majoring in agriculture.

To date, we have established 141 schools that employ 1,149 teachers and educate 23,370 children, ranging from Kindergarten to Junior High.

Chart 7.1: Schools Established by GAR

	Kindergarten	Elementary	Junior High	Total
Schools	61	67	13	141
Students	3,399	17,283	2,688	23,370
Teachers	192	779	178	1,149

We have ensured that each estate has educational facilities for kindergarten to 6th grade schooling and every region a junior high school that adequately meets the needs of our employees and the local communities. The children of our employees and casual workers enjoy free education at the schools on our plantations.

To further encourage our employees and local communities to send their children to school, we provide free school buses for all students.



Free school bus services for students

In a continual effort to improve the quality of education that we provide, we have worked with Citra Bahana Edukasi, an NGO that helps with creative education training for teachers and promoting active learning in Indonesia, to train our elementary and junior high school teachers to meet the more rigorous National Standard School criteria.

Sekolah SMART

Sekolah SMART is a school-wide development programme for schools located in the oil palm plantations managed by SMART. This programme was designed to impact schools in neighbouring districts and areas, as well as those run by SMART.

Sekolah SMART’s main goals are to obtain Sekolah Standar Nasional (National Standard School) certification from the Ministry of National Education and to create schools that combine ethics and academics to foster character development in students and to create an environmentally friendly school community.

This programme focuses on quality training for teachers, school management and community involvement. Participating teachers receive instruction on pedagogical approaches to school principal leadership and capacity building.

Sekolah SMART’s pilot programme started in five elementary schools and one junior high school in Central Kalimantan in 2010. We have since rolled this programme out to another nine elementary schools and two junior high schools in Central Kalimantan.

SCHOLARSHIP PROGRAMMES

We fund five scholarship programmes and a fellowship. In 2010, we spent more than Rp6.5 billion on these, benefitting more than 350 students.

SMART Diploma

We fund the SMART Diploma, a scholarship jointly administered with the IPB, the most prominent agricultural university in Indonesia. The diploma equips students to be employed in the growing oil palm industry and also provides foundation skills for careers in the agriculture industry. This diploma is open to the children of our employees as well as students who reside in the vicinity of our operations. Recipients are granted a full scholarship, including living expenses during the academic year. During 2010, a total of 60 students were awarded scholarships. Since its inception in 2007, 317 students have been awarded the SMART Diploma.

SMART Engineer

SMART Engineer was initiated in 2009, in collaboration with the Institute of Agricultural STIPER Yogyakarta Palm Oil Industrial Engineering Programme ("INSTIPER"). This scholarship programme has 61 participating students. Graduates are guaranteed jobs in our mills, and we are privileged to watch them grow with us.

Tjipta Agro Scholarship

The Tjipta Agro Scholarship is awarded and administered by the Eka Tjipta Foundation ("ETF"). This programme offers scholarships to high-performing agriculture undergraduates in 25 universities all over Indonesia. After completing the academic programme, scholars are encouraged to return to their hometowns and contribute to the development of their area. Since its inception in 2006, the programme has funded the education of more than 150 students.



SMART Diploma Graduation Day

Tjipta Pemuda Bangun Palma

Our latest scholarship programme, Tjipta Pemuda Bangun Palma, was launched in 2010 in collaboration with ETF, INSTIPER and University of Tadulako, Central Sulawesi for bachelor's degree students. In its inaugural year, 24 students received funding for their education and living costs.

We also have an ongoing scholarship scheme with the Tzu Chi Foundation for needy students who perform well academically. Under this scheme, 220 students, from elementary school to university level, received funding for their school fees in 2010.

SMART Artha Widya Fellowship Programme

In 2009, we started the SMART Artha Widya Fellowship programme, a research stipend for undergraduates who are doing research into the palm oil sector and associated downstream activities. It is our hope that this programme will motivate and increase the number of students interested in this field. This programme awarded research grants to five students in 2009, and another five in 2010.

COMMUNITY INITIATIVES

The economic and social development of the community is crucial to the development of Indonesia as a whole. In our operations, we employ local labour as much as possible in our plantations, mills and estates. We also make an effort to employ local enterprises and build up local businesses to create a thriving community and economy in areas where we operate.

In addition to direct employment, our economic activity has a multiplier effect that supports many other people who benefit directly and indirectly from our plantations, mills and estates. For example, the presence of our plantations allows the surrounding communities to organise a weekly traditional market where local people can sell their products to our employees. These activities generate additional income for the local communities who consequently enjoy better access to basic education and health. We have not sought to measure this multiplier activity in the past but expect to provide more information in future reports. One example of this multiplier effect is Blacksmith Training Programme.

