



First Resources Limited

**Policy on Sustainable Palm Oil
Progress Report**

1 July 2015 to 31 December 2015

Introduction

As a palm oil producer, First Resources is committed to sustainable development. We believe in taking a holistic approach towards sustainability, which encompasses active stakeholder engagement, implementation of best practices across our operations and regular industry benchmarking of our sustainability policies. Through these processes, we have adopted additional sustainability commitments and published our policy statement on 1 July 2015.

The main commitments in our policy statement are:

- No development on High Carbon Stock (HCS) forests, High Conservation Value (HCV) areas and peat areas regardless of depth.
- Observe a strict zero burning policy in land clearing process.
- Respect the rights of indigenous and local communities and resolve conflicts in an open, transparent and consultative manner.
- Establish a traceable and transparent palm oil supply chain.

Our implementation process began with the preparation of a comprehensive work plan with milestones and goals to prioritise the areas of focus while concurrently communicating our policy statement to stakeholders.

We intend to provide periodic updates to stakeholders about the implementation of our sustainability commitments. In this first report, we share our implementation progress in the period 1 July 2015 to 31 December 2015.

Socialisation of Policy

To ensure our policy is understood across the entire operations, we first focused on engaging our internal stakeholders – the employees in our subsidiaries and associated companies. Our objective is to ensure that all our employees are aware of our commitments, have them understand and appreciate the Group's aspirations in achieving a sustainable business and eventually have these commitments ingrained into our corporate culture.

Workshops have been conducted for management staff, including Operations, Human Resources, Commercial, Internal Audit, as well as senior managers of each plantation and mill. Further workshops, directly involving field managers and assistants, will be conducted in our estates, particularly the ones with new development plans.

In the next six months, we will continue to socialise our policy to our existing suppliers, including schemed smallholders as well as independent smallholders.

Stakeholder Engagement

In the past few months, we have met various stakeholder groups, including non-governmental organisation (NGOs), with the objective of communicating our policy statement and gathering feedback about our operations. In these meaningful discussions, we also learnt from their experiences and deliberated over key challenges faced by the industry.

In light of the prolonged haze and forest fires in Indonesia in 2015, one of the key concerns raised by our stakeholders was fire prevention and management. We have prioritised fire precautionary measures as one of our main focus areas and have also conducted a review of our existing procedures.

We are also exploring collaboration with NGOs to assist in the implementation of our sustainability policy. The objective is to tap on their areas of expertise such as management and monitoring of conservation areas and engagement of smallholders and local communities.

As a result of greater scrutiny on the palm oil industry in the recent years, stakeholders have requested for greater transparencies on companies' sustainability practices and progress. Various evaluation platforms were created as a result, to assess companies. We have been working on our disclosures in order to give stakeholders a fair and accurate assessment of our operations and will continue to improve on this front.

Grievance Procedure

First Resources has developed a channel to allow stakeholders to raise any concerns or grievances they may have about our operations or that of our third party suppliers and associate companies. Grievances lodged will be recorded, investigated and handled in a fair and transparent manner and periodic updates will be provided in our progress reports. We did not receive any new grievances about our suppliers or our operations through this channel during this period.

There are two existing complaints against our operations that have been previously lodged with the Roundtable of Sustainable Palm Oil (RSPO). RSPO has its own Complaints Mechanism and provides updates on each complaint through the Case Tracker on its website. One of these cases has been closed by RSPO on 22 December 2015. For greater transparency, we have also highlighted these grievances on our website, with direct links to RSPO's case tracker.

HCS Forest

From 1 July 2015, First Resources has committed not to develop on HCS forests. This will be implemented via data gathered through HCS assessments which will guide and support us in our land use planning. HCS assessments will integrate with High Conservation Value (HCV) assessments, peatland identification and Free, Prior and Informed Consent (FPIC) with local communities to determine concession areas that can be developed.

As the HCS concept is relatively new to the palm oil industry, studies are ongoing to identify HCS areas that can and should be protected, based on pragmatic assessments of social, economic and political factors that will affect the future viability of identified HCS areas. In the interim, and until an industry-wide methodology has been adopted, the definition of HCS forests adopted by First Resources will be in accordance with the HCS Approach Toolkit.

In August 2015, we sent a team to the High Carbon Stock Approach Practitioner Training. The objective of the training is to guide practitioners through the implementation of the HCS Approach assessment process and toolkit. It is also a requirement under HCS Approach Quality Assurance process that is being developed by the HCS Approach Steering Group.

We have completed an extensive desktop exercise to map out potential HCS areas across the Group's concessions. This was done by overlaying the Group's concession maps with Landsat 7 and 8 satellite images to identify potential HCS areas. These areas are placed on self-moratorium from further land clearances. We have also engaged a third party HCS consultant to review our desktop assessments. The review is expected to be completed in February 2016.

