



Kulim (Malaysia) Berhad (23370-V)

# STRENGTHENING SUSTAINABLE FUTURE



Plantation Division  
Sustainability Report  
**2016-2017**

The background of the page features a sunset scene with silhouettes of palm trees against a warm, orange and yellow sky. A dark teal vertical bar is on the left side. A dark grey horizontal bar is positioned across the middle of the page, containing the 'CONTENTS' header.

# »» CONTENTS

Kulim Group strongly emphasise the importance of being focused on strengthening our key strategic initiatives in areas of 5 P's (Peace, Prosperity, Planet, People, Partnership). The preservation and sustenance of the environs will primarily ensure growth and future sustainability which will not only be beneficial for all communities but also create exponential value for all stakeholders.

# SECTIONS



<b>01</b>	<b>OVERVIEW</b>	
	About this Report	04
	Sustainability Journey	06
	2016-2017 Highlights	08
	The Report Card	
	2016-2017	12

<b>03</b>	<b>GOVERNING OUR SUSTAINABILITY EFFORTS</b>	
	5Ps - Peace, Prosperity, Planet, People and Partnership	27
	Sustainability Policy	28
	Leadership for Sustainability	30
	Engaging Our Stakeholders	31

<b>05</b>	<b>PEACE</b>	
	Building Transparency	53
	Grievance Mechanism	55
	Compliance	56
	RSPO Compliance	57
	Our Commitments to RSPO	58
	Overcoming Challenges	59
	Incidents of Regulatory Non-Compliance	60
	Core Labour Standards	62
	Community Engagement and Support	64
	Quality Education	67

<b>06</b>	<b>PROSPERITY</b>	
	Economic Performance	71
	Agricultural Productivity	73
	Product Quality	74
	Customer Satisfaction	76
	Community Investment	77

<b>FEATURES</b>	
<b>02</b>	<b>MESSAGE FROM THE EXECUTIVE DIRECTOR</b> 16
<b>04</b>	<b>MATERIALITY ASSESSMENT</b>
	Materiality Matrix 41
	Defining Materiality 42
	Mapping the Material Matters to SDGs 46
	Risk Management 48

<b>07</b>	<b>PLANET</b>	
	Greenhouse Gas Emissions	81
	Gross Carbon Emissions	83
	Energy Consumption	84
	Promoting Renewable Energy	86
	Good Agricultural Practices	87
	Integrated Pest Management	89
	Planting Technique	91

	Water Management	92
	Effluents and Waste	94
	Biodiversity and Conservation	96
	Chemical Use	102

<b>08</b>	<b>PEOPLE</b>	
	Occupational Safety and Health	107
	Employee Distribution	109
	Women at the Workplace	111
	Diversity and Equal Opportunity	113
	Training and Development	114
	Performance Management	116

<b>09</b>	<b>PARTNERSHIP</b>	
	Supply Chain Management and Traceability	121
	Smallholder Management	128

	<b>GRI CONTENT INDEX</b>	131
--	--------------------------	-----

	<b>ACRONYMS AND ABBREVIATIONS</b>	136
--	-----------------------------------	-----

	<b>ASSURANCE STATEMENT</b>	138
--	----------------------------	-----

# 01 OVERVIEW

About This Report	04
Sustainability Journey	06
2016-2017 Highlights	08
The Report Card 2016-2017	12



# ABOUT THIS REPORT

WITH THIS SUSTAINABILITY REPORT, WE HAVE TRANSITIONED FROM USING THE GLOBAL REPORTING INITIATIVE ("GRI") G4 GUIDELINES FRAMEWORK TO GRI STANDARDS. THIS REPORT HAS BEEN PREPARED IN ACCORDANCE WITH THE GRI STANDARDS - CORE OPTION AND HAS UNDERGONE THIRD PARTY ASSURANCE FOR ITS DATA ACCURACY AS WELL AS GRI COMPLIANCE. THE STATEMENT OF ASSURANCE IS AVAILABLE ON PAGE 138 TO 141.

Here at Kulim (Malaysia) Berhad, ("Kulim" or the "Group"), we recognise the importance of creating a sustainable value chain. As defined in the report 'Our Common Future' by the World Commission on Environment and Development, sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs. This definition captures our rationale based on which we strive to integrate sustainability in the short, medium and long-term planning of the Group's operations.

This sustainability report is our sixth biennial report that covers the sustainability performance, initiatives

and achievements of Kulim's plantation segment. It is available upon request and can also be downloaded from the Kulim's website. Prior to this report, we published 'Beyond the Benchmarks' in February 2017, which covered our sustainability journey and performance in 2014 and 2015.

## Meeting the Standards

This report reflects Kulim's activities in adherence to international as well as national standards, including Roundtable on Sustainable Palm Oil ("RSPO"), Malaysia Sustainable Palm Oil ("MSPO"), Malaysian Palm Oil Board ("MPOB"), International Organisation for Standardisation ("ISO") and

Occupational Safety and Health Management Systems ("OHSAS"), and the International Sustainability Carbon Certification ("ISCC") accreditation where applicable.

## Scope of Reporting

The different aspects of economic, environmental and social sustainability that impact our operations as well as our stakeholders are highlighted in this report. The scope of this report covers the activities and sustainability journey of our plantation operations in Malaysia as it forms our largest revenue segment and the reporting period is from 1 January 2016 to 31 December 2017. This cycle of reporting does not include our plantation operations in Indonesia.

Kulim's plantation segment which has its headquarters ("HQ")<sup>1</sup> in Ulu Tiram Estate, Johor includes five (5) Palm Oil Mills ("POM") and 27 estates, of which 26 are in Johor and only UMAC Estate is located in Pahang. There are altogether 32 Operating Units ("OU") as mentioned below:



While the ownership and principal activities of the Group's subsidiaries are described from Page 201 to 207 of the Kulim's Integrated Annual Report 2017, the subsidiaries involved in running the plantation operations within the scope of reporting are Kulim (Malaysia) Berhad, Mahamurni Plantations Sdn Bhd, Kulim Plantations (Malaysia) Sdn. Bhd., Sindora Berhad, Kumpulan Bertam Plantations Berhad, Selai Sdn. Bhd., United Malayan Agriculture Corporation Berhad and Ulu Tiram Manufacturing Company (Malaysia) Sdn. Bhd.

### Operational Changes

Our transformation journey took a further step forward in mid-2016 when our outgoing shareholders voted in favour of the proposal by our major shareholders, Johor Corporation ("JCorp") to make Kulim a wholly-owned subsidiary of JCorp

by delisting it on 4 August 2016. In taking this decision to move forward, we considered Kulim's needs, as this exercise will improve the Group's agility to decide and take affirmative steps to recalibrate and invigorate the business to face the future challenges.

Rest assured that, even after going private, our commitment to sustainability and to all our stakeholders remains unabated. We will continue to remain steadfast in our commitment to embrace sustainability, with transparency and good corporate governance as our overriding philosophy.

<sup>1</sup> While the address of headquarters of Kulim's plantation segment is Ulu Tiram Estate K.B 705, 80990 Johor Bahru, the headquarters of its parent company, Johor Corporation is Menara Komtar, Johor Bahru City Centre, 80000, Johor Bahru.

# » SUSTAINABILITY JOURNEY

## Strengthening our sustainability effort and achieving milestones



- First Internal Social Impact Assessment ("SIA") based on RSPO Principle 6 and contains SA8000-Auditable Certification Standard
- Established the Sustainable Palm Oil team and appointed a Group Director for Sustainability

- Launched Kulim Wildlife Defenders to eliminate poaching in estates
- Became one of the earliest Malaysian plantation companies with RSPO-certified mills and supply base
- Launched Kulim's Sustainability Handbook outlining policies and guidelines for stakeholders

2009

- Established Sustainability Initiative Council ("SIC") to monitor performance against sustainability matrix
- Rebranded PAW to Women OnWards ("WOW"), which launched Jejari Bestari; an entrepreneurship programme for women in local communities

2010

2011

2004



- Became a RSPO member
- Launched Sustainable Palm Oil Programme based on 8 Principles and 39 Criteria of RSPO
- Appointed task force to implement Sustainable Palm Oil Programme

2008

- Joined World Wildlife Fund ("WWF") Malaysia in a meeting with Greenpeace in London to seek clarification and engage in open discussion
- Established Panel Aduan Wanita ("PAW"), a women's grievance panel
- Became first Malaysian palm oil producer to publish the Sustainability Report for 2007-2008

2007

2012

- Four (4) palm oil mills were ISCC certified

- Launched the Natural Corridor initiatives that linked to natural habitats separated by human modified landscapes

- Published Carbon Footprint Report 2012, the first by a plantation company in Malaysia
- Launched 'Raja Zarith Sofiah Wildlife Defenders Challenge', a programme to increase awareness of wildlife conservation among students

2013

- Relunched empty pesticide container recycling campaign in collaboration with G-Planters
- Raja Zarith Sofiah Wildlife Defender Challenge Programme 2016 '*Manusia dan Paya Bakau, Ke Arah Kehidupan Simbosis*'
- WOW celebrated International Women's Day with the theme '*Wanita dan Cabaran Global*'

2015

- Published Carbon Footprint Report 2014
- Kulim's Carbon Footprint Report 2014 won the Best Carbon Disclosure Report at Asia Sustainability Reporting Awards ("ASRA") 2015
- Installed biogas plants in Sedenak and Pasir Panjang POM to achieve 58% carbon reduction by 2020
- Banned the use of Paraquat in all estates
- Launched 'Saving Orangutan Saving Forest' campaign with Orangutan Land Trust (OLT)
- Four (4) mills were *Halal* certified in 2015

2016

- Participated in the Tribute to Women Malaysia Lifestyle Fest 2017
- RSPO Secretariat conducted field trip to Tereh POM, Tereh Selatan Estate, Sungai Tawing Estate and Kulim Eco-Trail Retreat
- Wildlife Conservation Campaign at Simpang Renggam
- Launched Semarak Kasih 2.0, an Education Programme for children with special needs and persons with disabilities
- Published Carbon Footprint Report 2016
- Published Sustainability Report 2014-2015
- The biogas plant at Sindora POM was commissioned
- WOW celebrated International Women's Day with the theme "*Karnival Hari Wanita Antarabangsa 2017*"
- Pasir Panjang POM was RSPO certified and *Halal* certified in 2017

2017

# >> 2016-2017 HIGHLIGHTS

## BUILDING OUR SUSTAINABILITY PERFORMANCE

### Buffer Zone Set-Aside



### Carbon Footprint 2016

**6.95%**

Increase

Product Carbon Footprint

**1.23 MT**

CO<sub>2</sub>e /CPO /PK

### High Conservation Value ("HCV") Forest Area



### Carbon Footprint 2017

**15%**

Decrease

Product Carbon Footprint

**1.08 MT**

CO<sub>2</sub>e/CPO/PK

\* The increase includes JCorp Estates

### RSPO Certified

---



- **SEDENAK POM**
- **SINDORA POM**
- **TEREH POM**
- **PALONG COCOA POM\***
- **PASIR PANJANG POM**

### HALAL Certified

---



- **SEDENAK POM**
- **SINDORA POM**
- **TEREH POM**
- **PALONG COCOA POM**
- **PASIR PANJANG POM**

### ISO 14001:2004 Certified

---



- **SINDORA POM**
- **SINDORA ESTATE**
- **SEDENAK ESTATE**

### ISO 9001:2008 Certified

---



- **SINDORA POM**
- **TEREH SELATAN ESTATE**
- **TEREH POM**
- **PALONG COCOA POM**
- **SEDENAK POM**

### ISCC Certified

---



- **SEDENAK POM**
- **SINDORA POM**
- **TEREH POM**
- **PASIR PANJANG POM**
- **PALONG COCOA POM\*\***

\* Transitioning from RSPO Mass Balance to RSPO Identity Preserve

\*\* Preparing for new certification

# » 2016-2017 HIGHLIGHTS

## AWARDS 2017

Awards won at the 9<sup>th</sup> Annual Global CSR Summit Awards Ceremony 2017



EMPOWERMENT OF  
WOMEN AWARD  
(GOLD)



BEST WORKPLACE  
PRACTICES AWARD  
(BRONZE)



CSR LEADERSHIP  
AWARD (BRONZE)

## AWARDS 2016



Integrated Annual Report 2015  
was shortlisted for  
Asia's Best Integrated Report



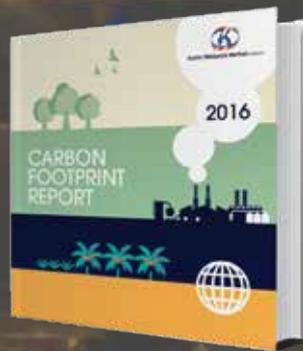
Won Bronze Award  
at the 8<sup>th</sup> Annual Global CSR  
Summit and Awards 2016



ACCA Malaysia Sustainability  
Reporting Awards  
("MaSRa") 2016

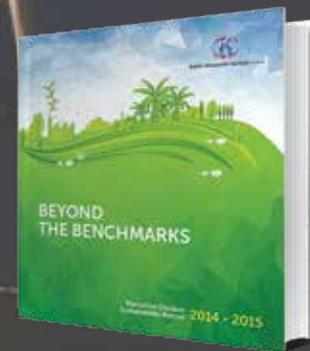


GLOBAL RESPONSIBLE  
BUSINESS LEADERSHIP  
AWARD 2017



**CARBON FOOTPRINT REPORT**

**PUBLISHED  
IN 2017**



**SUSTAINABILITY REPORT**

**PUBLISHED  
IN 2017**

# » THE REPORT CARD 2016 – 2017

AREA	TARGET	2016	2017	JUSTIFICATION
<b>Lost Time Accident Rate ("LTAR")</b>	Below 10	3.51 Achieved	3.41 Achieved	The reduction in LTAR in 2017 versus 2016 and in 2016 when compared to 2015 was due to consistent training and strict supervision by the Operating Units ("OU") in all aspects of occupational safety and health.
<b>Severity Rate</b>	Below 3.5	2.13 Achieved	3.45 Achieved	Continuous improvements are now in place to enhance the safety standards with the aim to reduce accidents.
<b>Fatality</b>	Zero	Target Achieved	1 (Target Not Achieved)	The fatality occurred at Tunjuk Laut Estate as a result of a human-wildlife encounter. Learning from the unfortunate incident, we have introduced stringent mitigation measures. For instance, we formulated a Human-Elephant Conflict Notice which outlines measures to be undertaken if any of our employees encounter an elephant. Furthermore, patrol units are required to include personnel who are licensed to carry firearms in the event that a warning shot is required to drive the herd off the plantation grounds.
<b>Peat Development</b>	Zero	Target Achieved	Target Achieved	Our management is committed to not planting on peat land as clearing peat swamp forests results in loss of biodiversity, land subsidence and fires when the peat land area is drained, flooding and contamination of surface water and groundwater from fertilisers and pesticides.
<b>Reduction in usage of Glyphosate on 1-year old palms</b>	2% by 2020	6.86 ltr/ha/yr	5.61 ltr/ha/yr	<p>Glyphosate is an herbicide that can result in health risks if used in an uncontrolled manner. Monthly records of Glyphosate consumption during the period of 1-year after planting commenced January 2016 and is currently in progress.</p> <p>There was an 18% reduction in Glyphosate usage in 2017 when compared to 2016. However, continuous monitoring is needed to ascertain the reduction.</p>



AREA	TARGET	2016	2017	JUSTIFICATION
<b>Eliminate the use of Paraquat</b>	Zero	0.002 ltr/ha	Target Achieved	In 2015, the purchase of the herbicide Paraquat was phased out and as a result, the 0.002 ltr/ha used in 2016 was the last of what was remaining in stock.
<b>Reduce water consumption in the mills</b>	1.2 m <sup>3</sup> /mt FFB	1.18 m <sup>3</sup> /mt FFB	1.17 m <sup>3</sup> /mt FFB	By reusing and recycling steriliser condensate, as a substitute for crude oil dilution at the press station, we have been able to maintain water consumption at target level.
<b>ISCC<sup>2</sup></b>	To have all five (5) POMs ISCC certified by 2017	In progress	Four (4) POMs out of five were ISCC certified.	We are committed towards achieving our target to have all Kulim's POMs ISCC certified. In 2018, Palong Cocoa POM will be ISCC certified.
<b>Reduce in CO<sub>2</sub> emissions</b>	To commission and install five (5) biogas plants, thereby achieving a CO <sub>2</sub> reduction of 58% by 2020	As of 2016, the status of the biogas plants were as follows: <ol style="list-style-type: none"> <li>1. The Sedenak POM commenced operations</li> <li>2. The Pasir Panjang POM was commissioned</li> <li>3. Sindora POM construction of the plant is in progress</li> </ol>	As of 2017, the status of the plants were as follows: <ol style="list-style-type: none"> <li>1. Pasir Panjang POM commenced operations</li> <li>2. Sindora POM was commissioned</li> <li>3. Two (2) more plants to be installed by 2019</li> </ol>	We have revised our initial target of commissioning five (5) biogas plants by 2017 to the installation of biogas plants for all POMs by 2025.  This revision was necessary: <ul style="list-style-type: none"> <li>• to evaluate the existing plants and their technology and explore more cost-effective technology; and</li> <li>• to study the feasibility of interconnecting the biogas power plants to the Tenaga Nasional Berhad ("TNB") grid.</li> </ul>



<sup>2</sup> International Sustainability and Carbon Certification ("ISCC") is a globally recognised certification system that aims at the implementation of highest sustainability requirements. It also includes further add-ons, which enable to communicate even more information at the different stages of the supply chain, like greenhouse gas emissions or consumables.

# » THE REPORT CARD 2016 – 2017

AREA	TARGET	2016	2017	JUSTIFICATION
<b>External FFB (i.e. outgrowers and traders) to be RSPO certified</b>	100% outgrowers and traders by 2025	No outgrower was certified	No outgrower was certified	In 2013, through our assistance two (2) of our smallholders were certified and they were continue to supply FFB to our mills. However, in 2016 and 2017, realising that RSPO awareness among outgrowers is still lacking, we focused on improving the level of awareness through a roadshow programme. We foresee the need for more time in meeting the target and as a result we have revised the target year from 2019 to 2025.
<b>Palm Product Extraction Rate ("PPER") and FFB yield</b>	30% PPER and FFB by 2036	25.63%	25.83%	<p>Our PPER performance has steadily increased during the reporting period and is within reach of 2036 target of 30%. The growth in PPER was due to continuous replanting activity with higher yielding material, improvement in crop quality and oil recovery.</p> <p>Kulim aspires to reach its target FFB yield by optimising its resources and improving agricultural productivity.</p>



AREA	TARGET	2016	2017	JUSTIFICATION
<b>Development on land containing HCV<sup>3</sup></b>	Zero	Target Achieved	Target Achieved	Kulim is committed to protecting HCV areas as the forested areas may contain rare, threatened or endangered ecosystems, or the areas may provide ecosystem services in critical situations such as erosion control. Additionally, we are bound by RSPO Principles and Criteria in this regard.
<b>Penalty for environment-related incidents</b>	Zero	Target Achieved	Target Achieved	Due to our vigilance and strict adherence to regulations regarding the environmental aspect of our operations, we have not received any penalties for environment related incidents during the reporting period.
<b>Carbon Footprint Report for Kulim plantations</b>	Biennial	In progress	Carbon Report published in December 2017	Since 2012, we have published Carbon Footprint Reports of Kulim's plantation segment biennially. This is an active effort on our part to create awareness among our stakeholders of our environmental performance on a regular basis.



<sup>3</sup> Land that has High Conservation Value (HCV) has biological, ecological, social or cultural values which are considered outstandingly significant or critically important, at the national, regional or global level.



**02** MESSAGE FROM  
THE EXECUTIVE  
DIRECTOR



**KULIM (MALAYSIA) BERHAD**



# MESSAGE FROM THE EXECUTIVE DIRECTOR

## FOCUSED ON PROTECTING THE PLANET

WE AIM TO MAINTAIN A BALANCED PORTFOLIO WHICH MEETS OUR FINANCIAL OBJECTIVES, WHILST EARNING RECOGNITION AS A LEADER IN RESPONSIBLE AND SUSTAINABLE BUSINESS.

**BY ZULKIFLY ZAKARIAH**

We are proud to present our sixth (6) Sustainability Report, which highlights our journey and performance against economic, environmental and social parameters of sustainability from 1 January 2016 to 31 December 2017.

Our quest for sustainability is a never-ending journey in an ever-evolving space. Kulim was among the first companies in Malaysia to become a member of the RSPO, the global standard that is an assurance that palm oil is produced without causing harm to the environment or society. By setting ambitious yet realistic targets within a foreseeable time frame, Kulim has created a clear path and direction for our operations to organise and progress steadily.

The Group's commitment to RSPO compliance is evident from the following achievements:

- All of our plantations in Malaysia have been fully RSPO-certified since January 2009;
- Five (5) POMs attained RSPO certification, the latest is the Pasir Panjang POM which was certified on 9 March 2017;
- Two (2) mills have attained RSPO Identity Preserved ("IP") status; and
- Four (4) of our POMs have been accorded ISCC status and Palong POM is expected to complete its certification in 2018.



# » MESSAGE FROM THE EXECUTIVE DIRECTOR

Being certified means that any Sustainable Palm Oil ("SPO") produced at the mill can be traced throughout the supply chain, from estate to factory to retailer. We have set a target for our fully segregated mills to gain the benefits of SPO premium, with the exception of Sedenak POM. In future, sustainability premium could become an important contributor to the Group's margin, given the ongoing international scrutiny and pressures in this regard.

Over the years, we have implemented various checks and measures in the form of policies and procedures, including our Sustainability Policy to ensure the fundamental principles of sustainability are embedded throughout the Group. We use a Balanced Scorecard which consists of financial and non-financial metrics to measure the performance and efficiency of our business. Our progress is constantly assessed against this scorecard where Key Performance Indicators ("KPI") have been identified in four (4) perspectives, namely Financial, Stakeholders, Internal Processes and Organisational Capacity.

At the end of Financial Year 2017 ("FY2017"), 85% of the Group's KPIs have been met which has positioned us on a strong and stable trajectory. This achievement reflects our ability to adapt to the changing expectations of

our stakeholders by achieving business growth without compromising on economic, environmental and social sustainability. Our strategy and sustainability policy embraces the 3Ps of People, Planet and Profit. However, the framework for this report has transitioned from 3Ps and is built on the 5Ps of Peace, Prosperity, Planet, People and Partnership.

In the **short term**, within the next year or so, the plan is to fully capitalise on our RSPO-certified status, a status that we enjoyed since 2009, when we achieved full RSPO certification. In an age when consumer awareness of environmental and social issues has never been higher, RSPO-certified sustainable palm oil fetches a premium. By banking on innovation, we will continue our focus on enhancing efficiencies and cost management.



Our **medium-range** plan is to increase the size of the palm oil business to reap better economies of scale, while exploiting opportunities to move further up the palm oil value chain. Plans are also in the pipeline to divest non-performing businesses or to optimise returns on investments. Within our Intrapreneur Ventures (“IV”) Segment, the new emphasis will be on companies that are related to our core palm oil business. We are currently evaluating the viability of both our pineapple growing and cattle rearing projects. To crystallise the value of Kulim’s significant landbank, the first phase of Kulim’s housing project at Taman R.E.M, is expected to be completed by end-2018. Sungai Papan Estate has been earmarked for a mixed property development project, while the Sedenak Estate will be converted into the Sedenak Data Centre and Robotic Valley.

We have set our sights to establish biogas plants at all of our five (5) mills by 2025. As at end-2017, three (3) biogas plants have been installed with two (2) of them in operation. Generating biogas from Palm Oil Mill Effluent (“POME”) can help reduce emissions while generating energy, thereby improving the Greenhouse Gas (“GHG”) impact of palm oil production. We have also set our sights to obtain the MSPO certification by end-2018. Covering seven (7) main principles, MSPO certification was first launched in 2015 on a voluntary basis and will become mandatory for all Malaysian palm oil producers by 2019.

Over the **long term**, the target is to scale up FFB production and achieve year-on-year positive growth in palm product yields and extraction rate. Our long-term vision includes the identification of new income streams via the Blue Ocean Strategy. The Group has taken steps to take its sustainability agenda to the next level by continually developing and

deploying new technology, utilising environment-friendly fertilisers, improving field mechanisation, providing on-the-field training for operational optimisation, allocating more funds for Research and Development (“R&D”) to produce improved clones with higher yields, switching to alternative energy sources and imposing more stringent controls on operational costs.

We are pleased to announce that Kulim was recognised at the Global Responsible Business Leadership Awards 2017 as a winner in the Excellence Category for the Plantation Sector. This international award organised by the Asia Pacific CSR Council is one of the most prestigious forms of recognition for companies across the globe that have demonstrated leadership in Corporate Social Responsibility and Corporate Sustainability. The key criteria for this award is compliance with the United Nations Sustainable Development Goals.





# MESSAGE FROM THE EXECUTIVE DIRECTOR



## Key events that took place in 2016 and 2017 include:

- Official visit by the Minister of Foreign Affairs of Indonesia, Ibu Retno L.P Marsudi to Basir Ismail Estate.
- Social visit by Bapak Haris Nugroho, the Consulate Jenderal Republic of Indonesia to Sindora Estate.
- *Majlis Sambutan Maulidurrasul 1438H* at Masjid Jamek, Ulu Tiram Estate.
- WOW organised a weekend programme namely, WOW on Weekend at Lotus Desaru Beach Resort.
- WOW participated in Tribute to Women Malaysia: Lifestyle Fest 2017.
- *Semarak Kasih 2.0*; an effective education programme for Special Children & Person with Disabilities (PWDs) at Kulim Training Centre.
- A celebration of Kulim's International Women's Day organised by WOW.
- *Sambutan Hari Kanak-Kanak Sedunia Peringkat Kulim* at KSRT Clubhouse.



Labour shortages, rising operating costs, currency fluctuations, intense competition from other edible oils and fats, fluctuations of Crude Palm Oil ("CPO") and Palm Kernel ("PK") prices, regulators', customers' as well as market requirements are some of the key challenges we encounter. The continuous escalation of operation costs arising from higher prices of labour, petroleum and fertiliser is a long-term threat to the industry. Furthermore, the increase in yield due to improve biotechnology progressively led to a glut in the world's supply of edible oils/ fats and resultant declining long-term prices. Externalities such as unfavourable weather conditions impact palm oil production. Due to the lingering effects of the 2015 El Nino weather phenomenon, Malaysia's total oil palm production fell by 13.2% in 2016. The new administration of the

United States, the Brexit Referendum of the United Kingdom and the resulting monetary policy divergence in the developed countries have heightened uncertainty for the Malaysian economy, affecting sentiments and labour market conditions. In an increasingly interconnected world, we are also exposed to political risks, either directly or indirectly. Any political instability for instance, could affect our business.

The challenges that we have faced in the past serve as an important lesson to effectively address the expectations and requirements of regulators, customers, the market and employees, and steer the Group towards a resilient and sustainable future. In a demanding year, it has been inspirational how both management and staff, have contributed, one way or another, to the success of the Group. We have

also benefited from the support of our business partners and associates, consultants, financiers, media and the relevant government and regulatory authorities. Their support has always made the difference in the way we do business. Moving forward with our current momentum, we look towards achieving many more milestones that will propel our sustainability performance.

**Zulkifly Zakariah**  
Executive Director  
Kulim (Malaysia) Berhad

## 03 GOVERNING OUR SUSTAINABILITY EFFORTS

5Ps - Peace, Prosperity, Planet, People and Partnership	27
Sustainability Policy	28
Leadership for Sustainability	30
Engaging Our Stakeholders	31



# » GOVERNING OUR SUSTAINABILITY EFFORTS

THE CORE FOCUS OF OUR BUSINESS REVOLVES AROUND PROVIDING OUR CUSTOMERS WITH HIGH QUALITY PALM OIL PRODUCTS THAT ARE RESPONSIBLY PRODUCED. IN ACHIEVING THIS, SUSTAINABILITY PLAYS A KEY ROLE IN THE GROUP'S OVERALL APPROACH TOWARDS MANAGING OUR BUSINESS OPERATIONS IN ORDER TO ACHIEVE THE STANDARDS OUTLINED BY INTERNATIONAL BODIES AND TRADE REQUIREMENTS.

## THE 17 SUSTAINABILITY DEVELOPMENT GOALS AS BELOW:



Assuring our customers of our ability to sustainably produce Certified Sustainable Palm Oil ("CSPO") lies on our continuous commitment to the RSPO. Equipped with a set of guidelines that an organisation has to adopt, the RSPO certification complements the general efforts of the Group towards achieving sustainable development in our plantation sector.

In 2015, the United Nations developed the Sustainability Development Goals ("SDG") under the aegis of **"TRANSFORMING OUR WORLD: THE 2030 AGENDA FOR SUSTAINABLE DEVELOPMENT"**. These SDGs were ratified by 193 member states, including Malaysia and have become the blueprint by which governments and businesses chart out their targets for sustainable growth. From the list of 17 SDGs, those that are aligned to our sustainability efforts have been highlighted throughout the report.



## 5PS - PEACE, PROSPERITY, PLANET, PEOPLE AND PARTNERSHIP

The overarching goal of the 17 SDGs is to address systemic barriers such as irresponsible resource consumption and production trends, inequality, inadequate development and job opportunity that detract a country from developing sustainably. To have a good understanding of the broad scope of the agenda, the '5Ps' were introduced – Peace, Prosperity, Planet, People and Partnership. For this cycle of reporting we have moved from the previous framework of 3Ps, i.e. People, Planet and Profit to 5Ps. The main thrusts of this report are the 5Ps and Kulim's economic, environmental and social sustainability disclosures have been structured accordingly. Furthermore, the aforementioned SDGs that align to our operations and sustainability efforts have been mapped throughout the report.



