Apical

Sustainability
Progress Report 2015

The Journey
Begins here

CONTENT

1.0 Introduction

Apical Group Ltd is one of the largest exporters of palm oil and its derivatives in Indonesia. It owns and controls an extensive spectrum of the palm oil business value chain – from sourcing to distribution, and is engaged in the refining, processing and trading of palm oil and its products for both domestic and international use. Our refineries use state-of-the-art technology, reflecting our commitment to developing world class facilities and products.

Apical's business model is built on three core strengths as following:

i. Reliable and broad sourcing network in Indonesia,
ii. Full integration of efficient refinery assets at strategic locations
iii. Efficient logistic channels to deliver products to well-diversifies buyers

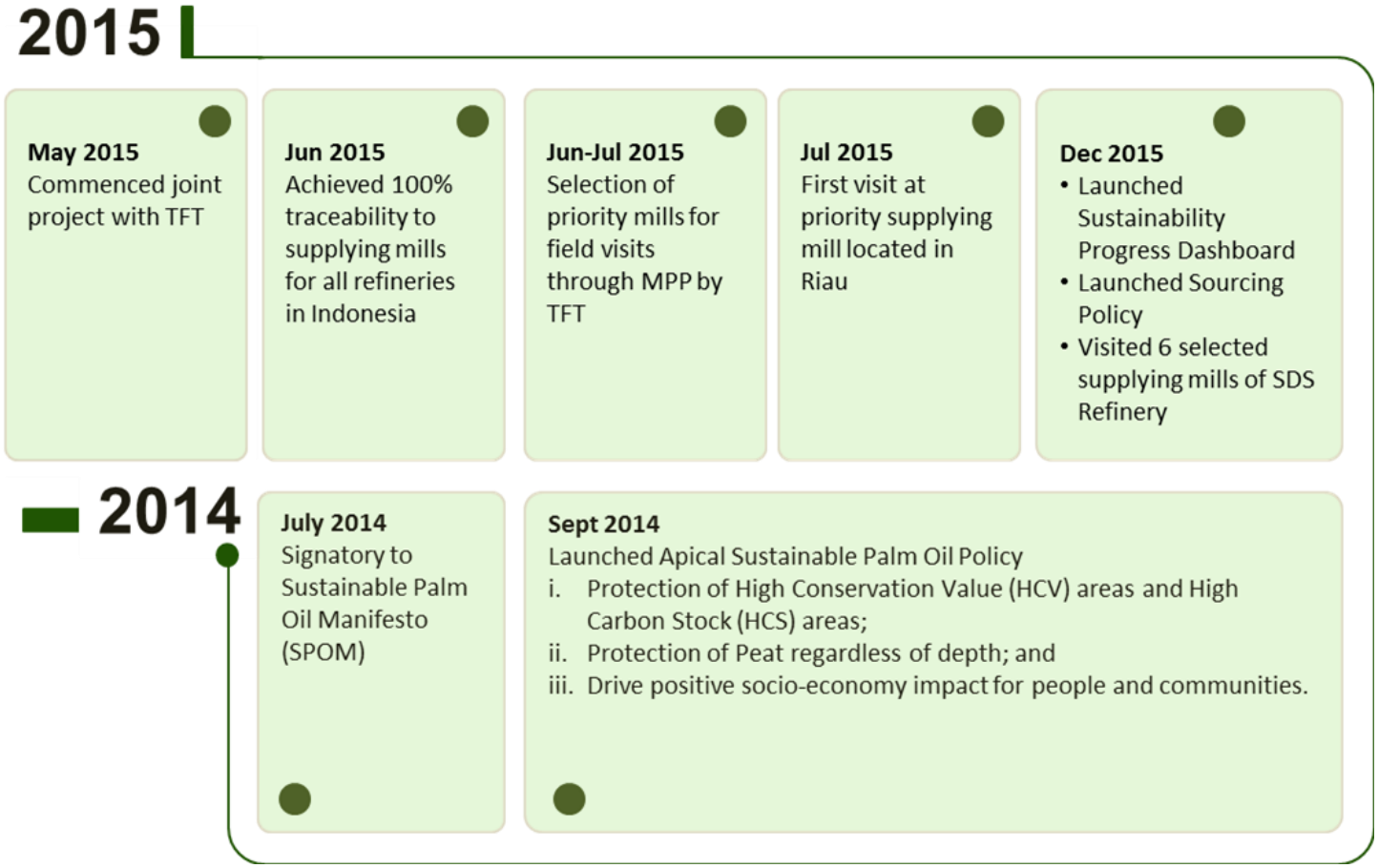
This business model allows Apical to control quality, address sustainability issues, ensure efficiency and synergy at every step of the value chain, and create value for all stakeholders.

