



Sustainability Policy

Progress Report

1 April - 30 June 2015



Musim Mas Sustainability Policy

Quarterly Report on Progress (April - June 2015)

Introduction

This report is the second quarterly update on our progress, following our announcement of the Musim Mas Sustainability Policy in December 2014.

To recap our previous quarter's report, we have mapped out 100% of our supply chain right up to the mills, including the third-party ones. However, we would like to stress that verification on the information is still ongoing. We have also published a list of the names of our [third-party suppliers](#), presented our action plan for traceability and indicated our level of engagement with different stakeholders.

To date, we have identified 463 mills in our supply chain, including 13 of the Group's mills. For a comprehensive view of our Group's operational network and the certified segregated supply chains, please refer to our [corporate website](#).

For this quarter, we are pleased to launch a new segment on our website which features a supply chain map of our [refinery network](#) in Indonesia. The supply chain map provides information on the list of suppliers and the data on traceability (traceability percentage, number of suppliers, etc) for each of the Group's 11 refineries. Our global operations are linked to our Asian refineries and we will reflect on our global supply chain in the next progress report.

In addition, we have included a case study on our approach to supplier engagement and the actual field assessment. We have also provide a list of all the [grievances](#) raised in the public domain which are related to Musim Mas' supply chain. The information on grievances also include information on our engagement and our approach towards each grievance.

