



Kulim (Malaysia) Berhad
(23370-V)

**A NEW ROAD FOR
SUSTAINABLE GROWTH**

Sustainability Report 2010 | 2011



Plantation Division

▶ AN OVERVIEW OF PALM OIL PRODUCTION PROCESS



SEEDS

Oil palm is propagated by seeds which are produced by Kulim's own breeding laboratory or purchased from third party.



NURSERY

Geminated seeds in polybag are transplanted to nursery at the age of 3 – 3½ months. Field planting will take place at the age of 12 – 15 months.



PLANTING

Optimal plant density is 136 palms/ha with triangular patterns of 30x30 feet, based on various planting densities. During the first 3 years, oil palm are often intercropped with other suitable plants such as pineapple and banana.



RECEPTION

FFB from the estates are unloaded from vehicles into hoppers. From the hoppers, FFB are loaded into cages for sterilisation and further processing.



DELIVERY TO MILL

All Fresh Fruit Bunches ("FFB") and loose fruits are then delivered to mill within 24 hours after being harvested.



HARVESTING

Fruit bunches are harvested using sickles attached to long poles. Peak time for harvest is about 7 – 13 years old.



STERILISATION

Sterilised fruits are fed into a threshing machine using a tipper and inclined conveyor. The threshing machine separates the fruitlets from bunch stalks by the tumbling effects on the fruits in a rotating drum.



PRESSING

Fruitlets in the digesters are mashed by rotating stirrer arms before being fed into screw presses to extract the crude oil from the fruit mash by pressure generated with a reduction of volume. Nuts are separated from fibers in winnowing column.



CLARIFICATION & NUT PLANT

Oil is skimmed off into pure oil tank and then dried in a vacuum dryer before being pumped into the storage tanks. Nuts from the nut silos are fed to the nut crackers for cracking to recover the kernels. After drying, the kernels are stored in kernel bunkers before delivery to buyers.



BUYER



CRUDE PALM OIL ("CPO")



PALM KERNEL ("PK")

ESTATE OPERATIONS

MILL OPERATIONS

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INTRODUCTION

Welcome from the Chairman and the Managing Director

Welcome to Kulim (Malaysia) Berhad's ("Kulim") third Sustainability Report, which marks a time of significant change for our Company. Since our last report in 2009, we have divested our oleochemicals business and are in the process of divesting our foods and restaurants business. We have also acquired additional oil palm estates, allowing us to strengthen and develop our sustainable agri-business model. Our commitments to sustainable agriculture is now central to our business strategy.

We are also in the process of developing a substantial cattle business; the coming years will see a stronger strategic focus on agri-products. We believe food security to be a growing challenge in a world of nine billion people with rising living standards. We strive to be part of the solution to food security and sustainability.

Our oil palm operations continue to develop new sustainability initiatives and our commitment to the Roundtable on Sustainable Palm Oil ("RSPO") remains paramount. The RSPO is a leadership initiative, producers and stakeholders associated with the partnership can be proud of their achievements over the past years. The RSPO's international credibility and commitment to stakeholder inclusion gives it credibility and robustness. Although the standard is not without its faults, we have found that the benefits of RSPO certification to our industry far outweighs the costs, and that it represents the most responsible way to grow oil palm.

Over the coming two years, we will be building on our RSPO commitment and start to address stakeholder concerns over climate change and carbon emissions. We plan to work towards the publication of a full carbon footprint of our palm oil and will also be moving towards International Sustainability and Carbon Certification ("ISCC"). We cannot tackle climate change alone; we will work in partnership with peers and stakeholders. Just as we have learnt from others, we hope that our initiatives will provide inspiration and guidance to others.

In addition to tackling global issues, we have also made efforts at a local level, particularly in our commitment to being a great workplace for all our employees. In 2009, we pledged to do more for those at the lower end of the pay-scale. Since then, most of these employees have been given the opportunity to earn additional income, and housing and facilities provided to our employees have also been upgraded. We are also focusing on end-of-career training, contributing to fulfilling, active and decent retirement for our employees.

Most importantly, we take seriously our responsibility to keep our employees safe from work-related accidents and illnesses. We have tackled complex health and safety issues on many fronts and our performance has improved immensely. Nevertheless, it was with great regret that we saw several work-related fatalities in the past two years. All of us at Kulim offer our condolences to the families of the deceased. Decisive action has been taken to avoid such occurrences in the future.

Our commitment to gender equality is seeing positive results. Our Women OnWards' initiative goes from strength to strength, increasing opportunities for women at all levels. We are also supportive of the recommendations adopted by the Government and Bursa Malaysia that 30% of decision-makers in PLCs should be female. Perhaps such targets will one day be obsolete, but our experiences show that support and encouragement of women is crucial.

We know from surveys and focus groups that our employees are generally happy to work for us. But in a very competitive labour market we need to do more to ensure that we do not lose talented staff to fast growing industries in Indonesia and Africa. We have focused on strengthening our decision making and management to allow for a better working climate, and this year, we are focusing on strengthening our remuneration packages and offering other benefits.

Whether global or local, we believe that even a medium-sized player, such as Kulim, can and should make a difference. The road to sustainability is not always easy, and setbacks can occur. But like our crops, we continue to grow and increase yields for people and the planet. We are poised for big changes ahead and we all look forward to the new challenges.

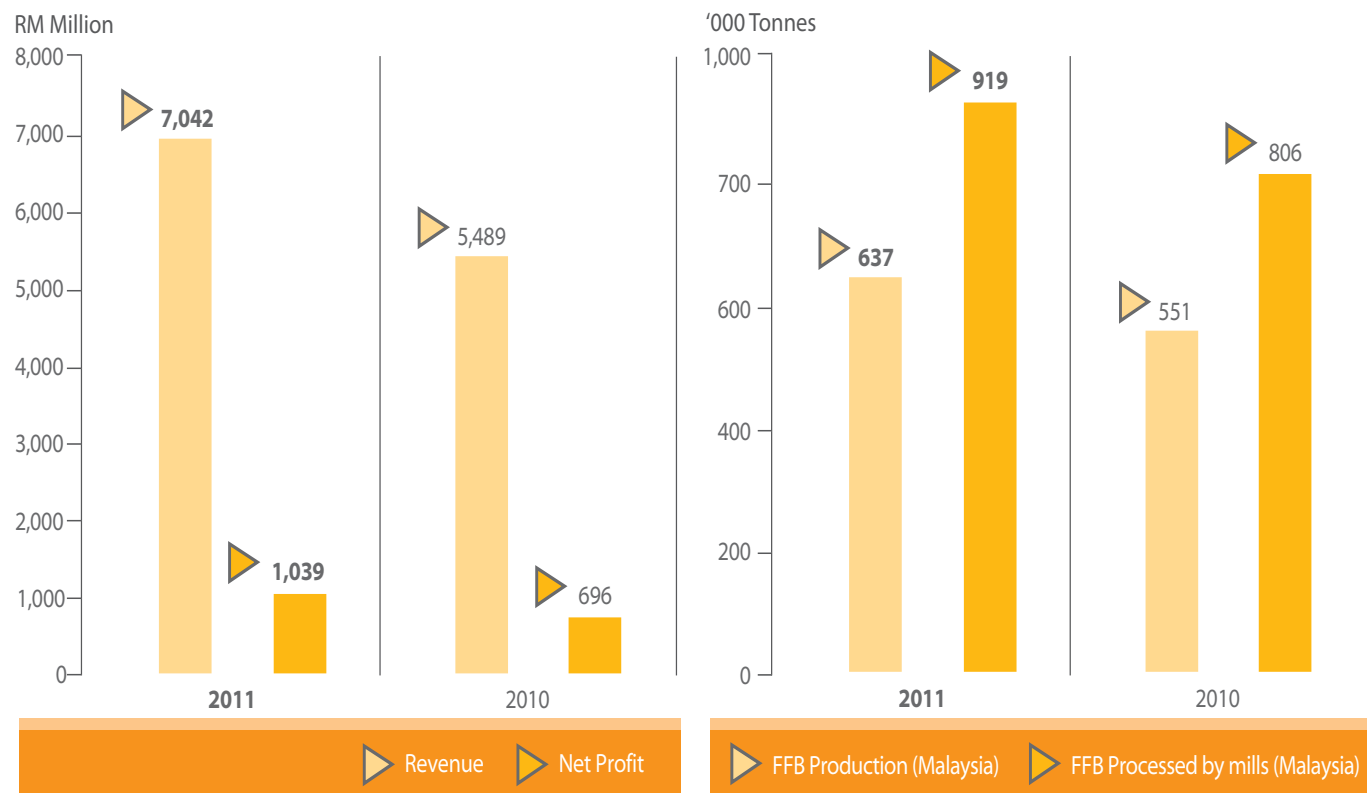


▶ Kamaruzzaman Abu Kassim
Chairman

▶ Ahamad Mohamad
Managing Director

INTRODUCTION

Kulim in brief



	2011	2010
Revenue (RM '000)	7,041,777	5,488,939
Net profit (RM '000)	1,007,866	695,826
FFB production (tonnes) *	636,761	551,223
FFB processed by mills (tonnes) *	919,307	806,297
Oil Extraction Rate (OER) **	20.20%	20.24%
Oil palm planted area in Malaysia (hectares)	34,570	34,413

* Plantation in Malaysia

** see item 1 under "Notes to Data"

INTRODUCTION

Our commitments and targets

COMMITMENTS AND TARGETS – MALAYSIA PLANTATIONS

TARGET	TARGET DATE (YEAR-END)*	STATUS AS AT 31 DECEMBER 2011
People		
Establish a gender committee to promote diversity and address gender-related issues	2009	Achieved
Rollout of identity card programme to all foreign workers	2011	Revised
100% of external fruit to be certified	2011	2013 – revised
Reduce lost time accident rate to 10	Maintain 2009's performance	Achieved – 5.8
Reduce severity rate to 3.5	2009	Not achieved – 4
Zero fatalities	2009	Not achieved – 1
No breaches of excessive overtime	Maintain 2009's performance	Not achieved
Assist Johor Corporation-owned estates in achieving RSPO certification	2010	Achieved
Planet		
Reduce herbicide usage by 10% (base year FY2009)	2020	Achieved – reduction by 30%
Reduce paraquat usage by 10% (base year FY2009)	2020	Achieved – reduction by 30%
Reduce water usage to 0.7 tonnes per tonne of FFB (base year FY2009)	2011	Not achieved – 0.94 tonnes
CDM projects launched for all 3 mills	2011	Launched at 1 mill
CO ₂ equivalents reduced by 90%	2011	Not achieved
No increase in peat development	2009	Achieved
No development in land containing one or more High Conservation Values	2009	Achieved
No penalties for environment-related incidents	2009	Achieved
Carbon footprint for the whole Group	2013	In progress
Profit		
Achieve average FFB yield per hectare of 30 tonnes	2013	In progress
Achieve average combined palm product extraction rate of 30%	2013	In progress
ISCC certification	2013	In progress

* Where target is an ongoing commitment or has already been achieved, the date denotes next status reporting.



