



Sustainability Policy

Progress Report

July 2015 - June 2016





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Musim Mas Sustainability Policy

Introduction

When we first announced our [Sustainability Policy](#) in December 2014, we recognised that the policy implementation was going to be challenging. The actual groundwork has proved harder. In hindsight, our Sustainability Policy merely indicates our overall approach to our third-party supply chain without defining steps for implementation in detail.

While we gain momentum to scale our policy impact, we encounter conundrums: how can we enforce the policy and include independent smallholders, small and medium-sized plantation companies that are willing to be engaged but whom may not be up to the current policy standards? How do we engage stakeholders who are not ready to be involved? How can we encourage the non-grower stakeholders to work with us to solve the growers' challenges in a complex landscape?

To seek sustainable solutions in balancing social and environmental consequences, we need to look at the different models of implementing a sustainable supply chain and align our approach with stakeholders.

This progress report provides an overview of our policy implementation and illustrates steps we've taken to-date in pursuit of transformational changes on the ground.

Going forward, we will be reporting biannually to consolidate our work. Nonetheless, the grievance cases on our third-party suppliers and the [traceability information](#) on our refineries are updated quarterly.

Sustainability Policy



No deforestation



No peat



No exploitation



No burning

Summary of implementation work

Since June 2015, we have managed to map 100% of supplying mills to our 11 refineries and nine kernel crushing plants in Indonesia. In February 2016, we uploaded our [information on the traceability data](#) for our six refineries outside of Indonesia: India (Nellore and Thiruvapur) Malaysia (Johor Bahru) and Spain (Cartagena, Castellón, Ferrol).

Our risk analysis of our top 100 mills (by volume) provided for the prioritised plantation groups (for our supplying mills) and landscapes for engagement, enabling us to concentrate our resources and kickstart the critical conversations and guide the transformational work required.

We have started the process of engaging plantation groups. In our inaugural engagement workshop for our supplying mills, we invited the management teams for the groups that form part of our top 100 supplying mills.

As a priority on landscape-level work, we are working with different stakeholders. One of the landscapes is the Aceh-Leuser region. The assessor involved with the mill assessment work is [The Forest Trust \(TFT\)](#). TFT also collaborates with other palm oil companies in the Leuser landscape.

We have also uploaded new grievances [online](#). As we expand our traceability work to our overseas refineries, we have updated the list of grievances to include our Malaysian suppliers listed in the public domain.

We work with external expertise to complement our efforts and enhance the reliability of our processes. An independent partner – [CORE Consortium \(CORE\)](#) – supports the overall implementation and assesses our third-party suppliers' compliance with our policy. CORE has since finalised its verification of the supply chain database for our refineries and evaluated on data reliability and completeness. The first assessments took place in November and December 2015, covering 4 of our 11 refineries based in Indonesia.

We are also expanding our work with independent smallholders via our [collaboration with the International Finance Corporation \(IFC\)](#).

Finally, we are always seeking new ways to overcome existing challenges. We moved forward with our application to become a POIG member as a way to contribute to the industry's innovations and solutions. As of 16 November 2015, we are officially [a member of the Palm Oil Innovation Group \(POIG\)](#) and will shape the industry dialogues on innovations and move towards creating a sustainable palm oil supply chain.

16 
**PLANTATION
CONCESSIONS**

13 
MILLS

30 
**PROCESSING
PLANTS**

598 
**THIRD-PARTY
MILLS**



Progress Review

CORE's Support to Musim Mas through to Q1 2016 has focused mainly on two areas: (1) verification of traceability to confirm achievement of the 2015 traceability from the refinery to mill objective, and (2) environmental risk assessment and analysis for top 100 supplier mills by volume.

The traceability verification assessments have enabled CORE to conclude that Musim Mas' traceability systems are comprehensive and robust, and to confirm the reliability of the company's traceability reporting. The environmental risk analysis of supplier mills has given Musim Mas a clear basis for designing future engagement strategies for mitigating risks and maximising - positive impact of Musim Mas' policy implementation.

Our engagement with the supply base during the remainder of 2016 will now be rolled out through linked supplier workshops and verification assessments, with twin objectives of building capacity and accelerating policy compliance. These activities will be targeted based on identification of priority landscapes and plantation company groups.

