SUSTAINABILITY REPORT

2016-2017

The Connection to the World of Sustainable Tropical Agriculture

SIPEF

CONTENT

SIPEF
2016-2017

MESSAGE FROM OUR MANAGING DIRECTOR

Dear Readers,

As announced in December 2015, the first Sustainability Report of the *SIPEF* group has been published, and it is our intention to update our stakeholders every two years on our sustainability journey in a more extensive way than the summarised updates in the annual report. Materiality assessments have been done in close collaboration with all our stakeholders.

Over the last two years our group has also continued to develop hectares in Indonesia, Papua New Guinea and Ivory Coast. More than ever, *SIPEF* defines itself as 'The Connection to the World of Sustainable Tropical Agriculture', implementing this vision both in our operations and with our customer base.

The past five years have been challenging for tropical agriculture in general, with lower selling prices; unpredictable weather patterns, driven by El Niño and La Niña effects; a change of perception towards large scale farming in general, and palm oil production in particular. In addition, for all three countries in which we are invested, we have experienced changes of governments, which have impacted our operations as a commodity producer permanently present in those countries.

However, these challenging circumstances have not affected our sustainability journey, driven by steady and long-term commitments, leading the group towards full RSPO certification for all mills and every tonne of crude palm oil and palm kernel oil being produced in Indonesia and Papua New Guinea. Palm oil products currently represent 90% of our volumes produced and naturally lead the way in terms of our sustainability.

The high standards achieved in the palm oil operations are likewise applied in rubber, tea and banana activities, where we have followed the same sustainability approach in the most complete way. We have been the first company to achieve the Rainforest Alliance certification for natural rubber in our South Sumatra estates, but have also worked toward the Rainforest Alliance certification for our black tea production in Java, Indonesia and for our banana production in Ivory Coast, where we are proud to confirm that our exported bananas all carry the 'green frog' stickers, related to the Rainforest Alliance certification standards.

After the commissioning of two new palm oil processing mills in 2014/2015, one in North Sumatra and the other in Papua New Guinea, we acquired an additional mill with the purchase of the existing Dendymarker Indah Lestari (DIL) palm plantation middle of 2017. This company, in existence for more than 20 years, was already RSPO certified, which means that all nine mills in the *SIPEF* group currently have RSPO certification status.

Already, five out of the nine mills have methane capture installations. The Perlabian palm oil mill in North Sumatra was, like three other mills in the past, upgraded to use the most recent techniques

of reactor processing of biogas and be the base for potential additional energy production in future. The Bukit Maradja palm oil mill is the only one still using the membrane methane capture technique, which is in the process of being replaced by an advanced composting process facility, whereby 100% of the effluent will be used to produce high-nutrient compost, the basis for improved soil structures in one of our oldest palm estates in the North Sumatra area.

Over time, it is the intention of the *SIPEF* group to install methane capture installations on all our palm oil mills, as far as the technique will evolve to allow such installations to be linked to the current production processes implemented in the mills.

The Agro Muko palm oil mill is the first one to benefit from down-stream use of methane to produce electricity and make deliveries to the public grid in the Province of Bengkulu, where power is persistently in short supply. For more than a year now, the electricity generated by a biogas engine has been readily available and the assessment of the current performance will be the basis for further commitments to the Indonesian public grid to generate electricity from our methane capture installations in the Group. This project will significantly contribute to our goal of reducing greenhouse gas (GHG) emissions.

Our RSPO certification processes include smallholders and we have given full support to our surrounding smallholders to achieve certification and share the benefits. This is already the case in Hargy Oil Palms Ltd in Papua New Guinea, where the full supply base from more than 3 000 smallholders is certified, and in PT Agro Muko in Bengkulu, Indonesia, where from more than 600 hectares of surrounding villages the supplies to the two mills have been certified. The surrounding independent smallholders in PT Umbul Mas Wisesa are next on the list and should reach certification in 2018. It remains our intention to only produce Identity Preserved (IP) certified palm oil in our mills and make sure all smallholders delivering fresh fruit bunches to these mills are RSPO certified.

Only by including the surrounding communities in our economic development, will we be able to lift the standards to create long-term opportunities. Also by providing education, healthcare and sanitation to our workers and the local villagers delivering fruit to our mills, we will improve their living conditions and create the right basis for future development. Social development and environmental conservation remain closely related.

Recently, we have been able to open the new Pata Painave Primary School, at the centre of our most recent development zone in the Province of East New Britain in Papua New Guinea. Working closely with the Incentive Fund (IF), supported by a Papua New Guinean and Australian partnership, we constructed a complex with eight classrooms, staff accommodation and an undercover sports facility, combined with a women's resource and training centre, in an area surrounding our oil

palm plantations where no schooling had been available for the more than 2 000 children.

We have also successfully continued our 'eco-system restoration' project in the Province of Bengkulu in Sumatra, where the *SIPEF* group foundation received a 60-year licence from the Indonesian authorities, to protect and restore 12 672 hectares of tropical forest, a critical buffer for the Kerinci Seblat National Park. With the support of the local communities and the authorities, we are combatting illegal logging and poaching in this highly biodiverse area and, with the recent construction of two camps and five nurseries for forest and fruit trees, we have given priority to the restoration of the worst affected forest zones.

SIPEF continues to be recognised in the marketplace as a leading and reliable producer of traceable, certified and segregated palm products, but we know we still have plenty of challenges ahead of us. However, transparency of the supply chains is the first building block of sustainability and we are not concerned about seeing our achievements being assessed or even challenged, and consider it an encouragement to be included in rankings such as the ZSL-SPOTT rating.

We remain actively involved in various organisations and working groups to enhance the visibility of sustainable palm oil in general and to promote the use of more traceable, certified and segregated palm products by operators in the downstream supply chain, which remains, however, disappointing. By pushing forward their earlier set deadlines and targets on the downstream use of traceable, certified and segregated palm products, they affect the reputation of the certified producers, who do care about sustainability standards and their full implementation in the production processes of the commodity.

Our commitment as the *SIPEF* group can only be sustained if supported by the more than 20 000 employees and 3 700 smallholders, who are the actual agents of progress. I would, therefore, like to take the opportunity to express my gratitude to all of them, and also to our customers and investors, and to the NGOs who challenge us to never be complacent and to always strive for excellence. This second Sustainability Report is published to inform the readers of the progress being made and as a guide for all those who will help us to improve and innovate, to become an ever-better plantation company, and remain at all times 'The Connection to the World of Sustainable Tropical Agriculture'.

François Van Hoydonck
Managing Director
SIPEF Group

TARGETS AND ACHIEVEMENTS

2016 / 2017 HIGHLIGHTS

100%

Segregated RSPO certified palm oil products

99%

Palm products produced by the SIPEF group sold in certified traceable physical supply chains!

April 2016

Received Rainforest Alliance certification for our Cibuni tea gardens in Indonesia

May 2016

Received Rainforest Alliance certification for our Eglin banana operations in Ivory Coast

November 2016

Commissioned our first Advanced Composting Plant in Bukit Maradja

February 2017

First delivery of power to the public grid in Mukomuko, following the commissioning of our first biogas power generation facility

August 2017

Received Rainforest Alliance certification for our MAS Palembang rubber factory, the first of our rubber operations to be certified

TARGETS AND ACHIEVEMENTS

2016	**TARGET**	Obtain Rainforest Alliance certification for our tea gardens in 2016
	STATUS	Achieved April 2016
	TARGET	Obtain Rainforest Alliance certification for our Eglin banana operation in Ivory Coast in 2016
	STATUS	Achieved May 2016
	TARGET	No use of paraquat
	STATUS	Achieved January 2015 in Papua New Guinea, July 2016 in Indonesia
	TARGET	Implementation of advanced composting system 2016/2017
	STATUS	Achieved November 2016
2017	**TARGET**	Conduct a gap analysis with Rainforest Alliance based on the SAN standards for our rubber plantations
	STATUS	Achieved, and already one estate and mill certified, August 2017
	TARGET	Reducing GHG emissions: 1) Methane capture 2) Power generation from biogas 3) Composting 4) New development, adopting the new HCS approach once endorsed by RSPO
	STATUS	Achieved February 2017 power generation and advanced composting plant, commissioned November 2016 Ongoing additional methane capture on established mills, but delayed Achieved, fully endorsed the HCS convergence toolkit
	TARGET	No work related fatalities
	STATUS	Achieved for 2016 and 2017
2018	**TARGET**	Roll out ISO 9001 certification in Indonesia
	STATUS	On track
2019	**TARGET**	Achieve RSPO certification for our UMW smallholders
	STATUS	On track
2020	**TARGET**	Have at least one more power generation from biogas plant in Indonesia
	STATUS	On track
2023	**TARGET**	Roll out ISO 9001 certification across the Group
	STATUS	On track
2025	**TARGET**	Methane capture systems in all existing mills to reduce GHG emissions
	STATUS	On track
	TARGET	All ISCC certified mills should have power generation from biogas to further reduce GHG emissions
	STATUS	On track

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, headquartered in Schoten and 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 over 77 000 hectares in own plantations, of which 69 278 hectares are planted with oil palms, 5 685 hectares with rubber, 1 752 hectares with tea and 734 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 3 700 smallholder farmers cultivating 14 037 hectares of palms in Papua New Guinea, who also benefit from the technical support of our agricultural advisory team.

SIPEF
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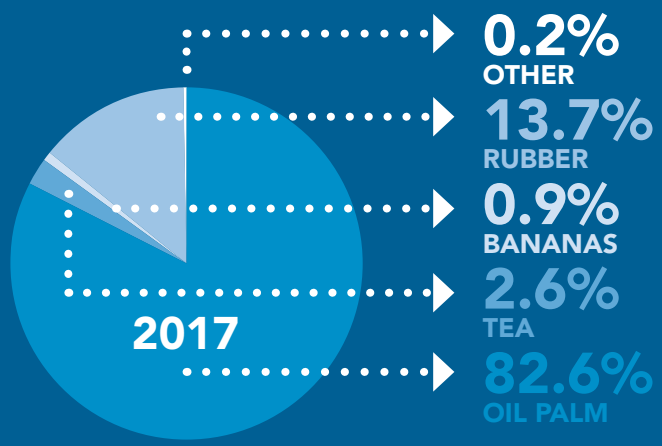
THE WORLD OF SIPEF

