

SUSTAINABILITY REPORT

2014/15





The Connection to the World of Sustainable Tropical Agriculture





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MESSAGE FROM OUR MD

I am very pleased to welcome our readers to the first Sustainability Report of the *SIPEF* Group, covering 2014 and 2015. We have published updates on our sustainability journey in every annual report for many years, but the time has come to report in a more extensive way on the progress being made. Our Belgian group has operations in Indonesia, Papua New Guinea and Ivory Coast, covering close to 70 000 managed hectares. *SIPEF* defines itself as “The Connection to the World of Sustainable Tropical Agriculture”, and we are implementing this vision both in our operations and with our customers.



Our commitment would be meaningless without the support of our 17 000 employees and 3 500 smallholders.

François Van Hoydonck / Managing Director *SIPEF* Group.

The past few years have definitely been challenging for our industry, with generally lower prices for commodities, weather patterns driven by El Niño effects, currency fluctuations, and, for our Indonesian activities, also changes in government policies after the 2015 presidential elections.

However, these challenging factors have not impacted our sustainability journey, which has been guided by a steady commitment over the years, leading the group to RSPO certification for all mills and every tonne of crude palm oil and palm kernel oil being produced in Indonesia and Papua New Guinea. In quantities produced, palm products represent 86% of our activity, and these operations naturally lead the way in terms of sustainability.

In 2014 we commissioned two new palm oil mills, one in North Sumatra, Indonesia, and one in West New Britain, Papua New Guinea. Both are designed for optimal technical and environmental performance, and are equipped with latest-generation methane capture, reducing very significantly our greenhouse gas emissions and allowing us to produce additional energy. This brings the total number of mills being equipped with methane capture to five out of a total of eight, covering about two-thirds of our processing capacity. It remains our intention to continue installing methane capture equipment in all our palm oil mills, to ultimately reach 100% of the processing units.

Our RSPO certification processes are built to include smallholders and, apart from the newly established relationships with the independent smallholders in PT Umbul Mas Wisesa in North Sumatra, we have given full support for our surrounding smallholders to achieve certification. Both in Hargy Oil Palms Ltd in Papua New Guinea and in PT Agro Muko in Bengkulu, Indonesia, we have made it our duty to guide the smallholders towards certification and to share the benefits.

By doing so, we also support the economic development of the communities surrounding our estates. Lifting the standards will create long-term opportunities and by providing education, healthcare and sanitation to our workers and the local villagers delivering fruit to our mills, we improve their living conditions, and create the right basis for future development. Social development and environmental conservation are closely related, and cannot grow one without the other.

I am very proud to confirm that, after several years of conversation with the Indonesian authorities, we have received one of the few 60-year licences being granted for “ecosystem restoration”. In the province of Bengkulu in Sumatra, our *SIPEF* foundation manages 12 672 hectares of tropical forest, a critical buffer to the Kerinci Seblat National Park. With the support of the local communities and the local government, *SIPEF* is combatting illegal logging and poaching in this highly biodiverse area.

We continue to make headway in the market place. *SIPEF* is being recognised as a leading and reliable producer of traceable segregated palm products. We firmly believe that transparency of the supply chains is the first building block of sustainability, and we actively participate to promote the use of more segregated, traceable palm products in the downstream supply chains.

The high standards being achieved in the palm operations are likewise applied in the rubber, tea and bananas activities in Indonesia and Ivory Coast. In cooperation with our customers and other stakeholders, we work towards setting up standards and certifications for these products, in line with what has been achieved in oil palm. We are not concerned to see our achievements being assessed or even challenged, and consider it an encouragement to be included in rankings such as the newly developed ZSL-SPOTT rating.

Our commitment would be meaningless without the support of our 17 000 employees and 3 500 smallholders. They are the actual agents of progress. I would like to extend a great “Thank you” to all of you, and also to our customers, investors and to the NGOs who challenge us to never be complacent and to always strive for excellence. This first sustainability report is published for you all and I hope that you will help us to improve and innovate, so that we become a better plantation company, and remain at all times “The Connection to the World of Sustainable Tropical Agriculture”.

STAKEHOLDER COMMENT

Zoological Society of London (ZSL) has been working with *SIPEF* to increase transparency in the palm oil industry. ZSL supports *SIPEF*'s proactive approach in engaging with us on the Sustainable Palm Oil Transparency Toolkit (SPOTT) and congratulates *SIPEF* in their score increases on SPOTT to date. This demonstrates improvements in transparency and sustainability commitments and sets an example to other companies. It is essential that these commitments are effectively implemented and we look forward to continuing our engagement with *SIPEF* to this end.

November 2015.

ZSL ZPOTT team



TARGETS AND ACHIEVEMENTS

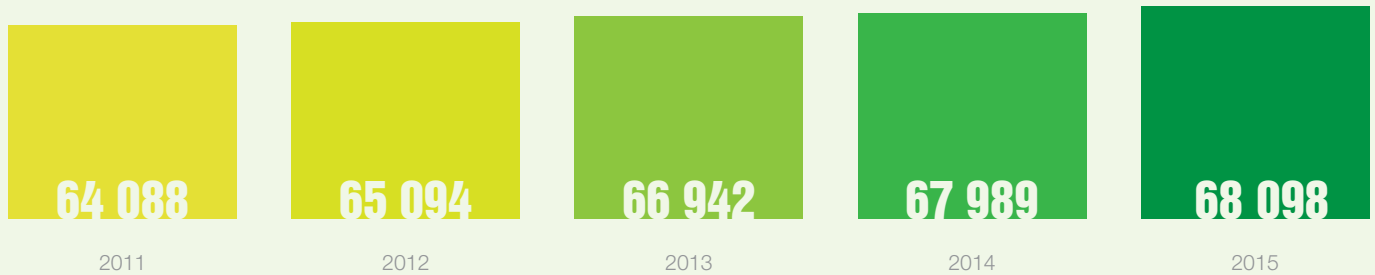
ACHIEVEMENTS	Date	Status
Certification		
Achieve RSPO certification for all 8 mills under <i>SIPEF</i> management.	2015	Achieved
Be 100% RSPO certified at group level.	2015	Achieved
7 out of 8 mills are Identity Preserved (IP) RSPO certified.	2015	Achieved
100% traceable.	2015	Achieved (UMW smallholders not certified yet but fully identified.)
We are committed to SNR-i, Sustainable Natural Rubber initiative, and submit self-declaration.	2015	Achieved
Preparing tea gardens and factory for RA certification.	2015	Achieved
Global Gap certification of our banana estates in Ivory Coast.	2015	Achieved
Biodiversity		
No new oil palm development without HCV assessment.	Ongoing	
Monitoring and management of HCV and conservation areas.	Ongoing	
Established a forest conservation project of 12 672 hectares.	Licensed end 2013 by Indonesian Government	Ongoing
Established a turtle conservation project.	Established in 2010	Ongoing
Climate Change		
No new development of peatland.	2014	Achieved
Measuring GHG emissions for all palm oil operations.	2015	Achieved
Install methane capture in suitable palm oil mills (5 locations out of 8).	2014	Achieved
Monitoring and investigating fire risks across our estates, particularly in high risk areas, such as peatland, where we have set up adequate fire fighting capacity.	Established in 2013	On track
Best agricultural practices		
No use of Paraquat.	Ongoing	Stopped in PNG in January 2015, committed to stop in Indonesia in 2016.
Introduction of composting system to reduce chemical fertilizers.	Ongoing	On track
Health and safety		
No work-related fatalities.	Ongoing	2 work-related casualties in 2014, 2 work-related casualties in 2015 in Indonesia. 1 work-related casualty in Papua New Guinea in 2015.
Labour		
No labour under the age of 18.	Ongoing	Achieved
No forced or trafficked labour in our operations.	Ongoing	Achieved
Communities		
No new development without FPIC of local communities.		
100% resolution of grievances through our procedures.		Achieved in Indonesia but there is an ongoing court case in PNG.
Legal Compliance		
No legal non-compliances.	2015	Achieved



