



IOI GROUP

Responsible Sourcing Guidelines*

1. Introduction

IOI is committed to build a traceable, transparent and sustainable palm oil supply chain. Our actions are based on IOI Sustainable Palm Oil Policy (“SPOP”), which is based on our current best practices as well as from other stakeholders’ input.

IOI is responsible in creating sustainable palm oil supply chain. Based on our SPOP, we implement NDPE - No deforestation, No new planting on peat and No social exploitation and will continuously support our suppliers towards delivering the NDPE commitment.

This guideline includes the following supply chain commitments apply to all of our 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.
- We will utilize appropriate assessment tools to prioritize areas for improvement and engage our existing suppliers to drive transformation according to our SPOP.
- Appropriate due diligence on prospective suppliers to assess compliance with our policy, and if necessary, to identify appropriate measures to be carried out prior to entering into any purchase contract.
- Follow a multi-stakeholder approach as the right way forward to transform the palm oil sector through collaboration with various stakeholders including our suppliers, customers, non-governmental organisations (“NGOs”), governments and independent verification bodies to implement our policy.
- We expect all our suppliers of palm oil products to adhere to the commitments in this guideline.

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 SPOP.

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 group level where concessions controlled by supplier companies (direct and indirect) but outside of our mill supply chain (i.e. non-compliance at group level).

**This Guideline is also applicable for other commodities under IOI Group*

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. IOI Group will conduct appropriate due diligence to assess whether prospective suppliers have complied with our policy, and if necessary, to identify appropriate measures to be carried out prior to entering into any contract.

IOI takes responsibility for ensuring that our SPOP 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.

3. Implementation mechanisms

3.1 Addressing policy compliance in our supply base

Implementation of the **Responsible Sourcing Guideline (“RSG”)** is by respective teams involved in the supply chain within IOI Group and is monitored by the IOI Group Sustainability Team via the Grievance Mechanism. Implementation of IOI's SPOP, including this guideline, 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 guideline.

All volumes of palm oil, palm oil fractions and palm kernel oil are 100% traceable to the supplying mills. This commitment will be extended towards full traceability to plantations in high risk landscape by end 2020. Aside from supply chain traceability, we expect all our suppliers to meet NDPE requirements and follow the spirit and intent of IOI's SPOP. The core requirements are listed below:

- Comply with all applicable legislation and codes of practice.
- Implement best management practices for environmental and social management.
- Protect High Conservation Values (“HCV”) and High Carbon Stock forest using the revised High Carbon Stock Approach (“HCSA”) prior to any new oil palm development.
- No new development on peat regardless of depth and appropriate best management practices for existing plantation on peat.
- No burning for land clearance.
- No exploitation of local communities, indigenous people and workers' rights and welfare; and FPIC must be conducted before any new development.
- Strive for the highest levels of transparency and stakeholder engagement.

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 by:

- Identifying all companies supplying IOI Group with palm oil products.
- Obtaining, verifying and publishing the name, GPS coordinates and controlling group of each mill and refinery in our supply chain.
- Performing supply chain risk analysis and monitoring for any land use change using remote sensing via platform such as Global Forest Watch (“GFW”) Pro and with support from external monitoring consultant i.e. Aidenvironment.

- Prioritising suppliers for engagement using gap assessment tools (E.g. Tools for Transformation) and direct consultation to identify the specific areas and issues to meet NDPE requirements.
- Conducting **Group-level Risk Reviews** of all supplier companies which could include some of the following information below:
 - Company concession maps
 - Company permits and relevant licenses
 - HCS, HCV and environmental impact assessments
 - Government maps, including peat, forest cover and moratorium area
 - RSPO complaints
 - Other traders' active grievance procedures
 - Articles in the media, investigations and publications by civil society organisations
 - Third-party mapping websites, including GFW
 - Government action (e.g. investigations or court proceedings related to illegality, corruption and in response to forest fires)
- Implementing program of engagement visits, reinforced by company-level engagement and group workshops on our direct suppliers.
- Engaging our indirect suppliers through our trading partners which have similar NDPE commitments; and where appropriate we will engage directly with these suppliers.
- Publishing 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 3.2.

3.2 Procedure for dealing with breaches in policy compliance

Where IOI or our trading partner find that a supplier is in non-compliance with our policy, IOI or our trading partner will engage with the supplier to agree to a time-bound action plan to bring the mill into compliance. If the supplier 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 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 supplier is subject to other allegations of non-compliance by stakeholders, IOI will initiate the grievance procedure (as below).

Grievance procedure

We have implemented our grievance mechanism to address any violations and failure to meet our policy requirements, particularly on no deforestation, no new development on peat and no exploitation. This includes failures reported by internal monitoring and external stakeholders.

When we initiate our established grievance procedure, we will:

- Issue a requirement to immediately cease development where clearing 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 suspend trade 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.

- 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 measures where applicable, to adequately address all non-compliant activities.
- 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.

3.3 Ensuring policy compliance by potential new suppliers

All potential new suppliers are required to have complied with IOI Group's SPOP 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 SPOP and advise them of the IOI Group's requirements for suppliers.
- Conduct a Group-level Risk Review, to determine if the company's operations are in compliance with our policy.
- Desktop assessment by seeking publicly available information including information lodged with government agencies, satellite mapping information (e.g. through GFW), RSPO complaints platform and information available online.

Where potential new suppliers have undertaken plantation development that is incompatible with this policy, appropriate measures and an implementation plan will need to be agreed prior to entering into purchase contract.

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.

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 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 information 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.



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