LABOUR INTENSIVE CROPS



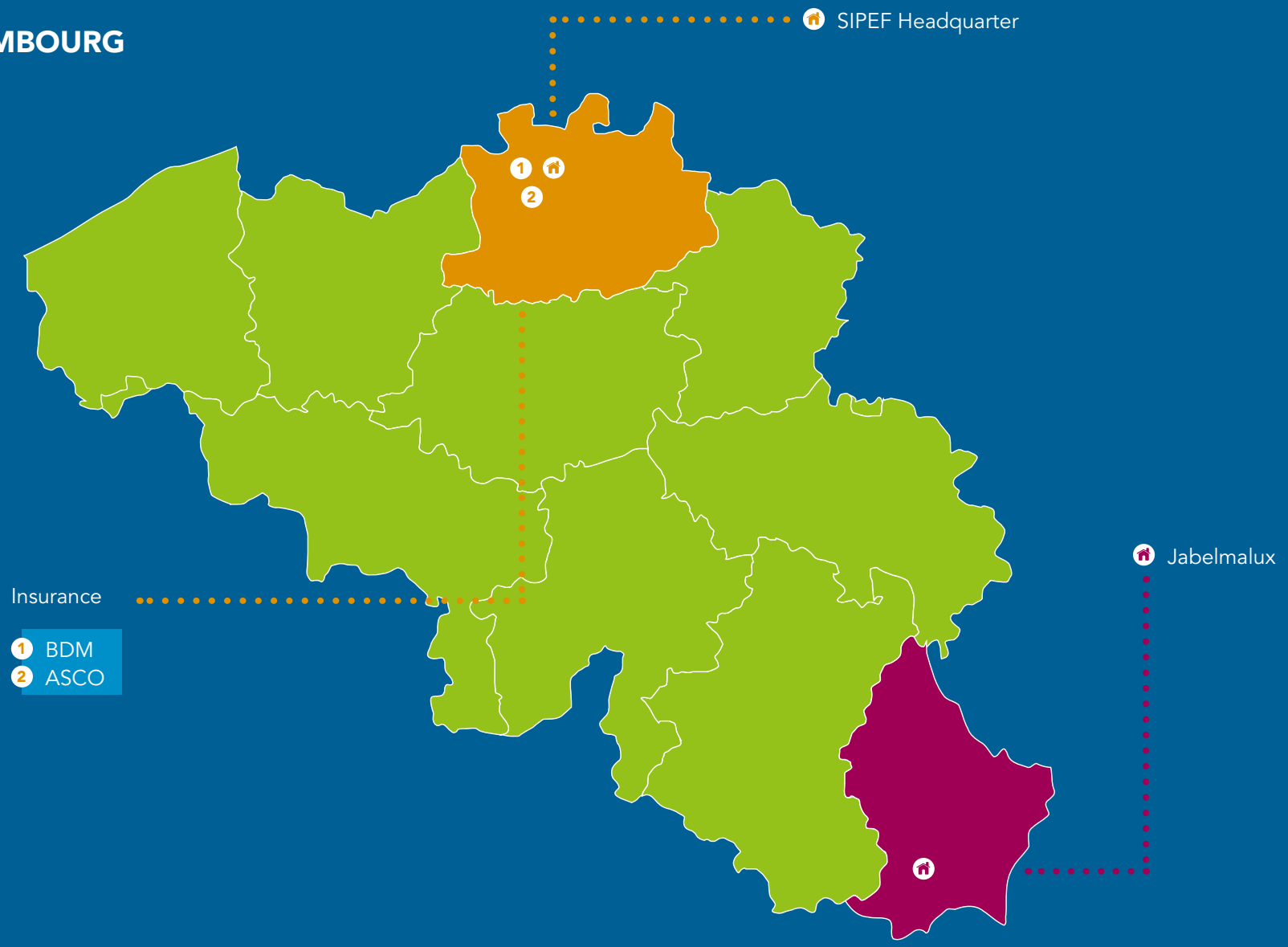
RATIO OF EMPLOYEES PER 100 HECTARES OF CROP

14	25	60	90
OIL PALM	RUBBER	BANANAS	TEA

SIPEF
2016-2017

THE WORLD OF SIPEF

BELGIUM AND LUXEMBOURG



SIPEF
2016-2017

We only refer to the operations we own and operate. The hectares published in this report show the situation as at 31 December 2017

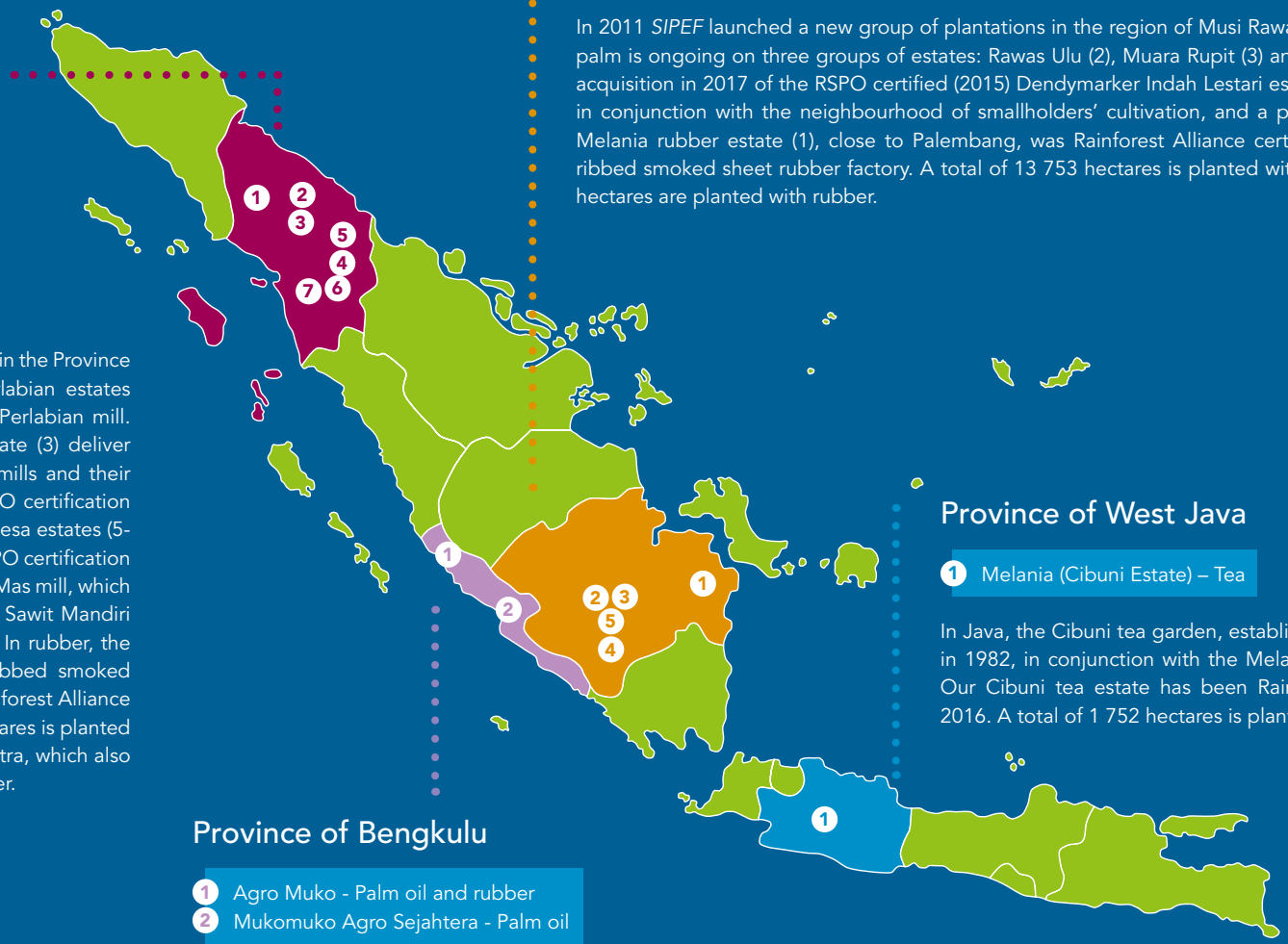
THE WORLD OF SIPEF

INDONESIA

Province of North Sumatra

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

SIPEF started developing its first plantations in the Province of North Sumatra in 1919. Tolan and Perlabian estates (7) deliver their fresh fruit bunches to the Perlabian mill. Bukit Maradja estate (2) and Kerasaan estate (3) deliver their fruit to the Bukit Maradja mill. Both mills and their respective supply bases received their RSPO certification in 2010. The RSPO certified Umbul Mas Wisesa estates (5-6), established from 2005, received their RSPO certification in 2015, and deliver their fruit to the Umbul Mas mill, which was RSPO certified at the same time. Citra Sawit Mandiri estate is still in the process of certification. In rubber, the Bandar Pinang estate (1), along with a ribbed smoked sheet rubber factory, are planned to be Rainforest Alliance certified during 2018. A total of 22 980 hectares is planted with oil palm in the Province of North Sumatra, which also has some 1 158 hectares planted with rubber.



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
5. Dendymarker Indah Lestari - Palm oil

In 2011 *SIPEF* launched a new group of plantations in the region of Musi Rawas, where the planting of oil palm is ongoing on three groups of estates: Rawas Ulu (2), Muara Rupit (3) and Kati Lama (4). The recent acquisition in 2017 of the RSPO certified (2015) Dendymarker Indah Lestari estate (5) completes the area, in conjunction with the neighbourhood of smallholders' cultivation, and a palm oil extraction mill. The Melania rubber estate (1), close to Palembang, was Rainforest Alliance certified in 2017, along with a ribbed smoked sheet rubber factory. A total of 13 753 hectares is planted with oil palm and some 2 790 hectares are planted with rubber.

Province of West Java

1. Melania (Cibuni Estate) – Tea

In Java, the Cibuni tea garden, established in 1902, was acquired by *SIPEF* in 1982, in conjunction with the Melania rubber estate in South Sumatra. Our Cibuni tea estate has been Rainforest Alliance certified since April 2016. A total of 1 752 hectares is planted with tea at *SIPEF*'s Cibuni estate.

Province of Bengkulu

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

This group of eight estates has been established since the 1990s under the banner of PT Agro Muko (1). Their production is feeding the two mills, Mukomuko and Bunga Tanjung, built in 1994 and 2001 respectively. Both mills and their respective supply bases obtained RSPO certification in early 2011. From a joint venture in the beginning, *SIPEF* acquired the majority of the Agro Muko Group in 2017. The additional, most recent, estates Air Manjunto and Malin Deman (2), established in 2010, received RSPO certification in 2015. A total of 18 924 hectares is planted with oil palm and some 1 737 hectares with rubber. A crumb rubber factory completes the industrial assets in the area. It is planned that this last activity be Rainforest Alliance certified in 2018.

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THE WORLD OF SIPEF

PAPUA NEW GUINEA

West New Britain Province

1 Hargy Oil Palms - Palm oil

SIPEF acquired 50% of Hargy Oil Palms Ltd (HOPL) in 1976, and became 100% shareholder in 2004, which year corresponds to the ISO 14001 certification. Over the years, HOPL has been developed with more planted areas and three mills: Hargy and Navo, respectively commissioned in 1980 and 2002, the entire supply base of which received RSPO certification in 2009; while Barema, built in 2013, received RSPO certification in 2014. The three sites have palm kernel crushers, which were RSPO certified in 2015. HOPL constitutes a set of 13 621 hectares in own palm plantations, joined with 14 037 hectares of smallholders' oil palm blocks, cultivated by 3 700 farmers.

