



PT ASTRA AGRO LESTARI Tbk.



PROGRESS REPORT ON SUSTAINABILITY

From **May** to **September 2017**

INTRODUCTION

The purpose of this update is to provide Astra Agro Lestari's stakeholders and other interested parties on the company's progress in implementing its Sustainability Policy ("Policy") announced in September 2015. This update is a follow up to the last published update from May 2017.

Efforts in the second and third quarter of 2017 continued to focus on stakeholder engagement to ensure a broad understanding of priorities and improvements needed in the Policy implementation, and internal capacity building and establishment of internal monitoring and verification processes. This included meetings with priority business partners, buyers and suppliers, communication and workshops with employees across all operations, progress on mitigation of identified risks in AAL's operations, as well as assessing suppliers' sustainability practices at mill and group level and progress in the development of a grievance procedure. AAL has also continued with significant efforts to identify and provide concrete solutions for Orang Rimba communities in Jambi.

STAKEHOLDER ENGAGEMENT

In continuation of AAL's stakeholder engagements, we had discussions with NGOs such as Greenpeace regarding risks associated with our suppliers and grievance procedures. Engagement efforts with Warsi and government entities were also our focus during Q2 and Q3 which is described in more detail in the discussion regarding the Orang Rimba below. We have also engaged with buyers regarding the implementation progress of AAL's Policy with emphasis placed mostly on traceability progress and development of grievance mechanism.

INTERNAL CAPACITY BUILDING

During Q2 and Q3 2017, an internal capacity building program focused on three target groups including AAL's sustainability team, operational managers, and field assistants for FFB sourcing mapping.

Strengthening sustainability team

One of our key focuses in the past two quarters was for AAL to build a strong Sustainability team. The Sustainability team has come a long way since its early stages and is now well established and consists of members with the necessary skillsets responsible for sustainability implementation across the company. Our team consists of professionals with backgrounds in biodiversity, forestry, international relations, spatial analysis, and environment science. The sustainability team works closely with Smallholder Partnership and Community Development Team to tackle social-related aspects. Our matrix system also allows the sustainability team to connect all necessary functions and operational teams across plantations and cooperate with them in developing time-bound action plans for the implementation of the Policy.

In order to enhance their capacity in engaging broader sustainability related issues, our sustainability team members also actively attended various training programs hosted by our buyers such as GAR, Wilmar, and Apical. The team also actively took part in several meetings including the HCS Approach Meeting (May 2017) and Innovation Forum on how business can tackle deforestation (17-18 October 2017, Jakarta).



Knowledge Enhancement for Operational Managers

The success of the implementation of our sustainability policy in all AAL's operations cannot be separated from the role played by key components, especially operational managers. Therefore, embedding AAL's Policy commitments into its own operations is very important. Several internal workshops on AAL's Sustainability Policy and its implementation facilitated by CORE were held in the head office and attended by AAL's directors, division heads, department heads and operational managers across all of AAL's operations with a total of 108 participants across all of the Company's departments. The workshops were conducted using interactive methods to easily convey a wider spread of knowledge regarding sustainability objectives and targets to all operational managers. Through these workshops, operational managers obtained a better understanding on how they play an active role in the implementation of our sustainability commitments in all of AAL's operations.



Sustainability Workshop, 26 - 27 September 2017

Training Field Assistants for FFB sourcing mapping

FFB sourcing mapping is an extensive effort for which the involvement of a high number of field assistants to collect primary information from FFB supplying farmers to our mills is required. Initial workshops and training sessions on mapping of FFB sourcing were delivered to the field-level assistants in five different regions including Aceh, Jambi, Riau, Central Kalimantan, and West Sulawesi with a total of 199 participants. These first round workshops were conducted to provide a foundation for the participants regarding the objectives, targets, and methodologies for FFB sourcing mapping. A second round of capacity building workshops and training for FFB sourcing mapping is currently under development.

