

## **MUSIM MAS ACTION PLAN TO ADDRESS POIG AUDIT COMPLIANCE**

Musim Mas has engaged Rainforest Alliance to carry out initial audit to verify level of compliance of Musim Mas operations with the POIG Charter and Indicators (v. March 2016) since its POIG membership in November 2015. Musim Mas has 10 operations or 12 mills in different geographical areas in Indonesia, and each has multiple supply bases. The verifications were carried out in four mills selected as a sample to represent Musim Mas operations. Due to number of samples and different geographical areas, the audit was carried out during a range of time, including 13 – 17 December 2016 and 16 – 24 February 2017.

The POIG verification audit report describes evidence of Musim Mas's sustainability performance. Several partial compliance and non-compliances were identified. Below is Musim Mas' action plan, which was endorsed by Musim Mas management on 28 February 2018, and outlines the actions and timelines towards closing non-compliances.

| Indicator   | Summary Audit Findings and Auditor Recommendation   | Musim Mas Statement   | Rainforest Alliance Comment   |
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| <p>1.1 High Carbon Stock and High Conservation Values</p> <p>Partial Compliance to 1.1.1, 1.1.3, 1.1.4, 1.1.5</p> <p>Non-compliance to 1.1.2, 1.1.6</p> | <p>The company has conducted new planting after 2014 before conducting HCSA assessment. The company conducted Carbon Stock Assessment (CSA) and participatory mapping through HCV assessment which can be considered initial steps in HCSA assessment but not a full HCS assessment in line with the currently available HCS approach methodology. This is why only partial compliance is given to 1.1.1, 1.1.3, 1.1.4, and 1.1.5 and non compliance is given to 1.1.2 and 1.1.6.</p> <p>Further assessments need to be conducted to complete the HCS approach assessment which combines biodiversity, carbon conservation and social considerations (including community needs). The result of the assessments would need to be registered with the HCSA SG and submitted for peer review to be in compliance. In addition, Musim Mas need to provide land cover change analysis that demonstrates no new planting on HCS forest areas after March 2014.</p> <p>Musim Mas also need to make the summary report of the full HCSA assessment public.</p> | <p>Musim Mas conducted Carbon Stock assessments in 2015 but to demonstrate no new plantings take place in HCS forest areas after March 2014 Musim Mas is in the process of conducting Land Use Change (LUC) Analysis following HCSA for planting area between March 2014 – May 2015. The LUC has been completed in Q4 2017.</p> <p>HCS Toolkit was first released in 2015 and is essentially comprised of three main steps: FPIC, land cover stratification and HCS decision tree.</p> <p>Musim Mas has conducted participatory mapping during HCV assessment to identify area important for the community including garden and farmlands fundamental to meet their basic needs. The land cover stratification process was done through CSA by independent consultant in 2015. The CSA shows there is no forest area in the concession, hence HCS decision tree was not conducted. At that time, Musim Mas consider the HCS process has been completed.</p> <p>Further to the POIG verification, Musim Mas will continue participatory mapping process according to HCSA and complete HCSA assessment process and submit HCS assessment report to HCSA Steering Group for peer review and summary HCS assesment report will be publicly available at HCS website (<a href="http://www.highcarbonstock.org">www.highcarbonstock.org</a>) by Q3 2018 for sampled estates all will be submitted (see timeline for submission of HCS reports to HCSA). The other units will all submit according to the timeline provided for the auditor to review.</p> <p>Musim Mas is committed to protect HCS area in line with Musim Mas Sustainability Policy. Policy can be found here <a href="http://www.musimmas.com/sustainability/sustainability-policy">http://www.musimmas.com/sustainability/sustainability-policy</a></p> | <p>Verifiable through document review will be:</p> <ol style="list-style-type: none"> <li>1. LUC report</li> <li>2. HCSA report</li> <li>3. Timeline for HCSA submissions of all HCS to HCSA</li> </ol> <p>Verifiable through site visit.<br/>Company commitment (no new planting prior to HCS study)</p> |