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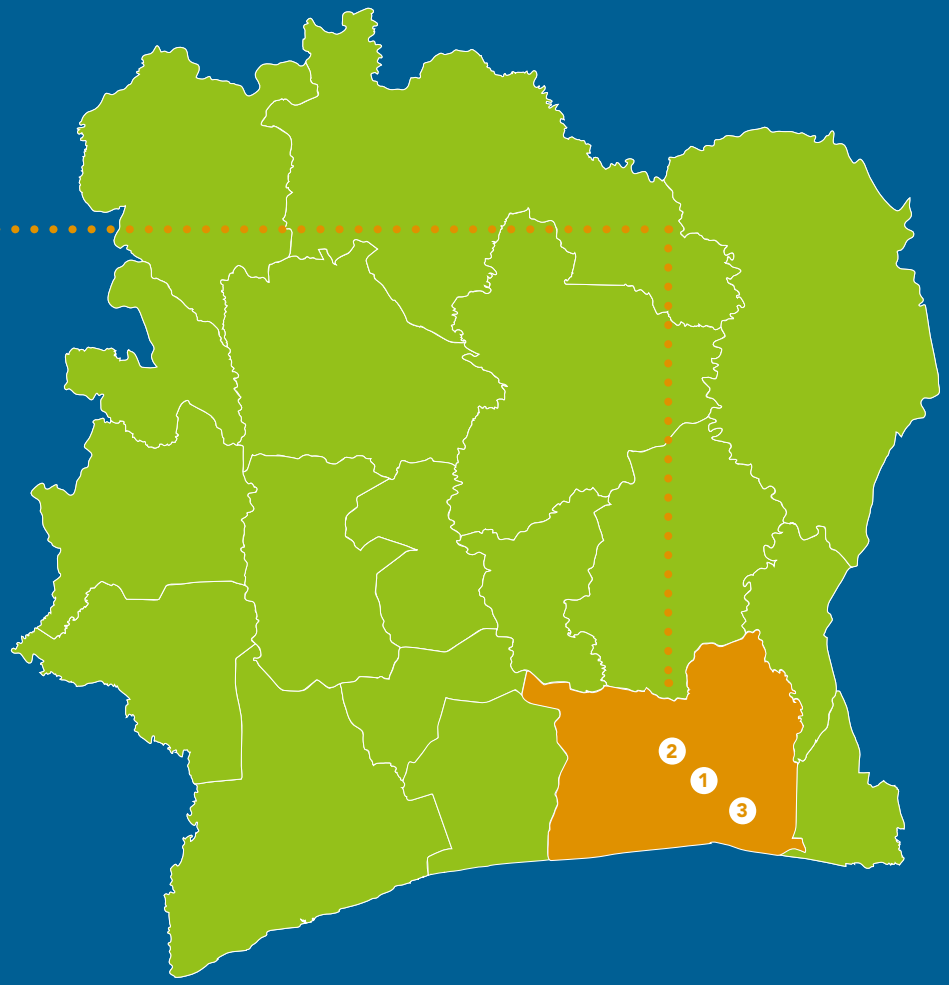
THE WORLD OF SIPEF

IVORY COAST

Région de Lagunes

1. Plantations J. Eglin - Azaguié - Bananas and Horticulture
2. Plantations J. Eglin - Agboville - Bananas
3. Plantations J. Eglin - Motobé - Bananas

In 1985, *SIPEF* acquired the company Plantations J. Eglin, which was established in 1959. We principally cultivate and pack bananas on three estates, located in Azaguié (1), Motobé (2) and Agboville (3). Over the years, we have developed a total planted area of 734 hectares in bananas. We also maintain a horticultural activity on 42 hectares, mainly in pineapple flowers and plant foliage. In 2006, Plantations J. Eglin received GlobalG.A.P. certification, and was Rainforest Alliance certified in 2016.



We would like to inform you that in this report following abbreviations will be used in our tables and graphs.

PLOM	Perlabian Oil Mill
BMOM	Bukit Maradja Oil Mill
UMWOM	Umbul Mas Wisesa Oil Mill
MMOM	Mukomuko Agro Sejahtara Oil Mill
BTOM	Bunga Tanjung Oil Mill
HOM	Hargy Oil Mill
NOM	Navo Oil Mill
BOM	Barema Oil Mill
MMCRF	Mukomuko Crumb Rubber Factory
BPRF	Bandar Pinang RSS Factory
MASRF	Melania RSS Factory
Tea	Cibuni Tea Factory
Bananas	Plantations J. Eglin

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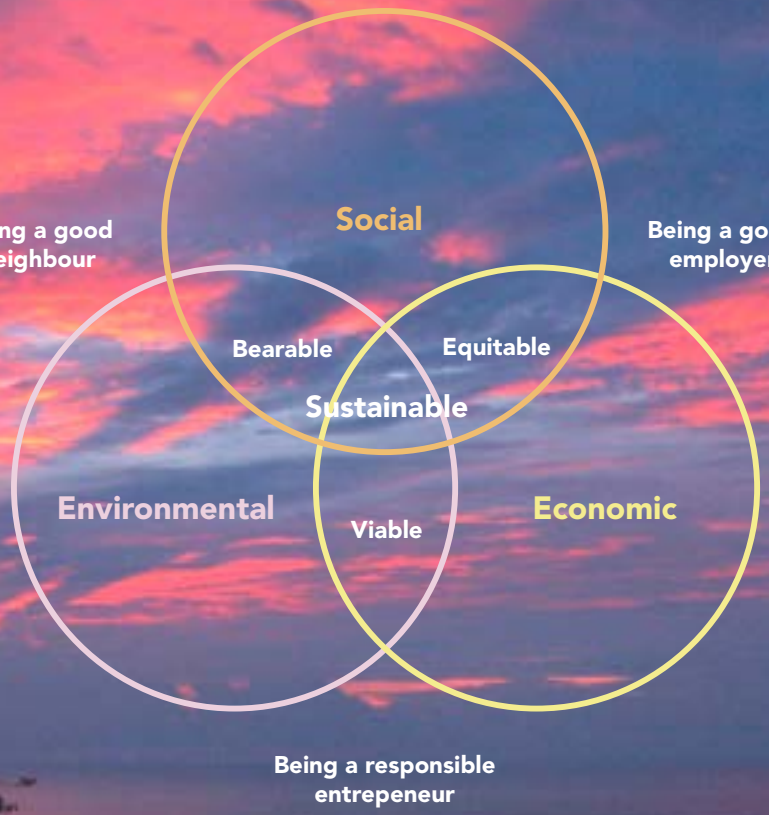
We only refer to the operations we own and operate. The hectares published in this report show the situation as at 31 December 2017

SIPEF'S APPROACH TO SUSTAINABILITY

OUR RESPONSIBLE PLANTATION POLICY

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 non-governmental organisations (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 on 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 surpass them. Our tea and banana markets are certified based on the Rainforest Alliance scheme. Since there is no specific certification system available for rubber, we have asked Rainforest Alliance to audit our rubber operations against their criteria which are fully in line with Sustainable Agriculture Network (SAN) standards. We are proud to announce that our first rubber operation in Palembang was Rainforest Alliance certified in 2017.

Our *SIPEF* Responsible Plantation Policy is applicable to all our different plantation operations. The latest update was endorsed by the Board of Directors at the Board Meeting on 22nd November 2017.



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

SIPEF
2016-2017

SIPEF'S APPROACH TO SUSTAINABILITY

OUR RESPONSIBLE PLANTATION POLICY

Our commitment to responsible plantation business

Our journey towards responsible plantation management started in the early 1920s 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 that benefited the surroundings were created. 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.

SIPEF'S APPROACH TO SUSTAINABILITY

1919

Establishment of SIPEF and listing on Brussels Stock Exchange

1985

Enhanced hydro power system in Cibuni

1989

Zero burning policy

2008

1st Methane capture in Bukit Maradja and Perlabian

2013

Entering joint venture Verdant Bioscience

Biogas facility in Mukomuko mill

SBI ecosystem restoration licensed

2014

Commissioning of biogas capture facility in Barema mill

Commissioning of biogas capture facility in Umbul Mas Wisesa

2016

Sale SIPEF-CI

Certification Rainforest Alliance tea Cibuni estate

Certification Rainforest Alliance bananas Plantations J. Eglin

Biogas facility in Perlabian

Inauguration Composting facility Bukit Maradja mill

2017

Acquisition additional part of PT Agro Muko

Acquisition PT Dendymarker Indah Lestari

Inauguration biogas engine in Mukomuko mill

Certification Rainforest Alliance rubber Mas Palembang

SIPEF
2016-2017

SIPEF'S APPROACH TO SUSTAINABILITY

THE *SIPEF* FOUNDATION

SIPEF Biodiversity Indonesia (SBI) holds a 60-year licence to manage a forest area of 12 655 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, less than 20 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-mountainous area, ranging from 300 to 650 m 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 (3 805 m), 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 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 benefit themselves.

SIPEF'S APPROACH TO SUSTAINABILITY

THE *SIPEF* FOUNDATION

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 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 still 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, and seizing or destroying the logs. Sustained efforts over the past two years, and support from the local authorities have suppressed the illegal logging activities. Ensuring the active support of the communities neighbouring, and sometimes using, the SBI project area, is a critical objective of the project. Farmers take part in the reforestation efforts. Registered groups of farmers enter in partnership with SBI to rehabilitate some degraded areas. They plant perennial tree crops in allotted blocks. 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 eggs laid on the beach. Besides the natural risks, the frequent 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 the years 2016 and 2017, mostly olive Ridley turtles (Lepidochelys olivacea) were observed in the project area. At the end of 2017, one green turtle (Chelonia mydas) laid eggs, raising hopes that we will again see other sea turtle species. In 2012, four species were sighted: olive Ridley (Lepidochelys olivacea, Chelonia mydas, Dermochelys coriacea, Eretmochelys imbricata). Conditions on the beach have been less than optimal, with more pebbles being deposited by strong currents, and increased destruction of nests by wild pigs. A careful cull of the wild pigs by the authorities is in progress. The *SIPEF* Foundation will continue to support this project in 2018 and beyond. The objective is to secure the entire beach during the egg-laying season without needing recourse to hatching in an artificial environment.

SIPEF'S APPROACH TO SUSTAINABILITY

VERDANT BIOSCIENCE

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.

SIPEF'S APPROACH TO SUSTAINABILITY

VERDANT BIOSCIENCE

Preamble

As is so often the case in business life, commercial and ethical objectives can pull in largely opposite directions.

In an ever more affluent world, where population growth will exceed nine billion before mid-century, there is an inexorable growth in demand for vegetable oils, and a broad rejection of non-niche animal fats. These vegetable oils are found in an ever-increasing myriad of products in the developed world (50% of all consumer goods), while remaining a staple in the developing world.

The conundrum: how does the world meet the demand for affordable vegetable oil without harming the global environment (taking ever more land, destroying carbon fixing forests), without putting biodiversity at increased risk, and without threatening social order and human equity in developing countries?

The answer: substantially increase yield/hectare/annum of oil bearing crops.

The facts

Over 200 million tonnes of oils and fats were consumed in 2016, and palm oil was the largest at 30%. It is already five times more productive (yield/hectare/annum) than other oil crops. In a commodity market, it is 'cheap' (because of its high yield) and arguably the most versatile oil for the food industry.

Indonesia and Malaysia are the largest palm oil producing countries. Expansion of production to meet demand by increasing land area puts forests, biodiversity, indigenous people and customary practices at risk. But expansion of production by increasing yield takes the pressure off forests, yet meets the world demand for competitively priced vegetable oil.

Verdant Bioscience

The company is grounded in a long and distinguished history in tropical plantation agriculture, allied to the responsible application of objective science. Its corporate shareholders (of which *SIPEF* is one) have similar exemplary resumés in plantation agriculture.

High yielding though it is, palm oil uniquely has the physiological potential to double or even triple the yield of crude oil. Verdant was established in 2013 with the express principal objective of exploiting this potential and substantially increasing oil palm (and other crop) yields through the application of objective science in three main areas:

a. Plant breeding, genetics (not genetic modification) and biotechnology through the production of F_1 hybrid oil palm. This is an unavoidably protracted process and progress to date is on target.
b. Agronomic improvements, most notably by economically optimising palm nutrition.
c. Crop protection improvements, to off-set the increasing threats from pests and diseases.

The company's under-pinning values are deeply ethical, as are its high level objectives (summarised above) and its day-to-day operating procedures (Roundtable on Sustainable Palm Oil, Indonesian Sustainable Palm Oil, Rainforest Alliance etc.). Verdant quietly 'walks the walk' regarding sustainability, while many other entities rampantly 'talk' about sustainability, and the bad behaviour of others.

Summary

The world needs vegetable oil. Developing countries need sustainable rural industries. Oil palm is the high volume vegetable oil of choice, provided it is grown sustainably. The most significant outstanding sustainability objective is to substantially increase crop yield/hectare. Verdant leads in this area, and its progress is exciting.

Dr Stephen Nelson,
PhD Managing Director
Verdant Bioscience
Singapore Pte Ltd

SIPEF'S APPROACH TO SUSTAINABILITY

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. (GGAP), Rainforest Alliance 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. Since 2015, all our mills and their supply bases have been certified RSPO, both in Indonesia and in Papua New Guinea. This is particularly significant for Hargy Oil Palms Ltd in PNG, where about half of the bunches received by our three mills is produced by 3 700 certified smallholders. They received their certification in 2009, and remain fully committed.

