

Supplier NDPE T4T Progress Update Year 2 No.1

INTRODUCTION

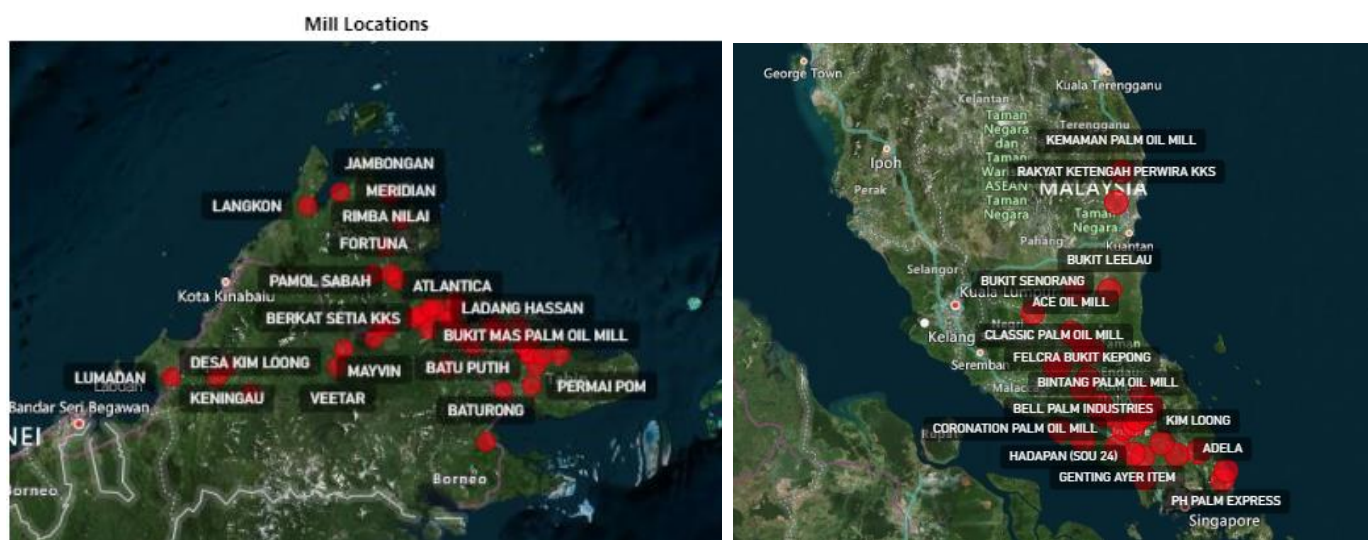
IOI Corporation Berhad (IOI) is committed to building a transparent and traceable supply chain and helping our suppliers transform towards delivering sustainable palm oil. In 2018 and 2019, the Responsible Sourcing Team from our Commodity Marketing Department introduced the Tools for Transformation (T4T) platform to the mills supplying to IOI Group of companies. This is part of our supply chain strategy to deliver on the No Deforestation, No Peat and No Exploitation (NDPE) requirement of our Sustainable Palm Oil policy by assessing suppliers' compliance levels and thereafter allowing specific improvements on targeted issues. Included in the T4T platform are a self-assessment module, an action plan module to assist suppliers to close gaps and practical and field-tested materials on sustainability best practices. At the completion of participation period, suppliers' submissions were analysed and reported as 14 Key Performing Indicators (KPIs) that are pertinent to the delivery of NDPE.

This update will detail four of the more prominent KPIs amongst stakeholders' concerns: i) Policy, ii) Forced Labour, iii) Grievance Mechanism and iv) Deforestation Occurrence. This will be followed by KPIs on peat, children in plantations, traceability and freedom of association in our next update.

As always, the two main focus is firstly for T4T is to achieve high adoption rates from millers and plantations and to encourage all of them to utilize the resource materials to gain a deeper understanding of sustainability best practices. This will support them in the preparation of an action plan for improvements and provide similar support to their own supply base in utilizing the self-assessment, action planning and resource materials. The second focus is to design engagements and programmes, utilising data analysis from T4T, to support suppliers towards improvements and responsible production. The health and safety requirement of physical distancing restrictions due to COVID-19 has necessitated alternative engagement methods now and in the near future.

OVERVIEW OF SUPPLY BASE

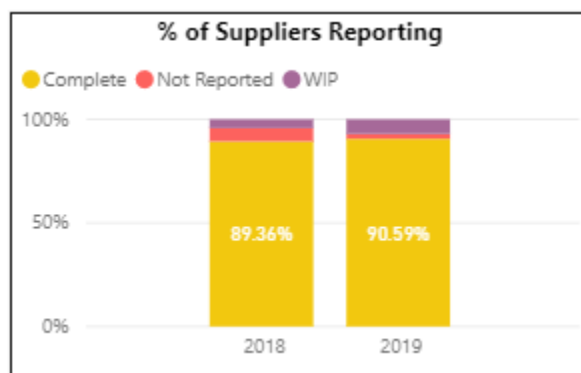
In 2019, IOI directly sourced from 109 regular key suppliers from both East Malaysia and Peninsular Malaysia. All suppliers are expected to adopt systems to meet NDPE requirements. Suppliers are a mixture of independent stand-alone mills, mills with associated plantations and companies with groups of mills and plantations; this includes various companies with numerous Roundtable on Sustainable Palm Oil (RSPO) certified mills and plantations.



