



WILMAR'S NO DEFORESTATION, NO PEAT AND NO EXPLOITATION POLICY First Update Report: 5 December 2013 – 31 March 2014

Introduction

The purpose of this report is to update Wilmar's stakeholders and other interested parties on the company's progress in implementing its No Deforestation, No Peat, No Exploitation Policy ("Policy") announced on 5 December 2013.

The Policy aims to bring about transformation of the industry by encouraging plantation companies and smallholders alike to adopt responsible practices. The complexity of a multi-tiered palm oil supply chain coupled with a lack of transparency and understanding by other stakeholders poses a considerable task for Wilmar to apply its Policy both externally and internally. Therefore, efforts in this early stage have primarily focused on stakeholder engagement to ensure there is broad understanding of the Policy and its implications.

Externally, meetings have been held with a range of stakeholders such as suppliers, non-government organisations (NGOs), government officials and the financial community. Internally, workshops and communications sessions have been conducted with employees across operations, from plantation, mills and refinery operations to procurement, trading and marketing divisions.

Report Structure

This report is produced by Wilmar and The Forest Trust (TFT), and is organised into two parts: the first focuses on engagement and supply chain mapping; and the second provides a progress update against each of the commitments set out in Wilmar's Policy.

I) Engagement & Supply Chain Mapping

Stakeholder Engagement

Suppliers

During the first quarter of 2014, Wilmar - with support from TFT - engaged with around 200 of its suppliers either through one-on-one dialogues or group meetings to introduce and explain the Policy. A large part of each dialogue/meeting was dedicated to addressing and clarifying growers' questions and concerns around specific challenges they face with Wilmar's Policy compliance.

Representatives of more than half of the 205 mills supplying Wilmar's refineries in Malaysia attended these meetings; with the remainder scheduled for meetings in April and May. In Indonesia, Wilmar has met with about 18% of our 546 suppliers representing 37% of its total purchased quantity of crude palm oil (CPO).

Smallholders

Smallholder issues have been high on the agenda, particularly in East Malaysia. Meetings took place in March with smallholder scheme agencies, including Felcra and Salcra, to

discuss how Wilmar can contribute to the overall well-being of the rural communities in East Malaysia through the development of lands for plantation agriculture. This includes discussions on the particular issues facing Sarawak concerning peat land development.

Smallholders are a critical part of the industry; they face unique situations that warrant careful consideration. Wilmar recognises the need to facilitate the inclusion of smallholders in the supply chain in a way that sees their rights fully respected. In moving this forward, Wilmar is working with various partners to expand existing smallholder support projects and establish new initiatives that seek engagements with stakeholders through an integrated framework.

This framework seeks to involve consumers, brands, CPO buyers, NGOs (environmental and social), banks, Government representatives and communities in grounded works to better recognize community land tenure rights, embed the principles of Free, Prior and Informed Consent (FPIC) into development, improve productivity, reduce costs, improve connectivity to mills/buyers and ensure developments progress in a responsible and sustainable manner.

More information on the progress of our smallholder initiative(s) will be shared in our next quarterly report.

Government

Government ministers and officials have been briefed on the reasons for the Policy and how Wilmar will implement it. No less than 15 major multinational consumer goods companies have made similar policies and commitments which are being applied globally. Wilmar is responding to market demands and is committed to helping its suppliers - big and small - move in the same direction for the long-term benefit of the industry.

The Policy was warmly welcomed in a meeting with a dozen NGOs in Sabah, including WWF Malaysia, LEAP (Land, Empowerment, Animals, People), NTFP-EP (Non-Timber Forest Products Exchange Programme), CICOM (Communities' Information and Communications Centre), Hutan Kinabatangan Orang-utan Conservation Programme, and PACOS (Partners of Community Organisations in Sabah) Trust. They provided constructive input and expressed a desire to assist where possible by identifying issues and solutions, particularly around supporting landowner rights.

There is recognition and a growing consensus that these requirements are not Wilmar's alone; they are important elements that the industry as a whole needs to tackle for its own good. Wilmar has consistently indicated its position to engage proactively with its suppliers on ways forward and sought their support to do so. Wilmar has also been clear that its Policy stance remains as of December 2013 and it will suspend its purchasing from suppliers who are not willing to engage and tackle identified challenges.