Our community initiatives in 2010 included assistance to the Government of Indonesia in executing its cooking oil programme by producing and distributing almost 33,000 litres of "Minyakita" branded cooking oil. We recognise that the price of food staples for the poor is a vital issue. As part of our efforts to assist the poor, we have been running Operasi Pasar (Market Operation), a programme that we initiated in Indonesia in mid-2007 when the prices of commodities, especially cooking oil, started to increase. Under this programme, we sell our branded cooking oil at a subsidised rate (15%-25% lower than the market price) in the rural and under-developed areas in Indonesia, mainly in Jakarta, Sumatra, Kalimantan and several cities in Java island. As at end 2010, we had distributed almost 750,000 litres of cooking oil through Operasi Pasar.

We also seek to meet the needs of the people living near our operations by:

- building and maintaining public infrastructure such as roads and bridges, 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;
- constructing well-built dwellings, health, education and sporting facilities; and
- providing financial help for communities to celebrate festive and religious events.

Blacksmith Training Programme



Many ancillary activities and industries have flourished from our plantation operations in Indonesia. One example is the blacksmith trade. While not directly employed by us, blacksmiths are essential to our day-to-day operations. As our business grew, the existing blacksmiths could not keep up with our demand. Because we try to "buy local" as far as possible, we decided to help develop the local blacksmith trade. To this end, we partnered with Credit for Medium and Micro Enterprises ("KUKM"), a micro financing agency, to work with villagers to start up their own smithies.

This gave rise to the Karya Mas Cooperative, which now has 21 blacksmiths and aims to supply 70% of the tools needed for our plantation activities in the Kandis sub-district of the Siak Regency area of Riau Province. The cooperation between our subsidiary, PT Ivo Mas Tunggal, and the Karya Mas Cooperative has improved the livelihoods of blacksmiths in the area.

Chairman of the Karya Mas Cooperative, Johari, explains, "In the past, our blacksmiths could only produce three egrek (harvesting tools) per day. But through the loan of tools from PT Ivo Mas Tunggal, they can now produce eight egrek a day. This means their income has increased 2-3 times. Also, the quality control by the company is stringent; therefore our products now can compete with tools from other countries."

PT PIP Builds Clean Water Infrastructure in Kapuas Hulu, West Kalimantan

Our subsidiary, PT Paramitra Internusa Pratama ("PIP"), has built a clean water treatment facility for the villagers of Sentabai Village which is located in the company's concession in Silat Hilir sub-district, Kapuas Hulu district.

Kapuas Hulu District Head, AM Nasir, in his speech at the opening ceremony of the water treatment facility on 5 March 2011, expressed hope that the oil palm plantations would empower the surrounding community and improve their welfare. Silat Hilir sub-district Head, M Jumran, said that before the construction of the water facility, most villagers had to walk approximately three kilometres to water sources in Sentabai. "Thank God now as many as 30 families do not have to walk a long way to get clean water, because the clean water is stored in the middle of the village," he said.

PT BNM Repairs Damaged Roads in Ketapang, West Kalimantan

In March 2011, our subsidiary, PT Bangun Nusa Mandiri ("BNM"), helped to repair damaged public roads in the sub-districts of Tumbang Titi, Marau and Nanga Tayap, Ketapang District. The company provided heavy equipment such as backhoe loaders, motor graders, road compactors, excavators and trucks to haul the soil.

BNM has participated in other similar infrastructure projects such as the construction of a new 1.5 km long public road connecting two villages, Riam I and Riam II, in Jelai Hulu sub-district, and the repair of a 3.7 km long connecting road between Pering Kunit and Bayam Sungai Lalang, two small villages in Biku Sarara.

MEDICAL CARE

In the rural areas of Indonesia, there are usually few doctors and even fewer medical facilities. Often, the nearest hospital or doctor is more than an hour's drive away. As a business, we believe that having access to basic medical care is a fundamental human right. To meet this need, we have built healthcare facilities and staffed them with qualified medical professionals to serve local communities. To date, we have 121 clinics and have mobilised about 230 doctors and nurses in our plantation clinics to provide free and subsidised treatment to more than 840 patients daily. In collaboration with Tzu Chi Foundation, our initiatives in 2010 included:

- free medical and dental services for approximately 3,000 patients in Jakarta, North Sumatra, Bangka, and West Kalimantan;
- Eye check-ups for almost 19,900 students and teachers in Sumatra, Java and Kalimantan where close to 4,000 were provided with free spectacles;
- Surgery for about 280 patients with conditions such as harelip, hernia, cataracts and tumours.



EMPLOYEE INVOLVEMENT

We seek to engage and mobilise our employees for various causes in the community. For example, we encourage our employees to make regular donations to the Tzu Chi Foundation, volunteer to help the needy in their communities, and aid in disaster relief efforts.

