ASIAN AGRI

Sustainability Report 2017-2018

GROWING SUSTAINABLY

TOGETHER WITH SMALLHOLDERS

About this Report

GRI 102-50, 102-51, 102-52, 102-54

As one of the major players in the palm oil industry, Asian Agri is committed to the principles of transparency and responsible sourcing of palm oil. Our sustainability reports, published once every two years and beginning in 2015, form part of this commitment. This 2019 report will covers our operations and activities from January 2017 to December 2018, including relevant data from previous years. It is our goal to share our sustainability progress and commitments, highlighting our environmental, social, economic and governance performances as we continue to strive to grow better from year to year. This report also presents how we have mapped our activities vis-à-vis their current and potential impact to targets related to the United Nations Sustainable Development Goals (UN SDGs).

We adopted the Global Reporting Initiatives (GRI) Standards in accordance with core options as a framework for our report. In order to determine topics critical to meet stakeholders' expectations and interests, we followed the principles of materiality in defining the report content, focusing on the issues that our business and stakeholders deem the most important and impactful.

For reference, page 68 of this report features the complete GRI indicator index.

As with our two previous reports, we have used SGS Indonesia's services as a third party assessor to verify all information and data that we present in this report. We attest that we have no relationship nor affiliation with SGS Indonesia. More detailed information about statements from SGS Indonesia can be seen on page 70.

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Message From
Managing Director

GRI 102-14

Asian Agri's sustainability journey continues with actions to develop and manage our resilient business operations. 2017 and 2018 were challenging years for the Indonesian and international palm oil market given strong pressure on crude palm oil (CPO) prices. Despite the prevailing negative market sentiment that pushed CPO prices to the lowest they have been in the last 12 years, we have always remained committed to playing an active role in driving our industry to be more transparent, accountable and sustainable.

SUSTAINABLE BUSINESS

With the rapid growth of the palm oil industry, Asian Agri increased its CPO mills from 20 to 21 units in 2018, and its kernel crushing plants from seven to nine units, while maintaining the ISCC, RSPO and ISPO certifications for existing mills and estates. In response to the increasing demand for sustainable sources, Asian Agri is committed to 100 percent traceable sourcing to plantation. By end 2018, more than 50% of our fresh fruit bunch (FFB) supply comes from our partnered smallholders and we also procure from sustainable supply chains.

We continuously work with our partner smallholders to maintain quality and productivity. In 2017, we accelerated the pace of our smallholder engagement by launching our "One to One" Partnership Commitment, an initiative designed to match one hectare of Asian Agri's own land with one hectare of land owned by smallholders by the end of 2018. Today, we have an opportunity and responsibility to develop our smallholder partners who own more than 101,000 hectares of sustainable oil palm plantations, focusing on productivity gains, environmental protection and community development, while championing partnerships with smallholders for a better livelihood. The partnership is fully supported by dedicated, hardworking personnel who strive to create economic opportunities for all our supply chain partners, and help protect the environment and local communities where we operate. This makes Asian Agri one of the leaders in the Indonesian palm oil industry with a strong commitment to grow together with smallholders, sustainably.

Asian Agri reinforced its commitment to traceability by engaging Meo Carbon Solution from Germany and SNV from The Netherlands as traceability consultants to assist with our supply chain traceability project. Commencing in October 2018, Asian Agri began supply chain traceability projects in North Sumatra and Riau. These projects complement the first traceability verification programmes for our partner independent smallholders in Jambi Province which began in 2016 and were done in collaboration with IDH and Yayasan SETARA Jambi. These ongoing projects will eventually provide us with recommendations on how to further improve our systems and procedures for a more traceable and responsibly supply chain.

SUSTAINABLE DEVELOPMENT

Asian Agri has always believed in the principle of 5Cs – that what we do must be good for Community, Country, Climate, Customer, and only then will it be good for the Company. Sustainable operations and making a positive socio-economic impact to our surrounding communities have been at the core of our operations from the beginning. We welcome the introduction of the UN SDGs as a global framework that emphasises sustainable development underscored by partnerships across the private and public sectors.

We recognise that it is important to acknowledge how our efforts and operations contribute to achieving several of the UN SDGs, as well as identifying opportunities to make an even bigger and more sustainable impact to everyone. We continue to invest in programmes that allow us to increase our productivity and yield without expanding our footprint. We partner with smallholders and help them scale up their operations, driving home the principles of accountability, transparency and sustainability. We are committed to circularity and renewable energy, operating seven new biogas plants in North Sumatra, Riau and Jambi. Each biogas plant uses mill waste known as palm oil mill effluents (POME) for fuel, reducing the processing emission carbon footprint of each mill by 90%. Apart from making our mills energy sufficient, our biogas plants also provide clean energy to surrounding communities. We are currently building three more biogas plants which will be operational by 2019.

> *"Sustainable operations and making a positive socio-economic impact to our surrounding communities have been at the core of our operations from the beginning. The journey towards becoming more sustainable never ends."*

We also continue to engage communities via our Fire Free Village Programme in the three provinces where we operate. In the past two years, we added seven more villages to the original nine, and increased our coverage area by more than 50,000 hectares for a total of 343,000 hectares in 2018. Since the programme's launch, the participating villages have increased from four pilot villages in 2014 to 16 villages in 2018.

LOOKING AHEAD

The journey towards becoming more sustainable never ends. We will continue to promote smallholder partnership stewardship, best management practices and good corporate governance to inspire our stakeholders to collaborate and build capacity to be more resilient in anticipating risks, exploring possibilities, and recovering from any industry disruptions.

19 June 2019,

Kelvin Tio
Managing Director

Testimonials

Andreas Feige
ISCC, Managing Director

"Our partnership with the Asian Agri Group goes a long way and we are particularly happy about the commitment and trust that Asian Agri has put in ISCC. Since they first gained ISCC certification in 2012, the number of Asian Agri's certified operations has increased steadily. By now, all of their twenty oil mills are ISCC certified.

ISCC is committed to a strict no-deforestation policy and the protection of land with high biodiversity value and high carbon stock. Knowing that Asian Agri shares our values, strengthens our confidence in the sustainable sourcing of palm oil. We are looking forward to continuing our partnership and are pleased that Asian Agri's oil mills receive proof of compliance with sustainability requirements through the ISCC certification system."

Rukaiyah Rafik
Yayasan Setara Jambi, Executive Director

"Asian Agri is one of the companies that are quite active in promoting sustainability, especially for independent smallholders. In Jambi, for example, four of Asian Agri's mills have conducted coordinate mapping of their independent smallholders suppliers. This mapping aims to provide Asian Agri with definitive data regarding their suppliers, especially from independent smallholders. In addition, this mapping tool reveals the capacity of independent smallholders and helps Asian Agri to develop an engagement and development plan which may include upskilling and increasing the capacity of knowledge on cultivation, information on market availability and applications for sustainability certification.

Our institution has worked with Asian Agri since 2013. In 2017, we succeeded in encouraging one group, Forum Petani Swadaya Merlung Renah Mendaluh (FPS-MRM) based in West Tanjung Jabung regency to obtain RSPO certification. This year (2019) we will continue to support two other groups in West Tanjung Jabung regency and Batanghari regency to be RSPO certified. This is the productive cooperation that we have carried out, and is one of our next approaches to support independent smallholders in Jambi and other districts in Indonesia."

Tri Widjayanti
SPOI-UNDP, National Project Manager

"The Sustainable Palm Oil Initiative (SPOI) is a collaboration between The United Nation Development Program (UNDP) with the Ministry of Agriculture Republic of Indonesia with Directorate General of Estate Crops as its implementing agency. The objective of the Intiative is to promote sustainable palm oil development including strengthening smallholders' capacities in sustainable palm oil production.

Under a public private partnership approach, Asian Agri in collaboration with SPOI-UNDP has supported smallholders' certification process for Indonesian Sustainable Palm Oil (ISPO). As a major palm oil plantation company Asian Agri has shown its commitment for the sustainable palm oil development in Indonesia."

Ir. R. Azis Hidayat, MM

Secretariat of ISPO, Head

"We appreciate Asian Agri's commitment to applying the sustainability principles consistently and continuously. This can be seen from the Achievement of Recognition of the ISPO Certificate which has reached 92% in 2018, and aims to be 100% ISPO by end of 2019. We also appreciate the efforts made by Asian Agri in empowering oil palm smallholders through partnership schemes as well as collaborating with SPOI-UNDP, Tanoto Foundation and ISPO Commission Secretariat. Through these collaborative efforts, the Independent Smallholder Association Amanah has received the first ISPO Certificate in Indonesia in 2017. In 2018, KUD Plasma Bukit Potalo also received its ISPO certificate. The company's commitment and collaborative spirit need to be emulated by other oil palm plantation companies so that more oil palm plantations receive ISPO certification. Bravo Asian Agri."

Tiur Rumondang

RSPO, Country Director-Indonesia Operation

"Together with another 4,315 RSPO members worldwide who represent all links along the palm oil supply chain, Asian Agri Group has been showing strong commitment and effort to produce, source and use sustainable palm oil certified by the RSPO. I personally impressed by the dedicated resource and training committed by Asian Agri Group, which helped the smallholders know how to implement RSPO standards. The commitment also includes close work with RSPO to ensure the adoption of the best practices in the production of sustainable palm oil. It is no surprise that Asian Agri Group can help their independent smallholders to receive the 1st RSPO certificate for independent smallholders in Indonesia and 100% of scheme smallholder plantations in Riau & Jambi provinces certified using RSPO standard."

Fitrian Ardiansyah

Yayasan IDH,
Executive Chairman

"YIDH is happy to see fruitful outcomes resulting from our collaboration with Asian Agri. Our partnership in accelerating sustainable palm commodities with multi stakeholders approach by involving government, the private sector, farmers and NGOs has shown significant results, particularly in terms of environmental protection and contribution to economic development. We expect we can together nurture and continue this partnership to achieve more meaningful impacts in the years to come."

Supari

Bank Rakyat Indonesia,
Director of Retail &
Medium Business

"We see the partnerships between oil palm farmers and companies result in positive impact. Companies such as Asian Agri provide smallholders with administrative assistance, on-site support, and technical expertise to help prepare the plantations for oil palm replanting."

Hans Harmen Smit
SNV, Project Director

"Through a joint project led by Meo Carbon, SNV supported the on-the-ground review of Asian Agri's traceability system. We found the Asian Agri team very professional and transparent in the process of the review. Their team has welcomed our suggestions and has already started implementing recommendations. We believe Asian Agri is committed to implementing them, and understands the benefits these systems provide are critical for both for managing its' own operations as well as supporting the implementation of their sustainability goals. We hope we can continue to support them on the implementation of this system."

Dr. Forst. Bambang Irawan, SP., M.Sc. IPU
University of Jambi, Dean of Faculty of Forestry

"Asian Agri is one of the most important partners in teaching sustainable palm oil management in Jambi University. Asian Agri's support to Jambi University is not limited to improving the quality of learning through research and education activities for Jambi University lecturers and students, but also includes supporting our education programs. The company also helps the international community deepen its understanding of sustainable palm oil management in Indonesia through a program called Regular Oil Palm Course (ROPC). ROPC is a collaborative program between Jambi University, Bogor Agricultural Institute (IPB) and the Policy Research and Development Agency (Badan Pengkajian dan Pengembangan Kebijakan - BPPK) of the Ministry of Foreign Affairs. ROPC provides foreigners the opportunity to see and assess sustainable palm oil management in Indonesia. Through ROPC, Asian Agri's operations in Jambi has become the main reference in the practical learning of sustainable palm oil management for academics, students and the community as well as domestic and foreign policy makers. We, the members of the Faculty of Forestry of the University of Jambi provide our full support for sustainable palm oil management programs and farmer and company partnerships that are part of Asian Agri's commitments."

Victoria Simanungkalit
The Ministry of Cooperatives and SMEs, Deputy for Production and Marketing

"Indonesia is the largest producer of palm oil in the world, with a total of 14 million hectares of oil palm plantation, and 40% of which are smallholder oil palm plantations.

The Ministry of Cooperatives and SMEs seeks to support the development of sustainable palm oil in Indonesia, especially for smallholder oil palm plantations through a cooperative institutional approach.

Independent smallholders are encouraged to cooperate (forming or joining existing ones). The Ministry of Cooperatives and SMEs will continue to strengthen the institutions and businesses of cooperatives by facilitating the development of partnerships with various related parties to be able to implement sustainable palm oil development and access financing, marketing, knowledge and technology, among others.

One form of partnership that has been well established is with Asian Agri. The partnership between cooperatives and Asian Agri can be a good model for building oil palm cooperatives."

Materiality and **Boundaries**

Defining our Materiality

GRI 102-44, 102-46, 102-47, 102-49

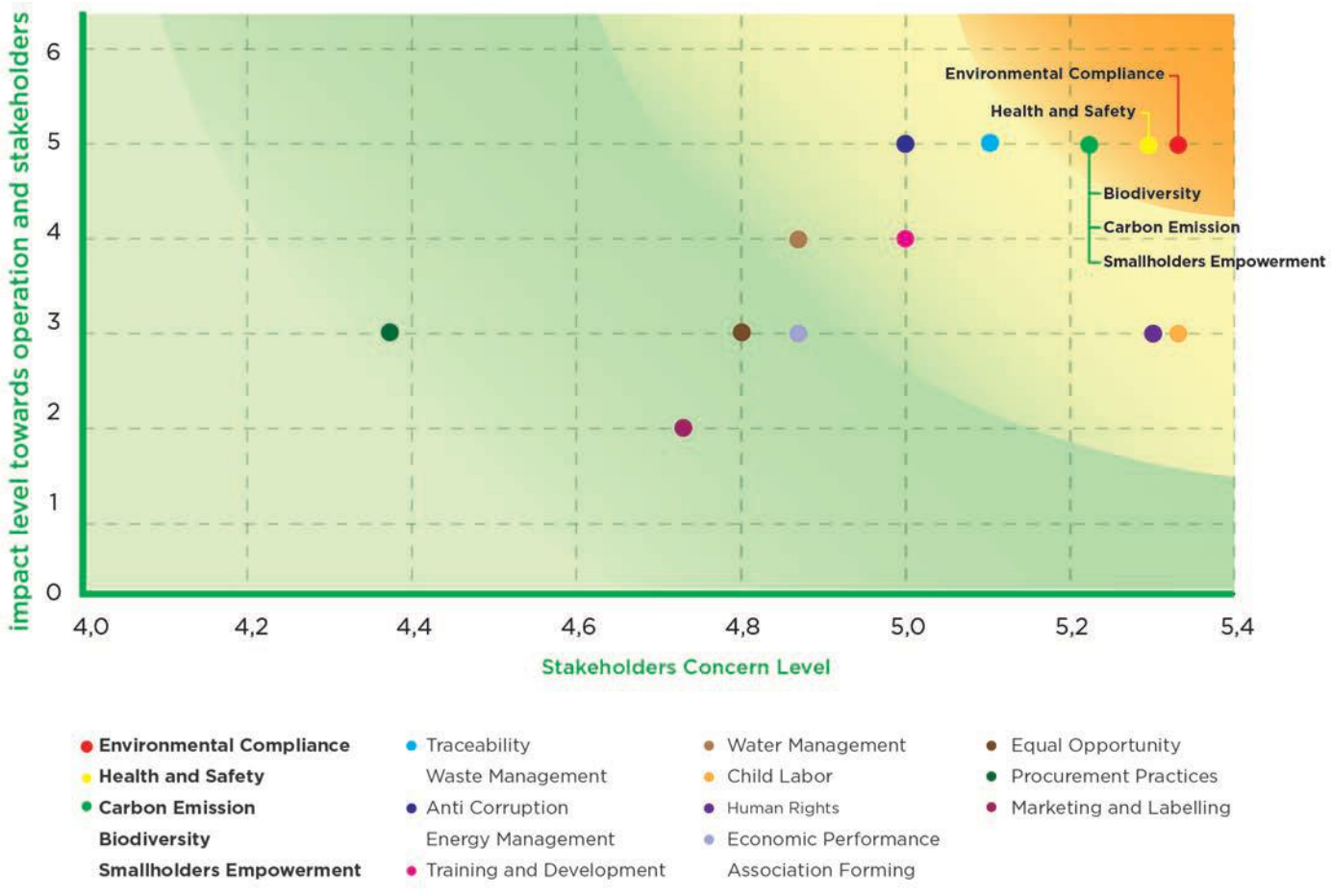
In 2018, we conducted an assessment to determine materiality aspects for our report. By using GRI standards, all the crucial issues and concerns relevant to our operations and within our supply chain during the reporting period are collected and analysed, resulting in a list consisting of 18 topics. We then contacted stakeholders including employees, buyers, smallholders, certification bodies, NGOs, consultants, academics, banking, governments and others, and sent out questionnaires. We worked with these stakeholders to evaluate the importance of topics mentioned in the questionnaire.

Based on their responses, we summarized the concern level and the impact of each issue towards our operation, plotting them in the materiality matrix below. Stakeholders have identified these topics to be of most concern: local communities and smallholders empowerment, environmental compliance, biodiversity and conservation, occupational health and safety, and carbon emission mitigation. These topics will be specifically disclosed in this report, while some other issues will still be disclosed to inform our progress in achieving our sustainability goals.

Issue/Topic	Impact	Stake holders Concern Level (1-6)	Impact x Concern
Environmental compliance (GRI 307)	5	5.33	26.67
Occupational health and safety (GRI 403)	5	5.30	26.50
Biodiversity and conservation (GRI 304)	5	5.23	26.17
Carbon emission mitigation (GRI 305)	5	5.23	26.17
Local communities and smallholders empowerment (GRI 413)	5	5.23	26.17
Traceability	5	5.10	25.50
Waste management	5	5.10	25.50
Anti corruption	5	5.00	25.00
Energy management	5	5.00	25.00

Issue/Topic	Impact	Stake holders Concern Level (1-6)	Impact x Concern
Training and development	4	5.00	20.00
Water management	4	4.87	19.47
Child labor	3	5.33	16.00
Human Rights especially of Indigenous peoples	3	5.20	15.60
Economic performance	3	4.87	14.60
Freedom of association and collective bargaining	3	4.87	14.60
Diversity and equal opportunity in employment	3	4.80	14.40
Procurement practices	3	4.37	13.10
Marketing and labeling	2	4.73	9.47

Materiality Matrix



Reporting
Boundaries

GRI 102-40

Asian Agri Sustainability Report 2017-2018 covers the operational and management activities of the company from January 2017 to December 2018. The report follows GRI Standards using Core options. As Asian Agri (also referred to as AA or AA Group in this report) is a private limited-liability company, financial data including total assets, net sales, and total capitalization are excluded from this report. The report is prepared by the Asian Agri sustainability team, supported by related operational departments.