TARGETS	Target date
Certification	
Remain 100% RSPO certified with future expansions.	Ongoing
Get 100% Identity Preserved (IP) RSPO certified.	2018/2019 (Independent smallholders inclusion in UMW mill)
Remain 100% traceable.	Ongoing
Continue to participate in the development and implementation of the SNR-i.	Ongoing
Obtain RA certification for our tea gardens.	2016
Biodiversity	
No new development without HCV assessment.	Ongoing
Introduction of HCV assessment in other crops being implemented gradually.	Ongoing
Protect biodiversity in conservation areas under our management, monitor presence of key species such as tigers, leopards, bears, hornbills and cockatoos.	Ongoing
Sea turtles project : achieve 75% hatching rate and 95% survival rate after the hatching.	2016
Climate Change	
No new development of peatland.	Ongoing
Implementation of GHG emissions measurement for other crops as methodologies become available.	Ongoing
Reducing GHG emissions: 1) Methane capture from palm oil effluent 2) Power generation from biogas 3) Composting 4) New development, adopting the new HCS approach once endorsed by RSPO.	Ongoing
The design of new palm oil mills includes methane capture systems.	Ongoing
Monitoring and investigating fire risks across our estates, particularly in high risk areas, such as peatland, where we have set up adequate fire fighting capacity.	Ongoing
Best agricultural practices	
No use of Paraquat.	2016
Implementation of advanced composting system.	2016/2017
Health and safety	
No work-related fatalities.	Ongoing
Establish a database of Lost Time Accidents.	2016
Labour	
No labour under the age of 18.	Ongoing
No forced or trafficked labour in our operations.	Ongoing
Communities	
No new development without FPIC of local communities.	Ongoing
100% resolution of grievances through our procedures.	Ongoing
Legal Compliance	
No legal non-compliances.	Ongoing

THE WORLD OF SIPEF

GROUP PLANTED AREA IN HECTARES



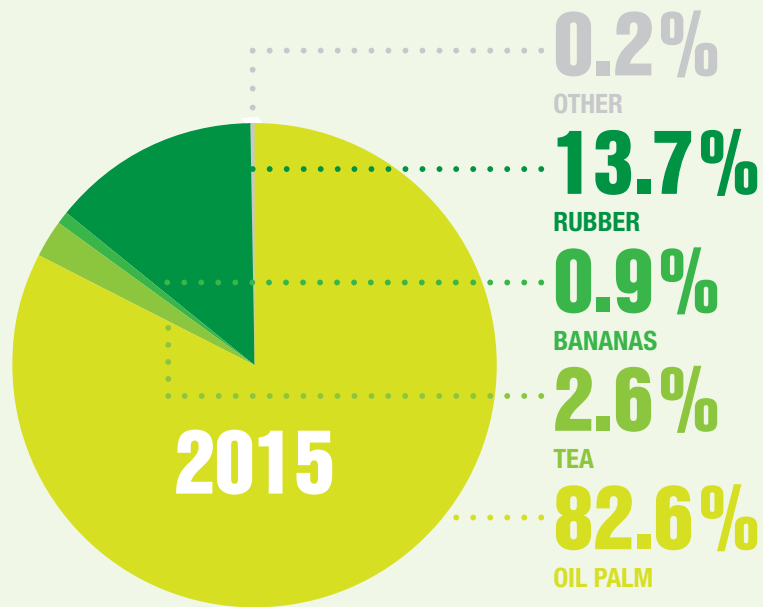
Société Internationale de Plantations et de Finance (*SIPEF*) was incorporated in 1919 with the principal aims of promoting and managing plantation companies which would operate in both tropical and sub-tropical areas. We are a Belgian company, listed on Euronext Brussels, and today we operate agro-industrial activities exclusively in the production of palm oil, rubber, tea and bananas in Indonesia, Papua New Guinea and Ivory Coast. Nowadays we

manage almost 70 000 hectares of which 56 242 hectares are planted with oil palms, 9 349 hectares with rubber, 1 787 hectares with tea and 620 hectares with bananas. We are devoted to sustainable agriculture and we sell the majority of our products in physical sustainable supply chains. We also purchase fresh fruit bunches from 3 800 smallholder farmers with 13 500 hectares of palms in Papua New Guinea.





Labour intensive crops



RATIO OF EMPLOYEES PER 100 HECTARES OF CROP

14
OIL PALM



25
RUBBER



60
BANANAS



90
TEA



THE WORLD OF SIPEF

INDONESIA



PROVINCE OF NORTH SUMATRA

- 1 Timbang Deli - Rubber
- 2 Bandar Sumatra - Rubber
- 3 Eastern Sumatra - Palm oil
- 4 Kerasaan - Palm oil
- 5 Citra Sawit Mandiri - Palm oil
- 6 Toton Usaha Mandiri - Palm oil
- 7 Umbul Mas Wisesa - Palm oil
- 8 Tolan Tiga - Palm oil

In North Sumatra, we have the East Sumatra and Kerasaan estates, which were established in 1962, and deliver their FFBS to the Bukit Maradja palm oil mill, and the Tolan Tiga estates, which were established in 1961, and deliver their FFBS to the Perlabian mill. Both mills and their respective supply bases received RSPO certification in 2010. The UMW estate was established in 2006, and received its RSPO certification in 2015.

A total of 23 894 hectares are planted with oil palm and some 1 920 hectares are planted with rubber in North Sumatra.



PROVINCE OF BENGKULU

- 1 Agro Muko - Palm oil and rubber
- 2 Mukomuko Agro Sejahtera - Palm oil



In the province of Bengkulu we have two mills, Mukomuko and Bunga Tanjung which are supplied by the estates of PT Agro Muko. These estates have been established in 1990 as a partnership with two other foreign companies. *SIPEF* manages these estates and mills. Both mills and their respective supply bases received RSPO certification in 2011. Mukomuko Agro Sejahtera was established in 2010 by *SIPEF*, received RSPO certification in 2015, and delivers its crop to PT Agro Muko.

A total of 17 805 hectares are planted with oil palm and some 1 656 hectares are planted with rubber in the province of Bengkulu.

We only refer to the operations we own and operate.

PROVINCE OF SOUTH SUMATRA

- 1 Melania - Rubber
- 2 Agro Rawas Ulu - Palm oil
- 3 Agro Muara Rupit - Palm oil
- 4 Agro Kati Lama - Palm oil

In South Sumatra in 2011 we started a new project near Musi Rawas, where we will plant oil palm and rubber. The Melania rubber estate was established in 1961.

A total of 1 882 hectares are planted with oil palm and some 2 490 hectares are planted with rubber in South Sumatra.



WEST JAVA

- 1 Cibuni - Tea



In Java, our Cibuni tea garden was established in 1961, in conjunction with the Melania rubber estate in South Sumatra. We expect to receive RA certification in 2016.

A total of 1 787 hectares are planted with tea at our Cibuni estate.

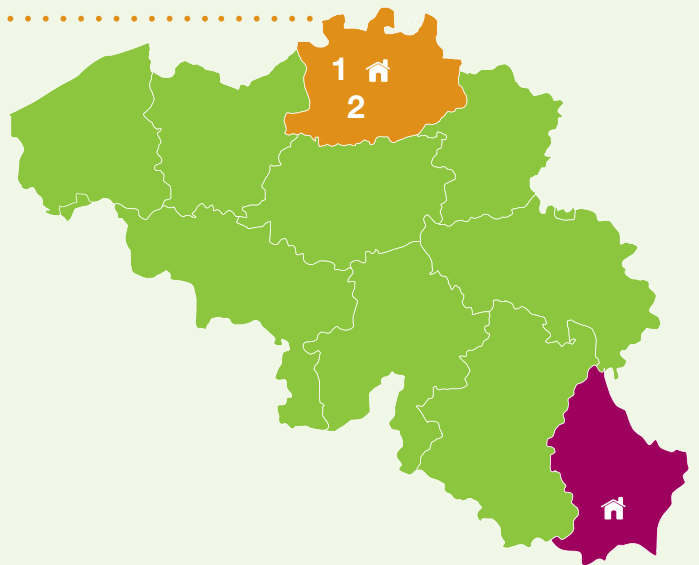
THE WORLD OF SIPEF

BELGIUM AND LUXEMBOURG



INSURANCE

-  SIPEF
- 1  BDM
- 2  ASCO
-  Jabelmalux



PAPUA NEW GUINEA



WEST NEW BRITAIN PROVINCE

- 1 Hargy Oil Palms - Palm oil

In West New Britain, in 1976 *SIPEF* acquired Hargy Palm Oil Mill, which over the years has been developed into three mills; Hargy, Navo and Barema. Hargy and Navo and their entire supply base received RSPO certification in 2009. Shortly after commissioning the Barema Mill we received the RSPO certification in 2014. All three mills have palm kernel crushers, which are RSPO certified under the supply chain model. The supply base of HOPL is composed of 13 201 hectares of estates, managed by HOPL, and 14 037 hectares of smallholders' oil palm blocks, cultivated by 3 824 farmers.



CENTRAL PROVINCE

- 1 Galley Reach Holdings - Rubber

In Central Province, Galley Reach Holdings was acquired by the *SIPEF* Group in 1982. A total of 3 526 hectares are planted with rubber near Port Moresby in Central Province.

We only refer to the operations we own and operate.

