



KLK SUSTAINABILITY POLICY

IMPLEMENTATION PROGRESS REPORT
July 2015 – April 2016

KUALA LUMPUR KEPONG BERHAD

(15043-V)

May 2016

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IMPLEMENTATION PROGRESS

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IMPLEMENTATION PROGRESS

This is the second Progress Report (for the period July 2015 to April 2016) on the implementation of KLK’s Sustainability Policy, launched in December 2014.

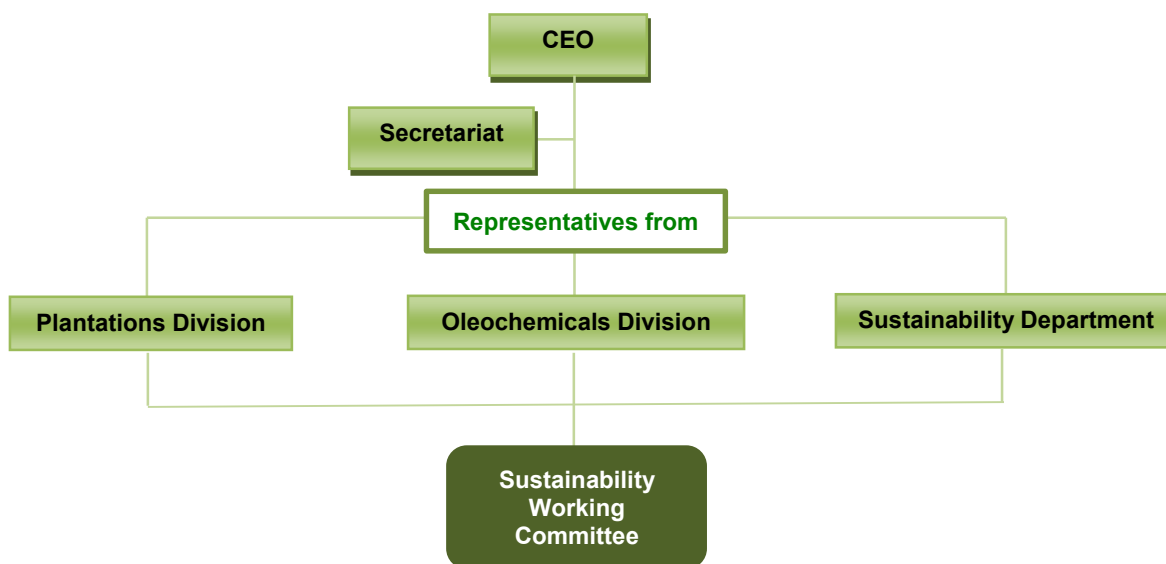
1. STRENGTHENING OF SUSTAINABILITY GOVERNANCE

During the period under review, a key initiative was undertaken to strengthen the governance of sustainability where commitment towards sustainability begins from the top and is cascaded down to all other employees.

The Sustainability Steering Committee (“SSC”), headed by our Chief Executive Officer (“CEO”) was formed in September 2015. Its main objective is to develop strategies and policies as well as to guide decision-making efforts for the Group in relation to Sustainability. It also has a monitoring role to ensure KLK meets its compliance and sustainable development responsibilities.

The SSC is supported by the Sustainability Working Committee where operational matters concerning sustainability are discussed, solutions recommended and implemented.

Sustainability Steering Committee



2. SUPPORT FOR CONVERGENCE AND ADOPTION OF HIGH CARBON STOCK (“HCS”) APPROACH FOR NEW DEVELOPMENT AREAS

Notwithstanding the completion of the industry-led HCS Science Study (hereinafter referred to as HCS+), KLK supports the initiative to converge both the HCS+ and the existing HCS Approach (a methodology developed by TFT, Greenpeace and other partners) in order to provide a single methodology when implementing the “No Deforestation” commitments.

While efforts of convergence are on-going, KLK has taken the stand to adopt the HCS Approach for any new oil palm development and impose a moratorium on areas unsuitable for oil palm development.

3. ENGAGEMENT WITH STAKEHOLDERS

3.1 LIBERIA

KLK's commitment to continuous engagement with its stakeholders and respect of their rights has led to numerous meetings held at the concessions under its subsidiary, Equatorial Palm Oil Plc ("EPO"). This includes the dissemination and communication of its Sustainability Policy. During the period under review, engagement sessions focused on educating employees and contractors at site on the objective and philosophy behind the commitments.



(a) Palm Bay Concession

Engagement sessions with both the consenting and non-consenting communities at Palm Bay were held where the focus was predominantly on the feedback of the non-consenting group (among the Joghban communities) and their representative, Sustainable Development Institute ("SDI"). The engagement had resulted in close to 15 meetings during the period under review and the completion of the participatory mapping exercises from 27 January 2016 to 1 February 2016. The participatory mapping process was undertaken to demarcate the boundaries of the consenting and non-consenting communities within Phase 1 of the development. The exercise was attended by all the above mentioned parties in the presence of the District Commissioner of District #4.

The draft maps arising from this exercise which were developed by EPO and SDI respectively have been tabled to the consenting and non-consenting communities for further deliberations especially on the alleged overlapping areas. All affected parties will agree on a common map to be finalised and thereafter, a Memorandum of Understanding ("MOU") will be entered into to signify the closure to the grievance raised by the non-consenting communities. The MOU process will be facilitated by SDI. The signing of the MOU by all affected parties which include consenting and non-consenting communities is targeted to take place in May 2016[†].

