



IOI GROUP

IOI Group

Sustainable Palm Oil Policy

1. Introduction

Palm oil is an important commodity; it is the most widely used vegetable oil in the world. Since palm oil plantations are labor intensive, crop production provides a livelihood to millions of people in tropical agricultural communities around the world. Of all vegetable oils, palm oil has the highest oil yield per hectare by far. Palm oil is well positioned to remain a crucial part of the food production process in the future as the global population increases, according to expectation, to 9 billion by 2050. This opportunity comes with the responsibility to implement palm oil production practices that are environmentally sound, protect forests and biodiversity, reduce greenhouse gas (GHG) emissions and respect the rights of indigenous peoples, workers and local communities.

We are on a journey to build a traceable, transparent, sustainable palm oil supply chain. Our actions are guided by this Sustainable Palm Oil Policy, which is based on current best practice informed by stakeholder input. Moving forward, in consultation with our stakeholders, we will review, adjust and improve our policy and its implementation. We will publicly disclose all implementation progress documents on a quarterly basis.

2. Scope

IOI Group commits to be a leading corporation in its core businesses, and a leader in integrating the highest sustainability standards into our business practices. Specifically, IOI Group is committed to the sustainable management of its oil palm plantations and to the implementation of responsible, global palm oil supply chains.

The provisions in this policy apply to all IOI operations worldwide, including our subsidiary companies, joint ventures and companies in which we have management control. We expect all our third party suppliers of palm oil products to adhere to our sustainability policy commitments for their operations. We will build and maintain our internal capacity for implementation and enforcement, and develop procedures for monitoring and acting on non-compliance with any element of this policy which is identified either within the organisation or among our third-party suppliers.

This policy is effective immediately. To translate commitments into action we will concurrently publish a detailed time-bound Sustainability Implementation Plan (SIP). As a working document, the SIP will be regularly updated to reflect the progress of our implementation plan.

3. Our Commitments

IOI Group aims to ensure that our sustainability journey takes the company to a leadership position in both sustainable palm oil production and sourcing. Our Sustainability Policy is based upon the following principles:

- ✓ To comply with all applicable legislation and codes of practice.
- ✓ To implement leading sustainability standards laid out in this policy for environmental management, human rights and workplace conditions, community development and social impact.

All Rights Reserved 2016

- ✓ To build traceable supply chains such that all suppliers are also in compliance with our commitments as contained in our Sustainability Policy on Environmental Management, Human Rights and Workplace as well as Community Development and Social Impact.
- ✓ To strive for the highest levels of transparency and stakeholder engagement.

4. Existing Plantations

Our existing plantations in Peninsular Malaysia and Sabah (except recently acquired plantations which are covered under a time-bound plan) are 100% RSPO certified. We will now build on this by:

- Committing to implement RSPO NEXT in our Malaysian plantations, commencing end of 2016.
- Certifying the outstanding management units, including Sarawak and Indonesia, in accordance with the published time-bound plan.
- Implementing a labour rights monitoring system, with the involvement of an external partner to verify labor conditions, compliance with labor policy requirements and improve welfare and working conditions. We will take meaningful corrective action to address any identified non-compliances.

Specific commitments in terms of our social and environmental performance, also applicable to our third party suppliers, are identified below:

Environmental management

- Identification and protection of High Conservation Value (HCV) areas, no deforestation and protection of HCS areas.
- For existing plantations on peat, appropriate management using Best Management Practices, as defined in the RSPO P&C and the RSPO manual on Best Management Practices for existing oil palm cultivation on peat. Where areas are identified as unsuitable for oil palm replanting, based on drainability assessments or other reasons, plans will be developed for the appropriate management of such areas, which could include rehabilitation.
- Implementation of programs to progressively reduce GHG emission, recycle/reuse palm biomass and generate renewable energy by methane capturing.
- Enforcement of IOI Group's no-burning policy.
- No use of Paraquat and pesticides that are categorised as World Health Organisation Class 1A or 1B.

Human Rights and Workplace

- Respect and uphold the rights of all workers in accordance with the Universal Declaration of Human Rights and the International Labor Organisation's core conventions, including contract, temporary and migrant workers.
- Uphold the right to freedom of association and the recognition of the right to collective bargaining.
- Eliminate all forms of illegal, forced, bonded, compulsory or child labor and in particular, follow responsible recruitment practices.
- No retention of workers' passports/identity documents to limit worker movement or withholding of workers' wages other than that prescribed by law.
- Provide fair and equal employment opportunities for all employees, regardless of race, nationality, religion or gender.
- Promote a safe and healthy working environment that is free of sexual harassment.

