

Supplier NDPE Monitoring And 2022 T4T Update

Introduction

IOI Corporation Berhad (IOI) is committed to build a transparent and traceable supply chain, working alongside and assisting our suppliers to work towards delivering a sustainable palm oil future.

There have been a series of IOI supply base updates shared publicly on our traceability dashboard highlighting the progress of our suppliers meeting the No Deforestation, No New Planting on Peat, and No Social Exploitation (NDPE) requirements. One of the practical ways to monitor and ensure our suppliers are committed on NDPE requirements is through an online self-assessment called [Tools for Transformation](#) (T4T)¹. By participating in the online self-assessment, our suppliers will be able to understand where they stand regarding the NDPE requirements. A customised action plan will be generated to assist suppliers in addressing their targeted issues and gaps.

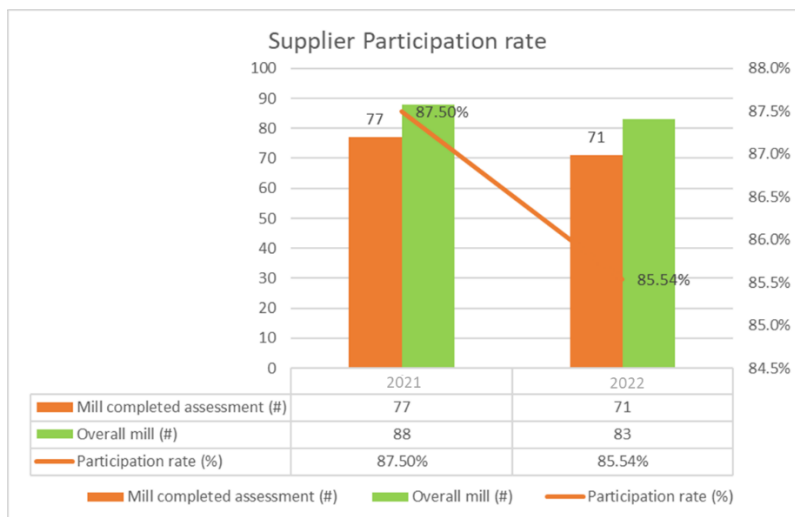
This update is the first release in 2023 where the results of the recently concluded 2022 T4T self-assessment are analysed. It also highlights other engagement programmes conducted with our suppliers to minimise risks across the supply chain. There are four areas discussed, namely i) Suppliers with NDPE Policy, ii) Forced Labour Conditions, iii) Comprehensive Grievance Mechanism and iv) Deforestation Occurrence.

Overview of Supply Base

This update covers the information submitted by IOI's direct suppliers both from Peninsular and East Malaysia that have accepted the invitation to participate in the T4T self-assessment exercise.

During the roll-out of the 2022 T4T self-assessment in November, IOI has invited 106 suppliers/millers supplying directly to IOI Edible Oils (IOIEO) refinery in Sandakan and IOI Pan-Century Edible Oils in Johor. However, there are millers who have yet to accept the invitation and one of millers in Sabah informed that they have ceased operations.

The participation rate in 2022 is recorded at 85.54% with 71 mills accepting the invitation. Although there is a slight drop of 1.96% from the 2021 assessment, the majority of our suppliers are able to complete the assessment within the requested time.



Additionally, it is encouraging to observe that the completion rate of IOIEO suppliers rose by 2.08% as compared to 2021 data.