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| <p>1.2 Peatland</p> <p>Partial compliance to 1.2.3<br/>Non compliance to 1.2.4, 1.2.7</p> | <p>All companies under the management of Musim Mas have stopped planting on peat areas since the end of 2007. Musim Mas has a policy not to use fire (zero burning) in land clearing to develop plantation. No road or other infrastructures is developed on peatland in accordance with the company policy not to develop peat.</p> <p>In existing planted peat area, the company has developed of a network of water control structures to regulate the water level. The company records showed that the water table is maintained at an average of 50 cm below ground surface (piezometer readings) even though during dry season it can reach 80 cm.</p> <p>Prior to replanting, company has conducted drainability assessment. The replanted area showed an increase in productivity compared to old area.</p> <p>At the time of this verification, the company did not have specific assessment to identify critical peatland ecosystem. The company also did not have mechanism for peat restoration. Lastly, the peat map is not yet made public. Thus lead to partial compliance to 1.2.3 and non compliance to 1.2.4 and 1.2.7</p> <p>The company should conduct an assessment to identify critical peatland ecosystem. The company shall also consider seeking input from competent professional expert on peat and discussion with relevant government representative regarding regulation on critical peatland ecosystem. In addition, the company could collaborate with the POIG PWG to identify the critical peatland ecosystems and restoration opportunities.</p> | <p>Subsequent to POIG verification, Musim Mas is working with Indonesian Environmental and Forestry Ministry (<i>Kementerian Lingkungan Hidup dan Kehutanan</i> (KLHK)) on identification of critical peatland in its operations. Musim Mas is required to map the topography, hydro-topography, peat depth, water management system, and water level monitoring plots of the peatland area for submission to KLHK.</p> <p>Musim Mas has submitted all of those maps to KLHK and has obtained Surat Keputusan from KLHK approving the water level monitoring plots. The identification of peat land area is currently under review, in which KLHK will take into account the water level monitoring result. These steps are part of PROPER evaluation, which will be re-evaluated annually. Musim Mas will work with the peat land working group and other specialist to review critical areas identified and restoration mechanism.</p> <p>Based on the monitoring results reported to KLHK, KLHK will determine the next step, conduct joint field verification to confirm the presence of peat land area. Peat restoration mechanism will be developed upon KLHK's decision and guidance.</p> <p>The progress on our engagement with KLHK will be presented during POIG verification audit in Q1 2018.</p> <p>Musim Mas expect to publish its inaugural sustainability report in Q3 2018. The sustainability report consistent with Global Reporting Initiative (GRI) guideline will outline all issues relevant to Musim Mas governance of its sustainability systems, including and not limited to RSPO indicators and POIG Charter.</p> | <p>Verifiable through document review.</p> <ol style="list-style-type: none"> <li>1. The progress on MM engagement with KLHK</li> <li>2. Review the critical peatland areas within the estates and develop a strategy to address any critical area identified. Review identification report by Q1 2019.</li> <li>3. Develop Peat restoration mechanism (Q4 2019)</li> <li>4. Sustainability report</li> </ol> |

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| <p>1.3 Greenhouse Gas (GHG) Accountability</p> <p>Non compliance to 1.3.3</p> | <p>The GHG emission monitoring reports for the year 2006, 2010, 2011, 2012, 2013, 2014, 2015, and 2016 for all four mills visited were presented and reviewed during this verification. Targeted reduction of GHG emission is available. The target is set up based on the GHG emission in 2006 where peat best management practices and the adoption of technologies were not yet implemented. Installation of methane capture in 2012 and 2013 for the four mills resulted in significant GHG reduction. However, the GHG emission and its targets are not published yet, leading to non compliance to 1.3.3.</p>  | <p>Musim Mas expect to publish its inaugural sustainability report in Q3 2018 which will address the GHG public communication and targets. The sustainability report consistent with Global Reporting Initiative (GRI) guideline will outline all issues relevant to Musim Mas governance of its sustainability systems, including and not limited to RSPO indicators and POIG Charter.</p> | <p>Verifiable through document review.</p> <ol style="list-style-type: none"> <li>1. Sustainability report (Q3 2018)</li> </ol>   |
| <p>1.4 Pesticide use minimization</p> <p>Non compliance to 1.4.1, 1.4.3</p>   | <p>All companies belong to Musim Mas Group have stopped using Paraquat. However, the use of prohibited pesticides under POIG standard was still observed during this verification. Those are pesticides with active ingredients such as Acephate, Benomyl, Warfarin, Carbofuran, Permethrin, Fipronil, Amitraz, Carbosulfan, and Coumatetralyl. Based on the pesticide application record, the prohibited pesticide are used regularly.</p> <p>The approval from POIG Organizing Committee is not yet available for the emergency use of prohibited pesticides.</p> <p>The company should seek approval from POIG Organizing Committee for emergency use. While for regular use, the company should seek alternatives for the prohibited pesticides.</p> | <p>Musim Mas is looking at alternative pesticides through trials. Musim Mas will provide justification for using prohibited pesticide by FSC and SAN and seek approval from POIG Organizing Committee by Q3 2018.</p>   | <p>Verifiable through document review.</p> <ol style="list-style-type: none"> <li>1. List of used pesticides</li> <li>2. To be submitted for POIG approval for prohibited pesticides (to be verified in Q3 2018)</li> </ol> |

