



[www.apicalgroup.com](http://www.apicalgroup.com)

**APICAL GROUP**

Level 6, Tower 2  
Avenue 5, Bangsar South City  
No. 8 Jalan Kerinchi  
59200 Kuala Lumpur, Malaysia

T +603 2785 7977  
F +603 2785 8999

APICAL GROUP SUSTAINABILITY REPORT 2017

**BETTER  
TOGETHER**

SUSTAINABILITY REPORT 2017



## BETTER TOGETHER

Better Together is a belief that is close to Apical's heart. Working hand-in-hand with our network of stakeholders helps us to innovate, forge collective understanding, harness synergies and accelerate progress. By coming together, we connect the dots, and we realise our potential to make transformative impacts to the environment, society, business, and the palm oil industry in a holistic manner. Simply, we can only achieve shared goals when we work together.



# INSIDE THIS REPORT



Aerial view of Sari Dumai Sejatil Refinery



You can find this report and additional information about **Apical Group** on our corporate website.

### CHAPTER

<b>1</b>	pg 2 <b>About this Report</b>	<b>7</b>	pg 36 <b>Working with Suppliers and Smallholders</b>
<b>2</b>	pg 4 <b>President's Statement</b>	<b>8</b>	pg 49 <b>Environmental Management</b>
<b>3</b>	pg 6 <b>Report Review: Proforest</b>	<b>9</b>	pg 59 <b>Labour Relations</b>
<b>4</b>	pg 8 <b>About Apical Group</b>	<b>10</b>	pg 68 <b>Community Livelihood</b>
<b>5</b>	pg 22 <b>Our Approach to Sustainability</b>	<b>11</b>	pg 71 <b>Our Customers and Consumers</b>
<b>6</b>	pg 32 <b>Our Sustainability Milestones, Goals, Progress and Future Commitments</b>		pg 76 <b>GRI Standards Index</b>
			<b>Glossary of Terms</b>

# 1 ABOUT THIS REPORT

## APICAL'S COMMITMENT TO SUSTAINABILITY REPORTING

102-1, 102-52

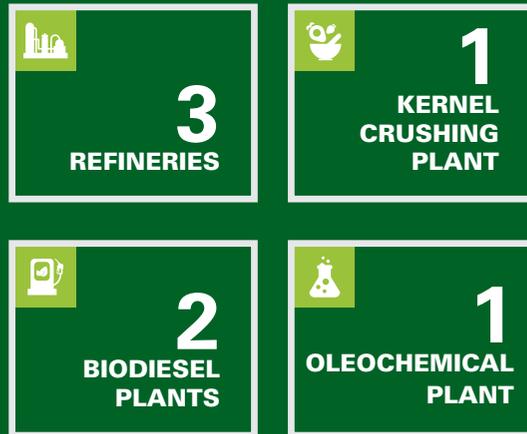
Since the launch of our Sustainability Policy in 2014, Apical Group (Apical) has been communicating our progress of our implementation on an annual basis through our Sustainability Progress Reports. Last year, we decided to take a more comprehensive approach to sustainability reporting, using the Global Reporting Initiative (GRI) Standards as the basis of our annual disclosures. This is our second annual sustainability report using the GRI Standards and we are proud to have made significant strides in the scope of data included. Over the coming years, we will continue to improve the relevance and quality of the data we report on. With this report, we hope to provide a transparent account of our sustainability performance and progress towards our commitments. We also aim to communicate our plans going forward to further drive sustainability across our value chain and continue to create value for all our stakeholders.



## BOUNDARIES AND SCOPE

102-46, 102-48, 102-49, 102-50

This report contains information from our business operations and production facilities for year 2017, including the following sites:



There have been no restatements of information in 2017. Unless otherwise stated, this report also includes the activities of La Rabida, Apical's Bio-Oils plant in Southwest Spain. Complimentary to this report is the Sustainability Progress Dashboard on our website, which is regularly updated and available to users at all times. Our Dashboard includes updates on our goals, activities, progress and more. Please visit [www.sustainability.apicalgroup.com](http://www.sustainability.apicalgroup.com) to view this information.

## REPORTING FRAMEWORK

102-54

This report has been prepared in accordance with the GRI Standards: Core option. The GRI Standards set out the principles and disclosures that organisations can use to report their economic, environmental and social performance.

We have applied the GRI reporting principles for defining report content.

- Stakeholder Inclusiveness:** responding to stakeholders' reasonable expectations and interests;
- Sustainability Context:** presenting the company's performance in the wider context of sustainability;
- Materiality:** focusing on aspects that reflect the greatest impacts, and those that are most important to our business and stakeholders; and
- Completeness:** including information of material aspects and their boundaries for the reflection of significant environmental, social and governance factors so as to enable stakeholders to assess the company's performance.

For a full list of disclosures referenced in this report, please visit our GRI Standards Index table on page 76. We have also sought to apply to principles of report quality, including accuracy, balance, clarity, comparability, reliability and timelessness, as set out by the GRI Standards.

## DATA AND EXTERNAL ASSURANCE

102-56

Apical applies a standardised approach to data collection and analysis across all our operations. Once collected, all data is verified internally to ensure accuracy before being used for any internal or external reporting. In particular, we take extra precaution in verifying data that is published or used for audit reports such as Roundtable on Sustainable Palm Oil (RSPO) and International Sustainability and Carbon Certification (ISCC). Any ambiguity on the data will be internally scrutinised and verified to ensure integrity.

We have not sought independent external assurance of the information contained in this report but will consider doing so in the future.

## POINT OF CONTACT

102-53

We value your opinion as part of our continued growth and improvement. We welcome your views, comments and feedback, which may be directed to:

**Bremen Yong,**  
Director of Sustainability for Apical Group  
[bremen\\_yong@apicalgroup.com](mailto:bremen_yong@apicalgroup.com)



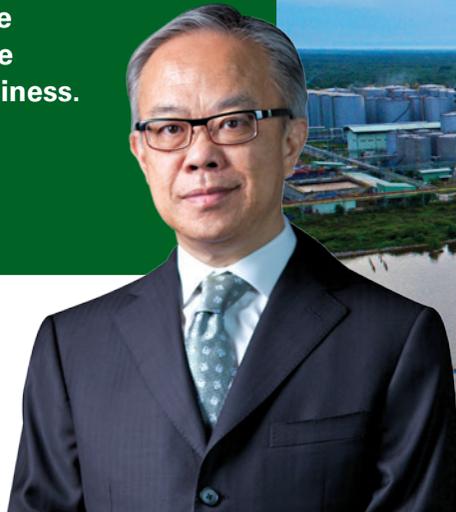
# 2 PRESIDENT'S STATEMENT

102-14

## “ DEAR STAKEHOLDERS,

It is my pleasure to welcome you to Apical Group's 2017 Sustainability Report, our second annual sustainability report, communicating our commitments and progress towards responsible business practices.

I hope this report will provide you with unique insights into our current priorities, key achievements, and challenges in continuing to implement sustainable practices across the value chain of our palm oil business.



For Apical, integrating sustainable practices across our operations is our priority to ensure we are successful in the long term. In line with this, we have adopted No Deforestation, No Peat and No Exploitation (NDPE) policies since 2014 and continue to support relevant sustainability standards to enable industry-wide adoption of sustainable practices. We continue to work towards ensuring palm oil production is delinked from deforestation, conflicts with indigenous communities and labour issues. Still today, with the EU's current stance and plans to phase out palm oil from transport fuel, the operating landscape remains challenging and we still have a long way to go to demonstrate that palm oil and sustainable practices can go hand-in-hand. The inherent good attributes of palm oil and its tremendous contribution should not be tainted by irresponsibility. I remain positive about the future of palm oil, particularly as all major stakeholders have gained the right momentum in working together to transform the industry.

Looking back at this year, we are very proud of the progress we have made and the lives we have touched through our various initiatives. In particular, through our Anchor Programmes, Apical's flagship approach to supplier engagement, we have seen the impacts transparency and sincere engagement can achieve first-hand. To date, we have completed 30 Priority Supplier Engagement Programme (PSEP) visits and nine regional Shared Value Programme (SVP) visits since 2015. These have been instrumental in bringing our suppliers, especially smallholders, with us on a journey towards responsible palm oil production. One of the key success factors of our programmes has been lessons from the past. Centre to the lessons is addressing the fundamental question, "Why should suppliers adopt sustainable farming practices?" Having addressed this question, and ensuring we explain both the ethical and business case rather than impose our standards, we found suppliers much more responsive and willing to work together towards a common goal.

We also know that we cannot do this alone and this is why I cannot stress the power of collaboration enough. In 2017, we have engaged The Forest Trust (TFT), Proforest, & Daemeter as strategic partners to speed up our journey towards sustainability.

Going forward, one of our key focus areas will be to leverage the opportunities digitalisation presents to us and the sector. One of the key challenges for palm oil producers like us is the number of suppliers involved and the difficulty in monitoring their practices on the ground. We have been successful in using satellite technology to monitor supplier practices in order to ensure they do not engage in further deforestation.

Apical is digitising our supply chain management. We are also beginning to work with collaborators to see how we can use blockchain technology to help authenticate and manage our traceability efforts. While these initiatives are nascent and challenges are inevitable, we are optimistic that digitalisation will make transformative changes to our sustainability efforts in time to come.

Sustainability is a long-term commitment for Apical. As we continue to monitor and review the progress and impact of our sustainability efforts, we will make the necessary adjustments to our approach and continue to communicate these transparently to our stakeholders. It is my hope that you will read this report with great interest.

We look forward to building on these efforts in the coming years.

Yours sincerely,

**DATO' YEO HOW**  
President



# 3 REPORT REVIEW: PROFOREST



Following the release of their first sustainability report, Apical's 2017 Sustainability Report continues to demonstrate the company's commitment towards transparency by communicating progress on its sustainability initiatives and performance. As the company continues to build on the foundations laid since publishing its Sustainability Policy in 2014, there has been significant progress made on a number of fronts. We noted that more information is now available on the company's online sustainability dashboard, including for third-party suppliers. We also commend Apical for beginning to consider and report on the UN Sustainable Development Goals (SDGs).

Apical is among the largest refiners and the biggest buyers of crude palm oil in the region, with facilities in several countries. As the company does not directly own plantation assets, Apical is wholly reliant on third-party growers for supplies of raw material. As such the company has focused much of its efforts in building a traceable supply chain and actively pursuing a collaborative approach to implement its policy.

Apical has published details on its palm oil suppliers throughout Indonesia, and in this report has provided a breakdown of its volumes by sourcing province. Riau and Jambi together provide around 50% of Apical's CPO volumes and as a result, it is sensible that they focus efforts on smallholder engagement and mill-level transformation in these landscapes. Apical has also now managed to trace 50% of its supply to plantation level and has begun to report on this.

In our work together with partners, Daemeter Consulting, the issue of non-compliant sources of FFB is still prevalent and includes damning reports of illegal FFB from protected areas entering supply chains. In tackling this challenge, Apical continues to socialise its Traceability Outreach Programme (TOP) to its suppliers in key sourcing regions. In support, Proforest have participated in supplier workshops with Apical to communicate strategies to increase traceability of FFB and implement controls to ensure FFB is sourced from legitimate sources.

A number of mills have been directly engaged through long-term programmes with Apical to strengthen capacity in operational transformation and/or to increase engagement with dealers, middlemen, and independent smallholders. The report summarises four initiatives as part of Apical's 'Anchor Programmes' that are being implemented across the mills' supplier base. These include the Priority Supplier Engagement Programme (PSEP) focused on mill-level assessments, and the Shared Value Programme (SVP) workshops. These efforts have been supported by TFT,

Yayasan Setara Jambi and complemented by the implementation of the Responsible Sourcing from Smallholders (RSS) programme in certain mills. Actively including smallholders in transformative efforts is a practical step towards reducing incidences of illegal plantings and encroachment into protected areas by the emphasising yield and productivity improvements in existing smallholders' plantations.

This report includes some details on human rights issues, with the focus on the implementation of freedom of association and no child labour policies in Apical's own refineries. Moving forward, we encourage Apical to also focus on strengthening efforts in promoting human rights in its supply chain and assessing labour and community-related risks among its suppliers. A key step towards this is determining province and landscape-level risks to plan interventions and incorporate transformative efforts into supplier engagement work. Further resources need to go into engaging third-party suppliers on labour rights, gender rights and strengthening grievance mechanisms at the mill-level to report any potential human rights violations.

We are pleased to note that Apical has also increased transparency of its environmental indicators, again focusing on its own operations, with more detailed information on waste management, emissions and water consumption. We view this as a good baseline for future reporting on environmental impacts. Going forward, there is a need to clarify in the scope of reporting in relation to Apical's

own operations, and where it relates to policy implementation across upstream suppliers.

While the report successfully conveys the range of activities that are being undertaken by Apical, there is now an immediate imperative to report on how these activities are translating into sustainability impacts, by reporting on the actual level of progress made against the company's policy commitments in the supply chain. For example, it is reported that Apical has now undertaken 30 PSEP visits to supplier mills and delivered nine SVP workshops since 2015. However, it is not reported how this is translating into improved sustainability performance by the supply chain. In order to do this, we recommend that Apical gathers key performance indicators from its policy commitments and adopts an appropriate framework to report on policy implementation. This would enable future reports to communicate meaningful data on overall progress across the value chain.

**NEIL JUDD**  
Co-founder and Director  
Proforest

# 4 ABOUT APICAL GROUP



## COMPANY OVERVIEW AND HISTORY

102-3, 102-4, 102-5, 102-10, 102-45

**Apical is one of the largest exporters of refined palm oil in Indonesia. The company owns and controls an extensive palm oil downstream value chain from sourcing/aggregation to distribution and is engaged in the refining, processing, and trading of palm oil for both domestic use and international export.**



Headquartered in Singapore, Apical is managed by RGE Pte Ltd, which also manages other world-class resource-based manufacturing companies, delivering quality end-products to businesses and millions of people around the world. While Apical was established in 2006, our beginnings can be traced back to our business consolidation exercise in 1989.

Today, Apical operates independently with the following refineries - Sari Dumai Sejati, Asianagro Agungjaya Marunda, Asianagro Agungjaya Tanjung Balai and Nanjing Excelic International - while

Asian Agri remains a reliable and long-term supplier of crude palm oil, palm kernel, and crude palm kernel oil to our refineries.

On 5 July 2016, Apical successfully acquired Bio-Oils Group, a leading Spanish biodiesel company located in Southwest Spain. The acquisition strengthens Apical's foothold in the growing biodiesel market of the European Union. With the increasing demand for palm oil in bio-fuel production in Southern Europe, Apical expects to be a key participant in the growing market.

**IN 2016, APICAL HAS ACQUIRED BIO-OILS GROUP LOCATED IN SOUTHWEST SPAIN**

Our business model is built on four core strengths:

- 

Having a reliable, traceable, and broad Crude Palm Oil (CPO) sourcing network in Indonesia;
- 

Integrating primary and secondary refinery assets that are efficient and strategically located in Indonesia and China;
- 

Managing efficient logistics channels to deliver quality products to a well-diversified clientele; and
- 

Driving sustainability throughout business operations; including risk based assessment for suppliers, mapping and a prioritisation approach to sieve out any illegal sources, and engaging suppliers proactively for capacity building and progressive transformation in our supply chain.

Apical has invested in our own logistical infrastructure to deliver CPO and processed palm oil (PPO) to a range of buyers comprising international trading houses and local industries. The business model gives the Group the advantages of quality control and the inculcation of sustainability, thus driving efficiency and synergy at every step of the supply chain to create value to stakeholders.

# 4 ABOUT APICAL GROUP



Apical is incorporated to manage all the palm oil downstream assets of RGE Pte Ltd

Total refining capacity of 0.95 million metric tonnes per annum

2006

Launched new biodiesel plant in Dumai, Indonesia



2008

Completed expansion of processing plants in Marunda, Indonesia

Attained Roundtable on Sustainable Palm Oil membership



2011



Joined Business Council for Sustainable Development Singapore as founding member

Completed Phase III refinery expansion in Dumai, Indonesia

Total refining capacity of 2.34 million metric tonnes per annum

2012



Established a joint venture (JV) company with Kao Corporation for manufacturing fatty acids. PT Apical Kao Chemicals will manufacture fatty acid products with an approximate capacity of 100,000 metric tonnes per annum once operation commences in 2019.

2017

Established two more JVs with Pakistan-based Mujahid Group and MM Group of Companies respectively, making inroads into South Asia. The JV with Mujahid Group focuses on ex-tank sales of palm oil products locally and is already operational. The JV with MM Group of Companies is for oil refining, seed crushing, packing and tank terminals. Based in Port Qasim, Karachi, the new plant is expected to be fully operational by June 2019.

2007

Launched new refinery in Nanjing, China

Launched new palm kernel crushing plant in Dumai, Indonesia

Completed Phase II expansion of refinery in Dumai, Indonesia

Total refining capacity of 1.66 million metric tonnes per annum

2010

Attained International Sustainability and Carbon Certification (ISCC) membership

2013



Total refining capacity of 3.70 million metric tonnes per annum

2016

Successfully closed an acquisition of leading Spanish biodiesel company Bio-Oils on July 5, 2016



# MILESTONES

# VISION & VALUES

102-16

TO BE A  
LEADING,  
SUSTAINABLE,  
GLOBAL  
INTEGRATED  
PALM OIL PLAYER.