# » SUSTAINABILITY POLICY



AS ONE OF THE EARLIEST PLANTATION COMPANIES TO ESTABLISH ITS REPUTATION AS A SUSTAINABLE PALM OIL PRODUCER, THE GROUP CONTINUES TO BREAK BOUNDARIES IN THE GLOBAL PALM OIL MARKET TRADE BY CONTINUING TO EMBRACE INNOVATIVE SUSTAINABLE PRACTICES FOR PALM OIL PRODUCTION.

Building on our decade-long commitment to “sustaining **PEOPLE, PLANET** and **PROFIT**” to ensure that our future generations will benefit from today’s practices, we are beginning to expand this policy to include “**PARTNERSHIP**”, “**PEACE**” and to replace “Profit” with “**PROSPERITY**”. Broadening our views on sustainability ensures that we remain true to the Group’s definition of sustainable development.



“ENCOMPASSING SOCIAL RESPONSIBILITY, RESOURCE STEWARDSHIP, APPROPRIATE ENVIRONMENTAL CONTROL AND THE CAPACITY TO PRODUCE EFFICIENTLY. WE SET OUT TO ACHIEVE THIS BY BALANCING THE CONSIDERATIONS OF PEOPLE, PLANET AND PROFIT IN ALL OUR MANAGEMENT DECISIONS AND OPERATIONS.”





As the Group continues to grow, both financially and operationally, we realise the importance of building healthy partnerships with external organisations, paving the way for more business opportunities and diversification. Through collaborative action, peace and prosperity within the nation can be shared and benefitted by many. In the coming years, we endeavour to steer the Group's policies and practices to include elements that represent the 5Ps, thereby improving our journey towards sustainable development.

Sustaining our palm oil business has also inculcated Islamic principles and ethics. In addition to obtaining '*Halal*' certification for palm oil products produced at our POMs, the Islamic value system also advocates for the sustainable and respectful use of the earth's natural resources which includes land, water, flora and fauna. We strive to fully adopt the sustainability culture into our daily business practices to uphold our business prosperity and ensure benefits for the future generations to enjoy.

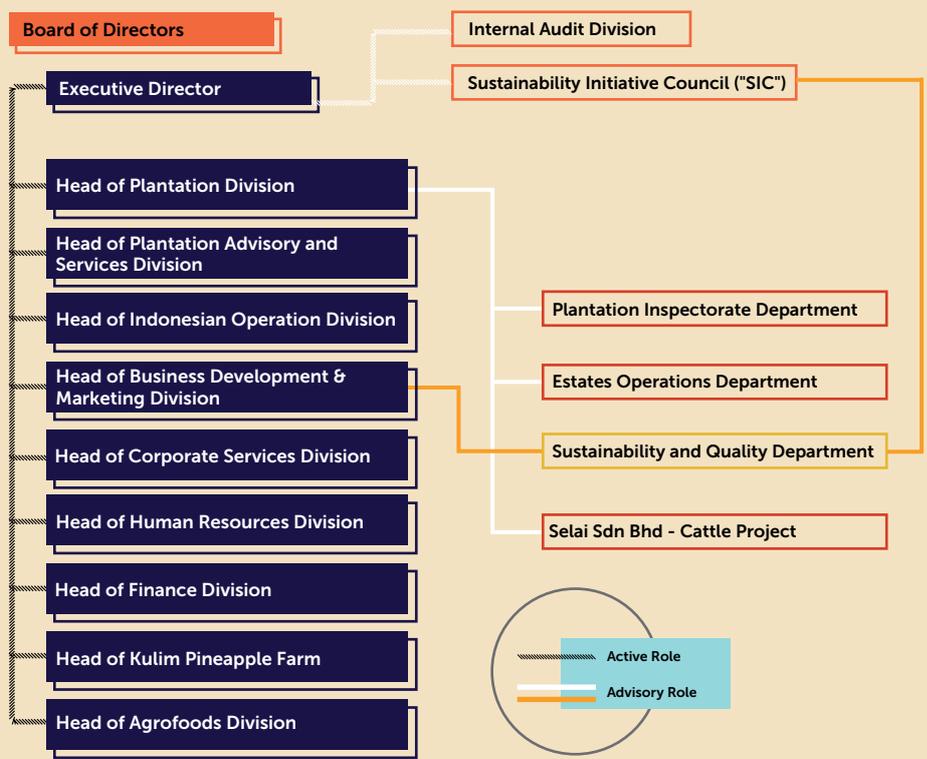
The latest revision of our sustainability policy in June 2017 incorporated policies on No Deforestation, Protection of Peat Areas and No Exploitation of People and Communities.

# LEADERSHIP FOR SUSTAINABILITY

## CREATING ACCOUNTABILITY AND SOUND LEADERSHIP TO STEER THE ORGANISATION TOWARDS GREATER SUSTAINABILITY

Our sustainability framework is formalised using a multi-tiered governance structure to efficiently integrate sustainability into our daily operations. Building from our earlier report, we have assigned roles and responsibilities to each respective governing level to produce a clearer distinction of the committee's function in the Group's journey towards adopting sustainable practices.

The Board of Directors ("Board") sits on the pinnacle and controls the overall committee by overseeing the progress of the sustainability initiatives implemented by the Group. While the Sustainability Initiative Council ("SIC") plays an advisory role towards the Executive Director, the Sustainability and Quality Department ("SQD") is tasked with implementing, reviewing and formulating sustainability related initiatives. The progress of the Group's sustainability journey is regularly reported to the Senior Management during meetings to evaluate the Group's progress on sustainability.



### Roles and Responsibilities

We expect the sustainability practices and initiatives endorsed by our Board to be applied across all levels of Kulim's operations. While the Board remains at the apex of our sustainability governance structure to endorse and obtain final approval of any sustainability related reporting

and initiatives, the SQD is mainly responsible for the formulation and implementation of sustainability practices at Kulim to ensure that we continue to strive towards sustainable development and produce sustainable palm oil products.

# » ENGAGING OUR STAKEHOLDERS

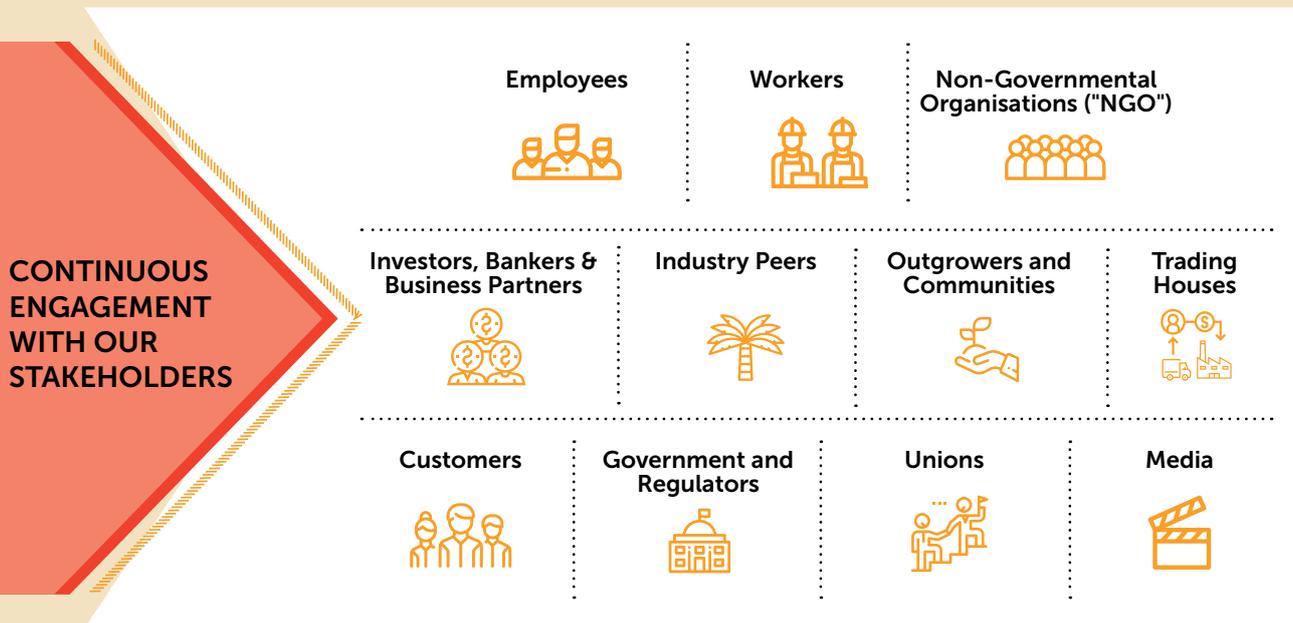
## BUILDING STRONG LINES OF COMMUNICATION WITH OUR STAKEHOLDERS ACROSS KEY ASPECTS OF OUR BUSINESS

The way our stakeholders are engaged lays the foundation for our business practices and enhances our reputation in the agriculture industry. Although there are many areas of concerns on palm oil agriculture practices and the industry as a whole, keeping a channel for dialogue with our stakeholders open would enable

us to effectively identify these areas of concern and provide prompt responses whenever there is a need.

How our stakeholders are engaged play an important role in building trust, transparency and accountability concerning the Group's overall market presence. Although robust

stakeholder engagement methods are continuously practiced, in this report we have presented additional key topics, methods of engagement and outcomes that were identified, undertaken and achieved, respectively in 2016 and 2017.



The list of stakeholder groups was reviewed by the Senior Management of Kulim along with consultants, to ensure all relevant stakeholder groups are represented. Upon review, it was decided to include Trading Houses as an additional stakeholder group. By doing so, we seek to highlight our commitment towards communicating all aspects of our business and management of our supply chain more comprehensive.

# » ENGAGING OUR STAKEHOLDERS

STAKEHOLDERS	FOCUS	METHOD OF ENGAGEMENT	FREQUENCY OF ENGAGEMENT	OUTCOME
	<ul style="list-style-type: none"> <li>Indicates the key stakeholder topics for FY2014/ FY2015</li> <li>Indicates the key stakeholder topics for FY2016/ FY2017</li> </ul>	<ul style="list-style-type: none"> <li>Indicates the key methods of engagement for FY2014/ FY2015</li> <li>Indicates the key methods of engagement for FY2016/ FY2017</li> </ul>		<ul style="list-style-type: none"> <li>Indicates the outcomes of engagement for FY2014/ FY2015</li> <li>Indicates the outcomes of engagement for FY2016/ FY2017</li> </ul>
<b>Employees</b> 	<ul style="list-style-type: none"> <li>Talent retention</li> <li>Employee development</li> </ul>	<ul style="list-style-type: none"> <li>Management and Employee Roundtable Conference/ dialogues</li> <li>Employee survey</li> <li>Employee performance appraisal</li> </ul>	<ul style="list-style-type: none"> <li>Annually</li> <li>Every 5 years</li> <li>Annually</li> </ul>	<ul style="list-style-type: none"> <li>Conducted the Employee Climate Survey followed by benchmarking and review of salaries, initiated career and succession.</li> <li>Initiated online peer and reverse performance, feedback performance appraisal and assessed competency training needs.</li> </ul>
	<ul style="list-style-type: none"> <li>Sponsorship</li> <li>Engaging with employees</li> </ul>	<ul style="list-style-type: none"> <li>Organised 'Yuk Ngopi' programme with the employees to promote team building, better inter and intra department communication, and two-way communication between employees and management. A total of 131 employees at the executive level have participated</li> </ul>	<ul style="list-style-type: none"> <li>As and when necessary</li> </ul>	<ul style="list-style-type: none"> <li>Improved the level of engagement amongst employees and the management</li> </ul>
<b>Workers</b> 	<ul style="list-style-type: none"> <li>Labour policy and workers' lives</li> <li>Occupational Safety &amp; Health</li> </ul>	<ul style="list-style-type: none"> <li>Social Impact Assessment ("SIA")</li> <li>Enhancing skills and income generation among housewives by Women OnWards ("WOW")</li> <li>Providing on-going conducive and safe working environment to all employees</li> </ul>	<ul style="list-style-type: none"> <li>Annually</li> <li>Annually</li> <li>On-going</li> </ul>	<ul style="list-style-type: none"> <li>Provided 82 staff families with new housing in five (5) estates</li> <li>Provided training and facilities for WOW members at OU to market their products at Company events and festive seasons</li> <li>Created awareness of economic and social achievements and challenges of women</li> <li>Encouraged business entrepreneurship among housewives and dependents of workers</li> <li>Employees' awareness on safety and health</li> </ul>
	<ul style="list-style-type: none"> <li>Foreign workers' welfare</li> </ul>	<ul style="list-style-type: none"> <li>Operation visits by the Estates Operations Department</li> <li>Official visit by the Ministry of Foreign Affairs of Indonesia</li> </ul>	<ul style="list-style-type: none"> <li>As and when necessary</li> <li>Ad-hoc</li> </ul>	<ul style="list-style-type: none"> <li>Improved industrial harmony</li> <li>FY2016: Provided 50 units of new housing for staff across five (5) estates</li> <li>FY2017: Provided 14 units of new housing for staff across two (2) estates</li> </ul>

STAKEHOLDERS	FOCUS	METHOD OF ENGAGEMENT	FREQUENCY OF ENGAGEMENT	OUTCOME
	<ul style="list-style-type: none"> <li>Indicates the key stakeholder topics for FY2014/ FY2015</li> <li>* Indicates the key stakeholder topics for FY2016/ FY2017</li> </ul>	<ul style="list-style-type: none"> <li>Indicates the key methods of engagement for FY2014/ FY2015</li> <li>* Indicates the key methods of engagement for FY2016/ FY2017</li> </ul>		<ul style="list-style-type: none"> <li>Indicates the outcomes of engagement for FY2014/ FY2015</li> <li>* Indicates the outcomes of engagement for FY2016/ FY2017</li> </ul>
<b>Non-Governmental Organisations ("NGOs")</b> 	<ul style="list-style-type: none"> <li>Loss of biodiversity</li> <li>Climate change</li> <li>Environmental rehabilitation</li> <li>Good Agricultural Practices</li> </ul>	<ul style="list-style-type: none"> <li>Partnerships, multi-stakeholder forums and joint projects</li> <li>Adherence to RSPO Principles &amp; Criteria</li> <li>Charitable contributions</li> </ul>	<ul style="list-style-type: none"> <li>As and when necessary</li> <li>Annually</li> <li>Annually</li> </ul>	<ul style="list-style-type: none"> <li>Implemented responsible business practices, compliance to local and international laws</li> <li>Implemented Human/ Wildlife Conflict management project with Wildlife Conservation Society</li> <li>Embarked on Kulim Wildlife Defenders monitoring and patrol under Johor Wildlife Conservation Project</li> <li>Contributed to the Orangutan Trust Fund</li> <li>Strengthened adherence to social and environmental policies and corporate responsibility programmes</li> </ul>
	<ul style="list-style-type: none"> <li>* Employees social issues</li> <li>* Company policies</li> </ul>	<ul style="list-style-type: none"> <li>* Grievance mechanism</li> <li>* Adherence to company policy</li> </ul>	<ul style="list-style-type: none"> <li>* As and when necessary</li> <li>* As and when necessary</li> </ul>	<ul style="list-style-type: none"> <li>* Addressing general queries from the public that are registered via Kulim's corporate website and other grievance channel</li> <li>* Group policies regularly reviewed</li> </ul>
<b>Investors, bankers and business partners</b> 	<ul style="list-style-type: none"> <li>RSPO certification</li> <li>Labour policies and human rights</li> <li>Grievance mechanism</li> <li>Sustainability risk and opportunity</li> <li>Socially responsible landbank expansion</li> </ul>	<ul style="list-style-type: none"> <li>Investor meetings</li> <li>Road shows and group meetings</li> <li>Update on RSPO initiatives</li> </ul>	<ul style="list-style-type: none"> <li>As and when necessary</li> <li>Annually</li> <li>Annually</li> </ul>	<ul style="list-style-type: none"> <li>Incorporated sustainability issues into our investor relations communication strategies</li> <li>Advocated sustainability ethics, values and governance</li> </ul>
	<ul style="list-style-type: none"> <li>* Corporate funding</li> <li>* Enhancing company reputation</li> </ul>	<ul style="list-style-type: none"> <li>* International networking sessions</li> <li>* Increase in research and development to improve product quality</li> </ul>	<ul style="list-style-type: none"> <li>* Annually</li> <li>* As and when necessary</li> </ul>	<ul style="list-style-type: none"> <li>* Potential funding for new land banks</li> <li>* International trade bureaucracy</li> <li>* High quality of oil palm clones</li> </ul>

# » ENGAGING OUR STAKEHOLDERS

STAKEHOLDERS	FOCUS	METHOD OF ENGAGEMENT	FREQUENCY OF ENGAGEMENT	OUTCOME
	<ul style="list-style-type: none"> <li>Indicates the key stakeholder topics for FY2014/ FY2015</li> <li>* Indicates the key stakeholder topics for FY2016/ FY2017</li> </ul>	<ul style="list-style-type: none"> <li>Indicates the key methods of engagement for FY2014/ FY2015</li> <li>* Indicates the key methods of engagement for FY2016/ FY2017</li> </ul>		<ul style="list-style-type: none"> <li>Indicates the outcomes of engagement for FY2014/ FY2015</li> <li>* Indicates the outcomes of engagement for FY2016/ FY2017</li> </ul>
<b>Industry Peers</b> 	<ul style="list-style-type: none"> <li>Chemical usage</li> <li>Water usage</li> <li>Occupational Safety &amp; Health</li> <li>Climate change</li> <li>Loss of biodiversity</li> <li>Community and workers' lives</li> <li>Good Agricultural Practices</li> </ul>	<ul style="list-style-type: none"> <li>Multi-stakeholders initiatives</li> <li>Meetings with industry peers</li> </ul>	<ul style="list-style-type: none"> <li>As and when necessary</li> <li>As and when necessary</li> </ul>	<ul style="list-style-type: none"> <li>Certified as RSPO plantation company</li> <li>Published Carbon Footprint Report</li> <li>Provided feedback to GHG Working Group 2 on usability and accuracy of Palm GHG tool</li> </ul>
	<ul style="list-style-type: none"> <li>* Waste management</li> <li>* Pollution mitigation</li> <li>* Investing in renewable energy</li> <li>* Investing in new technology to reduce pollution</li> </ul>	<ul style="list-style-type: none"> <li>* Development and update of applicable policies</li> </ul>	<ul style="list-style-type: none"> <li>* As and when necessary</li> </ul>	<ul style="list-style-type: none"> <li>* Complied with regulatory requirements</li> <li>* Policies updated to align with national standards</li> <li>* Established a biogas plant, polishing plant and bio-compost plant to reduce pollution</li> <li>* Implemented the Advanced Cyclone system in the mill boilers</li> <li>* Increased income by selling kernel shells and palm oil fruit fibres</li> <li>* Practice integrated cattle grazing</li> </ul>
<b>Outgrowers and Communities</b> 	<ul style="list-style-type: none"> <li>Commitment to certify 100% of FFB processed at our mills by 2019</li> </ul>	<ul style="list-style-type: none"> <li>Social Impact Assessment ("SIA")</li> <li>Public meetings, workshops, individual meetings</li> <li>Disaster relief efforts, community outreach development programmes and humanitarian assistance</li> </ul>	<ul style="list-style-type: none"> <li>Annually</li> <li>Annually</li> <li>As and when necessary</li> </ul>	<ul style="list-style-type: none"> <li>Met with FFB smallholders/suppliers with regard to RSPO certification</li> <li>Succeeded in certification of two (2) outgrowers</li> <li>Participated in homeless aid programme "Assalamualaikum Dunia 1436H"</li> <li>Outreach programme for vulnerable communities affected by environmental disasters such as floods</li> </ul>
	<ul style="list-style-type: none"> <li>* Community contribution</li> </ul>	<ul style="list-style-type: none"> <li>* CSR programmes</li> <li>* Regular training for RSPO requirements</li> </ul>	<ul style="list-style-type: none"> <li>Annually</li> </ul>	<ul style="list-style-type: none"> <li>* Established the "Kulim Wildlife Defenders"</li> <li>* All five (5) POMs certified by RSPO</li> </ul>

STAKEHOLDERS	FOCUS	METHOD OF ENGAGEMENT	FREQUENCY OF ENGAGEMENT	OUTCOME
	<ul style="list-style-type: none"> <li>Indicates the key stakeholder topics for FY2014/ FY2015</li> <li>Indicates the key stakeholder topics for FY2016/ FY2017</li> </ul>	<ul style="list-style-type: none"> <li>Indicates the key methods of engagement for FY2014/ FY2015</li> <li>Indicates the key methods of engagement for FY2016/ FY2017</li> </ul>		<ul style="list-style-type: none"> <li>Indicates the outcomes of engagement for FY2014/ FY2015</li> <li>Indicates the outcomes of engagement for FY2016/ FY2017</li> </ul>
<b>Trading Houses</b> 	<ul style="list-style-type: none"> <li>Client profile</li> <li>Product sales</li> <li>Product diversity</li> </ul>	<ul style="list-style-type: none"> <li>Regular engagement with buyers</li> <li>Regular review of sales report</li> <li>Presenting product range to traders</li> </ul>	<ul style="list-style-type: none"> <li>Annually</li> <li>Annually</li> <li>Annually</li> </ul>	<ul style="list-style-type: none"> <li>Improved economic performance</li> <li>Enhance product branding</li> <li>Improve product quality</li> </ul>
<b>Customers</b> 	<ul style="list-style-type: none"> <li>Supply chain certification</li> </ul>	<ul style="list-style-type: none"> <li>Joint ventures and ad-hoc meeting</li> <li>RSPO and ISCC briefing</li> </ul>	<ul style="list-style-type: none"> <li>As and when necessary</li> <li>Annually</li> </ul>	<ul style="list-style-type: none"> <li>Sold our CSPO to buyers via Identity Preserved, Mass Balance and Green Palm Book and Claim traceability mechanisms - ISCC Oil EU and ISCC Plus</li> <li>Obtained Halal Certification for our palm products</li> <li>Awarded ISO 9001:2008 certification for quality management</li> <li>Awarded ISO 14001:2004 certification for environmental management</li> </ul>
	<ul style="list-style-type: none"> <li>Carbon emissions monitoring</li> <li>RSPO compliance</li> </ul>	<ul style="list-style-type: none"> <li>Site visits and surveys to determine product quality</li> <li>Regular audits by RSPO</li> </ul>	<ul style="list-style-type: none"> <li>As and when necessary</li> <li>Annually</li> </ul>	<ul style="list-style-type: none"> <li>Produce carbon footprint report every two (2) years</li> <li>Produce sustainability report every two (2) years</li> <li>Maintain RSPO certification</li> </ul>
<b>Government and Regulators</b> 	<ul style="list-style-type: none"> <li>Sustainability, social issues, local communities and sectoral development</li> </ul>	<ul style="list-style-type: none"> <li>Regular engagement and communication</li> <li>Corporate Responsibility initiatives</li> <li>Sports and recreation activities</li> </ul>	<ul style="list-style-type: none"> <li>As and when necessary</li> <li>As and when necessary</li> <li>As and when necessary</li> </ul>	<ul style="list-style-type: none"> <li>Attended discussions/ meetings with local/ state governments to discuss issues relating to biodiversity/ sustainability</li> <li>Obtained views from participants of "Rakan Alam Sekitar" (Friends of Environment) as part of nation building agenda</li> </ul>
	<ul style="list-style-type: none"> <li>Occupational Safety and Health</li> <li>Improving relationship with government and regulators</li> </ul>	<ul style="list-style-type: none"> <li>Attending occupational safety and health seminars</li> <li>Industrial meetings</li> </ul>	<ul style="list-style-type: none"> <li>Annually</li> <li>As and when necessary</li> </ul>	<ul style="list-style-type: none"> <li>Improvement of regulatory compliance and periodical reporting to the regulators</li> <li>Government economic growth</li> <li>Prototype equipment trial</li> </ul>

# » ENGAGING OUR STAKEHOLDERS

STAKEHOLDERS	FOCUS	METHOD OF ENGAGEMENT	FREQUENCY OF ENGAGEMENT	OUTCOME
	<ul style="list-style-type: none"> <li>Indicates the key stakeholder topics for FY2014/ FY2015</li> <li>* Indicates the key stakeholder topics for FY2016/ FY2017</li> </ul>	<ul style="list-style-type: none"> <li>Indicates the key methods of engagement for FY2014/ FY2015</li> <li>* Indicates the key methods of engagement for FY2016/ FY2017</li> </ul>		<ul style="list-style-type: none"> <li>Indicates the outcomes of engagement for FY2014/ FY2015</li> <li>* Indicates the outcomes of engagement for FY2016/ FY2017</li> </ul>
<b>Unions</b> 	<ul style="list-style-type: none"> <li>Labour policy, workers' rights and quality of life</li> </ul>	<ul style="list-style-type: none"> <li>Meetings</li> <li>Conferences</li> </ul>	<ul style="list-style-type: none"> <li>As and when necessary</li> <li>Annually</li> </ul>	<ul style="list-style-type: none"> <li>Established local committee comprising elected union representatives for collective bargaining</li> </ul>
<b>Media</b> 	<ul style="list-style-type: none"> <li>Sustainability, social issues, local communities and business development</li> </ul>	<ul style="list-style-type: none"> <li>Press releases, regulatory announcements, shareholders' circulars, fact sheets</li> <li>Press conferences</li> </ul>	<ul style="list-style-type: none"> <li>As and when necessary</li> <li>As and when necessary</li> </ul>	<ul style="list-style-type: none"> <li>Using media to highlight the Group's sustainability initiatives and corporate responsibility</li> <li>Strengthened Kulim's position as the leading producer of CSPO</li> </ul>
	<ul style="list-style-type: none"> <li>* Engagement with media</li> </ul>	<ul style="list-style-type: none"> <li>* Participated in events with media organised by JCorp such as <i>Majlis Beruka Puasa JCorp</i> with Media Johor, bowling tournament etc.</li> </ul>	<ul style="list-style-type: none"> <li>* As and when necessary</li> </ul>	<ul style="list-style-type: none"> <li>* Maintain good media reputation</li> <li>* Documentary aired on television in <i>Jauhar Selatan's</i> travelogue</li> </ul>





## 04 MATERIALITY ASSESSMENT

Materiality Matrix	41
Defining Materiality	42
Mapping the Material Matters to SDGs	46
Risk Management	48



# MATERIALITY ASSESSMENT

IDENTIFYING AND ASSESSING ASPECTS OF OUR BUSINESS THAT ARE RELEVANT TO ECONOMIC, ENVIRONMENTAL AND SOCIAL SUSTAINABILITY IS IMPORTANT IN BUILDING A STRONG AND MEANINGFUL STRATEGY FOR SUSTAINABILITY.

In preparation for this sustainability report, we assessed sustainability-related issues that have an impact on the economic, environmental and social aspects of Kulim's operations. Several factors were taken into account in identifying the key material matters for the year under review, including:

- Material matters identified in 2014-2015;
- Issues highlighted by our key stakeholders in previous engagements; and
- Significant issues discussed during Board meetings, risks highlighted in our risk register and matters relating to global business trends.

The materiality assessment process involved three (3) key steps, which have been described below:

STEP 1



## Identification

This step involved identifying the matters that are material to Kulim's business, from both the Group as well as the stakeholders' perspective. For this cycle of reporting, a total of 25 material matters were identified by the key personnel involved in driving Kulim's sustainability agenda. While some of the material matters such as 'compliance' are broad and overarching, others such as 'grievance mechanism' are more specific in its impact both on the business and stakeholders' influence.

Moving from the 2014-2015 materiality matrix, we have replaced the titles of some material matters, without changing their meaning, to align them closer to GRI terminology. Furthermore, additional material matters have been identified in this cycle of reporting that represent the wide range of sustainability-related risks and opportunities embedded in our value chain.

STEP 2



## Prioritisation

By assessing and ranking the material matters on its importance to the business and to Kulim's stakeholders, we were able to identify eight (8) matters that are critical. Throughout the report and especially on page 42 to 45, we have expounded why these matters are material and the approach undertaken by Kulim to manage them. The materiality matrix derived from the assessment is set out on page 41.

STEP 3



## Validation

This step involved seeking the approval of Senior Management to ensure the prioritisation of the material matters captured Kulim's efforts and approach to strengthen its sustainability performance.



