# SUSTAINABILITY REPORT 2012

**A baseline for continuous improvement**

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R.E.A. HOLDINGS PLC

# Contents

ABOUT THIS REPORT

# About this report

Welcome to the first sustainability report for R.E.A. Holdings plc and its subsidiaries (together, "REA" or the "Group"), which relates to the 2012 calendar year. It is the intention that such a report will be published biennially. In the interim, progress in achieving key performance indicators for sustainability and updates on the most material issues will be published in REA's annual reports.

## Scope

Unless stated otherwise, the information and data included in this report relates to all of the oil palm plantations, mills and storage facilities in which REA had a shareholding as at 31 December 2012, except for the plantation subsidiary company PT. Kartanegara Kumala Sakti ("KKS"). KKS has been excluded on the grounds that, to date, the group has yet to commence activities in this area and the allocation between group plantings and smallholder plantings has yet to be finalised. The group's embryonic mining and coal trading business has not been included within the scope of this report as these activities are not significant in comparison to the the group's palm oil operations. In 2012, the group's palm oil operations accounted for 100% of its profit and 90% of its assets and employed over 99% of its workforce. REA's offices in London and Singapore, which together employ a total of 10 people, have also not been covered by this report.

## Materiality and responsiveness

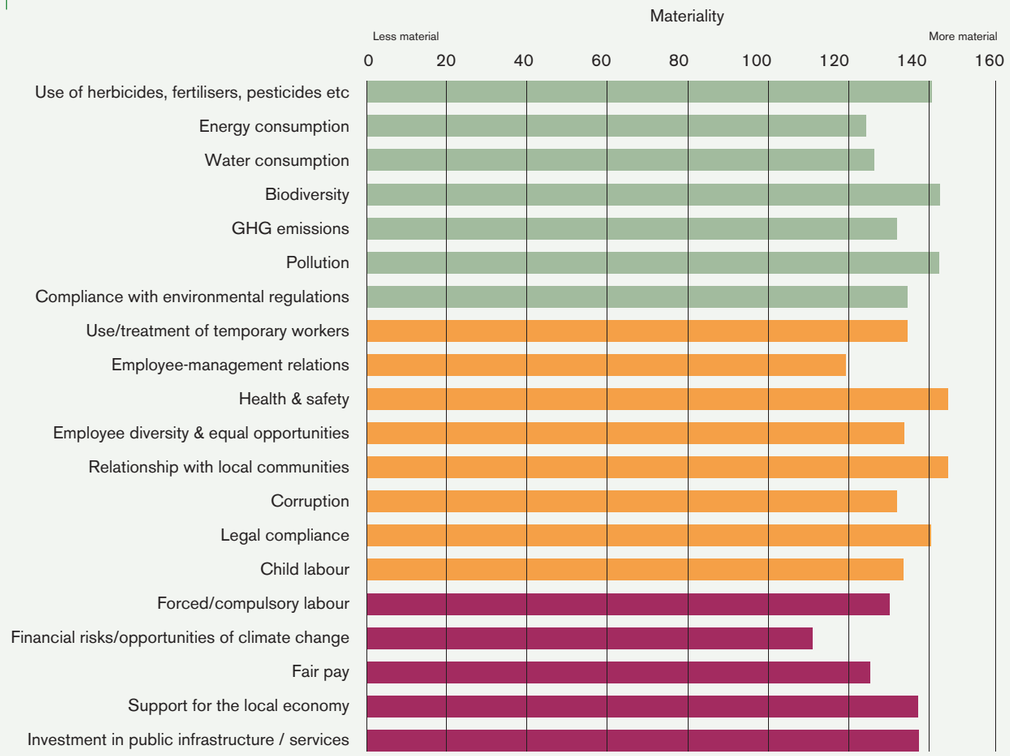
The content of this report was determined through an internal process that aimed to identify the issues that are most relevant to REA's business and of greatest concern to its internal and external stakeholders. Two workshops were held in late 2012 and early 2013 to obtain input from the group's management team on the most significant impacts, risks and opportunities associated with the group's operations in relation to all aspects of sustainability. The results of these workshops were combined with feedback obtained through engagement with external stakeholder groups to identify the most material issues to be included within the scope of the report.

### Materiality test

The 12 members of REA's senior management and sustainability teams who attended the first workshop were asked to respond to the questions below in relation to all relevant aspects of sustainability listed by the Global Reporting Initiative ("GRI"). Responses were scored (Yes=2; Maybe=1; No=0). A total score was calculated for each aspect based on the responses from all participants. Higher scores were interpreted to indicate the aspects of sustainability that are considered more material. The results of this materiality test are shown in Figure 1.

- Have REA's stakeholders already indicated that this is an important issue for them?
- Is REA required to address this issue by laws or regulations?
- Is this an opportunity for REA's business?
- Is this a risk to REA's business?
- Does REA have the capacity to address this?
- Is this a future challenge for the palm oil industry?
- Have other palm oil companies already started to address this issue?

**Figure 1** The results of the materiality test




## Completeness

REA has endeavoured to ensure that the data included in this report accurately represents the group's sustainability performance. REA is aware, however, that there are currently inconsistencies in the data collection procedures and scope of the data being recorded between different departments and sites. The group will work to standardise and improve its procedures for collecting and analysing data over the coming years. REA is conscious that this may highlight inaccuracies in the current datasets that will result in this data being restated in future reports.

## Approach to assurance

Stakeholder commentaries regarding REA's conservation efforts and community engagement practices have been included in this report to provide a third party perspective on areas that are considered to be particular strengths and weaknesses of the group's performance. These stakeholders' firsthand experience of the group's operations in East Kalimantan should provide the reader with a deeper insight into REA's approach to these material issues. The group was unable to identify an independent stakeholder with the necessary knowledge and experience to provide meaningful assurance regarding the materiality and responsiveness of this report. A general assurance statement has therefore not been included.

ABOUT THIS REPORT

## Balance and comparability

In preparing this report, REA has endeavoured to provide a balanced evaluation of its performance. REA has been assisted in achieving this by Rikke Netterstrom, a consultant from Helikonia, Malaysia, who has significant experience of sustainability issues and reporting for the palm oil industry. Advice was also provided on the proper use of the GRI framework and selection of indicators, which should help to ensure intra-sector and inter-sector comparability.

## Reporting standard

This report follows the GRI guidelines, version 3.1. REA considers that the report meets the requirements for GRI application level C.

## Contact

REA values constructive feedback from its stakeholders as this assists the group in identifying ways in which it can make further improvements with respect to sustainability. Please direct any comments in relation to the contents of this report or the group's sustainability performance to REA's Group Sustainability Manager, Sophie Persey.

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# Statement from REA's board of directors

When REA embarked on establishing a palm oil business in East Kalimantan in 1989, sustainability was a little known term, yet the standards of behaviour that this word encapsulates have always been the guiding principles for our business. This stems from our belief that the right to use land brings with it a responsibility to use it wisely and that commercial aspirations should not be pursued without ethical considerations.

From the outset, we have sought to conform with, or surpass, best practice in all aspects of our operations. While this aspiration has remained unchanged, the definition of best practice for palm oil production has evolved considerably. In the early 1990s, agricultural best practice was almost the sole focus for oil palm growers aspiring to high standards. Today, this is just one item on an agenda that comprises a complex spectrum of environmental, socio-economic and governance issues.

We have endeavoured to keep pace with the rapidly changing expectations of our stakeholders. The emergence of international standards for sustainable palm oil production, most notably the Roundtable on Sustainable Palm Oil ("RSPO"), has provided welcome insight and guidance as to what this entails. Nevertheless, we recognise that in the past our dialogue with certain stakeholder groups, notably the local communities, has not always been sufficient. Furthermore, we have not always had the necessary in house expertise to meet the requirements for sustainable production as comprehensively as we would have desired. The enthusiasm with which oil palm growers have responded to the challenges of sustainability has been impressive but, inevitably, this has involved a degree of trial and error. Our efforts to achieve sustainable palm oil production have therefore involved a steep learning curve.

In some areas, we have made good progress. We are pleased to announce that REA ceased to use Paraquat from 31 May 2013. Although experience to date suggests that, with the proper precautions, Paraquat can be used safely, we are conscious of the increasing concern about the palm oil industry's widespread use of this herbicide. Another significant milestone in early 2013 was the publication of REA's first carbon footprint report. Updating our carbon footprint annually will provide stakeholders with a quantitative means of monitoring our performance in a range of issues, from deforestation to efficiency in fertiliser usage. In 2012, methane capture facilities were commissioned at two of REA's mills. Not only will this reduce the group's greenhouse gas ("GHG") emissions, but it will also provide a source of renewable energy in a remote location. This has the potential to bring material, long term environmental and socio-economic benefits to both our business and the local communities.

When REA's conservation team was established five years ago, little was known about the biodiversity of the conservation reserves within the group's concessions. By the end of 2012, nearly 500 species had been recorded within the group's titled land area, almost 30% of which (some 20,000 hectares) has been designated as conservation reserves. We remain committed to monitoring and actively managing the habitats on which these species depend in an effort to ensure that they continue to inhabit the landscapes in which we operate. Continued sightings of species of high conservation concern, such as orangutan and sun bear, within our established concessions indicates that this is possible.

Of the issues that could have been handled better, the most critical is community engagement. Past weaknesses in our practices have fuelled misunderstandings leading to a series of community protests over the last two years, which had a tangible negative impact on the group's business. Restoring stability to our relationship with these communities is imperative. Substantial amounts of senior management time and financial resources are therefore being dedicated to resolving these complex issues in a way that is logical, fair and transparent. The lessons learnt from past mistakes are being used to revise our standard practices in an effort to develop strong and harmonious relationships with all of the communities affected by our operations going forward.

We are acutely aware that the future of REA's business hinges on our ability to forge long term partnerships with our stakeholders, particularly local communities and government. It is our belief that the strongest partnerships are those that foster a mutual interest in the success of our operations. Expanding the group's smallholder schemes and collaborating with the national electricity company to provide local communities with access to electricity from our methane capture facilities have the potential to increase materially the extent to which these stakeholders benefit from our business. Developing these partnerships is therefore an immediate priority.

Developing and retaining competent employees is also fundamental to the long term success of our operations. Employee turnover is inevitable in every organisation, but attention must be focused on the need to obtain a good understanding of employee satisfaction at every level. Undertaking this work will help us to ensure that employee turnover is kept to a minimum.

In publishing this sustainability report, REA has established a baseline against which our sustainability performance can be monitored internally and externally. We welcome feedback from stakeholders as this helps to identify areas where we need to improve to achieve best practice. With over 7,000 employees and the challenge of an operation that interacts with over 45,000 people in surrounding communities, we are conscious that we will not always succeed in achieving the high standards that we set for ourselves. That, however, is not a reason not to aspire to high standards. Rather we are committed to identifying and confronting our failures, learning from them and adapting to meet the evolving expectations of our stakeholders.

We would like to thank everyone who has contributed to the production of our inaugural sustainability report, including the stakeholders who have taken the time to provide us with their invaluable insight and expertise.

ABOUT REA

# About REA

## Sector and geographic focus

REA is a UK public listed company, traded on the main market of the London Stock Exchange. The group's core business is the production of crude palm oil ("CPO") and crude palm kernel oil ("CPKO") from oil palm plantations and mills in the province of East Kalimantan on the island of Borneo in Indonesia.

REA also has a small mining business in East Kalimantan. This comprises a stone quarry and three open cast coal mining concessions totalling 7,500 hectares, as well as a coal trading company. Since the rights to these concessions were acquired in 2010, both mining and trading activity has been limited. The group did not mine any coal in 2012, coal trading was suspended mid-year and extraction of stone has yet to begin. The directors have decided that capital investment in the coal operations will be limited in 2013.

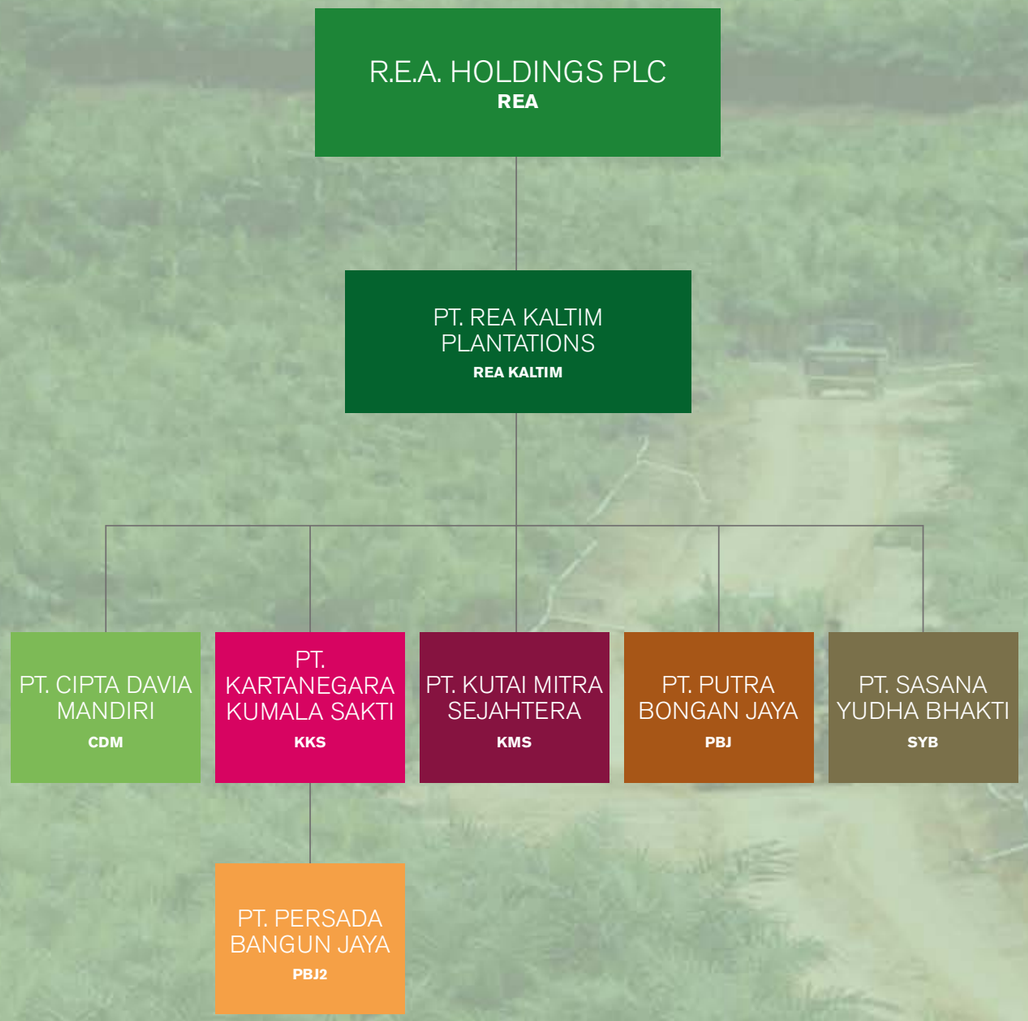
The group employs nearly 7,500 people, the majority of whom work for the plantation subsidiaries and are based in Indonesia. The group also has small offices in London, which is the group's headquarters, and in Singapore.

## An experienced and expanding palm oil producer

REA acquired its first oil palm concession in the Kutai Kartanegara district of East Kalimantan, through its subsidiary PT. REA Kaltim Plantations ("REA Kaltim"), in 1991. Initially, the group concentrated on developing oil palm within this concession, together with the infrastructure required for processing and transporting the oil palm products. The group's central operations and the two longest established mills are located at the REA Kaltim site. In 2003, REA decided to expand its operations and subsequently acquired and started to develop a concession owned by the plantation company PT. Sasana Yudha Bhakti ("SYB"), which is also in Kutai Kartanegara. As at 31 December 2012, REA owned six plantation companies, all of which are located in East Kalimantan (see Map & Figure 2). REA's plantation subsidiaries were amalgamated into a single sub-group headed by REA Kaltim in May 2013. It is intended that, in due course, there will be a public offering of a minority shareholding of REA Kaltim, combined with a listing on the Indonesian Stock Exchange in Jakarta.

ABOUT REA

**Figure 2** The relationship between REA and its subsidiary plantation companies





## REA's business in 2012

As at 31 December 2012, the group's titled land area totalled 70,584 hectares, of which some 36,794 hectares had been planted or was under development with oil palm. The weighted average age of these plantings is 10 years and the initial areas developed will be due for replanting from 2019. The group's downstream operations consist of three palm oil mills, two kernel crushing plants, a fleet of CPO and CPKO barges and a transhipment terminal. In 2012, 8% of the oil palm fresh fruit bunches ("FFB") processed in the mills was purchased from smallholders. Of the 163,000 tonnes of CPO and CPKO produced, 80% and 81% respectively was certified as sustainable. Approximately two thirds of the CPO produced was sold to the Indonesian market and one third was exported to other parts of Asia.

Collecting recently harvested FFB from the field

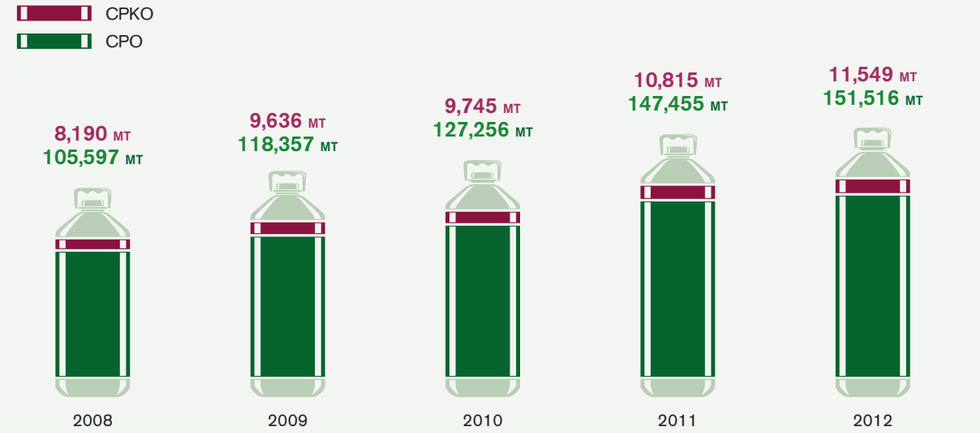
Processing FFB in the mill

**Figure 3** REA's revenue and net profit






**Figure 4** REA's palm oil production




# Corporate governance

## REA

As a UK public listed company, REA is governed by statutory obligations laid down in the Companies Act 2006 and by the UK Corporate Governance Code issued by the Financial Reporting Council (the "Code").

The directors are mindful of the importance of ensuring that the group's affairs are managed effectively and with integrity and acknowledge that the principles laid down in the Code provide a widely endorsed model for achieving this. The directors are committed to observing international standards of environmental practice and corporate social responsibility, with strict policies and procedures with respect to bribery and corruption.

### Board responsibilities and composition

The REA board of directors is responsible for determining the group's strategic direction, ensuring that resources are sufficient to meet its objectives, assessing and controlling risks and reviewing performance. The board has a schedule of matters reserved for its decision.

The board comprises six directors, including four non-executives, the managing director and the regional director. Three of the non-executive directors are independent, one of whom is female.

The chairman and managing director have defined and separate roles under the overall direction of the board. The chairman has responsibility for leadership and management of the board in discharging its duties; the managing director has responsibility for the executive management of the group. Neither has unfettered powers of decision.

The board has elected four standing committees, of which three are chaired by independent non-executive directors. Each standing committee has written terms of reference. Respectively, the committees are primarily responsible for:

- audit and internal controls
- appointments to the board, paying due regard to diversity
- remuneration of the chairman and executive directors
- matters of an executory nature and specific business with delegated authority of the board

### Performance and remuneration

A performance evaluation of the board and individual directors is undertaken annually. Executive directors have service contracts, which are determinable on not more than one year's notice, and their remuneration is partially based on performance. Non-executive remuneration is not linked to performance.

### Conflicts of interest

The directors have a statutory duty to avoid conflicts of interest and absent themselves from board discussions where a conflict of interest may arise. Certain directors hold interests in the shares of REA which are disclosed in accordance with the Code.