To fulfil this vision, we are guided by the following set of core values:

## CORE VALUES



### COMPLEMENTARY TEAM

We are aligned by our common purpose and work together as a **complementary team**



### OWNERSHIP

We take **ownership** to achieve outstanding results and seek value at all times



### PEOPLE

We develop our **people** to grow with us



### INTEGRITY

We act with **integrity** at all times



### CUSTOMER

We understand our **customers** and deliver best value to them



### CONTINUOUS IMPROVEMENT

We act with zero complacency and always strive for **continuous improvement**

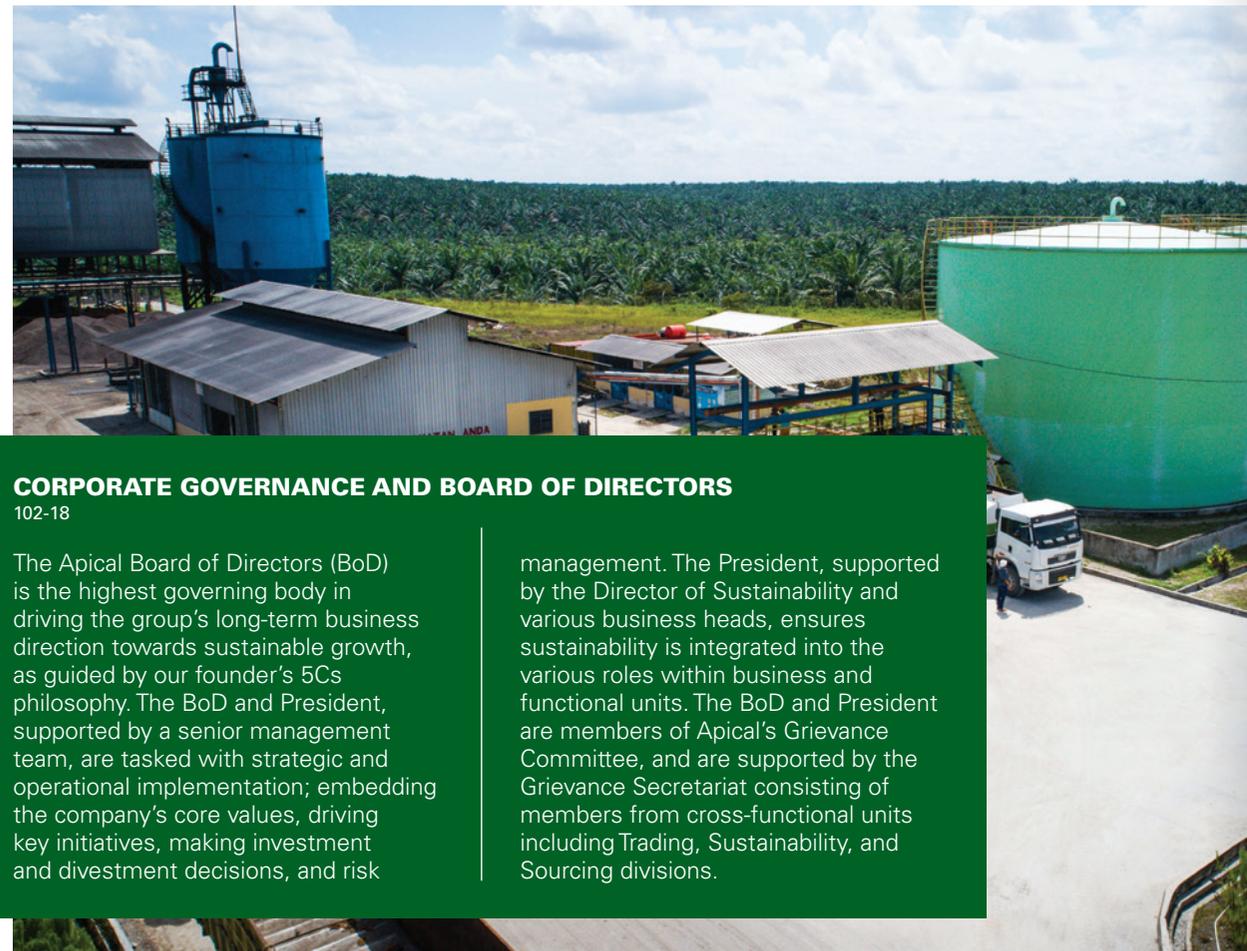
# 4 ABOUT APICAL GROUP

## OUR PHILOSOPHY

Apical adopts our founder Sukanto Tanoto's 5Cs philosophy: operating in a manner that is good for the...



We believe that a company can only be successful if it is a responsible corporate citizen.



## CORPORATE GOVERNANCE AND BOARD OF DIRECTORS

102-18

The Apical Board of Directors (BoD) is the highest governing body in driving the group's long-term business direction towards sustainable growth, as guided by our founder's 5Cs philosophy. The BoD and President, supported by a senior management team, are tasked with strategic and operational implementation; embedding the company's core values, driving key initiatives, making investment and divestment decisions, and risk

management. The President, supported by the Director of Sustainability and various business heads, ensures sustainability is integrated into the various roles within business and functional units. The BoD and President are members of Apical's Grievance Committee, and are supported by the Grievance Secretariat consisting of members from cross-functional units including Trading, Sustainability, and Sourcing divisions.

## ETHICS AND COMPLIANCE:

102-17, 103-1, 103-2, 103-3

Apical is committed to conducting all business activities with integrity and in accordance with strict legal and ethical standards. All employees, are required to follow the RGE Global Code of Conduct which drives the company's policies, standards, Standard Operating Procedures (SOPs), and guidelines. The Code guides our daily business conduct by embodying our commitment

to upholding ethical and professional business practices, as well as complying with applicable legal requirements. All employees and members of the Board must adhere to the Code which emphasises our commitment towards our employees, communities, marketplace, and assets. There were no cases of corruption in 2017.

We have mechanisms in place for employees to raise concerns and our process for handling and resolving any kind of grievance. We are committed to resolving verifiable complains with all parties in a fair and transparent manner and ensuring that all grievances are dealt with and handled in an accountable manner. Details of the Apical Grievance Procedure is available on our website.



Apical Shared Value Programme in Jakarta, Indonesia

## THE SCALE OF OUR OPERATIONS

102-6, 102-7

Supported by a workforce of 1,543 employees across our operations, Apical handles the downstream business of palm oil production. This includes the:

- Refining of and fractionation of CPO, Crude Palm Kernel Oil (CPKO) and Soy Oil;
- Crushing of Palm Kernels;
- Production of Shortening, Margarine and Powder Fat, Biodiesel and Glycerin, Crude Fatty Oil;
- Production of Fatty Acids and Glycerol; and
- Merchandising and distribution of CPO and PPO to the Global Market.



# 4 ABOUT APICAL GROUP

We own three refineries and processing operations in Indonesia: PT Asianagro Agungjaya (AAJ) - Marunda, Jakarta; PT Sari Dumai Sejati (SDS) in Riau, Sumatra; and PT Asianagro Agungjaya - Tanjung Balai in North Sumatra. We also own Excelic Food Technology Nanjing Co Ltd, a refinery in Nanjing, China. Together, all our plants have a total capacity of 6.191 million metric tonnes per annum.

Apical also owns a biodiesel plant, a fat splitting plant and a kernel crushing plant at the PT SDS refinery complex in Dumai, Province of Riau, Indonesia.



Bio-Oils plant at La Rabida, Spain

In La Rabida, Apical's Bio-Oils plant in Southwest Spain, refines around 250,000 tonnes of biodiesel per annum. This boosts Apical Group's annual global biodiesel output by almost 60% to over 680,000 tonnes.



- APICAL REFINERIES:**
- 1 Asianagro Agungjaya Tanjung Balai
  - 2 Sari Dumai Sejati
  - 3 Asianagro Agungjaya Marunda



A ship awaits the loading of products at the jetty of the Sari Dumai Sejati refinery

2017  
**TOTAL VOLUME**  
 OF ALL PALM OIL AND OIL PALM PRODUCTS HANDLED/TRADED/PROCESSED  
**6.191**  
 MILLION MT



- CHINA**
- 4 Nanjing
- APICAL REFINERY:**
- 4 Nanjing Excelic International



- SPAIN**
- 5 La Rabida
- APICAL REFINERY:**
- 5 Bio-Oils La Rabida (Bio-Diesel)

The primary processing plants and storage tanks are located near raw material sources in Indonesia. The secondary manufacturing facilities are situated close to the industrial zones of cities for quick access to the large customer base. These strategic locations ensure on-time delivery and shipment exports resulting in logistical efficiencies. Proximity to end-users also enables Apical to react to market changes in the shortest time possible.

Apical supplies quality edible oils to leading companies worldwide that use them in the production of consumer brands. Aside from the domestic market in Indonesia, sales destinations of Apical products include Europe, Asia, America, Australia, New Zealand and Africa. The types of customers we serve include palm oil traders, biofuel manufacturers, food manufacturers and consumer goods manufacturers.



Cooking oil packaging process at AAJ Marunda refinery

Footnote:  
 KRN, Balikpapan acquisition in June 2018 will be included in SR2018

# 4 ABOUT APICAL GROUP



## OUR PRIMARY PRODUCTS AND BRANDS

102-2

Our major products are the following: CPO, various forms of PPO and PKO, as well as refined coconut oil (RBDCNO), all of which can be processed into value added products.



Employees preparing containers for the filling process of cooking oil at the AAJ Marunda refinery

## FINISHED PRODUCTS

### VITAS

- Cream Shortening
- Supreme Shortening
- Gold Whipping Fat
- Gold Cream Shortening
- Cake Margarine
- Supreme Margarine
- Gold Margarine
- Butter Oil Substitute
- Gold Confectionary Fat
- Apikote
- Apichoc
- Apikrim
- Apifill

### MEDALIA

- Shortening
- Baker's Fat
- Margarine
- Cooking Oil

### BAKERIA

- Shortening
- Cream Margarine
- Pan Release Agent

## OTHER BRANDS AND PRODUCTS

MARIGOLD Heat Stable Butter Oil Substitute

CAMAR Cooking Oil

HARUMAS Cooking Oil

FRYBEST Frying Fat

SUPERFRY Frying Fat

FRYBESTPLUS Frying Fat

OPTIMA 100 Rumen Protected Feed Fat

OPTIMA 200 Rumen Protected Feed Fat (Flavour Enriched)

OPTIMA 300 Feed Fat for Mono-Gastrics (Lecithinized)



Strict quality control processes such as screening of products through a metal elements detector



## CRUDE OILS AND PROCESSED OILS

- Cocoa Butter Equivalent
- Cocoa Butter Replacer
- Cocoa Butter Substitute
- Coconut Fatty Acid Distillate
- Crude Coconut Oil
- Crude Glycerine
- Crude Palm Kernel Oil
- Crude Palm Kernel Olein
- Crude Palm Kernel Stearin
- Crude Palm Oil
- Crude Palm Olein
- Crude Palm Stearin
- Hydrogenated Palm Stearine
- Palm Fatty Acid Distillate
- Palm Flakes/Hydrogenated Palm Stearin
- Palm Kernel Fatty Acid Distillate
- Palm Kernel Meal
- Palm Methyl Ester
- Palm Wax
- RBD Coconut Oil
- RBD Hydrogenated Coconut Oil
- RBD Hydrogenated Palm Kernel Oil
- RBD Hydrogenated Palm Kernel Olein
- RBD Hydrogenated Palm Kernel Stearin
- RBD Hydrogenated Palm Oil
- RBD Hydrogenated Palm Olein
- RBD Hydrogenated Palm Stearin
- RBD Palm Kernel Oil
- RBD Palm Kernel Olein
- RBD Palm Kernel Stearin
- RBD Palm Oil
- RBD Palm Olein
- RBD Palm Stearin
- Soft Stearin
- Split Palm Kernel Fatty Acid
- Split Palm Oil Fatty Acid
- Split RBD Palm Stearin Fatty Acid
- Split RBD Palm Kernel Fatty Acid

\*RBD = Refined Bleached Deodorized

CPO is a versatile vegetable oil which can be processed into a variety of edible products, including cooking oil, margarine, shortening, ice-cream, bakery fats, instant noodles, chocolate and coatings, sugar confectionary. It is also used in the manufacturing of household and industrial products including soaps and detergents, shampoo, fabric softeners, emulsifiers, fatty alcohols, lubricants, plasticisers, resin, surface-active agents, lubricants and biodiesel used for transportation.



Margarine packaging process at AAJ Marunda refinery

# 4 ABOUT APICAL GROUP

## THE VALUE CHAIN OF OUR BUSINESS

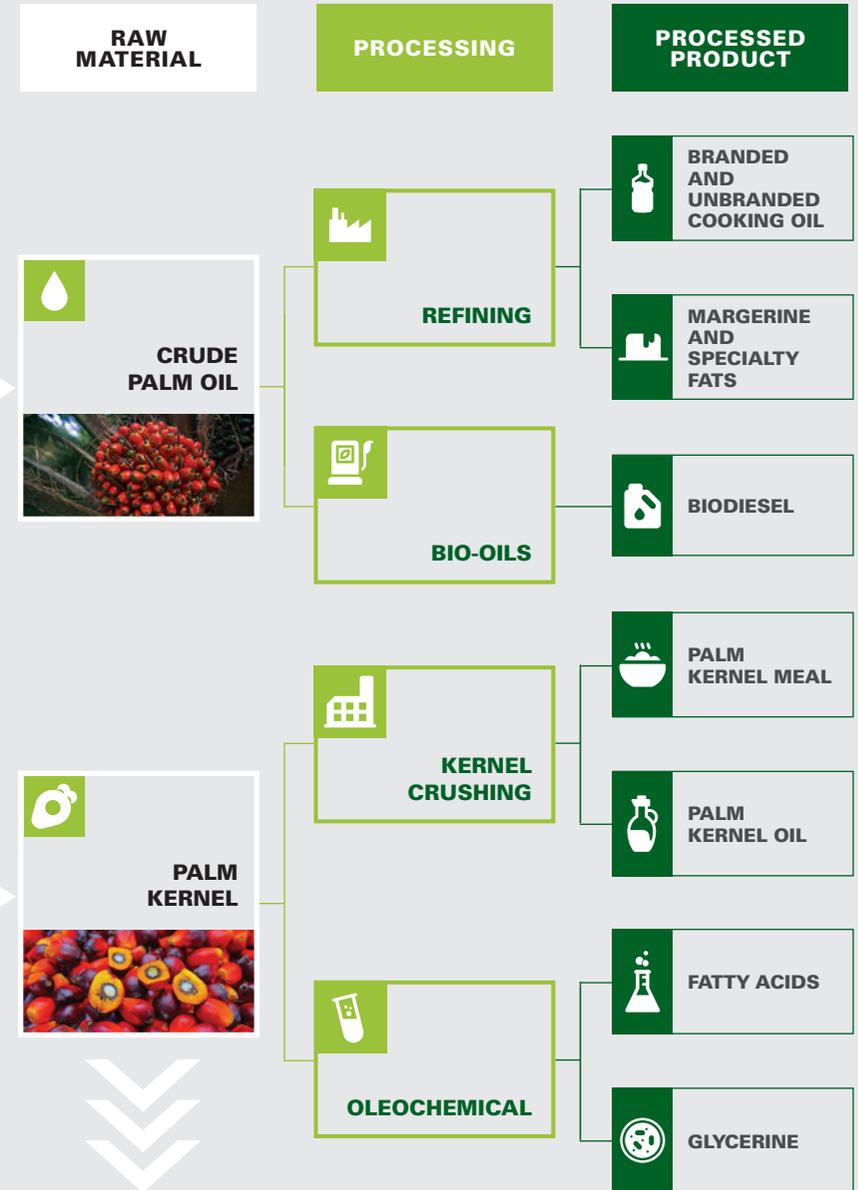
102-9

Apical operates an extensive logistics network and provides customers with an end-to-end solution, covering the sourcing and processing of raw materials and distribution to the end consumer. A reliable and extensive sourcing network upstream enhances our ability to trace the origins of CPO supplied to our refineries and to monitor sustainable practices.

Going downstream in our value chain, we partner with local, international and multinational brand owners and retailers to anticipate their needs, optimise the flow of inventory and develop solutions that meet their expectations. Continuous engagement with our global customers keeps us abreast with latest sustainability

requirements in the market, which are then reflected in our sustainability policy and implementation efforts.

The journey to improve our supply chain with greater sustainability standards is indeed a long one. With senior management commitment and guided by a comprehensive sustainability framework, we have found that an effective way forward is to involve and engage with key decision makers from diverse groups of stakeholders: plantation owners and smallholders, government authorities, non-governmental organisations (NGOs), civic groups and activists. We are developing a method for traceability to our Fresh Fruit Bunch (FFB) suppliers with our partners Proforest and Daemeter (CORE). This is covered in more detail in subsequent chapters.



Aerial view of jetty at Sari Dumai Sejati refinery



Cooking oil packaging facility at AAJ Marunda refinery

# 5 OUR APPROACH TO SUSTAINABILITY

As one of the largest exporters of palm oil in Indonesia, we have placed sustainability strategically at the core of our business and impacting the extensive spectrum of our value chain – from cultivation, processing to consumption. We strive towards what is good for the community, good for the country, good for the climate, good for the customer, and good for the company. We believe as a responsible company, it only makes good business sense to utilise the oil's natural advantage to improve the lives of our communities and bring about positive transformation in our supply chain.

## OUR SUSTAINABILITY POLICY

102-11

Apical first published our Sustainability Policy in September 2014 which has served as a roadmap to guide our group's efforts towards becoming a sustainable global processor and trader of palm oil. We recognise the importance of aligning the Group with leading practice and effectively promote compliance with our standards in our supply chain. We are working with consultancy organisations including The Forest Trust (TFT), and Proforest & Daemeter (CORE) to implement our policy.

## APICAL SUSTAINABILITY POLICY

Apical will build a traceable and transparent palm oil supply chain that is committed to:

- 1** The protection of high conservation value (HCV) areas and high carbon stock (HCS) areas
- 2** The protection of peat regardless of depth
- 3** Driving positive socio-economic impact for people and communities

This commitment extends to all of Apical's subsidiaries and to the refineries that we own and manage. We will work to ensure that our employees and business partners comply with the above commitments, local laws and regulations. We will source our supplies only through networks that are transparent and traceable, ensuring that the palm oil we purchase, process and sell, are in-line with the policy. We will use our best endeavours, including our resources, to assist smallholders adopt sustainable practices and to facilitate their inclusion in the supply chain.

