Sustainability Policy

Sustainability Development & Performance Principles

The 3Ps of Sustainability

- Developing Our People
- Protecting Our Planet
- Delivering Year-On-Year Profit

A Lush of Greenery: the 7 acres wetland in Selai Estate, Kluang
Kulim is committed to growing its business sustainably. Over the last 30 years or so, a new paradigm has emerged regarding sustainability.

The United Nations Bruntland Commission defined sustainability as “Meeting the needs of the present generation without compromising the ability of future generations to meet their own needs.” The simple yet powerful statement was a call for businesses to be more accountable and transparent by focusing on performance along the interrelated dimensions of People, Planet and Profits (“3Ps”), also known as the Triple Bottom Line (“TBL”).

The days of measuring business performance by the traditional indicators of profit, return on investment and shareholder value alone may well be numbered. TBL reporting goes beyond financial metrics to include environmental and social dimensions as the main indicators of a corporation’s health. Bowing to public scrutiny and more discerning investors, the corporate world has increasingly embraced TBL reporting as an important tool to support sustainability goals.

A growing wealth of evidence has emerged pointing to sustainable business practices as key to long-term success and as a result sustainability has become mainstream rather than an after-thought. Companies are leveraging on sustainability not only to build reputations and brand image, but also improve processes, pursue new growth opportunities and add value to their businesses.

OUR SUSTAINABILITY POLICY

The Kulim Group is committed to be a leader in sustainable development. For many years, we have embraced the TBL approach as another way of measuring business success. We see sustainability as a two-way street. After all, it is by nurturing our environment, social and economic resources that we help ensure the future sustainability of the corporation.

Kulim has established a Sustainability and Initiative Council (“SIC”), its primary function being to ensure that sustainability goals are embedded in all our operations. Chaired by Plantation Inspectorate the 16-member Council comprises representatives from the various operating units and departments. The Committee meets monthly to review progress on the Group’s sustainability performance across economic, social and environmental dimensions. Kulim also has a dedicated Sustainability and Quality Department looking into matters concerning certifications and compliance, audits and social impact assessments, among others.
The Group’s commitment to sustainability is manifested in many forms. We were among the earliest Malaysian palm oil companies to subscribe to the Roundtable on Sustainable Palm Oil ("RSPO"), a membership that dated back to 8 August 2004. Through our own Research and Development ("R&D") efforts, Kulim has developed its own Sustainable Management System ("SMS") based on defined structures, practices and responsibilities set out in the RSPO Principles and Criteria.
The journey towards sustainability is a never-ending one, but already we have chalked up a number of milestones. In 2009, Kulim published its stand-alone Sustainability Report, setting a benchmark for others to follow. This was followed in 2013, by our inaugural Carbon Footprint Report, the first of its kind in Malaysia. Through our Wildlife Defenders Programme, we have reached out to schools and smallholders to protect our Malaysia’s unique wildlife and generate a much wider awareness of conservation issues. We have invested in biogas plant as a carbon reduction strategy and put in place guidelines ensuring the responsible use of chemicals, fertilizers and water.
Our work to provide higher living standards for our workers and the surrounding communities continues unabated. Each year, we conduct an Annual Social Impact Assessment to look into the welfare of our workers. We actively engage our stakeholders on a regular basis to seek a better understanding of their concerns. Through our Women OnWards (“WOW”) programme, we promote gender equality and empower the knowledge and skills of women. Our support for WOW has been acknowledged at the 9th Annual Global CSR Summit Awards 2017 when Kulim won Gold in the Empowerment of Women Award.

In the dynamic environment in which we operate, Kulim is aware that the goal-post of sustainability is always changing. That is why we are always pushing ourselves, setting our sights higher to achieve even more.

In 2013, Kulim published inaugural Carbon Footprint Report 2012, the first of its kind in Malaysia.

SUSTAINABLE DEVELOPMENT PERFORMANCE PRINCIPLES

1. The SMS places priority on maintaining a safe, healthy and viable work environment in compliance with all applicable national and international legislations.

2. Invest in the training and development of employees to improve their knowledge, skills and competency to enhance performance and advance their career.

3. Promote optimal land use to ensure its long-term sustainability and productivity for agricultural use.

4. Building community trust by integrating corporate responsibility and sustainability in all our business processes and contributing to the well-being of the communities in which we operate.

5. Uphold the principles of Free, Prior and Informed Consent (“FPIC”) in all negotiations and interactions with stakeholders.

6. No new development in primary forests or High Conservation Value (“HCV”) areas. In any development, Kulim will also take into account the conservation of biodiversity and the protection of cultural and customary land use within the context of a sustainably managed landscape.
Developing Our People

The People aspect of Sustainability has always had a special meaning for Kulim. We share the global vision to build healthy and vibrant communities. Improving the well-being of the individual on an equitable basis, practising ethical responsibility in dealing with the communities in which we work and play and protecting the vulnerable form the basis of sustainability.

Beginning in our own backyard, our employees are the Group’s greatest assets. The contribution of our people assets to the Kulim’s success cannot be over-stated. We have a great team on board with a diversity of talents, knowledge and experience to take us to where we want to be. We are, therefore determined to foster a workplace culture and environment that attracts, retains and develop our people to reach their fullest potential so that we can continue to deliver value to our stakeholders.