### Shareholder relations

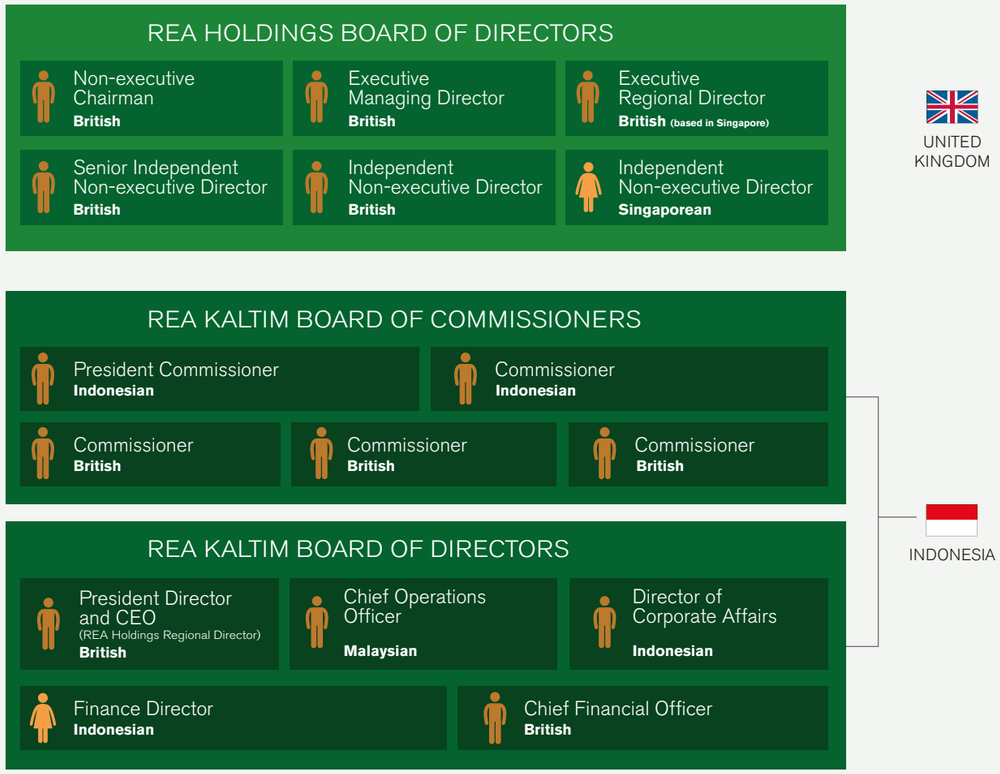
The directors endeavour to ensure that there is satisfactory dialogue, based on mutual understanding, between REA and its shareholder body. Within the limits imposed by considerations of confidentiality, REA engages with institutional and other major shareholders through regular meetings and other contact in order to understand their concerns. The views of shareholders are communicated to the board as a whole to ensure that the board maintains a balanced understanding of shareholder opinions and issues arising. All ordinary shareholders may attend REA's annual and other general meetings and put questions to the board.

### Sustainability

Economic, environmental and social performance, including the relevant risks and compliance with internationally agreed standards, codes of conduct and group policies, are discussed at board meetings and, as required, at ad hoc meetings. The group sustainability manager reports directly to the managing director and provides regular updates on specific issues of interest to the board.

CORPORATE GOVERNANCE

**Figure 5** **REA's governance structure**




## Plantation subsidiaries

REA is the ultimate parent company of all of the group's oil palm plantation subsidiaries in Indonesia. As required by Indonesian company law, REA Kaltim and each of the other plantation subsidiaries are governed by a two tier board, comprising a board of commissioners and a board of directors.

The board of directors is responsible for designing and implementing management policies that meet the purpose and objectives of the company. The board of commissioners acts as an advisory and supervisory body for the board of directors. Approval from the board of commissioners is required for the budget and work plan prepared by the directors prior to each financial year. All directors and commissioners are subject to appointment by the shareholders.

## Bribery and corruption

The UK Bribery Act 2010, which applies worldwide to the interests of UK companies, has created an offence of failure by a UK company to prevent a bribe being paid on its behalf. REA has strict policies and procedures in place to counter bribery and corruption. This is particularly critical given that the majority of the group's operations are in Indonesia, which was ranked 118 out of 176 countries in Transparency International's Corruption Perceptions Index in 2012, with the lowest ranking countries being those where there is perceived to be the highest levels of corruption within their public sector.

In 2011, a new code of conduct was developed and adopted by the group in an effort to ensure that the requirements of the Bribery Act are adhered to in all of REA's dealings. The content of this code of conduct is regularly communicated to all members of staff. The group's full time internal audit team, which reports to the audit committee of REA's UK board, further supports the group's anti-bribery and corruption measures.

# REA's commitment to sustainability



REA'S COMMITMENT TO SUSTAINABILITY

## Key performance indicators

REA's key commitments and targets relating to sustainability are summarised in the table below. Stakeholders will be updated annually on the group's progress in relation to these key performance indicators in either the biennial sustainability report or the annual report. It is the intention that qualitative targets relating to GHG emissions, water consumption and lost time accident rates will be replaced by quantitative targets in future reports, once it has been possible to analyse the data in sufficient detail to allow this.

| Commitment | Target | Status |
|---|---|---|
| **Certification** | | |
| Achieve RSPO certification for REA's 3 existing palm oil mills | 2015 | RSPO certification for 2 mills achieved in June 2011 |
| Achieve RSPO certification for the 2 new palm oil mills REA expects to commission in 2018/2019 | 2019/2020 | |
| **Biodiversity** | | |
| No new development prior to the completion of an High Conservation Value ("HCV") assessment by a RSPO approved HCV assessor | Ongoing | Achieved for all concessions where development began after this requirement was introduced by the RSPO |
| All HCV areas will be conserved | Ongoing | |
| **Climate change** | | |
| Avoid extensive planting on peat[1] | Ongoing | |
| Include Satria oil mill and its supply base within the scope of REA's carbon footprint for 2013 | 2014 | |
| **Water** | | |
| Install flow meters to measure the water used to process FFB in all mills | 2014 | |
| **Chemical usage** | | |
| No use of Paraquat | from 31 May 2013 | Achieved |
| **Health and safety** | | |
| No work-related fatalities | Ongoing | |
| Obtain OSHAS 18001 certification for REA Kaltim | 2015 | |
| Reduce lost time accident rates | Ongoing | |
| **Smallholders** | | |
| Develop smallholder oil palm plantings equivalent to at least 20% of the total area planted by the REA group | Ongoing | |
| Achieve RSPO certification for the mature associated smallholder[2] plantings supplying REA's 3 existing mills | 2015 | |
| **Labour** | | |
| No employees under the age of 18 | Ongoing | |
| Reduce employee turnover rates | Ongoing | |
| Conduct employee satisfaction survey | 2014 | |
| **Communities** | | |
| No new development without the free prior and informed consent ("FPIC") of local communities | Ongoing | |

1 In accordance with the requirements of the RSPO Principles and Criteria
2 Plasma and PPMD scheme smallholders

## Stakeholder engagement

To be effective, REA's sustainability objectives must be defined by the concerns and priorities of its internal and external stakeholders. While compliance with the RSPO standard should ensure that the issues of greatest concern to the majority of the group's stakeholders are addressed, this may overlook issues that are specific to REA's operations. Stakeholder engagement is therefore essential to understand and prepare for future risks and maximise opportunities relating to all aspects of sustainability.

REA has always been open to engaging with its stakeholders at the local, national and international level and regularly does so. In relation to some issues, notably biodiversity conservation and GHG emissions, the group has actively sought to engage stakeholders. This has included participation in RSPO working groups and collaborations with a number of NGOs and scientific institutions. In relation to other issues, however, the group's engagement with stakeholders has largely been reactive. REA recognises that a more structured and strategic approach to stakeholder engagement would enable it to focus its resources more effectively and intends to adopt such an approach going forward. The community protests and high employee turnover rates experienced in 2012 have resulted in these stakeholder groups being identified as priorities for structured engagement in 2013 and 2014.

Meeting with community representatives from the villages surrounding KMS



REA'S COMMITMENT TO SUSTAINABILITY

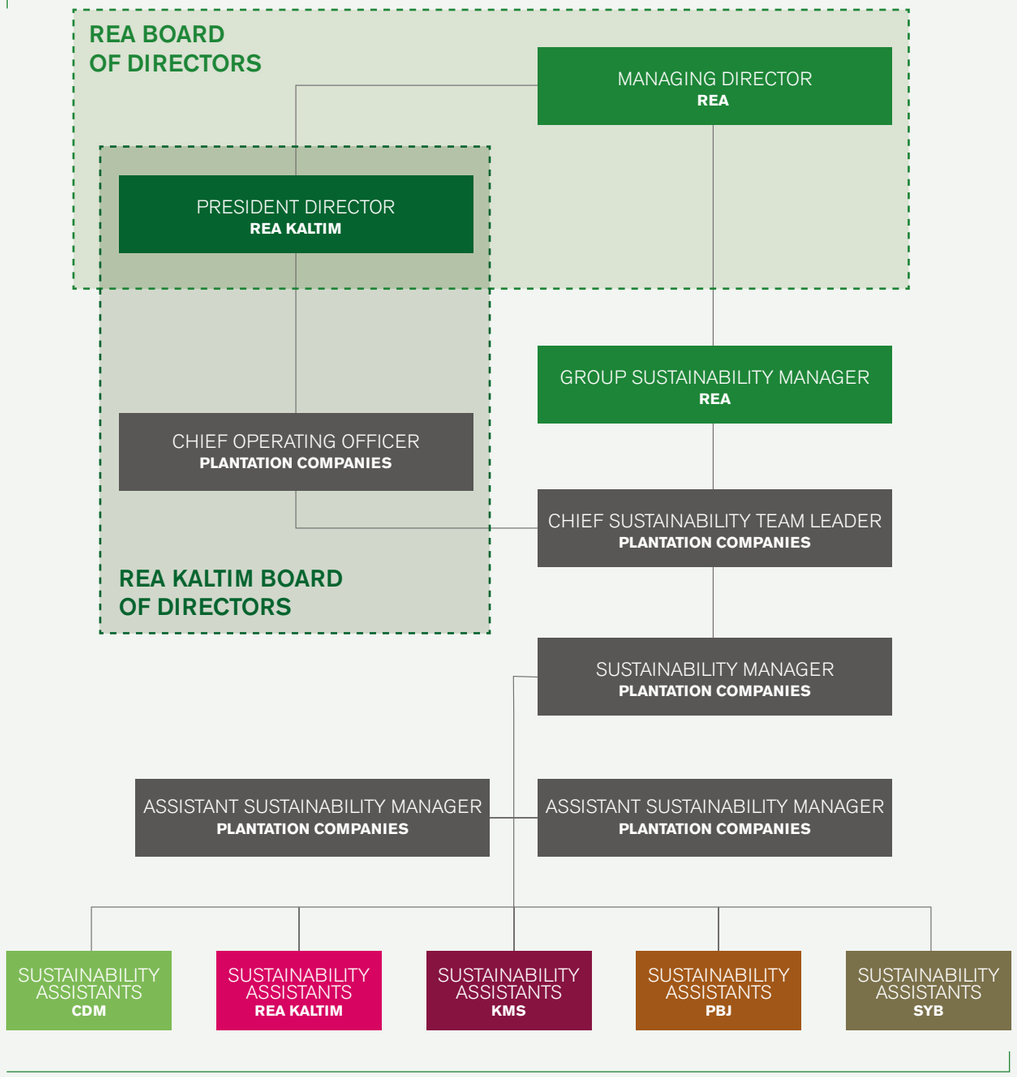
### Recent stakeholder engagement

| Issue | Stakeholder group | Organisation and details of engagement | |
|---|---|---|---|
| **Conservation of biodiversity and HCVs** | Universities | Indonesian and international universities:<br>- supported undergraduate and graduate research projects<br>- facilitated research by academic staff | Ongoing |
| | Scientific institutions | Indonesian Institute of Sciences ("LIPI")<br>Natural History Museum of London<br>Singapore Botanical Gardens | Ongoing |
| | Multi-stakeholder organisations | RSPO HCV compensation task force:<br>- regular participation in meetings to develop a mechanism for HCV compensation | 2012, ongoing |
| | NGOs | Zoologicial Society of London's ("ZSL") Indonesian Conservation Programme:<br>- presentation at workshop on 'Managing HCVs in oil palm landscapes'<br>- contributed a series of case studies to the handbook produced as a result of the workshop | 2011 |
| | | World Wide Fund for Nature ("WWF") Indonesia<br>- HCV assessments of 4 REA concessions | 2009 onwards |
| **GHG emissions and climate change** | Multi-stakeholder organisations | RSPO GHG working group 2<br>- participated in the pilot study of the RSPO PalmGHG tool for carbon accounting | 2012 |
| | Government | Indonesian national electricity company ("PLN"):<br>- partnership to supply electricity generated by REA's methane capture facilities to local villages | Q1 2013, ongoing |
| **Free, prior and informed consent ("FPIC")** | NGOs | Forest Peoples Programme, Sawit Watch & consortium of local NGOs:<br>- the NGO consortium interviewed representatives of local communities, provincial government bodies and REA's employees to assess how successful REA Kaltim has been in implementing FPIC | 2012 |
| **Land use rights and smallholder schemes** | Local communities | Ongoing dialogue with all of the villages within the vicinity of REA's concessions | Ongoing |
| | Government | Production of village boundary maps as a basis for allocating land for smallholder plantings under the plasma scheme, arbitration and assistance to resolve conflicts with local communities, verification of land compensation claims by local communities and individuals | Ongoing |
| | Smallholder co-operatives | Training on the requirements of the RSPO standard | 2012 |
| **Compliance with sustainability standards** | Financial institutions | Response to due diligence | Ongoing |
| | Customers | | |
| | Multi-stakeholder organisations | RSPO:<br>- member since November 2007<br>- attendance at annual roundtable meetings<br>- voting at general assemblies<br>- contribution of comments to the principles and criteria review | Ongoing |

## Embedding sustainable practices

REA strives to follow international and industry standards of best practice in every aspect of its business. Operating in an economically, socially and environmentally responsible manner is integral to realising this goal. As such, REA does not consider sustainability to be an extra issue on the agenda, but rather a working culture that must be part of the organisation's 'DNA'. To promote this ethos, a senior member of the operations team is responsible for line managing the plantation based sustainability team, with strategic direction and technical expertise provided by the group sustainability manager.

**Figure 6 The organisational structure of REA's sustainability team**






REA'S COMMITMENT TO SUSTAINABILITY

## Certification

REA is committed to obtaining RSPO and ISO14001 certification for all of the oil palm plantations and palm oil mills managed by the group. Compliance with these standards provides the foundation for environmentally and socially responsible palm oil production, as well as independent third party verification that internationally recognised standards of best practice have been achieved and are being maintained.

### RSPO certification: progress and timebound targets

REA obtained RSPO certification for its two longest established palm oil mills and the majority of their supply base in 2011. As at 31 December 2012, this accounted for 71% of the group's mature and immature oil palm plantings, as well as 77% of REA's associated smallholder oil palm plantings.

RSPO certification for REA's third mill, which was commissioned in the third quarter of 2012, and its supply base, is planned for 2015. RSPO certification for the group's PBJ and CDM concessions will be undertaken shortly after they have been fully developed and the group has commissioned new mills to process the FFB they produce. Based on current business plans, this will be in 2019 and 2020 respectively.

As an active member of the RSPO, REA is aware that a revised version of the RSPO principles and criteria ("P&C") was adopted in April 2013, and that the group's existing RSPO certified operations will need to be brought into line with all new requirements by 2015. Internal audits of the group's existing RSPO certified operations will be carried out in advance of this deadline to identify areas where improvements are needed. The group is confident that it is well placed to meet the new requirements of the RSPO P&C, given their focus on business ethics and GHG emissions.

In early 2013, REA's commitments and progress towards achieving RSPO certification was given a score of six out of seven in an assessment of RSPO member palm oil producers conducted and published by the international conservation NGO WWF

### RSPO certification for smallholders

REA is conscious that it has a responsibility to provide the smallholders from which it purchases FFB with the education and technical assistance necessary for them to obtain RSPO certification. REA has made good progress in achieving this for its associated smallholders. The group is now starting to focus on assisting the independent smallholders that supply its existing mills to undertake RSPO certification. This is very challenging because it involves engaging and organising a large number of farmers, whose oil palm plantings may be located anywhere within a radius of approximately 100km of the mill. As a first step, the group is in the process of mapping the oil palm owned by the independent smallholders currently supplying its mills, as well as immature oil palm plantings owned by independent smallholders in the vicinity. Once this process is complete, REA will develop a strategy to organise these smallholders and assist them to meet the requirements of the RSPO standard.

REA'S COMMITMENT TO SUSTAINABILITY

## *Sustainability standards*

### International standards

**ISO14001**: the International Standards Organisation developed this generic standard to assist organisations in any sector to establish an effective system to manage the environmental impact of their operations.

**The Roundtable on Sustainable Palm Oil ("RSPO")**: formally established in 2004, this multi-stakeholder organisation aims to promote the production and use of sustainable palm oil. 'Sustainable' means production that is 'legal, economically viable, environmentally appropriate and socially beneficial'. In November 2007, the RSPO finalised a set of principles and criteria ("P&C") to define a standard for sustainable palm oil production. RSPO certification is granted once a palm oil mill and its plantation supply base has been deemed to be in compliance with the RSPO P&C by an independent third party. In 2013, a revised version of the P&C was adopted by the RSPO membership. Significant changes include:

- a new requirement to have a written code of ethics for all operations
- a new requirement to have a documented human rights policy
- strengthening of existing requirements to monitor GHG emissions, including public reporting from 31 December 2016
- a new requirement that new developments are designed to minimise GHG emissions

**RSPO Supply Chain Certification ("SCC")**: this enables a producer to demonstrate to a buyer that the CPO or CPKO it is selling, or an equivalent volume, was produced in accordance with the RSPO standard. If it can be proven that a particular batch of CPO or CPKO originated from a RSPO certified source, it can be sold as 'Identity Preserved' or 'Segregated' certified sustainable CPO or CPKO. If the certified product mixes with non-certified products in the supply chain then it can be sold as certified sustainable CPO or CPKO using a mass balance system. This requires records to be kept to demonstrate that the volume of CPO and CPKO sold as sustainable palm oil does not exceed the amount produced by the upstream RSPO certified mills.

**International Sustainability and Carbon Certification ("ISCC")**: if EU member states use biodiesel produced from ISCC certified palm oil it counts towards their renewable energy targets. This is because biodiesel produced from ISCC certified palm oil has been deemed to meet the requirements of the European Union Renewable Energy Directive ("EU RED"). The requirements of the ISCC standard are broadly similar to the RSPO. The key difference is that to obtain ISCC certification, the net GHG emissions associated with the production and use of palm oil as a biofuel must be at least 35% lower than if the equivalent amount of energy was generated by burning fossil fuels.

## *Sustainability standards - continued*

### Indonesian standards

**Indonesian Sustainable Palm Oil ("ISPO"):** this scheme was first proposed by the Indonesian government in 2010. The government has announced that it will be mandatory for all palm oil producers operating in Indonesia to be audited by an independent third party to assess their compliance with this standard by 2014. The standard includes legal, economic, environmental and social requirements, which are largely based on existing national regulations.

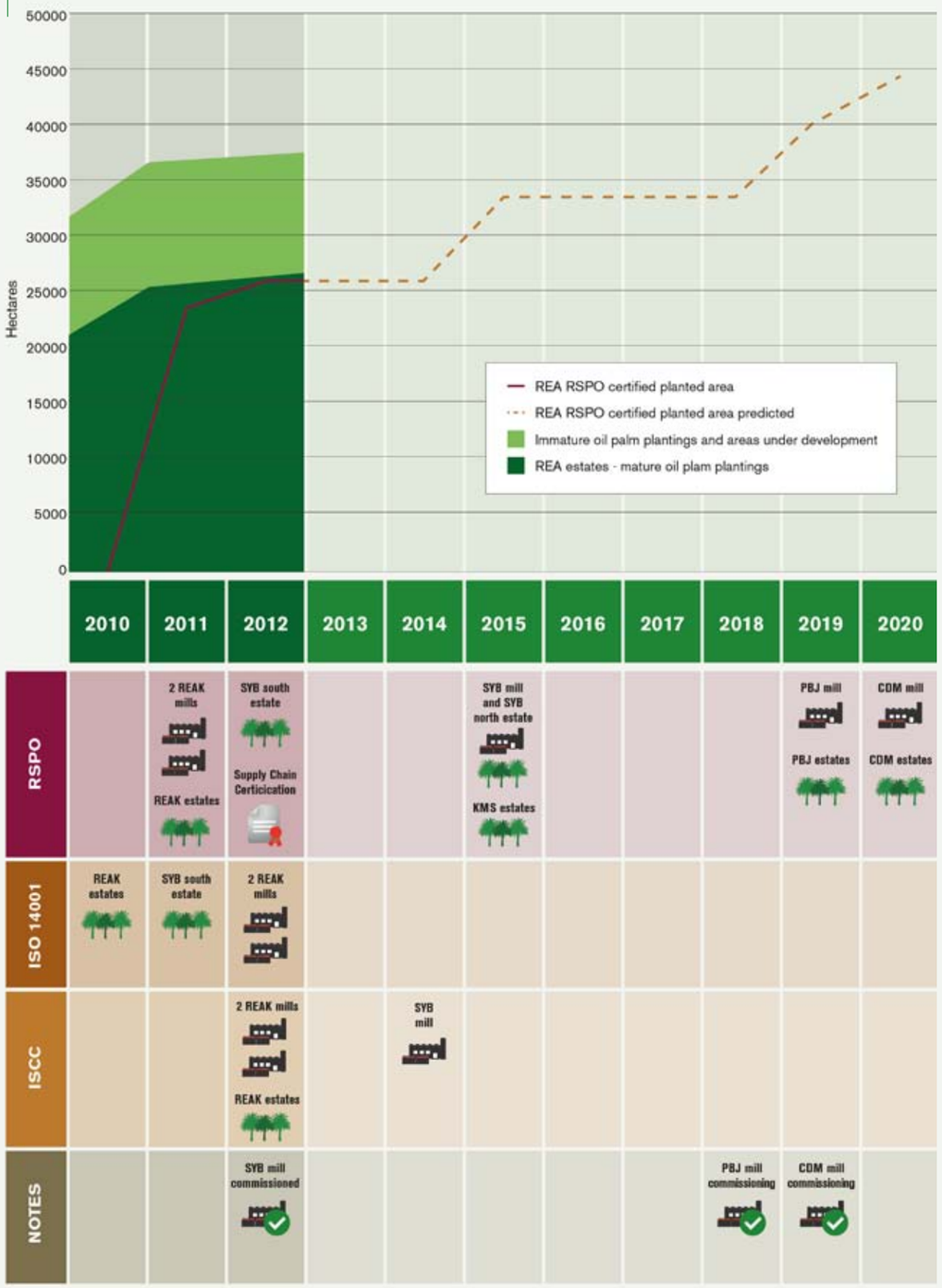
**Indonesia's programme for Pollution control, evaluation and rating ("PROPER")**: introduced in 1995, this regulatory tool requires a range of industries to report publicly on specific aspects of their environmental performance. Specifically, it aims to improve compliance with pollution control regulations, reduce pollution, as well as promote the adoption of clean technology and improvements to environmental management systems. Operations that go beyond the regulatory requirements are ranked as gold or green; those that comply are ranked blue; while operations that fail to meet the regulations are ranked as red or black.

