



Sustainability Policy

Progress Report

January - December 2017



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Executive Summary



Our [Sustainability Policy](#) was published in 2014. Since then, the palm industry has seen much progress, and in keeping up with industry dynamics and updates, the policy was reviewed to ensure its ongoing relevance, especially given our [Palm Oil Innovation Group \(POIG\)](#) membership.

This progress report reflecting on 2017, will give an overview of traceability and reports on the programmes involved to address the implementation of our policy. In anticipation of 2018, we have scheduled a review of our policy again to address commitments which have been undertaken, or any changes to definitions or references which are relevant. This review is scheduled for the first quarter of 2018.

Following up on the work on the ground, we have initiated programmes which involve governments, private-sector companies and civil society groups coming together to achieve best outcomes by focusing on landscape approach or mill clusters. We have simplified the communication of our strategy by addressing the three (3) focus areas: Medium and large-sized plantation companies; Smallholders and priority landscapes (specific provinces and regencies where we have a main reliance on based on volume sourcing perspective); and Grievance cases.

1. Our approach towards the medium and large-size plantation involves:

- Focus on key supplier groups to Musim Mas based on total procurement volume and strategic commercial partnership. In 2017 we engaged with all 14 main suppliers on a group level and prioritised mills within particular landscapes of these groups. Besides the mill verification, engagement with the supplier group are undertaken to discuss specific actions plan to assist in No Deforestation, No Peat and No Exploitation (NDPE) implementation. As each group is different, the action plan will differ, as with the timelines.
- On the overall supply chain, we conduct risk analyses and monitoring process, and should the results warrant, we invite for the submission of second tier information including the concession maps for relevant suppliers for further analysis and monitoring against credible platforms as the Global Forest Watch. As reflected on our [dashboard](#), we reference Traceability to Plantations (TTP), of which the percentages are based on direct supplier-managed concession information that we already have a database of.
- A due diligence process was designed to aid new supplier selection, and is conducted involving NDPE indicators, prior to the on-boarding of prospective suppliers.

2. Smallholders and priority landscapes:

- To support suppliers which have limited capacity like a single mill or plantation, we have designed a self-assessment process to assist these mills to reflect on their performance against the Musim Mas policy. We are determining the additional support required for these suppliers, based on the scores of these self-assessments.
- A trial was started in Riau to work on High Carbon Stock Approach (HCSA) process as well involving different land-use actors including smallholders.

- Based on risk assessments and mill questionnaires within the priority landscapes (see [progress report 2016](#)), focus is given to smallholder suppliers within specific districts (landscape level). Two districts have now started the Extension Services Programme (ESP).
- We started our work on independent smallholders for the three mills in the Riau province and one mill in North Sumatra, and we are gaining insight into the supply base of independent smallholders for our mills.
- Priority Landscapes: We have made progress in the three groups of stakeholders/ priority areas, particularly in the provinces of South Sumatra, Riau and Aceh. We engaging the multi-stakeholder platforms in these provinces and technical consultants to support the landscape work via these platforms.

3. Grievances:

- Our [Grievance process](#) has been updated, including the reflection of each [case](#). Active engagement will take place with each supplier to verify information and discuss steps which can be taken to address the grievance.
- The requirements for continued engagement with these suppliers, including deadlines (as necessary) are conveyed individually to respective suppliers, especially those with whom we apply the controlled purchase mechanism on.

Our [traceability](#) statistics have improved in this reporting period. We have improved our percentage for traceability to plantations (Crude Palm Oil) from 48% in the last reporting period to 53% for this period. The rate for traceability to plantations (Palm Kernel) went up from 48% in the last reporting period to 53% in this period.

