



IOI Group – First Quarterly Sustainability Progress Update

Introduction:

In August 2016, we published a revised Group Sustainable Palm Oil Policy (SPOP), alongside a detailed Sustainability Implementation Plan (SIP) with a pledge to regularly update to reflect stakeholder input and implementation on the ground.

This is the first quarterly summary progress update on our overall sustainability activity since the previous progress update on 30 September 2016. We are very pleased to note on our progress thus far, although we are fully aware of the work that still needs to be done to ensure the full confidence of all our stakeholders. The following are some of the highlights of the progress that we have reported in our SIP.

1. RSPO and RSPO NEXT

- a. Following the lifting of suspension of IOI Group’s RSPO certification on 5 August 2016, Aidenvironment, the complainant in the case, together with IOI visited our Ketapang concession on 2 September 2016. Subsequently, on 1 December 2016, Aidenvironment issued a Joint Statement together with IOI regarding their satisfaction with the progress on the ground and the closure of the case where they are concerned.



Verification visit at PT BSS by RSPO on September 6 – 11, 2016

- b. The first draft checklist on the RSPO NEXT has been circulated among our plantation Sustainable Palm Oil (SPO) team for further input. The first RSPO NEXT public notification is proposed to be done in first quarter of 2017. Ladang Sabah Mill will be the first to undergo the RSPO NEXT audit in the first quarter of 2017.

2. Labour and Social

- a. Labour Rights Monitoring System

An international consultant has recently been engaged by IOI Plantations to assist in the implementation of fair and proper labour practices together with a labour rights monitoring system in our plantations in Malaysia. The consultant will also assist us in recommending additional actions following the November 2016 Finnwatch report on palm oil labor practices in Peninsular Malaysia. Work will begin in late January 2017 and is expected to complete in June 2017.

Meanwhile, within IOI Plantations, all the regions have their own monitoring checklists for the workers' welfare. The regions have started to standardise the system and procedures on induction of new workers and the functioning of the Employee Consultative Committee and the Gender Rights Committee.

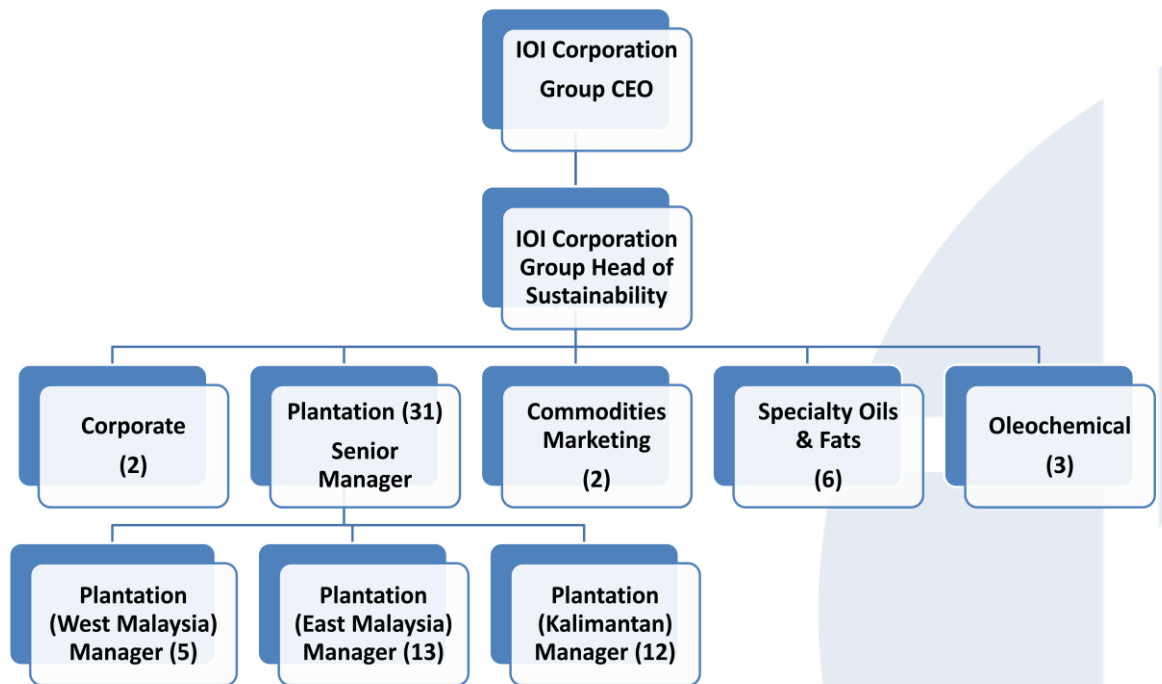
b. Resourcing:

At the Group Sustainability level, a Sustainability Manager (Labor & Social) has been hired to oversee labour policies and implementation of such policies within IOI Group. A new Sustainability Executive has also joined to assist the Group Head of Sustainability in monitoring the overall Group sustainability efforts.