Apical operates 3 refineries, a biodiesel plant, a fat splitting plant and a kernel crushing plant in Indonesia. Our refineries have a total processing capacity of about 3.68 million metric tonnes per annum. The primary processing facilities and storage tanks are located near the raw material sources in Indonesia, while the secondary manufacturing facilities are located close to the industrial zones of major cities, enabling us to tap into large bases of consumers. Our main refinery, Sari Dumai Sejati (SDS) is at Lubuk Gaung, Dumai. It operates in a bonded zone, which offers quick documentation processing, efficient berthing and on-time sailing of vessels from a 1 km long private jetty. Our Marunda processing plant is located near Tanjung Priok container terminal, which facilitates on-time delivery and export of our shipments. The efficient logistics result in cost advantages for Apical and its customers.

Apical major products are CPO (Crude Palm Oil), various forms of PPO (Processed Palm Oil) and PPKO (Processed Palm Kernel Oil), as well as Refined Soy Bean Oil (RBDSBO), all of which can be further processed into other value-added products.

Apical has begun its journey as a global sustainable player in the industry by publishing its Sustainability Policy in September 2014, giving great emphasis to serving the emerging needs and future requirements of the group in sustainability. Apical has engaged with The Forest Trust (TFT) to aid policy deployment and implementation towards achieving the sustainability goals.

2.0 Key Milestones



3.0 Main Commitments

Apical, as a processor and trader of palm oil, is fully committed to build a traceable and transparent palm oil supply chain with the following 3 main commitments:

i) Protection of high conservation value (HCV) areas and high carbon stock (HCS) areas

To help ensure that there is no deforestation of HCV and HCS areas, we require our suppliers to adopt a credible HCS identification procedure.

There are presently two methods of defining High Carbon Stock (HCS) forests, namely: the HCS Approach and the HCS+ Methodology. The HCS Approach is a procedure to identify areas of land suitable for oil palm development and forest areas that should be conserved in the long term. The HCS+ Methodology proposes a new pathway for sustainable oil palm development with HCS thresholds which take into account environmental and socio-economic values, and addresses the concerns of all stakeholders including NGOs, local communities, smallholders and local government.

Apical is committed to working with selected suppliers with new oil palm developments, to test the practicality of both HCS methodologies in accordance with the developmental policies and national regulations of the Indonesian Government. The results of these comparative trials will help support convergence of the two HCS methodologies.

ii) Protection of peat land regardless of depth

Oil palm planting on peat land has significant adverse environmental impact, mainly due to excessive GHG emissions that contribute to global warming and the ongoing climate change. We

therefore put great emphasis to ensure our suppliers do not carry out development on new peat areas.

For existing planted peat areas, best management practices, particularly on water management, are shared to suppliers during field visits to mitigate GHG emissions and maximize FFB yield.

iii) Drive positive socio-economic development

Promoting positive socio-economic development of independent smallholders is always a part of our business development strategy. We facilitate inclusion of smallholders into our supply chain while providing guidance to ensure they are producing palm oil legally and sustainably.

We value ethical recruitment and strictly prohibit any form of operations that involve child labour, forced labour or human trafficking.

We fully respect and recognize the rights of indigenous and local communities to give or withhold their free, prior and informed consent (FPIC) to the utilization of lands to which they hold legal, communal or customary rights.

4.0 Traceability

4.1 Traceability to mills

As a key player in the global palm oil supply chain, we realise the importance of achieving traceability in the palm oil supply chain to ensure our buyers that the products they purchase come from responsible and traceable sources.

