



**Sustainability Policy Progress Report**  
December 2014 – June 2015

**KUALA LUMPUR KEPONG BERHAD**  
(15043-V)

# Glossary of Terms

<b>CPO</b> Crude Palm Oil	
<b>FFB</b> Fresh Fruit Bunches	
<b>ISCC</b> International Sustainability and Carbon Certification	
<b>Manifesto</b> Sustainable Palm Oil Manifesto is an industry-led initiative in which KLK is a party to achieve common objectives of ensuring sustainability in the entire chain from cultivation to consumption.	
<p>This Manifesto builds upon the existing commitments of RSPO P&amp;C with the following specific objectives:</p> <ul style="list-style-type: none"><li>- Accelerate journey to no deforestation through the conservation of HCS forests;</li><li>- Protection of peat areas regardless of depth;</li><li>- Build traceable and transparent supply chains; and</li><li>- Increase focus on driving beneficial economic change and to ensure a positive social impact on people and communities.</li></ul>	
› <b>HCS</b> High Carbon Stock	
› <b>HCS Study</b> The High Carbon Stock Study aims to define what can be constituted as HCS forest which includes the establishment of relevant HCS thresholds taking into account not only environmental concerns but also socio-economic and political factors in developing and emerging economies.	
<b>MOU</b> Memorandum of Understanding	
<b>PK</b> Palm Kernel	
<b>PKO</b> Palm Kernel Oil	

<b>POM</b> Palm Oil Mill	
<b>POME</b> Palm Oil Mill Effluent	
<b>RSPO</b> Roundtable on Sustainable Palm Oil is a global, consensus based multi-stakeholder initiative to promote the growth and use of sustainable palm oil.	
› <b>RSPO Certification</b> RSPO Certification is an assurance to the customer that the standard of palm oil production is sustainable and adheres to stringent social and environmental standards.	
› <b>RSPO P&amp;C</b> RSPO Principles and Criteria	
› <b>RSPO SCC</b> RSPO Supply Chain Certification	
<b>Small growers</b> Plantation owners of more than 40 hectares but below 500 hectares of plantation	
<b>Smallholders</b> Farmers who grow oil palm, which could include subsistence production of other crops. The farm is predominately family-run and serves as the principal source of income. Planted area of oil palm is usually below 50 hectares in size.	
<b>SOP</b> Standard Operating Procedure	
<b>Wild Asia</b> An NGO which engages businesses to promote change and improve environmental and social practices	

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CEO Remarks

TAN SRI DATO' SERI LEE OI HIAN  
Chief Executive Officer



I am pleased to bring to you KLK's inaugural Sustainability Policy Progress Report.

Our Sustainability Policy (hereafter "Policy"), launched in December 2014 spells out our commitment to sustainable practices. We hope to achieve this through continuous balance assessment and development of our operations while conserving and improving the natural environment; and uplifting the socio-economic conditions of our employees and local communities. We have committed and are striving to implement this not only in our daily operations but strategically as part of the decision making process at the highest level.

Much has happened in the global arena with regards to sustainability and corporations are called more than ever to be bold in their commitments and take on an advocacy role. While we strive for bold and lofty ambitions, we will continue to remain cautious in our commitments, cognisant of the fact that the livelihoods of many, especially when some of the poorest parts of the world depend on us as a company. We need to remember that it is the balance of people, planet and prosperity and not one over the other.

Nevertheless, we are proud to say that Sustainability and Corporate Responsibility are part of who we are as a company, reflected in the Company's Vision, Values and

practices on the ground. However, we cannot rest on our laurels, but rather, we need to continue to improve our practices to meet the ever increasing sustainability standards and expectations.

This Report describes KLK's progress with regards to the Policy and our Sustainability Plan and goals. As knowledge, understanding and perception for sustainability change, so will we, as a company, move with the times and enhance our practices, goals and direction. Hence, it remains critical for us to not only have strong goals but also remain agile in changing courses as and when needed.

Sustainability is a journey and it is important that players within the value chain work together for us to carve meaningful change that we can be proud of. There is no overnight solution, rather it is an unceasing enhancement process. As a company, we have committed to share our progress to shareholders and stakeholders alike, in the spirit of transparency and accountability. This half-yearly report is one such means of doing so, as well as our website and face-to-face engagement with our stakeholders.

I wish to express my appreciation to you for taking the time to read this Report. I would like to know what you think, and welcome your feedback.