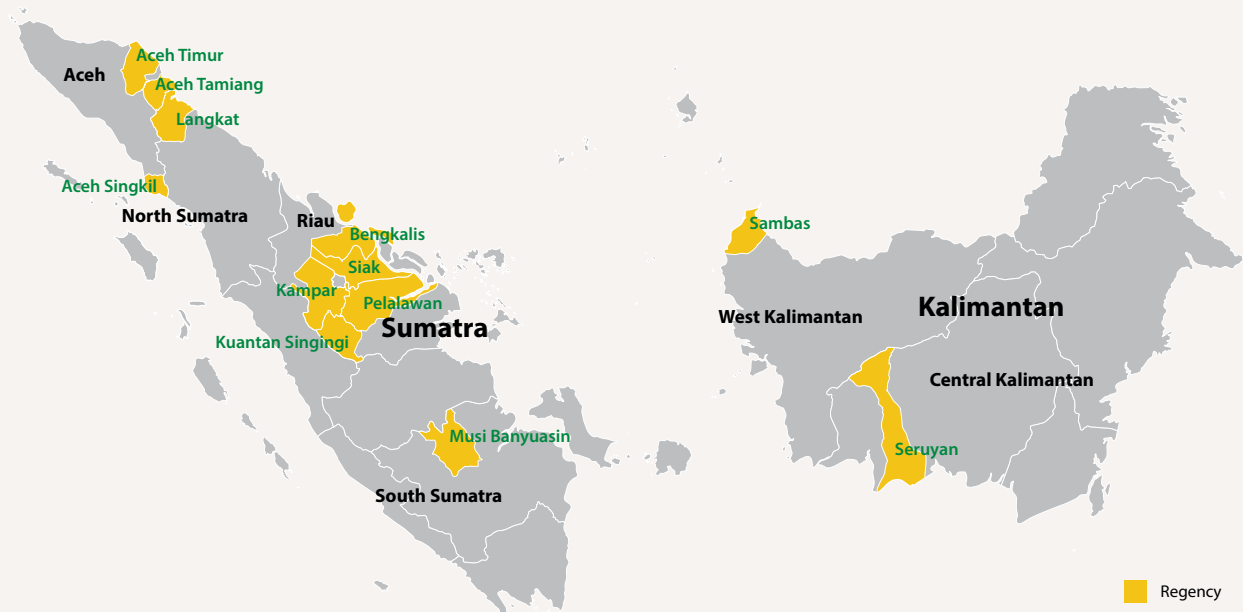


Envisioning our strategy for transformation in our supply chain

Our traceability to plantation exercise has shown that

FOCUS

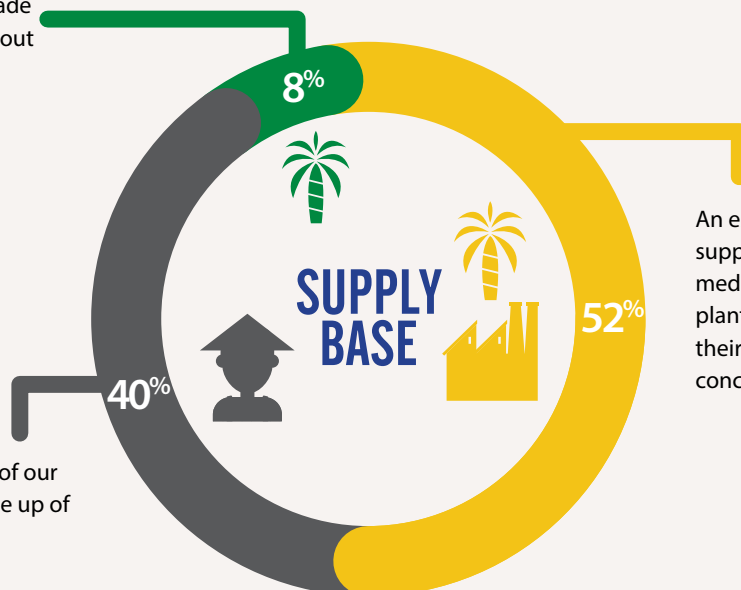
Out of the 34 provinces in Indonesia, six provinces contribute to 80% of our supply needs. We will focus our landscape project efforts on 12 regencies in these six provinces.



TRACEABILITY OVERVIEW

Traceability to plantations (Crude Palm Oil)

An estimated 8% is made up of plantations without accompanying mills.



An estimated 52% of our supply base is made up of medium to large-sized plantation companies with their accompanying mills and concessions.

An estimated 40% of our supply base is made up of smallholders.

APPROACH



Medium and large-sized plantation companies

Focus on 14 third-party supplier groups.

Conduct risk analyses and monitoring for suppliers.

Conduct due diligence prior to on-boarding prospective suppliers.



Smallholders and priority landscapes

Self-assessment process designed for suppliers with limited capacity.

Trial on High Carbon Stock Approach (HCSA) process in Riau.

Identify and focus on high priority smallholders based on risk assessments and mill questionnaires.

Build capacity of Independent Smallholders through IPODS and ESP.

Engage the multi-stakeholder platforms in priority regencies and look at possible landscape level intervention.



Grievances

Use updated grievance process as the guide for active engagement with suppliers to address grievances.

Utilise the Controlled Purchase mechanism to encourage progress by suppliers.

Our approach towards the medium and large-size plantation involves:



1.1. Supplier groups based on internal analyses and monitoring

On the overall supply chain, we conduct risk analyses and monitoring process, and should the results warrant, we invite the submission of second tier information including the concession maps for relevant suppliers for further analysis and monitoring against credible platforms as the Global Forest Watch. As reflected on our [dashboard](#), we reference Traceability to Plantations (TTP) of which the percentages are based on direct supplier-managed concession information which we already have a database of.

In 2017 we engaged with all 14 main suppliers on group-level and prioritised mills within particular landscapes of these groups. Besides the mill verifications, engagement with the supplier group takes place to discuss specific actions plan to assist in the implementation of NDPE commitments. As each group is different, the action plan will differ, so as the timelines.

Our industry is built on the foundation of small and medium-sized companies and millions of smallholders. We believe the key to transforming our supply base is to engage these small and medium-sized companies or parent company groups. These parent companies have authority over their supply bases and can provide access to their third-party plantations and independent smallholders. The top-down approach via these parent groups is the most pragmatic pathway to encourage change on the ground.

We have prioritised 14 parent company groups based on these considerations: contribution to our supply base and therefore our potential leverage over these groups to enact change, presence in priority regencies and provinces, potential reputational risk due to their operations' proximity to national parks or peatlands, etc.

Overview of our engagement

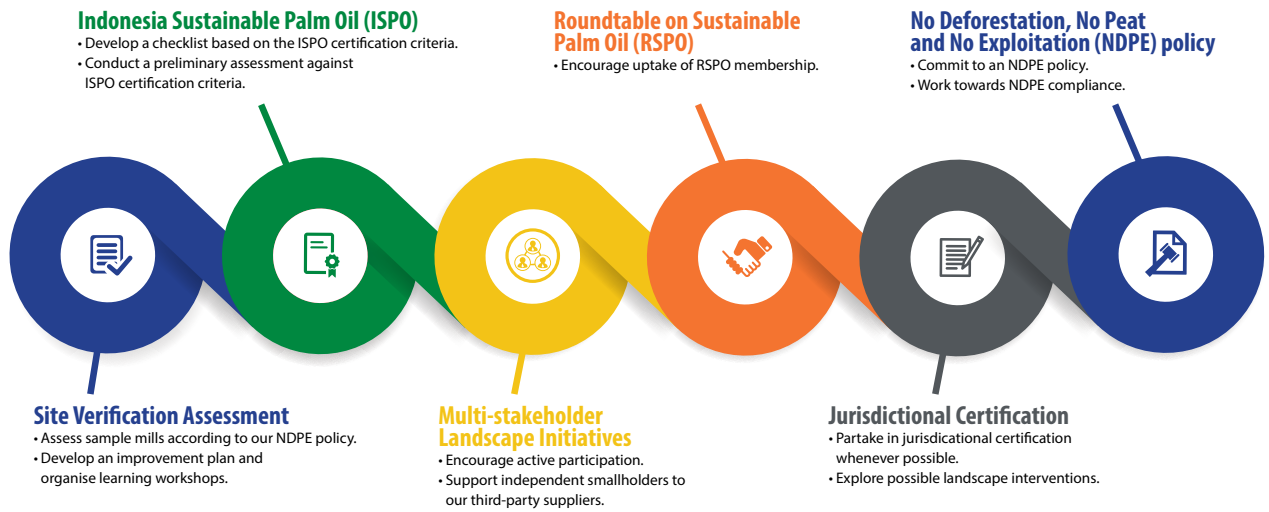
Characteristics	Number of Groups
Number of parent company groups with at least one ISPO-certified operation	9
Number of parent company groups which is a RSPO member	4
Number of parent company groups which has a NDPE policy	5
Number of parent company groups whereby we have conducted at least one mill verification on one of the mills	10
Number of parent company groups whereby we have established contact	14

1.2. Due diligence process for prospective suppliers

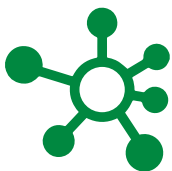
Due diligence process which involves NDPE indicators, has been designed to assess the profiles of prospective suppliers, prior to their on-boarding.