POLICY COMMITMENT PROGRESS

I. Responsible Sourcing and Traceability

Traceability to Plantation

As of June 2017, 51.84% of total FFB volumes received by 31 AAL owned mills originated from the nucleus (AAL's own estate), 16.92% from Plasma/KKPA and 31.24% originating from third-party sources. All FFB volumes originating from the nucleus have already been verified, however Plasma/KKPA and third-party sources indicate 48.16% of total FFB volumes are still undergoing verification process. Currently, we are undertaking ongoing field verifications and supplier engagements for high risk mills based on high risk assessments conducted by CORE. We also collect FFB supplier data and classify suppliers based on risk indicators to support our sustainability risk evaluation across AAL's operations. We have faced some challenges in obtaining FFB supplier data from dealers due to concerns arising from the mapping of plantation of locations. However we are in the process of improving our data gathering methods with regards to palm oil dealers. Moreover, alongside field verification and supplier data collecting activities, we are also developing a new traceability system which will allow us to gather traceability to plantation data more efficiently.

Third party CPO suppliers

Traceability to mill was assessed by compiling information related to volume, geo-location (address and coordinates), and parent companies. The information was extracted from questionnaires sent to suppliers, public domain, and transaction records from our database, and verified by CORE. AAL has identified and verified all CPO suppliers for our Joint Venture refinery Kreasijaya Adhikarya (KJA) and Tanjung Sarana Lestari (TSL) refinery, and the CPKO suppliers sourcing to Tanjung Bina Lestari (TBL) refinery. AAL achieved 100% traceability to mill (as of June 2017).

Number of mills supplying our refineries – (Refinery sourcing data as of June 2017)

Refinery Sourcing			
No	Refinery	Mills	
		Internal (Owned)	External (Third-Party)
1	KJA (Joint venture)	13	25
2	TSL	15	3
3	TBL	10	4

Responsible sourcing

AAL has been developing internal mechanisms to evaluate both potential sources that are expected to be in our supply chain as well as to monitor and verify compliance of existing suppliers. For any new potential sources, a due diligence process takes place before a final purchase decision is made. This due diligence process is applied to both the supplying companies and their parent companies. This procedure covers several steps including risk assessments (looking at deforestation, land fire history, peatland area, and forest zone), based on secondary information available in the public domain, AAL's NDPE questionnaires sent to potential suppliers, and interviews with suppliers and other relevant stakeholders. Field verification can be if any significant risk is identified.

For existing external suppliers, monitoring of risk is conducted by compiling and assessing information available in the public domain, or provided to us by suppliers, partners, CORE and other stakeholders. Questionnaires have been sent to existing suppliers related to NDPE policies. When incompliance is identified, the necessary course of action will be taken in accordance with our stakeholder engagement. An engagement procedure for high risk resources on necessary actions to ensure compliance with our Sustainability Policy are established. If no progress is made during the engagement process with high risk suppliers, suspension becomes an option.

Concerning internal sources, all our mills were risk assessed by CORE, and the results have been documented in our previous report. The next plan is for CORE to conduct independent verification assessments for high risk mills starting from November 2017.



II. No Deforestation and No Development on Peat

No development of High Carbon Stock (HCS) or High Conservation Value (HCV) areas, and conservation of Peatland

Prevention of deforestation of HCV Areas is run by establishing programs as described below

- (1) Regular monitoring through landsat images and ground checking. All data from downloaded images have been analyzed and the results will be verified by way of ground check work on the field. If there are any deforestation activities are discovered in any of the HCV areas, necessary actions will be immediately taken. Company members are not permitted to perform any actions that result in deforestation. We record that up until the time this report was written, no instances of deforestation have been discovered within.
- (2) HCV management is maintained through various activities, including flora-fauna monitoring, established rehabilitation programs, and engagement with local communities residing in neighboring HCV areas. The results of these activities are reported annually.