IVORY COAST

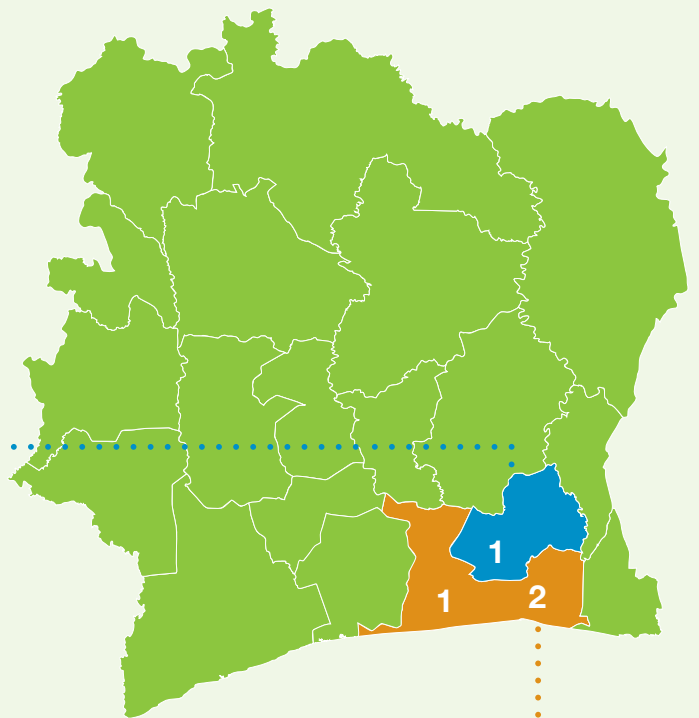


RÉGION DE L'AGNÉBY

1 Plantations J.Eglin - Bananas

In Ivory Coast in 1985 *SIPEF* acquired the company, Plantations J.Eglin. We predominantly grow and pack bananas in three different estates, as well as horticulture. In 2006 Plantations J.Eglin received GGAP certification, and it is expected to receive RA certification in early 2016.

A total of 620 hectares are planted with bananas and 42 hectares with horticulture in Ivory Coast.



RÉGION DE LAGUNES

1 Plantations J.Eglin - Horticulture
2 Plantations J.Eglin - Bananas

SIPEF has a minority share in *SIPEF-CI*, which operates palm oil plantations in Ivory Coast, but we do not manage this operation. Hence we have not included this operation in our report.

OUR APPROACH TO SUSTAINABILITY

RESPONSIBLE PLANTATION BUSINESS

By definition we believe that our businesses need to be driven on a sustainable basis, environmentally, socially and economically. Since we are operating plantations for the long term we need to carefully consider these three pillars within our business model. If we do not recognise the importance of any one of these pillars the business will not be sustainable. *SIPEF* believes that through cooperation with our customers, social and environmental NGOs, producers, researchers and other willing stakeholders, we can together develop and promote the adoption of responsible and sustainable standards for our industry. In the palm oil sector, the Roundtable for Sustainable Palm Oil (RSPO) is the most relevant example of stakeholders gathering to establish a global demanding standard. Therefore, we are 100% committed to the RSPO principles and criteria and strive to go even beyond, where necessary. In our other markets, notably rubber, tea and bananas, there are not such strong stakeholder movements towards sustainability in place yet, but we still endeavour to be accredited to the highest available standards. Our *SIPEF* Responsible Plantation Policy is applicable to all our different plantation operations.

Our commitment towards responsible plantation business

Our journey towards responsible plantation management started in the early 1960s with the establishment of our first estates. In those days it was only possible to attract employees by providing housing, free schooling and free health care. Villages and infrastructure were created that benefitted the surroundings. The first set of guidelines and policies was developed, and these have been evolving over time to be the backbone of our current corporate policies. In the last decade this has resulted in our *SIPEF* Responsible Plantations Policy.



Social

Respecting worker's rights / Human rights
 Equal opportunities
 Training employees
 Providing education
 Providing health care
 Providing housing
 Improving quality standard of living conditions

