

HOW WE MANAGE SUSTAINABILITY IN OUR BUSINESS

Sustainability risks and opportunities are complex and diverse. We are gradually embedding the management of them into our corporate systems and our supply chains. Guided by our governance arrangements and an attitude of 'continuous improvement', we are working to deliver what we promise in our Policies using programmes, projects and targets.

Our approach is built on the main principles, or reasons, for managing sustainability risks and opportunities, as shown on the graph on page 21. A process that prioritises 'material' issues underpins our approach. We note the importance of teams of people both inside IndoAgri and outside, since programmes and projects don't deliver themselves. We acknowledge the vital role played by all our staff in this work, many of whom also take part in the governance arrangements that guide the high level direction and leadership for our approach. The Group follows the 'precautionary principle', adopting the best available technology and management practices within the constraints of costs and other resources.

In order to improve performance relating to our ten material issues, we have six programmes that deliver new ways of working and new projects in the company and our supply chain. We use goals and targets that are guided by our sustainability policies. Our management systems guide what to do at ground level; this applies particularly to safety. Then, to allow action to take place, we have Standard Operating Procedures (SOP), many of which are being adapted to help deliver new policy commitments. We also use guidance for staff and suppliers, notably our Responsible Supplier Guidelines but also our Code of Conduct. To monitor progress we capture and review information and data using a new SMIS, and the new SAP system which helps improve human resources data.



For more on our Policies, including our Sustainable Palm Oil Policy and Palm Oil Sourcing Policy please see <http://www.indofoodagri.com/policies.html>

SUSTAINABILITY PROGRAMMES [G4-19]

The following describes our key issues, along with the Programmes in place to manage them.

GOVERNANCE AND INTEGRITY

Governance including transparency, business integrity and anti-corruption, risk management [material issue C]

We adhere closely to the principles and guidelines of the SGX's Code of Corporate Governance 2012, the IndoAgri Code of Conduct as well as other applicable laws, rules and regulations. We uphold the importance of integrity and responsibility and set out to mitigate any risk of bribery and corruption throughout our business. Our **Growing Responsibly** Programme, guided by our Code of Conduct, sets the policy framework for high standards of corporate governance and professional integrity. Our business is conducted in an ethical

and accountable manner in accordance with regulations. Accordingly, we can report that no lobbying activities took place in 2015 related to agricultural subsidies or other means to provide IndoAgri with any advantaged production terms. Senior management have direct input into the annual sustainability reporting and, using our new SMIS, we can support decision making with better information and data.

ENVIRONMENTAL PERFORMANCE

Carbon management, including deforestation [material issue A]

Environmental footprint [material issue B]

Yield maximisation [material issue I]

GHG emissions and risk of related climate change impacts can be mitigated by changing practices relating to forestry, peat lands, agriculture, energy, industry, transportation and waste.

Climate change affects Indonesian agriculture. Our industry relies heavily on certain climatic conditions for healthy plantations. Our estates, refineries and mills are guided by sound environmental management practices. We do this to comply with local regulations, save energy, increase productivity and be a good steward of natural resources.

Our industry faces complex business issues every day. These include deforestation, biodiversity loss, water table management, irrigation, soil management, chemical leachate, and preservation of genetic plant quality. Consequently, we are adapting to the environment and changing the way we do business. We recognise, for instance, that achieving good yields means more profit, not only for us, but also for smallholders. Whilst we source some of our FFB from smallholders who are not under our control, if we can inform and share best practices that generate higher yields and improve safety, then the farmers will benefit.

Our **Sustainable Agriculture and Products** Programme drives the adoption of sustainable practices in crop cultivation and the operation of refineries and mills. We are committed to the best industry sustainability practices and standards. Our factories were assessed and rated at least 'blue' against the PROPER criteria, representing compliance with Indonesia's environmental regulation. As part of our work on deforestation and habitat loss, we appointed RSPO-accredited assessors to evaluate the HCV areas in our oil palm estates. We are pressing ahead with management plans in response. Our policy prohibits any new planting on peatlands and HCV areas. Our **Smallholders** Programme, focusing on plasma farmers, promotes production practices with stronger yields and more engaged producers. The best yields, careful cost control and competitive pricing will enable us to have a resilient and productive supply base. Achieving this is underpinned by precision agronomy, innovation in seed breeding and the careful use of crop protection agents. Our **Growing Responsibly** Programme complements this: through our training and governance

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work we encourage stakeholder engagement and support the art of decision-making on risk management, leadership and governance.