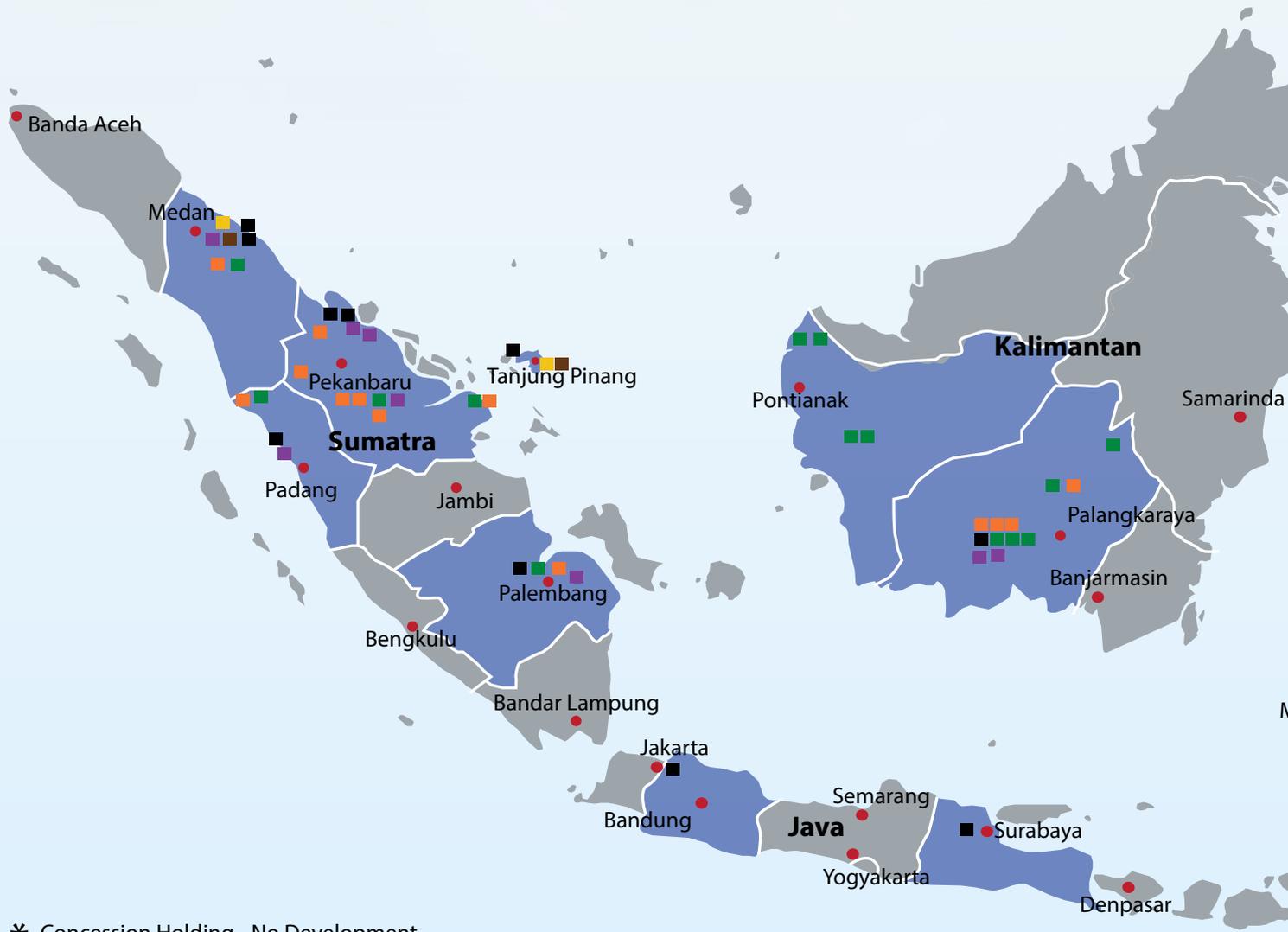
Global Operations

The Musim Mas Group operates globally across the palm oil business spectrum. We have operations in 12 countries, ranging from plantations, mills, refineries and processing plants. Here is a snapshot of our global operations:

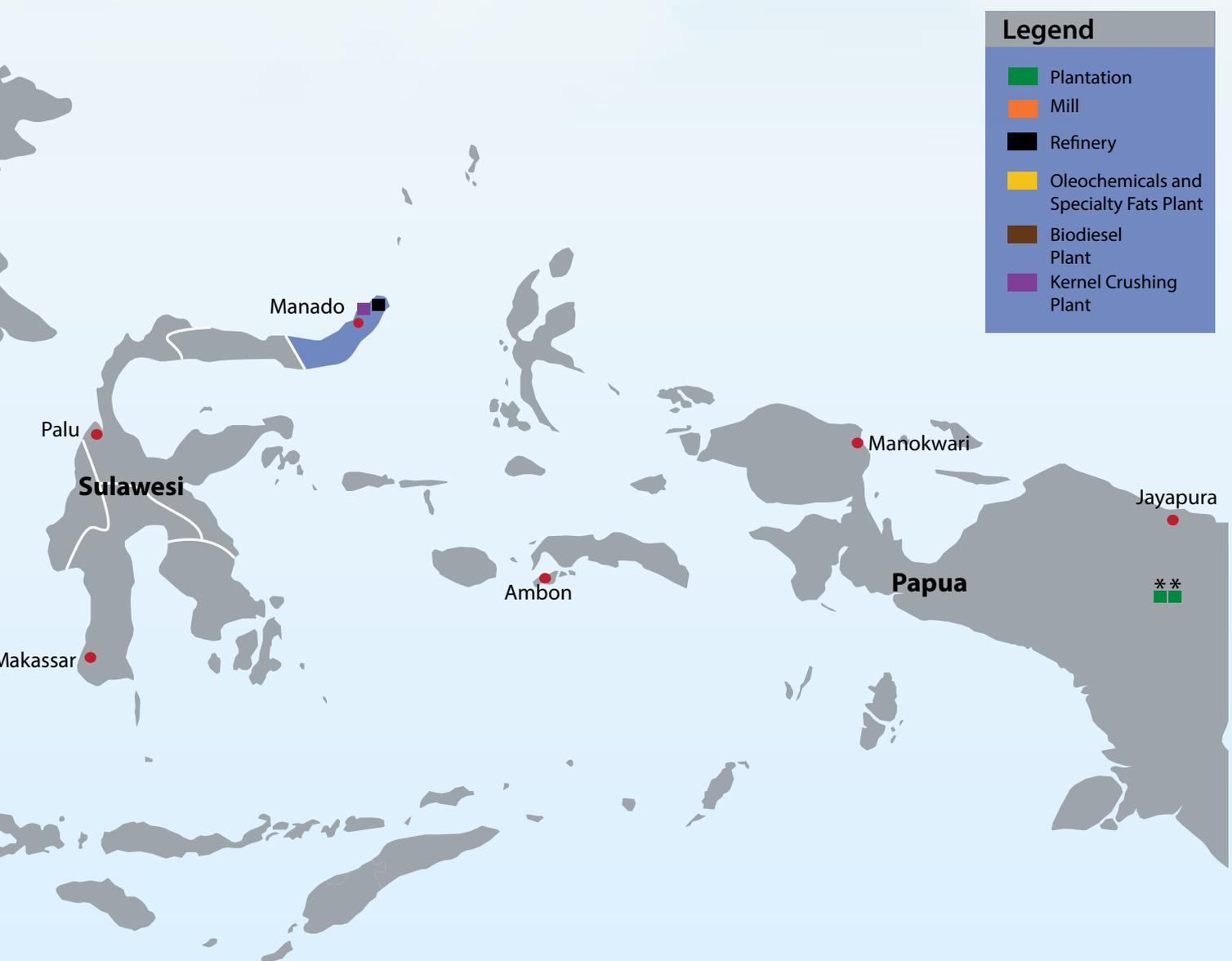
	 Plantation	 Mill	 Refinery	 Biodiesel	 Oleochemicals/ Specialty Fats	 Marketing Office
 China			✓			✓
 Germany						✓
 India			✓		✓	✓
 Indonesia	✓	✓	✓	✓	✓	✓
 Italy				✓		✓
 Malaysia			✓			✓
 Netherlands					✓	
 Singapore						✓
 Spain				✓		✓
 United Kingdom						✓
 United States						✓
 Vietnam			✓			✓