BUSINESS PROFILE

Overview

Kulim (Malaysia) Berhad (“Kulim”) is headquartered in Ulu Tiram, Johor, Malaysia, with manpower of 5,206 employees. Our majority shareholder is Johor Corporation, which has a 57.17% interest as at 31 December 2011.

First incorporated in the United Kingdom in 1933, Kulim was later listed on the Kuala Lumpur Stock Exchange (now known as Bursa Malaysia Securities Berhad) in 1975 and subsequently withdrew its listing from the London Stock Exchange in 1977.

From our beginnings as a rubber plantation company to our venture into property, hospitality as well as foods and restaurants businesses, we have undergone several restructuring exercises. The Group is now focused on its traditional business of managing oil palm estates in Peninsular Malaysia. The Group's Plantation Division (including interests in NBPOL) formed 46.35% of the revenue mix in 2011. The Division contributed operating profit of RM1.13 billion in 2011, an increase of 68.90% from 2010. As the largest and fastest growing vegetable oil globally, demand for palm oil will continue to grow due to increasing world population, rising standards of living and disposable incomes in developing countries.

In addition, we have an Intrapreneur Ventures (“IV”) Division, which is involved in a diverse range of businesses. The IV Division supports employees and communities in complementary businesses, such as support services in palm oil industry and other non-palm oil businesses. The Group provides the financial backing and knowledge, creating opportunities beyond its core business. This division contributes about 5.63% of the 2011 revenue mix and is spearheaded by its subsidiary, Sindora Berhad. The companies in this division serve as potential growth drivers to be the strategic business divisions of the Group.

Group Financials

For the year 2011, our revenue grew 28.29% to RM7.04 billion, as compared to the previous year. Profit before tax improved by 75.46% to RM1.36 billion in 2011, as compared to RM777.90 million in 2010.

Major Corporate Milestones

Since our last report in 2009, we have divested our oleochemicals business and, subject to approval of relevant authorities, are divesting our foods and restaurants business in QSR Brands Bhd. We have also acquired additional oil palm estates in Peninsular Malaysia. As at the time of writing, our shareholding in our then 50.68%-owned Papua New Guinea-based subsidiary, New Britain Palm Oil Ltd (“NBPOL”) has diluted to 48.97% following

issuance of approximately 5 million new shares by NBPOL. These developments allow us to strengthen and develop our sustainable agri-business model focused on Malaysia.

A number of significant corporate restructuring exercises were embarked upon in 2010 and 2011:

2010

- In April, NBPOL acquired 80% stake in CTP (PNG) Ltd (now known as Kula Palm Oil Limited), bringing in additional 26,000 hectares of plantation land to the Group's landbank.
- Completion of equity swap in Nexsol (S) Pte Ltd and Nexsol (M) Sdn Bhd between Kulim and Peter Cremer (Singapore) GmbH in April. Following the exercise, Nexsol (M) Sdn Bhd became a 100% subsidiary of Kulim, while at the same time Nexsol (S) Pte Ltd ceased to be an associate of Kulim
- In September, Kulim concluded the disposal of NatOleo and its subsidiaries, marking the Group's exit from the oleochemicals business.

2011

- Kulim completed its capital restructuring exercise, involving a share split, issuance of bonus shares and free warrants in March.
- Kulim announced the acquisition of 6 parcels of oil palm estates measuring approximately 13,687 hectares and 2 palm oil mills from JCorp, for cash consideration of RM700 million.
- Sindora became a wholly-owned subsidiary of Kulim and delisted from the official list of Bursa Malaysia Securities Berhad effective 30 November.

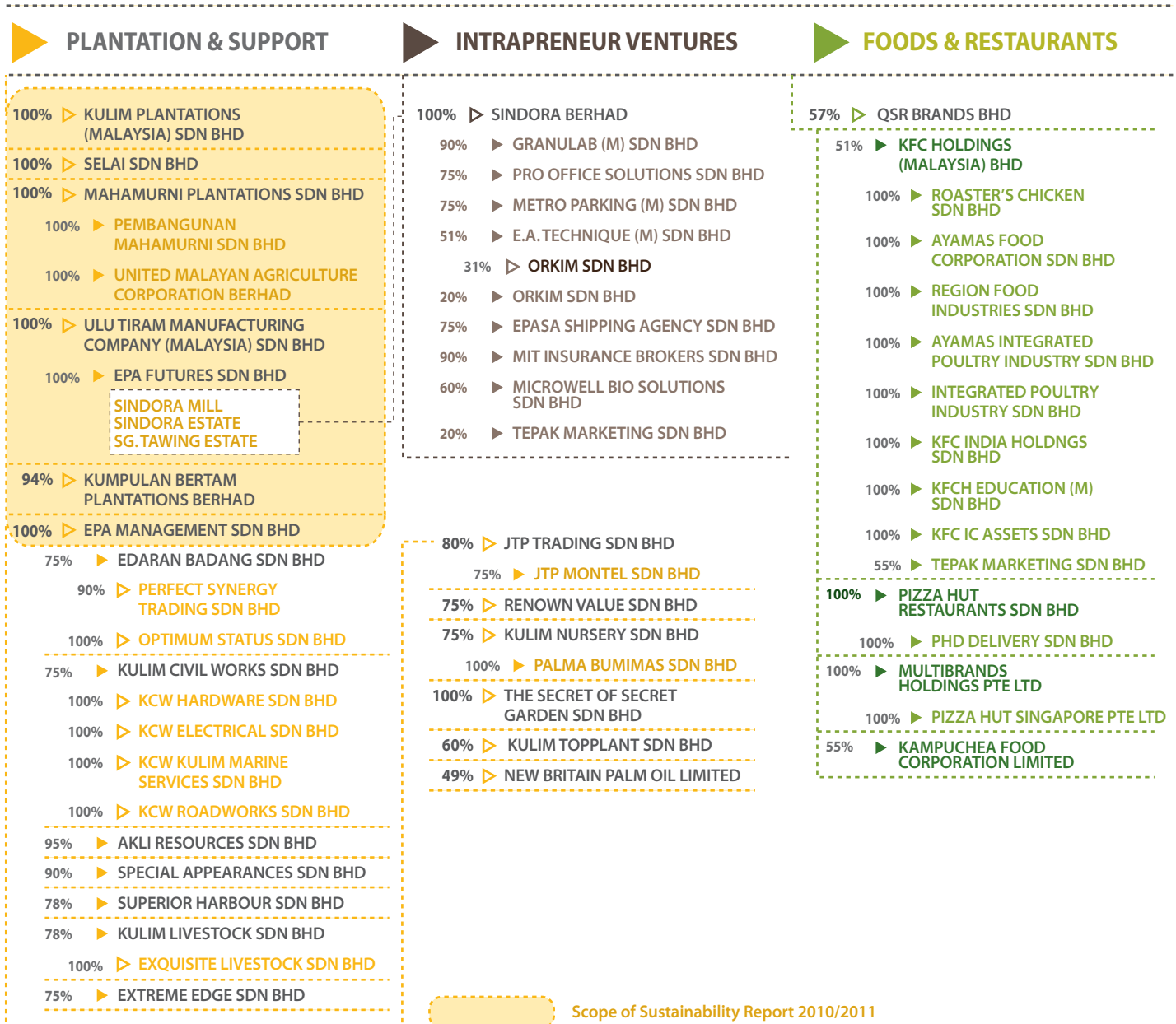
The imminent exit from the foods and restaurants business would bring us back closer to our root. We welcome the opportunities that this will bring as greater demand are placed in agriculture.

BUSINESS PROFILE

Group's significant subsidiaries as at 30 April 2012



Kulim (Malaysia) Berhad
(23370-V)



Scope of Sustainability Report 2010/2011

BUSINESS PROFILE

Malaysia

At Kulim, we believe that growth and profitability require dedication to quality, productivity and sustainability. We are proud to be one of the earliest palm oil producers to be certified to the Roundtable on Sustainable Palm Oil standard in 2009. The Group is committed to its "30:30" initiative which aims to raise fruit yields to 30 tonnes per hectare and palm product extraction rates to 30%.

Estates and mills

Our estates are located in the southern part of Peninsular Malaysia, in the states of Johor and Pahang. As at 31 December 2011, the planted area of our estates is 40,974 hectares, of which over 90% are planted with oil palm trees.

Including crops purchased from outside the Group, our mills processed 919,307 tonnes of fresh fruit bunches ("FFB") in 2011, which is 14.02% higher compared to 2010. We purchased approximately 36.44% of our FFB processed from outside the Group in 2011. The oil extraction rate ("OER") for 2011 is marginally lower at 20.20% as compared to 20.24% in 2010.

Our land borders important national reserves, in particular the Endau-Rompin National Park. This means that agricultural practices need to be sensitive to biodiversity concerns. We are also restricted in our ability to expand the planted area and hire sufficient workers in Peninsular Malaysia due to the shortage of workers. The labour shortage was particularly pronounced during the first half of 2010, following the introduction of new regulatory requirements on the recruitment of foreign workers.

Research and Development

We believe that focusing on crop quality and productivity will enhance growth. This is encapsulated in our ambitious vision of 30:30. In line with the best practices in the industry, we maximise the use of all inputs and waste products, reducing the operating costs to the minimum, thereby increasing operational efficiency.

The dedicated function within the Group which seeks out these operational efficiencies is the Research and Development ("R&D") unit, at the Kulim Agrotech Centre based in Kota Tinggi, Johor. The R&D efforts concentrate on enhancing agricultural practices, collectively known as Good Agricultural Practices ("GAP"). Examples of GAP include techniques for soil conservation, integrated pest management, controlled chemical applications and waste management.