# MATERIALITY MATRIX



● Peace ● Prosperity ● Planet ● People ● Partnership

# »» DEFINING MATERIALITY

MATERIAL MATTER	WHY IS IT MATERIAL?	RELATED MATTERS	MANAGEMENT APPROACH
<p><b>Compliance</b></p>	<p>Compliance covers different aspects of environmental and socio-economic compliance. Complying with the national laws and regulations on matters regarding environmental quality, employment, human rights and Safety and Health has always been a priority.</p> <p>These matters are intrinsic to our operations and if mismanaged can negatively impact our employees, surrounding communities and environment. The reputational harm non-compliance can bring to the organisation in long-term and can have a cascading impact across our supply chain, thereby affecting our external stakeholders as well.</p> <p>Our reputation within the industry and accountability to our key stakeholders including but not limited to customers and investors relies heavily on RSPO compliance. The Group's RSPO-certified practices act as a passport to access global markets while also providing a high level of assurance to customers and consumers and mitigating negative environmental impacts that may result from irresponsible production practices.</p>	<ul style="list-style-type: none"> <li>• Occupational Safety and Health</li> <li>• Human Rights and Labour Practices</li> <li>• Corporate Governance and Policies</li> <li>• Effluents and Waste</li> <li>• Responsible Chemical Use</li> </ul>	<p>We have internal targets and performance indicators to monitor our effectiveness and continuity in meeting internal benchmarks.</p> <p>The KPIs set for occupational safety and health, renewable energy, product emissions, use of herbicide, water consumption and agricultural productivity reflect the high expectations of the Group in order to be sustainable throughout the value chain and serves as a constant reminder to improve and adapt.</p> <p>The regular audits, survey and site visits conducted by RSPO certification bodies, helps identify our strengths and areas for improvement.</p> <p>Our KPI to ensure 100% of outgrowers and traders are RSPO-certified by 2025, motivates us to build sustainability throughout our supply chain.</p>
<p><b>Economic Performance</b></p>	<p>The year 2016 witnessed crude oil prices tumbling to its lowest EBB in over three (3) decades and this was compounded by the Malaysian Ringgit weakening to its lowest level since 1998. Furthermore, the dry and erratic weather over the past couple of years, exacerbated by El Nino's scorching heat and suppressed rainfall, reduced flowering and fruit production during the reporting period.</p> <p>A good percentage of these externalities that impact our economic performance are not within our control. For this reason and because the basis of managing the organisation's operations lies on its economic performance, it is increasingly important that we build our economic resilience.</p> <p>Furthermore, land resources are limited and the effective and profitable use of our land resources requires us to maximise profits from the finite area on which we operate.</p>	<ul style="list-style-type: none"> <li>• Agricultural Productivity</li> <li>• Supply Chain Management</li> <li>• Product Quality</li> <li>• Customer Satisfaction</li> </ul>	<p>Despite the challenging environment, Kulim managed to bag revenue at RM1.61 billion in 2016, gaining 11.81% over the preceding year's RM1.44 billion, mainly contributed by the plantation division. Both our financial management and risk management approach ensures the organisation is prepared for contingencies and is able to adapt to be resilient despite the changing circumstances.</p> <p>The Group's pursuit for value and growth is underpinned by its commitment to its five (5) year corporate strategy. Its main strategic thrusts are productivity improvement, cost management, value unlocking, human capital development, corporate responsibility and expansion/diversification.</p> <p>Profitability in the palm oil industry is closely linked to high output, efficient use of inputs and low unit costs. The 30:30 production charter is our production benchmark of average yields of 30 tonnes of FFB per hectare at an extraction rate of 30 percent of palm products per tonnes of FFB (CPO+PK) for palms over the age of 60 months from field planting.</p>

MATERIAL MATTER	WHY IS IT MATERIAL?	RELATED MATTERS	MANAGEMENT APPROACH
<b>Occupational Safety and Health</b>	The high risk operating characteristics of the plantation operations warrants the importance we place on protecting the health and well-being of our workers.	<ul style="list-style-type: none"> <li>• Compliance</li> <li>• Human Rights and Labour Practices</li> <li>• Responsible Chemical Use</li> </ul>	<p>We continuously provide training and briefing to our employees on aspects of Safety and Health pertinent to our operations. Strict supervision, continuous improvement of processes and learning from previous incidents are salient in our approach towards managing high occupational Safety and Health standards.</p> <p>We have set KPIs for LTAR, severity rate and fatalities, and these KPIs help to monitor and remain vigilant of our safety performance.</p>
<b>Human Rights and Labour Practices</b>	The estate and plantation segments of our operations are susceptible to human right violations and unfair labour practices. We recognise our responsibility to protect the rights of employees with regard to wages, fair employment contracts, freedom of association, right to organise and collective bargaining, decent housing and medical care, especially for estate and mill workers.	<ul style="list-style-type: none"> <li>• Compliance</li> <li>• Workers' Union</li> <li>• Grievance Mechanism</li> <li>• Diversity and Equal Opportunity</li> <li>• Supply Chain Management</li> </ul>	<p>The following measures ensure our operations are free of child and forced labour, as well as ensure the rights of employees are protected:</p> <ul style="list-style-type: none"> <li>• Adhering strictly to international child labour laws and not sanctioning the employment of labour below the age of 16 throughout our operations.</li> <li>• Complying with the Employment Act 1955, Minimum Wages Order 2016, Children and Young Persons (Employment) Act 1966, Worker's Minimum Standard of Housing and Amenities Act 1990, Occupational Safety and Health Act 1994, Industrial Relations Act 1967 and Factories and Machinery Act 1967.</li> <li>• Our Core Labour Standards reiterates the rights of employees to form and/ or join trade unions of their choice which are given due recognition by Kulim.</li> <li>• Signed the Collective Agreement ("CA") with the workers' unions- AMESU and NUPW- which reflects on work-related issues such as working conditions, wages and benefits.</li> </ul> <p>Grievance procedure made available to employees, vendors, suppliers and contractors and is mentioned in Kulim's Sustainability Handbook.</p>
<b>Product Quality</b>	Our market presence and overall economic performance heavily relies on the marketability of our oil palm products. High quality products ensure customer satisfaction, protecting their Safety and Health as well as add value to our business presence.	<ul style="list-style-type: none"> <li>• Customer Satisfaction</li> <li>• Economic Performance</li> <li>• Market Presence</li> </ul>	<p>We maintain the quality of our products through the implementation of our Quality Policy back in 2008 and obtain certifications relevant to our business operations through ISO, EMS, QMS and RSPO compliance.</p> <p>Our Quality Policy is tailored to address both of our main operations, namely our estates and mills. The policy requires both estates and mills operations to remain in compliance with the regulations and standards that the Group adopts, as well as ensures that employees and customers remain aware of our operational performance and CPO productivity.</p>



# DEFINING MATERIALITY

MATERIAL MATTER	WHY IS IT MATERIAL?	RELATED MATTERS	MANAGEMENT APPROACH
<b>Emissions</b>	<p>Globally, efforts are undertaken to reduce anthropogenic contribution to climate change through pledges to reduce emissions that would raise the earth's temperature.</p> <p>The palm oil industry previously held a notorious reputation of contributing to carbon emissions due to its heavy land clearing and fertiliser application activities. Through rigorous regulatory compliance and monitoring methods on the palm oil supply chain, the industry has begun to devise management approaches that would reduce the contribution of greenhouse gases to the environment.</p>	<ul style="list-style-type: none"> <li>• Compliance</li> <li>• Supply Chain Management</li> <li>• Energy</li> </ul>	<p>To monitor and manage our emissions, we practice management methods prescribed by RSPO. This includes the utilisation of the PalmGHG V3 calculator to identify the Group's gross carbon emissions on an annual basis. We publish a Carbon Footprint Report biennially, disclosing our performance and initiatives towards reducing emissions.</p> <p>Another aspect we consider when reducing our emissions is by establishing biogas plants at our mills. To date, we have constructed three (3) biogas plants at Sedenak, Sindora and Pasir Panjang POM in an effort to reduce 58% of emissions in the long-term while working towards reducing our dependence on non-renewable energy.</p>
<b>Effluents and Waste</b>	<p>As a result of our agricultural activities, we generate a large volume of waste in the form of biomass waste, POME and scheduled wastes.</p> <p>Responsible waste management practices is integral to ensuring regulatory compliance to the Department of Environment ("DOE") and protecting the well-being of our workers during the handling of any herbicides or fertilisers as part of our palm cultivation activities.</p>	<ul style="list-style-type: none"> <li>• Compliance</li> <li>• Occupational Safety and Health</li> <li>• Responsible Chemical Use</li> </ul>	<p>We manage our effluents and waste using two (2) main methods:</p> <ol style="list-style-type: none"> <li>1) Recycling; and</li> <li>2) Responsible scheduled wastes disposal through licensed contractors.</li> </ol> <p>Our Agricultural Manual outlines the responsible disposal methods for our cut fronds and replanting methods of biomass. The EFB we generate are recycled through shredding for mulching and composting to reduce our contribution to surrounding landfills.</p> <p>The scheduled wastes we generate are managed based on the guidelines outlined by the Environmental Quality (Scheduled Wastes) Regulations 2005, which identifies the storage and disposal methods that are safe to the environment.</p>



MATERIAL MATTER	WHY IS IT MATERIAL?	RELATED MATTERS	MANAGEMENT APPROACH
<p><b>Biodiversity</b></p>	<p>Several of our palm oil production sites are located near or borders forested areas with notably High Conservation Values ("HCV") and rich biodiversity. This includes the Labis Forest Reserve and Endau-Rompin National Park, known habitats for endemic, rare, threatened and endangered species that are listed on the International Union for Conservation of Nature ("IUCN") Red List.</p> <p>We remain highly aware that negligence towards preserving HCV areas will result in significant negative impacts to the environment due to forest conversions to plantation estates which would contribute to the loss of critical habitats for endangered flora and fauna species. Due to the close proximity of our estate ground to surrounding pristine forests, we are susceptible to frequent human-wildlife encounters, mainly with elephant herds.</p>	<ul style="list-style-type: none"> <li>• Compliance</li> <li>• Supply Chain Management</li> </ul>	<p>A large part of our conservation efforts includes the allocation of HCV areas and buffer zones within our operating boundaries. Our management approach towards preserving wildlife biodiversity also includes the prohibition of planting palms on peat areas and setting a long-term HCV coverage area.</p> <p>To manage this human-wildlife conflict, we formulated mitigation measures that include monitoring activities and the prohibition of hunting on our operation ground.</p>





# MAPPING THE MATERIAL MATTERS TO SDG'S

## Material Sustainability Matters

### PEACE

- Compliance
- Human Rights and Labour Practices
- Workers' Union
- Grievance Mechanism
- Corporate Governance and Policies
- Anti-Corruption

### PROSPERITY

- Economic Performance
- Agricultural Productivity
- Community Investment
- Product Quality
- Market Presence
- Customer Satisfaction

### PLANET

- Biodiversity
- Effluent and Waste
- Emissions
- Energy
- Water
- Responsible Chemical Use
- Recycling

### PEOPLE

- Occupational Safety and Health
- Training and Education
- Diversity and Equal Opportunity
- Impact on Society

### PARTNERSHIP

- Supply Chain Management
- Smallholder Management

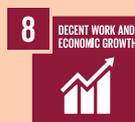
## Relevant Stakeholder(s)

## Corresponding SDGs

- Employees
- Workers
- Government and Regulators
- Unions



- Investors, Bankers and Business Partners
- Customers
- Trading Houses
- Government and Regulators
- Workers
- NGO's



- Customers
- Government and Regulators
- NGO's
- Workers
- Outgrowers and Communities
- Media



- Employees
- Workers
- NGO's
- Outgrowers and Communities
- Media



- NGO's
- Industry Peers
- Outgrowers and Communities
- Customers
- Government and Regulators
- Media



# » RISK MANAGEMENT

RECOGNISING THE IMPORTANCE OF SOUND RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS TO ACHIEVE EXCELLENCE IN CORPORATE GOVERNANCE



## Top Five Group Risks

### Economy-wide Phenomena

Affecting the rate of industry growth, CPO, Oil and Gas prices and increase operating costs

### Liquidity Risk

Existing and future funding requirements in meeting financial obligations

### Replacement of Investment

Critical to ensuring growth and business continuity

### New Investment Risks

Risks related to the industry, laws and regulations, politics, national and local avenues

### Safety, Health And Environment

Commit towards building a fair, ethical and responsible organisation

We have integrated the Enterprise Risk Management ("ERM") system to manage internal and external risk factors that can potentially impact the Group. Our ERM incorporates the principles and guidelines of ISO 31000:2009, which we have fully integrated into our management approach.

We define our commitment towards effective risk management by applying the principles and guidelines outlined by the ERM framework, allocating roles and responsibilities to dedicated personnel in ensuring that the Group's risks are safeguarded and well managed.

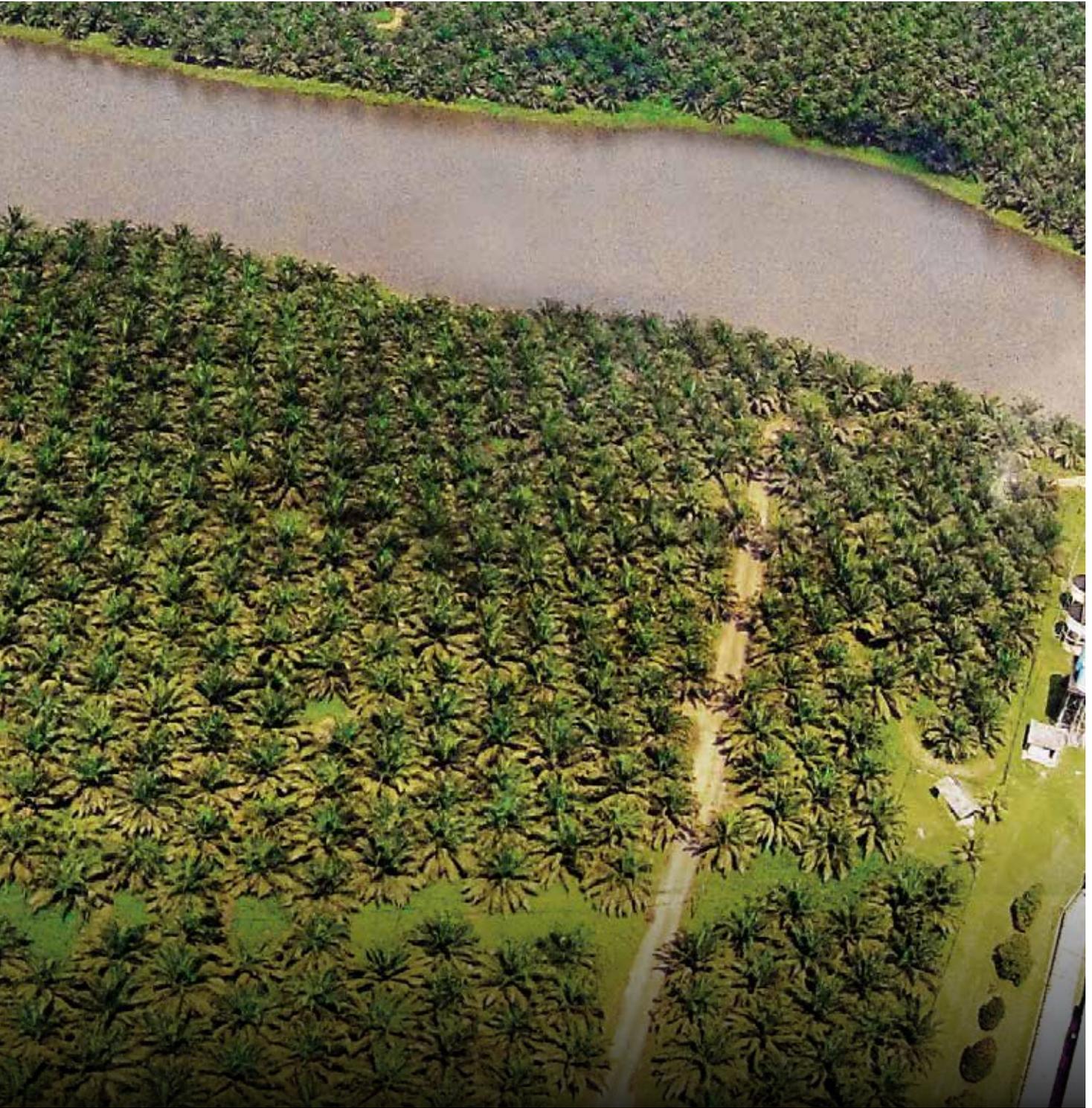
By assigning clear roles and responsibilities to our Board of Directors, Management Committee, Risk Management and Compliance Committee ("RMCC"), Risk Management and Compliance Department, Risk Owner, Risk Co-Owner, Internal Audit Department and all our employees, we aspire to cultivate a strong culture of ownership and accountability within the Group.

How we manage our risk factors greatly determines our level of achievement in sustainable development. By assigning clear roles and responsibilities of each person involved in the risk management process, we sustainably manage our risks factors to ensure that the impacts remain within acceptable levels. Continuous audits, checks, updates and discussions held within the Group on risk-related matters as outlined by the ERM framework, further promotes long term successful management of our Group's risks and reduces the likelihood of adverse impacts that could harm the Group's business value chain.



## 05 PEACE

Building Transparency	53
Grievance Mechanism	55
Compliance	56
RSPO Compliance	57
Our Commitments to RSPO	58
Overcoming Challenges	59
Incidents of Regulatory Non-Compliance	60
Core Labour Standards	62
Community Engagement and Support	64
Quality Education	67



# PEACE

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.

16 PEACE, JUSTICE AND STRONG INSTITUTIONS



Complying with the national regulations and respecting international agreements.

Implementing non-discriminatory policies and grievance channel for stakeholders to raise concerns.

Protecting the fundamental rights and freedom of employees.

This section describes our efforts towards building peaceful relations with our employees as well as external stakeholders. In order to build resilience amongst vulnerable communities as well as provide support where needed, we actively contribute towards social causes and encourage our employees to participate in community engagement activities.



# » BUILDING TRANSPARENCY

Towards maintaining and promoting transparency consistency and impartiality, which benefits not only employees, but also investors and all of the Group's stakeholders, we recognise the importance of creating a strong and ethical corporate culture. The Group's vision which is "to excel in delivering value to all our stakeholders through high performance teams who are committed to the highest standards of ethics, integrity and professionalism", motivates us to work towards a common goal.

Towards realising this vision, we recognise the importance of incorporating elements of our mission statement into our day-to-day operations.

## Our Mission

Enhance and deliver value to the stakeholders

Optimise the use of resources

Produce superior quality products

Be as socially and environmentally responsible corporate citizen

Operate with due regard for the welfare, safety and health of employees, the local community and the wider public

## The main tenets of Code of Ethics

Our Code of Ethics sets forth the ethical standards of conduct that all employees are expected to comply with in their dealings with colleagues, customers, shareholders, suppliers, competitors, the wider community and the environment.

•••  
Maintain full and accurate Group's records.

•••  
All assets and properties of the Group will be used only for the benefit of the Group's.

•••  
Always deal with customers and suppliers based on merit and fairness.

•••  
Engage competitors in a fair manner and not to engage in any unfair or illegal practice in order to gain an unfair advantage.

•••  
Always act to ensure a workplace environment that is free from harassment and discrimination.

•••  
Deal with all team members with respect, courtesy and fairness.

# » BUILDING TRANSPARENCY

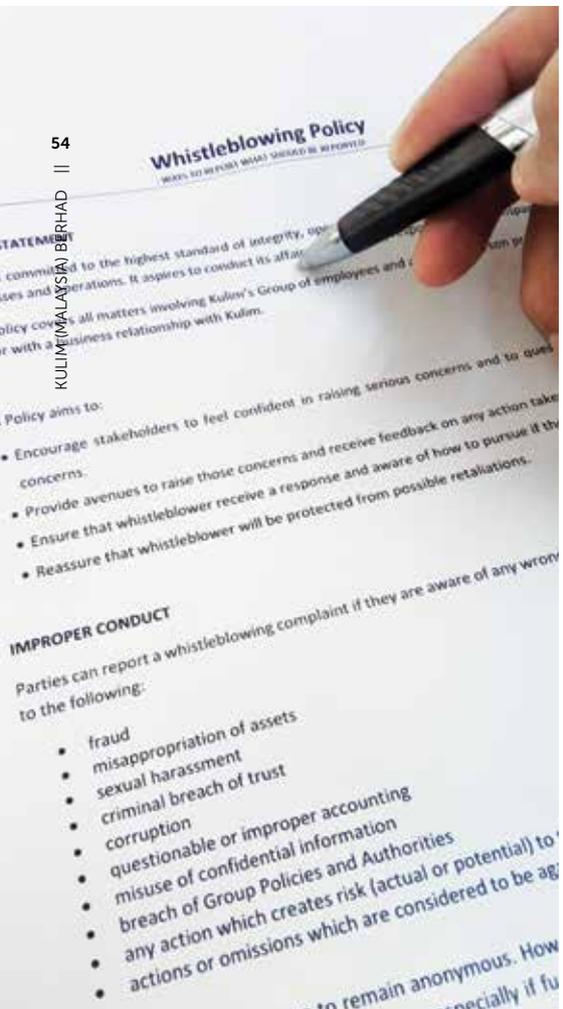
We have a Whistleblowing Policy in 2013 and in July 2014 we implemented a No Gift Policy, both of which our office employees, estate workers and suppliers are briefed on. Furthermore, these policies along with our sustainability policy are available on our corporate website.

The objective of our whistleblowing policy is to provide employees an avenue to raise concerns about possible corporate improprieties and receive feedback on any action taken. Kulim's whistleblowing policy assures the whistleblower that he or she will be protected from possible retaliation and ensures that the whistleblower is aware of how to pursue the matter if they are not satisfied with the response.

A measure in place at Kulim that reflects its zero tolerance to corrupt and unethical practices is the Ethics Declaration Form, which every employee is required to fill up and submit annually. This formal process encourages employees to report incidents of corrupt practices, fraud or other forms of malpractice and to report directly to the Executive Director. It emphasises active participation and dialogue on a structured basis involving key people at all levels, as well as ensuring accessibility to information and transparency on all actions by the executives.

We believe in setting the "tone from the top" and in January 2014 the Managing Director of Kulim signed the Corporate Integrity Pledge. As part of Kulim's continuous effort to uphold the Anti-Corruption Principles through the Corporate Integrity Pledge, the No Gift Policy was established in July 2014 with the primary objective to avoid conflict of interest and to indicate the Group's commitment to accord equal treatment to all individuals and organisations in their dealings with Kulim.

In order to create awareness on Kulim's code and policies throughout the organisation, we organise regular training sessions not only for HQ staff but also for our estate and mill workers. Furthermore, our policies are displayed on our corporate website and on notice boards of the estates, mills offices for employees and visitors to view.





# GRIEVANCE MECHANISM



At Kulim, we have a grievance policy and procedure to ensure a transparent process whereby stakeholders' grievances and complaints are dealt with fairly, consistently and promptly. It allows employees to bring to the attention of management any dissatisfaction or feeling of injustice which may exist at the workplace.

As a member of the Malaysian Agricultural Producers Association ("MAPA"), we are bound by the grievance procedure tied to Collective Agreement ("CA") MAPA/AMESU<sup>4</sup> and CA MAPA/NUPW<sup>5</sup> for staff, and workers at estate and mill respectively. For other stakeholders, all complainants are to follow the procedural steps that are explicitly

mentioned in our Sustainability Handbook. The grievances are then recorded and kept confidential. It is worth noting that in 2016 and 2017, no grievances were filed.

<sup>4</sup> AMESU stands for All Malayan Estates Staff Union

<sup>5</sup> NUPW stands for National Union of Plantation Workers

# » COMPLIANCE

The well-being of our employees is of utmost importance to us. Our success as a socially and ethically responsible business entity relies on the manner in which we treat our employees. By complying with Malaysia's legal and regulatory requirements regarding employment, working conditions, safety and health, we are able to successfully address the concerns and risks faced by our workforce.

## ***Employee Notice Period***

The Employment Act 1955 concerns matters regarding wages, maternity allowance, annual leave and period of notice required upon termination. With regard to the minimum period of notice, the Employment Act under 'Notice of Termination of Contract' [i.e. section 12 sub-section (2)], gives employees sufficient time to carry out a meaningful handover and prepare for contingencies. Although, notice period given for the estate workers is not covered in the CA, it is regulated by the Employment Act 1955.

### Employment Act 1955 – Notice Period

- **Employment Act 1955**
- **Children and Young Persons (Employment) Act 1966**
- **Worker's Minimum Standard of Housing and Amenities Act 1990**
- **Occupational Safety and Health Act 1994**
- **Industrial Relations Act 1967**
- **Factories and Machinery Act 1967**

Employee Status	Notice Period
If the employee has been so employed for less than two (2) years on the date on which the notice is given	4 weeks
If the employee has been so employed for two (2) years or more but less than five (5) years on such date	6 weeks
If the employee has been so employed for five (5) years or more on such date	8 weeks

We recognise that the failure to implement responsible business practices can result in additional costs and risks (financial, legal and reputational) to the business itself, and can exacerbate tensions and instability in society and undermine the rule of law.



# RSPO COMPLIANCE

Palm oil growers obtain RSPO certification by complying with RSPO Principles and Criteria ("P&C"), in order to enhance their market presence and economic value on a global scale. We align our business practices to the RSPO's eight (8) principles, which have facilitated our aim towards receiving certification from the organisation.

- Commitment to transparency
- Compliance with applicable laws and regulations
- Commitment to long-term economic and financial viability
- Use of appropriate, best practices by growers and millers
- Environmental responsibility and conservation of natural resources and biodiversity
- Responsible consideration of employees, individuals and communities affected by growers and mills
- Responsible development of new plantings
- Commitment to continuous improvement in key areas of activity



RSPO's position as a global multi-stakeholder entity is dedicated to certifying and ensuring sustainable palm oil production accounts for the organisation's significant credibility across worldwide palm oil trade and market as compared to national palm oil certification standards. As a palm oil producer that has been in business for the last few decades, the Group's RSPO-certified practices act as a passport to access global markets while also providing a high level of assurance to customers and consumers and mitigating negative environmental impacts that may result from irresponsible production practices.

# » OUR COMMITMENTS TO RSPO

Back in 2009, the Group set up a benchmark for its palm oil industry peers by being one of the first palm oil companies to be awarded the RSPO certification. To date, 19% of the global palm oil has been certified by RSPO with Malaysia producing a high percentage of the RSPO-certified palm oil (42%) for global distribution. Mounting pressure for palm oil traceability and sustainable agricultural practices from government agencies and NGOs alike, further feeds into the growing demand for CSPO by palm oil producers, manufacturers and end-users.

Complying to the requirements set by RSPO is entirely voluntary. Organisations that have subscribed to producing CSPO using RSPO's certification process are given the opportunity to advance their presence in global markets as Western and European countries apply stricter sanctions on palm oil trading. With over 11.9 million tonnes of RSPO-certified palm oil entering the global market and more than 3,000 active members representing the palm oil supply chain, the Group continues to affirm our commitment for sustainable supply chain management and palm oil supply by complying to RSPO standards.

Our operating units have applied the necessary requirements to meet the criteria set for RSPO re-certification. As of December 2015, we have successfully renewed our RSPO certification for four (4) of our mills, with the fifth and final mill at Pasir Panjang POM, being certified in March 2017. To keep up with evolving industrial demands and market shifts, the criteria and indicators to maintain a sustainable palm oil supply chain often pose as a challenge for organisation to conform to. Despite that, we have continued to experience success when it comes to adapting to the required changes by RSPO as the Group readily benchmarks its palm oil services to industry peers and adapts best practices.





# OVERCOMING CHALLENGES



Consequently, our business operations are not without its challenges. Ensuring RSPO compliance by our outgrowers continues to require close support and assistance due to resource limitations from these outgrowers that supply a fraction of the Group's palm oil FFB. We are proud to disclose the results of our support which has seen two (2) outgrowers become RSPO-certified between FY2016 and FY2017.

The volatile market for crude palm oil prices requires us to remain hyperaware of CSPO market reputation to continuously safeguard our RSPO credentials without suffering major economic losses. We practice a robust monitoring system coined by RSPO which include the 'Book and Claim', 'Identity Preserved' and 'Mass Balance' PalmTrace system that verifies the authenticity of the Group's CSPO.

## RSPO Palm Trace System

1

Book And Claim

Identity Preserved

2

3

Mass Balance

### How You Can Help



Look for the RSPO label when purchasing products made from palm oil.



Look for the Green Palm label which indicates products in support of the transition to certified palm oil.



# INCIDENTS OF REGULATORY NON-COMPLIANCE

During the reporting period, there was one incident of non-compliance that led to a penalty. In 2017, Pasir Panjang POM failed to grade the palm fruit in accordance with the MPOB grading manual. This was in violation of the Malaysian Palm Oil Board ("MPOB") (Compounding of Offences) Regulations 2005. The consequences of this violation included a monetary

fine of RM3,000 and the regular visit of a MPOB's Officer to Pasir Panjang POM for an entire month to ensure the palm fruits were graded.

Our commitment to comply with the statutory and regulatory requirements is subject to regular inspections by the relevant government authorities. Given the risks that are embedded throughout

our value chain, we face several challenges in running our operations. However, once the challenge or shortcoming is identified, we strive to address the issue without further delay. Some of the non-conformities we identified during the RSPO surveillance audits are described in the table below.

Year	Description of RSPO Non-Compliance
<b>2017</b>	The harvesters who are on contract and worked on public holidays were not paid according to the rate stipulated in the Employment Act 1955.
	There was no proper documented evidence by management to show that the estate workers worked on rest day.
	There is no specific policy or procedure available in the Sustainability Handbook stating that the Group does not practice contract substitution <sup>6</sup> .
	Social Environment Impact Assessment was not available for the conversion at Ulu Tiram Estate from coffee plantation to oil palm.
	Promotion of positive socio-economic impacts was not available in the social management plan. The requirement for the inclusion of positive impacts was inadvertently overlooked.

<sup>6</sup> Contract substitution is the practice of changing the terms of employment to which the worker originally agreed, either in writing or verbally.



Year	Description of RSPO Non-Compliance
2016	Policy to protect the reproductive rights of female employees was not implemented and communicated at all levels of the workforce.
	No inspection and approval by a registered hygiene technician for the general exhaust ventilation system. Legal compliance review was not effectively implemented.
	HCV management plan was not effectively implemented. The HCV management improvement planning is in progress and was not being completely documented during the period under review.
	Waste management plan with regard to clinical waste was not effectively implemented. The plan involves the centralisation of clinical waste, wherein lesser amounts of clinical waste from estates are to be transported to designated estates for collection.
	Mill management overlooked the retest audiometric requirement for a boilerman <sup>7</sup> . The standard threshold shift <sup>8</sup> was not conducted.
	The carbon stock assessment analysis was not comprehensively conducted for the conversion area at Sindora Estate from rubber to palm oil.
	Labour laws, union agreements or direct contracts of employment detailing payments and conditions of employment for contractors were not implemented effectively.
	Pay and working conditions stated in the Contractor Workers' Employment Contract were not according to the requirements of the Employment Act 1955. This was due to the lack of understanding regarding the requirement, terms and conditions among contractors employed in the estate.
Hazard Identification, Risk Assessment and Risk Control <sup>9</sup> ("HIRARC") was not sufficient to cover the activities at estates and mills.	

<sup>7</sup> The boilerman is responsible for the operation of mill boilers and carries out boiler maintenance in compliance with operating procedures and statutory requirements.

<sup>8</sup> The standard threshold shift is an early indicator to identify those employees with deteriorating hearing and is a necessary aspect of hearing conservation programmes in industry.

<sup>9</sup> HIRARC is used to determine the level of hazard and risk assessment in accordance with Occupational Safety and Health Act (OSHA, 1994) for employers to provide a safe workplace to employees under the responsibility of the employer.