Plantations

To ensure the full implementation of our SIP, we have recruited additional 10 new employees for the plantation sustainability team.

IOI Group Sustainability Team



Overall, the IOI Group has more than doubled the total number of sustainability personnel employed compared to the beginning of 2016.

Training

As part of ensuring on the ground delivery of our sustainability policies, we have initiated a series of workshops for employees, which are run by Proforest. The most recent workshop was on third party sourcing commitments in the IOI Sustainable Palm Oil Policy (SPOP). Other workshops that were conducted covered topics such as HCV, HCS, peat land, and third party supplier's engagement to ensure compliance with our policy commitments.



Safety & RSPO Requirement Training at Gomali Estate

c. IOI-Pelita, Sarawak – land and harvesting dispute with local community

On 1 December 2016, a draft settlement agreement which gives the native community land use rights was presented to the LTK A and LTK B communities. This was followed by a meeting on 20 December 2016 to discuss further the terms of the settlement agreement. The meeting was attended by seven *Ketua Kampung*s (Head of Villages), local district councilors and RSPO representatives as independent observers. During the meeting, the community requested some additional terms to be put into the settlement agreement which would be formally submitted to the Miri Resident's (mediator) Office before 30 December 2016.



*Meeting with LTK Ketua Kampung*s

While we understand the concerns of some of our stakeholders regarding the slow progress of the issue, we would also like everyone to understand the complex issues of culture, land ownership, legalities and politics involved. This in itself requires careful consultation and coordination with the Land Custody and Development Authority (LCDA) of Sarawak, the other shareholder of IOI-Pelita and the state government of Sarawak, besides the agreement of more than 250 community households.

3. Environment:

a. Green House Gas (GHG) Emissions

A GHG reduction plan has been drafted and will be given to ISCC for comments. Once the plan is ready, it will be implemented and monitored by the plantation sustainability team.

In the meantime, a reporting format for GHG emissions within IOI Group is being developed. Currently, the data is being monitored and is available at individual operating units. The baseline target for GHG emissions is based on the ISCC-EU requirements.

As a step towards further reducing GHG at IOI palm oil mills, IOI has successfully commissioned two biogas plants, one with power generation, in two palm oil mills, Ladang Sabah and Pukin. Currently, IOI is constructing two additional biogas power generation plants in two other mills which are expected to be completed in 2017. All mills are planned to be equipped with methane capture equipment in stages in tandem with available proven technology.

b. Landscape Level Approach

i. LiDAR (Light Detection and Ranging) and Drone Surveillance

In September 2016, IOI signed an agreement to participate in a consortium which is carrying out a large scale LiDAR mapping of peatlands in Kalimantan which will now include IOI's Ketapang Concession. Currently the consultant is in the process of obtaining approval from the government to conduct the peatland mapping. It is expected to obtain the first data of the mapping in the first quarter of 2017.

In December 2016, our SNA Group purchased one unit of drone to help with the surveillance of the landscape in and around our Ketapang concession. This will allow us to have an overall idea of the scope and progress of the area under rehabilitation.



Drone picture: Area of enrichment and rehabilitation in PT BSS

ii. Ketapang

As part of the landscape level approach, IOI has engaged with stakeholders in the immediate vicinity of the SNA Group subsidiaries to jointly develop and implement activities that contribute to effective fire prevention and mitigation as well as peat and biodiversity conservation. Continuous engagement initiatives with the community and local government agencies; for example repair of bridges and roads in Desa Pembedilan (PT SKS), medical surveillance project in collaboration with Government hospital in Desa Air Hitam (PT BNS), drilling of drinking water project (also to aid in putting out possible fires that may occur during the dry season) in collaboration with Badan Konservasi Sumber Daya Alam (BKSDA) and experimental agricultural programme (to eliminate burning as alternative method of clearing land) in Desa Natai Kuini (PT BSS).



PT BSS together with Badan Konservasi Sumber Daya Alam (BKSDA), Desa Nantai Kuini, Kecamatan Kendawangan Kabupaten Ketapang Prov. Kalimantan Barat

Our Indonesian Sustainability team is also collaborating with BKSDA in conducting joint efforts in wildlife conservation. One of the milestones achieved is saving *Orang Utan* from poachers in Desa Air Hitam Besar near PT SKS on 5 December 2016.



PT SKS and PT BNS with BKSDA, Desa Pembedilan, Air Hitam Hulu and Air Hitam Besar Kabupaten Ketapang

c. Peatland and Peatland Rehabilitation

i. Peatland Management

IOI is in the midst of revising our Peat Management Policy and Guidelines to include more details on management of peatland in existing IOI plantations, new concessions, landscapes in and around concession and supplier practices with the help of Global Environment Centre (GEC) as consultant.

