



RESPONSIBLE PURCHASING POLICY

Last revision adopted by the Board of Directors on November 16, 2022

Commitment

SIPEF's Responsible Purchasing Policy (RPuP) guides the Group's responsible sourcing requirements for engaging with third-party suppliers, and sets out criteria for working with smallholders on their journey towards certification. It also provides the framework for the procedures utilised to select, monitor and, if necessary, exclude, suspend or expel smallholders in the Company's supply base.

All third-party suppliers (smallholders) must comply with SIPEF's RPuP along with other relevant SIPEF policies, including the Responsible Plantations Policy¹ (RPP) which encompass principles the Group upholds, as outlined below, where applicable.

Smallholder Engagement Framework

1.1 Screening criteria

SIPEF engages in a screening process to determine whether the land and practices of any new smallholders, with whom the Group is planning to engage, are compliant with SIPEF policies. If these criteria are met, SIPEF can enter into a Memorandum of Understanding (MoU) with the smallholders:

- **Legal ownership is verified**
 - The smallholder can prove that the use of the land for oil palm does not diminish the legal, customary or user rights of other users without their Free, Prior and Informed Consent (FPIC).
 - The smallholder can prove that the right to use the land for agricultural purposes is demonstrated and is not legitimately contested by local people, who can demonstrate that they have legal, customary or user rights.
- **Production location is known and mapped**
- **Either already RSPO certified or has the potential to become certified within the Group's RSPO Time Bound Plan**
- **Compliance with SIPEF's RPP and other relevant policies in all operations of the supply base:**

Ethical business conduct

Smallholders shall comply with all applicable international, national and local laws and regulations in the country of their operation. Smallholders are expected to conduct their business as outlined in SIPEF's Ethics Policy.

Human rights and labour standards

Smallholders shall confirm that they adhere to the human rights² and labour standards as defined by applicable national labour laws and regulations and SIPEF policies.

- The smallholder confirms that child labour is prohibited in all operations of the supply base and no forms of forced or trafficked labour are used.³
- The smallholder can prove that pay and employment conditions for workers or contract workers always meet at least legal or industry minimum standards.
- The smallholder confirms that any form of discrimination is prohibited and there is no gender-related discrimination with regards to employment or pay.⁴
- The smallholder ensures that the working environment under its control is safe and without undue risk to health.⁵

Environmental responsible production⁶

Suppliers shall conduct business in environmentally responsible and efficient ways which minimise adverse impacts and protect the environment. These include, but are not limited to, meeting all applicable environmental laws and regulations and conserving natural resources, as outlined in SIPEF's Environmental Policy and Responsible Plantations Policy.

- The smallholder can prove that there has been no new planting on peat, regardless of depth, after 15 November 2018, and all existing developments on peatlands are managed as per RSPO Best Management Practices (BMPs).
- The smallholder confirms that land clearing after 15 November 2018 did not and does not cause deforestation or damage any area required to protect or enhance High Conservation Values (HCVs) or High Carbon Stock (HCS) forest. HCV areas and HCS forests in the managed area are identified and protected, and, where possible, enhanced.
- The smallholder confirms that fire is not used for preparing land, and that measures are taken to prevent fire in the managed area.

1.2 Screening process

In Indonesia, SIPEF requires that newly engaged smallholders undergo a screening process before entering into an MoU. As part of the screening process, a checklist⁷ is used to evaluate the smallholders

against a set of geographic, fundamental and continuous improvement criteria that are aligned with RSPO standards, where applicable. Under the company-managed programme in Indonesia, the vast majority of the existing production areas are managed entirely by SIPEF, and fall under the internal control system the Company has in place for its own operations. There is one small group of independent smallholders, 60 ha, who manage their own supply base and who are certified through a separate audit against the RSPO Independent Smallholders Standard (RISS). Any new smallholder development under this programme will go through the RSPO New Planting Procedure (NPP). This ensures that there is compliance with all of the key criteria, including assessing soil suitability, integrated High Conservation Value (HCV)/High Carbon Stock (HCS), land use change, social impact and greenhouse gas (GHG) assessments.

In Papua New Guinea, SIPEF collaborates with associated smallholders who have maintained their RSPO certified status since 2009. Associated smallholders are in principle independent, as they own the land and maintain full decision-making power on which crops they grow. However, due to their geographic isolation, they can only sell to the mill within their vicinity. Similar checklists and approaches implemented in Indonesia are also applied in Papua New Guinea, primarily for monitoring the compliance of existing smallholders working with SIPEF. Any new developments must also follow SIPEF policies and the RSPO P&C for smallholders.

2. Monitoring compliance

In Indonesia, SIPEF monitors its smallholders for compliance through regular outreach, support and assessments. Assessments are carried out utilising the same screening checklists used when starting engagement with new smallholders. The objective of the outreach activities is to raise awareness of the policies and graduate growers into the scope of the certified supply base, once they are ready for RSPO certification.

In Papua New Guinea, SIPEF provides associated smallholders with regular training, and conducts block inspections and internal audits. These smallholders are also audited annually by an RSPO Certification Body, utilising a sampling intensity formula.

3. Managing non-compliances

SIPEF's approach prioritises maintaining engagement and providing the opportunity for smallholders to take remedial action. Non-compliances by smallholders are evaluated on a case-by-case basis to understand their origins and subsequently determine the appropriate actions to be taken. Smallholders who do not comply are supported until they are able to enter the supply chain again. If a major breach is found, the grower is either suspended from the supply base or, if their livelihood is

negatively impacted by this, their crop is segregated from the certified supply chain until satisfactory corrective actions have been implemented.

4. Progress Reporting Guidelines

All SIPEF operations are to maintain records detailing the number and hectares of independent and plasma smallholders engaged, and the number and hectares of their management areas in progress towards becoming RSPO certified. All smallholder supply bases are mapped and can be viewed on SIPEF's traceability web-based application, GEO SIPEF (www.geosipef.com).

SIPEF's progress towards achieving a 100% RSPO certified supply base is made available in SIPEF's RSPO Annual Communications of Progress (ACOP) submission,⁸ which is accessible to all stakeholders.

¹ See SIPEF website for [RPP](#)

² Reference document: [SIPEF Human Rights Policy](#)

³ Reference documents: [SIPEF Child Labour Policy](#) and [SIPEF Forced or Trafficked Labour Policy](#)

⁴ Reference documents: [SIPEF Sexual Harassment Policy](#), [SIPEF Equal Employment Opportunity Policy](#)

⁵ Reference document: [SIPEF Occupational Health and Safety Policy](#)

⁶ Reference document: [SIPEF Responsible Plantations Policy](#)

⁷ Template of the checklist is available on SIPEF's website: [Traceability and Risk Management](#)

⁸ SIPEF's time-bound commitment to achieve 100% RSPO certification can be found in the Company's RSPO Annual Communications of Progress (ACOP) submission, accessible at: <https://rspo.org/members/1-0021-05-000-00/>