Roundtable on Sustainable Palm Oil

Our commitment to the Roundtable on Sustainable Palm Oil ("RSPO") remains paramount. A voluntary standard, the RSPO's international credibility and commitment to stakeholder inclusion makes the certification credible and robust, though there are always opportunities for improvements. We believe that it represents the most responsible way to grow oil palm.

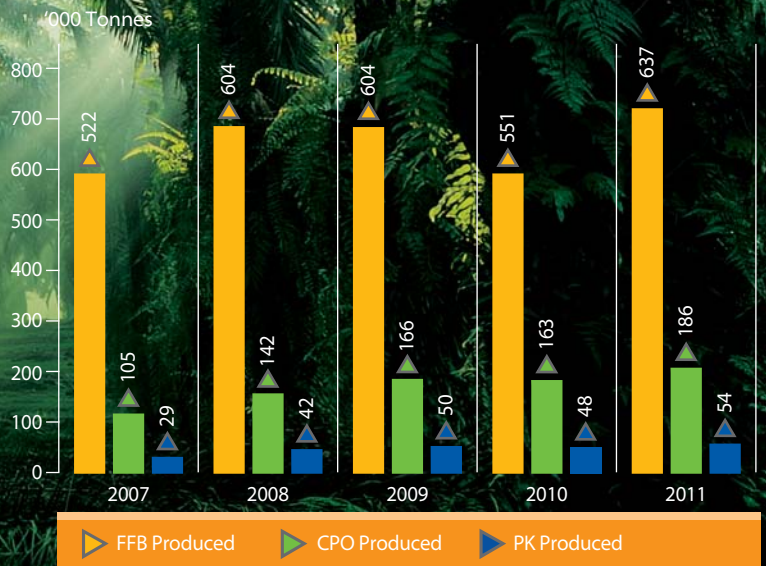
As at 31 December 2011, 18 of our estates and 3 mills were RSPO-certified, including Sungai Tawing Estate, which was acquired by exchanging one of our small estates with another plantation company in August 2009. Whereas Sungai Papan Estate and Siang Estate, of which the acquisition from JCorp was completed on 30 December 2011, were still under JCorp's RSPO certification as at 31 December 2011.

All our planted areas meet the stringent RSPO Principles and Criteria ("P&C") for sustainable palm oil production. The certified production from the mills excludes external suppliers.

As part of our RSPO commitment, we set a target to certify 100% of the FFB (processed by our mills) by 2011. We were unable to meet the target set due to the complexities in identifying relevant smallholders and as such will have to extend the timeline to 2013. In 2009, we started a programme to work with the Malaysian Palm Oil Board to start the certification process for the external FFB. The programme aims to spread the knowledge of sustainable agricultural practices to outgrowers. We recognise that the process of engaging outgrowers is challenging and complex due to issues such as tracking FFB from individual growers; however we are committed to this programme and have employed many strategies to address this area, including the development of a work plan for conducting awareness and training for the outgrowers and FFB traders.



PRODUCTION – MALAYSIA PLANTATION (TONNES)



Break of day, Selai Estate.

BUSINESS PROFILE

Papua New Guinea and the Solomon Islands – New Britain Palm Oil Limited

NBPOL is a large scale fully and vertically integrated industrial producer of sustainable palm oil in Australasia. The company has over 75,000 hectares of planted oil palm plantations, a further 5,000 hectares under preparation for oil palm, over 8,000 hectares of sugar cane and a further 9,500 hectares of grazing pasture; twelve oil mills; two refineries, one in Papua New Guinea, and one in Liverpool, UK, as well as a seed production and plant breeding facility.

The company also plants, cultivates and harvests its own land and processes and refines palm oil, in both PNG and the UK. It also contracts directly with its end customers in the EU and arranges shipping of its products.

In 2010–11, NBPOL continued its journey of trailblazing sustainability initiatives in a number of areas.

RSPO Certification Status

The ongoing rollout of RSPO certification across all of NBPOL's operational sites has continued and the current status of certification is as follows: The site in West New Britain has been certified since 2008, in Ramu since 2010, the Solomon Islands since 2011 and in Poliamba in 2012. The remaining sites in Higaturu and Milne Bay are due to be audited later in 2012.

Carbon

In February 2012, NBPOL published an inaugural Carbon Footprint Report. The report presents an analysis of the company's carbon footprint, mitigation strategies and projections of carbon reductions over the next 5 years.

The data and methodology presented forms the basis towards delivering on its 'zero net carbon emissions' commitment. This commitment is an extension of NBPOL's significant efforts towards reducing its impact on climate change and global warming. Previous initiatives go back to 1969, where NBPOL adopted a "no burn policy" for new developments, and included a 2002 commitment to reducing all emissions, including greenhouse gases, as well as a "no planting on peat" policy in 2010.



Work on the carbon report was initiated in 2009. It is based on data from the group's largest site in West New Britain, Papua New Guinea as well as its New Britain Oils Refinery in Liverpool, UK (New Britain Oils). The report is the first phase of NBPOL's target to account for the group's carbon footprint in its entirety by 2013.

New Britain Palm Oil Foundation

The governance of the New Britain Palm Oil Foundation was reviewed, and a new Board of Trustees was appointed, including two NBPOL Board Directors, both PNG nationals, Mr Brown Bai and Mr Joseph Tauvasa, and an independent director from VSO – an international NGO. The Foundation is chaired by NBPOL's Group Sustainability Director, Dr Simon Lord. A new strategy was also approved, focusing on addressing development needs as set out in the UN Millennium Development Goals and PNG's vision 2050. To ensure maximum impact of the Foundation's work, NBPOL has increased funding this year to K1 Million in addition to the dividends from NBPOL shares.



New Britain Oils refinery, Liverpool, United Kingdom

BUSINESS PROFILE

Papua New Guinea and the Solomon Islands – New Britain Palm Oil Limited (continued)

Policy Development

To ensure that all sites adhere to a robust and coherent set of guidelines, the group is currently undertaking a review of current policies, standard operating procedures and guidelines. Part of the review entails the development of high-level policies which set values and principles for the way the business is run globally. In 2011, a Business Ethics policy and a Human Rights policy were approved by the NBPOL Board and published on the website.

Risk Management

An Issues Management Committee has been set up to develop and maintain a non-financial risk register. The Committee includes senior managers from all group operations, and is charged with identifying key risks, as well as mitigation plans and group position papers for quarterly review by the Board of Directors.

Recognition as “New Sustainability Champion” by the World Economic Forum

Based on a study of 1,000 companies from the developing world, the World Economic Forum (“WEF”) identified NBPOL as one of 16 companies from across the developing world that are best at showing how to grow profits while at the same time actively tackling environmental and social challenges.

The WEF said it showed that global “green” businesses were not the only ones with sustainability credentials.

Describing NBPOL, the report says that “the company has developed new ways to engage small farmers, who provide one-third of the company’s supply. These close ties have not only helped to reduce poverty, but also enabled the company to develop one of the world’s first fully traceable palm oil supply chains.”

For further information and details of NBPOL’s sustainability initiatives and progress, please see the NBPOL’s 2010-11 Sustainability Report, which can be downloaded from www.nbpol.com.pg



Housing facilities, New Britain Palm Oil Limited

BUSINESS PROFILE

Managed estates – Johor Corporation

We manage the Palm Oil Business Division of our majority shareholder, Johor Corporation (“JCorp”). JCorp is a Johor State Government-linked corporation that owns oil palm operations and other businesses in Malaysia and the region. JCorp is also a member of the RSPO. As at the time of writing, we have completed the acquisition 2 out of 6 oil palm estates from JCorp, involving an area measuring approximately 6,000 hectares.

As at 31 December 2011, JCorp has eight estates and four mills (two operating mills, one is on lease to a third party and one is not in operation), with a total oil palm planted area of 15,967 hectares. 61.4% of the planted area consists of mature palms (>3 years old). Outgrowers supply about 20% of the total tonnage of the FFB processed by the mills.

We assisted JCorp in preparing for the first RSPO audit, which was undertaken in December 2009. JCorp’s estates and mills were certified on 9 February 2011. BSI Group Singapore Pte Ltd has undertaken the RSPO audit for JCorp.

The RSPO certification programme began in February 2009. The pre-audit was conducted by BSI Group Singapore Pte Ltd from 6 – 15 October 2009 whilst the Compliance Audit was conducted from 7 – 17 December 2009 by the same Auditor. JCorp received two major non-conformities and has since implemented a corrective action plan. The two major non-conformities were the inadequate mapping of buffer zone for the natural waterways in the estates, as well as a lack of definitive estate boundary which resulted in an incomplete High Conservation Value (“HCV”) management plan.



JOHOR CORPORATION	
LADANG PASIR PANJANG	14 KM
KILANG KELAPA SAWIT PASIR PANJANG	15 KM
KILANG KELAPA SAWIT TUNJUK LAUT	15 KM
LADANG TUNJUK LAUT	17 KM
LADANG BUKIT KELOMPOK	20 KM
LADANG BUKIT PAYUNG	22 KM
LADANG PASIR LOGOK	28 KM

JCorp's plantation assets, Tunjuk Laut Complex

GOVERNANCE

Corporate governance

The Board of Directors is the highest governance body to lead and control the Company, responsible for the long term success of the Company. We believe a diverse Board can bring a variety of thought, age and career experience, which can better reflect the Malaysian society. We have appointed four new directors since our 2009 report, including an additional woman director.

Mandate

The Board subscribes to the Malaysian Code on Corporate Governance (Revised 2007) ("the Code") – a minimum standard for corporate governance – and plays a key role in the Group's direction and strategy, professional standards, business performance and internal control systems.

It has a Board Policy Manual which covers content such as Group Organisation, Board Organisation, Board Responsibilities, Board Procedures, as well as Directors and Managing Director Evaluation Guidelines and Procedure.

The Board recognises that good corporate governance should extend beyond mere compliance. Good corporate governance should seek to attain the highest standards of business ethics, accountability, integrity and professionalism across all the Group's activities and conduct.