Material

1.
Biodiversity and conservation

Internal

AA Group
Employees
Company
Smallholders

External

Suppliers
Assessors
Local Communities
Local Government
Government
Buyers

2.
Carbon emission mitigation

Internal

AA Group
Employees
Company
Smallholders

External

Suppliers
Assessors
Local Government
Government
Buyers

3.
Environmental compliance

Internal

AA Group
Employees
Company
Smallholders

External

Suppliers
Assessors
Local Communities
Local Government
Government
Buyers

4.
Local communities and smallholders empowerment

Internal

AA Group
Employees
Company
Smallholders

External

Suppliers
Assessors
Local Communities
Local Government
Government
Buyers

5.
Occupational health and safety

Internal

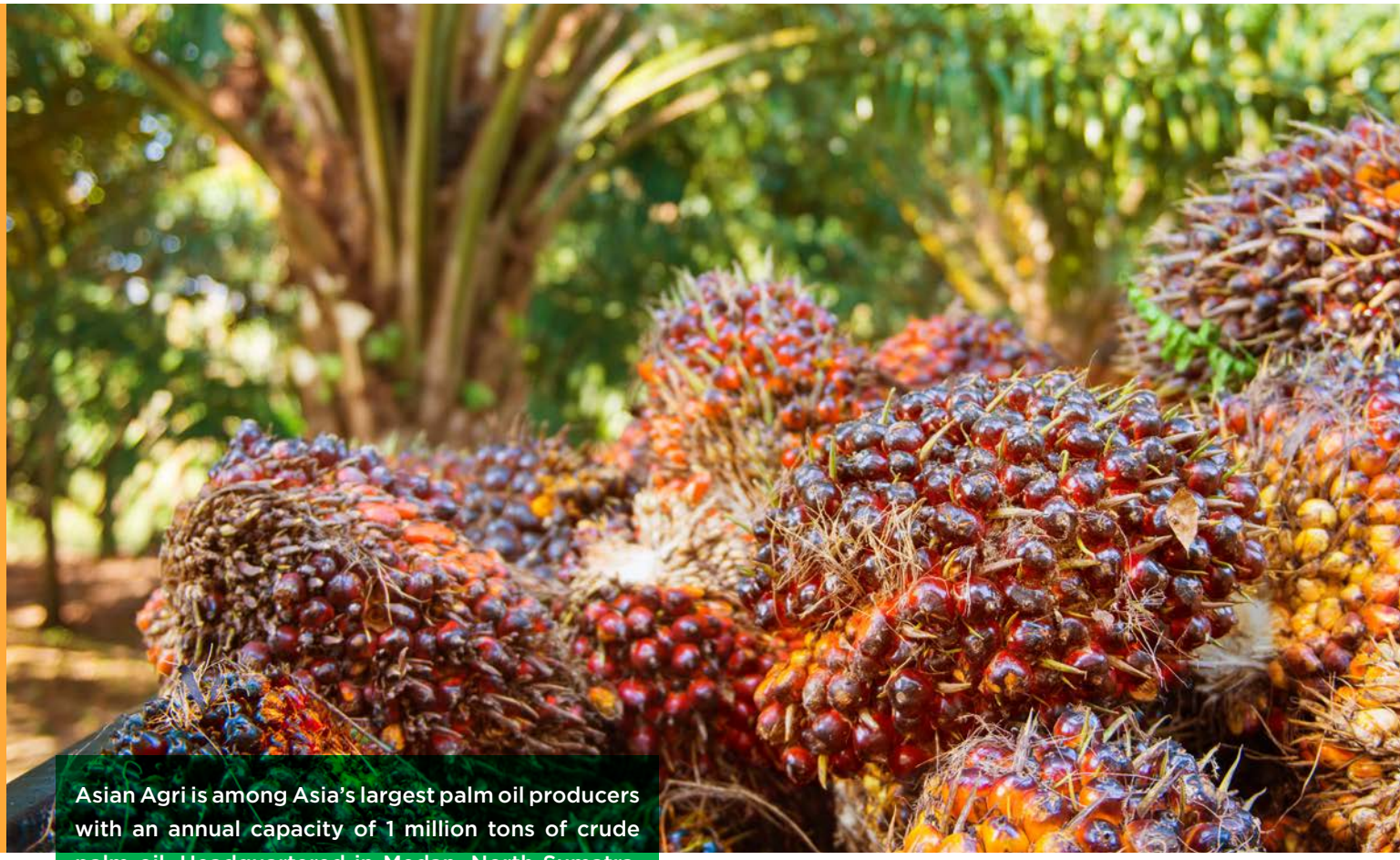
AA Group
Employees
Company
Smallholders

External

Suppliers
Assessors
Local Government
Government
Buyers

About
Asian Agri

GRI 102-1, 102-2, 102-3, 102-4, 102-5, 102-6, 102-7, 102-9, 102-10, 102-45, 304-1



Asian Agri is among Asia's largest palm oil producers with an annual capacity of 1 million tons of crude palm oil. Headquartered in Medan, North Sumatra, Indonesia, Asian Agri is a group of private limited companies of oil palm cultivation and processing with operation sites across three provinces in Sumatra; North Sumatra, Riau and Jambi. Each region has their own supporting offices plus a representing office in Jakarta.

PT Inti Indosawit Subur, established in 1979, is part of Asian Agri Group (Asian Agri) which now manages a total of 160,000 hectares of palm oil plantations, 60,000 hectares of which are developed under the Plasma scheme, a national level project supporting smallholders. Asian Agri partners with more than 41,000 hectares of independent smallholders under the Corporate Shared Values (CSV) programme, bringing about positive impact on their quality of life and economic development. With the growing partnership with independent smallholders, Asian Agri has succeeded in realizing its One to One (1:1) Partnership Commitment, which matches 100,000ha of our own plantation with 100,000 ha of smallholders' plantation.

In May 2018, we commissioned a palm oil mill in Riau, while two Kernel Crushing Plants (KCP) and two Biogas Plants were commissioned in Riau (May 2017) and in Jambi (August 2017). We merged two of our planting material estates – Seed Garden Estate and Topaz Estate in Riau to optimise resources and streamline operations. By the end of 2018, Asian Agri had 21 functioning palm oil mills (POM) which source from 27 company-owned plantations and eight Plasma smallholder plantations, as well as nine KCPs and seven biogas plants.

Our main products are Crude Palm Oil (CPO), Palm Kernel (PK) and Crude Palm Kernel Oil (CPKO). In 2017 and 2018 we produced around 1,100,000 MT and

MT and 138,000 MT of CPKO. Commissioning new palm oil mills and kernel crushing plants provided an opportunity for us to absorb additional FFB and PK from independent smallholders and other third party POMs, hence the increment in our annual production.

Our palm oil is delivered to our customer Apical, to be processed at its refinery and exported to markets in Asia and Europe. We crushed most of our produced PK, while some mills with no KCP installed delivered their PK to the nearest own KCP or other affiliated KCP. The CPKO that we produced is delivered to the Apical Refinery. Our products are further refined into cooking oils, biofuel, or other derivative products.

Palm oil is a versatile product with a variety of uses and Asian Agri believes it must be produced sustainably based on economic, social and environmental viability. We adopt international sustainable certification system such as the International Sustainability & Carbon Certification (ISCC) and the Roundtable on Sustainable Palm Oil (RSPO). We are committed to protecting High Carbon Stock (HCS) and High Conservation Value (HCV) areas and to respecting the rights of communities, workers and smallholder farmers. Our practices are periodically audited by internal and external parties to ensure continuous improvement in our operations.

In December 2018, we achieved our first ISPO certification for our Plasma scheme smallholders, Bukit Potalo Cooperative. This achievement has encouraged our other Plasma smallholders to work towards gaining their own ISPO certifications in future. We also achieved our first Waste and Residue ISCC certificate for two of our mills in North Sumatra. This will serve as a benchmark for our other mills to follow from 2019 onwards.

Implementing a strict "no burn" policy and best practices in sustainable plantation management, Asian Agri has helped its smallholder partners to improve productivity, yield and supply chain traceability, while assisting them to obtain certification.

To verify our claim of 100% FFB traceability that we have published in Sept 2017, we engaged professional external parties (Meo Carbon Solutions and SNV) in mid-2018. The results of their assessments will be completed in the first quarter of 2019 and will be included in the next sustainability report.

Asian Agri mills are technologically advanced and energy self-sufficient, minimizing greenhouse gas emissions. Seven biogas power plants with methane capture technology produce energy for Asian Agri's operations and our neighbouring communities. Another three methane capture facilities will be commissioned in the first quarter of 2019, further reducing our GHG footprint.

Asian Agri in numbers

23,722 Workforce

Operating in 3 Provinces

Total area 105,231ha, 27 plantations

21 Mills, **9** KCPs

*Potentionally **1,125 Ton per hour** of processed FFB, **980 Ton per day** of crushed PK*

7 biogas plants

*Can generate **16.8 KWh** of electricity*

*Annual CPO Yield **5.82 Ton per Ha (2018)** from own estates*

Asian Agri's **Milestone**

1979

- Acquired 8,000Ha Landbank in North Sumatra

1983

- 1st Palm Oil Mill in Gunung Melayu

1987

- Pioneerd plasma scheme in Riau & Jambi

1994

- Implement ZERO BURN POLICY during land preparation

1991

- Successfully developed and handover 1st plasma estate

1989

- Established state of the art R&D Centre

1996

- DxP Progeny testing to produce high yielding seed

2002

- Established Planters School of Excellence

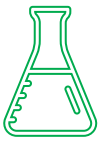
2005

- Set up seed producing facilities - OPRS

2012

- Achieved beyond 1 Mn MT CPO Vol

2007



- Set up Tissue Culture lab to clone oil palms

2006

RSPO

- Asian Agri became member of RSPO

2013

ISCC & RSPO

- Biggest ISCC & RSPO smallholders in Indonesia

2014

- Achieved 50 % yield improvement in replanting areas

2015

- 5 Biogas plants and 6 KCPs Kick Start Pasma Replanting

2018

- Kick start independent smallholders replanting

- 7 Biogas plants and 9 KCPs

2017

- Independent smallholders became the 1st ISPO certified - Amanah Association
- 100 % RSPO certified plasma smallholders plantations

2016

- Kick Start **Fire Free Village Program (FFVP)**

Legal **Compliance**

> *"In 2017 and 2018, Asian Agri did not identify any non-compliance with laws or regulations."*

Asian Agri is committed to achieve its business objectives with high integrity and in compliance with Indonesia's laws and regulations. By implementing ISPO, RSPO and ISCC principles, we are obligated to comply with any environmental, financial, and socio-workers related regulations. Any deviance from these regulations and commitments will result in impacted stakeholders being invited to an open forum or discussion to come up with the best solution.

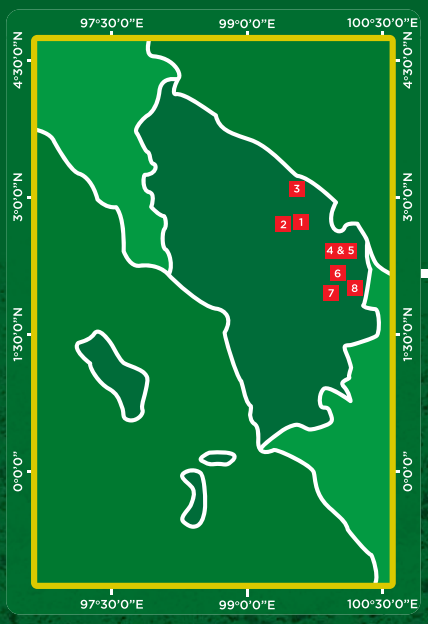
We updated our Code of Conduct (Kebijakan Perusahaan) in December 2014. The Code is designed to be practically applicable to day-by-day operations, with definite guidelines on acceptable and unacceptable behaviour. Some of the crucial points that we promote in our Code are anti-bribery, anti-corruption, and anti-fraudulent practices, no burning policy, safeguarding workers' welfare and promoting equal rights, as well as implementing zero tolerance for child labour, sexual harassment, and violence in our workplaces. We expect all our employees and stakeholders to adhere to our standards.

List of mills **and estates**

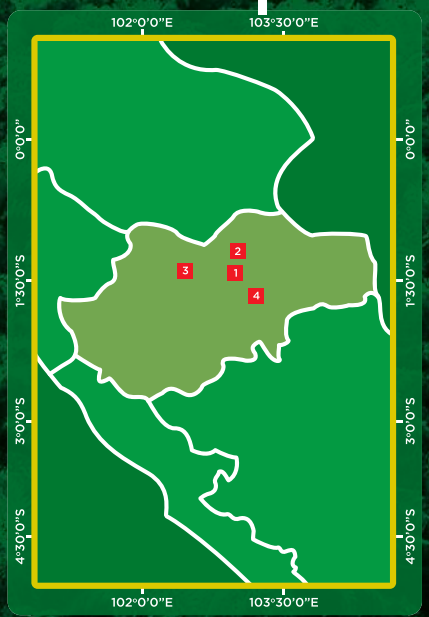
Planted Areas (Ha)

Own Estate
93,574

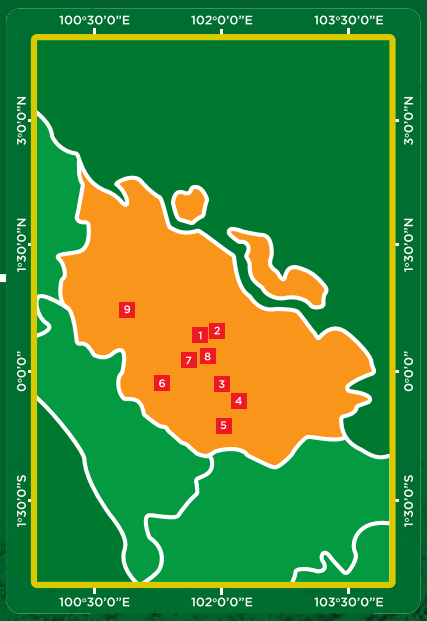
Plasma Scheme
52,917



No	North Sumatra		
	Mills	**Estates**	**KCP & Biogas**
1	Gunung Melayu I	Pulau Maria	KCP Gunung Melayu I
2	Gunung Melayu II	Sentral	Biogas Gunung Melayu I
		Batu Anam	
		Aek Tarum	
3	Tanah Datar	Tanah Datar	
		Bahilang	
4	Negeri Lama I	Negeri Lama Utara	KCP Negeri Lama II
5	Negeri Lama II	Negeri Lama Selatan	Biogas Negeri Lama II
		Negeri Lama Central	
		Aek Kuo	
6	Tanjung Selamat	Tanjung Selamat	
		Pangkatan	
7	Aek Nabara	Aek Nabara	
8	Teluk Panjie	Teluk Panjie	



No	Jambi		
	Mills	**Estates**	**KCP & Biogas**
1	Tungkal Ulu	Tungkal Ulu	KCP Tungkal Ulu
		Tungkal Ulu (Plasma)	Biogas Tungkal Ulu
2	Taman Raja	Taman Raja	KCP Taman Raja
		Badang	Biogas Taman Raja
3	Bungo Tebo	Bungo Tebo	KCP Bungo Tebo
		Bungo Tebo (Plasma)	
4	Muara Bulian	Muara Bulian	
		Muara Bulian (Plasma)	



No	Riau		
	Mills	Estates	KCP & Biogas
1	Buatan I &	Buatan	KCP Buatan I
2	Buatan II	Buatan (Plasma)	Biogas Buatan I
3	Ukui I &	Ukui	KCP Ukui I
4	Ukui II	Soga	Biogas Ukui I
		Ukui (Plasma)	
5	Peranap	Peranap	
		Peranap (Plasma)	
6	Sungai Pokahan	Gunung Sahilan (Plasma)	KCP Sungai Pokahan
7	Segati	Segati	KCP Segati
8	Penarikan	Penarikan	Biogas Segati
		Gondai	
		Penarikan (Plasma)	
9	Topaz	Topaz	

Member Companies under Asian Agri Group

01. PT. Inti Indosawit Subur
02. PT. Supra Matra Abadi
03. PT. Rigunas Agri Utama
04. PT. Hari Sawit Jaya
05. PT. Gunung Melayu
06. PT. Saudara Sejati Luhur
07. PT. Dasa Anugerah Sejati
08. PT. Mitra Unggul Pusaka
09. PT. Indo Sepadan Jaya
10. PT. Nusa Pusaka Kencana
11. PT. Andalas Intiagro Lestari
12. PT. Rantau Sinar Karsa
13. PT. Tunggal Yunus Estate

Our **operations**

Numbers of Mills, KCPs, Biogas Plants, Estates and Plasma Schemes

	Mills	KCPs	Biogas Plants	Own Estate	Plasma Scheme
North Sumatra	8	2	2	14	-
Riau	9	4	3	8	5
Jambi	4	3	2	5	3
Total	21	9	7	27	8

CPO Production (MTon)

Crude Palm Kernel Oil (CPKO) Production (MTon) GRI 102-48

2014	2015	2016	2017	2018
16,530	45,742	88,577	116,489	138,222

The above CPKO production data supersedes the data in the 2015-2017 report.

Stakeholder **Engagements**

GRI 102-42, 102-43

We chose our stakeholder groups from a variety of individuals, groups and organizations. Depending on their involvement with our operational activities or their proximity to our areas of operations, we identified key issues that matter to them and scheduled targeted engagements (one-off, daily, weekly, monthly, and annually) accordingly.

Stakeholder Group	Type of Engagement	Topic	Response
Government	Seminars, forums, sustainability report, site visits, (including Ministry of Trade, Ministry of Energy and Mineral Resources, Coordinating Ministry on Economic Affairs	No deforestation, no peatland development, lower GHG emission, no burning, legality compliance, renewable energy, premium sharing, replanting	Comprehensive understanding on palm oil industry, including peatland protection, no deforestation, traceability policy, independent smallholders commitment
Local Communities	Corporate social responsibility programs, free fire village program	Education, economic, health development as well as social and cultural engagement	Better livelihoods and trained in various fire situations, increase awareness of the environment, better relationships
Non-Governmental Organizations	One-on-one communications, multi-stakeholder forums, sustainability dashboard	No deforestation (High Carbon Stock), no development on peatland, employees' welfare, traceability	Peatland protection, no deforestation, traceability policy
Smallholders	One-on-one communications, group discussion, profile building, publicity, training, field study	BMP (harvesting, leaf analysis, recommended fertilizer dosage), certification commitment, replanting, quality seeds, premium sharing, organization management, strong partnership	Best management practices
Buyers	One-on-one communications	Traceability and lower GHG emissions	No Deforestation Traceability Peatland Protection
Suppliers	One-on-one communications, group discussions, sustainability dashboard	Traceability, best management practices	Traceability to the mills
Certification Organizations (ISPO, RSPO, ISCC)	Audits, meeting, forums, training, site visits	Greenhouse gases, no deforestation, certification, recent principle and criteria/policies.	Updated policy, better understanding of the certification requirements, helping in creating ISPO GHG calculator

Stakeholder Group	Type of Engagement	Topic	Response
Media	External events, one-on-one communications, multi-stakeholder forums, social media, sustainability dashboard	No deforestation (High Carbon Stock), no development on peatland, employees' welfare, traceability, replanting, renewable energy, smallholder partnership, CSR, certifications, Fire Free Village Program, quality seeds, integrated pest management	Press release, publicity, smallholder positive exposure
Asian Agri's Management Team	Regular internal meetings	Economic, social and environmental issues	Regional Monthly Meeting (for provincial level) Operational Review Meeting (all operations) Management Board Meeting (for senior management) Annual Kick Off Meeting (all operations)
Employees	Gender committee, scholarships, training, sustainability dashboard	Employees' development and benefits	Stronger culture and values, improve sustainability awareness
Academia (national & international students/ lecturers)	Field study, education	Comparison between Plasma and other schemes	Comparison between Plasma and KKPA schemes
International Stakeholders (i.e. European Parliament, EU Ambassadors)	Site visits, meetings	Best management practices, certification, traceability	Better understanding on good agricultural practices, comprehensive knowledge on palm oil industry

UN SDGs Alignment

During a UN summit in September 2015, world leaders adopted the 2030 Agenda for Sustainable Development which comprises 17 Sustainable Development Goals with 169 associated targets and 232 indicators. A follow up and expansion of the Millennium Development Goals (MDGs), the SDGs seek to provide a framework to invite collaborations across the public and private sectors to bring about sustainable development by eliminating poverty and hunger, fighting inequalities, tackling climate change, and fostering partnerships among institutions.

Since mid-2018, we embarked on a journey to identify several SDGs that are particularly relevant to our business, as well as the targets and indicators that we impact. We have also conducted internal surveys and workshops, interviewing senior management and programme directors to determine how we can better positively contribute towards the achievement of several priority SDGs. We are currently conducting a robust analysis of the needs of the communities in our areas of operation to ensure that the targets we identify as priorities have a set of benchmarked metrics and data, allowing us to monitor contributions and impact moving forward.

Vision and **Core Values**

GRI 102-16

VISION

*To be one of the largest, best-managed and sustainable palm oil companies, creating value for the **Community, Country, Climate, Customer** and **Company***

PURPOSE

Improving lives by developing resources sustainably

Core Values

In all our activities, Asian Agri is guided by the purpose of improving lives by developing resources sustainably. We employ best practices in agronomy in nurturing and maintaining every tree in our care, while focusing on the 3Cs of condition, crop, and cost.

At Asian Agri, we strive to always apply and embody our Core Values, better known as TOPICC

TEAM COMPLEMENTARY

We are aligned by our common purpose and work together as a **Complementary Team**

OWNERSHIP

We take **Ownership** to achieve outstanding results and seek value at all times

PEOPLE

We develop our **People** to grow with us

INTEGRITY

We act with **Integrity** at all times

CUSTOMER

We understand our **Customers** and deliver best value to them

C ONTINUOUS **IMPROVEMENT**

We act with zero complacency and always strive for **Continuous Improvement**

These six Core Values provide a unifying framework for our actions and behaviour as we continue to operate sustainably and create value for the Community, Country, Climate, Customer and Company.

Membership **and Initiatives**

GRI 102-12, GRI 102-13

Asian Agri is a registered member of several national and international level organizations and associations. This allows us to adopt best practices from both the national and international spheres. We respect, hold firm and contribute to promoting principles that are in line with our vision. Interacting with other members from the same background can support the realisation of more sustainable operations.

