



PT Astra Agro Lestari Tbk

PROGRESS REPORT ON SUSTAINABILITY



**FIRST & SECOND QUARTER
UPDATE 2018**

INTRODUCTION

AAL has moved forward with the next step of the implementation of its sustainability policy with the completion of its three - year action plan draft. The final version of the draft has been shared to our key stakeholders for comments and inputs. The time bound-action plan contains a structured and systematic list of activities and milestones which functions as our guideline to ensure that our sustainability commitments can be properly realized across all of AAL's operations and supply chain.

In this report, we will also be updating our quarterly progress across Q1 and Q2 in relation to our targets which encompasses our commitment to no deforestation (deforestation monitoring, conservation initiative, fire prevention, responsible sourcing, conservation of peatland, and human rights aspects (workers' rights, and indigenous people's programs).

STRENGTHENING OF THE SUSTAINABILITY ORGANIZATION

A strong organizational foundation is the key for improved implementation of sustainability targets, therefore we strengthen the organization of our sustainability team by fusing various related departments into one entity to enable better interactions, conducive atmosphere, and coordination among each other. The enlargement of our team will aid us in tackling the main aspects of sustainability contained in our action plan which includes monitoring efforts, fire prevention, peat conservation, grievance mechanism, responsible sourcing - smallholder inclusion, stakeholder engagement, sustainability certification, corporate social responsibility, educational programs and facilities, worker and community engagement, and others.

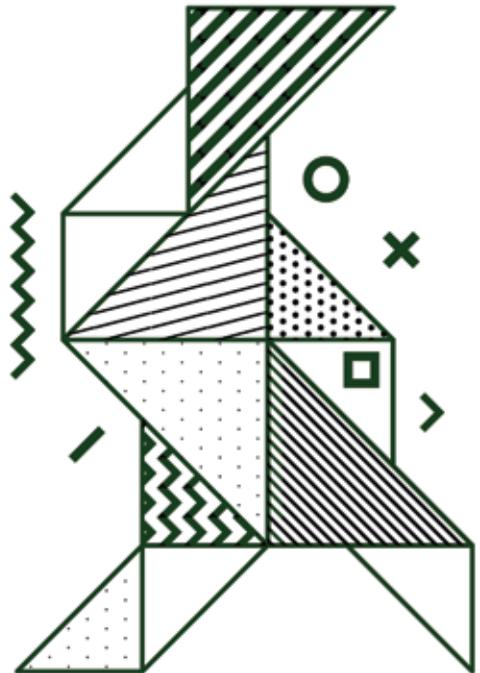


FINALIZATION OF THREE YEAR ACTION PLAN

The finalization of the three-year action plan is one of the main objectives of our work in Q1 & Q2 2018 and is a continuation of our series of preparation dating back to Q4 2017. The development process of our three year action plan consists of several steps including **(1)** compilation of ideas and supporting information **(2)** in depth review of gaps from all aspects of sustainability by compiling, extracting, assessing opinions, experiences, and perspectives from related departments/aspects as well as inputs and expectations from our key stakeholders **(3)** synthesis and formulation of gap analysis results into rational and logical targets, **(4)** formulation of time-bound implementation activities, **(5)** consultation with our top management, and **(6)** consultation to obtain valuable inputs from relevant stakeholders.

The final draft of the three year action plan has been completed in the beginning of Q2 and has been submitted to relevant stakeholders in May 2018 for inputs. Activities detailed within the action plan have already begun to be implemented during the first and second quarters of this year, despite the three

year action plan still undergoing its finalization phase.



NO DEFORESTATION

Throughout our routine monitoring efforts, we can confirm that not a single case of deforestation had occurred in our concession during Q1 and Q2 of this year just as we have achieved before, following the publishing of our Sustainability Policy. Our approach to “No Deforestation” also applies to our supply chain, with this approach continuously conveyed to them and through our due diligence process and supplier compliance monitoring mechanism. This entire interconnected process is mandatory so as to ensure that the companies in our supply chain will exercise significant efforts into avoiding acts/steps that may lead to deforestation.

HCV Management

In the past, AAL has identified and assessed all HCV areas in its concessions internally by using the latest version of HCVRN Common Guidance. Moving on to the next phase, we are planning to review our HCV assessment and monitoring by involving accredited



assessors in order to increase the credibility of our report and to be in line with the latest HCVRN Common Guidance. In 2018, this project focuses on subsidiaries located in high-risk landscapes and / or have large forested areas in their concessions. A rapid review for the HCV reports on three (3) of our subsidiaries has been conducted by CORE and the results of the review reveal the key points for improvement required by AAL specifically the quality of landscape maps since it is the main requirement for a foundation to develop appropriate biodiversity management strategy.