Financial Community

Wilmar recognises that the role of the financial community is equally important in helping to push the sustainability agenda in the palm oil industry. A two-day briefing on Wilmar's Policy was therefore held in early March in Malaysia, attended by some investors and almost all of the major local banks.

Internal activity

Capacity Building

As well as informing third-party suppliers, embedding Wilmar's Policy commitments into its own operations is equally critical. Presentations were made to a large group of senior managers in January and February to ensure widespread understanding of the Policy and its implications; these managers have been rolling out the Policy to their staff with a focus on Sarawak and Sumatra, with Sabah and Kalimantan due to follow. Employees have also been present at supplier meetings and site visits in Indonesia and Malaysia, and more targeted presentations in Uganda and Nigeria to ensure that the Policy and commitments are fully understood and integrated into all operations.

Furthermore, Wilmar is actively recruiting to strengthen its existing core team (currently comprising 37 members) to support its Policy implementation to ensure the Group fulfils its time-bound commitment by the stipulated timeline.

Supply Chain Mapping

Wilmar is building on its existing supply chain map in order to trace supply flows from ports and refineries back to oil palm mills; and over time to plantations. This work will help build much greater transparency of the company's operations, including supplier locations and knowledge of practices being used on the ground. It is also helping to identify some issues in the supply chain which need to be addressed.

Wilmar has good data on its own plantations and is beginning to work with other suppliers to obtain data on particular mills and refineries. Priority areas are being identified since it will be challenging to complete mapping to all plantations, including smallholders, by the end of 2015. To put this task in context, more than 680 mills supplied CPO to Wilmar refineries in Malaysia and Indonesia in 2013, and some mills have more than 200 FFB suppliers. Wilmar owns less than 50 mills so progress will be quicker if there is proactive support from other mill owners.

Wilmar is working with TFT to develop process flow charts to help suppliers work through issues. For example, practical guidance is under development to enable responsible development of Native Customary Rights (NCR) lands. Other guidance is being developed to help suppliers work through issues with High Carbon Stock (HCS) forest and peat. As much of the process flow development takes time to get right, Wilmar is aware of the need to review the issues that arise on a case-by-case basis. As such, Wilmar has entered into a range of dialogues and is providing direct advice to suppliers who are engaging in practical measures to adhere to the Policy.

II) Policy commitment progress

This section highlights Wilmar's progress and activities related to each of its Policy commitments set out on 5 December 2013.

No Deforestation

No development of High Carbon Stock (HCS) forests or High Conservation Value (HCV) areas; no burning; progressively reduce greenhouse gas emissions on plantations.

Wilmar is training its own personnel both to improve its own operations and to be able to provide assistance to its suppliers. This includes the ability to conduct rapid desktop evaluations, and full field assessments to ensure HCS or HCV forests are protected. The process also includes assessments of biodiversity and engagement with local communities to ensure free, prior and informed consent has been granted on proposed development sites.

A desktop HCS assessment was undertaken at a site in Indonesia (Balikpapan, East Kalimantan) which has included stratification of high resolution imagery and detailed on site assessments. Wilmar's Geographic Information System (GIS) Department has been fully involved in the process which ended in a training exercise to enable the Department members to fully understand the steps required both in the office and in the field. This will enable them to better support suppliers in conducting similar assessments on proposed development sites, all part of the critical supplier engagement role that Wilmar has committed itself to under the Policy. A similar process is underway in Nigeria and another planned for Papua New Guinea to ensure the diversity of sites and situations is captured.

Suppliers are being encouraged to work with Wilmar to address issues with HCS and HCV. Meetings were held with a large palm oil supplier group in response to allegations of ongoing forest clearance by one of its subsidiary companies during 2014. Wilmar continues to engage with them towards assurance that clearance will cease until HCS and HCV assessments are undertaken by credible assessors with the outcomes adopted in their development strategy.

No Development on Peat

No development on peat regardless of depth; best management practices for existing plantations; explore options for peat restoration.