Several notable organizations of which we are a member are:

- **Roundtable on Sustainable Palm Oil (RSPO)**
- **High Carbon Stock Approach (HCSA)**
- **Tropical Forest Alliance 2020 (TFA2020)**
- **SUSTAIN (Sustainability Assurance & Innovation Alliance)**
- **The Fire Free Alliance (FFA)**
- **International Organization for Standardization (ISO 14001)**
- **Indonesia Employers Association (APINDO)**
- **Indonesian Palm Oil Producers Association (GAPKI)**
- **Biogas Indonesia Association (ABGI)**
- **Indonesian Bioenergy Electric Producers Association (APLIBI)**
- **Indonesian Germplasm Expedition Consortium**
- **Oil Palm Genome Project (OPGP) Consortium**
- **BKSPPS (Badan Kerja Sama Perusahaan Perkebunan Sumatera)**

Research and **Development**

Sustainable operations require that we invest in research and development to enable our estates to plant and manage oil palm trees, efficiently. Our Research & Development's (R&D's) strategic goal is to innovate, adopt cutting edge technologies, and provide effective support services to enable AA estates to produce palm oil in a sustainable and environmentally friendly manner. Established in 1990, our R&D department currently consists of a main R&D Centre in Bahilang, North Sumatra, an Oil Palm Research Station (OPRS) and Seed Production Unit (SPU) in Topaz, Riau, and a state-of-the-art tissue culture and molecular genomics laboratory in Kerinci, Riau. A total of 48 experienced and highly qualified research scientists are onsite to drive various R&D programmes.

R&D's key thrusts and main focus areas are :

1. Increasing Oil Yield Per Unit Land Area

Increasing oil yield per unit land area is critical to meet the growing global demand for palm oil without the need for land expansion. Increased palm oil yields allow us to fulfil our commitment of no deforestation and zero plantation expansion onto marginal sites (e.g. peat, sandy soils, hill slopes).

R&D utilizes a well-tested breeding programme (modified RSS, Recurrent Reciprocal Selection) to develop oil palm varieties with important primary (oil yield) and secondary (slow vertical growth, compact canopies, good oil quality, disease resistance, and drought tolerance) traits. Since 1996, R&D has developed and released four high-yielding seedling varieties (Topaz 1, Topaz 2, Topaz 3, Topaz 4) and four series of planting materials (Series 1-4) with yield potential ranging from 34-41 MT FFB/ha and 9-12 MT CPO/ ha respectively. The varieties also have very high oil content in their fruit bunches with mill Oil Extraction Rate's (OER) of 28 -30%. R&D's seed production unit is certified by the Ministry of Agriculture (Decree no's 57,58,59,60 / KPTS/ SR.120/1/2004), is ISO accredited (ISO 9001: 2015), and has the capacity to produce 25 million germinated seeds annually.

R&D's use of cutting edge technologies (clonal propagation), genomics and molecular tools (molecular assisted selection) is expected to significantly shorten the breeding cycle and further improve the precision in breeding especially with regards to the selection of specific genetic traits. R&D's tissue culture laboratory is built on a modular design and has the capacity to produce 0.25 million clonal ramets per annum which can be increased to one million ramets upon expansion. To date, a total of 250 elite ortet palms with yield potential of 12-15 MT CPO/ha have been identified and are currently being tested in multi-locational field trials for validation prior to commercial propagation.

2. Nutrient Use Efficiency

Applying fertilizers is a very important component of oil palm cultivation, not only due to its high cost factor (30-35% of CPO production costs) but also due to its huge impact on palm yield and the environment. Excessive or "luxury" fertilization can lead to serious pollution of groundwater and waterways.

Through years of experimentation and research, R&D has developed a "site specific" fertilizer programme for AA estates based on a "balanced nutrient budget" concept. Fertilizer rates are recommended on a field by field basis and are calculated to produce the maximum yield at the lowest fertilizer dosage. Annual field surveys and leaf tissue sampling and analysis are also carried out to monitor the health of the palms so that no luxury fertilization occurs. R&D also evaluates new, cost-effective fertilizer technology to improve nutrient uptake efficiency and minimize losses and environmental pollution.

AA's 21 palm oil mills (POM) produce significant amounts of "by-products" annually, namely empty fruit bunches (EFB), effluent (POME) and decanter solids (DS). Based on R&D research findings and recommendations, 100% of all POM by-products are re-applied over 25,000 hectares of oil palms in AA estates, in accordance with Ministry of Agriculture's rules and specifications.

Field application of POM by-products result in the following benefits:

- **Zero discharge into nearby waterways, lowering pollution risks**
- **Improved sustainability of the soil through incorporation of**
- **organic matter, nutrients and moisture conservation**
- **Lower pollution risks and enhanced economic sustainability via partial substitution of inorganic fertilizers, higher yields and lower production costs.**

3. Development and Implementation of Integrated Pest Management (IPM) and Integrated Disease Management (IDM) Systems

R&D has developed a number of IPM and IDM systems to effectively manage all major pests and diseases in AA oil palm estates. These systems aim to integrate cultural, biological and chemical control methods, while meeting economic and ecological objectives. Deployment of IPM and IDM systems reduces pesticide usage and its negative impacts on the environment, as well as lowering health risks to workers and animals.

Examples of IPM components currently implemented in AA estates for control of leaf pests, rats and Oryctes beetles include:

- **Implementation of early warning systems for detection of pests, resulting in smaller areas requiring treatment**
- **Planting of "host plants" along collection roads to provide a natural habitat for the breeding of beneficial insects which keep pest populations in check**
- **Breeding of predatory insects (e.g. Sycanus sp.) in estate insectary and their periodic release to augment natural populations in the field**
- **Use of naturally occurring pathogens such as viruses and fungi as a substitute for chemical pesticides for controlling pests and diseases**
- **Use of barn owls to control rats, significantly reducing the use of chemical baits**
- **Use of pheromones for monitoring and controlling Oryctes beetle populations**
- **Selective application of chemical pesticides via trunk injection or root infusion technology, minimising impact on the environment and natural faunal populations**

One of the major threats to optimal palm oil production in AA estates is the infection by the root pathogen, Ganoderma boninense. The pathogen has killed thousands of oil palm trees in North Sumatra, leading to early replanting cycles. Our R&D has developed an IDM strategy which requires stringent land preparation procedures including the planting of pathogen-tolerant oil palm tree varieties, as well as the inoculation of oil palm seedlings with a fungal bioagent for added protection. Both the fungal bioagent and tolerant varieties (Topaz GT D x P) were developed by R&D after years of painstaking research and evaluation.

4. Technical Advisory Services (TAS) and Technology Transfer

A major responsibility of R&D is to provide TAS to AA estates on every aspect of sustainable palm oil production ranging from eco-friendly land preparation techniques (zero-burning) to soil and moisture conservation practices such as planting of leguminous cover plants, U-shaped frond arrangement, EFB mulching on mineral soils and water management in peat soils. TAS is also provided for nursery management, P&D control, soils and estate survey. On average, R&D officers make a total of 150 visits per annum to AA estates to ensure implementation of good agricultural practices.

R&D also operates one of the top-ranked analytical laboratories in the palm oil industry which provides services to both AA and external clients. Regular and mandated analysis helps to monitor and ensure compliance to quality specifications of fertilizers, crude palm oil, palm kernel oil and mill by-products.
Training and technology transfer to both estate staff and workers is another key focus area of R&D. Regular clinics on nursery management, fertilizer application, agronomic practices and IPM/IDM strategies is carried out to transfer research findings and improve employee awareness and competency in all aspects of sustainable oil palm cultivation.

Sustainability Commitment **& Implementation**

Adhering to the sustainability policy released in September 2014, we committed to zero deforestation, to peatland protection and to positively impacting the socio-economic conditions of local communities. Through constant and active engagement with our stakeholders, we are transforming our entire supply chain to be sustainable and traceable.

Our commitment to sustainability includes the requirement of an HCV assessment before we convert new areas into plantations, the monitoring of these areas via the Land Use Change Assessment (LUCA), the development of a grievance mechanism, as well as our insistence on using Free, Prior & Informed Consent (FPIC) as a working framework for all our community engagements in our areas of operation.

In 2017, Asian Agri created a traceability department to support the process of making our supply chain more traceable. This led to us achieving 100% FFB traceability to plantation gradually from September 2017. This means that all FFBs supplied to our mills are traceable to the original source, ensuring that we do not process FFBs from protected areas.

Through our Creating Shared Value (CSV) programme, we encouraged our smallholders to obtain land verification documents known as STDB (Surat Tanda Daftar Usaha Budidaya Perkebunan) for their plantations. We also provided awareness training for smallholders to only supply us with FFB produced from legal areas.

Despite our efforts, challenges such as legality of FFB sources remain. We continue to work with the government, NGOs, suppliers and industry peers to find a long-term solution to these issues.

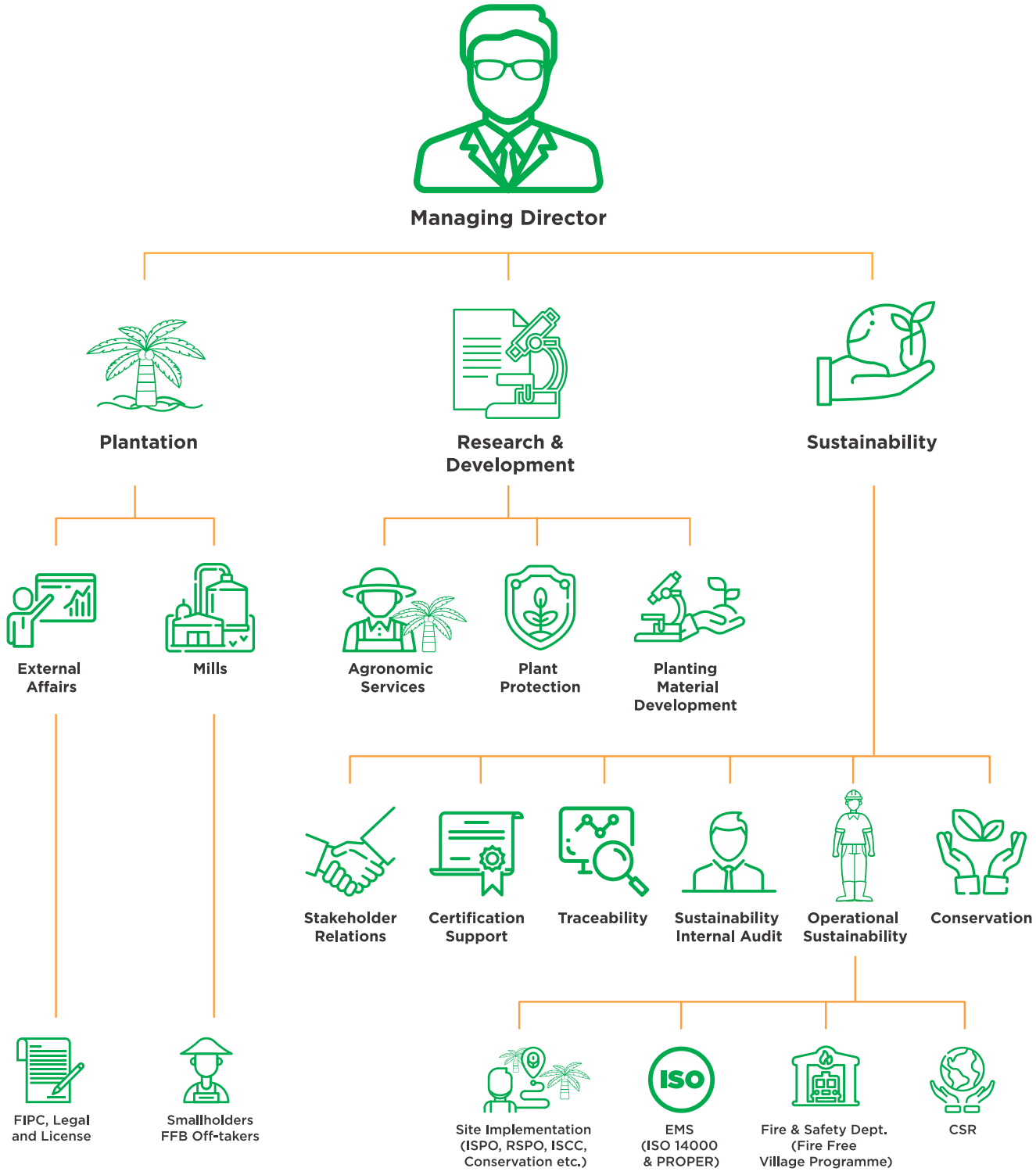
Integrated **Sustainability team**

GRI 102-18

Endorsed by our senior management, our sustainability commitments are core to running our business. Our Managing Director oversees the entire sustainability implementation and provides strategic guidance to the team. He implements Asian Agri's sustainability strategies and work plans via the sustainability team, supported by various other departments.

AA's Director for Sustainability and Stakeholders Relations is responsible for stakeholder engagements and sustainability standards, including implementation in the field.

The following diagram provides an overview of the various roles in our sustainability team.

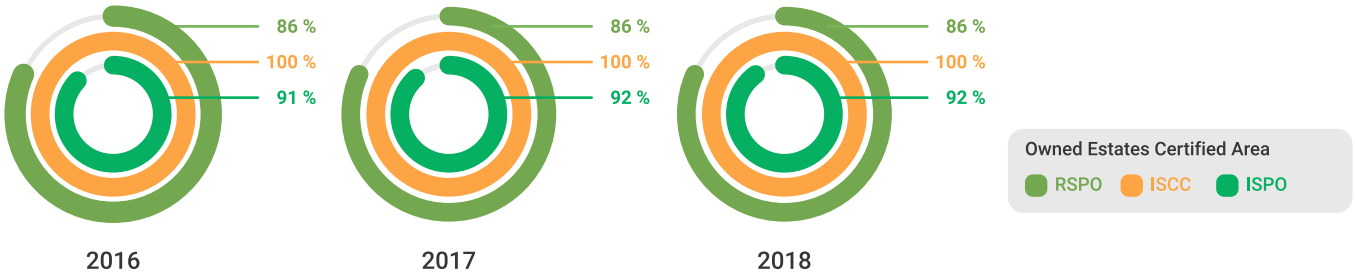


Sustainability **Certifications**

We have been actively implementing RSPO, ISCC and ISPO Principles and Criteria in all of our operations. Our mills and estates have been audited by independent third parties to assure that our implementation adheres to the high standards of RSPO, ISCC and ISPO.

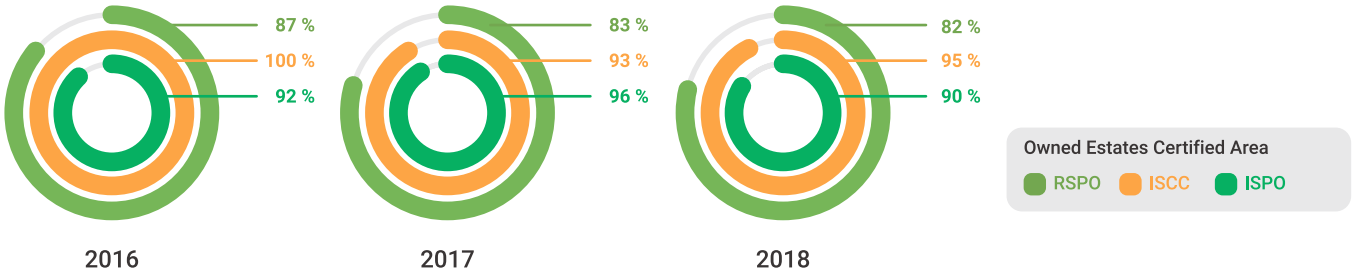
At the end of 2018, we achieved the following certifications.

Asian Agri Certified Own Estates Area



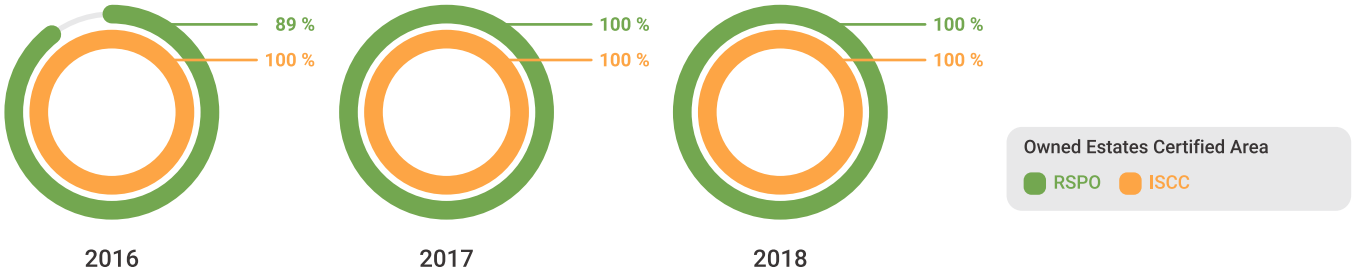
The percentages are based on owned areas that have been certified compared to total owned areas.

Asian Agri Own Estates Certified Oil



The percentages are based on certified palm oil produced from own estate, compared to total palm oil production from own estate.

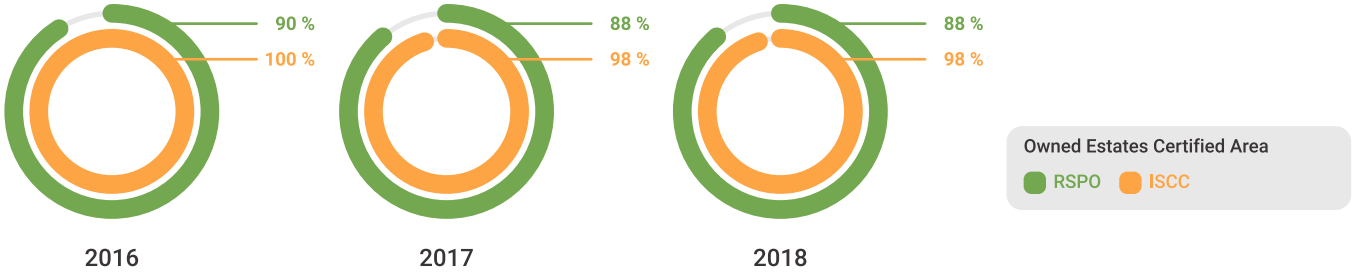
Asian Agri Plasma Scheme Smallholders Certified Area



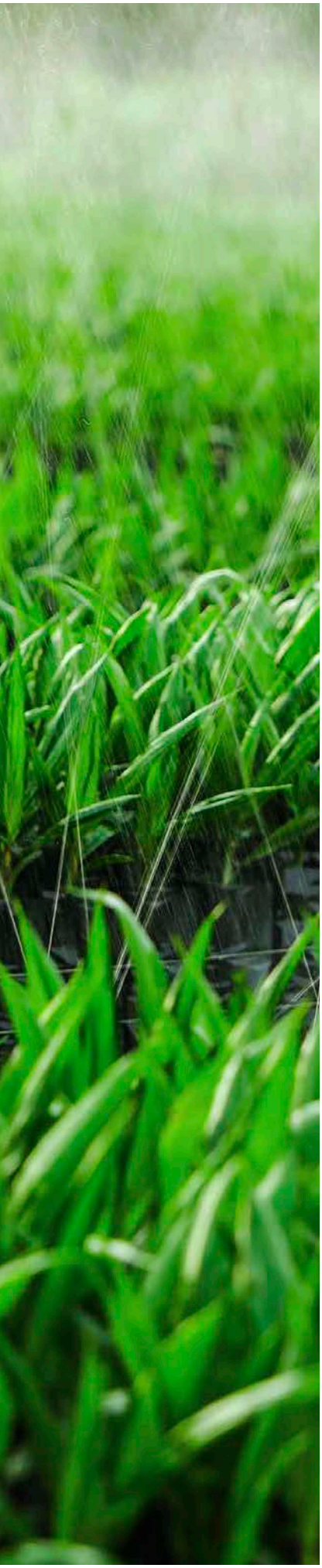
The percentages are based on areas of Plasma scheme that have been certified compared to total Plasma scheme areas, excluding KKPA scheme areas.

ISPO certification for Plasma smallholders is a voluntary scheme and is regulated by the Indonesian government.

Asian Agri Plasma Scheme Smallholders' Certified Oil



The percentages are based on certified palm oil produced from Plasma scheme, compared to total palm oil production from Plasma scheme estate.



Certification **Time-bound Plan**

RSPO Progress

RSPO is a multi-stakeholder forum that produces an international standard for sustainable oil palm management. We have been a member of RSPO since February 2006. While we had an RSPO time-bound plan to certify all of our operations by 2018, this target was pushed to 2020 due to the complexity of the technical certification process. As of December 2018 we have achieved 86% RSPO certification for our own estates and have 18 out of 21 RSPO certified mills.

ISCC Progress

ISCC is an international certification system that was established based on an EU Directive on renewable raw products for producing biofuel, food, feed and chemicals. ISCC outlines the need to avoid planting on no-go areas after January 2008, GHG emission reduction and social sustainability.

We have certified all of our mills and estates including those of smallholders under ISCC starting from 2013 when we gained our first certification. Addressing the market demand for low GHG emissions, we installed methane capture facilities in our mills to reduce the GHG emission for ISCC certified products, and have started to build another three biogas plants in 2018 which will be commissioned in 2019. This will help the company to deliver ISCC certified products with low GHG emissions.

In support of Asian Agri's waste management programme and to fulfil market demand, we successfully obtained the ISCC Waste and Residue certification for two mills in North Sumatra in 2018. The oil content in the waste produced in oil palm processing (mainly POME and EFB) is collected again, kept in a separate tank, and supplied to our buyers. This type of oil is further refined as biofuel.