We source CPO from palm oil mills owned by our sister group Asian Agri and several other third-party mills. We have started our work in traceability by compiling data from all the supplying mills in 2014. TFT helped verify the data provided by our suppliers to ensure they are reliable and accurate. At that time, traceability was a new concept, and we invested time and resources to explain the importance of mill traceability to our communities and suppliers.

In June 2015, we achieved fully verified traceability to all CPO and PK mills supplying to our refineries in Dumai (SDS), Marunda (AAJ-Marunda), and Tanjung Balai (AAJ-Tanjung Balai). The progress and information of our mill traceability are updated quarterly in the Apical Sustainability Progress Dashboard.

AAJ MARUNDA REFINERY

SARI DUMAI SEJATI REFINERY

AAJ TANJUNG BALAI REFINERY

4.2 FFB traceability and its challenges

Currently, we have embarked into the next level of traceability which is traceability to FFB sources.

Achieving FFB traceability is critical for Apical to evaluate associated potential risks with FFB suppliers. Knowing the

complexity of FFB traceability which involves substantial number and geographically widespread FFB suppliers, we have developed a practical procedure to progressively gather traceability data from various categories of FFB suppliers, i.e. plantations, agents and independent smallholders, with the aim of achieving full FFB traceability progressively by 2020.

Similar to our experience in achieving full mill traceability, our initial approach is to socialize this requirement and provide necessary guidance to our suppliers on the developed procedure in order to garner their support and participation.

Our biggest challenge is the traceability of numerous independent smallholders, which normally sell their FFB to agents. The buy-in and participation of agents is a critical factor to achieve traceability of independent smallholders, and significant effort is being undertaken in this.

5.0 Priority Supplier Engagement

5.1 Proactive Engagement of Suppliers

Since the inception of our Sustainability Policy, we are fully aware that it is crucial to work closely with our palm oil suppliers to achieve our sustainability commitments. We are progressively bringing more suppliers to be part of our journey by socializing the importance of incorporating sustainable practices into their operations.

We believe pro-active engagement with our suppliers via field visits and face-to-face meetings will help to ensure long-term relationships and build trust that will bring gradual positive transformation to our entire supply chain.

We are actively conducting field visits to selected priority suppliers. The field visits are conducted with the aim of providing support and necessary guidance for corrective actions, while at the same time to influencing them to adopt sustainability practices.

5.2 Identification of priority supplying mills

Supplying mills in our supply shed are prioritized by TFT for site visits through the Mill Prioritization Process (MPP) and Publicly Reported Information (PRI).

Based on a set of environmental and social risk factors within 50 km radius from the mill, 10% or 25 out of 250 supplying mills for our Sari Dumai Sejati (SDS) Refinery at Lubuk Gaung, Dumai were identified for field visits.

5.3 Field visits to selected priority suppliers

Once a mill is identified for a field visit, the Apical team will coordinate with the supplier's management, usually with the Head of Sustainability or the Commercial Manager, to seek their consent and to mutually agree on a visit date. Once consent has been granted, other items such as logistical requirements and team formations will be discussed.

A field visit usually takes 4-5 days to complete. On the first day, the Apical team will conduct an opening meeting to socialize members of the supplier's management with the objectives of the visit and to explain Apical's Sustainability Policy.

Afterwards, Apical will assess the company's alignment with specific items in the Apical Sustainability Policy such as no deforestation of high conservation value (HCV) and high carbon stock (HCS) areas, proper environmental and social management, no exploitation of human rights, the creation of shared values, and FFB traceability.

During the last day of the visit, a closing meeting will be carried out where the visiting team will present a summary of its key findings. They will also make recommendations, including corrective actions, to improve the supplier's current practices given the long-term aim to create a sustainable supply chain. A final visit report will be prepared within 3 weeks of the visit.

In 2015, we conducted a total of 6 field visits to selected priority suppliers at the provinces of Riau, North Sumatera and South Sumatera. From these field visits, we found that all the visited suppliers have a certain level of understanding on the requirements to operate sustainably. Most of the visited suppliers were aware of the local legal requirements and possess proper legal documents to operate their business. Adequate awareness of the no

open burning policy and responsible FFB sourcing were also shown during the field visits.