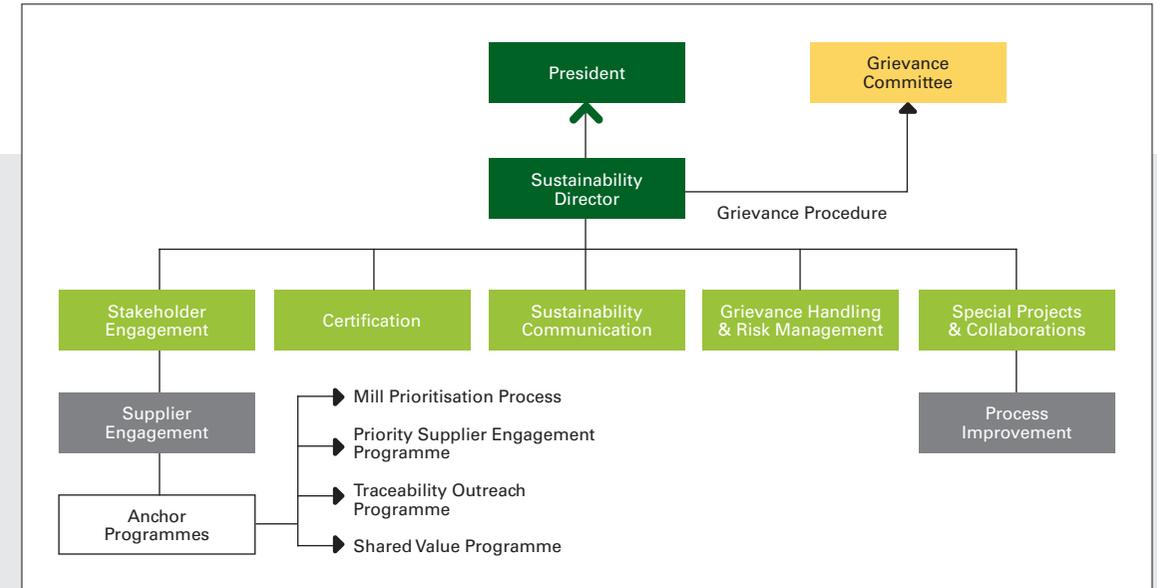
If suppliers are found in breach of this policy, Apical will work with them on a corrective action plan containing detailed measures and timelines to ensure that practices are improved. If suppliers refuse to comply or do not demonstrate efforts to implement corrective action, we will take additional measures and in some cases, suspend our business relationship with them until we can see significant positive improvements.

Details of our policy commitments can be found on Apical's website: <http://www.sustainability.apicalgroup.com/wp-content/uploads/2016/09/apical-sustainability-policy.pdf>

## MANAGING SUSTAINABILITY IN OUR BUSINESS

102-18, 102-20

Our commitment to upholding our policy and principles stems right from the top with senior management's full endorsement and support of Apical's sustainability initiatives. The Director of Sustainability reports directly to the President, and we have a dedicated Sustainability team based in Kuala Lumpur, Pekanbaru, Medan, and Dumai.



The sustainability team is tasked with implementing and monitoring our commitments through constructive stakeholder engagement and collaboration. In addition to this team, there is a dedicated Social, Security and Licensing (SSL) department in each of the refineries that we own to handle social and licensing matters according to national regulations and our group's sustainability policy. The team also looks after Corporate Social Responsibility (CSR) programmes to support better livelihood in local communities.

Our approach to sustainability includes risk-based assessment for supply chain profiling, stakeholder engagement for palm oil traceability and policy compliance, and support for suppliers through capacity building and recommendation on sustainable good practices.

We have established a comprehensive sustainability management framework, improved grievance procedures, and our Anchor Programmes in constantly driving positive impacts through policy compliance and improving the lives of communities.



Yayasan Setara Jambi presenting at our Shared Value Programme workshop

We have four Anchor Programmes that serve as our core initiative to drive positive progress and meeting our Sustainability goals. These include TFT's Mill Prioritisation Process (MPP), Apical's Priority Supplier Engagement Programme (PSEP), Traceability Outreach Programme (TOP), and Shared Value Programme (SVP). For more information on our Anchor Programmes, please refer to the section Working with Suppliers and Smallholders.

# 5 OUR APPROACH TO SUSTAINABILITY

At Apical, Sustainability is a shared responsibility of everyone in the organisation, and across all business units in the group. Teamwork is one of the core values that defines how we work, from supplier engagement with the sourcing team on the production space, to customer support on the commercial front.

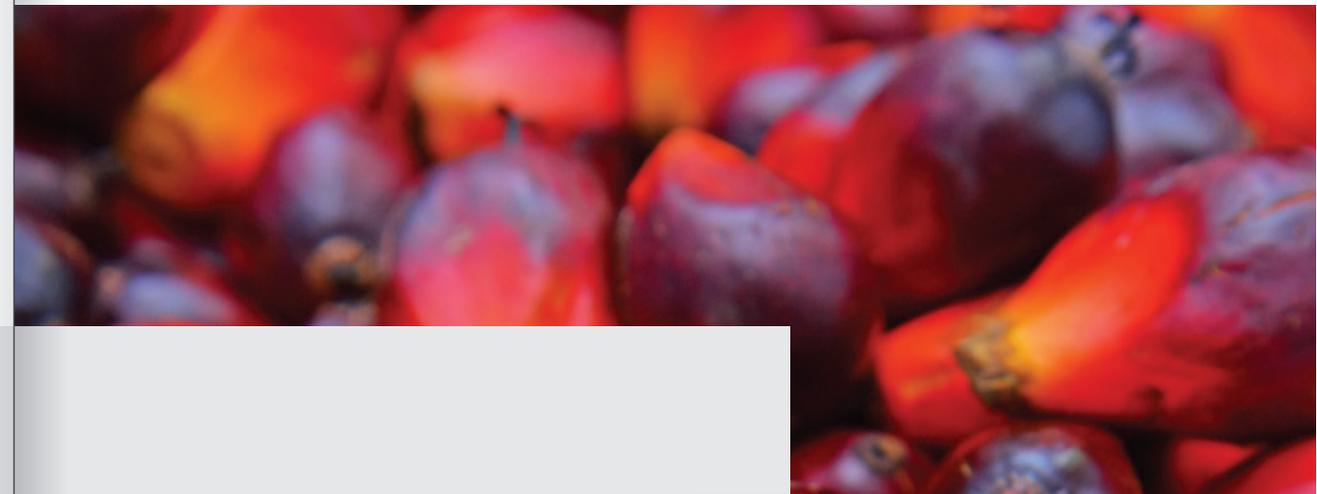
We believe it is important to work together with relevant stakeholders including civil society groups through open dialogue, constructive engagement for problem solving, and conflict resolution. We work closely with our suppliers and support global customers in addressing any supply chain challenges in the most practical and constructive manner.

We have worked to improve our processes and strengthen our management system to optimise our resources in achieving traceability and policy compliance. We are implementing pilot projects with CORE in strategising our supplier engagement and strengthening our traceability system. The first series of a Responsible Sourcing Manual has been produced as a practical guide for our suppliers to ensure responsible sourcing. We have worked with TFT in smallholder livelihood projects, and supplier capacity building in our Shared Value Programme.

We have leveraged on technological advancements to enhance our operational efficiencies and to strengthen our palm oil traceability and monitoring processes.



A buffer zone is a strip of 'natural' land along a riverbank left intact, free from pesticides or fertilisers in order to conserve freshwater and land-based ecosystems



## SUSTAINABLE DEVELOPMENT GOALS

### THE UN SUSTAINABLE DEVELOPMENT GOALS (SDGs)

In September 2015, 193 countries adopted the 2030 Agenda for Sustainable Development and its 17 Sustainable Development Goals (SDGs) as a common framework for governments, businesses and civil society to connect their actions with global priorities and assess progress. As a subsidiary of the RGE Group of companies, Apical is committed to joining this global movement and supporting the realisation of these goals.

As part of our commitment, Apical will assess which goals we can impact on the most through our core business activities and CSR programmes, recognising that all 17 Goals are interconnected and merit support whenever opportunities arise. We will use the SDGs and the targets that underpin them to inform our strategy, initiatives and KPIs going forward. In addition to setting clear commitments that are aligned to the goals, we will report on their progress annually once implemented. We also acknowledge that no single company can achieve these goals alone and as such, we will continue to work in partnership with other organisations and intuitions that share our ambitions.

### THE IMPORTANCE OF PALM OIL

Oil palm is grown mainly in the equatorial belt where there is abundant sunshine and regular rainfall. As a highly versatile vegetable oil, palm oil is widely used by food and non-food manufacturers because of its functional benefits, low cost and varied uses.

With the global market for palm oil experiencing rapid growth and as the largest producer and exporter, the Indonesian palm oil industry has the potential to generate significant economic and social development. It provides an income to a large number of Indonesia's rural population and a means to improve their living standards.

Palm oil is also a highly efficient crop, having, by far the highest oil yield per hectare of cultivated land compared to other crop-based oil seeds. The average oil yield from 1ha of oil palm is 4.09 tonnes, as compared with soybean, sunflower and rapeseed which yields 0.37, 0.5 and 0.75 tonnes, respectively. Therefore, oil palm cultivation plays an important role in ensuring that the growing demand for edible oil can be met through more efficient use of land.

# OUR APPROACH TO SUSTAINABILITY

## DEFINING OUR MATERIAL SUSTAINABILITY ISSUES

102-46, 102-47

To ensure we are addressing and reporting on the sustainability issues that are most important to our stakeholders and our business, Apical has applied the four GRI principles in defining our report content: Stakeholder Inclusiveness; Sustainability Context; Materiality; Completeness. In 2016, we followed a systematic approach and cross-functional team effort to assess our material issues across our value chain.

### Materiality Assessment

Based on industry trends and stakeholder feedback, Apical identified a list of 51 sustainability issues that are relevant with different level of impacts to the business and our stakeholders. With this list, we designed and distributed an online survey to internal and external stakeholders. Participants were asked to rank each issue using a Likert Scale (rating from 1 to 5) to prioritise those that are most important for Apical to manage and report on. Out of 34 stakeholders approached, we received 18 completed surveys that served as a relatively balanced representation of their opinion. The results from the survey were analysed, validated and classified into material, moderate and emerging issues. Following an internal review, there were no changes to our material issues in 2017.

Material issue	Description	Priority
Fire prevention and management	Work with farmers and communities to prevent and suppress forest fires, especially in carbon-rich peat lands.	Material
Free Prior Informed Consent (FPIC) for indigenous and local communities	Respect community rights by freely informing communities of licences, government and company policies regarding land development, as well as ensuring FPIC and compliance with local and national laws on land offers.	Material
Human rights, including child labour	Prevent the risk of forced, bonded or child labour occurring in the supply chain or workforce.	Material
Livelihood & empowerment	Contribute to local communities in terms of jobs, income opportunities, education and skills, and the development of shared infrastructure.	Material
Protection of environment and biodiversity areas	Work to protect ecologically sensitive habitats, reduce habitat loss and maintain plant and animal regional species diversity.	Material
Smallholder development	Support the socio-economic development and welfare of smallholders that form part of our supply chain.	Material

Material issue	Description	Priority
Stakeholder engagement, including grievance handling	Have constructive engagement with suppliers for policy compliance and traceability to ensure that raw materials are sourced and managed responsibly. Ensure relevant stakeholders are aware of the grievance mechanisms to register complaints and supply chain issues.	Material
Sustainability standards and policy compliance	Ensure that the environmental impacts of our business operations are upheld by externally recognised standards (such as RSPO).	Material
Traceability	Work with suppliers and industry partners to ensure the traceability of raw materials.	Material
Governance, ethics and integrity	Have in place governance structures, management practices and risk management systems that uphold the successful running of Apical. The alignment of the business strategy with our approach to managing sustainability can help govern the elements that are subject to significant stakeholder scrutiny.	Moderate
Product quality & safety	Ensure goods brought to market do not cause harm to the user and that they comply with laws and regulations.	Moderate
Wages and benefits	Observe fair wages in accordance to national laws.	Moderate
Waste management	Ensure the safe and sustainable disposal of waste.	Moderate
Worker health, safety and well-being	Ensure that the company's workers and contractors are afforded safe, suitable and sanitary work facilities and are provided with the protective equipment and training necessary to perform their tasks safely.	Moderate
Emission reductions	Management and reduction of GHG emissions and maximisation of energy efficiency.	Emerging issue
Innovation	Continuous innovation is key to meeting customers' stringent quality requirements for oils and fats. Proximity to end-users also enables us to react to market changes in the shortest time possible.	Emerging issue
Water management	The use of best practice management systems to minimise water pollution and maximise water efficiency in our operations.	Emerging issue

### KEY

**Material** : These are issues with high impact on society and the environment, and of high concern to stakeholders. They form the focus of our sustainability efforts and communication.

**Moderate** : These are issues of ongoing importance to Apical and of medium concern to stakeholders. We actively manage and report on these issues as appropriate.

**Emerging Issues** : These are issues that are of relatively lesser importance, but still relevant to both Apical and our stakeholders.

# OUR APPROACH TO SUSTAINABILITY

## STAKEHOLDER ENGAGEMENT

102-21, 102-40, 102-42, 102-43, 102-44

We make a conscious effort to maintain active and open communication with our network of stakeholders who are identified based on their knowledge, relevance, and impacts (social and environmental) to Apical. We aim to build long-term relationships to help us manage emerging issues and identify opportunities for collaboration and innovation which are fundamental to build a sustainable palm oil industry. We proactively encourage dialogue to listen to what our stakeholders have to say and respond to their concerns appropriately.

Our stakeholder engagement efforts for 2017 are summarised in the table below:

Stakeholder Group	Engagement Method (including frequency)	Key topics discussed/ issues raised	Apical's response
Employees	<ul style="list-style-type: none"> <li>Monthly internal newsletter</li> <li>Regular Town Hall meetings</li> <li>Employee's core value portal</li> <li>Apical's grievance mechanism</li> </ul>	<ul style="list-style-type: none"> <li>Health and Safety procedures</li> <li>Personal Development plans</li> <li>Implementation of Sustainability policy and initiatives</li> </ul>	<ul style="list-style-type: none"> <li>Set up Centre of Excellence and Training Centre</li> <li>Health and Safety Training</li> </ul>
Local Communities	<ul style="list-style-type: none"> <li>Dialogue with community groups and representatives facilitated by our dedicated SSL Team</li> <li>Community programmes</li> <li>Grievance mechanism</li> <li>Conflict resolution mechanisms</li> </ul>	<ul style="list-style-type: none"> <li>Basic village infrastructure</li> <li>Access to employment opportunities</li> <li>Social conflict</li> <li>FPIC</li> </ul>	<ul style="list-style-type: none"> <li>Construction of a deep well at village RT 07</li> <li>Distribution of garbage bins to several public areas in villages RT 05, 06, 07 and 08</li> <li>Distribution of discounted and free cooking oil to communities</li> <li>Donations to disadvantaged communities and orphanages at RT 05, 06, 07, 08</li> <li>Prioritising employment opportunities to local communities</li> <li>Conducting Social and Environment Impact Assessments (SEIA) or AMDAL (Analisis Mengenai Dampak Lingkungan)</li> </ul>

Stakeholder Group	Engagement Method (including frequency)	Key topics discussed/ issues raised	Apical's response
Palm oil suppliers, including smallholders	<ul style="list-style-type: none"> <li>One-on-one engagement</li> <li>Palm oil and FFB supplier visits through PSEP</li> <li>Supplier engagement through TOP</li> <li>Regional SVP visits</li> <li>Sustainability Report</li> <li>Sustainability Dashboard</li> </ul>	<ul style="list-style-type: none"> <li>Compliance with Apical's Sustainability Policy</li> <li>Best practice in sustainable farming</li> <li>Traceability</li> </ul>	<ul style="list-style-type: none"> <li>Conducted nine visits to our palm oil suppliers and their FFB supply chain through PSEP</li> <li>Engaged 77 suppliers in 2017 to socialise Apical's approach in traceability to FFB sources through TOP</li> <li>Conducted three SVP events in Medan, Jakarta, and Pekanbaru in 2017</li> <li>Invited guest speakers on our supplier visits including, RSPO, IDH, TFT, Proforest &amp; Daemeter, Yayasan Setara Jambi, SGS, TÜV Rheinland, Intertek, and Asian Agri</li> </ul>
Customers	<ul style="list-style-type: none"> <li>Physical meetings</li> <li>Conference calls</li> <li>Sustainability Report</li> <li>Sustainability Dashboard</li> </ul>	<ul style="list-style-type: none"> <li>Apical's sustainability commitments, initiatives and progress</li> <li>Traceability</li> <li>Community grievances</li> <li>Deforestation</li> <li>Opportunities for collaboration</li> </ul>	<ul style="list-style-type: none"> <li>Provided traceability information update</li> <li>Clarified enquiries on matters related to supply chain grievances</li> </ul>
NGOs	<ul style="list-style-type: none"> <li>Physical meetings</li> <li>Sustainability Report</li> <li>Sustainability Dashboard</li> </ul>	<ul style="list-style-type: none"> <li>Apical's sustainability commitments, initiatives and progress</li> <li>Traceability</li> <li>Community grievances</li> <li>Deforestation</li> <li>Collaborative projects with partners (including with Proforest, TFT, and Yayasan Setara Jambi)</li> </ul>	<ul style="list-style-type: none"> <li>Respond to NGO's grievances based on our time-bound grievance process</li> <li>Working with partners (e.g. TFT and Proforest) on various sustainability projects</li> </ul>
Banks	<ul style="list-style-type: none"> <li>Regular updates through e-mail and one-on-one meetings</li> <li>Sustainability Report</li> <li>Sustainability Dashboard</li> </ul>	<ul style="list-style-type: none"> <li>Apical's sustainability commitments, initiatives and progress</li> </ul>	<ul style="list-style-type: none"> <li>Provided updates on sustainability commitments, progress to date and future areas of focus</li> </ul>

# 5 OUR APPROACH TO SUSTAINABILITY



Stakeholder Group	Engagement Method (including frequency)	Key topics discussed/ issues raised	Apical's response
Governments	<ul style="list-style-type: none"> <li>One-on-one meetings</li> <li>Multistakeholder forums</li> <li>Consultations</li> </ul>	<ul style="list-style-type: none"> <li>Alignment of Apical's initiatives with government policies</li> </ul>	<ul style="list-style-type: none"> <li>Participating in consultation sessions on ISPO revision, hosted by ISPO and KEHATI</li> </ul>
Industry groups, trade associations and certification bodies	<ul style="list-style-type: none"> <li>One-on-one meetings</li> <li>Multistakeholder forums</li> <li>Sustainability Report</li> <li>Sustainability Dashboard</li> </ul>	<ul style="list-style-type: none"> <li>Opportunities for collaboration on landscape level initiatives and projects that require concerted efforts from various industry players in the supply chain</li> <li>Palm oil certification</li> <li>Palm oil traceability</li> </ul>	<ul style="list-style-type: none"> <li>Became a partner for TFA2020;</li> <li>Took part in the HCS Steering Group meeting (as observer), NYDF Global Compact,</li> <li>Became a member in the RSPO P&amp;C Review Taskforce</li> <li>Invited certification bodies and associations to present on certified sustainable palm oil and steps involved in getting the mill and plantation certified</li> </ul>



Training during PSEP at PT Agrita Sari Prima

## A KEY FOCUS IN OUR ENGAGEMENT:

### SUPPLIERS

Apical recognises the importance of establishing a tailored approach to communicating with our broad range of stakeholders. Thus far, we have prioritised suppliers to get them on board with our sustainability commitments. For our suppliers, we conduct regional workshops that spur discussions on incorporating sustainability and traceability as part of their quality management system. Visiting suppliers directly gives us further opportunities to encourage and support them in embracing best practice to meet our sustainability commitments. Priority in engagement is given to long term suppliers or those who sell us large quantities of raw materials. However, smaller suppliers who are willing to adopt more responsible practices will be given equal priority in joining our sustainable supply chain.