ISPO Progress

ISPO was initiated by the Government of Indonesia to produce oil palm in a sustainable manner. Our operating mills and estates under PT. Inti Indosawit Subur have been ISPO certified since September 2013. As of December 2018, we are 92% certified for our estates, toward 100% certification in 2019.

In response to the standard requirement announced by the Indonesian Government in 2015, which is stipulated in the Decree of the Ministry of Agriculture, Asian Agri voluntarily initiated to prepare its smallholders for ISPO Certification through a pilot project involving UNDP and Tanoto Foundation. This collaboration resulted in the first ISPO certification for independent smallholders. Amanah Association was ISPO certified in 2017, and was followed by Plasma scheme smallholder Bukit Potalo Cooperative in December 2018.

No Deforestation

GRI 102-11, 304-1

" Today, we have an opportunity and responsibility to develop our smallholder partners for productivity gains, enviromental protection, community development, and a better livelihood. "

Asian Agri's sustainability policy clearly states our commitment to no deforestation. Our policy, issued in September 2014, stipulates that HCV assessment must be done prior to any new development. All of our plantations, including Plasma estates, were developed back in the 1990s on degraded forests with relatively low biodiversity value. We have not conducted any new development since 2003. Instead of opening new areas for plantation, we have focussed on our replanting programme for existing estates.

Any estate that is deemed too old to produce good quality FFB or is declining in production is replanted with new trees, a cycle that is usually around 25 years. Trees are cut down using heavy equipment. The trunks are chopped and the leaves are stacked in the field so they could decompose and used as additional nutrients to new plants. It usually takes around six months to prepare the land from cutting down to planting new trees.

Should there be an opportunity to expand our operations, we will follow our policy commitments prior to opening any new development.

Currently, the total area of our own operated estates is 1,052.31km2: 472.04km2 in North Sumatra, 391.70km2 in Riau, and 188.57km2 in Jambi with additional Plasma scheme areas of 353.60km2 in Riau and 234.49km2 in Jambi. The majority of our owned land is used for oil palm plantations and palm oil mills, while some portions are used for housing and other public facilities. None of our own managed area is in, adjacent to, or contains a

portion of protected areas. The closest conserved forest to our operational area is Tesso Nilo National Park, which is about 16km from Ukui estate.

HCV assessments were carried out for all of our estates by RSPO accredited auditors. Identified HCV areas have been set aside as conservation areas, and endangered fauna and flora such as Northern river terrapin *(Batagur baska)*, Scaly Anteater *(Manis javanica)*, Dark-handed Gibbon *(Hylobates agilis)*, Sumatran Surili *(Presbytis melalophos)*, Sumatran Elephant *(Elephas maximus ssp. Sumatranus),* Greater adjutant *(Leptoptilos dubius)*, Merawan *(Hopea mengerawan)*, Light Red Meranti/ Meranti daun halus *(Shorea teysmanniana Dyer ex Brandis)* etc which are listed as Critically Endangered and Endangered species by IUCN Red-List are monitored by our team in the field. Social valued HCV areas are marked with signboards to create awareness for the surrounding community such as prohibition on trapping, hunting and fishing, and also prohibition for outsiders trespassing with the intention to damage the HCV areas.

Monitoring of
High Conservation Value Areas

Most of our operations are established in degraded forests based on concession areas granted by the government with relatively low biodiversity value.

Through our HCV assessment, we have identified endangered flora and fauna within our operational concessions. Asian Agri believes that these areas have significant value regionally and globally. Thus, we monitor these areas twice a year to ensure that there is no disturbance in their habitats. We have also assigned staff who are mobile to monitor and note down details of relevant species on a daily basis. This data will then undergo analysis to determine if the particular area is their habitat.

Other than areas considered to be the habitat of endangered species and of certain wildlife, we also set aside areas to conserve riparian zones and areas that are of high cultural value to local communities.

Fire Prevention and
Mitigation Effort

GRI 102-11

Asian Agri has had a strict zero burning policy in place since 1994 and, in order to align with this commitment, we have emergency response procedures in place to tackle any fire outbreaks in our plantations. We enforce adherence to our emergency response procedure by the personnel responsible for attending emergency situations. We also work together with the local Fire Brigade if necessary during any fire outbreaks, and have a dedicated team that can monitor the occurrence of hotspots using satellite imagery and send out operational teams to the area if needed.

We provide training on safety procedures and proper methods of fire-fighting to increase awareness and competence. We have also installed fire equipment and infrastructure to combat and extinguish any fire occurrence.

Asian Agri is also member of The Fire Free Alliance (FFA) which sees members share information and open source knowledge and resources to achieve lasting solutions that lead to a fire-free Indonesia.

FFA is a voluntary multi-stakeholder group made up primarily of forestry and agriculture companies with NGOs and other concerned collaborators and partners, who are committed to resolving Indonesia's persistent fires and haze problems arising from forest and land burning. Fire prevention through community engagement has proven to be a successful method to

reduce the incidence of unmanaged fire and smoke haze. Together with FFA members, Asian Agri works closely with relevant NGOs and other partners to contribute to the industry through our research capability and sharing our expertise and experience (www.firefreealliance.org).

In line with FFA goals, on May 3, 2016, Asian Agri partnered with Riau's Governor to launch the Fire Free Village Programme (FFVP). Asian Agri recognizes that this engagement requires a long-term commitment, but values the role effective fire prevention programmes play in reducing the impact of fires across the landscape.

The FFVP comprises the following segments:

1. **Increase** community awareness. The company conducts intensive communication with the local community to increase awareness on the impact of fire and haze on health.
2. **Empowerment** of village head. During the dry season, villages play a significant role to synergize the prevention and mitigation of land fire.
3. **Provide support** for land clearing.
4. **Appreciation** for zero burning.
5. **Assistance** to enhance local economy.

In 2017 and 2018, an additional seven villages with total additional coverage area of approximately 100,000ha joined FFVP. With an increase of almost half of the initial area, by 2018 there are were 16 villages in Riau and Jambi Province accounting for 343,276ha in the programme.

Riau

NO	Village	District	Area (Ha)	Village Population
1	Delik	Pelalawan	15,750	1,570
2	Lalang Kabung	Pelalawan	20,000	2,618
3	Rantau Baru	Pangkalan Kerinci	10,000	913
4	Lubuk Ogong	Sei Kijang	16,320	6,175
5	Tambak	Langgam	9,400	3,056
6	Segati	Langgam	75,366	8,261
7	Sotol	Langgam	8,700	1,112
8	Terusan	Pangkalan Kerinci	5,000	395
9	Bagan Limau	Ukui	12,470	2,722

Jambi

NO	Village	District	Area (Ha)	Village Population
1	Lubuk Lawas	Batang Asam	72,000	421
2	Lubuk Bernai	Batang Asam	15,008	5,557
3	Semambu	Sumay	10,144	1,189
4	Teriti	Sumay	23,189	1,177
5	Tuo Sumay	Sumay	19,919	3,665
6	Suo-Suo	Sumay	7,010	2,097
7	Muara Sekalo	Sumay	23,000	613

Preparation steps are needed before new villages join FFVP, as follows:

- **Identification of village feasibility.** Conduct survey directly to the village to observe and analyze the fire risk level.
- **Socialize the Fire Free Village Programme (FFVP)** to various government agencies such as the Coordination Board for Agriculture, Fishery and Forestry (Bakorluh – Badan Koordinasi Penyuluhan Pertanian, Perikanan dan Kehutanan) and Estate Crop Agency (Dishutbun – Dinas Kehutanan dan Perkebunan), to solicit their support, considering that government plays a vital role towards the success of the programme.
- **MoU signing** between village head and company
- **Election of village crew leader,** the process will be carried out by Asian Agri's HR Department
- **Partnership in the Fire Free Village Programme (FFVP),** acknowledged by:
  - Instructor Coordination Board (Badan Koordinasi Penyuluh)
  - Training Center for Environment and Forestry (Balai Diklat Lingkungan Hidup dan Kehutanan)

A group consisting of estate manager, crew leaders, members of Fire Care Community (MPA – Masyarakat Peduli Api) and sub-village head are appointed to coordinate and exchange information regarding any fire occurrence within or near the village or our operation area. By using social media, the information is expected to be promptly checked or managed.

We also established an incentive programme for villages that are able to prevent fires in their village for one year, providing a reward of IDR 100 million that will be used on village infrastructure.

Villages for FFVP Reward

2017

01. Lalang Kabung (Riau)
02. Delik (Riau)
03. Lubuk Ogong (Riau)
04. Segati (Riau)
05. Lubuk Bernai (Jambi)

2018

01. Lalang Kabung (Riau)
02. Delik (Riau)
03. Lubuk Ogong (Riau)
04. Sotol (Riau)
05. Tambak (Riau)
06. Rantau Baru (Riau)
11. Lubuk Lawas (Jambi)
12. Teriti (Jambi)
13. Tuo Sumay (Jambi)
14. Muara Sekalo (Jambi)
15. Suo-Suo (Jambi)

In 2017, one of Asian Agri's fire free awareness communities had an opportunity to share their experience at the XV Pekan Nasional Kelompok Tani Nelayan Andalan (Penas-KTNA) in Banda Aceh.

FFA Indicators for 2016 and 2017

	Stage 1 Evaluate	Stage 2 Agreement	Stage 3 Fire Free Awareness	Stage 4 Fire Free Inclusion	Stage 5 Fire Resilience	Total no. of Vilages	No. of Awareness Activities
2016	48	9	11	9	0	9	9
2017	11	7	7	7	0	16	5

The 2018 Fire Free Alliance Members Review has not been published

Results, Challenges, and Lesson Learnt

In the second year of FFVP implementation, 10 villages were able to protect their areas from fire. Nevertheless, there are some challenges in running the programme, such as limited technical facilities to support community awareness. Unclear borders remain an issue when it comes to protection.

Community participation is the key to success in the programme. The crew leaders and community members play a significant role in preventing and controlling fire incidents in the village.

Asian Agri will continue its commitment to expand the partnership to other villages in the next years and will be implementing resilience programmes for villages that have been able to manage fires independently.

No Peatland **Development**

Peatland ecosystems are the most efficient carbon sink on the planet, because peatland plants capture CO2 naturally released from the peat, thus maintaining equilibrium. CO2 is released when the water table shrinks, such as during a drought. This condition supplies the aerobic microbes with oxygen to decompose the peat, subsequently releasing CO2 to the atmosphere. Keeping the water table as high as possible is not a good option either. When the peat and its microbes are submerged under water, the access to oxygen is inhibited, giving opportunity for anaerobic microorganisms to flourish. Fully water-saturated wetland soils allow anaerobic conditions to manifest, storing carbon but releasing methane. Deeper peatland can produce much more methane although released at a slower rate.

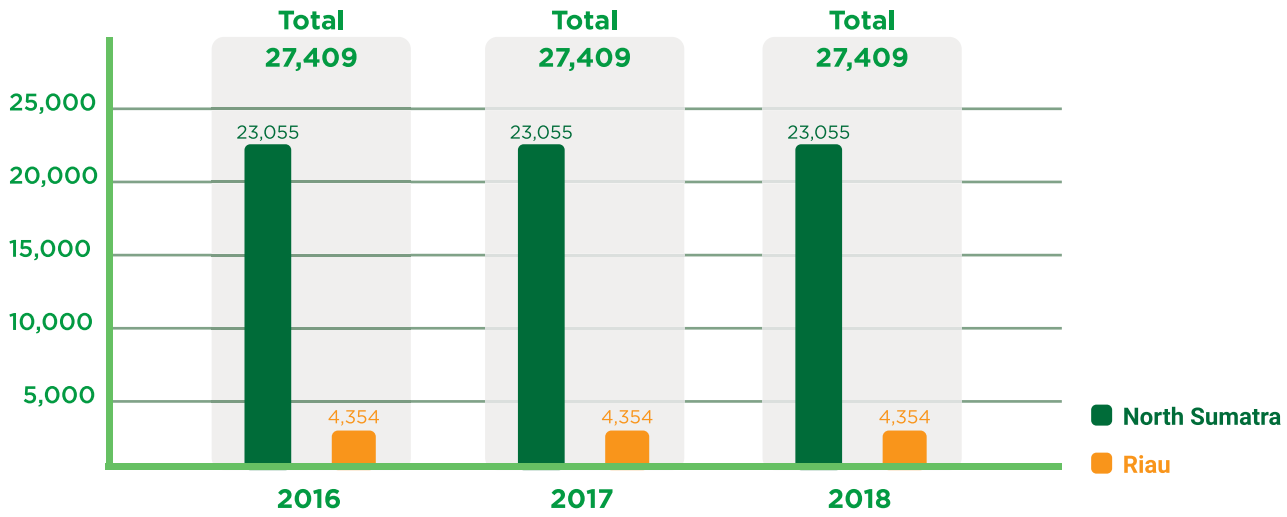
Some of our plantations are in peatland areas, so Asian Agri needs to implement best management practices as specified in the RSPO guidelines. Measuring subsidence levels is one way to preserve peatlands. Subsidence poles are installed at strategic locations in peat plantations to monitor the rate of peat subsidence on a monthly basis.

Drainage of peatlands causes irreversible lowering of the surface (subsidence) as a consequence of peat shrinkage and biological oxidation, with the latter resulting in a loss of carbon stock. We have internal procedures that require the drainage level to be maintained. A drainability assessment is a study which will determine which management approach is the most suitable for a peat area. Good water management keeps the area from over flooding during the monsoon period, and also from over drainage during the dry season. Drainability assessment has been an RSPO compliance principle and criteria since 2013, but with no specific time frame as a guidance. In 2018, RSPO announced a new policy regarding this matter. Drainability assessment must be done five years prior to replanting in peatland area as part of Best Management Practice.

Other than increasing the rate of oxidation of the peat, over-drainage can also irreversibly destroy the physical structure of the peat. Upon extreme drying, the ecosystem can undergo a state shift, turning the mire into a barren land with lower biodiversity and richness. Thus, it can adversely impact palm growth and yield. Our procedure requires that the water level should be maintained throughout the year at between 50 and 70 cm from ground level by creating water barriers or gates on each drainage channel so that the subsidence can be minimized and the water level can be controlled.

We are committed to no new development on peatland, in line with our sustainability policy. We strictly implement a no burning policy on any type of soil to avoid fire.

Peatland area (ha)



Peat Subsidence in cm

Peat subsidence	2016	2017	2018
North Sumatra	2.61	1.04	1.31
Riau	1.70	2.10	2.32

The data is an average figure of peat subsidence in each estate consisting of peatland area per region

Sustainable Management **of Oil Palm**

Environmental Performance and Compliance

GRI 307-1, 102-11

Asian Agri ensures that all operational areas and all activities carried out are in accordance with applicable terms and regulations. For us, compliance with environmental regulations is an obligation that is in line with our vision and mission and also in line with the sustainability programmes that we have initiated. We believe that the steps we take in this case will have a positive impact not only for the company, but also for the environment and communities around our operations.

Some of our principles which contribute to compliance with environmental issues are:

- No development on primary forest or areas identified as High Conservation Value
- No Development on HCS forests as defined by the HCS Approach
- No new development on peatland
- No use of fire during replanting
- Identifying all GHG emissions sources and working to progressively reduce emissions in existing operations

We have carried out Environmental Impact Analysis (Analisa Mengenai Dampak Lingkungan - AMDAL) on all of our plantations and mills as required by Indonesian law. It is also a regulatory requirement to submit a RKL (Rencana Pengelolaan Lingkungan/ Environmental Management Plan) and a RPL (Rencana Pemantauan Lingkungan/ Environmental Monitoring Plan) to the environmental department at the district, provincial and national levels.

Our environmental management system has been validated by third parties as all of our mills and estates are ISO 14001 certified. Asian Agri was given PROPER (Programme for Pollution Control, Evaluation and Rating) awards by the Ministry of Environment for our mills in North Sumatra, Riau and Jambi. The 11 mills appointed by the Ministry to be included in the PROPER rating process have been awarded the green and blue category. These emphasize our commitment to consistently operate in accordance with the regulations and policies of the government of Indonesia.

This is supported by consistent ISO 14001 environmental management system implementation, air pollution reduction, and community development programmes.

We encourage our FFB suppliers to follow policies related to environmental compliance. To become one of our suppliers, they must have legal land certificate, not source from protected forest, ban clearing land by fire, and other policies. We also support suppliers who want to partner with us through a Corporate Shared Value (CSV) programme by providing guidance on plantation management, so that small farmers better understand the importance of compliance with environmental regulations.

During the 2017-2018 operational years, there were no violations of the regulations relating to the environment that were attributed to Asian Agri.

Waste Management

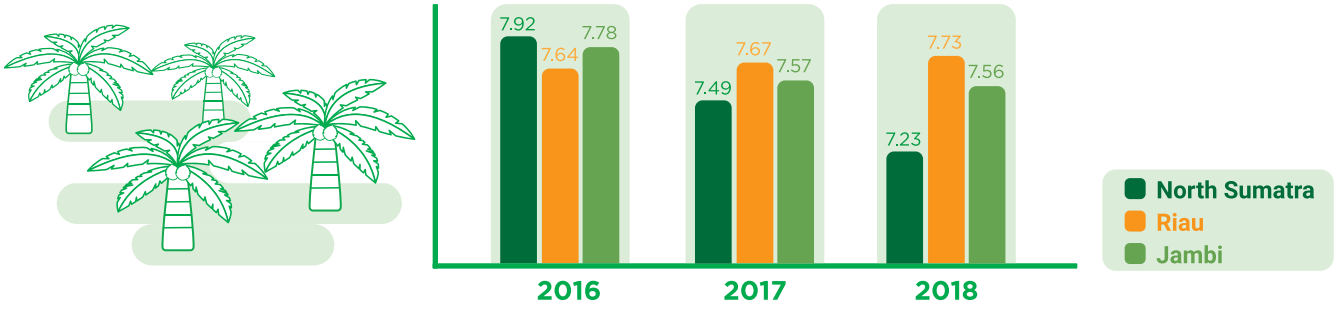
Asian Agri's zero-waste management policy guides the reduction, monitoring and proper management of waste. We first identified waste or by-products that can be reused in our operations such as Empty Fruit Bunches (EFB) and Palm Oil Mill Effluent (POME). We then passed this information to our R&D department to determine if they contain nutrients that are potential substitutes for chemical fertilizers. R&D then set out to develop a set of guidelines on dosage intensity and frequency so we can get optimum yield.

Solid waste such as palm fibres and palm shells are used as biomass fuel for boilers to run steam turbines in our mills, providing a renewable source of energy.

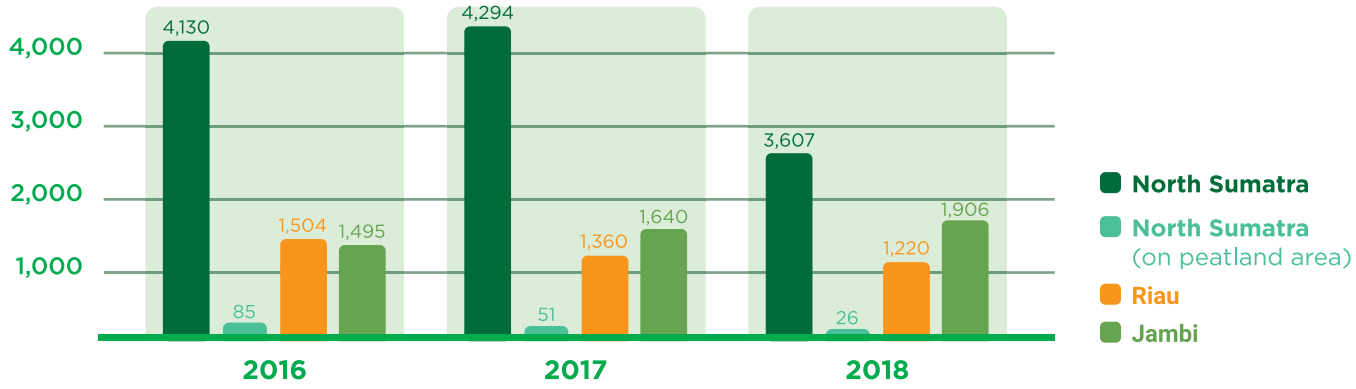
Liquid waste is treated and monitored before being released into the stream or onto land. We engage external parties to conduct routine quality assessments to ensure that we comply with all Indonesian laws and regulations. In 2017-2018, the majority of our BOD (Biochemical Oxygen Demand) values are within stipulated standards. We are working to further mitigate those that do exceed standards. Using pumps to circulate the effluent from the last pond to the pond before it can add the retention time. The use of sprayers and aerator pumps means more oxygen is absorbed into POME, further lowering the BOD.