There were also 3 other separate meetings held with consenting communities in Palm Bay to disclose EPO's intention to construct a new palm oil mill, its location within EPO's existing replanting site and the outcome of the respective Social & Environmental Impact Assessment ("SEIA"). The coordinators from the Environment Protection Agency ("EPA") also participated in the SEIA.

These proceedings, engagements and communications between the affected parties are periodically reported to the Roundtable on Sustainable Palm Oil ("RSPO").

Next Course of Action

EPO will :-

- Ensure that the decisions arising from the MOU to be entered[†] into are respected;
- Not develop in areas where the communities decide not to have oil palm development; and
- Publish the abovementioned MOU which includes the boundary map and all relevant documentation on both EPO and KLK's websites in June 2016.

[†] At the time of the publication of this report, we are pleased to inform that the MOU has been entered into by all stakeholders that took part in the participatory mapping process. The signing of the MOU was witnessed by SDI and attended by invited guests and media.

Participants Preparing For Participatory Mapping Exercise



- | | |
|---|---|
| 1. Roland Harris (SDI). | 2. Joe Gbah (Kampala, consenting). |
| 3. Resident of Zukoon (out of concession, consenting) | 4. Resident of Payes Town (consenting) |
| 5. James Kenken (Payes Town, consenting) | 6. Thompson Geezay (Qlakpojelay, non-consenting). |
| 7. Representative of SDI. | 8. Resident from Qlakpojelay (non-consenting). |
| 9. Resident from Qlakpojelay (non-consenting). | 10. Representative of SDI. |
| 11. Edward Moye (Moyes town, consenting). | |

Participatory Mapping Process Involving Affected Stakeholders in Palm Bay – Consenting, Non-Consenting Communities and SDI



- | | |
|--|---|
| 1. Resident of Zukoon Town (out of concession, consenting) | 2. Luke Payeto (Spokesperson for Kampala, Moyes & Payes Town) |
| 3. Edward Moye (Moyes town, consenting) | 4. Samuel Robert (Kampala, consenting). |
| 5. & 6. Independent film makers invited by SDI | 7. Nyodaynyee Debbah (Debbah town, non-consenting) |
| 8. Representative from SDI | 9. Isaac Binda (GIS LIBINCO/EPO) |
| 10. Rolland Harris (SDI) | 11. James Otto (SDI) |
| 12. Thompson Gwwzay (Qlakpojelay, non-consenting) | 13. Resident of Nuhn Town (non-consenting) |

(b) Butaw Concession

In Butaw, 2 important meetings were held with the Tarsue community in Komanah Town. The first meeting held last year was intended to provide updates pertaining to the status of EPO's plans in view of the long delay in the development of its concessions. The delay was inevitable due to the self-imposed moratorium by the KLK Group that took effect from September 2014, pending the completion of the HCS+.

The subsequent meeting in early 2016 saw the handing over and briefing of the executive summary of TFT's sustainability assessment report and the company's plans on the High Conservation Value ("HCV") and SEIA assessments. The assessments, which also included the participation of the affected community, were completed on 1 March 2016.

In addition to the above, EPO also facilitated 3 other meetings for the Tarsue, Karboh and Tarjuwon communities with the local county authorities to resolve their land claims.

(c) HCS Approach for Palm Bay - Phase 1 & Butaw Concessions

KLK had engaged TFT to review the social capacity of EPO and together with the support of Ata Marie[‡], conducted a HCS assessment at the above concession areas utilising the HCS Approach methodology. The 2-week assessment process which started from 25 August 2015 was among the first steps to produce an overall land use plan for each of the assessed areas. The participatory mapping exercises and the FPIC activities are currently being carried out.

The report of the assessment is in the process of being peer-reviewed by a panel of experts commissioned by the HCS Approach Secretariat. Once the review is completed, we will make the report available on our website. Relevant action plans and/or monitoring plans will also be developed collectively with the respective communities, where applicable, to ensure that the development will be implemented effectively.

SDI has also been given a copy of an executive summary of the report while pending the outcome of the peer review.



Expert from Ata Marie assessing the concession area in Palm Bay

[‡] Ata Marie is an international consultancy and management firm that supports sustainable development worldwide. It provides services which include natural resource assessment and natural resource management.

3.2 PAPUA NEW GUINEA

No operational activities have taken place in Collingwood Bay, Papua New Guinea and KLK has committed to remove all machineries from the area by end of 2016 should the situation remain status quo.

KLK is currently reviewing its investment thesis in relation to oil palm expansion in Papua New Guinea.

4. TRACEABILITY

(All data are for the period from October 2014 – September 2015)

There is still much to be done in terms of educating and getting the full co-operation of the third party suppliers; to work together with KLK in establishing a traceable and sustainable supply chain.

4.1 PLANTATIONS

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

(a) Objective for Traceability

- Palm Oil Mills (“POMs”) – work towards 100% traceable to plantations; and
- Refinery and Kernel Crushing Plants - 100% traceable up to POMs. (Achieved based on data as at 30 Sept 2015)

(b) Challenges

- Information not forthcoming from third party suppliers; and
- Level of transparency from suppliers limited.

(c) Action Plan

- Continue to engage the third party suppliers of fresh fruit bunches (“FFB”), in particular, the 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.

4.2 OLEOCHEMICALS

With the inherent complexity in our supply chain, traceability for our downstream business is mapped to the **POM level** and the data provided in this report are only estimates. The percentages disclosed 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).