# » CORE LABOUR STANDARDS

Our management approach towards ensuring the well-being of our workers in the estate is to have a two-way channel, in which both the employer and employee's expectations are communicated and feedback is regularly sought. Frequent visits to the estates and following up on the issues that arise enable us to understand the challenges faced by the operating units so that appropriate measures may be initiated to improve and address the issues.

We offer healthy working and living conditions for our workers in the estates. In the interest of our workers and operational efficiency, we have a zero-tolerance stance on the use of illegal drugs, banned substances and alcohol in the workplace. Foreign workers upon entering the organisation are briefed on the nature of the work such as harvesting, on matters relating to safety and health and are socialised into the new environment.

As stated in our Sustainability Handbook under 'Core Labour Standards', *"Kulim recognises and respects the rights of employees to form and/or join trade unions of their choice which are given due recognition by Kulim"*.

Plantation workers and staff employed by Kulim are protected by the country's labour laws and by the national unions, which are represented through the following bodies:

- Malaysian Agricultural Producers Association and National Union of Plantation Workers (MAPA/NUPW)
- Malaysian Agricultural Producers Association and All Malayan Estates Staff Union (MAPA/AMESU)

Years	AMESU	NUPW
2017	317	1,659
2016	266	2,046
2015	221	1,727
2014	1,277	

### Collective Agreement

The Collective Agreement ("CA") that we signed with the workers' unions AMESU and NUPW is negotiated periodically (every 3 years) which reflects on work-related issues such as working conditions, wages and benefits. These issues are deliberated upon through a democratic process of negotiations between representatives from the plantation industry and the relevant union representatives.





Kulim is a firm believer in working with the above-mentioned unions and fully respects the national minimum wage agreements, which have all been complied with. Furthermore, we have adopted the Minimum Wages Order 2016, raising the minimum wage to RM1,000 per month regardless of gender. As of December 2017, a total of 1,659 or 23.9% of our employees were covered under the terms of the CA.

### **Living Conditions**

Kulim provides free housing facilities, medical assistance and crèche facilities for children of our estate and mill workers. Our foreign as well as Malaysian workers are accommodated in 2 or 3-bedroom houses that meets the Worker's 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. As and when needed, Kulim conducts a

residents and housing status survey therein to carry out analysis and conduct meetings with all relevant departments such as Estates Operations, Property and Human Resource for purpose of reviewing the terms and conditions of occupancy.

### **Managing Overtime**

During the peak harvesting seasons, mill workers tend to work longer hours to ensure that the FFBs are processed before the quality deteriorates. However, we ensure that workers do not exceed the overtime limits as laid down in the guidelines issued by the Department of Labour.

### **Child and Forced Labour**

Child and forced labour is illegal but it continues to thrive in many third world countries. We recognise the estate and plantation segments of our operations that are susceptible to child labour. Our approach towards abolishing child labour is by

adhering strictly to international child labour laws and not sanctioning the employment of labour below the age of 16 throughout our operations.

Another approach is to impart the importance of education for children amongst families living in the estates by providing access to schools and other amenities for the development of estate children. When it comes to boosting education, we go beyond compliance and have set up libraries and organised tuition for the school children. In 2016 and 2017, a total of RM134,750 was spent on school uniforms for estate's children.

In our Sustainability Handbook, forced labour is defined as "all work or service which is exacted from any person under the menace of any penalty and for which the said person has not offered himself voluntarily". At Kulim, we do not engage or support the use of forced labour throughout our entire operations.

# » COMMUNITY ENGAGEMENT AND SUPPORT

As a socially responsible citizen, we strive to have a positive impact on the well-being of our surrounding communities. 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 the need arise.

Some of the other ways in which we are engaged with the local community during the reporting period are mentioned in the table below.

Activities	Purposes	Year
<p><b>Sukan Kanak-kanak Kulim (M) berhad</b></p> <p>Sports contested are football and netball for children aged 15 years and below. The competition involved the participation of 6 regional teams and one team from Head Quarters (HQ)</p>	<p>To provide space for children to participate in sports with conducive training environment and bridging relationship between KMB citizens through sports</p>	<p>December 2016</p>
<p><b>Semarak Kasih 2.0</b></p> <p>Aerobics, therapy sessions and “<i>Forum Inspirasi Semarak Kasih 2.0</i>” were some of the activities organised in collaboration with <i>Institut Pendidikan Guru Kampus Temenggong Ibrahim</i> degree students.</p>	<p>To enhance awareness towards people with special needs</p>	<p>October 2017</p>
<p><b>World Children’s Day</b></p> <p>Competitions such as Kulim’s Got Talent Junior Glorious Girls, Magnificent Boys and Junior Chef, as well as sport competitions such as futsal and netball were organised for the participants.</p> <p><i>Agensi Anti Dadah Kebangsaan, Perbadanan Taman Negara Johor, KPJ College, Bomba, Pejabat Kesihatan Daerah Johor Bahru</i> and the Malaysian College of Hospitality and Management has set up exhibition booths.</p>	<p>To provide an opportunity for employees to interact in a casual manner and build a sense of team spirit.</p>	<p>December 2017</p>

The participants of *Semarak Kasih 2.0* were employees with special needs from each of Kulim's operating units and the World Children's Day programme had participation from 300 employees, their family members and invited guests.

At Kulim, we actively encourage our management and staff to actively participate 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.

Institutions/Programmes	Purposes	FY2017 (RM'000)	FY2016 (RM'000)	FY2015 (RM'000)	FY2014 (RM'000)
<i>Persatuan Bola Sepak Negeri Johor</i>	National sports sponsorship to support the development of football in Malaysia.	3,000	5,500	5,500	5,050
<i>Yayasan Johor Corporation</i>	To improve the living condition of the under-privileged community.	1,201	-	400	250
Raja Zarith Sofiah Wildlife Defenders Challenge 2016	An awareness programme on wildlife conservation for students.	15	203	-	570
PINTAR Foundation	Sponsorship for tuition programme and to provide school essentials for six (6) adopted schools.	155	105	86	-
Bistari Young Entrepreneur	Sponsorship for <i>Tunas Bistari</i> and entrepreneurship programmes.	-	300	300	250
Briged Waqaf	Contribution to buy one (1) unit of Toyota Hilux Double Cab.	-	104	-	-
<i>Tabung Tirajah Ramadhan</i>	To improve the living condition of the under-privileged community.	-	100	100	100
Johor Clay Target Shooting Association	Sponsorship for facilities upgrade.	-	52	800	-

# » COMMUNITY ENGAGEMENT AND SUPPORT



# » QUALITY EDUCATION

## ENHANCING ADOPT-A-SCHOOL PROGRAMME

The Ministry of Education launched the PINTAR (Promoting Intelligence, Nurturing Talent and Advocating Responsibility) Programme in 2006 to encourage companies to partner with underserved schools to introduce new technologies, after-school activities, literacy projects, education clinics and motivational talks to their students. Going forward, the Ministry will encourage more corporate partners to join the programme and more schools to receive sponsorship. – Malaysian Education Blueprint 2013-2025.



The PINTAR Foundation was established to spearhead the PINTAR Foundation 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.

***Our involvement with PINTAR Foundation began in January 2015 and by 2017, we have adopted 6 schools under this programme.***

### PINTAR Foundation School Adoption Programme activities (2016-2017)

In 2017, Kulim adopted three (3) additional primary schools- SK Kemedak in Segamat, SJK (Tamil) Ladang Ulu Tiram in Ulu Tiram and SK Ladang Tunjuk Laut in Kota Tinggi.

Provides funding to improve the infrastructure .

Extends financial support to the adopted schools, supplementing their education with tuition classes, motivational courses and educational trip.

On Teacher’s Day, Kulim presents prizes to the high achievers in the national examinations and a token of appreciation to the teachers.

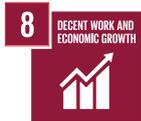
## 06 PROSPERITY

Economic Performance	71
Agricultural Productivity	73
Product Quality	74
Customer Satisfaction	76
Community Investment	77



# PROSPERITY

REDEFINING SUCCESS TO INCLUDE SUSTAINABLE LEVELS OF CONSUMPTION  
TO ENSURE A PROSPEROUS FUTURE FOR THE COMING GENERATIONS



Achieving higher levels of economic productivity as well as inclusive and sustainable growth.

Creating employment opportunities within the supply chain, especially for marginalised and under represented groups.



Developing strategy for expansion and diversification, unlocking value and prioritising R&D efforts to increase productivity.

Investing in infrastructure development to protect human well-being and with a focus on affordable and equitable access for all.

Malaysia began its commercial palm oil industry in 1917, which has fostered rapid economic growth, create job opportunities as well as boost the country's exports trade. Kulim continues to strive to become a leading palm oil producer that integrates sustainable practices to ensure supply chain traceability. We achieve this by obtaining RSPO certification and recently, incorporating elements of the UN SDGs to our business practices to showcase our commitment to sustainable development both nationally and internationally.



# ECONOMIC PERFORMANCE

Industries and businesses alike began to pledge their commitment towards protecting the environment and uplifting the local community in which they operate in as they strive to achieve sustainable economic success. As the global community becomes more conscious of the products they purchase, the ability for an organisation to disclose a sustainable supply chain would likely lead to an improvement in the business performance and productivity.

The results of our direct economic value for both FY2016 and FY2017 continue to show promising outcomes despite a slight dip in revenue recorded in FY2017 compared to FY2016. The global average price of CPO increased

from RM 2,532 per mt in 2016 to RM 2,852 per mt in 2017. Our operations also benefitted from more favourable weather conditions and improved commodity prices in FY2017. A slight decline in the global palm oil trade in the year 2017 led to a lower demand for CPO, whereby the financial implications of this is evident in the Group's financial performance as shown in the table below.

At Kulim, the Group's business strategy to sustain a healthy level of growth and profitability relies on efforts to create economic value from the conventional palm oil trade while also propelling towards diversifying our business portfolio. Our plantation division continues to be the biggest contributor to the Group's revenue

(67%) in FY2017. In 2014, the Group ventures into upstream oil and gas activities in Indonesia as part of our Balanced Business strategy, contributing to strategic investment opportunities that will broaden our economic profits and generate sustainable growth of the organisation.

The volatile price of CPO and the intensity of varying demands in the global market trade for palm oil product was challenging for the Group's financial years ending 31 December 2016 and 2017. Coupled with a weakening currency and unpredictable weather changes, the demand for CSPO was not as competitive as we had hoped it would be. Our market presence was bolstered by collaborations with traders who are well established in the international trade for palm oil products. Close collaboration and good customer relationship facilitated high returns from their continuous venture with us, as well as helped us attract other international clients who prioritised CSPO over conventional palm oil products.

To further support our business aspirations, we formulated six (6) Strategic Thrusts which have been ongoing since the last reporting cycle. Each thrust is tailored to represent the Group's commitment to sustainable development by providing an overarching outline that highlights our corporate strategies, key programmes, and the predicted value created for each of our business divisions.

Economic Aspect	FY2017 (RM '000)	FY2016 (RM '000)	FY2015 (RM '000)	FY2014 (RM '000)
Revenue	1,542,012	1,612,738	1,443,024	1,093,665
Operating Cost	1,498,569	1,552,821	1,325,225	998,132
Employee Wages and Benefits	250,406	272,171	251,857	549,951
Employer EPF Contribution	19,637	15,951	13,868	14,682
Payment to Capital Providers	262,922	244,941	303,650	513,582
Payment to Government Agencies	56,391	38,259	39,512	148,134
Community Investments	3,788	4,316	4,788	10,084

\* This table represents the Group's economic performance

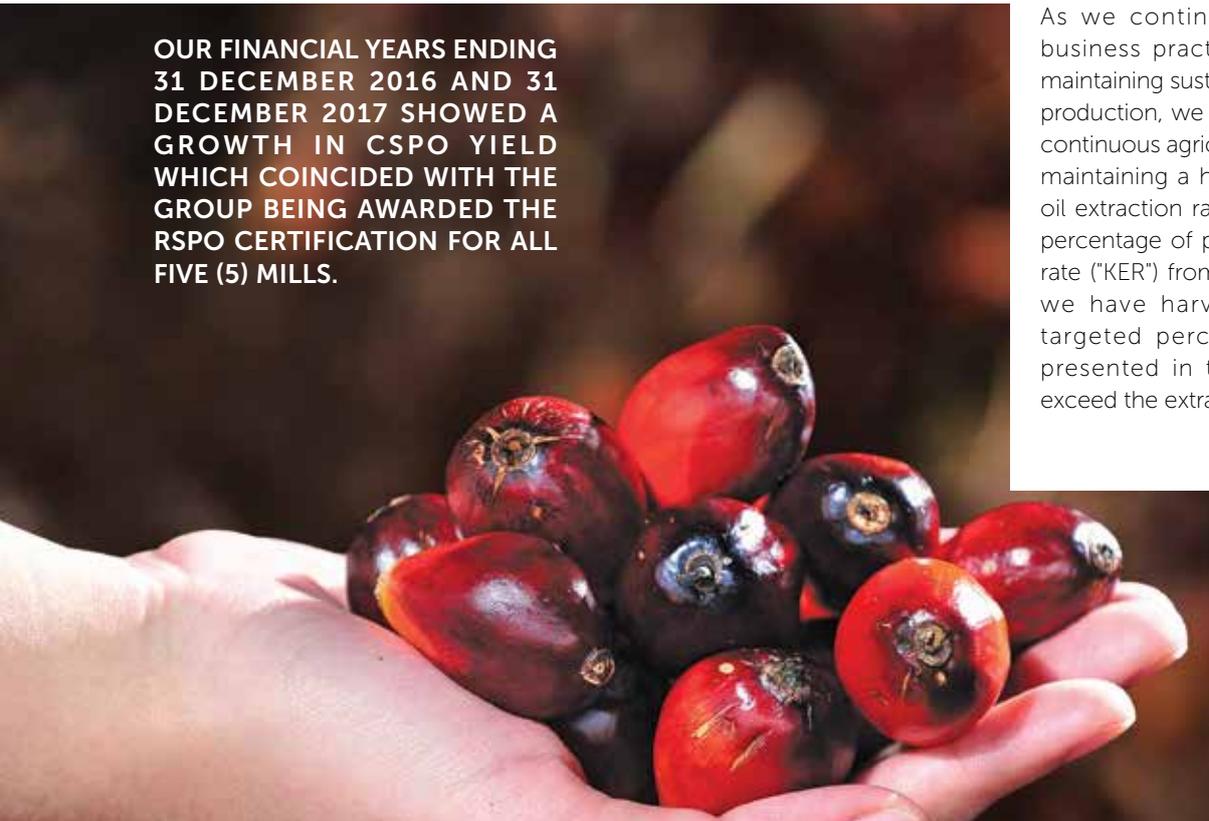
# ECONOMIC PERFORMANCE

Corporate Strategies	Productivity Improvement	Cost Management	Value Unlocking	Human Capital Development	Corporate Responsibility	Expansion/ Diversification
<b>Key Programmes</b>	<ul style="list-style-type: none"> <li>Progressive replanting – optimise FFB production towards ideal age profile</li> <li>Optimise fertiliser efficiency</li> <li>Increase productivity through R&amp;D – tissue culture, improved seeds materials, new high-yielding clones, high standard estate operation &amp; POM oil recovery initiatives</li> <li>New technology &amp; innovative mechanisms</li> <li>Application of Good Agricultural/ Manufacturing Practices and RSPO/ MSPO practices</li> </ul>	<ul style="list-style-type: none"> <li>Mill working hours/optimum throughput</li> <li>Value-added ventures mills downstream, biogas plant and biofertiliser</li> <li>Centralised bulk purchasing practice and long-term partnership</li> </ul>	<ul style="list-style-type: none"> <li>Disposal of rightly priced assets</li> <li>Involvement in new businesses</li> <li>Transforming estates into property</li> <li>Monetisation of land assets</li> </ul>	<ul style="list-style-type: none"> <li>Inculcate high performance culture</li> <li>Unlock people potential for manpower optimisation</li> <li>Strengthening Kulim's talent pipeline</li> <li>Promote sense of belonging, cultivate loyalty and enhance Team Work Synergy with a continuous improvement mind-set</li> <li>Establish and implement fair human resource system</li> <li>Transfer knowledge or technology between Malaysia and Indonesia</li> </ul>	<ul style="list-style-type: none"> <li>Sustainable Palm Oil ("SPO") programme and realisation of benefits</li> <li>Continuous commitment to RSPO</li> <li>Enhance stakeholders' engagement (internal and external)</li> <li>Continuous support to community development through education (PINTAR Programme and Yayasan JCorp)</li> </ul>	<ul style="list-style-type: none"> <li>Increase landbank (local and abroad)</li> <li>Bigger feedlot, enhance integration and expand napier activities</li> <li>Monetisation of Oil &amp; Gas business</li> <li>Agrofarm and increase productivity</li> <li>Downstream pineapple products</li> </ul>
<b>Business Division</b>	<ul style="list-style-type: none"> <li>Plantation</li> <li>Agrofoods</li> </ul>	<ul style="list-style-type: none"> <li>Plantation</li> <li>Intrapreneur Ventures</li> <li>Agrofoods</li> </ul>	<ul style="list-style-type: none"> <li>Plantation</li> <li>Intrapreneur Ventures</li> <li>Property</li> </ul>	<ul style="list-style-type: none"> <li>Plantation</li> <li>Intrapreneur Ventures</li> <li>Oil &amp; Gas</li> <li>Agrofoods</li> </ul>	<ul style="list-style-type: none"> <li>Plantation</li> <li>Intrapreneur Ventures</li> <li>Oil &amp; Gas</li> <li>Agrofoods</li> </ul>	<ul style="list-style-type: none"> <li>Plantation</li> <li>Intrapreneur Ventures</li> <li>Oil &amp; Gas</li> <li>Agrofoods</li> </ul>
<b>Value Created</b>	<ul style="list-style-type: none"> <li>Year-on-year improvement in FFB yield</li> <li>Cost-savings resulted from systematic work procedure</li> <li>More effective management of increasing foreign labour costs</li> <li>Best agriculture practices via training</li> <li>Deployment of performance measurements of each operating unit</li> </ul>	<ul style="list-style-type: none"> <li>Cost savings resulted from systematic work procedures</li> <li>Additional revenue generated from by-product of mill processing</li> </ul>	<ul style="list-style-type: none"> <li>Optimisation of resources</li> <li>Realisation of higher asset value</li> </ul>	<ul style="list-style-type: none"> <li>Optimisation of resources</li> <li>Lower staff turnover, sustainable manpower and talent retention</li> <li>Professional certification (Account, Finance, Engineering, Technical expertise, Scientist: Tissue Culturist, Horticulturist etc.)</li> </ul>	<ul style="list-style-type: none"> <li>Effective management to support community development</li> <li>Reduce cost of damage control</li> <li>Efficient in business operations processes to promote good relationship with stakeholders</li> <li>Preserve the environment</li> </ul>	<ul style="list-style-type: none"> <li>Increase company value</li> <li>Embrace national food security programme</li> <li>Diversified earnings portfolio to reduce over-dependence on palm oil business</li> </ul>

# » AGRICULTURAL PRODUCTIVITY

OUR FINANCIAL YEARS ENDING 31 DECEMBER 2016 AND 31 DECEMBER 2017 SHOWED A GROWTH IN CSPO YIELD WHICH COINCIDED WITH THE GROUP BEING AWARDED THE RSP0 CERTIFICATION FOR ALL FIVE (5) MILLS.

As we continue to improve our business practices with regard to maintaining sustainable crude palm oil production, we endeavour to achieve continuous agricultural productivity by maintaining a high percentage palm oil extraction rate ("OER") and a high percentage of palm kernel extraction rate ("KER") from the high quality FFB we have harvested. We set our targeted percentage of OER, as presented in the table below, to exceed the extraction rates of 20.4%.



Palm Oil Product	FY2017	FY2016	FY2015	FY2014
FFB (MT)	1,467,696	1,339,658	1,410,658	1,252,825
EFB(MT)	296,771	261,350	243,210	246,169
PK (MT)	79,071	70,029	78,290	69,681
Crude Palm Oil (CPO), MT	299,981	273,354	294,255	257,881
Raw Effluent/POME Produced (MT)	1,129,218	1,085,216	943,442	878,789
Kulim OER Target (%)	20.90	21.20	20.72	20.53
OER (%)	20.44	20.40	20.86	20.58
Kulim KER Target (%)	5.35	5.48	5.57	5.68
KER (%)	5.39	5.23	5.55	5.56

# **PRODUCT QUALITY**

The marketability of our palm oil products greatly rests on the quality of palm oil we grow and produce. The Group recognises the importance of high quality products that would ensure customer satisfaction and protect their safety and health, therefore adding value to our business presence.

To support our commitment to ensuring product quality, we implemented the Quality Policy back in 2008. The policy outlines the Group's expectations on our estates and mills to ensure that we meet the standards and expectations set by regulators and our customers.

Quality Policy	
Estates	Mills
Produce ripe FFB to achieve maximum extraction rate	Remain in compliance to ISO 9001:2008
Reduce dependence on human resources and prioritise mechanised harvesting methods instead	Implement a continuous improvement programme
Continuously train estate workers to achieve maximum working potential	To communicate this policy to all employees
Promote a healthy and safe working condition	Evaluate and assess the effectiveness of the Quality Policy
Recycling mill by-product to reduce environmental pollution	Fulfill customer requirement
Increase the effectiveness of the Group's Quality Management System	

## Standards and Certifications

Environmental Management Systems ("EMS") and Quality Management Systems ("QMS") are voluntary international standards that we comply with as we believe it enables an organisation to examine its values, priorities, policies, strategies, objectives, methods for allocating resources for delivering performance and also learning. The different standards that we are certified for are EMS 14001:2004, QMS 9001:2008, MS 1500:2009<sup>10</sup> and ISO/IEC 17025:2005 . While ISO 14001:2004, ISO 9001:2008 and ISO/IEC 17025:2005<sup>11</sup> recertification is required annually, the recertification for MS 1500:2009 is required every two (2) years.

<sup>10</sup> MS 1500:2009 certifies that the organisation has complied with the requirements stipulated in the standards for the production, preparation, handling and storage of halal food.

<sup>11</sup> ISO/IEC 17025:2005 specifies the general requirements for the competence to carry out tests and/or calibrations, including sampling. It covers testing and calibration performed using standard methods, non-standard methods, and laboratory-developed methods.

Unit	Certification
Sedenak POM	ISO QMS 9001:2008
Tereh POM	
Sindora POM	ISO QMS 9001:2008
	ISO EMS 14001:2004
Palong Cocoa POM	ISO QMS 9001:2008
Tereh Selatan Estate	
Sedenak Estate	ISO EMS 14001:2004
Sindora Estate	ISO EMS 14001:2004
Ulu Tiram Central Laboratory (UTCL) <sup>12</sup>	ISO/IEC 17025:2005
Palong Cocoa POM	MS 1500:2009
Pasir Panjang POM	
Sedenak POM	
Sindora POM	
Tereh POM	

\* We are currently in the process of transitioning from 14001:2004 to 14001:2015 and 9001:2008 to 9001:2015

### **Product Grading Method**

We maintain a strict product grading method to improve the quality of our CSPO production and the efficiency of our palm oil extraction and palm kernel oil extraction rates. Starting from the research and development part of our operations, we pay special attention to the species of palms we cultivate, ensuring quality from the very early stages of the planting phase. This is followed by our FFB grading method once the FFB has been harvested for processing into CPO.

Kulim has outlined a grading criteria covering the FFB ripeness standards to our estates, mills and corporate office via email distribution and regular briefings. The standards also list the methods to distinguish the ripeness of the FFB by assessing the colour, size, stalk length and the characteristic ratio of the harvested FFB.

<sup>12</sup> UTCL is Kulim's laboratory based in Kota Tinggi.

# CUSTOMER SATISFACTION



We highly value customer feedback to further improve our product quality and marketability. Our annual customer satisfaction survey allows us to engage with our customers in an organised and constructive manner; identifying product quality issues highlighted during the survey and formulating prompt responses to these challenges. The survey focuses on evaluating the feedback disclosed by our customers via our customer feedback form for any complaints highlighted based on our product delivery and CPO quality.

Results are analysed and presented during top management meetings to ensure that our senior managers are aware of the challenges and product dissatisfaction highlighted by our customers. Keeping the line of engagement open with our customers also allows us to gain favourable feedback to further improve our products and remain a front-runner in the industry, especially in the competitive business of palm oil production.

For FY2016 and FY2017, our customers have also ranked our services and deliverables on a percentage scale based on mills. As part of the ISO 9001:2008 requirement, regular feedback with our customer regarding our product ensures our compliance to customer satisfactory.

POM	FY2017 (%)	FY2016 (%)	FY2015 (%)	FY2014 (%)
Tereh	79.50	86.00	81.50	81.00
Sedenak	74.72	79.88	72.00	67.00
Sindora	82.74	83.87	78.04	79.88
Palong	74.38	74.67	78.67	77.11
Pasir Panjang	* the customer satisfaction survey was not carried out at Pasir Panjang POM. This mill was, therefore, exempted from taking part in the customer satisfaction survey.			

# COMMUNITY INVESTMENT

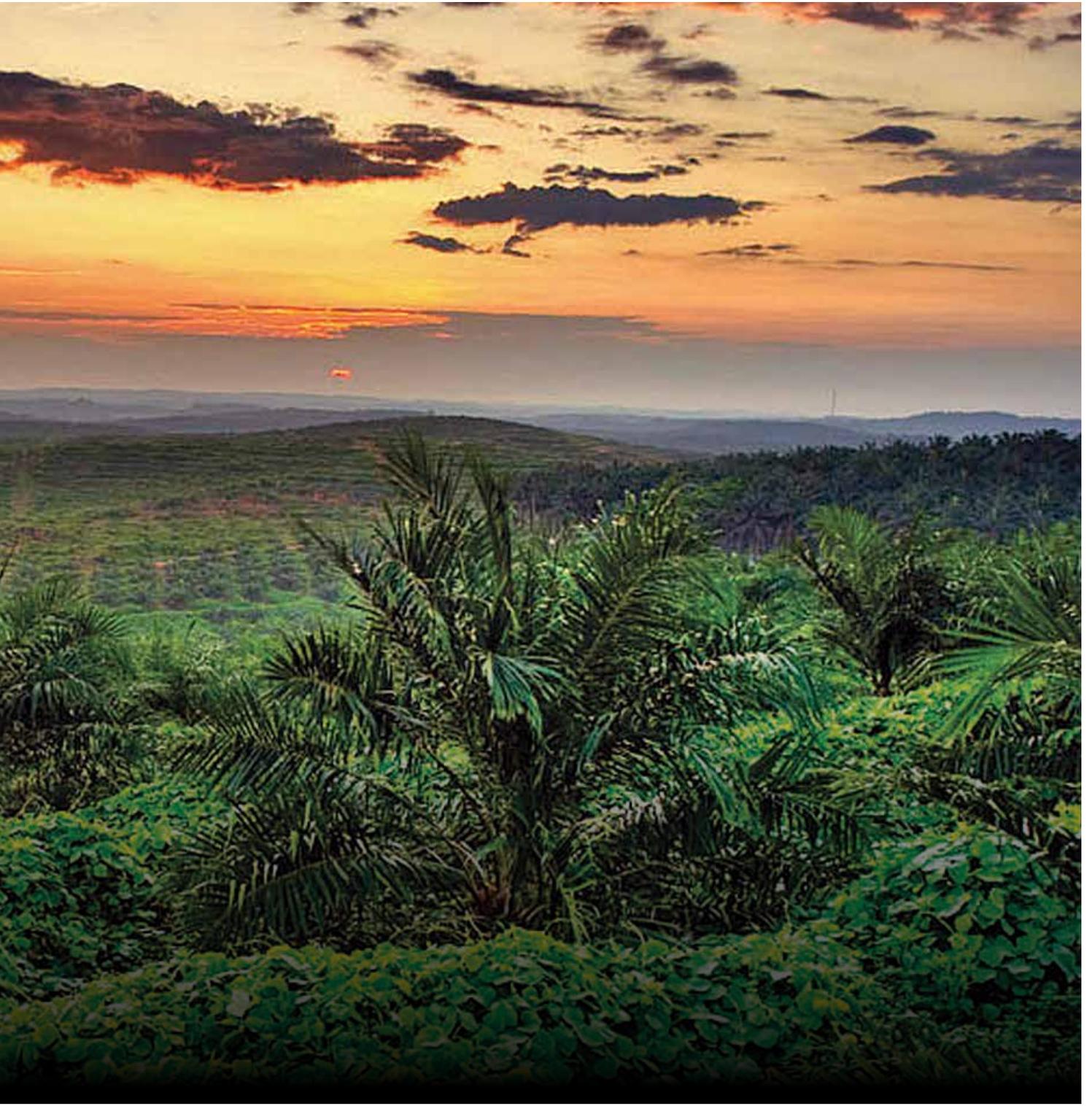
The Group upholds its commitment to protect the well-being of our employees and estate workers by investing in infrastructure that would improve their living quality. This is evident through our pro bono efforts to build houses to ensure estate workers have good estate housing quarters. Throughout FY2016, we built 50 housing units spread across five (5) different estates, totaling our investment on community infrastructure to approximately RM2,438,502. The following year in FY2017 there was a reduction in the number of houses built for our estate workers. This was mainly due to the housing units that were already available from earlier investments as well as a cost reduction due to the challenging financial year. We invested approximately RM722,192 to build 14 housing units to accommodate our estate workers across two (2) different estates.

Estate	Number of Houses			
	FY2017	FY2016	FY2015	FY2014
Tereh Utara		20	30	20
Selai		10	24	20
Sungai Tawing		12	12	8
Siang		6	6	6
Sungai Sembrong	6	2		
Tunjuk Laut	8			
<b>Total</b>	<b>14</b>	<b>50</b>	<b>72</b>	<b>54</b>

We believe that having a well-equipped shelter and clean water is a basic human right that everyone is entitled to. We ensure that the personal well-being of our workers is protected by implementing measures to mitigate the spread of disease and infection which would otherwise create an unhygienic and unproductive working environment.