In conjunction with the Red Cross, we regularly organise blood donation events at our offices in Jakarta. We encourage all of our employees to participate and in 2010, we had to limit our donors to 350 people because of the overwhelming response.

We provide training in humanitarian work to help our employees become effective volunteers in humanitarian programmes. In 2010, our employees, with the Eka Tjipta Foundation and the Tzu Chi Foundation, aided disaster relief efforts in the aftermath of the Mount Merapi volcanic eruption. Our Indonesian offices also raised funds to support the disaster relief efforts and victims of the Mount Merapi volcanic eruption and the floods in Padang, Sumatra and West Kalimantan.

Earth Hour 2010

Earth Hour is a global campaign organised by WWF for people to show their support for environmental sustainability and their care for the planet. For Earth Hour 2010, we encouraged our employees to turn off their lights at home for an hour and to invite their neighbours to do the same.

NEW PLANTATION DEVELOPMENT AND LAND ACQUISITION

We are conscious of the customary, legal and RSPO obligations that need to be met as we continue to expand our plantation business. Two issues are critical when new land is developed, namely: that those with existing rights are treated with respect and give their free, prior and informed consent to any sale of their assets; and that indigenous people are respected and well treated.

FREE, PRIOR AND INFORMED CONSENT FROM COMMUNITIES

Before starting any new plantations, our staff visit the villages and communities that will be affected by any new projects and developments. Socialisation usually consists of informing the villagers of the licenses, government and company policies regarding land compensation, how we value the land and how the land measurements and compensation will be carried out.

When our *Ijin Lokasi* (location permit) includes inhabited areas, we usually plan our operations around where the inhabitants live and work. We offer to buy any land belonging to the community members. All land transfers are documented and witnessed by members of the local government. This process is designed not to put pressure on anyone to sell their land to us. All our expansion plans are subject to this bottom-up process, and we adjust our plans where necessary.

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 TFT, we are developing a Social and Community Engagement Policy to guide our approach to conflict resolution and we will be seeking input from Indonesian palm oil industry stakeholders to ensure that it represents best practice.

GRIEVANCE POLICY

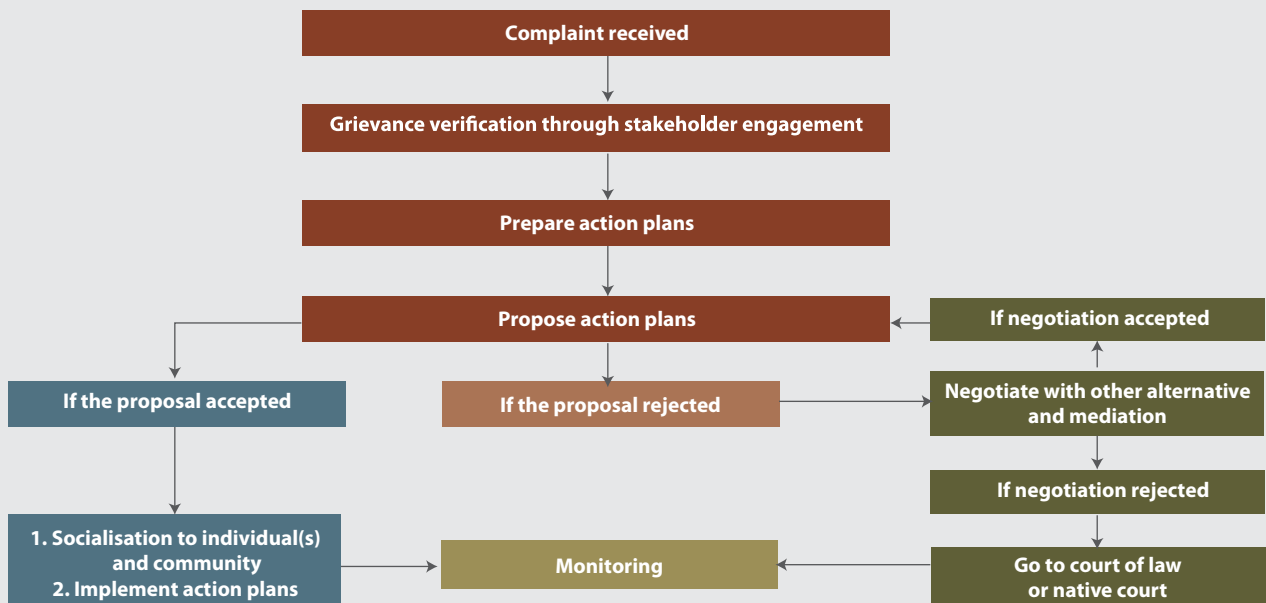
We are committed to promoting the growth and use of sustainable palm oil through cooperation within the supply chain and maintaining open dialogue with stakeholders.