Introduction

KLK's Commitment Towards Sustainable Business Operations

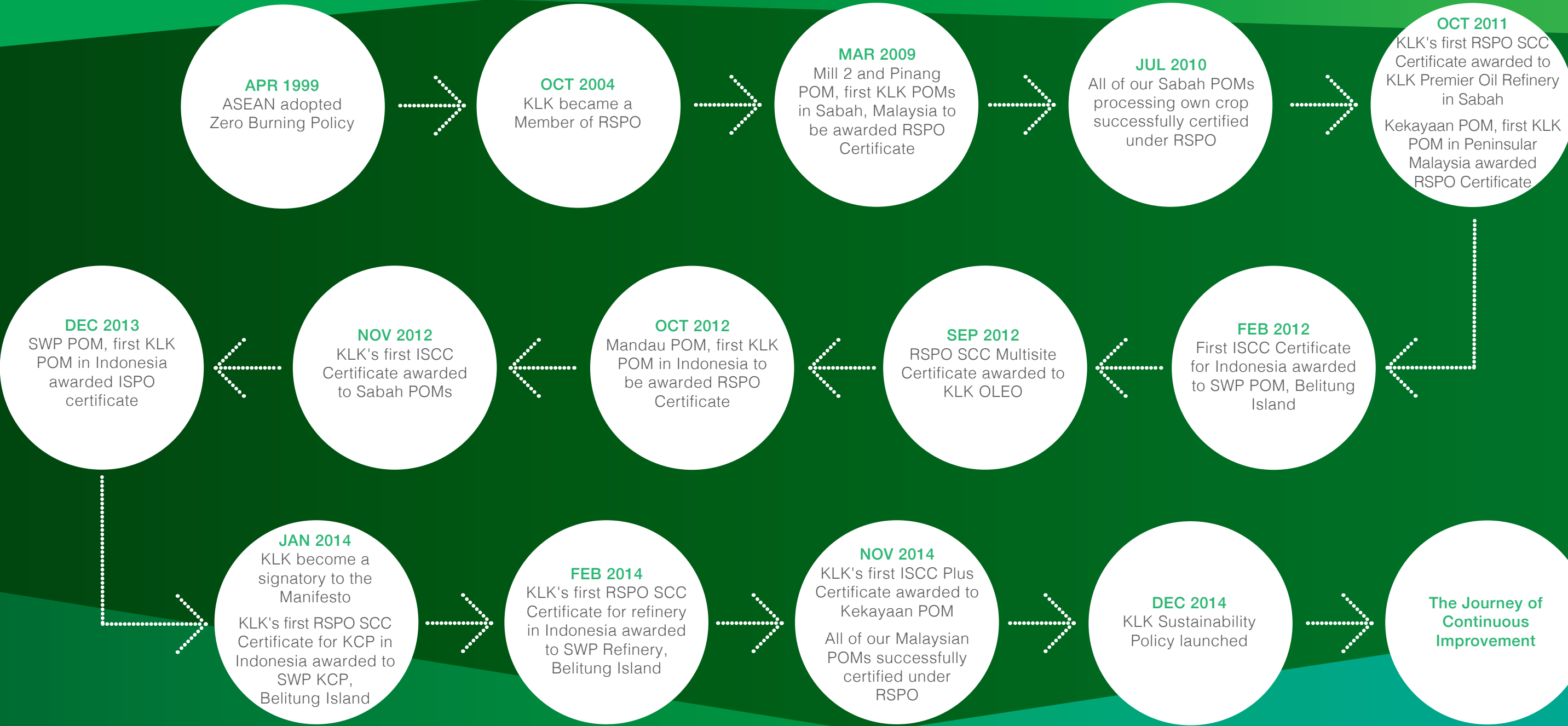
The Brundtland Report 1987 defines Sustainability as "Development that meets the needs of the present generation without compromising the ability of future generations to meet their own."



At KLK, we go beyond the focus on activities mandated by law or regulatory activities. We have consciously made the commitment to embed social and environmental considerations into our business strategies.

We understand that business is not merely about economic benefits but how we balance the need to be accountable to our shareholders with the impact of our operations to the other stakeholders and community at large.

# KLK Sustainability Milestones



Note: All the above achievements refer to KLK operations





## Sustainable Palm Oil Manifesto & High Carbon Stock Study



### Manifesto

The Sustainable Palm Oil Manifesto is a commitment by KLK towards sustainability of the entire supply chain from cultivation to consumption.

The Manifesto builds upon the existing sustainability commitments of the RSPO P&C with the following specific objectives:

- ◆ To build traceable and transparent supply chains;
- ◆ To accelerate the journey to no deforestation through the conservation of high carbon stock (HCS) forests;
- ◆ The protection of peat areas regardless of depth; and
- ◆ To increase the focus on driving beneficial economic change and to ensure a positive social impact on people and communities.

### HCS Study

A key commitment in the Manifesto is the funding of a study to further define what constitutes HCS forests, and to establish HCS thresholds that take into account environmental, socio-economic and political factors, as well as other practical considerations in developing and emerging economies where oil palm is cultivated. The study is expected to be completed by the end of 2015.

In addition to funding, KLK had also committed to “No Development on potential HCS areas” during the course of the HCS Study being carried out.

A Steering Committee has been established to oversee the HCS study process and ensure that the study is carried out in an independent, systematic, robust and timely manner.