1.3. Communicate an aspirational sustainability roadmap for these groups



Smallholders and Priority Landscapes



2.1. Development of self-assessment process for suppliers with limited capacity

While we require our supplier mills and their respective suppliers of fresh fruit bunches (FFBs) to meet our policy requirements, we recognise that compliance requires a process of constructive engagement with mills and their parent companies - initial mill assessment followed by an improvement plan based on findings of the assessments - that will encourage a progressive mindset among the top management of our supplier groups.

The mill assessment involves auditing the level of compliance of the mills against the indicators of a verification checklist according to the key elements of our Sustainability Policy.

As our Sustainability Policy embodies the strictest sustainability standard for the industry, we often find that the low-hanging fruit of attaining the mandatory Indonesia Sustainable Palm Oil (ISPO) certification can serve as encouragement to our third-party suppliers. The ISPO certification principles and criteria consist of all the existing regulations relevant to the industry in one legal instrument. Currently, 12% of the total land area with oil palms in the country are ISPO-certified.

To support suppliers which have limited capacity, such as a single mill or plantation, we have worked with a technical expert to design a self-assessment process to assist these mills to reflect on their performance against the Musim Mas policy. The self-assessment is based on a checklist

customised for the supplier's profile such as a mill without plantation, plantation without a mill, and lastly a mill with a plantation. We are determining the additional support requirements to these suppliers, based on the scores of these self-assessments.

2.2. High Carbon Stock Approach (HCSA) trial

Our [diagnostic report](#) for the Riau Province has shown that there is a risk of deforestation in the larger landscape, both planned and unplanned, confirmed through evidence of recent conversion of secondary forest at a supplier mill's plantation.

However, we recognise that there is a complexity in implementing High Conservation Value (HCV) and High Carbon Stock (HCS), given that there is a large proportion of smallholder development that took place between 10-30 years ago. There have been reported presence of elephant habitat in Bengkalis regency. We want to understand how FFB suppliers such as independent smallholders to the mills may struggle with the HCV or HCS provisions of our Sustainability Policy.

The expansion of independent farmers without an implementation mechanism is a complex situation and will be of importance to address from an overall industry perspective, given all stakeholders with NDPE policies. .

Based on a completed scoping exercise which incidentally confirms the findings of desktop analysis and risk assessments, we are also looking at running a High Carbon Stock (HCS) trial for smallholders in collaboration with Cargill, supported by Proforest.

The wider objective is to develop a protection-production plan customised for application at the smallholder level. This would be done through participatory mapping of HCV-HCS areas, existing and potential expansion smallholder plots in cooperation with communities and local government. A comparison of the accuracy and time requirements against standard HCSA protocols for large scale concession use would be conducted, and simplified alternatives for smallholder application would be proposed. The methodology would be presented to the HCSA smallholder working group as a pilot for the application of HCSA at the smallholder level.

2.3. Building independent smallholder capacities

Risks and needs analysis of an independent smallholder



SOCIO-ECONOMIC PROFILE OF AN INDEPENDENT SMALLHOLDER



Average age 46.24 years old		Average household 3.64 people	
Literacy level 8.47 years of formal education		Average farm size 3.86 ha of which 98% of the land is grown with oil palm	
Share of income from agricultural activity 77.25% of household income		Mobile phone 78% own a mobile phone	
Leisure 2.37 hours a day watching television		Average land 94% planted with oil palm	
Bank account 51% likely to have a bank account		Yield 13.45 tonnes of FFB per ha (MM scheme smallholders generate an average of 25.44 tonnes of FFB per ha)	

Figures shown here reflect the aggregated results of the baseline studies conducted across the four IPODS project locations at PT BANI, PT ISB, PT SAR and PT SRR.

The findings of the baseline study on the socio-economic profile of independent smallholders can provide guidance on the setting of programme goals and planning of the curriculum. These findings will also be used to measure outcomes of our smallholder programme to determine its effectiveness.

For instance, the average literacy level of almost 8.5 years of formal education means that our programme contents can be catered for more in-depth understanding of the topics as opposed to rudimentary explanations. The average percentage (51%) of smallholders who already own bank accounts may mean that about half of the smallholders would be somewhat familiar with the concepts of personal finance such as the importance of savings and keeping account of cashflow.

Notably, the finding of independent smallholder yield of an average 13.45 tonnes of FFB per hectare provides a gap-closure baseline. With the adoption of best agricultural practices learnt from the programme, participants may be able to improve their average yield to as much as twice the current levels to approximately 25.44 tonnes of FFB per hectare, as achieved by our Musim Mas schemed smallholders.

We are looking forward to improving the socio-economic profile of the smallholders who participate in our programme.



2.3.1. Launched our Extension Services Programme

One of the common sustainability challenges is the risk that the independent smallholders will pose to our suppliers' supply bases, especially on the issue of deforestation and land conversion.

A simplistic solution may be to use traceability to find suppliers in the supply bases that are considered risky. However, for many of these mills that we have visited, it is challenging to trace back to the plantation level because of the complex nature of how Fresh Fruit Bunches (FFB) are supplied to the mill through multiple layers of traders and collectors. It is not efficient to analyse the chain-of-custody for each mill. Most importantly, traceability has no viable impact on the ground.

Moreover, the challenges that come with sourcing from independent smallholders are deeply entrenched in many parts of our supply base. We therefore also want to tackle the root of the problem and provide support to these independent smallholders. While the main objectives are closing the gap in yields between the independent smallholders and industrial plantations, our experience has shown that support for these independent smallholders should go beyond yield enhancement to include social and economic guidance as a holistic solution. Hence, the Extension Services Programme (ESP) was conceived to deal with the challenges of our suppliers' supply bases.

A newly appointed senior personnel with more than 17 years of experience in the sustainable palm oil sector is spearheading the ESP.

Based on risk assessments and mill questionnaires within the priority landscapes (see progress report 2016), focus is given to smallholder suppliers within specific districts (landscape level). Two districts have now started the ESP.

Staffing

Each location where the ESP is implemented will require one Field Coordinator (FC). As a start, we have recruited two FCs for the ESP project in Palembang, South Sumatra. The idea is also to use this process as a training school and create opportunities for local communities and our staff. One of the FCs was an employee from our estate, PT Sukajadi Sawit Mekar (PT SSM) in Central Kalimantan and started as a harvester and developed his knowledge over a few years and was working as a Field Assistant. His knowledge of field work and standards in relation to field activities would enable him to understand the concerns of the smallholder farmers with whom he will be working closely with.

The other FC is a graduate who majored in agriculture. He completed his one-month training at the Musim Mas Training Centre and will be working closely with the first FC.

