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**PT Freeport Indonesia and Freeport-McMoRan Copper & Gold Inc.  
Response to the Phase I Follow-up Audit of Indonesian Operations and Phase II  
Audit of Medical Facilities and Contract Companies  
by the International Center for Corporate Accountability  
November 30<sup>th</sup> 2007**

**PT-FI Response to the ICCA Phase I Follow-up Audit**

The Phase I Follow-up Audit was separated into 5 sections:

1. Human Rights and Human Rights Training
2. Security Department
3. Papuan Employment
4. LPMK Education Bureau
5. Contract Workers

PT-FI would like to point out that the results of this audit are very positive. The ICCA has concluded that PT-FI is performing well in 4 out of 5 sections.

**1. Human Rights and Human Rights Training**

As mentioned in the follow-up audit, PT-FI has improved its human rights training program with help from recommendations in the initial audit in 2005. These included revising the training programs to focus on effective learning and continuous enhancement of human rights compliance, the appointment of a Senior Human Rights Compliance Officer and annual training in Human Rights for all departments. The follow-up audit states that “ICCA is satisfied that PT-FI has taken appropriate actions in response to ICCA’s initial audit recommendations and that PT-FI’s new program and procedures should create improved understanding and more effective implementation of the company’s human rights policies.”

In regard to human rights abuses, only 6 cases of human rights allegations have been filed with PT-FI since the beginning of 2007. All of these have been classified as “minor” and do not constitute a human rights violation.

PT-FI is committed to human rights training. As shown in the data below, human rights training hours and number of people trained are steadily increasing, with a projected 18,000 employees trained in 2007, totaling 54,000 training hours.

*Human Rights Training - Attendance*

| <i>Year</i>   | <i>Number of People</i> | <i>Number of Training Hours</i> |
|---------------|-------------------------|---------------------------------|
| 2004          | 6,729                   | 20,190                          |
| 2005          | 676                     | 2,700                           |
| 2006          | 4,131                   | 12,400                          |
| 2007 (target) | 18,000                  | 54,000                          |

The human rights training offered by PT-FI's is concentrated on educating the employee on the Company's SEHR policy, the Company's commitment to this policy, and the employee's individual responsibility for conduct and compliance with this policy.

As part of the Company's commitments, it is mandatory for all PT-FI and contractor employees to undertake the program on Human Rights Socialization. The objective of this socialization is to help employees gain a better understanding of human rights so that they can best understand and promote human rights and prevent human rights violations from occurring.

Outreach initiatives are now an integral part of the Human Rights Socialization program. Organizations external to PT-FI are now required by the Company to go through this program, which include the Indonesian army, Indonesian police, community leaders, ethnic group leaders, church leaders and congregation and local government leaders.

The goals of the outreach program include helping to build a common understanding of the basic principles of human rights on the part of community leaders, officers, and support services groups which will in turn lead to improved relationships between the community, the Company, and other organizations. In 2007, the program expects to deliver socialization to more than 400 community and services personnel.

## **2. Security Department**

As detailed in the follow-up audit, PT-FI has responded successfully to the recommendations made by the ICCA in the initial 2004 audit in regard to their security department. ICCA confirms that PT-FI's security department has discontinued the practice of providing drivers to the Indonesian government security personnel. Instead, members of the Indonesian government security are provided with training to enable them to safely drive in the area.

As detailed in the Human Rights section, the quality and effectiveness of the training provided to the security department on human rights has greatly improved through the outreach program. ICCA confirms that PT-FI has devoted significant resources to improve the quality and effectiveness of human rights training for the security department workers. ICCA has also verified that all employees of the security department have received human rights training and carry human rights principles cards with them at all times.

### 3. Papuan Employment

The follow-up audit concluded PT-FI's efforts to implement improvements in the area of Papuan employment "are beginning to bear fruit." The data provided below further supports this claim, with the percentage of Papuan staff and non-staff, new hire and promotions steadily increasing. The Graduate Development Program, Affirmative Action Program and the Nemangkawi Mining Institute (NMI) were all recognized as successful means of improving Papuan skills and education and providing opportunities for employment.

