



KLK SUSTAINABILITY POLICY

IMPLEMENTATION PROGRESS REPORT
October 2016 – June 2017

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(15043-V)

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IMPLEMENTATION PROGRESS

This is the third Progress Report (**for the period October 2016 to June 2017**) on the implementation of KLK’s Sustainability Policy, launched in December 2014.

This report will focus mainly on the developments in Liberia and traceability efforts undertaken during the reporting period.

1. NO DEFORESTATION

KLK is strongly committed to No Deforestation which includes no development in High Carbon Stock (HCS) forest, as defined in the HCS Approach methodology. The latest version of this methodology, i.e. the HCS Approach Toolkit version 2.0 was launched in May 2017.

1.1 PROGRESS IN LIBERIA

As stated in our 2nd progress report, KLK had adopted the High Carbon Stock Approach (“HCSA”) methodology in assessing high carbon stock (“HCS”) areas for all new development. The assessment was undertaken for our Liberian operations in Palm Bay (its Phase 1 development).

The report of the Phase 1 HCSA assessment underwent a peer review by the Peer Review Panel (“PRP”) appointed by the HCSA Secretariat and was completed in August 2016. The PRP had recommended some additional measures for consideration prior to the start of the development. An action plan was put in place by Equatorial Palm Oil plc (“EPO”) to implement these recommendations.

The status of the action plan is as follows:-

No.	Recommendations from HCSA Peer Review (Phase 1)	:	Action Plan
1.	Identification, protection and/or restoration of riparian zones	:	a) Demarcation of the riparian zones in the new planting area was completed in September 2016. b) Signboards have been erected at designated locations at the riparian zones in October 2016. c) Management and monitoring activities are in place since October 2016, concurrently with land development.
2.	Improve the identification of important species in the HCS and Conservation areas - north-eastern section of the new planting area	:	a) A Rapid Biodiversity Assessment (“RBA”) is planned to be conducted. It will be conducted concurrently ⁽ⁱ⁾ with the HCV assessment of Phase 2 area of Palm Bay estate due to the unavailability of the local consultant at this stage. b) Management and monitoring plans as per the current High Conversation Value (“HCV”) assessments have been implemented, and if found necessary, the areas will be amended/revised based on the outcome of the planned RBA.

⁽ⁱ⁾ taking into consideration that these areas also border with the Phase 2 area

No.	Recommendations from HCSA Peer Review	Action Plan
3.	Allocation of area for community use and food security	<ul style="list-style-type: none"> a) EPO has set aside areas for community use at the respective villages and along the estate boundary. This was agreed by the respective community arising from the Free, Prior and Informed Consent (“FPIC”) engagements conducted in the 3rd quarter of 2016. b) EPO will be collaborating with Ministry of Agriculture (“MoA”) of Liberia to provide villagers with planting materials (vegetable seeds) while EPO will facilitate the process, e.g. providing transport and other inputs. The details of this collaboration are currently in discussion, and is planned to take effect in the 4th Quarter of 2017.
4.	Conservation of the HCS Areas	<ul style="list-style-type: none"> a) EPO has consistently conducted additional engagement sessions with the respective communities in Phase 1 since July 2016 on the revised overall land use plan which has incorporated all set-aside areas after the HCSA assessments. b) This plan has been endorsed in October 2016 by the communities, especially those villages/towns that are situated adjacent to these areas.
5.	Forest conservation management and monitoring activities	<ul style="list-style-type: none"> a) A joint committee between EPO and the communities has been setup. b) Members of this committee will be tasked to jointly conduct the management and monitoring activities at an agreed frequency and plan. c) The first joint monitoring will be carried out by 4th Quarter 2017.
6.	Community engagements and FPIC for Phase 2	<ul style="list-style-type: none"> a) This preliminary stage of these engagements has started since early 2017. Several villages and towns have been visited by the community engagement team to obtain general views of the community on EPO’s development plan. b) Thereafter, the FPIC processes will follow suit. They will encompass all relevant stakeholders including Sustainable Development Institute (“SDI”), a non-governmental organisation (“NGO”). c) EPO will focus on these engagements with communities as this is an important part of assessing the viability of the development before starting any work in relation to Phase 2.