Field coordinators will require well developed communication skills as a large part of their role will be based on relationship building with smallholders. In addition to the training at the Musim Mas centre, the two FCs are in the midst of going through a one-month training in PT BANI in Rokan Hilir, Riau where the IFC-Musim Mas IPODS programme (a parallel independent smallholder programme) is in the early stage of implementation. The FCs are being trained at this location to learn the process of running a programme from its inception, including to build communication with the smallholder participants and conduct trainings.

The work of an FC requires continuous learning. Moving forward, the FCs would still have continued access to the Musim Mas training centre and to the other highly experienced members

of the team, to upgrade their skillsets on an on-going basis.

No.	Province and District	Mill Name	Project Status	Activities carried out	No. of smallholder farmers (Register/ Expected)
1	South Sumatra, Palembang, Sungai Lilin	PT Bastian Olah Sawit (PT BOS)	Launched on 18 December 2017	(a) Scoping (b) Syllabus planning (c) Smallholder registration and confirmation of smallholder participation	43
2	Aceh	PT Pati Sari	Preparing for Commencement	(a) Scoping (b) Syllabus planning	40

Training

Training will be competency based, ensuring both knowledge and skills are developed. Training materials developed by the Musim Mas Plantation Division would be used, but the contents of which would be modified to the appropriate level of the smallholder participants.

Training will be broken into informal theory sessions held in the village or local meeting place, and practical hands-on training in the field. The proven process of 'Explain-Demonstrate-Practice' will be employed.

Crucial to this training will be the follow-up visit by the FC. This will allow the smallholders to benefit from one-on-one sessions where discussions and practical implementation of the training can take place.

Generally the training is not complex; the key to any training is in the implementation. The training programs will be reviewed periodically to check for possible improvements or modifications as required.

2.3.2. Learn from our experience with the Musim Mas - IFC Indonesian Palm Oil Development for Smallholders (IPODS) programme

Since 2015, we have been in a partnership with the International Finance Corporation (IFC), a member of the World Bank Group to implement a programme for independent smallholders who supply to our mills in Riau and North Sumatra.

We started our work on independent smallholders for the three mills in the Riau province and one mill in North Sumatra, and we are gaining insight into the supply base of independent smallholders for our mills. A project team is set up dealing with the engagement process at each mill and for each mill there is an implementation team as well.

Here is a snapshot of our progress to-date:

	PT BANI	PT ISB	PT SAR	PT SRR	Total
	To-date				
Number of agronomists	1	1	1	1	4
Number of field assistants	13	11	9	13	46
Number of field coordinators	1	1	1	1	4
Number of independent smallholders registered	1,613	1,768	1,386	2,989	7,756
Number of smallholders trained	1,013	1,080	656	2,173	4,922
Land size covered (hectares)	4,687	3,927	4,546	6,058	19,218
No. of women	164	170	180	275	789

Statistics as at October 2017



2.4. IPODS project update

At this moment the project team is continuing work on finding the interactions with the farmers and sub-agents through the main agents. A lot work has been done to get parties interested and also to understand the goals and objectives of the project. The lead agents will have to work with the sub-agents to help the project team to get the required engagement to support the project.

Our experience has shown that smallholder farmers often cite their main challenge as the lack of access to quality fertiliser. We are improving the distribution of fertiliser, and reducing the risk of exploitation by enterprising individuals. Also the discussion on stopping the use of herbicide like Paraquat for the smallholders created resistance at one of the project locations in Riau with PT SAR, as it is seen as effective and affordable. The project team is trying to bring these farmers into contact with the Musim Mas certified smallholders in Riau who have attained RSPO certification and do not use paraquat as it follows Musim Mas commitment. The team is exploring the possibility of bringing some farmers to Riau to interact and communicate directly with farmers who do not use paraquat. A demonstration of using non-paraquat herbicides on farms to show that non-paraquat herbicides can also be effective at controlling weeds will be held.

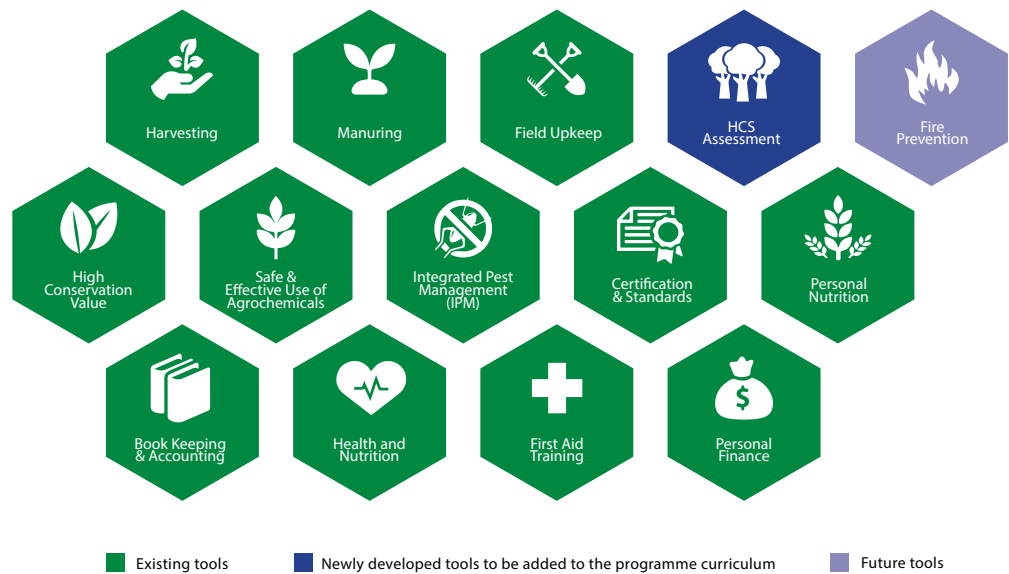
Others said that they lack working capital. We have signed a Memorandum of Understanding (MoU) with Bank Negara Indonesia (BNI) to help smallholders, and implemented a trial using different approaches to increase the farmers' access to credit. This resulted as well in 98.3 hectares of IPODS smallholder farms at Rantau Prapat with PT SRR passing the verification process required to access the Indonesian Government's replanting fund. The evaluation was conducted by a special team made up of the CPO Fund and Directorate General Perennial Office.

Most importantly, we are trying ways to improve the smallholder farmers' loyalty to the mill, as many of the districts where our mills are located is a sellers' market, i.e. more mills competing for Fresh Fruit Bunches (FFBs) than there are smallholder farmers with the produce. Even though a smallholder farmer's loyalty to our mill is not the most important agenda for us, it is important for a third-party supplier group to be incentivised to undertake independent smallholder programmes.