Hazardous waste is stored in a dedicated area and closely monitored. We only contracted licensed service providers approved by the government to conduct waste collection in 2017-2018. During this period, PT Indostar Cargo was responsible for transportation, and PT Sumatera Deli Lestari Indah was responsible for collection. Hazardous waste was sent to PT Prasada Pamunah Limbah Industri for further processing.

Average pH of POME (Land Application)

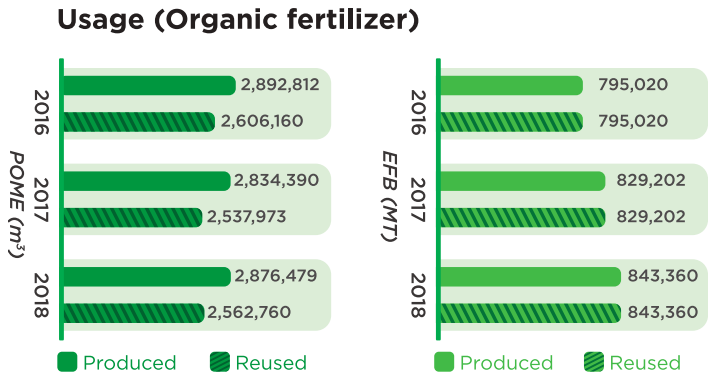


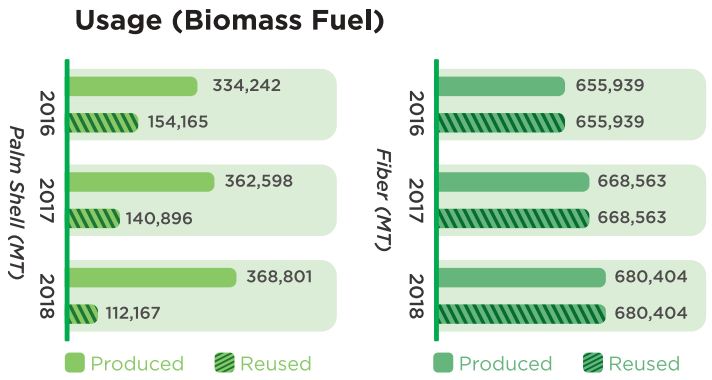
Average BOD value of POME (sample from last pond before dispatching into Land Application or river for Mills on peatland area) in mg/l



While a small part of our estate in Riau is peatland, we can still discharge all of the produced POME into Land Application, therefore no POME was discharged into the rivers in Riau Province.

By-products and their usage





All EFBs (Empty Fruit Bunch) produced were applied as organic fertilizer in the field to help restore and improve soil fertility.

POME was applied in the field as organic fertilizer or dispatched into the nearest river (for mills in peatland area) after anaerobic and aerobic treatment in order to render the chemical and physical characteristics compliant with national regulations.

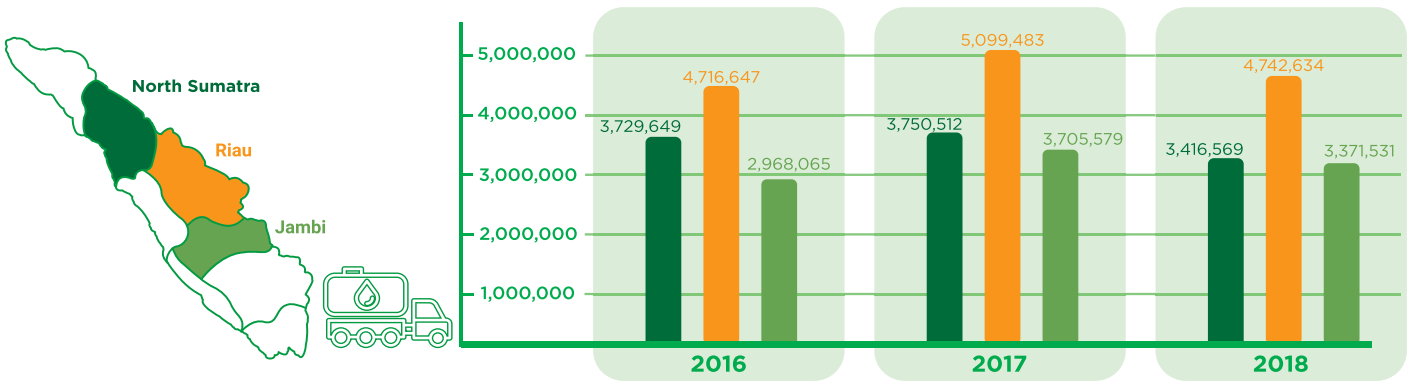
Palm shell was efficiently used as boiler fuel. Roughly 70% of annual production was sold to third party buyers.

Energy **Management**

The main form of fuel that we use in our premises are fossil fuel and biomass as the by-products from the mills. Fossil fuel is used for transportation needs, heavy equipment for field maintenance and cultivation, and for electricity generation for housing complexes and offices. To reduce fuel consumption for electricity generation, we have connected most of our housing complexes and site offices which are close to the network with the national grid. The biomasses that we use as fuel are fibre and palm shells, which are used in boilers in every mill.

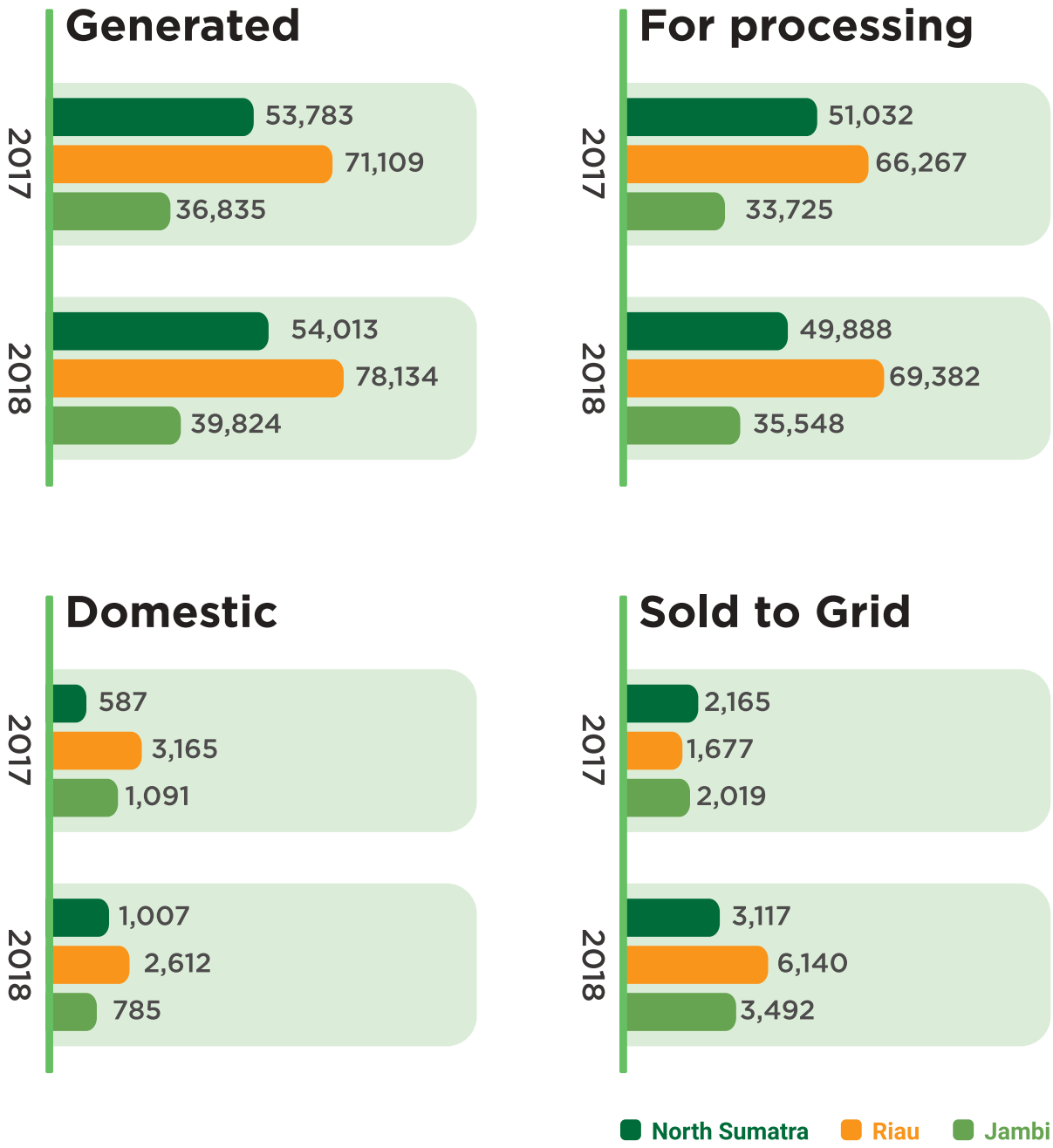
An important aspect of our continuous improvement programme involves efforts to improve our energy use efficiency and reduce the waste generated. An efficiency analysis was conducted on a monthly basis and shows the amount of fossil and renewable energy resources being used per ton of CPO and PK produced. We had also put in place a system to monitor and regulate the amount of shell used at our mills. To ensure better control and efficiency of usage, we placed monetary value on these renewable solid fuel resources and encouraged mills to make savings as one of their KPIs.

Diesel Consumption in Liters



We use steam boilers and steam turbines to generate electricity in our mills. Mills which host biogas plants are also equipped with gas engines to generate extra power. The power generated by turbines was mainly used to run the mill, while the extra power from gas engines was used to run the KCP. The excess power was sold to the national grid. If needed, we have smaller fuel generators to support the housing complexes, but this is only for areas which are not covered by the national grid or are too far away from the mill.

Electricity Generated and Purposes (MWh)



Carbon Emission
Mitigation

GRI 305-1

A greenhouse gas is a gas that absorbs and emits radiant energy within the thermal infrared range. An accumulation of greenhouse gases in the atmosphere causes the greenhouse effect. The primary greenhouse gases in the atmosphere are water vapor, carbon dioxide, methane, nitrous oxide and ozone.

Human activities since the beginning of the industrial revolution have contributed a significant increase in the atmospheric concentration of carbon dioxide. The vast majority of carbon dioxide emissions produced come from combustion of fossil fuels, principally coal, oil, and natural gas, with additional contributions coming from deforestation, changes in land use, soil erosion and agriculture (including livestock).

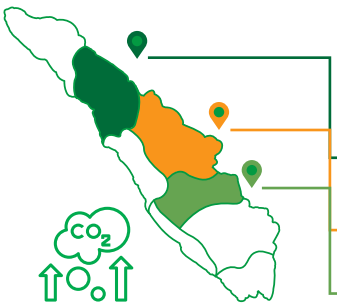
Palm oil has become one of the world's most discussed topics when talking about greenhouse gas. Plantations have been blamed for damaging the environment by promoting deforestation. In agricultural and mill operations, emissions can come from consumption of diesel fuel, synthetic fertilizers, chemical substances and the production of POME as a by-product, which can release methane gas.

As a responsible industry player and in upholding our vision to do what's good for the climate, Asian Agri continuously seeks methods to reduce our GHG footprint. The first step is to identify the main contributors of emissions in our operations. Conducting GHG calculations for all of estates and mills is one way to do this. Since 2012, we have conducted GHG calculations based on RSPO Palm GHG and ISCC guidelines. Based on these calculations, we can conclude that peatland oxidation, synthetic fertilization, and land conversion are the main contributors of GHG emissions in the estates, while methane emission from POME is the biggest contributor in mills.

Some measures that we have done to reduce GHG emissions in plantations are partially substituting synthetic fertilizers with EFBs, as well as reducing chemical usage of substances such as pesticides. EFB application on the field can only substitute fertilizers to some extent. The use of synthetic fertilizers, chemicals and fossil fuel is still being carried out but is being monitored. In order to lower GHG value, one of the priority actions is to optimize FFB production per hectare.

Integrating our palm oils mills with a methane capture facility has proven to be one of the best ways to reduce carbon emissions. Mills installed with methane capture facilities like biogas plants show emissions reduction of 80-90%. Power generated from combusting methane gas in a generator can also help us reduce diesel consumption for generating power. In all our mills, we are now using fibers and palm shells as biomass fuel for our boilers instead of coal or diesel.

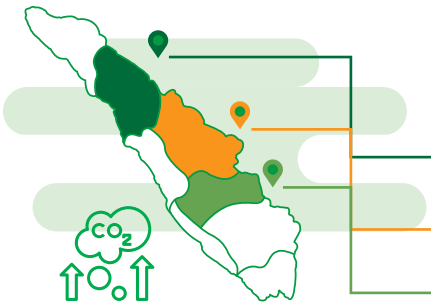
GHG emission per CPO product per Region (tCO2eq/t CPO)



tCO2eq/tCPO	2016		2017		2018	
	Mineral	Peat	Mineral	Peat	Mineral	Peat
North Sumatra	0.23	16.04	1.81	12.04	0.16	12.31
Riau	0.70	9.38	0.42	8.75	0.29	8.71
Jambi	0.56	N/A	0.52	N/A	0.23	N/A

Based on RSPO PalmGHG calculation version 3.0

Total emission per region (tCO2eq)



tCO2eq/tCPO	2016		2017		2018	
	Mineral	Peat	Mineral	Peat	Mineral	Peat
North Sumatra	50,016	1,199,880	445,512	1,618,887	36,557	1,814,112
Riau	293,569	479,951	127,561	465,773	89,417	484,811
Jambi	118,117	N/A	124,893	N/A	59,650	N/A

Based on RSPO PalmGHG calculation version 3.0

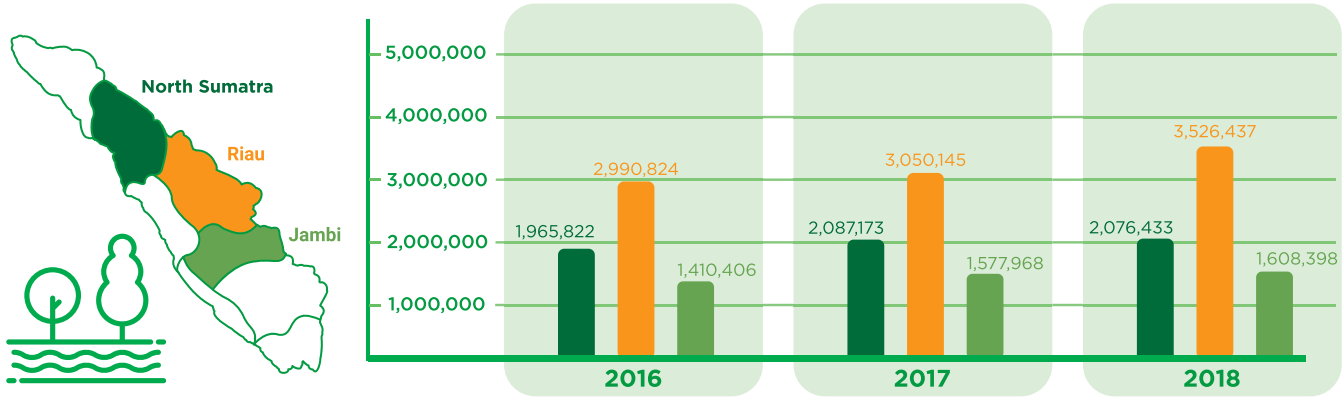
We also do GHG calculations for Plasma smallholders as part of our commitment to guide them on more sustainable operations.

Sustainable
Water Use

We source the water we used from rivers and from groundwater. For some areas where water availability is not guaranteed throughout the year, we store water we take from rivers in our reservoirs. We have water treatment plants in each mill. Treated water is distributed to offices and housing complexes near mills, as well as being used to produce steam to run turbines. Groundwater is mainly used for domestic and agricultural purposes such as irrigation in nurseries beyond the reach of our mill pumps.

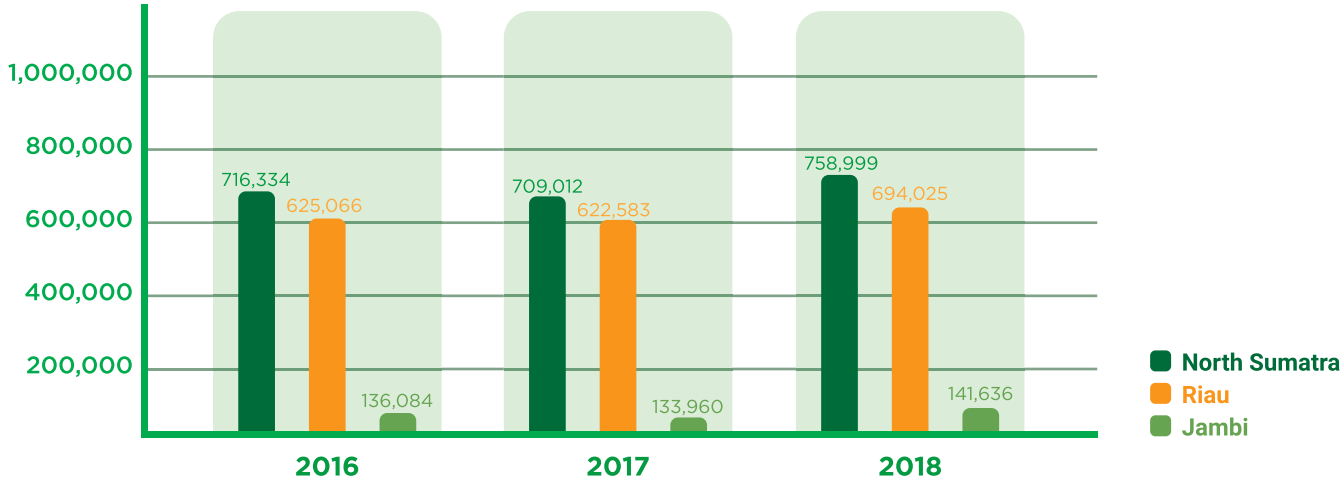
We fully realize that water is crucial to all our operations and the wellbeing of surrounding communities. We implement a robust monitoring system for our operations and domestic use to ensure that our water usage is in line with our best management practices. We also do biannual water analysis to further check whether our treated water is safe for human consumption.

Annual river intake (m3)



The commissioning of new mill in Riau, biogas plant maintenance and increase in processed FFB in 2018 resulted in an increase in river water usage.

Ground water intake (m3)



Integrated
Pest Management

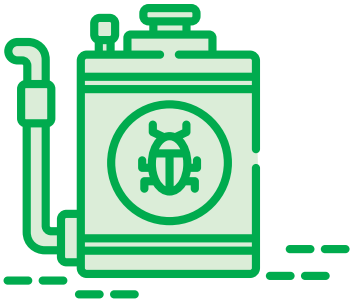
There are many ways to control pests, parasites and weeds. The easiest is to use pesticides and other chemical substances, but this can be harmful for the environment. At Asian Agri, we acknowledge the negative impact of pesticide use and we aim to minimize its usage.

We implemented an Integrated Pest Management (IPM) programme in our operations as part of standards established under the Agronomy Policy Manual (APM). The broad guiding principle of IPM is to leverage on existing or discovered biological and ecological approaches to control pests and minimise the use of artificial or chemical substances. A key feature of the pest control programme is the use of pest surveillance. Asian Agri has a comprehensive array of tools for implementing and monitoring IPM in our plantations. We regularly monitor pest populations and use the best available data to determine which course of action can yield optimal plantation productivity and minimal environmental impact.

The major pest species at our plantations include rhinoceros beetles *(Oryctes rhinocerus)*, leaf-eating caterpillars, woolly caterpillars, bagworms, bunch moths, termites (on peat soils) and rodents. The adult rhinoceros beetles attacks shoots of oil palms and young palms, leading to serious damage and often the death of the palm tree. The control measures we employ include the destruction of breeding sites, the use of pheromones to trap adults, and the use of target-specific fortnightly spraying of the shoots and axils of young palms. The traps are renewed approximately every two months, depending on the temperature. For moths we use light traps and appropriate food baits. We also house barn owls to help control rodent pests, with each barn owl covering a radius of 25ha.

Deployment of our IPM programme has greatly reduced the need for chemical pesticides, though chemicals are still needed during major outbreaks.

Total Chemical Pesticide consumption (in Kg or L)



Pesticide

2016	2017	2018
510,202	451,269	488,350

There has been an outbreak of *Setothosea asigna, Setora nitens* and bagworms in Negeri Lama region, which caused increased pesticide consumption in 2018.