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| <p>1.5 Chemical Fertilizer</p> <p>Partial Compliance to 1.5.2</p> <p>Non Compliance to 1.5.3</p> | <p>The company has applied fertilizers following agronomic recommendations based on soil and leaves analysis. This approach minimize wasted and ineffective application or minimize the use of fertilizers when they are not necessary. The company also applies ashes from the boiler in peatland to maintain its pH level and applies dry decanter solid in place of potassium on sandy soil to increase moisture retention. Overall, the application of boiler ash and dry decanter solid has minimized the use of chemical fertilizers.</p> <p>The company has monitored P and N level in the water courses. However, monitoring is not always done at inlet and outlet of the water courses thus influence of fertilizer application to surface water quality within the plantation areas cannot be measured properly. The results of phosphorous and nitrogen monitoring also not publicly available.</p> <p>The company is recommended to adjust the location of surface water sampling to the inlet and outlet points of the water bodies and implement measures if an increase in phosphorus and nitrogen levels is observed.</p> | <p>Musim Mas has always assess potential impact of its operation may have to environment and social condition (Social Environmental Impact Assessment (SEIA)) prior to commencement of its operation and all are in line with Indonesian regulations as well. Based on the assessment, company has management plans to promote positive impacts and mitigate the negative impacts identified. Implementation of the management plan is constantly monitored and reported to the government agency every 6 months.</p> <p>Water management and monitoring has always been one of the aspect consistently monitored and reported. Water samples have been taken from several points assigned by the government to measure impact of company's operation to water quality. These sampling points are determined by government based on impact analysis, and may not always in the inlet and outlet position</p> <p>Since POIG verification, Musim Mas has reviewed water monitoring points in its operation, resulted in additional monitoring points to reflect inlet and outlet position. Musim Mas is also in the process of establishing guidance procedure to deal with increase of P and N level in water courses. Progress will be presented during next POIG verification audit in Q1 2018.</p> <p>The monitoring result will be published in Musim Mas Sustainability Report due in Q3 2018.</p> | <p>Verifiable through document review.</p> <ol style="list-style-type: none"> <li>1. Surface water analysis sampling location (check on site Q1)</li> <li>2. SOP for measure to be taken related to the result of the analysis (check on site Q1)</li> <li>3. Sustainability report (Q3 2018)</li> </ol> |