2.4.1. Develop specialist tools to support the independent smallholders

We do not want to stop at providing technical assistance to improve the productivity and quality of the farmers' produce. We are also looking to work with the community to share techniques to prevent fire and create nutritional awareness that will benefit the smallholder farmers.

Smallholder Tools



Nutritional planning tool

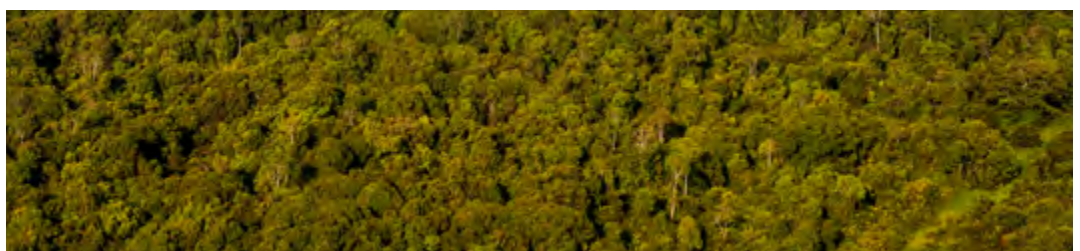
With most of the smallholder farmers' income having derived from agriculture, farming can play a major role in preventing malnutrition, as a provider of food, livelihoods and income. A World Bank report in 2015 highlighted the issue of stunting and chronic malnutrition among Indonesian children.

The MM-IFC smallholder programme recognises that increasing farmers' incomes and agricultural production is not enough - farmers and their families must have access to nutritious foods that meet their needs and the knowledge to make informed choices about diverse diets and other nutrition-enhancing behaviours.

The programme is also part of Indonesia's National Movement for the Acceleration of Nutrition Improvement to encourage a healthy diet.

We carried out a baseline survey on nutrition in one of the programme's mills. With the recommendations derived from a survey, women in the communities are trained to grow their own vegetables to encourage healthier eating habits. Some of the recommended vegetables such as spinach, morning glory, eggplant, lettuce and long beans are easy-to-manage and yet nutritious. For example, the growth of spinach from seed to a fully-grown plant takes only about six weeks.

The programme aims to reach out to 2,000 female members of the smallholder farmer groups. Studies have shown that women who are reached by agricultural programmes that relay information on nutrition issues are most likely to be particularly effective in delivering improved outcomes.

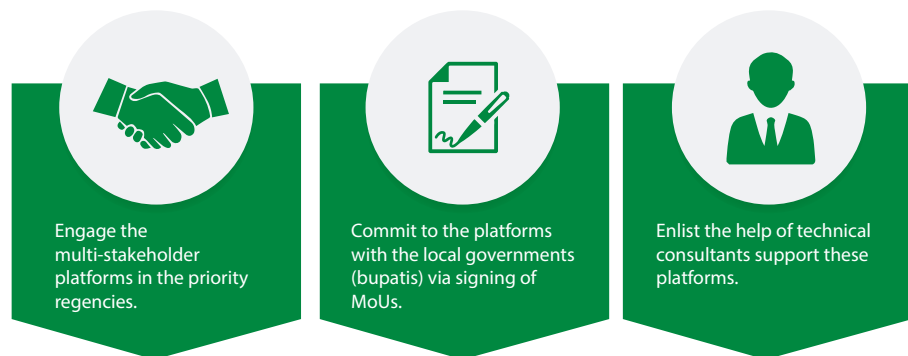


2.5. Focus on suppliers operating within high priority geo-locations

Priority Landscapes: We have made progress in the three groups of stakeholders/priority areas, particularly in the provinces of South Sumatra, Riau and Aceh.

We are engaging the multi-stakeholder platforms in these provinces and technical consultants to support the landscape work via these platforms.

Priority landscapes



We have begun work in these landscapes:

Aceh Province

Aceh Province contributes to 5% of our total supply base. Aceh is not a major producer of palm oil, and deforestation rates have been low as compared to other provinces. However, 87% of the Leuser Ecosystem - one of the world's most biologically diverse and threatened tropical forest landscape - lies in the Aceh province and is being threatened by expansion for agriculture including palm. Hence, we see Aceh as a priority landscape for sustainable palm oil.

We are adopting a holistic supplier engagement strategy for Aceh. Starting with the scoping of issues as a first step, mill assessments were completed for about 20% of our third-party supply base in Aceh. The results of these assessments have been analysed and harnessed as an aggregated understanding of the issues across this landscape. With this as a basis, we are channelling our efforts on joint landscape work. The results of the mill assessments also lay the foundation for crafting our outreach programme.

From the engagement, some common issues were identified, including:

- Gaps in suppliers' operational practices to baseline sustainability standards, such as in identifying of HCV and HCS areas, traceability to third-party suppliers, occupational health and safety management, etc.
- Gaps in smallholder productivity which stem from knowledge limitations on Good Agricultural Practices, compared to large plantation companies.
- Legality uncertainty in supply sheds are common, especially related to plantations operating in vicinity of the Leuser ecosystem.

One option for establishing a landscape approach is to support a collaborative supply shed with multiple companies and local government, leveraging on their need to secure a No Deforestation

supply chain to obtain support for a broader protection of Leuser. We will be undertaking outreach and engagement via the *Areal Prioritas Transformasi* (APT) coalition which includes industry peers and implementation partners. We believe that it is an opportunity to work with the newly elected governor over his five-year tenure which commenced in July 2017. Much of the work in coming months will involve making inroads to support the regency/district level governments on spatial and land use planning. The buy-in and support from the regency Bupatis will be instrumental to the success of landscape work.

The plan is to kick start our Extension Services Programme (ESP) with one of our suppliers in Aceh, PT Pati Sari. ESP will be implemented to the independent smallholder supply base of PT Pati Sari. We are in the scoping and preparation stage of implementing ESP at this location.

In addition to the above, we are also running supplier-specific support programmes. These are customised and catered to close the identified gaps for suppliers. We are in partnership with industry peer, Golden Agri-Resources (GAR) on the implementation of traceability programme to our common supplier, PT Ensem Sawita so that the latter is able to build capacity to better understand its own set of supply base.

At the moment, we are exploring the possibility of conducting training on wildlife protection in the same landscape. The plausibility of doing so is being discussed with the [PONGO Alliance](#).