The engagement process also involves a visit to the mills and estates to identify improvements needed according to market standards or our specific requirements. We note changes in practice and further actions for improvement in individual supplier reports. We also prepare an overall report that outlines general findings from all supplier visits. This aims to depict the actual supply chain scenario and to determine the strategies that are needed to address the remaining issues that appear to be beyond suppliers' abilities. As of 2016, we engaged with 21 of our major palm oil suppliers through assessment visits to their mills and plantations. The findings and recommendations for improvement from these visits have been communicated to Apical's senior management. More information on our engagement activities with suppliers can be found in the section of Working with Suppliers and Smallholders.

### Certification and membership

102-12, 102-13

We recognise that many of the sustainability challenges facing our industry are too complex for any one company to tackle alone. We continue to play an active role in certification and membership organisations, such as the Roundtable on Sustainable Palm Oil (RSPO), the International Sustainability and Carbon Certification (ISCC) and the Indonesian Sustainable Palm Oil (ISPO). We leverage on the membership of these organisations to strengthen our management systems and ensure we procure our raw materials from sources that operate in accordance with global standards. Certification is further discussed in the Customers and Consumers section of this report.

# 6 OUR SUSTAINABILITY MILESTONES, GOALS, PROGRESS AND FUTURE COMMITMENTS

- Apical Group's subsidiary, AAAOF Pte Ltd became a member of ISCC

2010

- AAAOF Pte Ltd became a member of RSPO
- SDS CET Storage Dumai is certified by ISCC

2011

- Sari Dumai Sejati Refinery and CEP Biodiesel Plant Dumai are certified by ISCC and RSPO
- AAJ Marunda is certified by RSPO

2012

2014

- Apical Group became a signatory to the Sustainable Palm Oil Manifesto (SPOM)
- Apical established our Sustainable Palm Oil Policy Statement and implementation timeline
- AAAOF Pte Ltd obtained RSPO eTrace/UTZ for the RSPO Trader (no physical handling) license
- AAAOF Pte Ltd became a founding member of the Business Council for Sustainable Development (BCSD)

2017

- Engaged TFT, Proforest, & Daemeter as strategic partners in our journey towards sustainability
- Published our first GRI-referenced Sustainability Report (SR2016)
- Joined Tropical Forest Alliance (TFA) 2020 to foster cross-sector collaboration towards deforestation-free supply chains
- Developed an internal palm oil traceability digitalisation project to ensure accurate and transparent palm oil traceability data for buyers

- Completed 30 Priority Supplier Engagement Programme (PSEP) visits and nine regional Shared Value Programmes (SVPs) since 2015
- Introduced a pre-sourcing screening process for Apical's new suppliers
- Maintained full traceability to supplying mills
- Achieved 50% traceability to plantation

2016

- Published our first Sustainability Progress Report (2015)
- Conducted a Sustainability Policy Socialisation Workshop for Jambi-based suppliers which involved 22 participants from 13 companies
- Conducted the inaugural Apical Shared Value Programme (SVP) Workshop for our Indonesian suppliers in Pekanbaru
- Conducted 21 PSEP visits to Sari Dumai Sejati Refinery's suppliers in Sumatra
- Maintained full traceability to supplying mills
- Achieved 27% traceability to plantation

- Commenced joint project with The Forest Trust (TFT)
- Selection of priority mills for field visits through Mill Prioritisation Process (MPP) by TFT and first visit to priority supplying mill located in Riau
- Achieved full traceability to the palm oil supplying mills of all refineries under Apical Group in Indonesia
- Conducted the first Apical Sustainability Policy Socialisation Workshop for Medan based suppliers
- Conducted six Priority Supplier Engagement Programme (PSEP) visits to selected Sari Dumai Sejati Refinery's suppliers in Sumatra
- Launched the Apical Sustainability Progress Dashboard as the main communication portal with our stakeholders
- Published our Grievance Procedure as a channel for our stakeholders to voice their concerns
- Launched Apical's Sourcing Policy

2015

# OUR SUSTAINABILITY MILESTONES, GOALS, PROGRESS AND FUTURE COMMITMENTS

## Our Commitments and Progress at a Glance

103-2, 103-3

Sustainability Issues	Goals	Progress/Achievements In 2017	Future Commitments
 <b>Sustainability Standards and policy compliance</b>	Implement our policy within our own operations and communicate it effectively to our suppliers.	Engaged TFT, Proforest and Daemeter as strategic partners in our journey towards sustainability.  Published the Bahasa Indonesia version of the Apical Sustainability Policy.	Review the existing sustainability policy in 2018 to ensure our commitments remain robust and relevant.
 <b>Fire prevention and management</b>	Enforce our “zero-burn” policy in all operations and actively engage in initiatives of fire and haze mitigation.	Strong emphasis on fire prevention and management systems was communicated to the supplying mills we engaged through PSEP and SVP in 2017.  No publicly reported fire incidence related to our supply chain in 2017.	Continue to engage with our suppliers on fire prevention efforts, collaborating with neighbouring companies, relevant governmental bodies and local communities for the purpose of fire prevention training.
 <b>Free, Prior and Informed Consent (FPIC) for indigenous and local communities</b>	Work closely with local communities to create mutually beneficial relationships and to bring about positive socio-economic development.	Introduced requirements on social impact assessments (SIA) and grievance management to suppliers through PSEP and SVP to ensure good relations between the community and the mill management.	A practical guideline on managing this aspect will be introduced through a Responsible Sourcing Manual (RSM) in 2018 as a way to influence more of our suppliers in a consistent and efficient manner.
 <b>Protection of environment and biodiversity areas</b>	No new development on peat and adopt protection measures on developed peat areas.  No deforestation throughout our supply chain.	Joined Tropical Forest Alliance 2020 to foster cross-sector collaboration towards deforestation-free supply chains.	Increase our efforts in achieving full traceability to FFB sources through effective collaborations, which is fundamental in ensuring deforestation-free supply chains.
 <b>Transformation of supply chain</b>	Engage suppliers and bring about transformation through the Aggregator Refinery Transformation (ART) plans.	Reached out to more than 150 suppliers from 75 companies through our Shared Value Programme (SVP) held in Jakarta, Medan and Pekanbaru.  Conducted 9 Priority Supplier Engagement Project (PSEP) visits to suppliers of SDS and Marunda in 2017.	SVP and PSEP will continue to be a regular part of our programme as they effectively create positive change among our suppliers and solidifies our business relationships.

Sustainability Issues	Goals	Progress/Achievements In 2017	Future Commitments
 <b>Stakeholder engagement, including grievance handling</b>	Robust and responsive system to handle grievances and conflicts.	Strengthened Apical’s supplier screening process to reduce potential grievance cases.	Continue to minimise the likelihood of conflicts taking place through prompt, proactive and direct engagement with relevant stakeholders.  Work in a fair and transparent manner to resolve any verifiable complaint and conflict with all parties involved through the Apical Grievance Procedure.
 <b>Traceability</b>	Achieve full traceability to palm oil mills.  Achieve traceability to plantations.	Maintained 100% traceability to the supplying mills.  Achieved 51.6% traceability to plantation.  Developed an FFB traceability system to improve processes through pilot projects.  Developed an internal palm oil traceability digitalisation project to ensure accurate and transparent palm oil traceability data for buyers.  Significantly strengthened the internal traceability data management system.  Published the Apical FFB traceability definition.	Achieve 100% traceability to plantation by 2020.
 <b>Smallholder development</b>	Initiate the Rurality Project to improve livelihoods and agricultural practices of local communities and smallholders.  Implemented the Responsible Sourcing from Smallholders (RSS) Programme to mitigate risk within our supply chains as well as to support the needs of smallholders and enable them to improve their production and livelihoods.	Areas for transformation have been identified through the Rural Dynamic Diagnostic (RDD) Phase.  The first RSS programme is in progress.	Transformation Phase of the RDD.  Implement the second RSS programme in 2018.

Footnote:

Responsible Sourcing from Smallholders (RSS) is a framework that enables supply chain companies to engage their smallholders on responsible production. Please refer to <https://www.sharp-partnership.org/RSS> for more information

# 7 WORKING WITH SUPPLIERS AND SMALLHOLDERS

102-9, 103-1

Our commitment to sustainability extends throughout our supply chain. We believe that our sustainability goals cannot be achieved in isolation and require the collaboration of all stakeholders. Suppliers, in particular, hold the key to transforming the industry and ensuring palm oil is produced sustainably.

Most of our direct procurement comprises CPO and PK for our refineries located in Indonesia. We have more than 500 suppliers, which make up the majority of our procurement spend. In turn, raw materials for the production of CPO and PK comes from a number of sources, including third-party estates, smallholders and dealers or brokers who buy from farmers. Smallholders form an essential part of the palm oil value chain as there are about two million small farmers

controlling over 44 percent of oil FFB supply in Indonesia. As such, the fragmented nature of our upstream procurement represents our key supply chain risks.

Throughout 2017, we have continued our efforts to bring suppliers on board our sustainability journey, using traceability as the starting point and our Anchor Programme for proactive engagement. Our Anchor Programme comprises initiatives for supplier prioritisation, engagement and capacity building through field visits, face-to-face meetings and workshops. We also continued our work on the development of smallholders, ensuring we have adequate grievance mechanisms in place and due diligence in the selection of suppliers.

## TRACEABILITY OF OUR PALM OIL

103-1, 103-2, 103-3

Supply chain traceability is a fundamental first step towards producing sustainable palm oil and ensuring the reliability and quality of our raw materials. Traceability lays the groundwork for compliance with our Sustainability Policy by revealing where our supply comes from and identifying priority suppliers to engage with to improve agricultural practices. Only then can we assure our customers that the supply of our raw materials comes from sustainable sources to our customers.

However, the palm oil industry in Indonesia is complex, with many stakeholders. The biggest challenge is the huge number of players involved from the moment the fruit is picked to when it reaches us. The effort it takes to map our supply chain down to the origins is enormous but necessary to ensure the level of transparency that is expected from customers.

Our traceability efforts are categorised into two levels, namely traceability to mill and traceability to plantation (FFB suppliers).

## Traceability to Mill

We do not own any upstream assets or facilities such as plantations and mills. Instead, we rely on third party supplying mills in Indonesia including those owned by our major long-term supplier Asian Agri, to provide us with raw materials such as CPO, CPKO, and PK.

Apical began gathering and verifying information about mills supplying to our refineries in 2015 and has generally maintained 100% traceability to the mill since then. In order to be traceable, suppliers need to provide correct information of GPS coordinates that show where the mills are located, the name of company and mill, and specific address. This information is then further verified by Proforest and Daemeter (CORE).

More than 250 independent mills mainly in Sumatra and Kalimantan have been contracted as suppliers. Our supply chain map, available on our website, can be used to access supply chain information about our facilities.

MORE THAN **250** INDEPENDENT MILLS MAINLY IN SUMATRA AND KALIMANTAN CONTRACTED AS SUPPLIERS



MORE THAN **500** SUPPLIERS

Trucks waiting to load processed palm oil at Sari Dumai Sejati refinery

### PROVINCE % VOLUME SOURCED

PROVINCE	% VOLUME SOURCED
Aceh	0.12%
Bangka	2.25%
Bangka Belitung	1.35%
Banten	0.02%
Bengkulu	2.26%
Central Kalimantan	7.60%
East Kalimantan	0.78%
Jambi	17.98%
Lampung	0.01%
North Sumatra	10.06%
Riau	38.58%
South Kalimantan	0.11%
South Sumatra	5.11%
Southeast Sulawesi	0.02%
West Kalimantan	13.35%
West Sulawesi	0.74%
West Sumatra	0.52%



# 7 WORKING WITH SUPPLIERS AND SMALLHOLDERS



An employee performing regular fire prevention inspection at PT Mitra Unggul Pusaka, Asian Agri

## Traceability to Plantation

Achieving full traceability to the mill has been an important first step in providing us with an indication of the approximate location of their FFB suppliers. This is because to achieve higher yield and quality of CPO, plantations need to be in close proximity to the mills for FFB to be transported within 24 hours. Still, traceability to plantation is very complex due to the thousands of dealers and independent smallholders involved. Our network of FFB suppliers comes from three main sources:

FFB Sources	Estimated percentage of palm oil supplied to our mills
<b>Estate</b> (> 25ha)	57.38%
<b>Smallholders</b> (Koperasi/Schemed/ Smallholder Groups)	16.26%
<b>Dealers</b> (sourced from independent smallholders)	26.36%

Another challenge to overcome is suppliers' concern about data confidentiality to protect their commercial interests. Addressing their needs for confidentiality and profitability, we have taken proactive steps in building close and healthy relationships with suppliers. We strive to instil a positive and cooperative spirit within our priority suppliers during contact points such as workshops, meetings and field visits. We are prepared to sign a non-disclosure agreement in certain cases.

Apical has a target to achieve full FFB traceability by 2020. To get there we have developed a methodology with TFT and initiated our Traceability Outreach Programme (TOP), targeting all suppliers, especially in Riau, Jambi, North Sumatra and Kalimantan (see more information in the section on our Anchor Programme). This year, we also partnered with Proforest, Daemeter, Geo Traceability and Yayasan Setara Jambi on two traceability pilot projects in Riau and Jambi provinces. Using a mobile application developed by our two technical partners to collect data will make the process more manageable. With these efforts and as of end of 2017, we have been able to trace about 51.6% of the FFB sources to plantations.

Apical subscribes to Sustainable Landscape Working Group's (SLWG) definition of traceability, and provide the following data as part of our requirements to establish FFB traceability by 2020:

### Category of FFB Supplier Data Required for FFB Traceability



#### Estate (> 25ha)

- Estate name
- Parent company name
- Certification status
- % of overall FFB tonnage to mill
- A GPS coordinates as a representative source location
- Planted hectarage
- Total concession area
- FFB volume



#### Koperasi/Associated/Scheme/Group

- Number of smallholders
- % of overall FFB tonnage to mill
- Overall FFB volume
- A GPS coordinates as a representative source location
- Planted hectarage

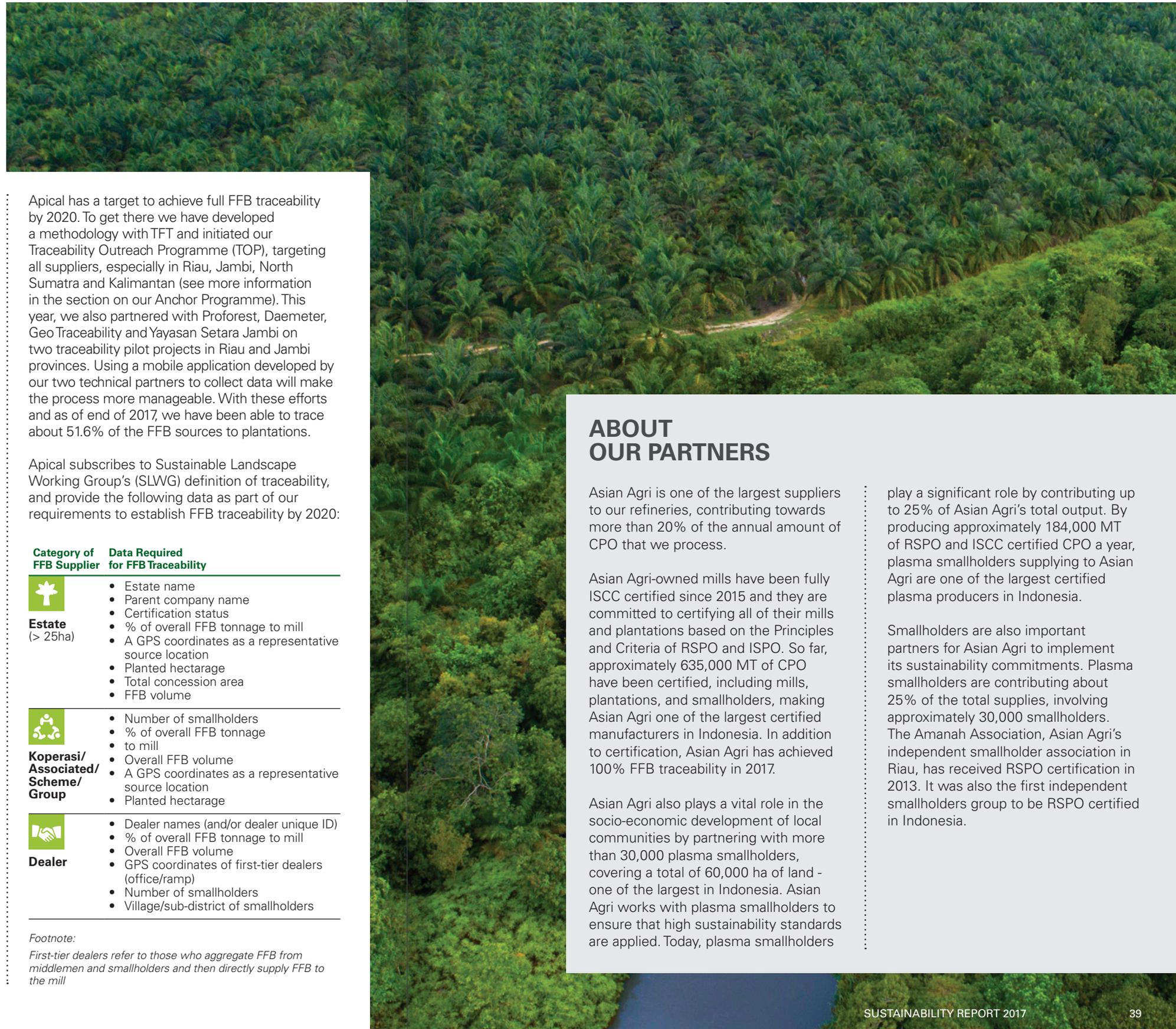


#### Dealer

- Dealer names (and/or dealer unique ID)
- % of overall FFB tonnage to mill
- Overall FFB volume
- GPS coordinates of first-tier dealers (office/ramp)
- Number of smallholders
- Village/sub-district of smallholders

Footnote:

First-tier dealers refer to those who aggregate FFB from middlemen and smallholders and then directly supply FFB to the mill



## ABOUT OUR PARTNERS

Asian Agri is one of the largest suppliers to our refineries, contributing towards more than 20% of the annual amount of CPO that we process.