- Provide adequate equipment and training on the implementation of health and safety policies.
- Provide training and development to employees to ensure achievement of their full potential.

Community Development and Social Impact

- Drive positive socio-economic impact for local communities, as well as respect and contribute to the quality of life and wellbeing of the communities in which we operate.
- Engage effectively with the communities in an open and transparent manner through consultation, supported by a grievance procedure in which existing and future complaints are resolved to the satisfaction of all stakeholders.
- Support the inclusion of smallholders in the palm oil supply chain and help them to comply with our sustainability policy.

5. Additional Commitments for New Plantings

Sustainability commitments, in addition to those stated previously under “Existing Planting”, which are applicable to any new oil palm plantings by IOI and its third party suppliers are identified below:

- No deforestation and protection of High Conservation Value (HCV) areas.
- No deforestation of High Carbon Stock (HCS) areas, using the HCS Approach pending the definition of an integrated HCS methodology.
- No development of peatlands regardless of depth, and protection of peatlands through water management and fire prevention.
- Respect the land tenure rights of indigenous and local communities, including their right to give or withhold their Free, Prior and Informed Consent (FPIC) to operations on land over which they hold legal, communal or customary rights in accordance with the United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP).

Additional implementation commitments that are specific to IOI’s activities are as follows:

- We are working with international sustainability consultants as our implementation partners in ensuring compliance with our policy commitments relating to our last wholly unplanted concession, PT Kalimantan Prima Agro Mandiri (PT KPAM) in Ketapang.
- We will not commence any further new planting development activities, until our management planning in relation to these HCV, HCS and peatland commitments is completed with the involvement of affected stakeholders.
- We commit to using the HCS Approach for our last wholly unplanted concession, KPAM, pending the outcome of the Convergence process in integrating the HCS methodologies.
- We will take an active role in the development of HCS methodologies by resourcing a comparative assessment using both the HCS Approach and HCS+ methodologies, in support of the convergence process that aims to develop best practice by integrating these methodologies.
- We confirm our commitment to developing and implementing best practice on peatland remediation, restoration and where necessary, compensation measures, on our Ketapang development in West Kalimantan.
- We will develop a plan for peatland management and protection for the landscape in and around our four Ketapang concessions in West Kalimantan, in partnership with the affected stakeholders, in order to ensure optimum outcomes. This will involve mapping all peatlands in our Ketapang concessions and developing and implementing a plan for peatland protection, and the rehabilitation of peatland degraded by clearance or drainage or, where not possible, compensating an area of land equivalent to what has been degraded.

- We will develop and implement a fire prevention and rapid response program, consisting of active measures to prevent fires in IOI's new developments and adjacent lands, and to respond rapidly to any fires if necessary. The peatland management plan will be an important factor in mitigating fire risk.

6. Traceable Supply Chains

Our supply chain commitments are defined below:

- We commit to building a traceable and sustainable palm oil supply chain. Traceability is defined as traceable to a defined list of mills and plantations.
- Our goal is to ensure that all volumes of palm oil and palm oil fractions will be 100% traceable to mills by the end of 2016 while palm kernel oil volumes will be traceable to crushers by end 2016 and to the mills by end 2018; this will be extended towards 100% traceable to plantation by the end of 2020.
- We will actively promote and support the transformation of the palm oil supply chain through a process of supplier engagement. We will continue to engage with key suppliers to promote our policy commitments and build capacity of mills and supplier companies to ensure compliance. If there are suppliers who are unwilling to transform or prove to continuously miss the targets set in their time-bound plans, we will cease to do business with them.
- We will risk assess all palm oil supplier mills using tools such as the spatial data and remote sensing information made available by the World Resource Institute's (WRI) Global Forest Watch (GFW) platform, together with stakeholder alerts, in order to facilitate monitoring of the palm oil supply chain to establish priorities for conducting mill-level verification assessments.
- We are implementing a program of mill-level verification assessments within our supplier base, in order to verify compliance with our Sustainable Palm Oil Policy.
- We expect all our third party suppliers of palm oil products to adhere to the commitments in this Sustainability Policy, including the requirements for new plantings relating to HCV, HCS, peat and social impact.

Specific implementation commitments are as follows:

- We will increase the use of RSPO certified oils, particularly segregated and mass balance palm oil and palm kernel oil.
- We will work with independent experts to develop our program of mill-level verification assessments, using risk assessment tools to identify high risk mills and ensure their adherence to the stated sustainability commitments.
- Our phased supply chain traceability targets will be communicated in our time-bound implementation plan, and progress will be reported on a quarterly basis.