At the same time, we continue the monitoring of biodiversity and ecosystem in our concession by continuously inventorying, recording and documenting the various wildlife species inhabiting it. The results of species monitoring will be reported annually in our annual report and also conveyed to the Nature



Resource and Conservation (BKSDA) under the Ministry of Environment which is also required by ISPO certification.

Key findings from the HCV monitoring will be followed up with actions to address locally specific species/habitat issues in question. The elephant is a priority species of particular concern to us and we have initiated an elephant conservation program since three years ago in Aceh Jaya, and in this semester we have just signed a collaboration extension with BKSDA for the next phase.

Rehabilitation Program

We focus our rehabilitation program on riparian ecosystem because it plays a key role for the continued survival of species by ensuring the availability of foods and habitats. We have initiated this program since many years ago and we divided our riparian rehabilitation program into two different types of riparian i.e fresh water and saline water (mangrove). Tree planting is the main activity in this program and the need of seeds for planting is determined by the size of planting area following replanting program :

1.Fresh Water Riparian

For the year of 2018, our target plan is to plant 30,000 trees along riparian spread across 28 subsidiaries and as of June 2018, we have

planted 14,242 trees across 15 subsidiaries.

2.Mangroves

Concerning the planting of mangroves, as of June 2018, the Company has planted 56,438 mangrove trees with a year-end target of 90,000 trees planted in three different areas including Aceh Singkil, Paser (East Kalimantan) and Mamuju. In Aceh Singkil, we successfully involved related stakeholders (local people-local government) through tripartite collaboration model.



In the past, we run this program by relying on our own expertise, therefore our next target is a thorough evaluation with external relevant experts in order to ensure that the program reaches its full potential.





Elephant Conservation Program

The ultimate goal of the program is to promote the conservation of the elephant population through human-elephant conflict mitigation and ecotourism. The project is located in Aceh Jaya and consists of two phases :

a. Re-establish the existing conservation response unit (CRU) through multi-stakeholder collaboration (AAL, BKSDA, Local Government, and Local Community).

b. Developing eco-tourism to generate income for the local community.

The project first started in 2015 and since May 2018, we are entering the second phase with the signing of a contract extension. The details of this program can be seen on our website.



CONSERVATION OF PEATLAND

Our targets for the improved management of peatland consists of focusing on two aspects: **(1)** water monitoring system, which is in full accordance with Government regulations and **(2)** the collaboration on peat research with relevant parties.

Water level monitoring system (WLMS)

WLMS is run in accordance with existing regulations and in intensive consultation with the Ministry of Environment which covers following the aspects: **(a)** the determination of water monitoring plots **(b)** setting up water monitoring equipment in the field and **(c)** implementation of water level monitoring.

Research Collaboration

We have initiated a mutually beneficial research collaboration with the Ministry of Agriculture to evaluate the existing peat management practices with the ultimate goal to gain improved peat management system that can ensure the optimum maintenance of managed peat from potential fires and degradation. This collaboration was first initiated



at the end of last year. Moreover, we have successfully moved forward with the following steps :

- a.** The formulation of ideas lead by the Ministry with the involvement of relevant experts from various universities.
- b.** Research design and objectives including field surveys followed by intensive discussions and engagements.
- c.** An agreement on the fixed methodology.
- d.** As of the end of the second semester, we have signed the MoU with the Ministry of Agriculture.



FIRE PREVENTION PROGRAM

Our monitoring results in Q1 and Q2 indicate that neither hotspots nor fires had occurred in our concession, however several hotspots and fire spots were discovered to have occurred in the villages surrounding the company and were quickly resolved in less than two hours through collaborative efforts between the company and the local community. This shows that our system functions as expected.

Trainings

Qualified human resource is the key for the success of the program. In this semester, 28 individuals from 26 subsidiaries positioned as team leaders, have been successfully certified from "Training of Basic Fire Control System" hosted by Center for Education and Fire Training (PUSDIKLATKAR) DKI Jakarta Province in Ciracas, East Jakarta. This training focuses on increasing the capacity of the fire team organization and the ability in identifying and organizing of fire equipment needs as well as how to make ready to properly respond to fire accidents.

For the fire prevention brigade, there are 400 supporting staff across 26 subsidiaries targeted to have appropriate fire prevention related skills. In 2017, 85 staff members have been certified from our inhouse training program, and in this semester, 70 staff members received certificates for their attendance in inhouse trainings. This inhouse training is conducted in collaboration with Manggala Agni (under the Ministry of Environment) with the aim to promote skilled human resource in fire prevention program.