Observers to the process include the Roundtable on Sustainable Palm Oil (RSPO), IDH (The Sustainable Trade Initiative), Neste Oil, the Malaysian Palm Oil Board, Global Environment Centre (GEC), Proforest, the Indonesian Oil Palm Research Institute (IOPRI) and the Zoological Society of London.



KLK Sustainability Policy

KLK's commitment in the Manifesto as well as to the RSPO P&C is reflected in the KLK's Sustainability Policy.



No Deforestation

Protection of Peat Areas

Drive Positive Socio-Economic Impact for People and Communities

Continuous Stakeholders Engagement

Traceability

## KLK Sustainability Policy

### Policy Action Plan & Implementation

- ◆ KLK Sustainability Policy launched
- ◆ Dedicated 'Sustainability' section including GPS coordinates of our internal suppliers to our POMs, refineries and KCPs on KLK's corporate website
- ◆ Completed the review and update of Sustainability Manual and SOPs that incorporate our commitments in the Sustainability Policy
- ◆ Engagement/Socialisation sessions held to communicate KLK's Sustainability Policy to our internal stakeholders and key customers
- ◆ Smallholders & Small Growers Project initiated to assist them to achieve certification
- ◆ Initiated preliminary engagement with third party suppliers to enhance traceability of our supply chain
- ◆ Internal audit on labour practices carried out at our operating centres in East Kalimantan



DEC 2014

→ JUN 2015

JUL 2015

→ DEC 2015



- ◆ Face-to-face engagement sessions with customers and external suppliers
- ◆ Baseline Assessment and analysis of responses to questionnaires to determine our suppliers' compliance to the KLK Sustainability Policy
- ◆ Continuation of Smallholders Project to assist them to achieve certification
- ◆ Achieve 80% traceability up to the POM for our supply chains
- ◆ Second Sustainability Policy Progress Report to be published
- ◆ External independent audit on labour practices in East Kalimantan to be carried out
- ◆ Review of FPIC SOP
- ◆ Consolidation of Group Level Grievance Redress Procedure





At KLK, the palm products that we produce are traceable right up to our respective palm oil mills, refineries and kernel crushing plants.

## Traceability

Within the palm oil sector, traceability remains an important and challenging goal. At KLK, the palm products that we produce are traceable right up to our respective palm oil mills, refineries and kernel crushing plants.

Nevertheless, the supply of palm products by our 3rd party suppliers can be very onerous to trace due to the inherent complexities within the supply chain. These supplies may originate from smallholders, small growers, palm oil mills, refineries or other palm products production plants. KLK will continue to engage with them to further improve and enhance our traceability mechanism.

## Traceability

### Supplier Mapping

As part of our initiative towards traceable palm products, we have made available the GPS coordinates of our following management units on KLK's website at [www.klk.com.my/sustainability/traceability-smallholders](http://www.klk.com.my/sustainability/traceability-smallholders)

1. Palm Oil Mills (POMs) and their KLK supply bases (estates)
2. Refineries and Kernel Crushing Plants and their KLK supply bases (POMs)

### Addressing the Challenges in Traceability

Having being able to trace all the palm oil produced by KLK right up to the POM, the next step is the traceability of our third party suppliers such as our smallholders and small growers.

To address this, we have developed a questionnaire which will help us understand the practices of our third-party suppliers. Since January 2015, we have been engaging them in a systematic and structured manner using the methodology depicted in the chart below.

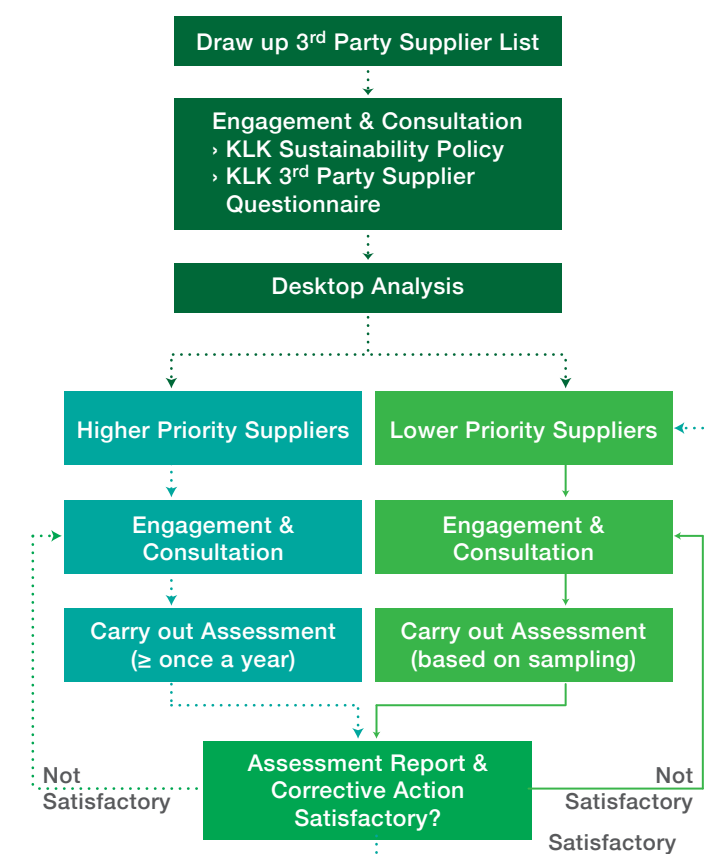
A desktop analysis of the questionnaire response has been carried out. Based on this, we have categorised our suppliers into high priority and low priority. All those categorised as being high priority will be engaged on a continual basis at least once a year. For low priority, a selection, based on random sampling, will be done for engagement.