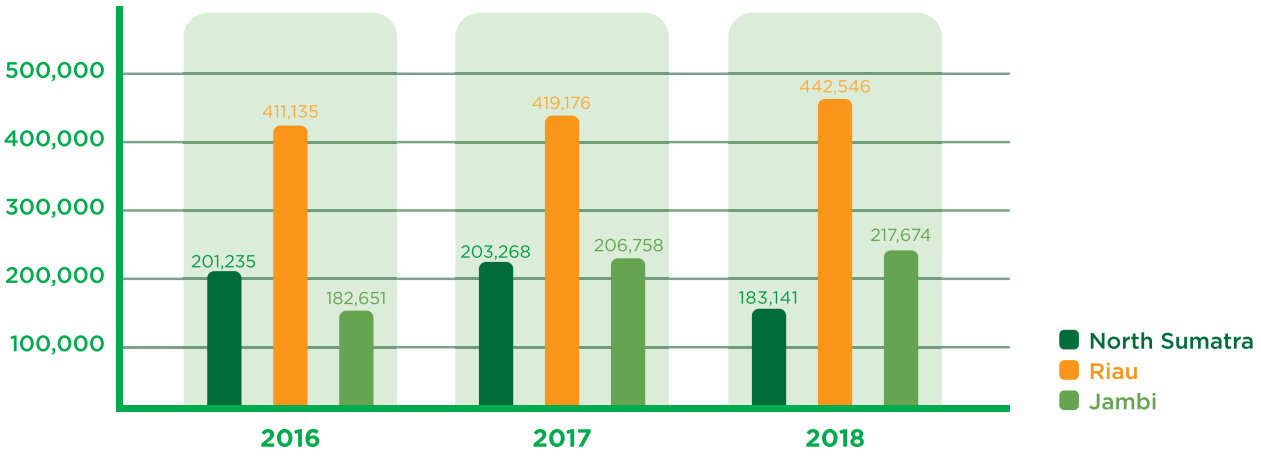
Soil **Management**

Good quality soil supports the good production of oil palm. With that in mind, we have a dedicated team in our R&D department that oversees our soil and leaf analysis to determine proper fertilizer recommendations for each specific area. This is not limited to the amount and type of fertilizer applied, but also the doses, methods and timings of application. Soil maps are available for our plantations and guide the management process to mitigate impacts. Most of our estates are developed on mineral soils. The soil is conserved by mitigating soil erosion and fertilizer run-off using the arrangement of pruned oil palm fronds.

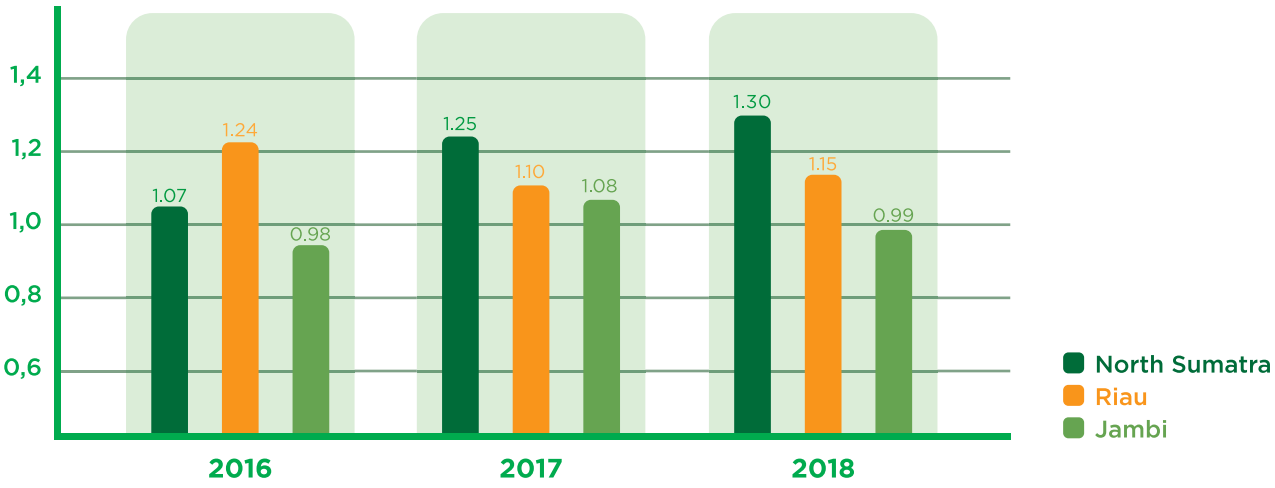
Legume cover crops are planted in newly cleared areas before oil palm is planted. As Sumatra has a humid and tropical climate, it is imperative to protect the organic matter in the topsoil from degradation, as well as reduce soil erosion. Terracing and stacking of fronds along the contour of estates were accomplished by using slopes to reduce the rainwater run-off. Some planting platforms and soil traps were constructed to reduce soil erosion in steeper areas.

Later in the mature phase of oil palm tree lifecycle, a good cover of mixed natural vegetation is maintained. Selective weeding is carried out to favour the establishment of some weed species which will not jeopardise the growth of oil palm. As part of our zero-waste management, EFBs are used as organic fertilizers for surrounding palm trees. EFBs can provide the soil with nutrients that enrich the soil quality. This is also one of our methods to reduce the use of chemical fertilizers.

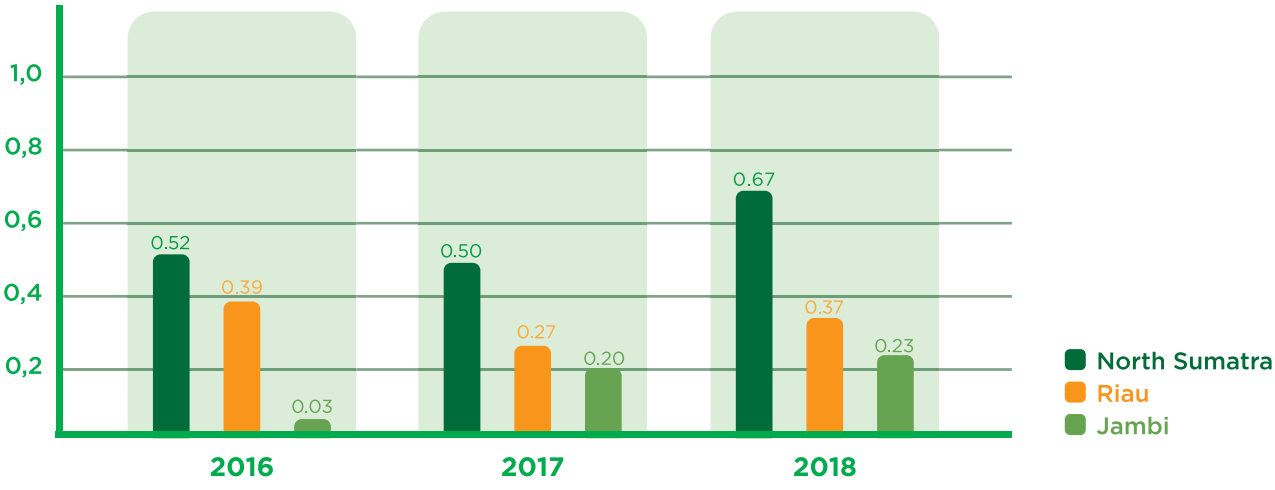
Total EFB applied (Ton/Year)



Average Fertilizer usage – Mature Oil Palm (Ton/Ha)



Average Fertilizer usage – Immature Oil Palm (Ton/Ha)



Supply Chain **Traceability**

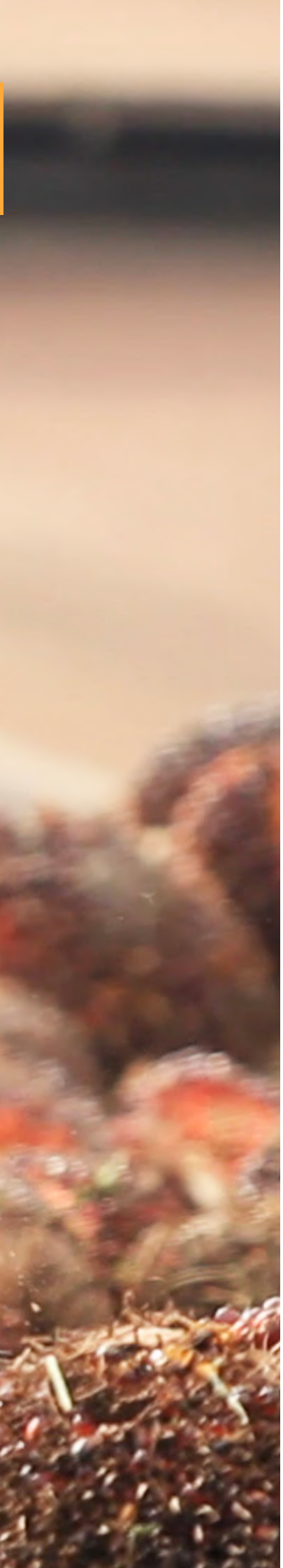
GRI 102-11

Traceability is the first step towards building a fully sustainable supply chain. Our palm oil mills are supplied with FFBs from our own estates, Plasma scheme smallholders, and independent smallholders. The palm kernel for our KCP is sourced from our own mills and from third party mills. Our own estates and scheme smallholders' area are already comprehensively mapped out. We have the complete data on the status of scheme smallholders that are under our management.

The challenging part of doing traceability comes from tracing independent smallholders. The supply chain from an independent supplier can be very complex as it can comprise layers of middlemen that lie between estate owners and farmers to a direct supplier. Identifying a direct supplier is easy, but dealing with layers of agents and dealers can be very time consuming. These agents and dealers play a significant role in getting access to information of their suppliers. The information and data acquired will help us to identify, organize and to provide training to the right smallholders.

The next challenge lies in the bottom layer of the supply chain, where price wars among agents, dealers and smallholders can result in a supplier sending FFBs to multiple mills, complicating the sourcing process. This introduces volatility in the FFB supply, making it difficult to accurately predict and monitor the actual productivity of independent smallholders.

However, regardless of these challenges, our goal to complete 100% FFB traceability to plantation for 21 mills remains on track. Traceability for our latest mill can be done in a relatively shorter time because we have developed and improved a systematic methodology to trace and map our new suppliers based on our experience in identifying our FFB supply sources in 20 mills.



Classification and data collection

The first step to trace back to our third party suppliers is to obtain the estate/supplier's name and their GPS coordinates, along with their addresses. The baseline data and a compliance statement signage are to be submitted before we can accept a new supplier. We will then send our team to see the condition of the estate and to take coordinates. GPS coordinates are taken in the centre of the estates, and for estates located near high risk areas, the coordinates are taken from the edge of the estates to make sure that no palm tree is in the no-go area.

	Own Estate	Scheme Smallholders	Independent Smallholders		
			Group	Outgrowers	Agent
Legal entity	✓	✓			
Estate / suppliers name	✓	✓	✓	✓	✓
GPS coordinate	✓	✓	✓	✓	✓
Total area	✓	✓	✓	✓	✓
Number of supplying months	✓	✓	✓	✓	✓
Production	✓	✓	✓	✓	✓

Data collection for Jambi was done in collaboration with Yayasan SETARA Jambi and IDH. We extended our partnership programme with Yayasan SETARA for another year since there are other aspects of traceability that have yet to be addressed. We engaged Meo Carbon Solutions and SNV to help up verify the traceability system that we applied in North Sumatra and Riau regions. The collaboration is a six-month programme which started in October 2018. We will publish the results of this assessment in the next sustainability report.

Quota Approach Application

The traceability percentage of independent smallholders is very volatile and heavily influenced by price. It is common that these suppliers do not continuously send their FFB to our mill. In some cases, they can even switch agents just to get a better price. To anticipate this condition, we use a yearly quota approach to calculate and verify the data that we have obtained. The approach is taken by considering the total area, yield estimation of the estate, and the number of supplying months. By using this method, we are able to identify whether the collected data has covered the production that they supply to us. If the supplied production is bigger than the quota, it could mean that there is a certain percentage of the independent smallholders that is non-traceable. If this happens, we will again send our teams to their estates to conduct verification processes. Once verified, we can enter into a higher value arrangement (i.e. renewed/higher quota) with the company. If, however, we find that there were demonstrable cases of fraud, we may suspend transactions and business relationships with said supplier.

Engagement and Verification

In order to build sustainability awareness, we take a long-term approach to keep independent smallholders' interest in our partnership while supplying FFB to our mills. Part of the process involves increasing their knowledge and commitment on why traceability is a needed step towards sustainability. We communicate our policy regarding proof of legality of their land, legality of the fruit, protection of conservation areas, and other social issues like child labour. The GPS coordinates we take from their land are overlaid with the provincial spatial plan to verify whether it is near, adjacent or in a protected area. The verification process for North Sumatra and Riau regions is within the collaboration programme with Meo Carbon Solutions and SNV.

A more thorough engagement and counselling is always offered for groups of farmers on how to better themselves as the next step. The CSV programme is dedicated for independent smallholders who thrive to reach a higher level of sustainability.

Grievance **Procedure**

GRI 413-1

We have a grievance mechanism in line with our established sustainability policy effective September 2014. The grievance mechanism provides guidance to stakeholders who may wish to report breaches of our sustainability policy commitments in our areas of operations or those of our suppliers. We are committed to responding quickly and constructively to any grievance raised and to publicly report on each. A robust grievance procedure has been developed to resolve all verifiable complaints and conflicts with all parties in our supply chain. To show our transparency in handling grievances and to allow our stakeholders to monitor progress, details of each report can be found on our website.

There are several issues that have been raised to Asian Agri during the report period of 2017-2018. Some of them involve our operations and allegedly violated environmental and labour laws, as well as alleged damage of public facilities. We examined each issue and found the most appropriate solution for both parties.

The partnership commitment between Asian Agri and its smallholders seeks to positively impact all parties. We provided technical assistance to ensure smallholders implement best practices in their plantations, before and after the replanting, as well as for them to comply with the policy and regulations issued by the government. For example, in Ukui region, we ensure the planted area and riparian zone are clear to smallholders and respective stakeholders prior to replanting.

The partnership also allows us to develop infrastructure required to improve the economic, health, social, and environmental aspects of the community where we operate.

In order to prevent child labour, our sustainability policy recognizes the right of children to be protected from work and we set the same rules to our suppliers, partners and vendors.

Smallholder Engagement
& Partnership

Building partnerships with independent smallholders has become Asian Agri's main focus in managing oil palm plantations in a sustainable manner and, at the same time, improving smallholders' welfare.

We started the partnership programme in 1987 when we became a pioneer of the Indonesian Government Transmigration Programme (PIR-Trans) through the Plasma Smallholders programme in Riau and Jambi. The partnership scheme provides assistance for smallholders, including supplying quality seeds and training. When oil palms reach the end of their productive life at around 25 years of age, we also assist with the replanting process, including helping farmers find alternative sources of income until their new trees yield fruit. By implementing the same programme as with Plasma smallholders, since 2012 the partnership was extended to reach more independent smallholders in North Sumatra, Riau and Jambi Province.

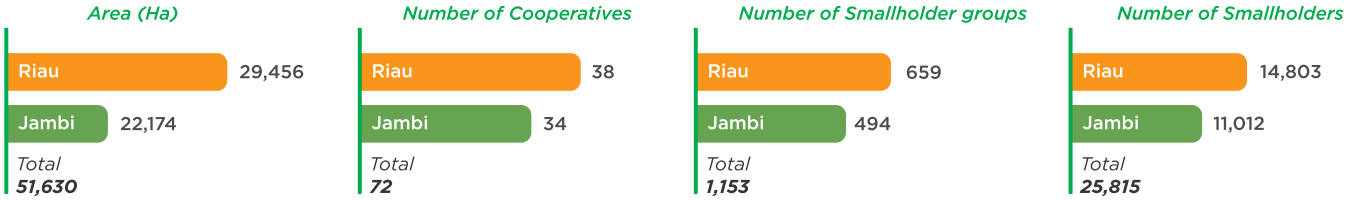
In 2017, Asian Agri established the One to One Partnership Commitment, which sought to match one hectare of company's plantation with one hectare owned by smallholder farmers. The company formed partnerships encompassing 60,000 hectares of land under the government's Plasma smallholder scheme, and another 40,000 hectares belonging to independent smallholders, making Asian Agri one of the leaders in the Indonesian palm oil industry with such a strong commitment. By the end of 2018, we had surpassed our target by engaging with a total of around 101,000 hectares of Plasma and independent smallholders.

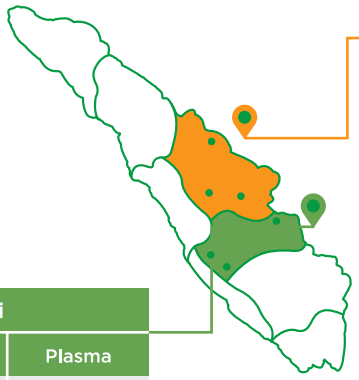
Partnering with smallholders enables us to help them boost their production sustainably, benefitting the environment, increasing their income, and ensuring a reliable supply.

Plasma Scheme **Smallholders**

The Plasma Transmigration Programme was initiated by the government based on Presidential Instruction No. I/1986, which aimed to improve economic development through the production of non-oil and gas commodities in Indonesia. At the beginning of the PIR-Trans programme, the smallholders were given 2.5ha of land of which 2ha are to be used for oil palm plantations, while the remaining 0.5ha is to be used for housing and growing food.

PT IIS, the operating holding company of Asian Agri, helps Plasma smallholders to get financial assistance. The land title is held by the bank as collateral. The Plasma programme was financed by credit from banks, and plantation companies assisted in loan repayment. Around 30% from total FFB sales was deducted to pay the loan to the bank. The management of the 2.5ha will be transferred from the company to the Plasma smallholders after the land is productive, which normally takes three to four years. Upon the settlement of the loan, the right of ownership is handed over to smallholders.





Riau

Regency	Plasma
Pelalawan	Ukui Buatan Penarikan
Kampar	Gunung Sahilan
Indragiri Hulu	Peranap

Jambi

Regency	Plasma
West Tanjung Jabung	Tungkal Ulu
Batang Hari	Muara Bulian
Tebo	Bungo Tebo

Province	2016		2017		2018	
	Asian Agri	UMP	Asian Agri	UMP	Asian Agri	UMP
Riau	5,796,000	2,146,375	6,276,000	2,266,722	5,876,000	2,464,154
Jambi	4,740,000	1,906,650	5,175,000	2,063,948	4,662,000	2,243,718

To ensure the success of our smallholders programme, we have set up a dedicated Plasma management team. The smallholders' management team facilitates and provides agriculture knowledge and technical skills in oil palm management e.g. fertilizer application, harvesting technique and rotation, fruit quality, support in infrastructure and loan provision. The strong partnership between our smallholders and Plasma management team will ultimately lead to economic growth for smallholders.

Trust and a good relationship are the key factors to maintaining a successful Plasma programme. We conduct our business with our scheme smallholders in a transparent manner. The FFB price of smallholders is set through provincial government regulations, and the price mechanism for our smallholders is communicated through weekly meetings.

By the end of 2017, all Plasma smallholders under our partnership had already fully repaid the loan we gave them when they start working on their land.

We encourage and educate smallholders on various certification systems and sustainability requirements. The smallholders' management team provides guidance and support for the smallholders through the Plasma Manager, assistants and foremen for each estate. Regular meetings with cooperatives and farmer groups' representatives are

conducted to ensure that the sustainable management of oil palm and standards are implemented in the field. The meeting also provides an opportunity for smallholders to channel out the issues and concerns that they have on technical problems or grievances to the company.

The smallholders' management team will liaise with the cooperative to manage their smallholders. The cooperative has a role in organizing and coordinating farmer groups, including managing FFB sales and also monitoring the implementation of the guidelines consistently.

Helping smallholders acquire international certifications enables them to command a premium price for their product. The premium price will later be used to strengthen their sustainability practices and the smallholder itself. Examples include infrastructure and operational investments such as purchasing safety equipment and creating new signboards to facilitate communication, implementing smallholder best management practices, as well as conducting training and onsite field visits to scale up knowledge and capacity.

As the smallholders' oil palm trees were planted in the 1990s, the trees are nearing the end of their productive lifecycle. Consequently, a significant number of smallholders are entering the replanting programme. We believe the replanting programme can be executed successfully through continued partnership, working with involved stakeholders such as smallholders, cooperatives, financial institutions and the Indonesian government.

Our Plasma scheme smallholders are scheduled to replant their estates by 2025. In 2016, we helped our first cooperative, KUD Mulus Rahayu in Buatan region, to conduct their replanting. The cooperative completed their first harvest in October 2018. Another cooperative, KUD Bina Usaha Baru in Ukui region, finished replanting more than half of their total area and is expected to complete their first harvest around October 2019.

We also provide smallholders with ideas and assistance for alternative income during the replanting programme, such as setting up fishery, livestocks and secondary crops.

Independent **Smallholders**

"Asian Agri's continued guidance, allowed us to improve our productivity while ensuring that our operations are sustainable and environmentally-friendly."

H. Suher
Petapahan Maju Bersama Farmers Association, Chairperson

As a company, we are committed to the adoption, execution and promotion of sustainable practices both in our own estates as well as with our partner smallholders. Transparent supply chains are a key characteristic of sustainable and responsible practices. In this regard, we recognize the important role of independent smallholders in achieving this goal.