*Percentage of Papuan staff and Non-staff employed by PT-FI*

|      | % Papuan Staff of Total Staff | % Papuan Non-Staff of Total Non-Staff |
|------|-------------------------------|---------------------------------------|
| 2005 | 11.83                         | 30.39                                 |
| 2006 | 13.52                         | 31.50                                 |

However, the audit also stated that the "ICCA continues to be concerned about the movement of Papuan into more important roles in the company." PT-FI is troubled by this claim as we believe that we are making great strides in increasing upward mobility of Papuans. In fact, the follow-up audit lists a number of initiatives that PT-FI has in place which include the Nemangkawi Mining Institute, the Graduate Development Program and the Affirmative Action Program. The tables below provide data which shows the increase in these programs over the last few years.

*Number of Papuans enrolled in the following programs:*

| Year | Graduate Development Program | Affirmative Action Program              | Nemangkawi Mining Institute |
|------|------------------------------|---|-----------------------------|
| 2004 | 7                            | Adult Education : 51,<br>Employees : 15 | 566                         |
| 2005 | 3                            | Adult Education : -,<br>Employees : 5   | 1,047                       |
| 2006 | 36                           | Adult Education : -,<br>Employees : 27  | 1,080                       |

*Number of graduates/apprentices hired by PT-FI or a partner company from Nemangkawi Mining Institute:*

| Year | Nemangkawi Mining Institute |
|------|-----------------------------|
| 2004 | 17                          |
| 2005 | 33                          |
| 2006 | 227                         |

PT-FI data supports our claim that we are improving Papuan upward mobility. PT-FI set targets in 1996 to double Papuan staff by 2006. This target was met. At the end of 2006, PT-FI and its direct contractors had nearly 2,650 Papuan employees, including about 320 Papuan management staff employees, compared to 600 Papuan employees in 1996, of which fewer than 50 were management staff. In addition, the data provided below

showing the number of Papuans receiving training opportunities, being hired and being promoted supports increasing upward Papuan mobility. The Company believes it is empowering the Papuan people by providing them with far superior education, training and employment opportunities than otherwise exists anywhere in Papua. The numerous education and training programs that vary from basic to graduate level offered by PT-FI are available to Papuans to help them move upwards within the Company. PT-FI has also introduced competency testing as part of its worker advancement programs, which we believe will assist the Company in accelerating upward mobility of Papuans. In addition, PT-FI has integrated a Papuan development component into every department's succession plan with the target of increasing the proportion of Papuans in staff and non-staff positions in the Company.

PT-FI believes that in comparison to other multinational companies with overseas operations, PT-FI is a leader in the field of providing indigenous peoples with education, training, employment and opportunities for upward mobility. The data below supports PT-FI's commitment to increase the hiring and promotion of Papuans. Both areas have steadily increased since 2005.

*Number of Papuans and Non-Papuans receiving training opportunities from PT-FI*

|      | Papuans | Non-Papuans |
|------|---------|-------------|
| 2005 | 4,620   | 11,251      |
| 2006 | 4,509   | 10,791      |

*Number of Papuans and Non-Papuans hired by PT-FI:*

|      | Papuans | Non-Papuans |
|------|---------|-------------|
| 2005 | 143     | 364         |
| 2006 | 281     | 856         |

*Number of Papuans and Non-Papuans promoted by PT-FI:*

|      | Papuans | Non-Papuans |
|------|---------|-------------|
| 2005 | 528     | 1,096       |
| 2006 | 639     | 1,241       |

**4. Lembaga Pengembangan Masyarakat Amungme dan Kamoro (LPMAK) Education Bureau**

PT-FI was pleased with the ICCA's follow-up audit of the LPMAK Education Bureau. The Education Bureau has worked extensively to improve its organization and facilities since the 2005 audit. The audit report states, "ICCA's follow-up audit of the Education Bureau revealed that LPMAK has taken appropriate action in response to ICCA's original findings and recommendations."

The organizational structure of the Education Bureau has been adjusted to become much more efficient. The academic scholarship program has gone through numerous modifications and is now more competent and transparent. There are currently 722 students on scholarship attending 198 universities around the world. To further improve

the program, LPMAK is developing relationships with universities. As part of this, LPMAK directly pays the student fees to the universities which then verify the student performance.