Asian Agri-owned mills have been fully ISCC certified since 2015 and they are committed to certifying all of their mills and plantations based on the Principles and Criteria of RSPO and ISPO. So far, approximately 635,000 MT of CPO have been certified, including mills, plantations, and smallholders, making Asian Agri one of the largest certified manufacturers in Indonesia. In addition to certification, Asian Agri has achieved 100% FFB traceability in 2017.

Asian Agri also plays a vital role in the socio-economic development of local communities by partnering with more than 30,000 plasma smallholders, covering a total of 60,000 ha of land - one of the largest in Indonesia. Asian Agri works with plasma smallholders to ensure that high sustainability standards are applied. Today, plasma smallholders

play a significant role by contributing up to 25% of Asian Agri's total output. By producing approximately 184,000 MT of RSPO and ISCC certified CPO a year, plasma smallholders supplying to Asian Agri are one of the largest certified plasma producers in Indonesia.

Smallholders are also important partners for Asian Agri to implement its sustainability commitments. Plasma smallholders are contributing about 25% of the total supplies, involving approximately 30,000 smallholders. The Amanah Association, Asian Agri's independent smallholder association in Riau, has received RSPO certification in 2013. It was also the first independent smallholders group to be RSPO certified in Indonesia.

# 7 WORKING WITH SUPPLIERS AND SMALLHOLDERS



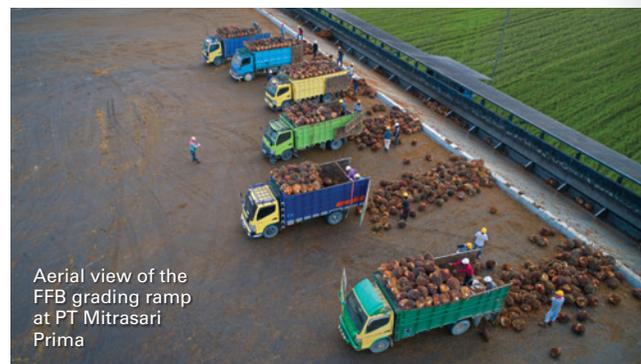
Training to the smallholders of Teguh Karsa Wana Lestari as part of RSM project

## SCREENING AND SUPPLIER SELECTION

308-1, 414-1

Apical follows a process of screening all our palm oil suppliers prior to entering the supply chain. We require the potential supplier to acknowledge the Apical Sustainability Policy and provide basic information on their supply chain. The information on a mill's supplier base is used to conduct risk analysis based on geospatial indicators and non-spatial indicators.

Apical seeks to build engagement and influence positive change towards sustainable practices for all our suppliers. Having information on indirect suppliers below tier 1 enables us to chart an effective engagement strategy to implement our policy commitments in collaboration from our direct suppliers. This process allows us to identify and address areas of improvement even before suppliers are contracted.



Aerial view of the FFB grading ramp at PT Mitrasari Prima

We also assess suppliers' performance throughout their contract with Apical. Through engagement programmes, we develop remedial action plans for any areas of improvement identified.

Footnote:

Tier 1 suppliers are third parties directly contracted to Apical

## SUPPLIER ENGAGEMENT THROUGH OUR ANCHOR PROGRAMME

103-2, 103-3, 308-2, 414-2

Traceability is only the starting point towards building a sustainable palm oil supply chain. Having identified and mapped our suppliers all the way down to the plantation level, we are able to determine who we have to work with to help ensure sustainable practices and employed. The next step focuses on prioritisation, engagement and capacity building to ensure that they are meeting the commitments and standards that we have set. The way we do this is through four core initiatives that form part of our flagship Anchor Programme.

### Mill Prioritisation Process

The Mill Prioritisation Process (MPP) is a risk-based assessment approach to identify priority mills for deeper engagement. The process involves analysing geospatial and non-spatial parameters to identify potential sustainability risks associated with the supplying mills.

Geospatial parameters identify sustainability risks including fire hotspots, forested areas, reserve areas, peatlands, and other environmental risks within a 50km radius of a supplying mill. Non-spatial parameters focus on identifying issues related to communities, smallholders, and ongoing grievances that may occur in a mill's supply chain based on publicly reported information from sources such as the media and external reports. High-impact suppliers that have long-term business relations with Apical will be prioritised for engagement.



Practical training on collecting location information for TOP at PT Mitrasari Prima

### Priority Supplier Engagement Programme

Our Priority Supplier Engagement Programme (PSEP) is designed to assess our prioritised suppliers' level of compliance with Apical's Sustainability Policy and other relevant industry requirements. The assessment focuses on six key guiding principles including:

 <p><b>1</b> Monitoring legal compliance</p>	 <p><b>2</b> Protection of key conservation value areas: HCV, HCS and Peatland</p>
 <p><b>3</b> Environmental Impact Management including waste and chemical management</p>	 <p><b>4</b> Respect of people and communities, including labour and human rights</p>
 <p><b>5</b> Creation of Shared Value</p>	 <p><b>6</b> Traceability</p>

# 7 WORKING WITH SUPPLIERS AND SMALLHOLDERS

**30 PSEP VISITS**  
SDS AND AAJ MARUNDA'S SUPPLIERS



**9 IN 2017**

Since the start of PSEP in 2015, Apical conducted 30 visits to SDS and AAJ Marunda's suppliers (including mills and their FFB suppliers), nine of which took place in 2017. Conducting field visits to prioritised suppliers allows us to have personal interaction and effective communication. The deeper engagement through these visits facilitates a better understanding of our suppliers, provides new insights into their practices, and helps to identify gaps for improvement. The most common social issue identified was land conflicts resulting from the lack of Free Prior Informed Consent (FPIC) between the company and communities and due to the lack of clear land boundaries being defined. From an environmental perspective, most issues are centred around water and air pollution from the milling process. We are working together with our suppliers by providing detailed guidance on developing Standard Operating Procedures (SOPs) and sustainability management systems. Continuing to find such personal visits to be highly effective, we will maintain this level of engagement with our suppliers and closely monitor their implementation of best practice. In 2018, we are committed to conducting 12 PSEP visits.

### Traceability Outreach Programme

The Traceability Outreach Programme (TOP) is a programme designed to provide knowledge and simplified solutions for the suppliers of our refineries on how to collect and manage the traceability data of their FFB suppliers. In 2017, 56 supplying mills were engaged through the TOP.

This programme also has the ambition to verify and incorporate the data collected to build an interactive mapping platform to assist suppliers in identifying and managing landscape level issues based on the location of their FFB source.

### Shared Value Programme

The key initiative within our Anchor Programme for engaging suppliers and building their capacity to adopt more sustainable practices is our Shared Value Programme (SVP) here. In partnership with TFT, Proforest and Daemeter, we deliver workshops for suppliers on a selection of topics that take into account regional issues specific to the location of suppliers. The SVP covers the latest market trends and how international certifications such as RSPO and ISCC can be beneficial. Participants gain insight into the importance of palm oil traceability and responsible sourcing. They are also updated on Indonesia's regulation on peat, mill operations and plantations, and High Conservation Value (HCV) and High Carbon Stock (HCS) requirements. Industry subject matter experts from RSPO, TFT, Intertek, Proforest, Daemeter Consulting, and Yayasan Setara Jambi were on hand to share practical knowledge and experience on these topics. Aside from presentations by industry experts and partners, this programme promotes active discussions whereby suppliers take ownership of some of the solutions.

Since the launch of this programme in 2015, we have conducted six workshops, three of which took place in 2017, engaging 149 personnel from 75 companies in Jakarta, Pekanbaru, and Medan.

**SINCE 2015,**  
**APICAL CONDUCTED**  
**6 SVP WORKSHOPS**

**3 IN 2017**



## CASE STUDY:

# WORKING WITH OUR MILL SUPPLIER TO IMPLEMENT SUSTAINABILITY THROUGH THE INTENSIVE SUPPORT FOR TRANSFORMATION PROGRAMME

### BACKGROUND

PT Mitrasari Prima (MSP) is a key supplier to Apical, providing more than 50,000 MT of raw material per year. Apical has been working with MSP through its Intensive Support for Transformation (ISFT) Programme since 2017 to help implement sustainable practices. The programme was first introduced by TFT and subsequently adopted by Apical as an initiative to drive supplier transformation.

MSP is committed to sustainability but is struggling to navigate through the many regulatory requirements and changes. In particular, traceability is challenging to achieve as a result of the lack of knowledge and awareness of the importance of and methods for collecting traceability data amongst FFB supplier, who are often low-educated farmers and agents.

### ACTIONS

Being part of the ISFT programme which is co-delivered with Apical's consulting partner TFT, MSP has received support in the following areas:

- Establishing sustainability-related SOPs
- Training on HCV, HCS, traceability, and FPIC
- Guidance on mechanisms and methodologies for collecting the GPS coordinates and data that is vital to map the location of FFB suppliers
- Training on Geographic Information System (GIS) to better carry out FFB supplier mapping and minimise potential risks

# 7 WORKING WITH SUPPLIERS AND SMALLHOLDERS

## OUTCOMES

Having embarked on this journey, MSP is already reaping the benefits of traceability data in terms of minimising sustainability risks and building closer relationships with their FFB suppliers.

With Apical's guidance, MSP is looking to achieve full traceability to plantation by 2020 and plans to work towards ISPO and ISCC certification to meet the demand and requirements of international markets.



Knowledge sharing during PSEP at PT Mitrasari Prima



## CASE STUDY:

# CAPACITY BUILDING THROUGH THE RESPONSIBLE SOURCING FROM SMALLHOLDER (RSS) PROGRAMME

## BACKGROUND

The Responsible Sourcing from Smallholder (RSS) programme was launched in 2017 by SHARP, a multi-stakeholder partnership which works with the private sector to promote sustainable practices amongst smallholder farmers as well as enhance their livelihoods through increased production. Apical has worked with implementation partner Yayasan Setara Jambi to roll out this project at one of our key supplying mills - PT TKWL.

PT TKWL is keen to participate in the RSS programme as it helps them to establish good relationships with independent smallholders, which in turn, benefits both parties.

## ACTIONS

The RSS programme involves several stages:

1. Identifying candidates/participants from smallholders who are interested in joining the programme
2. Identifying problems faced by the community and potential participants
3. Developing suitable and tailored programmes
4. Providing training on best management practices of oil palm cultivation (in the classroom and in the field). Field training includes identifying and controlling pest and diseases, good harvesting standards and FFB quality

# 7 WORKING WITH SUPPLIERS AND SMALLHOLDERS



Good management practices training to the smallholders of PT Teguh Karsa Wana Lestari

Through engagement with the targeted smallholders, Apical and PT TKWL are able to better understand the challenges faced by farmers and are able to identify a practical approach to addressing these gaps based on what is realistic and achievable.

Apical and the supplying mill are working with three groups of independent smallholders from three nearby villages, consisting of 90 participants. Methodologies used include questionnaires and focus group discussions.

## OUTCOMES

This programme has yielded direct impacts by increasing FFB quality and quantity, helping to stabilise market prices and enhance the incomes and living standards of the community.

For PT TKWL, this is helping to ensure a constant supply of FFB to its mill. The Mill Manager, Timbul Sirat said, "We can now directly engage with the independent smallholders and socialise them with best practice to improve FFB quality. At the same time, this two-way interaction established a good relationship that can secure consistent supply."

The company hopes that this is the start to enhancing its relations with other smallholders, helping to improve the quality and quantity of FFB supplied to their mills. They also hope that TKWL's commitment towards sustainability can be cascaded to other farmers via this initiative.

Smallholders have welcomed participation in this programme as it is the first of its kind to be provided by a private company.

## OUR GRIEVANCE PROCEDURE

Apical deals with a wide network of suppliers and addressing grievances effectively from our external stakeholders is a fundamental element of being a responsible business. We have established the Apical Grievance Procedure, a grievance handling process for our stakeholders to raise concerns related to our business or suppliers and ensure these are dealt with in a transparent and accountable manner. The grievance process is managed and implemented by the Grievance Steering Committee, Grievance Secretariat, Stakeholder Engagement Team and Verification Team.

The Apical Grievance Procedure covers all activities related to the management of stakeholders' concerns including: Recording grievances; verifying claims; rectifying confirmed claims; reporting the results and actions on the ground; and delivering responses to stakeholders whilst monitoring and managing follow-up actions.

For any issues raised against a supplier, the process is to clarify any alleged violations against our sustainability policy within a stipulated period. For proven violations, suppliers are required to provide a concrete corrective action plan with clear timelines. Failure to respond and commit towards remedial action would trigger suspension of contracts until progress has been made or the issue has been resolved. Apical reserves the right to cease transactions with suppliers who have repeatedly violated our commitments.

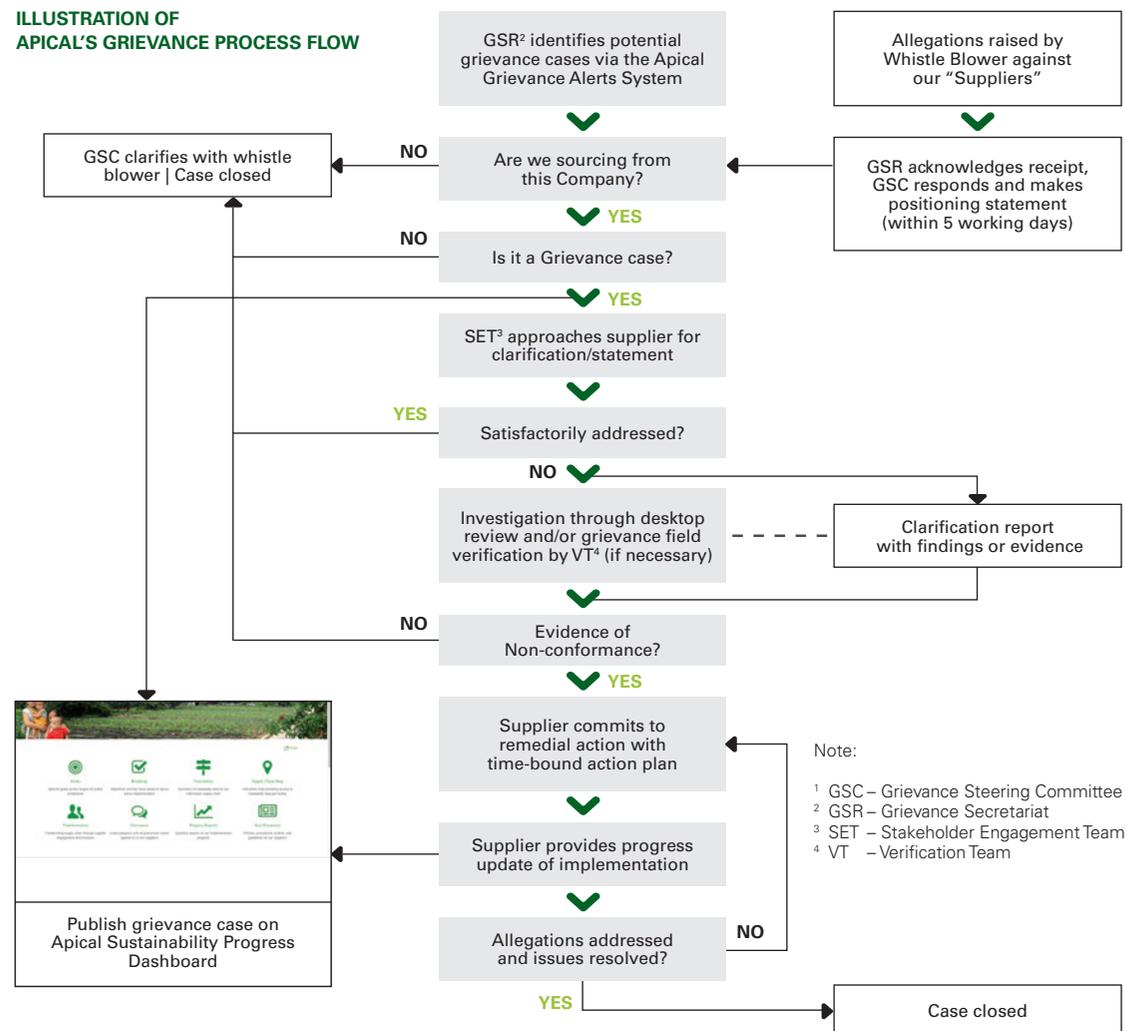


Training on Apical's grievance management system

# 7 WORKING WITH SUPPLIERS AND SMALLHOLDERS

The process of dealing with an issue raised against a supplier is illustrated on the flow diagram below and further details can be found online on the Apical Grievance Procedure page on our progress dashboard.