Map of Indonesian Operations

Musim Mas Group has production locations in Asia and sources the materials from Malaysia and Indonesia. It has 16 plantations and 13 mills as part of the Group's production base in Indonesia. There are also 11 refineries and 9 kernel crushing operations located on the islands of Sumatra, Kalimantan, Java and Sulawesi.



* Concession Holding - No Development



Supply Chain Mapping

We are pleased to announce that we have mapped out 100% of our supply chain to the mill level and identified all our third-party mills (with verification still in progress), ahead of our deadline at end-2015. The work has only just began, as we embark on the next level of traceability down to the source plantations (FFB level).

The data that we have collected from our third-party mills are mill name, the name of the parent company, GPS coordinates and geographical location. We understand that it is important to obtain the processing capacity of the mill and assess the risk level of a mill on the landscape. We are in the process of requesting this set of information from the third-party mills and verify details.

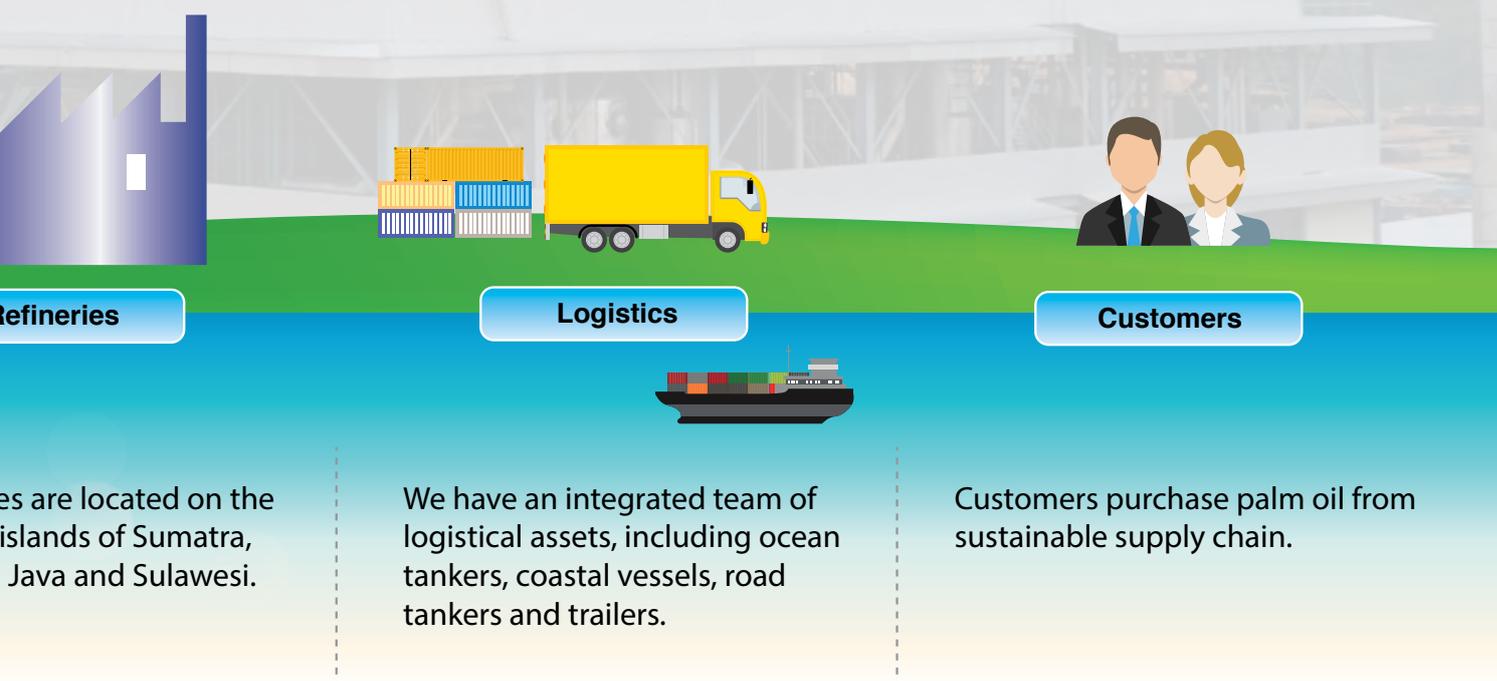
Our traceable volume is calculated based on the total volume that our refineries received from all the mills and the bulk storage facilities. We know the specific volume of Crude Palm Oil (CPO) and Palm Kernel (PK) from each mill that goes into our refinery when the CPO is delivered directly from the palm oil mill.



However, there are cases whereby the mills that we have identified may not be in our physical supply chain. To illustrate, in instances where our refineries obtain CPO from a third-party bulk storage facility, we need to identify the specific mills that supply CPO to the storage facility. Each storage facility comes with a unique set of supplying mills and the full supply base of the network of storage facilities is taken into account for our refinery. The terminal will normally provide us with an aggregate list of mills that supply to these storage facilities and relates to the total volume of the facility. We will include the supplying group's aggregate list of mills in the mill list for our refinery.

Our report for this quarter will focus on our operations in Indonesia. The regions that provide to our supply needs are Riau, North Sumatra and Central Kalimantan. These regions provide approximately 60% of our supply of CPO and PK.

Refineries



Industry Engagement

One company's lone efforts in creating a sustainable supply chain may not be sufficient; Musim Mas recognises that businesses have to work together with governments and civil societies to achieve a transformational breakthrough.

Moreover, the Group views with urgency of having the industry work together in tackling issues that are beyond the scope of a single company. The Group is participating actively via different platforms to broaden our efforts to create a sustainable supply chain.

High Carbon Stock Approach Steering Group

The broad consensus among our stakeholders is that the current approaches to address zero deforestation such as High Conservation Values (HCV) and Greenhouse Gas monitoring have yet to solve the issue of forest clearance. In response to this challenge, we have joined the HCS Steering Committee.