We have also completed ground assessments for two of our concessions. The ground assessments, conducted by independent consultants, included ground truthing to verify the accuracy of desktop analysis as well as consultation with local communities to obtain their feedback for the assessments. We are in the process of conducting ground assessments for a third concession.

HCV Areas

In line with RSPO's new planting procedure introduced since 1 January 2010, all concessions with new planting plans have undergone HCV assessments by RSPO-approved assessors. Identified HCV areas will not be further developed into oil palm plantations.

In addition to identifying HCV areas, action plans to maintain as well as to monitor the condition of the HCV areas are equally as important. Unmanaged HCV areas are vulnerable

to illegal logging activities, forest fires and encroachment by local communities for subsistence farming.

As a result of the hot and dry weather in the second half of 2015, HCV areas in one of our West Kalimantan estates were damaged by forest fires despite efforts by our firefighting team to contain the fires. There was also encroachment by local communities who conducted subsistence farming in this HCV area. For these affected areas, we commit to conduct reforestation by planting suitable tree species. We will also step up resources to increase patrols of the HCV areas to prevent encroachment of land and illegal slash-and-burn land clearing so as to better protect these areas.

Peat Areas

From 1 July 2015, the Group has committed to no new development on peat regardless of depth. We have completed desktop identification of peat areas in our concessions, by overlaying peat maps from credible agencies and overlaying them with the Group's concession areas. We have also selected a few sites where we conducted more detailed soil survey to confirm peat presence. Peat areas that have been identified in our concessions are carved out from new development plans.

For existing plantations on peat areas, we commit to implementing best management practices. We will explore ways to improve water management in peat areas and consult external expertise where required. Besides enhancing productivity, we believe that proper water management can help reduce fire outbreaks in the plantations.

Zero-burning and Fire Management

We have an existing zero burning policy as well as a fire management and monitoring standard operating procedure that we continuously review through feedback from stakeholders such as NGOs and employees.

In the third quarter of 2015, we further fine-tuned our internal fire incident reporting processes. Our research team produces a daily fire risk report for plantation managers as well as our corporate office to keep them regularly updated of the ground situation and also to flag potential risks. The team extracts hotspot information provided by NASA and weather maps from the Indonesian Agency for Meteorological, Climatological and Geophysics (BMKG) and overlays the data with our concession maps to identify hotspots near/within our concession areas and map out potential risk areas. For any hotspots identified in the daily reports, the respective management unit of the plantations must carry out on-the-ground checks for actual fires. Any fires detected must be reported and the fire-fighting team will be immediately mobilised. A police report will also be made to the local authorities.

Besides improving our fire detection procedure, the Group has also stepped up our fire-fighting capacity by conducting more training, fire drills and purchasing more fire-fighting equipment to improve readiness in handling fires.

From the internal reports submitted during this period, we concluded that fire incidents were mainly caused by illegal burning activities carried out by local communities. In response, we will be conducting a series of community workshops to educate them about the environmental and social consequences of slash-and-burn farming and on alternative methods of land clearing. Our end goal is for the communities with small-scale farms to stop using fire to clear land.

Greenhouse Gases

We are committed to progressively reduce greenhouse gas emissions in our operations. The Group currently has a methane capture facility at one of our 13 mills. During this period, we have commissioned the construction of two more methane capture facilities in our mills in Riau. These are expected to be completed by the end of 2016 and will help significantly reduce the greenhouse gas emissions in our milling operations.

Community Engagement and Development

The Group takes pride in our community development efforts, in particular the plasma programs that we have established, which have helped empower the local communities. However, from our exchanges with NGOs, the Group acknowledges that there is room for improvement in our FPIC procedures, which is complex and involves extensive ground work and engagement with the local communities.

The Group is determined to work towards improving our FPIC understanding and implementation in all our operating areas to reduce conflicts with the local communities. In October 2015, we had engaged an industry specialist to conduct a FPIC workshop for senior management and plantation managers. Meanwhile, the Group will review the newly-released FPIC guidance by RSPO to improve on our existing procedures.

Supply Chain Traceability

We have committed to develop and implement processes to establish traceability to palm oil mills as well as to plantations.

The discussion around the interpretations and methodologies of traceability of the palm oil supply chain are currently still being studied by trade players who are committed to establish a traceable supply chain. Pending the roll-out of a robust industry-endorsed methodology, First Resources will continue to develop our own traceability framework with certain key areas of focus and will continue to be in active dialogue with industry peers to learn and enhance our framework.

