



Asian Agri and Apical Sustainability Policy Implementation –

Q1 Progress Report:

January - March 2016

1.0 Introduction

This report updates the progress of Asian Agri and Apical's implementation of their sustainability commitments in the first quarter of 2016.

The contents reported in this progress report are as follows:

- Progress of traceability to mills
- Field visit to priority supplier
- Internal trainings for capacity building
- Engagement with Apical's global buyers
- Grievances related to 3rd party supplying mills
- Development of straightforward and practical guideline to support our suppliers in their practices
- Asian Agri's smallholder programs

2.0 Traceability to Mills

Apical completed its 2015 traceability list to its CPO and PK supplying mills, maintaining 100% traceability to all three of our refineries in Indonesia: Sari Dumai Sejati, AAJ Marunda and AAJ Tanjung Balai.

3.0 Site visit of selected priority supplier

Due to limitations on suppliers' availability at the beginning of the year, Apical's sustainability team was only able to conduct one field visit, to a priority supplier located in Riau.

The priority supplier was selected using the Mill Prioritization Process (MPP). According to the data derived from the MPP, the mill has been implicated in both environmental and social issues. In addition, peatland and forest reserves are located within the mill's estimated catchment area.

Prior to the actual field visit, our sustainability team socialized Apical's sustainability commitments, the objectives of the visit and agreed an itinerary with the supplier's management team at their head office. We discussed the aspects which will be covered and requested the access to documents and personnel during the visit.

The team visited important aspects in the mill and plantation operations: mainly environmental (HCV, HCS and peatland), social practices, waste management, safety and health management. The visit team also conducted dialogue with smallholder to identify potential areas that can be improved for their benefits.

In line with the objective of field visit, the team has provided corrective recommendations to the management for their continuous improvement.

4.0 Internal trainings for capacity building

TFT delivered Traceability Declaration Document (TDD), Mill Prioritization Process (MPP) and Grievance Management training on 20th and 21st Feb respectively in Jakarta.

4.1 TDD and MPP Training

This 2-day internal training was attended by both Apical and Asian Agri sustainability teams and also Apical's sourcing team, which is actively involved in the supplier engagement process.

The main objective of this training was to establish the internal capability to gather, verify and desktop assess traceability data.

This is the first step in the ART (Aggregator Refinery Transformation) process and allows us to obtain mill traceability data, and crucially the GPS coordinates of the mill. With this information the MPP then enables a desktop assessment of the mill and its FFB catchment area to uncover issues and areas at risk of non-compliance with our policy commitments.

The training will allow us to continue to roll out the ART process to our entire supply chain and progress with our aims of 100% traceability to FFB sources by 2020, as we move forward with our target of bringing all of our suppliers into compliance with our policy commitments.

4.2 Grievance Management Training

TFT provided Asian Agri and Apical's sustainability teams with training on how to establish an internal mechanism for handling grievances, from any interested stakeholder, in a responsive and positive way. A key focus is on how a grievance is first received and the steps required to assess it and respond quickly and appropriately.

The session also emphasized the importance of communication and negotiation skills in handling grievances. This approach is now being implemented, with the ongoing support of TFT, as we move to establish a robust mechanism for grievance handling that will

have a critical role as we tackle the issues uncovered in our supply chains. Details of which are available below and in the grievance list of our dashboard.

5.0 Direct engagement with Apical's global buyers

Apical's Sustainability and Trading team met up with several major global buyers during the Palm Oil Conference (POC 2016), which was held from 7th – 9th March in Kuala Lumpur.

Face to face meetings allowed us to build closer relationships with several global buyers and better understanding of their traceability and sustainability requirements. We were also able to share with them current progress on traceability and sustainability commitments through our engagement with our third party suppliers.

6.0 Grievances

Three new grievance cases connected to our third party supply chains have been logged in Q1 2016. These suppliers were mostly implicated with environmental issues such as deforestation, receiving FFB from protected areas and land dispute with local communities.