## ILLUSTRATION OF APICAL'S GRIEVANCE PROCESS FLOW



We have strengthened our grievance process to include a whistleblowing channel and a Grievance Alert System that delivers prompt notifications on matters of concern raised against our suppliers. Simultaneously, we use the TFT Grievance Tracking mechanism for supplier monitoring and policy compliance. This integrated approach is not

just transparent but also aimed at achieving due diligence, and prompt action.

In 2017, three new grievances were raised against our direct suppliers. A full list of our grievances, their status and progress towards resolution is published on our website <http://www.sustainability.apicalgroup.com/grievances/>.

# 8 ENVIRONMENTAL MANAGEMENT

103-1, 103-2, 103-3

**We believe that palm oil production and environmental conservation can go hand in hand. As Apical handles the downstream aspects of the palm oil value chain, we are committed to protecting the environment by ensuring that our raw materials come from legal and responsible sources. We are also focused on minimising the environmental impacts of our refineries.**

## COMPLIANCE WITH APICAL'S SUSTAINABILITY POLICY

We launched our Sustainability Policy with the aim to build a transparent and traceable palm oil supply chain. The policy outlines our commitment to ensuring sustainable practices are adopted across the entire value chain of palm oil production, from cultivation to processing and delivery to end-users.

Our policy extends to all our subsidiaries and refineries that we own and manage. We also work with relevant stakeholders to ensure the standards set out in our policy are upheld by our suppliers.

## PROTECTING FORESTS

304-2

We recognise that our business is reliant on land availability for oil palm plantations and that there are serious risks of deforestation and biodiversity loss if proper monitoring and control mechanisms are not in place. We are working with our suppliers to meet local, international and our own sustainability standards to ensure High Conservation Value (HCV), High Carbon Stock (HCS) and peatland areas are protected.

Apical has assessed our entire network of supplying mills for environmental-related risks. Where gaps are identified, these are addressed by direct engagement with our suppliers to influence positive sustainable outcomes. Currently, priority for supplier engagement visits is given to long-term business partners that contribute high volumes of palm oil to Apical and/or are adjacent to any protected areas and peatland. Our aim is to eventually engage the rest of our suppliers as well. During our field visits, we make inquiries into our suppliers' future plans for new developments and advise them to conduct relevant assessments before proceeding with any new plantations.

We do not knowingly source from suppliers associated with deforestation of protected areas. Apical will work with suppliers found in breach of our policy through a corrective action plan. If suppliers refuse to comply or fail to implement corrective action plans, we will take additional measures and if deemed necessary, review our business relationship.

The section "Working with Supplier and Smallholders" gives details on our supplier selection and screening processes as well as our supplier engagement programmes.

# 8 ENVIRONMENTAL MANAGEMENT

## PROTECTING HCV AND HCS AREAS



HCV forests are those which have an especially high ecological and/or social value. HCS forests are those that hold or have the potential to hold a high amount of carbon and should thus be protected or restored, and distinguished from areas of degraded forests with lower carbon stocks.

Apical has communicated the importance of HCV and HCS areas to our stakeholders and will continue to do so. We incorporate HCV and HCS training in our SVP workshops and PSEP visits conducted for the mills that have been prioritised through our MPP, the assessment of new mills that enter our supply chain, to evaluate their potential risks.

Our Management practice is to provide training and recommendations for the mills that source from estates located near HCV and primary forest or other protected areas such as peatland. During the PSEP visits, our team helps to identify, manage and monitor significant biological, ecological, social or cultural values through the HCV approach and geospatial analysis. We also work with our suppliers to adopt a credible HCS identification procedure through subscribing to the HCS Approach based on field trials and scientific recommendations. The HCS Approach is also designed to ensure that land use rights and the livelihoods of local communities are respected.

## PROTECTING PEATLAND AREAS



Apical is committed to no new development on peat areas with 65% organic soil or more, regardless of the depth.

Through regular supplier engagement and customised workshops, we encourage suppliers to adopt best management practices, especially effective water management, to maximise oil palm yield and minimise GHG emissions in existing peat estates.

We provide guidance on proper water table management and implementing water management monitoring plans, ensuring that water table depth is maintained at appropriate levels.



Fire fighting training at PT Petaling Mandraguna

## FIRE PREVENTION AND MANAGEMENT

103-1, 103-2, 103-3

Apical continues to engage with suppliers on fire prevention and management, in an effort to mitigate the risks of regional haze occurring and affecting large parts of Indonesia, Malaysia, and Singapore. The primary root cause of the haze has been linked to the illegal slash-and-burn method for land clearing.

Apical has published practical guidelines on our online Sustainability 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 burning.

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

Our key supplier Asian Agri initiated a Fire Free Village Programme (FFVP) in May 2016 to build awareness and educate selected villages and groups of independent smallholders. They were also equipped with the necessary firefighting equipment and training. In recognition of their efforts and to serve as positive behavioural reinforcement, villages that achieved the fire free target were awarded with community infrastructure.



## CASE STUDY:

# ASIAN AGRICULTURE SUPPORTS FIRE-FREE VILLAGES THROUGH THE FIRE FREE ALLIANCE

### BACKGROUND

Asian Agri is one of the largest CPO suppliers to our refineries, contributing towards more than 20% of the annual CPO that we process. As a company committed to traceable, responsible and sustainable production of palm oil, Asian Agri implemented a 'no burning' policy across its operations in 1994.

Asian Agri acknowledges its role and commitment to complying with government regulations on bearing responsibility for fire incidences detected within a 5km radius of the company. Due to poor awareness and a lack of financial and manpower resources to operate heavy machinery, most local communities were still practicing the conventional slash-and-burn tactic to clear land for new developments. Changing the mindset of local communities is challenging and requires a complete change in their practices.

### ACTIONS

In 2016, the company co-founded the Fire Free Alliance (FFA) to work with peers and partners to tackle the issue of land and forest fires in Indonesia. FFA is a voluntary, multi-stakeholder platform where NGOs and other companies share knowledge, information and resources to roll out fire prevention initiatives.

As a member of the FFA, Asian Agri is currently implementing the Fire-Free Village Programmes (FFVP) to empower villages to adopt a zero-burning approach towards managing their lands and plantations.

With the support of the sub-district government, environmental agencies, the army and the police, Asian Agri socialised the firefighting campaign to surrounding villages. They trained a selected group of village representatives. Those that participated in FVP were given 20 honey beehives as a gesture of gratitude for their proactive involvement, enabling them to earn extra income.

Asian Agri also provided additional support in the form of distributing water pumps, water pipes, and deploying fire fighters in the case of any fire detected. They also helped Desa Tambak, one of the villages, to open land for paddy field cultivation using alternative methods to fires through mechanical land clearing.

Apical promotes this fire prevention concept to our suppliers through our supplier engagement programmes and the SVP, where Asian Agri is invited to explain the implementation of the FFVP.

### OUTCOMES

Prior to introducing FFVP measures, there were a large number of fire hotspots detected

in cultivation lands that were adjacent to villages. Back in 2015, around 45 ha of land in plantations surrounding villages, including Desa Segati, Desa Tambak and Desa Sotol, were burned. Since the introduction of FFVP, Asian Agri is pleased to report that only a few fire hotspots were detected and the area of land burned was reduced to 0.3 ha between 2016 and 2017. Zero fire incidents were detected in the nearby village of Desa Segati. The village was awarded IDR100 million as a token of appreciation.

Whilst three surrounding villages took part in the FFVP, Asian Agri plans to extend the programme to all eight villages around their operations and invite all the surrounding companies to participate.



Employee performing fire prevention inspection at PT Mitra Unggul Pusaka, Asian Agri

# 8 ENVIRONMENTAL MANAGEMENT

## MANAGING OUR OWN ENVIRONMENTAL FOOTPRINT

Our efforts towards promoting environmental conservation within our upstream supply chain are complemented by our work to minimise the operational footprint of our refineries. We have established control systems and regular monitoring processes, allowing us to comply with the local regulation and the standards set by our Sustainability Policy.

### Water Management

103-1, 103-2, 103-3, 303-5

We are committed to the efficient use of water in our refineries and directly measure consumption through flowmeters which record data on a daily basis. At our Sari Dumai Sejati (SDS) refinery, seawater is treated by the refinery's desalination plant to service factory operations. At our Asianagro Agungjaya Marunda Refinery (AAJ Marunda), water is supplied and metered by the local utility company. Apical does not consume water from water stress areas.

### Water consumption by source for processing crude oil at AAJ Marunda, SDS, CET, and Bio-Oils

Crude Oil Processing	Source of Water	M <sup>3</sup> of Water Consumed	M <sup>3</sup> of Water Per Tonne of CPO Processed
SDS and CET	Seawater	1,496,934	0.51
AAJ Marunda	Municipal Water	281,292	0.45
Bio-Oils	Municipal Water	73,603	0.30



Sampling of treated effluent at PT Mitrasari Prima

At our SDS refinery, we implemented a Kaizen project in 2017 which focuses on water use efficiency. The aim of this project is to reduce raw/treated water consumption by reusing condensate gathered from the refining process. The condensate is used to top-up the cooling tower water which is mainly supplied by clean water from our desalination plant. The project aims to reduce of water usage by 20% which translates to water savings of more than 24,000m<sup>3</sup> per annum.

In our other refineries, wastewater from the refining process is treated and reused for the cooling towers, fire hydrants, or domestic purposes such as cleaning. The refineries utilise microorganisms and activated sludge process in the treatment of effluent water and use chemicals such as coagulant, flocculant, caustic soda, bioxide and nutrients to ensure that the effluent water is within the permissible quality.



### Waste Management

103-1, 103-2, 103-3, 306-2, 306-3

More than 54% of the waste generated from the palm oil refining process consists of spent bleaching earth (solid waste material generated as part of the bleaching aspect of the oil refining process), fly ash (a light form of coal ash) and bottom ash (the heavier portion of coal ash). Fly and bottom ash are wastes produced from the coal combustion process that are driven out of the boiler.

We have trained personnel responsible for handling waste disposal in each refinery according to our SOPs that are written based on national statutory and regulatory requirements

such as the Ministry of Environment Decree on waste handling and management.

Key responsibilities include monitoring, keeping an inventory, and ensuring waste is disposed on time. Waste is collected by a licensed contractor who has the appropriate transport and disposal permit.

In addition, SDS has an ongoing Kaizen project for improved productivity and efficiency that is targeted at zero oil spillage. They also have a dedicated emergency response team and regular training to prevent and deal with accidental oil spillage. As of 2017, we have maintained zero spillage.

## 改善 KAIZEN

Consistent with one of our core values to strive for continuous improvement, Apical has a Business Continuous Improvement Department (BCID) focused on exploring opportunities for improvement in various business and operational processes.

Apical adopts the "Lean" concept for process improvement. Kaizen,

as one of the key elements in the Lean concept, is the Japanese word which means to strive for "continuous improvement". The Kaizen approach for business relates to activities that continuously improve efficiency and involves all employees.

In 2017, SDS and AAJ Marunda were our main focus for implementing Kaizen projects. The refineries had a Kaizen week almost every month and 22 Kaizen projects were initiated in SDS, of which seven have been

completed. To date, the projects successfully saved the refinery approximately USD 1.1 million in terms of total operating costs.

As for AAJ Marunda, 11 Kaizen projects were completed in 2017, achieving total savings of about USD 400,000 to the refinery.

Aside from financial benefits to the group, Kaizen also managed to improve our employees' mindset and culture for continuous improvement.

### Summary of Hazardous Wastes Generated in 2017

No.	Type of Hazardous Wastes	Kg Waste Generated/MT Crude Oil Processed	
		2016	2017
1	Spent Bleaching Earth	23.359	11.819
2	Fly & bottom ash	14.430	17.744
3	Sludge from Waste Water Treatment Plant	0.497	0.361
4	Laboratory waste/Spend Nickel Catalyst	0.021	0.039
5	Contamination Packing container	0.005	0.006
6	Used Oil	0.024	0.010
7	Others (Used battery, debris, filter, cartridge, etc.)	0.009	0.052
<b>Total</b>		<b>38.344</b>	<b>30.031</b>

# 8 ENVIRONMENTAL MANAGEMENT



### Summary of Hazardous Wastes Disposal Method in 2017

No.	Hazardous Wastes Disposal Method	Disposal method (%)
1	Storage	2.62
2	Disposed through licensed collector	97.34
3	Valorisation*	0.04

### Summary of Non-Hazardous Wastes Generated in 2017

No.	Type of Non-Hazardous Wastes	Kg Non-Hazardous Wastes Generated/ MT Crude Oil Processed
1	Domestic waste	0.020
2	Inorganic Waste	0.831
3	Debris	0.109
4	Brown Grease	1.880
<b>Total</b>		<b>2.840</b>

### Summary of Non-Hazardous Wastes Disposal Method in 2017

No.	Non-Hazardous Wastes Disposal Method	Disposal method (%)
1	Recycled through Valorisation*	80.34
2	Disposed through licensed collector	19.66

Footnote:

The Bio-Oils facility undertakes the valorisation process

### GHG Emissions

103-1, 103-2, 103-3, 305-1, 305-2

More than 90 percent of the GHG emissions from our refinery and biodiesel plant are from electricity generated through our power plant, electricity drawn from the grid, and fossil fuel used for starting up the boiler. GHG emissions from other sources such as chemical usage and effluent treatment contributed to between 4 to 5% of the total GHG emissions. For our bio-oils plant, approximately 90% of GHG emissions are from the usage of natural gas and chemicals. The GHG emissions was calculated based on the ISCC Emission 205 methodology.

#### SDS

No.	GHG Emission Source	(% Kg CO <sub>2</sub> / MT Oil Processed)	
		2016	2017
1	Effluent	0.46	2.19
2	Electricity generation	47.60	78.23
3	Electricity from grid	37.42	16.90
4	Diesel usage	11.77	0.31
5	Chemical usage	2.74	2.37
<b>Total</b>		<b>100.00</b>	<b>100.00</b>

#### CEP

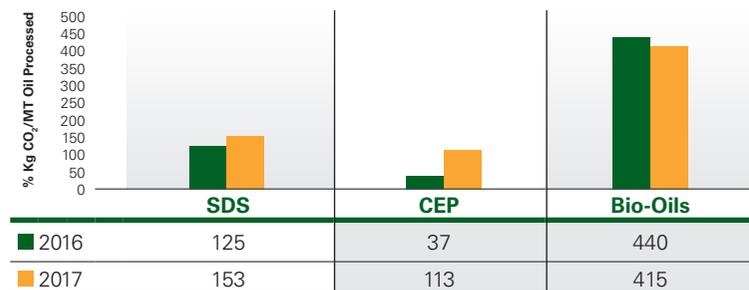
No.	GHG Emission Source	(% Kg CO <sub>2</sub> / MT Oil Processed)	
		2016	2017
1	Effluent	1.56	4.53
2	Electricity generation	61.38	83.77
3	Electricity from grid	36.75	10.68
4	Diesel usage	0.00	0.25
5	Chemical usage	0.31	0.78
<b>Total</b>		<b>100.00</b>	<b>100.00</b>

#### Bio-Oils

No.	GHG Emission Source	(% Kg CO <sub>2</sub> / MT Oil Processed)	
		2016	2017
1	Effluent	0.05	0.05
2	Electricity generation	0.00	0.00
3	Electricity from grid	8.45	8.86
4	Natural Gas usage	30.89	26.40
5	Chemical usage	60.61	64.69
<b>Total</b>		<b>100.00</b>	<b>100.00</b>

# 8 ENVIRONMENTAL MANAGEMENT

## 2017 Refinery - GHG Emission



An increment in GHG emissions was noted for SDS and CEP in 2017 comparing to 2016 due to changes in the calculation methodology. Only wet matter was taken into account for 2016 while both dry and wet matter were taken into account for 2017.

## PROPER

Apical has participated in the Programme for Pollution Control, Evaluation and Rating (PROPER), the Indonesian Ministry of Environment's national public environmental disclosure initiative on an annual basis. The programme assesses the following aspects of our processing plants' environmental performance:

- 1) Environmental Management System
- 2) Resources Conservation and Reuse, Recycle, and Recovery of Wastes (3R)
- 3) CSR: Community Development
- 4) Water and Sea Water Pollution
- 5) Air Pollution
- 6) Hazardous Waste Management
- 7) Implementation of EIA

PROPER publicly discloses results of the assessment using a five-colour grading scale. In 2015 and 2016, our Sari Dumai Sejati and AAJ Marunda refineries received a Blue Rating in the PROPER assessment. No PROPER assessments were conducted on our refineries in 2017, however, there is assessment scheduled to be conducted in 2018 for AAJ Marunda refinery.

## REQUIREMENTS

GOLD	GREEN	BLUE	RED	BLACK
The facility has met international standards of environmental excellence	The facility's pollution is significantly below legally required standards and it has conducted food equipment maintenance, reporting, and environmental work	The facility has met legal standards and has demonstrated frequent reporting	The facility has made some pollution control effort, but failed to meet legal standards and had insufficient reporting	The facility has made virtually no pollution control effort

# 9 LABOUR RELATIONS 102-8

The palm oil industry provides vast employment opportunities for people in Indonesia, particularly within rural communities. We directly employ 1,543 employees across our offices and plants, 1,418 of which are permanent employees and 125 temporary. To ensure that the impact of employment in the sector is positive, Apical is committed to respecting human and labour rights as well as maintaining a safe working environment for employees. This commitment extends to our own employees as well as to suppliers and smallholder farmers who are independent or part of the Indonesian plasma scheme.

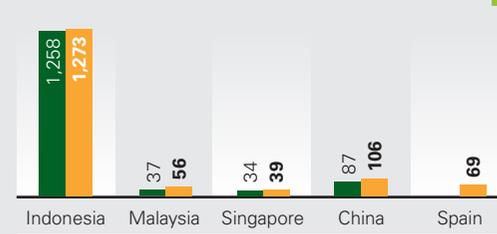
## Breakdown of Employees by Employment Contract by Gender

	Permanent	Temporary
Male	1,177	111
Female	241	14

## Breakdown of Employees by Employment Contract by Region

	Permanent	Temporary
Indonesia	1,178	95
Malaysia	54	2
Singapore	39	0
Spain	55	14
China	92	14

## Total Employees by years



Footnote:  
Bio-Oils was only acquired in 2017. No data for 2016



Apical operates four refineries in Indonesia and China as well as a biodiesel plant in Spain. The refineries are supported by integrated logistics infrastructure such as jetties, onshore storage tanks, truck and barge fleets, water desalination facilities and self-sufficient power plants. Apical has our headquarters in Singapore, with a satellite office in Malaysia which provides group wide supporting functions such as shipping operations, commercial, trading, projects, finance, HR and IT.