The unsuitable student dormitories have been dismantled and 6 new ones have been built. In addition, a dorm was opened in 2007 which provides a bed for children from the highlands to attend school in Timika. There are a total of 276 beds in LPMAK dorms.

In regards to the Basic Education programs, the Company agrees with the ICCA that the Education Bureau needs to work with the local government to improve basic education in the area. Since the audit, the Education Bureau has begun working with the local government on teacher training programs, vocational schools, providing transportation for teachers and supplies in the highlands via helicopter and has provided furniture for two classrooms and one teacher's room in Nayaro (next to Timika).

It is evident that the improvements to the LPMAK Education Bureau are displaying success. PT-FI commits to the continuous improvement of this program.

## **5. Contract Workers**

PT-FI would like to thank the ICCA for their analysis of the contract worker situation. However, PT-FI does not agree with certain aspects of ICCA's analysis.

First of all, it is important to understand how the contract worker program was designed to operate and that PT-FI is committed to continuing this program together with the labor supply companies in a manner that is in accordance with Indonesian labor laws and PT-FI's internal policies. PT-FI initially undertook the contract worker program, which included the use of labor supply companies, during the construction phase of its mining expansion. After the mining expansion phase, PT-FI continued to use contract workers as a method for training and recruiting non-core workers, who needed to develop basic skills. As part of this program, it was envisioned that by providing on-the-job training to the contract workers, they would eventually gain the basic skills needed to be offered permanent employment by the Company. It is important to point out that although ICCA believes that there may be some shortcomings with the program, since 2003 PT-FI has hired 2,223 permanent employees who had previously been engaged as contract workers by labor supply companies.

### ***Clarification of PT-FI's relationship with labor supply companies and contract workers***

PT-FI would like to clarify that:

- The employment agreements for contract workers are between the labor supply company and their workers – not PT-FI. There is no employment relationship between these contract workers and PT-FI. This is noted in the legal

memorandum appended to ICCA's report: "There is *no employment relationship* between the Outsourced Workers and the Principal Company."

- PT-FI has a written agreement with the labor supply company to supply workers for non-core/support type functions.
- The issue of temporary employment status is determined by the employment agreement between the labor supply company and the worker. PT-FI will take steps to ensure that the labor supply companies do not engage workers as temporary employees for periods longer than permitted by law.

### ***Clarification of legally allowed contract length permitted***

PT-FI would like to clarify that the legally allowed length of service in regard to contract workers is generally 3 years, but in some cases a worker on contract can have his/her contract extended for an additional 2 years. This is supported by the memorandum of attached to ICCA's report:

- "The total term of the contract with the Outsourced Workers cannot exceed 3 years. The contract can only be renewed 30 days after the expiry date of the previous contract has lapsed and *can be renewed once for a maximum of 2 years.*"

In addition, it is important to note that the contract workers who have been engaged by the labor supply companies for longer than three years constitute less than two percent of the total workforce. In addition, if these contract workers had been properly and timely evaluated, the applicable contracts should have been terminated with the labor supply companies for all temporary workers that exceeded the maximum service period. Permanent employment is offered to contract workers that are able to meet competency and basic skills standards as is evidenced by the fact that over 2,000 of such contract workers were hired as permanent employees since 2003. It is also important to note that basic competency is an integral part of PT-FI's worker advancement programs as agreed to as part of the collective labor agreement process. As such, any new hires must meet minimum basic skills standards and we believe that the contract worker program and the NMI are methods of accomplishing those objectives.

### ***Clarification of job description and wage disparity***

Although ICCA claims that the contract worker program discriminates because it pays temporary workers less wage and benefits than permanent employees, we do not believe that to be the case. As stated previously, PT-FI's contract worker program is designed to provide contract workers with on-the-job training. Of course, the contract workers do work alongside PT-FI employees in an effort to allow the contract worker to develop basic skill sets and receive a competitive wage while doing so. Further, under Indonesian labor laws, contract workers that are employees of labor supply companies (also referred to as Outsourcing Companies) are not legally entitled to the same wage and benefits as

PT-FI employees even if arguably doing similar work. This point is supported in the legal memorandum attached to the audit report, which indicates the following:

- “Article 65 of Law 13 provides that Outsourced Workers shall receive the same working protection and terms and conditions as employees of the Principal Company (of equivalent position). However **Article 65 does not further clarify whether they must receive the same terms and conditions regarding their salary/wage**. Article 66 (2) c of Law 13 further states that wage and welfare protection, terms and conditions, and any employment disputes raised **are the responsibility of the Outsourcing Company, not PT-FI.**”
- “...we are of the view there should be **no legal implications for PT-FI as it has no direct employment relationship** with the Outsourced Workers (who remain employees of the Outsourcing Company).”

