

SUSTAINABLE PALM OIL SOURCING



An employee harvesting FFB

The heart of
our business:
securing a
traceable,
sustainable supply.



38%
RSPO-certified
CPO

KEY INDICATORS



64%
of CPO

at refineries are sourced internally and
traceable to plantations



80%
of CPO

to our refineries is from suppliers
who have been pre-audited against
the IndoAgri Palm Oil Sourcing Policy

PROGRESS HEADLINE

- Supply chain audit programme continues with strong levels of supplier engagement
- IndoAgri completed a study on smallholders' baseline income, profit and the Koperasi Unit Desa (KUD) cooperative system
- Smallholders primed for RSPO and sustainable agriculture practices, via partnership programme

SUSTAINABLE PALM OIL SOURCING

WHAT ARE THE ISSUES?

Securing a sustainable and traceable source of palm oil is at the heart of our business model. A primary reason for doing so is to maintain food safety standards for our products and raw materials. Further, our business-to-business customers want to know where their ingredients come from. Also, our nucleus plantation owners need to be 100% confident that seed material is genetically reliable and from a traceable source.

Aside from knowing where they come from, IndoAgri wants to understand the conditions under which all our products are cultivated, transported and processed. Such transparency will help us understand risks as well as opportunities. We recognise that our palm oil resource base is constrained, that we operate in a region of high conservation value and that it is sourced in an area of social, political or economic vulnerability.

From a business perspective, the grower's profit is vital. Whilst palm oil typically provides the highest yield per hectare compared to the other main edible oil crops, good agriculture practices mean lower input costs and strong yields. Even with a fluctuating market price, a higher yield will mean greater household income for the smallholder. More money means more resilient communities. Such resilience can lead to less use of underage workers in the field, safer practices, greater access to education, more micro-enterprises, more engagement and sharing of good practices, and a lower environmental impact. Such resilience means a more secure supply base, which is vital for our business model.

HOW DO WE MANAGE THIS?

Our company Policy commits us to deliver sustainable agriculture, sustainable communities and a safe workplace. We commit to source palm oil responsibly, using supplier engagement and audit. Our Responsible Supplier Guidelines 2014 aim to establish traceability of environmental and social impacts in our supply chain. Our purchasing professionals use our Guidelines to demonstrate due process on responsible sourcing in line with customer expectations.



View our Policy and Guidelines at
<http://www.indofoodagri.com/palm-oil-sourcing-policy.html>

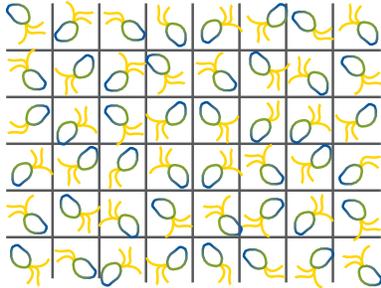
Central to this work is to have our mills, plantations and plasma smallholders RSPO-certified by 2019. This is supported by ISPO certification, the evolving relationships with smallholders as well as the environmental practices that help eliminate burning, the mismanagement of peatland and deforestation. Please see page 42 for more.

KNOW THE SOURCE: SUPPLY CHAIN TRACEABILITY

Most of the CPO – some 64% – is sourced internally from our own plantations and mills. Our refinery commercial teams liaise directly with our palm oil mills.

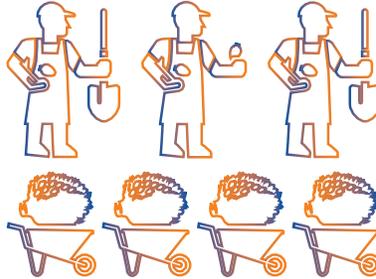


Most of the CPO at the storage tanks of our refineries are sourced internally from our plantations and mills.



SEEDS

Our oil palm seeds are produced at our Bah Lias and SAIN Research Stations, some of which are set aside for our new planting and the majority will be sold to other customers. Each seed from Bah Lias is stamped with "BLRS" and each batch of germinated seeds is barcoded to provide assurance to the buyer on the authenticity and quality of the seeds purchased.



FFB

For the FFBs that arrive at our palm oil mills each year, 100% of them can be traced back to the nucleus or plasma plantation of origin. Our Smallholder Programme introduced a barcode system to trace FFB shipments back to our plasma farmers in South Sumatra. It also identifies the relevant KUD (farmer cooperative).



CPO

For the CPO that arrived at our refineries in 2015, 64% of it came from our own plantations and mills. Each consumer product that leaves our refineries bears a batch number that identifies the CPO source, production line, and place and date of manufacture. There are exceptions: our Medan refinery sources all RSPO-certified CPO internally.

KNOW THE QUALITY: ENSURING A SUSTAINABLE SOURCE

So once we know the source of our FFB and CPO, we want to ensure the farming and production are sustainably managed. We use a combination of auditing and upstream supplier engagement to do this.

AUDIT OUTCOMES

We audit our suppliers of CPO to refineries to help deliver commitments under our Palm Oil Sourcing Policy and Responsible Supplier Guidelines in 2015. We use an accredited third party auditor. Our aim is that all suppliers comply with our Policy by 2020.

By the end of 2015 we aimed to assess compliance and readiness of our CPO suppliers (as a result of audits earlier in the year). We completed 20 initial CPO supplier audits. In general, the suppliers agree with our conclusions and they are committed to make changes. The audits align with RSPO, ISPO and Indonesian regulations requirements.

