

UPDATE No. 3 - SNAPSHOT OF EARTHWORM FOUNDATION'S TOOLS FOR TRANSFORMATION YEAR 1 RESULTS FOR IOI EDIBLE OILS SDN. BHD. (IOIEO), SANDAKAN.

This is IOI Corporation Berhad's (IOI) final update on the progress of our supply base in meeting our No Deforestation, No Peat and No Exploitation (NDPE) requirements. This follows Update No.1 and 2¹ released in February and May 2020, respectively. This final instalment will cover Key Performing Indicators (KPIs) on engagement with our supply base on sustainability and policy topics, clear commitments in upholding labour rights, and occupational health & safety.

To recap, IOI Edible Oils Sdn Bhd (IOIEO) in 2018/2019 adopted the Tools for Transformation (T4T)² Platform by Earthworm Foundation (EF), which allows us to assess suppliers' performance levels against 14 KPIs to measure pertinent NDPE issues. In the previous two updates, the KPIs reported on NDPE policies which covered forced labour, grievance mechanism, deforestation occurrence, no peat development, children in plantation, freedom of association, and traceability.

This update has been timed to coincide with the completion of IOIEO's Year 2 assessment and the KPIs reported reflects on the progress made by our suppliers after the action planning from Year 1.

IOI EDIBLE OILS SDN BHD – SUPPLYING MILLS

In 2018, IOIEO has 47 regular key supplying mills in Sandakan and Lahad Datu regions with 89% or 42 mills, which have completed the T4T self-assessment.

In 2019, IOIEO has invited 50 key suppliers to adopt the T4T – 47 millers completed their self-assessment and the overall participation rate increase from 89% to 94%.

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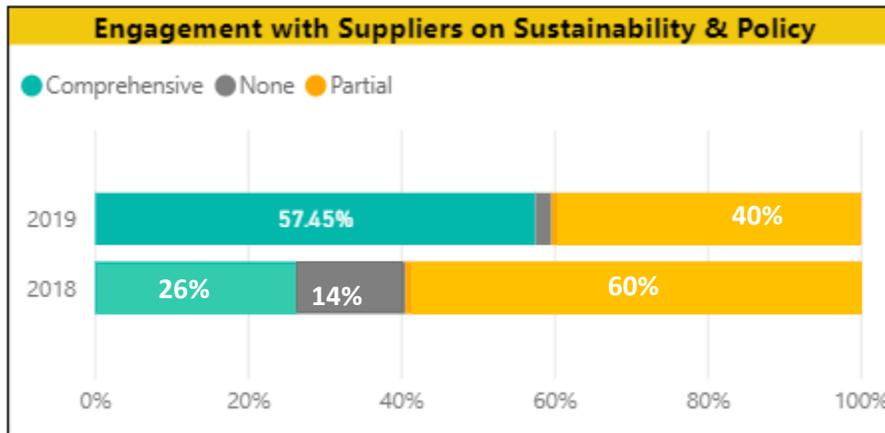
All suppliers are expected to adopt systems to meet our NDPE requirements. These suppliers are a mixture of independent stand-alone mills, mills with associated plantations and mills grouping with large internal plantations.

ENGAGEMENTS WITH SUPPLY BASE ON SUSTAINABILITY

The T4T self-assessment requires the supplying mills to inform on their activities (e.g. information sessions, briefing/training, remote contact) to engage their fresh fruit bunches (FFB) suppliers on sustainability practices.

For 2018, Year 1, of the supplier assessment, 60% of the mills have reported that they do have at least one engagement method to provide sustainability information to their FFB suppliers, with 26% employing multiple engagement modes.

 14%, which comprised 6 mills, have reported that they do not engage with their FFB suppliers. This is consistent with the findings in UPDATE No.1 whereby suppliers have reported that their NDPE policies are not applicable in their supply base.



On the other hand, Year 2 results have revealed several improvements in this KPI :

- The 14% who do not engage their FFB suppliers on sustainability requirements from Year 1, represented by the 6 mills, have improved and it is now at only 2% (or one mill); and
- 57% of the mills in 2019 reported that they have multiple modes to provide sustainability information to their suppliers. IOI, together with various industry peers and other stakeholders have been engaging and conducting various intervention and awareness programmes, in which we assume to have contributed to this positive increase from 26% in 2018 to 57% in 2019.