### ***Remedial Actions***

In response to the concerns raised by ICCA, PT-FI has developed and begun implementing a policy for the contract worker program that will clearly establish the scope of the program and ensure that it is in compliance with Indonesian labor standards. Further actions will be undertaken under the direction of the Executive Vice President having responsibility for human resources within the Company with the assistance of outside labor law counsel. As of November 2007, a number of the following actions have been put into place and are making good progress.

### ***In progress and planned actions:***

- Establish categories of workers delineated between core and non-core work.
- In the case of labor supply companies that supply contract workers to PT-FI who have been under contract for more than the maximum permissible period and are employed by the labor supply company as temporary employees, PT-FI will work with the labor supply company to evaluate each of these workers on a case-by-case basis to determine their future status. If these contract workers meet PT-FI's basic competency and occupational standards, PT-FI will immediately offer the worker a job as a permanent employee of PT-FI, provided that the worker terminates his/her employment status with the labor supply company.
- In those cases where evaluations show that the contract workers do not meet basic competency and occupational standards, PT-FI will undertake additional training to raise the performance of these contract workers to the required competency standards. PT-FI expects this process to be completed no later than March of 2008. At the end of this process, the contract workers will be evaluated and if they are eligible for PT-FI employment, they will be offered a permanent position with PT-FI.
- All contract workers that have been under contract for less than the maximum period allowed by Indonesian law will be evaluated to ascertain whether their roles are considered to be core or non-core/support work. If the PT-FI contract worker is performing tasks that are considered core, the worker will be, based on evaluation, offered permanent employee status in the same manner as set forth

above, or placed into one of PT-FI's apprentice programs. If the contract worker is performing tasks that are considered non-core, the contract worker will be evaluated every six months to one year for competency and occupational skills. PT-FI will also evaluate its on-the-job training program for non-core workers to ensure that the training is achieving desired results. PT-FI will ensure that no contract worker will be engaged for more than the legally allowed period of time.

- All contracts and contract renewals between PT-FI and labor supply companies as well as other contractors must conform to the Indonesian labor law standards and the principles and policies of PT-FI with regard to the employment and work opportunities of the Papuan people. PT-FI will periodically evaluate these companies for compliance with these standards.
- These objectives will be implemented and completed by March 2008.
- All actions described above regarding contract workers will be independently verified by year-end 2008.

## **Phase II: Medical Audit**

The management of FCX and PT-FI wishes to express appreciation to ICCA for having conducted the medical care audit. The audit has enabled FCX and PT-FI to prove their success in a number of areas and to identify others that need to be addressed.

### ***Organizational and Financial Oversight of Public Health and Medical Care Program***

FCX and PT-FI management agree with ICCA's recommendation to expand the role of professionals in advising the LPMAC on program objectives, budgeting, and spending on medical care and public health initiatives. We further agree that operating units must be held accountable and that data-based decision-making is an area for improvement. At the same time, the LPMAC is a community-owned and -led organization, and funding allocations must be based on community input and the assessment of their own health needs. We would also like to point out that both PT-FI and LPMAC are very aware of the connection between increasing public health activities to make people healthier and thereby decreasing hospital costs. LPMAC Executive Secretary John Nakiaya stated publicly that he would prefer that LPMAC run a public health program and not hospitals, but if LPMAC does not fund hospitals, people have no other options for high-care services, and the impact would cost lives. LPMAC considers both primary and secondary healthcare services as part of their comprehensive healthcare program, and they are currently very focused on expanding their preventative community health program. In fact, in 2007 LPMAC increased their public health program budget by 60 percent.