**STAFF STRENGTH**

As at end of 2017, we had a total staff strength of 6,930 full-time employees in Malaysia. Of this total, 5,690 or 82.10% were classified as workers with the remaining 17.90% comprising management and staff. Foreign workers made up 78.95% of the Group’s staff strength, coming mainly from Indonesia, India and Bangladesh. In 2017, we recorded a turnover rate of below 5%, a testament to the Group’s strong retention power.
We strive to inculcate an inclusive work environment, where we have strictly enforced a policy of non-discrimination against women, ethnic or religious minority groups and foreign workers. We also subscribe to the basic labour right of ‘equal pay for equal work’ for all field, office and management employees based on pre-defined grades.
HUMAN RESOURCE POLICIES

Kulim has put in place a group-wide policy of treating all its employees with the fairness and dignity they deserve. Our human resource policies are governed by Malaysia’s labour laws as well as the International Labour Organisation’s (“ILO”) Declaration on Fundamental Principles and Rights at work. We are also guided by the Code of Conduct for Industrial Harmony, which sets forth the “principles and guidelines to employers on the practice of industrial relations for achieving greater industrial harmony”.

To protect our employees from unethical conduct, all employees are expected to abide by the Ethics Declaration Form. We are also committed to the highest standard of integrity, openness and accountability in the conduct of our business and operations. Since 2013, we have put in place a Whistleblowing Policy that encourages staff to come forward with credible information on issues or wrong-doing that merit concern.

Kulim is also implementing the Conflict of Interest Policy, which will reinforce and provide guidelines on Corporate Business Principles by establishing certain non-negotiable minimum standards of behavior in key areas. In the interest of its employees, the Group adopts a zero-tolerance stance on the use of illegal drugs, banned substances and alcohol in the workplace.

Living Conditions

Workers are typically accommodated in two (2) or three (3)-bedroom house that meets the minimum standard of the Housing and Amenities Act 1990. Weekly inspections are carried out to ensure that all living quarters, as well as nurseries and community halls are in good operating condition.

Managing Overtime

During the peak harvest seasons, mill workers tend to work longer hours to ensure that the fruits are processed before the quality deteriorates. However, we ensure that workers do not exceed the overtime limits to comply with the guidelines issued by the Department of Labour.

Child and Bonded Labour

Child and bonded labour is illegal but it continues to thrive in many third world countries. Kulim does not employ anyone below the age of 16. For many of our workers with families, Kulim provides their children with access to schools and other amenities for the welfare and development of young minds.

Collective Bargaining

We respect the right of our employees to join organisations of their own choosing as part of our commitment to freedom of association. The Collective Bargaining Agreement (“CBA”) that we have signed with our works is periodically negotiated and reflect work-related issues such as working conditions, wages and benefits, amongst others. A total of 1,659 or 23.94% of our employees are covered by the terms of the CBA.
HUMAN CAPITAL DEVELOPMENT

**Performance Management System**

Kulim acknowledges the critical importance of a skilled workforce as a prerequisite for the continued success of its business. Throughout 2017, we continued to strengthen our organisational capabilities. Among our many initiatives, we have in place a Performance Management System (“PMS”) that is aimed at promoting a high performance culture. We have also implemented a performance-based Reward System to improve employee competencies. Each year, the targets are reviewed and the bar is raised so as to challenge the Group and employees to achieve the next level of performance.

**Job Rotation**

The Group’s job rotation and generic training programmes are specifically tailored to bridge the skill gaps of staff at all levels. Our experience has proven that job rotation can increase the depth and breadth of an employee’s knowledge and capabilities, thereby adding value to the organisation. An employee is moved from one job to another handling a schedule of assignments that have been designed to give that individual maximum exposure to a range of the Group’s operations. Apart from learning new skills, job rotation facilitates a better understanding of the organisation as a whole and the functions of its respective operating units and departments.

**Engagement Sessions**

Building a strong pipeline of leaders is a fundamental part of our sustainability strategy. Millennials are quickly becoming the influential segment of today’s workforce as they reach their peak employment years. They bring with them new perceptions of what office life should be like and how relationships should be structured. Compared with Gen X employees and baby boomers, millennials are more likely to change jobs if they do not believe there are opportunities to move up the corporate ladder. Kulim understands that millennials want their points of view heard and through regular staff engagement sessions, they now have a platform to voice their concerns and expectations.

**Up-shilling Programmes**

One of the Group’s emphasis in human capital development is to promote a learning environment. In this respect, Kulim has always encouraged interested employees to pursue professional qualifications such as ACCA, CIMA, MIA and Human Resource Certification to enhance their core competencies and to specialise in specific areas that are relevant to the Group’s operations. At the same time, we continued to collaborate with PUSPATRI (Johor Skills Development Centre) to conduct technical courses for our employees.

Each year, we assess the potential and performance of identified candidates through the Johor Corporation Leadership Programme (“JLP”), a two (2) year structured leadership capacity programme. Participants are exposed to business challenges in a variety of scenarios and have the opportunity to share leadership experiences. In 2017, a total of five (5) employees were selected for the JLP Cohort III 2017/2019, the third edition of the programme. The two earlier programmes saw a total of 14 participants.
ENGENDERING GENDER EQUALITY

In our commitment to create an inclusive work environment, Kulim has rolled out various initiatives to empower women in the workplace. As at 31 December 2017, we had 793 women on our payroll, which constituted 11.44% of our workforce. Of this number, 1.5% were at the management level. Despite the inherent challenges, our policy of non-discrimination against women extends to our estate workers.