A Grievance Officer in each business unit has been assigned to facilitate a transparent, open dialogue with our stakeholders. All grievances are registered in the business unit and responded to with an amicable solution as soon as possible by the relevant business unit. If an amicable solution cannot be reached, the grievance is escalated to the Stakeholder Liaison Department in our Head Office. After the complaint is lodged, a grievance committee comprising senior company executives determines the severity of the grievance and the best way to resolve it.

A grievance review is held monthly to identify the root causes of grievances raised during this period and whether they can be resolved by implementing new policies. For example, if there are repeated complaints regarding speeding in an area, a solution would be to implement speed limits or educate the drivers in the area on the dangers of speeding. Regular reviews also help to define the key stakeholders and tailor our operations to better suit their needs.

The Grievance Procedure is provided in the flowchart below.

Grievance Procedure



Multi-stakeholder Approach to Conflict Resolution

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. For example, there were conflicts on plantations - like in Karang Mendapo, Jambi - which we do not own, but where we provide management services. Moving forward, we will play a more active role in facilitating a peaceful resolution with support from stakeholders. Together with TFT, 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.

INDIGENOUS PEOPLES

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 are committed to ensuring free, prior and informed consent from these communities prior to commencing any operations. Before developing a new area, we carefully assess the possible local social and cultural issues, and ensure that the business activity would strengthen and benefit the local communities as important stakeholders. By jointly analysing the needs and openly discussing the challenges, better understanding can be forged and more effective programmes can be planned and implemented to meet community needs.

Our plantations and activities cover several parts of Indonesia. We deal with the indigenous peoples of Indonesia on a regular basis. Many of them are part of the communities surrounding our plantations. We handle this on a case by case basis, tailoring our responses to ensure they are appropriate for the specific situation.

We seek to improve the livelihoods of indigenous peoples and their quality of life. We give them priority for employment in our operations. They receive the same benefits as any other employee. In Muara Wahau, Kutai Timur district, East Kalimantan, we developed a plasma scheme estate with a total of 3,443 hectares for the Dayaks as part of our economic empowerment programme for the community. The programme has been running well since 2007. In West Kalimantan, we launched a training programme in 2010 to equip the Dayaks with basic skills in construction, administration and other life skills to enhance their chances of employment in other sectors as well.

We recognise the importance of preserving and celebrating the cultural traditions and values of indigenous peoples. In East and West Kalimantan, we support the development of *Rumah Adat* or "Traditional House" for the Dayaks. From 2008 to 2010, we built traditional houses in Miaw village, Kongbeng sub-district, and Nehes Liahbing Village, Muara Wahau sub-district, both in East Kalimantan's Kutai Timur district, and one in Bian Village, Semitau sub-district, Kapuas Hulu district in West Kalimantan. In Jambi province, we have been running *Bedah Rumah*, a home improvement programme for the Anak Dalam tribe, in collaboration with local NGO Kelompok

Peduli Suku Anak Dalam since 2008. The programme seeks to provide better shelter for the people and improve the quality of their life. Besides providing the building materials and other resources, we work together with the community in the renovation works in the spirit of *gotong royong*, an important cultural value promoting mutual aid or the sharing of communal responsibilities.

Improving basic infrastructure is another cornerstone of our community efforts for indigenous peoples. For example, we have built water facilities and roads for the Dayak community in West Kalimantan. In Central Kalimantan, we have constructed a 20 km long road for the Dayaks in Asam Baru Village, improving access to the villagers' estates and making it more convenient for them to carry out daily activities.

The Eka Tjipta Foundation

The Eka Tjipta Foundation ("ETF") was founded in 2006 by the family of Eka Tjipta Widjaja. The Foundation's mission is to improve the quality of life, welfare and independence of the community, contributing to nation building in a sustainable manner. It is legally independent of the Company but works mainly in conjunction with communities where the Company has a presence.

ETF focuses on two key areas of development, namely education and environment. In particular, it is one of the major scholarship providers in Indonesia. During the 2007-2008 and 2008-2009 academic years, as many as 2,018 underprivileged students benefitted from ETF's scholarship programmes, which cover tuition fees, living costs, a book allowance and student association fees. Currently, these students are studying at 30 universities throughout the country. Almost 70% of ETF's budget in 2010 was spent on education-related activities.

SMART and ETF have been collaborating very closely as strategic partners in philanthropy and corporate social responsibility, particularly in programmes to provide a better future for Indonesia.

Distribution of ETF Budget 2010