### ***Public Health, Malaria Control and Community Clinics***

In the ICCA Medical Audit, it is evident that there is some confusion between the Freeport Public Health and Malaria Control (PT-FI PHMC) program and the LPMAC Public Health and Malaria Control (LPMAC PHMC) program in both the general medical audit and the executive summary.

To clarify:

- ICCA was hired to do an audit on LPMAC's medical programs, not PT-FI's. It seems that the ICCA has looked at PT-FI's programs and compared them to the LPMAC programs but has confused them in the audit report.
- The PT-FI PHMC program has functioned in an exemplary fashion, providing services to PT-FI and also extending their operations outside PT-FI's contract of work area in order to assist the Papuan community.
- The LPMAC PHMC program is very rudimentary and has yet to develop into an identifiable and sustainable program. PT-FI agrees with the recommendations of the auditors that the LPMAC PHMC program needs to be better organized, structured and more focused in its functions.

- The Phase II Medical Audit by the ICCA does not differentiate between the Freeport and the LPMAC program which implies to the reader of the audit that PT-FI's PHMC has deficiencies and needs

FCX and PT-FI Management support the recommendations that ICCA has made regarding the public health and malaria control programs. However, we would also like to point out the following:

- The primary healthcare clinics operated by PT-FI's PHMC Department are designed to provide services to those Papuans originally from Timika, approximately 15-20% of the current Timika population. PT-FI's PHMC Department currently operates five clinics, including a clinic in densely populated Kwamki Lama. In addition, it also operates tuberculosis control and sexually transmitted disease control programs in central Timika adjacent to the government health center.
- PT-FI's PHMC has an active and carefully designed health education program that encompasses mass media communication, community training sessions, a maternal and child health program, school education programs, special events, ongoing training for community health workers, and a volunteer community health worker training program. The most active parts of this program are focused on the "sponsored communities," that is, originally from the area surrounding PT-FI's operations.
- The results of the interviews may be skewed by the village in which the interviews took place. For example, some of the interviews were conducted in Mapurujaya, where PT-FI's PHMC does not conduct home visits. The interview data should be organized by location, distinguishing between villages that are part of PT-FI's PHMC's covered area for home visits, such as Nayaro.
- As mentioned, PT-FI and LPMAC are extremely focused now on helping the local government (in partnership with LPMAC) to strengthen its own public health programs.

### ***Banti Hospital***

FCX and PT-FI Management appreciate and agree with ICCA's assessment of the Banti Hospital facilities. We particularly appreciate the recognition of the "condition of infinite demand," a condition with which we are especially familiar. We also agree that education is the way to achieve the paradigm shift to which ICCA refers, and our resources will continue to be focused on teaching people about wellness and helping them to live healthier lives, thus reducing the need for curative care.

### *RSMM Medical Facilities*

PT-FI Management appreciates and will seriously consider the recommendations made by the ICCA Audit Team and will discuss these in depth with the LPMMAK Board. We would also like to point out the following:

- PT-FI Management and LPMMAK are fully aware of the challenges currently facing RSMM as noted in the audit. However, RSMM is the only general hospital operating in the Timika area, and in 2006 alone treated over 10,000 inpatients and 99,000 outpatients, in many cases providing services not available elsewhere in the area and saving lives. Due to the lack of any other general hospital in the Timika area, building RSMM was a top priority for the community. The design of the hospital was also unique in that it complemented the local environment and culture with verandas and walkways designed to accommodate large numbers of family members accompanying patients.
- Due to the support of PT-FI and the dedicated work of the RSMM staff, PT-FI believes that RSMM is one of the best community hospitals available in Papua, both in quantity and quality of services. This is supported by the community survey results of the ICCA audit team. When the hospital was constructed, neither PT-FI nor the community leaders could have predicted the rapid population growth in the Timika area and the strain this would put on the hospital and the LPMMAK health funding resources. The rapid population growth has also increased health risks and diseases linked to unsanitary living and environmental conditions caused by the rapid development, which the local government does not yet have the capacity to address.
- PT-FI and LPMMAK have seriously committed to the development and expansion of a non-PT-FI public health program in order to decrease the need for curative services. In 2005, LPMMAK began to plan and develop a comprehensive public health program and to find and recruit qualified staff to implement it. The program was launched in 2006 in Banti and will continue to develop and expand each year. PT-FI has also granted a scholarship to a young Papuan who is now attending Tulane University School of Public Health and Tropical Medicine and working towards a Master's Degree in Public Health. Once he has completed his degree, he will return to Timika to work with the LPMMAK public health program. PT-FI also anticipates that evaluating the role of YCT in providing primary healthcare services as well as managing the hospital will be an important part of developing this program. However, public health education and changing community behavior will take time, and the impact of the public health programs will take a number of years to be fully realized. Combined with the challenges of the local population growth, improving community wellness is not something LPMMAK and PT-FI can do alone. We will need to work closely with the local government and other community health organizations to also strengthen their capacity to improve community wellness and provide sustainable quality health services.
- It is also important to point out that the tables provided on page 78 and 79 have been taken out of context and are not relevant information to the audit.

