



PT Astra Agro Lestari Tbk

**PROGRESS
REPORT ON**

SUS TAIN ABILITY



**FROM
OCTOBER TO
DECEMBER 2017**

INTRODUCTION

The purpose of this update is to provide Astra Agro Lestari's stakeholders and other interested parties an update on the company's progress in implementing its Sustainability Policy ("Policy") announced in September 2015. This update is a follow up to the report published on October 2017, focusing on AAL's efforts through the months of October – December 2017.

During the quarters of Q1, Q2 and Q3 of 2017, Astra placed emphasis on increasing stakeholder engagement, internal capacity building, traceability progress, establishment of responsible sourcing processes, and continuous significant efforts to identify and provide concrete solutions for Orang Rimba communities in Jambi. During the fourth quarter (Q4), we focused our efforts on preparation for the development of AAL's 3 year action plan, preparation of action plans for subsidiaries to comply with the Policy, completion of internal mechanisms and structures for responsible sourcing and grievance resolution, and continued our efforts regarding solutions for Orang Rimba communities.



STAKEHOLDER ENGAGEMENT

Throughout Q4, AAL successfully engaged with buyers to update progress on the implementation of AAL's Policy, specifically responsible sourcing, grievance mechanism and potential future collaborations. Intensive communications with suppliers were established to raise awareness around our plans to create an accountable supply chain, to ensure supplier compliance to AAL's Policy and to seek resolution for grievances.

At the same time, AAL continues to conduct direct engagements with NGOs to update the progress of the Policy implementation. Greenpeace was updated on the grievance and responsible sourcing, and in return we were able to obtain valuable input from them on concerns and needed improvements. Furthermore, AAL continued its communication with related NGO concerning the livelihood of the Orang Rimba and at the same time engagement with the Bukit Dua Belas National Park (TNBD) to discuss a draft agreement regarding a joint collaboration that will be conducted in TNBD.

With respect to peat management, our sustainability team engaged with the Ministry of Environment and Forestry (KLHK), Peat Restoration Agency (Badan Restorasi Gambut) and the Ministry of Agriculture regarding the protection and management of peat lands in accordance with peat regulations.



POLICY COMMITMENT PROGRESS UPDATE

I. Responsible Sourcing

Traceability to Mill

In the previous update, it was reported that AAL has achieved 100% traceability to mill, we have maintained the same level of traceability up to Q4.

Traceability to Plantation (TTP)

In Q4, we sought to revisit and improve the methodology and targets for FFB traceability. During the TTP implementation process, we identified that many challenges arise in obtaining information of independent farmers from agents due to complexity of smallholder supply chains. With assistance from CORE, we worked on designing a comprehensive approach, drawing upon best practices in the industry and identified challenges. Our improved traceability approach is working through three levels of traceability, starting with the first level to agents (DO Holders), second level to the sub-agents (sub-DO Holders) and/or village level, and finally to the farmers level. As of December 2017, 50% of AALs' FFB volumes originate from nucleus plantation, 16% from KKPA/Plasma, and 34% from third party suppliers. Traceability to plantation is an ongoing process, and its progress will be reported in the following quarterly updates.



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

We continue to maintain a moratorium on any new planting including HCV/HCS and peat developments. Since the publishing of our previous report in October 2017, there have been no instances of deforestation or new development on peat across AAL's operations. With respect to HCV management, we continue to conduct biodiversity monitoring and management of identified HCV areas. With assistance of CORE, starting in 2018, we will be improving the standard of our HCV assessments, especially on social aspects (HCV 5&6), followed by enhancing the management and monitoring of HCV areas.



No burning

For the past two years, MPA (Community Cares About Fires program) has been an important part of our concentrated efforts to prevent any burning by empowering local workforce and building up their firefighting equipment in collaboration with the local government (as reported in our previous updates).

Communication and engagement efforts on the MPA programme are challenging in view of our wide supply base and as such we have not yet reached all communities surrounding our concessions to provide a significant assurance that community-related fires have been eliminated.

Based on our reports from 60 local villages where we formed MPA groups, we recorded the occurrence of 51 fire spots in 2017. As a result of the MPA efforts, the fires have been successfully extinguished in a short period of time. Our most successful story of firefighting took place in Hulu Sungai Selatan, South Kalimantan where MPA successfully extinguished fires and which culminated in an award from the city mayor. In the following years, we hope that more people will be aware of the MPA program and will actively participate in fire prevention.



III. Readiness For AAL's Subsidiaries To Comply With Sustainability Policy

AAL's Sustainability Policy applies to all subsidiaries. To ensure that all subsidiaries comply with AAL's Policy, we conducted a supplier workshop emphasizing corporate sustainability commitments and practices, as reported previously in Q3. In November 2017, AAL conducted pilot assessments with CORE in two of our subsidiaries to determine their level of compliance towards the Policy. Based on the results of the assessments, we will be able to determine existing implementation gaps and formulate the necessary courses of action to achieve the required level of compliance. We are also going to use the results of the assessments as a baseline assessment framework for other subsidiaries to follow.