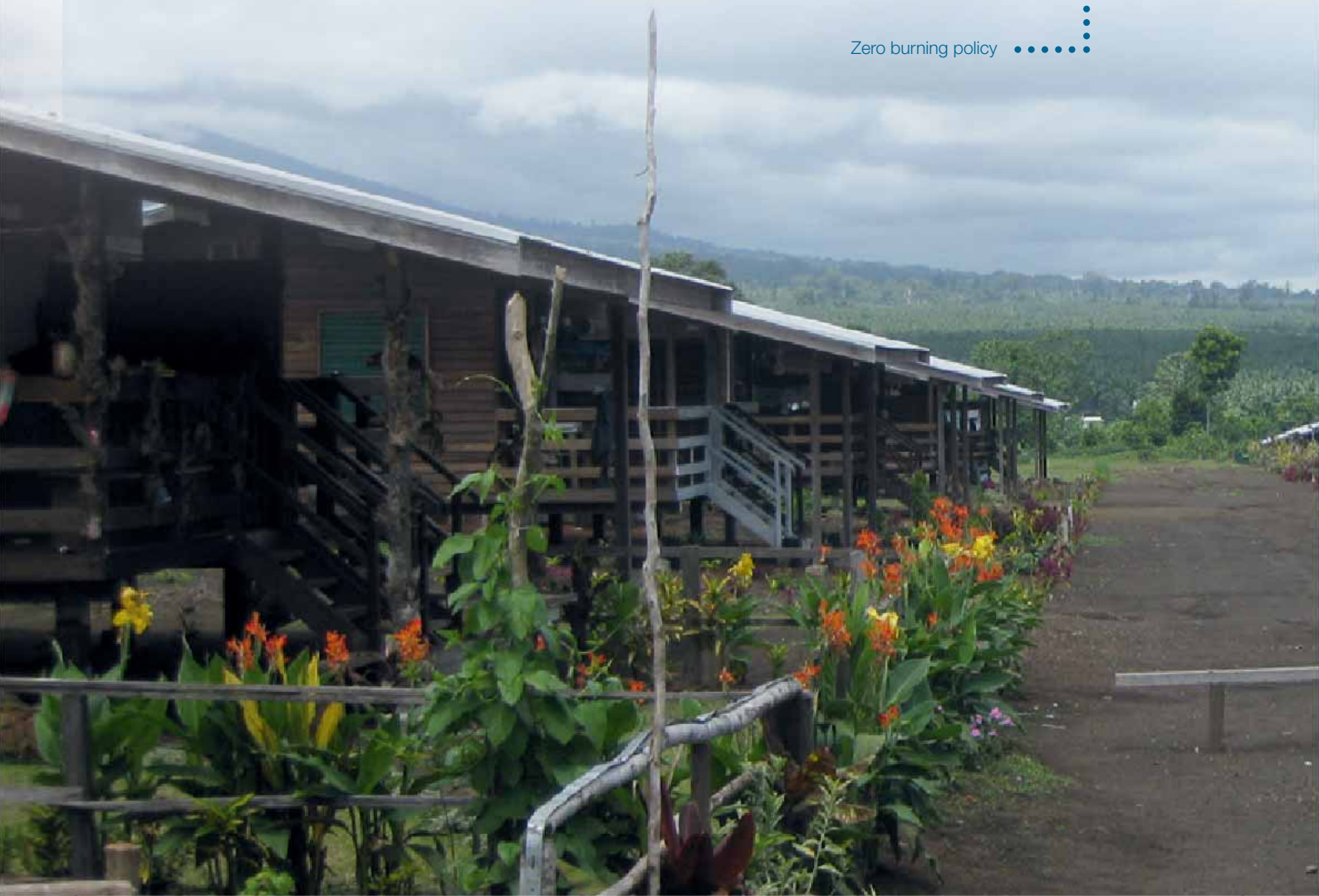
Economic

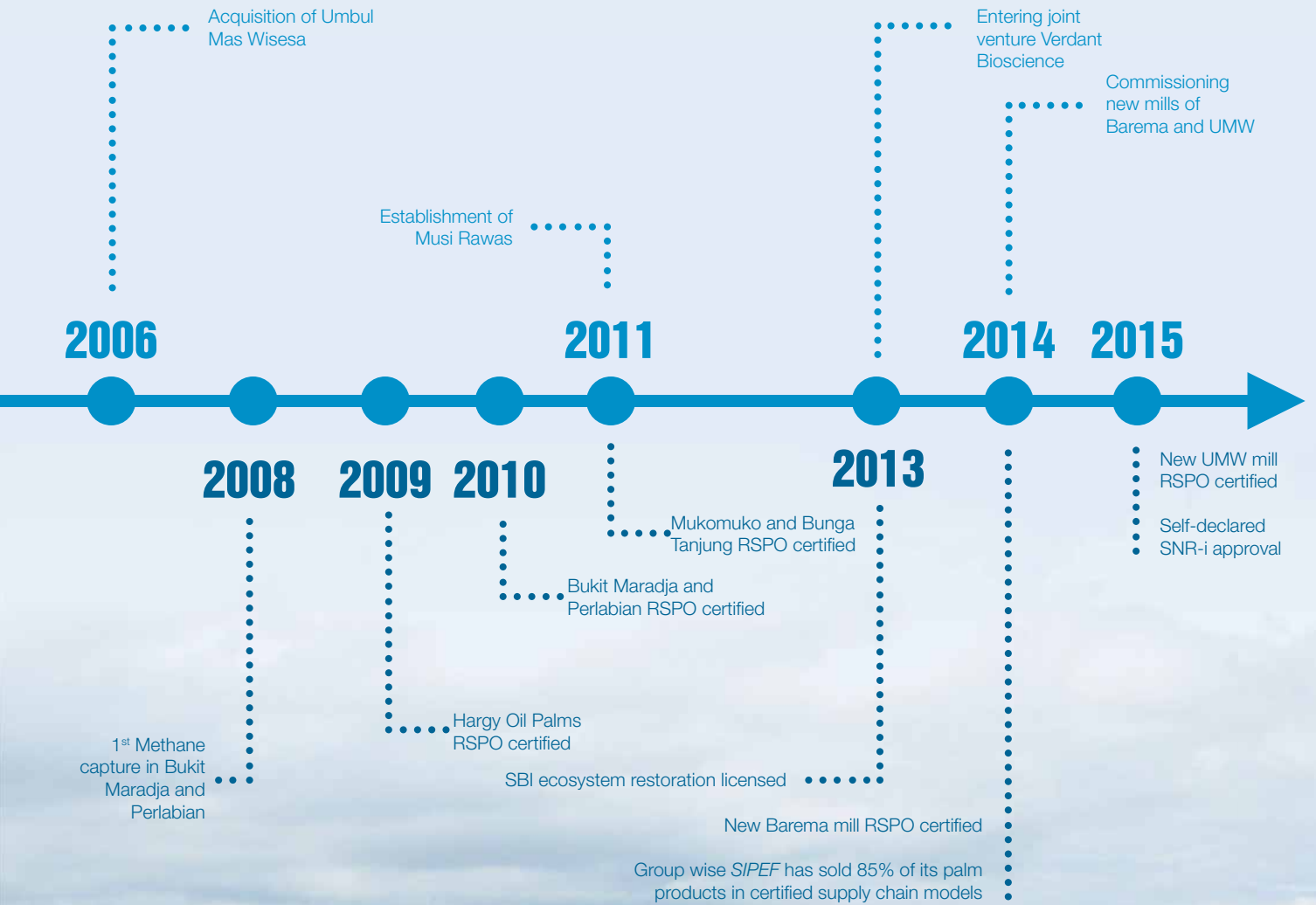
Employment and financial security
 Cost savings
 Smallholders economic growth
 Wealth creation of rural population
 Profitable enterprise
 Food security for the world
 Best management practices and R&D to improve yields

Environmental

Securing Natural Sources
 Biodiversity
 Climate change
 GHG limitation
 Alternative energy sources
 Zero burning
 Methane capture
 Maintaining fertile soils
 Water management
 Eco footprint
 Traceability

OUR APPROACH TO SUSTAINABILITY





OUR APPROACH TO SUSTAINABILITY

SIPEF FOUNDATION

SIPEF Biodiversity Project

SIPEF Biodiversity Indonesia (SBI) holds a 60-year licence to manage a forest area of 12 672 hectares located in Sumatra.

The “ecosystem restoration” licence issued to SBI in 2013 is the only type of licence that allows private entities to manage forests for conservation. To this day, only about twenty such licences have been issued in Indonesia.

The project area is adjacent to the Kerinci Seblat National Park (KSNP) and acts as a buffer for the park. It is a semi-moun-

tainous area, ranging from 300 to 650m in altitude.

This area is also a frontline of deforestation and is under intense pressure from illegal logging and poaching. The local government, as well as KSNP, does not have the resources to police the area. Only active management of this area by a project like SBI will ensure that KSNP itself is protected.

Satellite imagery and field patrols demonstrate the extent of the threat, and the urgent need for projects such as SBI.

KSNP is part of the “Tropical Heritage

of Sumatra”, an area listed as a UNESCO World Heritage site since 2004. The area has been protected since 1921, and was established as a national park in 1991. KSNP spans over 1 375 000 hectares, and includes Mount Kerinci (3 805m), the highest mountain in Sumatra.

The United Nations Environmental Program (UNEP) states, “KSNP has many irregular borders which are difficult to defend and which exclude several adjacent areas used by flagship species”.

Certain “flagship species” are indeed present in the area managed by SBI: tigers, clouded



These pictures were taken by our camera trap: Crested fireback (*Lophura ignita*), Tapir (*Tapirus indicus*), Sumatran tiger (*Panthera tigris sumatrae*).



For several years, the SIPEF Foundation has supported two projects in Indonesia.

leopards, Asian wild dogs, Malayan sun bears, tapirs, gibbons and hornbills.

SBI has been set up and is solely supported by SIPEF. The SIPEF Board committed to a forest conservation project in Indonesia in 2009. The country management team for SIPEF identified the potential project site in 2009 and immediately started the complex licensing process. SIPEF is the first plantation company to set up such a conservation project.

Since 2011, local communities have been engaged to explain the objectives of the project and initiate social activities to be-

nefit them. Following the issuance of the licence at the end of 2013 and the marking of the boundaries of the project by combined teams of forestry officials, forestry police and project personnel, field activities have started in earnest, in particular patrols. Social activities have also been increased.

The SBI project faces multiple challenges.

Illegal logging and poaching remain attractive to some people. The project area used to be a logging concession, and even though its status has been changed to an ecosystem restoration area, the remaining logging

roads are used by illegal loggers to access the area. The logs are then mostly floated on the rivers flowing down from the mountains into the populated areas on the coastal plain. SBI rangers are reporting to the police every case of illegal logging encountered, seizing or destroying the logs.

Ensuring the active support of the communities neighbouring, and sometimes using, the SBI project area, is a critical objective of the project. Beyond the licensing process, about half of the SBI budget is devoted to communities and reforestation, and the other half to management and patrolling the area.



Turtles

On Sumatra's west coast, at Mukomuko, a "sea turtle" project protects the egg-laying area of several sea turtle species. In partnership with the National Agency for the Protection of Natural Resources (BKSDA) and two village communities, the project makes it possible to significantly increase the hatching numbers of the eggs laid on the beach. Besides the natural risks, the fre-

quent illegal collection of eggs endangers sea turtles in this region. This *SIPEF* Foundation project is one of the very few projects in Indonesia to take an interest in sea turtles.

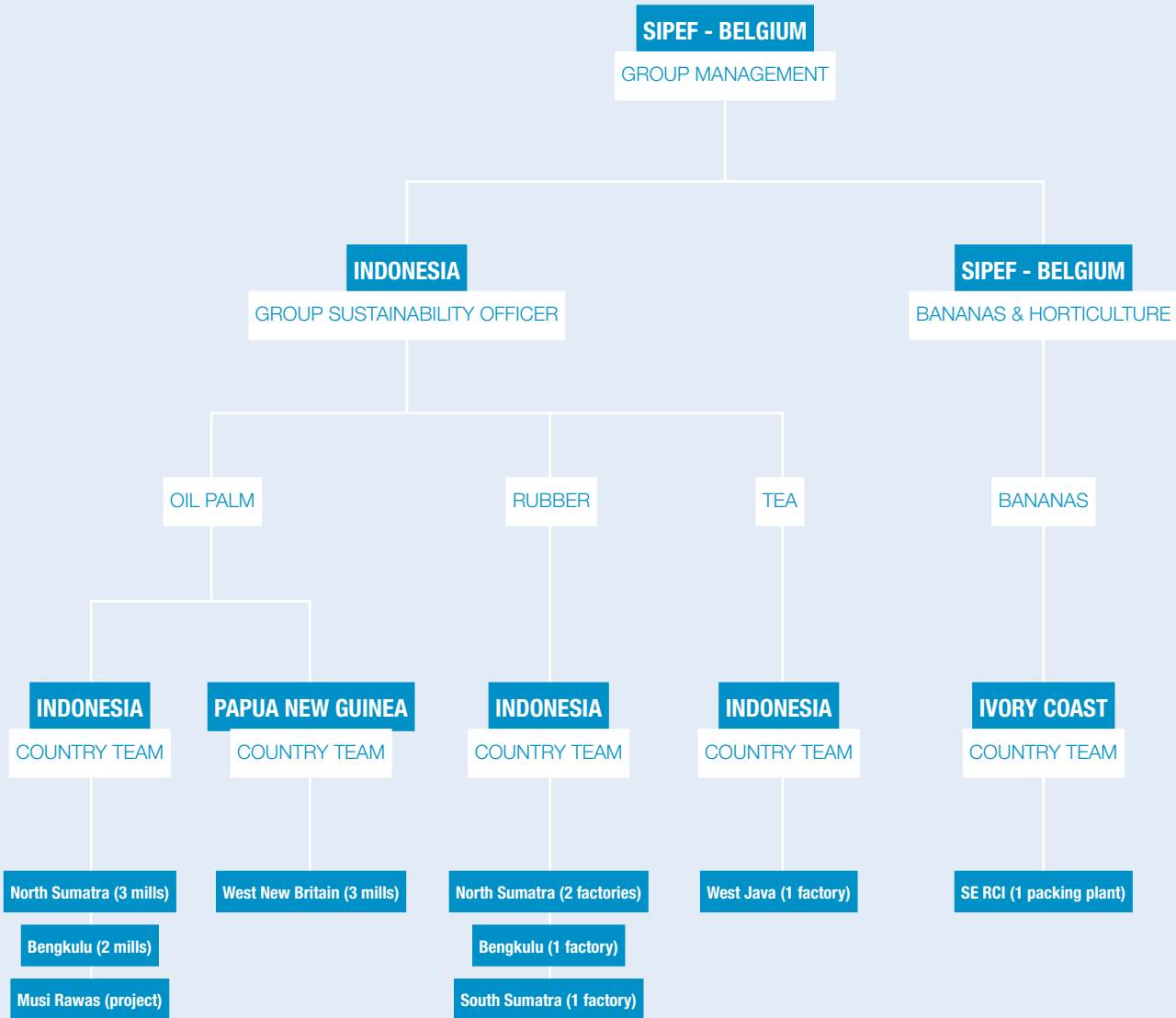
In 2014, only one species of sea turtle, the olive ridley turtle (*Lepidochelys olivacea*), could be observed in the project area against four species in 2012 and three in 2013. In total 4 582 eggs were collected and 2 795 turtles were released. These figures have