Mill and Estate Participation Rate & Action Planning

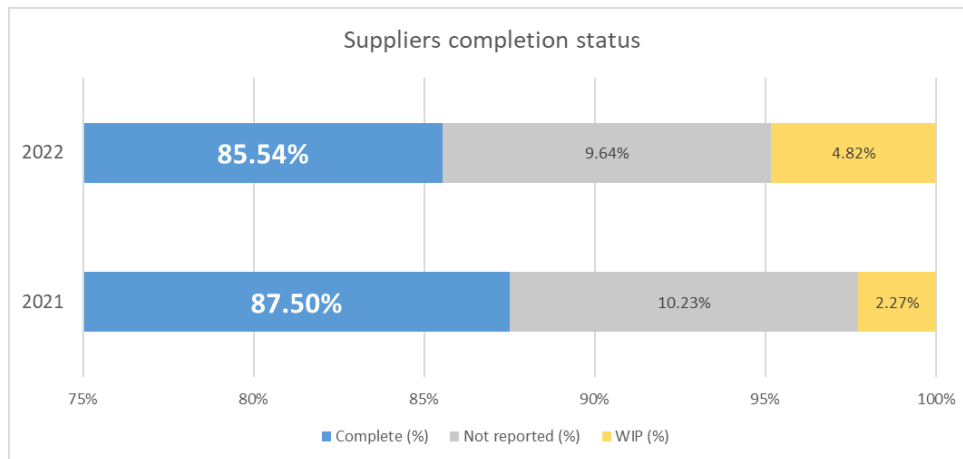
Analysing the completion rate of our suppliers, while the majority of our suppliers have completed the 2022 T4T self-assessment, around 5% of our suppliers are unable to complete the assessment on time and another 10% received the invitation but have yet to work on the assessment. The constraints could be

¹ <https://www.earthworm.org/our-work/ventures/tools-for-transformation>

linked to insufficient time, connectivity issues and structural change. This is an area where a group level refresher course on NDPE and T4T will be conducted targeting our direct suppliers.

The T4T self-assessment was also extended to our Tier-2 suppliers. Invitations were sent through our Tier-1 direct suppliers. A total of 68 plantations completed and submitted the T4T self-assessment. The number was a contribution from 18 millers that have kindly invited their internal plantations to participate in the 2022 T4T self-assessment.

All suppliers who have completed the T4T self-assessment will be automatically equipped with a customised action plan and relevant resources to assist them in addressing gaps.

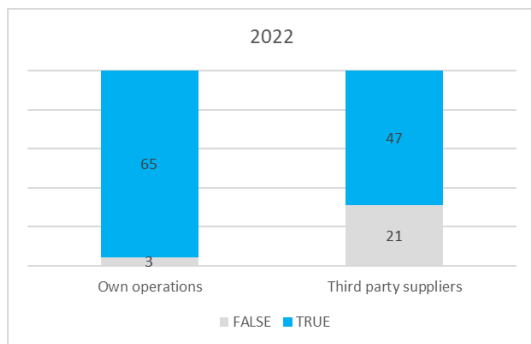
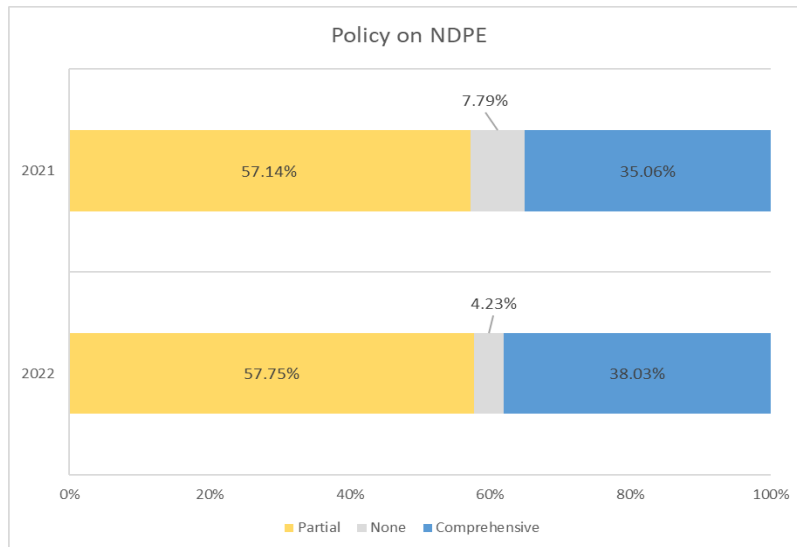


Suppliers with NDPE Policy

Enhancing our supplier’s understanding through NDPE engagement programme, equates to playing a part in ensuring land is managed properly, valuable forests are protected, peatland is preserved, and communities as well as workers are treated fairly in safe and decent working environment.