## **Phase II: Audits on Contract Companies**

As part of PT-FI's commitments to its Social, Employment and Human Rights (SEHR) policy, PT-FI requested that the ICCA undertake audits on each company contracted by PT-FI. It is important to point out that a number of these entities have operations in other parts of Indonesia and their business practices are independently set for their entire operations, not just the Papuan subsidiary.

PT-FI would like to point out that some of the audit findings are generated from interviews conducted by ICCA of employees of each company. While these interview responses are important, they represent the views of that particular interviewee and we believe that it would be beneficial to obtain further information to confirm that all appropriate sources are considered. It is evident in the audits of these companies that further information is needed in order to draw supportable conclusions and to be able to make recommendations. The information provided in the PT KPI audit which stated the percentage of the interviewed workers that were Papuan would have been very useful in the other contract company audits.

However, it is important to note that PT-FI and each contract company does take the employee opinions and information generated from interviews very seriously and will ensure that these are taken into account.

In response to a number of issues raised in the audits, PT-FI, under the direction of its Chief Financial Officer, will work with its contract companies to take appropriate steps to ensure the following:

- PT-FI will provide assistance to all contracted companies in order to help them improve compliance with PT-FI's SEHR Policy or to establish a similar policy.
- All contracted companies will be required to certify their compliance with Indonesian labor laws.
- The contracted companies will be encouraged to work with the PT-FI QMS department to develop training programs for unskilled persons, who, with training, could become suitable permanent employees.
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- The contracted companies will be encouraged to support the local community through the purchase of local products and other forms of contributions.

The following are the responses to the each of contract company audits.

### ***PT Pangansari Utama Response***

The audit of Pangansari noted that while there are management policies and programs to support Papuan employment efforts, these are not reflected in numbers of Papuan employees. PT-FI agrees with ICCA that Pangansari needs to find a successful way to train and employ more Papuans and will commit to assisting the company in this venture.

However, it is important to point out that the following data shows a steady increase in Papuan employment since 2004.

| Company    | Papuan Employment |      |      |      |          |
|------------|-------------------|------|------|------|----------|
|            | 2003              | 2004 | 2005 | 2006 | 2007-Sep |
| Pangansari | 288               | 271  | 299  | 333  | 349      |

PT-FI will work with Pangansari to exceed its targets of 35% Papuan employment over the next 5 to 6 years.

In regard to human rights training, the ICCA noted that the gap between “Pangansari’s record of providing human rights training programs and the understanding by Pangansari employees of the company’s human rights commitment is quite significant.” PT-FI would like to point out that a training socialization period for Pangansari occurred between January 2006 and November 2007, during which, 908 of Pangansari’s employees went through SEHR training. PT-FI will continue to work with Pangansari to improve SEHR training at Pangansari. Improvements for these socialization training periods are planned for 2008.

While the audit criticizes the company for not purchasing more of their produce from local sources, PT-FI would like to point out that the population of Timika continues to increase each year and the surrounding area consists of limited agricultural land. Although the local supply of produce is limited, PT-FI will work with PT Pangansari Utama to purchase as much of its supplies locally as practicable.