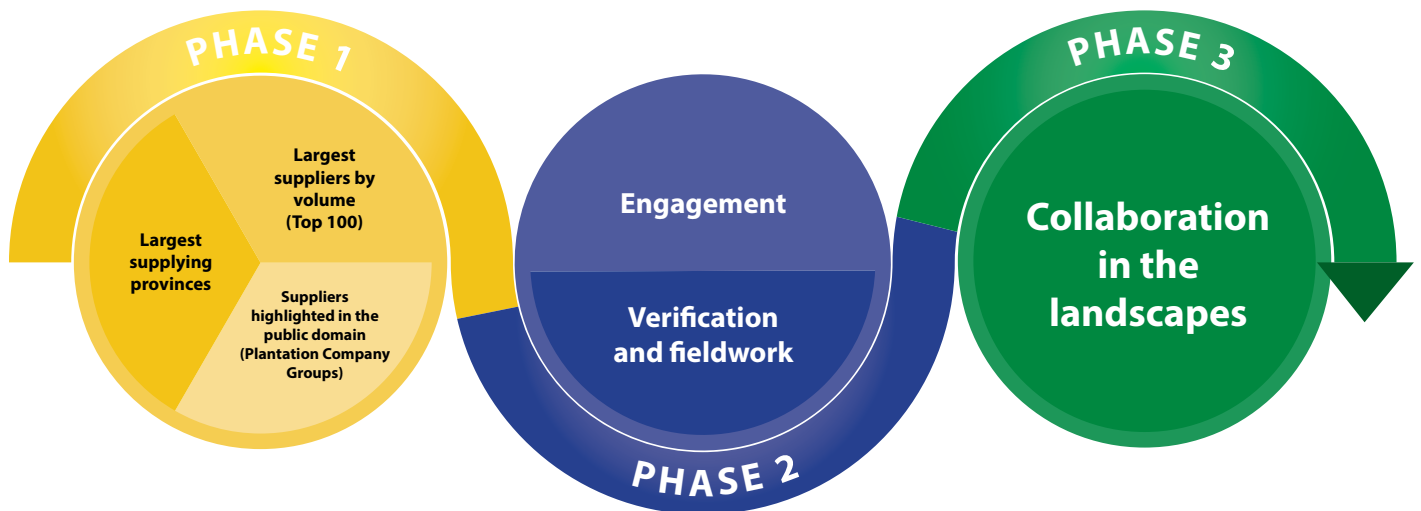
Neil Judd
Proforest

Gary Paoli
Daemeter Consulting

Edward Millard
Rainforest Alliance



Traceability



Traceability progress to-date: first quarter 2016

As one of the downstream players in the industry, we need to source our Crude Palm Oil (CPO) from both our own mills and third-party mills.

Since June 2015, we have mapped 100% of our supplier mills in Indonesia (with verified geo-coordinates) and are working to map our supply base back to plantation-level. As at end April 2016, our total number of suppliers (including our mills) stands at 611 mills, of which 522 mills are located in Indonesia. This represents a large proportion of the established milling capacity of Indonesia, and as such our supply base can be viewed as a microcosm for the industry.

Verification on traceability progress

In December 2015, we also demonstrated the Group's traceability achievement of 100% traceability to palm oil mills. Our implementation partners from the CORE Consortium undertook four traceability verification assessments across our main operations in the North Sumatra and Riau provinces. The operations are namely KIM I, KIM II and Belawan in North Sumatra and Lubuk Gaung in Riau.

The CORE team's verification results support that the existing systems and controls in our refineries are indeed capable of providing traceability. Each refinery was assessed to update supplier lists daily, which has allowed us to verify the supply of CPO/ PKO. All existing and new suppliers are required to register their entities along with validated mill location data.

¹ Accessed on 10 December 2015; <http://www.bumn.go.id/ptpn5/berita/11206/Ini.Sebaran.Pabrik.Kelapa.Sawit.di.Indonesia>

Traceability is a means to an end

The industry trend of defining traceability is contingent on the completeness of information: parent company name, mill name, address, location and address as well as volume of CPO being procured.

While we acknowledge the need to be precise in defining traceability, we view data as a tool; a means to an end. Information such as the mill's volume that is supplied to our refineries may be useful, but this information may not lead to improvements on the ground. A sustainable and inclusive supply chain needs more than traceability.