Based on the individual engagement sessions, an assessment report will be produced and where necessary, corrective action will be communicated and/or taken.

One of the challenges faced by KLK is to obtain a response from our third party suppliers. It will take time and continuous engagements to build up the trust levels and for our suppliers to see the mutual benefit in doing so.

At the same time, concerted effort is also being undertaken to engage with our 3rd party suppliers to map out our palm products supply chain.

The information from the questionnaire will also enable us to obtain a baseline assessment which we target to complete by November 2015. With the baseline assessment, KLK would be able to gain a critical reference point to assess our progress and impact as it would enable us to compare the situation before and after an intervention.





# Traceability

We have been able to identify the percentage of our materials that is traceble shown as follows:

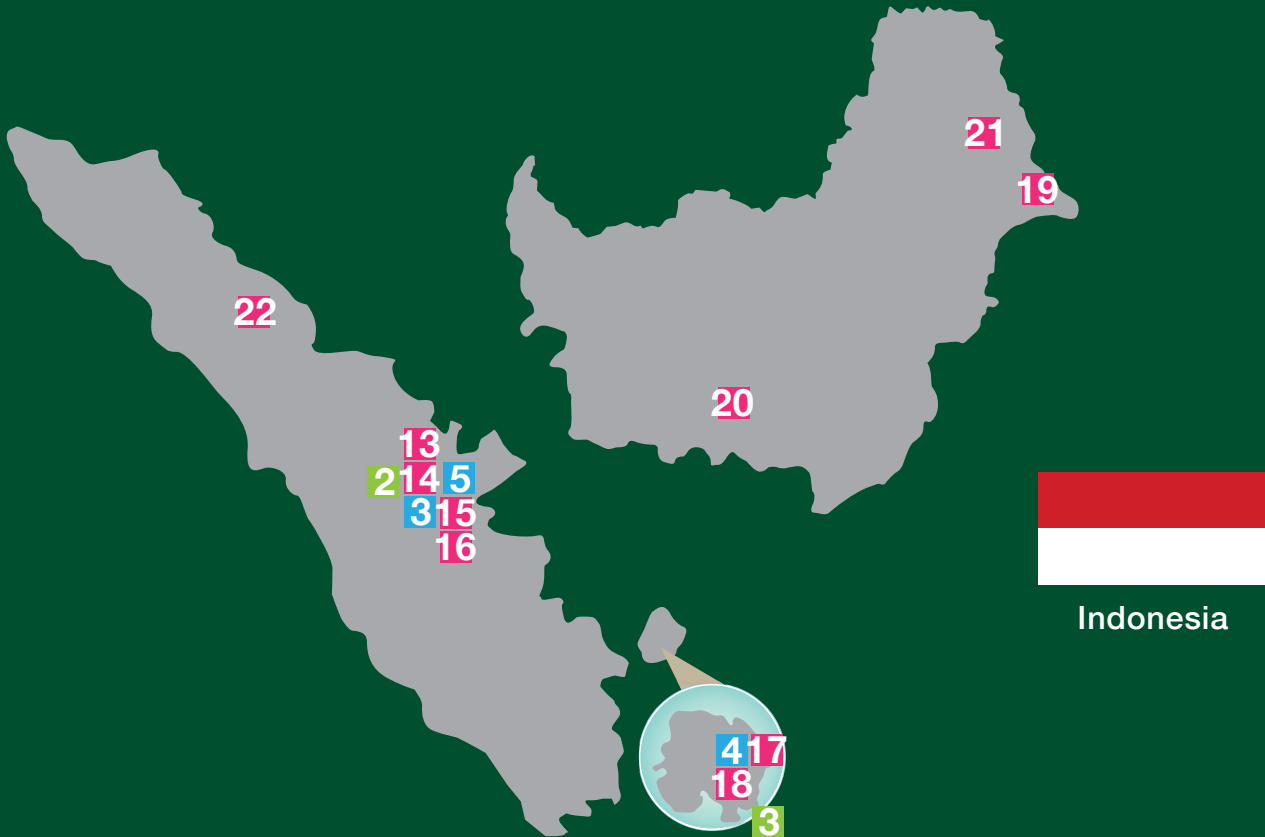


## Palm Oil Mill

The percentage of FFB received that is traceable at each of our POMs are as follows:

1 Batu Lintang	100%
2 Kuala Pertang	84%
3 Changkat Chermin	100%
4 Tanjung Malim	60%
5 Tuan Mee	80%
6 Jeram Padang	100%
7 Kekayaan	100%
8 Bornion	90%
9 Rimmer	100%
10 Lungmanis	100%
11 Mill 2	100%
12 Pinang	100%
13 Mandau	70%
14 Sekarbumi Alamlestari	87%
15 Nilo 1	60%
16 Nilo 2	88%
17 Steelindo Wahana Perkasa	100%
18 Parit Sembada	43%
19 Berau	86%
20 Mulia Agro Permai	98%
21 Segah	78%
22 Stabat	100%

Percentages are for the Financial Year 2013/2014



## Refinery

The percentage of CPO received that is traceable to the supplying POMs at each of our refineries are as follows:

1 KLK Premier Oils	46%
2 KL-Kepong Edible Oils	30%
3 Kreasijaya Adhikarya	44%
4 Steelindo Wahana Perkasa	40%
5 Mandau*	17%

## Kernel Crushing Plant

The percentage of PK received that is traceable to the supplying POMs at each of our KCPs are as follows:

1 KLK Premier Oils	28%
2 Mandau	17%
3 Steelindo Wahana Perkasa	73%

Percentages are for the Financial Year 2013/2014 \* Only processes PKO



Wild Asia and KLK jointly carrying out a preliminary scoping and Baseline Assessment for our Smallholders Project

## Smallholders & Small Growers Project

Inclusion of smallholders into its supply chain is a facet of KLK's Sustainability Policy. Smallholder farmers produce 40% of the world's palm oil. Helping them to improve productivity and yield by way of best practices that will contribute to positive impact on Land Use Change.

## Smallholders & Small Growers Project

KLK signed a Memorandum of Understanding with Wild Asia on 11th July 2014 to collaborate in a project; assisting the smallholders to achieve RSPO Certification. This will be the first step towards traceable production in our supply chain. This project was initiated with the aim of supporting traceable production of palm oil which the company has committed to realise.

The first Smallholders' Project was inaugurated at Bornion POM in Sabah. Wild Asia and KLK have jointly carried out the preliminary scoping and Baseline Assessment on a total of 38 Smallholders and 10 Small growers between the period from October 2014 to February 2015.

The common challenges faced by smallholders/small growers observed are as follows:

1. Low FFB production
2. Use of banned/restricted chemicals e.g. Paraquat
3. Poor waste management
4. Open burning
5. Blanket spraying of agrochemicals

On 10th and 11th March 2015, participating smallholders and small growers met with Wild Asia and KLK representatives where findings of the baseline assessment were shared. Positive response and growing enthusiasm were observed during the interim assessment dialogue. KLK acknowledges that there are many challenges faced by small growers when having to comply with the requirements of major industry players in the production of sustainable palm oil. Engagement process for the participating growers is on course. Collectively, they are expected to be ready for RSPO Certification by the end of 2016.



*"This is an exemplary show of commitment by KLK, going above and beyond to reach out to its small producers. It clearly sets the standard for the industry in supporting local communities."*

Sheila Senathirajah,  
Wild Asia Program Manager



*"It is exciting that KLK has embarked on this project to explore new methods and approaches with working with their external suppliers. This is real CSR in the making - one that is focused on improving the social and environmental conditions of the communities where you do business."*

Dr. Reza Azmi, Founder of Wild Asia



## Environmental Stewardship

### Management of GHG Emissions

Apart from being RSPO Certified, we are also certified under the ISCC system. This demonstrates that biomass and bioenergy from our mills and refineries are produced in accordance to the European and German sustainability legislation i.e. the European Union Renewable Energy Directive (EU RED) and the German Sustainability Ordinances (BioNachv) respectively.

KLK is in compliance with the Greenhouse Gas ("GHG") requirements outlined in the EU RED that is to achieve 35% GHG savings. We target to achieve 50% savings by the year 2017.

To achieve this, KLK currently has three methane capture facilities in Sabah, Belitung Island and Riau. The facility in Sabah is a registered Clean Development Mechanism project. The main purpose of this facility is to trap and utilise methane gas. The captured methane gas is used as a renewable energy source.

Apart from the methane capture facility, KLK is also in the process of rolling out a Group wide programme for the installation of the belt filter press system. This is a system which removes the bottom slurry solids from the effluent ponds and thus, reduces the formation of methane gas. Currently there are 8 POMs installed with the belt filter press.

For a more efficient waste management programme, the belt filter press has been treating and converting POME into an environmentally friendly fertiliser. Sludge from the effluent pond is treated in anaerobic ponds and the eventual separated solid waste is used as organic fertilisers to enhance the growth of our oil palms whilst the filtered water is recycled for cleaning purposes.