SUSTAINABLE PALM OIL SOURCING

Product traceability/Sustainable sourcing including RSPO/ISPO [material issue G]

Smallholders including plasma, social conflict resolution [material issue F]

To produce sustainable products, it is important to know whether the raw materials originate from sustainable sources. We are relatively unusual in our industry: of all the CPO processed in our refineries, 64% of it comes from our plantations, while third parties supply the remaining requirements. So we can not only tell the geographical source, we can also influence its production in order to achieve high standards of food safety, quality and supply chain responsibility. We adhere to the principles and criteria of the RSPO and we are expanding the number of operations that are RSPO-certified and ISPO-certified.

Our **Safe and Traceable Products** Programme ensures that all products from our refineries and mills are traceable. We also ensure that seeds are traceable using a barcode system. We are going further – our partnership project with the IDH that began in 2014 is pressing ahead with RSPO certification with a selection of smallholders. As we audit our CPO suppliers under this Programme we find that they acknowledge our sourcing policies and guidelines and generally agree with our findings. Our **Smallholders** Programme team talk with the plasma and ex-plasma farmers (those who have paid off their loans) to understand how best to roll out RSPO smallholder certification. Plasma and third party farmers provide 27% of the total FFB processed in our mills.

SAFE, NUTRITIOUS, AND TRACEABLE PRODUCTS

Product quality and safety [material issue H]

Product quality and safety are of paramount importance. Our **Safe and Traceable Products** Programme featuring food safety management systems and quality assurance processes, ensuring that all our products are traceable, safe and beneficial for human consumption. Our refinery teams also ensure that product labels accurately describe the product's nutritional properties and brand claims.

PEOPLE AND COMMUNITIES

Occupational health and safety [material issue E]

Human rights [material issue J]

Land rights including scarce land resources [material issue D]

Being a responsible employer and plantation owner allows us to provide a high standard of welfare, health, living conditions, civic services and training to our employees and their families.

Agriculture, refining and milling are potentially dangerous, so we continue to embed safe practices at work and healthy working environments. We want to deal fairly and

transparently with all employees and business partners, respecting contractual agreements and human rights. The management of risks relating to diversity, employee retention, labour conditions, freedom of association, child labour and forced labour is core to this effort. In the plantations, which are often remote, the facilities and support we offer helps reduce risks of human rights transgressions. Land ownership is a deeply social, political, historical and religious issue in the agricultural industry. We uphold the principle of free, prior and informed consent (FPIC) with respect to land purchases from local villages, and it is important to IndoAgri that the local villagers, in turn, have enough for their own livelihood and provisions.

Our **Work and Estate Living** Programme covers aspects relating to safety, health and wellbeing of our workers and their families, and to human rights. Occupational Health and Safety (OHS) is managed under the Sistem Manajemen Keselamatan dan Kesehatan Kerja (SMK3) management system; the majority of our sites now have their SMK3 certified. Our **Growing Responsibly** Programme also guides investment in management systems, such as SAP, stakeholder engagement and training of our people. Our people management is structured and organised with policies guiding most Human Resource (HR) functions. You will find at IndoAgri a range of training, from specialised agronomic courses to collaborative Learning and Development Programme and recruitment training.

Our **Smallholders** Programme team focus on building good relations with local communities. To alleviate conflicts relating to land rights and to cultivate strong social relationships, we actively engage with local landowners and community leaders. The benefits have been manifold, including the mitigation of theft, protests, roadblocks and other business disruptions. The **Solidarity** Programme features projects on and near estates to improve community health, enterprise and education. Our grassroots projects are prioritised and planned based on the findings of social impact assessments.

STAKEHOLDER ENGAGEMENT [G4-24, G4-25, G4-26]

While meeting the growing demand for responsibly produced, high quality palm oil, we endeavour to create employment opportunities and drive economic and social developments in communities where we operate. Multi-stakeholder collaboration is crucial to sustainable palm oil production. Our key stakeholder groups are employees, customers, investors, government and civil organisations, and local communities. We connect, engage and collaborate with them to strengthen our mutual interests and establish common goals. Each operational site maps its key stakeholders in order to understand and improve the relationships with its local community.