7. Transparency and Wider Engagement

Improving our level of engagement with stakeholders, including transparency on our performance and progress, is a key element in underpinning our policy commitments. We are committed to the following:

- Resolve complaints and conflicts effectively and responsibly through an open and transparent process that is agreed upon by the affected stakeholders.
- Follow a multi-stakeholder approach as the right way forward to transform the palm oil sector. We will work with various stakeholders including our suppliers, customers, non-governmental organisations (NGOs), governments and independent verification bodies to implement our Policy.

- Continue to be an active supporter of the Roundtable on Sustainable Palm Oil (RSPO) and will work to strengthen the RSPO standard and its enforcement.
- Collaborate with other palm oil producers and processors in improving industry wide palm oil sustainability commitments.

Specifically, we will demonstrate our commitment to stakeholder and community engagement by:

- Improving IOI Group's complaints handling capacity and procedures, and implementing a comprehensive grievance procedure covering our palm oil production and sourcing.
- An open and transparent approach to resolving outstanding grievances with the involvement of affected stakeholders, including successfully concluding the mediation process with the affected longhouse communities in Sarawak, to the satisfaction of all parties.
- Initiating a program of proactive stakeholder engagement on future developments in sustainability policies and practices.
- Making maps of all IOI plantations publicly available, subject to any legal restrictions.
- Launching a public reporting system (Company dashboard) to communicate traceability information, progress on resolution of outstanding complaints and updates on suppliers engagement and verification.
- Transparently report on progress by IOI Group on compliance with this Policy on a quarterly basis and additionally as needed.



Dato' Lee Yeow Chor
Group Chief Executive Officer



Dr. Surina Ismail
Group Head of Sustainability

Revised July 2016

All Rights Reserved 2016



IOI GROUP

IOI Group Sustainable Palm Oil Policy: Annex – Implementation of Policy Commitments by Third Party Suppliers

1. Introduction

IOI Group's Sustainable Palm Oil Policy (section 6) includes the following supply chain policy commitments that apply to third party suppliers:

- We will actively promote and support the transformation of the palm oil supply chain through a process of supplier engagement. We will continue to engage with key suppliers to promote our policy commitments and build capacity of mills and supplier companies to ensure compliance. If there are suppliers who are unwilling to transform or prove to continuously miss the targets in their time-bound plans, we will cease to do business with them.
- We will risk assess all palm oil supplier mills using tools such as the spatial data and remote sensing information made available by the World Resource Institute's (WRI) Global Forest Watch (GFW) platform, together with stakeholder alerts, in order to facilitate monitoring of the palm oil supply chain to establish priorities for conducting mill-level verification assessments.
- We are implementing a program of mill-level verification assessments within our supplier base, in order to verify compliance with our Sustainable Palm Oil Policy.
- We expect all our third party suppliers of palm oil products to adhere to the commitments in this Sustainability Policy, including the requirements for new plantings relating to HCV, HCS, peat and social impact.

This Annex details the specific mechanisms for implementation of these commitments.

2. Scope

Any existing or potential supplier to the IOI Group, both direct and indirect through a trading partner, is required to comply with the IOI Sustainable Palm Oil Policy.

There are two ways that IOI sources its palm oil products:

1. **Direct supply:** procured directly from both IOI Group mills and third-party mills.
2. **Indirect supply:** procured from trading partners who in turn source oil from their own operations or third-party mills.

In relation to both direct and indirect supply, IOI Group recognises two different types of sustainability risk in our supply chain:

1. **Policy non-compliance in the supply base** of mills in our supply chain (both direct and indirect supply).
2. **Policy non-compliance at concessions** controlled by supplier companies (direct and indirect) but outside of our mill supply chain (i.e. non-compliance at group level).

All Rights Reserved 2017

To ensure these risks are effectively mitigated, all suppliers must demonstrate compliance with our policy across their entire operations, including concessions from which IOI Group does not currently source palm oil.

In addition, IOI Group recognises the risk of non-compliance by prospective suppliers, whether direct or indirect. The IOI Group will conduct appropriate due diligence to assess whether prospective suppliers have complied with our policy from February 2017, and if necessary to identify appropriate conservation / compensation / restoration measures to be carried out, prior to entering into any contracts.

IOI takes responsibility for ensuring that our Sustainable Palm Oil Policy is communicated to all the companies in our supply chain, including to companies we do not trade with directly.