Given that it is important that sufficient support is given, we want to encourage all relevant stakeholders, such as our customers and peers, to join in ensuring a responsible palm oil industry in Aceh, and the balancing of the protection-development agendas.

Central Kalimantan Province

Central Kalimantan contributes to 15% of our supply base and is the third largest contributor of Crude Palm Oil (CPO) for the Group.

Additionally, a big proportion of our plantation holdings are located in Central Kalimantan, which puts us in a better position to implement initiatives since we have our operations in the landscape.

Central Kalimantan supports an area of remaining forest in the country and is also the third largest area of peatland, of which more than half remains forested, and contains the second largest size of planted oil palm managed by smallholder farmers.

Central Kalimantan, in particular, Seruyan regency plays host to progressive companies and mills, some progressive provincial regulations and a provincial government nominally committed to a policy reform to advance a low emissions rural development agenda.

In June 2017, Musim Mas joined the [PONGO alliance](#) which is a collaboration of Palm Oil companies and NGOs, aimed at supporting the management of orangutans and other wildlife in oil palm landscapes, particularly on the island of Borneo where Central Kalimantan is located. The PONGO Alliance's approach is to engage with all stakeholders on the ground, including palm oil companies, local governments, and local communities to implement best management practices for the protection of orang-utans and wildlife in the oil palm landscape and to look for possible connectivity and conservation in the landscape.

Riau Province

The Riau province is the largest provincial contributor to the national production of palm oil and is the fifth largest contributor towards to the Gross Domestic Product (GDP) of Indonesia.

The regencies of Pelalawan, Kampar, Rokan Hulu, Rokan Hilir and Siak make up the five most important regencies (in descending order) regarding our supply base in Riau.

We estimate that our supplier mills make up about 70 - 80% of the total mills in the province, forming 21% of our total Crude Palm Oil (CPO) procurement. Similar to South Sumatra province, past deforestation has been severe. For example, critics of the palm oil industry estimate that illegal oil palm plantations have overrun at least 40% of the Tesso Nilo National Park. We are part of the Tesso Nilo task force headed by the international Non-Governmental Organisation (NGO) WWF - a multi-stakeholder programme aiming to find a solution for deforestation. In April 2017, the Indonesian government announced its plans to relocate the smallholders from the Tesso Nilo area to another area under the land reform programme.

The other important protected area is the Giam Siak Kecil peatlands. A significant portion of the area is dominated by the pulp and paper sector. We are looking to explore options to join a multi-stakeholder platform which will consist of private sector players from other industries.

Riau often has a high incidence of forest fires during the annual dry season. The Riau province declared a state of emergency in July 2017 due to the risk of fire spreading elsewhere. As a member of the Fire Free Alliance, we are looking at a fire-free landscape initiative in the province for our pilot fire prevention programme.

Additionally, we are following up closely with the improvement plans that we have developed based on our mill verifications for the key suppliers in the region.

South Sumatra Province

Musi Banyuasin (MUBA) district in the South Sumatra province accounts for one of the highest number of supplier mills in our supply base and is hence important. MUBA is the province's second largest district and its largest palm oil producer.

Even though past deforestation has been severe, there is still much remaining forest in MUBA (160,000 ha). There are three protected areas that cover 75,000 ha, protecting critically important tiger habitats.

While the region's sustainability challenge is a microcosm of those faced throughout Indonesia, the opportunity lies in that MUBA offers a unique combination of a supportive local government, numerous progressive companies, and occurrence of multiple landscapes initiatives that create a rare platform for change.

A trial project has started with technical consultant Daemeter, together with Cadasta Foundation and IT consultant GeoTraceability, to undertake a pilot project to develop and implement a fully functioning Oil Palm Supply Chain Traceability System at one site in MUBA. The Oil Palm Supply Chain Traceability System will be a chain-of-custody mobile application which enables individual Fresh Fruit Bunches to be tracked through the supply chain. A baseline study was conducted on the smallholders and agents of our selected supplier mill, to determine the feasibility of developing this application. The study found that agents usually own a smartphone, and that importantly, mobile internet network in the selected area was strong and conducive enough to support this initiative.

The project aims to provide visibility in the supply chain of one of our suppliers' mills, PT Bastian Olah Sawit (PT BOS). PT BOS belongs to one of the supplier groups identified for top priority engagement. We have launched our Extension Services Programme, (ESP) with PT BOS

on 18 December 2017. The findings from the aforementioned baseline study was taken into consideration in the process of determining the project objectives, and creation of topics. The ESP will see Musim Mas Field Coordinators working closely with independent smallholder suppliers of PT BOS to elevate the many aspects of their farming efforts.

Grievances

3.1. Reflection of cases, active engagement to verify information, discussion of steps to address the grievance

Our Grievance process has been updated including the reflection of each case. Active engagement will take place which each suppliers to verify information and discuss what steps can be taken to address the grievance.

3.2. Controlled purchase mechanism

We developed and implemented a mechanism that provides incentives or controls to Musim Mas suppliers, which is based on the type of progress or lack thereof, being made by the supplier against the agreed milestones. This mechanism, called Controlled Purchase, will be delivered through the development of Supplier Profiles and the monitoring of Controlled Purchase Plans, which details steps and measures (including milestones & timelines) that will be taken by the supplier towards compliance of the Musim Mas policy. It is important to note that these milestones will be developed and agreed jointly with the supplier.

The Controlled Purchase is activated once a Supplier Profile has been developed by us and validated by the supplier. Subsequently, the Controlled Purchase Plan will then be developed, led by the supplier, with clear milestones & timelines set out towards:

- (1) Overall policy compliance;
- (2) Expected progress on specific issues (eg. peat management, and/or specific actions) which may have been identified through mechanisms such as media research, characteristics of operations, results from site verification assessments; and
- (3) The resolution of grievances, especially in the context where a parallel and alternative mechanism is unavailable (eg. RSPO complaints process).

A critical component to the effectiveness of our grievance procedure is the implementation of this additional mechanism called controlled purchase given that it provides incentives or controls to our suppliers, based on the type of progress being made against the identified grievances.

This mechanism is a tool developed for our suppliers, as a way to drive progress and seek active resolution to identified grievances, if any.

3.2.1. Background and purpose

Our grievance procedure aims to capture and record grievances linked to our suppliers, and to inform on the required engagement with these suppliers towards resolution of grievances. To complement this process⁽¹⁾, we monitor other existing grievance mechanism processes of our suppliers, where relevant. In particular the RSPO complaints process, which we, as a member of RSPO since September 2004 and with 100% RSPO-certified own plantations, continues to support as an additional mechanism for monitoring supplier progress⁽²⁾.