## 07 PLANET

Greenhouse Gas Emissions	81
Gross Carbon Emissions	83
Energy Consumption	84
Promoting Renewable Energy	86
Good Agricultural Practices	88
Integrated Pest Management	89
Planting Technique	91
Water Management	92
Effluents and Waste	94
Biodiversity and Conservation	96
Chemical Use	102



# PLANET

TO SAFEGUARD THE ENVIRONMENT, WE CONSIDER THE IMPACT OUR OPERATIONS HAVE BY MANAGING OUR ENERGY USE, WATER CONSUMPTION, WASTE PRODUCTION AS WELL AS IMPLEMENTING GOOD AGRICULTURAL PRACTICES.

12

RESPONSIBLE  
CONSUMPTION  
AND PRODUCTION



Encouraging sustainable sourcing and production through the efficient

use of natural resources.

Monitoring and reporting effluents and waste that is generated and disposed of.

13

CLIMATE  
ACTION



Working towards greenhouse gas emission reduction targets.

Strengthening resilience and adaptive capacity to climate-related hazards.

15

LIFE  
ON LAND



Ensuring the sustainable use of forests, wetlands and other terrestrial ecosystems.

Conserving ecosystems and taking action to halt the loss of biodiversity.

To be recognised as a leader in sustainable palm oil production, the Group strives to safeguard our overall environmental performance throughout our supply chain. We prioritise continuous improvement, investing efforts in sustainable development and innovative technology that are geared towards protecting and conserving the environment through sound energy, water and waste management. Our SQD also focuses their resources to introduce initiatives and targets that are aimed to reduce our carbon footprint in an attempt to mitigate climate change.

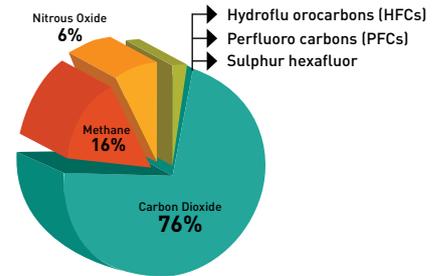


# » GREENHOUSE GAS EMISSIONS

Carbon dioxide makes up approximately 76% of GHG emissions, the highest percentage, out of six different types of GHG. A 2007 report produced by the Intergovernmental Panel on Climate Change ("IPCC") titled the Climate Change 2007: Synthesis Report. Contribution of Working Groups I, II and III, stated that

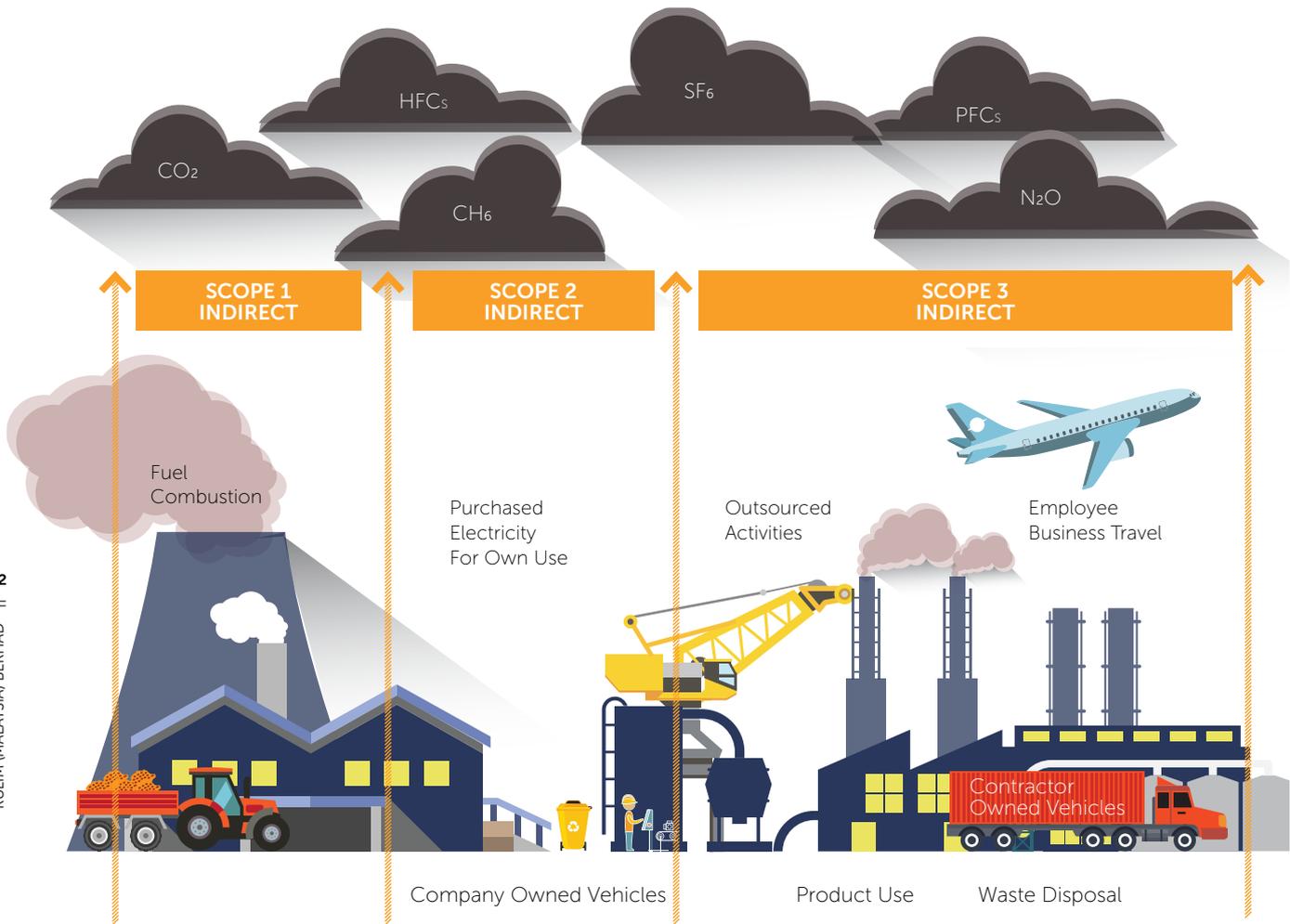
approximately 14% of global GHG emissions are released into the atmosphere due to agricultural practices. GHG emitted by anthropogenic sources are accumulated in the atmosphere, trapping heat emanating from the Earth's surface, which leads to a progressive rise in global temperature.

Types of Greenhouse Gases



Over several decades, there have been multiple studies that examined the impact of GHG emissions and its role in climate change, with results indicating that the rise in global temperature would lead to severe negative impacts on our ecosystems and the livelihood of human population. The Group has been one of the first companies to utilise the PalmGHG tool (V1), a system developed by RSPO to manage and monitor the level of GHG emissions based on our business operations. Currently, we applied the updated version of the PalmGHG tool (V3) which was released in 2016.

There are three (3) scopes used to classify the sources of GHG emissions as illustrated in the figure below. We provide comprehensive detail regarding our net emissions based on the volume of palm oil production and the measures undertaken by the Group to meet our aim to reduce emissions in our Carbon Footprint Report which is prepared biennially.



To cope with the increasing weather severity due to climate change, the Group established a voluntary base group called Briged Waqaf to provide humanitarian aid. This aid is allocated on an ad-hoc basis to replace property and land damages caused by flash floods or other natural disasters. Risks associated to climate change have not caused a major impact to our business operations to date.

While there were certain instances of flash floods at some of our estates during the monsoon season for

FY2016, nevertheless, we successfully managed the situation by practicing regular emergency evacuation drills to be carried out in flood prone areas to enhance our level of preparedness for any unpredictable natural environmental events.

Carbon emissions from the palm oil industry are due to a wide range of activities such as fertilizer application, vehicle and machinery exhaust emissions and mill processes.

Through a robust monitoring mechanism adopted from RSPO's

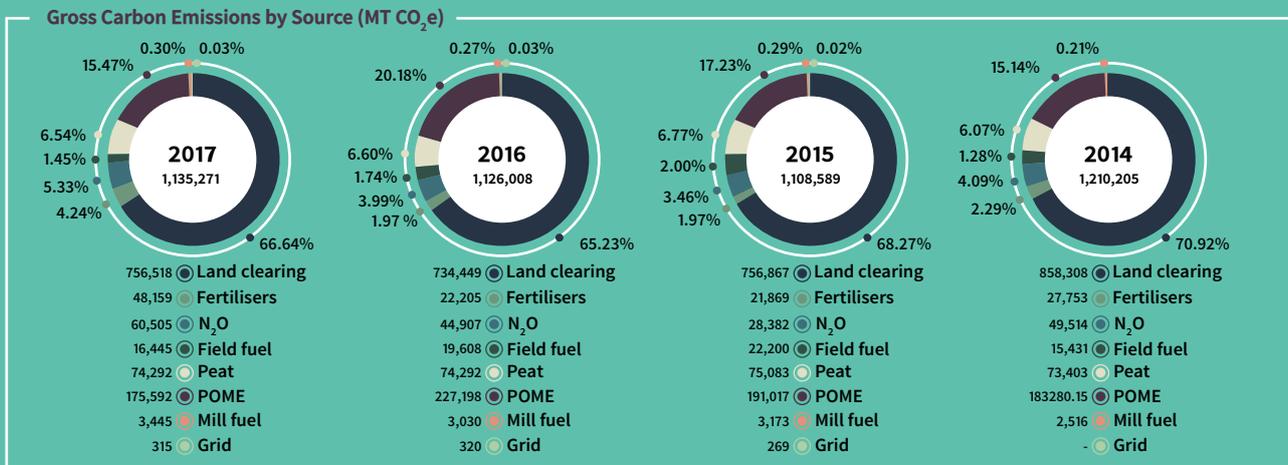
sustainable palm oil guidelines and using the latest PalmGHG Version 3.0.1 calculator, we produced our biennial Carbon Footprint report in 2016. In our discussion below, we compare the gross carbon emissions for FY2016 against the emissions estimated for FY2017. The methodology and assumptions used to calculate our gross carbon emissions using the RPSO PalmGHG calculator are applied accordingly to identify sources of GHG emissions via the appropriate scope rather than using the conventional Scope 1 to Scope 4 GHG classification.

# GROSS CARBON EMISSIONS

In 2013, Kulim published its first Carbon Footprint Report using the PalmGHG Beta Version 1a Guidelines, becoming the first Malaysian plantation in the industry to do so.

Land clearing for planting accounts for approximately 65% of carbon dioxide emission due to reduction in forest cover and soil exposure for both FY2016 and FY2017. We offset this by planting palm oil trees that would contribute to carbon sequestration which reduces our overall carbon dioxide output. The table below identifies our gross carbon emissions from 2014 to 2017 using the prescribed

RSPO calculator to meet the requirements of RSPO certification and identify the main sources of emissions. Notably, the RSPO gross carbon emissions calculator determines the gross carbon emissions of the Group based on Scope 1 and Scope 2 of the GHG classification. The calculator does not include Scope 3 sources of gas emissions that contribute to global warming.



Other large contributors to carbon emissions include POME, Peat, Fertilisers, nitrogen oxides and field fuels (fossil fuels used for planting, harvesting and transport of the palms and FFB to mills). Despite the slight increase in certain emission sources between FY2016 and FY2017 such as land clearing and fertiliser application, other sources of emissions saw a decline in gross carbon emissions in FY2017. The overall decrease in carbon emissions at Kulim is estimated at 15% as described in the table below.

Financial Year	2014	2015	2016	2017	Reduction between FY2016 and FY2017
Kulim overall carbon emissions, MT CO <sub>2</sub> e/MT CPO/PK	1.15	1.13	1.23	1.08	-15%

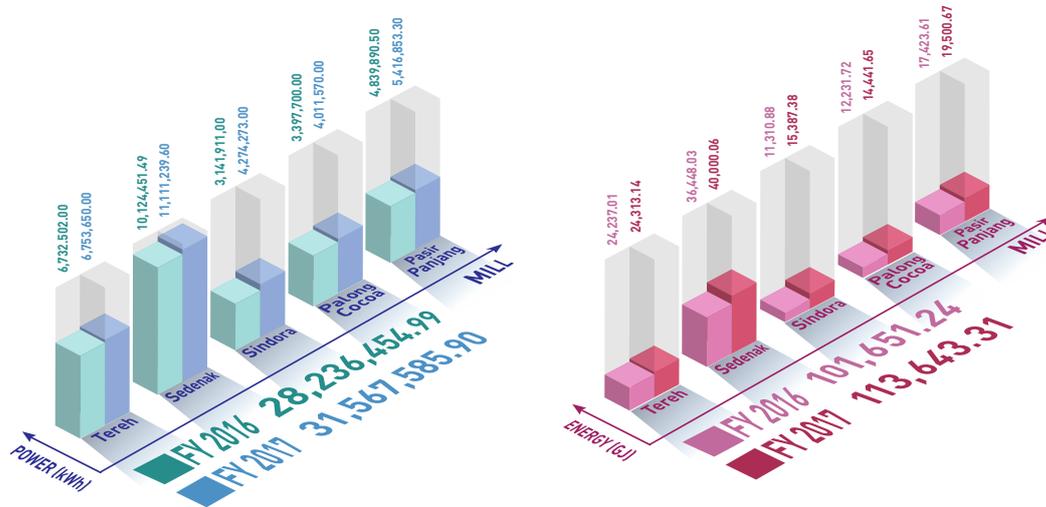
Moving forward, we are confident of reducing our carbon emissions by utilising our biogas plants to effectively process the POME to produce methane which can then be converted to energy.

\*Note: The sources of GHG emissions are in line with RSPO GHG emission classification for the palm oil industry.

# ENERGY CONSUMPTION

As palm oil producers, we are heavy users of energy given the high electricity demands to produce crude palm oil and palm kernel at our mills. We continuously monitor and record our energy consumption data, towards planning for measures to conserve energy and where possible, to mitigate energy wastage.

Our sources of power are generated from diesel, natural gas and steam. We present our electricity consumption data below for the following mills and operations, in the form of kilowatt per hour (kWh) to represent power and Gigajoules (GJ) to represent energy, within our operating boundary.



While we did see a slight increase in electricity usage between FY2016 (28,236,454.99 kWh) to FY2017 (31,567,585.90 kWh), this is attributed to higher FFB processed in FY2017. The rise in diesel consumption was mainly due to one of the biogas plants being closed for maintenance, reducing our sources for renewable energy and increasing our dependence on diesel as a means to generate power for our POMs operations. Further details of our renewable energy efforts are elaborated in the next section.



### Energy Intensity

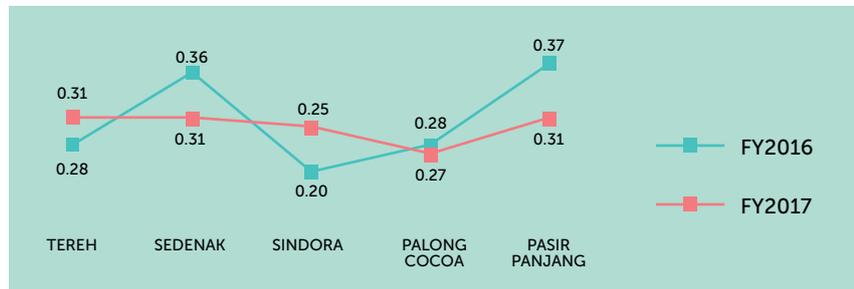
The level of energy intensity determines our efficiency in using energy to produce CPO and Palm Kernel ("PK").

The higher the energy intensity value, the less efficient the production process as more energy is required to produce per metric tonne of CPO and PK. For this reporting cycle, we are disclosing our energy intensity values for the first time in the form of Gigajoules per metric tonnes of CPO and PK produced at each mill.

$$\text{Energy Intensity (GJ per MT CPO/PK)} = \frac{\text{Total energy used per financial year (GJ)}}{\text{Total production of CPO and PK per financial year (MT)}}$$

We present Kulim's energy intensity levels per mill for FY2016 and FY2017 below.

### Energy Intensity (GJ per MT. CPO/PK)



Our overall energy intensity measure remains unchanged between FY2016 and FY2017 at an average of 0.30 GJ per MT CPO/PK across all five (5) POMs. Sedenak, Palong and Pasir Panjang POMs showed a slight decrease in energy intensity between FY2016 and FY2017, while Tereh and Sindora POM saw an increase in intensity between the respective financial years. Future plans to install more biogas plants at our remaining POMs will further improve our dependence on diesel usage and to be more dependent on renewable energy.

# » PROMOTING RENEWABLE ENERGY

In line with Malaysia's pledge to combat climate change through the submission of its action plan to the UN Framework Convention on Climate Change (UNFCCC), Kulim has committed to contribute towards our national commitment to reduce GHG by 45% by 2030. We align our business practices to the RSPO Principles and Criteria to produce sustainable palm oil by monitoring, managing and reducing GHG emissions across the supply chain.

## Fact

Methane gas is the second largest contributor of GHG but considered to have "high global warming potential"; approximately **21 times higher** compared to carbon dioxide

Palm Oil Mill Effluent ("POME") is wastewater produced from the processing of FFB to extract the CPO. The untreated POME is highly acidic and has a high Biological Oxygen Demand ("BOD") due to its rich nutrient content. If discharged POME remains untreated, the effluent will increase the organic loading of the receiving watercourse resulting in eutrophication.

In addition to regular desludging of POME holding ponds as part of our mill maintenance programme, Kulim practices zero discharge into the surrounding water systems through land irrigation once POME has been treated to meet the required standards. The POME we produce is also reused to generate renewable energy via our biogas plants.

### *Installing Biogas Plants*

To date, in our operations, POME remains as the second largest contributor to GHG emissions after land clearing for planting.

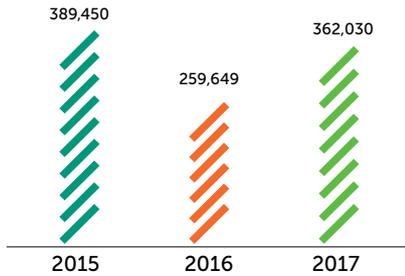
POME acts as a significant contributor to climate change due to its high concentration of methane which has more 21 times more global warming potential compared to carbon dioxide. Building from the Government's mandate for POMs to install methane avoidance facilities, we have successfully commissioned three (3) biogas plants at three (3) out of our five (5) mills. These include the Sedenak POM, Pasir Panjang POM and Sindora POM. The Group's aim is to reduce 58% of our carbon emissions by harvesting the methane emitted by POME to generate electricity via our biogas plants by 2020.

Two (2) of our biogas plants, the ones located in Sedenak POM and Pasir Panjang POM have been in commission since 2015, while construction works at the plant located in Sindora POM was completed in December 2017. Cumulatively, the amount of renewable electricity produced by our biogas plants amounted to 947,959.60 kWh for FY2017 and 1,097,931.49 kWh for FY2016.

Our POME utilisation for the biogas plants increased from 16% of our POME usage in FY2016 to 19% in FY2017, producing electricity to power our mills and surrounding estate and reducing our diesel consumption. Kulim has also entered into negotiations with Tenaga Nasional Berhad ("TNB"), resulting in preliminary agreements to export the excess electricity we produce from our biogas plants to the national grid. This milestone further solidifies Kulim's longstanding commitment to sustainable palm oil production while also ensuring sustainable economic prosperity.

The renewable energy generated at our biogas plants also led to subsequent reduction in diesel consumption. As a result, we managed to reduce our diesel consumption in 2016 by 40%. However, the diesel consumption increased in FY2017 as our Sedenak biogas plant was under maintenance.

### Diesel Consumption (litre)

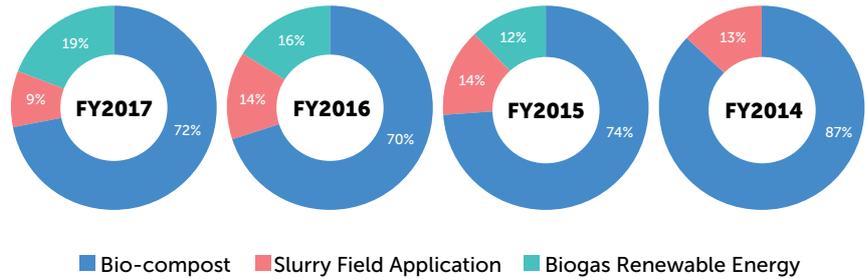


### Reusing POME to Produce Renewable Energy and Compost

Other forms of POME utilisation include the production of bio-compost and land irrigation through field application of the slurry. Bio-compost and slurry produced from POME is highly rich in organic matter, therefore enhancing soil fertility when the compost is subjected to field application. Between 70% to 87% of the POME we produced is recycled through bio-compost methods as illustrated in the chart. Around 9% to 14% of POME is used for field application as POME supernatant.

Consequently, we decreased the percentage of field application from 14% to 9% as we increased our biogas plant process of POME from 12% to 19% between FY2015 to FY2017. The table below presents different methods and volume of POME utilisation to generate renewable energy and produce compost.

### POME Slurry Utilisation



Financial Year	2017	2016	2015	2014
<b>POME Produced (MT)</b>	1,129,218.46	1,085,216.56	965,544.42	871,579.43
<b>Supernatant Discharged into Furrow (MT)</b>	530,695.63	510,642.95	418,660.40	381,966.00
<b>Slurry Utilisation (MT)</b>	<b>Slurry Field Application</b>	45,662.00	67,686.00	60,587.00
	<b>Biogas</b>	99,378.58	74,918.72	49,565.82
	<b>Bio-compost</b>	364,277.82	326,258.60	306,800.09

Another avenue for sustainable POME utilisation is through field application of the POME supernatant. Once POME has been processed by the biogas plants, the resulting supernatant maintains a high concentration of organic matter and the absence of solid material. Field application of the supernatant via furrow irrigation methods have

harnessed positive results with regards to maintaining estate soil fertility and healthy palm growth. The furrows are regularly inspected for possible leakages into natural waterways and regular water sampling is conducted to ensure continuous compliance to DOE requirements and regulations.

# » GOOD AGRICULTURAL PRACTICES

In line with the P&Cs outlined by RSPO, we have adopted a variety of best practices throughout the supply chain with Good Agriculture Practices ("GAP"). It is designed to safeguard the long-term productivity of our estate lands and its surrounding environment, ensuring that future generations will still be able to benefit from the planet's natural resources in the coming years.

In 2013, the Malaysian government's Ministry of Agriculture ("MOA") published a set of guidelines called the Malaysia Good Agricultural Practices ("myGAP"). The guidelines describe a series of best-practices recommended across three (3) of Malaysia's main agricultural sector: Crop Sector, Aquaculture Sector and Livestock sector.

To receive the myGAP certification, organisations will be evaluated based on pesticide management and sustainable farming practices. Site inspections are carried out and analysed to ensure compliance to the requirements outline by the MOA. In demonstrating the Group's commitment to GAP and myGAP standards, we advocate zero-burning, integrated pest management, water management and waste management.



## myGAP Definition

### Good Agricultural Practice (GAP)

A resource management system in agricultural production which is sustainable and follows good practices. The system is expected to increase agricultural productivity of quality and safe food, taking into account the welfare, safety and health of workers and conservation of the environment.

# » INTEGRATED PEST MANAGEMENT

To successfully grow palm trees and produce high quality palm oil yield, pest management is an important aspect of the production process. Major sources of pest and disease infestation in palm oil estates include *Oryctes rhinoceros* beetles, rats, leaf eating caterpillars and Ganoderma basal stem rot. To control the pest problems at our estates, Integrated Pest Management ("IPM") methods are used to control or eradicate these pests within a certain threshold level that would allow our palms to grow and produce viable fruits.

IPM combines the use of ecological, physical or biological controls to reduce high volumes of chemical pesticides, therefore avoiding negative impacts on the environment. Prolonged chemical usage could also result in pest resistance and bring detrimental harm to our estate workers due to its high toxicity levels.

## **Basal Stem Rot**

The basal stem rot disease is one of the most common diseases associated to palm oil trees in Malaysia. Palms planted in areas underlined with marine clay, peat or inland soils are susceptible to this disease. *Ganoderma boniense* is the most common fungal strain of the basal stem rot disease, most often controlled by the application of triazole group of fungicides and fumigant.

To control Ganoderma infected palms without over-dependence on chemical derivatives, we practice the complete removal and shredding of the infected palms to control the spread of basal stem rot.



# » INTEGRATED PEST MANAGEMENT

## *Animals and Insects*

Common animals and insects that affect palm oil production include rats, *Oryctes rhinoceros* beetles and caterpillars. Conventional pesticides are well known for its toxic properties that negatively impacts the environment while also affecting the Safety and Health of our estate workers. Barn owls (*Tyto alba*) and snakes are most commonly used biological controls to manage rat infestations that damage our in the inflorescence and fruitless which result in yield economic loss.

We employ the use of biological control in the form of plants to control widespread nettle caterpillars and bagworms that threatens the viability of our palms. These plants include the *Cassia cobanensis*, *Antigonon leptopus* and *Tunera subulta* to encourage the population growth of natural enemies to the caterpillars and bagworms.

Controlling the *Oryctes rhinoceros* beetles prove to be a tougher challenge for most palm oil producers due to their resilience to common insecticides. To manage this, we plant thick groundcover and spread a thin layer of palm oil chips along the planting rows to deter the

reproduction and movement of these beetles. Pheromones traps are used to manage these beetles, replacing the use of poisonous insecticides.

As we continue to phase out the use of harmful herbicides and pesticides used during our daily production activities, we strive to adopt responsible pest management practices that reduces impact to the environment thus ensuring the wellbeing of our estate workers remain protected. Areas with severe cases of pest infestations are cordoned off before being treated with stronger herbicide and pesticide chemicals as and when required.



# » PLANTING TECHNIQUE

**EFFICIENT PLANTING TECHNIQUES ARE ESSENTIAL TO ENSURE COMPLIANCE TO RSPO REQUIREMENTS AND TO ACHIEVE SUSTAINABLE PALM OIL PRODUCTION WITHOUT HARMING THE ENVIRONMENT. WE MANAGE OUR PLANTING TECHNIQUES VIA ZERO-BURNING PRACTICES AND SOIL EROSION MANAGEMENT TO ENSURE SUSTAINABLE LAND CULTIVATION AND PRODUCTION OF OUR FFB.**

## **Zero-Burning**

Kulim practices zero-burning, whereby open burning on our estate and mill grounds are strictly prohibited under the Environmental Quality Act, 1974s and by RSPO requirements. We have since practiced the zero-burning techniques from as early as 1984.

In our plantations, instead of open burning for land clearing, palms that are no longer viable are subjected to mechanical felling, whereby the felled trees are chipped and shredded to facilitate rapid natural decomposition.

Through zero-burning, we avoid land degradation by reintroducing nutrients from the naturally decomposing palms into the soil. By retaining the nutrients in our soil

composition on the estate grounds, we are able to cultivate new palms without compromising agricultural productivity. Year on year, we implement this practice to reduce the loss of soil nutrients while sustainably reusing our lands to produce FFB.

## **Managing Soil Erosion**

Continuous harvesting and replanting may result in progressive soil degradation on our estate grounds which could reduce our palm oil productivity and quality in the long term. We overcome this challenge by planting leguminous cover crops to minimise the likelihood of soil erosion and nutrient depletion.

The Group has successfully tested and implemented the use of a plant strain, *Mucuna bracteata*, as a shade tolerant leguminous crop cover which effectively protects the soil surface in our estates from erosion and recycle plant nutrients into the soil. Building from this, the Group will implement terrace planting with the leguminous cover crop at hilly areas with slopes that measure below 25°. To further improve our management approach to landslide occurrences at our estates, we have constructed planting platforms for undulating areas which will also be covered by leguminous crops to improve soil stability and reduce the likelihood of landslides. Both the hill terrace and planting platform are required to be implemented before palm planting commences.



# » WATER MANAGEMENT

Palm oil plantations require a constant supply of water to ensure that the health and productivity of the palm trees. Shortage in water supply will stress the palm trees and lower overall fruit yield, subsequently leading to lowered agricultural productivity for the Group. Water is required during the planting phase as well as during the processing of the FFB in the mills, and we remain conscious of the negative impact on our surrounding community and the environment if we extract water from natural resources excessively.

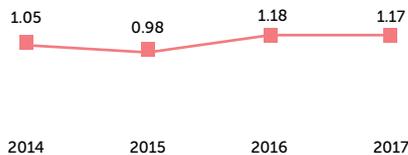
To minimise the impact on water tables within our operating area, we utilise water catchments to harvest rainwater, irrigating our mills and estates from natural water resources without tapping into groundwater tables. These water catchments also supply potable water to workers' houses located on the estate grounds.

By monitoring our water sources based on the Drinking Water Quality Standard as outlined by the Ministry of Health, we ensure that water supplied to the estate houses meet the parameters through regular testing for levels of Coliform, Turbidity, pH, Chloride, Ammonia etc.

With regards to water discharge into waterways surrounding our estate grounds, we conduct regular monitoring on our river systems to ensure that water discharged from our estates are not polluting the river.

Furthering Kulim's commitment to sustainable water management, we record the level of water consumption of our mills. Our records observed a slightly higher total overall water consumption per tonne of FFB in FY2016 (1.18 m<sup>3</sup>/tonne of FFB) compared to the volume of water consumed in FY2017 (1.17 m<sup>3</sup>/tonne of FFB).

**Water Consumption (m<sup>3</sup>/tonne)**





### **Rainwater Harvesting**

At Sindora Estate, we installed three (3) additional rainwater harvesting tanks at our main office, fertiliser store and workshop. This is the first step the Group has incorporated to inculcate best water management practice by utilising the rainwater collected in the tanks for cleaning and washing purposes, reducing our dependency on water supply from *Syarikat Air Johor* ("SAJ"). We remain optimistic about extending this practice to the rest of our estates in the near future, in order to achieve our aspirations to minimise the impact of our operations on natural water resources.

