



No Deforestation, No Peat and No Exploitation Policy

PT Hilton Duta Lestari

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1. INTRODUCTION

1.1 Background

PT Hilton Duta Lestari (PT HDL – here and after called “HDL”) is planning to expand its palm oil plantation business in the Landak Regency, Kalimantan Barat Province of Indonesia through the development of a palm oil mill facility within its concession area.

As part of HDL’s commitment to develop a sustainable palm oil plantation, HDL has developed this No Deforestation, No Peatland Development, and No Exploitation (NDPE) policy. The policy has been prepared by an independent third party, namely PT ERM Indonesia (ERM) exclusively for HDL. The content adheres to the Roundtable on Sustainable Palm Oil’s (RSPO) requirements in order to further the fight against deforestation and greenhouse gas emissions from palm oil production as well as strengthening human rights commitments.

This NDPE is developed to accommodate an Environmental Social Action Plan (ESAP) agreed with &Green Fund as lender to HDL and to be completed during the lifetime of the project, therefore the measurable actions relevant with the ESAP have been integrated within this NDPE to ensure consistency between policies and procedures.

1.2 Purpose

This policy provides commitments to be implemented by HDL’s operations, its suppliers and smallholders. This policy has also been prepared in line with the national and international sustainable palm oil development and operation commitments.

1.3 Report Structure

This report is structured as follows:

- *Section 1* provides an overview of the project background and purpose of this policy; and
- *Section 2* provides an overview of NDPE Policy.

1.4 &Green approvals

The approvals required for &Green’s investment process relate to Section 2: Approval of the NDPE Policy. Following the approval of the NDPE policy, a public policy statement will be required by &Green from HDL, before signing of the loan documentation. The policy statement should be a summarized version of the policy, made publicly available on HDL’s website by the time of the loan approvals.

2. NDPE POLICY

2.1 Introduction

The palm oil industry is a labor-intensive industry that contributes to improving the economy of a region, but must be balanced with responsibility for sustaining the ecosystem and improving the well-being of the workers and community who live around the plantation. With this in mind, HDL is committed to operating its palm oil operations in compliance with regional and national regulations, sustaining the ecosystem by protecting forests and biodiversity, and respecting the rights of Indigenous Peoples, workers, and local communities.

In order to implement these commitments, HDL is applying these policies across its operations and supply chain to comply with the sustainability palm oil standards. The implementation of the NDPE Policy will be performed by considering the inputs from stakeholders. This policy will be reviewed and improved periodically by following regulation updates and future sustainability palm oil standards.

2.2 NDPE Scope and Coverage

This policy will be implemented across all HDL owned operations including plantations, mills and plasma plantations managed and operated by HDL. The company will also apply this policy throughout its Fresh Fruit Bunch (FFB) suppliers to ensure that all FFB is supplied as per the NDPE Policy.

HDL will increase the internal capability to implement this policy and develop environmental and social procedures related to the NDPE commitments. In addition to the policy implementation, HDL is committed to developing internal management systems for the MRV activities (monitoring, action on non-compliance, reporting and verification activities).

This policy is considered to be a living document, and it will be regularly reviewed and updated following the relevant regional and national regulations, as well as international standards such as the RSPO Principles and Criteria (P&Cs). This policy is effective as of 1st January 2021 and will be communicated and implemented across HDL's operation including plasma plantations and the supply chain thereafter. To support the implementation of the NDPE across HDL's supply chain, we will develop a Sustainable Sourcing Strategy to define the sourcing targets and operational roadmap. The Sustainable Sourcing Strategy commitment and timeline will be shared with the key stakeholders through HDL's communication channels.

2.3 NDPE Commitments

HDL is fully committed to reducing environmental and social risks and impacts, as well as preserving forests through sustainable palm oil production and sourcing. This will be a journey in which the group will build a traceable, transparent, sustainable and deforestation-free palm oil production and supply chain, and ensure pro-active communication and engagement with all key stakeholders. Core to our commitments are:

- Operating compliance to all applicable regional and national regulations and code of conduct practices;
- Managing all our operations by improving environmental conditions in a sustainable manner and under deforestation-free principles;
- Respecting the rights of our communities through community development and engagement programs;
- Protecting and respecting all employee rights by following applicable regulations and standards; and
- Enhancing transparency and traceability through HDL's supply chain by engaging all suppliers to comply with the NDPE commitments.

2.3.1 Minimum commitments

HDL's existing plantation is located in Indonesia and has been registered as an RSPO member since 2012; the company plans to obtain its RSPO certification by 2023.