Composition

As at the time of writing, the Board consists of five independent directors, eight non-independent, executive and non-executive directors – a total of 13 members on the Board. All the Directors are Malaysian nationals. The Independent Non-Executive Directors are independent as defined by the Listing Requirements of the Bursa Malaysia Securities Berhad.

In 2011, four new directors were appointed to the Board, two of which are Independent Non-Executive Director, enhancing objectivity and additional expertise and diversity to the top governance body.

In 2012, Kua Hwee Sim has resigned from the Board. We would like to take the opportunity to thank her for her valuable contribution over the years.

With these new changes to the Board, there are five Independent Non-Executive Directors on Kulim Board, ensuring that the Board is a well-balanced and long-term interest of all stakeholders, not only of the major shareholders, is considered and protected.

1. **Kamaruzzaman Abu Kassim**
Chairman/Non-Independent
Non-Executive Director
2. **Ahamad Mohamad**
Managing Director
3. **Wong Seng Lee**
Executive Director
4. **Zulkifli Ibrahim**
Executive Director
5. **Dr. Radzuan A. Rahman**
Independent Non-Executive Director
6. **Datuk Haron Siraj**
Independent Non-Executive Director
7. **Datuk Ahmad Zaki Zahid**
Executive Director



Independent oversight

There is a clear segregation of duties between the Chairman and the Managing Director. The Chairman is independent of the management team and has never held the position of the Managing Director. In addition, the Independent Non-Executive Directors are neither involved in the daily management of the Group, nor engaged in any business dealings or other relationships with the Group.

Board performance evaluation

Sustainability is an integral part of the Board agenda. Board competencies, Company Key Performance Indicators ("KPIs") and remuneration are linked to specific targets related to the Roundtable on Sustainable Palm Oil ("RSPO") certification, as well as other environmental and social objectives.

The Board undertakes a rigorous annual evaluation to assess the Board's composition, skills mix, experience, communication, roles and responsibilities and is committed to taking necessary actions to address any concerns that might arise.

Feedback mechanism

The Board seeks to ensure a dynamic and robust corporate climate focused on strong ethical values, by emphasising active participation and dialogues as well as ensuring accessibility to information and transparency on all executive actions.

We have an active whistle blowing process, which allows internal and external stakeholders to report cases involving fraud, bribery, corruption and other such incidences directly to our Internal Audit Department. The Internal Audit Department is empowered to conduct investigations of suspected and reported incidents. It has direct access to the Board.

In addition, we have a formal avenue for all employees to report directly to the Managing Director of any misconduct or unethical behaviour conducted by any employees, through an annual declaration in the Ethics Declaration form.

In terms of our communication with the shareholders, the Annual General Meeting is the main platform for dialogue and interaction with our shareholders.

Other than that, the Board believes that the Company's Annual Report and Sustainability Report also serve as important communication tools to the shareholders, investors and all stakeholders in general. As such, each year, the Company strives to produce a value-added and transparent reporting to its readers.



- 8. Rozan Mohd Sa'at**
Non-Independent Non-Executive Director
- 9. Tan Sri Dato' Seri Arshad Ayub**
Independent Non-Executive Director
- 10. Datin Paduka Siti Sa'diah Sh Bakir**
Non-Independent Non-Executive Director
- 11. Kua Hwee Sim**
Independent Non-Executive Director
(resigned on 23 May 2012)
- 12. Leung Kok Keong**
Independent Non-Executive Director
- 13. Natasha Kamaluddin**
Independent Non-Executive Director
- 14. Wan Mohd Firdaus Wan Mohd Fuaad**
Non-Independent Non-Executive Director

GOVERNANCE

Strategy, policy and management systems

We believe that the work towards profitability and growth has to be guided by a commitment towards building a fair, ethical and responsible company. Our overall business strategy adheres to the principles of sustainable development, balancing considerations for People, Planet and Profit.

Strategy

Sustainability is central to our business strategy and stakeholders' concerns are key inputs in mapping out the corporate strategy. We believe active stakeholder engagement will highlight potential risks or opportunities for our business.

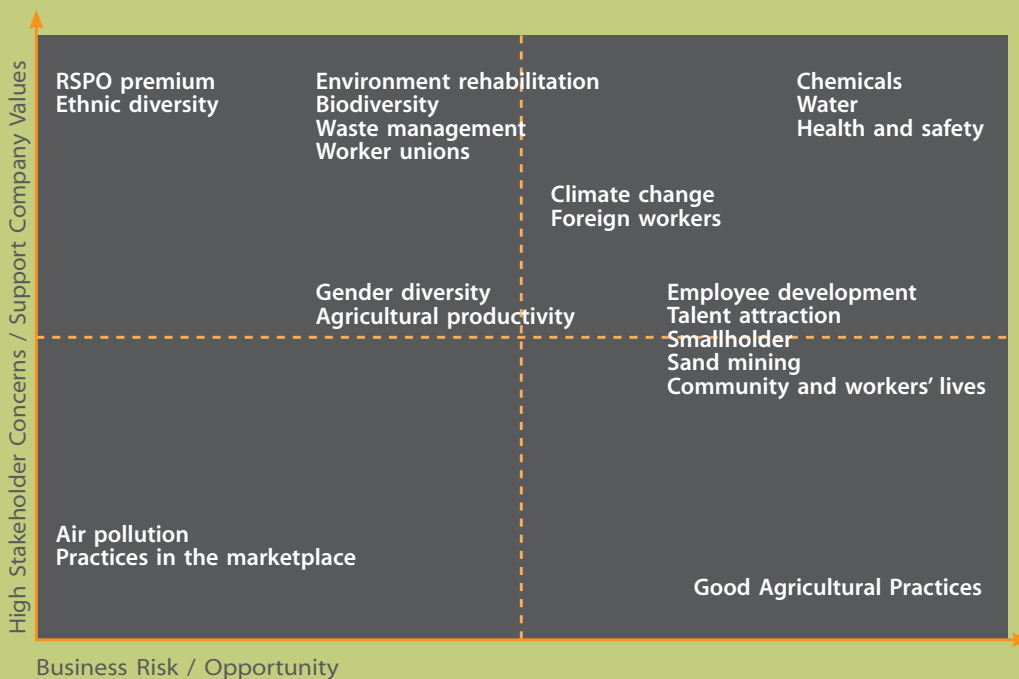
We prioritise our issues by developing a "materiality matrix." This approach combines the findings from our stakeholder engagements with our organisational priorities. In 2008, our senior management team developed the matrix based on the prevailing stakeholders' concerns, complemented by other management tools such as social impact assessments and regulatory frameworks. We have since updated the "materiality matrix" to reflect current realities and concerns for the 2010/2011 report.

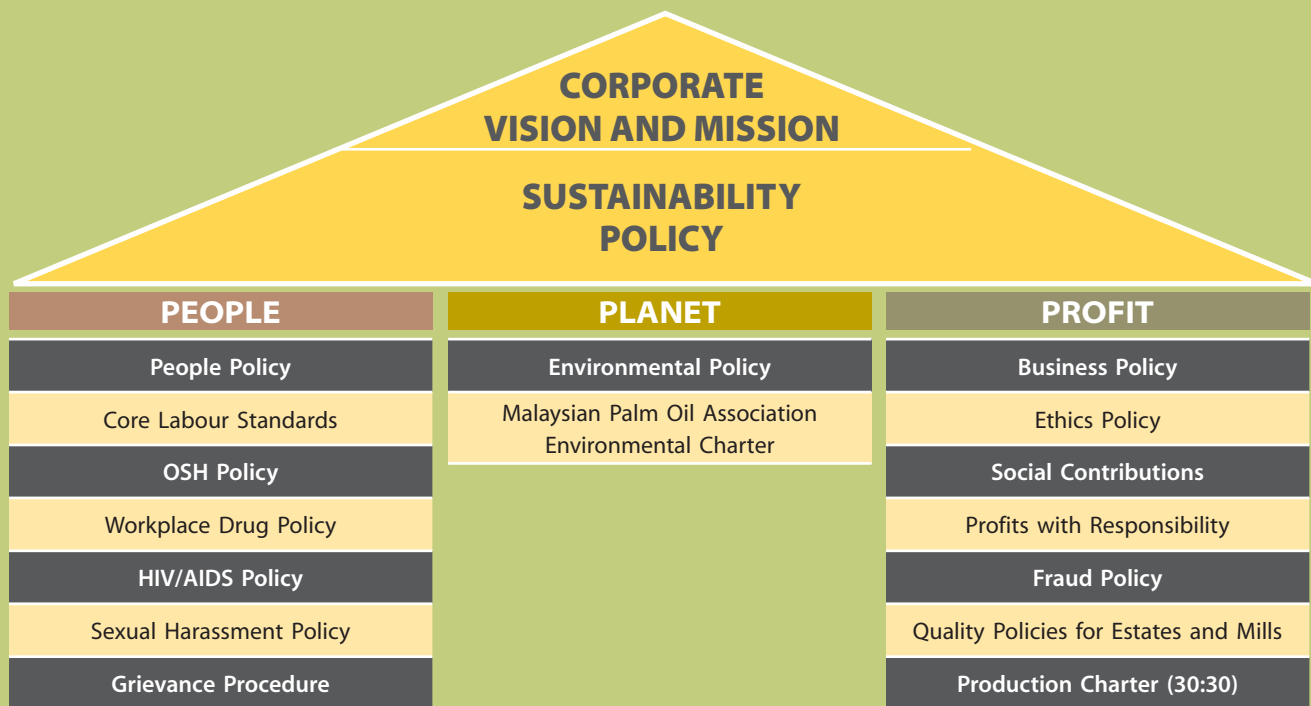
Material Issues

The top three material issues that are significant to our stakeholders and our organisation are:

- use of chemicals such as paraquat, herbicides and pesticides in our estates;
- amount of water used for our estates and mills; and
- health and safety standards in the workplace.

MATERIALITY MATRIX





Policy

The Kulim Sustainability Handbook provides a broad outline of Kulim’s sustainability policies. First published in 2008, this document is distributed to all our employees and is translated into standard operating procedures, guidance documents and training throughout our operations. It is also available on our corporate website.

Organisational responsibility: Sustainability and Quality Council

We established the Sustainability and Quality Council in 2009. The Council is responsible for developing strategies and action plans for sustainability engagement on behalf of the Kulim Board of Directors. It works closely with different departments in developing strategies and managing stakeholders’ relations.