The overall result of the 2022 assessment recorded a positive improvement against the 2021 assessment. A total of 95.78% of our suppliers are equipped with NDPE policies. A sum of 38.03% out of 95.78% of our suppliers have a comprehensive NDPE policy. In our 2021 assessment, 92.2% of our suppliers are equipped with NDPE policy of which 35.06% are categorised as comprehensive.

Thanks to the industry level awareness on sustainability issues, more suppliers are beginning to appreciate the importance of NDPE policy where previously in 2021, 7.79% of our suppliers had no plan to introduce a NDPE policy. In the 2022 assessment, this has decreased to 4.23%. We have identified the remaining suppliers and are currently identifying a suitable engagement programme to understand their issues and challenges.



Additionally, it is reported that 47 mills have extended their NPDE policy to their third-party Fresh Fruit Bunch (FFB) suppliers, leaving 21 mills whose NDPE policies do not include their third-party FFB suppliers. The upcoming data collection on Traceability to Plantation will continue to be utilised as one of the factors to identify our suppliers.

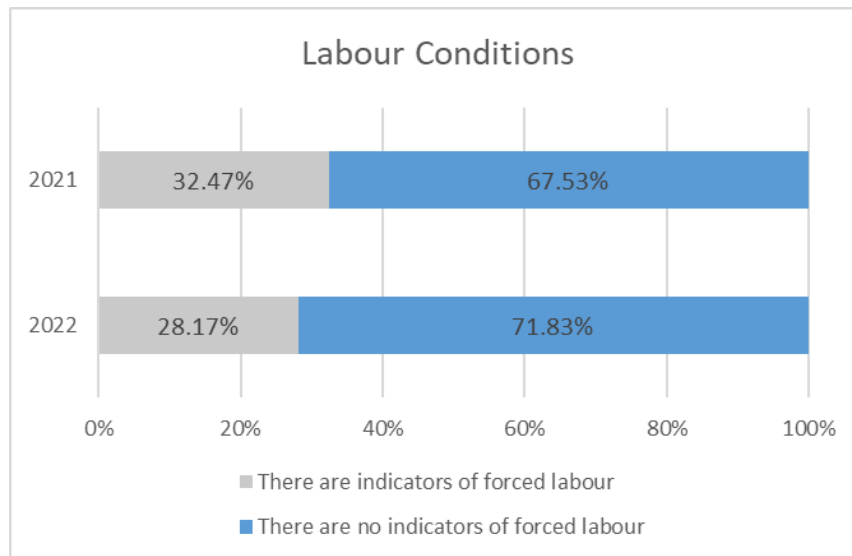
Improving Forced Labour Conditions

Adhering to fair labour practices is critical to eliminating forced labour especially when allegations are generally linked to unfair recruitment processes and abusive working environments, amongst others. Understanding how the recruitment process could contribute to meet the social needs of workers is central for business organisations to respect their legal obligation to promote and support fair competition. Subsequently, it provides an indication on how workers are treated fairly and humanely. The adoption of a diagnostic approach where suppliers are invited to conduct the T4T self-assessment offers a preliminary indication on the potential forced labour risks present in their operations.

From the chart below, the mills are making progress in improving practices to avoid forced labour practices, with 71.83% mills in 2022 reporting that they do not have forced labour practices as compared to 67.53% mills in 2021. Acknowledging the fact that 28.17% of our suppliers face risks with regard to forced labour, we have been engaging the identified suppliers to understand their issues, challenges and where appropriate provide technical advice and support.

We are happy to note that one of the suppliers engaged have improved their practices on safekeeping of passports where foreign workers are given keys to freely access their passport. To ensure our suppliers can identify, prevent and mitigate forced labour risks, a briefing on managing labour rights risks was conducted in February 2023.