Fire Awareness Campaign

The campaign on the importance of fire prevention is conducted with the following objectives: **(1)** understanding the issues, then provide said understanding to the employees and their families regarding the danger and the impact of fires, **(2)** ensure capability to use simple fire extinguishers/manuals, intended for use by anyone who is aware of the causes of fires and carry out quick extinguishment with simple tools/manuals and **(3)** able to prevent fires occurring on land, himself and/or his family. Up until the second quarter, a total of 13,667 out of 31,095 total employees from 26 subsidiaries have received awareness by way of socialization and early fire control practice using manual extinguishers. Socialization also covers the causes of land fires, how to anticipate them and the use of manual fire extinguishers and APARs. Fire awareness campaign has also been initiated for students attending our seven corporate schools (primary, junior and high schools) with the purpose to instill early child awareness to safeguard the environment from fires.

Self-Auditing Fire Prevention System

The development and dissemination of the fire prevention system audit tools to 26 subsidiaries have been done in Q1 of 2018. Basically, "Self Audit" serves as a

tool to ensure that the fire prevention systems are well implemented in the field through comprehensive assessment of all fire prevention related aspects. Through this audit, we are able to identify key factors affecting the success or the failure of each subsidiary in fulfilling the standardized requirement for the readiness of fire prevention. The audit process began in the middle of Q2, and it is expected to be completed by the end of Q4.

Fire Prevention with Local Community

In Q1 & Q2, we successfully developed 10 new MPAs thus making our total associated MPAs 70 (60 MPAs have been established between 2016 and 2017). This network extension is expected to enable us in decreasing fire risk in our surrounding concession. Villagers' capacity to respond to fire accidents is also crucial, therefore we also conduct in house trainings for members of the MPA. In this semester, 25 representatives from 5 MPAs have joined our in house training and have been successfully certified. This inhouse training was conducted in collaboration with Mang-gala Agni with the aim to increase the ability in conducting fire warning and early detection systems, the proper use of fire extinguishers and maintenance methods.



RESPONSIBLE CPO SOURCING

Traceability to Mill

AAL has achieved 100% traceability to mill for the period of January – June 2018. There are 48 mills (20 internal mills and 28 external mills) supplying our refineries for the first half of 2018. There are three new suppliers entering our supply chain after having passed our due diligence procedure.

Supplier Compliance Monitoring and Handling of Non-Compliant Suppliers

The main objective of supplier monitoring is to ensure that our suppliers comply with our NDPE policy in which all of our suppliers must pass our supplier compliance mechanism. Based on the results of our desktop monitoring, four suppliers are indicated of being high risk due to the hotspots identified in their areas. These findings have been communicated with those suppliers for confirmation and clarification. Three of the four aforementioned suppliers have confirmed that there are no fire-spots in

their concession. As hotspots seen in satellite data are not always related to active fires on the ground, we accept that there may be false alarms on a case-by-case basis. As for the fourth, we are still awaiting clarification.

We have identified one company in our supply chain with indications of deforestation. We have responded to this by taking the necessary steps to obtain clarification from the company in question and develop corrective actions to address the issue. Intensive communications are currently ongoing to monitor the implementation of corrective actions. We will provide the necessary assistance required to our suppliers to ensure compliance with our NDPE Policy.





FFB SOURCING

Basic Training for Traceability Team

In order to increase the competency of the traceability team, internal capacity building in the form of basic training for the team has been accomplished in June 2018. This training (Introduction to the basic understanding of FFB traceability) has been in effect since Q3 2017 in which 199 team leaders were trained and for 2018 that number has increased by 39 team leaders. Our overall aim is to station 237 trained team leaders across 31 internal mills.

Traceability to Plantation Progress

As we have explained previously, the target this year is to complete traceability to the first-tier suppliers, namely those suppliers (dealers/agents/middlemen) who hold a DO to supply directly to the mill. These supply chain actors are the intermediaries between the mill and smallholders. Up to Q2 2018, 73% traceability has been achieved at the DO holder level with the remaining looking to be completed within this year.



Smallholders

Based on FFB sourcing data from 2017, 18% of our external FFB supply is from associated smallholders (operator scheme and partnership scheme). Our objective is to increase the number of associated smallholders through our partnership scheme. As of December 2017, there were 39,308 ha of land in which smallholders joined the scheme. As of June 2018, our partnership scheme program has been extended to span an area of up to 39,416 Ha across AAL's subsidiaries. By the end of 2018, our set target is a 3% increase in hectares or about 40,600 Ha.

