



First Progress Report

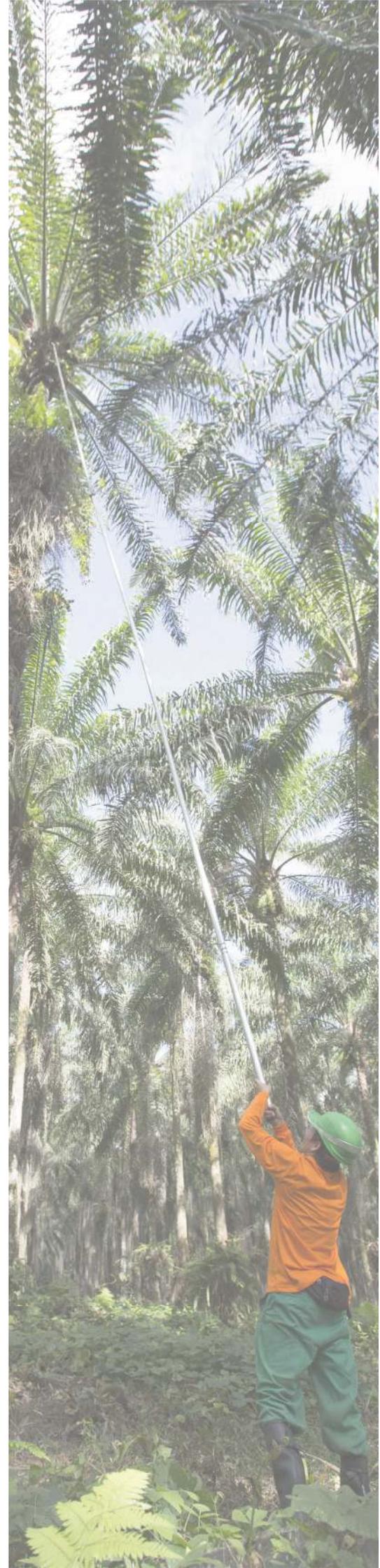
Sustainability
Policy
Implementation

April 2017- April 2018

SUSTAINABILITY POLICY IMPLEMENTATION

In April 2017, as a result of a process of dialogue with our collaborators and stakeholders, Palmas Group published a Sustainability Policy for palm and cocoa responsible production. Thus, **we assume commitments with a deforestation-free production**, protecting High Conservation Value (HCV) areas, High Carbon Stock (HCS) forests, areas considered peatlands or wetlands that do not violate people's or communities' rights.

Palmas Group has been actively working on implementation of several measures contained in 6 principles of the Sustainability Policy (https://www.palmas.com.pe/politica_sostenibilidad). This Report summarizes **main actions implemented during this first year**. This will be the first of two reports that we will carry out in 2018 and is focused on principles 1, 2, 5 and 6 of the Policy. The balance is made on our three operation plants: Palmawasi, Nuevo Horizonte and Shanusi.





NO DEFORESTATION AND RESPONSIBLE PLANTATION DEVELOPMENT

(Principle 1)

- ◆ Palmas Group is a member of Roundtable on Sustainable Palm Oil (RSPO) since 2016 and we have begun the process to obtain certification by the end of 2018. Therefore, within the framework of Remediation and Compensation Procedure, we presented to RSPO the Land Use Change Analysis (LUCA) study for our plantations in December 2017. This study is under RSPO's assessment at present.
- ◆ As part of said Process, we are conducting HCV studies for all our operations. HCV studies will allow us to ensure species and habitats protection in our plantations and avoid damage or deterioration of these areas by controlling hunting, fishing and other activities. We hope to complete the studies in August 2018 and then elaborate HCV protection plans identified in each operation.
- ◆ With The Forest Trust (TFT)'s technical support, Palmas Group is re-evaluating projects for developing new plantations in order to align them with the Sustainability Policy, mainly the No Deforestation Principle. Specifically, we are preparing an HCS-HCV study with TFT in Maniti and Santa Cecilia projects in order to have more information about protection value and carbon stocks existing in the area. This information is critical for projects reformulation.





NO DEFORESTATION AND RESPONSIBLE PLANTATION DEVELOPMENT

(Principle 1)

- ◆ Our operation plant Shanusi has an area of 4474 hectares of forest. Since 2017, we have reinforced protection tasks, with greater diffusion on this stock, by training to our personnel in camps and monitoring areas under protection and information about reservation limits through informative signs.
- ◆ We carried out semi-annual biological monitoring in our operation plants of Palmawasi and Shanusi, in order to follow up on life forms present in different habitats of our plantations.

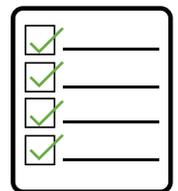
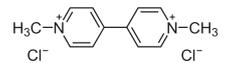




USE OF BEST PRACTICES IN AGRICULTURAL AND INDUSTRIAL PROCESSES

(Principle 2)

- ◆ We have a new Plantation Renewal Procedure according to RSPO. In 2017, with this new procedure, 22 hectares of palm were removed in Palmawasi to be replaced by 19 hectares of young palm. This process included recovering 25 meters of the Porongo River's marginal strip and removing the palm along said strip to facilitate the natural vegetation recovery.
- ◆ We do not use Paraquat (Quaternary Ammonium Herbicide) in our operation plants, we do not have stock and this product has been eliminated from our herbicide's catalog.
- ◆ Although Palmas Group has never used fire for land preparation, we have included an express ban of not burning in our Manual on Good Agricultural Practices and operating procedures for land preparation. This ban includes our palm providers.
- ◆ Industrial and agricultural areas of Palmawasi are implementing work plans to comply with the requirements established in RSPO's Principles and Criteria, with a view to certification by the end of 2018.