KLK is currently in collaboration with Neste Oil to explore further on the benefits gained from our belt filter press system especially on the GHG reduction potential of removing organic matter from POME.



Belt filter press plant



Belt-press cake



***"KLK is a worthy partner who shares our goals towards innovation within sustainability."***

Adrian Suharto  
Sustainability Manager Neste Oil

*"It is important for Neste to maintain a good and cooperative relationship with our suppliers. The biofuels industry is highly regulated and sustainability compliance is compulsory in order for our products to have market access. Only by maintaining a good partnership with our suppliers, will we reach our sustainability goals and find solutions to common sustainability challenges."*

*Throughout our supply relationship, KLK has demonstrated itself to be a palm oil supplier which always has new innovative ways to improve practices in agriculture as well as other sustainability practices. The belt press system is one example of a practice which we found to be pioneering and good for the environment, both in terms of reducing emissions and decreasing fertilizer use."*

*During our numerous visits to various mills and plantations in Indonesia and Malaysia, the KLK belt press system was the first that we noticed. Since then, Neste and KLK*

*have been working together closely to enhance our understanding of the potential of this system, introducing it to the wider stakeholders (industry players, roundtable discussions and the government) and also getting it acknowledged within the certification systems (EU RED and RSPO). Collaboration has also resulted in a scientific manuscript which was recently submitted to a leading journal, and a calculation methodology which is proposed to the ISCC."*

*We still have a long journey together to ensure that the belt press and other solid separation systems are accepted by our scientific peers, the wider sustainability stakeholder network and the palm oil industry. However, we believe that, from experience and the result of what we have achieved so far, KLK is a worthy partner who shares our goals towards innovation within sustainability. We also believe that KLK has the potential to do much more and eventually be one of the leaders in the palm industry."*



**Moratorium on  
the Development  
of High Carbon  
Stock Areas**

**35% GHG savings  
achieved, target  
50% in 2017**

**8 POMs with  
belt filter press  
system to reduce  
the formation of  
methane gas**

**No development  
on peat regardless  
of depth**

## Environmental Stewardship

## Environmental Stewardship

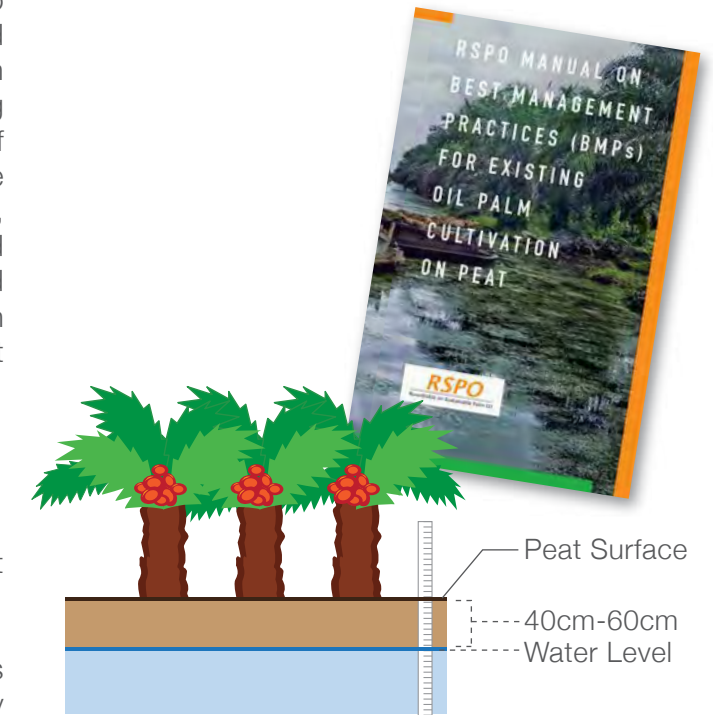
### No Deforestation

As part of our commitment to No Deforestation, KLK has placed a self-imposed moratorium since September 2014 on development of potential HCS areas during the course of the HCS Study. The results of the HCS Study is expected to be made available by end of 2015. In the interim, should there be a need, independent third party experts and consultants will be engaged to assist us to determine the suitability of such areas for development based on current available methodology.

### Peat

KLK has committed to “no new development on peat regardless of depth.”

For existing plantation on peat, KLK uses industry best practices and simultaneously guided by the “RSPO Manual on Best Management Practices (BMPs) for Existing Oil Palm Cultivation on Peat.”





### Respecting and Recognising The Rights of All Employees

KLK continues to carry out internal audits on social performances and labour practices to ensure the commitments such as no forced or bonded labour, no child labour are complied with; safety and health of our employees, freedom of association and employment contracts. In addition, our facilities are audited against Sustainability Standards which cover among others, monitoring of social impacts, open and transparent methods of consultation via Free, Prior and Informed Consent (FPIC) for any new developments.

Pursuant to media allegations of child labour and labour bondage at our operation in East Kalimantan back in 2013, KLK acted to undertake an internal audit at our plantations to review the implementation of our Sustainability Policy.