Larger map can be found in the annex

MILLS AND ESTATES' PARTICIPATION RATE & ACTION PLANNING

Supplier participation rate for 2019 is at 90%², with 77 mills having completed their self-assessment.



At the same time, 56% or 43 mills have prepared an action plan on improvements and how-to close gaps between 2020 – 2022.

👍 One mill has reported completion of action plans to close gaps.³

Action plan	
Action plan	43 (56%)
Completed	1 (1%)

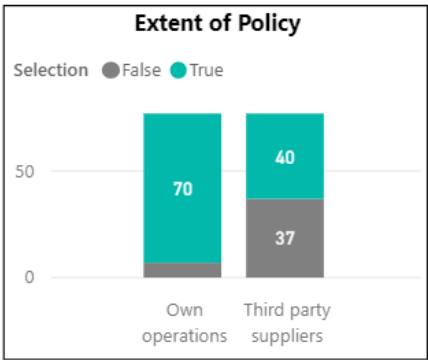
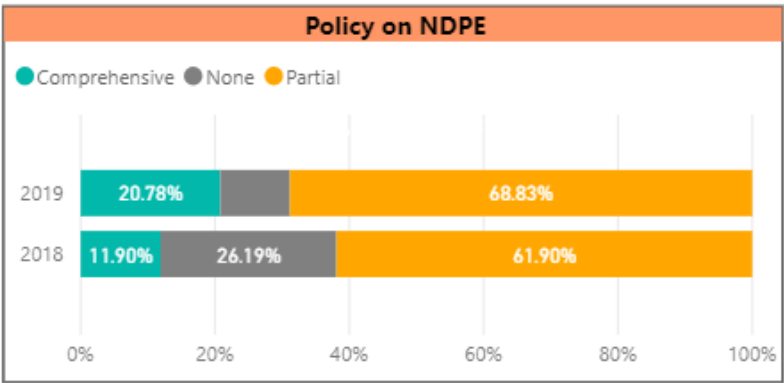
² Although we have 109 key suppliers, numerous RSPO certified mills and plantations decline the invitation to participate as such the total invited mills stand at 86 mills.

³ It is noted that this is a RSPO Identity Preserved (IP) Mill.

The Plantations participation during Year 1, at five estates, was unsurprisingly low as it was *not* one of our key priorities. In Year 2, we saw a higher number of mills engaged with their plantations on T4T. The participation and completion of self-assessment by the estates went from five plantations to 79. These 79 estates are associated with 21 mills. This is a very positive increase but nevertheless, IOI will need to intensify efforts to work with all our mills and their corresponding fresh fruit bunches (FFB) source on NDPE requirements.

SUPPLIERS WITH NDPE POLICY

From the results, a total of 53 mills, being 89.6% reported that they have a NDPE policy with 16 mills having a comprehensive NDPE policy whilst 10% being eight mills were without a policy. It is noted that one of these eight mills are in the preparation stage and will be adopting a policy before the end of the reporting year. Overall, the data is a positive improvement.



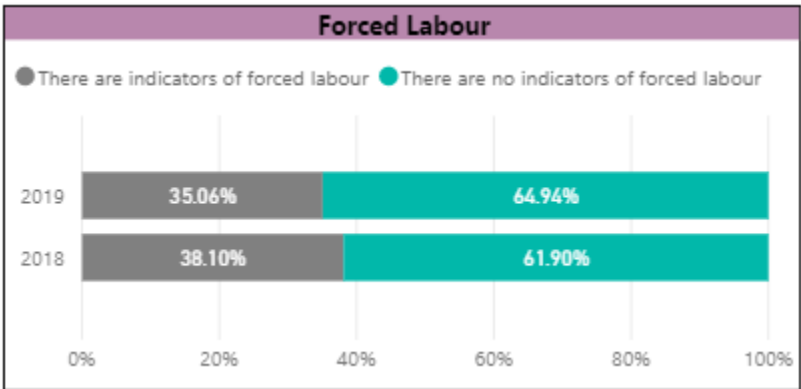
👍 Over half or 40 mills have reported that their policy is applicable to their third-party (3rd-party) FFB suppliers. This is a positive point.

Conversely, IOI will continue working on the weakness among the remainder 37 millers where policies do not include 3rd-party FFB suppliers. IOI will address this through continual remote engagement and activities with the suppliers and also highlighted this requirement during our on-going data collection on Traceability to Plantation.

FORCED LABOUR CONDITIONS

Human rights have been evolving and developing throughout history and in the 21st century, awareness and concerns of forced labour in sectors like plantation, manufacturing and construction sectors are increasing. The ‘No Exploitation’ component of T4T requires that mills and plantations to report labour rights and worker welfare practices in their operations – where workers must have freedom of movement, and in possession of their own travel documents.