2. NO EXPLOITATION

2.1 ENGAGEMENT WITH COMMUNITIES IN LIBERIA

a) Palm Bay Estate

The earlier Memorandum of Understanding (“MoU”) on 2 May 2016 has led to an agreement[‡] which the ‘Priority Area’ will be excluded from the Phase 1 oil palm development. This is a very important milestone for both the communities surrounding this area and EPO, and a testimonial of EPO’s commitment to respecting the rights of its stakeholders.



[‡] between EPO and the Community Elders, Leaders and Residents of Tarlo Town, Blayah Town, Nuhn Town and Qlakpojelay

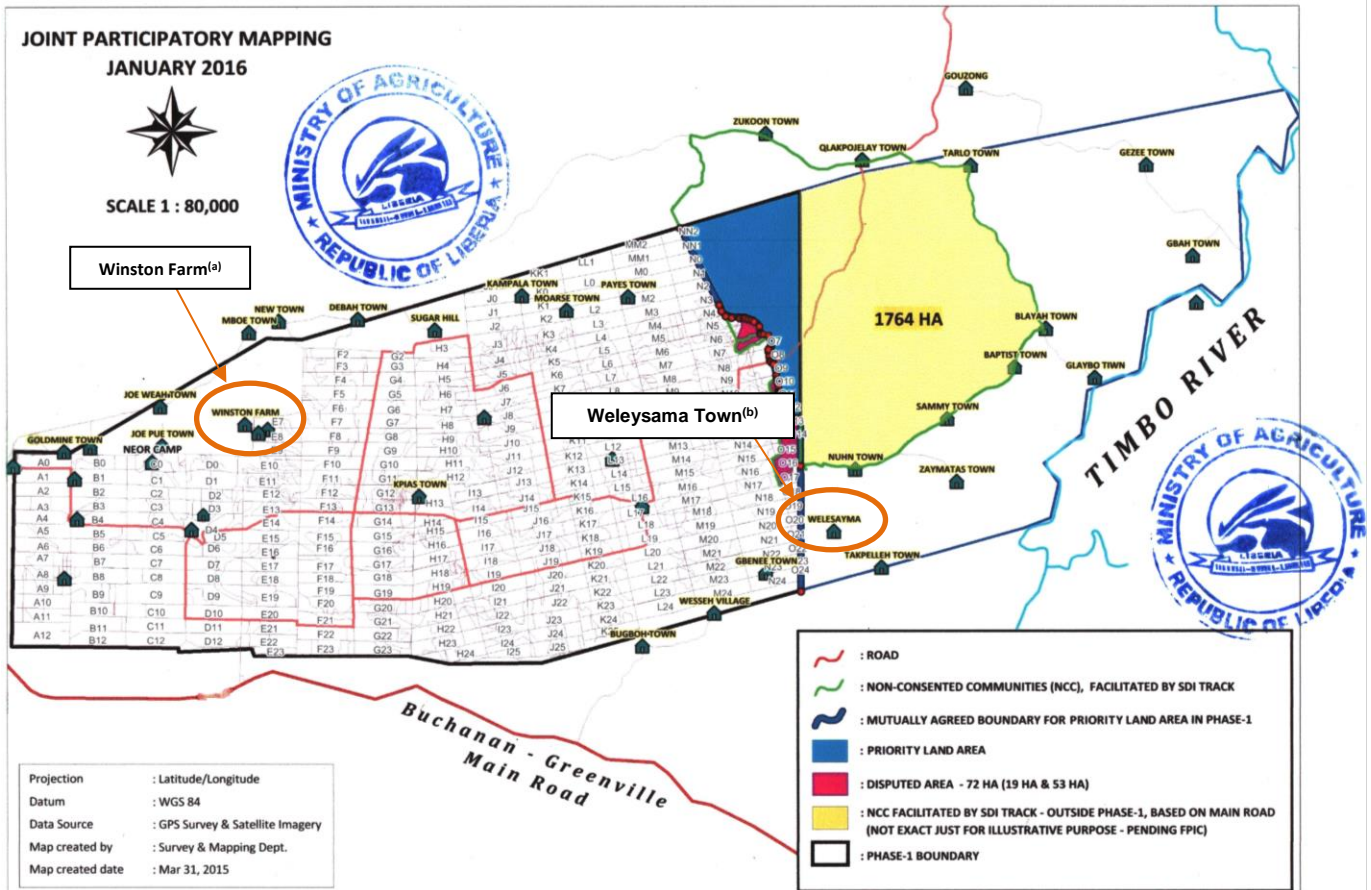


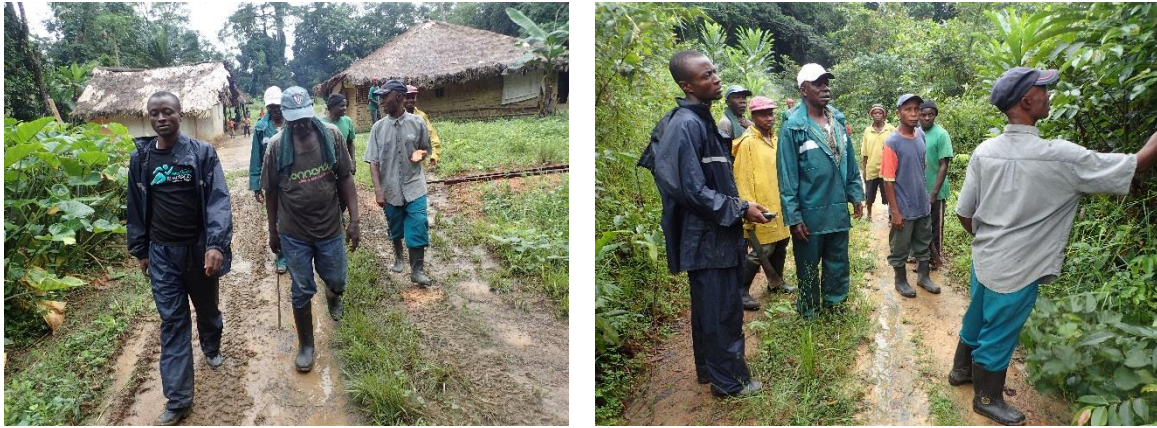
Figure 1 : Map indicating the 'Priority Area' (area shaded in blue)



Figures 2 and 3 : Installation of the boundary signboards in the 'Priority Area'

Additionally, after the HCS Assessment undertaken in 2016, EPO conducted participatory mapping exercises around each village in Phase 1 new planting area to reconfirm their respective village buffer zone. This exercise has been completed in five towns/villages prior to land development.

(a) The joint participatory mapping to resurvey the deeded land in Winston Town with the Ministry of Lands, Mines and Energy (“MLME”) has been completed. The exact boundary has been established and are pending further discussions and engagement sessions.
 (b) The joint participatory mapping resurvey for Weleysama Town with the MLME has been completed. However, the exact boundary has not been established by the MLME. Target completion of the boundary mapping is in 4th Quarter of 2017.



Figures 4 and 5 : Participatory mapping with the communities to reconfirm the buffer zone

EPO's effort continued beyond the social component of its commitment. A revised land use plan was also developed which incorporated the village buffer zones, the 'Priority Area' of MOU and the identified HCS areas and conservation areas – e.g. high conservation area.