Organisational responsibility: Sustainable and Quality Department (“SQD”)

While the Council deals with the strategy and action plans, the SQD co-ordinates to ensure the effective implementation and monitoring of the action plans. Since 2007, the department has been coordinating the different sustainability activities across the operating and functional units. Its work progress is part of the agenda during the Company management meetings.

Management approach: RSPO Principles and Criteria (“P&C”)

Our overall sustainability management system is guided by the P&C developed by the multi-stakeholder, voluntary initiative, the RSPO. The standard’s international credibility and commitment to stakeholder inclusion makes the certification credible and robust, though there are always opportunities for improvement. We believe that this standard represents the most responsible way to grow oil palm.

▶ GOVERNANCE

Strategy, policy and management systems (continued)

The RSPO P&C provides a robust framework to articulate issues fundamental to us. These issues include stakeholder engagement and value creation for the larger society.

We achieved the RSPO certification for all our estates in January 2009 and were one of the first palm oil companies to strive for the RSPO certification globally. Our second annual surveillance audit in January 2011 included the relatively new estate, Sungai Tawing Estate. This new estate was acquired by exchanging one of our small estates with another plantation company in August 2009.

As part of a bigger supply chain that extends to the end consumer, we are working with our customers, mainly the refineries, to implement the RSPO mechanism for traceability – the Mass Balance and the Green Palm Book and Claim system.

Management approach: International standards

In addition to the RSPO P&C, we adhere to other frameworks which form the basis of the current sustainability management systems. These frameworks include ISO 14001 environmental standard, SA8000 Labour Standards and the International Sustainability and Carbon Certification (“ISCC”).



On the environmental front, we have one mill and two estates which have attained the ISO 14001 certification. The ISO 14001 provides a framework for a strategic approach to our environmental policy, plans and actions. As for biodiversity-related framework, while there is no presence of High Conservation Values ("HCV") in our estates, we have developed HCV management plans and toolkits with the help of our partners, to manage biodiversity issues such as human-wildlife conflicts, due to our proximity to national parks.

As for our social issues, our social impact assessments for the local communities (villagers included) adopt the SA8000 framework, a global social accountability standard for decent working conditions. We have also adopted methodologies of the Occupational Safety and Health Administration ("OSHA") to measure and manage

our health and safety performance. We embrace the concept of Free, Prior and Informed Consent ("FPIC") in our dealings with communities and land rights, which is based on the principle of human rights.

We have recently adopted the ISCC certification standards. The ISCC certification standard is for biomass and bioenergy and meets the Renewable Energy Directive of the European Union. We plan to complete the ISCC certification by 2012, and start the sale of ISCC-certified oil in January 2013.

Monitoring and control system

We have a management system for implementing best practices and monitoring at our mills and estates, such as regular internal audits by mill advisors, plantation inspectorate and agronomists.



▶ GOVERNANCE

Strategy, policy and management systems (continued)

VISION

DELIVERING VALUE

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.

MISSION

We aim to be the most progressive, efficient, profitable and respectable corporate organisation.

We shall:

- Enhance and deliver value to the stakeholders
- Optimise the use of resources
- Produce superior quality products
- Be a socially and environmentally responsible corporate citizen
- Operate with due regard for the welfare, health and safety of employees, the local community and the wider public.



Ensuring power quality for the mills

Ethics Policy

We are committed to an ethics policy that ensures business is conducted to the highest standard of integrity. The scope of our Ethics Policy covers accountability, customer relationships, business competition, teamwork and transparency. Our policies extend to business partners and anyone interacting with or acting on behalf of Kulim. In 2011, we conducted an Asset Declaration Exercise amongst our employees. In this exercise the individual staff is required to declare all income, assets and liabilities to eliminate the risk of corruption and conflict of interest, subject to confidentiality clauses.

GOVERNANCE

Engaging our stakeholders

Stakeholder engagement is crucial to sustainability and organisational success. Stakeholder engagement enhances accountability by allowing an organisation to identify, understand and respond to sustainability issues – a valuable tool to better manage our risks and identify opportunities. It is also an excellent avenue to tap into expertise and existing networks. Most importantly, it enables us to develop trust and transparency in our relationship with the stakeholders.

STAKEHOLDER GROUP	ISSUE	METHOD AND FREQUENCY	OUTCOME
Employees	<ul style="list-style-type: none"> a. Talent retention b. Employee development 	<p>Ongoing dialogues, annual surveys and workshops.</p> <p>Performance Management allows communication between employee and superior</p>	<p>Feedback from employee climate survey was incorporated into our strategies for employee retention and attraction.</p> <p>Feedback from employer and employee on possible training and development</p>
Workers	<ul style="list-style-type: none"> a. Labour policy and workers' lives b. Occupational Health and Safety 	<p>Annual Social Impact Assessments ("SIAs") and Quarterly OSH committee meeting.</p>	<p>Improved workers' welfare and housing. Created a safe working environment.</p>
Non-Governmental Organisations	<ul style="list-style-type: none"> a. Biodiversity loss b. Climate change c. Environment rehabilitation d. Good Agricultural Practices 	<p>Partnerships, annual multi-stakeholder forums and ongoing joint projects.</p> <p>Member of the Malaysian Nature Society.</p>	<ul style="list-style-type: none"> a. Tree Pledge for Wild Asia Natural Corridor Programme. b. Established the Kulim Wildlife Defenders to prevent poaching and at the same time providing educational support for wildlife conservation. c. Human/wildlife conflict management project with Wildlife Conservation Society ("WCS") Programme.
Investment Community	<p>Investor relations initiative, benefits and drives</p>	<p>Ongoing meetings, road shows and conference calls.</p>	<p>Incorporated sustainability issues and benefits into our investor relations communications strategy.</p>
Industry Bodies	<ul style="list-style-type: none"> a. Chemicals b. Water usage c. Occupational Health and Safety d. Climate change e. Biodiversity loss f. Community and workers' lives g. Good Agricultural Practices 	<p>Annual multi-stakeholder initiative – RSPO.</p>	<p>Kulim was one of the first growers to be certified by RSPO globally.</p>
Outgrowers	<p>Commitment to certify 100% of the crops processed by our mills.</p>	<p>Annual SIAs, public meetings, workshops, individual meetings.</p>	<p>Pilot project with a controlled group of smallholders to implement outgrower certification.</p>
Communities	<p>Develop good relationship with communities</p>	<p>Annual SIAs, Annual Stakeholder Meeting.</p>	<p>Good relationship with external stakeholder/communities i.e. through Tjajah Ramadhan</p>
Customers	<ul style="list-style-type: none"> a. Supply chain certification b. Customer survey 	<p>Ongoing joint ventures and meetings. Customer surveys are conducted twice yearly by mill.</p>	<p>Our Certified Sustainable Palm Oil ("CSPO") is sold to our buyers via the Mass Balance and Green Palm Book and Claim Traceability Mechanisms.</p>

▶ ENVIRONMENT

Protecting biodiversity and mitigating negative impacts

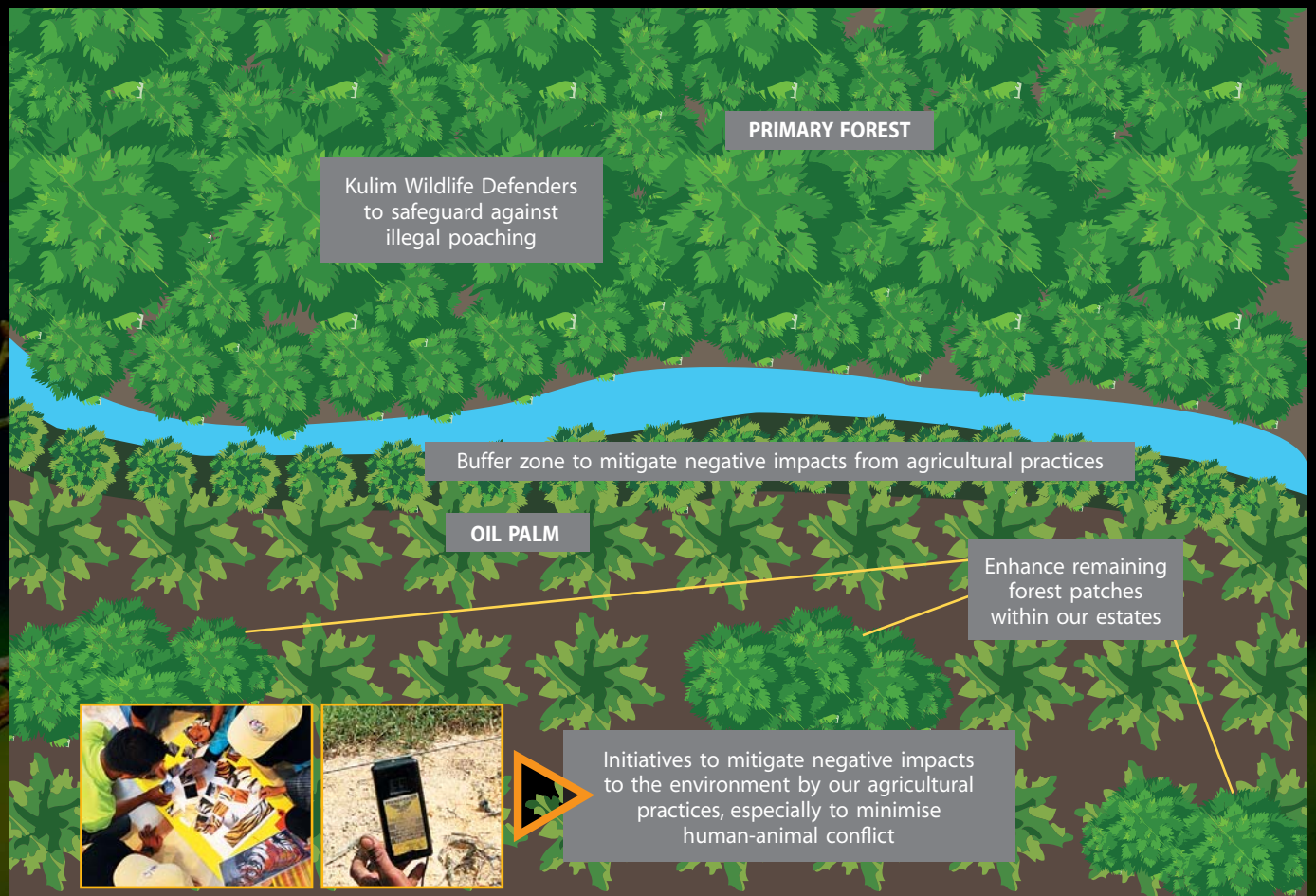
In 2009, we commissioned detailed surveys to assess the state of the flora and fauna present in and around our estates. Since our last report, the majority of the IUCN Red-listed mammals are in a more precarious state, except for the Southern Pig-tailed Macaque. We recognise our critical role to address this issue, as our plantation operation in Johor borders the important Endau-Rompin National Park in the southern part of Peninsular Malaysia. This is factored into the strategy for our biodiversity initiatives.