IOI may delegate responsibility for these steps to an implementation partner or trading partner (indirect supply) on a case-by-case basis. IOI remains accountable for ensuring these tasks are completed and for ensuring pro-active monitoring using best-available data to verify our suppliers' compliance with the policy. As part of our commitment to support industry transformation, IOI will develop implementation and monitoring systems that are compatible with the work that others are doing in this sector.

Implementation is coordinated by the IOI Group sustainability team, monitored by the Sustainability Steering Committee. Implementation of IOI's Sustainable Palm Oil Policy, including this annex, is also monitored by IOI's Sustainability Advisory Panel (SAP). This panel is comprised of external stakeholders who have full access to all relevant data and documentation relating to implementation of this policy.

Where a mill or company in our supply chain is subject to findings or allegations of non-compliance, IOI will engage with the supplier (for indirect supply, through the relevant trading partner) to agree a time-bound action plan and/or initiate our grievance procedure (see section 3.3).

3. Implementation mechanisms

Specific implementation mechanisms for mills in our supply base and for suppliers at group level are detailed below.

3.1 Addressing policy compliance in our supply base of mills

For direct supply chain mills, 100% of our oil is traced to mill. For indirect supply chain mills, oil received from our trading partners is accompanied by a list of supplying mills. Oil received via indirect supply chains is expected to be 100% traced to mill by end 2016.

IOI Group will take the following actions to support policy compliance and identify any potential breaches of compliance in the supply base of mills in our supply chain:

- Obtain, verify and publish the name, GPS coordinates and controlling group of each mill and refinery in our supply chain.
- Conduct a proactive mill risk assessment for all mills in our supply chain (direct and indirect supply).
- For mills in our direct supply chain, we will continue to implement our program of engagement visits, reinforced by company-level engagement and mill workshops, according to our established three-step approach.
- For mills in our indirect supply chain, we will engage with each of our trading partners in order to ensure that an equivalent programme of mill-level engagement is being implemented.
- We will publish updates on progress towards verifying compliance with the policy in our mill supply base.
- Where policy non-compliance is identified at mill-level, IOI will initiate the mechanisms detailed below in section 3.3.

3.2 Addressing policy compliance in suppliers' wider operations

IOI Group will take the following actions to identify potential non-compliance by companies in our supply chain at group-level:

- Identify all companies supplying IOI Group with palm oil products.
- Publish and maintain a complete list of companies in our supply chain on the IOI website.
- Conduct group-level risk reviews of all supplier companies. This will include requesting all companies in our supply chain to provide permits, legal licenses and concession maps (in shapefile format and where legally possible) for their entire operations, as well as environmental impact assessments and HCS and HCV studies where available. Relevant sources of information include:
 - Company concession maps
 - HCS, HCV and environmental impact assessments
 - Government maps, including peat, forest cover and moratorium area
 - RSPO complaints
 - Other traders' active grievance procedures
 - Reports, investigations and publications by civil society organisations
 - Third-party mapping websites, including Global Forest Watch and Greenpeace's Kepo Hutan
 - Articles in the media
 - Government action (e.g. investigations or court proceedings related to illegality, corruption and in response to forest fires)
- Regularly update these evaluations of all companies, and pro-actively seek and update best-available data.
- Where policy non-compliance is identified in suppliers' operations outside of our supply chain, IOI will initiate the mechanisms detailed below in section 3.3. The results of these group-level risk reviews, including the level of information provided by supplier companies, will be used to actively inform purchasing decisions. Where supplier companies do not provide specific information that has been requested in relation to their operations, IOI will initiate the grievance procedure.

3.3 Procedure for dealing with breaches in policy compliance

The identification and tracking of breaches of our policy by both direct and indirect supplier mills, as well as group-level non-compliance, will be subject to oversight by the independent Sustainability Advisory Panel (SAP). This panel will comprise external stakeholders of good standing, who will have full visibility of the details of any breaches and their status, including any non-compliance with Time Bound Action Plans (TBAPs). This will ensure transparency and enable concerns and challenges to be voiced by NGOs, customers and other relevant stakeholders. The panel will convene regularly, although members will have access to updates at any time.

Direct supplier mills

For mills in our direct supply chain, we will continue to implement our program of engagement visits (section 3.1). Where an engagement visit finds that a mill in our direct supply chain is in non-compliance with our policy, IOI will engage with the supplier to agree a time-bound action plan to bring the mill into compliance within 12 months. The action plan will include appropriate conservation / compensation / restoration measures where applicable. If a direct supplier mill does not comply with the targets in their time-bound plans, IOI will initiate the grievance procedure (as below).

IOI will issue a requirement to immediately cease development where clearing potential HCS, HCV or peat is detected by IOI or stakeholders. If a supplier does not comply with a requirement to cease clearing issued by IOI, we will cease to do business with them.