declined compared to 2013, due to a change in the physical conditions on the beach, whereby the increased number of pebbles is preventing the turtles from laying their eggs, despite the perseverance of volunteer villagers. The *SIPEF* Foundation will continue to support this project in 2016 and beyond. The objective is to secure the entire beach during the egg-laying season without having recourse to hatching in an artificial environment.



OUR APPROACH TO SUSTAINABILITY

SUSTAINABILITY TEAM





VERDANT'S ENABLING ABILITIES AND ASSETS:

- a. Leading international and Indonesian scientists in genetics (not genetic modification), plant breeding, and agronomy and crop protection
- b. Full access to a long developed oil palm breeding program and diverse collections of genetic material
- c. Proven IP and 'know-how' to deliver higher yielding seeds and eventually F1 Hybrid oil palm
- d. An exclusive relationship with DAMI (PNG) to assist in the processing of their commercial and Super Family seed in Indonesia
- e. A 1 000 hectare plantation, laboratories and seed processing facilities strategically located close to Kuala Namu International Airport, Medan, North Sumatra, Indonesia.

Dr Stephen Nelson PhD
 Managing Director
 Verdant Bioscience Pte Ltd

In order to limit our ecological footprint we fully believe that we have to optimise the yields that our soils can produce. Therefore *SIPEF* is engaged in a joint venture called Verdant Bioscience (VBS) to increase the yields per hectare. We have good faith that VBS will produce a seed in the future that could double the current yield levels.

Verdant Bioscience (VBS)

Verdant Bioscience (VBS) was incorporated in late 2013 and evolved out of many decades of direct working experience within the Indonesian plantation sector. The company's founding proposition included an unambiguous statement towards positively enhancing the Indonesian oil palm industry's sustainability credentials by significantly increasing yield per hectare.

The Indonesian industry is now the world's largest, and world demand for palm oil continues to grow. Indonesia's sustainability credentials must be the world's best. VBS will significantly contribute towards the achievement of this industry goal.

Since the establishment of the South-East Asian industry in the 1960s / 70s, the principal route to increasing overall yield has been by increasing the planted area. These area / yield increases have been dramatic and fast, and have had adverse consequences as a result of biodiversity destruction, the release of greenhouse gases and the disruption of customary social practices. The leading plantation businesses effectively became land-bank companies, and yield / hectare largely flat-lined for years. Recently attitudes have fundamentally changed, and for the following reasons:

1. Existing land banks are becoming exhausted.
2. New 'sustainable' land banks are in very short supply.
3. Diseases (especially *Ganoderma* sp.) and pests are increasingly affecting profitability.
4. Crude palm oil (CPO) prices are lower.

Verdant's impact on sustainability

By significantly increasing yield / hectare, VBS will increase CPO supply, thereby improving plantation profitability. At the same time significantly higher yields per hectare will take pressure off further forest destruction and wetland drainage, and as a consequence will reduce both the threat to biodiversity (including orangutans) and the release of greenhouse gases. Land rights and customary practices will be similarly less threatened, and more vegetable oil will become available to feed the world's hungry. There is no other single issue that can have such a transforming and beneficial impact on the industry's environmental and social credentials.

Verdant will transform yield via three inter-related routes.

1. Seeds:

Proven higher yielding seeds. DAMI (PNG) seeds and Super Family seeds are available today to increase both yield / hectare and oil extraction rates. In the future, Verdant will produce F1 Hybrid oil palm seeds, which are expected to double (or more) current yield levels.

2. Services:

A range of services, from fertilizer optimisation to integrated pest and disease management and GIS (mapping services).

3. Solutions:

Application of plantation science to solve specific plantation problems and continually raise profits per hectare.

One-Hour Principle

In the challenging conditions of Papua New Guinea, where communities are very isolated, and where the local governments have scarce resources and multiple priorities, the agricultural sector has been identified by the national government as the path to development for rural communities.

New Britain Palm Oil Ltd (NBPOL), our neighbour on the island of New Britain, has developed the One-Hour Principle where community needs are considered at the inception of any new development. The One-Hour Principle sets clear goals for rural development, which can be achieved in cooperation with the local governments, or by the efforts of the company.

We support this One-Hour Principle and have decided to adopt it, with the approval of NBPOL.



ONE-HOUR PRINCIPLE

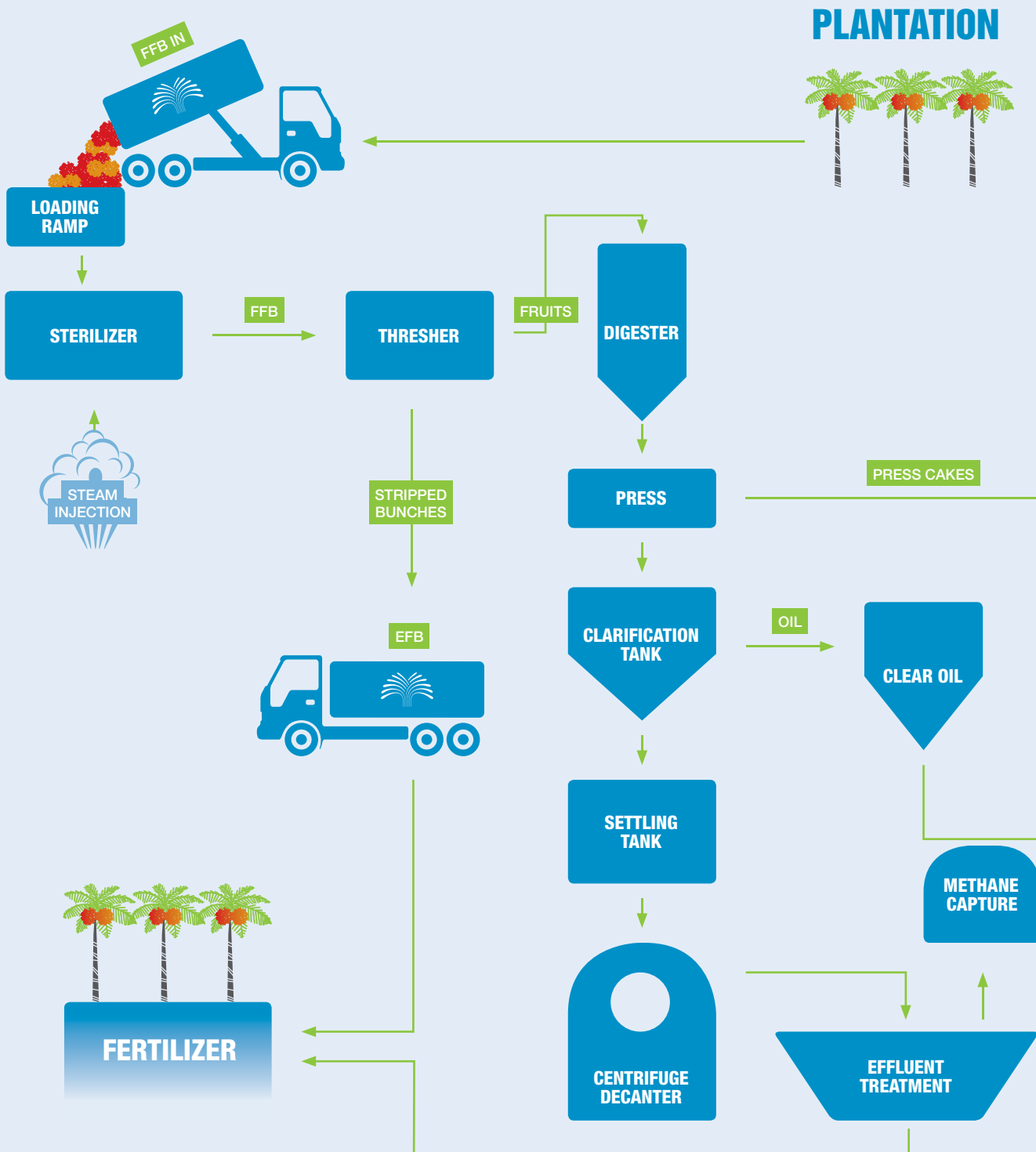
In this approach, the Community Needs Assessment uses three pillars of socially responsible development, based on NBPOL's own research as to what can be achieved with investment in rural development and as indicators that act as proxies for development as a whole.