SIPEF thus keeps its commitment to certify all its oil mills according to 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, representing PNG and the Solomon Islands. We are also participating in the Trade and Traceability Standing Committee (SC-T&T), the Biodiversity and High Conservation Values (BHCV) Working Group, the Principles and Criteria Revision 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. The application of the ISPO standard represents a considerable effort by the Indonesian Government to demonstrate the good practices of the oil palm sector. Our five mills are certified ISPO.

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 (GHG) 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. In early 2017, our head office in Antwerp was also certified, as every member in the supply chain needs to be audited according to the new supply chain standard.

International Organization for Standardization (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.

SIPEF'S APPROACH TO SUSTAINABILITY

CERTIFICATIONS

Since 2016, we have initiated a major ISO 9001 project, starting with our Indonesian operations. A new department has been created, fully staffed and trained to support this project. After the training of key personnel, and over more than a year, our policies, Standard Operating Procedures (SOP) and documents have been studied and redrafted to comply with ISO 9001 requirements. All levels of the Company management have been involved and have contributed to what amounts to a change in management culture, and goes hand in hand with our expansion. The first audits are planned for 2018.

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. In August 2017, during the re-certification of our banana operation we also included our horticultural activities in response to strong customer demand.

Rainforest Alliance

Rainforest Alliance is a well-recognised seal of certification, based on the demanding SAN standard. Being Rainforest Alliance certified is a confirmation of environmental, social and economic excellence. *SIPEF* has made the decision to adopt Rainforest Alliance certification for its banana and tea production, to support the harmonising of practices in the Group. Our Cibuni tea estate (Indonesia) received its Rainforest Alliance certification in the first half of 2016 and our banana operations received Rainforest Alliance certification in the middle of 2016. We engaged Rainforest Alliance to conduct audits at our rubber estates in 2016. After the initial gap analysis we had our first rubber estate and mill in Palembang certified in August 2017. We hope to have our other two rubber estates certified in the course of 2018. Unfortunately, we do not see any market demand yet for sustainably certified rubber.

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 a multi-stakeholder approach, and is a forum for the discussion of best practices and issues relevant to the entire industry. 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.

SIPEF'S APPROACH TO SUSTAINABILITY

STAKEHOLDER ENGAGEMENT

In order for *SIPEF* to operate our plantations on a long-term and durable basis, we need to engage actively with all stakeholders involved to keep our social and legal licence to operate. We believe 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 and practices for our industry. At local level this means that we have to actively engage with the communities that we depend on to access land, labour and a positive social environment to operate in. We provide local stakeholders, such as communities and smallholders, with dedicated contact points to request support or assistance and to raise grievances or concerns. At regional and national level this means that we have to engage with regulatory bodies, and have to strictly comply with and adhere to national laws and regulations.

We also engage strongly with our customers, particularly since most palm oil is shipped to the European Union (EU) where food safety and sustainability is the highest priority. We are building strong and long-lasting relationships with our customers and often engage as partners to tackle new hurdles. It is clear from these long-lasting partnerships that we are being recognised by several of the biggest food suppliers in the world as one of the best providers of certified products. This counts for our oil palm products, teas and bananas. In general, for our rubber customers we are considered to be at a similar level; however, unfortunately there is not yet such engagement with certified sustainable rubber.

In the oil palm sector, the Roundtable on Sustainable Palm Oil (RSPO) is the most relevant example of stakeholders gathering to establish a global, demanding standard. For our other crops, the Sustainable Agriculture Standard (SAS) from SAN is our reference. Compliance with SAN is demonstrated by obtaining Rainforest Alliance certification.

SIPEF'S APPROACH TO SUSTAINABILITY

STAKEHOLDER ENGAGEMENT

"*SIPEF* has been an excellent partner in furthering our mutual commitments to achieving a more sustainable palm oil supply chain. *SIPEF* has demonstrated exceptional transparency and will to progress through their participation in a High Carbon Stock Approach study, co-funded with Cargill, of their proposed development area and contributed constructively to dialogues on balancing livelihood development and conservation."

Alexandra Experton,
Sustainability Director
Cargill Agricultural Supply Chain, Asia Pacific

SIPEF'S APPROACH TO SUSTAINABILITY

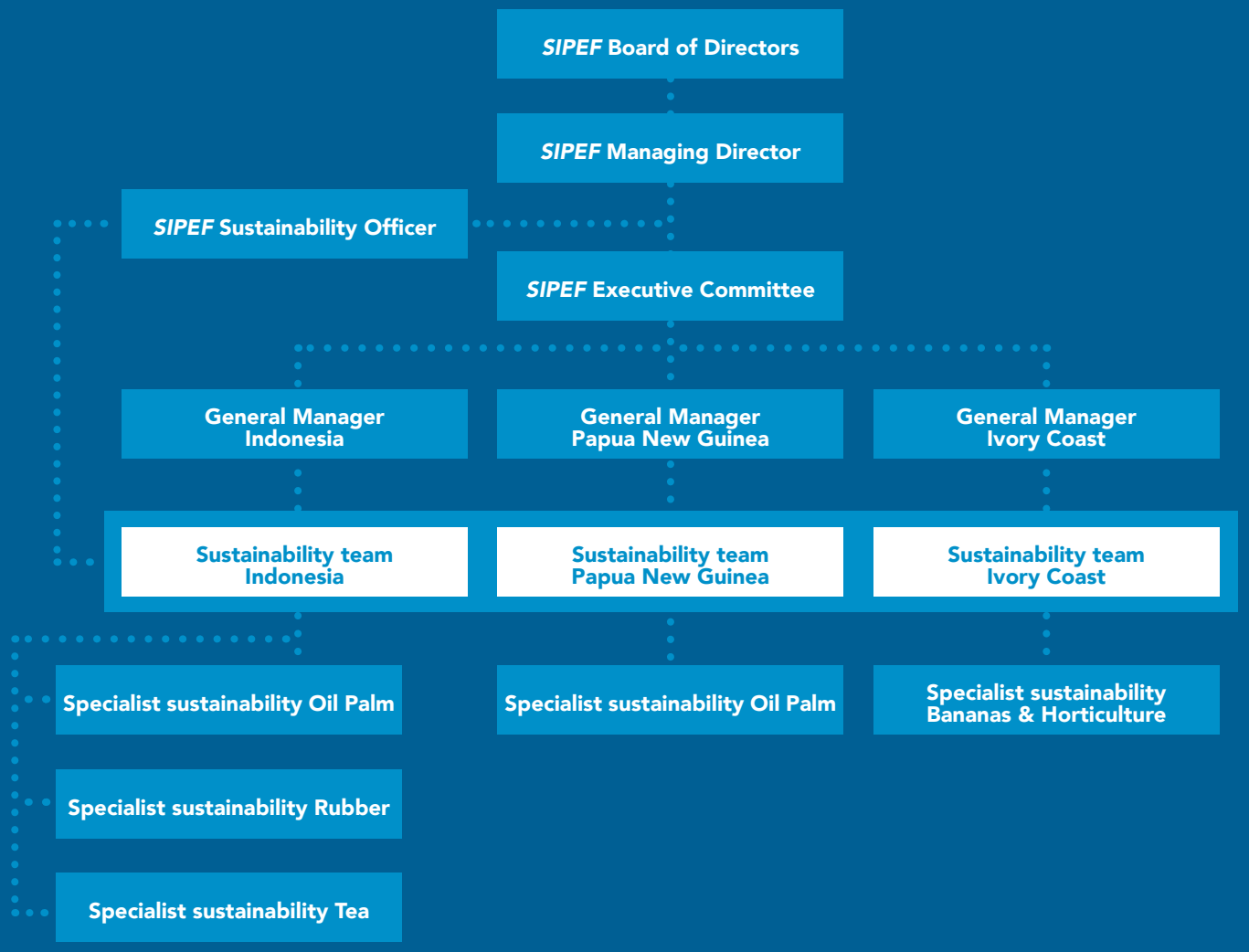
CORPORATE GOVERNANCE AND MANAGEMENT

SIPEF has a traditional one-tier governance structure. The Board of Directors manages the Company as a collegiate body and is accountable to the shareholders' meeting, which appoints and dismisses the directors. The Board of Directors has full decision-making authority, and its responsibilities include both policy formulation and supervision. The Board of Directors delegates the daily management of the Company to a collegiate body, which, since 1 July 2014, has been called the Executive Committee.

The Board consists of eight non-executive directors, four of whom are independent, and one executive director. Three Board members are female. Seven members have Belgian nationality, one is Dutch, and one is a British citizen.

The sustainability team has been growing over the years, and the Group sustainability officer reports to the managing director. The Board receives updates from the sustainability officer on a quarterly basis.

MANAGEMENT STRUCTURE



RESPONSIBLE PLANTATION AND PROCESSING MANAGEMENT

BEST MANAGEMENT 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*.

Best Management Practices are adopted and implemented to ensure optimal use of the land converted into plantations. Existing oil palm blocks established on peat are managed to meet or exceed the RSPO 'Best Management Practices for existing peat plantations'.

Specific attention is given to the use of pesticides. Integrated Pest Management (IPM) plans are developed for all operations and reviewed annually. All active ingredients in use are also reviewed annually for safety and efficacy. Pesticides in World Health Organisation (WHO) classes 'Ia' and 'Ib' are used only when no effective alternatives are available. Their use is authorised in writing by local senior management on a case by case basis. The active ingredient, paraquat, was phased out of all our operations in 2016. All workers, permanent or otherwise, involved with pesticides are trained and equipped adequately and their health is monitored.

In all our crops, IPM systems are in place. IPM is a holistic concept where pesticides are one element of pest management, but not the only element. Specific, targeted agricultural practices are a part of pest management. For example, 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 logic 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 will still trigger the use of pesticides, in a controlled, measured manner. On our banana estates, great attention is given to avoiding the development 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 plantation block level. Our strategy is 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, based on official recognition by the authorities, on feedback from use, and on the latest scientific information. Only the pesticides on that list can be ordered by the estates. Starting in 2015, *SIPEF* has started to phase out paraquat in its plantations. Our Papua New Guinea operations were the first, followed in 2016 by all other operations.

All our estates comply with, or exceed, local regulations for the establishment of conservation areas. In Indonesia and Papua New Guinea, all our operations assess and manage high conservation value (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 PLANTATION AND PROCESSING MANAGEMENT

GREENHOUSE GAS (GHG) EMISSIONS

Methane capture: Liquid effluent from palm oil mills emits a significant amount of methane, a known GHG. To reduce emissions of methane, *SIPEF* is committed to installing methane-capture mechanisms in all its new palm oil mills. All existing mills will be upgraded as and when it is technically and financially possible.

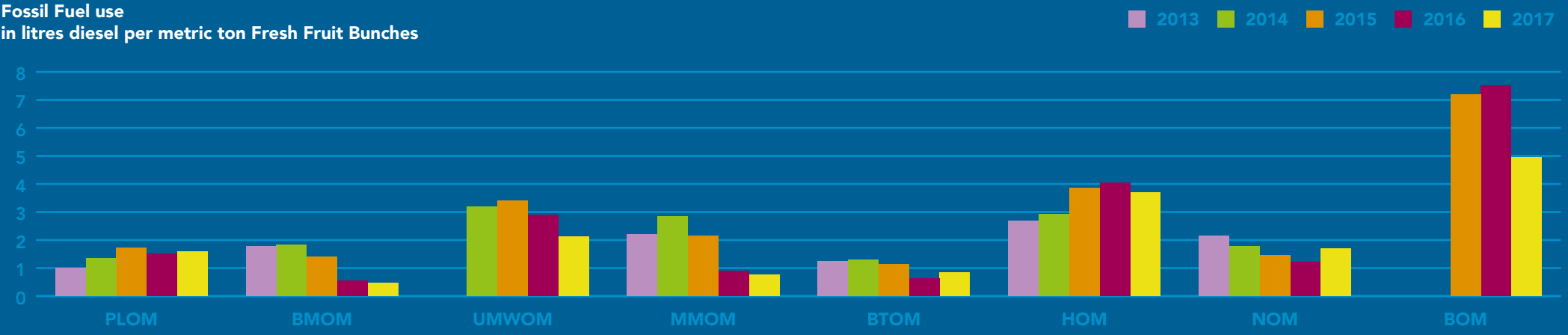
The 'carbon' performance of our oil palm operations is monitored, using RSPO- or ISCC-endorsed methodologies and reporting tools.