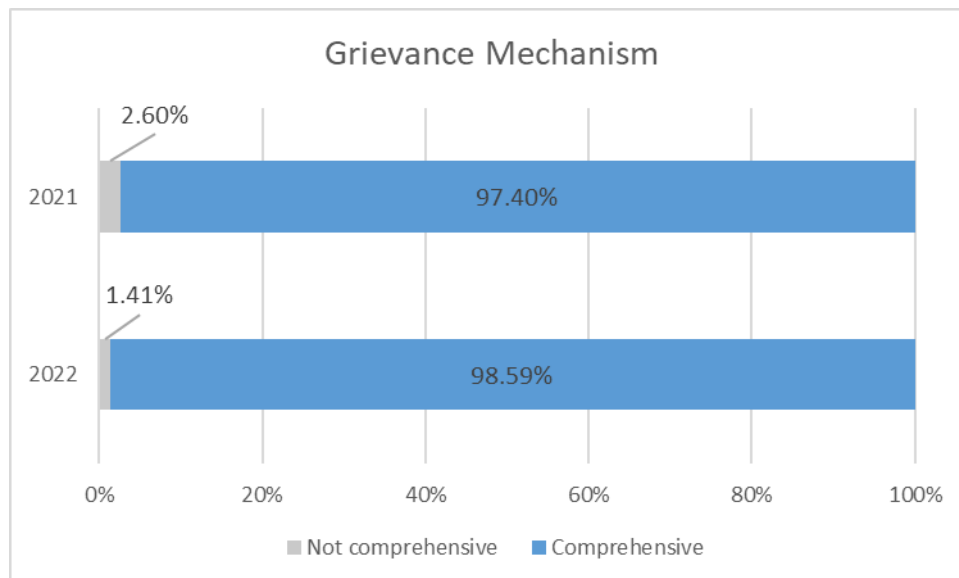
In addition to that, since 2021 we have been collaborating with Earthworm Foundation (EF) through the Labour Transformation Programme as part of our efforts to improve and encourage good labour practices among our suppliers both direct and indirect.



Grievance Mechanism

Having an effective grievance procedure could help employers to take an immediate action before a grievance become a serious issue. It serves as a channel for workers to express their dissatisfaction or any discontent. A comprehensive grievance mechanism allows issues to be resolved internally first without having the need to go through legal action that will surely be costly and time consuming.

A total of 98.59% suppliers reported that they have a comprehensive grievance mechanism, an improvement of 1.19% from 2021 assessment recorded at 97.40%. It is noted that there is record of one mill or 1.41% in 2022 which is lacking a system to document and record grievances compared to two mills or 2.60% in 2021.



Deforestation Monitoring

According to the United Nations Environment Programme (UNEP), almost 500 companies around the world have made a public commitment to address commodity-driven deforestation². Globally, the High

² <https://www.unep.org/news-and-stories/story/towards-zero-deforestation>

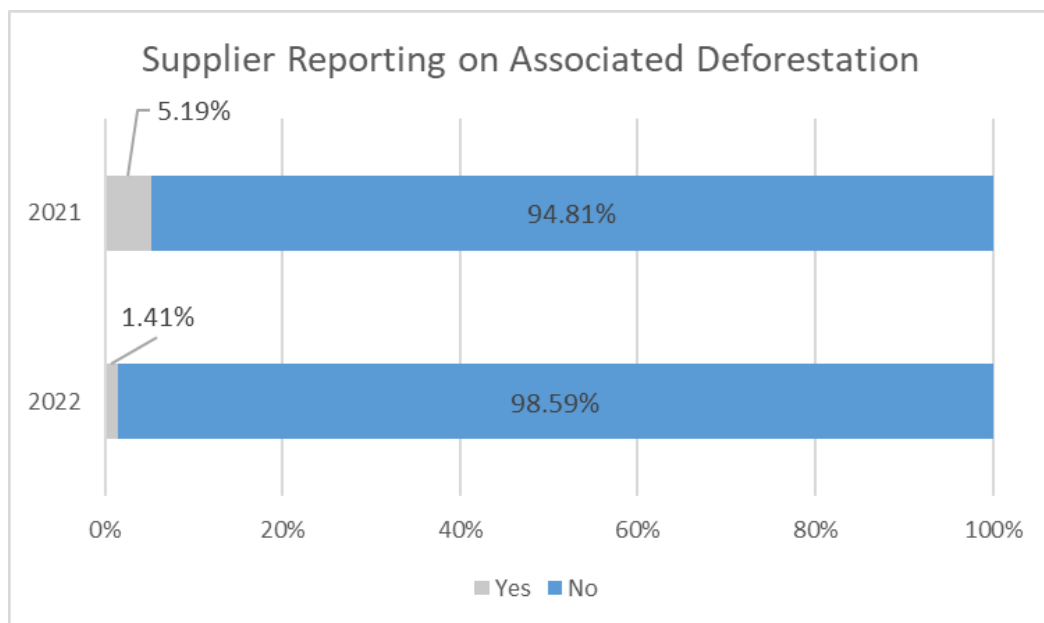
Carbon Stock Approach and High Conservation Values Approach are recognised as the main tools to help achieve no deforestation commitment.