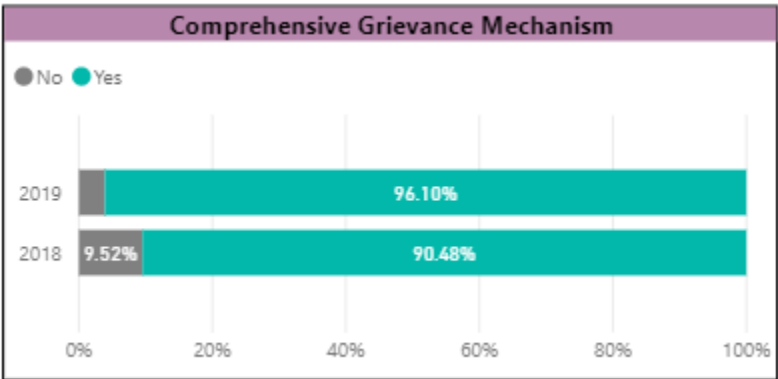
65% of supplying mills reported that they do not have any forced labour practices. However, 35% have yet to fully meet the requirements, which includes passport retention.



COMPREHENSIVE GRIEVANCE MECHANISM

From the T4T’s self-assessment, 96% of suppliers or 74 mills shared that they have a comprehensive grievance mechanism, which includes features to record grievances, a resolution process and is free from any reprisal from the employer.

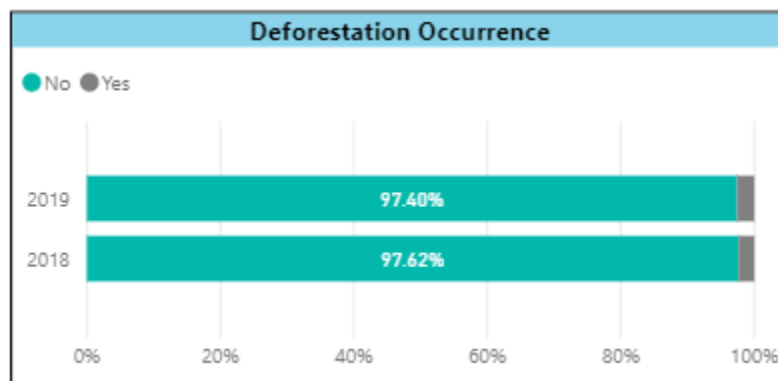
👉 For the remaining 4% or three mills, there are two which lacked a system to document and record grievances.



DEFORESTATION OCCURRENCE

👉 There were two mills out of the 77 that reported some land clearance. The first mill reported that it happened within their own plantation and in a smallholder farm that supplies to their mill. The second mill reported unknown land clearance as they were unable to identify the actors.

👍 Following a further investigation by IOI, the first mill clarified the land clearance was part of their internal replanting as well as smallholder replanting.



This self-reporting by our suppliers is supported by a monthly monitoring report by our consultants⁴ to confirm its accuracy.

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DATA ANALYSIS AND REPORTS

Utilising data submitted by millers, the T4T system performed data analysis and results for Year 2 on the suppliers' performance in relation to Year 1, the analysis and results are utilised by our Responsible Sourcing Team for next stage planning.

COMMENTARY FROM RESPONSIBLE SOURCING TEAM

Base on the high participation rate of our suppliers and the data collected, T4T is proving to be a beneficial part of our supply chain transformation strategy. Utilising the data analytics, we are able to prioritise actions, guide our supplier engagement planning and provided targeted areas for supplier engagements.

It is unfortunate with the uncertainty of COVID-19 and movement control has necessitated changes to our engagement plans and strategies but nonetheless we continue to maintain regular dialogues remotely with our supply base.

⁴ Aidenvironment and Starling.

ON-GOING ACTIONS AND NEXT STEPS

The above data analysis generated by the T4T system has firstly allowed our immediate action to address critical issues, such as passport retention and deforestation:

- The team explained the process to millers on briefing their workers about their rights to be in possession of their own personal documents and the provision of lockers for safekeeping, which IOI had adopted; where passports were returned to all our migrant workers.
- Equally, the team has continuously engage suppliers on our 'No Deforestation' policy to ensure forests are not cleared for new oil palm plantations.

More importantly, all suppliers are required to put action plans in place to close gaps. For 2020/2021, we will support suppliers to progress on these action plans and they are also required to invite their FFB supply base to commence on the T4T self-assessment.

IOI has been working closely with our supply base towards responsible production to deliver sustainable palm oil and here are some of the ways that we will continue to support our 3rd-party suppliers in their adoption of sustainability practices to transform:

- Our Responsible Sourcing Team will reach out to our suppliers, via remote channels, and share the appropriate IOI experiences that have underpinned our own transformation journey as well as our NDPE information;
- IOI will continue to organise transformation workshops, physical or remote, 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 or individual suppliers on Labour, Traceability and Deforestation issues either at on the ground or remotely;
- Resource materials hosted on the T4T platform – covering a wide spectrum of palm oil sustainability subjects such as High Conservation Value (HCV) management and conservation, peat best practices, ethical recruitment, etc. – are easily accessible and available at all times.

Our next update will include KPIs on peat, children in plantations, traceability and freedom of association, and will be shared once available.

Mill Locations