In line with our policy commitment to use Best Management Practices (BMP), as defined in the RSPO P&C and the RSPO manual on Best Management Practices for existing oil palm cultivation on peat, GEC has also been appointed to assist in reviewing and improving our Peat Management Plan in existing IOI plantations for the purpose of RSPO certification.



Tree Planting Activities at Penampun Sungai at Pamol Sandakan, Sabah, Malaysia

The supplier engagement and training on best practices for existing planting on peat training initiative has started. The first training to the supplier was conducted by IOI Loders Crokiaan SPO team on 5 and 6 December 2016 in Sandakan, Sabah. Speakers from Proforest and WWF-Malaysia were invited to present topics on HCV Management, BMPs on peat and HCS Introduction to the suppliers. Major suppliers were invited to share their existing practices on peatland plantations and guidelines on proper way of palm oil cultivation on peat soil. The summary on the supplier engagement workshop can be found at: <http://www.ioigroup.com/Content/S/PDF/Supplier%20Technical%20Workshop.pdf>

ii. Ketapang Peatland Rehabilitation

As part of our peatland rehabilitation effort, a Management Implementation Plan was developed as a framework on landscape restoration approaches. The approaches include conservation practices, engagement with government agencies and involvement with adjacent communities to work together in our conservation efforts. The Management Implementation Plan for PT BSS was completed in September 2016 with the assistance from GEC while the Management Implementation Plan for PT SKS and PT BNS has already been drafted by our Indonesian sustainability team and will be sent to GEC for comments.



Ground Survey of Rehabilitation Area



Nursery: native plant species & trees raised for rehabilitation purpose

As part of our commitment towards developing and implementing best practices on peatland remediation, we have introduced specific rehabilitation measures and restoration programmes at PT BSS and PT SKS which will be integrated within the overall Ketapang peatland management plan. Such measures include a total of 11,129 and 18,623 seedlings of local vegetation species such as *gelam* that have been planted in PT BSS and PT SKS respectively and water gates have been placed to maintain the water levels in the peat areas.

To date, the total number of native vegetation planted on HCV area in PT BSS is 1,902 native forest trees



Rehabilitation at PT SKS and PT BNS

d. Fire Prevention

The Internal Fire Management Plan, which has also been drafted in Bahasa Indonesia, has been circulated to external stakeholders for comments. After being finalised, expected to be end of January 2017, the document will also be used as guidance to our third party suppliers or neighboring small holders who do not have fire prevention plan within their organisation. There are on-going engagements with various stakeholders including government agencies. One of the upcoming projects is to do joint training on fire prevention methods with Bomba/BKSDA/Manggala Agni in 2017.



Fire drill training at PT BNS

The latest training for plantation supervisors in Peninsular Malaysia Estates has been conducted from 22 to 24 November 2016 where the IOI Plantation Sustainability team presented the fire prevention techniques and safety guidelines to the participants.

e. Review of Assessments and Procedures on New KPAM Concession by Proforest

KPAM, our last wholly unplanted concession is under preparation for new planting in accordance with RSPO requirements and our own Group Sustainability Policy commitments.

The two major assessments, High Conservation Value (HCV) Assessment and High Carbon Stock (HCS) assessment, are currently in progress prior to any physical development to be conducted in KPAM.

High Conservation Value (HCV) Assessment

Proforest has been contracted to provide technical support, and the first stage is to gauge whether existing reports are sufficient to ensure compliance of our commitments on HCV and peat management. Following a five-day scoping visit, and comprehensive document review, Proforest has delivered a Phase 1 report in mid-October, 2016.

The report on HCV assessment was received from Aksenta and the peer review for HCV assessment will be carried out by Deameter as recommended by Proforest. Phase 2 will be to carry out work to fill the gaps, if any. A decision on when the new planting will commence will only be taken after the two phases have been completed.

High Carbon Stock (HCS) Assessment

The data for the HCS assessment has been sent to Proforest in early December 2016. In accordance with HCS Approach, peer review by stakeholders will ensue once the document is finalised which is expected to be in first Quarter of 2017.

4 Traceable Supply Chains

a. Traceability

Our goal to ensure that all volumes of palm oil be 100% traceable to mills by the end of 2016 is on track and we have released our Group level FY15/16 traceability results (http://www.ioigroup.com/Content/S/S_Trace) which we will report on a quarterly basis. Palm kernel oil volumes will be traceable to crushers by end 2016 and the Quarterly Traceability update dated Sept 2016 can be viewed at:

http://europe.ioiloders.com/images/static_pages/Traceability_update_Oct_15-Sept16.pdf

b. Mill Verification and Monitoring

As part of our building internal capacity to implement the programme on mill level verification assessments within our supplier base, a Supplier Technical Workshops was held in December 2016. (<http://www.ioigroup.com/Content/S/PDF/Supplier%20Technical%20Workshop.pdf>)



Supplier Technical Workshop, Sandakan held in December, 2016

In addition, we have completed nine mill assessments in 2016 and five Time-bound Action Plans (TBAP) which covered all these suppliers that had been assessed during the engagement process. We are happy to report that four of the suppliers have shown progress on their TBAP with the fifth supplier sharing their TBAP with another major Trader to follow up.