### **Manuring Pits**

Part of our efforts to consider alternative options to safeguard our water resources include the use of manuring pits to re-channel water runoff from our estates back on to our estate grounds for irrigation purposes. To achieve this, terrace hills are constructed at slopes above 10°, followed by the construction of a platform planting area at slopes ranging from 4° to 10° for our palms. Silt pits are dug at the bottom of the slope to capture surface water runoff resulting from heavy rain, bordered by grass surrounding the pit to increase surface water permeability and reduce runoff.

Stop bund walls and weirs are constructed in our main drainage at strategic sections of the road within our estate to channel the water captured from the manuring pit back into the estate fields. While this multi-step process requires preliminary construction at the hills and our drainage system, we are confident that this system reduces both soil erosion, as well as recycles surface water runoff rather than being channeled directly into the drain.

# » EFFLUENTS AND WASTE

While most of the waste generated from our operations are organic waste, produced in the form of biomass as EFBs, our mill processes also generate non-scheduled waste and scheduled waste.

As a first step towards managing our waste output, we keep a close record of the waste we generate, ensuring that the waste volume or quantity are well measured and disposed responsibly. The domestic waste generated at our operating grounds, are disposed twice or thrice weekly

by our own workers using landfill practices as outlined by the waste management plan.

To further reduce irresponsible waste dumping on our estate grounds, we provide adequate garbage bins that are accessible to our estate workers. The bins are further segregated to represent domestic waste and recycling bins to cultivate the habit of recycling and responsible waste disposal. We strictly prohibit the burning of any types of waste on our estate grounds.

## ***Biomass Waste and Recycling***

The types of biomass waste generated by palm oil producers as a result of its business operations "include empty fruit bunch (EFB), palm fibres, Palm Kernel Shells ("PKS") and cut-fronds. Boiler ash, which makes up a fraction of our mill waste, is produced when empty shells and palm fibres are burnt as biomass fuel to generate steam at our mill boilers.

The following table describes the types of waste our estates and mills produce and the actions taken to recycle or dispose our waste sustainably.

Types of Biomass Waste	Source	Action	Weight (MT)			
			FY 2014	FY2015	FY2016	FY2017
<b>Cut frond</b>	FronD pruning	Agriculture Manual with outlines of responsible disposal methods are readily available on site	Not significant			
<b>Biomass (Replanting)</b>	Replanting					
<b>Shredded EFB</b>		The materials are shredded and used for mulching and composting	249,437.77	291,563.60	262,956.98	295,095.29
<b>Shell &amp; Palm Fibre</b>	By-product of the CPO extraction process	Excess Shells and Palm Fibre are sold to buyers to replace fossil fuels. Kulim managed to receive 31,246 tonnes CO <sub>2e</sub> carbon credits from this action.	253,900.51	294,636.54	270,085.45	292,370.23
<b>Boiler ash</b>	Biomass combustion of empty shells and palm fibres for boiler	The boiler ash is disposed at designated area	6,264.13	7,053.29	6,698.29	7,338.48

Weight and volume records of the biomass that we produced and recycled are kept by mill managers for reference purposes (except for fronds and boiler ash). We fully recycle our EFB by shredding to be used for composting and mulching. Compost make nutrient-rich fertilisers for our palms, thereby reducing our consumption of chemical fertilisers and lowering our production cost.

### Managing Effluent Waste

While POME makes up the major effluent we produce, sound management techniques and the installation of the biogas plants have facilitated efficient POME recycling. Other sources of water pollution include cleaning activities at the lubricant stores or workshops which may contain traces of diesel or other chemicals as part of regular maintenance activities which utilises the aforementioned products.

Chemical spillages are not common on our operating grounds. However, Kulim has taken the added precaution to install barriers aimed to prevent chemical spills that may occur in our stores or workshops from spreading to the surrounding area, especially during cleaning activities which includes rinsing the floors and equipment.

In managing our septic tanks installed on our estate grounds, the Estate Hospital Assistant conducts weekly inspection of the septic tank to identify any signs of leakage. Overflow cases from septic tanks are dealt with promptly to avoid widespread site contamination. Any damage to the septic tank is recorded in the "Laporan Kerosakan" form and inspections are logged using the Linesite Inspection record.

### Responsible Scheduled Waste Management

To sustainably manage the scheduled wastes we produce, the Group engages with licensed contractors approved by DOE to ensure responsible disposal of these wastes. In line with the scheduled waste management requirements outlined by the Environmental Quality (Scheduled Wastes) Regulation 2005, we practice due diligence with regards to waste storage, record keeping and labelling methods to reduce the likelihood of waste spillage. Our SQD has also developed a scheduled waste management guideline. Referred to as the Working Instruction on Scheduled Waste Management, the document is used to train our employees on proper handling practices.

In accordance to legal requirements, we constructed a scheduled waste shed at each of our operating units to safely store the scheduled waste for up to 180 days or until the maximum volume (20 MT) has been achieved for waste collection. The storage shed is labelled with necessary identification symbols and any spills containment kits together with the appropriate Personal Protective Equipment ("PPE") have been provided for management of leaks and spills. The types of scheduled wastes generated at our mills and estates include empty chemical packaging and containers, used batteries, spent oils and used PPE. Each type of scheduled waste we generate includes detailed actions to effectively manage the scheduled waste to ensure regulatory compliance.

Between FY2016 and FY2017, we have successfully managed to reduce the volume of scheduled wastes produced at our operating units from a total of 63.64 MT of waste produced for FY2016 to 53.00 MT produced in FY2017. Major reductions in scheduled waste generation was observed for containers, bags and equipment contaminated with chemicals, and oil-water emulsion. The table below describes the types and volume of scheduled wastes we produced by code.

Financial Year	Volume of Scheduled Wastes ("SW") (MT)											TOTAL
	SW 102	SW 422	SW 110	SW 408	SW 409	SW 410	SW 430	SW 305	SW 306	SW 307	SW 404	
2016	2.34	0.40	1.08	0.52	13.30	3.15	0.05	30.01	5.21	7.43	0.11	63.64
2017	0.87	0.00	0.80	1.97	7.45	3.90	0.18	29.27	4.13	4.32	0.12	53.00



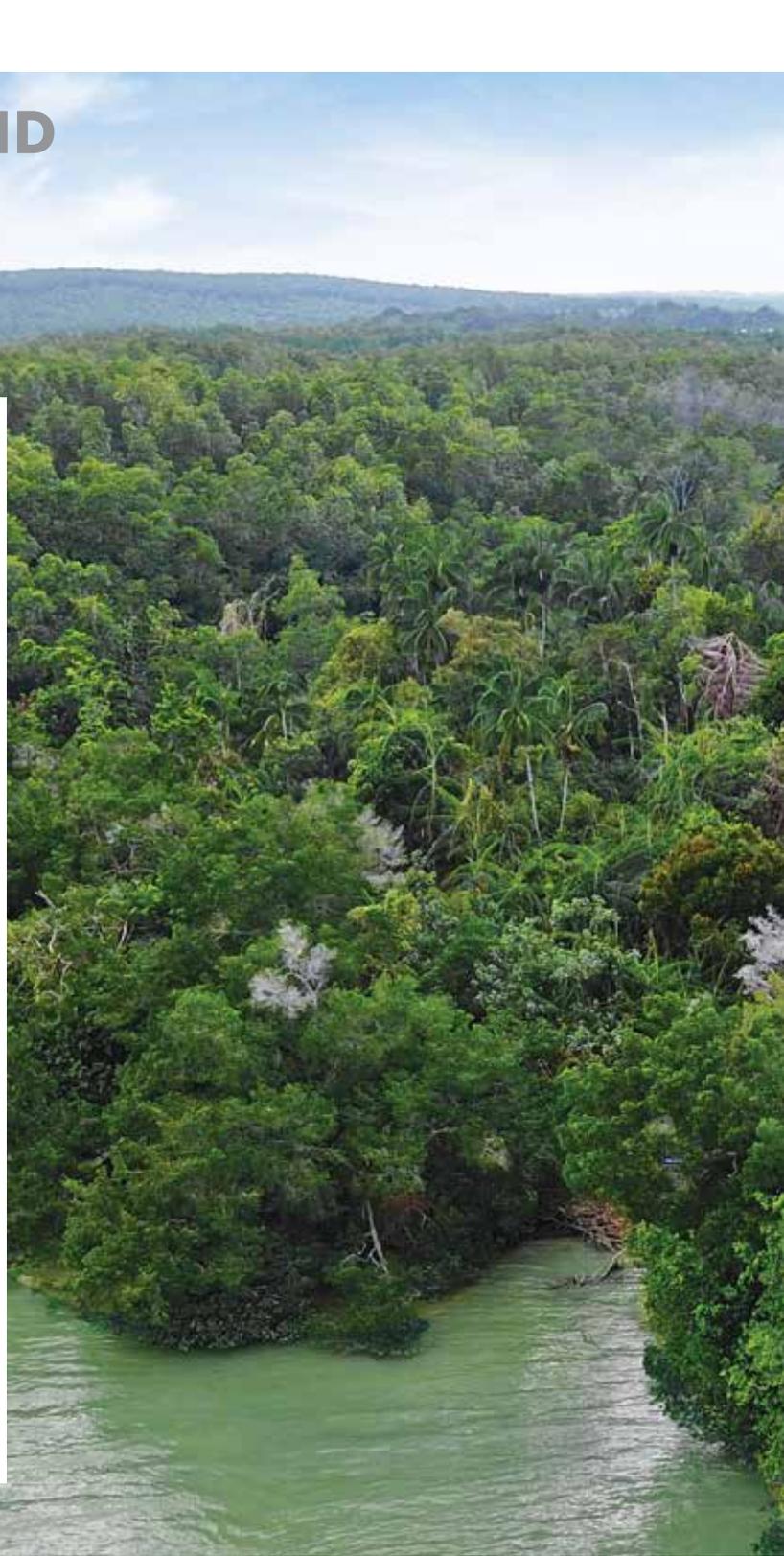
# BIODIVERSITY AND CONSERVATION

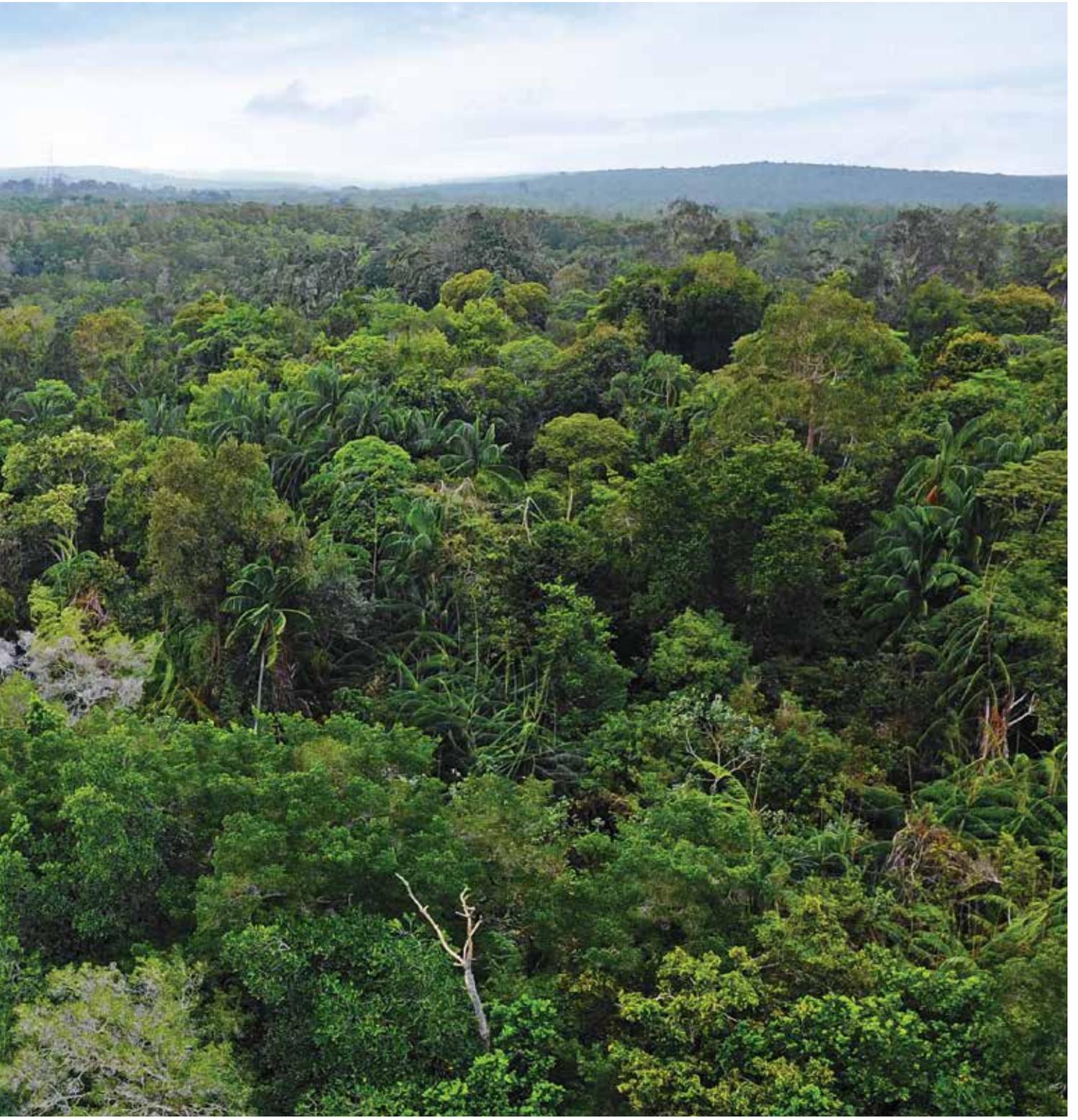
Several of Kulim's palm oil production sites are located near or within forested areas with high biodiversity, to which we strictly maintain our adherence to both RSPO and national guidelines. Some forested regions that border our estate grounds have HCV, supporting a wide variety of ecosystems. Without responsible biodiversity conservation actions, potential significant negative impacts to the environment, due to forest conversion to plantation estates, could cause a major loss in critical habitats for flora and fauna species, some of which may be endangered.

We have estates that operate along reserved forest areas, which are home to a wide variety of tropical flora and fauna, that occupy the secondary and primary forests. The Labis Forest Reserve and Endau-Rompin National Park bordering our estates, are areas that are high in conservation value with flora and fauna species that are either endemic, rare, threatened or endangered.

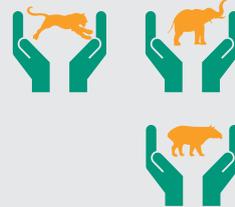
## *Protecting the Forest*

As part of our initiative to ensure wildlife protection, we maintain a generous buffer zone and natural forest corridors, allowing ample space for wildlife to migrate without accidentally encroaching into our estate grounds. In FY2017, the hectares for HCV area increased by 260.65 ha as we included the JCorp estates in calculating HCV area, while in 2016 it stood at 32.67 ha as the scope was limited to Kulim's estates only. The increase in the buffer zone from 52.46 ha in 2016 to 57.66 ha in 2017 was due to the reassessment of the estate area by our R&D Department.





# » BIODIVERSITY AND CONSERVATION



## Wildlife and Endangered Species Awareness

A survey was conducted by the HCV assessor during the early stages of our business operations to assess the state of flora and fauna in areas that border our estates. The survey found that a number of mammals and birds from the 'IUCN Red List Category' were detected in the area.

## IUCN Red List Mammals and Birds (surrounding our estates)

IUCN Red List Category	Status	Mammals	Birds
THREATENED	Endangered	Asian elephant Malayan tapir Pangolin	
	Vulnerable	Pig-tailed macaque Binturong Malayan sun bear	Lesser adjutant
LOWER RISK	Near threatened	Silver leaf monkey Leopard Black giant squirrel Horse-tailed squirrel Spectacled langur	Rhinoceros hornbill Grey-headed fish eagle Lesser fish eagle Blackhornbill
	Least concern	Long-tailed macaque Wild boar Greater mouse deer	Lesser whistling duck Oriental pied hornbill Red junglefowl



The Kulim Wildlife Defenders, actively collaborates with the Johor Department of Wildlife, the Forestry Department and Johor National Parks Corporation to identify measures to minimise human-wildlife conflict while protecting the environment. On top of open dialogues with stakeholders including the State Government about the environmental challenges that we face, Kulim has formulated a set of mitigating measures to monitor and protect the biodiversity of our estate and the surrounding forest.

#### Mitigation Measures to Protect Biodiversity

- All estates are required to provide regular updates on animal species found in and around the estate
- Buffer zones surrounding major water bodies within our estates as well as forest reserves that border our estates have been established and are closely monitored for animal encroachment or intruders
- Prohibiting hunting, fishing and taking of animals found within our estates and protected areas adjacent to our estate grounds.

#### *Addressing Human-Wildlife Conflict*

The most common wildlife conflict we have experienced on our estate grounds are elephant sightings. These sightings mainly occur at our Siang Estate, Sungai Tawing Estate, Sindora Estate and Tunjuk Laut Estate, which directly borders the Endau-Rompin National Park, an area with significant biodiversity risk due to its status as part of the Central Forest Spine which stretches across Peninsular Malaysia. Other wildlife that our estate workers have encountered include the wild boar, long-tailed and pig-tailed macaque as well as various species of migratory birds.

We continue to face on-going challenges with regards to managing elephant encroachment into our estate grounds. In one incident at Tunjuk Laut Estate, one fatality and one major injury involving our estate workers resulted from a direct encounter with a small herd of elephants. Elephants can be aggressive when provoked and can cause significant damage to our palms. Kulim incurred up to RM178,359.20 for FY2016 and RM184,715.40 for FY 2017 in palm damages resulting from elephant encroachment into our estate grounds.





# BIODIVERSITY AND CONSERVATION

## Human-Wildlife Conflict Cases and Costs Incurred

FY2017				
Estate	SIANG	SG TAWING	SINDORA	TUNJUK LAUT
Number of Cases	17	2	2	1
Number of Damaged Palms	434	89	1,538	Nil
Losses (RM)	129,900.00	26,700.00	28,115.40	Fatality

FY2016		
Estate	SIANG	SINDORA
Number of Cases	15	1
Number of Damaged Palms	592	26
Losses (RM)	177,600.00	759.20

FY2015		
Estate	SIANG	SINDORA
Number of Cases	1	1
Number of Damaged Palms	40	658
Losses (RM)	12,000	197,400

FY2014					
Estate	SIANG	SINDORA	BASIR ISMAIL	REM	PASIR LOGOK
Number of Cases	6	4	1	1	1
Number of Damaged Palms	341	5,886	44	5	130
Losses (RM)	102,300	1,765,800	13,200	1,500	39,000

RAJA ZARITH SOFIAH WILDLIFE DEFENDERS CHALLENGE SUCCESS IN 2013 LED TO ANOTHER CHALLENGE IN 2016 THEMED 'SYMBIOSIS WITHIN MANGROVE FOREST AND ECO - DEVELOPMENT'.

THE CHALLENGE ATTRACTED 11 SECONDARY SCHOOLS AND 13 PRIMARY SCHOOLS, SIGNIFYING A GOOD RESPONSE FROM EDUCATIONAL INSTITUTIONS ON THEIR WILLINGNESS TO CULTIVATE ENVIRONMENTAL AWARENESS INTO THE YOUNGER GENERATION.



We formulated a Human-Elephant Conflict Notice to address this challenge, which outlines measures to be undertaken if any of our employees encounter an elephant. The notice also includes monitoring measures, where regular patrols are conducted during the day and at night if a herd of elephants was recently spotted on any of our estate. Patrol units are also required to include personnel who are licensed to carry firearms in the event that a warning shot is required to drive the herd off the plantation grounds.

As a palm oil manufacturer, we are aware of our responsibility to conserve the natural environment and protect wildlife to ensure that our business operations are conducted in a sustainable manner. Kulim remains committed towards protecting the environment while producing sustainable palm oil based on the standards set by RSPO and local authorities to the best of our abilities.



### *Encouraging the Spirit of Conservation*

We continue to drive the spirit of conservation into our surrounding community through the Raja Zarith Sofiah Wildlife Defenders Challenge, a 3-stage biennial competition launched in August 2013 with the goal to inculcate environmental awareness and value amongst students. Students participating are also challenged to come out with creative ideas and practical solutions for human and nature to co-exist in a symbolic living environment.

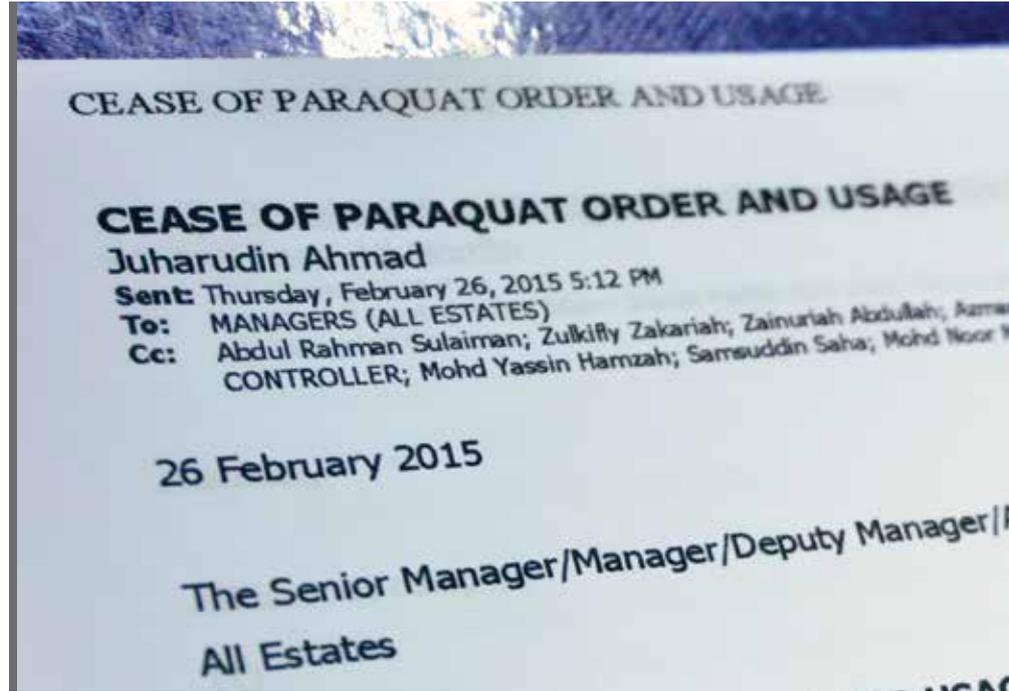
# CHEMICAL USE

The use of chemical fertilisers is common place in the palm oil industry due to persistent difficulties in managing pests that grow on the estate grounds. Chemical fertilisers are known polluting agents that contaminates natural water bodies, surrounding soil composition and air. To address this problem, Kulim continuously considers alternative practices which are environmentally friendly and safe to our estate workers.

## Reducing Our Chemical Usage

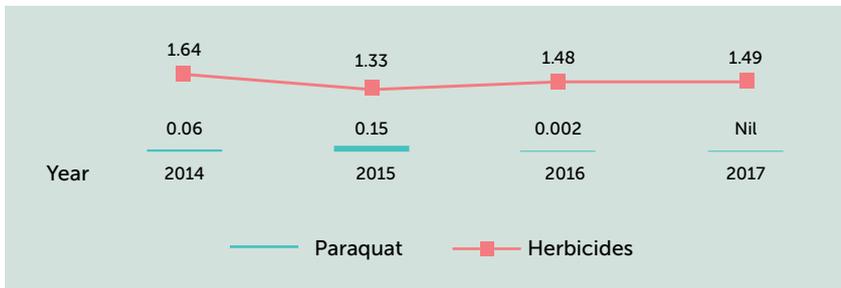
Chemical components, from pesticides and herbicides used on our estates, are at risk of leaching into waterways that are within or surround our estate grounds. The first step in our chemical management process is to monitor Kulim's annual herbicide and paraquat use, allowing us to identify which chemicals are excessively used in order that we may introduce mitigation measures to reduce our dependence on chemical-based herbicides and pesticides.

Paraquat, a herbicide banned in 32 countries, is an acutely toxic and corrosive chemical that negatively impacts the environment and human health.



PARAQUAT ORDER AND USAGE  
 advised that the management h  
 n our group estates effective fr  
 stock available in your estates sh  
 ease consult your Agronomist o  
 t function in your weed control a  
 act accordingly.  
 faithfully,

## Herbicide and Paraquat Usage (litre/hectares)





as decided to stop any new order of Paraquat for  
 from 1st March 2015. Nevertheless, any  
 should be used and cleared off but no new  
 in the alternative chemicals to be used  
 activities in your estate.

AS OF FY2017, WE ARE PROUD TO DISCLOSE THAT WE HAVE PHASED OUT THE USE OF PARAQUAT IN OUR ESTATES.

Alternative measures to mitigate excessive pesticide and herbicide usage include IPM practices which were elaborated in the earlier section of this chapter. In addition, we introduced cattle rearing, a biological control measure to eradicate weeds without overuse of herbicides via grazing. However, challenges associated with overgrazing such as soil erosion has begun to arise and will need to be re-evaluated for its effectiveness.

### Safe Chemical Use

To minimise human contact with the chemicals, Kulim continuously uses mechanical spreaders to evenly distribute the chemical fertilisers used to ensure high productivity of our palms. Our estate workers are well equipped with apron, masks, gloves and goggles to protect them from direct contact with the chemicals.

We enforce strict chemical controls and management measures to avoid spillages that may contaminate the environment. By storing the chemicals in well-equipped storage sheds bordered with bund walls and clearly marked for its hazardous properties in appropriate containers, we minimise chemical mishandling. Additionally, our chemicals are well labelled with Safety Data Sheets ("SDS") both in Malay and English language to ensure that our estate workers are aware of the properties of the chemicals they are handling. The SDS document outlines the appropriate storage and handling methods of the chemicals, including emergency actions should a spillage occur or if the worker is exposed to hazardous chemicals.

Examples of chemicals frequently used by Kulim include:

- o *Monocrotophos (insecticide)*
- o *ALLY® 20 DF (Herbicide)*
- o *Diuron + MSMA (Herbicide)*

The Group reiterates that chemical control is only used as a last resort when other biological measures as suggested in the IPM have failed.

## 08 PEOPLE

Occupational Safety and Health	<b>107</b>
Employee Distribution	<b>109</b>
Women at the Workplace	<b>111</b>
Diversity and Equal Opportunity	<b>113</b>
Training and Development	<b>114</b>
Performance Management	<b>116</b>



# PEOPLE

## SECURING AND BUILDING ON THE STRENGTH OF OUR WORKFORCE



Continuously monitoring the safety and health aspects of our operations in order to create a safe working environment.

Protecting the health and well-being of our employees.



Providing competency and skill development training to further the candidate's exposure to the industry and to learn transferable skills.

Contributing to efforts by the government that promote equitable access to quality education.



Encouraging women's full and effective participation and equal opportunities for leadership at all levels of decision-making.

Providing opportunities to encourage women entrepreneurs.

We strongly believe that the creation of long-term value is linked to the development of human capital, a strategic asset that Kulim is committed to respect, protect and nurture. By offering our employees a workplace that is non-discriminatory, safe and stimulating, where they can express their capabilities and talent to the fullest, we are able to sustain an effective and dynamic team.



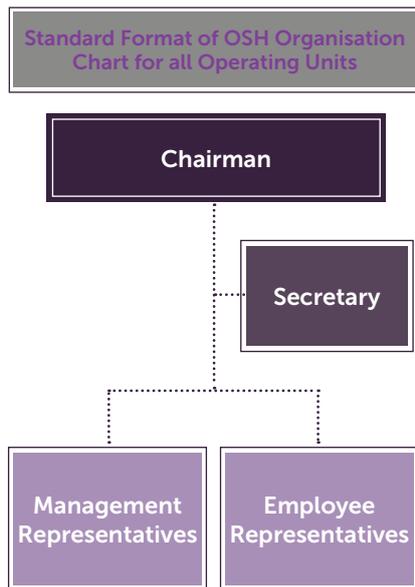
# » OCCUPATIONAL SAFETY AND HEALTH

In Malaysia, workplace safety is regulated by the Occupational Safety and Health Act 1994 ("OSHA"), which outlines procedures, responsibility of delegates and prescribes penalties for offences. Kulim's Occupational Safety and Health Policy applies not only to Kulim employees but also includes visitors, clients, customers and contractors entering its premises. The main tenets of this Policy are shown below:



In compliance with OSHA 1994, each of our estates and mills, as well as the HQ has an OSH committee, totaling to 33 OSH committees thereby covering all workers. In 2016, it was decided that the head of each OU will be appointed as the Chairman of the OSH committee for their respective OU. The OSH committee in the estates, will be represented by the workers and management.

As an integral part of our labour assessments, we are strengthening our focus on Safety and Health at our estates and mills. Each estate and mill has a dedicated OSH Officer responsible for organising safety training programmes, conducting quarterly OSH meetings as well as investigating and reporting accidents that occur at an OU to the Chairman. At Kulim, the managers and staff work closely together to build an



effective safety and health culture. We are transparent in reporting our incidents and ensure each incident is thoroughly investigated so that important lessons can be learnt to prevent or reduce its recurrence.

The foreign workers are entitled to a health benefit plan and have access to a free clinic in case of any ill-health or sickness. Furthermore, in case the worker is asked to go to the hospital, to attend to his or her illness, the expenses are reimbursed by the company. Other measures to protect our workers from health risks are regular fogging for the prevention of dengue fever and adequate potable water treatment facilities which were recently installed as part of our health surveillance programme.