Specific commitments in accordance with HDL's NDPE policy implementation for the existing plantation (applicable to third party suppliers) are as follows:

a. Full Conformity with the Legal Regulation and Code of Conduct

- Identify and comply with the legal requirements that apply to the palm oil industry in Indonesia; and
- Conduct business fairly and ethically referring to HDL's ethical conduct policy.

b. Sustainable Environmental Management

HDL commits to eliminate deforestation from its plantation and plasma schemes. HDL will ensure that there is no land clearing that causes deforestation within its concession following RSPO requirements to implement these commitments, HDL will among others:

- Develop the High Carbon Stock (HCS) assessment and protect identified HCS/forest areas within HDL's operations/concessions including managed plasma areas.
- Protect High Conservation Value (HCV) areas that have been identified through the HCV assessment including managed plasma areas.
- Identify the existing peat land within planted areas, and perform best management practices which may include rehabilitation programs, remedial actions and other programs as required by international standards such as RSPO's manual on best management practices (BMP) for management and rehabilitation of peat lands.
- Continue to implement the no-burning procedure through all operations as well as the fire prevention program.
- Develop a GHG inventory and program implementation plan to reduce GHG emissions through all our operations. These include improvements to waste management, energy efficiency, and avoidance of the use of paraquat and other harmful pesticides, herbicides and chemical sprays.

c. Social Responsibility and Community Engagement

HDL commits to drive social and economic inclusion for communities, including through the inclusion of small holders in HDL's supply chain, through various community enrichment programs and improvements in the intervention program that can be implemented through community development program, including the plasma scheme and supply chain. To implement this commitment, HDL will among others:

- Identify land use rights or customary rights of the community living in and around the concession;
- Respect the rights to Free, Prior and Informed Consent (FPIC) for Indigenous Peoples and local communities;
- Handle grievances and conflicts responsibly, through an open, transparent and constructive manner;
- Proactively engage with local, national and international stakeholders in open and constructive dialogue through a Stakeholder Engagement Plan (SEP) that includes meaningful consultation and a clear grievance mechanism to resolve complaints from stakeholders;
- Conduct Social Impact Assessment with an independent assessor and annual monitoring activities on the effectiveness of such interventions, and where required adopt the necessary adjustments to minimize negative impacts; and
- Evaluate the risks and impacts on the health and safety of the local community and Indigenous People as a result of HDL's palm oil operations and establish preventive measures commensurate with the identified risks and impacts. These measures will favor the prevention or avoidance of risks and impacts over minimization and reduction of the health and safety risks.

d. Respect and Protect Human Rights, Health and Safety, Well-being and Decent Working Conditions of All Employees

HDL respect and supports the Universal Declaration of Human Rights, the UN Declaration on the Rights of Indigenous Peoples, the UN Guiding Principles on Business and Human Rights, the International Labor Organization Conventions, IFC Performance Standards on Labor and working conditions (PS 2), and all relevant

national and local regulation regarding workforce. The commitments will be implemented at all times which include, among others:

- Promoting fair treatment, non-discrimination, and equal opportunity of workers through all employment process;
- Establishing, maintaining, and improving the worker-management relationship;
- Respecting worker rights in relation to freedom to collectively bargain and to join or form a labor union, and workplace inclusion and diversity;
- Prohibiting any form of Harassment, Child Labor, and Forced Labor;
- Providing access to education for all children whose parents/guardians work on HDL operation areas (plantation and mill);
- Providing employment contracts and agreements to all workers in a language they understand;
- Providing payment to all employees directly by following the standard minimum wages of the region promptly. HDL commits to maintain consistent and accessible records of employees working hours and wages;
- Prohibiting working hours that exceeds legal requirements;
- Promoting appropriate health and safety working conditions within HDL operational activities; and
- Providing adequate equipment and training to promote occupational health and safety practices and reinforce employees' capability.

2.3.2 HDL's Commitments for All New Planting, New Acquisitions, and Developments

In order to ensure that new planting, new acquisitions or new developments will not impact primary forest, HCV, HCS, fragile and marginal soils or local people's lands, HDL will implement the RSPO New Planting Procedure (NPP) for all new planting, regardless of size (ha). The NPP will be implemented before land preparation commences, including any associated development and strive to encourage all suppliers to implement these procedures as well. The commitment for all new planting, new acquisitions or developments entail:

- No expansion or development on HCS forests.
- No expansion or development on HCV areas.
- No planting on peat land regardless of depth, and protection of peat lands through water management and fire prevention.
- No burning for new planting, re-planting and other developments.
- Respecting land tenure rights and the rights of Indigenous People by following the FPIC process to which they hold legal, communal or customary rights. Before commencing a new plantation and operation, HDL will implement FPIC as defined in the FPIC Guide and will implement a responsible land acquisition process.
- HDL commits to implement a transparent grievance mechanism through responsible and amicable resolutions of grievances and conflicts with all parties. HDL will ensure a fair and mutually agreed settlement between the parties to resolve the complaint, dispute and/or conflict.