Our broad approach is underlined by the precautionary principle for unplanted areas, complemented by High Conservation Value ("HCV") management tools. Our strategy for biodiversity is largely aimed at enhancing or improving biodiverse areas or mitigating the negative impacts on biodiversity. We are strengthening our internal monitoring and control mechanisms, as well as working very closely with our Non-Governmental Organisation ("NGO") partners to provide the additional resources.

Utilising HCV tools

In 2011, we commissioned a birds and bats survey on major water bodies in respective recommended estates by the Rapid Biodiversity Assessment ("RBA") Report. The survey is mainly to identify and understand the areas of high interest for the seasonal East Asian – Australasian Flyway migratory route as the area may play an important role for these migratory birds' species that have implications to our replanting, planning and management. Bat populations were also surveyed as bats in plantations are normally viewed as potential pollinator agents and biological insect controllers. Their existence is an indicator for forest health around our plantations.





Enhancing potential biodiverse areas

Although our estates do not contain HCVs, we have started a process of planting trees to enhance the small areas of vegetation within our estates. All remaining forested areas within the estates are managed for development into full-fledged HCV forests or preparation for biological corridors. All estates have to identify and demarcate their buffer zone areas with white and blue peg stands, especially in the areas designated for replanting. We have a total of 61 hectares of buffer zone and 44 hectares of jungle patch in our estates.

Mitigating impacts

We have several initiatives to mitigate our negative impacts on the environment, especially in view of the updated IUCN Red List, including working on managing the human-wildlife conflict. All our estates are required to provide regular updates on the species found in and around the estates, and track incidents of wildlife encroachment, particularly elephants.

We have buffer zones around major water bodies in or around the estates and the national parks. We conduct regular Rapid Biodiversity monitoring in these buffer zones. All the estate managers have to update their buffer zone mapping twice yearly.

To minimise soil erosion, we re-aligned our roads and constructed road side drains at potential erosion prone area. We made sure that there are buffer zones around the major water bodies and that replanting is done in stages; with never more than one side being exposed to the replanting process at any given time.

We have a Conservation Policy that prohibits hunting, fishing and taking of fauna within the estate and adjacent areas. Field inspections and interviews confirmed that employees and contractors are aware of our Conservation Policy. This has been validated by our auditor in our second RSPO surveillance report.

▶ ENVIRONMENT

Protecting biodiversity and mitigating negative impacts (continued)



Strengthening monitoring and control

Since 2009, we have had in place an environmental unit within the Sustainable and Quality Department ("SQD") to analyse wildlife data and communicate with estates on outcomes and results of our studies on biodiversity.

We have programmed an on-going trainings for our estate managers. In 2010 and 2011 we conducted a programme entitled "Biodiversity for Busy Managers" to enhance the estate managers' understanding of conservation and the importance of the Biodiversity improvement programme. This will further conducted as annual refresher for upcoming year.

Working beyond our estates

We understand that one Company's effort at mitigation is not enough; we need push beyond our Company boundaries. As neighbours to the Endau-Rompin National Park, we work with Wildlife Conservation Society ("WCS") Johor, Malaysia to mitigate human-wildlife conflicts, in particular, elephants, for our recently acquired Sungai Tawing Estate.

At the same time, we are still passionately involved with WCS in "Tiger Forever Project" where our patrolling team is still actively involved in protecting the areas with HCVs, adjacent to our

estates. Together with the Johor National Parks Corporation, the Wildlife Department, the Forestry Department and the police force, the Johor Wildlife Conservation Project aims to eliminate poaching through intervention and enforcement, by protecting the boundary of the forest reserves adjacent to our estates. These forest reserves are linked to the National Parks. Selected security guards are trained in techniques for vehicle inspections and the use of GPS (Global Positioning System) for recording the locations of animal sightings and poaching incidents during patrols. These security guards are known as Kulim Wildlife Defenders within the Company. Going forward, we hope to register the Kulim Wildlife Defenders as registered NGOs.

We have also worked with Wild Asia on the Natural Corridor Initiative. This initiative aims to provide wildlife or green corridors to link natural habitats separated by human-modified landscapes, thereby increasing the functional space for wildlife.

Lastly, we reported on a possible project in 2009 to acquire a neighbouring (degraded) forest area and provide a breeding site for the Rhinoceros Hornbill, as well as to restore linkages with other forest patches within the estate. However, we regret to note that the area was acquired by other estates and has since been planted with crops.



Biodiversity rich, Pulau Lenai, Basir Ismail Estate

IUCN Red List

IUCN RED LIST CATEGORY	STATUS	MAMMALS	BIRDS
THREATENED	Endangered	Asian Elephant Malayan Tapir Pangolin	
	Vulnerable	Southern Pig-tailed Macaque Binturong Malayan Sun Bear	
LOWER RISK	Near Threatened	Silvered Leaf Monkey Leopard Black Giant Squirrel Horse-tailed squirrel Spectacled Langur	Rhinoceros Hornbill Grey-headed Fish Eagle Lesser Fish Eagle Black Hornbill
	Least Concern	Long-tailed Macaque Wild Boar Greater Mouse Deer	Lesser Whistling Duck Oriental Pied Hornbill Red Jungle Fowl

ENVIRONMENT

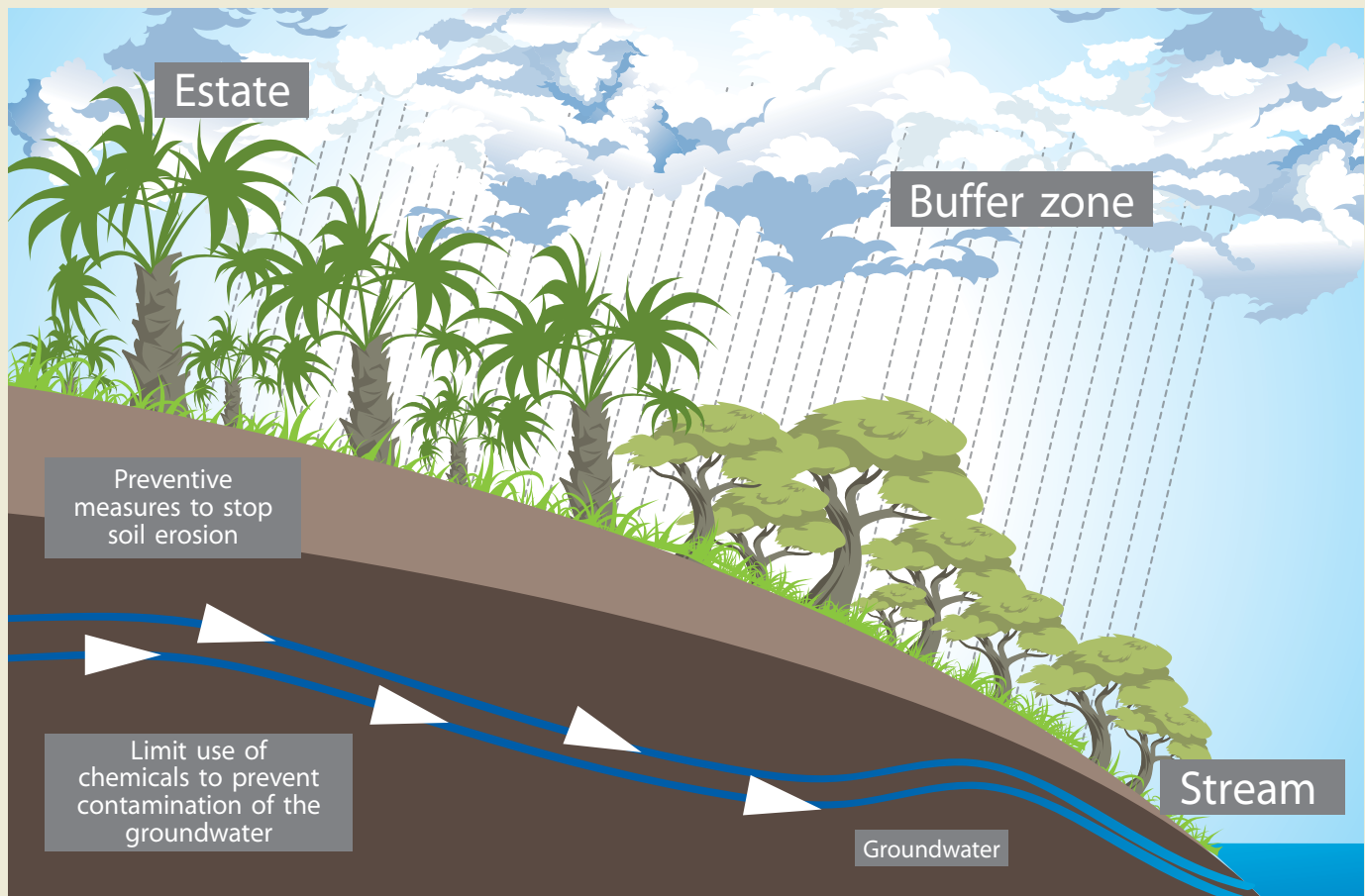
Keeping our natural waterways free from contamination

Our updated materiality matrix has shown that water usage in the estates and mills, and the risk of water contamination by chemicals continued to be the top issues raised by our stakeholders. Clean water is critical to our business. Most importantly, it is fundamental to life on this planet. Our stakeholders are concerned that this precious resource faces significant challenges in estates, such as environmental degradation and the impacts from climate change. We need to manage the use of water from natural water bodies responsibly and need to prevent chemicals and soil particles from contaminating the water sources.