Whilst suppliers demonstrated many strengths in areas such as quality and process control, the main areas for

improvement include compliance and integrity, human rights, product safety, local community development and environmental protection.

A STAKEHOLDER VOICE

PT Supernova Flexible Packaging provides flexible packaging for IndoAgri. They focus not only on quality and food safety but are also committed to environmental performance. Notably they have been a supplier for twenty years, and as Helda, their Marketing Director, puts it,



"the relationship keeps getting stronger as we support each other for mutual growth and with open communication."

SUSTAINABLE PALM OIL SOURCING

We also audit our nucleus and plasma plantations which supply our FFB. We audit them as part of the RSPO and ISPO certification roll-out. This includes some plasma smallholdings. And while none of them are yet certified, we have a key smallholder project to help make progress (see page 43).

We can report that 80% of supply to our refineries is from CPO suppliers who have been pre-audited against IndoAgri's Palm Oil Sourcing Policy.

Some 86% of supply volume to our refineries comes from 54 suppliers (33 categories) who have been audited and confirmed as compliant on food safety according to IndoAgri's Policy.

COMMUNITY COLLABORATION TOWARDS PREVENTING FIRES

"It's been very dry this September. Once a fire is confirmed, we mobilise firefighters, work with other estate fire teams, and liaise with local government. Sabarudin, the local Head of village, is glad of the firefighting support provided by IndoAgri during recent fires across Pangeran and Mojosari villages. To reduce fires in future we must work together to promote better land management, fire prevention measures and coordination in the community. I believe we have taken one more step forward together." Yohannes Heru C.K, Estate Manager, Kapuas Estates, West Kalimantan



WORKING WITH SMALLHOLDERS

If we can help farmers increase their yields then the pressure on clearing new land for more profit is reduced. This helps to avoid burning, peatland development and deforestation. Whilst there are challenges in getting public information on forest monitoring and law enforcement regarding planning and land ownership, we also see some creative projects to help smallholders improve productivity. These range from simply informing and guiding farmers through the use of good agricultural practices to an emerging government subsidy to help them increase their yields.

RELATIONSHIPS: SUPPORTING FARMERS

Our conversations with smallholders start with price and quality – making sure their cultivation and delivery minimise risk to the quality of the ingredient. We build on the relationship to discuss good agricultural practices, safety and forestry. Such relationships underpin a resilient supply base. In 2015, IndoAgri completed a study on the smallholder's baseline income, profit and the KUD cooperative system. It was part of the IDH project (see page 43 for more).

Whilst the grower's first priority is a good price, the relationship can be strengthened with support services such as agronomy training and safety guidance as well as by helping them to manage various risks in areas such as land ownership, environmental impact and commercial negotiations. Additionally, smallholders will often need assistance and incentives to pursue alternative, less harmful practices in forest management. During face-to-face visits we offer guidance on seeds, seedling cultivation, crop protection agents, buying inputs, pre-financing, credit and contracts. Currently we do not collect data on the extent of the advice provided. The aim is to develop our collaboration with growers in an organised fashion in order to help manage the commercial risk faced by supplier plantations. We aim to help cut growers' costs by finding better prices for inputs such as fertiliser and weed killers. Lower costs mean stronger profits. On our nucleus estates we have greater control over such support services.

- Please see the section on our Products, on page 44
- Our Work and Estate Living Programme provides a range of services, see page 22 for more

ENSURING SUSTAINABLE SOURCING: RESILIENT COMMUNITIES

At the very heart of our smallholder work is our partnership project with IDH, an international organisation that develops public-private partnerships to promote sustainable agriculture, zero deforestation, increasing palm oil yields and providing better market access for the smallholders.

SMALLHOLDER SUSTAINABILITY: GETTING READY FOR TAKE-OFF!

We are committed to all FFB supply from smallholders⁹ to our mills and refineries being 100% sustainable. At the same time we commit to improve traceability, avoid deforestation and maximise smallholder yields. So our project with partner IDH is to achieve RSPO certification of 3,144 independent smallholders in South Sumatra. Before scaling it up, a pilot project aims to certify 159 smallholders on 318 ha of land.

The project will train smallholders in good agricultural practices, business management, as well as RSPO and ISPO principles and criteria. The project will use a baseline as a starting point and as a way to track changes in the target group. We aim to incentivise the smallholders to encourage sustainable production and help company staff with survey, monitoring and mapping tools.

What have we found this year? For most of the farmers, oil palm is the major source of income although a quarter found oil palm profitability too low. Whilst some achieved good yields, nearly 70% had yields below what they could achieve.

So how can this pilot project help? The engagement led to conversations on planting material and agricultural practices. These farmers are starting to appreciate the value of RSPO certification and we are pleased to report their willingness to receive training on this. Overall, we find that there is a tension between land and yield. Smallholders with higher income and access to finance prefer to expand their plots rather than improve yields on existing land.

Do sustainable practices always attract a higher price? Our project primarily aims to show farmers the benefits of practices that attract RSPO and ISPO certification. They include market access and better agriculture, and whilst a price premium may arise, our message is to focus on good practices over the long-term and the intrinsic value that brings, in areas such as yield, efficiency, health and compliance.

We are looking forward to our first RSPO certification resulting from this project. So far we have delivered around 11 days of training in 2015.

⁹ ex-plasma and independent

ACTIONS IN RSPO CERTIFICATION