### REA's PROPER rankings at the national and provincial level 2005 - 2012

| | | 2005 - 2006 | 2006 - 2007 | 2007 – 2008 | 2008- 2009 | 2009- 2010 | 2010 - 2011 | 2011- 2012 |
|---|---|---|---|---|---|---|---|---|
| National level | Mill 1 | | | | | | | |
| | Mill 2 | | | | | | | |
| Provincial level | Mill 1 | | | | | | | |
| | Mill 2 | | | | | | | |

= Red flag = Blue flag = Green flag

**Figure 7** **REA's progress and targets for certification**

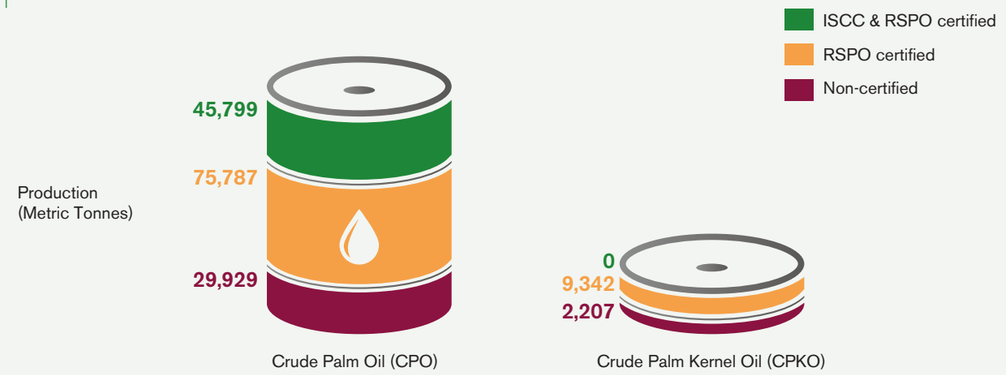



## Production of certified sustainable palm oil

In 2012, 80% of the CPO and 81% of the CPKO produced by REA was RSPO certified. Of the total CPO produced by the group, 30% was certified to be produced in accordance with both the ISCC and RSPO standard. However, the group elected to sell this portion of its CPO as ISCC certified and so excluded this from the volume available to sell as RSPO certified CPO. CPKO is not used to produce biofuel so it is not subject to certification by the ISCC. Of the ISCC certified CPO produced, 34,013 metric tonnes ("MT") were sold in 2012, with the remainder carried forward for sale in 2013 in accordance with the requirements of the ISCC's mass balance system.

In 2012, REA completed the RSPO Supply Chain Certification ("SCC"), so that the group now has the option of selling RSPO certified CPO and CPKO through a mass balance system. However, pending identification of a suitable buyer, the group used the RSPO book and claim system to sell 'Greenpalm certificates' for the RSPO certified CPO and CPKO produced in 2012. This system enables end users of oil palm products to support RSPO certified producers by purchasing Greenpalm certificates, even if they do not physically purchase palm oil from these producers. One Greenpalm certificate is equivalent to one tonne of RSPO certified CPO or CPKO respectively. In 2012, REA sold 75,222 CPO Greenpalm certificates and 9,250 CPKO Greenpalm certificates.

**Figure 8** REA's production of sustainable CPO and CPKO in 2012




### *Challenge:* Creating a segregated supply chain for certified sustainable palm oil

At present, the remote location of REA's palm oil mills means it is not feasible to produce segregated RSPO certified sustainable palm oil for two reasons. First, as the only operator of palm oil mills within a radius of approximately 100 km, the group considers that it has a moral obligation to accept FFB from all of the rapidly increasing number of independent smallholders in this area, irrespective of whether or not they are RSPO certified. Rejecting their FFB on the basis that it is not RSPO certified would be likely to prevent these smallholders from obtaining an income from their crop. Secondly, at current levels of production, it is not economically feasible to segregate REA's certified sustainable palm oil products from non-certified products during its transport to buyers.

# Operating in a biologically and culturally diverse landscape

## The people

The indigenous population of East Kalimantan, which mainly comprises christian Dayaks and muslim Kutai people, has been augmented over the last few centuries by immigrants from many other parts of Indonesia seeking to benefit from Kalimantan's rich natural resources. More recently, government sponsored transmigration programmes from densely populated regions such as Java have further increased the diversity of the region. Today, some eighty languages and dialects are spoken in East Kalimantan.

In general, a single ethnic group dominates the population of each village and a particular language, culture and set of customs prevails. Consequently, religion has tended to be the common factor in determining where migrants from other parts of Indonesia have chosen to settle.

The customary system of land tenure in Kalimantan is deeply rooted in the Dayak culture. Traditionally, the clearance of primary forest earned the individual the right to use that land, and this right remained with the individual's family in perpetuity. While land could be transferred between families in return for a token of appreciation, it was not sold. The expansion of timber and oil palm plantations in Kalimantan has commoditised land, and, as a result, individual land use rights are now increasingly sold to migrants from other parts of Indonesia or to companies.



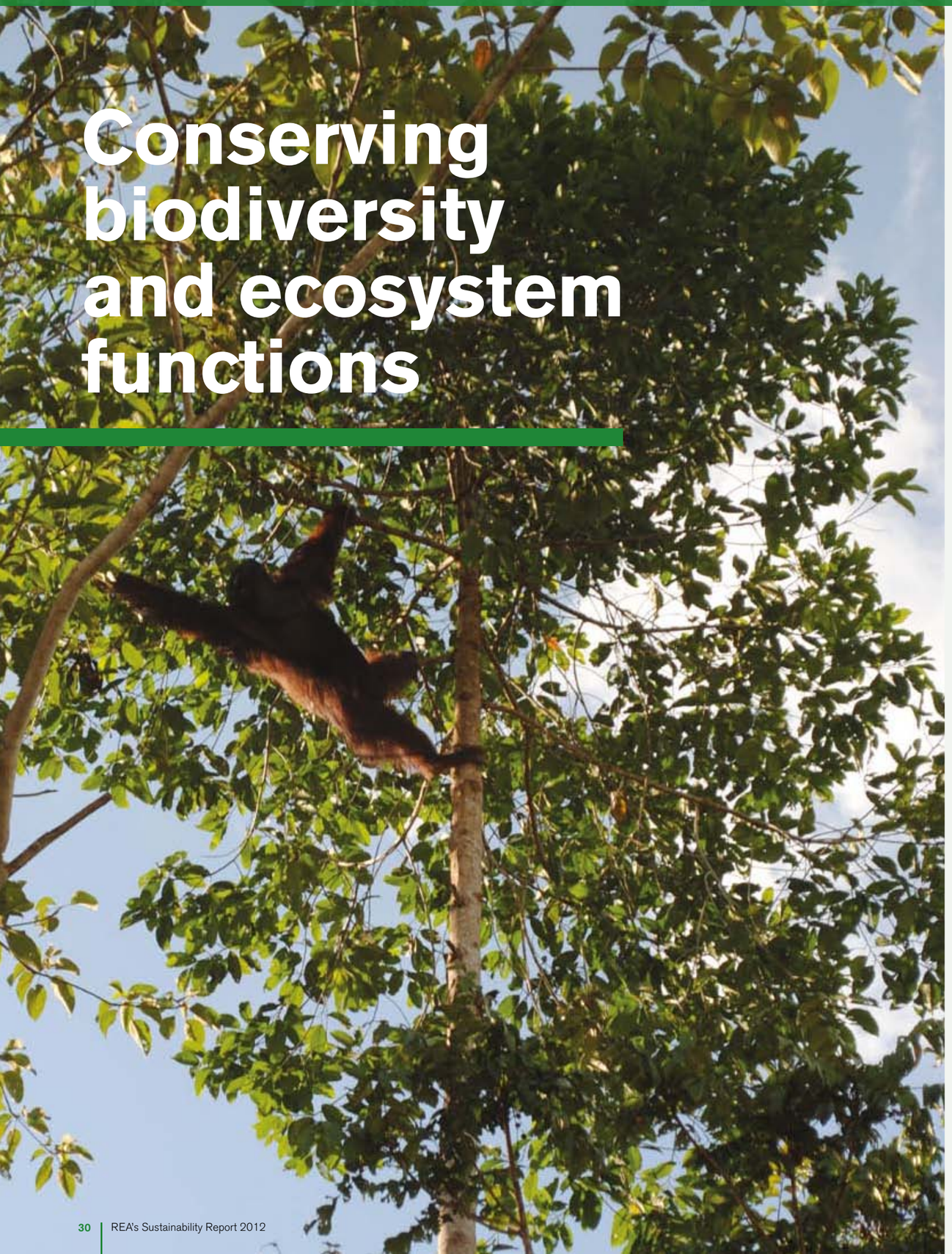
OPERATING IN A BIOLOGICALLY AND CULTURALLY DIVERSE LANDSCAPE

## The wildlife

Kalimantan is the name for the Indonesian portion of the island of Borneo, which is one of the most biodiverse places on the planet. Perhaps best known for its large expanses of tropical rainforest, it also supports a number of other valuable ecosystems, including peat and freshwater swamp forests, heath forest, mangroves and coral reefs.

The forests of Borneo contain an outstanding variety of tree species, including many hardwood species that are prized for their timber. In addition to some 15,000 species of plants, Borneo is home to a vast array of animals, including approximately 220 species of mammals, of which 13 are primates, and over 400 species of birds. A significant number of these species are unique to this region.

The original concession that REA acquired in the early 1990s consisted of a mosaic of primary and secondary forest of varying quality. Extensive logging of the area, particularly on the northern side of the river, began in the early 1970s. In the early 1980s further damage was caused by the great fire of Borneo, which burnt some 60% of the logged and unlogged forest north of the river as it swept through the area following 18 months of drought caused by an El Nino Southern Oscillation event. Further logging by commercial entities and local people occurred before REA commenced land clearing in the area in 1994.



# Conserving biodiversity and ecosystem functions



CONSERVING BIODIVERSITY AND ECOSYSTEM FUNCTIONS

## Five years of REA Kon

REA's conservation department, known as REA Kon, was formally established on 1 January 2008 by an internationally renowned scientist with extensive experience of biodiversity conservation in Borneo. Over the last five years, REA Kon has gained recognition within the conservation and oil palm communities for its pioneering efforts to integrate biodiversity conservation with palm oil production through science based management.

The REA Kon team

REA Kon's mission is to designate and manage a network of conservation reserves throughout the group's oil palm concessions that will help to conserve the natural biodiversity and ecosystem functions of the surrounding landscape. To achieve this goal, REA Kon has developed a three-pronged strategy that focuses on biodiversity, local communities and the environmental impact of the plantation operations (see Figure 9). The REA Kon team comprises both experienced conservationists and people from local villages who have a good knowledge of the biological and cultural diversity of the region.

Scientists conducting research at CDM

The expertise of the REA Kon team is augmented and shared through collaborations with both international and national scientific institutions and NGOs. Research conducted by scientists within the group's concessions helps to inform REA Kon's future management actions, whilst it is hoped that facilitating research projects by university students will encourage a new generation of scientists to study the relationship between oil palm and biodiversity.

Collaborations to date have included:

### National

- **University of Mulawarman, Samarinda, East Kalimantan**: REA Kon regularly supports research projects by undergraduate students
- **National University of Indonesia ("UNAS"), Jakarta**: REA Kon regularly supports research projects by undergraduate students
- **University of Indonesia ("UI"), Jakarta**: research on orangutan ecology and sociological studies of local communities
- **The Indonesian Institute of Sciences ("LIPI")**: inventories of flora and fauna
- **WWF Indonesia**: biodiversity surveys of areas planned for development to identify HCV habitats

### International

- **Utrecht University, the Netherlands**: carbon stock assessments
- **Singapore Botanical Gardens**: floral inventories
- **London Natural History Museum**: mammal surveys

**Figure 9** **REA Kon's management strategy**




CONSERVING BIODIVERSITY AND ECOSYSTEM FUNCTIONS

## Maintaining High Conservation Values ("HCV")

REA is committed to identifying and conserving the HCVs present within the group's oil palm concessions. This includes important biodiversity and ecosystem functions, as well as natural features that are of social or cultural significance. These natural resources and ecosystem functions are essential for sustainable palm oil production. Consequently, conserving HCVs is not only a core requirement of the RSPO standard but also of paramount importance to the future of the group's business.

From the outset, REA has been conscious that cultivating oil palm in a region that is rich in biodiversity can have significant negative environmental impacts unless precautions are taken. In an effort to avoid or mitigate negative environmental impacts, external experts and REA Kon have conducted Environmental Impact Assessments ("EIA") and ecological surveys for each new concession acquired by the group. This includes the group's longest established concession, REA Kaltim, for which an EIA was conducted by T. Whitmore of Cambridge University and C. Mackenzie of the Natural Resources Institute, UK, in May 1995.


***Challenge:* Compliance with the RSPO requirements for responsible development of new plantings**

In 2012, an internal review concluded that the group's procedures for designating conservation reserves within two of the concessions where development began in 2008 and 2009 were not in line with the requirements of the RSPO standard, which was finalised in late 2007. Whilst either REA Kon or external experts conducted ecological surveys prior to development in these concessions, in some cases this work did not constitute a formal HCV assessment. Consequently, the group is currently unable to prove that 'New plantings since November 2005 have not replaced primary forest or any area required to maintain or enhance one or more High Conservation Values' in all of its concessions, as is required to obtain RSPO certification.

REA is taking action to resolve this issue. This includes voluntarily informing the RSPO secretariat and participating in the RSPO Compensation Task Force ("CTF"). By participating in the CTF, REA is helping to develop a mechanism by which oil palm growers in similar situations can identify HCVs lost in areas cleared prior to undertaking an HCV assessment and then compensate for the lost HCVs in a way that is considered acceptable by this multi-stakeholder group. REA intends to use this mechanism to resolve any non-compliances within the group's concessions as soon as it is finalised. At present, it is estimated that approximately 2,000 hectares were cleared prior to a formal HCV assessment being conducted. The extent to which HCVs were lost as a result of this land clearing will be confirmed by the results of the land use change analysis that is in process.

Following the introduction of the RSPO New Plantings Procedure ("NPP") in 2010, REA has engaged RSPO approved consultants to conduct HCV assessments prior to initiating land clearing in all new developments.

## REA Kon: an external perspective

### About the Earl of Cranbrook

Lord Cranbrook is a qualified biologist, with over 56 years of experience in field studies and academic teaching and research in South-east Asia, principally in Indonesia and Malaysia. His many publications include an early edition of the Mammals of Borneo (1965), Mammals of Peninsular Malaysia and Singapore, Mammals of South-east Asia, Wonders of the Natural World of South-east Asia, and with others, Key Environments: Malaysia, Birds of the Malay Peninsula and, most recently, Swiftlets of Borneo: builders of edible nests (2002, 2nd edn 2013). Since 2009, he has been an adviser to Yayasan Ulin, the charitable foundation established by REA, and in this capacity has enjoyed spending time with the REA Kon team on the four occasions that he has visited REA's operations.

"It is sound business sense for any land-based enterprise to align its activities to safeguard the sustainability of the resource on which it depends, to minimise impacts on the wider environment and to be on good terms with the community among whom it operates.

REA operates in a region that supports a rich and distinctive flora and fauna. The achievement of REA Kon has been to show that, when reasonably extensive conservation areas are kept within the oil palm monoculture, the plantation as a whole can support a rich assemblage of animals, including rare, threatened and endangered species, some of which are unique to Borneo.

REA Kon has been innovative and effective in developing procedures for assessing and monitoring animal populations and identifying plants important for them. With training, the methods used are not difficult to learn and the equipment is not expensive. The chief requirements are enthusiasm and application.

Paramount among the species present in REA's conservation reserves is the Bornean orangutan. Orangutans are the only Asian great apes , and numbers of both the Bornean and Sumatran species are severely depleted. The incidence of breeding recorded by REA Kon, although low, is sufficient to show that there is a potentially viable population present. REA Kon research has identified a wide range of plants used by the orangutans, and enrichment planting is aimed at enhancing the forest habitat for their benefit. It is a huge challenge for REA's management to devise systems to ensure that this small but viable population of orangutans can survive alongside commercial productivity.

The number of bird species recorded by REA Kon from sampling within conservation areas demonstrates the capacity of Kalimantan bird populations to colonise severely disturbed forest habitat. Given the widely recognised value of birds as indicators of environmental health, it is important that monitoring of the bird community should continue.



CONSERVING BIODIVERSITY AND ECOSYSTEM FUNCTIONS

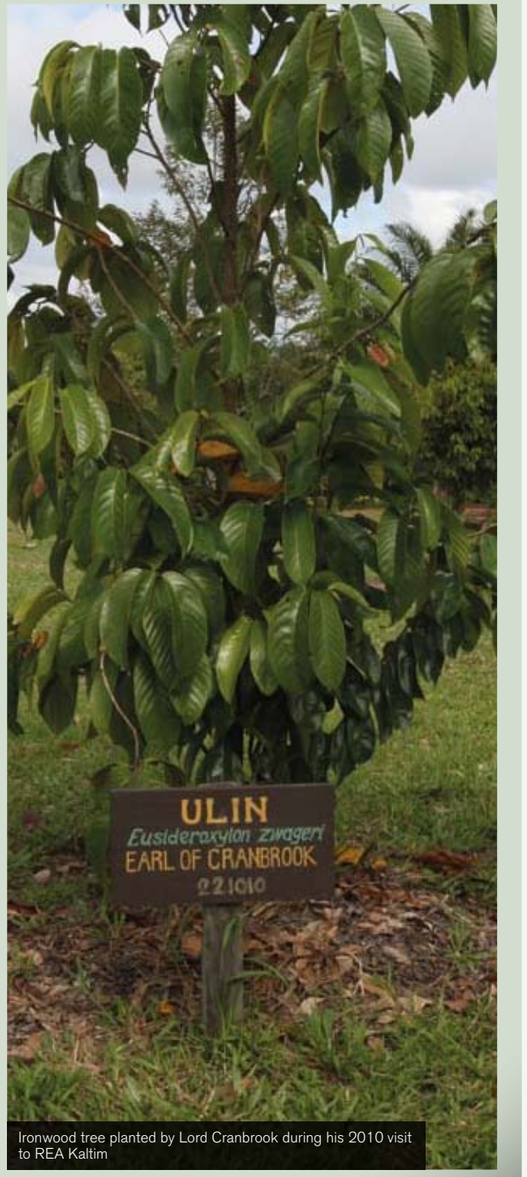
## REA Kon: an external perspective - continued

The responsibilities of REA Kon include the all-important aquatic environment, a resource that is shared with the wider community. Fish populations have been sampled, and proved exceedingly diverse, and the quality of streams and rivers that flow through the plantations are monitored. It is essential that REA maintains, and if possible enhances, water quality and aquatic biodiversity.

REA Kon's results suggest that the RSPO evaluation criteria for HCV areas and species should be expanded to include communities and species that have not hit the headlines in nature conservation, but are none the less vital to the sustainability of a healthy environment, such as critical invertebrate groups and soil organisms. For example, it is likely that some insects have potential for biological control of pests. Future work for REA Kon could include sampling the invertebrate biodiversity.

The key to sustainable utilisation of the natural resources ultimately lies in the reactions and attitudes of people. Education is the key to effective biodiversity conservation and it is important that conservation is included in REA's management training programme. REA Kon has successfully engaged the local communities by recruiting and training staff from neighbouring villages and holding conservation camps for school children. Existing outreach programmes for REA's employees and local communities should be enhanced. REA Kon's alliances with universities and scientists have contributed to the body of research available to guide the management of wildlife in oil palm landscapes. These links should be maintained as they have served to integrate the plantation community with an important and influential sector of mainstream society. Such openness will help to increase public understanding.

At present, there may not be many individuals working in the oil palm plantation industry who openly appreciate the value of biodiversity. It would be tragic if their realisation was to be awakened by the collapse of the natural environment that provides so many services to human existence."




Ironwood tree planted by Lord Cranbrook during his 2010 visit to REA Kaltim

CONSERVING BIODIVERSITY AND ECOSYSTEM FUNCTIONS

## Conserving biodiversity beyond protected areas

REA believes that if oil palm concessions are planned, developed and managed with due care they can provide a stable entity for, and contribute much needed resources towards, biodiversity conservation beyond protected areas.