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| <p>1.7 Water Accountability</p> <p>Partial Compliance to 1.7.1, 1.7.2, 1.7.4</p> <p>Non Compliance to 1.7.3</p> | <p>The company mills may have monitored all of their water use, water consumption and water pollution.</p> <p>The supply base (estate) on the other hand has monitored water use but has not monitored water consumption. Note that water consumption is different from water use.</p> <p>The company has also set water usage target and are able to compare their water use against the target. However, the company has not set water consumption target and is thus unable to calculate its water consumption efficiency</p> <p>The information on water use, water consumption and water pollution by plantations and mills are not yet included in public reporting.</p> <p>The company has developed good water management and wastewater management. This can be seen from the fact that all of the mills visited have been rewarded “<i>Proper Biru</i>” from the government. However, the company has not yet included the involvement of all relevant stakeholders to address the water equity issue which is required by this indicator.</p> | <p>Musim Mas has started to calculate water footprint of its plantations and mills following the water footprint network methodology which is measuring water consumption. The water footprint divide water consumption into three parts: blue, green and grey water. Blue water refers to runoff water consumption (water withdrawn from river, lake, municipal water etc), green water refer to rainwater consumption while grey water refer to water required to dilute pollutants. Once water consumption is quantified, the company will include it in the water management plan. The calculation and management plan will be presented at next POIG verification audit in Q1 2018.</p> <p>Musim Mas will include water reporting in Musim Mas Sustainability report which is expected to be released in Q3 2018.</p> <p>Musim Mas has achieved “Proper Biru” (Blue Category) which means Musim Mas has fully complied with the government regulations regarding water and wastewater management. Musim Mas will continue to build on this achievement by engaging with the communities and other relevant stakeholders at its vicinity to address the water equity issue by Q4 2018.</p> <p>Musim Mas is contributing to research done by a consortium of scientist addressing sustainable water use and recycling in communities (Safe Water Gardens, <a href="http://www.safewatergardens.org">www.safewatergardens.org</a>)</p> | <p>Verifiable through document review.</p> <ol style="list-style-type: none"> <li>1. Sustainability report</li> <li>2. Water stewardship assessment report (Q1)</li> <li>3. Water consumption calculation included in water management plan (Q1)</li> <li>4. Consultation in wider landscape on water consumption and availability (Q4 2018).</li> </ol> |

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| <p>2.2 Food security</p> <p>Partial compliance to</p> <p>2.2.2 After March 2014, in new plantations or expansion of existing plantations, a minimum of 0.5 ha of garden or farmland per person is identified via participatory mapping, and enclave for meeting food security needs.</p> <p>2.2.3 Measures designed to maintain or enhance local food security are included in participatory land use planning, including transparency in any land allocation process.</p> <p>Non compliance to</p> <p>2.2.4 Evidence that measures identified in assessments and planning are being implemented and are effective.</p> | <p>The auditors have verified that the company has developed a procedure that require community members who want to sell their land to the company to confirm that they possess another piece of land to secure their gardening or farming need. This procedure is also applied during FPIC process for scheme smallholders development. The auditors have also verified that the company has a program to provide additional income to the communities and that communities still possess plentiful land to fulfill the food security need.</p> <p>However, the procedure above only require statement from the relevant parties. The company does not have basis data to verify the information about the size of the available land per person of those parties. The community participatory mapping conducted during HCV assessment is not yet completed to provide that basis data.</p> <p>Since the participatory mapping has not been completed, the company cannot conduct participatory land use planning and so the company is only partially compliant to 2.2.2 and 2.2.3 and non compliant to 2.2.4</p> | <p>Musim Mas will conduct participatory mapping (as part of HCSA assessment) to identify gardens and future farmlands in the concession and surrounding communities' area. The HCS assessment for related location is expected to be completed following timeline for HCSA submission. Once the participatory mapping is finished, Musim Mas will conduct participatory land use planning, create management plan to maintain or enhance local food security.</p> | <p>Verifiable through document review.</p> <ol style="list-style-type: none"> <li>1. Timeline for HCSA submissions of all HCS to HCSA (Q1 2018)</li> <li>2. Participatory mapping result</li> <li>3. Participatory land use planning</li> </ol> <p>Verifiable through site visit.</p> <ol style="list-style-type: none"> <li>1. The process of participatory land use mapping (Q1 2018)</li> </ol> |