The first version of the HCS toolkit has been published [online](#). The Steering Committee is actively seeking feedback on the HCS approach and doing trials with the new toolkit.

We have an existing moratorium on the development of HCS forests according to the interim methodology defined by the HCS Approach Steering Group.

IDH Traceability Working Group (TWG)

The IDH Traceability Working Group (TWG) focuses on streamlining industry efforts based on a model of regional cooperation among its members that are made up of plantations and consumer goods companies. The objective is to achieve synergies within the members' supply sheds.

We are working with TWG members on the best way forward in navigating the complexities of creating sustainable supply chains.

TWG is also currently working with the Consumer Goods Forum (CGF) in establishing a palm oil sourcing policy. We are looking to value-add to the policy-making process in achieving sourcing policy guidelines that optimise protection for the environment while balancing the needs of the local communities and smallholders. For more information on TWG, please click [here](#).

Indonesian Sustainable Palm Oil (ISPO)

The Indonesian Sustainable Palm Oil (ISPO) system is a policy adopted by the Ministry of Agriculture on behalf of the Indonesian Government. The aim is to improve the competitiveness of the Indonesian palm oil in the global market and to reduce greenhouse gases emissions and draw attention to environmental issues.

We are leading the Indonesian Sustainable Palm Oil (ISPO)'s Greenhouse Gas (GHG) Working Group. Together with the ISPO Commission, the GHG Working Group has formulated the calculation guidelines for palm oil plantations in Indonesia. The guidelines will be used as a reference for the government to incorporate into the latest ISPO standard. For more information on ISPO, please click [here](#).

Indonesia Palm Oil Pledge (IPOP)

The Indonesia Palm Oil Pledge (IPOP) was first started by the Indonesian Chamber of Commerce and Industry (Kadin). It takes a landscape-level approach towards engaging the Indonesian government.

We are looking at joint action with other IPOP signatories by sharing collective experiences and knowledge to assist, influence and impact policy-making by the government. Through the joint action of IPOP, we hope to enhance the competitiveness of Indonesian palm oil. For more information on IPOP, please click [here](#).

Roundtable on Sustainable Palm Oil (RSPO)

The Roundtable on Sustainable Palm Oil (RSPO) is a multi-stakeholder institution, responsible for setting industry benchmarks for best practices and enforcing standards in sustainability.

We are actively participating in the Emission Reduction Working Group, Biodiversity and High Conservation Value/Compensation Task Force, Smallholder Working Group, Fresh Fruit Bunch Legality and Traceability Task Force as well as the Human Rights Working Group.

With regards to RSPO certification, our latest acquired mill PT. Guntung Idamannusa (GIN) in Riau, North Sumatra, has effectively achieved certification well ahead of its three-year deadline. For more information on RSPO, please click [here](#).

Supplier Engagement

Traceability is not equivalent to sustainability

Traceability is not equivalent to sustainability, but it is a precursor to a sustainable palm oil supply chain. Traceability also needs to extend beyond the plantations, mills and refineries to the users of the refined palm oil to transform the palm oil supply chains.

As a first step, traceability enables us to identify specific supplier risk in our supply chain, highlighting the specific mill and provincial location. Next, the traceability process will highlight at-risk landscapes that we may need to investigate further. Traceability needs to be linked to performance on the ground to ensure the integrity of our supply chain.

Lessons learnt from our verification work

Our work on verifying our suppliers beyond mill levels to the supplying plantations (FFB level) shows that the supply shed of a mill is very diverse. One such example is illustrated below for discussion:



Our work has highlighted the importance and the complexity of verifying the supply base of these mills on a FFB level. The mill situation can be complex in each supply base, as it often involves more than 50 to 60 suppliers ranging from individual smallholders, small growers, agents and plantations. The level of agricultural practices and the decision-making process to manage the land are also very different for each supplier.