CLEAR COMMITMENTS TO UPHOLD LABOUR RIGHTS

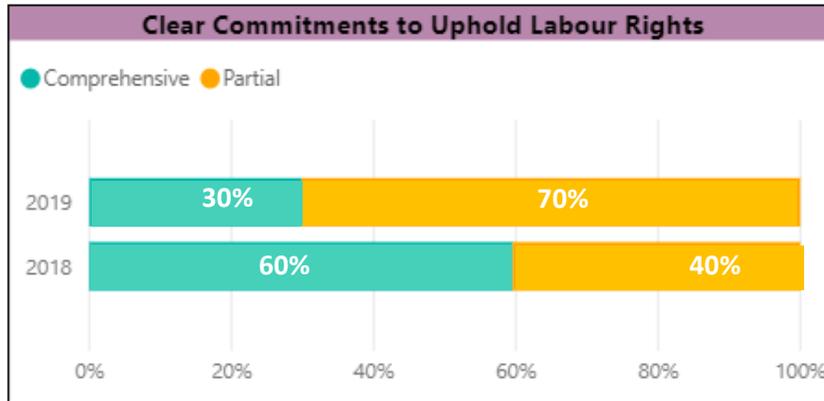
The T4T social module assesses our supplying mills' practices to uphold labour rights. It checks on a range of items which include non-statutory wages deduction, working hours, rest days, employment contract and more.



From the chart below, an encouraging 60% of the mills performed well in their practices towards meeting labour rights and worker's wellbeing in their 2018 assessment.

The remaining 40% or 17 mills, are partially meeting requirements. An examination of the results has revealed that 19% of mills are not monitoring working hours, or their workforce have clocked overtime hours beyond the permissible range and/or some workers have continually worked on all their rest days. The other unacceptable practice is the compulsory deduction of wages for safekeeping schemes. 🙅

It is noted that these aforementioned practices are common weaknesses due to labour shortages and concerns of worker abscondment. IOI views them very seriously and have engaged with suppliers on this matter and will be working with EF to rectify and improve the situation.



A comparison of the 2018 and 2019 results requires deeper analysis to understand the seemingly lack of progress:

- Due to the increase of nine additional suppliers performing their T4T self-assessment in 2019 compared to 2018, this has raised the number of suppliers with partial performance from 40% to 70%¹;
- As reported in 2018, there were 17 mills with partial performance on this KPI. These 17 mills have reported to make the following improvements:
 - The four mills in 2018 without written employment contracts have rectified this in 2019;
 - There were 11 mills having various non-statutory deductions and seven of these mills have corrected this gap;
 - For the two mills without detailed payslips and the three with high overtime hours, in 2019, one of the mills have reported the availability of detailed payslip and two of the mills are managing and monitoring their overtime hours to meet legal requirements.



OCCUPATIONAL HEALTH & SAFETY PRACTICES

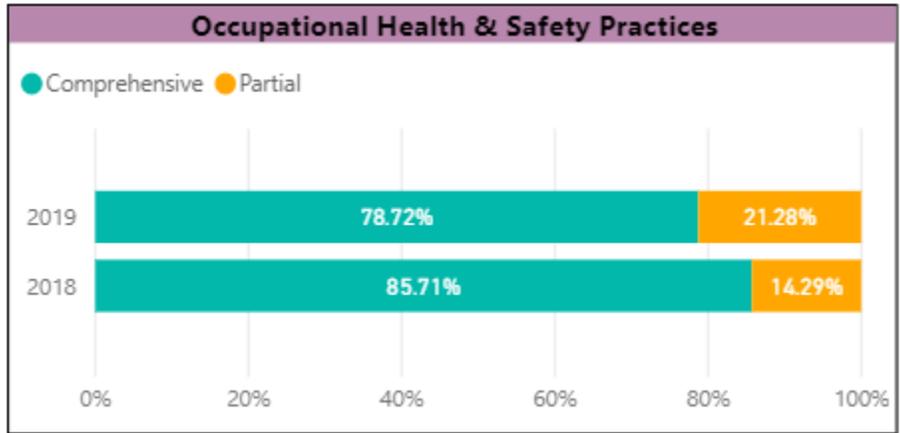
The importance of health and safety practices and systems is paramount in all companies. It provides both tangible and intangible benefits, ensuring high productivity, low absenteeism, happy and healthy workforce and much more.

“Health and Safety systems on monitoring, review and management are very important; all our people must have a safe work environment to work in as well as to be able to return home in the same condition as they arrive in. “– *Mr Ravi Tony, Safety & Sustainability Manager, IOI Plantation Bhd.*



In 2018, 86% of the mills have reported that they have all the listed OHS requirements in place, whilst 14% report partial performance.

¹ It is also noted that there were additional labour rights requirements added to this KPI in the 2019 assessment which increased the numbers of mills with partial performance.



For 2019, although the overall data shows decline in mills with comprehensive performance from 86% (or 36 mills) to 79%, the absolute number is an actual increase to 37 mills. Again, the drop in the overall percentage is due to an increase in the total number of mills reporting.