To reduce our reliance on natural water bodies, we are glad to note that each of our mills achieved significant reductions in water usage. For example, our Sedenak Mill has reduced average annual water usage from 1.02 tonnes per tonne FFB ("t/t FFB") in 2010 to 0.94 t/t FFB in 2011. The initiatives to reduce water usage include restricting the use of water for cleaning mill floors. As the main source of water for the mills comes from local rivers, the continued reduction in water usage can reduce our reliance on the local rivers. As for our estates, we do not use much water due to the abundant rainfall in this region, which provides water for the trees. Only a small amount of water is used to maintain our nurseries.

Preventing eroded soil particles from getting into the natural waterways

There is still a risk of contamination in the natural waterways due to soil erosion. As part of our standard operating practices, we use fast-growing leguminous cover crops to prevent eroded soil particles from polluting water bodies, most importantly to prevent the erosion of the valuable topsoil.





Moreover, we refrain from using synthetic fertilisers to avoid pollution from heavy metals. We utilise organic fertilisers such as empty fruit bunch (“EFB”) produced after milling as biocompost, whenever possible. Another example of an organic fertiliser is the Palm Oil Mill Effluent (“POME”) from our mills. The effluent is first treated before being recycled as fertiliser for our fields, in a process known as land application. The effluent for land application is measured by the level of Biological Oxygen Demand (“BOD”). The average BOD for our three mills decreased from 292 ppm in 2009 to 261 ppm in 2011.

Reducing usage of chemicals – pesticides and herbicides

Another source of potential waterway contaminants is chemicals such as pesticides and herbicides. We seek actively to find biological alternatives for chemical pesticides, whenever possible. The Integrated Pest Management (“IPM”) techniques are central to our operations, as IPM techniques are responsible for managing the issues of pests, diseases, weeds and invasive introduced species and for minimising the use of pesticides.

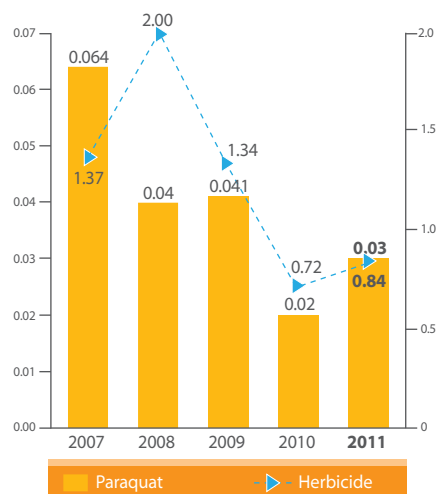
The use of chemical control is considered only as a last resort when all biological methods fail. For example, barn owls have been introduced at each estate to control the rat population. Paraquat is used in small doses to treat young palms. We reduced our use of paraquat from 0.041 in 2009 to 0.030 in 2011 (active ingredients litre per hectare) in line with our 10% reduction target, based on 2009 figures.

We ensure that staff and workers who handle, store, use, spread or dispose of any chemical that could pollute the water, soil or air are aware of their responsibilities. We collaborated with the Malaysian Croplife and Public Health Association and Department of Agriculture (Malaysia), in an initiative known as “Empty Pesticides Containers Recycling Programme”, a recycling programme that involved the proper disposal of used pesticides and fertiliser containers. In 2007, we were the first plantation company in Malaysia to launch the Pesticide Stewardship programme.

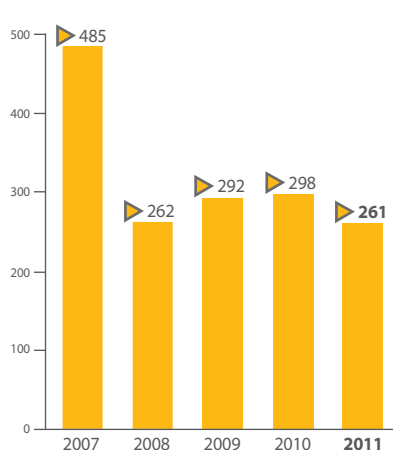
Minimising solid waste

All the solid waste output from our mills is used in line with standard operating procedure within the industry. The EFB is used as biocompost for our estates. The fibre and shell are used as biomass for our mills. Burning the biomass generates a small amount of boiler ash, which can be used for reducing acidity in soil. We do generate a small amount of hazardous waste that is transported to designated public facilities by an authorised agent.

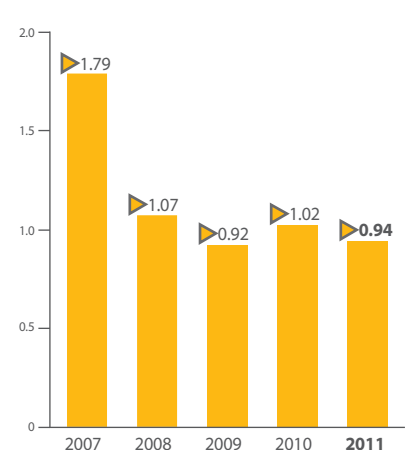
USE OF HERBICIDE AND PARAQUAT
(Active ingredients in litre/hectare)



BOD LEVELS
(ppm)



WATER USAGE PER TONNE OF FFB*



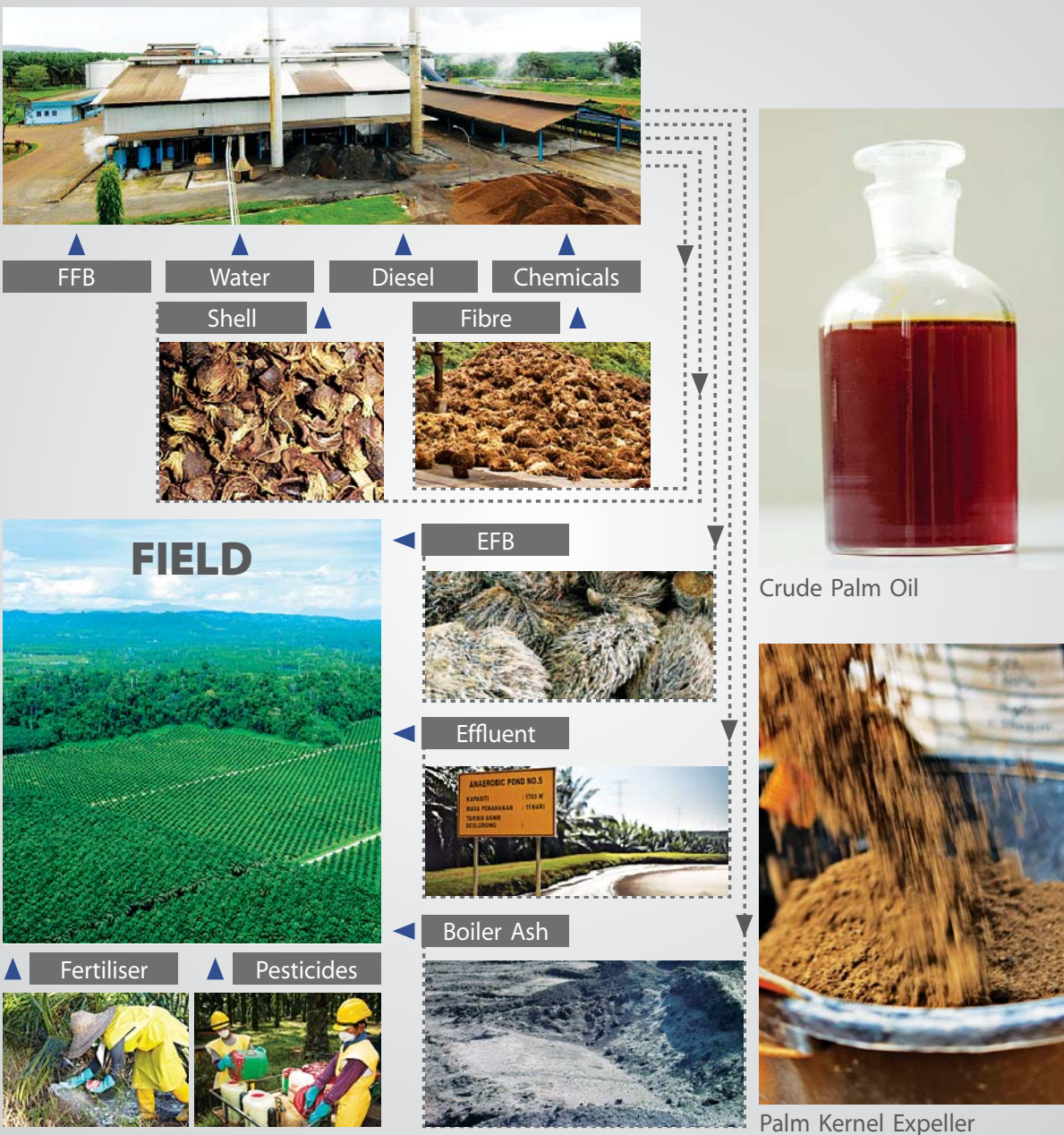
* Mills only. Figures do not cover irrigation in estates and nurseries.

▶ ENVIRONMENT

Addressing climate change issues

We believe that climate change constitutes the most significant environmental threat to livelihoods and the environment, and we believe that any sustainable business must contribute to reducing greenhouse gas (“GHG”) emissions. We support the initiative by the Malaysian government to reduce GHG emissions by up to 40% by 2020, as well as the recommendations of the RSPO GHG2 Working Group’s recommendations to incorporate GHG emission reduction requirements into the RSPO Principles and Criteria.

SIMPLIFIED OVERVIEW OF PALM OIL PRODUCTION





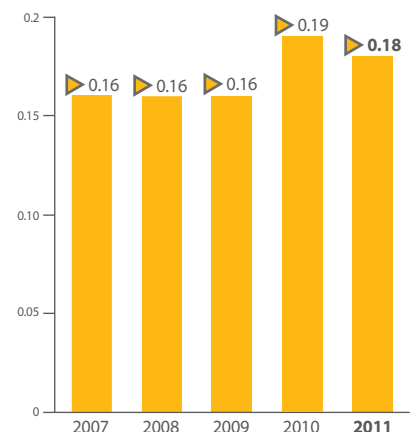
We cannot tackle climate change alone, so we will work in partnership with peers and stakeholders. We hope to learn from others and develop our own initiatives to provide inspiration and guidance to our industry and beyond.