When traceability is drilled down to a FFB level, verification becomes a lengthy process and involves different suppliers with different capacities. While traceability provides clarity on the supplying plantations to our third party mills, the resultant complexity is not an efficient way to address the larger challenge of sustainable sourcing; there is a need for a more overarching method rather than examining individual mills that supply to refineries. We need a transformational breakthrough in the industry's approach to creating sustainable supply chains.



Performance on the ground: Overarching method to create sustainable supply chains

Rather than only seeing risk presented on an individual mill level, the approach of looking at the landscape level will create a holistic view in the bigger supply sheds.

Our proposed landscape approach will link three levels of analysis. It starts with identifying the biggest suppliers (mills) to our refineries in terms of volume. These suppliers will be screened for potential risks based on analysing the overarching issues and the sensitivities in their supply bases.

The second level will involve identifying suppliers mentioned in the public domain. When a supplier is indicated in the public domain and forwarded as a grievance, we will examine the environmental and social performance of the supplier's supply shed involved in our supply chain. But what we experienced is that sometimes the issue goes beyond the related supply shed and that a more holistic approach will be required to determine the engagement and dialogue on a group level.

And as a third level we want to look at the provincial level (volumes purchased) to focus our efforts on transformation in a bigger landscape. One level will not exclude the other as these levels are interlinked.

Working beyond our factory gates

Traceability is not only about raw materials side of the supply chain. It will not be complete if the raw materials used is not linked to the product derived from palm oil and eventually to the users of the products (consumers).