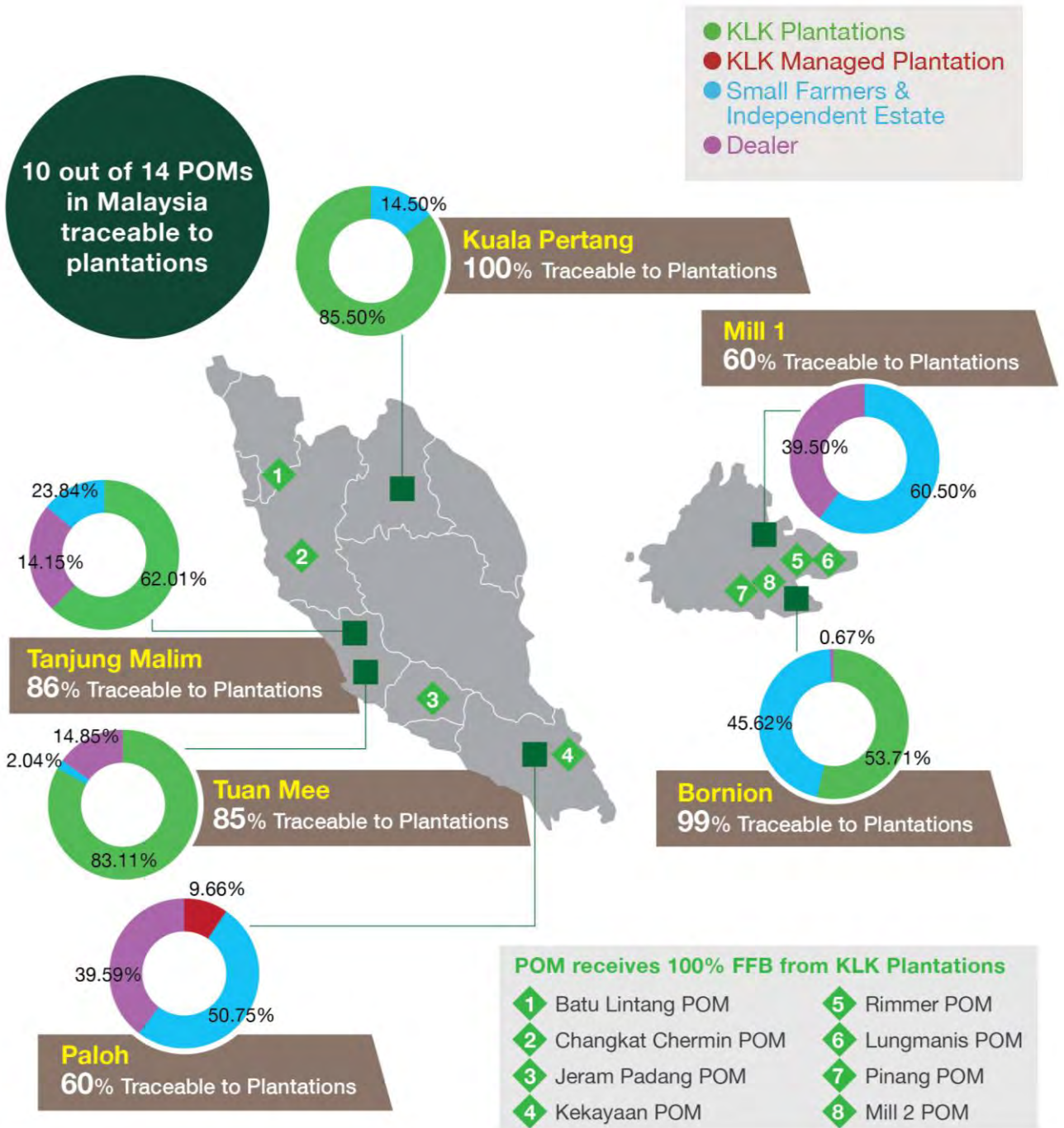
We continue to proactively engage with those suppliers who have yet to respond to our questionnaire sent to them during the course of mid-2015 or those showing reluctance to share their data. We will consider reviewing the sourcing relationships with them in the event of lack of interest or any substantive progress.