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 palm oil mill effluent (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 nett 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* has adopted the High Carbon Stock (HCS) methodology after the convergence of HCS-a and HCS+. At the moment, we are implementing 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. Since 2016, we have been 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 nine *SIPEF* oil mills are now equipped to capture methane and thus contribute to limit their environmental impact even more. All methane capture devices installed in our plants are registered with the United Nations Framework Convention on Climate Change (UNFCCC) and meet the CDM standard, validating the techniques used. In 2016, we installed 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 to 0.55 l/tonne fresh fruit bunches processed.

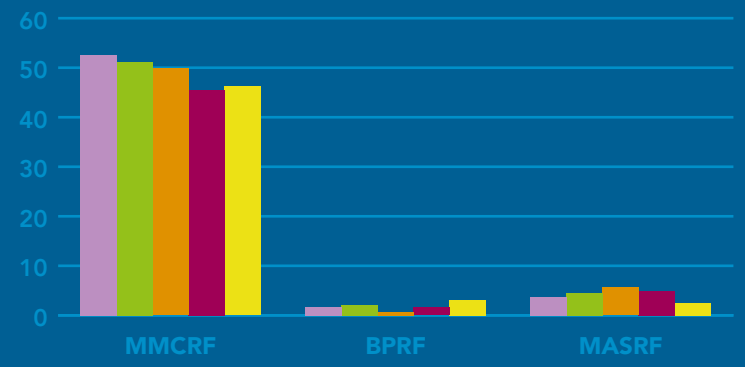
RESPONSIBLE PLANTATION AND PROCESSING MANAGEMENT

GREENHOUSE GAS (GHG) EMISSIONS

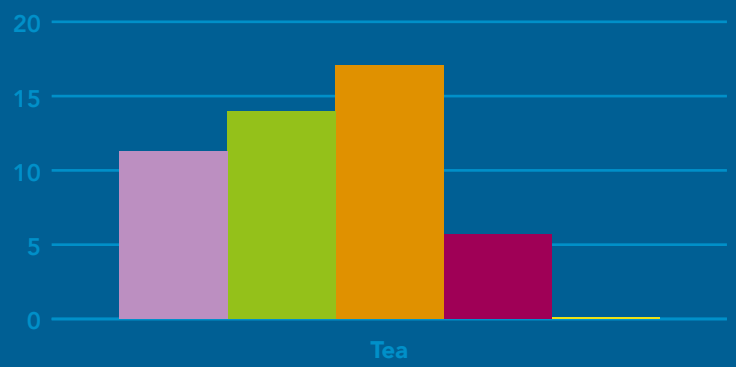
Fossil Fuel use
in litres diesel per metric ton Fresh Fruit Bunches



Fossil Fuel use
in litres diesel per metric ton Rubber



Fossil Fuel use
in litres diesel per metric ton Tea



GHG level kg CO_2eq/metric ton Crude Palm Oil

	2016/2017
PLOM	0.62
BMOM	0.52
UMWOM	12.31
MMOM	0.50
BTOM	0.25
HOM	1.80
NOM	2.34
BOM	1.66

Since we have opted to use the latest palm GHG 3 methodology in 2016, we cannot compare them with previous years as the methodology was different then.

SIPEF
2016-2017

RESPONSIBLE PLANTATION AND PROCESSING MANAGEMENT

WATER

Water is a precious resource, which we manage as carefully as possible.

We prevent pollution of waterways by maintaining riparian strips of various widths, depending on local regulations and best known practices.

As none of our crops in Southeast Asia are irrigated, our main use of water is for processing and for the use of our employees and their families. However, our banana plantation in Ivory Coast is using irrigation.

In our oil palm operations, the older mills tend to use more water per metric ton of fresh fruit bunches than the newer, better-designed mills. We are improving our operations gradually, with a target of less than 1 metric ton water per metric ton fresh fruit bunches for processing. The data for some palm oil mills still includes the water used by our employees and their families (PLOM, UMWOM, MMOM, BTOM, HOM and NOM).

Most of our operations are showing positive trends of water use per metric ton of product, although there are unexpected deteriorations in performance, which we are actively investigating and remediating.

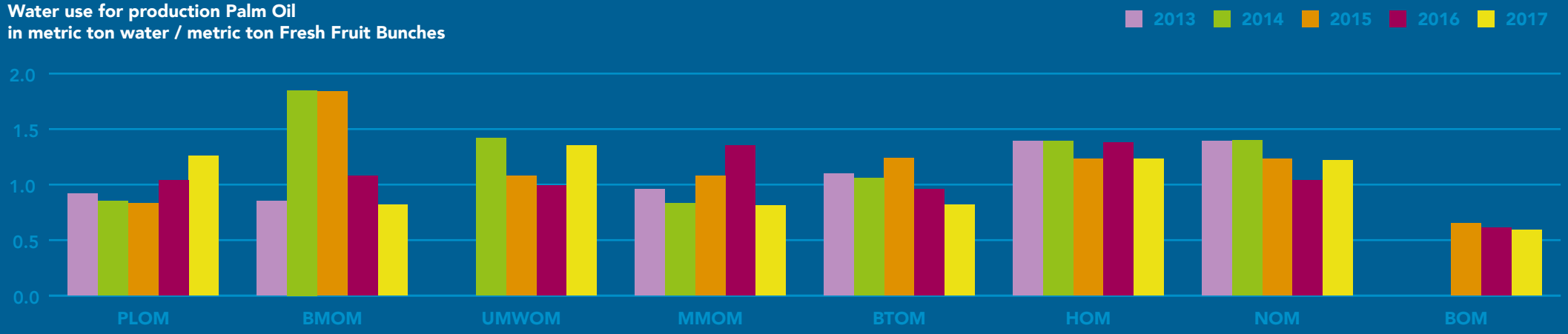
Rubber remains the most water-intensive product by far, followed by tea, palm oil and bananas. We are preparing targets for each product, and will be presenting our performance against those targets in the next Sustainability Report.

For all our operations, wastewater discharge is carefully monitored for compliance with local regulations. Wastewater is either used as a liquid fertiliser (land application), or is discharged in waterbodies after we are sure it will have no negative impact.

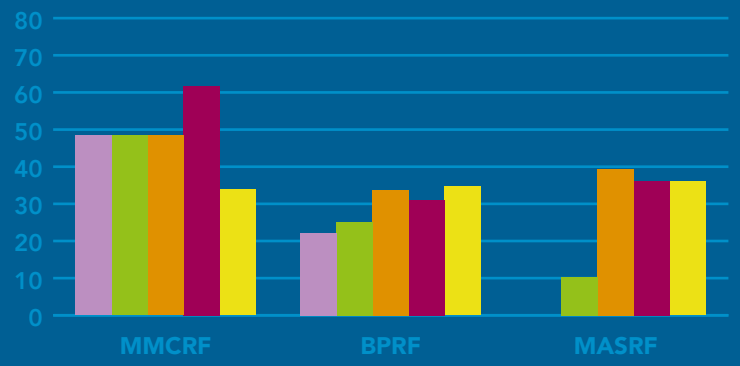
RESPONSIBLE PLANTATION AND PROCESSING MANAGEMENT

WATER

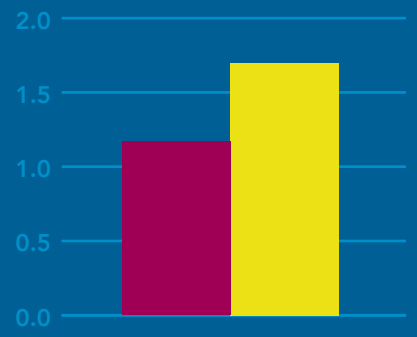
Water use for production Palm Oil
in metric ton water / metric ton Fresh Fruit Bunches



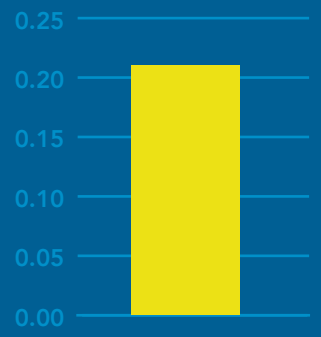
Water use for production Rubber
in metric ton water / metric ton dry rubber



Water use for production Tea
in metric ton water / metric ton tea



Water use for production Bananas
in metric ton water / metric ton bananas



For tea and bananas there were only data available as from 2016 respectively 2017

SIPEF
2016-2017

RESPONSIBLE PLANTATION AND PROCESSING MANAGEMENT

WILDFIRE PREVENTION

In all our operations, with a particular focus on those on peat, specific attention is given to fire prevention, fire risk monitoring and firefighting. The fire risk status is updated every day and communicated 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.

RESPONSIBLE PLANTATION AND PROCESSING MANAGEMENT

PRODUCT QUALITY

Our commitment to produce quality palm oil, palm kernels, rubber, tea and bananas has been the backbone of our existence and is providing the first entry point for our customers. *SIPEF* believes in long term partnerships with our customers and, therefore, we recognise the importance of safeguarding the highest standards in quality.

We believe quality products start in the fields. Good seedlings for oil palm and good clones for rubber and tea, as well as good tissue culture for bananas, are essential to begin with. Good upkeep of the fields, application of the right fertilisers and accessibility of the fields are critical to harvest a good product.

Our yield per hectare and the respective oil extraction rates (OERs) in Papua New Guinea are leading in the industry and hence they are the benchmark for our operations in Indonesia. We recognise the differences in soil structure, however we still believe those targets can be met.

A very important challenge going forward is to increase the yield from the smallholders in Papua New Guinea to improve their income and close the gap between our plantation yields. Our Hargy operation has for two years increased its involvement in the extension services provided to smallholders, relieving the local government of part of this critical but management-intensive task. The cooperation has been hugely positive. We are investing 4 Kina per tonne to improve their knowledge of effective farming and we expect the yields to improve further over time.