The three pillars are based on the One-Hour Principle.

1. Access to 20 litres of tap fed potable water within 1 hour's walk
2. Access to a medical health post within 1 hour's walk
3. Access to a primary school within 1 hour's walk

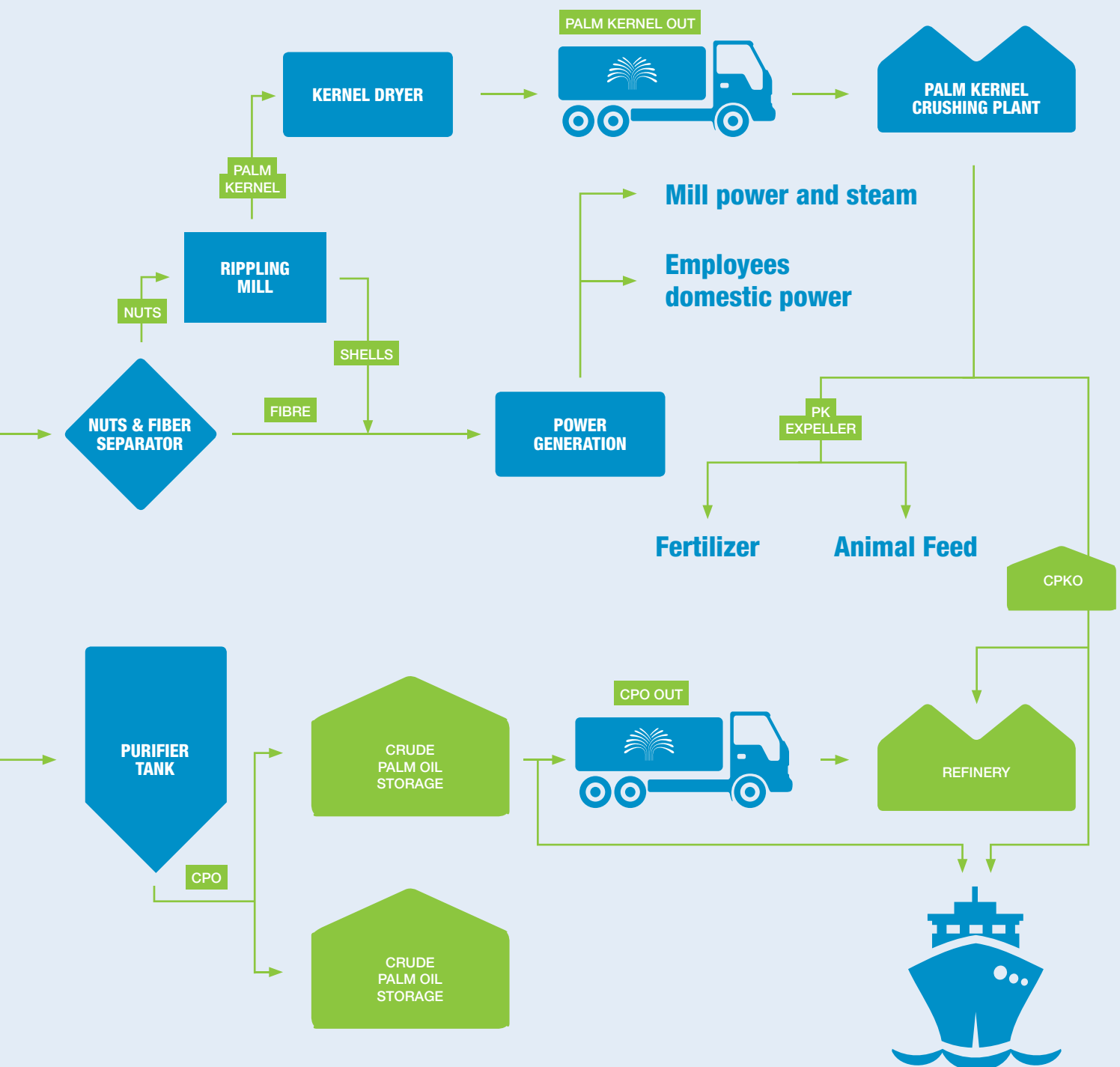
OUR APPROACH TO SUSTAINABILITY

TRACEABILITY/TRANSPARENCY



Our customers highly value traceability and the visibility it gives of the origin of the products they source. *SIPEF* is a firm believer in the transparency of supply chains. We are in a privileged position to fulfill our commitment to full traceability of the palm products, rubber, bananas and tea that we supply. We implement traceability from the field, either our own estate or the plot of a smallholder, to the port. All raw material entering our factories is fully identified, and will not be processed if its origin is unclear.

Smallholders are part of our supply base for the production of palm products. We actively support smallholders to achieve certification, by providing free training and guidance. Improving skills and livelihood builds stable, transparent supply chains for our mills, but more important, it builds stable, harmonious communities and partnerships.



OUR APPROACH TO SUSTAINABILITY

STANDARDS AND CERTIFICATIONS

To accompany and support its growth, *SIPEF* continues to fulfil its sustainable development obligations based on responsible practices and complete traceability sanctioned by certifications and recognised standards: ISO 9001 and ISO 14001, the Roundtable on Sustainable Palm Oil (RSPO), International Sustainability and Carbon Certification (ISCC), Indonesian Sustainable Palm Oil standard (ISPO), GlobalG.A.P., Rainforest Alliance (RA) and the United Nations Clean Development Mechanism (CDM).

Roundtable on Sustainable Palm Oil (RSPO)

SIPEF is fully committed to the RSPO, and to the implementation of its Principles and Criteria. This demanding, global and multi-stakeholder standard is the way forward for the palm oil sector.

In 2014, two new oil mills were commissioned, one in Indonesia, the other in Papua New Guinea. These two operations were immediately audited for the RSPO standard. The Barema oil mill in Papua New Guinea obtained its certification before the end of the year. The second oil mill, Umbul Mas Wisesa in Indonesia, received its certification in 2015.

Five years after their initial certification, the Hargy and Navo oil mills in Papua New Guinea, as well as the plantations and small growers who supply them, have been recertified by the RSPO. These are the first of our operations to submit to this five-year process. With the certification of the new Barema oil mill 100% of *SIPEF*'s palm oil and palm kernel oil production

in Papua New Guinea is RSPO certified, whether coming from plantations or village farms. In 2015, with the certification of the UMW mill and the recertification of our four Indonesian oil mills, the production of our mills is 100% RSPO certified.

SIPEF thus keeps its commitment to certify all its oil mills under the RSPO standard.

SIPEF continues to actively participate in the functioning of the RSPO by holding a seat on the Board of Governors as an alternate on behalf of the "Rest of the World" growers, as well as participating in the Trade and Traceability Standing Committee (T&TSC), the Biodiversity and High Conservation Values (HCV) Working Group, the Compensation Task Force, and the forums of producer members of the RSPO in Papua New Guinea and Indonesia.

Indonesian Sustainable Palm Oil (ISPO)

Indonesia has introduced a national certification standard for sustainable palm oil production, the ISPO standard, which is mandatory for all palm oil mills and producing plantations. All our mature operations were audited in 2014 and all were recommended for certification. The application of the ISPO standard represents a considerable effort by the Indonesian Government and should make the whole industry more transparent. Our Agro Muko plantations have already been accredited by the ISPO and it is expected that the final certification for the other estates will be received in the coming months.

International Sustainability and Carbon Certification (ISCC)

The ISCC standard certifies compliance with the European Renewable Energy Directive (RED). The adoption of methane capture in our palm oil mills enables us to reduce the emissions of greenhouse gases during the production of crude palm oil (CPO), reaching and actually surpassing the criteria set by the European directive.