Along with HCV Area monitoring, we have also followed the HCSA (High Carbon Stock Approach) Forum in order to obtain updated information and new approaches regarding the usage of the HCSA toolkit. The toolkit laid out by the HCSA will be applied to the development of any new plantations.

No burning

As a continuation of our commitment to prevent forest fires, we have established the MPA (Masyarakat Peduli Api – Community Cares about Fires) in 2016 which at the time had only 48 MPAs. Now as of June 2017, we have successfully established 60 MPAs in all of our areas of operation. Furthermore, we are improving the quality of our fire equipment, while also conducting field training with the fire brigade in collaboration with Manggala Agni, a fire prevention organization developed by the Ministry of Environment and Forestry. The field training with Manggala Agni was attended by 72 members of Astra's operational teams in East and South Kalimantan.

III. No Exploitation of People and Local Communities

Indigenous Local Communities – Orang Rimba

AAL is always committed to the respect and protection of human rights of AAL's workers and contractors, as well as indigenous peoples and local communities in areas adjacent to AAL operations. As mentioned in our previous report, special programmes for the Orang Rimba have been established by AAL's subsidiary, PT SAL, and has been identified as a key social priority for AAL to demonstrate its commitment to resolve complaints, grievances and conflicts.

AAL has been developing special programs for Orang Rimba related to education, healthcare, and housing since many years ago. In order to double the impact and improvement, in 2016, AAL in collaboration with CORE conducted extensive field visits, internal staff consultations, external stakeholder meetings, interviews with key informants, literature reviews, and assessments of ongoing CSR activities and other relevant and existing programmes in the region. The aim of this work is to identify a set of suitable potential solutions for the Orang Rimba population living in close proximity to PT SAL, while also ensuring sustainable land-use and improved livelihood in the long-term. The results have been described in the previous report. AAL is now moving forward to involving various related stakeholders including the Government (local and central) and WARSI to work together to resolve the Orang Rimba Issue.

For Government engagement, AAL has been coordinating with Balai Taman Nasional Bukit Duabelas managing the National Park where many Orang Rimba reside. In addition to our coordination with TNBD, AAL was also involved with a series of meetings hosted by the Director General (DG) of Social Forestry and Environmental Partnership Under the Ministry of Environment of Forestry. The last meeting which took place in June of this year, the Director General invited various related stakeholders including the local Government, the National Park, and Warsi. Prior to the meeting, extensive field visits to Orang Rimba community was conducted by the DG team in order to get a better understanding and overview of the Orang Rimba issue. Some plant species have been recommended for improvement of Orang Rimba livelihoods including local fruits, jernang, ginger and medicinal herbs.

AAL has also started engaging with key government institutions including Balai Penelitian Tanaman Buah Tropika (Balitbu Tropika) in Solok, West Sumatra, Balai Penelitian dan Pengembangan Lingkungan Hidup dan Kehutanan (Balitbang LHK) in Palembang, Balai Penelitian Teknologi (BPTP) in Jambi, and Balai Penelitian Tanaman Rempah dan Obat (Balitro) that are expected to provide the necessary expertise on the cultivation of the identified forest crops.

In parallel with the processes above, we have been communicating with Warsi to deliver on our commitment to resolve the Orang Rimba issue.

NEXT STEP

AAL is committed to building upon the solid foundations provided during the first phase of implementation of its Sustainability Policy, with special focus on the preparation of a three-year Action Plan for complete implementation of its Policy commitments. The Action Plan is scheduled to be finalized by the end of 2017.

The collection of more detailed FFB traceability data is currently underway. A comprehensive needs assessment for Orang Rimba livelihood program, the development of grievance mechanism, engagement with high risk suppliers, field verifications, development of a sustainability dashboard, and intensive engagement with the government, NGOs, buyers/suppliers and academic institutions regarding our Sustainability Policy, are the key Company's priorities for this year. We will then move forward with our 3-year action plan and the publishing of AAL's new sustainability dashboard in Q1 2018.

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