# » OCCUPATIONAL SAFETY AND HEALTH

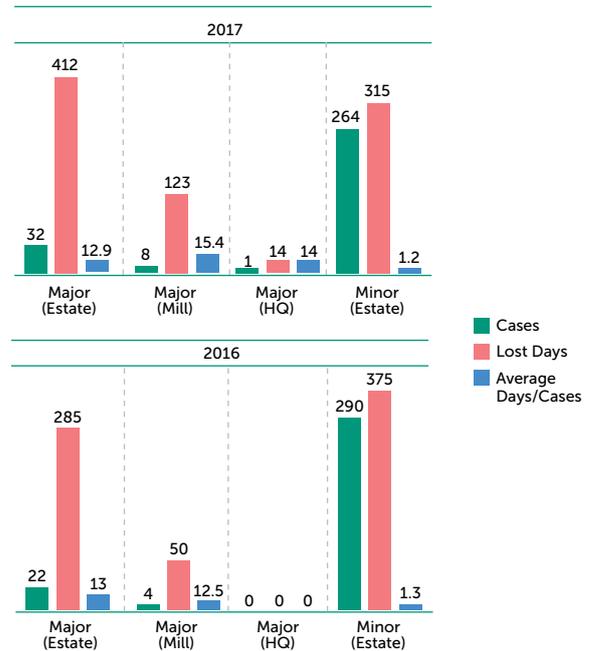
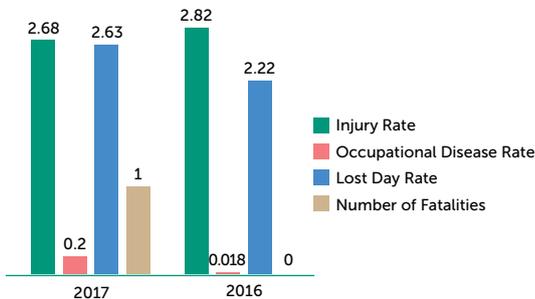
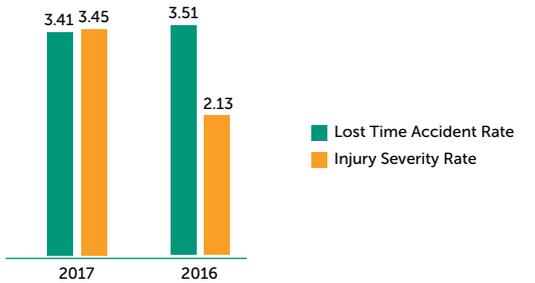
## Safety and Health Training

Each worker is required to undergo an average of 40 hours or five (5) man days of safety training in a year. Among others, the training emphasises on the handling of machineries, fire drill, spraying, diesel handling and safe disposal of chemical containers. In 2016 and 2017, a total of 64 fire drills were conducted across Kulim's operations.

Our tractor, lorry and mechanical buffalo drivers are required 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 these vehicles.

We recognise that there are hidden costs in accidents and near accidents in the workplace. These work out to around eight (8) to 33 times more than the direct costs. Regrettably, in 2017 we had one work-related fatality, where we lost a male estate worker. This occurred at Tunjuk Laut Estate as a result of a human-wildlife conflict. Resulting from this fatal incident, we have introduced stringent mitigation measures to ensure such incidents do not recur. With the stakes being so high there can never be room for complacency. Through responsible governance, rigorous controls and compliance systems, we endeavour to address the key concerns surrounding occupational and safety risks. However, we recognise and continuously highlight the fact that safety and health are the shared responsibilities of management and every employee at Kulim.

While 2017 saw a decrease in the Lost Time Accident Rate ("LTAR") compared to 2016, the injury severity rate was higher in 2017. However, we were still confined within our targets which are below 10 for LTAR and below 3.5 for severity rate.





# EMPLOYEE DISTRIBUTION

## 2017 Kulim's Employees

\*NOT INCLUDING ESTATE AND MILL WORKERS



## 2016 Kulim's Employees

\*NOT INCLUDING ESTATE AND MILL WORKERS



# » EMPLOYEE DISTRIBUTION

Our organisation has been a success primarily because of the strength and resourcefulness of our employees. Recognising the performance of our employees and accordingly providing opportunities for career advancement within Kulim is purely on meritorious grounds, without discriminating on the basis of gender. It is worth noting that during the reporting period, there were no incidents of discrimination.

We offer competitive and attractive remuneration packages that are commensurate to the job grade of the employee. In addition, permanent employees are eligible for benefits such as compassionate leave, medical check-ups, hospitalisation coverage, maternity leave and study leave, to name a few.

The distribution of Kulim's employees between 2017 and 2016 across the organisation which includes our Board of Directors, Senior Management, Management, Executive and Non-Executive is described above. In order to provide opportunities for suitably qualified personnel in senior leadership positions and to benchmark their performance with world-class leaders, we prefer to hire candidates from the local talent pool. Based on this rationale, 100% of our Senior Management team are Malaysians.

## New Employee Hires



## Employee Turnover



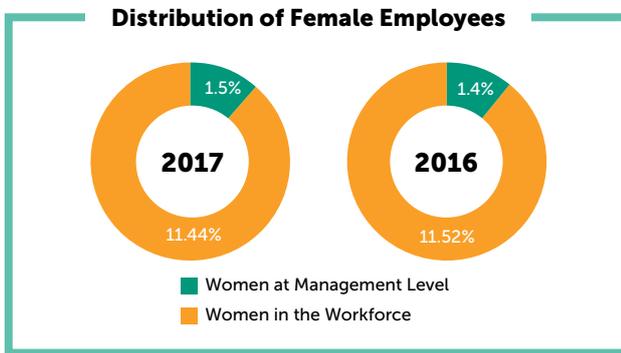
# WOMEN AT THE WORKPLACE

The contribution by Kulim's female employees, both at the estates and the offices, does not go unnoticed.

While, female employees are given 60 consecutive days of paid maternity

leave, Kulim is yet to implement paternity leave for the men. We are pleased to report that 100% of women who were on maternity leave in 2016 and 2017 returned to work and continue to remain employed.

However, more importantly, we took utmost care to ensure that pregnant or nursing women workers are not exposed to harmful chemicals in the process of discharging their duties.



	FY2017	FY2016
<b>Women on Maternity Leave</b>	22	19
<b>Women who return to work after maternity leave</b>	100%	100%

Our policy statement on sexual harassment clearly defines what kind of behaviour is deemed as sexual harassment and the Policy applies not only to Kulim employees but also extends to visitors, clients, customers and contractors visiting our premises. Although women form a smaller percentage of Kulim's workforce throughout the organisation nevertheless our campaigns are launched to create awareness amongst women of their rights and to encourage them to report such cases without fear of being harmed, as it will help build resilience and strength amongst them.

Despite sincere efforts to protect our employees and eradicate all forms of sexual harassment at the workplace, incidents have occurred during the reporting period. While in 2017, no cases of sexual harassment were reported, in 2016, three (3) cases were reported and all three were cases addressed and resolved.

### Women OnWards

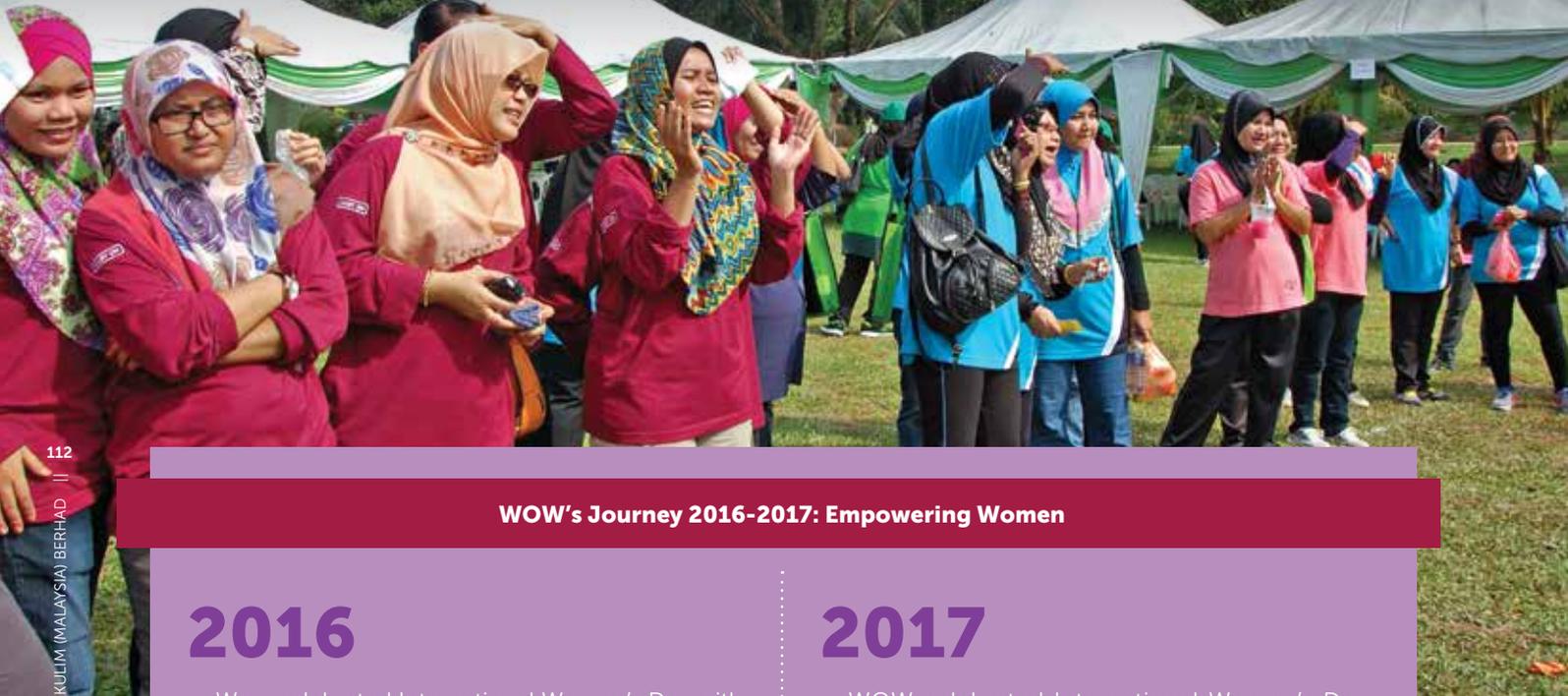
What started out as a platform for women workers to raise grievances the *Panel Aduan Wanita* has now evolved and renamed as Women OnWards ("WOW") to promote gender equality and empower women by improving their knowledge and skills. Over the past six (6) years, WOW has been actively providing opportunities

for the women in Kulim to become entrepreneurs in their own right under a programme known as *Jejari Bestari*.

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 events like the JCorp Carnival, Kota Tinggi Eco Boat Fishing Challenge, Kota Tinggi MTB Jamboree and Kota Tinggi Paintball Championship, among others. Between 2016 and 2017, a total of RM108,200 was raised through these sales which was invested back into their fledgling businesses.



# WOMEN AT THE WORKPLACE



## WOW's Journey 2016-2017: Empowering Women

### 2016

- Wow celebrated International Women's Day with the theme "*Wanita dan Cabaran Global*" - 350 participants
- WOW generated sales worth RM52,000
- The HR Excellence Awards Malaysia shortlisted WOW as the finalist for the "Excellence in Diversity and Inclusion" category
- The 8<sup>th</sup> Annual Global CSR Summit and Awards 2016 shortlisted WOW as the finalist for the "Employment of Women" category
- Conducted training on Company's Sexual Harassment Policy
- Established WOW Committee and a sexual harassment procedure, to protect female workers

### 2017

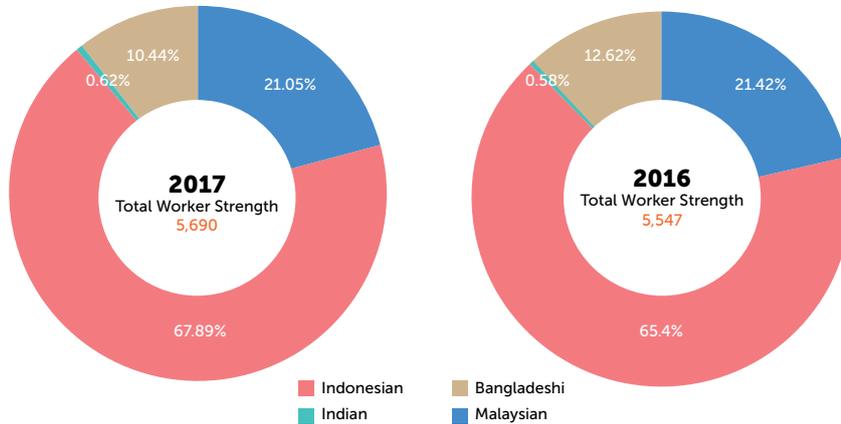
- WOW celebrated International Women's Day with the theme "*Berani Untuk Berubah*" - 320 participants
- WOW generated sales worth RM56,200
- Participated in the Tribute to Women Malaysia Lifestyle Fest 2017
- WOW won Gold for the Empowerment of Women Award at the 9<sup>th</sup> Annual CSR Summit and Awards Ceremony 2017
- Collaborated with *Kolej Komuniti*, under the *Jejari Bestari* programme to organise classes for women on etiquette and stitching etc.

# » DIVERSITY AND EQUAL OPPORTUNITY

Majority of the workers in our estates comprise foreign contract workers. In such an environment, non-discriminatory behaviour and inclusivity play an important role in order to maintain industrial harmony and high standards of integrity, openness and accountability when conducting our business operations.

Equal pay for equal work, holds true across different job grades, and that includes field workers, office staff and management. Access to medical care, grievance procedure, accommodation and the Ethics Declaration Form<sup>13</sup> applies to executive and non-executive employees at the Group.

However, there are a few differences in our approach towards local and foreign workers, depending on the legal requirements of the Malaysian government. For instance, while local workers are covered under the SOCSO scheme, foreign workers are covered under the Foreign Workers' Compensation Scheme. Also, while local workers have the right to resign without penalty, foreign workers have to fulfil their three-year contract as per the terms and conditions of their employment.



<sup>13</sup> The Ethics Declaration Form allows employees to raise any violation of the Code of Ethics and behaviour relating to fraud, corruption, wastage, tardiness that affect the positive work culture at Kulim

In 2016, the ministry of Foreign Affairs Republic of Indonesia visited our estates in order to meet and have a dialogue with Kulim's Indonesian workers. The main objective of this visit was to strengthen the welfare of Indonesian citizens in foreign countries. A total of 300 of our Indonesian workers from Basir Ismail, Bukit Layang and REM estates attended this programme. We encourage these engagement sessions to reassure our stakeholders that the well-being of our workers is a responsibility that we take seriously.



# » TRAINING AND DEVELOPMENT

We are determined to foster a workplace culture and environment that attracts, retains and develops talented people so that they can reach their full potential and deliver value to our stakeholders. Towards skill development and improving job specific competency, we continuously encourage interested employees to pursue professional qualifications such as the Association of Chartered Certified Accountants ("ACCA"), Chartered Institute of Management Accountants ("CIMA"), Malaysian Institute of Accountants ("MIA") and Human Resource Certification.

Year	Competency Area	Number of Attendees	Group Investment
2016	Authorised Entrant and Standby Person (AESP) for Confined Spaces	5	RM110,827.30
	Association of Chartered Certified Accountants (ACCA)	2	
	Diploma on Sustainable Operations- Green Building	3	
	Certified Environmental Professional in Scheduled Waste Management (CePSWAM)	5	
2017	Certified Human Resource Officer (CHRO)	3	RM81,470.50
	Chartered Institute of Management Accountants (CIMA)	1	
	Certified Environmental Professional in the Treatment of Palm Oil Mill Effluent (CePPOME)	3	
	Diploma in Palm Oil Mill Technology and Management	2	
	Certified Environmental Professional in Scheduled Waste Management (CePSWAM)	4	

We are also collaborating with the Johor Skills Development Centre, PUSPATRI to conduct technical courses for our employees.

PUSPATRI Course	2017	2016
Microsoft Applications Programme	144	146
ICE Engine Drive Intensive Class	6	-





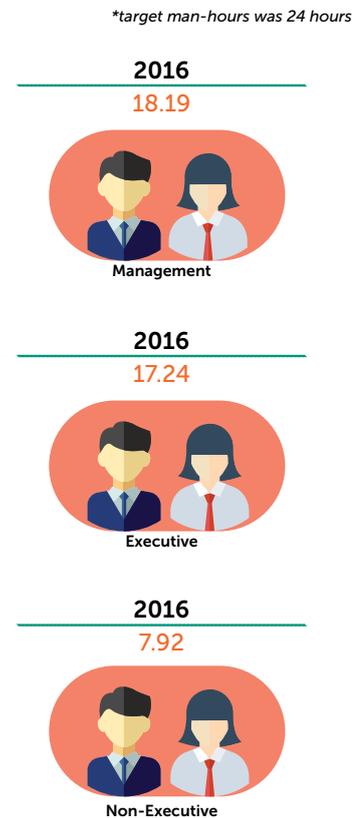
To encourage potential talents within the organisation, we have the Johor Leadership Programme ("JLP"). It is a two (2) years structured leadership capacity programme that exposes its participants to business challenges in a variety of scenarios and have the opportunity to share leadership experiences. In 2017, five (5) employees were selected for the JLP Cohort III 2017/2019.

The Strategic Enhance Executive Development System ("SEEDS") Programme, which was launched in 2007 has been reengineered and registered with *Skim Latihan 1 Malaysia*. The aim of this programme is to develop and enhance leadership amongst the younger generation and was launched in December 2016 with an intake of 19 fresh graduates from local higher learning institutions. Another four (4) fresh graduates were chosen for the second intake commencing April 2017, while the third intake which began in July 2017 had a total of six (6) candidates.

The average training hours per employee in 2017 was 30.58 and the average training hours across the 3 employment categories and by gender in 2017 are enumerated below:



The average training hours across employment categories and per employee in 2016 are enumerated below:



# » PERFORMANCE MANAGEMENT



Kulim acknowledges the critical importance of a skilled workforce as a prerequisite for the continued success of its business. Throughout 2016 and 2017, we continued to strengthen our organisational capabilities. We believe that along with training programmes, performance management is key to promote and improve employee effectiveness.

Our Performance Management System ("PMS") is a continuous process where managers and employees work together to plan, monitor and review an employee's work objectives and his or her contribution to the organisation. In order to maintain the high-performance culture at Kulim, we have introduced a performance-based reward system. It is conducted annually and involves reviewing the targets set for each employee in order to raise the bar and challenge them to achieve the next level of performance. Every employee, both permanent and contract staff are eligible to performance appraisal.

## ***Employee Engagement***

We believe that mentoring and good leadership are important factors towards recognising the needs of the employee and realising their potential. Creating a workplace that is conducive and adapts to the changing expectations of employees over time is crucial towards sustaining work efficiency and attracting talents and skilled professionals.

Through our regular staff engagement sessions, we provide a platform for all employees to voice their concerns and expectations. 'Yuk Ngopi' was one such session organised in 2017, in which 131 employees at the executive level took part. The objective of this programme was to promote team building, better inter and intra department communication, and two-way communication between employees and the Group.

## ***Succession Planning***

Kulim has introduced a revised Talent Management Framework to support its Manpower Succession Plans for key and critical positions in the management hierarchy. This framework covers a number of key areas, including identification of candidates with the right potential, talent development programmes, mentoring and coaching, and placement of the talent pool in strategic units to develop overall exposure. These measures ensure leadership readiness and sustainable succession planning.

## ***Job Rotation***

We practice job rotation as we believe in its benefits towards increasing the depth and breadth of an employee's knowledge and capabilities. An employee is moved from one job to another handling a schedule of assignments that have been designed to give the 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.

D & IV  
TMENT

SUSTAINABILITY  
DEPARTMENT



## 09 PARTNERSHIP

---

Supply Chain Management and Traceability	<b>121</b>
Smallholder Management	<b>128</b>

KU



---

# PARTNERSHIP

COLLABORATING WITH OTHER ORGANISATIONS TO CREATE SUSTAINABLE VENTURES AND ENHANCE ECONOMIC PROSPERITY

---

17

PARTNERSHIPS FOR THE GOALS



Creating effective alliances in the public, public-private and civil society spheres.

Developing multi-stakeholder partnerships that mobilise and share knowledge, technology and resources to create shared value and embed sustainable practices throughout the supply chain.

Over the years, the frequency of cross-sector partnerships to achieve sustainability goals have increased exponentially. Ranging from alliances and collaborations between businesses, government agencies, and NGOs, to support and engage with smallholders, traders and consumers, these partnerships are formed to achieve an overall purpose related to the sustainability of an organisation. Partnerships lead to improved transparency and accountability, creating good working relationships that can benefit both organisations with regards to economic, environmental and social performance.





# SUPPLY CHAIN MANAGEMENT AND TRACEABILITY



In addition, we regard sustainable development as an excellent avenue to market our products to global consumers while safeguarding the environment and its natural resources for the future. The Group subscribes to RSPO traceability system, RSPO PalmTrace (that being upgraded from formerly eTrace), for certified RSPO members to register their physical sales and processing activities of palm oil, palm kernels and tractions.

Achieving full palm oil traceability requires us to closely track our entire palm oil production process which, for the Group, begins from the planting phase at the plantation to the trading phase where our CSPO is distributed to consumers and product

manufacturers. As illustrated in the flowchart below, certified RSPO members register their processing and sales activities on the PalmTrace online platform under the supply chain models Mass Balance, Identity Preserved and Segregated based on an organisation's respective business model.

The PalmTrace system also works as a marketplace platform for palm oil producers, with the added possibility of registering offmarket deals through RSPO Credits using the Book and Claim system. A detailed description regarding the PalmTrace supply chain system can be derived from RSPO's official website (<https://rspo.org/palmtrace>).



## Maintaining Our RSPO certification

**“The ability to identify and trace the history, distribution, location and application of products, parts and materials, to ensure the reliability of sustainability claims, in the areas of human rights, labour (including safety and health), the environment and anticorruption.”**

By adhering to RSPO standards, our market presence is much stronger in the global market, appealing to the organisations who have pledged to use CSPO rather than obtain palm oil from untraceable or unsustainable sources. We align our practices to RSPO requirements to ensure greater transparency in our supply chain through stringent monitoring and procurement processes, as well as implementing environmentally conscious production practices. To date, all the CPO produced by our five mills are RSPO-certified, whereby our whole CPO production processes are traceable.

Supply chain certification not only represents a guarantee system for our buyers and consumers, but is also supported by a series of steps, monitoring and record keeping methods, that aim to provide transparent information about palm oil source and its production methods. We are currently embarking on a continuous effort to extend our level of RSPO compliance to include our smallholders and outgrowers.

Through our RSPO membership, we have continued to improve our level of compliance and have successfully received certification for our Pasir Panjang POM. This effectively assures our stakeholders that our entire business operation has complied with RSPO standards and requirements as listed in the table below.

POM	Estate	RSPO Status
<b>Tereh</b>	Tereh Utara	Certified by RSPO since 2009
	Tereh Selatan	
	Selai	
	Eggang	
	Mutiara	
	Sg Sembrong	
	Sg Tawing	
	Rengam	
<b>Sedenak</b>	Sedenak	
	Basir Ismail	
	Ulu Tiram	
<b>Sindora</b>	REM/Pasak	
	Sindora	
	Sg Papan	
<b>Palong Cocoa</b>	Sepang Loi	
	UMAC	
	Labis Baru	
	Mungka	
	Kemedak	
<b>Pasir Panjang</b>	Palong	
	Pasir Panjang	Received RSPO certification in 2017
	Siang	
	Bukit Kelompok	
	Tunjuk Laut	
	Pasir Logok	
Bukit Payung		

To maintain our certification status, our Sustainability & Quality Department (SQD) team conducts regular internal audits on our estates and mills to assess whether the practices applied at the operational-level are in line with RSPO’s eight (8) principles.

# » SUPPLY CHAIN MANAGEMENT AND TRACEABILITY

## *Supplier Screening*

Our suppliers make up another aspect of the Group's overall supply chain to ensure that the supplied products meet the Group's expectations. Through routine vendor visits, strict registration processes and yearly assessments, suppliers who are looking to partner with the Group are required to adhere to meet the standards adopted in the Group's business operations.

Collectively, 15% of our 153 active contractors and suppliers were screened in FY2016 and FY2017 based on the Group's screening guidelines. Results from the screening process indicates that our suppliers continue to respect and adhere

to our business practice and principles as there have been no instances of supplier termination.

As our business continues to grow, we are aware of our responsibility as a corporate citizen to ensure that economic prosperity through

business opportunities are given to local businesses and organisations. While we may not have an allocated financial budget solely for local suppliers, we have consistently spent 100% of our procurement budget on local suppliers for FY2016 and FY2017





### *Ensuring Sustainable Palm Oil Trade*

While there remains to be heavy scrutiny on palm oil cultivation and manufacturing process, an underlying factor that can contribute to unsustainable palm oil supply chain is irresponsible trading practices. A recurring challenge we have encountered when trying to achieve full traceability throughout our supply chain is trying to ensure sustainable trading-practices are carried out by our traders. Tracing the FFB source from other plantations that traders are engaged with and ensuring that the FFB source and CPO produced are conducted sustainably remains as one of the top challenges for us.

Tracing the product to its originating plantation or mill is a difficult task, especially if the commodities were purchased from an open-market source that may not have traceable information readily available. Additionally, traders hesitate to share information regarding the traceability of their commodities which may result in a price conflict, loss in competitive advantage or having their position as a direct supplier revoked if standards are not met.

In overcoming these obstacles, we have employed a series of measures to establish open communication and to disclose transparent information between our traders. This is achieved via contract agreement with our traders and annual assessments conducted to ensure that our traders meet the standards that the Group practices. Our assessment process also includes a verification step by requesting for a copy of RSPO certification from other organisations that our traders are engaged with.

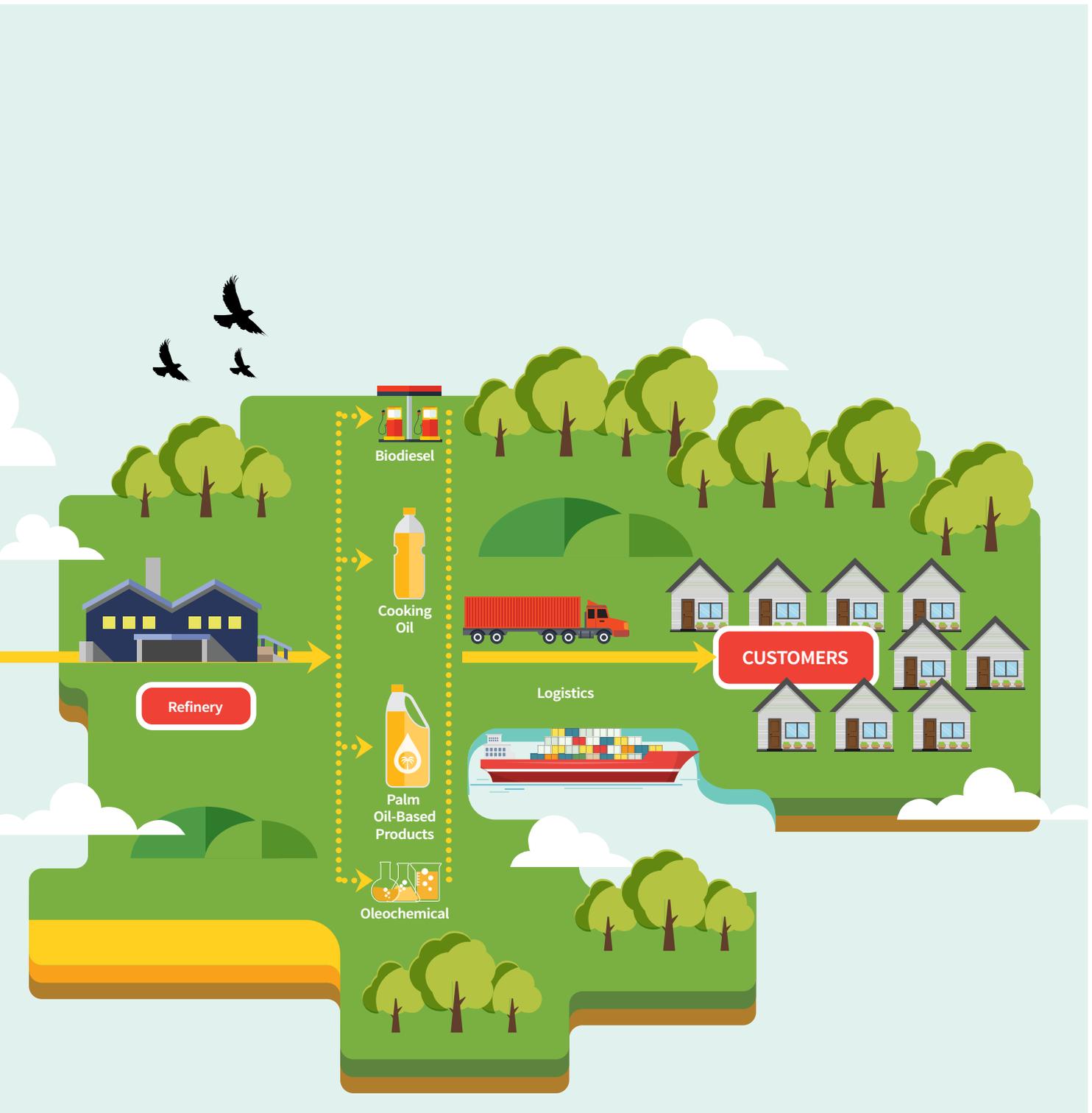


# SUPPLY CHAIN MANAGEMENT AND TRACEABILITY

## Kulim (Malaysia) Berhad ("KMB") Business Operations

Our Supply Chain





# » SMALLHOLDER MANAGEMENT

Palm oil continues to be the world's most widely consumed vegetable oil, with demand continuing to rise. Smallholders contributed to approximately 40% of global palm oil production in the form of FFBs or crude palm oil. In the palm oil industry, smallholders comprise of farmers, usually with familial relations, who grow oil palm alongside other agricultural crops confined to an area that is less than 50 hectares. The industry's ongoing improvement in disclosing sustainable and traceable supply chain leads RSPO to require more smallholders to be certified palm oil suppliers to improve an organisation's CSPO supply chain value.