#### ***PT Kuala Pelabuhan Indonesia (PT KPI) Response***

PT KPI expects to increase the number of total (non-staff and staff) Papuan employees to a ratio target Papuan to Non-Papuan of 30 percent by the end of 2008. Papuan workers have been hired at a rate of 50 percent total hires since 2003 with this number increasing to 70 percent in 2006. The company hopes to increase this to 75 percent in 2007. The company noted that it will work with the Nemangkawi Mining Institute and similar initiatives to hire qualified Papuan graduates from these programs. The following table demonstrates increased Papuan employment in recent years.

| Company | Papuan Employment |      |      |      |          |
|---------|-------------------|------|------|------|----------|
|         | 2003              | 2004 | 2005 | 2006 | 2007-Sep |
| KPI     | 326               | 338  | 351  | 396  | 433      |

PT KPI will identify services or goods that could be provided locally and will work with PT-FI to further evaluate how it could do more for the local community. However, it is important to note that the types of materials that PT KPI requires for its operations are primarily mobile equipment parts, tires, fuel and other industrial supplies, none of which are manufactured or available for purchase in the Mimika area.

In reference to the accusations regarding contract workers at PT KPI, PT-FI does not agree with ICCA's claims. PT-FI will work with PT KPI to take steps to ensure that contract workers are engaged for non-core work and permissible service periods.

PT KPI also states that it will conduct human rights training for employees who have not yet been trained and conduct a refresher course for all employees every two years.

PT-FI would like to point out that a SEHR socialization period for PT KPI occurred between January 2006 and November 2007, during which 1,669 PT KPI employees were trained.

### ***PT Sandvik SMC Response***

PT Sandvik has gone to great lengths to improve the company's performance in the areas identified. Plans have been developed to establish a preferential hiring program for Papuans with a target for 20 percent Papuan employees by the end of 2007. In addition, all new employees will be placed in an apprenticeship or training program to develop the required competencies. In response to the human rights criticism, the company claims that as a result of a self-assessment, all employees possess awareness and understanding of PT-FI's SEHR policy.

PT-FI would like to stress that a number of statistics used and resulting conclusions made in the audit of Sandvik, particularly in regards to training (job and human rights), were from interviewed workers with no supporting data from management or from the QMS department.

The ICCA notes that management reports state that Sandvik has active on-the-job and developmental training programs. However, ICCA concludes that Sandvik's training for employees, particularly Papuans "has not been sufficiently translated into practice" based on interviews with employees.

The same case exists in regard to human rights training. The ICCA recognizes that Sandvik management has communicated the importance of human rights policies to all its employees. However, quotes from interviewed workers indicate that the majority of them have not received any information on company human rights policies. The ICCA concludes that respect for human rights in the company "falls short of the high goals and expectations that the company has set for itself."

PT-FI would like to point out that a SEHR socialization period for Sandvik occurred between July - October 2006. During this time 60 of Sandvik's employees were provided SEHR training. In addition, PT-FI has approached and provided train-the-trainer Human Rights sessions, presentation materials, etc. to Sandvik senior personnel, so that they can socialize it among their employees. PT-FI will continue to work with the company to

improve SEHR training at Sandvik. Improvements for these socialization training periods are planned for 2008.

In regard to Papuan employment, the audit concludes that “Sandvik’s record is unsatisfactory when it comes to the hiring, training, and promotions of Papuan workers.” PT-FI would like to point out that Sandvik has built a repair and rebuild facility in the lowlands of Mimika. This facility has provided a number of Papuans with employment and also provides support to the local economy, an aspect the ICCA did not cover in its report.

The data below show a positive increase in Papuan employment since 2005. PT-FI will commit to ensuring that Sandvik continues this positive trend and increases employment and training opportunities for Papuans.

| Company | Papuan Employment |      |      |      |          |
|---------|-------------------|------|------|------|----------|
|         | 2003              | 2004 | 2005 | 2006 | 2007-Sep |
| Sandvik | 23                | 18   | 18   | 24   | 37       |

In regard to contract workers, the audit sends mixed messages. The executive summary states that a plan of action is needed to bring Sandvik in compliance with the Indonesian labor law, saying that “for Sandvik the issue is one group of workers doing a single task for more than three years, but still deemed ‘temporary.’” This statement is not repeated in the body of the audit of Sandvik. Instead, Sandvik management is quoted, stating that contract workers “had remained on the temporary status for periods ranging between 1 to 3 years.”