During the field visits, we encourage our suppliers to adopt best practices, especially the zero-burning policy and the Integrated Pest Management (IPM) to reduce pesticide usage in the field. We also emphasize the need to purchase and maintain their Personal Protective Equipment (PPE).

In waste management, land application of POME is recommended where there are suitable mineral soils around the mills. While possible, composting EFB with POME as nutrient supplement is recommended to reduce usage of nitrogen inorganic fertilizers that contribute to greenhouse gas (GHG) emissions.

Workers' rights were the most prevalent issues identified in third party plantations. A documented and effective system to minimize negative impacts due to exploitation of people and local communities were emphasized.

5.4 Continuous Improvement

The visited supplier is requested to provide their time-bound plan to improve or resolve the key issues highlighted in the visit report.

A follow up visit to evaluate implementation of corrective actions will be arranged after 2-6 months from the date of the visit.

6.0 Grievance Handling

Apical treats every grievance raised against any of our third party suppliers seriously. We have published a robust Grievance Procedure which has clear guidelines and procedures on how our stakeholders are able to raise their concern and grievances on any part of our supply chain.

To ensure the successful resolution of each grievance, we formed our grievance verification team which will be responsible for gathering necessary information from all relevant parties before conducting any actual field investigation. We will respond to these grievances and communicate a time-bound plan for handling each verified grievance or complaint promptly and transparently. These three grievance cases had been publicly logged since May 2015 and had been uploaded onto our Sustainability Progress Dashboard[1]:

Picture : Engaging smallholders

[1] http://www.sustainability.apicalgroup.com/

No	Grievance Cases	Synopsis	Remarks
1	Case 1	Greenomics report on 11th June 2014 Issues raised: Alleged clearance of HCS forests at Pohuwato District, Gorontalo, Sulawesi	TFT conducted a land-use assessment of satellite imagery and confirmed there was no evidence of further clearing in 2015. We are still awaiting for their HCS study report and land-use plan.
2	Case 2	Greenomics investigation reported on Mongabay dated 20 May 2015 Issues raised: Alleged forest clearance in West Papua, Indonesia	In early October 2015, the implicated supplier made a presentation to the HCS Steering Group to be considered for a pilot HCS study in high forested landscape. They have been requested to carry out a detailed FPIC process at their West Papua concession.
3	Case 3	Greenomics and EIA report dated 4th June 2015 Issues raised: Alleged forest clearance impacting forested peat land and orangutan habitat in Central Kalimantan	The implicated supplier has agreed to carry out proper HCS and HCV assessments, including an orangutan survey and a robust FPIC process, with participatory mapping with the local communities in their new concession.

We have organized engagement meetings at each of their head offices were carried out. These meetings sought to provide the necessary support to resolve the issue and ensure compliance with our sustainability policy. We are also working closely with TFT to seek their expertise and input.

Given that these companies had yet to resolve the grievances raised, Apical had temporarily suspended sourcing palm oil from these companies.

Picture:
Stakeholder Engagement, Field visits to priority suppliers

7.0 Stakeholders Engagement

7.1 Engagement with global customers

We have continuously engaged with our global customers such as Neste Oil, Bunge, Cargill and Kao Corporation. These face-to-face meetings with our buyers have helped keep us abreast with latest sustainability requirements in the market, which are then reflected in our sustainability policy and implementation.

7.2 Engagement with NGOs

We held several discussion sessions with NGOs, such as Environmental Investigation Agency (EIA) and Aidenvironment to seek additional information to resolve publicly reported grievances on some implicated Apical's suppliers. This is our proactive strategy to ensure compliance to our Sustainability Policy and eventually achieve positive transformation/strengthening of our palm oil supply chain.

7.3 Engagement with suppliers

We conducted 3 regional Sustainability Policy Socialization Workshops for our main suppliers in Medan, Pekan Baru and Jakarta. The workshops discussed relevant topics such as TFT Aggregator/Refinery Transformation Plan (ART Plan), High Carbon Stock (HCS) and High Conservation Value (HCV), Free, Prior and Informed Consent (FPIC) and Labour & Human rights.