Translating the no deforestation commitment into action could be a daunting task especially for medium to small-sized companies where new planting programmes after a certain cut-off date (typically 31 December 2015) will be subjected to stringent requirements. To improve understanding, it would require continuous engagement in terms of communication, awareness raising and technical guidance to halt deforestation.

The 2022 T4T self-assessment provides an indication that generally a total of 98.59% of our suppliers are not associated with deforestation activities, it leaves us with 1.41% needed immediate attention for further engagement. Nevertheless, this is a positive sign where previously in 2021, 5.19% of suppliers are associated with deforestation activities.

To address the remaining gaps, our satellite monitoring service provider, Starling have been providing a second layer of deforestation related support to ensure appropriate measures are taken. The satellite monitoring reports on deforestation alerts prepared by our consultant are used as the spatial evidence to reach out to our suppliers to investigate the cause and prevent further clearance.

Similar to the one-to-one supplier's engagement programme on good labour practices, we have been collaborating with EF on Supply Chain Mapping and Monitoring, where part of the programme is conducted to perform ground investigations on potential deforestation activities occurred surrounding our supplier's estate boundaries.



Sources of Data Analysis and Reports

This analysis is conducted by capitalising on the data submitted by millers, in direct reference to the result generated by the T4T system. Updates from stakeholder engagement activities are also highlighted where we believe it has been instrumental in adhering to NDPE policies. Subsequently, the analysis and results are utilised by our Responsible Sourcing Team for next stage planning.

Commentary from Responsible Sourcing Team

Despite a shorter timeframe for completing the T4T self-assessment, we are able to maintain a good range of supplier participation to the assessment. An offline option was activated to address supplier's internet connectivity issues. More than 80% of supplier participation rate is considered as good representation for review and analysis. To provide a clearer view on our supply base, regional reporting i.e. Peninsular and East Malaysia will be incorporated in the 2023 T4T self-assessment update.

As part of our supply chain transformation strategy, T4T allowed us to utilise the self-assessment results to prioritise actions and to guide our supplier engagement planning especially on the targeted areas. The data and analysis generated by the T4T system has allowed for immediate action to address and improve our suppliers' understanding on the system and how they could play a role to facilitate the mapping and monitoring exercise to enhance traceability.

Understanding supplier commitment against the NDPE policy is not limited to the result of T4T self-assessment. A one-to-one engagement with targeted suppliers has been employed. The deliberation on our in-depth engagements can be found on our IOI Sustainability Dashboard i.e. Engagement with Suppliers section.

On-going Action & Next Steps

As enshrined in our Group Sustainable Palm Oil Policy (SPOP), we are committed to build traceable supply chains such that all suppliers are also in compliance with our commitments in respect to environmental management, human rights and workplace, community development and social impact.

Various forms of support were channelled during the 2021/2022, to ensure actions are taken to progress on the prescribed action plans. Suppliers are also required to invite their FFB supply base to commence the T4T self-assessment.

IOI has been working closely with mills towards responsible production to deliver sustainable 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 towards transformation:

- Our Responsible Sourcing Team will reach out to our suppliers, either remotely or in person to share IOI's experiences that have underpinned our own transformation journey as well as our NDPE implementation;
- More emphasis will be placed on the importance of completing the action plans to close gaps among our direct suppliers. This includes enhancing communication channels with our third-party suppliers to encourage them to tap into resources hosted on the T4T platform which are easily accessible;
- IOI will collaborate with stakeholders, to conduct transformation programmes and joint focus sessions with supplier groups or individual suppliers on labour, traceability and deforestation issues through a mixed remote and face to face method.

In our next update, we will be reporting on no development on peat, right to freedom of association, children in plantations and traceability & FFB supplier data.