In addition, the audit requests “further explanation from PT-FI with regard to its insistence on the work being temporary where Sandvik considers a full-time crew can be justified.” PT-FI believes that information has been misinterpreted in this situation and that PT-FI does not dictate to its contractors to hire full- or part-time staff. It is up to the contract companies to work out what form of staff they need based on their contracts with PT-FI.

The audit indicates that ICCA did not have sufficient information to evaluate Sandvik’s use of temporary workers. Although it is not clear why this was the case, PT-FI will evaluate the situation and work with Sandvik to address any issues in this area.

### ***PT Salju Abadi Sejahtera (PT SAS) Response***

A major criticism of PT SAS identified in the audit was the declining support for the local community. In response, PT-FI would like to point out that the company is a locally-owned Amungme company which was supported by PT-FI as part of its commitment to provide business opportunities to local tribes. The decline in local contributions noted in the audit will be taken into account. However, PT SAS believes

that its primary contribution to the local community is by providing Papuan employment to the local tribal people in the area.

The audit noted a “relatively small proportion of SAS workers who are Papuans.” PT-FI agrees with the ICCA that as a Papuan company, PT SAS should be doing more to employ more Papuans. PT-FI will commit to helping PT SAS develop a plan to improve Papuan employment.

In regard to human rights training, PT-FI would like to point out that a SEHR socialization period for PT SAS occurred between January 2006 – November 2007. During this time 75 PT SAS employees went through SEHR training.

The ICCA contended that PT SAS is not complying with the Indonesia labor law with respect to duration of service of contract workers. PT-FI will work with PT SAS to develop a plan to bring the company into compliance.

### ***PT Trakindo Utama Response***

PT-FI would like to point out that PT Trakindo Utama is a subsidiary of a very large, well-respected Indonesian company with operations throughout Indonesia. Trakindo operates with the utmost integrity in regard to employee development. It has been operating in Papua with PT-FI for many years and has developed a world-class Caterpillar (CAT) training facility near our operations, the only one available in Papua.

The ICCA audit states that Trakindo has no specific policies that target Papuans, despite the fact that the audit identifies that there is a Papuan Development Superintendent responsible for “recruiting and developing Papuans for employment at Trakindo through collaboration with local Papuan development organizations, including PT-FI’s Nemangkawi Mining Institute.” In addition, it should be noted that Trakindo hires apprentices from the Nemangkawi Mining Institute which is an almost entirely Papuan institution. Trakindo is also establishing Nemangkawi as a certified CAT training center with access to interactive CAT training materials to train the mostly Papuan mechanic apprentices.

Despite these positive advances to encourage Papuan employment, the data suggest that further improvement is needed. PT-FI will work with Trakindo to improve its commitment to increase in Papuan employment in the company.

The audit states that Trakindo has not been undertaking SEHR training and relevant information distribution. While Trakindo disagrees with these claims, PT-FI will take steps to assist Trakindo to improve its SEHR implementation. As part of this process, a SEHR socialization period for Trakindo occurred between August-October 2007, during which 440 of Trakindo’s employees went trained. In addition, PT-FI has approached and provided train-the-trainer Human Rights sessions, presentation materials, etc. to Trakindo senior personnel, so that they can socialize it among their employees.

In regard to work-related training, the ICCA audit of Trakindo was very positive. The audit notes that “all Trakindo employees undergo basic induction and safety training before entering the workplace. In addition, there are a number of technical training programs that are designed to provide employees with the skill sets required to do specific jobs. Trakindo has a full time training department on site.”

The ICCA audit also concludes that “Trakindo does not have any formal policies, goals, or targets to assist Papuans in developing their local economy.” PT-FI would like to reiterate that Trakindo is a large, global company. As part of its global strategies, it is probable that a number of its procurements have to be outsourced and most of the supplies needed are not available locally. However, it is also important to note that Trakindo has invested more than \$20 million in their lowlands maintenance facility, a world-class repair and rebuild shop for CAT equipment.

In regard to contract workers, PT-FI will work with Trakindo to develop a plan similar to its own regarding contract workers to ensure that the company is in compliance.