These workshops helped communicate key points of our Apical Sustainability Policy and provided an interactive platform for a group of suppliers from a particular region to discuss selected sustainability issues and challenges.

They also helped us identify how best to assist our third party suppliers to make the same sustainability commitments as we have and helped them improve their FFB traceability.

The requirement to achieve full FFB traceability and preparation of related standard operating procedures (SOPs) were also explained to participants. The importance of adopting Best Management Practices (BMPs), especially good water management on peat, preventive measures and early fire warning in peat areas were also stressed.

8.0 Internal capacity building

Training is essential to build a competent sustainability team that is fully equipped with the relevant knowledge and skills to support our suppliers. These trainings help the team to provide useful information and align our suppliers with our sustainability framework.

TFT had carried out a programme of 'train-the-trainer' to enable our sustainability group to roll out workshops to our wider teams. Sessions are not limited to the formal classroom format, but are also done via site visits to selected suppliers. Our long term aim is to develop a competent and independent sustainability team, capable of strengthening and transforming our own supply chain.

Since May 2015, these are the training sessions conducted by TFT for our sustainability team:

8.1 Workshop on Conducting Field Assessments

| *May 2015, Pekan Baru, Indonesia.*

This training provided more details regarding procedures and skills required to conduct a field assessment visit. The topics covered in the workshop included the engagement process for supplying mills, preparation for field visits, and verification of key aspects of the Sustainability Policy and Reporting.

8.2 High Carbon Stock Approach: Practitioner Training

| *September 2015, Kuala Lumpur, Malaysia.*

HCS Approach is an approach collectively developed by Greenpeace, TFT and Golden Agri-Resources (GAR) in 2011. HCS Approach acts as a land-use planning assessment tool of a concession prior to land development. The purpose of assessment is to distinguish between non-forest areas that can be sustainably used for oil palm development and forest areas for conservation and takes into account of community rights and livelihoods to determine which land can and cannot be developed. The training focused on the detailed process of conducting an HCS assessment, and the management and monitoring of identified HCS areas. Visit the HCS Approach for more information.

8.3 Workshop on Social and Labor Issues

| *November 2015, Kuala Lumpur, Malaysia.*

Apical's major customer, Neste, invited Apical to participate in a 2-day workshop in Kuala Lumpur. The workshop aimed to share the various social and labor issues in the palm oil industry. Several approaches to improve labor practices in industry were also discussed.

A significant time during the workshop was spent discussing issues such as how to avoid all forms of harassment, the principles of ethical recruitment, and the importance of no child labor and no human trafficking policies in the workplace. Other topics that were discussed were the situation of migrant workers and their right to freedom of association, and the importance of having a grievance procedure to resolve disputes.

9.0 Greenhouse Gas (GHG) Emission Reduction

9.1 Methane capture and biogas utilization

We encourage and assist our third party supplying mills and their plantations to work on certification schemes such as ISCC where there is premium as incentive for sustainability good practices.

Apical's upstream sister company, Asian Agri has prioritized reducing Greenhouse Gas (GHG) emission by methane capture and biogas utilization. Asian Agri realized that GHG emission is mainly from palm oil mill effluent (POME) and the operations of generators. In order to mitigate GHG emission, Asian Agri has been constructing methane capture plants at selected palm oil mills to capture biogas from treatment of POME. To date, Asian Agri has constructed 5 methane capture plants in North Sumatera, Riau and Jambi. Asian Agri aims to install methane capture plants in all their 20 palm oil mills by 2020. Collected biogas from the methane capture plants is utilized to generate electricity for mill operations and home consumption, saving a significant consumption of fossil fuel. The digested POME which contains the nutrients can be used for land application to save on fertilizer.

Picture : Methane capture plant.

9.2 Water management on peatland

Apical is fully aware that planting oil palms on peat land will result in excessive GHG emissions due to oxidation caused by drainage of peat.