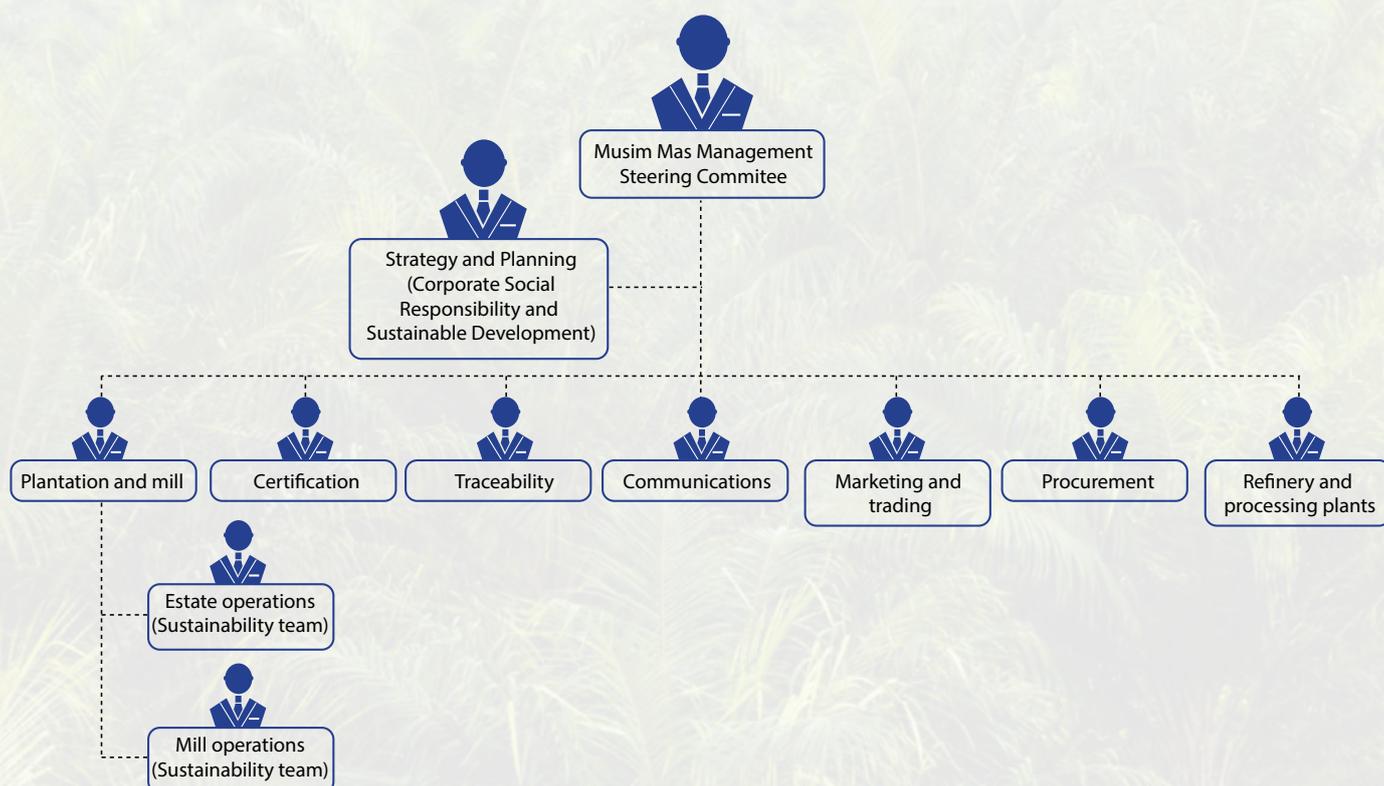
Capacity Building

We organised training sessions for our marketing, procurement, operations, refinery and other processing teams in Medan and Kuala Lumpur. Our Group's personnel from its Asia, US and Europe offices attended the sessions. The training sessions serve to socialise and embed the Group's sustainability commitments in our operational practices. There were also open dialogues from the different divisional personnel to streamline the policy requirements with the current operational procedures.

The training sessions were differentiated to serve the different groups of personnel. The sessions for our Group's procurement teams reviewed the possible impacts of our Sustainability Policy on the procedures for procurement. The marketing teams focused on how to value-add to our customers, especially since most customers are established corporations with stringent sourcing requirements.

Separately, we also spent considerable efforts to restructure our team members who are working on sustainability-related tasks within the Group. We increased the human resources required for the traceability work and also roped in a sustainability professional who has extensive experience to be part of the management team. Here is the organisational structure of our Group's sustainability governance:

Group Organisation Chart



Independent Smallholders

Smallholders are important contributors to both our and our suppliers' supply of Fresh Fruit Bunches (FFB). Given their limited resources, there is a growing risk that sustainable international supply chains will exclude smallholders.

We are experimenting to devise the Best Practices of supporting smallholders to attain the industry standards for sustainability, creating a win-win situation for companies and the smallholders.

For example, we are doing a trial project with International Finance Corporation (IFC) to test out our principles for helping independent smallholders to achieve sustainability in their operations. The project serves to bring these independent smallholders up to efficient farming standards adopted by large palm oil organisations. We will provide agronomic training, provide access to financial support and global markets and educate on the legal requirements. The project will close the gaps between current practices and those required for certification. The project is also part of our endeavours to reach out to more smallholders for an inclusive supply chain. For more information on the Musim Mas-IFC smallholder project, please refer to our [corporate website](#).



Grievance Mechanism

The route to a sustainable supply chain cannot be a solitary process and we need critical inputs from our stakeholders such as local community representatives or Non-Governmental Organisations (NGOs). Our stakeholders can help to monitor and whistle-blow so that our Group can be better directed to assess issues.

As indicated in the previous progress report, we drafted our grievance mechanism. During the review of the process and discussing the details with several stakeholders we feel that our initial grievance mechanism can be improved by addressing issues like accessibility and third-party involvement.

In the meantime, we urge our stakeholders to contact us via the contact information on our [corporate website](#), which is available in English and Bahasa Indonesia

Third-party Verification

Part of the commitment stated in our Sustainability Policy is to appoint an independent third-party verifier to assess compliance to our Policy. Based on the analysis of all the data we have gathered during this process we have looked at the landscape level approach and discuss the action plan with an independent verifier. In our next progress report we will give an update on the verification process and compliance achieved through our policy. 🌱





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