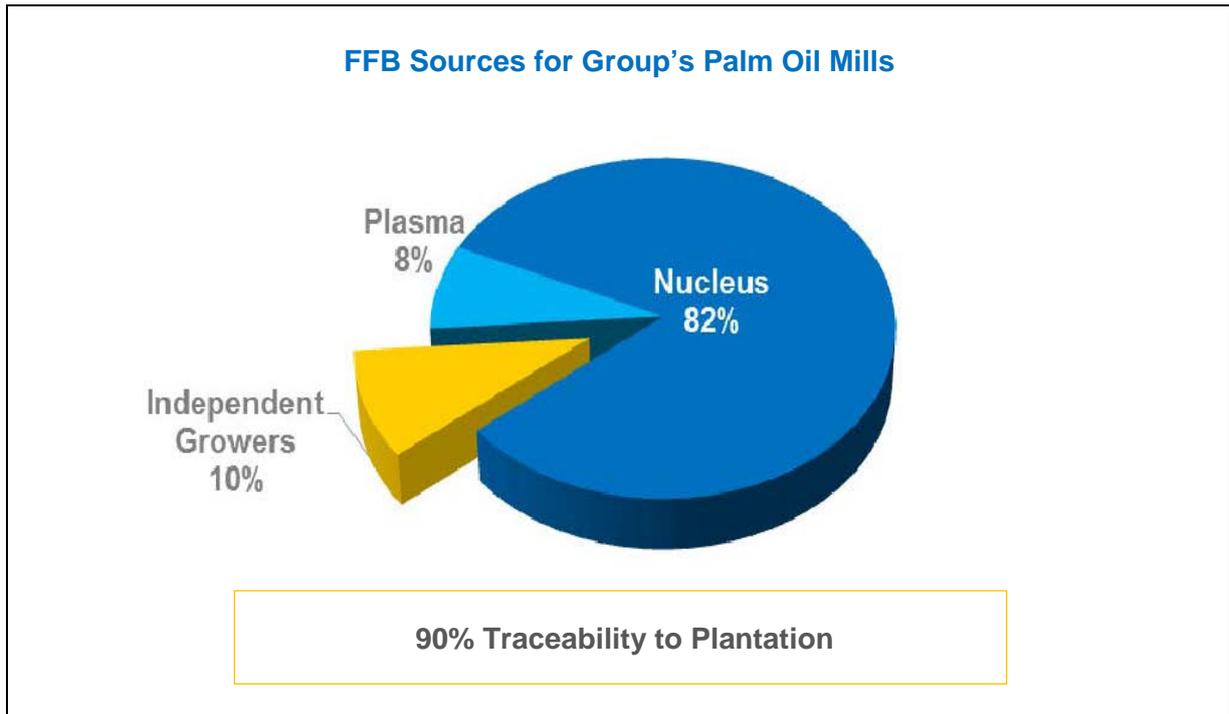
Currently the Group has 13 palm oil mills established in the Riau, East and West Kalimantan provinces of Indonesia. The Group also has two processing plants located in Riau to process crude palm oil into products such as refined, bleached, deodorised palm olein, stearin and palm based biodiesel. We also have a kernel crushing plant in Riau which processes palm kernels into palm kernel oil.

	Palm Oil Mill	Refinery	Kernel Crushing Plant
Riau	11	2	1
West Kalimantan	2	-	-
East Kalimantan	-	-	-
Total	13	2	1
Traceability to mills/plantations for the period	90%	100%	100%

For the period 1 July 2015 to 31 Dec 2015, all the crude palm oil and palm kernel used as inputs for our processing and kernel crushing plants were supplied by our Group's own mills. We have therefore been able to obtain 100% traceability to the mills.

In the future event where third party feedstock are sourced for processing or crushing, we will request for additional information such as mill name, parent company, mill coordinates and mill certification status from our suppliers.

Currently, approximately 90% of fresh fruit bunches (FFB) processed in our 13 mills are supplied from our own plantations, inclusive of our plasma (schemed smallholders) plantations and are therefore fully traceable. The remaining FFB intakes are from third parties, namely independent growers including smallholders, small medium sized enterprises and transporter acting as middlemen aggregating FFBs. We have identified the mills with existing and potential third party FFB purchases.



Notes:

Nucleus: Plantations owned by the Group

Plasma: Smallholder plantations under the Group's smallholder schemes

Independent growers: External suppliers

Although the Group has little exposure to external FFB purchases, traceability of FFB to their source plantations remains as one of our focus in 2016. To achieve full traceability for this remaining 10% of FFB, we will request for our suppliers to provide us details on the origin of their FFB, address as well as legal status of their plantations.

We have also completed desktop assessments for all our mills by mapping out a 50 km boundary to identify mills with potential high-risk FFB sources, due to their proximity to protected forests and national parks. We will start to prioritise these mills, identify the companies and individuals supplying to these mills, and engage them proactively to communicate our sustainability policy.