Therefore, it is vital for Apical to work with our suppliers to prevent further new development on peat and adopt best management practices, especially water management to maximize oil palm production and minimize GHG emission in existing peat plantations. Water level should be maintained at 50-70 cm from the peat surface for as long as possible.

The use of subsidence poles at about one per 500 ha is a good practice to monitor peat subsidence. A peat plantation with optimal water level (50-70 cm from peat surface) should have a subsidence of < 3 cm per annum. Given this, Apical has been working with our suppliers by conducting regional Socialization Workshops to prevent further development on peat and for them to adopt best management practices. We help suppliers understand that with proper water management, they are able to maximize their oil palm production and minimize GHG emissions. For a peat block that had become undrainable due to excessive subsidence we recommend it to be converted to conservation area. A guideline on "Drainability Study Prior to Replanting on Peat" has been also uploaded onto our online Dashboard to share with our suppliers with peat planting.

10.0 Minimizing illegal open-burning

The regional haze which occurred during the *El Nino* period from August to November 2015 was the worst in history and had affected large parts of Indonesia, Malaysia and Singapore.

The primary root cause of the fire and haze was identified as independent smallholders practicing the illegal slash-and-burn method for land clearing. These occurred particularly on peat areas in Riau province and Kalimantan, which then spread to some neighboring plantations.

Apical took the initiative to upload a practical guideline in our Dashboard on "Prevention, early detection and control of open-burning in oil palm plantations" to guide our suppliers in taking precautionary actions and preventive steps against future open-burning.

Our sister group Asian Agri initiated a Fire Free Village Programme (FFVP) in July 2015 to provide education and awareness to selected villages and groups of independent smallholders. They had been equipped with necessary fire fighting equipment and training. Those villages achieving the fire free target were awarded with community infrastructure.

On the longer term, Apical will continue to engage our suppliers on fire prevention efforts, collaborating with neighboring companies and relevant governmental bodies for the purposes of training in fire prevention.

11.0 RSPO Annual Communication of Progress (ACOP 2015)

As a RSPO certified company and one committed to transparency in its business operations, we have been reporting our sustainability efforts through RSPO ACOP since 2014.

We believe that ACOP is a good platform to communicate the progress of our sustainability commitments to our stakeholders and to promote global use of CSPO.

12.0 Time-bound implementation plan

Going forward, Apical will remain focused on promoting sustainable practices and FFB traceability among our suppliers. Generally, we found that most of our suppliers are aware of the importance of adopting sustainable practices. However, limited understanding on the evolving sustainability requirements remains to be the main obstacle for the suppliers to transform their management practices.

Apical has started to improve their understanding in this area by producing simplified sustainability-related guidelines to assist our suppliers to comply with our sustainability policy. We will also step up our engagement process with our suppliers and plan for more field visits in 2016 as this is the most effective way to bring more suppliers on board.

When we developed an action plan in 2015 to achieve full FFB traceability progressively by 2020, we realized that actual implementation on the ground would be even harder.

We are presently communicating with our suppliers on the importance of achieving traceability of their FFB sources and how the information will be beneficial to them. We are also continuously improving our approach on FFB traceability based on the feedback and experiences gained by working together with our suppliers.

Programs / Action Plan	Target Date	Progress
Full mill traceability	End 2016	Achieved in June 2015
Full FFB traceability	End 2020	In progress. We have been approaching and engaging suppliers on traceability data and information
Publicly available Grievance Procedure	December 2015	We developed and uploaded our Grievance Procedure to our Dashboard in December 2015
Sustainability Policy socialization and deployment to suppliers for conformance to our policy	On-going	Socialized policy to suppliers; making regular field visits to suppliers to identify gaps for continuous improvement.

13.0 Concluding Remarks

When we announced our Sustainability Policy in September 2014, we realized that implementing it on the ground across our 250 third-party supplying mills was not going to be easy. We placed great emphasis in engaging our partners directly and collectively, to build good relationships and mutual trust so that there will be a gradual transformation of our entire supply chain.