The communities of the villages which have completed the buffer zone remapping and crop compensation processes have amicably agreed to move forward with the development of their respective area. Due to a recent land deeds produced by Winston Farm and Weleysama Town, the development process in the remaining area in west and south east of the new planting area has been put on hold. EPO has initiated engagements with representative(s) of both parties for their views on its development plan in the area. At the same time, engagements with the relevant authorities have also taken place to confirm the land deeds and to lead the subsequent participatory mapping exercise. At the time of writing, these engagement processes are still ongoing [refer to the earlier footnotes (a) and (b) above]. Should the land owners decide not to be a party to the development, EPO will respect their decision and the affected area will be enclaved and excluded.

Beginning from February 2017, EPO has initiated preliminary engagements with Phase 2 communities. The main objective of this exercise is to obtain the general view of the communities on EPO's proposed development in their area. To-date, the process has covered six villages/towns. Going forward, SDI will be invited to participate in EPO's FPIC engagements with these communities.

Next Course of Action

EPO will :-

- Conduct meeting(s) with leader of the Winston Farm and subsequently Weleysama Town (after the exact boundary of its land deed has been confirmed), to hear their respective views and work towards an amicable solution; and
- Conduct FPIC engagements with Phase 2 communities (as stated in Section 1 item 6 above) with SDI.

b) Butaw Concession

EPO is committed to respect the decision of communities in relation to oil palm development. Both rightful land owners of EPO's concession area in Butaw – the Tarsue and Kaboh communities, have arrived at a decision to allow EPO to undertake all necessary processes in relation to the development work in this concession area. The consent (as shown below) was communicated to EPO in March 2017.