As at 31 December 2012, REA had set aside some 20,000 hectares of natural habitat within its five concessions as conservation reserves. This accounted for 29% of the group's total titled land area.

### Conservation areas

A REA Kaltim: titled land area ("HGU") = 30,106 Hectares
Conservation reserves = 5,363 Hectares (18% of the HGU)

B SYB: HGU = 11,722 Hectares
Conservation reserves = 2,676 Hectares (23% of the HGU))

NOTE: *After REA started to develop this concession, the group became aware that the northern estate of SYB overlaps with coal mining rights belonging to another company. The areas subject to the overlap include mature oil palm plantings, areas under development, and some 1,500 hectares of the conservation reserves. In such circumstances, the government requires the parties to negotiate a compromise as to how the land subject to overlapping land use rights will be used. A land swap arrangement has been agreed in principle between the parties.*

C KMS: HGU = 7,321 Hectares
Conservation reserves = 2,027 Hectares (28% of the HGU)

D PBJ: HGU = 11,602 Hectares
Conservation reserves = 3,268 Hectares (28% of the HGU)

E CDM: HGU= 9,784 Hectares
Conservation reserves = 6,876 Hectares (70% of the HGU)

## Endangered species


False gharial


Bornean gibbon


Bornean orangutan


Flat-headed cat


Pangolin


Proboscis monkey

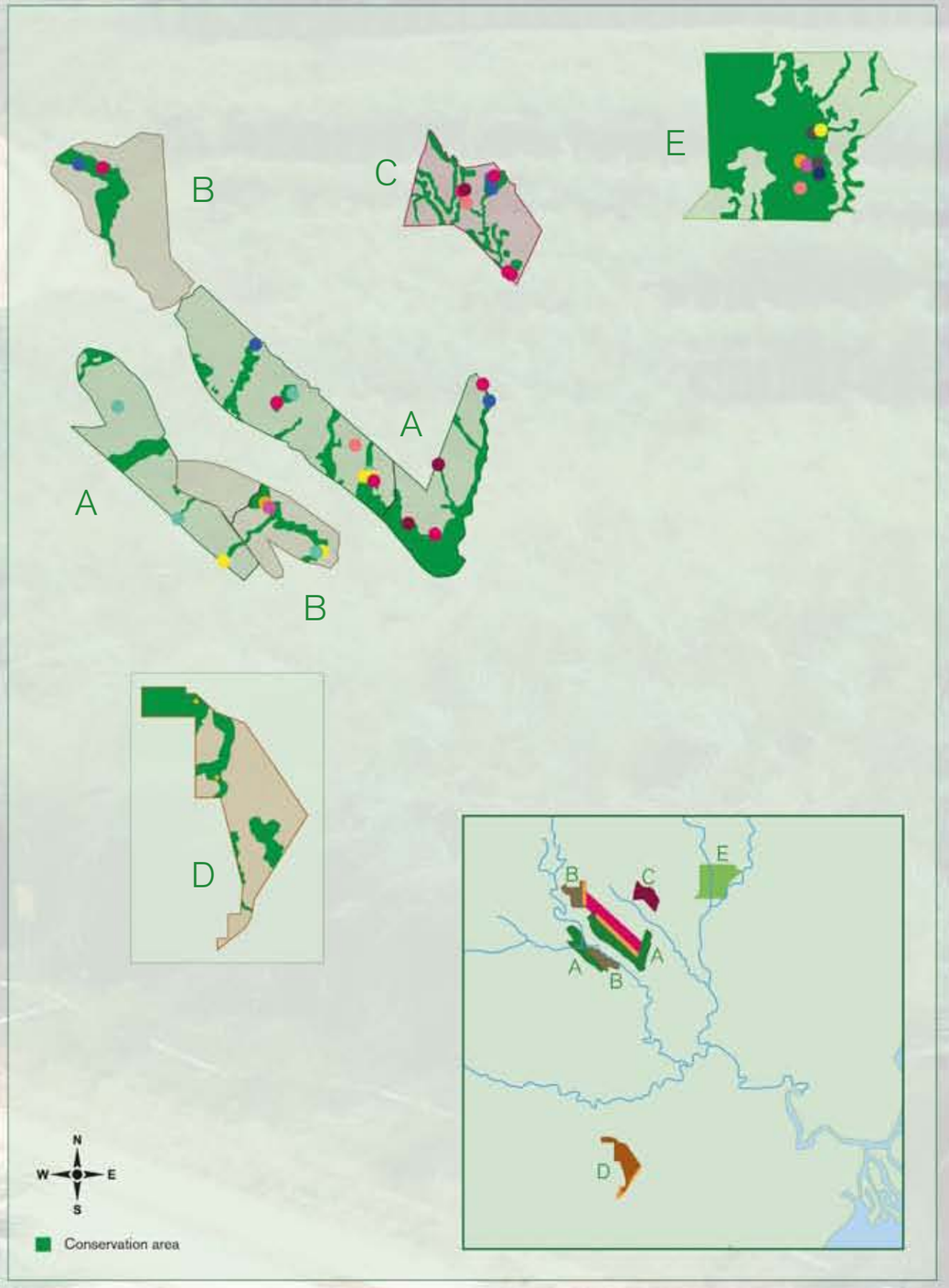

Hairy-nosed otter


Malayan sun bear


Siamense crocodile


Storm's stork

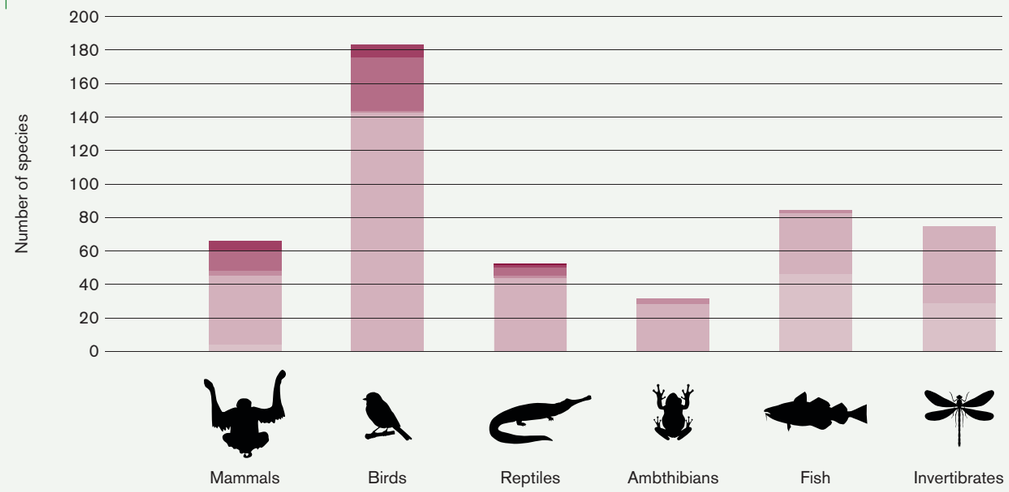
**Figure 10** Distribution of endangered species in REA's oil palm concessions



## Success: 495 species recorded

Ongoing biodiversity surveys of the group's conservation reserves conducted by REA Kon between 1 January 2008 and 31 December 2012, as well as assessments undertaken by visiting scientists, have revealed the presence of 495 species (see Figure 11), including 76 species that are listed as 'Near Threatened' or above on the IUCN Red List of Threatened Species.


Figure 11 Number of species recorded within REA's oil palm concessions




| Number of species | 66 | 185 | 53 | 32 | 84 | 75 |
|---|---|---|---|---|---|---|
| Critically Endangered | 0 | 0 | 1 | 0 | 0 | 0 |
| Endangered | 6 | 1 | 2 | 0 | 0 | 0 |
| Vulnerable | 12 | 7 | 5 | 0 | 0 | 0 |
| Near threatened | 3 | 33 | 1 | 4 | 1 | 0 |
| Least Concern | 42 | 144 | 44 | 28 | 37 | 47 |
| Not listed | 3 | 0 | 0 | 0 | 46 | 28 |





| Species | | |
|---|---|---|
| CRITICALLY ENDANGERED | | |
| Reptiles | Siamese crocodile | *Crocodylus siamensis* |
| ENDANGERED | | |
| Mammals | Proboscis monkey<br>Bornean gibbon<br>Orangutan<br>Sunda pangolin<br>Hairy-nosed otter<br>Flat-headed cat | *Nasalis larvatus*<br>*Hylobates muelleri*<br>*Pongo pygmaeus*<br>*Manis javanica*<br>*Lutra sumatrana*<br>*Prionailurus planiceps* |
| Birds | Storm's stork | *Ciconia stormi* |
| Reptiles | Malayan giant turtle<br>False gharial | *Orlitia bornensis*<br>*Tomistoma schlegelii* |
| VULNERABLE | | |
| Mammals | Slow loris<br>Western tarsier<br>Pig-tailed macaque<br>Hose's langur<br>Ear-spot squirrel<br>Dark-tailed tree rat<br>Sun bear<br>Oriental small-clawed otter<br>Banded palm civet<br>Marbled cat<br>Bearded pig<br>Sambar deer | *Nycticebus coucang*<br>*Tarsius bancanus*<br>*Macaca nemestrina*<br>*Presbytis hosei*<br>*Callosciurus adamsi*<br>*Niviventer cremoriventer*<br>*Helarctos malayanus*<br>*Aonyx cinerea*<br>*Diplogale derbyanus*<br>*Pardofelis marmorata*<br>*Sus barbatus*<br>*Cervus unicolor* |
| Birds | Lesser adjutant<br>Wallace's hawk eagle<br>Large green pigeon<br>Grey imperial pigeon<br>Great slaty woodpecker<br>Blue-headed pitta<br>Hook-billed bulbul | *Leptoptilos javanicus*<br>*Spizaetus nanus / Nisaetus nanus*<br>*Treron capellei*<br>*Ducula pickeringii*<br>*Mulleripicus pulverulentus*<br>*Pitta baudii*<br>*Setornis criniger* |
| Reptiles | Reticulate python<br>Breitensteini python<br>Malayan flat-shelled turtle<br>Southeast asian soft-shell turtle<br>Malayan box turtle | *Python reticulatus*<br>*Python breitensteini*<br>*Notochelys platynota*<br>*Amayda cartilaginea*<br>*Cuora amboinensis* |

## The Ironwood Foundation (known as Yayasan Ulin ("YU") in Indonesia)

In 2009, REA established a charitable foundation, now registered in both the United Kingdom and Indonesia, which aims to contribute to the conservation of habitats in East Kalimantan that are of importance for biodiversity but are currently unprotected.

The majority of YU's activities to date have focused on the Mesangat wetlands in Kutai Timur district, East Kalimantan. This valuable wetland ecosystem, which is known to support a number of Critically Endangered and Endangered species, overlaps with and extends into the landscape surrounding REA's CDM concession. With funding from both the group and international donors, YU has established the necessary infrastructure and community relationships in Mesangat to:

- facilitate research by local and international scientists about the population and ecology of the rare, threatened and endangered species that inhabit these wetlands
- monitor harvesting of fish and reptiles by the local community and implement schemes to encourage sustainable use of these natural resources

REA remains committed to continuing its efforts to protect the Mesangat wetlands area, which has been the focus of YU's activities to date. However, the group is in the process of reviewing the organisational structure and objectives of YU, as well as its relationship with REA Kon, in an effort to maximise the impact of the group's conservation activities in this landscape.



CONSERVING BIODIVERSITY AND ECOSYSTEM FUNCTIONS

***Challenge:* Preventing degradation of the conservation reserves**

Logging and cultivation by the communities living in the vicinity of REA's operations pose a constant threat to the group's ability to maintain the integrity of the conservation reserves. Preventing such activities from degrading this natural habitat is a challenge and REA Kon is aware of locations where encroachment has occurred. An underlying driver of this is that portions of the conservation reserves are subject to outstanding claims for land compensation. It is REA's policy to acquire the right to manage the conservation areas in the same way as it acquires the right to manage the land planted with oil palm. The conservation areas are therefore included in the process the group is currently undertaking to verify and settle all outstanding claims for land compensation within its concessions.

Unfortunately, this is not guaranteed to stop encroachment because it is the perception of many local people that land which has not been cultivated with oil palm is not being 'used' by the group and is therefore available for exploitation. Since REA Kon was established five years ago, it has tried to change this common perception by working to educate and raise the awareness of local communities about the value of maintaining areas of natural habitat within the landscape. In 2013, REA Kon will focus on improving its existing system for monitoring encroachment and develop a programme of work to start restoring areas where encroachment has occurred, using trees from the nursery that it has already established.

REA Kon's tree nursery

# Community relations





## *Stakeholder comment from the Forest Peoples Programme ("FPP") and Sawit Watch: the right of communities to free prior and informed consent ("FPIC") at REA Kaltim*

### About FPP and Sawit watch

FPP is an international NGO, founded in 1990, which works with forest peoples in South America, Africa and Asia, to help them secure their customary rights and negotiate with governments and companies as to how economic development and conservation are best achieved on their lands. Sawit Watch is an Indonesian NGO which was established in 1998 to support the interests of indigenous people, local communities, smallholders and plantation workers who may be negatively impacted by large scale oil palm plantations.

Researchers from the NGO consortium interviewing a local community member. © Sawit Watch/Agustinus Karlo Lumban Raja'

In July 2012, a team from FPP, Sawit Watch and a consortium of local NGOs visited REA Kaltim. Over a period of ten days in the field, the research team interviewed a wide range of stakeholders, including local communities, government bodies, NGOs, plantation workers and the company. As far as possible, the views of women, the elderly and youth were included, as well as those of formal village representatives, such as village heads and customary leaders. On site fieldwork was complemented by analysis of primary and secondary sources, such as NGO publications, social and environmental impact assessments, standard operating procedures, contracts and maps. This commentary was written by FPP to provide REA's stakeholders with an insight into the findings of their study.

For the full study, please see Chao, S, Kleden, E, Lumban Raja, AK., Wardhana, I. & Cinditiara, I. (2012) A study on the right to Free, Prior and Informed Consent in PT REA Kaltim Plantations, East Kalimantan.

www.forestpeoples.org/sites/fpp/files/publication/2012/11/pt-rea-kaltim-document-fpp-website_0.pdf

"The population of East Kalimantan, where REA Kaltim is located, is a heterogeneous mix of indigenous Dayak peoples (including Dayak Kenyah and Dayak Tunjung) and Kutai, and other migrant ethnic groups such as Javanese, Chinese, Banjar, Bugis, Florinese and Malays.

The Dayak peoples tend to inhabit villages close to or within forested areas, and depend principally on shifting agriculture and the collection of forest products for their livelihoods. Land is customarily held collectively by the Dayak peoples and inherited evenly among the children. Since the arrival of timber and oil palm companies, however, land is increasingly held on an individual basis, although the individualisation of tenure has not been accompanied by the formal affirmation of these rights, as most communities do not hold land titles."

*Stakeholder comment - continued*

## Findings from the field

As part of a study on processes in place within RSPO companies to respect the right of communities to free, prior and informed consent ("FPIC"), Forest Peoples Programme, Sawit Watch and Friends of the Earth Indonesia (East Kalimantan) interviewed members of five villages (Hambau, Kembang Janggut, Muai, Perdana and Pulau Pinang) whose territories are located within or bordering the plantation managed by the REA's longest established subsidiary company, REA Kaltim, over a period of ten days in mid 2012. It was found that a significant amount of community development support has been provided by REA Kaltim to a number of villages, in the form of generators, electricity, clean water, clinics and schools. In Perdana, for example, it was reported by community members that the village is happy with the presence of REA Kaltim (as they are able to benefit economically from it):

*"We can get three to six million rupiah per month from two hectares, which is enough to live off and support our children to go to school. We have never fought with REA Kaltim. They have brought us a lot of development support too, such as clinics, which are free for REA Kaltim staff and workers, as well as their families. Most of us here are employed by REA Kaltim at different levels, or are part of the plasma scheme."*

**Pak Philipus Njang, member of REA Kaltim's Plasma scheme from Pulau Pinang village**

In Muai, the semi-independent smallholders scheme ("PPMD") also appears to be well accepted by local communities. In this scheme, community members are provided with seeds, fertilisers and pesticides by the company with which to cultivate their own small plots of land, and have written contracts according to which they sell their fruit to REA Kaltim via a cooperative.

Local communities continue to have access to the conservation areas for their daily needs (e.g. gathering non-wood forest products such as vegetables, fruit and fish) and to engage in limited agriculture at the borders of the conservation areas, and are encouraged by the company to protect and conserve it as far as possible through educational activities.

However, several sources of dissatisfaction remain at the grassroots level. One is the lack of information made available to communities by the company. While information may be conveyed to the various village teams, and to the village heads, very little is then being conveyed to the wider community by these bodies and individuals. For example, information is lacking on the RSPO itself and the companies' obligations under the P&C, on the right of communities to FPIC, on the legal status of the company's operations and permits, and on the details of the plasma scheme (for the many who are still waiting for its realisation). Further improvement in the flow of information is required so that it reaches the wider communities in an adequate, sufficient and timely manner.

A second key obstacle for communities is their lack of clarity over land demarcation and overlaps, resulting from a lack of participatory mapping of the boundaries of the REA group's plantations, two of which are contiguous (REA Kaltim and SYB), and the extent to which they overlap with customary and village land. For example, while the company informed the NGO consortium of nine villages within the REA Kaltim HGU (and the RSPO audit lists seven), community members affirm that many more have at least part of their lands within the concession (up to 14). The fact that three of the villages listed by the community, but not by the company representatives interviewed, overlap with a neighbouring plantation that is also owned by the REA group (SYB) and is largely managed by the same team of people may be one reason for the confusion. All of these claims are difficult to ascertain as there is no definitive map of the village boundaries at present. This leads to confusion over whose claims to compensation for land lost are legitimate. An HCV assessment was carried out in 2007, when conservation areas had already been identified. While communities were not involved in the mapping of these areas, the company provides them with training on community-based natural resource management of conservation areas.





*Stakeholder comment - continued*

*"We don't really know where the borders of the concession are, so we don't know how much of our land falls within the concession. Without maps, it is like we are blind."*

**Pak Ridwan, member of Hambau village**

Thirdly, several community members complain that community consultations ('sosialisasi') are routinely treated as a one-way information sharing process from the company to the communities, limited to informing them of the company's plans. Rather, the communities affirm that consultation should be a process where the company recognises and respects the communities' right to withhold their consent to developments, and remains open to developing alternative solutions with the communities, which are mutually satisfactory to both parties.

## Why invest in community consultation?

A number of protests have taken place in the concession as a result of unfulfilled promises of plasma and compensation, including a 25 day road block at the time of the NGO consortium's field visit. Investment in community consultation is crucial to pre-empt conflict, to ensure rights-based development for local communities, and to respect their rights under law and voluntary standards such as the RSPO. The case of REA Kaltim reveals a pro-active approach to this end, achieved through iterative negotiation and dialogue.

However, challenges and insecurities for local communities remain, and much more needs to be done to clarify these communities' understanding of their rights under the RSPO, to improve communication channels and early information-sharing between the company and the communities, and to carry out participatory mapping to clearly demarcate customary lands overlapping with the concession, and related entitlement to compensation.

*"Communities need to know their rights. The company and the community must engage in dialogue so that the company can know the needs and aspirations of the community, as well as why the land matters to them. And this must be a reciprocal process for things to go forward in a way that respects rights."*

**Pak Aslan, member of Kembang Janggut village**

## Respecting community land use rights

### Land tenure in Indonesia

Land tenure in Indonesia is complex, with distinct legal and customary systems for allocating land use rights administered by numerous authorities that operate at the national down to the sub-village level. This frequently results in overlapping claims to a particular area of land, between companies and local communities as well as amongst villages and individuals. Consequently, an area of land leased to a company by the government for the purpose of oil palm cultivation will, almost without exception, be encumbered with an array of formal and informal land use rights.

Government regulations outline the process by which communities or individuals with legitimate rights to use land within the concession can transfer these rights to the company, in return for which the company is required to negotiate a rate of compensation that is acceptable to both parties. To safeguard against land-grabbing, the RSPO standard requires companies to conduct this process in a way that respects the right of local communities to give their free, prior and informed consent to relinquish their rights to use an area of land and allow the company to develop oil palm on it.

REA's social license to operate is dependent on establishing and maintaining good relationships with the communities that live near the group's operations. REA is acutely aware that this will only be possible if all formal and customary land use rights are respected and, where FPIC is granted, transferred to the group in the proper manner.

Over the last two years, the group has experienced a series of community protests, the major trigger for which was renewed focus by these communities on past weaknesses in the group's procedures for land acquisition.

Key weaknesses include:

- Compensation payments were not documented in sufficient detail. The lack of detailed maps has made it difficult to link the compensation payments recorded by the group to specific areas of land. This has slowed the process of verifying claims for outstanding compensation payments.
- Consensus on the location of village boundaries and the extent to which they overlap with the group's land use title was not reached prior to development.
- Compensation payments were frequently made to community representatives, who were entrusted with distributing these payments to the members of their community entitled to receive compensation for their land use rights. It has since transpired that in many cases these payments were not properly distributed and consequently, eligible individuals did not receive their compensation payments.