RESPONSIBLE PLANTATION AND PROCESSING MANAGEMENT

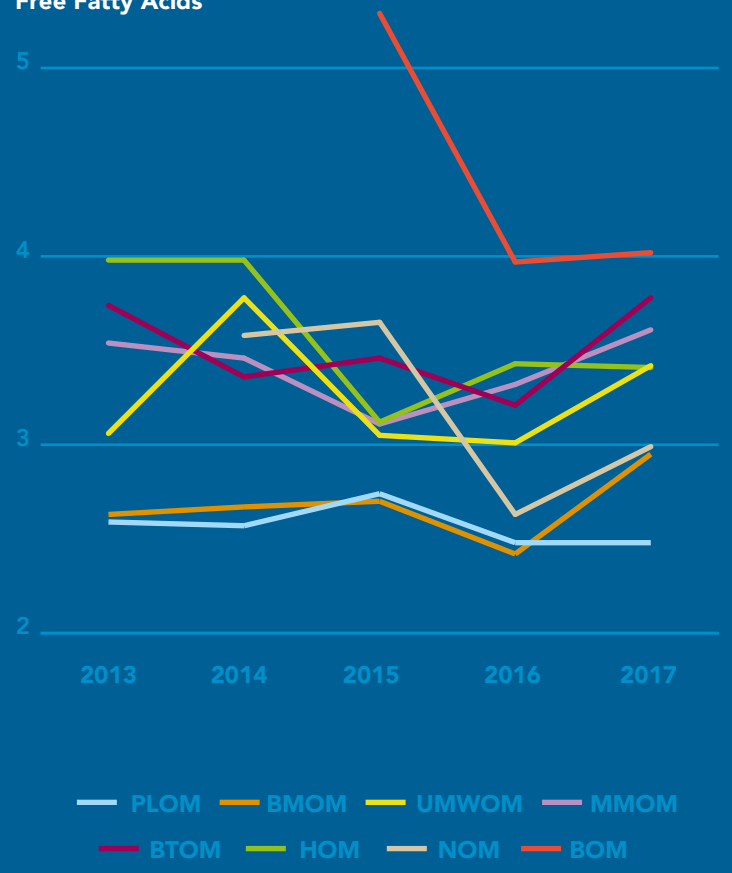
PRODUCT QUALITY

Yield per hectare

		2013	2014	2015	2016	2017
Average mills Indonesia		18.29	20.36	21.49	20.97	22.72
Papua New Guinea	plantations	26.3	27.09	26.46	26.72	27.20
	smallholders	18.82	17.50	18.26	17.67	19.46

	2013	2014	2015	2016	2017 - Sept
OER Indonesia	21.91%	21.83%	22.44%	22.18%	22.89%
OER Papua New Guinea	22.82%	23.17%	23.41%	23.93%	24.64%
Group OER	22.25%	22.29%	22.80%	22.83%	23.26%

Free Fatty Acids



SIPEF
2016-2017

RESPONSIBLE NEW DEVELOPMENTS

SIPEF is committed to the RSPO New Plantings Procedure (NPP). All our oil palm developments comply with the RSPO NPP. All new *SIPEF* operations (plantations and processing facilities) will be designed to minimise their nett GHG emissions. *SIPEF* supports the development of practical, science-based carbon assessment tools to guide plantation companies in their new developments.

Development of non-oil palm operations follows a mechanism similar to oil palm developments: implementation of the Free, Prior and Informed Consent (FPIC) process, HCV assessment by third-party specialists, Social Impact Assessment (SIA), (even if not required by local regulations), as well as a strict agronomical suitability review.

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.

RESPONSIBLE NEW DEVELOPMENTS

NO DEFORESTATION

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, which combines social and environmental elements. We also recognise that HCS assessments are an important tool to achieve our commitment.

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

Starting in 2017, and following the convergence of the High Carbon Stock Approach (HCSA) and the High Carbon Stock Study (HCS+), combined HCV-HCS assessments are carried out for new oil palm developments. The result of such assessments is a clear delineation of 'go' and 'no go' areas.

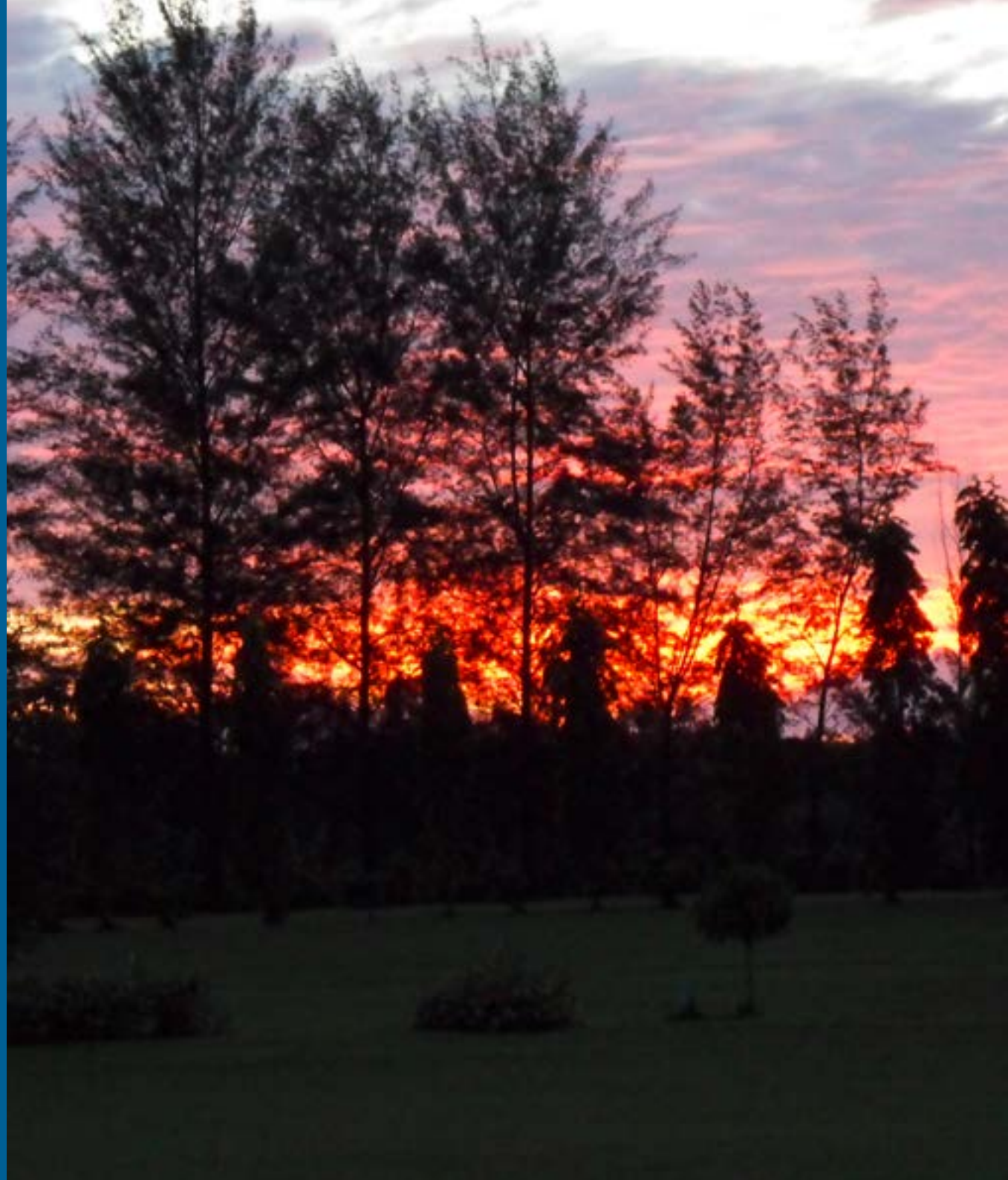
NO PEAT

SIPEF will not develop peat areas into new estates (since November 2014).

RESPONSIBLE NEW DEVELOPMENTS

NO USE OF 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 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 Southeast 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.



RESPONSIBLE NEW DEVELOPMENTS

RESPECT FOR COMMUNITIES' RIGHTS

SIPEF believes that a thorough FPIC process is critical to the long-term success of any new operation, both for the communities and for the Company.

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.

RESPONSIBLE SOCIAL PRACTICES

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 maintain 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 for thousands of people, directly and indirectly. Most of the employees are housed on our operations, 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 the transportation of the goods, or provides working capital to our worker cooperatives, to ensure that prices remain stable and affordable. In Indonesia, the employee's cooperatives have successfully set up minimarkets in most operations.

RESPONSIBLE SOCIAL PRACTICES

	Indonesia	Papua New Guinea	Ivory Coast
Number of schools	57	1	3
Number of teachers	188	7	1
Number of clinics	24	10	3
Number of medical personnel	45	26	7

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 is reviewed the following month. To provide equal access to work, most of our operations provide free daycare for small children. Our target is to provide this service in all our operations by the end of 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 Wisesa (UMW) operation, a primary school has been built, initially only for the children of the employees. However, at the request of surrounding communities, the school has now been expanded to three times its original size. Without the development of our operations, 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, HOPL 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 Agro Muko 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* pre-finances the development of the blocks and later buys the production at market prices. The village cooperatives can enjoy significant additional revenue, which is then used for communal works. Monthly accounts are communicated to the cooperatives, and the 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.

RESPONSIBLE SOCIAL PRACTICES

IMPACT ON COMMUNITIES

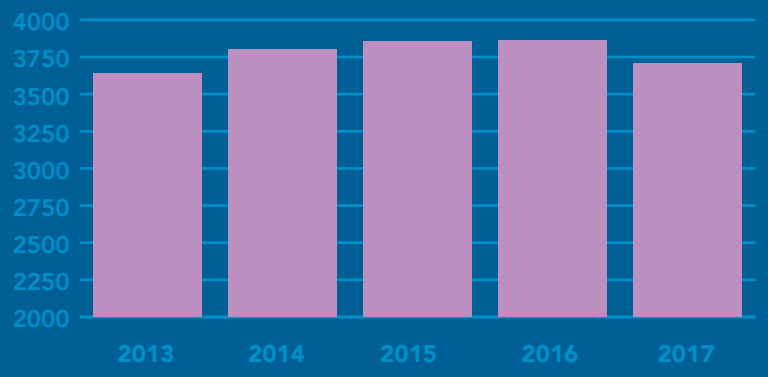
SIPEF believes in being a 'good neighbour'. Environmental impacts from our operations are controlled to avoid any negative impact for the people around us. Communities neighbouring our operations, or affected by them, are consulted periodically, and as much as possible provided with opportunities to benefit from our activities. *SIPEF* provides employment, builds and maintains schools, roads, health centres, bridges and places of worship. Smallholder oil palm projects are developed with and for local communities, beyond legal requirements.

Our Papua New Guinea oil palm operation, HOPL, is the most engaged with smallholders. It has included over 3 700 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.

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.

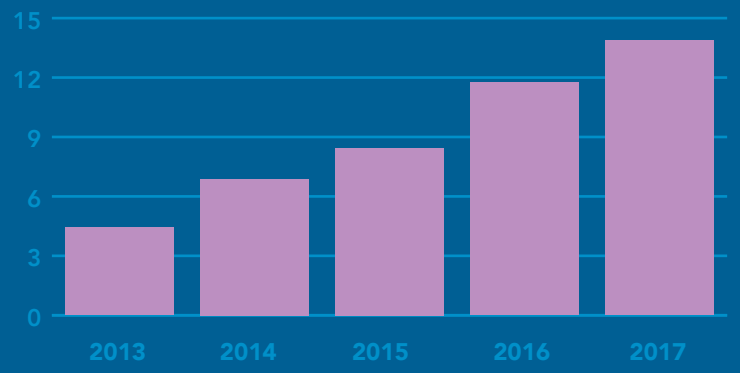
Grievances, both internal and external are considered seriously, and are handled through transparent and unbiased mechanisms. The grievance mechanisms allow for appeals to higher management.

Number of smallholders in PNG



A comprehensive audit of smallholder blocks conducted in 2016/2017 revealed that the correct number of blocks is 3 708, because of changes in ownership and land use since the first palms were planted.

Premium paid in PNG



RESPONSIBLE SOCIAL PRACTICES

CHILD LABOUR

Child labour is not tolerated in any of our operations. *SIPEF* has set the minimum age for employment on our operations at 18. A group-wide policy sets clear, simple rules to ensure no child labour can take place. All employees are informed of this policy, and are clearly encouraged to denounce any possible occurrence of child labour, including by third-parties providing our operations with any kind of service.