Due to the immense popularity of the program, many smallholders were enthusiastic in participating in our partnership scheme. These programs are offered based on specific needs and conditions in each region and cover a wide variety of aspects such as fertilizer, transportation and infrastructure management. These programs are expected to strengthen relationships, build trust, care, and mutual benefits (economic, social and environment) between the company and all of its suppliers.



HUMAN RIGHTS

We adopt the principles contained in the United Nations Guiding Principles on Business and Human Rights into our practices.

Worker's Rights Strategy

AAL has mechanisms/systems in place to ensure the rights of workers are respected and fulfilled which includes collective labor agreement (CLA), standard operating procedures, internal memo and excellent golden rules. These mechanisms function as guidance for the implementation of our worker's rights strategy in the field. To ensure that the system and worker's rights are fulfilled, AAL adopted the Human Capital Audit Tools developed by Astra International as an audit platform for internally monitoring the evaluation of the level of implementation of labor management systems. Internal audits are conducted for all subsidiaries to evaluate their level of performance against the developed indicators.

AAL also facilitates the formation of a worker-based social community known as "the paguyuban" to enable a conducive atmosphere for social activities within the employee housing environ-

ment. It serves as a function in which a strong sense of community and familial belonging can be fostered. For our workers, the paguyuban ensures that there is adequate housing, the availability of clean water, health, education, security and welfare facilities that are sufficient for them and their families according to the standards set. In addition to the socialization aspects, the paguyuban can also function as a tool in which workers' disputes can be resolved whether they occurred in the workplace or in the residential areas. The company supports the community through social activity funding and assisting paguyuban activities with the aim of improving the satisfaction and comfort of employees throughout their stay in the residential area. AAL's long term goal is the self-sufficiency of the Paguyuban.

Posyandu

Community health activities are organized in the form of Integrated Health Service Posts (POSYANDU) in collaboration with local health authorities to ensure the health of children, pregnant women and breastfeeding mothers. POSYANDU activities are conducted by the wives of employees who are not employed and receive training and



assistance from qualified medical personnel.



Child Care Services and Education Facilities

Community-organized social activities include Child Care Services, religious activities, sports, arts, environmental security, and the maintenance of home and public facilities.

The company-led community organization organizes early childhood education in 313 Child Care Centers to ensure that every child under five years old has access to proper child-rearing and health care during their parents' working hours. The Company continuously conducts training and support activities for 517 caregivers who also happen to be the wives of employees.

In terms of education, the children of our employees are provided high quality education at the pre-school (37 facilities with 3,216 students), primary (13 facilities

with 4,903 students), and junior high levels (9 facilities with 2,349 students). In order to provide best education services, we hired 476 qualified teachers that have been equipped with pedagogic competence, information technology, and literacy.

Workers Protection from Hazardous Chemical

The safety of our workers when utilizing pesticide on the field is of the utmost importance to AAL. For Q1 and Q2 2018, in collaboration with FMC (Food Machinery Corporation), AAL initiated a training program in order to better socialize and educate its workers on the proper use of pesticide and the necessary safety precautions needed when using said pesticide. This ranges from proper use of safety equipment and the proper application of pesticide against pests.

The training consisted of pesticide classifications, exposure of the human body to pesticide, explanations on the effects of pesticides towards plants (and its immediate surroundings), correct use of pesticide, instructions on self-cleaning after harmful contact with pesticide, and proper use of safety gear during operations. Our joint training program was conducted in six (6) of our subsidiaries with a total of 89 participants from a target total of 252 participants from all subsidiaries.



INDIGENOUS LOCAL COMMUNITIES (ORANG RIMBO)

Regarding the Orang Rimba Special Program, we continue to evaluate and improve our services for the Orang Rimba, which are based on the results of the identification and verification from field visits involving CORE, WARSI and PT SAL in 2017 directed toward the OR population of 217 families consisting of 5 groups and 12 sub groups. From those five groups, two group entourages reside in the area of Bukit Dua Belas National Park (BDNP), and the rest (the other three groups) of the entourage reside and conduct activities outside the National Park area. However, some of them are mobile in between the BDNP and outside of the BDNP.

We continuously engage with related institutions especially the government, in order to answer problems face by the Orang Rimba specifically health, education and livelihood. It is important to note that the Government plays a very crucial role in this matter seeing as the Orang Rimbo are part of the collective Indonesian nation, therefore they are deserving of access to public services including healthcare and education that is provided by the Government.