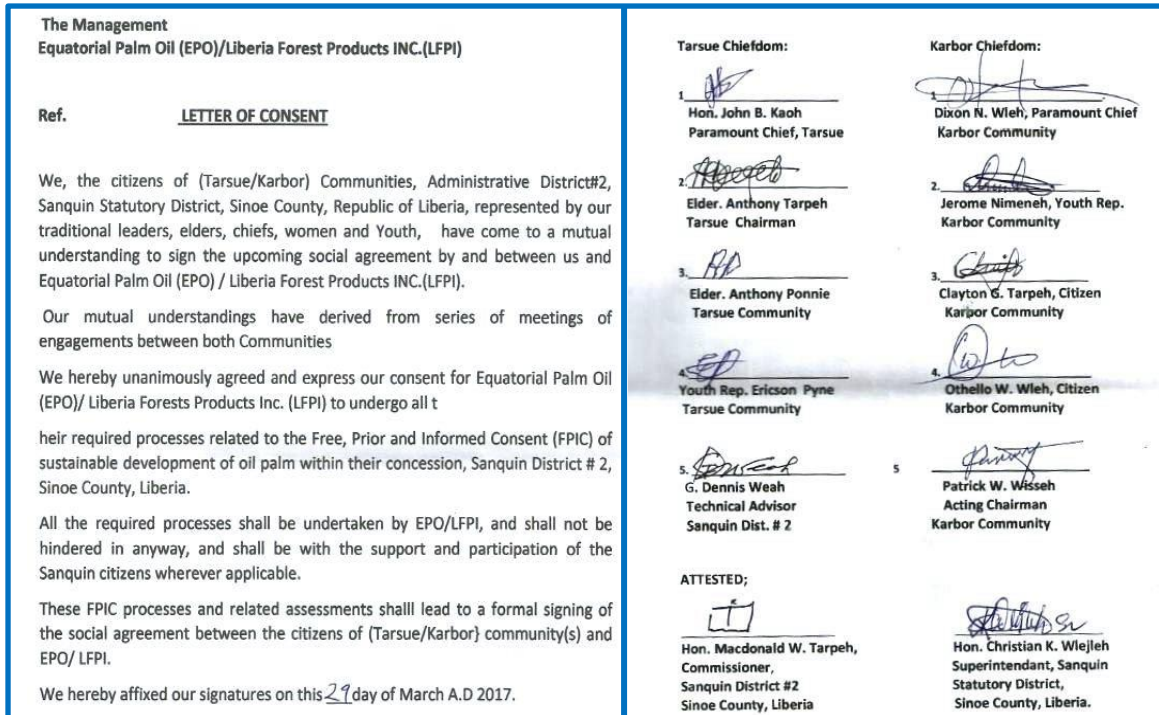


Figure 6 : Consent from the Tarsue and Karbor communities for EPO to undertake all necessary processes in relation to the development work within EPO's concession area in Butaw

During the same period, EPO engaged Green Consultancy Inc. to conduct an updated assessment on all previously conducted environmental and social assessments. The work also included a HCV assessment. The findings of this assessment were presented to local authorities such as the Environment Protection Agency, Ministry of Agriculture and other stakeholders in Monrovia, and most importantly to the respective communities - Tarsue and Karbor, for discussion and finalisation.

Next Course of Action

EPO will :-

- through Green Consultancy Inc, submit the HCV assessment report to HCV Resource Network to undergo the peer review process once finalised. The target submission is in the 4th Quarter of 2017;
- Continue with the HCS assessment[§] process by 3rd Quarter of 2017; and
- Engage with the stakeholders on the proposed land use plan.

[§] HCS assessment using the HCS Approach Toolkit version 2.0, was conducted in August 2017



2.2 LABOUR PRACTICES IN LIBERIA

EPO commits to respecting, supporting and upholding fundamental human rights throughout its operations. In response to the recent scrutiny by Nomogaia which had highlighted issues around this aspect, EPO engaged Triponel Consulting Ltd as assessor to expand its understanding of what a human rights impact assessment (“HRIA”) process entails. This includes the types of impact that this assessment could unveil and eventually considering the recommended actions to strengthen EPO's approach to human rights.

The HRIA commenced in April 2017 with a conversation with the company’s board of directors followed by a comprehensive desktop review of relevant materials, and finally a one week on site assessment from 5th – 9th June 2017. It then concluded with follow-up telephone conversations with individuals based in Liberia and the drafting of the resulting report.