Wilmar is working with a range of stakeholders to ensure this element of the Policy is accompanied by robust guidance to help those wishing to establish plantations in areas where peat is present. Part of this work entails reviewing soil maps to provide an initial indication of areas of concerns. Expert groups are providing input on soil sampling and analysis methods to help landowners determine appropriate areas for development.

Wilmar understands the concerns expressed over this part of the Policy in relation to smallholders and NCR lands. Meetings and site visits have taken place to improve mutual understanding of the issues in particular situations, with a view to identifying practical solutions for each case.

Wilmar recognises there are diverse views internationally on the definition of peat in terms of carbon content, depth and extent. However, the Policy clearly states there will be no development of any peat soils with more than 65% organic matter, regardless of depth. Best management practice is also subject to varying interpretations and Wilmar is seeking to find a practical approach to guide plantations owners.

Wilmar has assured suppliers and other stakeholders that it will continue to accept oil from plantations established on peat prior to the 5 December 2013 Policy announcement.

No Exploitation of People and Local Communities

Respect the Universal Declaration of Human Rights and workers' rights; facilitate smallholder involvement; respect indigenous and local communities' rights; resolve grievances through consultation.

Wilmar recognises that social issues can arise in many different forms. Several site visits to Wilmar and third-party operations have taken place, to help understand the variety of issues so they can be addressed in an appropriate way. Wilmar deliberately selected challenging sites to visit initially, in Africa (Uganda and Nigeria), Malaysia and Indonesia.

Africa

Wilmar's visits to its operations in Uganda and Nigeria included discussions with management teams, workers, and local community members at their workplaces and homes.

Areas for improvements identified include:

- Improving consultation with local communities;
- Understanding workers' rights and employment issues;
- Developing better policies and practices;
- Implementing more rigorous training;
- Providing additional protective equipment;
- Improving housing standards; and
- Ensuring safe water supplies and that adequate land is available for growing food.

Malaysia

In East Malaysia, Wilmar has recently been approached by a company wishing to establish a joint venture with a group of Iban (native) landowners (smallholders) seeking to establish oil palm on a large tract of NCR land. A Wilmar GIS team has completed an analysis of the area which includes peat and alluvial soils. It was cleared long ago for shifting cultivations/paddy-planting but part of the area was abandoned and there has been some forest regeneration. Together with TFT, Wilmar will soon visit the site - which potentially includes HCS and/or HCV - to discuss with the key stakeholders the site and issues around community gardens and community-farmed land. While there are no immediate solutions as yet, Wilmar is keen to understand the situation and work with the landowners to find a practical solution, including advice on how to undertake development in low risk areas, while a desktop HCS assessment is undertaken.

Indonesia

In Balikpapan, issues over the construction of a refinery at a potential site have been discussed with a group of representatives from local communities and NGOs, and they will host a social and environmental team from TFT in May to demonstrate their concerns. Despite having ongoing disputes, the Group remains keen to engage with local stakeholders to find a mutually acceptable way forward. No development has occurred on the site since Wilmar adopted a self-imposed moratorium in mid-2012. However, HCV assessment was conducted, and this is now being reviewed by the HCV resource network.

An incident in Sumatra relating to social conflict resulted in the immediate suspension of purchases from the group that owns it. Wilmar has engaged with the group to understand the case and made recommendations on how they can address some of those issues.

Wilmar is committed to resolving all complaints and conflicts through an open, transparent and consultative process. To this end a new grievance procedure has been drafted and will soon be released. This encompasses three key aspects: grievances by external parties against Wilmar; internal issues raised by Wilmar with its own subsidiaries; and allegations by external parties against third-party suppliers.

Next steps

Wilmar is committed to the implementation timeline and is working diligently towards meeting the December 2015 deadline for full implementation of its commitments. The Group has committed to reporting its progress on Policy implementation on a quarterly basis. An action plan with practical and appropriately prioritised steps to achieve this is in preparation and will

be outlined in the next report. Wilmar welcomes input from other parties, and is already collaborating with several suppliers, retailers and NGOs on different aspects of its business.

The next progress report will also provide details of an online dashboard which is under development to provide stakeholders with information on Wilmar's activities and progress towards implementing its commitments, including relevant policies, quick statistics, guidance for suppliers, grievance updates and supply chain transparency information.