Information on the breakdown of our employees is gathered through SAP data.

# 9 LABOUR RELATIONS

## HUMAN RIGHTS

103-1, 103-2, 103-3

As stated in the Apical Sustainability Policy, we are guided by the principles of the Universal Declaration of Human Rights and as such, we strive to uphold and respect fundamental human rights. We comply with all the laws that apply to the locations in which we operate and cover issues such as freedom of association, fair wages, working hours, non-discrimination, child, forced, bonded or illegal labour.

### Freedom of Association and Trade Membership

102-41, 405-1

Freedom of association includes the right of all workers to form or become members of labour unions on their free will, and the right for collective bargaining. In Indonesia, this is mandated by Law and Regulation No. 21/200 on Trade/Labour Unions and is in line with the International Labour Organization Convention No. 98 on the freedom of organisation and collective bargaining. As such, all employees are entitled to practise freedom of association and to be covered by collective bargaining agreements in the workplace. In 2017, 53% of employees in SDS & CEP and 92% of employees in AAJ Marunda and AAJ Tanjung Balai were covered by collective bargaining agreement.

### Child Labour

408-1

We do not permit and tolerate any form of child labour in our operations and ensure we comply with the legal minimum age of working when recruiting workers. In Indonesia, employees must not be under 18 years of age.

As standard procedure, all job applicants must provide identity cards as proof of their age before joining our workforce. As part of our policy to ensuring our plants are child-free, we prohibit children from entering those premises. We also provide school transportation to ensure children have access to education.

Apart from our own operations, we engage our direct suppliers by informing them of Apical's policy against child labour and ensuring this commitment is upheld. Apical takes the initiative to assess, identify and analyse potential risks of child labour occurring at any of our suppliers by conducting field visits, Shared Value Programme workshops to socialise Apical Sustainability Policy, and through engagement meetings.



Childcare centre at PT Mitra Unggul Pusaka, Asian Agri

## Diversity and Equal Opportunities

405-1

Apical believes in hiring with no discrimination on the basis of age, race, gender identity, sexual orientation, religion, family or marital status and therefore provides equal opportunities for all. The hiring decision is based primarily on the nature and requirements of the job, the role that needs to be fulfilled, and the right competency level for a particular position.

### Percentage of Employees in Different Categories based on Gender

	Non-Executive	Junior Management	Middle Management	Senior Management
Male	85.23%	72.97%	81.71%	95.83%
Female	14.77%	27.06%	18.29%	4.17%

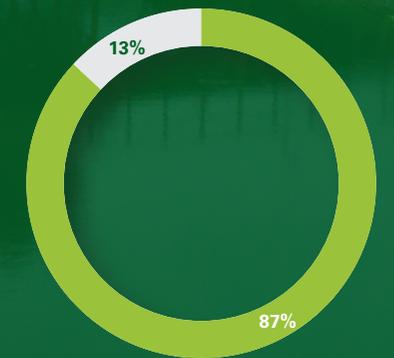
### Percentage of Employees in Different Categories based on Age

	Non-Executive	Junior Management	Middle Management	Senior Management
< 30	45.18%	3.53%	1.22%	0.00%
30 - 35	25.68%	29.41%	15.85%	0.00%
36 - 50	27.45%	60.00%	62.20%	58.33%
> 50	1.69%	7.06%	20.73%	41.67%

### Number of Employees by Age



### Percentage of Employees by Gender



\* The figures here are for Indonesian employees only. We will include the statistics of employees in other countries in the future.



## CASE STUDY:

# PROMOTING HUMAN RIGHTS THROUGH PSEP AND SVP INITIATIVES

### BACKGROUND

PT Petaling Mandraguna, one of the main supplying mills to Apical, has been facing challenges in convincing third-party suppliers of FFB to adopt sustainability standards similar to those implemented by the company. Adding to the challenge, the company recognises there is inadequate support from the government to encourage farmers to raise their sustainability efforts.



PT Petaling Mandraguna joined Apical's PSEP and subsequently, SVP workshop to gain better knowledge and fresh ideas on how to improve existing practices and documentation. PT Petaling Mandraguna wanted to be able to trace the origin of the raw materials they were sourcing. The programme, which takes into account industry-wide sustainability requirements and best practice, provided a great opportunity for the mill to produce palm

oil in accordance with local regulation and meet the standards of global markets. Aside from improvements in systems and environmental management, one of the key focus and topic of discussion has been around human and labour rights.

### ACTIONS

Following engagement with Apical, PT Petaling Mandraguna has stepped up efforts to promote human rights in its operations. The following was discussed and implemented:

#### 1 NO CHILD LABOUR:



PT Petaling Mandraguna has a strict commitment to only recruit workers that are 18 or above, with proven identity documents. The company also provides children with access to educational facilities, including school buses to send and pick up students from schools.

#### 2 HEALTH AND SAFETY:



PT Petaling Mandraguna consistently provides training on the importance of wearing personal protective equipment (PPE) during working hours to prevent accidents and injuries from taking place. The company takes disciplinary action on workers who are found in breach of the policy. Every three to six months, PT Petaling Mandraguna also holds a health and safety committee meeting to review performance and ensure continuous improvement.

#### 3 LIVING ENVIRONMENT:



PT Petaling Mandraguna provides a decent living environment for its workers to ensure a comfortable stay. The company supplies free electricity and clean water, and handles domestic waste in a proper manner to ensure good standards of living. To increase residents' interest in sports and promote a sense of community, badminton courts were set up, based on the results of a vote. Food providers also deliver household goods on a daily basis, providing commercial opportunities for local businesses.

### OUTCOMES

The impact of PSEP visits and SVP workshops have been impressive. The initiatives helped PT Petaling Mandraguna improve current documentation processes and implementation of human rights standards in line with the key findings and inputs highlighted by the Apical visiting team.

The decrease in injury and accident rates has led to a reduction in insurance and medical costs and has improved productivity. The company was awarded a Zero Accident Award for two consecutive years as a result of the successful implementation of health and safety standards in the workplace. Workers are able to live in accommodation that are of good standards with all basic needs covered.

# 9 LABOUR RELATIONS

## FAIR WAGES AND EMPLOYEE BENEFITS

103-2, 103-3, 401-2

It is important for employees to be rewarded for their service and contribution to the company in the form of fair wages and other benefits. All employees of Apical receive wages that are above the minimum requirements set by the local and provincial authorities in Indonesia. Minimum wages are set according to the cost of living, factoring in the prices of local goods and services, as well as general living expenses. From Riau to Jakarta and North Sumatra where Apical operates, employee wages are typically higher than the minimum wage set by the provincial government.

### Lowest and Average Salary Paid to Apical Workers

202-1

	Riau (SDS, Apical Oleochemical, CEP)	Jakarta (AAJ Marunda)	Sumatera Utara (AAJ Tanjung Balai)
Minimum monthly salary set by the provincial government (IDR)	2,266,722	3,355,750	1,961,354
Average monthly salary paid to Apical workers (IDR)	2,740,009	3,685,395	2,253,742
Lowest Salary paid to Apical workers (IDR)	2,655,400	3,413,538	2,215,000

Moreover, all employees receive a range of additional benefits that include private medical insurance, with optical and dental care, and life insurance. In Indonesia, all workers also receive

housing facilities and home leave tickets. To motivate employees in keeping healthy and fit, Apical also gives monthly rewards in the form of daily groceries, such as cooking oil, to employees who achieve a good attendance record. Permanent employees in Indonesia are also eligible for our Motorcycle Ownership Programme (MOP) which provides subsidised loans for the purchase of a motorcycle.

### Empowering Local Communities

One of the most significant economic benefits from palm oil production comes from the creation of employment opportunities. Where appropriate to the needs of our work, priority for employment is given to the surrounding community. As of 2017, 70% of our workforce consists of local people. The gap between the skills available from the local community and the needs of the company, however, is quite large because factory work is highly driven by technology. This results in a demand for workers who have a certain basic understanding of the technology deployed. Where there are skills gaps, we provide continuous training programmes such as the Driving License Programme (DLP) for workers. We also frequently bring in external trainers to expose our workers to related industries so that they can adopt new skills.



Employees in Sari Dumai Sejati Refinery



## CASE STUDY:

# PROMOTING LOCAL EMPLOYMENT THROUGH THE PT APICAL KAO CHEMICALS JOINT VENTURE



Kao Corporation and Apical Group Limited have established PT Apical Kao Chemicals, a joint venture company for manufacturing fatty acids. The operation of the joint venture company is scheduled to commence in 2019 in Dumai, Riau, Sumatra, Indonesia.

We followed a fair, transparent and equal bidding process for the construction phase of the project. All local contractors had the opportunity to bid for the work, some of which are Small and Medium-sized Enterprises (SMEs), with less experience in this kind of project. To promote an inclusive supply chain, we gave them the opportunity to be part of the

construction of basic infrastructure, including the construction of roads, drainage and fencing with the idea that they could learn and gain experience from the main contractor.

This has boosted the confidence of the local contractors and is helping them to build their credibility and track record to bid in future projects. Once the JV project is in operation, we will also ensure jobs are offered to locals.

Additional business opportunities are also arising as the demand for groceries and accommodation needs to be met.

# 9 LABOUR RELATIONS

## TRAINING AND DEVELOPMENT

404-1

In line with our group's core values, Apical provides employees with personal development opportunities through training relevant to their scope of work. These enhance their knowledge and skills, which then enable them to perform better at their various tasks. The channels to do this are through formal and informal training, either on the job or dedicated training organised by management. As stakeholders are not only demanding products to be of high quality and safety standards but also to be sustainable, it is crucial that employees have the relevant skill set and attitude to meet this demand. Thus, the training and development programmes are focused towards:

- Product quality and safety assurance
- Quality management systems
- Safety and health requirements
- Environmental and social management

The various trainings provide employees with business, technical and managerial skills to

help them achieve key performance indicators (KPIs) set by the company. Such training ensures employees contribute towards better operations, product quality, and services in line with Apical's position as one of the leading palm oil processors and traders in the industry.

As part of Apical's future expansion plans, we will set up a Centre of Excellence and training centre for our current and future employees. As we prepare the future talent pipeline for all our new refineries in Indonesia and abroad, we will leverage on the technical subject matter expertise currently residing at the location of our largest refinery, Sari Dumai Sejati.

### Average Hours of Training by Employee Category

	Average Hours of Training
Non-Executive	1,380
Junior Management	862
Middle Management	290
Senior Management	9



Employees being briefed on Health & Safety



Fire fighting training at PT Petaling Mandraguna

## HEALTH, SAFETY AND WELLBEING

103-1, 103-2, 103-3, 403-2

Apical takes the health and safety of our employees seriously. Both our Health, Safety and Environment (HSE) and Risk Management teams proactively assess and work out procedures, policies and mitigation measures to minimise the risk of workplace accidents.

Apical promotes a safe and healthy work environment for all employees through Occupational Health and Safety (OH&S) training and appropriate facilities and infrastructure. New workers are given specialised training on how to protect themselves from exposure to hazardous work and are provided with personal protective equipment (PPE). Floor supervisors ensure that employees wear their PPE and that they follow established procedures. We strictly prohibit unfit and unauthorised personnel to operate machinery and harmful chemicals within our facilities. There were no fatalities in 2017.

	SDS	CEP	Marunda
Lost Time Injury (LTI)	7	0	0
Fatalities	0	0	0

Employees are also trained to handle HSE emergencies should they arise, using disaster scenarios via desktop simulations or drills. Some examples of scenarios include fire, accidents at the jetty, oil spills and civil unrest.

To promote the wellbeing of our employees, we facilitate medical check-ups and provide clinics along with the Badan Penyelenggara Jaminan Sosial (BPJS) insurance Scheme for our employees in Indonesia. Our employees in Spain and China are also entitled to similar medical coverage. We also encourage our employees to practice healthy lifestyles for general well-being.

To enhance our monitoring and reporting process for workplace related accidents, Apical is currently developing a new system for recording health and safety data by integrating data from the refineries. This will be implemented in phases starting 2019, following the analysis of current available data.

# 10

## COMMUNITY LIVELIHOOD

103-1, 103-2, 103-3

The palm oil industry brings about significant socio-economic benefits to the communities in Indonesia. Primarily, it presents new sources of income through jobs and trading opportunities, thus helping to alleviate poverty and empower people to secure better livelihoods for themselves. At the same time, we recognise that the development of our industry may adversely impact local communities, in particular indigenous people, giving rise to conflicts. As such, we are committed to respecting the rights of local and indigenous communities as well as promoting better livelihoods.



### RESPECTING THE RIGHTS OF INDIGENOUS PEOPLES AND LOCAL COMMUNITIES

411-1

Apical fully recognises and respects the rights of indigenous and local communities to give or withhold their Free, Prior and Informed Consent (FPIC) to the utilisation of lands to which they hold legal, communal or customary rights to. Through FPIC, indigenous communities can negotiate the conditions under which a new project will be designed, implemented, monitored and evaluated.

## WHAT IS FPIC?

### FREE:

A self-directed process by those affected to voluntarily give consent without coercion, intimidation or manipulation.

### PRIOR:

Consent is sought sufficiently in advance of any activities commencing or being authorised.

### INFORMED:

Indigenous group being impacted receive satisfactory information on the key points of the project.

### CONSENT:

The decision is made collectively by the right holders and reached through a customary decision-making process of the communities.

We ensure that a transparent and legal land allocation process is in place to prevent any land-related conflicts. We strictly follow national laws and regulations where we operate. Prior to any new development and expansion that may affect surrounding local communities and the environment, Apical will engage with accredited consultants and government departments to carry out Social and Environment Impact Assessments (SEIA) or AMDAL (Analisis Mengenai Dampak Lingkungan). This is applicable in Indonesia and aims to evaluate potential impacts from land-based developments. During this stage, any adverse feedback from communities and negative impact to the environment is taken on board for further assessment.

Our refineries operate on designated industrial zones authorised by the local government. In 2017, there were no incidents involving the rights of the indigenous peoples at our sites. There were also no incidents related to our suppliers. In case of such incidents, Apical will work with suppliers on corrective actions plans.

### CONFLICT RESOLUTION

103-1, 103-2, 103-3

At the forefront of our approach to handling community conflicts, we first aim to minimise the likelihood of cases arising through proactive and direct engagement with relevant stakeholders.

Should a conflict arise, we strive to work in a fair and transparent manner to resolve any verifiable complaint and conflict with all parties involved. Apical's Grievance Procedure, managed by a grievance verification team, has been established to ensure that all grievances and conflicts are dealt with and handled in a transparent and accountable manner. This team gathers the necessary information from all relevant parties before conducting field investigations with the aim of seeking resolution. The description of grievance related cases and the follow-up actions taken are logged and published on Apical's Sustainability Progress Dashboard.

### EMPOWERING COMMUNITIES

Apical prioritises the recruitment of local residents for employment as our primary focus to empower the communities where we operate and improve their living standards. In addition, as a responsible company, Apical engaged with adjacent villages to fill our commitment to empowering local communities. For example, our SDS Refinery at Lubuk Gaung, Dumai has implemented several CSR programmes for the local communities such as road and bridge construction, refurbishment of the mosque, repair of burnt primary school facilities, and scholarships for outstanding students. Other programmes seek to boost alternative livelihoods such as the establishment of catfish farms. The objectives of our CSR programmes were determined through dialogue between the management of SDS and the local communities, and are customised according to people's expectations and needs. Through these programmes, we seek to remain a socially responsible organisation.



Childcare centre at PT Mitra Unggul Pusaka



**CASE STUDY:**

**PT SARI DUMAI SEJATI  
SUPPORTS LOCAL  
COMMUNITIES**

203-1

**BACKGROUND**

Providing support to local communities through CSR initiatives is an important way for the company to build close relationships with the communities where we operate. In turn, this fosters cooperation and minimises social conflicts.

PT Sari Dumai Sejati (SDS) prioritised villages that are nearest to the refinery to provide support. To ensure no communities are marginalised, SDS is also working with companies in further locations to provide assistance. Key to the success of these initiatives is the close coordination amongst village representatives, the companies, and SDS to understand their greatest needs.

**ACTIONS**

From these discussions, SDS assisted villagers in setting up a catfish livestock programme to improve the income of local residents. As a trial, the villages are farming catfish which is the main freshwater fish receiving a high demand from local communities. In 2017, Apical contributed IDR 13 million for the purchase of fish farming tanks to support the programme.



Fish rearing as part of the community improvement programme at Sari Dumai Sejati Refinery

SDS also provided IDR 300 million for the construction of a deep well to facilitate access to clean water for villagers. An additional IDR 20 million was funded to procure and distribute garbage bins to several public areas.

**OUTCOMES**

The catfish farming has increased household income, since the fishes cultivated are not only sufficient to support the villagers' daily protein consumption but also enough to be sold at the market to earn extra income.

Installation of the deep well and provision of garbage bins have enabled easier access to clean water and improved the waste infrastructure of the villages respectively.

11  
**OUR  
CUSTOMERS AND  
CONSUMERS**

103-1, 103-2, 103-3

We recognise customers as our key partners to business growth. It is therefore important for Apical to work closely with them to meet their market needs and requirements for high-quality sustainable palm oil.

Our broad customer base includes traders, wholesalers, retailers and other businesses in the FMCG industry. We supply them with a range of quality edible oils, including CPO, CPKO, various forms of PPO, PPKO and Refined Soy Bean Oil (RBDSBO), all of which can be further processed into value-added products. Our customers, many of which are globally-recognised consumer brands, use our products as raw material to produce secondary goods.

Most of our globally recognised customers have adopted stringent standards in quality, safety, and sustainability. Our promise to customers includes supplying high quality and safe products that meet their needs through fair pricing, efficient distribution, and traceability to ensure sustainable practices.

**ENSURING PRODUCT QUALITY  
AND SAFETY**

Our customers rely on Apical to supply high quality and safe palm oil products. Through continuous innovation and improvements, Apical is able to meet the food manufacturers' stringent quality and safety requirements for oils and fats.