As an evolving corporation, we are currently working on addressing gaps and build on the best practices that were observed.

We are currently in discussion to appoint a US-based third party auditor specialising in labour practices audit to assess our East Kalimantan operations, results of which will be updated in our next progress report.

Despite our continuous action and practices on labour related matters on our part, the old allegations continue to be recycled. In relation to this, we will continue to welcome constructive comments and better ourselves, transparently share our progress and engage with stakeholders including NGO's through working partnerships.



Free ambulance service is provided in our estates in Central Kalimantan, Indonesia



Labour Pre-Audit conducted in our operating centre at East Kalimantan, Indonesia



# Sustainability Starts Here



KLK's CEO presenting at an engagement session with customers

## Stakeholders Engagement



At the same event, KLK shared its sustainability journey and plans moving forward

## Stakeholders Engagement

KLK acknowledges that it is very important to engage with our stakeholders to ensure there is broad understanding of the Policy and its implications.

In conjunction with the launching of the Policy, special focus was accorded to continuous engagement with both internal and external stakeholders.

Internally, it is done through roadshows and communications sessions with employees across our various operations. Externally, meetings were held with a range of stakeholders such as suppliers, customers, non-government organizations (NGOs), and the financial community. Our engagement plan is as follows:

### Completed

#### Phase 1

Engagement with:

- › Employees of KLK Group
- › KLK Palm Product Customers
- › Third party suppliers of KLK refineries and KCPs

### To Be Implemented

#### Phase 2

Continuous engagement sessions with:

- › Third party suppliers of KLK POMs, refineries, kernel crushing plants and KLK OLEO plants
- › External Stakeholders
- › NGOs and Financial Communities
- › Face-to-face engagement with suppliers and customers







Sustainability Policy dissemination and training in Liberia

## Stakeholders Engagement : Liberia & PNG



Engagement session with consented communities in Liberia

## Stakeholders Engagement

### Liberia

KLK has operations in Liberia that is managed by Equatorial Palm Oil plc (EPO) which became a subsidiary of KLK in 2013. The latter has two concessions, which are Palm Bay and Butaw. As part of our commitment to No New Development on HCS area and obtaining FPIC of stakeholders prior to new development, KLK will be conducting a HCS assessment in collaboration with an independent consultant to draw up an 'Overarching Land Use Plan'. This includes reviewing past practices with the intention of better equipping the EPO Management Team to embark on a robust FPIC and participatory mapping process for future planting areas. During the course of the assessment, no new development will be carried out within these concessions, including new planting areas at Palm Bay despite the fact that RSPO has already given approval to proceed with the development.

EPO has various formal and informal engagements with the local communities in which it operates. EPO ensures that in all its dealings with the communities, it operates under the strict principle of FPIC. These include recent meetings held between the EPO team, the Joghban community and Sustainable Development Institute (SDI), a Liberia based NGO, at Palm Bay in April and May 2015. All EPOs dealings with SDI is kept up-to-date on EPO's website ([www.epoil.co.uk](http://www.epoil.co.uk)).



Sustainability Policy dissemination and training

EPO has received various feedback from the communities who have voiced their frustration in having to wait for further development on the concessions given the moratorium arising from the HCS Study. Development had also come to a standstill due to the Ebola virus in most part of 2014. EPO was at the forefront in working together with the Liberian government and health NGOs in ensuring the recommended processes and procedures were enforced such that no Ebola cases were recorded on our concessions. EPO remains ever vigilant to combat this virus.

Communication of the Policy continues to take place having been disseminated to the top management of EPO in December 2014 and has now expanded to the operational personnel beginning from May 2015. Subsequently, it will be presented to other stakeholders including contractors and suppliers.

### PNG

Currently, there is no development on our leased land in PNG. KLK had given its commitment that it would not commence any plantation development without prior consent from the respective community and the relevant legal authorities.