2.3.3 NDPE Commitments on 3rd Party Suppliers

Built a deforestation-free supply chain

HDL commits to implement the NDPE policy for all suppliers that will be supplying FFB to its mill. FFB suppliers consist of smallholders or independent farmers, cooperatives, and plantation companies which will be screened and selected based on their sustainability environmental and social performance as set out in the

Sustainable Sourcing Strategy. Therefore, HDL will ensure that all suppliers will comply with the following commitment:

- Comply with the legal requirements that apply to palm oil plantations and hold a valid permit as required by the Indonesian government;
- Commit to no clearance in HCS forest, HCV area, and peat land within their palm oil plantation;
- Ensure no burning for the development of palm oil plantation;
- Promote fair treatment, non-discrimination, and equal opportunity of workers through all employment process aligned with Indonesian Regulations and local regulations; and
- Respect the local community and Indigenous Peoples' rights as prescribed by Indonesian laws and regulations, as well as international standards.

Supplier's compliance on above commitments will be effective by the starting date of mill operation, if not already committed and compliant to RSPO certification.

In addition to the FFB suppliers, Local suppliers and contractors must adhere to internally developed policies on labour rights and IP rights based on international & local regulations are continuously monitored.

HDL will ensure that all its suppliers and smallholders have been socialized with the NDPE policy and have been selected through the Sustainable Sourcing Strategy prior to being contracted.

DEVELOP A TRACEABLE AND VERIFIABLE SUPPLY CHAIN

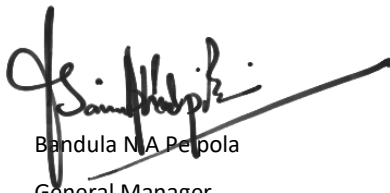
To achieve its NDPE commitments, HDL commits to build a traceable supply chains for all suppliers that will be engaged for supplying FFB to its mill. HDL encourages all suppliers to comply with the commitments in the NDPE policy. Traceability specific to palm oil is defined as traceable production to the level of third-party supplier's plantation or smallholder's plantation. Supporting commitments to achieve this goal are identified as:

- Ensuring that all FFB supplies will be 100% traceable by the start dates of mill operation and 100% compliant to the NDPE within one year of commencement of mill operation.
- Conducting suppliers identification and risk assessments through a sustainable sourcing strategy to identify the risk of non-compliant suppliers and smallholders against the legal, environmental and social commitments of HDL.
- Engaging with suppliers to promote the policy commitments and build the capacity as needed and possible to ensure compliance, especially of the more vulnerable and high-risk suppliers. In line with its commitment to social and economic inclusion, HDL will, at best efforts, look to support compliance of smallholder farmers supplying its mill.
- Develop and implement the supplier due diligence mechanism (including compliance criteria) to monitor and verify compliance of its supply base against the NDPE policy and perform risk mitigation measures. Should the supplier group or individual be found to be non-compliant, HDL will engage actively with these suppliers to explore mitigation measures for compliance. If there are suppliers who are unwilling to transform, continuously fail to meet the compliance criteria, or carry out major non-compliances, HDL will suspend or stop doing business with them. Upon exclusion they may become suppliers again, only after they agree to enter into one-off negotiations and a change management program.
- HDL will develop internal tools and systems to carry out its internal monitoring of compliance. Additionally, HDL will engage an independent third party to perform supplier due diligence activities to ensure the implementation progress of this policy commitment.

2.4 Transparency on Implementation Progress and Stakeholder Engagement

To embed sustainability in palm oil operations transparently, HDL will engage various stakeholders and is committed to:

- Provide a transparent and amicable grievance mechanism to resolve all grievances and conflicts related to this policy that is agreed upon with stakeholders.
- Provide a Sustainable Sourcing Strategy that is publicly available, and which indicates the targets and progress of NDPE implementation. Disclose the progress of its commitments based on the timetable of its Sustainable Sourcing Strategy on its own communication channels (e.g. website, annual report, etc).
- Maintain and improve stronger partnerships with governments, communities, industry partners, and other stakeholders on the implementation of these policies.
- Continuously strive to integrate and improve these policies with existing government policies and laws.



Bandula N A Perpola

General Manager

PT Hilton Duta Lestari

1st January 2021.