4.3 TRACEABILITY PROGRESS

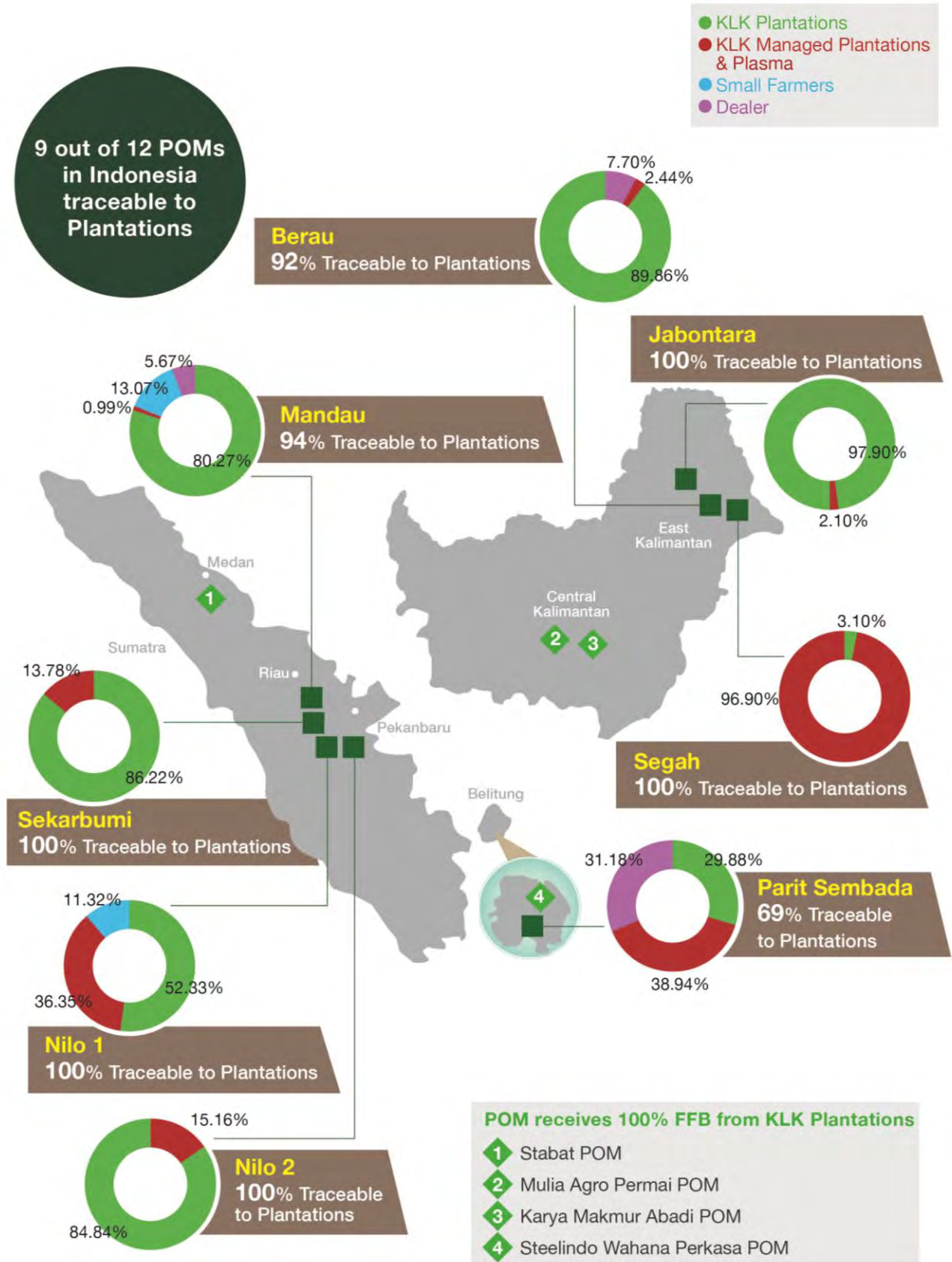
(a) POMs

KLK POMs in Malaysia

(All data are for the period from October 2014 to September 2015)



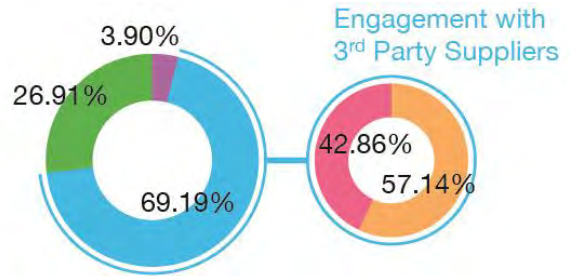
KLK POMs (including those managed by KLK) in Indonesia
 (All data are for the period from October 2014 to September 2015)



(b) Refineries and Kernel Crushing Plant (“KCP”)

**All Refineries
in Malaysia &
Indonesia
traceable to
POMs**

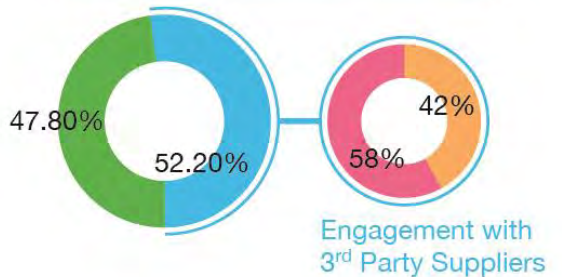
KLK Refineries & KCPs in Malaysia – Traceability & Status of Engagement
(All data are for the period from October 2014 to September 2015)



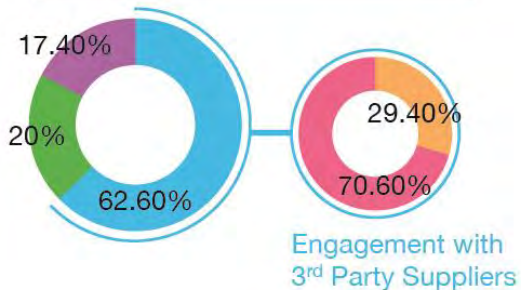
KLKPO KCP Refinery
100% Traceable to POM