Our stakeholder engagement occurs via different channels and at different levels of our organisation. Social impact assessment

helps define stakeholder capacities and concerns. We engage the stakeholders individually and in groups, depending on the relevance and complexity of the issue at hand.

COMMUNITY ENGAGEMENT

Social impact assessments at our estates have been done as part of RSPO’s new planting procedures. Regarding land ownership, we engage with local communities and governments to discuss new developments based on the FPIC principle. In line with this principle, IndoAgri has established a land conflict resolution mechanism. Claims are investigated through this mechanism by involving the local government, village administrative team and community elders to re-assess the areas of dispute. The local district government makes the final decision. A community development forum is held annually to discuss important issues affecting the community and provide advice to address their needs.

Partnerships

- Our parent company, PT ISM, has a partnership with the Office of United Nations Millennium Development Goals (MDGs; target period for which was end 2015) to contribute to reducing mother and child mortality.
- PT ISM is also one of the founding members of PISAgro, whose objectives are based on World Economic Forum’s vision to reduce poverty.
- IndoAgri is a member of the RSPO.
- We are members of other associations relating to rubber, sugar, vegetable oil in Indonesia.
- In 2014, CMAA became a member of Bonsucro, the sustainable sugar production initiative.
- We have a working partnership with IDH to help our independent smallholder farmers attain sustainable agriculture and certify their plantations to RSPO standards. For more see page 43.

The key issues for each of our stakeholders groups, and how we engage with them, are found online. [G4-26, G4-27]

MATERIALITY ASSESSMENT [G4-18]

Over 2013 and 2014 we ran a process to identify our most material sustainability issues, and where the impacts occur in our value chain. To determine if a topic is material, we assessed its potential impact on the business and on external stakeholders and the environment. Senior management took part along with our ERM team. Issues were identified and prioritised through other internal workshops, peer reviews, engagement with international NGOs and social impact assessments at site level. The process aligns with the GRI G4 Guidelines. All of our key material issues affect both our internal and external stakeholders.

GOVERNANCE

As many of our stakeholders already know, IndoAgri views itself as part of a networked industry that tackles challenges

in collaboration, rather than ‘in a vacuum’. IndoAgri clearly communicates its executive management structure in its Annual Report, in line with listing requirements. We have implemented various initiatives over recent years to strengthen how sustainability management is directed in the organisation.

Our Sustainability Team is growing. Headquartered in Jakarta, the team works with various other colleagues to develop policies, contribute to strategy, resolve challenges and produce reports for senior management and for publication. The colleagues include our R&D team, ERM Unit, CEO and Sustainability Think Tank, operational managers of the estates and mills. A strong focus of the team is the implementation of activities to gain and maintain the Group’s certification status by RSPO, ISPO, ISO and PROPER. Our regional teams comprise people with expertise in HCV, environment, health and safety and community engagement. Community and smallholder programmes are implemented by *Solidarity and Community Development Officers* in close coordination with operational teams and the human resources department.

SUSTAINABILITY THINK TANK – WHAT DO THEY DISCUSS?

Comprising the Board members of the Group and its principal subsidiaries, the Think Tank meets regularly to review the progress and direction of the Group’s sustainability management efforts. Their meetings in January, March, August and October mainly focused on OHS management, HCV management, FSSC certification, the Work and Estate Living program, RSPO and ISPO certification update, environmental permitting, data and policy development.

- @ For detail on our materiality process, and where the impacts occur, please see <http://www.indofoodagri.com/sustainability-approach.html> [G4-18, G4-19, G4-20, G4-21]
- @ For more on the key issues for our stakeholders, and how we engage with them, please see <http://www.indofoodagri.com/sustainability-approach.html> [G4-24, G4-25, G4-26, G4-27]
- @ For detail on our Sustainability governance arrangements, including Sustainability management team structure, please see <http://www.indofoodagri.com/sustainability-governance.html>
- @ For more on our Corporate Governance and ERM, please see <http://www.indofoodagri.com/ir.html>