MANAGEMENT BY GENDER

![Graph showing management by gender]

Sexual Harassment

Efforts are ongoing to educate and remind employees of what constitutes inappropriate behaviours. Through a concerted campaign, women are also more aware of their rights and as a result, have become more open to reporting cases of sexual harassment. In 2017, no cases of sexual harassment were reported.

Maternity Leave

All female employees are entitled to 60 consecutive days of paid maternity leave in accordance with the Malaysia Employment Act 1955 Part IX Maternity Protection. In 2017, 22 employees went on maternity leave and on returning to work, continued to remain employed with the Company. We are proud of the 100% retention rate as employment patterns suggest that women with new born babies are most likely to leave their jobs after one (1) year. As a matter of policy, utmost care is taken to ensure that pregnant or nursing female workers are not exposed to harmful chemicals in discharging their duties.

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Women OnWards ("WOW"), formerly known as Panel Aduan Wanita or Women’s Grievance Panel, was established as part of a larger women employee outreach programme. It has been endorsed by Management and its activities are fully funded by the Company. WOW provides a platform for women employees to air their grievances and at the same time, it serves to promote gender equality and empower the knowledge and skills of women.

Over the past six (6) years, WOW has been actively providing opportunities for the women in Kulim to become entrepreneurs in their own right. A WOW unit has been established in every estate, each one developing a unique product, service or skills such as tailoring, baking, arts and handicraft. These products or services are sold to staff and the public on festive occasions such as Hari Raya Aidilfitri and Company events like the JCorp Carnival, Kota Tinggi Eco Boat Fishing Challenge, Kota Tinggi MTB Jamboree, Kota Tinggi Paintball Championship, among others. In 2017, WOW generated an income of around RM56,200, which was plowed back into their fledgling businesses.

For the seventh consecutive year, Kulim has also joined the global movement to celebrate International Women’s Day ("IWD"). Each year, a different theme is selected to celebrate the economic, political and social achievements of women past and present. In 2017, IWD was held on 17 November 2017 at the KSRT Clubhouse with the theme, “Karnival Hari Wanita Antarabangsa 2017”, attracting over 320 participants.

In a full calendar, a host of other programmes were also organised throughout the year. Apart from “WOW on Weekend” held at Lotus Desaru, WOW was also represented at various expo and carnivals such as Tribute to Woman Malaysia: Lifestyle Fest 2017, Johor Development Expo 2017, Kembara Mahkota Johor 2017 and others. Under Jejari Bestari Programme, WOW has collaborated with Kolej Komuniti to organise classes to impart useful knowledge on various subjects, examples stitching class, table setting and etiquette.

WOW’s efforts in supporting the cause of women have been recognised by industry practitioners over the years. WOW was shortlisted as one of the finalists for the HR Excellence Awards Malaysia 2016 under the Diversion & Inclusion Category in October 2016. In that year, it was also in the finalist for the Employment of Women Award at the 8th Annual Global CSR Summit & Awards ceremony held on 22 April 2016. The latest recognition came on 30 March 2017, when Kulim was the winner of the Empowerment of Women Award (Gold) at the 9th Annual Global CSR Summit and Awards Ceremony 2017.
**THE 3Ps OF SUSTAINABILITY**

**PEOPLE**

**OCCUPATIONAL SAFETY AND HEALTH ("OSH")**

The International Labour Organisation ("ILO") explicitly states that every employee has the right to work in a safe and healthy environment. This basic human right is enshrined in various laws enforced by the Department of Occupational Safety and Health in Malaysia.

Kulim has an OSH record that sets us apart from its industry peers. We have made it our mission to manage OSH effectively through the implementation of efficient oversight and regulatory actions. This is strictly enforced at all our mills and estates, where a dedicated OSH Officer ensures the effective implementation of the Group’s OSH system. Apart from organising safety training programmes, conducting tool-box briefings and OSH quarterly briefings, the Officer’s responsibilities include investigating and reporting all accidents to the OSH Manager. All incidents are transparently reported and thoroughly invested so that important lessons can be learnt to prevent or at least reduce recurrence.

However, one (1) person alone cannot effectively carry the safety message or handle the multitude of tasks that crop up each day. We have therefore made OSH every employee’s responsibility, whereby managers and staff work closely together to build an effective safety and health programme. People are the most important factor in significantly improving OSH performance. That is why it is mandatory for each worker to undergo an average of 40 hours or five (5) man-days of safety training in a year. Among others, the training emphasises the handling, application and safe disposal of chemicals. In addition, tractor, lorry and mechanical buffalo operators have to complete 16 hours or two (2) man-days of training under supervision and must pass the required practical examinations to qualify as a certified driver before they are allowed to operate the machines on their own.
In 2017, we have one (1) case reported for fatalities. Therefore, we continue to improve the safety standard with aim to reduce accident cases. The year under review also saw an improvement in the Lost Time Accident Rate ("LTAR"), which was recorded at 3.41 as compared to 3.51 posted the preceding year, keeping us within the target of below 10. Our injury severity was recorded at 3.45, compared to 2.13 registered in 2016. However, it was still within the target we set of below 3.5.

Although great efforts have been devoted to reducing accidents and injuries at the workplace and the Group’s respective OSH indicators show an improving trend, we are aware there is always room for improvement. With the stakes being so high, there can never be room for complacency. We will strive even harder to identify and manage key occupational and safety risks through responsible governance, rigorous controls and compliance systems. This is a shared responsibility of Management and every employee at Kulim.

