

**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**

## **Executive Summary**

### ***Phase I Follow-up Audit***

PT-FI appreciated ICCA's comments regarding the Phase I Follow-up Audit.

- The follow-up audit notes that PT-FI, “responded rapidly and effectively to most of the recommendations presented by ICCA in the Phase I Audit of PT-FI’s Indonesian Operations.” The ICCA makes it clear in their audit report that they are satisfied with PT-FI’s responses regarding the following aspects:
  - Enhanced training programs for all employees in prevention of human rights violations
  - The cessation of the practice of PT-FI’s security personnel driving vehicles for Indonesian police and military
  - Enhanced training for Papuans who are within PT-FI’s workforce and for those who wish to work at PT-FI’s operation in Papua
  - Reforms within the Education Bureau of the LPMAK program
  
- In regard to ICCA’s analysis of the contract worker issue, PT-FI recognizes that improvements are needed and wishes to clarify that:
  - PT-FI’s policy is to only engage contract workers from outsourcing/labor supply companies for non-core worker positions. The outsourcing company is responsible for the workers’ wages and benefits.
  - PT-FI’s contract worker program is designed to provide contract workers with on-the-job training in order to attain basic competency skills.
  - The contract worker program has borne fruit in training workers in basic competency skills as evidenced by PT-FI’s hiring of 2,223 former contract workers as permanent employees since 2003.
  - PT-FI recognizes that a very small percentage (less than two percent) of the total workforce has been employed by labor supply companies (outsourcing companies) as temporary employees for periods longer than generally allowed (3 years). PT-FI is taking appropriate steps to correct this situation.

- PT-FI is committed to ensuring that its outsourcing companies, including labor suppliers, are in compliance with Indonesian labor laws.

### ***Phase II Audit: Medical***

The ICCA undertook an audit of LPMAC's health care programs. The following provides a short summary of the findings.

- There seems to have been some confusion in regard to the Public Health and Malaria Control (PHMC) program. There are in fact two programs, one that is managed by PT-FI in its operations area and one managed by LPMAC. This is not differentiated in the audit report and PT-FI finds some of the conclusions to be misleading.
- The audit found that the hospital at Banti was in good condition and made a few recommendations for improvement.
- The audit made a number of recommendations to the Rumah Sakit Mitra Masyarakat (RSMM) medical facilities in Timika.
- PT-FI will work with LPMAC to address the recommendations noted in the report.

### ***Phase II Audit: Contract Companies***

Audits of five of PT-FI's contract companies (PT Pangansari Utama, PT Kuala Pelabuhan Indonesia, PT Salju Abadi Sejahtera, PT Sandvik SMC and PT Trakindo Utama) were undertaken as part of the Phase II Audit by the ICCA.

- The results of these audits were mixed, but overall concluded that each company needed to improve its compliance with PT-FI's Social, Employment and Human Rights (SEHR) policy.
- PT-FI will take steps to improve each company's commitment to abide by the SEHR policy.
- The contract worker issue is noted for some of the companies. PT-FI will work with these companies to address this issue appropriately.
- Some of the reports contend that companies have not been purchasing enough of their materials locally. PT-FI will work to improve their performance, but in many cases these contract companies require equipment and supplies that are not available locally.

### ***Audit Process***

In 2004, PT Freeport Indonesia (PT-FI) engaged the International Center for Corporate Accountability (ICCA) to perform an independent audit of its Indonesian operations, focusing on the key components of PT-FI's SEHR Policy. This "Phase I" audit was

received and responded to by PT-FI in 2005. A follow-up “Phase I” audit was conducted by ICCA in 2006. The ICCA also undertook a “Phase II” Medical Audit and an audit of five of PT-FI’s contracted companies.

The follow-up Phase I and Phase II audit reports will be made publicly available. The company, its workforce and the local community will derive important benefits from this process as the audit has provided a mechanism to highlight those areas in which improvement is necessary to enable PT-FI to achieve its goals and commitments in human rights, the employment and advancement of Papuans in all areas of our operation, and the social development of the local community.

PT-FI commits to continuing to assess the company’s social development, employment, and human rights programs and will undertake independent professional audits on a periodic or as needed basis. PT-FI will continue to monitor its progress and provide annual updates through its reporting commitment to the Global Reporting Initiative and its *Working Toward Sustainable Development* Reports.

The management of PT-FI wishes to express appreciation to ICCA for having conducted the “Phase I” follow-up and “Phase II” audits. These have enabled PT-FI to recognize its successes in a number of areas and identify others that need to be addressed. PT-FI has and will continue to assess the matters ICCA identified in the audits requiring corrective actions, having already embarked upon remediation in a number of areas and striving for continual improvement in all aspects of these programs.