The ISCC standard is very strict regarding traceability and transparency, two principles about which we particularly care.

Currently, three of our oil mills in Indonesia are certified ISCC.

International Organisation for Standardisation (ISO)

The ISO standards are the most recognised, global standards for good practices, applicable to all processes and commodities. Our oil palm operations in Papua New Guinea have been ISO 14001 certified, and our rubber factories as well as our tea factory have been certified ISO 9001, supporting the continuous improvement of their environmental practices. In 2016 we are initiating the adoption of ISO 9001 in all our operations in Indonesia. We believe that ISO 9001 will formalise our current good practices and enable further development of our operations on the same level of performance. The operations will achieve certification in stages, starting in 2017.



SIPEF thus keeps its commitment to certify all its oil mills under the RSPO standard.

GlobalG.A.P. (GGAP)

GGAP is an internationally recognised set of farm standards dedicated to Good Agricultural Practices (GAP). GGAP is a nonprofit organisation whose mission is to work on the continuous improvement of GAP at farm level to ensure confidence in the safe and sustainable production of food for the benefit of consumers. GGAP certification covers: Food safety and traceability, Environment (including biodiversity), Workers' health, safety and welfare, Animal welfare, and includes Integrated Crop Management (ICM), Integrated Pest Control (IPC), Quality Management System (QMS) and Hazard Analysis and Critical Control Points (HACCP). Our banana estate has been certified since 2006.

Rainforest Alliance (RA)

RA is a well-recognised seal of certification, based on the demanding Sustainable Agriculture Network (SAN) standard. Getting RA certified is a confirmation of environmental, social and economic excellence. *SIPEF* has made the decision to adopt RA certification for its banana and tea production, to support the harmonising of practices in the Group.

Our Cibuni tea estate (Indonesia) is actively working on achieving RA certification by early 2016.

We are expecting to receive RA certification for our banana estates by mid-2016 and we are also cooperating with RA, in the exploratory stages, to audit our rubber estates in 2016.

Sustainable Natural Rubber Initiative (SNR-i)

The natural rubber sector also has its sustainable development standard, the SNR-i, developed by the International Rubber Study Group (IRSG). The SNR-i is still in development, through a multi-stakeholder approach. Committed participants, including *SIPEF*, have submitted self-declaration forms to the IRSG, rating their practices against the initial criteria of the SNR-i. *SIPEF* is one of the very first rubber plantations to participate in the SNR-i, supporting the drafting and review of the standard.



AAK STAKEHOLDER COMMENT

There is a strong request from our customers that the sourcing of raw materials is done in a responsible way, specifically within palm. We continue to increase our focus on social and environmental issues in the supply chain. Our Sustainable Palm Oil Policy addresses labour and human rights, environment and anti-corruption.

We continue to support and be fully engaged in the Roundtable on Sustainable Palm Oil (RSPO) and we also continue our engagement in GreenPalm.

AAK'S sustainable palm oil policy outlines our commitments on sustainable palm in general and specifically requirements for no deforestation and no development on peatlands. We are pleased with the strong progress on the implementation of the policy and especially on traceability progress.

SIPEF for many years has been one of our leading suppliers of CSPO SG (Crude Sustainable Palm Oil Segregated). Throughout the years, *SIPEF* has constantly kept the commitment towards certifying all its oil mills under the RSPO standard. As such, is an active member of the RSPO who participates in initiatives to improve principles and criterias. Traceability is also an item in the top of their agenda. We are convinced that AAK's cooperation with *SIPEF* will develop even further as we see mutual synergies on sustainability goals.

November 2015.

Ernesto Zamudio
Director
AAK Sourcing and Trading





RESPONSIBLE PLANTATION PRACTICES

SIPEF is engaged in the cultivation of perennial crops. Our approach to farming has to be very mindful of the future. We adopt the best practices as they become available, and share them among our various crops and locations. Our aim is to maximise our positive impacts on the landscape, while mitigating and eliminating any negative impacts.

The Group has adopted a high-level document to guide its activities: the *SIPEF* Responsible Plantations Policy. Discussed and adopted by the *SIPEF* Board, this policy applies to all operations owned or managed by *SIPEF*.

NEW DEVELOPMENTS

The establishment of new estates follows a rigorous process, which applies to all crops. Any potential new project is vetted by a high-level management team, assessing legal compliance, economic viability, potential impacts and conformity to our Group Policies.

All new development areas are subject to a High Conservation Values (HCV) assessment, using HCV assessors licensed by the HCV Resources Network.

SIPEF is committed to avoiding deforestation, which we recognise as a major negative impact of the establishment of new plantations. We believe in a comprehensive,

landscape-level approach to new developments. Such an approach must combine social and environmental elements. While the High Carbon Stock (HCS) and HCS+ methodologies are being developed, we are guided by the RSPO methodology.

For oil palm projects, *SIPEF* adheres to the RSPO New Planting Procedure (NPP).

(Social aspects of new developments can be found in section "Responsible Social Practices.")

FIRE

The use of fire for land clearing on our estates, or on any areas we manage, is strictly prohibited. Such use of fire is not only



Firefighting drill at the UMW estate, Indonesia.

against the laws of the countries where we operate, it is also not beneficial to the long-term fertility of soils. The terrible haze experienced by South-East Asia in 2015 has been a stark reminder that uncontrolled fires can cause immense environmental, health and economic damage.

A strict reporting system is in place to document any occurrence of fire on our estates. We receive automated “hotspot” alerts based on satellite imagery, and investigate each alert.

INTEGRATED PEST MANAGEMENT

In all our crops, Integrated Pest Management (IPM) systems are in place. IPM is a holistic concept where pesticides are one element of pest management, but not the

only element.

Agricultural practices can contribute to pest management. The rhinoceros beetle (*Oryctes*), a serious threat to young palms, can be controlled by chipping old palm trunks at the time of replanting, thus reducing the habitat of the *Oryctes* larvae. This prevents overuse of insecticides.

When pesticides are needed, their use is optimised. Field employees and agronomists maintain a census of diseases and pests present. Certain thresholds of incidence trigger the use of pesticides, in a controlled, measured manner. On our banana estates, great attention is given to avoiding the creation of resistance to pesticides. The various active ingredients used are changed regularly, so that low concentrations of the pesticides

can continue to have maximum effect.

We are introducing very precise tools for the monitoring of pesticide use, at the block level. Over the coming three years, we will be able to improve our efficiency in the use of pesticides, reducing costs in the estates, but also benefiting the environment.

Every year, the agronomical and environmental teams update the list of pesticides and chemicals authorised for use in the field. Only the pesticides on that list can be ordered by the estates.

Starting in 2016, *SIPEF* will no longer use Paraquat in its plantations. It has already been phased out of our Papua New Guinea operations in 2015.



New generation methane capture system at Mukomuko POM, Indonesia.

RESPONSIBLE PLANTATION PRACTICES

SOIL FERTILITY / COMPOSTING

Maintaining optimum soil fertility is our main focus. On all our estates, erosion prevention and precise manuring programmes are in place and are closely monitored.

Our oil palm estates are subject to particular attention. Under current best practices, Empty Fruit Bunches (EFB), are returned to the field, and pruned palms are left in the field. Palm Oil Mill Effluent (POME) is also returned to the field if the soil type and slopes permit. To improve the assimilation of the organic matter and nutrients contained in the EFB and POME, we are building a latest-generation composting station in one of our mills in Indonesia. This compact, low-impact "aerated bunkers" system will produce a natural fertilizer, reducing our use of inorganic fertilizer. Commissioning of this facility is planned for 2016. Evaluation of the benefits of this new system will determine if we will deploy it in some other locations.

CLIMATE CHANGE

The major negative impacts of our operations on climate change come from land-use change linked to new developments, and the emission of methane by the POME. The impact of our tea, banana and rubber production and processing is very limited.

As stated in our Responsible Plantations Policy, all new operations are designed to minimise their net Greenhouse Gas (GHG) emissions. For the oil palm operations in particular, all new palm oil mills are planned to be water-efficient, to reduce their ecological footprint, and to be ready for methane capture.

SIPEF will adopt the High Carbon Stock (HCS) methodology once it is endorsed by the RSPO. At the moment, we implement the HCS methodology for all new developments.

Our oil palm operations started measuring and monitoring their GHG emissions in 2015, using the RSPO GHG calculator. For

the operations certified ISCC, this monitoring has been part of the certification process. Starting in 2016, we will be able to compare the performance of all our operations and identify the best practices.

The two new *SIPEF* palm oil mills are equipped with latest-generation methane capture devices. Five of the eight *SIPEF* oil mills are now equipped to capture methane and thus contribute to limit even more their environmental impact. All methane capture devices installed in our plants are registered with the United Nations Framework Convention on Climate Change (UNFCCC) and meet the Clean Development Mechanism (CDM) standard, validating the techniques used. In 2016, we will install the first biogas power-generation engine in Indonesia, further using the methane captured in the POME.