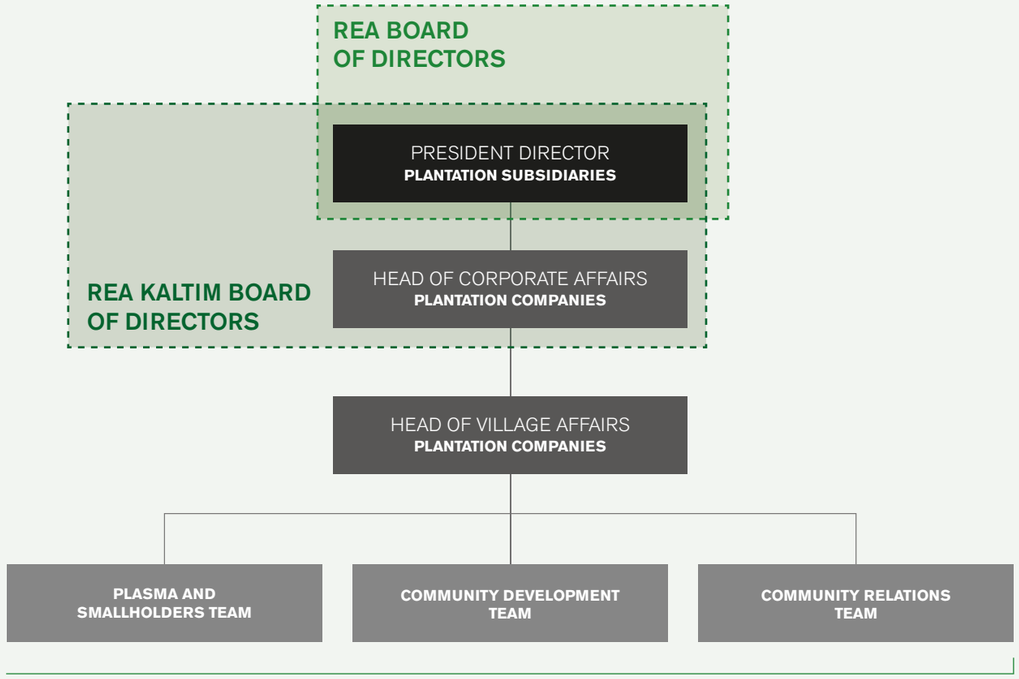




REA is dedicating significant time and resources in an effort to resolve past shortcomings. Actions initiated in 2012 to achieve this include:

- Requesting the local government to produce definitive boundary maps for the villages that border REA's concessions. This will determine the extent to which each village's land overlaps with the group's concessions. The first phase of this work was completed in the fourth quarter of 2012.
- Working with local government departments to systematically verify claims for land compensation within REA's established concessions. Based on the documentation provided, the local government committees tasked with reviewing the claims from one village ruled that just 17 of the 382 claims made to the group for compensation were valid.
- Arranging for local government leaders to arbitrate in meetings between villagers, who claim not to have received compensation payments from REA, and the village representatives who are suspected of embezzling such payments.
- Revising REA's standard operating procedures for land compensation to ensure that a more rigorously defined process is followed in future.
- Revising the organisational structure of the departments that interface with local communities and increasing the human resource applied to these activities. This has included: appointing a new Head of Corporate Affairs who has joined the REA Kaltim board of directors; creating a new plantation based position of Head of Villager Affairs to ensure better co-ordination between all departments that interact with the local communities; and expanding the network of village ambassadors to encourage more frequent, two-way dialogue between the company and the villages located in the vicinity of REA's concessions.

**Figure 12** The organisational structure of REA's community interface



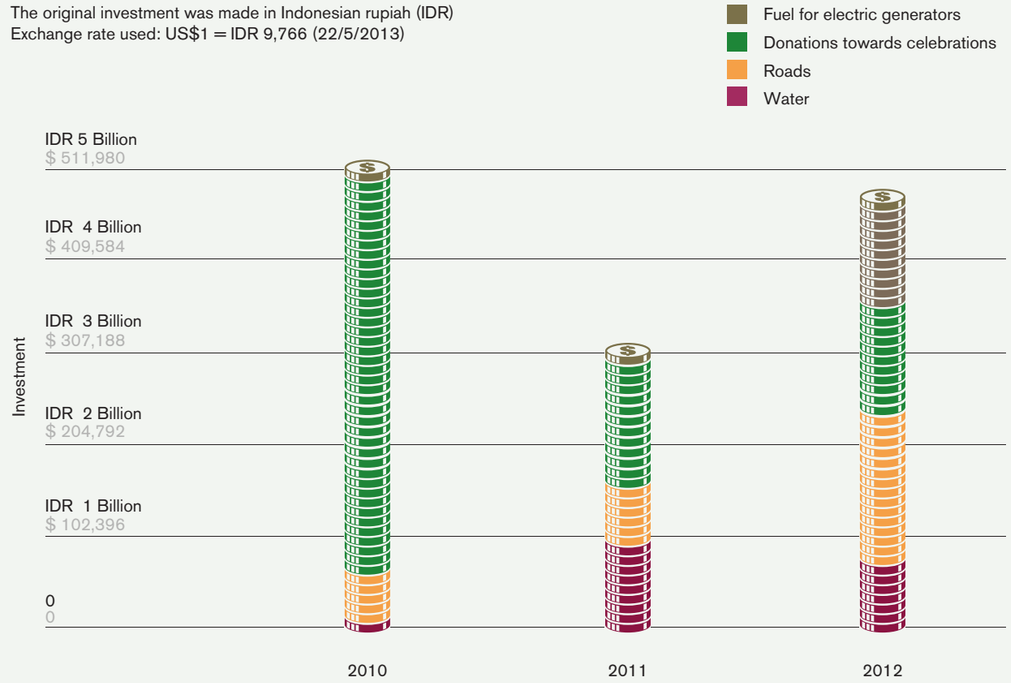
## Community development

Oil palm plantations are long term investments, meaning that REA has both a responsibility and the opportunity to make a tangible contribution to the socio-economic development of the regions in which it operates. The goal of REA's community development programme is to provide lasting benefits to the maximum number of individuals within the communities that are commercially involved with, or could be impacted by, the group's operations. As at December 2012, the group was aware of 40 communities that may be affected by its operations in some way.

Over the last two decades, the group has invested substantial financial and human resources in improving the infrastructure of the region, establishing smallholder schemes, providing technical training and micro-finance for small scale businesses, and supporting traditional and religious community celebrations. As a result, the economic status and quality of life of some communities has improved significantly. However, the way that REA has allocated resources between villages in the past has not been systematic or equitable, meaning that for some communities, the benefits of such schemes have been limited. This imbalance has fuelled high expectations by some communities and dissatisfaction amongst others about the assistance received.


Village mosque

**Figure 13** REA's investment in local villages 2010 - 2012




Community meeting in Buluq Sen village

### Developing a more effective strategy for community investment and engagement

In 2013, REA will begin the process of reviewing and revising its existing community development strategy in an effort to increase the net positive impact of the resources the group invests in this programme. Whilst a logical and transparent framework for community development is essential, it is recognised that such a strategy will need to be sufficiently flexible to meet the diverse and constantly changing needs and aspirations of the communities that are commercially involved with or impacted by REA's operations.

## Smallholder schemes

REA believes that smallholder schemes are one of the most effective ways to share the economic benefits of its operations with the surrounding communities. Oil palm is well suited to cultivation by smallholders because its long lifecycle and high yields mean that cultivation of a few hectares of land can provide a family with a reliable source of income for around twenty years. REA's first smallholder scheme was established in 2000 and the group continues to invest intensively in increasing the area of oil palm cultivated by associated smallholders.

Bangun Sari plasma cooperative office

As at 31 December 2012, REA had established 1,561 hectares of oil palm under the semi-independent smallholder scheme ("PPMD") and 2,944 hectares of oil palm under the plasma scheme. In addition to this, the group also treats as though it were PPMD 795 hectares of smallholder plantings originally developed under a government scheme.

Under the PPMD scheme, REA provided the cooperatives with oil palm seedlings, fertilisers and herbicides, as well as the technical assistance necessary for them to cultivate oil palm on the land owned by co-operative members. Cooperatives repay the cost of the inputs provided, interest free, through deductions made when they sell their FFB to REA's mills.

Fresh Fruit Bunches from PPMD cooperative oil palm plantings

In 2007, the Indonesian government introduced a new regulation[3] mandating that, for all new developments, an area equivalent to 20% of the oil palm cultivated by the company is developed as smallholder schemes for the benefit of the communities with land use rights that overlap with the area being planted.

In contrast to the PPMD schemes, the start up costs of the plasma cooperatives have been financed by a loan from a bank. A further difference is that the group, rather than the cooperatives themselves, develop and manage the plasma oil palm plantings, in return for a pre agreed management fee.

Plasma cooperative oil palm plantings

**Figure 14** Area of REA's associated smallholder oil palm plantings as at 31 December 2012

| Smallholder scheme | Company | Area planted (Hectares) | Number of cooperatives | Number of villages involved |
|---|---|---|---|---|
| PPMD | REAK | 1,561[4] | 14 | 13 |
| **Sub-total PPMD** | | **1,561** | **14** | **13** |
| Plasma | REAK | 1,922 | 2 | 4 |
| | SYB | 746 | 3 | 3 |
| | PBJ | 105 | 1 | 1 |
| | CDM | 170 | 1 | 1 |
| **Sub-total Plasma** | | **2,943** | **7** | **9** |
| **TOTAL** | | **4,504** | **21** | **22** |

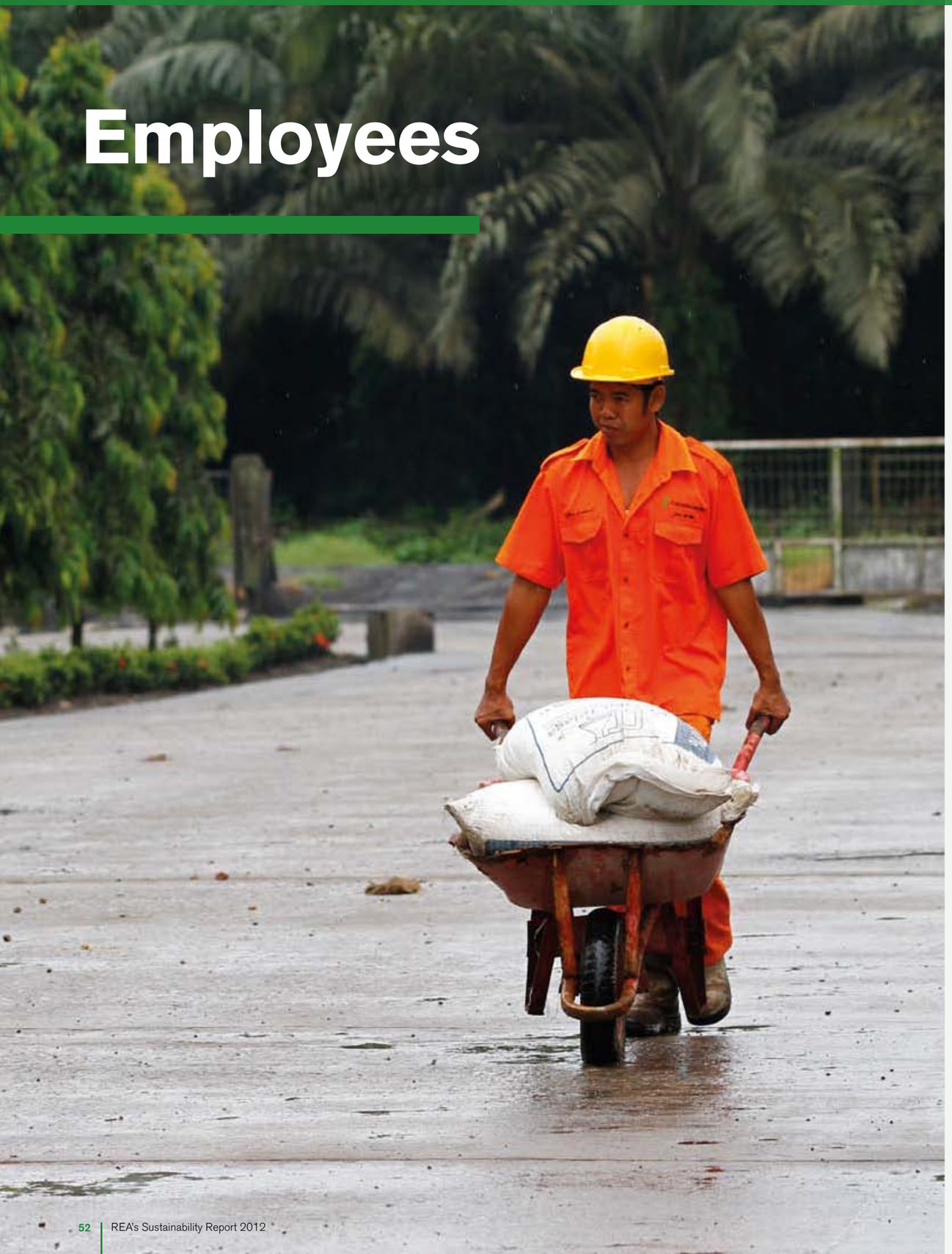
### *Challenge:* Meeting community expectations

Oil palm growers in Indonesia are only legally obliged to establish plasma schemes for concessions developed after 2007. Despite this, the villages surrounding REA Kaltim, which was developed long before 2007, still expect to be eligible to participate in the plasma scheme. In the interests of equality, REA considers that it has a moral obligation to allow these communities to participate in the plasma scheme. However, the practicalities of realising this are challenging.

For new oil palm developments, plasma plantings would usually be developed on land within the location permit allocated to the company. This is not an option for REA Kaltim because the group has already planted all of the land suitable for oil palm cultivation within the original area that it was allocated. Consequently, participation of the villages surrounding the REA Kaltim concession in the group's plasma schemes has been limited to individuals who owned plots of land suitable for oil palm cultivation. For this reason, as at 31 December 2012, only four of the nine villages whose communal land overlaps with the REA Kaltim concession were involved in plasma cooperatives. Resentment amongst the five villages that have yet to participate in the plasma scheme has been a key cause of the community protests experienced by the group in 2012. To address this, REA has secured an additional area of land that will be used for developing oil palm plantings for these villages through the plasma scheme. Work to establish cooperatives and allocate the land between them is under way and planting is expected to begin before the end of 2013.

3 Peraturan Menteri Pertanian Nomor 26/Permentan/OT.140/2/2007
4 This is excluding the 795 hectares of smallholder plantings originally developed under a government scheme and which the group now treats as PPMD

# Employees







## Valuing employees

Attracting and retaining skilled, motivated and loyal employees is the key to maintaining high standards as REA expands. To achieve this, the group endeavours to provide competitive salary packages, opportunities for career development and a good standard of living on the plantations for employees and their families. This is particularly important given the remote location of REA's established plantations. Wherever possible the group seeks to employ local people and contractors in an effort to contribute to the local economy and create a stable workforce.

REA employees receiving long service awards

### Rewarding long service

REA is one of the longest established palm oil producers in East Kalimantan and is fortunate to retain a significant number of long serving employees. Appreciation for this loyalty is expressed at the annual celebration of REA's birthday by presenting awards to all employees who have worked for the group for 10 years. In 2012, 238 employees reached this milestone, including two directors, two managers, two assistants and 232 workers.

REA Kaltim's Vice President Director receiving an award for 10 years of service

### Employee turnover

The wealth of experience and expertise within REA's workforce means the group is particularly vulnerable to poaching of staff as the number of oil palm plantations in the region rapidly increases. The establishment of new competitors in the region contributed to the unusually high turnover in the group's management team in 2012.

It is anticipated that turnover in the management team will return to the lower levels seen in 2010 and 2011 from 2013 onwards. Exit interviews are conducted with all departing permanent employees to understand the reason for each resignation and identify improvements that may help to retain existing employees. The group intends to gain a more detailed understanding of employee satisfaction by conducting a survey in 2013.

**Figure 15** REA's employee turnover 2010 - 2012

| | 2010 | | 2011 | | 2012 | |
|---|---|---|---|---|---|---|
| | Resignations | Turnover | Resignations | Turnover | Resignations | Turnover |
| Management | 5 | 8% | 2 | 3% | 27 | 51% |
| Other permanent staff | 21 | 9% | 37 | 16% | 33 | 14% |
| Workers | 928 | 20% | 1,265 | 29% | 1,036 | 23% |
| **Total** | **954** | **19%** | **1,304** | **28%** | **1,096** | **23%** |

## *My experience of working for REA Kaltim*

My name is Cahyo Suseno. I am currently an Estate Advisor for REA, where I have lived and worked for 20 years. I am originally from East Java, Indonesia. I joined REA when I was 28, three years after I graduated from university with a degree in agriculture.

### My career with REA Kaltim

I joined REA Kaltim as an assistant in 1993, after working for another palm oil company for three years. I first heard about REA when I met some REA staff in the Governor of East Kalimantan's office while organising some permits. I was interested to join REA for the following reasons:

1. When the directors interviewed me, they explained that REA owned a large area of land and that REA would become a large company.

2. Because REA is a foreign owned company, I felt confident that it would have good management and sufficient financing and would be able to provide me with a secure job that would guarantee my future welfare.

3. REA was a new company with plans to develop so I thought there would be good opportunities for career development if I worked professionally.

I received my first promotion in 1996, because of my contribution to the successful development of REA's first estate. At this time, I was the only Indonesian member of staff.

Opening REA's second estate was very challenging: it was extremely difficult to find workers locally so we had to search for staff in Java, housing was very limited and the remote location meant it was difficult to get food. But all of these challenges could be overcome with teamwork and in 1998 I was promoted to become an Assistant Manager.

Once the plantations were mature, we concentrated on improving yields. In 2004, we exceeded the production targets set by the company and I was promoted to become an Estate Manager.

In 2010, I became a Senior Estate Manager. The basis for this promotion was the increased productivity and motivation of the workers in the estate I was managing. The consequence of this was that staff from my estate were transferred to higher positions in other estates, we exceeded production targets by 20% and demonstrations and protests by workers became less frequent.

In the last few years, I have been very involved in REA's 'Total Quality Management' programme, efforts to obtain ISO14001 and RSPO certification and resolving community conflicts. I have also represented the company as a speaker at national oil palm seminars. In 2012, I was promoted to become an Estate Advisor.





*My experience of working for REA Kaltim*

### My opinion about REA Kaltim

REA manages its plantations in a way that strictly follows the regulations and pays close attention to the technicalities of oil palm agronomy. Its supporting departments, such as REA Kon and Community Development, help to ensure the continuity of REA's operations by protecting the environment and its relationship with the communities in the surrounding area.

A strength of REA is that it is always looking for innovative ways to improve its agricultural practices and increase production whilst still preserving the environment. It also gives achievement awards and training to staff at all levels. This includes sending staff to attend national and international seminars, providing them with new insights that help the company to progress.

In the future, I hope that REA will:

1. remain committed to protecting the environment
2. retain its employees, which are a major asset of the company; providing training, good social security and improving welfare will help to stop employees from leaving
3. consider developing plantations outside of East Kalimantan
4. conduct research on the technicalities of cultivating oil palm and the development of human resources

### Employee benefits and facilities

Creating a good standard of living and a strong sense of community on the plantations, which are more remote than those of many of the group's competitors, is critical to attracting and retaining employees. REA encourages employees to bring their families to live on the plantation as this improves morale and creates a more balanced community. All permanent employees are provided with housing for themselves and their families, as well as access to primary schools, clinics and amenities such as churches, mosques and shops operated by the group. In 2013, the group will introduce secondary education in its plantation schools as a first step towards upgrading the facilities provided for its employees and their families. REA is conscious that living in a remote location can be challenging and encourages all staff to leave the plantation on a regular basis by taking 'long weekends' in addition to their annual leave allowance.

An English lesson at one of REA's primary schools


The housing complex in Tepian estate, SYB

### Career development

REA has a number of strategies in place to nurture talent within its workforce. An annual programme of in house training, as well as participation in external training courses and conferences, is designed based on the results of systematic training needs assessments of permanent staff. Outbound activities, which are held on an annual or bi-annual basis, provide a good opportunity to assess the management potential of existing employees and develop key skills such as leadership, communication and teamwork.



Outbound event for assistant managers, Balikpapan, October 2012

Existing employees who demonstrate management potential, as well as graduates from Indonesian universities, are selected to participate in the group's long established cadet programme, which is run from the group's central training school. This programme consists of 12 months of theoretical and practical in house training covering all aspects of plantation management. In June 2012, 30 of the 32 participants from the 2011 intake were appointed as assistants in the group's estates, mills and supporting departments. This included six existing REA employees and 24 university graduates.

An internal search for suitable candidates is the first step when a new position is created or a vacancy arises within the group. In 2012, 172 permanent employees were promoted (see Figure 16). Key performance indicators are now in place for all staff and are used as the basis for regular performance reviews, payment of bonuses and promotion.

**Figure 16** REA's internal promotions in 2012

| | |
|---|---|
| Promotions within management | 4 |
| From senior staff to management | 7 |
| From junior staff to senior staff | 14 |
| From workers to junior staff | 42 |
| From casual worker to permanent worker | 105 |

### Providing employment for local people

To maximise the economic benefit local communities derive from REA's operations, priority is given to suitable candidates from nearby villages when recruiting people for new operations and existing vacancies. In 2012, over 1,300 of REA's employees, accounting for 18% of the workforce, are from the district in which they currently work.





## Labour standards

REA complies with all Indonesian labour regulations, which are based on the core standards of the International Labour Organisation.