Our information gathering phase focuses on identifying the parent groups of our supplying mills and the regions where their parent groups operate. In terms of volume, while the specific volume to the refinery is important, what is more important is the total volume procured from a parent company. An aggregated procurement volume by parent company indicates a level of bargaining power that we can leverage as a buyer. As with the detective who works on gathering clues to resolve a case, the focus should not be on verifying the accuracy and the completeness of the clues, but to quickly use the clues as a step to resolve the sustainability issue. The real work begins only with the insight from the traceability data to identify the change makers that need to be engaged.

Our aggregated findings on the parent groups will be our blueprint for active engagement. We hope to concentrate our resources on these plantation company groups in the prioritised provinces and kick-start the critical conversations to scale up sustainable practices on the ground. As long as we can establish the ownership of the mills in our supply base, we can start engagement at group level, and aim towards gaining sufficient traction to create change within each plantation group's universe of mills.

We see it as critical to ensuring that our sustainability systems are well-integrated with our traceability systems. While we continue to map our supply base to plantation-level, we will engage our suppliers, in parallel, to explain our sustainability sourcing policy and to ensure that we understand and support our suppliers' progress and sustainability issues.

Our progress on traceability back to plantations

Additionally we need to provide traceability information back to plantation-level by the end of 2016. This task is the most challenging aspect of our policy commitments. In line with our approach on tracing mill data, our approach to tracing back to plantation-level is to determine ownership patterns and engage the decision makers in the plantations groups. We will pursue this task via different pathways, including collecting information directly from our third-party suppliers, sourcing from information listed in the public domain and doing mill-based site verification work.

The most difficult aspect of this task is determining the linkages to independent suppliers which may not supply directly to the mill (as highlighted in our [Pati Sari case](#)). Even when the linkage is established, it is extremely difficult to expect the same level of standard from these smaller-scale suppliers as the big plantation companies. Very often, it becomes a choice of either a stop purchase from mills that are supplied by third-party suppliers including many smallholders, or to keep buying and risk being seen as not addressing non-compliant third-parties issues. We need to focus on the potential change makers and support gradual improvements against a complex ground situation.

The viable solution for smallholders who are connected to our third-party mills' supply bases, is the [landscape approach](#). Please read up more about the [landscape approach](#) in this report.

At this point, we are actively progressing with our work. By the end of 2016, we hope to be able to reflect on our commitment and to report on ground action that will enact lasting changes.

Indonesia

We have 522 suppliers in Indonesia. Approximately 21% of these supplying mills are RSPO-certified. This mirrors RSPO's data which stated that [21% of the global supply is RSPO-certified](#).

Type of Certification	Number	% of total suppliers, including our own mills	Industry statistics
Roundtable on Sustainable Palm Oil (RSPO)	96	18%	21% of the global supply of palm oil is certified.
Indonesian Sustainable Palm Oil (ISPO)	93	18%	ISPO listed a total of 96 certified mills ³
International Sustainability and Carbon Certification (ISCC)	66	13%	380 certified palm oil mills ⁴

Our top three provinces of Riau, North Sumatra and Central Kalimantan collectively accounts for approximately 62% of our supply base. Together with the provinces of South Sumatra and Aceh, these five provinces account for approximately 80% of our supply base and mirrors the industry statistics for the main production areas in Indonesia.

Among our top 100 mills, we can narrow down the engagement entities to 14 critical plantation groups whose operations are deemed at highest risk of non-compliance with our sustainability policy. We engage these groups in the operating locations and start a verification process as well as push for ways forward.

Refineries outside of Indonesia

Our refineries outside of Indonesia source mostly from Indonesia. Hence they share the same mill supply base as our refineries in Indonesia, except for our refineries in Malaysia and India. Our Malaysian refinery sources 30% of our CPO requirements from suppliers in Malaysia, while our Indian refineries source 14% from outside of the Group's mills in Indonesia.

Please click [here](#) to find out more about the supply base of each refinery.



Case Study

Pati Sari Mill

A case study of a successful engagement with a third-party supplier group.

The current situation in Leuser Ecosystem is complicated as it involves many stakeholders, including local governments, suppliers, traders, smallholders and NGOs. As stated in the November 2014 report, the US-based NGO, Rainforest Action Network (RAN), reported that crude palm oil (CPO) produced from Fresh Fruit Bunches (FFB) originating in the Leuser Ecosystem has been supplied to major buyers including Musim Mas.