Kulim has also put in place a comprehensive OSH plan that takes care of the welfare and health of its employees. Our workers benefit from a range of amenities that are provided, including creches, clinics and canteens. Regular fogging is carried out to reduce the threat posed by mosquitoes, while proper water treatment facilities have recently been installed as part of our health surveillance programme. The OSH Plan also covers various environmental aspects, the most critical being the adoption and enforcement of the Environmental Quality Act 1974.

**COMMUNITY DEVELOPMENT**

In today’s increasingly inter-connected world, no business can operate as an entity unto itself. For Kulim, this means striving to be a good neighbour and friend, planting roots deep into the communities wherever it operates. Taking an active role in the community has always been central to our core values, identity and our business strategy of putting people first. We play our part in responding to the needs of society and sharing our success to help improve the quality of life in the community. Naturally, charity begins at home and we have set up the As-Sajadah Fund to provide assistance to staff to improve their quality of life should ever the need arise.

At Kulim, we actively encourage our management and staff to be actively involved in welfare work and charity projects. Their response has always been encouraging – with staff at all levels volunteering time and effort and often making personal donations in support of noble causes. Our community development programmes and activities rest on five (5) main pillars: community, sports, welfare, education and infrastructure development.

In 2017, Kulim was involved in the following community investment activities:

<table>
<thead>
<tr>
<th>Institution/ Programme</th>
<th>Purposes</th>
<th>Approximate Contribution (RM’000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Persatuan Bola Sepak Negeri Johor</td>
<td>National sports sponsorship to support the development of football in Malaysia</td>
<td>3,000</td>
</tr>
<tr>
<td>Yayasan Johor Corporation</td>
<td>To improve the living condition of the under-privileged community</td>
<td>1,201</td>
</tr>
<tr>
<td>Raja Zarith Sofiah Wildlife Defenders Challenge 2016</td>
<td>An awareness programme on wildlife conservation for students</td>
<td>15</td>
</tr>
<tr>
<td>Pintar Foundation</td>
<td>Sponsorship for tuition programme and provide school essentials for six (6) adopted schools</td>
<td>155</td>
</tr>
</tbody>
</table>
THE 3Ps OF SUSTAINABILITY

PEOPLE

The Pintar Foundation was established in 2008 to spearhead the PINTAR School Adoption Programme. It serves to complement ongoing efforts by the Government to provide equitable access to quality education for all by targeting underperforming and underserved schools.

In 2017, Kulim adopted three (3) additional primary schools – SK Kemedak in Segamat, SKJ (Tamil) Ladang Ulu Tiram in Ulu Tiram and SK Ladang Tunjuk Laut in Kota Tinggi. All these schools are located within the vicinity of Kulim’s operations and bring the total number of schools adopted by Kulim under the Pintar Programme to six (6).

Kulim extends financial support to its adopted schools, supplementing their education with tuition classes, motivational courses and educational trips. In 2017, we also provided funding to improve the infrastructure of some schools.

We are heartened and encouraged by the progress made by our adopted schools during the 2017 national examinations. The academic scores achieved by the students showed a marked improvement when compared with previous years. On Teacher’s Day, Kulim presented prizes to the high achievers in the national examinations, while their teachers also received a token of appreciation.
COMMUNITY OUTREACH PROGRAMMES

Semarak Kasih 2.0 was celebrated on 29 October 2017 in collaboration with degree students from Institut Pendidikan Guru Kampus Temenggong Ibrahim ("IPGKTI"). Johor Bahru with objectives among others, to enhance awareness towards disable people ("OKU"). About 30 participants with special needs OKU from each of Kulim’s operating units also participated at the event.

Among activities that were organised included aerobics and therapy sessions conducted by students from IPGKTI. A highlight of the Day was a “Forum Inspirasi Semarak Kasih 2.0,” which was moderated by Puan Salina Omar from IPGKTI. Other panel members included Puan Zarina Zainuddin (invited celebrity), Puan Widyawina Abd Ghani (Kulim’s representative) and Puan Periakka Rengaya Chinaya (IPGKTI representative).

World Children’s Day was held by Kulim on 24 December 2017 at Kelab Sukan & Rekreasi Tiram ("KSRT") and was attended by about 300 employees, family members and invited guests. In a carnival-like atmosphere, adults, the young-at-heart and children pitted their skills against one another at various competitions such as futsal, netball, Kulim’s Got Talent Jr, Glorious Girls, Magnificent Boys and Junior Chef. Prizes to lucky winners were handed out by Tuan Mohd Akhir Wanteh, Head of Plantation Division. Tunjuk Laut Complex was announced as the overall champion of the carnival.

Various organisations such as Agensi Anti Dadah Kebangsaan ("AADK"), Perbadanan Taman Negara Johor ("PTNJ"), KPJ College, Bomba, Pejabat Kesihatan Daerah Johor Bahru and MCHM Kolej Hospitaliti & Pengurusan took the opportunity to set up exhibition booths. The WOW chapter of the Sedena Complex was in attendance to sell delicacies and handicraft items.

Like many corporations across the world, Kulim is taking proactive actions to address a range of sustainable development metrics in its investment and business planning decisions. By focusing on resource management, waste management as well as pollution and emissions monitoring, we play our part in minimizing the environmental impact of our operations.
Protecting Our Planet

The relationship between the business world and the planet that sustains it has undergone profound changes. Pollution, climate change and natural have come to a point where the human race has to step up to the plate and take concerted actions to save our planet.