### Decent pay and conditions

REA's minimum wage for both casual and permanent male and female employees is calculated based on the minimum wage in Indonesia[5]. This varies between districts and is revised annually by the local government based on, among others, the perceived cost of living in the region. In 2012, this varied between IDR 1,254,712 (equivalent to approximately US$129) and IDR 1,280,000 (equivalent to approximately US$131) per month in the districts where REA's plantations are located.

Permanent employees and their families are provided with a range of benefits in addition to their basic salary that are beyond the requirements of Indonesian law. These include:

- housing with electricity and water
- primary school education
- healthcare
- rice allowance


Fresh Fruit Bunches being harvested

### International core labour standards

REA strictly enforces its policy not to employ anyone under the age of 18 by checking the identity cards, school certificates and family registration information for each new employee. Employees are not required to deposit identity cards, insurance cards or money and are provided with clear terms of employment, which include pre-agreed notice periods. REA complies with Indonesian laws relating to freedom of association.

### Employee relations

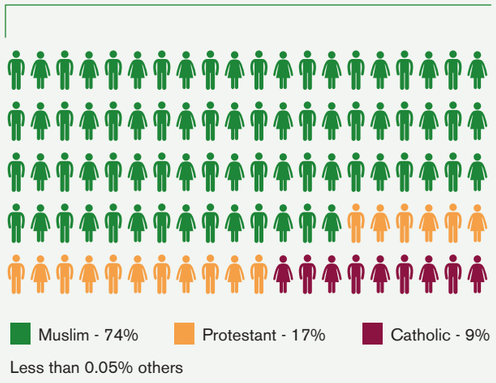
In the majority of cases, REA's management team has been able to resolve issues raised by employees quickly and satisfactorily, resulting in good relations. However, a formal grievance mechanism and an industrial relations officer are in place to assist if the management is not able to resolve an issue satisfactorily. At present REA has one active trade union, which was formed by workers in one of the group's palm oil mills.

5 For casual workers the daily rate is calculated by dividing the monthly minimum wage by 25 days. They are only paid for the days that they work. For permanent entry level workers, the daily rate is calculated by dividing the monthly minimum wage by 30 days. They are paid on a monthly basis, including rest days and sick days.

## Equal opportunities

REA believes that diversity in the workforce fosters productivity. In 2012, 87 ethnicities and five religions were represented in the group's workforce. Mutual respect is one of REA's core values; discrimination based on differences in gender, ethnicity, religion, race, sexual orientation, political opinion or age is not tolerated. Whilst REA is aware that there is potential for tension to arise between different ethnic groups, as demonstrated by past ethnic conflicts in various parts of Kalimantan, the group is pleased to report that in recent years relations on its plantations have been harmonious.

**Figure 17** REA employees by religion





AMuslim study group at one of REA's mosques

The church in Berkat estate, REA Kaltim





## Empowering women


Presentation of long service awards

In 2011 and 2012, REA received awards from the provincial and district governments respectively in recognition of its efforts to empower and address the needs of women in the workplace.

At present, women account for 26% of the people employed by REA's plantation companies, including 12% of the management team. However, the group recognises that it has yet to maximise the potential of the existing female population of its plantations. To address this, in 2013 the group will instigate a training programme targeted at women who are living on the plantation but not currently working. The purpose of this is to enable women to be recruited for roles that have traditionally been performed by men but could be done equally well by women. To begin with, the training programme will focus on grading of FFB and driving.

## Health and safety

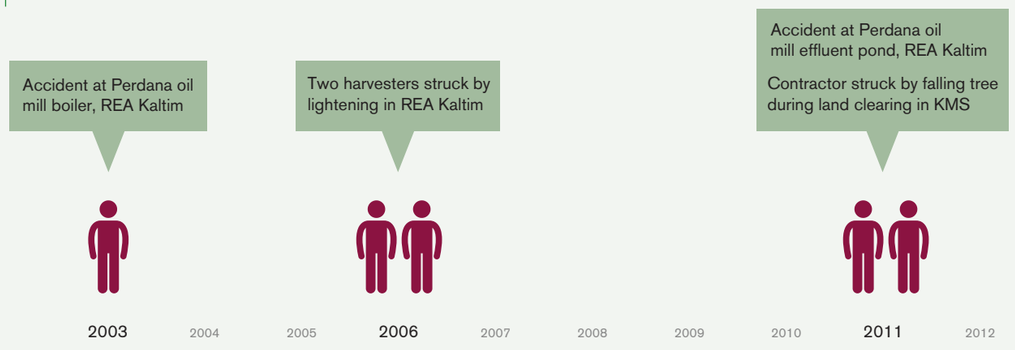
Providing employees with safe working conditions is of paramount importance to REA. The group's target is to achieve zero fatalities and a continuous reduction in lost time accident rates. Regular safety briefings and training conducted by the group's safety team are designed to embed safe working practices within the culture of the organisation. This is reinforced by a formal procedure for hazard identification, risk assessment and risk control, which is conducted on a regular basis for all working environments.

### Fatalities

REA deeply regrets that it has experienced five fatalities within its workforce over the last ten years. This was the result of three work related accidents, involving two employees and one third party contractor, as well as a tragic incident in which two harvesters were struck by lightning whilst waiting for transport home.

The group takes any loss of life extremely seriously and, whatever the circumstances, conducts a detailed investigation into the causal factors to identify preventative measures for the future. In response to the fatalities that occurred in 2011, an independent review of the group's existing occupational health and safety ("OHS") management system was commissioned. This identified several areas where improvements are needed to align existing procedures with international standards of best practice. These improvements will be guided by the requirements of the internationally recognised OSHAS 18001 standard. It is the intention that REA Kaltim will achieve OSHAS 18001 certification by early 2015.

**Figure 18** Work related fatalities 2003 - 2012




## Accidents

The majority of accidents that occurred within REA's operations in 2011 and 2012 were relatively minor and related to harvesting (see Figure 19). Whilst the lost time accident rate and severity rate are important indicators of the effectiveness of the group's OHS management system, the group is aware that this data is currently not entirely reliable, due to certain inconsistencies in the recording of accidents in the group's 16 estate clinics. In 2013, REA will be working to standardise its procedures for monitoring accidents throughout its operations in an effort to improve the reliability of this important performance indicator.

| Lost time accident rate (lost time accidents per 200,000 working hours) | 2011 | 2012 |
|---|---|---|
| Plantations | | |
| REA Kaltim | 10.1 | 15.0 |
| SYB - Tepian estate only | 1.3 | 1.8 |
| Average | 9.2 | 13.7 |
| Mills | | |
| Perdana | 0.7 | 2.8 |
| Cakra | 1.7 | 9.0 |
| Average | 1.3 | 6.2 |
| **Group average** | **8.7** | **13.2** |

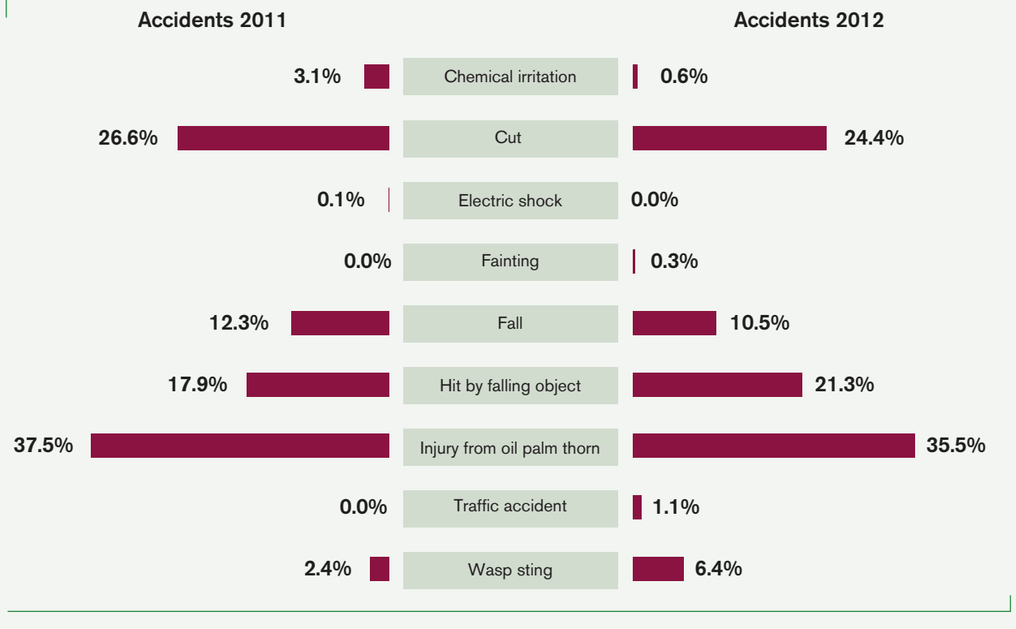
| Accident severity rate (average lost days per accident) | 2011 | 2012 |
|---|---|---|
| Plantations | | |
| REA Kaltim | 1.4 | 1.3 |
| SYB - Tepian estate only | 1.3 | 1.3 |
| Average | 1.4 | 1.3 |
| Mills | | |
| Perdana | 0.0 | 3.5 |
| Cakra | 1.0 | 1.2 |
| Average | 1.0 | 1.7 |
| **Group average** | **1.4** | **1.3** |

*Data was not available for SYB Satria estate, KMS, PBJ and CDM for 2011 or 2012. Independent contractors were not included in accident reporting for 2011 or 2012.





**Figure 19** Accidents by type 2011 - 2012




### *Challenge:* Keeping children safe from harm

A serious issue raised during the independent occupational health and safety review in 2012 was the presence of a child in an area where harvesting was under way. REA strictly enforces its minimum age of employment, which is 18. However, the group is aware that some field workers are inclined to allow their children to accompany them whilst they are working, which creates the potential for a serious accident to occur. All plantation managers and workers are regularly reminded of the risks of children being present in the field when work is in progress by means of internal memos from the senior management and safety briefings during the morning roll call. Estate managers closely monitor the morning roll call to ensure that no child is allowed to embark the vehicles that transport workers to the field. However, the extensive area over which plantation activities take place means that supervisors may not immediately notice if workers bring their children to the field using their own transport.

REA recognises that it needs to put in place measures to reduce further the risk of children being present in areas where plantation activities are under way. This could include expanding the existing childcare facilities available, better education of workers about the risks, and tightening its existing system for monitoring workers in the field so that any children present are more quickly identified and sent home.

### Healthcare

REA operates a network of 16 clinics across its estates, which are manned by paramedics. The group also employs a doctor, a dentist and midwives. In serious cases, the group arranges for employees to be evacuated by land or air to a hospital. In addition to REA's employees and their families, the clinics treat patients from the local villages. An average of 350 members of the local community were treated annually at the group's clinics in 2011 and 2012.

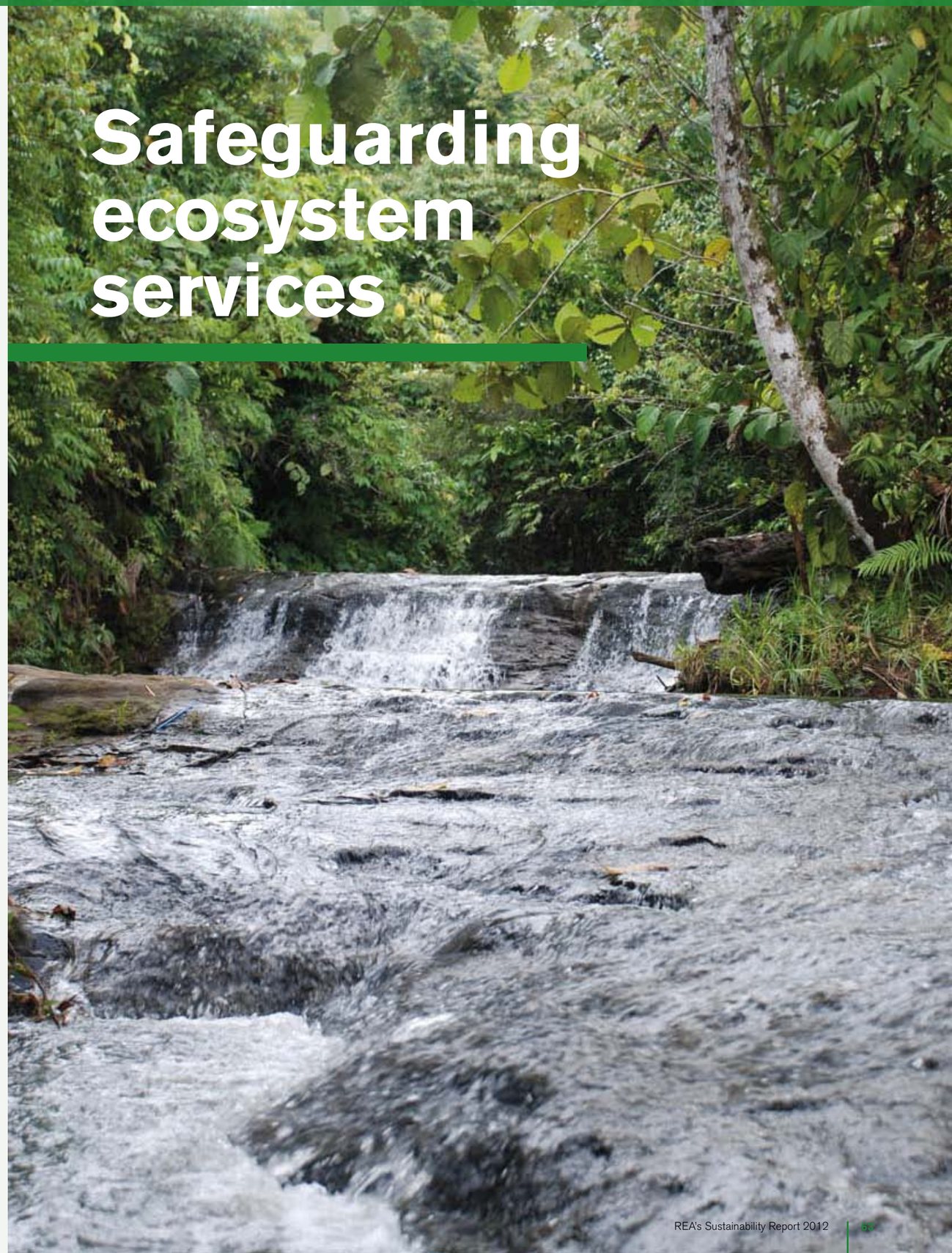
Preventative measures in place to reduce incidences of disease on REA's plantations include providing employees with immunisations against Tuberculosis, Polio, Diptheria, Tetanus and Hepatitis B, as well as fogging mosquitoes in an effort to reduce the risk of contracting Dengue fever and Malaria.

A consultation with one of REA's paramedics





# Safeguarding ecosystem services



## Climate change

Over the last two years, REA has made significant advances in its ability to monitor and reduce the intensity of its GHG emissions. In early 2013, REA was one of the first palm oil producers to publish a detailed and scientifically rigorous carbon footprint report. The full report is available on the group's website (www.rea.co.uk). Repeating this calculation on an annual basis will enable REA's management team and external stakeholders to monitor the group's progress in reducing its GHG emissions. The commissioning of facilities in 2012 for capturing methane and converting it to renewable energy at two of the group's mills represents material progress in REA's ability to achieve this.

### REA's carbon footprint

REA has used the RSPO's PalmGHG tool to calculate the carbon footprint of its palm oil operations in 2011 and 2012 (see Figure 21). This tool uses a lifecycle assessment approach, whereby all of the major sources of GHG emissions are quantified and balanced against the carbon sequestration and GHG emissions avoidance linked to the production of palm oil at REA's two longest established mills (see Figure 20).

REA will calculate and report the net GHG emissions per tonne of CPO and CPKO produced by the group on an annual basis. Satria oil mill, which was commissioned in the third quarter of 2012, and its supply base will be included in the scope of the carbon footprint calculation with respect to 2013.

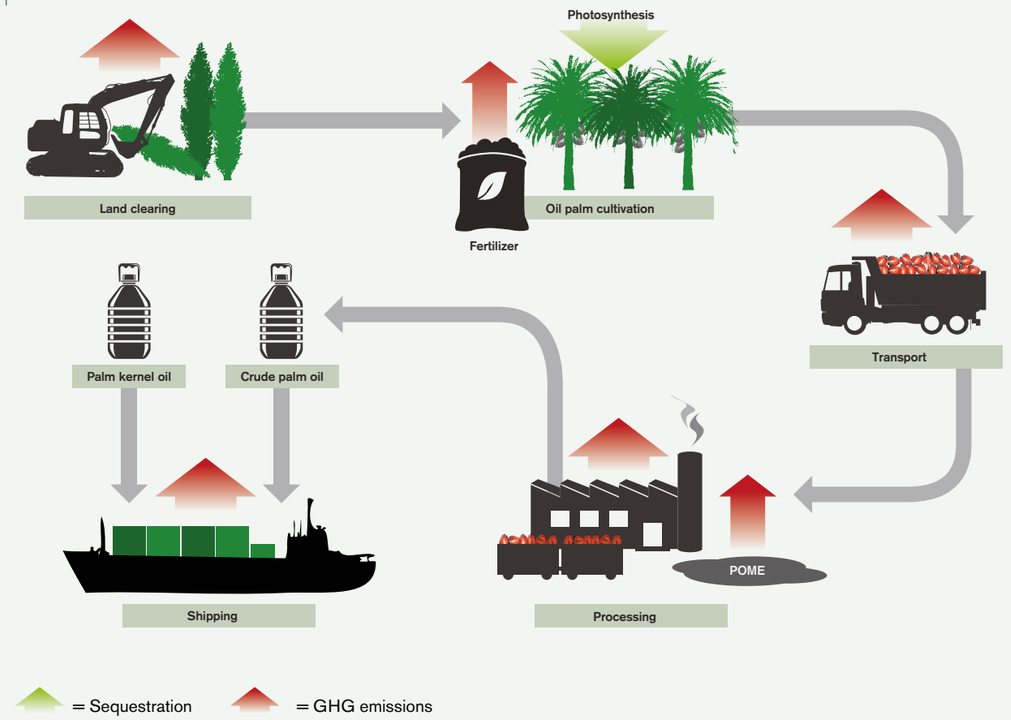
In early 2013, REA was one of the first palm oil producers to publish a detailed and scientifically rigorous carbon footprint report.

The methane capture facilities at Perdana oil mill





**Figure 20** Sources of GHG emissions and sequestration included in REA's carbon footprint




### Results of REA's carbon footprint in 2011 and 2012

The intensity of REA's GHG emissions has decreased slightly between 2011 and 2012 (see Figure 22). Land use change remains the biggest source of REA's GHG emissions. This has increased in 2012 because a new estate reached maturity and started to supply FFB to one of the mills included within the scope of REA's carbon footprint. Consequently, the emissions associated with developing this estate were included in the calculation for the first time, which caused the net GHG emissions from land use change to increase. The greatest reduction has been achieved in the methane emissions from palm oil mill effluent ("POME"), which is the second biggest source of REA's GHG emissions in both 2011 and 2012. This is due to the commissioning of two methane capture facilities in the second and fourth quarters of 2012 respectively.