The verification work that followed involved different suppliers including Pati Sari, which was one of the palm oil mills reported to be sourcing FFB from a plantation company, Mestika Prima Lestari (Mestika), located inside the ecosystem.

We have been in constant engagement and dialogue with Pati Sari since November 2014. The outcome of the engagement was that Pati Sari stopped purchasing from Mestika. Pati Sari's estates (Darma Sawita Nusantara, Nilam Wangi, Bukit Safa, Saudara Adi Megah) have given up a portion of their concessions which encroached into the designated restoration zones inside the Leuser Ecosystem. Smallholders have also

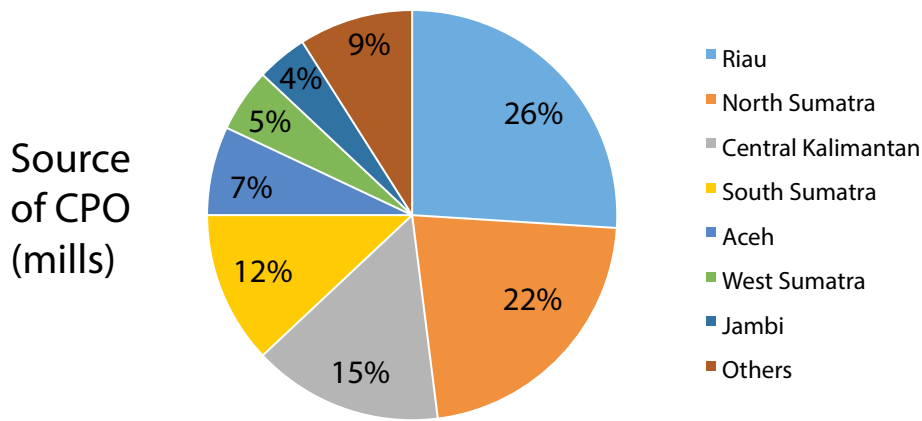
For more information on the Pati Sari engagement, please click [here](#).

given up on their area inside the gazetted park.

Nonetheless, while Pati Sari and their accompanying smallholders are willing to give up on the planted areas inside the gazetted national park, there may be other stakeholders who will encroach into the gazetted national park areas. We will be bringing this issue of long-term viability to other stakeholders who are keen to work as custodians of the Leuser Ecosystem.

On a separate note, Pati Sari's case study is a good example of how we can enact change in a more impactful manner: one plantation group at a time, rather than one mill at a time. We are constantly on a lookout for plantation groups who are willing to work on the critical issues and implement action on the ground. We have engaged all our 14 suppliers who operate mills within 50 km radius of the Leuser Ecosystem and communicated on the Musim Mas Sustainability Policy as well as the risk of sourcing from illegal or protected areas within Leuser Ecosystem.





Risk assessment

Concurrently, we are also adopting a landscape-level approach to implementation and thus focusing our efforts in places where the risks are rated as high and manage accordingly. Our CORE partners have completed an assessment of more than 500 supplying mills, using different indicators within a landscape. This work aims to identify potential environmental risks, such as fire and deforestation, associated with our third-party production operations and supply sheds and allows us to identify priority areas for policy compliance.

As a result of this exercise, we have mapped out the provinces and districts in Indonesia that have the highest concentration of our top 100 suppliers, examined how risks vary across these regions, and used this information to prioritise efforts for our supplier engagement with workshops and verifications. The identified priority provinces where we need to look at landscape-level transformation are Riau, North Sumatra, Aceh and Central Kalimantan.

Supplier Workshop

The first supplier workshop was held in Medan in early 2016. We invited decision makers, group managers, and owners of companies with operations across the four priority provinces for this first stage engagement, to create buy-in as a critical step for ensuring group-wide implementation of our policy commitments. The workshop aimed to communicate Musim Mas' policy commitments and to discuss programme implementation. There will be more workshops and site verifications in the coming quarters to continue the dialogue, targeted at key plantation company groups with a greater emphasis on capacity building, and these will be supplemented by site verifications.