CONSERVING BIODIVERSITY

Kulim is well aware of the essential role it plays in protecting biodiversity and maintaining natural habitats. Our plantations in Johor border the Endau-Rompin National Park and the Labis Forest Reserve. The last survey to assess the state of the flora and fauna bordering our estates was conducted in 2008. According to the International Union for Conservation of Nature ("IUCN"), the biodiversity of wildlife on its Red List of Threatened Species has become even more precarious. Kulim has stepped up efforts to work closely with Government and Non-Governmental Organisations ("NGOs") to strengthen its internal monitoring and control mechanisms to mitigate incidents of poaching.

High Conservation Value ("HCV") Tools

The RSPO is committed to deploying HCV tools within the context of sustainably managed landscape through the RSPO Principles and Criteria. There are various HCV definitions, including endemic, rare, threatened or endangered species. Kulim’s man-made reservoir has become a haven for a variety of wildlife, including two (2) species of migratory birds recorded by the Wildlife Conservation Society that come under the HCV category.
SAVING OUR NATURAL HERITAGE

Kulim is committed to protect the national biodiversity and endangered species. From time to time, incidences of human-elephant conflict have been reported at the Sungai Tawing, Siang, Sindora and Tunjuk Laut Estate. In 2017, 24 incidences of elephant encroachment were reported. A more serious growing problem is that of elephants encroaching into residential areas resulting from increasing activities at the surrounding estates.

We continue to collaborate with the Wildlife Conservation Society to consider a permanent solution to the encroachment problem. The Group is determined to put a stop to animal poaching and is also striving for biodiversity conservation. To this end our Kulim Wildlife Defenders (“KWD”) joins forces with the Johor National Parks Corporation, Wildlife Department, Forestry Department and the Police Force under the Johor Wildlife Conservation Project to save our natural heritage. A total of six (6) programmes were conducted in 2017 at different locations in Johor, as follows:

<table>
<thead>
<tr>
<th>No</th>
<th>Month</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>February</td>
<td>Hutan Simpan Panti Kota Tinggi</td>
</tr>
<tr>
<td>2</td>
<td>March</td>
<td>Hutan Simpan Labis Segamat</td>
</tr>
<tr>
<td>3</td>
<td>April</td>
<td>Hutan Simpan Lenggor Kluang</td>
</tr>
<tr>
<td>4</td>
<td>Jun</td>
<td>Hutan Simpan Labis Segamat</td>
</tr>
<tr>
<td>5</td>
<td>July</td>
<td>Hutan Simpan Panti Kota Tinggi</td>
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<tr>
<td>6</td>
<td>September</td>
<td>Hutan Simpan Mersing</td>
</tr>
</tbody>
</table>

Enhancing Biodiversity Areas

As at 31 December 2017 Kulim has set aside 105.92 hectares of land for buffer zones. Another 39.23 hectares of jungle patches within our estates will be preserved as full-fledged HCV forests.

Six (6) years ago, Kulim launched the National Corridor Initiative linking natural habitats that have been separated by human-modified landscapes. These corridors are critical for the maintenance of ecological processes, among the most important being, it facilitates the free movement of animals and the continuation of viable populations. To create these natural corridors, we have organised an annual tree planting event, Infaq 1 Warisan, which brings together employees as well as members of the public to play their part in enhancing biodiversity in our estates.
The 3Ps of Sustainability

Through the Raja Zarith Sofiah Wildlife Defenders Challenge 2016, the Group has also participated in the Mangrove Seedlings Sales Campaign. A total of 5,000 mangrove seedlings were given to the Johor National Park Corporation (“JNPC”) to rehabilitate identified coastal The handing-over ceremony of the mangrove seedlings on 9 May 2016, was officiated by Her Highness Che’ Puan Khaleeda Bustamam as the official representative of Her Royal Highness Raja Zarith Sofiah, the Permaisuri of Johor. The next edition will take place in 2018 with theme ‘Johor Mighty Rivers’.

Mitigating Impacts

Kulim acknowledges the fact that the establishment of monoculture oil palm plantations has a number of environmental impacts. Among the most serious are the large-scale conversion of forests to plantations, loss of critical habitat for endangered species, soil, air and water pollution as well as possible social impacts if the livelihoods of local communities are affected. The Group has therefore initiated several measures to mitigate the negative impacts of its operations:

- All our estates are required to provide regular updates on the species found in and around the estates and track incidents of wildlife encroachment, particularly elephants.
- Buffer zones have been established at major water bodies in or around the estates and adjacent to forest reserves. Regular Rapid Biodiversity Monitoring is conducted in the identified hotspot areas within the vicinity of our operating units. Any encroachment by intruders into these conservation areas or hotspots is closely monitored.
- To minimise soil erosion, our roads have been realigned and silt traps constructed at appropriate locations. We have also planted soft grasses, mucuna and natural cover crops for young palms. In areas where erosion is severe, we have encouraged the planting of vertivar and Guatemala to minimise soil erosion.
- Hunting, fishing and taking of fauna within our estates and adjacent protected areas are strictly prohibited.

The Group’s Environmental and Biodiversity Unit serves as a point of reference for all matters concerning environmental issues, notably in the areas of biodiversity protection and pollution control. The Unit collates and analyses environmental and wildlife data, publishing its findings and outcomes in environment and biodiversity bulletins.

