

SUPPLIER
RELATIONS





THE SCOPE OF THIS SECTION

The economic, social and environmental impact of our business is not only felt through our own operations but through those of our suppliers too. In this section of the report, we focus solely on suppliers that support our upstream business, namely our plantations and mills as this is the area of greatest economic impact and the primary focus of our report.

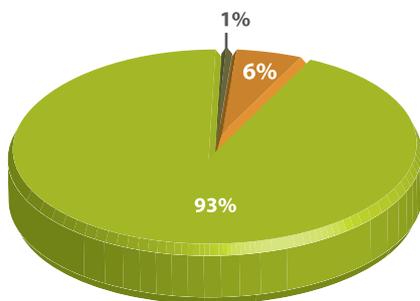
SPENDING ON UPSTREAM SUPPLIERS

The impact of our supplier spending is very significant in the Indonesian rural economy where our plantations are located. 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 2,800 suppliers. The large majority of these are small businesses as Chart 8.1 below shows.

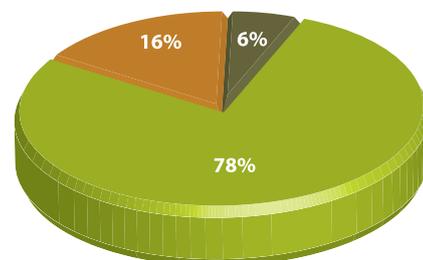
About 86% of these suppliers are located close to our operations in the less developed areas of Sumatra, Kalimantan and Papua and are an important part of local economic development. In 2010, our plantation division spent almost Rp4.5 trillion (approximately US\$493 million) on raw materials, goods and services from local suppliers surrounding our estates. Chart 8.2 below shows the three main categories of expenditure: fresh fruit bunches ("FFB") from smallholders and third parties; estate related expenditures such as transport expenses, infrastructure works and food; and mill-related purchases such as transport expenses and spare parts.

Chart 8.1: Number of Suppliers by Contract Size in 2010 (Rp)



- Large > Rp5 billion
- Medium Rp1-5 billion
- Small < Rp1 billion

Chart 8.2: Local Spending on Plantation Suppliers in 2010 Rp4.5 Trillion (US\$493 Million)



- FFB
- Estate-related
- Mill-related

CORPORATE RESPONSIBILITY IN THE SUPPLY CHAIN

For GAR, corporate responsibility in the supply chain has economic, social and environmental aspects but this first report focuses on the economic aspects.

Suppliers are an important stakeholder in our business. From their point of view, they want the Company to be open and fair 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 government, it is important to show that all our deals are in compliance with national laws and our own ethical standards.

AN OPEN SUPPLIER SELECTION AND TRANSPARENT PROCUREMENT PROCESS

All our suppliers are pre-selected to meet basic legal and commercial requirements including all documents relevant to:

- 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, our procurement process is very transparent. At least three qualified suppliers are invited to tender for purchases above Rp1 billion and the decision to award a contract is made by a formally constituted Tender Committee based on price, quality and delivery capacity. The Tender Committee is comprised of representatives from Central Procurement, Business Control Division and the operating units within the purchasing unit.

FAIR TREATMENT OF SUPPLIERS

We treat our suppliers fairly and ethically, in particular paying our bills promptly. Our terms of payment, unless stated otherwise, 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. We generally meet the 30 days' payment commitment and follow up should any supplier inform us of delayed payment.

CAPACITY BUILDING

As a large business, GAR participates to help develop the productive capacity of Indonesian small and medium sized businesses as part of the economic development of the country. This approach is encouraged by the government as part of a national strategy of developing enterprise and employment. We fully support this goal, as it helps us to obtain the range and quality of goods and services we require, particularly in remote areas.

We help such businesses improve their productivity and quality of service as exemplified in the following case study.

Support for Local Construction Firms



In rural areas, small contractors often need help in financing and procuring construction raw materials such as steel. We help to co-ordinate these purchases in order to reduce costs, guarantee timely supply and enable suppliers to make better use of their working capital. If necessary, we will support their working capital needs by providing the construction material directly or paying as materials are brought to the site.

We also monitor their work closely and continuously support the development of quality performance. Well performing contractors are supported with larger contracts, which helps them to raise capital and generally grow their businesses.

PROMOTING COMPLIANCE WITH LAWS AND REGULATIONS

We provide guidance to our small suppliers and contractors to help ensure proper billing, 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, 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.