Site Verifications

On-site verification assessments will form a next crucial stage of our implementation programme. These are currently being done in partnership with the CORE team at the identified high-risk mills in Riau, North Sumatra, and Central Kalimantan. In particular, the Aceh-Leuser landscape is being assessed in cooperation with [The Forest Trust \(TFT\)](#). The purpose of the assessment is to determine if the supply bases of these mills are in compliance with Musim Mas' sustainable sourcing policies.

Musim Mas is working with TFT on a [contractual arrangement](#) on sustainable palm oil at a landscape level, focused on the Leuser Ecosystem. The joint work programme in the Leuser region will include capacity building, training workshops, and supply chain linkages to support the implementation on the Musim Mas Sustainability Policy.

The outcome of this collaboration will be used to develop improvement plans to ensure that the third-party mills will adhere to our policy. There will be cases where the proposed improvement plan will need to link to a wider group of stakeholders within a landscape, including local governments. Often, these are cases of "illegal" FFB and the findings also involve issues relating to independent smallholders and their livelihoods.

Independent Smallholders

We continue with our work on the Indonesian Palm Oil Development for Smallholders (IPODS) with the International Finance Corporation (IFC), a member of the World Bank group. This project aims to assist independent smallholders improve their yields and livelihoods, gain access to financial support and global markets and develop a scalable model which can reach and impact more smallholders. Musim Mas aims to benefit 3,000 independent smallholders through this [pilot project](#) in Indonesia.

Labuhan Batu District, North Sumatra Province

Item	Up to Q4 2015	Up to Q1 2016
No. of Farmer Registered	539	950
Male	448	818
Female	91	132
Farmer Groups	23	40

We will continue our project outreach to farmers from surrounding villages to improve participation from smallholders. We will also continue to seek support from the FFB agents and the international palm oil supply chain. We started training for farmers in June 2015, involving an immediate focus on fertiliser knowledge, field school at the farmers' plots, question and answer sessions, and selected soil and leaf sampling and analysis of independent smallholders' plots.

In December/January, the extension office was opened and eight farmer advisors were trained. Each farmer advisor will look after an allocated number of farmer groups. Beside the field days, these farmer groups are assisted by the farmer advisors with a farmer logbook. The farmers' logbook is the basis for the data collection for the farmers to record their yields, their collection rounds, inputs and FFB dockets. The farmer advisors will also work with the FFB agents who are linked to several different groups of farmers.

For 2016, we will explore ways to support these independent smallholders, such as fertiliser loans and premiums for farmers who deliver good quality FFB according to better harvesting standards.

Grievances

We have an outstanding list of [13 grievances](#) listed on our corporate website. The risky suppliers (listed in the public domain) are located in the provinces of Riau, North Sumatra, Central Kalimantan and Aceh. We are also engaging our Malaysian suppliers such as Genting and Felda whose cases are being raised via the RSPO Complaints System.

Verification

CORE Consortium

On 2 September 2015, we announced a [strategic partnership](#) with the CORE Consortium of sustainability organisations. Their different areas of expertise combine to provide a holistic range of services for our Group's sustainability work. The Consortium consist of Proforest, Rainforest Alliance and Daemeter.

Central to affirming the integrity of the traceability exercise, independent verification by the CORE Consortium has been undertaken; selected verification activities have been carried out to confirm that the traceability information is reliable and comprehensive. The consortium is also supporting our overall implementation of our Sustainability Policy and act as an independent party to assess our third-party suppliers' compliance with the Policy.

The CORE Consortium strategy is to verify a representative sample of the Group's supply base, with special priority given to Groups operating in geographies considered to be highest risk for non-compliance. The verification subjects include the sampling of the refineries and mills in the key supplying provinces of Riau, North Sumatra and Central Kalimantan.

The CORE Consortium conducted our first supplier workshop in March 2016 which targeted at the decision makers of the selected parent groups. The headquarters of these companies are located in Medan, Riau Province, while their operations are located all over Indonesia: Sumatra Island (Aceh, North Sumatra, South Sumatra, West Sumatra, Jambi, Bengkulu, Riau) and Kalimantan island (Central Kalimantan, East Kalimantan, South Kalimantan), Sulawesi Island (Central Sulawesi). The event received a good response, given the combined operational network of these plantation groups. 12 out of 14 of the invited plantation groups attended the event.