A summary of the findings and recommended actions by the assessor, followed by a timebound action plan will be made available in EPO’s website by 4th Quarter of 2017.

3. TRACEABILITY OF SUPPLY CHAIN

(All data are for the period from October 2016 – June 2017)

3.1 PLANTATIONS

The palm products that KLK produces are fully traceable right up to its respective plantations, palm oil mills, refineries and kernel crushing plants.

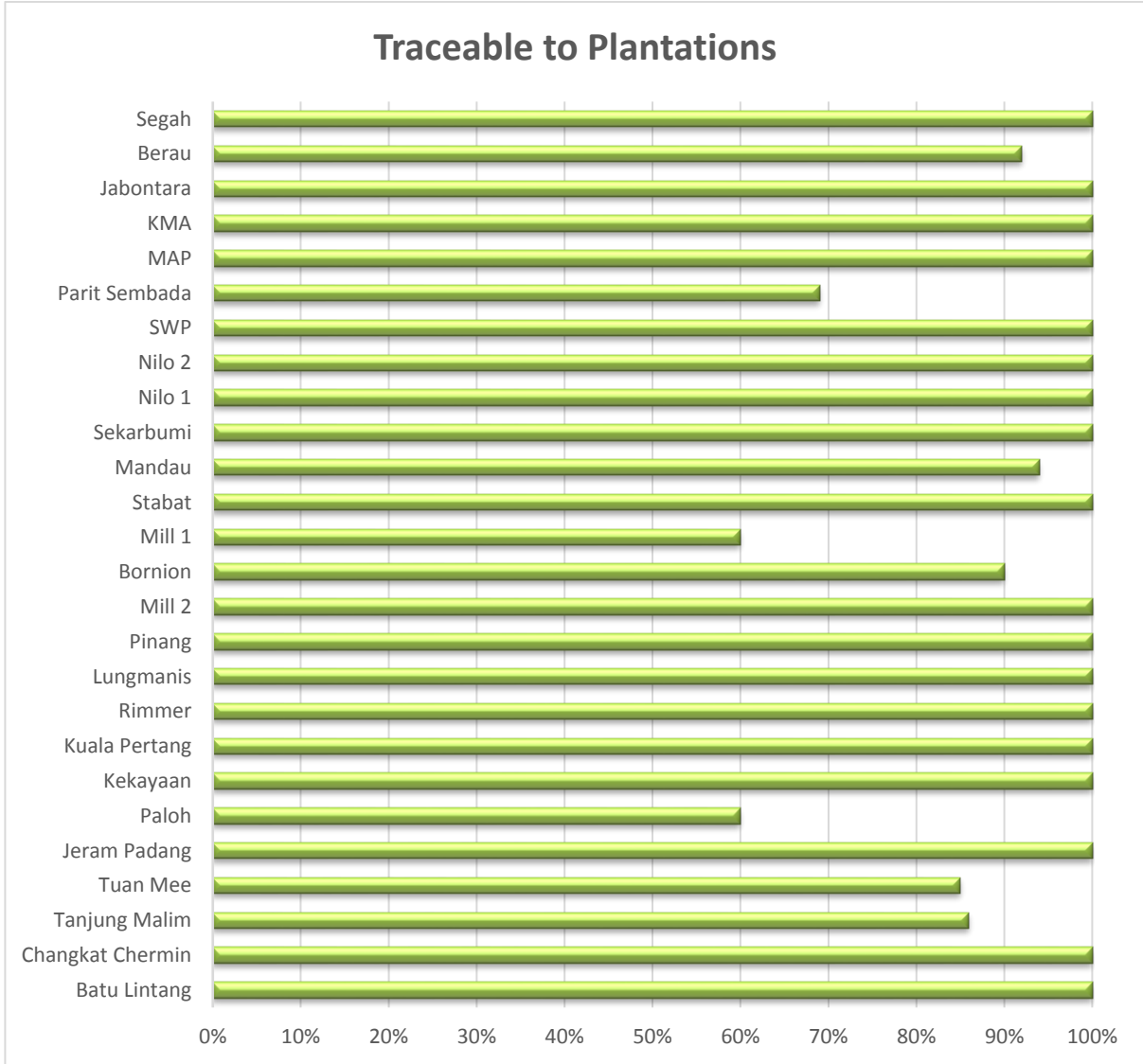
KLK continue to strive to achieve the following: -

- (a) Palm Oil Mills (“POMs”) – work towards 100% traceable to plantations by 2020; and
- (b) Refinery and Kernel Crushing Plants (“KCP”) - 100% traceable up to POMs by 2016. We have met the target.