Beyond Our Estate Boundaries

Our work in biodiversity conservation sometimes extends beyond the boundaries of the Group’s estates. Incidents of human-wildlife encounters happen occasionally, as when elephants encroached into the Sungai Tawing, Siang, Sindora and Tunjuk Laut Estates. The incursion into the four (4) estates incurred damage estimated at around RM184,715. We work closely with the Wildlife Conservation Society (“WCS”) and the Johor Department of Wildlife to mitigate the possibilities of human-wildlife conflicts. In our efforts to find a solution to the problem, we also participated in dialogues and meetings with the State Government and outgrowers.

WATER CONSERVATION

In Kulim’s updated materiality matrix, water usage by the Group’s estates and mills and the risk of chemical contamination, were among the primary concerns raised by our stakeholders.

<table>
<thead>
<tr>
<th>WATER USAGE (M³ Per tonne FFB)</th>
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<tbody>
<tr>
<td>2013</td>
</tr>
<tr>
<td>1.17</td>
</tr>
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*excluding Pasir Panjang POM

<table>
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<tr>
<th>BOD LEVEL (PPM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
</tr>
<tr>
<td>114</td>
</tr>
</tbody>
</table>

In 2017, the Group’s water consumption decreased slightly to 1.17 m³ per tonne FFB from 1.18 m³ per tonne FFB recorded the previous year. The drop was due to the recycling of steriliser condensates for use in mill operations. Water is mainly used to maintain our nurseries or for domestic consumption. To ensure that the processes water that is supplied to our workers is safe for consumption, water quality is closely monitored to ensure it meets the parameters set by the National Water Services Commission (“SPAN”).
ERODED SOIL PARTICLES

Soil erosion can be a major contaminant of our waterways and as a standard operating practice, fast-growing leguminous cover crops are planted in erosion-prone areas. Extensive use of chemical fertilizers will also pollute rivers and underground water sources. To reduce pollution from heavy metals and wherever feasible, the Group has combined inorganic with organic fertilizers derived from Empty Fruit Bunches (“EFB”), a waste product from the milling process.

The utilisation of effluents for land application raises concern over the Biological Oxygen Demand (“BOD”) levels. BOD is the amount of dissolved oxygen needed by aerobic biological organisms in the oxidation of organic matter. The average BOD from our mill effluents has decreased by 89.89% compared to 2016. This is due to the inactive microbes in the newly constructed biogas reactor at the Pasir Panjang Mill during its commissioning stage, accounting for higher BOD of effluent coming out from the biogas reactor. While the final discharge levels are high, they are still below the limits approved by the Department of Environment (“DOE”).

The Group has a growing Agrofoods business and as at 31 December 2017, we had a total cattle population of 6,930 heads. We are closely monitoring the problems associated with cattle rearing, which include soil compaction, over-grazing and soil erosion. Going forward, the challenge is to ensure that our business targets are in line with Good Agricultural Practices.

Reducing Chemical Usage

Waterways are also contaminated by the use of chemicals such as pesticides and herbicides. Kulim has long endeavored to find an alternative to pesticides and in 2008, we introduced cattle rearing as a natural weeding programme to reduce the use of chemicals. In lieu of pesticides, we have also adopted Integrated Pest Management (“IPM”) techniques to control pests, diseases, weeds and invasive species introduced to the environment. IPM techniques include the use of barn owls, which were introduced to our efforts to control the rodent population.

Paraquat has been banned or its use disallowed in 32 countries, mainly for health reasons. The herbicide is acutely toxic and corrosive. Apart from causing health problems, paraquat is not readily biodegradable and has the potential to contaminate groundwater. The RSPO has commissioned a study on Integrated weed Management and Alternatives to Paraquat and we are closely following developments.

Minimising Solid Waste

Standard operating procedures are in place for the disposal of solid waste. EFB is used as biocompost, while more than half of the palm fibres and shell produced by our estates are used as biomass in milling operations. The remaining palm fibres are used as biocompost while the shells are sold. A small amount of boiler ash is produced when palm fibres and shell are burned, and this is recycled into the soil to reduce acidity levels. An authorised agent has been appointed to transport the small amounts of hazardous scheduled waste for safe disposal at designated facilities.

ADDRESSING CLIMATE CHANGE

At the Paris Summit in December 2015, 196 countries met to sign a new climate change agreement. Despite the United State’s rejection of the Paris climate accord, world leaders again gathered in Paris in December 2017 to give new momentum in the fight against global warming.

A strong climate agreement is needed to protect the planet’s ecosystems and biodiversity. According to the Intergovernmental Panel on Climate Change, key Greenhouse Gases (“GHGs”) in the atmosphere have reached unprecedented levels; heat waves will occur more frequently and for extended periods; the oceans will continue to warm and acidify and sea levels are predicted to continue to rise due to increased melting of land-based ice such as glaciers and ice sheets. Climate change will amplify existing risks and create new ones for natural and human systems.
A report by the National Oceanic and Atmospheric Administration ("NOAA") showed that the global surface temperature in 2016 was the highest ever since record keeping began in 1880, raising new concerns about the accelerating pace of climate change. The temperature changes are largely driven by increased carbon dioxide and other human-made emissions into the atmosphere. In December 2015, Malaysia submitted its action plan to the UN Framework Convention on Climate Change ("UNFCC"), pledging to reduce its GHG emissions by 45% by the year 2030. The RSPO Principles and Criteria requires oil palm growers to monitor, manage and reduce GHG emissions across their entire operations.