We appoint independent third-party accredited certification bodies to validate and verify the standards of our products regularly. Our palm oil products are GMP+ and HACCP certified for food safety, and Halal and KOSHER certified. We also adhere to the Palm Oil Refiners Association of Malaysia's (PORAM) standards for PPO and can tailor our product specifications to suit customer requirements.

Our bio-oils production facility in Spain is also certified to the Sustainability of Biofuels and Bioliquids standards.



Product quality control at AAJ Marunda refinery

# OUR CUSTOMERS AND CONSUMERS

## PROTECTING CONSUMER HEALTH

During the refining process, high temperatures are applied to achieve desired quality and safety specifications. This results in the production of co-contaminants 3-monochloropropane-1,2-diol or 3-chloropropane-1,2-diol (3-MCPD) and glycidyl esters (GE) in refined oils and fats. There has been growing health concerns related to these newly identified substances which prompted the European Food Standards Authority (EFSA) to issue a report in 2016 warning about the health consequences of products. In 2018, the EFSA has revised the acceptable levels of 3-MCPD and GE.

Multiple departments including Operations, Quality Control, and Engineering have been working together to understand the characteristics of these substances and how to minimise them to a negligible level. As processing temperature is one of the key factors that promotes the formation of these substances, our team in Apical has successfully improved the process by lowering the temperature and lengthening the retention time to achieve the required levels of 3-MCPD and GE.



An employee transfers our finished product for shipment at the AAJ Marunda Refinery



Margarine packaging process at AAJ Marunda refinery

## EFFICIENT DISTRIBUTION

The proximity to end-users enables Apical to react to market changes in the shortest time possible. For example, our Sari Dumai Sejati Refinery sources raw materials from suppliers within Sumatra which are then processed through state-of-the-art facilities. Its integrated operations allow for greater efficiency in response to changes in market requirements. In addition, our AAJ Marunda processing plant is located near the Tanjung Priok container terminal, which facilitates on-time delivery and export of our shipments.

Our Bio-Oils plant in Southwest Spain gives Apical a distinct logistical advantage. Its strategic location increases freight savings and offers access to one of the most technologically advanced loading and offloading ports in the Mediterranean region. The efficient logistics result in cost savings for Apical and our customers.

## SUSTAINABLE PALM OIL THROUGH CERTIFICATION

102-12, 103-1, 103-2, 103-3

As part of our commitment to promoting traceable and sustainable palm oil, and to meet the growing demand from our customers for certified products, we continue to participate in various industry schemes. These include adopting the standards set by the Roundtable on Sustainable Palm Oil (RSPO), Indonesian Sustainable Palm Oil (ISPO) in our operations (refineries, kernel crushing plant, biodiesel plant, and oleochemical plant) and the International Sustainability and Carbon Certification (ISCC) in our biodiesel plants.

We have gone beyond that by engaging our suppliers vigorously through the Shared Value Programme (SVP) and Priority Supplier Engagement Programme (PSEP). Moreover, we have formed a dedicated Supplier Engagement Team (SET) to forge greater FFB traceability and production of sustainable palm oil through globally recognised certification schemes. Technical support in the form of relevant guidance and implementation manuals is provided to help suppliers to kick-start their certification initiative.

We also engage with our global customers such as Unilever, Nestle, Bunge, Cargill and Kao Corporation for beneficial collaborations and shared knowledge on the latest development in the sustainability requirements of the market. This leads to continuous improvements and innovations in our sustainability journey.

## ROUNDTABLE ON SUSTAINABLE PALM OIL (RSPO)

Apical became an RSPO member under the category of palm oil processor and trader on 11 August 2011. Our refineries have obtained RSPO Supply Chain Certification since 2012.

As an RSPO certified company and one committed to transparency in its business operations, we have been reporting our sustainability efforts through RSPO Annual Communications of Progress (ACOP) since 2014.

## INDONESIAN SUSTAINABLE PALM OIL (ISPO)

We support the ISPO launched by the Indonesian Ministry of Agriculture in 2011 to create a single national standard for sustainable practices in the palm oil sector. The scheme aims to drive the competitiveness of Indonesian palm oil in the international market and helps Indonesia meet its commitment to ensure legal compliance as well as address other social and environmental issues.

## INTERNATIONAL SUSTAINABILITY AND CARBON CERTIFICATION (ISCC)

ISCC has been established as the first certification system for sustainable biomass and biofuels. Apical Group has been adhering to its principles continuously since 2010 to meet customers demand in supplying low GHG materials for their productions.

All of our Biodiesel plants are ISCC certified.

As of December 2017, 16.7% of our CPO came from RSPO certified mills, 12.5% come from ISPO certified mills, and 17.3% come from ISCC certified mills. Due to market trends, our purchase of non-certified oil has increased by about 15% since last year and therefore, the proportion of CPO that comes from certified sources is lower than in previous years.

## KAO TESTIMONIAL



**MR HIDEKI TANAKA**  
Executive Officer/Senior Vice President,  
Global Procurement, Kao Corporation

**Since Kao has continuously maintained close dialogue with Apical through our various collaborations in both financial and non-financial aspects, we are convinced that Apical has been making a great stride to implement its Sustainability Policy. We are pleased to see this second report as part of a symbolic step towards substantial progress in sustainable practices.**

In line with Kao's *Guidelines for Sustainable Procurement of Raw Materials and Guidelines for Suppliers' Assessment*, we continue to collaborate with our major suppliers on palm oil traceability verification and mill assessments. As Apical shares our core values on the aforesaid guidelines, we proactively work together, conducting site visits to Apical's suppliers in 2017 to verify traceability information and ensure transparency. Going forward in 2018, we are looking to further collaborate on assessing third-party mills by sharing assessment results and exploring additional traceability verification visits to other mills in our supply chain.

Whilst we admire Apical's continued efforts in promoting sustainable practices, we expect further transparency on the traceability of their third-party FFB suppliers as well as engagement efforts with these farmers to eliminate any potential risk of inconsistency with our standards. We acknowledge that the process to identify the source of FFB is a complex challenge felt across the industry. As a reliable supplier of raw materials, we hope that Apical will continue to explore practical methodologies for accurate and consistent traceability of suppliers.

We appreciate Apical's long term investment in the sustainability of the palm oil industry as well as its continued collaboration efforts with us. We look forward to accelerating the transformation of the industry together.

## NESTE TESTIMONIAL



**MR ADRIAN SUHARTO**  
Director,  
Sustainability (Interim) and Head,  
Stakeholder Engagement

**Apical has been a reliable supplier of sustainable palm oil products for Neste. We share a strong commitment to sustainability, as well as sustainability policies, such as the policy on responsible and sustainable sourcing.**

As we move forward, we have jointly identified some challenges we wish to address together. Apical and Neste both source from smallholders, both independent and plasma. With smallholders, the multiple layers of collectors involved in the supply chain add complexity to the tracing of the fruits back to the plantation.

The risk of mixing legal and illegal fruits from smallholders is high and has been widely reported in public as well as recently highlighted in our discussions with civil society and NGOs. Both companies have agreed that this risk needs to be efficiently mitigated and that, 100% traceability to the plantations plays a key role in ensuring continuous improvements in sustainability performance.

Recently Apical has started an initiative for building a traceability platform for smallholders. Neste together with other stakeholders of the industry support this initiative. The platform provides an effective, affordable tool to be implemented by the smallholders and the actors in between, enabling reporting of all the supply chain traceability data from the mill to the buyers of the palm products.

At Neste, we support and wish to contribute to this initiative. We also share the view that multi-stakeholder collaboration is critical in transforming the industry beyond our shared supply chain.

Neste congratulates Apical on its second sustainability report and in improving transparency. We hope that this approach will be followed by others in the industry, regardless of the size of the company.

# GRI STANDARDS INDEX

This report has been prepared in accordance with the GRI Standards: Core option. The table below presents our GRI content index, which specifies each of the GRI Standards used in the report with a reference where the information can be found. Where we were not able to meet the GRI Standards reporting requirements, we have included in the table the reason for omission.

Standard Disclosures			Page Reference and Reasons for Omission (if applicable)
Material Aspects	Disclosures	Indicators	
GENERAL DISCLOSURES	GRI 102		
1. Organizational Profile	102-1	Name of the Organization	2
	102-2	Activities, brands, products, and services	18
	102-3	Location of headquarters	8
	102-4	Location of operations	8
	102-5	Ownership and legal form	8
	102-6	Markets served	15
	102-7	Scale of the organization	15
	102-8	Information on employees and other workers	59
	102-9	Supply chain	20, 36-37
	102-10	Significant changes to the organization and its supply chain	8
	102-11	Precautionary Principle or Approach	22
	102-12	External initiatives	31, 73
	102-13	Membership of associations	31
2. Strategy	102-14	Statement from senior decision-maker	4-5
3. Ethics and integrity	102-16	Values, principles, standards, and norms of behaviour	12
	102-17	Mechanisms for advice and concerns about ethics	15
4. Governance	102-18	Governance Structure	14, 23
	102-20	Executive-level responsibility for economic, environmental, and social topics	23
	102-21	Consulting stakeholders on economic, environmental, and social topics	28-30
5. Stakeholder engagement	102-40	List of stakeholder groups	28-30
	102-41	Collective bargaining agreements	60
	102-42	Identifying and selecting stakeholders	28
	102-43	Approach to stakeholder engagement	28-30
	102-44	Key topics and concerns raised	28-30

Standard Disclosures			Page Reference and Reasons for Omission (if applicable)
Material Aspects	Disclosures	Indicators	
GENERAL DISCLOSURES	GRI 102		
6. Reporting practice	102-45	Entities included in the consolidated financial statements	8
	102-46	Defining report content and topic Boundaries	26
	102-47	List of Material topics	26-27
	102-48	Reinstatement of information	2
	102-49	Changes in reporting	2
	102-50	Reporting period	2
	102-51	Date of most recent report	2017
	102-52	Reporting cycle	2
	102-53	Contact point for questions regarding the report	3
	102-54	Claims of reporting in accordance with the GRI Standards	3
	102-55	GRI content index	76
	102-56	External Assurance	3
MATERIAL ISSUES			
Fire Prevention and Management			
	103-1	Explanation of the material topic and its Boundary	26, 51-52
	103-2	The management approach and its components	34, 51-52
	103-3	Evaluation of the management approach	34, 51-52
Free Prior Informed Consent (FPIC) for indigenous and local communities			
	103-1	Explanation of the material topic and its Boundary	26, 68
	103-2	The management approach and its components	34, 68-69
	103-3	Evaluation of the management approach	34, 69
	411-1	Incidents of violations involving rights of indigenous peoples	68-69
Human rights, including child labour			
	103-1	Explanation of the material topic and its Boundary	26, 60
	103-2	The management approach and its components	60
	103-3	Evaluation of the management approach	60
	408-1	Operations and suppliers at significant risk for incidents of child labour	60
Livelihood & Empowerment			
	103-1	Explanation of the material topic and its Boundary	26, 68
	103-2	The management approach and its components	69-70
	103-3	Evaluation of the management approach	69-70
	203-1	Infrastructure investments and services supported	70
	413-2	Operations with significant actual and potential negative impacts on Local communities	68-69

# GRI STANDARDS INDEX

Standard Disclosures			Page Reference and Reasons for Omission (if applicable)
Material Aspects	Disclosures	Indicators	
<b>MATERIAL ISSUES</b>			
	103-1	Explanation of the material topic and its Boundary	26, 49
	103-2	The management approach and its components	34, 49-50
	103-3	Evaluation of the management approach	34, 49-50
	304-2	Significant impacts of activities, products, and services on biodiversity	49-50
<b>Smallholder development</b>			
	103-1	Explanation of the material topic and its Boundary	26, 36
	103-2	The management approach and its components	35, 41-43
	103-3	Evaluation of the management approach	35, 41-43
	204-1	Proportion of spending on local suppliers	Information unavailable, we will seek to report on this disclosure for FY2018
<b>Stakeholder Engagement, including grievance handling</b>			
	103-1	Explanation of the material topic and its Boundary	27, 69
	103-2	The management approach and its components	69
	103-3	Evaluation of the management approach	69
<b>Sustainability standards and policy compliance</b>			
	103-1	Explanation of the material topic and its Boundary	27, 73
	103-2	The management approach and its components	34, 73
	103-3	Evaluation of the management approach	34, 73
	307-1	Non-compliance with environmental laws and regulations	Information unavailable, we will seek to report on this disclosure for FY2018

Standard Disclosures			Page Reference and Reasons for Omission (if applicable)
Material Aspects	Disclosures	Indicators	
<b>MATERIAL ISSUES</b>			
<b>Traceability</b>			
	103-1	Explanation of the material topic and its Boundary	27, 38
	103-2	The management approach and its components	35, 37-48
	103-3	Evaluation of the management approach	35, 38
	308-2	Negative environmental impacts in the supply chain and actions taken	41
	414-2	Negative social impacts in the supply chain and actions taken	41
<b>Governance, ethics and integrity</b>			
	103-1	Explanation of the material topic and its Boundary	27, 14-15
	103-2	The management approach and its components	14-15
	103-3	Evaluation of the management approach	15
	205-3	Confirmed incidents of corruption and actions taken	Information unavailable, we will seek to report on this disclosure for FY2018
<b>Product quality &amp; safety</b>			
	103-1	Explanation of the material topic and its Boundary	27, 71-72
	103-2	The management approach and its components	71-72
	103-3	Evaluation of the management approach	71-72
	416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	Information unavailable, we will seek to report on this disclosure for FY2018
<b>Wages and benefits</b>			
	103-1	Explanation of the material topic and its Boundary	27, 60, 64
	103-2	The management approach and its components	64
	103-3	Evaluation of the management approach	64
	202-1	Ratios of standard entry level wage by gender compared to local minimum wage	64
	401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	64

## GRI STANDARDS INDEX

Standard Disclosures			Page Reference and Reasons for Omission (if applicable)
Material Aspects	Disclosures	Indicators	
<b>MATERIAL ISSUES</b>			
<b>Waste management</b>			
	103-1	Explanation of the material topic and its Boundary	27, 55
	103-2	The management approach and its components	55
	103-3	Evaluation of the management approach	55
	306-2	Waste by type and disposal method	55
	403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	Information unavailable, we will seek to report on this disclosure for FY2018
<b>Worker health, safety and well-being</b>			
	103-1	Explanation of the material topic and its Boundary	27, 67
	103-2	The management approach and its components	67
	103-3	Evaluation of the management approach	67
<b>Emission reductions</b>			
	103-1	Explanation of the material topic and its Boundary	27, 57
	103-2	The management approach and its components	57
	103-3	Evaluation of the management approach	57
	305-3	Direct (Scope 1) GHG emissions	57
<b>Innovation</b>			
	103-1	Explanation of the material topic and its Boundary	27
	103-2	The management approach and its components	71, 73
	103-3	Evaluation of the management approach	71, 73
<b>Water management</b>			
	103-1	Explanation of the material topic and its Boundary	27, 54
	103-2	The management approach and its components	54
	103-3	Evaluation of the management approach	54
	303-5	Water consumption	54

## GLOSSARY OF TERMS

<b>AAALI</b>	– APRIL-Asian Agri Learning Institute	<b>OH&amp;S</b>	– Occupational Health and Safety
<b>AAT</b>	– Administration Assistant Training	<b>PKO</b>	– Palm Kernel Oil
<b>AAJ</b>	– PT Asianagro Agungjaya	<b>PPE</b>	– Personal Protective Equipment
<b>AMDAL</b>	– Analisis Mengenai Dampak Lingkungan	<b>PPO</b>	– Processed Palm Oil
<b>ART</b>	– Aggregator Refinery Transformation	<b>PSEP</b>	– Priority Supplier Engagement Programme
<b>BCSD</b>	– Business Council for Sustainable Development	<b>RBD</b>	– Refined Bleached Deodorized
<b>BoD</b>	– Apical's Board of Directors	<b>RBDCNO</b>	– Refined Bleached Deodorized Coconut Oil
<b>BPJS</b>	– Badan Penyelenggara Jaminan Sosial	<b>RDD</b>	– Rural Dynamic Diagnostic
<b>CORE</b>	– Consortium of Resource Experts	<b>RSPO</b>	– Roundtable on Sustainable Palm Oil
<b>CPKO</b>	– Crude Palm Kernel Oil	<b>RSS</b>	– Responsible Sourcing from Smallholders Programme
<b>CPO</b>	– Crude Palm Oil	<b>SDGs</b>	– Sustainable Development Goals
<b>DLP</b>	– Driving License Programme	<b>SDS</b>	– PT Sari Dumai Sejati
<b>EU</b>	– European Union	<b>SEIA</b>	– Social and Environment Impact Assessments
<b>FFB</b>	– Fresh Fruit Bunch	<b>SOP</b>	– Standard Operating Procedures
<b>FFVP</b>	– Fire Free Village Programme	<b>SPOM</b>	– Sustainable Palm Oil Manifesto
<b>FPIC</b>	– Free, Prior, and Informed consent	<b>SSL</b>	– Social, Security and Licensing
<b>GHG</b>	– Greenhouse Gas	<b>SVP</b>	– Shared Value Programme
<b>GRI</b>	– Global Reporting Initiative	<b>TAT</b>	– Traction Assistant Training
<b>HCS</b>	– High Carbon Stock	<b>TDD</b>	– Traceability Declaration Documents
<b>HCV</b>	– High Conservation Value	<b>TFA</b>	– Tropical Forest Alliance
<b>HSE</b>	– Health, Safety and Environment	<b>TFT</b>	– The Forest Trust
<b>ISCC</b>	– International Sustainability and Carbon Certification	<b>TOP</b>	– Traceability Outreach Programme
<b>ISPO</b>	– Indonesian Sustainable Palm Oil System	<b>TWG</b>	– Traceability Working Group
<b>LTI</b>	– Lost Time Injury	<b>UN</b>	– United Nations
<b>MPP</b>	– Mill Prioritization Process		
<b>MSP</b>	– PT Mitrasari Prima		
<b>NDPE</b>	– No Deforestation, No Peat and No Exploitation		
<b>NGO</b>	– Non-governmental organisations		