To achieve the above targets, KLK will continue to engage with third-party suppliers of fresh fruit bunches (“FFB”), in particularly dealers. This is a long-term process and we have observed that they have begun to see the importance of adopting traceability requirements as the benefits derived thereof versus the risks of inaction are made clear to them.

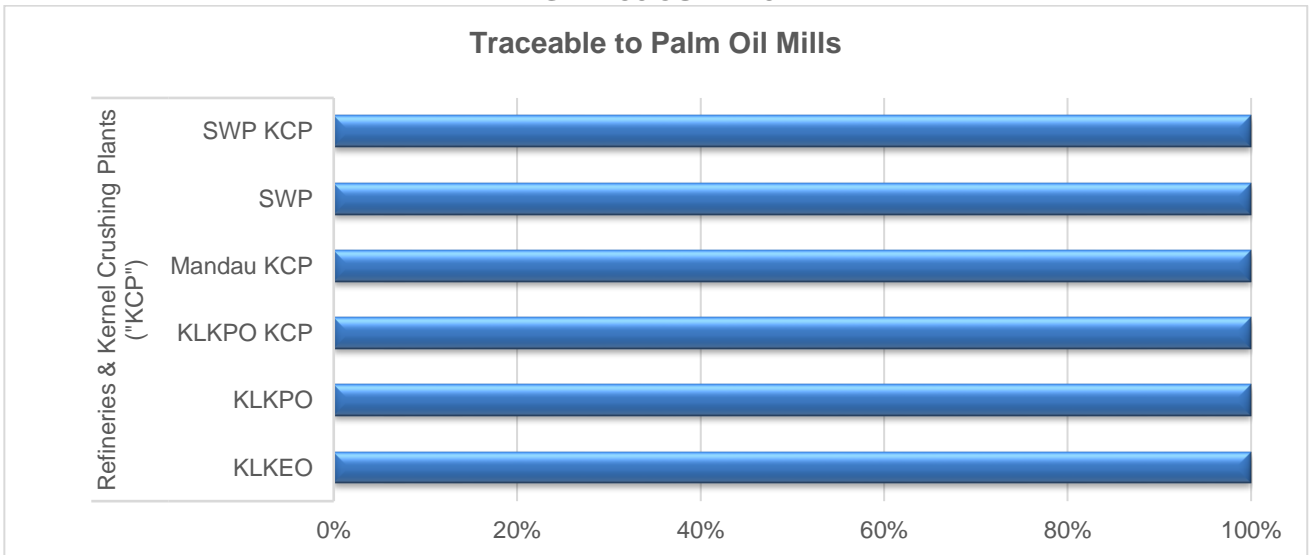
AS AT 30 JUNE 2017

Traceable to Plantations



AS AT 30 JUNE 2017

Traceable to Palm Oil Mills





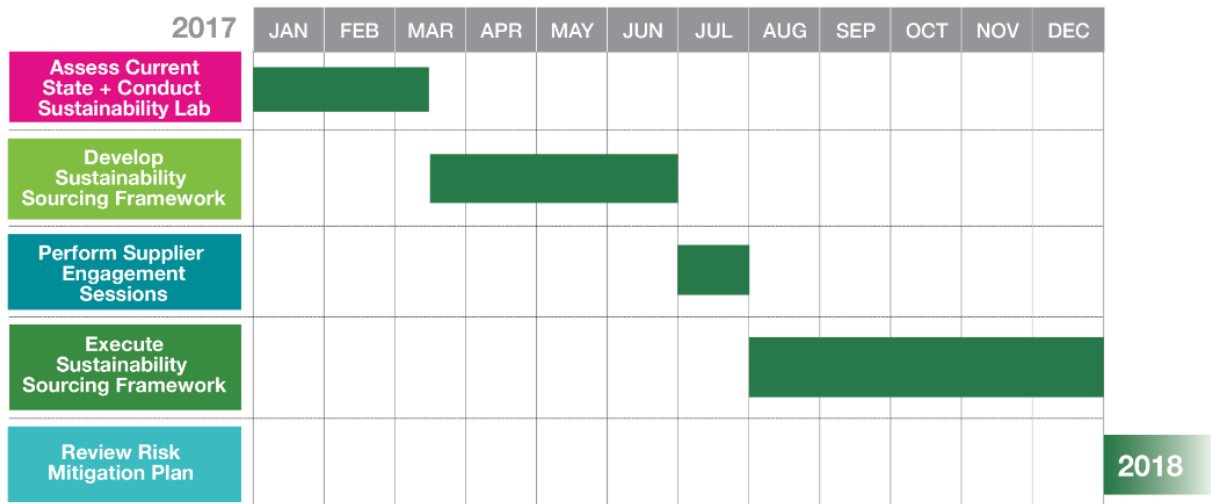
3.2 OLEOCHEMICALS

Traceability for our downstream business is mapped to the **POM** due to the complexity in the supply chain. The percentages disclosed are estimates and were tabulated based on the weighted average purchases for oils and derivatives processed in our operating centers in China, Europe, Indonesia and Malaysia and taking into consideration the information publicly available and those provided by our suppliers with verification exercises still on-going.

Engagement with 3rd party suppliers