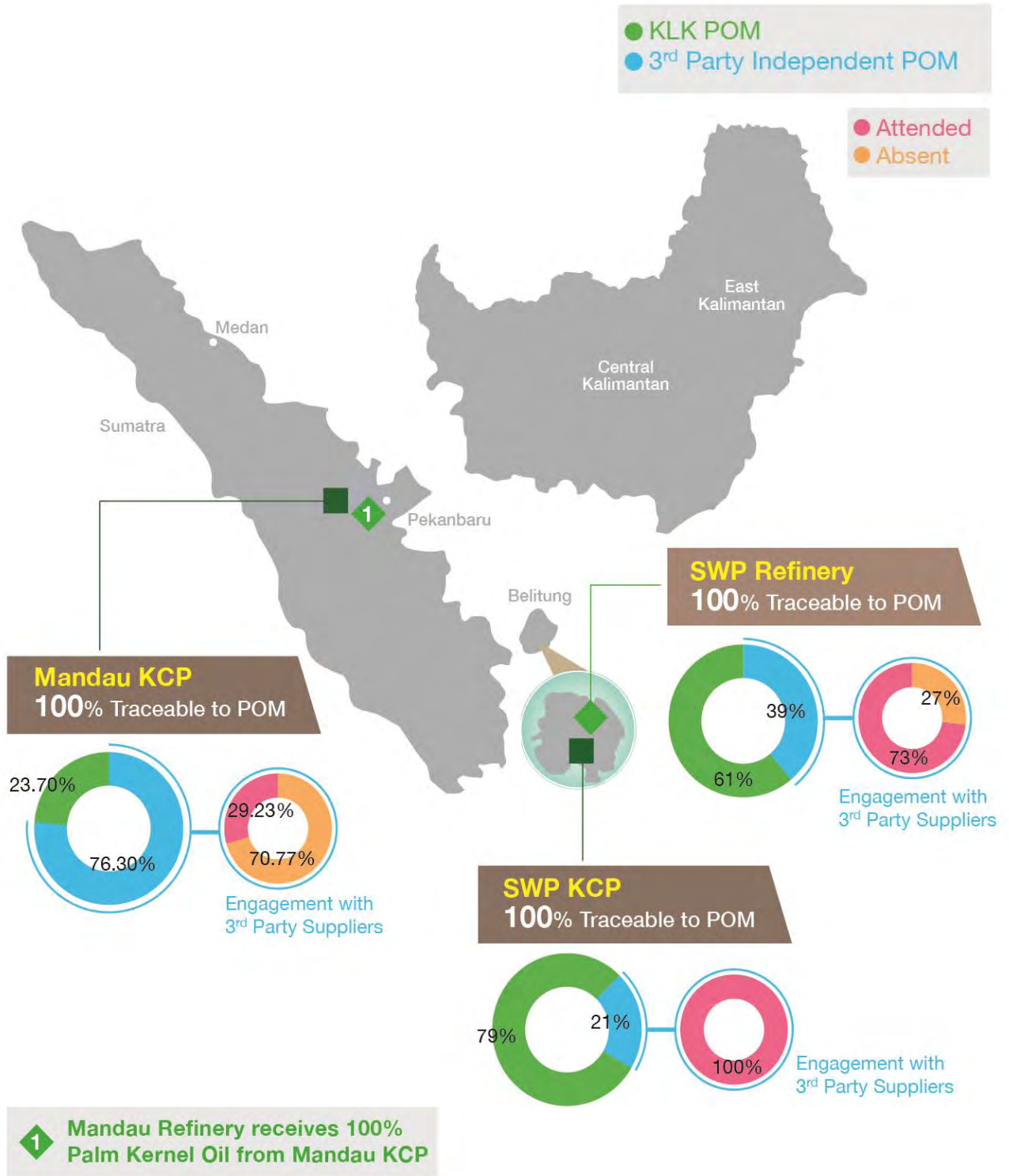
KLKPO Refinery
100% Traceable to POM



KLKEO Refinery
100% Traceable to POM



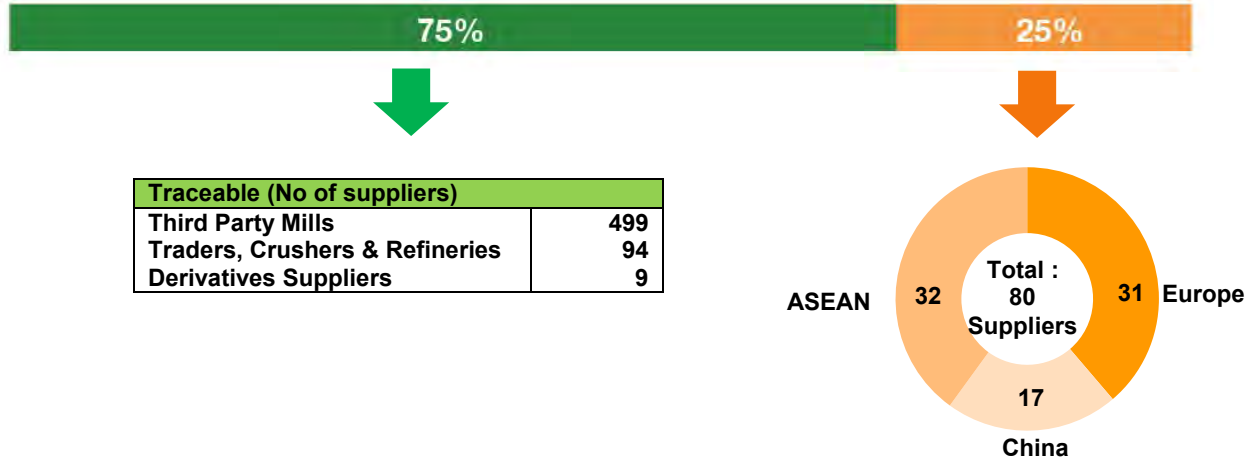
KLK Refineries & KCPs in Indonesia – Traceability & Status of Engagement
 (All data are for the period from October 2014 to September 2015)