However, not all of our suppliers are RSPO members, and there may also be occasions where the RSPO mechanism does not capture all facets of the identified grievance.

The Controlled Purchase is used in different situations where:

- (1) an action plan will be developed with milestones and timelines, together with the supplier to ensure progress. It can provide an incentive to suppliers who make progress against the identified milestones (such as increased palm oil volume purchases). Where progress is not satisfactory, Musim Mas also commits to controlling palm oil volumes purchased;
- (2) a grievance has been lodged against a supplier; and where an action plan needs to be developed with milestones and timelines, together with the supplier, in the absence of a parallel and effective external grievance mechanism (eg. RSPO).

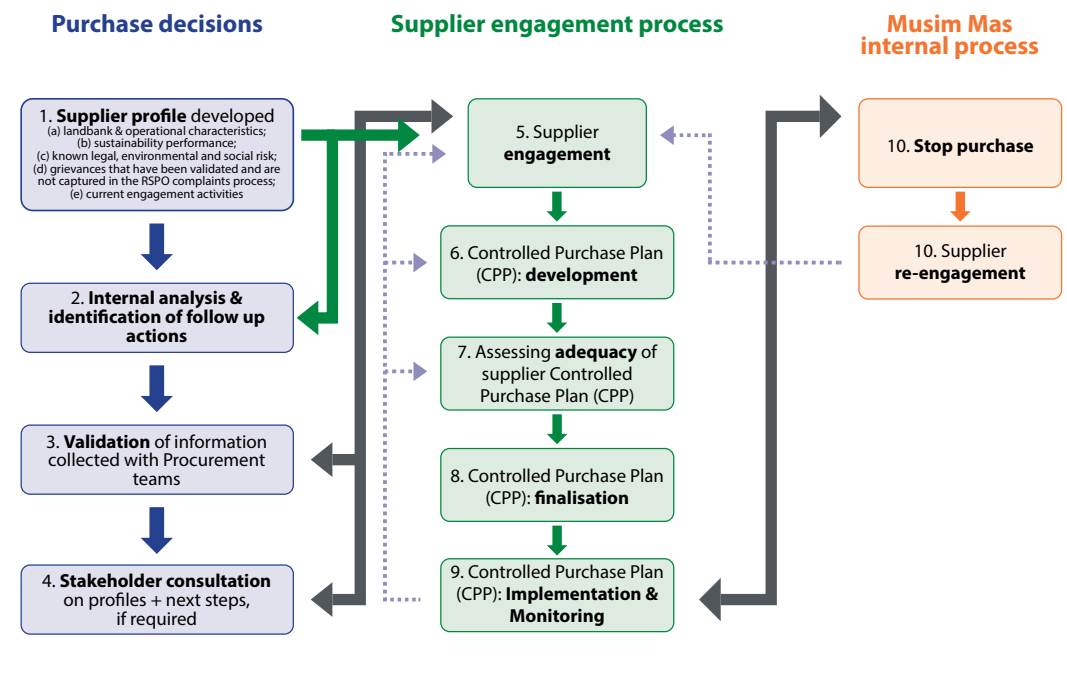
⁽¹⁾ <http://www.rspo.org/members/complaints>

⁽²⁾ This would only be applicable if the supplier is also a member of RSPO.

Therefore, in such situations, the Controlled Purchase mechanism guides us and our supplier to:

- 1) Formulate and implement action plans;
- 2) Determine jointly the milestones and respective timelines to ensure progress is continually made;
- 3) Determine the incentives it can provide to suppliers who make progress against the identified milestones (such as increased palm oil volume purchases). Where progress is not satisfactory, we also commit to controlling palm volumes purchased;
- 4) Provide criteria for stopping purchase and purchase re-engagement.

3.2.2. Overall Process



Traceable Supply Chains

Overview

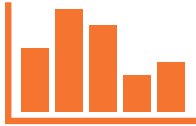
- As at December 2017, we can trace 100% of our supply base of Crude Palm Oil (CPO) to the mill level. We can trace 53% of our supply base of CPO to the plantation level. Our traceability statistics improved because of the increased number of mill assessments and amount of data on plantation ownership.
- We have 604 individual third-party supply mills that belong to 248 parent companies, including our suppliers from Malaysia and Indonesia.
- Among the 248 parent companies, we are focused on engagement with 14 parent groups and we have increased our procurement from these companies.
- Indonesia accounts for 98% of our supply base as compared to Malaysia which accounts for 2% of our supply base.

Indonesia

- In Indonesia, we source from 496 third-party mills that belong to 203 company groups.
- Six provinces account for 80% of our CPO supply base: North Sumatra, Riau, Central Kalimantan, South Sumatra, Aceh and West Kalimantan. These six provinces are our priority provinces for engagement among the 34 provinces in Indonesia.
- The traceability statistics for all six priority provinces have improved, especially for West Kalimantan which has improved from 62% in the last reporting period to 88% for this reporting period. Our newly operating mill provides an operational foothold to gain insight into our supply base.
- Our traceability statistics for Central Kalimantan and West Kalimantan are the highest among the six provinces perhaps because we are the dominant player in terms of procurement in these areas as compared to North Sumatra, Riau and Aceh which are much more competitive. The information on concession data from external parties such as Greenpeace's "Kepo Hutan" platform is also more comprehensive. Additionally, the landscape is made up of bigger palm oil players as compared to the island of Sumatra. We have also shifted towards suppliers who can provide traceability data.

Malaysia

- In Malaysia, we source from 108 third-party mills that belong to 47 company groups.
- We source only from third-party mills in Malaysia, as we do not have any plantations in the country.
- Our traceability statistics for our Malaysian refinery in Johor has also improved from 4% in the previous reporting period to 11% for this reporting period. We have improved our data visibility for the storage tanks and their associated supply base of mills.



Data

The data presented is up to December 2017.