While we acknowledge that independent smallholders are a vital part of Apical's palm oil supply chain, but they are often faced with challenges in adopting sustainable cultivation methods, we are clear in our mission to help them on their journey towards sustainability. In 2016, we are planning to conduct Rurality projects in collaboration with TFT to improve suppliers livelihood and sustainability good practices through training and providing access to agricultural facilities.

We are also exploring the landscape approach to develop and implement strategies over larger areas, such as the Kampar Peninsula, and the Kerumutan and Leuser landscapes. With 250 supplying palm oil mills spread over the island of Sumatra, an effective way to transform our supply chain is to engage key decision makers from the different stakeholders namely the plantation and smallholder groups, government authorities and NGOs active in a particular landscape.

Apical will continue to be committed to promote the production of traceable and sustainable palm oil in accordance to the principles and criteria of RSPO, ISCC and ISPO. We will monitor, assess and report our sustainability progress on a quarterly basis through our Dashboard and explore ways to improve effectiveness.

As new information and knowledge come to light, Apical will adjust and improve our sustainability and sourcing policies consistent with our sustainability commitments.

Glossary and Abbreviations

CSPO
Certified Sustainable Palm Oil

FFB
Fresh Fruit Bunch

FPIC
Free Prior and Informed Consent

GREENHOUSE GAS (GHG)
Gases, such as carbon dioxide, methane and nitrous oxide, that absorb infrared radiation (IR), trap heat in the atmosphere and contribute to climate change and ozone destruction.

HIGH CONSERVATION VALUES (HCV)
HCV areas are areas that contain biological, ecological, social or cultural values which are considered outstandingly significant or critically important at the national, regional or global level.

HIGH CARBON STOCK (HCS) APPROACH
This approach is used to distinguish between non-forest areas that can be sustainably used for oil palm development and forest areas for conservation and takes into account community rights and livelihoods to determine which land can and cannot be developed.

INTEGRATED PEST MANAGEMENT (IPM)
The use of natural pest control and techniques to reduce pest populations and replace pesticides and other harmful intervention to minimize risks to human health and the ecosystem.

INTERNATIONAL SUSTAINABILITY AND CARBON CERTIFICATION (ISCC)
An independent, globally applicable certification system for sustainability and greenhouse gas (GHG) emissions.

INDONESIAN SUSTAINABALE PALM OIL (ISPO)
A government effort led by the Indonesian Ministry of Agriculture to support sustainable palm oil agricultures and plantations (FFB sources) in Indonesia.

NGOs
Non-governmental organizations

MILL PRIORISATION PROCESS (MPP)
It is a desktop analysis that combines spatial and non spatial information to identify high and low priority palm oil mills within a single refineries supply shed.

PALM OIL MILL EFFLUENT (POME)
Liquid waste produced from the palm oil milling process.

ROUNDTABLE ON SUSTAINABLE PALM OIL (RSPO)
An international multi-stakeholder certification scheme for sustainable palm oil.

SUSTAINABLE PALM OIL MANIFESTO (SPOM)
The Sustainable Palm Oil Manifesto is an industry collaboration which sets higher sustainability standards for growers, traders, end users and other stakeholders. The Manifesto demands increased commitment to sustainable production right across the supply chain to increase sustainable agriculture.

SUSTAINABILITY
A term expressing a long-term balance between social, economic and environmental objectives. Sustainable development is defined as “development that meets the need of current generations without compromising the needs of future generations”.

SOP
Standard Operating Procedure

TRACEABILITY
The capability to track the origin of FFB and palm oil and refined products to a plantation and mill where it is sourced.

TRACEABILITY DECLARATION DOCUMENT (TDD)
It is an integrated document to establish traceability to palm oil mill.

Principal Office
Apical Group Limited
80 Raffles Place
#50-01 UOB Plaza 1
Singapore 048624
Tel: +65 6216 9338

Registered Office
Apical (M) Sdn. Bhd.
Level 6, Tower 2, Avenue 5, Bangsar South City,
No. 8, Jalan Kerinchi, Malaysia
Tel: +603 2785 8888

Contact Person
Bremen Yong, Sustainability General Manager

Website
www.apicalgroup.com

Sustainability Progress Dashboard
http://www.sustainability.apicalgroup.com/