Through our Corporate Social Responsibility (CSR) programmes, we engage our independent smallholders in our three provinces of operations – North Sumatra, Riau and Jambi. Our CSR team provides them with training and support in agronomy best management practices to enable them to produce sustainable palm oil. We also support them to form cooperatives, give them access to market information, and also financially support them in acquiring fertilizers as well as funds for building infrastructure.

We hope the assistance we provide will translate into sustainable practices, thereby improving productivity, which leads to higher income, a better living standard as well as create an awareness and understanding of sustainability practices within their operation.

One-to-One Commitment to **Foster Partnerships**

As a company that is committed to the sustainable production of palm oil and the growth of our network of partners throughout the palm oil supply chain, we launched the One-to-One Commitment in 2017. The programme had a clear aim – to increase productivity via intensification and partnership without needing further land expansion. To achieve this, Asian Agri had to partner with Plasma and independent smallholders to match the company's managed plantation area of 100,000ha.

Building on the success of Plasma scheme smallholder partnerships, which saw land productivity and smallholder welfare improve significantly, we adopted the same best practices as we scaled up our engagement with independent smallholder partners. We already partner 30,000 smallholders managing a total area of 60,000ha.

The programme opened up the opportunity to partner with more independent smallholders in the past two years to meet the remaining 40,000ha. Through active community engagement, we were able to partner with enough independent smallholders to increase the total area from 28,000ha in November 2017 to 41,500ha by end of 2018.

Our smallholders have continued to benefit from a range of efforts that include plantation comparative studies, enhanced agronomic practices (farming, fertilising, pest management), access to a superior breed of oil palm seedling, formation of cooperatives, and provision of technical support to raise productivity and align partners with sustainable and best practices.

Premium **Sharing**

Growing with our smallholders is core to our business. As part of our commitment to responsible palm oil production, we share part of the profits earned from sustainable palm oil sales with our Plasma scheme smallholders.

Since 2011, we have helped many Plasma scheme smallholders with international certification, including RSPO (Roundtable on Sustainable Palm Oil) and ISCC(International Sustainability & Carbon Certification). These certifications allow our partners and us access to international markets, in addition to supporting Indonesia's sustainable palm oil industry.

International markets, especially European countries, are potential markets for the export of international certified palm oil, while the premiums that will be generated become additional incentives for the certified smallholders. Through partnerships, Asian Agri continues to strengthen its oil palm smallholders' institutions so that they are able to face global market competition and become part of a positive campaign on sustainable palm oil management.

In April 2018, we distributed a total of Rp3.69 billion (USD 267,000) to 72 cooperatives, representing around 30,000 Plasma scheme smallholders in Riau and Jambi provinces. The premium shared were used by cooperatives to improve agronomic training, village infrastructure and plantation infrastructure.

Our **Employees**

GRI 102-8, 102-41

Employees are key players in the success of our business operations. To date, Asian Agri employs around 23,700 employees, the majority of whom are located on-site in mills and estates. As a responsible company, we place a high priority on maintaining a healthy and safe working environment. We promote the welfare of our employees and protect their rights. We believe that by accommodating their needs, we can boost their motivation and productivity.

We provide housing complexes equipped with proper amenities, as well as schools and childcare facilities, enabling parents with younger children to join our workforce. We also provide internal transport services to facilitate ease of travel across and within our estates. We invest in facilities for sports as well as provide places of worship. We hold several cultural and religious events to promote interactions among our staff and their families. By enabling them to work in a safe and proper working environment, we can create a balanced lifestyle for employees.

Many of Asian Agri's policies support the welfare of our employees. We fairly treat our employees, respect their freedom of association, as well as prohibit child labour. We have non-discrimination policies in place, and have formed a gender equality committee to examine how we can improve our commitment. We respect and provide fair rights to all employees irrespective of their religion, race, beliefs, origins, age and gender. Both women and men have equal rights and opportunities in this company.

Women workers are given paid maternity leave. We make sure that breastfeeding mothers are not exposed to harmful chemicals by not allowing them to work in any environment that involves using chemicals. If they have pre-school children, we provide day care centres near their housing complex.

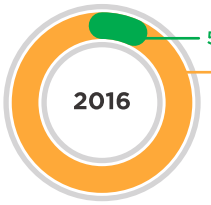
We enforce a strict policy against child labour in our premises. No worker under age of 18 is allowed to work in our company. We do not tolerate any forms of violence, intimidation, sexual harassment, and bribery, and have policies in place to investigate, handle and manage if such incidents were to occur.

We categorize employees into staff and workers. Staff are officer level and above, while workers are non-staff level who work in mills and estates, including non-permanent workers. In addition, all of our workers are protected by collective a labour agreement through the Indonesian Worker Union (PP SPSI Sumatra). The agreement was created and approved by all of the 160 companies who are members of Agency for Corporation of Sumatra Plantation (Badan Kerja Sama Perusahaan Perkebunan Sumatera - BKSPPS). We respect workers' collective bargaining rights through labour unions.

As of December 2018 and based on our Human Resource Department data, the grouping of workers in Asian Agri is as follows:

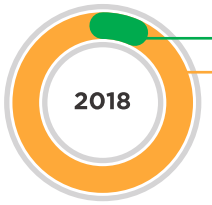
Employee Classification

Staff
Worker



22,084
Total Employee

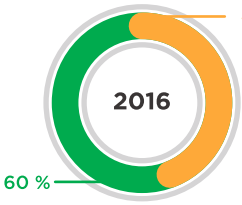
24,272
Total Employee



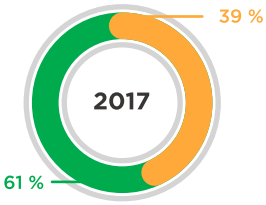
23,722
Total Employee

Worker Classification

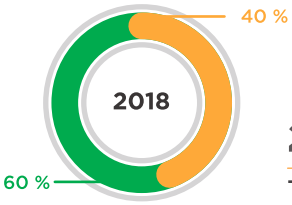
Permanent
Temporary



21,076
Total Worker



23,209
Total Worker



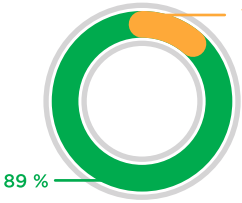
22,630
Total Worker

Further groupings based on location and gender are as follow:

Male
Female

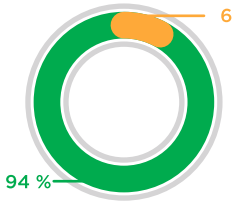
2016

Staff



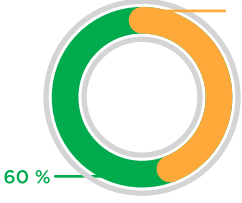
1,008
Total Staff

Permanent



8,519
Total Permanent

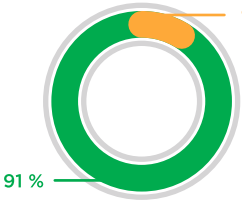
Temporary



12,557
Total Temporary

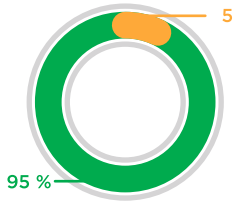
2017

Staff



1,063
Total Staff

Permanent



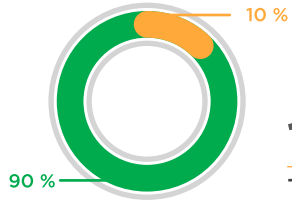
9,068
Total Permanent

Temporary

14,141
Total Temporary

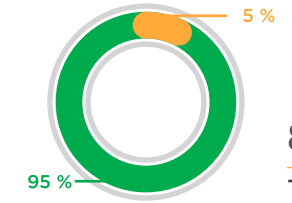
2018

Staff



1,092
Total Staff

Permanent



8,962
Total Permanent

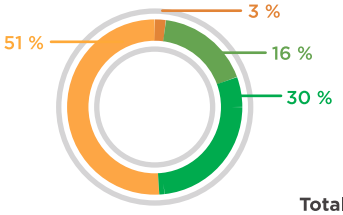
Temporary

13,668
Total Temporary

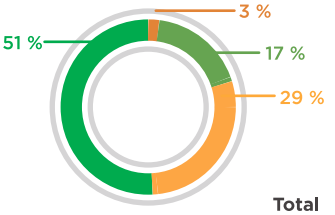
2016	2017	2018

North Sumatra | Riau | Jambi | Jakarta

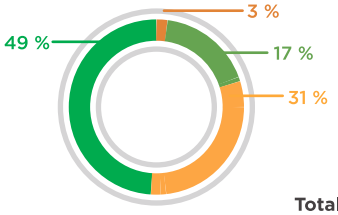
Staff



Total **1,008**

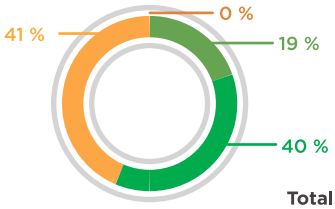


Total **1,063**

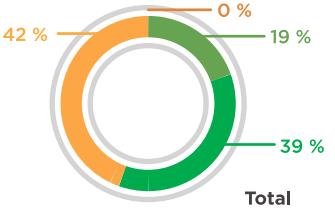


Total **1,092**

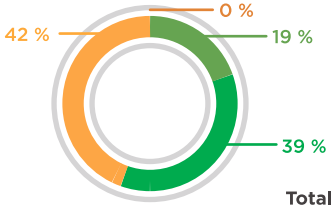
Permanent



Total **8,519**

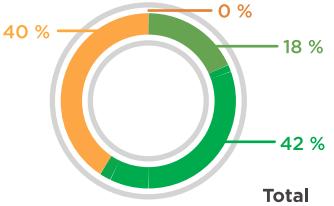


Total **9,068**

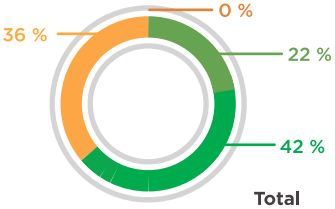


Total **8,962**

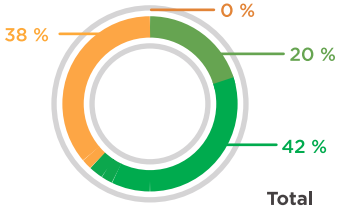
Temporary



Total **12,557**



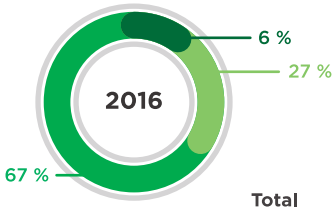
Total **14,141**



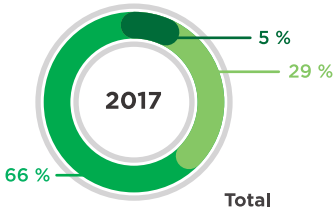
Total **13,668**

Age Classification

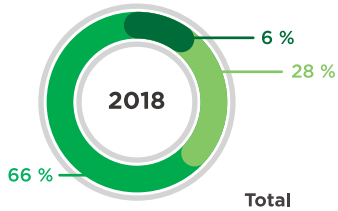
18-30 | 31-50 | >51



Total **22,084**



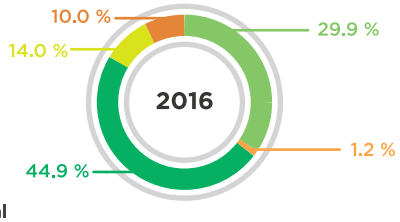
Total **24,272**



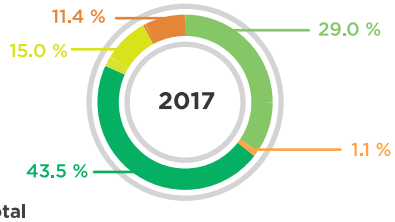
Total **23,722**

Ethnic classification

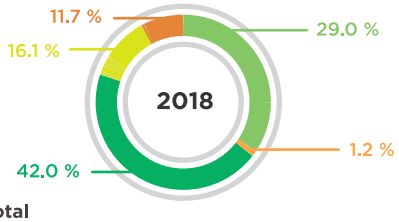
Batak
Javanese
Others
Chinese
Minang/ Melayu



Total
22,084



Total
24,272

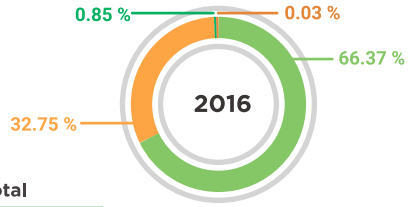


Total
23,722

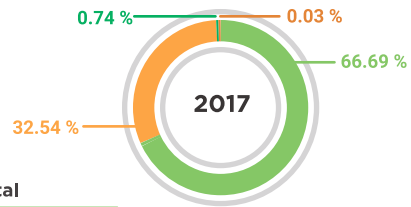
2018

Religion Classification

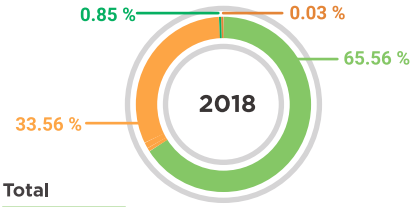
Islam
Buddhist
Christian
Hindu



Total
22,084



Total
24,272



Total
23,722

Our operations are located in rural parts of Indonesia where job creation and socio-economic development remain important priorities. Beyond providing them with employment, Asian Agri is committed to upskill our workers with training and workshops, allowing them to understand the perspectives and expectations of our global stakeholders.

We have programmes and infrastructure to enable our employees to professionally grow with us. Established in 2002 in Buatan Estate, the Asian Agri Learning Institute (AALI) has trained thousands of our staff in horticulture, mill processing, management, leadership and certification knowledge as well as other needed skill sets. AALI often collaborates with third parties to provide additional courses to further enhance our workers and staff to become more competent individuals.

We also recognise staff contributions by setting up a worker appreciation system where competitive welfare packages and employee remuneration are given based on performance level. We have an annual development programme for management which aims to improve their skills in terms of leadership, change management, decision making and finance.

Our development programmes are also targeted to high potential operational staff. They are trained to further polish their soft skills, their understanding of their own capabilities, as well as their abilities to lead others in line with the company's vision and mission.

Worker's Health and **Safety**

GRI 403-2

"At Asian Agri, we put the safety and security factors as the main requirement for all employees and continue to improve safety knowledge and competency of human resources."

Asian Agri demands every worker be fully aware of occupational health and safety policies in their working areas. We aim to foster a workplace culture where safety is everybody's responsibility.

Each unit has an Occupational Health and Safety Committee to enforce safety protocols and standards. Among other tasks, the committees are responsible for identifying potential hazards, as well as ensuring the availability and optimal condition of the safety equipment. These committees meet quarterly to discuss safety issues and concerns.

The committee is complemented by regular training and safety drills, including basic safety training, first aid and emergency response procedures and fire-fighting drills. We believe that our workers need to be equipped with the right skills in case of emergency. We also inculcate the habit of donning requisite Personal Protective Equipment (PPE), such as gloves, helmets, boots, goggles, masks, earmuffs and safety clothing. To further encourage and reinforce a workplace culture where safety is a priority, we have built safety criteria into our employees' personal performance evaluations.

We have clinics installed and first aid kits strategically located across our plantations and mill areas to ensure ease of accessibility for workers that require first aid or other forms of medical attention. Workers who are regularly exposed to chemicals such as herbicides and pesticides are provided with medical check-ups to ensure their continued wellbeing. We maintain records on illness, which are summarized in monthly reports.

Work incident Based on category

Region	Work Incident Based on Category															
	2017 (Male)				2017 (Female)				2018 (Male)				2018 (Female)			
	F	PD	MA	FA	F	PD	MA	FA	F	PD	MA	FA	F	PD	MA	FA
North Sumatra	2	3	214	148	-	-	5	3	-	-	101	135	-	-	2	3
Riau	-	1	716	18	-	-	20	-	-	-	729	31	-	-	27	1
Jambi	-	1	317	108	-	-	-	-	-	-	439	75	-	-	1	-

F : Fatality *PD: Permanent Disability* *MA: Medical Aid* *FA: First Aid*

There were two fatalities in 2017, in Tanah Datar mill and Negeri Lama I mill. Both cases which were caused by machinery malfunction have been resolved. Asian Agri worked with affected parties to reach mutual solutions that support the families.

Region	Year	Injury Rate		Lost day rate		Absentee rate*	
		Male	Female	Male	Female	Male	Female
North Sumatra	2017	3.16	0.07	110.38	-	1.23	0.03
	2018	2.17	0.04	1.64	0.02	0.85	0.02
Riau	2017	9.13	0.25	68.47	0.89	2.47	0.07
	2018	10.16	0.50	18.29	1.02	2.81	0.14
Jambi	2017	10.27	-	10.49	-	1.43	-
	2018	10.70	0.02	9.12	0.02	1.73	0.00

** Injury rate = number of injury x 200,000/man-hours*
** Man-hours = (number of workers x scheduled working days x 7 hours per day)*
** Lost days begin to count after 2 scheduled work days*
** Absent due to work related injury or disease, absent without permission is not included*

We also expect all third-party workers and mill guests to comply with our workplace safety standards. We show new workers and mill visitors a safety induction video that details how to act and respond in emergency situations.

In 2017 and 2018, there were no cases where our workers contracted an occupational disease.

1. Economic Improvement

We continue to focus on aspects that will contribute to society's empowerment and development, including economic improvement.

Local communities play a crucial role in developing their respective local economy through various initiatives. Asian Agri strives to build trust and harmonious relationships with smallholders by supporting their attempts to improve the economy.

Apart from the Plasma scheme and CSV programmes, we also run integrated oil palm and cow husbandry programmes for local communities. Smallholders purchase cows through village cooperatives, and repay their loans over the span of two to three years. This programme also utilizes oil palm by-products as cattle feed. In turn, cattle manure is used as a substitute for chemical fertilizers for both the oil palm trees and other plants. This programme was initiated in 2008 and has been successful in several villages in Buatan estate area such as Bukit Harapan (SP3) village, Simpang Perak Jaya (SP7) village and others.

This initiative is expected to provide farmers with additional income during the replanting period. Other than cow husbandry, we also provide communities with other animals to serve as alternative sources of income,

Driving Positive Socio-Economic **Development**

GRI 413-1

Asian Agri works in three provinces in Indonesia, covering 17 regencies and 137 villages. We recognize that surrounding communities are key stakeholders in our areas of operations. Over the years, we have provided assistance to various stakeholders in actual and adjacent areas of operations. We hope that we can improve not only the welfare of our employees and their families, but also of our smallholders and local communities.

Our community development personnel engage with our community stakeholders. We welcome open dialogues and discussions on how to build and strengthen good relationships. Through formal and informal meetings, community leaders can express their needs, which we will try to address via targeted programmes. There are no indigenous people or communities with special needs in or near our operational areas.

Environmental impact is reported periodically in the AMDAL report. While we have not implemented a thorough social impact assessment, we always seek ways to improve our delivery of doing what is good for the community.

"We provide our full support for sustainable palm oil management programs and farmer and company partnerships that are part of Asian Agri's commitments."

Dr. Forst. Bambang Irawan, SP., M.Sc. IPU
University of Jambi, Dean of Faculty of Forestry

including chickens (Batu Anam village, Batu Anam estate, December 2018), ducks, goats and lambs and also fisheries (Bukit Agung village, Buatan estate, March 2018).

We also provide electricity and build roads for several of our surrounding villages. With biogas plants and power generators in several areas of our operations, the excess power is channelled to the national grid or directly to the nearest settlement.

We know that having electricity will help the community improve their welfare and support their income-generating activities, contributing to further economic development. At the same time, roads open up access to villages, and improve the economy by facilitating ease of trade.

2. Education Improvement

Education programmes under our CSR initiatives aim to improve the quality of education not only for our employees, but also for their families. Existing schools are renovated and vital facilities and infrastructure are provided to address needs. Students who excel are provided further assistance with the provision of scholarships through Asian Agri's partnership with Tanoto Foundation, Yayasan Sayap Garuda, which provides scholarships from the elementary levels all the way to university degrees in the three provinces where we operate.

Number of students granted scholarship in 2017

Level of education	North Sumatra	Riau	Jambi
Elementary	20	25	10
Middle school	26	21	14
High School	21	15	9
College/University	5	5	2
Total	**72**	**66**	**35**

In 2018, there were no scholarships given as the management of the scholarship programme was being handed over from Tanoto Foundation to Asian Agri. The fully-Asian Agri-run scholarship programme will resume in 2019.

We also provide training and empowerment programmes for teachers in the school vicinity as they are the main agents in delivering education through the PELITA education programme.

We built school libraries and continue to improve the quality of the libraries by establishing collaboration between schools and local education agency. With access to good education, the next generation will be empowered to embrace and advocate sustainable practices. The improvement in school libraries allows students to broaden their knowledge on sustainability through literatures.

Good infrastructure will only be successful if it is supported by good facilities. We also provide schools with chairs and desks, school busses, and sanitation facilities in order to support learning activities.