**Biogas Plants**

The Group is establishing biogas facilities using methane capture technologies to convert Palm Oil Mill Effluents ("POME") to electricity. Two (2) plants have already been commissioned at Sedenak and the Pasir Panjang Palm Oil Mill ("POM"). A third biogas plant, at the Sindora POM, was physically completed in December 2017.

Kulim has set a target to reduce the Group’s overall carbon footprint to 58% by 2020 and to establish biogas plants at all of its five (5) mills by 2025. The installation of biogas plants at the remaining two (2) POMs are expected to be completed by 2025 to meet the requirements of the DOE.

**Carbon Emission Baseline**

In 2013, Kulim had the distinction of being the first Malaysian plantation company to publish a Carbon Footprint Report using the GHG Beta Version 1a Guidelines. These guidelines were developed with funding from RSPO in order palm oil producers to estimate the net GHG emissions produced during palm oil production.

In November 2016, PalmGHG Version 3.0.1, which is a new and improved version was released. The new version only needs one (1) year’s data compared to PalmGHG Version 2.1.1 which required an average of 3-years data. Starting from 1 January 2017, the RSPO PalmGHG will be used to calculate GHG emissions from operations, including land use change GHG emissions after November 2005. Public reporting of GHG emissions is mandatory through annual audit summary reports published on RSPO’s website.

In November 2017, Kulim produced its third biennial Carbon Footprint Report for year 2016 using PalmGHG Version 3.0.1. During the process of producing the report, we have amended our calculation and include Pasir Panjang POM in the calculation. Our net GHG emissions for 2016 amounted to 422,000 mt CO₂e or carbon dioxide equivalent. This is equivalent to 1.23 mt CO₂e per mt CPO and PK. For 2017 our next GHG emission amounted 431,000 mt CO₂e, which equivalent to 1.14 mt CO₂e per mt CPO and PK.

**Palm Kernel Shells**

As another waste product of our milling operations, about 92,650 tonnes of Palm Kernel Shells ("PKS") were produced in 2017. About 78,244 tonnes or 84% was used internally for power generation, while 14,406 tonnes were sold for external use as a replacement for fossil fuels. We were able to incorporate a carbon credit of 31,246 tonnes CO₂e because of ongoing tracking and monitoring of PKS that was sold.
Fertilizer Reduction

GHG emissions from the production, transportation and use of chemical fertilizers are among concerns being addressed by Kulim in its efforts to reduce the impact of its operations on the environment. In order to mitigate the excessive use of fertilizers without affecting FFB yields, Kulim has initiated a long-term organic fertilizer programme. Collection of field data is underway to optimise the combined use of chemical and organic fertilizers. In addition, all our mills have established composting projects to recycle the nutrients from EFB and POME back to the fields.

Outgrower Engagement

In preparing its 2012 Carbon Footprint Report, Kulim began a long-term engagement process with its outgrowers, who are estimated to account for more than 30% of its total footprint. This work has continued through 2017 and has now evolved into a full-scale programme to assist these outgrowers achieve RSPO certification. Two (2) outgrower groups have, so far, achieved certification, while we continue to work with the others. We believe that good agricultural practices, including the efficient use of fertilizers, will help to reduce emissions from third-party FFB.

International Sustainability and Carbon Certification (“ISCC”)

ISCC is a multi-stakeholder initiative with a multi-pronged objective of reducing GHG emissions, promoting the sustainable use of land, protecting the natural biospheres and effecting social sustainability. On 19 March 2017, the Pasir Panjang POM was our latest mill to be certified to ISCC. The Group’s Sindora, Tereh and Sedenak POMs were audited during the year and successfully recertified to the ISCC standard. Our next goal is to achieve ISCC status for the Palong Cocoa POM.
RSPO CERTIFICATION

The sustainable production of commodities has become mainstreamed, with Governments, industry players, traders and buyers, indigenous groups and consumers coming together to voice their concerns and forge systemic solutions to move forward. To allay the growing concerns of environmentalists and consumers, the RSPO was established in 2004 to promote the production and use of palm oil for People, the Planet and Prosperity.

RSPO has drawn up eight (8) Principles and 43 Criteria (“RSPO P&C”) that define sustainable palm oil production, one of the most important being that no primary forests or areas that contain significant concentrations of biodiversity or fragile ecosystems or areas that are fundamental to meeting the traditional needs of indigenous communities may be cleared for the cultivation of oil palms. Certification to RSPO may be withdrawn at any time in the event of an infringement of the rules and standards.

The 3Ps of Sustainability

Delivering Year-on-Year Profit

In the past, profitability was considered the only important factor in a company’s bottom-line. However, we are now in an era of accountability; more and more corporations realise that making money as if it is unrelated to its economic and social impacts is not only short-sighted but counter-productive.
In 2017, total production of certified palm oil amounted to 12.08 million tonnes or 19% of the global production (Source: RSPO, 20 February 2018). The demand for responsibly produced palm oil is growing as environmentally and socially responsible buyers are willing to pay premium prices. Kulim was among the first palm oil companies to be a member of the RSPO. Since January 2009, almost all of our plantations, including those of JCorp managed by Kulim, have been fully RSPO-certified. All our five (5) mills have also been certified, the latest being the Pasir Panjang POM, which was certified on 9 March 2017. RSPO certification is valid for five (5) years with a surveillance audit conducted annually and a recertification audit at the end of the fifth year. Since countries differ in their laws for the same criteria, the RSPO P&C are further adapted for use by individual countries through National Interpretations. At a meeting on 6 March 2016, the RSPO Board of Governors has endorsed the revision of the Malaysian National Interpretation ("MYNI") document.