Industry Engagement

Palm Oil Innovation Group (POIG)

We are pleased to announce that our plantation and trading divisions has joined the [Palm Oil Innovation Group \(POIG\)](#), as an affirmation of our commitment to producing responsible palm oil that does not involve deforestation, peatland clearance as well as violations of land and labour rights.

We are the [first Southeast Asian palm oil major](#) to join POIG and will also work together with the POIG members on developing a processing or traders component to the POIG Charter. We join Agropalma (Brazil) and Daabon (Colombia), as well as NGOs Greenpeace, WWF, Rainforest Action Network (RAN) and Forest Peoples Programme (FPP).

As a POIG member, we will implement and promote the formal requirements of the [POIG Charter](#).

We are aligning our [Sustainability Policy](#) to the POIG Charter. We will also undertake a labour risk assessment and third-party verification on the Charter requirements for our plantations and extend our commitment to our processing and trading facilities in the 3rd and 4th quarter of 2016.

Sustainable Palm Oil Manifesto (SPOM)

After one year of inception, [the Sustainable Palm Oil Manifesto \(SPOM\) launched the High Carbon Stock Science Study \(HCS+\) on 11 December 2015](#).

We believe that finalising the report is an important step in the development of the HCS methodology. It is important to review trials that compare the two existing methodologies, conservation and developmental outcomes as well as assess the practicality.

We are committed to running these trials and support of convergence of the two methodologies. In the interim period during the implementation of the trials, the Group will maintain its moratorium and follow the HCS Approach (HCSA). The objective of trials is to achieve convergence of both methods. We will develop a roadmap for implementing the field trials, set a time-bound plan and communicate its progress in its progress reports. We will conduct a trial in Papua province (Indonesia) with a focus on the social context and FPIC part of the HCSA methodology.

The trials are necessary for both methodologies to assess outcomes and practicality as there are different landscapes with a broad range of contexts. Most importantly, the industry needs to align the HCS+ and HCS Approach wherever possible to strive for the adoption of one methodology that can be supported as the HCS tool by the Roundtable on Sustainable Palm Oil (RSPO).



Fire Free Alliance (FFA)

In March 2016, we joined a group of leading forestry and agriculture companies, NGOs and other partners to form the [Fire Free Alliance](#) (FFA), a voluntary, multi-stakeholder platform to aid in the solution to land and forest fires in Indonesia.

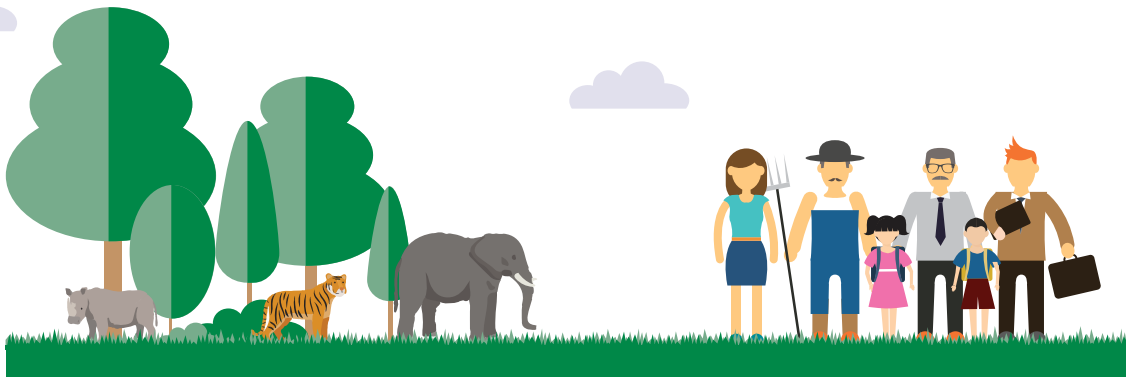
The founding members include other non-profits such as the Sustainable Trade Initiative (IDH), People Movement to stop Haze (PM Haze), and Rumah Pohon. Members have jointly committed to collaborating and sharing knowledge, information and potentially, resources to roll out fire prevention initiatives based on APRIL Group's Fire Free Village Programme (FFVP), and also to enhance fire monitoring, detection, and suppression.