(c) Oleochemicals

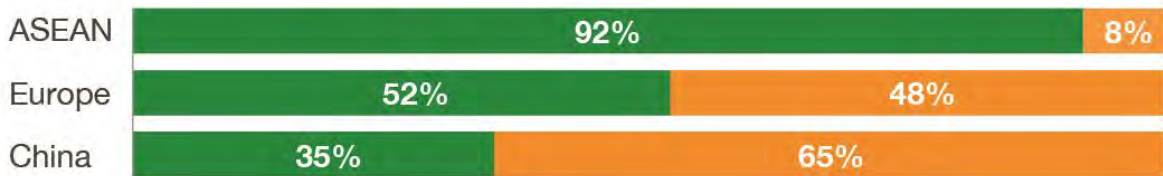
KLK OLEO – Traceable to POMS

(All data are for the period from October 2014 to September 2015)



Traceable to POMS – By Region

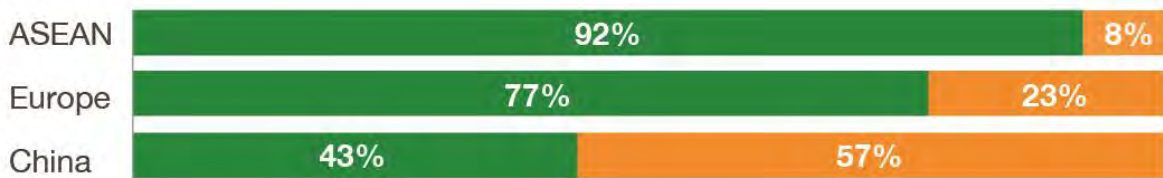
(All data are for the period from October 2014 to September 2015)



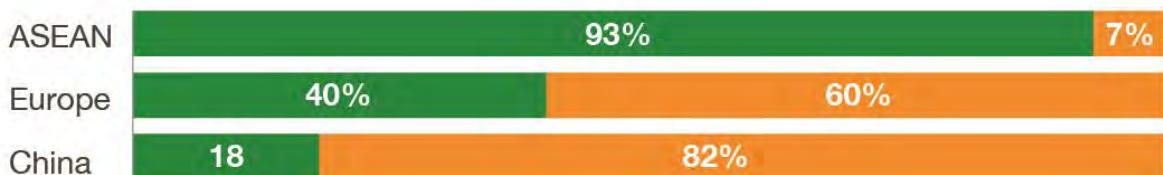
Traceable to POMS – By Materials

(All data are for the period from October 2014 to September 2015)