PT SAL's concession is managed and provided by the Government in accordance with existing regulations. PT SAL has always been willing to assist the Government in Orang Rimba related challenges. This assistance was first provided since 2001 and to this day, year to year improvements are made in order to increase their quality of life in line with many other Indonesian citizens. With respect to health care, we realize that the Orang Rimba's access to health facilities are limited, most notably for those who reside within the forests of BDNP. The aim of the project is to increase the ease of accessibility of the Orang Rimba to health facilities through preventive, curative, and promotional approaches. For this purpose, PT SAL has established two clinics for the Orang Rimba to obtain medicinal services as well as also conducting mobile health services where our health team (which includes doctors & nurses), regularly visit the Orang Rimba in the forests to provide them with medical services. AAL developed this approach due to the fact that the Orang Rimba continue to exhibit





a low sense of awareness towards the importance of proper healthcare with some of them continuing to deliberately avoid the clinics. Thus, for the time being, we carry out mobile services to address this challenge.

Regarding the aspect of education, their lack of real world - applicable knowl-

edge and accessibility to educational facilities puts them at a disadvantage compared to other Indonesian citizens. This is particularly true for the young generation of Orang Rimba who have to face the prospect of a future beset by modernity. Realizing this challenge, we have established educational facilities ranging from pre – schools to secondary education. For this purpose, we also collaborate with the Ministry of Education



to ensure that all students graduating from company established schools will be held in the same esteem as other graduates. With this access, they have the opportunity to continue their studies in formal education provided by the Government. Our approach to the education program is to provide them with an educational transition process to ease their shift from informal to formal education. At this current time, there are five transitional schools catering to 174 school – aged children of the Orang Rimba by involving qualified teachers including those who are members of the Orang Rimba themselves. We realize that our program has yet to cover all school – aged children from targeted Orang Rimba, but we believe that the number of children joining the schools will increase in the near future. The most daunting challenges are the fact that “hunting culture” and “melan-gun” of the Orang Rimba often pull entire families, including children, to stay in the forests for weeks to months on end, thus preventing their children from joining our program. We also provide scholarships for children to continue their high school studies in urban areas in order to provide them with broader social networks. Currently, there 18 children have received this scholarship, with four of them successfully enrolled in high schools in Yogyakarta where the

city is famously known as the “City of Education”.

Regarding livelihood, we have initiated a number of programs since 2001 and we continue to learn and improve our program based on prior results. Some examples of the programs given to the Orang Rimba include providing them land for oil palm plantations, helping them with housing, and agriculture. The government has provided them with housing and cattle, however, many of them do not actually live in said houses and some would often sell the cattle given to them. Furthermore, the oil palm lands given to them have also been sold. However, a number of them have learned how to build income properly thus allowing them to accumulate a lot of wealth. Unfortunately, the remaining are still in a disadvantageous position, especially for those of the nomadic community. Learning from the past, we engage with various related stakeholders to gain a broader perspective on how to develop the best approach for the livelihood issue. Over the last six months, we have been working with BDNP to develop programs to cover Orang Rimba residing inside the National Park. The MoU with National Park has been signed with the focus on



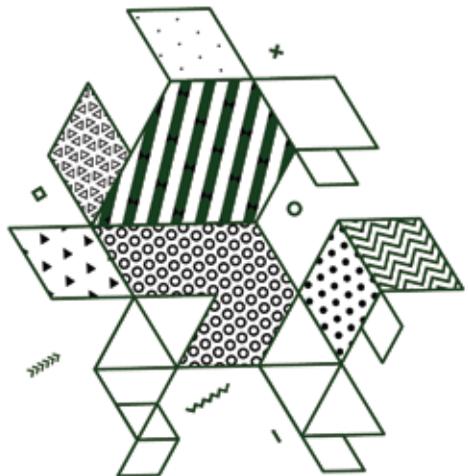
education, health and enrichment of National Park with plant species beneficial to the Orang Rimba such as Jernang, Durian etc. This is based on the experience of National Park team recording the Orang Rimba harvesting Jernang for economic purposes.

Further inquiries can be directed to

Dr Bandung Sahari,

Vice President of Sustainability

bsahari@astra-agro.co.id





Prosper with the Nation

PT **Astra Agro** Lestari Tbk

Jl Pulo Ayang Raya Blok OR-1
Kawasan Industri Pulogadung
Jakarta Timur, Jakarta
13930-Indonesia
Phone : (62-21) 4616555
Fax : (62-21) 4616682,4616689
Website : www.astra-agro.co.id