**Figure 21** REA's carbon footprint in 2011 and 2012

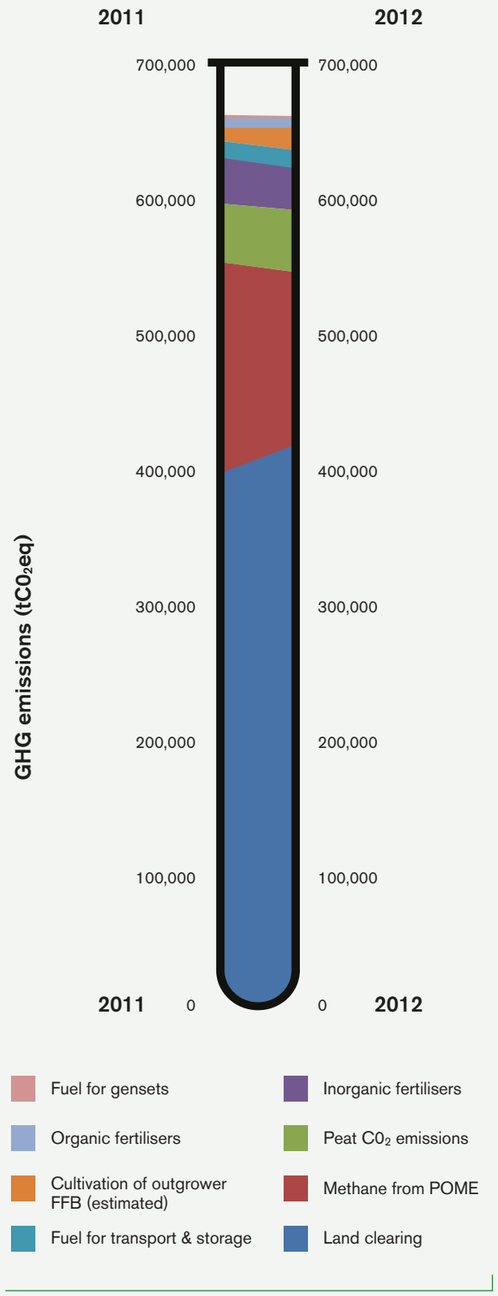
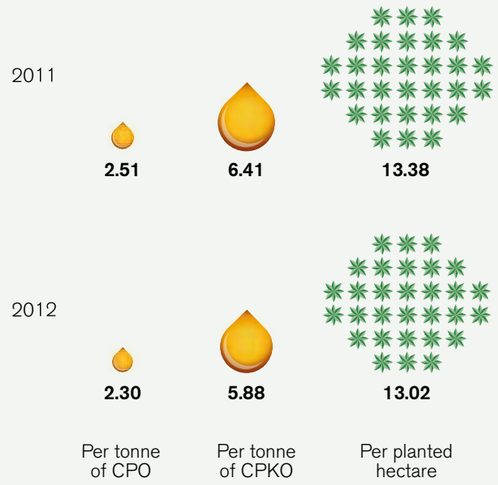



**Figure 22** The intensity of REA's GHG emissions in 2011 and 2012

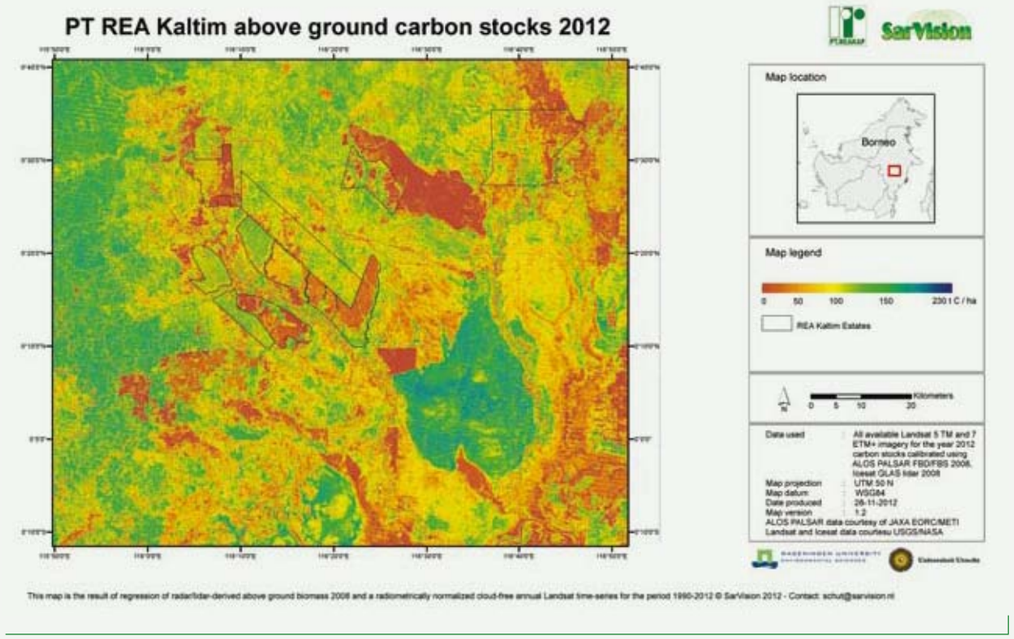



Note: The figures for REA's 2011 carbon footprint differ here from those published in the original report (dated February 2013), due to an error in the original calculation of the GHG emissions from land use change.

## GHG emissions associated with land use change

REA is mindful that the link between oil palm expansion and the loss of carbon rich tropical forest is an issue that is of great concern to its stakeholders. The group therefore felt it was important to address this issue in a way that is as transparent and accurate as the latest science will allow. To this end, REA engaged the remote sensing specialists SarVision, a company associated with Wageningen University in the Netherlands, to provide an independent assessment of the GHG emissions likely to have resulted from the clearance of natural vegetation for oil palm development by the group. This involved producing and analysing a time series of maps showing the carbon stock of the above ground vegetation. The first map in the series was for 1990, which is several years before REA commenced land clearing for oil palm development. These maps were created using a pioneering approach whereby high-resolution images (30-50m) from 2008, produced using advanced remote sensing techniques, were used to interpret the less detailed satellite imagery that was available in the early 1990s.

Figure 23 An example of the carbon stock maps produced by SarVision




The detailed carbon stock maps produced will enable REA better to identify and avoid areas of high carbon stock vegetation when planning oil palm developments in future, as well as to measure the GHG emissions that result from this. However, any reduction achieved in the carbon stock per hectare of natural vegetation cleared for oil palm development will not immediately result in a reduction in the group's total GHG emissions from land use change. This is because the PalmGHG tool accumulates GHG emissions associated with land use change and amortises them over the 25 year life cycle of oil palm. Consequently, any new development within estates that are already included within the scope of the carbon footprint calculation will always result in an increase in the GHG emissions associated with land use change.

## Success: Generating renewable energy

In 2012, REA commissioned methane capture facilities at its two longest established palm oil mills. Not only do these facilities reduce the volume of this potent greenhouse gas that is released to the atmosphere by the anaerobic digestion of POME but they also convert it into electricity. This in turn reduces the need to use diesel powered electricity generators, thus further reducing the group's GHG emissions. The installation of the methane capture facilities in 2012 resulted in nearly a 20% reduction in the methane emissions associated with the treatment of POME and almost a 40% reduction in the GHG emissions associated with the use of diesel powered electricity generators compared to 2011 (see Figure 21).

Gas engines for converting methane into electricity

The methane capture facilities create the potential for REA to generate significant quantities of renewable energy in a remote region that lies beyond the current reach of the national electricity grid. Over the combined period of 12 months that the two methane capture facilities were operational in 2012, they produced over 8.6 million kilowatt hours (kWh) of green electricity. This is equivalent to the average annual electricity consumption of nearly 2,000 households in Great Britain[6]. The availability of electricity from the methane capture facilities in 2012 reduced the diesel required by the group to generate electricity by over 1.1 million litres in comparison to 2011 (see Figure 24).

Both methane capture facilities have qualified as United Nations Framework on Climate Change ("UNFCCC") small scale Clean Development Mechanism ("CDM") projects. This allows Certified Emissions Reduction ("CER") credits to be sold for the GHG emissions savings achieved. Approximately 30,000 CERs were generated by the two biogas plants in 2012.

The full potential of the methane capture facilities to provide clean energy to the group's operations and the surrounding communities has yet to be realised. It is predicted that the current capacity of each facility could be expanded from the existing two megawatts to eight megawatts if all of the methane produced is converted to electricity and additional gas engines are installed. In an effort to realise this potential, REA is collaborating with the Indonesian national electricity company ("PLN") to provide local villages with access to electricity generated by REA's methane capture facilities. The current target is for the necessary infrastructure to be installed before the end of 2014. REA is also investigating the potential to compress the methane produced by these facilities and use it as fuel for the plantation vehicles. This would further reduce the group's diesel consumption and the GHG emissions associated with this.

Monitoring the methane capture facilities

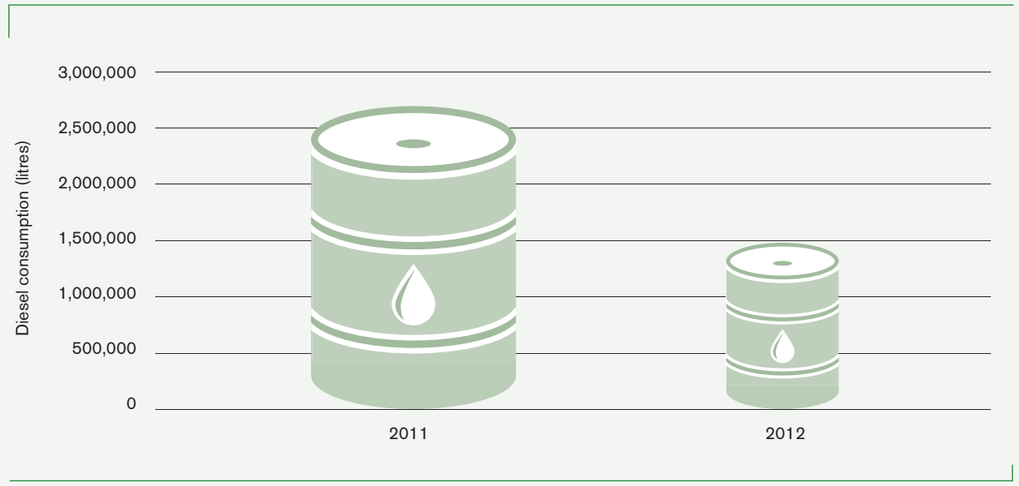
6 UK Government Department of Energy and Climate Change (DECC) sub-national electricity consumption statistics and household energy distribution analysis for 2010. Published March 2012. Average annual domestic electricity consumption for Great Britain was 4,370 kWh.





The grid which transports the electricity from the methane capture facilities to estate offices and housing complexes

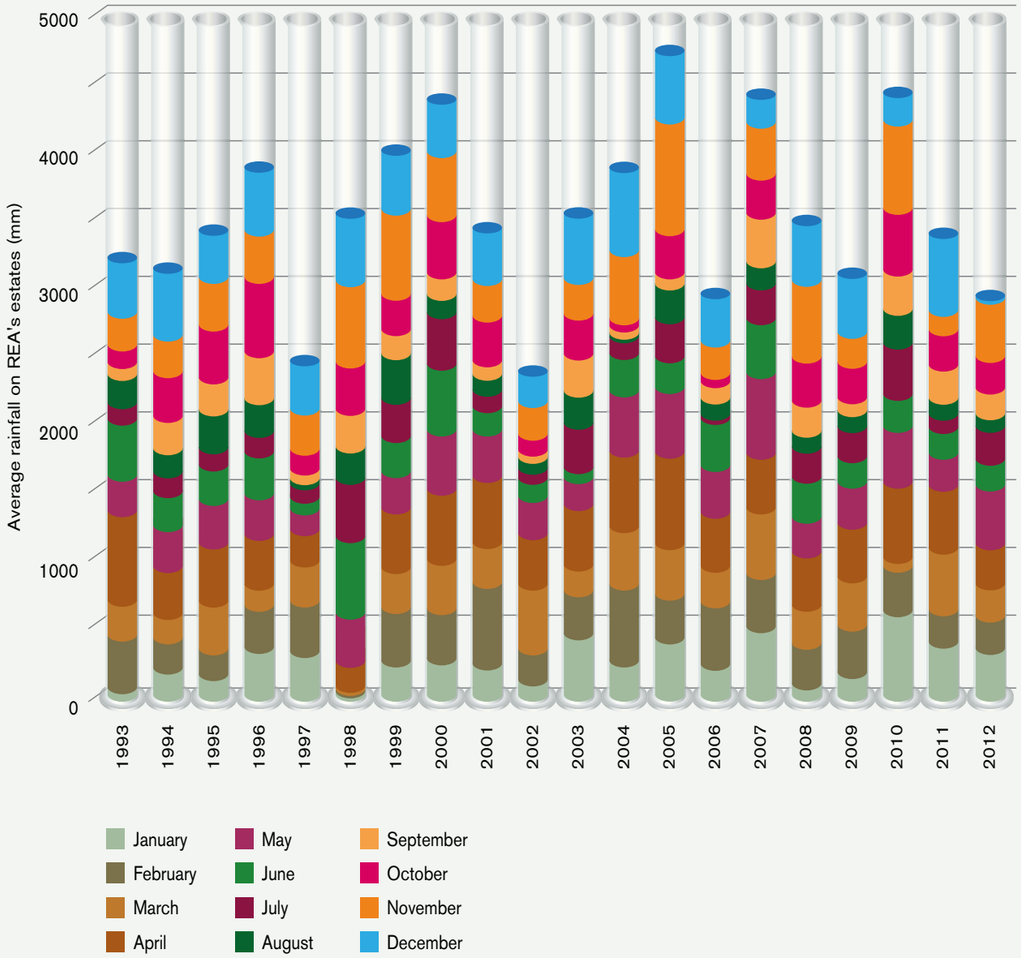
**Figure 24** The reduction achieved in the diesel required to power electric generating sets in REA's operations between 2011 and 2012



## Water management

Water is central to REA's operations and the livelihoods of the plantation and local village communities. The group is fortunate that its plantations and mills lie in close proximity to large rivers and receive high annual rainfall so water is plentiful. Optimal oil palm yields can be achieved with evenly distributed annual rainfall of 2,000mm, which to date has always been exceeded on REA's established plantations (Figure 25). Irrigation is only necessary during the nursery stage. Treated river water is used to process oil palm fruit in the mill and for domestic purposes. To date, the river levels have been adequate to meet the needs of both REA's operations and the local communities.

**Figure 25** The average monthly rainfall at the REA Kaltim estates between 1993 and 2012




REA is aware that water is a valuable resource that must be used wisely and that there is the potential to reduce the water footprint of its mills and plantations. Strategies to achieve this may include expanding existing means of rainfall capture, recycling grey water and educating employees to reduce wastage of water in the mills and the estate villages. In 2014, the group will install flow meters to enable water consumption in the mills and domestic buildings to be measured more accurately than at present. This will help to focus efforts to reduce water consumption and monitor progress in achieving this.


Domestic water supply


Communities living along the Belayan river

## Avoiding pollution

Ensuring that REA's operations do not pollute the local watercourses is a high priority. Failure to do so would reduce the quality of the river water on which the group depends, damage a sensitive ecosystem and create conflict with local communities, the majority of which are river dwelling. The greatest risk of pollution is from POME and leachates from fertilisers.

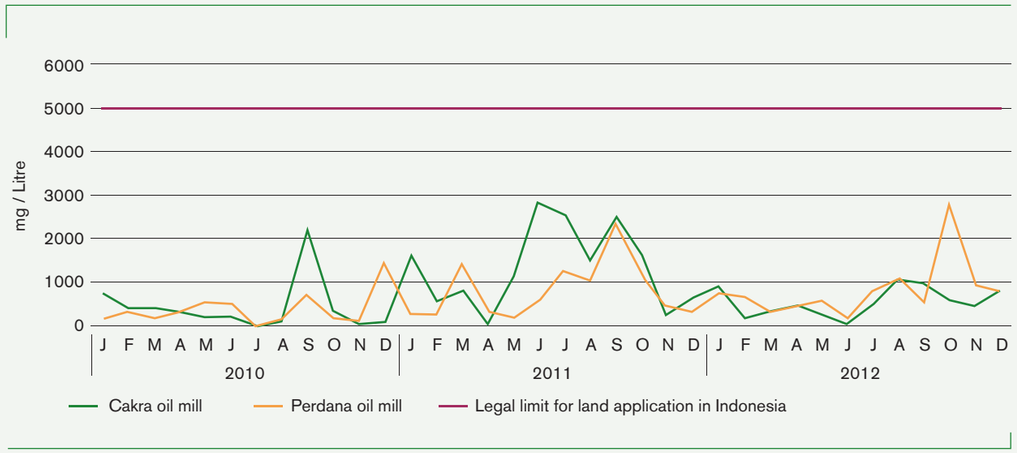
### POME management

Untreated POME has a high biological oxygen demand ("BOD"), which means it can kill the natural flora and fauna of aquatic ecosystems by starving them of oxygen. REA does not discharge any POME into rivers. A portion of the fresh POME is combined with empty fruit bunches ("EFB") from the mill and composted. The remainder is either digested in a series of open anaerobic ponds, or from 2012, in the methane capture facilities. Treating the POME in this way reduces the BOD, thus limiting the negative environmental impact this waste would have if it were to enter a natural watercourse by way of leaching or spillage. Once treated, the POME is either mixed with the fresh POME used for composting or pumped to flat beds located between rows of oil palm, where it acts as an organic fertiliser. The BOD of the treated POME is tested on a monthly basis to ensure that it is below the legal limit for land application in Indonesia, which is 5,000mg/litre (Figure 26).

Barriers and ditches have been built around the perimeter of the composting sites and the open ponds to prevent run off during heavy rainfall from reaching the rivers. However, REA is conscious that these may not be sufficient to cope with extremely intense rainfall, which has been known to exceed 200mm in an hour at REA Kaltim on very rare occasions. In 2012, an independent consultant visited REA's mills, composting facilities and transport terminals to provide recommendations on measures that can be taken to reduce the risk of pollution. This report was commissioned as a result of allegations by local communities that POME from REA's mills had contaminated the river, although these claims were not substantiated.

Open anaerobic ponds

**Figure 26** Biological oxygen demand of treated POME from REA's mills








Composting EFB and POME

### Fertiliser management

REA aims to keep inputs of inorganic fertilisers to a minimum as this helps to reduce costs and minimise the risk of water pollution by way of run off or leaching. Optimal levels of fertiliser application are designed based on the results of analysis of the nutrient content of oil palm frond samples. The production of organic fertiliser from EFB and POME, which was initiated in 2010, has enabled the group to reduce inputs of inorganic fertilisers. Terracing in steep areas and maintenance of buffer zones of natural vegetation along watercourses are designed to preserve moisture, and prevent run-off and leachates from fertilisers from entering rivers.


Fertiliser store

## Chemical usage

Careful use of pesticides is essential to protect human health, safeguard vital ecosystem services and maximise yields while also minimising costs. REA has a long established system of Integrated Pest Management ("IPM"), which is designed to optimise natural pest control and limit the need to use chemical pesticides. Where chemical pest control is necessary, the group takes precautions to minimise the risk of harm to humans and the environment as far as possible. In response to increasing stakeholder concerns about the health risks associated with Paraquat, the group made a commitment to cease using this herbicide from 31 May 2013.

### Eliminating Paraquat

Paraquat is widely considered by the palm oil industry to be the most effective way to control weeds in immature plantings. Whilst the group's experience suggests that, with the proper precautions, Paraquat can be used safely, stakeholders are increasingly concerned about the potential for improper handling of this herbicide to endanger the health of workers. Mindful of this, REA made the decision to replace Paraquat with a glufosinate ammonium based alternative called Basta from 31 May 2013. The toxicity of this herbicide is categorised as Class III, 'slightly hazardous' as opposed to Paraquat, which is classed as Class II, 'moderately hazardous'. The group's use of Paraquat has typically been limited to the immature phase (48 months) of each crop cycle. It is estimated that, at current prices, using Basta instead of Paraquat during the immature phase will add approximately $67 to the total cost of maintaining each hectare of oil palm developed over the course of its planting cycle.

### Health and safety precautions

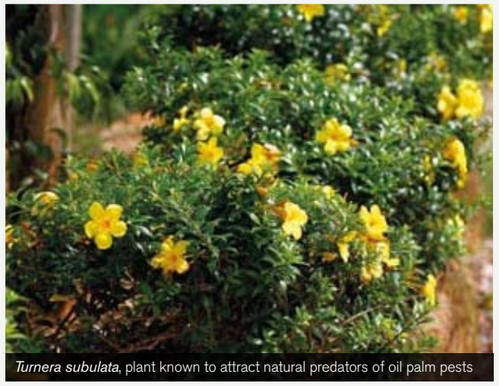
REA continues to take all recommended precautions to safeguard the health of employees tasked with handling pesticides. This includes:

- regular training and safety briefings
- mandatory use of personal protective equipment and dedicated shower facilities after each shift
- routine health screenings
- pregnancy tests for female sprayers to ensure that anyone who suspects that they may be pregnant is transferred to other duties early in their pregnancy
- strict procedures for storing agri-chemicals and disposing of empty containers

### Integrated Pest Management

REA only uses chemicals to control pests as a last resort. To reduce the likelihood of pest outbreaks occurring, the group has enriched its plantations with plant species known to attract natural predators of the common oil palm pests. Whilst introducing barn owls is a common strategy for controlling rodents in oil palm plantations, REA has not found this to be necessary. It is thought that the population of other natural rat predators that inhabit the conservation reserves, such as leopard cats, is sufficient to control the rat population.

Crops are constantly monitored for signs of pest attack. This provides an early warning system so that action can be taken quickly and effectively if biological control fails. Outbreaks are controlled either by removing the affected area of the plant, or by targeted use of pesticides, based on the results of a pest census.



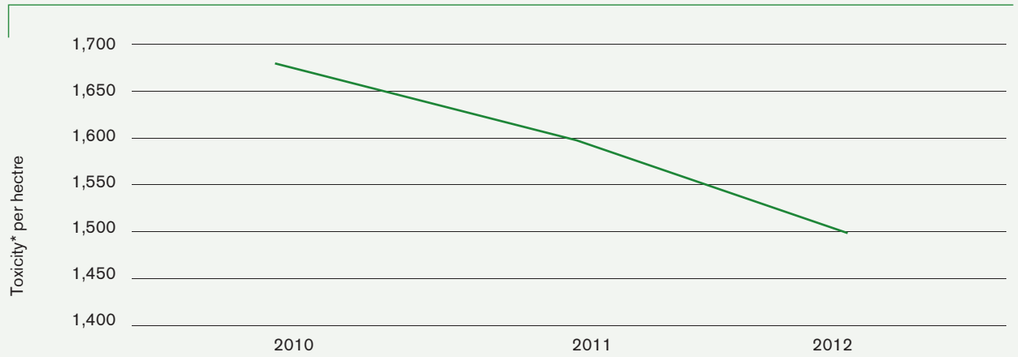
*Turnera subulata*, plant known to attract natural predators of oil palm pests

Leopard cat *(Prionailurus bengalensis)*





**Figure 27** Toxicity of herbicide applied in REA's oil palm concessions




* A toxicity index for each herbicide product was calculated by multiplying the amount of active ingredient per litre or kg of product applied (in grammes) by the inverse of the Lethal Dose for 50% of the rats tested when the active ingredient is administered orally (LD50 rats, oral).