FFA members will adopt and implement the FFVP, sharing lessons and best practices on how partnerships and engagement with the communities can protect forests from the high risk of fires. NGOs and other partners will contribute towards facilitation to a wider group of companies, research capability and where the expertise is available, review fire management strategies and practices of FFA members. The FFA's commitment supports the Indonesian Government's commitment to a Haze-Free ASEAN by 2020.

Going forward, we will roll out the programme to villages that are near our concessions.

Moving Forward

The Great Palm Oil Debate



CONSERVATION

Protection of natural resources such as forests and its ecosystem services and biodiversity.

DEVELOPMENT

Inclusive and equitable economic progress

SOLUTION

LANDSCAPE APPROACH

PARTIES

PRIVATE SECTOR ORGANISATIONS

NON-GOVERNMENTAL ORGANISATIONS

GOVERNMENTS

ACTIONS

- Conduct business in a responsible manner
- Establish sustainable supply chains
- Identify and overcome industry challenges through stakeholder engagement and ground action
- Invest in impactful programmes to improve livelihoods of local communities and smallholder farmers

- Provide knowledge and expertise on socio-environmental issues
- Identify key and urgent area of needs in the sustainability sphere
- Create multi-stakeholder platforms to synergise effort between actors
- Spearhead impactful initiatives to achieve socio-environment objectives

- Review and legislate laws that are conducive to enhancing social and environmental values
- Provide clarity on legal framework that promotes assignment of responsibility and accountability
- Manage and coordinate national and local resources in a manner that balances economic and socio-environmental goals
- Support impactful private sector initiatives through funding, grants and rebates

Landscape approach

The landscape approach is gaining traction in the palm oil industry and is used to develop strategies over large areas based on the implementation of sustainable agricultural production and inclusive development.

Why the need for a landscape approach? The Group's traceability work on third-party supply chain has shown that verifying third-party compliance against the Group's Sustainability Policy may not be sufficient. A stop-purchase will not always yield positive results because Fresh Fruit Bunches (FFBs) can be sent to other mills within the geographical proximity. Furthermore, there are actors from other industries within the same landscape such as forestry products or mining. Traceability does not adequately address the environmental and social challenges.

Moreover, with more than 600 third-party mills in our supply base spread out across the vast archipelago nation, monitoring suppliers can be challenging. We believe the key to an effective supply chain transformation is to engage key decision makers from different stakeholders: smallholders and plantation groups in a given landscape, government authorities, and NGOs who are active in the landscape.

The challenges in the palm oil sector will need all actors to consider the critical issues. The solution needs to address the complexity of the landscape and the dynamics of the actors as part of a larger debate.


Regarding the provincial landscapes, we have identified specific landscape-level projects that have been embarked on in the five priority provinces of Riau, North Sumatra, South Sumatra, Central Kalimantan and Aceh.

Conclusion

Over the **past decade**, since our Executive Chairman first joined the Executive Board of the RSPO in 2004, our Group has always upheld sustainability as a central tenet in our business practices. From being the first in Indonesia to join RSPO to being the first Southeast Asian major to join POIG, we strive to encourage gradual changes on the ground.

The journey has not been easy; along the way, we recognised areas that needed improvements and challenges that needed help from external stakeholders. We would like to thank our internal and external stakeholders who have helped us in many ways to achieve our shared industry vision.

Going forward, we will be dedicating our resources on the prioritised landscapes and engage the plantation groups. We will also be working on the key deliverables for our POIG membership. Lastly, we will need to trace our supply base down to FFB level and establish the ownership structure for the FFB suppliers to our mills.

The industry has come a long way since the series of No Deforestation, No Peat, and No Exploitation pledges came on board. While many challenges for the industry still lie ahead, together with our industry peers and other stakeholders, we are optimistic that the industry will be able to deliver the measures to address sustainability on the ground and that more players in the supply chain will be involved too. 



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Musim Mas operates globally across the palm oil spectrum. Its business activities run the gamut of the palm oil supply chain: from managing oil palm plantations to refining crude palm oil and manufacturing value-added products. It also has a fleet of ship tankers and barges that enhances its logistical capability. The Group has its operational presence in 13 countries across Asia-Pacific, Europe and the Americas, backed by a multi-national workforce of 28,500 people. Musim Mas, a pioneer member of the Roundtable on Sustainable Palm Oil (RSPO), is committed to doing business in a socially responsible and environmentally friendly 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.