RESPONSIBLE SOCIAL PRACTICES

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

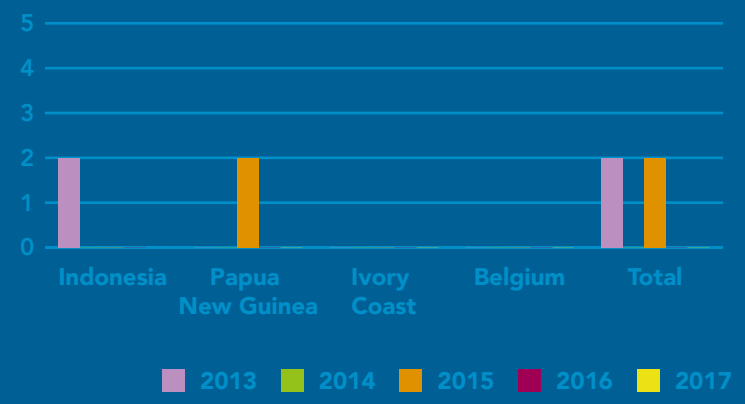
Our overarching goal is zero work-related fatalities. To achieve this, we assess risks, design or modify the work-places, provide protective equipment, train and train again, carry out inspections, and study every accident to avoid a repetition. Our Company doctors independently record Lost Time to Injury (LTI) for each management unit. The information is discussed at management meetings. Starting from 2015, our Indonesian operations have been recording the frequency rates of all their accidents.

We are pleased that our Lost Time Injury Frequency Rate (LTIFR) has shown a declining trend, except for Ivory Coast, and we had no fatalities in 2016 and 2017. Unfortunately, we had in 2017 many small accidents in Ivory Coast as we are working with several sharp field-tools.

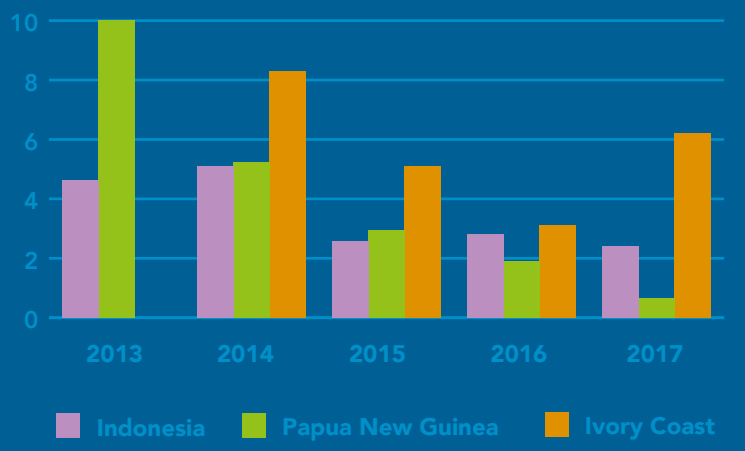
Specific attention is given to employees who handle chemicals, including pesticides, regardless of the concentration and quantity. Such employees receive distinct training, supervision and protective equipment. Pregnant and breastfeeding women are not allowed to handle chemicals, and are re-assigned to other duties during their pregnancies and while they are breastfeeding. Periodic health checks are carried out for all workers, but at shorter intervals and more in-depth for employees handling chemicals. There were no reports of accidents or illnesses due to the handling of chemicals in 2015, across all operations.

Under the Occupational Health and Safety Administration (OSHA) Standard used for reporting here, Lost Time Injury Frequency Rate (LTIFR) is calculated as the number of Lost Time Injuries (LTI) plus fatalities, divided by the number of hours worked, multiplied by a factor of 200 000.

Fatalities



LTI Frequency Rate



SIPEF 2016-2017

RESPONSIBLE SOCIAL PRACTICES

FAIR LABOUR PRACTICES

Fair labour practices are the norm in all our operations. Local labour regulations are strictly followed, and further supported by specific Company policies on minimum working age, forced or trafficked labour, discrimination, gender, and on the importance of a safe workplace. Our employees, permanent or not, are treated fairly. Work contracts are clear and comply at least with local regulations.

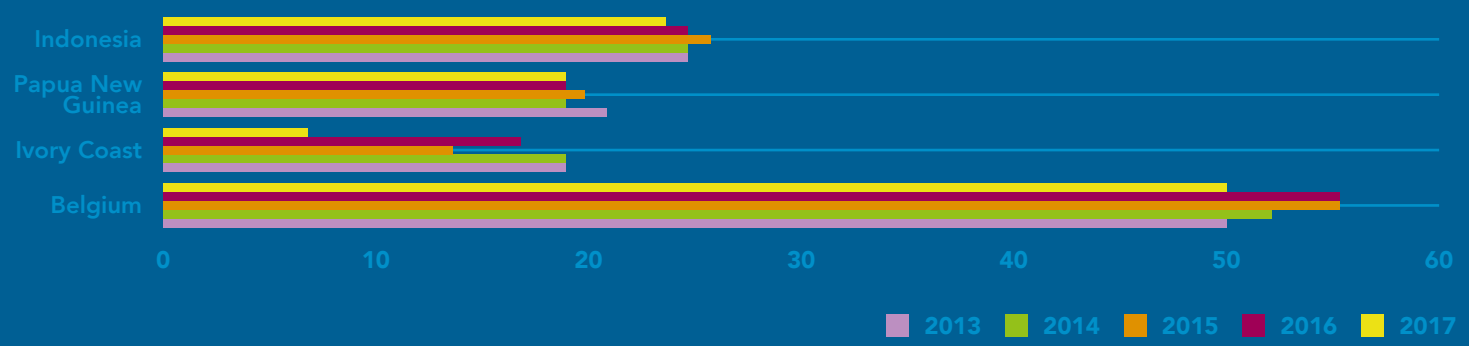
We are fully aware that the oil palm industry has been traditionally male dominated and we seek to improve the gender balance where appropriate. We are glad to see more female cadets entering our training programmes to become field estate managers. Our Board has set an example where 33% was female in 2017.

SIPEF has adopted and implemented various Group policies on labour:

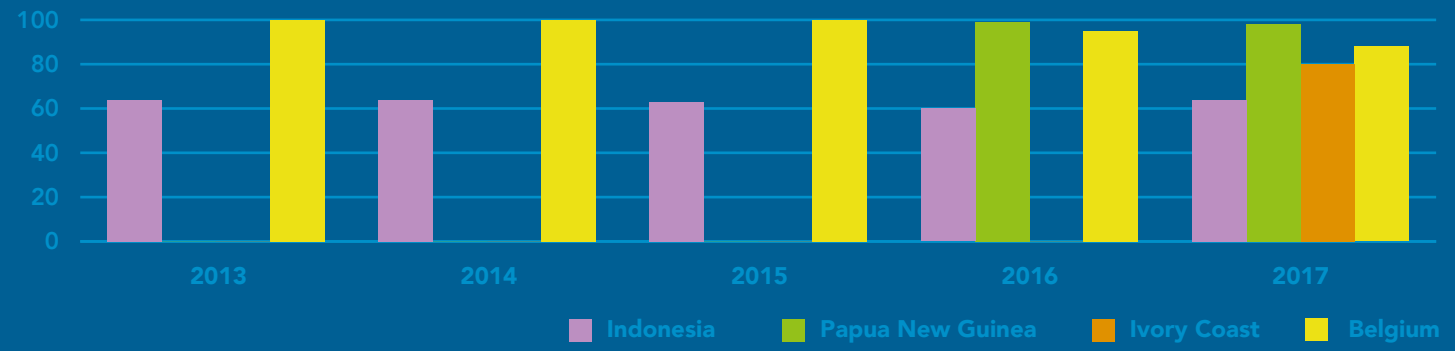
- No child labour (no worker under the age of 18)
- No forced or trafficked labour
- No discrimination
- No sexual harassment
- Freedom of association and collective bargaining.

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.

% Women



% Permanent Employees



SIPEF 2016-2017

RESPONSIBLE SOCIAL PRACTICES

ETHICS POLICY

Corruption is a considerable obstacle to economic and social development around the world. It has negative impacts on sustainable development. *SIPEF* acknowledges that and we already have codes of conduct in most countries in which we operate. However, in 2017 we have officially adopted a Group Ethics policy, in which is enshrined our principle of zero tolerance of bribery and corruption. We have made this policy publicly available through our website.

We have started to provide training for our procurement and licensing departments, and it is our target to ensure that employees at every level of the business understand the relevance and importance of our policy.

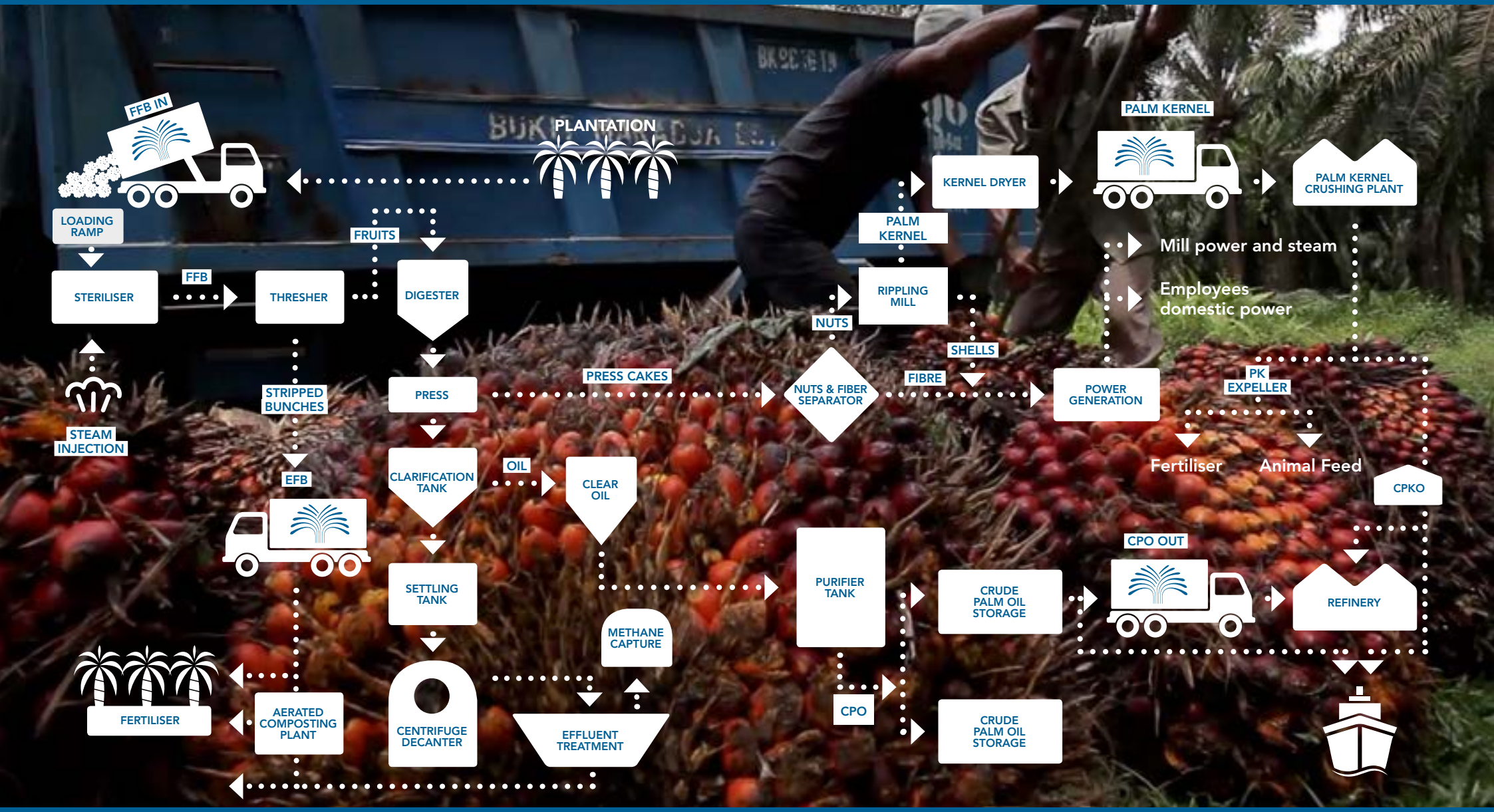
- Compliance: all relevant international and national laws will be upheld.
- Transparency: shareholders and stakeholders will be provided with all non-confidential information.
- Zero-tolerance towards bribery and corruption. Facilitation payments are actively avoided and gifts may only be given with prior approval from senior management.
- There is zero tolerance of slavery or forced labour.
- Management and employees are prohibited from using the Group's facilities or working hours to conduct personal business.