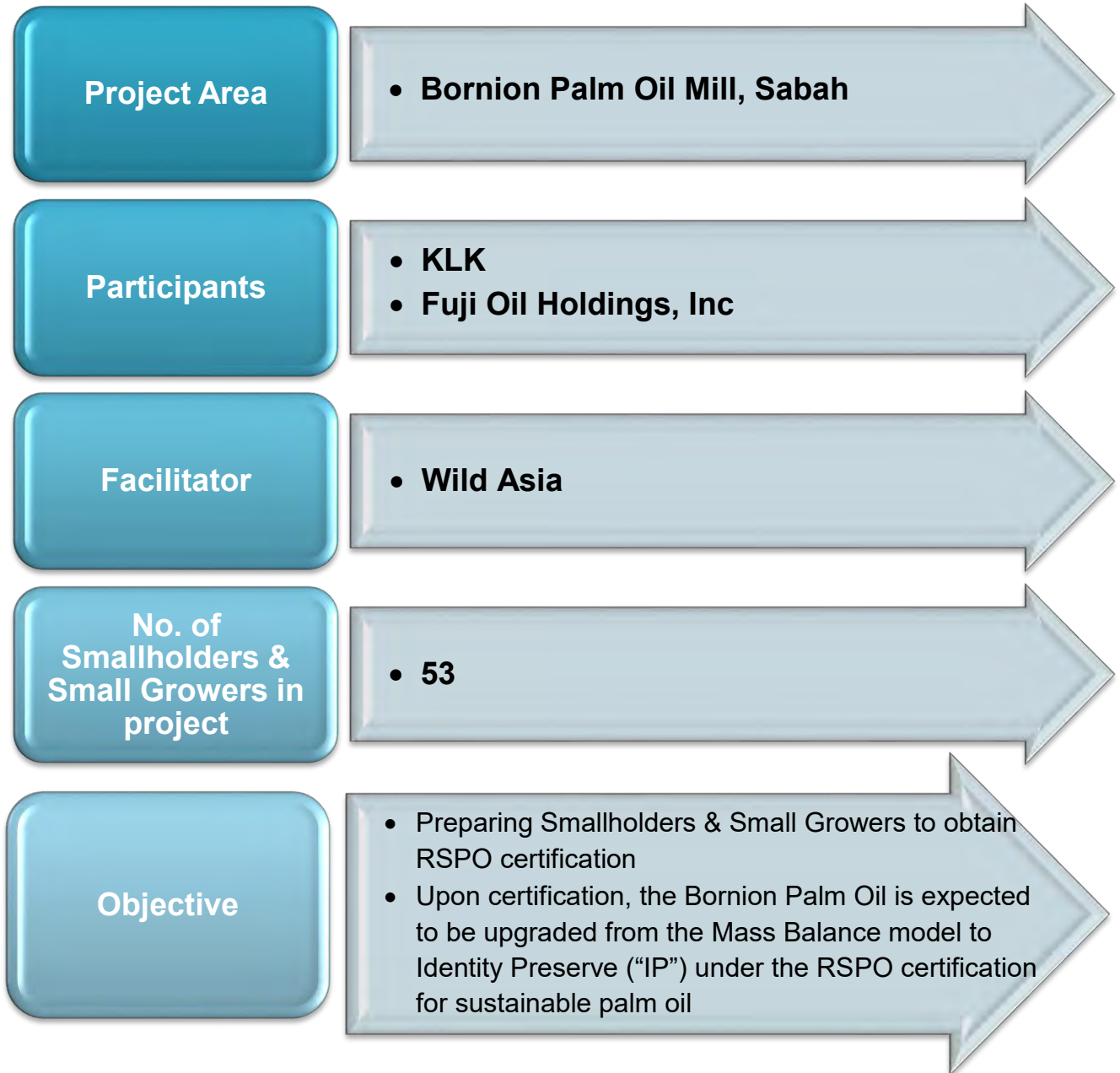
Palm Kernel Oil



Palm Oil



5. SMALLHOLDERS & SMALL GROWERS PROJECT



Toshio Shikata
Manager, CSR and Risk Management Group
Fuji Oil Holdings Inc.

“Fuji Oil is the largest company engaged in palm oil supply in Japan. We think it is significantly meaningful for us to join and support this Smallholders’ Project by KLK, and promote the use of sustainable palm oil.”

5.1 TRAINING

During the Fourth Quarter of 2015, training provided to the members of the project focused on the following:-

- ❖ Pricing and Grading;
- ❖ Guidance for Farm Management of Sustainable Palm Oil;
- ❖ Introduction to the Importance of Documentation; and
- ❖ Code of Conduct and RSPO Membership Requirements.

Continuous training will be provided during 2016 with topics to include concepts relating to labour contracts and wages, environmental and HCV, best management practices, Occupational Safety and Health (“OSH”), storage facilities, general housekeeping and domestic & scheduled waste management.



Farmers given a talk by representative of Wild Asia on fruit grading and its effects on pricing

5.2 CHALLENGE

While training programmes have been developed and employed, the challenge is to get full commitment from the Smallholders & Small Growers to attend these classes. KLK will continue to repeat the training process to ensure they are ready for certification. With repetitive training, they would have a better understanding on the need for sustainable production of palm oil.

6. FIRE PREVENTION EFFORTS IN INDONESIA

KLK would like to reiterate that it has a **STRICT ZERO BURNING POLICY** and this practice is extended to all plasma schemes managed by KLK.

During the haze situation in Indonesia in the Third Quarter of 2015, KLK continued to render assistance to the local authorities and communities to help put out fires that have mainly occurred outside of the boundaries of its plantations in Riau and Central Kalimantan. All fire incidents are reported to the local police.



Trained firefighting member in our estate in Riau together with the local authorities putting out fire outside the boundaries of our concession area

We continue to deploy fire patrolling teams in the estate with special focus along the boundaries with Smallholders and main roads utilised by general public. Trained emergency response teams are always on standby and equipped with water pumps, high pressure hoses with nozzles, fire suits, safety boots, spraying pumps, building of monitoring towers and water tanks. We also extend assistance to neighbouring villages to combat any fire that may occur. We are working with the local police to block canals in identified areas to contain water that can be used during the dry season to put out fire.



Employees undertaking canal blocking exercise together with the local police at one of our estates in Riau, Indonesia



Water tanks equipped with water pumps, high pressure hoses with nozzles

We continue to provide training programmes for our fire-fighting team with a module which includes local communities handling fire incidents together with the local fire-brigade department. The objective of the training is to ensure that the local communities are well trained and prepared to have their own fire-fighting teams, equipped with the necessary skills and equipment.