Engagement session with consented communities

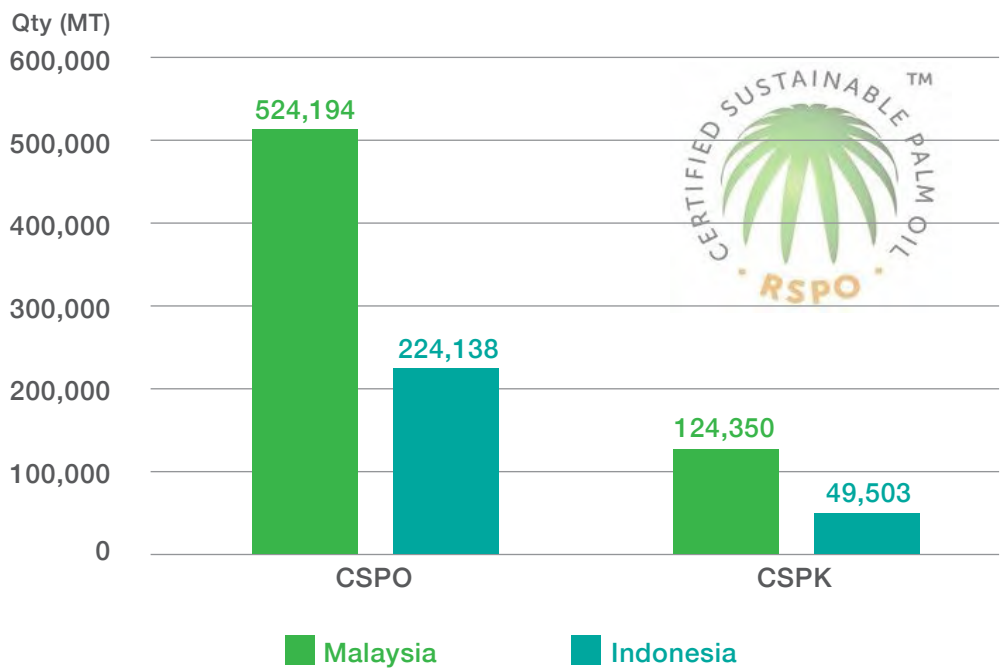


Additional Information

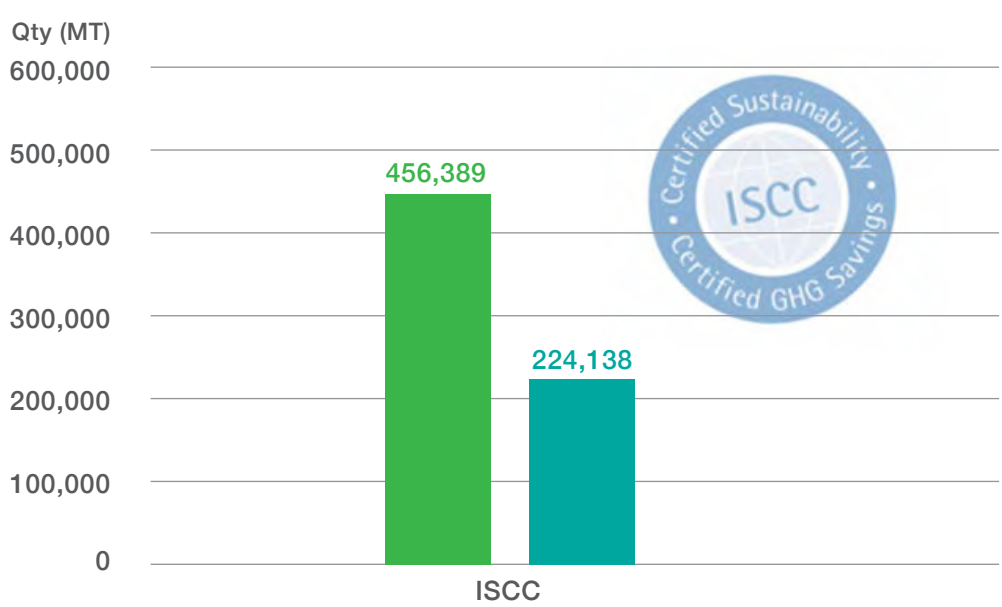
All our operating centres in Malaysia are fully certified by the RSPO and we are on track to achieve certification of all our plantations in Indonesia by 2017. Currently, our annual production of about 748,000 metric tonnes Certified Sustainable Palm Oil representing 5.9% of the total certified palm oil produced world-wide.

The following shows KLK's certification status as at May 2015.

Estimated Annual CSPO and CSPK (RSPO) for Malaysia and Indonesia



Estimated Annual CSPO (ISCC) for Malaysia and Indonesia



Figures based on Certification Body's audit report

Moving Forward

Overall, we have seen encouraging progress but we still need to address some of the challenges. This is no easy task and it needs to be a concerted effort, both internally and externally with members of the palm oil value chain.

We expect the next phase of implementation to be even more challenging as we tackle head-on some of the more difficult sustainability issues like traceability.

Fundamentally, it is heartening to know that sustainable palm oil is becoming mainstream and is on the trajectory of becoming the norm, albeit slowly. This provides further incentive for companies to continue to improve its sustainable practices. At this point in history, when much is at stake with regards to the planet, it remains critical for stakeholders to work together to address the myriad of sustainability challenges as no one

stakeholder group can claim to have the solution. KLK remains committed to listening and working with our stakeholders, especially those whose voice may not be the loudest or the most regarded. This includes smallholders and those in rural and marginalised communities who are in need of education opportunities, and medical facilities especially for women and children. We will continue to bring progress and development to communities and continue the nation building process through economic development brought about by the oil palm industry.

Through this Report, we hope to have shared with you how we are working towards making it possible for a company to have sustainable development. To our stakeholders who have provided their input, we would like to thank them and we look forward to continue with them on this journey.



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