As part of our Sustainability initiatives across our supply chain, we have partnered with Deloitte, one of the subject matter experts, on our downstream supplier management programmes. KLK OLEO would be organising a series of supplier engagement sessions with our 3rd party suppliers. These sessions would focus on the proposition of undertaking sustainable activities for all stakeholders.

KLK OLEO would be launching its Supplier Code of Conduct** in July 2017, in line with KLK’s Sustainability Policy. In addition, KLK OLEO plans to launch its risk-based sustainability sourcing framework, with a time-bound plan. The sourcing framework would serve as an assessment tool to assist in helping our stakeholders to achieve the sustainability goals. Two (2) pilot tests have been successfully conducted in the month of May-June 2017, with the tailor-made supplier management programme by Deloitte.

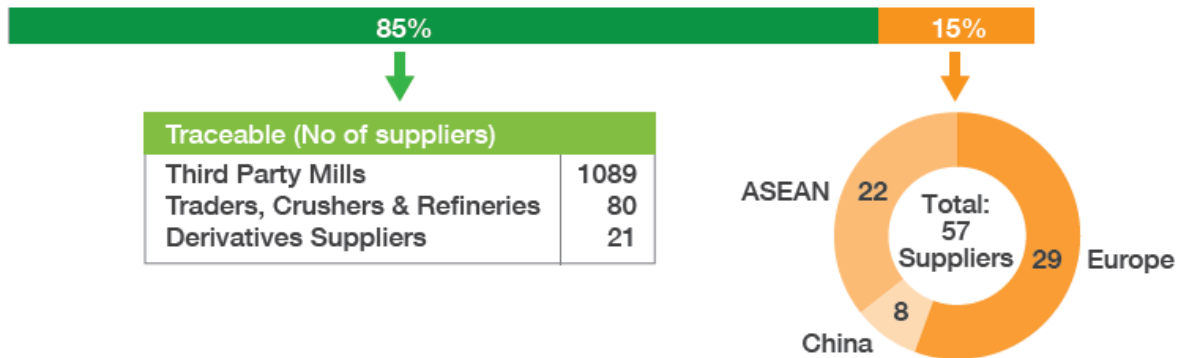


** The KLK OLEO’s Supplier Code of Conduct was published on 1 July 2017 and is available on its website, www.klkoleo.com

Legend:

KLK OLEO – Traceable to POMs

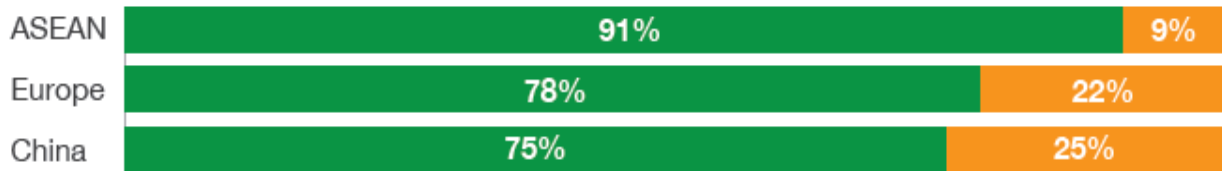
(All data are for the period from October 2016 to June 2017)