The grievances reported by NGOs, are as follows:

- i. A palm oil trader, Sunfield Global was named by a group of NGOs in purchasing palm oil from a mill in Sarawak belonged to Bintulu Lumber Development (BLD).

The mill was alleged to receive FFB from its own plantations, which was involved in clearing of deep peatland and planting oil palms on land designated as Native Customary Rights (NCR). The grievance was received by our Grievance Secretariat.

Sunfield Global further followed up with BLD to seek further clarification. BLD replied that the accusation of land clearing of deep peatland was incorrect as the area was

deforested/wasteland before they bought over the lands from the previous logging company.

Apical has no longer sourcing activity with Sunfield Global since March 2016.

ii. According to a report from Eyes on the Forest (EoF), several palm oil mills located in Riau province were implicated into receiving FFB grown inside government protected areas, Tesso Nilo National Park and Bukit Batabuh Tiger Corridor. The report can be found [here](#).

Apical has sought clarification from our suppliers implicated in this issue. All of them denied purchasing FFB from these government protected areas, citing inadequate evidence.

We have advised them to take all necessary preventive measures not to source illegal FFB from the surrounding government protected areas. Besides, verification visit to one of the implicated mills being arranged to verify the issue.

iii. Aidenvironment reported that PT. Indofood Agri Resources, a food and agribusiness company was implicated in clearing of primary forest and orangutan habitat in East Kalimantan. They also alleged the company was connected to open burning for land clearing and dispute with local communities, also in East Kalimantan.

The article can be found [here](#).

The Apical Sustainability Team engaged directly with Indofood sustainability personnel in their head office in Jakarta to request clarification of their position and obtain more information about the latest developments on these matters. They responded that some of the statements in the report were incorrect due to some of the information

gathered on the basis of hearsay and without further verification before being reported publicly.

We recommended an approach of solving the grievance on a case by case basis. The company has engaged competent organizations to carry out necessary assessments, such as HCV assessment and an orangutan survey. We will continue to engage Indofood to track progress.

Stakeholders can view our full list of grievance cases, and follow the latest developments in our handling of these cases via our sustainability dashboard at <http://www.sustainability.apicalgroup.com/category/grievances/>.

7.0 Apical guidelines for suppliers

We have developed a guideline on Free, Prior and Informed Consent (FPIC) to support our suppliers in driving positive socio-economic impact with communities affected by their operations.

The guideline is available on our dashboard [here](#).

Further guidelines to support our suppliers in complying with our policy will be published in due course.

8.0 Asian Agri's Smallholders Program

8.1 IDH & SETARA

In March 2016, together with NGO Setara and IDH, Asian Agri launched the latest independent smallholder project in Jambi. This project is set up for 3 years in 4 Asian Agri mills in Jambi province, namely, Taman Raja, Bungo Tebo, Tungkal Ulu and Muara

Bulian. The scope of this project is to support smallholders to become more productive, more sustainable and have better livelihoods while complying with Asian Agri's sustainability commitments. During the program, we have set up a toolkit to gather our suppliers' data. The toolkit contains basic questionnaire on the suppliers data e.g. location, estate area, legality status, GPS coordinates, supply chain model, etc. This will be the base to collect their data and understand their supply chain network and suppliers.

8.2 Fire Free Village

As part of our preventive measures to avoid forest fires, Asian Agri has developed a Fire Free Village program. The program will involve cooperation with the communities, policemen and village authorities, to raise public awareness about the effects of land and forest fire directly and indirectly.

Thus, in February 2016, 7 out of the many villages in Riau which have high probability of fires were selected. The first step was to engage with all stakeholders involved in the program. A good leader from each village was also selected to help ensure the successful implementation of this program.

8.3 Independent smallholders

Asian Agri has effectively added another 950 Ha of independent smallholders (comprising approximately 378 independent smallholder farmers) who have been communicated with on our sustainability commitments. As a result, Asian Agri is now working together with around 6,000 committed independent smallholders.