TRACEABILITY

Traceability is a key component of sustainability. We encourage full transparency of commodity supply chains. Our customers have the right to know the origin of our products. *SIPEF* will disclose the origin of any shipment to its customers, and to concerned stakeholders. All commodities sold by *SIPEF* are fully traceable to their place of production, either an estate managed by *SIPEF* or an associated smallholder plot.

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 fulfil 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 importantly, it builds stable, harmonious communities and partnerships.

TRACEABILITY



ABOUT THIS REPORT
IT IS ALL ABOUT TRANSPARENCY

COMPLETENESS

This report covers the calendar years 2016 and 2017. It focuses on the sustainability performance of all our oil palm plantations, mills and storage facilities in which the Group has a shareholding as at 31 December 2017. In addition, with reference to impacts within our own organisational boundaries, the report covers material aspects for all associated smallholders. Where possible, we have reported on our rubber plantations, rubber factories, tea gardens, tea factory, as well as our banana plantation and packing station. The report does not include detailed information about our small office-based operations in Antwerp. The report also does not include our shareholding in BDM-ASCO, an insurance company, as we are in the finalising phase of selling this asset.

We have also excluded our recently acquired plantation company PT Dendymarker Indah Lestari (DIL), an asset that has been fully RSPO certified since 2014. We simply do not have enough data to provide significant input for this report. PT DIL shall be fully covered in the next Sustainability Report.

ABOUT THIS REPORT
IT IS ALL ABOUT TRANSPARENCY

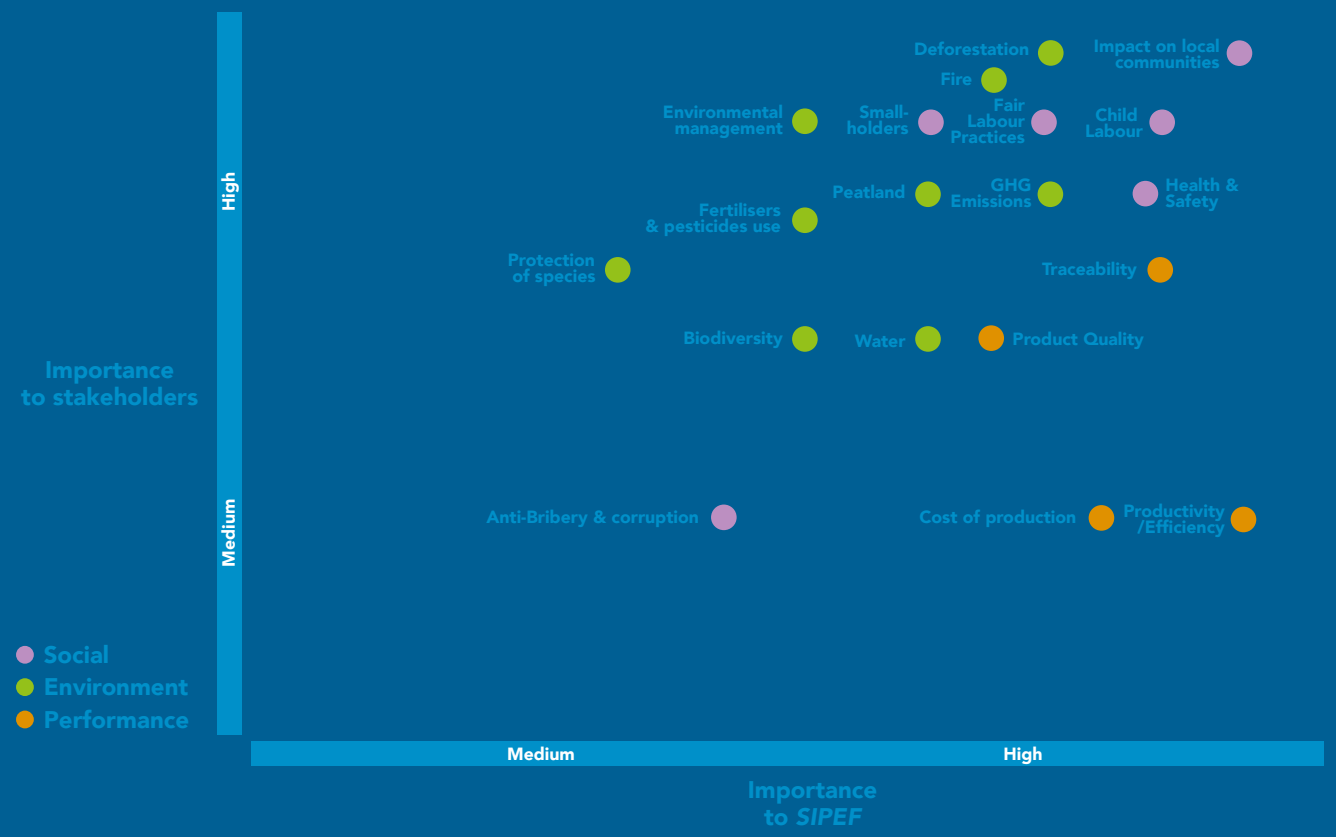
MATERIALITY, STAKEHOLDER INCLUSIVENESS AND SUSTAINABILITY CONTEXT

We determine the material aspects for our business based on ongoing widespread stakeholder dialogue and a review of content that is critical to the *SIPEF* group. The *SIPEF* sustainability team, guided by an external consultant, has jointly consulted our customers, related NGOs as well as peer plantation companies to determine these material aspects. Amongst others, we have reviewed multi-stakeholder initiatives such as the RSPO, the Palm Oil Innovation Group (POIG), as well as benchmarks such as those in the Sustainable Palm Oil Transparency Toolkit published by the Zoological Society of London.

In March and April 2017, the senior management team of *SIPEF* participated in three half-day workshops to prioritise the areas most critical to our group. One of these sessions was fully dedicated to getting the views of our teams on the ground. The extent to which these data are directly relevant to our business has guided us in balancing the report content.

Throughout the report we seek to provide an appropriate context for our performance, particularly in relation to the unique social and environmental landscapes in Papua New Guinea, Indonesia and Ivory Coast.

Sustainability matrix *SIPEF* 2017



SIPEF
2016-2017

ABOUT THIS REPORT
IT IS ALL ABOUT TRANSPARENCY

REPORT CYCLE AND ASSURANCE

This is *SIPEF*'s second Sustainability Report, fulfilling our commitment to produce one biennially. Our previous report was published in December 2015 and is still available on our website (http://www.sipef.com/pdf/policies/2015_sustainability_report_final.pdf). Our next report is scheduled for early 2020.

We have not engaged third party assurance for the content of this report, but we are reviewing the need for such assurance on an ongoing basis, based on the collated feedback from our stakeholders.

ABOUT THIS REPORT
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GLOBAL REPORTING INITIATIVE (GRI) INDEX

Our report is aligned to the GRI Standards, as this framework is the most widely used and comprehensive sustainability reporting standard in the world. The GRI launched the new GRI Standards on 19 October 2016 to further enhance sustainability reporting and corporate transparency worldwide. The GRI Standards provide a common language and guidance for organisations to report on their impacts on and value creation for the economy, environment and society.

Building largely on the 'GRI G4 Guideline', the world's most widely used sustainability reporting guideline, the new GRI Standards feature a revised format and a modular structure of reporting standards on sustainability information.

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102-3	Location of headquarters	10
102-4	Location of operations	10-13
102-5	Ownership and legal form	8
102-6	Markets served	23
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102-10	Significant changes to the organization and its supply chain	8
102-11	Precautionary Principle or approach	14-18, 21-22, 34-37
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GLOSSARY

Biodiversity	The diversity (number and variety of species) of plant and animal life within a region.
Biological Oxygen Demand (BOD)	The amount of oxygen used when organic matter undergoes decomposition by micro-organisms. Testing for BOD is done to assess the amount of organic matter in water.
CO_2 Equivalents	Carbon dioxide equivalents (CO_2e) provide a universal standard of measurement against which the impacts of releasing (or avoiding the release of) different greenhouse gases can be evaluated.
Deforestation	Deforestation is the permanent loss of ecological values and services by the conversion of forests and forested areas.
Effluents	Water discharged from one source into a separate body of water, such as mill process water.
Emissions	Greenhouse gas (GHG) or carbon emissions are gasses in an atmosphere that absorb and emit radiation within the thermal infrared range. This process is the fundamental cause of the greenhouse effect. The primary GHGs in the Earth's atmosphere are water vapour, carbon dioxide, methane, nitrous oxide and ozone.
Extraction Rate	The amount of oil extracted from oil palm fruit at a mill. Oil is extracted from the flesh, crude palm oil (CPO) or from the nut, palm kernel oil (PKO).
High Carbon Stock (HCS)	High Carbon Stock forests are the vegetation classes above the level between degraded lands (former forest now scrub and grassland) and regenerating secondary natural forest. It is identified through a combination of vegetation stratification based on interpretation of remote sensing images and field checks, and a biome or regional specific carbon threshold or range.
High Conservation Values (HCV)	The concept of High Conservation Value Forests (HCVF) was first developed by the Forest Stewardship Council (FSC) in 1999 as their 9th principle. The FSC defined HCVF as forests of outstanding and critical importance due to their environmental, socio-economic, cultural, biodiversity and landscape value.
ILO (International Labour Organization)	ILO is a tripartite world body representative of labour, management and government and is an agency of the United Nations. It disseminates labour information and sets minimum international labour standards called 'conventions', offered to member nations for adoption.
Integrated Pest Management (IPM)	IPM is a pest control strategy that uses an array of complementary methods: mechanical devices, physical devices, genetic, biological, legal, cultural management and chemical management. These methods are done in three stages: prevention, observation and intervention. It is an ecological approach with the main goal of significantly reducing or eliminating the use of pesticides.
Non-governmental Organisation (NGO)	In this report, NGO is used to refer to grassroots and campaigning organisations that are focused on environmental or social issues.

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GLOSSARY

Peat	Peat is an accumulation of partially decayed vegetation matter. Peat forms in wetlands or peatlands, variously called bogs, moors, muskegs, pocosins, mires and peat swamp forests.
Roundtable on Sustainable Palm Oil (RSPO)	A multi-stakeholder organisation based in Kuala Lumpur, Malaysia. The organisation has developed a certification scheme for sustainable palm oil.
SAN standard	The Sustainable Agriculture Network (SAN) is an association of NGOs working towards conservation of biodiversity and rural development. Their vision of the world is one where agricultural activity contributes to biodiversity conservation and sustainable livelihoods.
Social Impact Assessment	Social impact assessments include the process of analysing, monitoring and managing the intended and unintended social consequences, both positive and negative, of planned interventions (policies, programs, plans, projects) and any social change processes invoked by those interventions. Its primary purpose is to bring about a more sustainable and equitable biophysical and human environment.
Stakeholders	Any group or individual who is affected by or can affect the Company's operations.
Sustainability	A term expressing a long-term balance between social, economic and environmental objectives. Often linked to Sustainable Development which is defined as 'Development that meets the need of current generations without compromising the needs of future generations'.
Traceability	Traceability is the capability to track sustainable palm oil along the entire supply chain.
Segregation	This system allows sustainable palm oil to be kept separate from conventional palm oil throughout the entire supply chain.

CONTACT US

We improve by listening to our stakeholders' comments.
We welcome feedback on this report and our sustainability performance in general.
Please contact us by email at sustainability@sipef.com

Or through our Antwerp office

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