



First Resources Limited

Policy on Sustainable Palm Oil

Progress Report 5
-July to December 2017

Introduction

This report is our fifth progress update on the implementation of the policy since the launch of our [Policy on Sustainable Palm Oil](#) in July 2015.

With our upcoming plan to publish annual Sustainability Reports where we discuss key sustainability issues, including the implementation progress of our Policy, we intend to consolidate future progress updates into these annual Sustainability Reports. The next Sustainability Report for the year ending December 2017 is expected to be published before end of May 2018 and will also be available on our website at www.first-resources.com.

In the last six months, our team carried out the following implementation work:

- 1) Completed our final batch of High Carbon Stock verifications;
- 2) Provided specific training related to wildlife handling in our operations;
- 3) Provided fire monitoring and management refresher trainings;
- 4) Conducted peat assessments and monitored the adequacy of our water management in our peat plantations;
- 5) Facilitated two site visits that were requested by buyers for sustainability audit purposes; and
- 6) Achieved 100% traceability of feedstock to palm oil mills

High Carbon Stock (“HCS”) Forests

During this period, we continued working with independent third party HCS consultants to complete the HCS verifications on our remaining development land bank. Since the date of our Policy’s introduction, we have carried out a total of 15 HCS assessments covering all 100,000 hectares of our development land bank.

It took us more than two years to complete these assessments, as extensive work was required to conduct ground truthing, patch analysis and initial consultation with local communities. We dedicated substantial amount of time and resources to complete the identification and mapping of HCS areas in our land bank.

During the period, we have also conducted Rapid Biodiversity Analysis (RBA) for seven of the concessions where such follow-up analyses were required. These analyses helped to fine-tune the extent of our HCS areas.

Out of the approximately 100,000 hectares of our existing development land bank, approximately 20,000 hectares, or 20%, are currently identified as 'No-Go Areas'. These are areas with potential HCS, HCV or peat content, and have therefore been carved out from the Group's development plans. In adherence to our sustainability policy, we will continue engaging the local communities to ensure we obtained their free prior informed consent before converting our remaining development land bank to plantations.

At one of our concessions, a forested area of 88 ha had been cleared by our team as these areas were initially not classified as HCS during our desktop analysis but evaluated differently by the consultant during the verification process. We have chosen to adopt the consultants' classification and have made plans to rehabilitate the degraded areas, as a signal of our commitment to our HCS policy. Such a situation should not occur again going forward as all our development areas have now undergone HCS verification by independent assessors and our HCS maps are based on the areas ascertained by these assessors.

Our future ongoing efforts will largely be centred on ensuring internal compliance of these No-Go Areas. We have set up internal control procedures to mitigate the

risks of accidental non-compliance. We also use monthly satellite imageries to detect land clearing activities on the ground.

Based on our observations and ground checks, we have found that most of the deforestation/degradation activities were carried out by local communities clearing land for their livelihood and subsistence farming. Not all communities are supportive of the HCS concept and we see this as the biggest challenge to the successful conservation of HCS areas that the Group has set aside from development.



High Conservation Value (“HCV”) Areas

During the period, we continued working with RSPO to find a resolution for a complaint case lodged against our subsidiary PT Limpah Sejahtera (“LS”). PT LS's HCV assessment was deemed inadequate by the Complaints' Panel and it has requested the company to enter into the RSPO Remediation and Compensation Procedure to determine the potential extent of HCV losses.

We are in the midst of finalising the land use change analysis of the concession, from which the compensation liability will be derived. We target to complete this milestone by the first quarter of 2018.

Peat Management

As part of our NDPE policy, peatlands are carved out from our plans for new developments and we have not carried out new planting on peatland since the inception of our Sustainability Policy. For existing plantations on peat, we are committed to ensuring that we maintain the appropriate water level.

Our peat taskforce continued to review our peat plantations and carry out best practices. Their efforts included conducting peat surveys and measuring peat depth.

Peatland protection, management and rehabilitation are key discussion topics in the sustainability initiatives led by the Indonesian Government. We observed the government’s heightened efforts to protect carbon-rich peatlands as well as ensuring best peatland management practices are put in place. We are keeping ourselves current in peat regulations and will take necessary steps to ensure that we are always in compliance with government regulations

Fire Management and Monitoring

Weather in the second half of 2017 continued to be conducive with good rainfall across our operations. This played a big role in the reduction of hotspots detected in our plantations. Despite the good weather conditions, we continue to implement our fire management and training programmes in our estates.

Beside internal training, we supported the local government in Bengkalis, Riau Province, in its fire prevention initiatives. Bengkalis is a fire-prone area and was the site of many peat fires in 2015. To address this issue, the local government started community education programmes to create awareness aimed at reducing fire incidents in the area. We supported the

government’s initiatives by providing assistance on farming programmes and helping to build infrastructure to block the drainage of canals to ensure peat land are kept moist.



Supply Chain Traceability

In our effort to ensure that our supply chain does not unintentionally support irresponsible practices, we strive to achieve full traceability of our palm oil supplies to the mills and plantations.

In 2017, we purchased 6% of our CPO feedstock and 9% of our fresh fruit bunches (FFB) feedstock from external suppliers. During the period, we managed to obtain all necessary data of our CPO feedstock to trace them back to their supplying palm oil mills.

We had some progress in obtaining the data required for our third party FFB and together with the FFB supplies from our nucleus and plasma plantations, more than 95% of our FFB were traceable to their estates.

	2016	2017
Traceability to Plantations	90%	97%
Traceability to Palm Oil Mills	94%	100%

For greater transparency, we are working towards sharing information of our suppliers on our website by the first quarter of 2018. We believe this can help us mitigate risks of policy non-compliance in our supply chain.



Suppliers' Engagement

Our long term goals for supplier engagement activities are to raise awareness of our NDPE policy and create long term partners who support and share in our sustainability vision.

By maintaining a constant dialogue with our suppliers, especially the smaller plantations, we hope to build rapport and trust so that they can share information and challenges they face in meeting new sustainability standards. This will enable us to better support them in their sustainability efforts without compromising on our policies.

As we have yet to engage all our FFB suppliers and are constantly adding new suppliers to the list, we will continue our efforts in 2018 to meet up with more suppliers, especially those in the West and East Kalimantan region.

We will also refresh our risk assessments on our suppliers, focusing on key risk areas such as forest

areas, peat moratorium, fires and hotspots. Following this exercise, we will then prioritise specific engagement programs.

Grievances Update

For this reporting period, there were no formal grievances filed against us. However, we had received feedback from Mighty Earth on preliminary analysis of deforestation in some of our concessions and that of our supplier, FAP Agri. We have followed-up with investigations and ground verifications on our concessions and provided clarifications to Mighty Earth. We have also facilitated the communication/clarifications between Mighty Earth and FAP Agri.

In addition, we have received enquiries from stakeholders to check if several companies, which they believe were deforesting, are part of our supply chain. We checked that we have no commercial relationships with the identified companies.

Labour Issues and Concerns

Labour and human rights issues in the palm oil supply chain are of increasing concern and remain an industry-wide challenge. With the current focus on these issues, we see more attention required in reviewing our labour practices.

In December last year, we partnered with an existing stakeholder to carry out a pilot study on a subsidiary in Riau. The objective of the independent assessments was to specifically review the labour practices of the Company and identify areas for improvement.

Areas of focus in the pilot study were labour and human rights, compensation and hours, as well as health and safety issues. We are currently awaiting the report from the assessment and will review the recommendations in detail.