5. Transparency And Wider Engagement

a. Plantation and Concession Maps

As per our policy commitment to make maps of all IOI plantations publicly available, subject to any legal restrictions, we have the maps of our Indonesian Concession area released publicly in December 2016. The map can be viewed from our online company dashboard [http://www.ioigroup.com/Content/S/S_Dashboard]. However, for our Malaysian plantations, it is still subject to legal restrictions of the Malaysian Government.

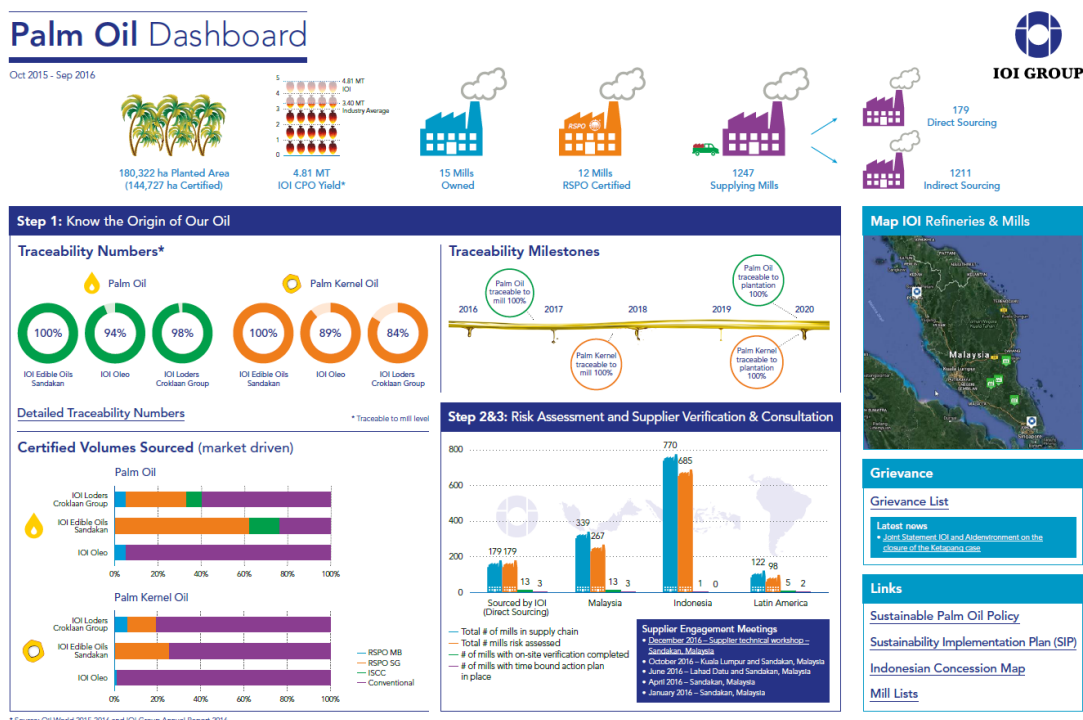
However, all IOI Group's plantation and concession maps are available with the RSPO and for auditing purposes at each individual IOI Group location. (<http://www.rspo.org/certification/principles-and-criteria-assessment-progress>).

b. Grievance Mechanism

The completed grievance mechanism (http://www.ioigroup.com/Content/S/S_Grievance) developed in consultation with a number of stakeholders was published in October 2016. The grievance mechanism includes regular public disclosures on new grievances and updates on existing grievances. The updated grievance list which is published online to ensure transparency in resolving our issues can be found here: <http://www.ioigroup.com/Content/S/PDF/GrievanceList.pdf>

c. IOI Palm Oil Dashboard

We commenced the development of a public dashboard reporting tool for IOI Group at the beginning of the fourth quarter of 2016. The IOI palm oil dashboard was launched in December 2016. Please find the link to our dashboard: http://www.ioigroup.com/Content/S/S_Dashboard



d. Sustainability Advisory Panel (SAP)

The Terms of Reference for SAP, which is tasked with overseeing the implementation of the Sustainability Implementation Plan, has been drafted and several experienced persons from different countries and sectors have been approached to join the Panel. Formal invitations to join the Panel will be issued in January 2017 and we target to hold the first meeting of the Panel in February 2017.