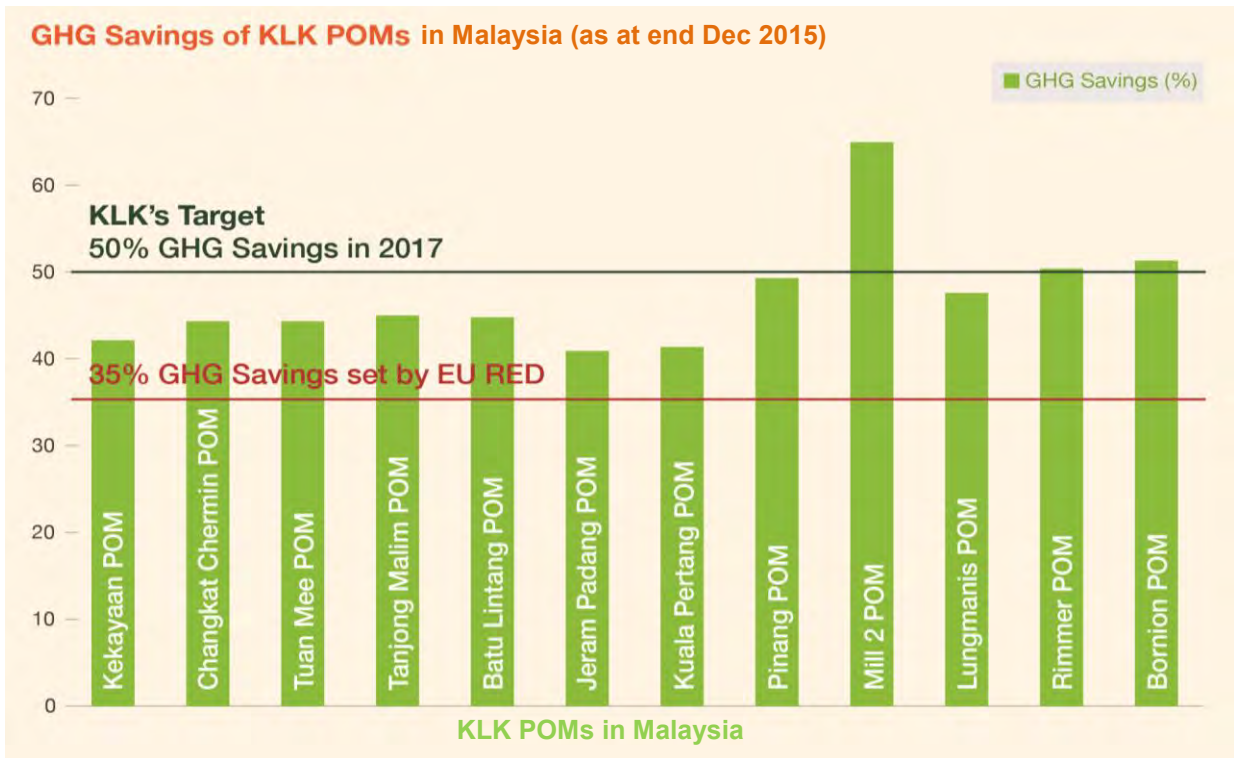
7. EFFORTS TO REDUCE GREENHOUSE GAS (“GHG”) EMISSIONS

7.1 CURRENT REQUIREMENTS (AS PER EUROPEAN UNION RENEWABLE ENERGY DIRECTIVE (“EU RED”))



7.2 KLK’S POSITION FOR MALAYSIA

At end December 2015, KLK has achieved at least 40% GHG savings[§] against fossil fuel emissions for all of its existing Malaysia POMs. It has set an internal target to achieve 50% savings by 2017, a year earlier than the EU RED’s requirement. KLK expects to apply the same standard for its Indonesia POMs within 2 years after full RSPO certification of the mills (targeted by 2017).



[§] Based on the ISCC endorsed GHG calculation tool

7.3 GHG EMISSION SAVINGS MEASURES

To achieve its target of 50% GHG savings compared to fossil fuel emissions in Malaysia by 2017, KLK had implemented the following measures for the Group but not limited to:-

❖ Installation of Methane Capture Facilities

- KLK currently has five methane capture facilities spread across Malaysia, Belitung Island and Riau respectively to trap and converts the methane gas that is being released as a power generator.
- There is one methane capture facility in the pipeline for one of our mills in East Kalimantan.

❖ Filter Belt-Press Plant

KLK’s Belt-Press Performance Data ⁽ⁱ⁾	Before Belt-Press (mg/l)	After Belt-Press (mg/l)	Reduction (%)
Chemical Oxygen Demand (“COD”)**	41,247	838	98
Biological Oxygen Demand (“BOD”)**	37,200	519	99
Suspended solids	4,139	91	98

Note : (i) Source from KLK internal tabulation

- KLK has 10 POMs installed with filter belt-press plants in Malaysia, Belitung Island and Riau respectively. There are nine filter belt-press in the pipeline to be installed in its remaining mills in Malaysia and Indonesia.
- The filter belt-press system intakes the slurry solids from the bottom of the effluent ponds and through a multiple dewatering process, which reduces the formation of methane gas.
- It treats the Palm Oil Mill Effluent (“POME”) into an environmentally friendly fertiliser. Sludge from the effluent pond is treated in anaerobic ponds. The separated solid waste is then used as organic fertilisers whilst the filtered water is recycled for cleaning purposes.
- There is currently no extensive worldwide research pertaining to filter belt-press systems. As such, KLK has partnered Neste Corporation to further explore the benefits to be derived from its filter belt-press system especially on the potential effects of the GHG reduction on removal of organic matter from POME.



Filter belt-press which processes POME resulting in reduced formation of methane gas

** COD is the total measurement of all chemicals (organics & in-organics) in the water/waste water; BOD is a measure of the amount of oxygen that is required for the bacteria to degrade the organic components present in water/waste water. These substances should be reduced to a minimum in the wastewater treatment plant.

8. OTHER UPDATES

8.1 LABOUR AUDIT IN EAST KALIMANTAN

KLK had appointed Veritè, an independent US-based not-for-profit organisation, to undertake a voluntary labour audit of its East Kalimantan operations. This is part of KLK's continuous journey of self-improvement. The assessment will focus on discovering aspects of labour practices which it can further enhance.

Status of Audit

Veritè had concluded its assessment on all of the operating centres as at end of February 2016. It is in the midst of preparing the executive summary and reports on its findings. KLK will make available to all stakeholders a summary of the findings of the audit together with an action plan to bridge any gaps in its systems when the report is finalised and completed.

8.2 GRIEVANCE PROCEDURE

KLK acknowledges that the implementation of its Sustainability Policy and its effectiveness would require the support and co-operation of its supply chain partners. It is committed to work and engage with its partners and all relevant stakeholders to meet the objectives of the listed commitments.

In this respect, it is currently in the process of finalising the Group's grievance redress processes for a transparent and responsible handling of all complaints and grievances from such stakeholders on matters relating to its own operations and those of its suppliers.

We expect to formalise and adopt the procedure by end of June 2016.

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