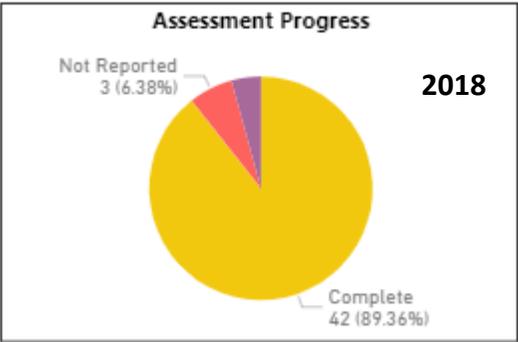
In addition, there were 4 mills in 2018 under partial compliance that have closed their gaps in 2019. 

 There is an increase in partial performance from 14% to 21% being 6 mills to 10 mills. This is largely due to the new additional 9 mills performing their assessment.

IOI is targeting for 100% of our suppliers to be in full compliance by Year 3 assessment.

COMMENTARY FROM RESPONSIBLE SOURCING TEAM

To recapitulate, in 2018, on the suppliers’ participation rate and subsequent action planning, IOIEO had invited 47 key suppliers to commence their self-assessment. 89% or 42 mills, completed their self-assessment and 39% had prepared their action plans, which includes deadlines to close gaps identified during the self-assessment.



Action plan		2018
Action plan	16	(39%)
WIP	26	(61%)

Do note that a very limited number of plantations connected to these 89% of millers which have completed their self-assessment. Increasing plantation submission is one of our key focus in our supplier engagement plans.

For 2019, the number of key suppliers increased to 50 and the participation rate reached 94% or 47 suppliers. 59% had prepared their time bound action plan to close gaps. The plantation participation has increased significantly, from less than 10 plantations connected to three mills in 2018 to 51 plantations from 10 mills in 2019. We will continue to place emphasis on plantation participation to improve this further in the following year.

Base on the high participation rate of our millers and the data collected, T4T is proving to be a beneficial part of our supply chain transformation strategy. In addition, the summary report prepared by EF enabled the team to prioritise actions, guide our supplier workshop planning and provided targeted areas for supplier engagements.

DATA ANALYSIS AND REPORTS

Utilising data submitted by millers, the T4T system provided data analysis and reporting for Year 1. Concurrently, Earthworm Foundation (EF) prepared a summary report² with recommendations which are now being used to guide our next steps and onward action.

The data analysis generated by the T4T system has been invaluable, allowing our immediate action to address critical issues that was reported.

ISSUES AND ACTIONS

The following are the critical issues which were identified along with our actions and programmes:

Commitments to uphold Labour Rights

The Team have engaged with suppliers on Labour rights and best practices throughout the year and we have been working with EF on a Labour Transformation Programme in Peninsula and is in the process of planning further activities for Sabah.

Supply Base engagements on sustainability

The adoption of MSPO has helped to increase awareness amongst our supplying millers and our team is continuously encouraging mills to regularly engaged with their FFB suppliers and provide support on sustainability best practices.

The issues identified and addressed in the 1st and 2nd updates were on No Deforestation, Passport Retention, Children in Plantation and Traceability.

² This Summary report is an internal document.

NEXT STEPS

All suppliers are required to put in place action plans to close gaps. For 2019/2020, we will support suppliers to progress on these action plans and they are also required to invite their supplying plantations to commence on the T4T self-assessment.

A point to note is the workshop that was held in August 2019 had covered NDPE in general and was focused on systems and measures to eliminate the risk that arises from children living in the plantation and the processes to collect traceability to plantation data.

IOI has been working closely with our supply base towards delivering responsibly produced palm oil and here are some of the ways that we will continue to support our third-party suppliers in their adoption of sustainability practices to transform:

- Our Responsible Sourcing Team will reach out to our suppliers and share the appropriate IOI experiences that have underpinned our own transformation journey through a mix mode of online and physical meetings, when possible;
- IOI will continue to organise transformation workshops designed around the key issues; where environmental and social consultants share knowledge and answer questions on implementation and processes;
- IOI will collaborate with stakeholders, whenever possible, to conduct joint focus sessions with supplier groups;
- Resource materials hosted on the T4T platform – covering a wide spectrum of palm oil sustainability subjects such as HCV management and conservation, peat best practices, ethical recruitment, etc. – are easily accessible and available at all times;

The delivery of some of these programmes will be a via a combination of online digital platform and physical meetings whenever appropriate.

Our next update will report on the progress of both Sabah and Peninsula supply base and will be shared once available.