IV. Grievance Mechanism

AAL has established a grievance mechanism to handle complaints including grievances concerning our suppliers. In the beginning of Q4, we received grievance reports from Mighty Earth related to three company groups which subsidiaries supply to AAL refineries. In accordance with our grievance mechanism, we are currently undergoing the necessary steps to resolve these grievances. We conducted verification of the grievances and engaged with the companies to socialize AAL's Policy and grievance mechanism. We've also encouraged the suppliers to provide an official commitment to abide by our Policy. We will then together with them develop a necessary course of action on how to handle the grievances and come to a resolution. During this grievance resolution process, we have placed the three companies under temporary suspension until an agreement on their commitment to comply with our Policy and other necessary actions can be reached. The most crucial step that we have taken was integrating the principles of AAL's sustainability commitments into supplier trade agreements.

V. No Exploitation Of People And Local Communities

Indigenous Local Communities – Orang Rimba

AAL continues to collaborate with key stakeholders to seek solutions for issues related to the Orang Rimba. In Q4, we continued engaging with related NGO to find the best approach for resolving Orang Rimba livelihood issues. As a result, we will continue the needs assessment with the goal of developing thorough livelihood programs for Orang Rimba living within the areas of palm oil plantations. We are aiming to develop pilot livelihood projects for several prioritized groups in the following months.

We're also actively engaging with the Bukit Dua Belas National Park (TNBD) to accelerate the necessary process in reaching our official agreement regarding collaboration within the area of TNBD for other types of livelihood activities and programs such as Jernang cultivation amongst others.



DESIGN OF AAL'S THREE YEAR ACTION PLAN

Three-year action plan is one of the main objectives of our work in Q4 and highlights crucial aspects for the implementation of our Sustainability Policy. The action plan is being developed through field level assessments and various internal thematic workshops involving all related divisions with the goal of creating a comprehensive approach for the implementation of the Policy. The workshops covered three main objectives (1) to have the same understanding among related divisions regarding the Policy, (2) Gap analysis of what is expected from the Policy and the current implementation on the ground, (3) to develop strategies and needed courses of actions to close the identified gaps.

Responsible CPO Sourcing Workshop

The purpose of this workshop was to gain a better understanding of ALL's refineries CPO sourcing mechanism, due diligence process, engagement with CPO suppliers on compliance with our Policy, how to handle incoming grievances amongst others. Exactly 20 people across the Sustainability, Legal and Marketing divisions along with CORE took part in the workshop. We were able to highlight the important points related to CPO sourcing in order to get all participants on equal footing. A gap analysis within our operations allowed us to determine the sort of strategies necessary to develop for AAL's three-year action plan.

Environmental Workshop



The environmental workshop covered various aspects including fire prevention, greenhouse gas (GHG) emission reduction, pesticide use reduction, and responsible peat management. Fire prevention will place emphasis on hot spot monitoring, man power improvement, and strengthening the fire care community. For GHG emission reduction, methane reduction will be studied further in order to obtain an appropriate approach for AAL moving forward. Biological control will be strengthened to decrease pesticide application in the field. Also, we will continue our engagement with the government to implement responsible peatland management in accordance with existing government regulations and collaborate with competent experts to develop appropriate indicators for best peat management.



HCV/HCS Workshop

The workshop stressed the need to update the current HCV reports in order to follow the latest guidelines set by HCVRN and supported by the National Toolkit. Priority high risk mills received the bulk of focus during the workshop. In continuation, AAL's main goals during the HCV/HCS workshop was the setting of an action plan as a result of analyzing gaps within the current sustainability implementation, development of monitoring mechanisms, a more detailed understanding of HCV/HCS and prioritization of goals and plans, increase stakeholder engagement, and identifying threats and opportunities. The results of this workshop will be incorporated into the AAL's three-year action plan.

Social Workshop

Socials aspects/issues form a core part of AAL's Policy. This workshop was attended by all area managers for community development and was crucial to gain a deeper understanding of what needs to be included under social aspect of our Policy implementation, what human rights mean to AAL as a company and the obligations we seek to fulfill with regards to human rights and social issues. The focus of this workshop was to discuss and align on necessary improvements needed in our operations related to implementation of conflict resolution process, FPIC, grievance mechanism, labor rights, child labor, and CSR programs.

Responsible FFB Sourcing and Smallholder Workshop (Traceability to Plantation)

The Responsible FFB Sourcing workshop focused on traceability to plantation and smallholder programs. We discussed the definition of traceability to plantation and the varying levels of traceability we want to achieve based on AAL's Policy. FFB sourcing consists of identifying the smallholders supplying our mills as well as the agents and sub-agents who actively receive their own supply from them. We will be also strengthening capacity building programs for smallholders to include more aspects of our Policy and improving their compliance towards ISPO.



Development of Action Plan Draft

All workshops described above were completed by the end of December and their results are used to design basis for an action plan draft. The action plan draft will then be submitted and discussed with AAL's top management before the action plan is consulted with key stakeholders. Action plan is expected to be completed incorporating also key stakeholder inputs in March 2018.

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