MYNI 2014, as it is known, is based on the RSPO P&C and it supercedes MYNI 2010, which was used for certification of plantations and mills in Malaysia.

In addition to RSPO, four (4) of our mills have been accorded International Sustainability & Carbon Certification ("ISCC") status. Two (2) have also earned Identity Preserved ("IP") status. The ISCC standard verifies compliance with the requirements of the European Union’s Renewable Energy Directive and Germany’s sustainability ordinances. ISCC is now among the most successful certification schemes. IP is part of RSPO’s supply chain model that ensures that sustainable palm oil from a single identifiable source is kept separately from ordinary palm oil throughout the supply chain.

The Biogas Plant at Sindora Palm Oil Mill was completed in December 2017, furthering Kulim’s Sustainability Agenda through the increased use of biogas as an alternative source of energy.
For Kulim, engaging with our stakeholders gives us the opportunity to align our business practices with societal needs and expectations, helping us drive long-term sustainability and shareholders’ value. We pursue stakeholder’s engagement in sync with our business strategies as an integral part of an idea-generating, innovative and collaborative exercise.

### Objective | Benefits of Engaging | Cost of Not Engaging
--- | --- | ---
Tracking sociopolitical and environmental issues | Maximise positive environmental and social impacts | Absence or loss of trust
 | Issue identification | Damage control
 | Mitigation and adapting | Negative media report
 | Enhance business intelligence to improves decision making | Ensure project success
 | Collaboration, feedback and identify remedial actions | Increased business risks

- **Objective**
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- **Benefits of Engaging**
  - Absence or loss of trust
  - Damage control
  - Negative media report
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  - Increased business risks

- **Cost of Not Engaging**

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### STAKEHOLDER’S ENGAGEMENT

In today’s business environment, organisations do not exist in isolation. These include dealing with more sophisticated, better informed and engaged stakeholders with expectations that corporations will be responsive to their concerns. Stakeholder’s engagement is no longer optional for most businesses and is in fact a basis of good corporate governance.

At Kulim, concerted efforts are made to build good relations and rapport with our employees, business partners, investors, members of the media, suppliers, government agencies, NGOs, pressure groups, unions and the community at large. We take the utmost care to ensure a variety of perceptions and inputs can be obtained that represents the views and opinions of a broad spectrum of stakeholders. To ensure balanced and fair representation of opinions on a subject matter, we recognise the importance of bringing on board, opposing and critical voices.
While a materiality assessment is an investment of time, effort and resources, it is an invaluable tool for gathering insights that can drive Kulim’s sustainability strategy. Our materiality matrix is reviewed and adjusted annually.

### Materiality Matrix

<table>
<thead>
<tr>
<th>High Stakeholder Concerns / Support Company Values</th>
<th>Business Risk/Opportunity</th>
</tr>
</thead>
<tbody>
<tr>
<td>RSPO premium Ethic diversity</td>
<td>Chemicals Water Safety and Health</td>
</tr>
<tr>
<td>Environment rehabilitation Biodiversity</td>
<td>Climate change Foreign workers</td>
</tr>
<tr>
<td>Waste management Workers unions</td>
<td>Employee development Talent attraction</td>
</tr>
<tr>
<td>Gender diversity Agricultural productivity</td>
<td>Smallholder Sand mining Community and workers’ lives Good Agricultural Practices</td>
</tr>
<tr>
<td>Air pollution Practices in the marketplaces</td>
<td>Change has become an undisputed fact, along with natural resource depletion, loss of biodiversity and deforestation, ocean acidification, water and air pollution and acid rain, are all among a growing list of planetary challenges. Now is the time to step up and forge ahead. Kulim is well aware that the road ahead will not be easy. But if we sharpen our focus and get things right, we believe that we can find common ground solutions that are good for businesses, environment and people. The journey towards a system of sustainability that will enable us all to “meeting the needs of the present generation without compromising the ability of future generations to meet their own needs” is not marked by a clear path. Kulim is determined to play its part in helping define that path that offers greater prosperity for present as well as future generations.</td>
</tr>
</tbody>
</table>

Stakeholders issues cannot be treated in isolation. Going back to 2008 and in line with the principles of the Global Reporting Initiative, Kulim has engaged with its internal and external stakeholders to develop a materiality process that will identify and prioritise the issues that are of most interest to our stakeholders and have a bearing on our business across the entire whole value chain.

Basically, Kulim’s Sustainability Materiality Framework consisted of three (3) steps:

1. **Identification.** We began by identifying our stakeholders, prioritising them systematically by assessing their influence on Kulim and our impact on them, be it economic, environmental or social. Through engagement with the stakeholders, we determined the critical issues to be managed and changed.

2. **Prioritisation.** Issues were prioritised using internal and external criteria as well as weighting to reflect the most important to both stakeholders and to our business. At this stage, the issues were presented graphically using a materiality matrix. From our engagements with stakeholders and materiality analysis we determined the material issues of highest concern. In 2017 these included water usage at our estates and mills, as well as health and safety standards at the workplace.

3. **Review.** The issues prioritised in the materiality index were reviewed internally and signed off at the management level.