3. Health Improvement

We have built several facilities such as deep wells for the provision of clean water, sanitation facilities for schools and the surrounding communities, as well as improving their drainage systems.

Asian Agri has also built several health clinics in villages, and renovated existing clinics. We worked with Universitas Sumatera Utara to conduct free check-ups and treatments for communities in their area. In addition, we sponsor mass circumcisions and food provisions for infants.

In May 2018, we provided assistance to the community of Sidomulyo village through Puskesmas Negeri Lama in the form of medicines and other medical devices.

Through its Asian Agri Peduli programme, Asian Agri supports humanitarian acts and is involved in providing emergency responses to several natural disasters such as earthquakes, tsunamis, volcano eruptions. We also participated in relief efforts when natural disasters strike our operation areas and surrounding communities. This programme is usually run in collaboration with other companies or institutions.

4. Social and Cultural Engagement

Several religious themed events are held to promote and maintain harmony between Asian Agri and surrounding communities. We also help upgrade the infrastructure of places of worship.

In September 2018, we helped provide building materials to renovate the facilities of At-Taqwa mosque in Tanah Datar village.

We also sponsored cultural and sport events in order to encourage community involvement. Every year, the company together with employees hold break fasting events in Ramadan or Halal bi halal after the Eid Fitr celebration, as well as celebrating Christmas and Chinese New Year. These events are held not only in offices but also in remote sites. The events are open for all employees regardless of their religion and beliefs.

Competitive sport events including volleyball, soccer or futsal and badminton are usually held during the Indonesian Independence day or other special occasions such as a mill's anniversary.

General Standard
Disclosure

GRI standard	Disclosure	Page(s)
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102-1	Name of the organization	14
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102-3	Location of headquarters	14
102-4	Location of operations	14
102-5	Ownership and legal form	14
102-6	Markets served	14
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102-8	Information on employees and other workers	56
102-9	Supply chain	14
102-10	Significant changes to the organization and its supply chain	14
102-11	Precautionary Principle or approach	32,34,40,50
102-12	External initiatives	23
102-13	Membership of associations	23
	Strategy	
102-14	Statement from senior decision-maker	6
	Ethics and integrity	
102-16	Values, principles, standards, and norms of behaviour	22
	Governance	
102-18	Governance structure	27
	Stakeholder engagement	
102-40	List of stakeholder groups	13
102-41	Collective bargaining agreements	58
102-42	Identifying and selecting stakeholders	20
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102-44	Key topics and concerns raised	11
	Reporting practice	
102-45	Entities included in the consolidated financial statements	14
102-46	Defining report content and topic Boundaries	11
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Specific Standard **Disclosure**

GRI Standard	Disclosure	Page(s)
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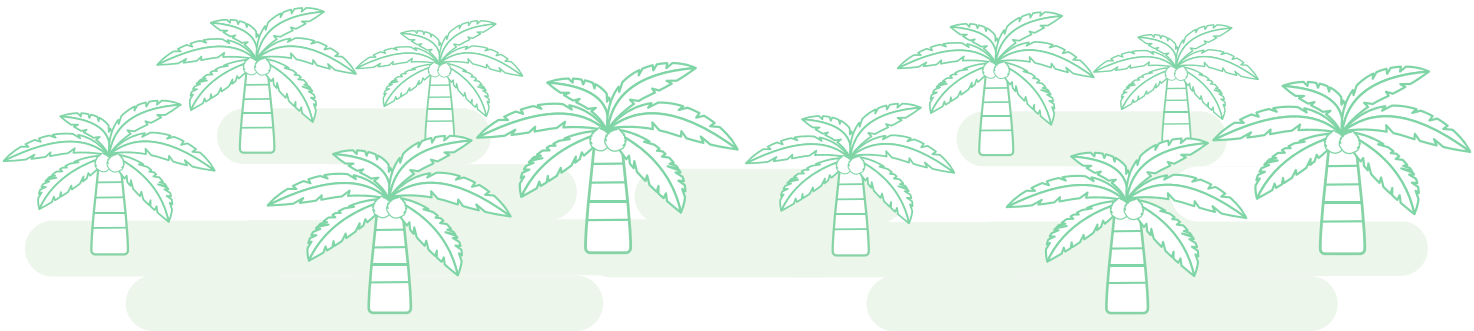
304 Biodiversity	304-1 Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	14,32
103 Management Approach	103-1 Explanation of material topic and boundary 103-2 The management approach and its component 103-3 Evaluation of the management approach	13 45 45
305 Emission	305-1 Direct (Scope 1) GHG emissions	45
103 Management Approach	103-1 Explanation of material topic and boundary 103-2 The management approach and its component 103-3 Evaluation of the management approach	13,40-41 40-41 40-41
307 Environmental Compliance	307-1 Non-compliance with environmental laws and regulations	40-41
103 Management Approach	103-1 Explanation of material topic and boundary 103-2 The management approach and its component 103-3 Evaluation of the management approach	13,63 63 63
403 Occupational Health and Safety	403-2 Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	63
103 Management Approach	103-1 Explanation of material topic and boundary 103-2 The management approach and its component 103-3 Evaluation of the management approach	13,65 65 65
413 Local Communities	413-1 Operations with local community engagement, impact assessments, and development programmes	64-65



ASSURANCE STATEMENT

SGS INDONESIA REPORT ON SUSTAINABILITY ACTIVITIES IN ASIAN AGRI SUSTAINABILITY REPORT 2017-2018

NATURE AND SCOPE OF THE ASSURANCE/VERIFICATION

PT. SGS Indonesia was commissioned by Asian Agri to conduct independent assurance of the Asian Agri Sustainability Report 2017-2018. The scope of the assurance, based on the SGS Sustainability Report Assurance methodology, included the text, statement, graphs and data in accompanying tables, contained in the Report.

The information in the Sustainability Report of Asian Agri and its presentation are the responsibility of the directors or governing body and the management of Asian Agri. PT. SGS Indonesia has not been involved in the preparation of any of the material included in the Asian Agri Sustainability Report 2017-2018.

Our responsibility is to express an opinion on the text, data, graphs and statements within the scope of verification set out below with the intention to inform all Asian Agri's stakeholders.

The SGS Group has developed a set of protocols for the Assurance of Sustainability Reports based on current best practice guidance provided in the Global Reporting Initiative Sustainability Reporting Standards 2016 and the AA1000 Assurance Standard (2008).These protocols allow for different options for assurance depending on the reporting history and capabilities of the Reporting Organization.

The Report has been assured at a moderate level of scrutiny using our protocols for:

- Evaluation of the veracity of Report content;
- A Type 2 evaluation of Report content and supporting management systems against the AA1000 Accountability Principles (2008) using the AA1000 Assurance Standard (2008). The specified data included the environmental and social performance of Asian Agri.
- Report evaluation against the relevant Global Reporting Initiative Sustainability Reporting Standards 2016.

The assurance comprised a combination of pre-assurance research, interviews with relevant accountable managers and employees at the Head Office of Asian Agri in Medan, North Sumatera, and sampling visits to 5 of 27 estates, 5 of 21 mills, 3 of 7 KCPs (Kernel Crushing Plant), and 3 of 8 plasma estates.

Financial data drawn directly from independently audited financial accounts have not been checked back to source as part of this assurance process.

STATEMENT OF INDEPENDENCE AND COMPETENCE

The SGS Group of companies is the world leader in inspection, testing and verification, operating in more than 140 countries and providing services including management systems and service certification; quality, environmental, social and ethical auditing and training; environmental, social and sustainability report assurance. PT. SGS Indonesia affirms our independence from Asian Agri being free from bias and conflicts of interest with the organization, its subsidiaries and stakeholders.

The assurance team was assembled based on their knowledge, experience and qualifications for this assignment, and comprised auditors registered with International Register of Certificated Auditors (IRCA), Environmental Management System (EMS) Lead Auditor, Quality Management System (QMS) Lead Auditor, Occupational Health and Safety Assessment Series (OHSAS) Lead Auditor , Round Table on Sustainable Palm Oil (RSPO) Auditor, International Sustainability and Carbon Certification (ISCC) Auditor. Some members of the assurance team have completed the IRCA Corporate Responsibility Training Programme and have experience of auditing in Palm Oil Estate and Crude Palm Oil Plant and are internationally renowned for their expertise in sustainability.

VERIFICATION/ ASSURANCE OPINION

On the basis of the methodology described and the verification work performed, we are satisfied that the information and data contained within The Asian Agri Sustainability Report 2017-2018 is accurate, reliable and provides a fair and balanced representation of the Asian Agri's sustainability activities in 2017-2018.

The assurance team is of the opinion that the Report can be used by the Asian Agri's Stakeholders.
We believe that the organisation has chosen an appropriate level of assurance for this stage in their reporting.

AA1000 ACCOUNTABILITY PRINCIPLES (2008) CONCLUSIONS, FINDINGS AND RECOMMENDATIONS

Materiality

Asian Agri has identified stakeholders and issues that are material to each group of stakeholders and the report addresses these at the appropriate level to reflect their importance and priority to these stakeholders. Asian Agri determines materiality aspects based on crucial issues and concerns of stakeholders that are collected by sending out questionnaire to stakeholders including employees, buyers, smallholders, certification bodies, NGO, consultant, academics, bank and government. The Materialities are Biodiversity and conservation, Carbon emission mitigation, Environmental compliance, Local communities and smallholders empowerment, Occupational health and safety.

Stakeholder Inclusiveness

Asian Agri has made a commitment to be accountable to those on whom it has an impact or who have an impact on it as stated in policies such as Environmental Policies, High Carbon Stock Conservation, Green House Gases Monitoring and Mitigation, and Zero Burning Policy. Inclusivity is the participation of stakeholders in developing and achieving an accountable and strategic response to sustainability.

Responsiveness

Asian Agri has responded to stakeholder's issues that may affect its sustainability performance and is addressed through decisions, actions and performance, as well as communication with stakeholders. Nevertheless, the organization could benefit from providing a more detailed report of the response during the engagement process.

GLOBAL REPORTING INITIATIVE REPORTING STANDARDS (2016) CONCLUSIONS, FINDINGS AND RECOMMENDATIONS

In our opinion, the Asian Agri Sustainability Report 2017-2018 is presented in accordance with the Core option for Global Reporting Initiative Sustainability Reporting Standards 2016 and fulfills all the required content and quality criteria.

Recommendations

The following opportunities have been identified for future reporting cycles to support continued improvement in Asian Agri's Sustainability Report.

- It is recommended to involve more stakeholders to determine materiality aspects. Focus Group Discussion among stakeholders both internal and external could be considered to complete existing method.

Signed:
For and on behalf of SGS Indonesia

Shashibhushan Jogani
Managing Director
Jakarta, Indonesia
July 2019

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AA1000
Licensed Assurance Provider
000-8

Abbreviations **and Acronyms**

A

AA	Asian Agri
AALI	Asian Agri Learning Institute
APM	Agronomy Policy Manual
ART	Aggregator Refinery Transformation
APINDO	Asosiasi Pengusaha Indonesia

B

BMP	Best Management Practice
BOD	Biochemical Oxygen Demand
BPDPKS	Badan Pengelola Dana Perkebunan Kelapa Sawit

C

CPO	Crude Palm Oil
CSR	Corporate Social Responsibility
CPKO	Crude Palm Kernel Oil

E

EFB	Empty Fruit Bunch
EU	European Union

F

FFB	Fresh Fruit Bunch
FPIC	Free, Prior and Informed Consent

G

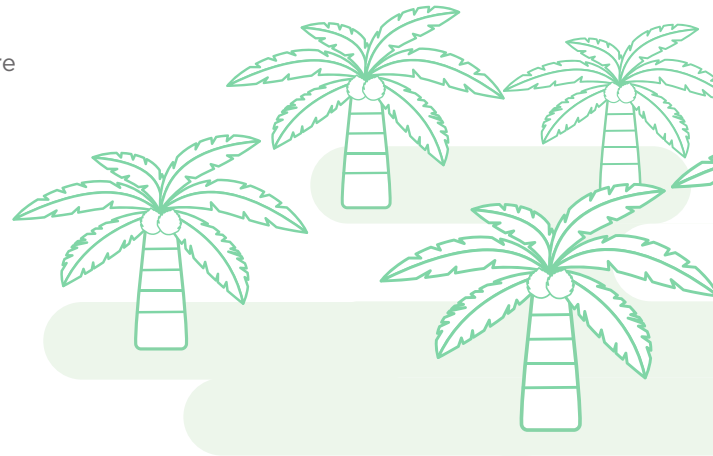
GAPKI	Gabungan Pengusaha Kelapa Sawit
GHG	Green House Gas
GPS	Global Positioning System
GRI	Global Reporting Initiative

H

HCS	High Carbon Stock
HCV	High Conservation value
HCSA	High Carbon Stock Approach

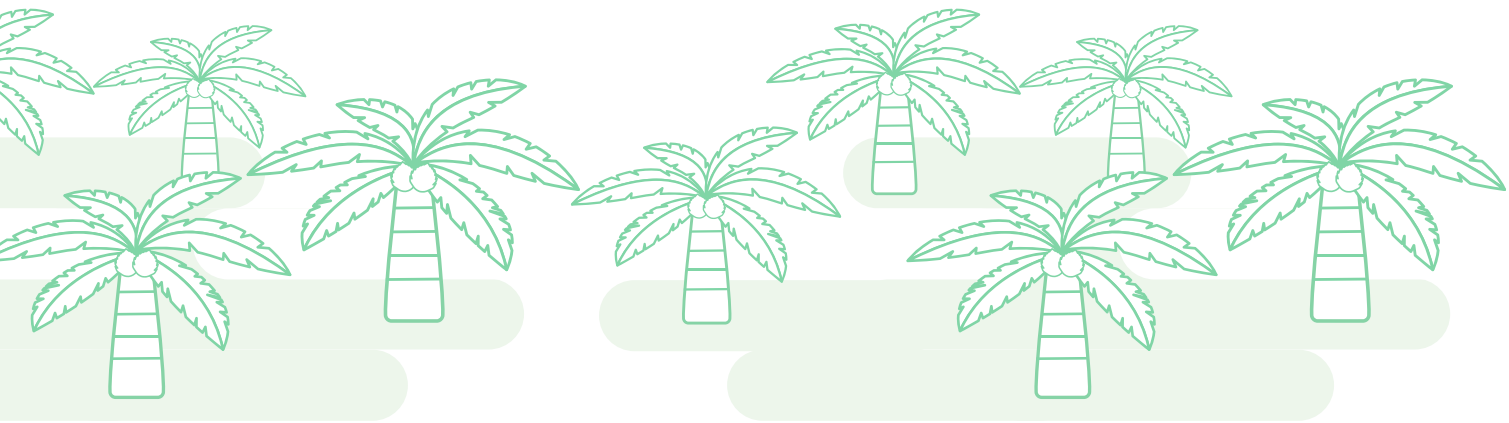
I

IPM	Integrated Pest Management
ISCC	International Sustainability and Carbon Certification
ISO	International Organization for Standarization
ISPO	Indonesia Sustainable Palm Oil
IUCN	International Union for Conservation of nature



Abbreviations **and Acronyms**

K	
KCP	Kernel Crushing Plant
KKPA	Kredit Koperasi Primer untuk Anggota
KUD	Koperasi Unit Desa
M	
MPP	Mill Prioritization Process
N	
NGO	Non Governmental Organization
O	
OPGP	Oil Palm Genome Project
OPRS	Oil Palm Research Station
P	
P&C	Principles and Criteria
POME	Palm Oil Mill Effluent
PPE	Personal Protective Equipment
PROPER	Program for Pollution Control, Evaluation and Rating
R	
R&D	Research and Development
RKL	Rencana Pengelolaan Lingkungan (Environmental Management Plan)
RPL	Rencana Pemantauan Lingkungan (Environmental Monitoring Plan)
RSPO	Roundtable on Sustainable Palm Oil
S	
SOP	Standard Operational Procedure
U	
UNDP	United Nations Development Program
UNSDG	United Nation Sustainable Development Goals



Glossary

AMDAL / Environmental Impact Assessment (EIA)
The assessment by which the anticipated impacts on the environment of a proposed development or project are measured. If the likely impacts are unacceptable, design measures or other relevant mitigation measures can be taken to reduce or avoid these effects.

Biogas
Gas produced by the anaerobic digestion or fermentation of organic matter, such as manure, sewage sludge, municipal solid waste, biodegradable waste or any other biodegradable feedstock. Biogas produces methane and carbon dioxide and can be used as fuel.

Biological Oxygen Demand (BOD)
A measure of the dissolved oxygen needed by microorganisms during the oxidation of reduced substance in waters and wastes.

Deforestation
Deforestation is conversion of forest to another land use or long-term reduction of the tree canopy cover. This includes conversion of natural forest to tree plantations, agriculture, pasture water reservoirs and urban areas but excludes timber production areas managed to ensure the forest regenerates after logging.

Green House Gas (GHG) Emissions
Gas in the atmosphere that absorbs and emits radiation within the thermal infra red range. This process is the fundamental cause of the greenhouse effect. The primary GHG emitted from palm oil mill are carbon dioxide, methane and nitrous oxide.

High Carbon Stock (HCS)
HCS forests are those identified through the HCS Approach as forested areas to be prioritized for protection from conversion. HCS are divided into six classifications which are Open land (OL), Scrub (S), Young Generating Forest (YRF), Low Density Forest (LDF), Medium Density Forest (MDF), and High Density Forest (HDF).

High Carbon Stock Approach (HCSA)
The High Carbon Stock (HCS) Approach is a methodology that distinguishes forest areas for protection from degraded lands with low carbon and biodiversity values that may be developed. The methodology was developed with the aim to ensure a practical, transparent, robust, and scientifically credible approach that is widely accepted to implement commitments to halt deforestation in the tropics, while ensuring the rights and livelihoods of local peoples are respected.

High Conservation Values (HCV)
High Conservation Values (HCVs) are biological, ecological, social or cultural values which are considered outstandingly significant or critically important, at the national, regional or global level (source: HCV Resource Network).

Indonesia Sustainable Palm Oil (ISPO)
A policy adopted from Circular Letter No.092/TU.200/E-ISPO/9/2012 by the Ministry of Agriculture on behalf of the Government of Indonesia with the aim to improve the competitiveness of the Indonesian palm oil on the global market and contribute to the objective set by the President of the Republic of Indonesia to reduce greenhouse gases emissions and draw attention to environmental issues.

Integrated Pest Management (IPM)
An ecosystem-based strategy that focuses on long-term prevention of pest damage through a combination of techniques such as biological control, habitat manipulation, modification of cultural practices, and use of resistant varieties.

Glossary

International Sustainability and Carbon Certification (ISCC)
The first international certification system that can be used to prove sustainability and greenhouse gas savings for all kinds of biomass and bio-energy based on EU Renewable Energy Directive's (RED) requirements. The ISCC seal proves that biomass was produced in an environmentally friendly way. ISCC also covers social sustainability principles and thus provides more security for companies.

Kernel Crushing Plant (KCP)
A plant that processes palm kernel into Crude Palm Kernel Oil (CPKO).

Non Governmental Organization (NGO)
An organization that is neither a part of a government nor a conventional for-profit business.

Palm Oil Mill Effluent (POME)
One of the by-products of Fresh Fruit Bunch process.

Plasma scheme
A programme initiated by Indonesian government to encourage the development of smallholder's plantations with the assistance and cooperation of plantation companies (the nucleus) which assist and support the surrounding community plantations (the plasma).

PROPER
An initiative by the Indonesian government to promote industrial compliance with pollution control regulations, to facilitate and enforce the adoption of practices contributing to "clean technology" and to ensure a better environmental management system.

Roundtable on Sustainable Palm Oil (RSPO)
An organization that unites stakeholders from 7 sectors of the palm oil industry: oil palm producers, processor or traders, consumer goods manufacturers, retailers, banks/ investors, and environmental and social non-governmental organization (NGOs) to develop and implement global standards for sustainable palm oil. RSPO is a global, multi-stakeholder initiatives on sustainable palm oil.

Sustainability
A balancing act where business decisions take into account the impact they may have on the triple bottom line aspect of sustainability which are social, environment, and economic.

Stakeholder
Refers to any group, individual, member or system that affects or can be affected by company's actions.

Traceability
A process for tracing palm oil throughout the supply chain from source of FFB origin.

Zero-burn
The Zero Burning Technique is a method of land clearing where either logged over secondary forests or an old area of plantation tree crops such as oil palm are cut, chipped, stacked and left on site to decompose naturally.

Appendix

1. **Work Incident Based on Category**

   Occupational accidents are based on the categories below :

First Aid	: Minor accidents that can be dealt with by using medicines in a First Aid box
Medical Aid	: Accidents that require medical attention by paramedics. If the worker can return to his/her duties again within 2 days, it is not considered as lost days
Permanent Disability	: Serious accidents that cause the victim to suffer permanent body defects
Fatality	: Serious accidents that cause the victim to suffer total paralysis or death

Sustainability Report
2017-2018

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