RSPO
Roundtable on Sustainable Palm Oil

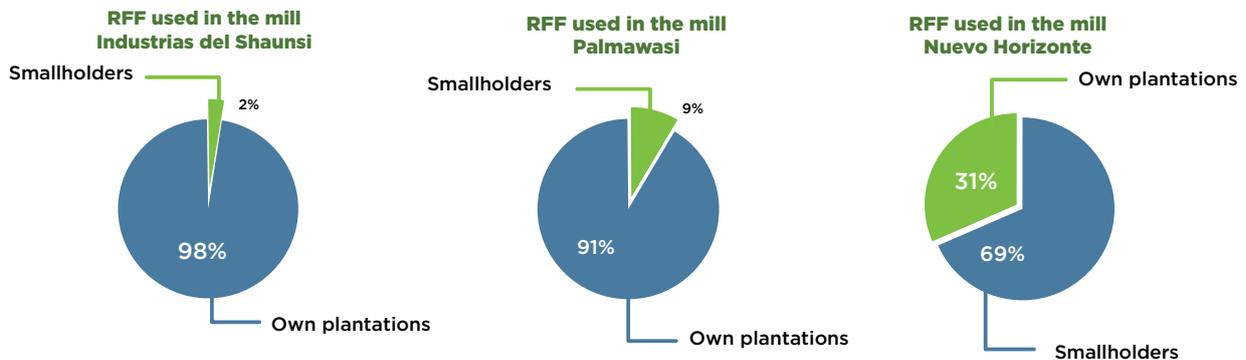
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INCLUSION OF SMALL PRODUCERS IN THE SUPPLY CHAIN

(Principle 5)

- ◆ Palmas group is aimed at including small-scale producers in its supply chain. Nowadays, smallholders palm represents 11% of the fruit that we process; we expect it to represent 30% by 2025. Therefore, Palmas Group has been implementing a Productive Chain Program seeking to professionalize palm producer, thereby improving their quality of life and future prospects (https://www.palmas.com.pe/cadenas_productivas).

Origin of mill-processed RFF, 2017



- ◆ In 2017, Palmas Group processed almost 80,000 MT of palm fruit from 362 small-scale producers. From this total, 70% of the fruit or 251 producers belong to Tocache Productive Chain, that is, they receive our technical assistance and services, the rest are considered independent producers. Palmas Group has information on the Chain producer, his plots and crops and he is currently georeferencing and microzoning each plot.



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INCLUSION OF SMALL PRODUCERS IN THE SUPPLY CHAIN

(Principle 5)

- ◆ Our Productive Chain Program has a strategic alliance with Rurality, a TFT initiative funded by Nestle and NORAD (<http://rurality.org/>). With Rurality team, we are developing a diagnosis of rural dynamics to get to know the supply chain, members outside the chain and market opportunities to boost their income sources. This diagnosis will be ready in September 2018 and will complement the intervention strategy of Tocache Productive Chain.
- ◆ For future plantations of palm growers within our supply chain, we are conducting with TFT an HCS and HCV study of 141,200 ha. area in Tocache. Although this area is characterized by small-scale agriculture, this study will identify the high value conservation and carbon stock areas that still exist and should be protected. Once identified, we will work together with TFT to ensure the expansion of palm cultivation within our influence area respects these conservation areas.
- ◆ In 2017, in partnership with the NGO "Solidaridad", we won funds from INNOVATE Peru to finance an RSPO certificate implementation project with smallholders. We will work with producers of Regional Federation of Oil Palm San Martin (FREDEPALMA, in Spanish), which comprise Tocache Chain and have consolidated plantations. Solidaridad Colombia, extensively experienced in the matter, will provide us with technical support.



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RESPECT FOR COMMUNITIES, DIALOGUE WITH INTEREST GROUPS AND TRANSPARENCY (Principle 6)

- ◆ Palmas Group has designed a Complaints Procedure seeking to collect concerns, complaints or claims generated around our operation plants (https://www.palmas.com.pe/palmas_escucha). This procedure may be used by our collaborators, community, social organizations and even individuals, and will be accessible through several media (web, mail, telephone, mailboxes, among others). The procedure is in implementation phase, first in Palmawasi, where dissemination has already taken place in all agricultural camps and 14 communities close to the operation; and then we will continue in Shanusi. It will be implemented in both operations by the end of 2018.
- ◆ Palmas Group has reinforced its technical capabilities to address community relations. In Palmawasi's and Shanusi's operations, specialists in dialogue and conflict management have been working with communities close to our operations since 2017 fourth quarter. During this period, specialists of each operation have identified surrounding communities, made contact with their authorities and held meetings with them to know their expectations and concerns.





RESPECT FOR COMMUNITIES, DIALOGUE WITH INTEREST GROUPS AND TRANSPARENCY (Principle 6)

- ◆ With TFT's and Consensus Building Institute (CBI)'s support, Palmas Group management team at Lima and Shanusi offices was trained in Mutual Benefits Approach for conflict management; in addition, the team responsible for Sustainability and Community Relations was trained by CBI specialists in several constructive dialogue tools. As part of the training, the community of Puerto Peru was visited, and we worked with them on raising expectations and interests regarding the relationship with the company.
- ◆ We execute the Project "Campeones" in Yurimaguas, Loreto. The project includes a practical program of physical education, nutrition and values promotion. In 2017, 284 school children from communities of Puerto Peru, Pampa Hermosa and Grau participated in the program. This will be continued in 2018 (https://www.palmas.com.pe/desarrollo_sostenible).



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