Note: Data was not available for CDM in 2010

Spraying herbicides

BASE DATA AND NOTES

# Base data and notes

## Calculations

**Employee turnover:** the employee turnover rate is calculated by dividing the total number of resignations over the course of the year by the average number of employees in each category (e.g. management, permanent staff) at the end of each month during the year.

**Lost time accident rates**: the lost time accident rate is calculated by dividing the total number of accidents for which the clinic recommended the patient to take one or more calendar days as rest, by the total number of man hours worked (man days x 7 hours) and multiplied by 200,000. This includes fatalities. The data included relates to REA's employees only; independent contractors have not been included.

**Accident severity rates**: the accident severity rate is calculated by dividing the total number of lost days caused by accidents by the total number of accidents for which the clinic recommends one or more day of rest to be taken. Fatalities are not included.

**GHG emissions**: full details of the RSPO PalmGHG methodology, which was used to calculate REA's carbon footprint in 2011 and 2012, is available in the carbon footprint report for 2011, which was published in February 2013. The report is available to download on REA's website www.rea.co.uk

**Toxicity per hectare**: a toxicity index for each herbicide product was calculated by multiplying the amount of active ingredient (mg/litre) of product applied by the inverse of the Lethal Dose for 50% of the rats tested when the active ingredient is administered orally (LD50 rats, oral). The toxicity per hectare is calculated by multiplying the total amount of each product applied by its toxicity index and dividing this by the total planted area in each estate:

$$\text{Active ingredient (mg)} \times \frac{1}{\text{LD50 oral rats (mg)}} \times \frac{\text{Amount of product applied}}{\text{Planted area}}$$

## Dataset

| Financial | 2010 | 2011 | 2012 |
|---|---|---|---|
| Income statement | US$'000 | US$'000 | US$'000 |
| Revenue | 114,039 | 147,758 | 124,600 |
| Operating profit | 56,267 | 72,749 | 37,848 |
| Profit before tax | 50,447 | 64,173 | 30,558 |
| Net profit | 34,973 | 45,614 | 17,703 |
| Balance sheet | US$'000 | US$'000 | US$'000 |
| **Total assets** | **442,628** | **510,512** | **569,010** |
| **Total liabilities** | **207,108** | **207,567** | **253,980** |
| Shareholders' funds | 235,520 | 302,945 | 315,030 |
| Segmental sales revenue | US$'000 | US$'000 | US$'000 |
| Palm oil | 109,868 | 129,542 | 122,134 |
| Coal | 4,171 | 18,216 | 2,466 |
| **Total** | **114,039** | **147,758** | **124,600** |
| Regional sales revenue | US$'000 | US$'000 | US$'000 |
| Indonesia | 47,200 | 53,200 | 73,400 |
| Rest of Asia | 66,839 | 94,558 | 51,200 |
| Segmental operating profit | US$'000 | US$'000 | US$'000 |
| Plantations | 60,280 | 77,457 | 51,011 |
| Coal and stone | (10) | 337 | (6,781) |
| Head office | (4,003) | (5,045) | (6,382) |

| Employees | as at 31 December 2010 | as at 31 December 2011 | as at 31 December 2012 | |
|---|---|---|---|---|
| | | | Male | Female |
| Total number of employees, by region and gender | | | | |
| REA Holdings - London office | | | 4 | 5 |
| REA Holdings - Singapore office | | | 1 | 0 |
| Coal companies | | | 19 | 8 |
| Plantation companies: | | | | |
| REA Kaltim | | | 4,163 | 1,331 |
| SYB | | | 817 | 348 |
| KMS | | | 350 | 123 |
| CDM | | | 81 | 25 |
| PBJ | | | 136 | 86 |
| **TOTAL** | | | **5,571** | **1,926** |
| Plantation companies' employees, by type & nationality | as at 31 December 2010 | as at 31 December 2011 | as at 31 December 2012 | |
| | | | Indonesian | Expatriate |
| Management | 57 | 63 | 41 | 9 |
| Other permanent staff | 234 | 217 | 244 | 0 |
| Permanent workers (permanent monthly paid and daily paid workers) | 4,259 | 4,366 | 4,560 | 0 |
| Casual workers (casual daily workers) | 2,852 | 2,902 | 2,606 | 0 |
| **Total** | | | **7,451** | **0** |
| Monthly minimum wage | | | Indonesian Rupiah | |
| East Kalimantan province (REA Kaltim, SYB, KMS, CDM & PBJ) | | | 1,177,000 | |
| Kutai Kartanegara district (REA Kaltim & SYB) | | | 1,254,712 | |
| Kutai Timur district (KMS & CDM) | | | 1,280,000 | |
| Kutai Barat district (PBJ) | | | 1,268,500 | |

BASE DATA AND NOTES

| Production | | | |
|---|---|---|---|
| Mining operations | 2010 | 2011 | 2012 |
| | Tonnes | Tonnes | Tonnes |
| Coal production | 20,765 | 19,774 | 0 |
| Coal sales | 80,174 | 266,084 | 45,678 |
| Plantation operations | 2010 | 2011 | 2012 |
| | Tonnes | Tonnes | Tonnes |
| FFB produced from group land areas | 518,742 | 607,335 | 597,722 |
| FFB purchased from smallholders | 20,089 | 28,373 | 52,131 |
| FFB purchased from other third parties | 0 | 5,774 | 11,883 |
| Total FFB processed in REA mills | 538,831 | 641,481 | 661,736 |
| CPO production | 127,256 | 147,455 | 151,516 |
| Palm Kernel production | 24,614 | 28,822 | 30,734 |
| CPKO production | 9,745 | 10,815 | 11,549 |
| Certified sustainable production | Tonnes | Tonnes | Tonnes |
| Certified sustainable CPO - RSPO only | | | 75,787 |
| Certified sustainable CPO - ISCC & RSPO | | | 45,799 |
| Certified sustainable CPKO - RSPO only | | | 9,342 |
| Extraction rates | % | % | % |
| Oil extraction rate | 23.6 | 23.0 | 22.9 |
| Kernel extraction rate | 4.6 | 4.5 | 4.6 |
| Kernel oil extraction rate | 40.1 | 38.4 | 37.7 |
| Yield | Tonnes | Tonnes | Tonnes |
| FFB per mature hectare | 23.6 | 23.9 | 22.4 |
| Palm oil (CPO & CPKO) per mature hectare | 6.2 | 6.2 | 6.1 |

| Land | as at 31 December 2010 | as at 31 December 2011 | as at 31 December 2012 |
|---|---|---|---|
| REA estates | Hectares | Hectares | Hectares |
| Mature oil palm plantings | 21,984 | 25,415 | 26,688 |
| Immature oil palm plantings and areas under development with oil palm | 10,099 | 11,669 | 10,106 |
| **Total land planted or under development with oil palm** | **32,083** | **37,084** | **36,794** |
| **Total land bank** | **94,763** | **97,698** | **102,185** |
| Associated smallholders | Hectares | Hectares | Hectares |
| PPMD cooperatives | 1,561 | 1,561 | 1,561 |
| Plasma cooperatives | 2,131 | 2,623 | 2,944 |
| RSPO certified area | Hectares | Hectares | Hectares |
| RSPO certified planted area - REA estates | 0 | 23,075 | 26,084 |
| RSPO certified planted area - PPMD smallholder cooperatives | 0 | 1,561 | 1,561 |
| RSPO certified planted area - Plasma smallholder cooperatives | 0 | 1,922 | 1,922 |
| Carbon footprint | 2010 | 2011 | 2012 |
| Greenhouse gas emissions | $tCO_2eq$ | $tCO_2eq$ | $tCO_2eq$ |
| Land clearing | | 396,727 | 420,048 |
| Methane from POME | | 156,077 | 125,877 |
| Peat $CO_2$ emissions | | 43,702 | 43,702 |
| Inorganic fertilisers | | 33,253 | 31,437 |
| Fuel for transport and storage | | 12,854 | 13,988 |
| Cultivation of outgrower FFB (estimated) | | 9,482 | 16,781 |
| Organic fertilisers | | 5,730 | 6,361 |
| Fuel for gensets | | 3,942 | 2,440 |
| Carbon sequestration and GHG emissions avoidance | $(tCO_2eq)$ | $(tCO_2eq)$ | $(tCO_2eq)$ |
| Credit for electricity generated from methane | | 0 | 3,175 |
| Crop sequestration | | 269,081 | 269,693 |

LIST OF DEFINITIONS

## List of definitions

| | |
|---|---|
| **Biological Oxygen Demand (BOD)** | This is the amount of dissolved oxygen that would be needed by micro-organisms to break down all of the organic matter present in a sample of water at a certain temperature over a specific time period. It is frequently used as an indicator of water quality. |
| **Carbon Footprint** | A carbon footprint measures the total greenhouse gas emissions caused directly and indirectly by a person, organisation, event or product. |
| **Clean Development Mechanism (CDM)** | This enables industrialised countries that have made commitments to reduce their GHG emissions under the Kyoto Protocol to meet these commitments by investing in projects in developing countries that are designed to reduce GHG emissions. |
| **Certified Emission Reduction (CER)** | These are the saleable credits, frequently referred to as carbon credits, which are generated by CDM projects (see above). Each CER represents a GHG emissions saving equivalent to one tonne of $CO_2$. |
| **European Union's Renewable Energy Directive (EU RED)** | This directive, which was introduced in 2009, provides the regulatory framework needed to promote the use of renewable energy by EU member states in order to assist the EU to meet its targets for renewable energy consumption. It also lays out a set of sustainability criteria for the production of biofuels, which must be complied with in order for the consumption of biofuels to contribute towards targets for the use of renewable energy. |
| **Free, Prior and Informed Consent (FPIC)** | This is the principle, which is rooted in international human rights law, that a community has the right to give or withhold its consent to a proposed project that may affect land or natural resources that they customarily own, occupy or otherwise use. It requires that communities that may be affected are consulted well in advance of a project commencing, provided with sufficient details regarding the nature of the project to make an informed decision, and that consent is granted without coercion or intimidation. |
| **Global Reporting Initiative (GRI)** | The GRI has developed an internationally recognised framework for organisations to report on their economic, environmental and social performance. |
| **Greenhouse Gas (GHG)** | A gas which traps the sun's energy in the earth's atmosphere. Scientific research suggests that increasing levels of GHGs are causing the climate to change in a variety of ways, including increases in global temperature, sea level rise and changing patterns of drought and flooding events. |
| **High Conservation Values (HCVs)** | HCV areas are natural habitats that are considered to support biodiversity, ecosystem functions or socio-cultural values that are considered to be of outstanding significance or critical importance. |
| **Lethal Dose 50% (LD50)** | LD50 is used as an indicator of the toxicity of a substance. The LD50 is the dose of a substance (mass per kg of bodyweight) which would kill 50% of the population of a test organism when administered in a particular way over a specified period of time. For example, LD50 oral rats is the dose of a substance which, when administered orally, would kill 50% of the rat population tested. |
| **Stakeholders** | An individual or group with a legitimate and/or demonstrable interest in, or who is directly affected by, the activities of an organisation and the consequences of those activities. |
| **Sustainability** | The creation of the environmental, social and economic conditions necessary to enable something to continue for the foreseeable future. |
| **$tCO_2eq$** | Emissions of GHGs other than carbon dioxide are converted to tonnes of carbon dioxide equivalent by estimating the amount of gas emitted and multiplying it by its global warming potential. This allows the potential impact on global warming of the GHG emissions associated with a person, organisation or product to be compared even when they comprise different GHGs. |
| **United Nations Framework Convention on Climate Change (UNFCCC)** | This international convention, which was adopted in 1992 at the Rio Earth Summit, sets out a framework for intergovernmental efforts to address climate change and its potential environmental and socio-economic impacts. It has been ratified by 195 countries and came into force in 1994. |

GRI INDEX

# Global Reporting Initiative (GRI) index

| 1. Strategy and analysis | | | | |
|---|---|---|---|---|
| Profile disclosure | Disclosure | Level of reporting | Location of disclosure | Page |
| 1.1 | Statement from the most senior decision-maker of the organisation | Full | Statement from REA's board of directors | P6 |
| 1.2 | Description of the key risks, impacts and opportunities | Full | Statement from REA's board of directors | P6 |

| 2. Organizational profile | | | | |
|---|---|---|---|---|
| Profile disclosure | Disclosure | Level of reporting | Location of disclosure | Page |
| 2.1 | Name of the organization | Full | About this report | P2 |
| 2.2 | Primary brands, products, and/or services | Full | About REA | P8 |
| 2.3 | Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures | Partial | About REA | P8 |
| 2.4 | Location of organization's headquarters | Full | About REA | P8 |
| 2.5 | Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report | Full | About REA | P8 |
| 2.6 | Nature of ownership and legal form | Full | About REA | P8 |
| 2.7 | Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries) | Full | About REA<br>Base data and notes | P8<br>P76 |
| 2.8 | Scale of the reporting organization | Full | About REA<br>Base data and notes | P8<br>P76 |
| 2.9 | Significant changes during the reporting period regarding size, structure, or ownership | Full | No significant changes in 2012 | - |
| 2.10 | Awards received in the reporting period | Full | Certification<br>Labour standards: empowering women | P23<br>P59 |

| 3. Report parameters | | | | |
|---|---|---|---|---|
| Profile disclosure | Disclosure | Level of reporting | Location of disclosure | Page |
| 3.1 | Reporting period (e.g. fiscal/calendar year) for information provided | Full | About this report | P2 |
| **3.2** | Date of most recent previous report (if any) | Full | About this report | P2 |
| 3.3 | Reporting cycle (annual, biennial, etc) | Full | About this report | P2 |
| 3.4 | Contact point for questions regarding the report or its contents | Full | About this report: contact | P4 |
| 3.5 | Process for defining report content | Full | About this report: materiality and responsiveness | P2 |
| 3.6 | Boundary of the report (e.g. countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers) | Full | About this report: scope | P2 |
| 3.7 | State any specific limitations on the scope or boundary of the report (see completeness principle for explanation of scope) | Full | About this report: completeness | P3 |
| 3.8 | Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organizations. | Full | About this report: scope | P2 |
| 3.9 | Data measurement techniques and assumptions | Full | Base data and notes | P76 |
| 3.10 | Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement | Full | Climate change | P64 |
| 3.11 | Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report. | Full | This is REA's first sustainability report | |
| 3.12 | Table identifying the location of the standard disclosures in the report | Full | GRI index | P82 |

| 4. Governance, commitments, and engagement | | | | |
|---|---|---|---|---|
| Profile disclosure | Disclosure | Level of reporting | Location of disclosure | Page |
| 4.1 | Governance structure of the organization, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organizational oversight | Full | Corporate governance | P14 |
| 4.2 | Indicate whether the chair of the highest governance body is also an executive officer | Full | Corporate governance | P14 |
| 4.3 | For organizations that have a unitary board structure, state the number and gender of members of the highest governance body that are independent and/or non-executive members | Full | Corporate governance | P14 |
| 4.4 | Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body | Full | Corporate governance | P14 |
| 4.14 | List of stakeholder groups engaged by the organization | Full | Stakeholder engagement | P20 |
| 4.15 | Basis for identification and selection of stakeholders with whom to engage | Partial | Stakeholder engagement | P20 |

## Performance indicators

### Economic

| Indicator | Disclosure | Level of Reporting | Location of disclosure | |
|---|---|---|---|---|
| Economic performance | | | | |
| Disclosure on management approach | | Full | REA Annual Report 2012<br>Corporate governance<br>Valuing employees: providing employment for local people | -<br>P14<br>P56 |
| EC1 | Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments | Partial | REA Annual Report 2012 | - |
| EC3 | Coverage of the organization's defined benefit plan obligations | Full | REA Annual Report 2012 | - |
| EC4 | Significant financial assistance received from government | Full | No financial assistance received from government in 2012 | - |
| EC5 | Range of ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation | Full | Labour standards: decent pay and conditions<br>Base data and notes | P57<br>P76 |
| EC7 | Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation | Partial | Valuing employees: providing employment for local people<br>Base data and notes | P56<br>P76 |
| EC8 | Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in kind, or pro bono engagement | Full | Community development | P48 |
| EC9 | Understanding and describing significant indirect economic impacts, including the extent of impacts | Partial | Smallholder schemes | P50 |
| Not reported: EC2, EC6 | | | | |

### Environmental

| Indicator | Disclosure | Level of Reporting | Location of disclosure | |
|---|---|---|---|---|
| Disclosure on management approach | | Full | Embedding sustainable practices<br>Certification<br>Five years of REA Kon<br>Climate change<br>Water management<br>Avoiding pollution<br>Chemical usage | P22<br>P23<br>P31<br>P64<br>P70<br>P72<br>P74 |
| EN1 | Materials used by weight or volume | Partial | Climate change<br>Chemical usage | P64<br>P74 |
| EN3 | Direct energy consumption by primary energy source. | Partial | Climate change | P64 |
| EN5 | Energy saved due to conservation and efficiency improvements | Partial | Climate change | P64 |
| EN6 | Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives | Partial | Climate change | P64 |
| EN11 | Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas | Full | Conserving biodiversity beyond protected areas | P36 |
| EN12 | Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas | Full | Conserving biodiversity and ecosystem functions | P30 |
| EN13 | Habitats protected or restored | Full | Conserving biodiversity beyond protected areas | P36 |
| EN14 | Strategies, current actions, and future plans for managing impacts on biodiversity | Full | Conserving biodiversity and ecosystem functions | P30 |
| EN15 | Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk. | Full | Success: 495 species recorded | P38 |
| EN16 | Total direct and indirect greenhouse gas emissions by weight | Full | Climate change<br>Base data and notes | P64<br>P76 |
| EN18 | Initiatives to reduce greenhouse gas emissions and reductions achieved | Full | Climate change | P64 |
| EN26 | Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation | Full | Conserving biodiversity and ecosystem services<br>Climate change<br>Avoiding pollution | P30<br>P64<br>P72 |
| EN28 | Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations | Full | No fines or sanctions in 2012 | - |
| EN29 | Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce | Partial | Climate change | P64 |
| Not reported: EN2, EN4, EN7 - EN10, EN17, EN19 - EN25, EN27, EN30 | | | | |

### Social: labour practices and decent work

| Indicator | Disclosure | Level of Reporting | Location of disclosure | |
|---|---|---|---|---|
| Disclosure on management approach | | Full | Certification<br>Community relations<br>Valuing employees<br>Labour standards<br>Health and safety | P23<br>P42<br>P53<br>P57<br>P59 |
| LA1 | Total workforce by employment type, employment contract, and region, broken down by gender | Full | Base data and notes<br>Labour standards: empowering women | P76<br>P59 |
| LA2 | Total number & rate of new employee hires & employee turnover by age group, gender, region | Partial | Valuing employees: employee turnover | P53 |
| LA3 | Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations | Full | Labour standards: decent pay & conditions | P57 |
| LA7 | Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region and by gender | Partial | Health and safety | P59 |
| LA8 | Education, training, counselling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases | Full | Health and safety: healthcare | P62 |
| LA13 | Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity | Partial | Corporate governance<br>Labour standards: empowering women<br>Base data and notes | P14<br>P59<br>P76 |
| Not reported: LA4 – LA6, LA9 – LA12, LA14, LA15 | | | | |

| Social: human rights | | | | |
|---|---|---|---|---|
| Indicator | Disclosure | Level of Reporting | Location of disclosure | |
| Investment and procurement practices | | | | |
| HR5 | Operations and significant suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and actions taken to support these rights | Partial | Labour standards: international core labour standards | P57 |
| HR6 | Operations and significant suppliers identified as having significant risk for incidents of child labour, and measures taken to contribute to the effective abolition of child labour | Full | Health & safety: keeping children safe from harm | P61 |
| HR7 | Operations and significant suppliers identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of all forms of forced or compulsory labour | Full | Labour standards: international core labour standards | P57 |
| Not reported: HR1 – HR4, HR8 – HR11 | | | | |
| **Social: society** | | | | |
| Indicator | Disclosure | Level of Reporting | Location of disclosure | |
| Disclosure on management approach | | | Embedding sustainable practices<br>Certification<br>Community relations<br>Valuing employees<br>Labour standards<br>Health and safety | P22<br>P23<br>P42<br>P53<br>P57<br>P59 |
| SO1 | Percentage of operations with implemented local community engagement, impact assessments, and development programs | Full | Community relations | P42 |
| SO2 | Percentage and total number of business units analyzed for risks related to corruption | Full | Corporate governance: bribery and corruption | P17 |
| SO3 | Percentage of employees trained in organization's anti-corruption policies and procedures | Partial | Corporate governance: bribery and corruption | P17 |
| SO5 | Public policy positions and participation in public policy development and lobbying | Full | Stakeholder engagement | P20 |
| SO6 | Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country | Full | No contributions in 2012 | - |
| SO7 | Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes | Full | No legal actions in 2012 | - |
| SO8 | Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations | Full | No fines in 2012 | - |
| SO9 | Operations with significant potential or actual negative impacts on local communities | Full | Community relations | P42 |
| SO10 | Prevention and mitigation measures implemented in operations with significant potential or actual negative impacts on local communities | Full | Community relations | P42 |
| Not reported: SO4 | | | | |
| **Social: Product responsibility** | | | | |
| Indicator | Disclosure | Level of Reporting | Location of disclosure | |
| Not reported: PR1 – PR9 | | | | |