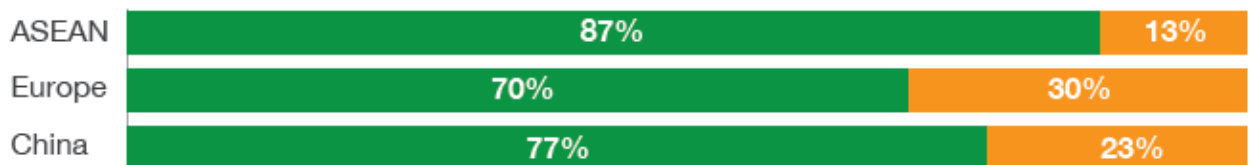
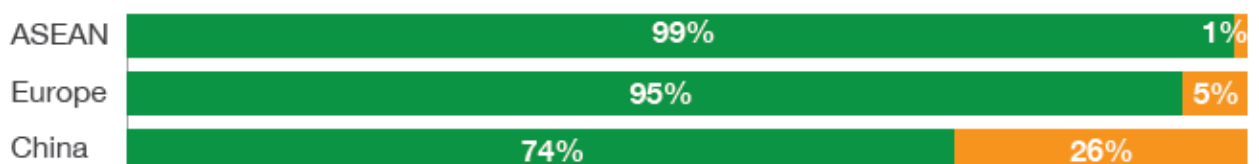
Note: There are two suppliers supplying to more than one region

Traceable to POMs – By Region

(All data are for the period from October 2016 to June 2017)


Traceable to POMs – By Materials

(All data are for the period from October 2016 to June 2017)

Palm Kernel

Palm Oil


4. OTHERS

4.1 “NO TO PARAQUAT” FOR THE KLK GROUP

KLK had **completely stopped using paraquat in all its operations** effective from December 2016 and are using alternatives for its weeding activities.

4.2 SMALLHOLDERS & SMALL GROWERS

a) Sabah, Malaysia

Despite the early challenges faced during training for smallholders and small growers to attend the training programmes on certification facilitated by Wild Asia, KLK with its partner Fuji Oil managed to certify a total of 52 smallholders and 3 small growers (of a total hectareage of 600ha) who are supplying to KLK’s Bornion Palm Oil Mill in Sabah under RSPO. This has increased the total certified incoming FFB from 75% to 90% for this palm oil mill. KLK, together with WildAsia, will continue to engage with collection centres to achieve 100% certified incoming FFBs.

KLK also welcomed a new partner, namely Neste Corporation, in April 2017, to take part in this smallholders’ project in the Bornion Palm Oil Mill.

b) Liberia

EPO and the Liberian Ministry of Agriculture jointly run the Smallholder Tree Crops Revitalization Support Project - a project devised and funded by the World Bank, in District #4 of Grand Bassa. Out of the 54 cooperative farmers initially identified for this project, 33 of them qualified.

These farmers have since received assorted farming tools and beginning from April 2017, replanting work were also extended to their oil palm farms. During this period, these farmers received technical support from EPO. In addition, EPO also assist in distributing to them the good planting materials and fertilisers, funded by World Bank. To-date, a total of 13 farms have been replanted.

4.3 REDUCTION OF GREENHOUSE GAS EMISSION

KLK is committed to meet its internal target of 50% GHG reduction^{††} compared to fossil fuel emissions for all its POMs by 2017. In Malaysia and Indonesia, KLK’s POMs have achieved an average 55% GHG reduction.

The installation of biogas plants and filter belt press had been instrumental in the GHG emissions reduction programme.

^{††} Based on the ISCC endorsed GHG calculation tool

	<p>Biogas Plant (“BP”) Objective : To trap and converts the methane gas that is being released as a power generator.</p> <p>No. of mills with BP : 5 No. of mill in process of installing BP : 1</p>
	<p>Filter Belt Press System (“FBPS”) Objective : Reduces the formation of methane gas through the organic matter (suspended solid) removal from the effluent pond.</p> <ul style="list-style-type: none"> : Treats the Palm Oil Mill Effluent (“POME”) into an environmentally friendly fertiliser. : Filtered water is recycled for cleaning purposes. <p>No. of mills with FBPS : 17 No. of mills in process of installing FBPS : 6</p>

4.4 PAPUA NEW GUINEA

All machineries which were earlier stored in Collingwood Bay (“CWB”) have been disposed off in December 2016 and KLK does not have any other interest in the CWB area, save for land known as Lot 5.

KLK confirms that there **will not be any oil palm development in Lot 5**. The future plan in relation to Lot 5 are still being reviewed and once there is a decision, an appropriate announcement will be made accordingly.

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