Where a mill in our direct supply chain is subject to other allegations of non-compliance by stakeholders, IOI will initiate the grievance procedure (as below).

Indirect supplier mills

Each of our trading partners is expected to implement an equivalent programme of mill-level engagement visits. Where an engagement visit finds that a mill is in non-compliance with our policy, the trading partner will agree a time-bound action plan to bring the mill into compliance within 12 months. If a mill does not comply with the targets in their time-bound plans, IOI will initiate the grievance procedure (as below).

IOI expects our trading partners to issue a requirement to immediately cease development where clearing potential HCS, HCV or peat is detected by their mill-level engagements or stakeholders. If a mill does not comply with a requirement to cease development, we will cease to do business with them.

If a trading partner does not have an equivalent programme of mill-level engagement visits, we will by-pass our trading partner and include the relevant mills in our own programme (see section 3.1), or cease doing business with that trading partner.

Where a mill in our indirect supply chain is subject to other allegations of non-compliance by stakeholders, IOI will initiate the grievance procedure (as below).

Company level non-compliance

Where companies have been identified as potentially non-compliant with IOI's policy outside of our mill supply chain (i.e. non-compliance at group level), IOI will initiate its established grievance procedure (see below).

Grievance procedure

When we initiate our established grievance procedure, we will:

- Issue a requirement to immediately cease development where clearing potential HCS, HCV or peat is detected by IOI, its implementation partners or NGOs. If a supplier does not comply with a requirement to cease clearing issued by IOI, we will cease to do business with them.
- Ensure the claims are investigated and, where appropriate, verified by independent experts.
- Engage with the supplier (where appropriate, through the relevant trading partner).
- Agree a time-bound action plan for the mill or company to bring its operations into compliance within 12 months.
- Where groups are suspected of serious or ongoing environmental, social and labour violations, IOI Group shall consider suspending purchases from the group until investigations are concluded and any policy violations resolved.
- Require the company to carry out appropriate conservation / compensation / restoration measures where applicable, to adequately address all non-compliant activities since February 2017.
- Maintain reporting of all mills/companies subject to the grievance procedure on our website and provide regular updates on progress, including milestones and a clear deadline for compliance.

3.4 Ensuring policy compliance by potential new suppliers

All new suppliers (direct supply) are required to have complied with IOI Group's Sustainable Palm Oil Policy from February 2017 and to be transparent about their operations. Prior to receiving deliveries of palm oil products originating from potential new suppliers (including via trading partners), IOI Group will implement the following due diligence measures:

- Provide the potential supplier with a copy of IOI Group's Sustainable Palm Oil Policy and advise them of the IOI Group's requirements for third party suppliers.
- Conduct a group-level risk review, to determine if the company's operations have the potential to involve non-compliance with our policy. This will include a review of the potential supplier's feedback on IOI Group's policy commitments and our request for relevant permits, legal licenses and concession maps (in shapefile format and where legally possible) for the potential supplier's entire operations, as well as environmental impact assessments and HCS and HCV studies.
- Undertake a gap analysis to identify what material is missing, inadequate or unclear, and request additional material from the potential supplier.
- Fact-check claims by seeking publicly available information including information lodged with government agencies, satellite mapping information (e.g. through Global Forest Watch), RSPO complaints and information available online.

Where potential new suppliers have undertaken plantation development that is incompatible with this policy after February 2017, appropriate conservation / restoration / compensation measures and an implementation plan will need to be agreed prior to the IOI Group entering into contracts to receive oil originating from that supplier.

Where evaluation has been delegated to trading partners (indirect supply), IOI Group will request its trading partners to observe similar due diligence measures and provide its findings to IOI Group prior to shipping oil from potential new suppliers to IOI Group or its subsidiaries.

4. Transparency and reporting

In addition to wider policy implementation measures detailed in our Sustainability Implementation Plan progress reports, IOI Group will also specifically publish and maintain:

- An up-to-date list of all supplier companies in its supply chain.
- An up-to-date list of all mills and refineries in its supply chain, including geo-referenced coordinates, controlling group/parent company (majority shareholder) and whether it is a "direct supply" or "indirect supply" (via named trading partners).
- Its own concession maps (in shapefile format and where legally possible) and details of other efforts to improve transparency in the palm oil sector.
- A grievance procedure case tracker identifying potentially non-compliant companies and steps taken.



Dato' Lee Yeow Chor
Group Chief Executive Officer



Dr. Surina Ismail
Group Head of Sustainability

February 2017

All Rights Reserved 2017