**40%**  
Global palm oil produced by smallholders

Approximately **30%** of FFB processed by Kulim' POMs obtained from smallholders



## TYPES OF SMALLHOLDERS/ OUTGROWERS

### Schemed or Associated Smallholders

- Contractually bound to a particular mill based on an agreed contract, credit agreement or production planning
- Receive planting supervision and crop management techniques by the manager of a mill, estate or a scheme

### Independent Smallholders

- Not contractually bound to any particular mill or scheme, but may receive support from government agencies
- Given the freedom to choose the types of crop they plant, land use purpose and management methods
- Self-organised, self-managed and self-financed



### *Creating Awareness Amongst Our Smallholders*

By committing to RSPO requirements and to address stakeholder demands for supply chain traceability and sustainability, we continue our due diligence by engaging with our smallholders and assisting them in obtaining their RSPO certification. Also, referred to as outgrowers, our smallholders contribute about 30% of FFBs to the Group, where the FFBs are processed by one of our mills.

The RSPO awareness programme is carried out on an annual basis, whereby a team of our employees from the SQD will engage with smallholders on topics related to the practices they need to adopt to comply with RSPO requirements. Smallholders benefit from RSPO certifications through economic incentives such as premium pricing and farm yield improvement that result from the palm oil supply chain management outlined by RSPO requirements. Other benefits include improved good agricultural practices and efficient palm growing techniques that increases their knowledge on oil palm best practices and produces higher yields.

They stand to gain knowledge and develop skillsets related to sustainable palm oil production based on the following objectives:

- Empowering smallholder farmers and engaging them in sustainable supply chains to make the palm oil market more sustainable;
- Information awareness regarding RSPO's support given to smallholders to achieve sustainable palm oil production;
- Connecting smallholders with potential project partners; and
- Providing additional resources and support with regards to achieving RSPO certification.

# SMALLHOLDER MANAGEMENT

Efforts from this awareness programme have resulted to two of our smallholders receiving RSPO certification with an average of 80% participation from our outgrowers and traders.

Estate Name	Status
<b>Felda Paloh Estate</b>	RSPO certified since 2014
<b>Ladang Wawasan</b>	RSPO certified since 2014
<b>Eng Lee Heng</b>	Certification assessment in progress. Target certification year 2019

There are several challenges that come with obtaining RSPO certification for smallholders. These include issues related to cost, land ownership, illegal deforestation or burning practices and labour non-compliance (most farms are managed by family members and may, therefore, not adhere to the Malaysian labour laws such as the Employment Act 1955 or Minimum Wages Order 2016). Another challenge Kulim encounters is to provoke large-scale inclusion of smallholders to adopt sustainable palm oil practices that meet RSPO requirement.

The Group overcomes these challenges by providing support to our outgrowers via continuous engagement and assistance that are in line with our business practices to ensure that the palm oil products produced by these smallholders adhere to the Group standards.

## Smallholder Productivity

Year on year, our continuous partnership with our smallholders have contributed to their economic growth, while also increasing our overall CPO output. The volume of FFB that we have collected from our

smallholders and outgrowers for FY2016 was higher compared to FY2017. Various factors can contribute to the fluctuating productivity of our FFB sources such as duration of drought or rainy seasons, quality of the harvested FFB and distribution crops to different buyers.

## Agricultural Productivity of Smallholders and Outgrowers:

Year	FFB Sources	Palm Oil Mill					Total (MT)
		Tereh	Sedenak	Sindora	Pasir Panjang	Palong Cocoa	
2017	<b>Smallholders</b>	-	185,201	84,498	-	13,136	282,835
	<b>Outgrowers</b>	6,989	17,908	8,321	-	-	33,219
						<b>Total</b>	<b>316,054</b>
2016	<b>Smallholders</b>	-	214,025	89,457	-	8,172	311,654
	<b>Outgrowers</b>	27,264	16,160	9,536	-	164,19	53,124
						<b>Total</b>	<b>364,778</b>
2015	<b>Smallholders</b>	-	244,079	89,276	-	27,965	361,320
	<b>Outgrowers</b>	30,511	16,490	11,017	-	655	58,674
						<b>Total</b>	<b>419,994</b>
2014	<b>Smallholders</b>	-	213,187	71,373	-	61,581	346,141
	<b>Outgrowers</b>	22,427	14,927	23,429	-	643	61,427
						<b>Total</b>	<b>407,568</b>

# » GRI CONTENT INDEX

## Custom Content Index- 'In Accordance' Core

This Content Index provides an overview of the GRI Standards Disclosures made in this report and Kulim's Integrated Annual Report of 2016 and 2017.

GRI Standard	Disclosure	Page number or url	Omission
<b>GRI 101: Foundation 2016</b>			
<b>General Disclosures</b>			
GRI 102: General Disclosures 2016	102-1 Name of the organisation	4	
	102-1 Activities, brands, products and services	5	
	102-3 Location of headquarters	4	
	102-4 Location of operations	4	
	102-5 Ownership and legal form	5	
	102-6 Markets served	IAR 2016 Page 87 - 88	
	102-7 Scale of the organisation	77, IAR 2017- Page 74, 142-144, 177	
	102-8 Information on employees and other workers	109, 113	
	102-9 Supply chain	122-123	
	102-10 Significant changes to the organisation and its supply chain	5	
	102-11 Precautionary principle or approach	48-49	
	102-12 External initiatives	4	
	102-13 Membership of associations	55	
	102-14 Statement from senior decision-maker	18-23	
	102-16 Values, principles, standards, and norms of behaviour	53-54	
	102-18 Governance Structure	30	
	102-40 List of stakeholder groups	31-36, 62	
	102-41 Collective bargaining agreements	62	
	102-42 Identifying and selecting stakeholders	31-36	
	102-43 Approach to stakeholder engagement	31-36	
102-44 Key topics and concerns raised	31-36		
102-45 Entities included in the consolidated financial statements	4, IAR 2017 - Page 74		

# » GRI CONTENT INDEX

GRI Standard	Disclosure	Page number or url	Omission
<b>GRI 101: Foundation 2016 (continue)</b>			
<b>General Disclosures (continue)</b>			
GRI 102: General Disclosures 2016	102-46 Defining report content and aspect boundaries	40-45	
	102-47 List of material topics	40-45, 46-47	
	102-48 Restatements of information	40	
	102-49 Changes in reporting	4, 40-45	
	102-50 Reporting period	4	
	102-51 Date of most recent previous report	4	
	102-52 Reporting cycle	4	
	102-53 Contact point for questions regarding the report	Last page	
	102-54 Claims of reporting in accordance with the GRI Standards	4	
	102-55 GRI Content Index	131-135	
102-56 External Assurance	138-141		
<b>Material Topics</b>			
<b>Economic Performance</b>			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundary	42-45	
	103-2 The management approach and its components	12-15, 42-25	
	103-3 Evaluation of the management approach	12, 42-45	
GRI 201: Economic Performance 2016	201-1 Direct economic value generated and distributed	71	
	201-3 Defined benefit plan obligations and other retirement plans	71	
<b>Biodiversity</b>			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundary	15, 46	
	103-2 The management approach and its components	15, 46, 96, 100	
	103-3 Evaluation of the management approach	15, 98, 99	
GRI 304: Biodiversity 2016	304-1 Operational sites in or near protected areas or areas with high biodiversity value	96	
	304-2 Significant impacts of activities, products and services on biodiversity	96	
	304-3 Habitats protected or restored	96	
	304-4 IUCN Red List species and national conservation list species with habitats in operations area	98	

GRI Standard	Disclosure	Page number or url	Omission
<b>Material Topics (continue)</b>			
<b>Emissions</b>			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundary	44	
	103-2 The management approach and its components	80-83	
	103-3 Evaluation of the management approach	13, 44	
GRI 305: Emissions 2016	305-1 Direct (Scope 1) GHG emissions	82	
	305-2 Energy Indirect (Scope 2) GHG emissions	82	
	305-4 GHG emissions intensity	83	
	305-5 Reduction of GHG emissions	83	
<b>Effluents and Waste</b>			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundary	44	
	103-2 The management approach and its components	94, 95	
	103-3 Evaluation of the management approach	94, 95	
GRI 306: Effluents and Waste 2016	306-2 Waste by type and disposal method	94, 95	
<b>Occupational Health and Safety</b>			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundary	43	
	103-2 The management approach and its components	107-108	
	103-3 Evaluation of the management approach	107-108	
GRI 403: Occupational Safety and Health 2016	403-1 Workforce representation in formal joint management- worker safety and health committees	107	
	403-2 Type of injury, occupational diseases, lost days and absenteeism, and number of work-related fatalities	107-108	
<b>Child Labour</b>			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundary	43	
	103-2 The management approach and its components	43, 63	
	103-3 Evaluation of the management approach	43, 63	
GRI 408: Child Labour 2016	408-1 Operations and suppliers at significant risk for incidents of child labour	63	



# GRI CONTENT INDEX

GRI Standard	Disclosure	Page number or url	Omission
<b>Material Topics (continue)</b>			
<b>Forced or Compulsory Labour</b>			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundary	43	
	103-2 The management approach and its components	43, 62	
	103-3 Evaluation of the Management Approach	63	
GRI 409: Forced or Compulsory Labour 2016	409-1 Operations and suppliers at significant risk for incidents of forced or compulsory labour	63	
<b>Customer Health and Safety</b>			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundary	43	
	103-2 The management approach and its components	73-75	
	103-3 Evaluation of the management approach	76	
GRI 416: Customer Safety and Health 2016	416-1 Assessment of the safety and health impacts of product and service category	74	
	416-2 Incidents of non-compliance concerning the safety and health impacts of products and services	None	
<b>Socio-economic Compliance</b>			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundary	42	
	103-2 The management approach and its components	42, 53-56	
	103-3 Evaluation of the management approach	53-54	
GRI 419: Socio-economic Compliance 2016	419-1 Non-compliance with laws and regulations in the social and economic area	60-61	
<b>Other Disclosures</b>			
GRI 202: Market Presence 2016	202-1 Range of standard entry level wage by gender compared to local minimum wage	62, 71	
	202-2 Proportion of senior management hired from the local community	110	
GRI 203: Indirect Economic Impact 2016	203-1 Infrastructure investments and services supported	71, 74, 77	
	203-2 Significant indirect economic impacts	126	
GRI 204: Procurement Practices 2016	204-1 Proportion of spending on local suppliers	124	
	205-2 Communication and training about anti-corruption policies and procedures	53-54	
	205-3 Confirmed incidents of corruption and action taken	None	

GRI Standard	Disclosure	Page number or url	Omission
<b>Material Topics (continue)</b>			
<b>Other Disclosures (continued)</b>			
GRI 302: Energy 2016	302-1 Energy consumption within the organisation	84	
	302-2 Energy consumption outside the organisation		This data was not available during the reporting period
	302-3 Energy intensity	85	
GRI 303: Water 2016	303-1 Water withdrawal by source	92-93	
	303-3 Water recycled and reused	93	
GRI 401: Employment 2016	401-1 New employee hires and employee turnover	110	
	401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	110	
	401-3 Parental leave	111	
GRI 402: Labour/ Management and Safety 2016	402-1 Minimum notice periods regarding operational changes	56	
GRI 404: Training and Education 2016	404-1 Average hours of training per year per employee	114-115	
	404-2 Programmes for upgrading employee skills and transition assistance programmes	114-115	
	404-3 Percentage of employees receiving regular performance and career development reviews	114-116	
GRI 405: Diversity and Equal Opportunity 2016	405-1 Diversity of governance bodies and employees	109, 111, 113	
GRI 406: Non-Discrimination 2016	406-1 Incidents of discrimination and corrective actions taken	110	
GRI 414: Supplier Social Assessment 2016	414-1 New suppliers that were screened using social criteria	124	



# ACRONYMS AND ABBREVIATIONS

<b>ACCA</b>	Association of Chartered Certified Accountants	<b>MOA</b>	Ministry of Agriculture
<b>AESP</b>	Authorised Entrant and Standby Person	<b>MPOB</b>	Malaysian Palm Oil Board
<b>AMESU</b>	All Malayan Estates Staff Union	<b>MSDS</b>	Material Safety Data Sheets
<b>ASRA</b>	Asia's Sustainability Reporting Awards	<b>MSPO</b>	Malaysia Sustainable Palm Oil
<b>BOD</b>	Biochemical Oxygen Demand	<b>MT</b>	metric tonnes
<b>CA</b>	Collective Agreement	<b>myGAP</b>	Malaysia Good Agricultural Practices
<b>CePPOME</b>	Certified Environmental Professional in the Treatment of Palm Oil Mill Effluent	<b>NGO</b>	Non-governmental Organisation
<b>CePSWAM</b>	Certified Environmental Professional in Scheduled Waste Management	<b>NUPW</b>	National Union of Plantation Workers
<b>CHRO</b>	Certified Human Resource Officer	<b>OER</b>	Oil Extraction Rate
<b>CIMA</b>	Chartered Institute of Management Accountants	<b>OHSAS</b>	Occupational Safety and Health Management Systems
<b>COD</b>	Chemical Oxygen Demand	<b>OLT</b>	Orangutan Land Trust
<b>CPO</b>	Crude Palm Oil	<b>OSH</b>	Occupational Safety and Health
<b>CSPO</b>	Certified Sustainable Palm Oil	<b>P&amp;C</b>	Principles and Criteria
<b>DO</b>	Dissolved Oxygen	<b>PAW</b>	Panel Aduan Wanita
<b>DOE</b>	Department of Environment	<b>PCD</b>	Pollution Control Device
<b>ECS</b>	Employee Climate Survey	<b>PINTAR</b>	Promoting Intelligence, Nurturing Talent and Advocating Responsibility
<b>EFB</b>	Empty Fruit Bunches	<b>PK</b>	Palm Kernel
<b>EMS</b>	Environmental Management Systems	<b>PKO</b>	Palm Kernel Oil
<b>ERM</b>	Enterprise Risk Management	<b>PKS</b>	Palm Kernel Shells
<b>EU</b>	European Union	<b>POM</b>	Palm Oil Mill
<b>FFB</b>	Fresh Fruit Bunches	<b>POME</b>	Palm Oil Mill Effluent
<b>GHG</b>	Greenhouse Gas	<b>PPE</b>	Personal Protective Equipment

<b>GJ</b>	Giga Joules	<b>PPER</b>	Palm Product Extraction Rate
<b>HCV</b>	High Conservation Value	<b>QMS</b>	Quality Management Systems
<b>HIRARC</b>	Hazard Identification, Risk Assessment and Risk Control	<b>RMCC</b>	Risk Management and Compliance Committee
<b>HR</b>	Human Resources	<b>RSPO</b>	Roundtable on Sustainable Palm Oil
<b>IP</b>	Identity Preserved	<b>SDG</b>	Sustainable Development Goal
<b>IPCC</b>	Intergovernmental Panel on Climate Change	<b>SEEDS</b>	Strategic Enhance Executive Development System
<b>IPGKTI</b>	Institut Pendidikan Guru Kampus Temenggong Ibrahim	<b>SHE</b>	Safety, Health and Environment
<b>IPM</b>	Integrated Pest Management	<b>SIA</b>	Social Impact Assessment
<b>ISCC</b>	International Sustainability Carbon Certification	<b>SIC</b>	Sustainability Innovative Council
<b>ISO</b>	International Organisation for Standardisation	<b>SL1M</b>	Skim Latihan 1 Malaysia
<b>IUCN</b>	International Union for Conservation of Nature	<b>SPO</b>	Sustainable Palm Oil
<b>JCorp</b>	Johor Corporation	<b>SQD</b>	Sustainability Quality Department
<b>JLP</b>	Johor Leadership Programme	<b>SS</b>	Suspended Solids
<b>KER</b>	Kernel Extraction Rate	<b>UN</b>	United Nations
<b>KPI</b>	Key Performance Indicator	<b>UNFCCC</b>	United Nations Framework Convention on Climate Change
<b>kWh</b>	kilowatt per hour	<b>UTCL</b>	Ulu Tiram Central Laboratory
<b>LTAR</b>	Lost Time Accident Rate	<b>WOW</b>	Women Onwards
<b>MAPA</b>	Malaysian Agricultural Producers Association	<b>WQI</b>	Water Quality Index
<b>MIA</b>	Malaysian Institute of Accountants	<b>WWF</b>	World Wildlife Fund



AA1000  
Licensed Assurance Provider  
000-174

Vers. 2018, pg. 1 of 4

## Independent Assurance Statement

### The 2016-2017 Sustainability Report of Kulim (Malaysia) Berhad Plantation Division

Number : 008/000-174/VIII/2018/SR-Asia/Indonesia

Type : 1

Level : Moderate

**Kulim (Malaysia) Berhad Plantation Division** ("Kulim") has engaged Social Responsibility Asia ("SR Asia") to assure and provide an independent assurance statement on its **2016-2017 Sustainability Report** ("the Report"). The Report is the sixth biennial report that describes its sustainability performance data and information covering only Kulim's plantation business operations in Malaysia. In developing the Report, Sustainability Reporting Standards of the Global Reporting Initiative ("the GRI Standards") has been utilised as a reference.

This independent assurance statement does not specify Kulim's overall sustainability performance except for the areas included in the scope of assurance. As agreed by the Management<sup>1</sup>, SR Asia is responsible to carry out assurance procedures on the Report, to come up with recommendations, and to issue an independent assurance statement on the report content in respect to the assurance principles and reporting standards. Presentation of the report content is the sole responsibility of the Management. SR Asia does not accept or assume any responsibility for any other purpose or to any other person or organization; thus, any dependence that third party has placed on the Report is entirely on its own risk.

#### Scope of Assurance Service and Limitation

SR Asia conducted the assurance work including:

1. The eight topics identified as material and priority by the Management; which are compliance, economic performance, occupational health and safety, human rights and labour practice, product quality, emissions, effluents and waste, and biodiversity.
2. Two years period of sustainability performance data and information; 1<sup>st</sup> of January up to 31<sup>st</sup> of December 2016 and 2017.
3. A visit to the office to review sustainability data, information, and disclosures as indicated in the Report and also to identify supporting documents and evidence.
4. A field visit to one of the estates and mills to observe its activities and engagement with employees as a significant stakeholder group.

#### Exclusion

In reviewing the Report, SR Asia excluded:

1. Data and information not covered in the reporting period, or from the Kulim's documents other than those mentioned in the Report.

<sup>1</sup> "The management" refers to the management of the Reporting Organization

2. Data and information that are made available for public but not presented in the Report.
3. Stakeholders' engagement process taken by Kulim, which may have contributed to the report development, except for the engagement to identify and address the material topics.
4. Topics that are not identified as material and priority in the section of identifying materiality and defining report content.
5. Analysis based on the standards and indicators other than those mentioned under the methodology section.
6. Content of the Report that describes statements, claims, or expression of opinion, belief, expectation, advertisement, and future planning of Kulim.

### Type and Level of Assurance

The Report has been assured by SR Asia in respect to the following:

1. Type 1 of assurance service on the report content referring to the AA1000AS (2008) Assurance Standard and AA1000AP (2018) AccountAbility Principles.
2. A moderate level of assurance procedure on the report content and evidence, where the risk of information and conclusions of the Report being error is reduced to low, but not to very low and not zero.
3. Evaluation on the disclosed data and information, the system, and the process that Kulim has in place to ensure adherence to the principles in developing the Report.

### Methodology

For a preliminary assessment, Kulim submitted the Report draft to the Assurance Team. Next, a series of online discussions between Kulim and SR Asia were performed, prior to the following activities:

1. Visit the headquarter of Kulim's plantation businesses in Ulu Tiram, Malaysia, to discuss the report content with the Management. Representatives from several divisions and departments of Kulim, e.g human resources, finance, sustainability and quality, and operation, also joined the discussions.
2. Review data and information including table, diagram, and graph, especially on the material topics, against the standards, principles, and indicators of AA1000AS (2008) and AA1000AP (2018) AccountAbility, and the GRI Standards.
3. Trace back data to the sources and review the evidence documents submitted by Kulim.
4. Perform a site visit to Kulim's palm oil mill and estate in Pasir Panjang, Malaysia, to observe the operational activities and labour practices.

### Adherence to AA1000AP (2018) and GRI Standards

**Inclusivity** – Kulim is able to identify and manage its stakeholders inclusively. In the Report, presentation of information about the stakeholder engagement is also comprehensive. Kulim has different channels to response the stakeholders' concerns and to involve them in a decision-making process at various levels. Moreover, the role of Sustainability Initiative Council (SIC) in Kulim also indicates the engagement of top management in sustainability issues; where it confirms Kulim's leadership in sustainability is very well in practise.



AA1000  
Licensed Assurance Provider  
000-174

Vers. 2018, pg. 3 of 4

**Materiality** – Presentation of material topics in the Report is significantly different to those of the previous reports. As per SR Asia’s assurance work, adherence of the Report to the materiality principle is to some extent satisfactory. The material topics that are discussed in the Report clearly highlight the sustainability context of Kulim’s operations in palm oil industry sector. Nevertheless, improvement must be made for future reporting in term of documentation of the material topics identification process.

**Responsiveness** – The Report appropriately explains Kulim’s timely and relevant responses to manage the impacts and the current worldwide issues of sustainability. Its sustainability strategy refers to the globally accepted objectives and framework of Sustainable Development Goals (SDGs). The initiatives in energy and carbon emission reduction indicate its concerns on climate change. Kulim also has a Whistleblowing Policy and the grievance mechanism in place to allow the stakeholders, such as the employees, to express dissatisfaction or feeling injustice to the Management.

**Impact** – Kulim has a governance structure comprising of different functions or divisions to manage the impacts from its business activities. The Report adequately discloses Kulim’s management approach, including targeted outputs and outcomes, as part of the strategy and commitment to maximize positive and minimize negative impacts. Membership in the Roundtable Sustainable Palm Oil (RSPO) specifies Kulim’s involvement in the international initiatives on sustainability. In addition to that, Kulim also would like to implement the best sustainability practices, such as utilising the PalmGHG tool (V1) to monitor its GHG emissions.

**In “Accordance” with Core Option** – Kulim has developed the Report referring to the core option of GRI Standards. For each material topic, at least one disclosure is presented and discussed in the Report. Following the GRI Standards, the Report explains that some data and information cannot be presented due to management discretion or nonexistence of data and information.

**GRI Standards Principles** – In general, Kulim has applied the Principles for Defining Report Content (stakeholder inclusiveness, sustainability context, materiality, and completeness) and the Principles for Defining Report Quality (balance, comparability, accuracy, timeliness, clarity, and reliability). Presentation of disclosure of management approach (DMA) in the Report is also sufficient; where it enables the stakeholders to understand Kulim’s efforts to manage its sustainability issues. In terms of accuracy and reliability, evidence documents were presented adequately to the Assurance Team except for the workshop data and information. Nevertheless, some areas of discussions, such as energy consumption, waste, and training, are supported by two years data indicating that the level of comparability is slightly lower.

## **Recommendation**

According the Assurance Team’s review and analysis, for future reporting, Kulim is recommended to:

1. Implement an accurate, reliable, and integrated data management, especially in human resources development area, that enables Kulim to maintain data and information as well as to present evidence as required. Kulim must ensure that employee replacement or rotation would not affect reliability and continuity of sustainability performance data and information.
2. Ensure providing sustainability performance data and information from the last four years period, at minimum, in the future sustainability reports in order to increase the report level of comparability.



**AA1000**  
Licensed Assurance Provider  
000-174

Vers. 2018, pg. 4 of 4

3. Reassess stakeholders identification by utilising the AA1000 Stakeholder Engagement Standard (2015) as a reference for future sustainability report development. Kulim is advised to issue the annual stakeholder engagement management report as evidence and one of bases to identify materiality topics in developing a sustainability report.
4. Perform a mapping on Kulim's programs and initiatives against the detailed targets and indicators of Sustainable Development Goals (SDGs) as its sustainability strategy is already in line with the SDGs framework.

### Statement of Competency, Independency and Impartiality

SR Asia network is comprised of reputable organizations and experts promoting sustainable development in Asian countries. The activities include policy studies and advocacy, CSR studies and reporting, sustainability report assurance, capacity building, research, and other services in sustainability and social responsibility.

SR Asia's Assurance Team members have experiences in sustainability and integrated report writing and assessment from various industry sectors. They are also familiar with standards and principles relevant to sustainability reporting, such as ISO 26000, sustainability accounting standards of SASB, and the principles and standards of AA1000 AccountAbility, GRI Standards, and International Integrated Reporting (IR) Framework.

SR Asia has ensured necessary mechanism and professional codes of practices are in place to ensure the Assurance Team free from bias and conflict of interest. SR Asia has confirmed that no members of Assurance Team are associated with Kulim that could be perceived to affect their independency and fairness in the assurance process and in developing the assurance statement.

The assurance provider,

Jakarta, 30<sup>th</sup> of August 2018

  
  
**Birendra Raturi**  
*International Director, SR Asia*



**AA1000**  
Licensed Assurance Provider  
000-174

### Social Responsibility Asia (SR Asia)

4F-CS-25, Ansal Plaza, Vaishali

Ghaziabad (NCR Region Delhi), Uttar Pradesh 201010, INDIA

Landline / Mobile: +91-120-4103023; +91-120-6452020 / +91-9810059109

E-mail: [info@sr-asia.org](mailto:info@sr-asia.org) Website: [www.sr-asia.org](http://www.sr-asia.org)



# CONTACT AND FEEDBACK

---

We accept and appreciate your thoughts or suggestions regarding the contents of this report. You may direct your feedback to:

**SALASAH ELIAS**

**Sustainability and Quality Department  
Kulim (Malaysia) Berhad**

c/o Ulu Tiram Estate  
Ulu Tiram, K.B 705  
80990 Johor Bahru, Johor

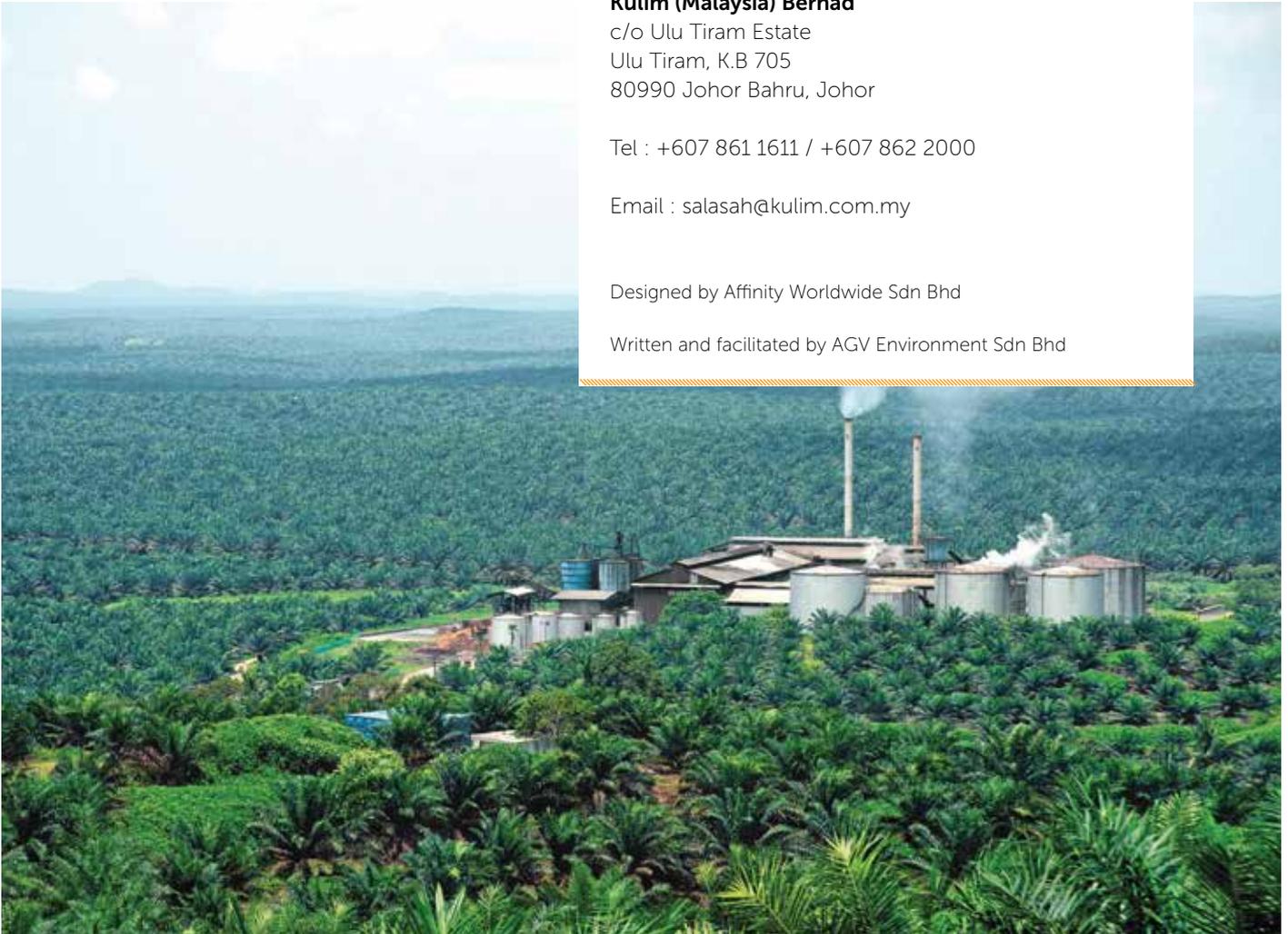
Tel : +607 861 1611 / +607 862 2000

Email : [salrasah@kulim.com.my](mailto:salrasah@kulim.com.my)

Designed by Affinity Worldwide Sdn Bhd

Written and facilitated by AGV Environment Sdn Bhd

---



Kulim (Malaysia) Berhad (23370-v)  
Level 16, Menara KOMTAR  
Johor Bahru City Centre  
80000 Johor Bahru  
Johor Darul Takzim, Malaysia

T: +607 219 2692  
F: +607 223 3175

[www.kulim.com.my](http://www.kulim.com.my)