We are monitoring the use of fossil fuel by our operations, and introducing measures to reduce this. In 2015, we upgraded the biomass power generation plant of our Mukomuko palm oil mill in Indonesia. Increasing its efficiency, the mill has been able to reduce its consumption of diesel from 1.80 l/tonne Fresh Fruit Bunches processed to 0.55 l/tonne Fresh Fruit Bunches processed.

ISCC calculation of GHG (gr CO₂ eq/Kg CPO)

Perlabian POM	273.14
Bukit Maradja POM	242.79
Mukomuko POM	357.09
ISCC default value	550

PEATLAND

Peatland is a fragile, complex type of ecosystem, which provides important environmental services for carbon sequestration, and for water. We are managing our existing plantations on peatland in accordance with the RSPO Best Management Practices (BPM).

Specific attention is given to fire prevention, fire risk monitoring and firefighting. The fire risk status is updated every day and com-

municated to all levels of the workforce. Fire risk status signs are placed at numerous points of the estates, so that our employees and their families are kept aware. When the risk is considered high, fire spotters are deployed. The firefighting teams train weekly and maintain a high level of motivation. They are deployed outside of our estates whenever necessary, to fight fires in the nearby villages.

With the endorsement of the *SIPEF* Responsible Plantations Policy, we are committed to no new developments on peatland, starting November 2014.

BIODIVERSITY WITHIN THE ESTATES

All our estates comply with, or exceed, local regulations for the establishment of conservation areas.

In Indonesia and PNG, all our operations assess and manage HCV and conservation areas. The latter are monitored for the presence of endangered, rare or threatened species, and for encroachment. Surrounding communities are regularly contacted to explain the importance of maintaining the conservation areas. Such outreach improves the support from communities, reducing the likelihood of conflicts. Our target is to achieve no encroachment in our conservation areas.



RESPONSIBLE SOCIAL PRACTICES

COMMUNITY DEVELOPMENT

Our responsibilities in the landscapes where we are present are not limited to the environment. Our operations are an important part of the social fabric of these landscapes. Some of our estates predate the surrounding villages, and some of our newer developments have found their place in their landscape. Our social responsibility is first with our employees and their families. We also take seriously our responsibilities to the local communities and governments.

FREE, PRIOR, INFORMED CONSENT (FPIC)

Communities have the right to fully understand the scope of our new developments, and to express their opinion. In Papua New Guinea *SIPEF* has sometimes spent years in exchanges with some communities, until a well-understood, fair agreement was reached. This thorough consultation process has resulted in solid long-term relationships between the communities and the company. We are committed to the FPIC process for all our new developments, regardless of the crop.

FAIR LABOUR PRACTICES

Our employees, permanent or not, are treated fairly. Work contracts are clear and comply at least with local regulations.

SIPEF has adopted and implemented various Group Policies on labour:

- ♦ no child labour (no worker under the age of 18)
- ♦ no forced or trafficked labour
- ♦ no discrimination
- ♦ no sexual harassment
- ♦ freedom of association and collective bargaining.



Employees

	Indonesia				Papua New Guinea		Ivory Coast	Belgium
	Palm	Rubber	Tea	Management	Palm	Rubber	Bananas	Head Office
Percentage Female Employees	18%	10%	37%	13%	22%	11%	12%	57%
Percentage Male Employees	82%	90%	63%	87%	78%	89%	88%	43%

The Group Policy on Human Rights includes a provision for the respect of human rights at work. All employees and workers have the right to one day of rest per seven days.

HEALTH AND SAFETY

The Group Policy on Occupational Health and Safety is further supported by two specific Group Policies on:

- smoke-free workplace
- drugs and alcohol

Our overarching goal is zero work-related fatalities. To achieve this, we assess risks, design or modify the workplaces, provide protective equipment, train, and train again, carry out inspections, and study every accident to avoid a repetition.

Our company doctors independently record Lost-Time to Injury (LTI) for each management unit. The information is discussed at management meetings. Starting in 2015, our Indonesian operations are recording Frequency and Severity Rates of all their accidents.

Still, despite these efforts, three work-related fatalities had to be reported in 2015, two of them in Indonesia and one in Papua New Guinea.



RESPONSIBLE SOCIAL PRACTICES

Specific attention is given to employees who handle chemicals, including pesticides, regardless of the concentration and quantity handled. Such employees receive distinct training, supervision and protective equipment. Pregnant and breast-feeding women are not allowed to handle chemicals, and are re-assigned to other duties during their pregnancies, and while they are breast-feeding. Periodic health checks are carried out for all workers, but at shorter intervals and more in-depth for employees handling chemicals.

There have been no records of accidents or illnesses due to the handling of chemicals in 2015, across all operations.

SOCIAL DEVELOPMENT

Our Corporate Social Responsibility (CSR) contributions are managed to be responsive to the needs expressed by the communities. Each operating unit is in control of its CSR budget. Our managers keep very open communications with surrounding stakeholders and decide how best to use their CSR budgets in their local context.

Once a year, we conduct a social survey of the communities and stakeholders interacting with our operations. The surveys focus on their perceptions of our operations and on local issues, which can affect the relationship between the communities and our operations.

Our operations provide work to thousands of people, directly and indirectly. Most of the employees are housed on our operati-

ons, with their families. Some employees and casual workers come from outside. Housing, schooling and medical care are provided for free to our employees and their dependents. The operations have their own ambulances, to evacuate serious cases.

We are facilitating the establishment of shops to provide access to all necessities. When necessary, the company subsidises transportation of the goods, or provides working capital to our worker cooperatives, to ensure that prices remain stable and affordable. Our target is that, each management unit holds a Safety, Health and Environment committee meeting every month. This committee includes representatives of the workers and of the residents of our housing. Any complaints about the state of the housing can be voiced at this meeting, and progress reviewed the following month.

To provide equal access to work, most of our operations provide free day-care for small children. Our target is to provide this service in all our operations by 2017.

Wherever possible, we provide transportation to government schools for the children of all our employees. However, our operations are sometimes located in isolated areas, where no schools are available. In Papua New Guinea, Hargy Oil Palms Ltd (HOPL) has established an international school in Bialla. In Indonesia, we have donated land to local governments for the creation or the extension of schools, and we supplement the salaries of government teachers in the schools attended by the children of our employees. In our Umbul Mas

Wisasa operation, a primary school has been built, initially only for the children of the employees. At the request of surrounding communities, the school has now been expanded to three times its original size. Without the development of our operation, children in this area would have continued to travel long distances to attend school.

The presence of our operations also contributes to the improvement of infrastructure. In PNG, Hargy Oil Palms Ltd maintains public roads, in coordination with the local government. In Indonesia, some of our estate roads are open to the public during the day. In our newer estates, we consult communities to decide where to build roads on the outskirts of our concessions. The estates ensure maintenance of the roads. This cooperation greatly reduces the risk of accidents inside the estates, while giving more freedom of movement to the communities.

In Indonesia, our Agromuko operation works with surrounding villages to develop small oil palm blocks called KMD (Kebun Masyarakat Desa – villagers' estates), managed by our plantations at the same high standards. *SIPEF* prefinances the development of the blocks and later buys the production at market prices. The village cooperatives can enjoy significant additional revenues, which are then used for communal works. Monthly accounts are communicated to the cooperatives, and amounts paid by *SIPEF* are published in the local newspapers. Transparency is total. The scheme is extremely popular, and even villages far from our estates volunteer to join.

SMALLHOLDERS AND COMMUNITIES

Our Papua New Guinea oil palm operation, Hargy Oil Palms Ltd, (HOPL) is the most engaged with smallholders. HOPL has included over 3 800 smallholders in the supply base of its three mills. It collects the crop of the smallholders individually, giving them priority over its own crop.

All the smallholders in the supply base of HOPL have been successfully certified for compliance with the RSPO standard.

RESOLUTION OF GRIEVANCES

Our employees, and any other stakeholders, can report grievances freely and without fear of negative consequences. A Group Policy on Grievances has been implemented, and communicated to the entire workforce, as well as to other stakeholders. With this framework in place, grievances are addressed in a transparent manner, directly between the complainants and our operations.

A specific grievance system is in place for sexual harassment cases, preserving privacy and ensuring fair proceedings.



SCOPE OF THIS REPORT

This is the first sustainability report for the *SIPEF* group, published in December 2015. This report is based on our performance in 2014 and 2015 (first three quarters). All data are, unless otherwise stated, related to the performance of all plantations that are owned and/or managed by the *SIPEF* group.

We aim to publish our second sustainability report in December 2017. Our second sustainability report will follow the Global Reporting Initiative (GRI) index, as it will ensure that we measure and explain our sustainability journey in a way that is comparable with other organisations.





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