Traceability by facility

No	Company	Facility	State/ Province, Country	Product Type	Traceable to Mill	Traceable to plantation
Notes to traceability data		1	2	3	4	5
i.	ICOF	South India Krishna Oils and Fats	Andhra Pradesh, India	CPO	100%	51%
ii.	ICOF	Tvarur Oils and Fats	Tamil Nadu, India	CPO	100%	47%
iii.	Musim Mastika	Musim Mastika Oils and Fats	Johor, Malaysia	CPO	100%	11%
iv.	Agro Makmur Raya	Agro Makmur Raya	North Sulawesi, Indonesia (Bitung)	CPO	100%	63%
v.	Agro Makmur Raya	Agro Makmur Raya	North Sulawesi, Indonesia (Madidir)	PK	100%	58%
vi.	Berkat Sawit Sejati	Berkat Sawit Sejati	South Sumatra, Indonesia	PK	100%	56%
vii.	Indokarya Internusa	Indokarya Internusa	South Sumatra, Indonesia	CPO	100%	49%
viii.	Inti Benua Perkasatama	Inti Benua Perkasatama - Lubuk Gaung	Riau, Indonesia	CPO	100%	40%
ix.	Inti Benua Perkasatama	Inti Benua Perkasatama- Lubuk Gaung	Riau, Indonesia	PK	100%	46%
x.	Inti Benua Perkasatama	Inti Benua Perkasatama - Pelabuhan	Riau, Indonesia	CPO	100%	55%
xi.	Megasurya Mas	Megasurya Mas	East Java, Indonesia	CPO	100%	71%
xii.	Mikie Oleo Nabati Industri	Mikie Oleo Nabati Industri	West Java, Indonesia	CPO	100%	57%
xiii.	Musim Mas	Musim Mas - Batam	Riau Islands, Indonesia	CPO	100%	69%
xiv.	Musim Mas	Musim Mas - Belawan	North Sumatra, Indonesia	CPO	100%	55%
xv.	Musim Mas	Musim Mas - KIM 1	North Sumatra, Indonesia	PK	100%	47%

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No	Company	Facility	State/ Province, Country	Product Type	Traceable to Mill	Traceable to plantation
Notes to traceability data		1	2	3	4	5
xvi.	Musim Mas	Musim Mas – KIM 2	North Sumatra, Indonesia	CPO	100%	25%
xvii.	Musim Mas	Pelalawan	Riau, Indonesia	PK	100%	100%
xviii.	Sukajadi Sawit Mekar	Sukajadi Sawit Mekar	Central Kalimantan, Indonesia (Bagendang)	CPO	100%	78%
xix.	Sukajadi Sawit Mekar	Sukajadi Sawit Mekar	Central Kalimantan, Indonesia (Sebabi)	PK	100%	100%
xx.	Sukajadi Sawit Mekar	Sukajadi Sawit Mekar	Central Kalimantan, Indonesia (Bagendang)	PK	100%	84%
xxi.	Wira Inno Mas	Wira Inno Mas	West Sumatra, Indonesia	CPO	100%	30%
xxii.	Wira Inno Mas	Wira Inno Mas	West Sumatra, Indonesia	PK	100%	39%

Notes to traceability data:

1. Facility: refers to the name of the manufacturing plant that receives the products, either Crude Palm Oil (CPO) or Palm Kernel (PK). Our list of facilities is also indicated on our website [here](#).
2. State/ Province, Country: state is the political governance term used for India and Malaysia while province is the equivalent term for Indonesia.
3. Product type: the products that are traced in our traceability commitment are Crude Palm Oil (CPO) and Palm Kernel (PK).
4. Traceable to mill: the data indicates traceability level of the products processed by the refinery, right down to mill or CPO/PK level. The data is derived from the amount of traceable product divided by the total amount of products received by the refinery. For a mill to be considered traceable, we will need data on the mill's parent company name, mill name, mill's address and the volume of products that we procure for our facility.
5. Traceable to plantation: the data indicates the traceability level of the products, right down to plantation. For a plantation to be considered traceable, we will need the plantation's parent company name, plantation name, the coordinates of the plantation, the capacity of the associated mill, and the size of the concession.

Traceability by province (CPO)

No	Province	Provincial contribution (%)	Traceability within the province (%)
Notes to traceability data		6	7
i.	North Sumatra	20%	47%
ii.	Riau	21%	43%
iii.	Central Kalimantan	17%	85%
iv.	South Sumatra	12%	64%
v.	Aceh	5%	50%
vi.	West Kalimantan	5%	88%
Total		80%	N.A.

Notes to traceability data:

6. Provincial contribution: the data indicates the contribution (%) of the third-party mills in the province to our supply base: the total amount of CPO sourced from the province divided by the total amount of CPO in our supply base. The figures include the potential contribution from our Group's plantations and mills that located in the province.
7. Traceability within province: the data indicates the proportion (%) of traceable plantations located in the province. The data is derived from the total amount of traceable CPO from these plantations divided by the total amount of CPO that we sourced from the province. A note on Aceh: we buy mostly from mid to large-sized plantations with accompanying mills. However, we believe that there are more independent plantations in the supply chain which have no direct link to our third-party mills.

Traceability by province (PK)

No	Province	Provincial contribution (%)	Traceability within the province (%)
Notes to traceability data		8	9
i.	North Sumatra	22%	45%
ii.	Riau	24%	45%
iii.	Central Kalimantan	13%	84%
iv.	South Sumatra	13%	57%
v.	Aceh	7%	46%
vi.	West Kalimantan	3%	95%
Total		82%	N.A.

Notes to traceability data:

8. Provincial contribution: the data indicates the contribution (%) of the third-party suppliers' PK from the associated plantations in the province to our PK supply base: the total amount of PK sourced from the province divided by the total amount of PK in our supply base. The figures include the potential contribution from our Group's plantations and mills.
9. Traceability within province: the data indicates the proportion (%) of traceable PK that is sourced from the province. The data is derived from the total amount of traceable PK divided by the total amount of PK that is sourced from the province and are traceable to associated plantations of our third-party mills.

Certified Mills

Types of certification	Number of mills	% of total supplying mills, including our own mills
Notes to traceability data	10	11
Roundtable on Sustainable Palm Oil (RSPO)	116	19%
Indonesia Sustainable Palm Oil (ISPO)	146	24%
International Sustainability and Carbon Certification (ISCC)	61	10%

Notes to traceability data:

10. Number of mills: we obtained the information on certification from the RSPO, ISCC and ISPO websites as well as questionnaires submitted by the third-party mills.
11. % of total supplying mills including our mills: number of certified mills divided by our total number of mills.



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Our business is involved with every part of the palm oil supply chain: From managing plantations and mills to refining crude palm oil and manufacturing palm-based products, supported by an extensive fleet of ship tankers and barges that enhances our logistical capabilities. We employ 37,000 employees in 13 countries across Asia Pacific, Europe, and the Americas, committed to meeting global demand for Palm oil and its derivative products in an environmentally, socially and economically viable manner.

This publication is produced by Musim Mas. Comments and suggestions are welcomed. Please contact the corporate communications team at sustainability@musimmas.com or visit our website at www.musimmas.com.