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| <p>2.6 Support to smallholder</p> <p>Non compliance to 2.6.2</p>  | <p>Company has provided support to the smallholder through the scheme smallholder program. the scheme smallholders program is fully managed by the company in the same way as its own plantation. The productivity of scheme smallholders' plantation is the same as the company own managed plantation. The management support includes plantation maintenance, harvesting, and FFB transportation. All FFB from schemed smallholders is purchased by the company. Support in form of training on financial management and budgeting is given to the village officials, cooperatives managements and their willingly participating members.</p> <p>However, the implementation progress is not yet included in public reporting.</p> | <p>Musim Mas will report its support to smallholder in the upcoming GRI compliant Musim Mas Sustainability Report to be released in Q3 2018.</p>                     | <p>Verifiable through document review.</p> <ol style="list-style-type: none"> <li>1. Sustainability report</li> </ol>  |
| <p>3.1 Anti corruption and transparency</p> <p>Partial compliance to 3.1.2</p>  | <p>The ethical policy is available mentioning the prohibition of corruption such as bribery and commitment to compliance with existing government anti-corruption legislation. However, with regard to indicator 3.1.2, guidelines on f) fair conduct of business is missing. At the time of the verification, the company is still in the process to update its ethical business policy addressing the above concerns.</p>   | <p>Musim Mas has since updated its ethical policy to follow the POIG requirement and has socialized the new policy to all Musim Mas' workers (done)</p>              | <p>Verifiable through document review.</p> <ol style="list-style-type: none"> <li>1. Ethical policy (Q1 2018)</li> <li>2. Socialization records (Q1 2018)</li> </ol> |
| <p>3.3 Report on social, labour and environmental performance</p> <p>Partial compliance to 3.3.1</p> <p>Non compliance to 3.3.2</p> | <p>Sustainability report is prepared every 6 months. However, this report has not yet included all issues relevant to compliance with POIG Charter. Furthermore the sustainability report did not follow GRI Sustainability Reporting Guidelines (or equivalent approach).</p>  | <p>Musim Mas will release a GRI compliant Musim Mas Sustainability Report in Q3 2018 which will include all issues relevant to the compliance with POIG charter.</p> | <p>Verifiable through document review.</p> <ol style="list-style-type: none"> <li>1. Sustainability report (Q3 2018)</li> </ol>                                      |



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| <p>3.4 RSPO certification and company operations</p> <p>Non compliance to 3.4.4</p> | <p>At the time of verification, all the company's mills purchase only RSPO certified FFB. However, company has not developed a policy for purchasing 100% RSPO certified FFB within 24 months of signing the POIG charter.</p>   | <p>Musim Mas is committed to maintain 100% RSPO certification of its plantation and mills. All MM own plantations and direct linked smallholders are 100% RSPO certified. Aside from own plantation with mill setting, Musim Mas single mills also receive FFB from smallholders. Since 2015 Musim Mas collaborate with IFC to educate, train and assist the independent smallholders to achieve RSPO certification. Starting 2017 Musim Mas rolled out the Smallholder ESP program and extend the service to independent smallholders supplying to Musim Mas suppliers as well.</p> <p>Musim Mas has committed to certify smallholders that supply to Musim Mas own operating mills but there is a limitation in terms of timelines as it will take a long time to certify 10.000 independent smallholders. Musim Mas is committed to deliver the extension and will try to achieve to certified the smallholders. This is also stated in the policy and given it involves independent smallholders we designed the IPODS program as the alternative pathway (registered smallholders, extending services and training on environmental matters etc).</p> | <p>Verifiable through document review.</p> <p>1. The policy for purchasing 100% RSPO certified FFB within 24 months of signing the POIG charter (Q1 2018).</p> |
| <p>3.5 Responsible supply chain</p> <p>Non compliance to 3.5.1</p>                  | <p>Musim Mas signed the commitment to this Charter in November 2015. Following the approval, Musim Mas undertook labor assessment in August 2016 which is a pre-requisite by POIG before the initial POIG verification audit. The length of time required for the labor assessment and for the arrangement for POIG approved assessor has caused the delay for conducting this POIG verification up to December 2016, which is more than 12 months after the signing date.</p> | <p>Following the approval of Musim Mas POIG membership, we undertook labor assessment at our plantation sites by Verite in August 2016 and subsequently verification audit against POIG Indicators by RA in December 2016. The labour assessment is a pre-requisite by POIG before Musim Mas can have its initial POIG verification audit. The process with Verite discussing terms and conditions, setting audit time and implement corrective actoin taken time. After completing the labour assessment MM move forward with finding a POIG approved CB's which also delayed process as no CB available yet at the time and it took some time to addres POIG approved assessor by contracting Rainforest Alliance which was agreed to be approved to conduct verification audit for Musim Mas.</p>   | <p>The decision for compliance with this indicator is within POIG authority.</p>   |