The following presents a system boundary of the greenhouse gas balance calculation and illustrates the sources of emissions, based on the RSPO Greenhouse Gas calculator for oil palm products. The RSPO GHG calculator is a harmonised framework that is compatible with international GHG accounting methodologies such as Intergovernmental Panel on Climate Change (“IPCC”) and the International Sustainability and Carbon Certification (“ISCC”), which are the applicable standards for the sustainable palm oil industry.

International Sustainability and Carbon Certification (“ISCC”)

We plan to work towards the publication of a full carbon footprint of our operations and will also be moving towards ISCC certification. It is one of the certification standards for biomass and bioenergy which meets Europe’s Renewable Energy Directive. We plan to complete the ISCC certification by 2012 and start the sale of ISCC-certified oil in January 2013.

CO₂ EQUIVALENT PER TONNE OF FRESH FRUIT BUNCHES (Tonnes)



*see item 2 under “Notes to Data”

SOCIAL
Labour standards

We have 5,206 full-time employees in Malaysia as at 31 December 2011, of which 4,443 (85.3%) are categorised as workers. Our workers are predominantly from Indonesia and Bangladesh.

A highly motivated and productive workforce is critical to our business. While our earlier work aimed at improving the welfare and housing of our workers, we are now focusing on end-of-career training and contributing to fulfilling, active and decent retirement for our workers.

We are guided by the fundamental principle that all employees – including workers – must be treated equally, fairly and with respect. Our labour policy is based on the International Labour Organisation (“ILO”) Declaration on Fundamental Principles and Rights at Work, covering the core labour standards on the rights to collective bargaining, the elimination of forced or compulsory labour, the abolition of child labour as well as the elimination of discrimination in respect of employment and occupation.

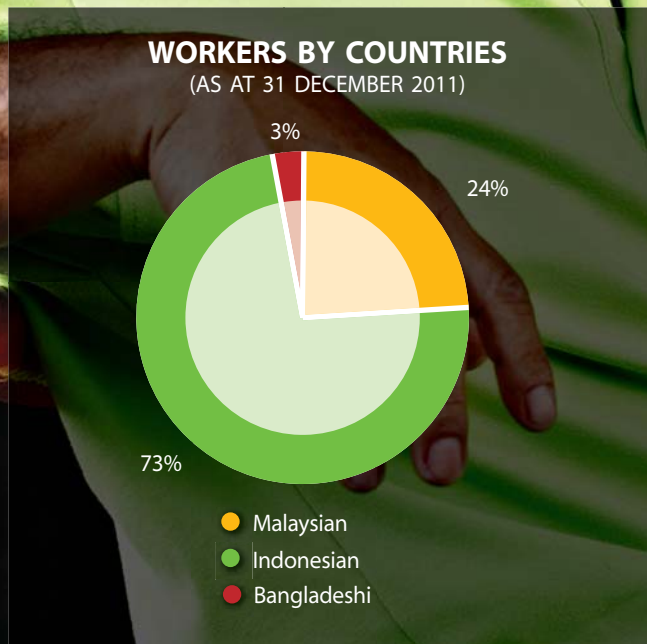
Policy of non-discrimination

We recognise value of diversity and the benefits of a diverse workforce. We practice non-discrimination towards women, ethnic or religious minorities and foreign workers. We have equal pay for equal work for all field, office and management workers based on predefined grades.

In addition, we have guidelines on HIV/ AIDS. Workers who have the disease are guaranteed confidentiality and retained in employment as long as they are healthy and able to perform. This policy is institutionalised in our Sustainability Handbook for employees and the Foreign Workers Handbook for our workers. During the induction of foreign workers, an interpreter (usually a senior worker from respective nationality) will explain the terms to the workers.

No child labour

As a fundamental principle, we do not employ children or young people under 16. Many of our workers of course reside with their families, and hence there are children living in and around our estates. They have access to schools and do not work for us.



Workers' union

We recognise the workers' rights to form unions. There is a local committee consisting of union representatives elected by members at each mill and estate. While 1,334 employees (26%) of our employees are union members (as at 31 December 2011), all workers including foreign workers, are covered by a collective bargaining agreement.

Workers' wage rate

Although there is no legal minimum wage (for foreign workers) in Malaysia, there are recommended rates by the Malaysian Agricultural Producers Association ("MAPA") and the National Union of Plantation Workers ("NUPW").

Our workers receive above the current MAPA/NUPW rate. Our workers are also entitled to a special gratuitous payment of RM200 per month for workers, as part of a voluntary code recommended by the MAPA council.

Turnover rates

The turnover rates for workers in 2011 were 4.6% and 24.6% in 2010, as compared to 8.5% in 2009.

The increase in turnover rate for 2010 coincided with the year where most of the contracts for our workers ended. As these workers typically work on a three-year, full-time contracts, the higher turnover rate will repeat every three years. Some of the workers will make use of the window period between the ends of the contracted work till the start of another contract, to go home for a longer period of time, resulting in a higher turnover in the workforce.

Monitoring and control

We conduct internal social impact assessments ("SIA") based on the SA8000 Labour Standards to manage our social performance. This is also done as part of our commitment to the Roundtable on Sustainable Palm Oil ("RSPO"). The SIAs help us to identify corrective actions in areas where these standards were compromised.

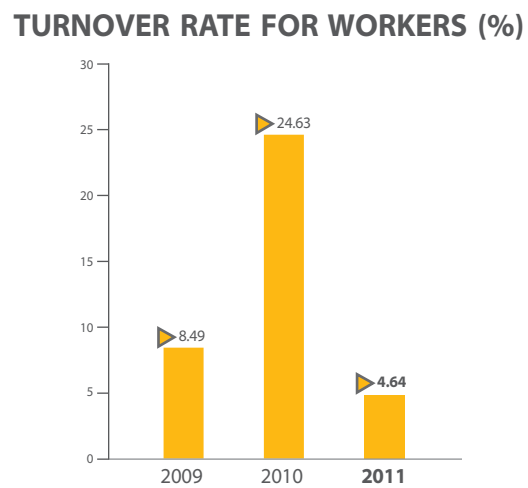
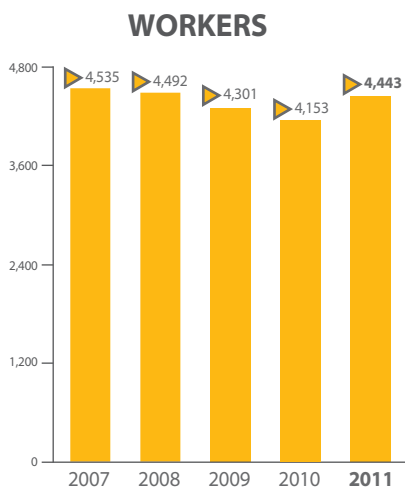
Our updated SIAs in 2011 revealed workers' concerns such as presence of dogs and bats in the workers' residential areas, which created vast discomfort. In response, we installed aluminium roofs designed to prevent bats from roosting – a humane way of exclusion. The roofs will be installed in phases for the affected workers' residential areas. Other problems included the lack of transport for workers to get to their work site. The matter gets quick attention of the management and has commissioned study and budget through the sustainability council for three trial units of transportation in 2011, as a result we have procured workers' trailers as a mode of transport.

The following lists the issues that were raised during our internal SIAs:

Overtime

Overtime is a prioritised social issue and was mentioned in our earlier Sustainability Report. During peak crop season, mill workers tend to work long hours to ensure the fruits are processed before the quality deteriorates.

To manage the number of hours worked in the interests of the workers, the departmental heads have to update the mill manager weekly on overtime and adhere to the Department of Labour's guidelines on monthly overtime limits.



▶ SOCIAL

Labour standards (continued)

We regret to note that our target for zero overtime has yet to be achieved. Our analysis has shown that the overtime cases are due to isolated individuals, not the entire workforce. We are working with the specific cases on this issue.

Housing

The earlier social impact assessment identified issues regarding the availability and quality of housing, particularly for new workers. In response, we are upgrading housing facilities and constructing new houses. In general, there are four workers in 2-bedroom, 48m² quarters or 3-bedroom quarters.

Moving forward, we have a five-year plan that covers housing, which is particularly focused on better sanitation, water and electricity facilities.

ID cards for foreign workers

The first social impact assessment identified the withholding of foreign workers' passport as a potential breach of the International Labour Organisation ("ILO") conventions, as it seemed that the company is denying the free movement of workers.

The government has since come up with the 6P Programme, which is a new programme by the Ministry of Home Affairs for all foreign workers working in Malaysia and for all industries. This replaces the iKAD scheme that was also mentioned in our 2009 sustainability report. While the iKAD scheme is an ID card specifically for foreign workers, the new 6P scheme aims to compile a comprehensive biometric database, instead of having identification documents to reduce incidents of fraud.

ADDRESSING THE ISSUE OF FOREIGN WORKERS IN MALAYSIA

Our industry is highly dependent upon labour, especially non-Malaysian workers. As foreign workers comprise the majority of our labour force, we provide induction programmes to ensure that these workers understand their rights, entitlements and responsibilities. We provide all our workers with an individual copy of the Foreign Workers Handbook.

In recent years, with the public spotlight on Malaysia's reliance on foreign labour, the Malaysian government has introduced regulations to curtail the recruitment of foreign workers. This has deep implications for our industry in the longer term. The labour shortage was particularly pronounced during the first half of 2010, following the introduction of new regulations.



The largest community within Kulim's operating unit, Sindora Estate

SOCIAL

Employees Retention

A company without skilled management talent will not be able to progress much further. According to a report by the World Bank in April 2011, the Malaysian economy faces an acute brain drain – the migration of talent across borders – the skilled diaspora, is now three times larger than two decades ago. This development has a significant impact upon our future. In the longer term, we need to prepare for a possible shortage in skilled management talent in the oil palm plantation industry. A skilled managerial workforce is crucial for our future growth. In 2011, we worked on strengthening our talent management programmes and instilling a performance-driven culture.



SOCIAL

Employees Retention (continued)

We have 5,206 full-time employees in Malaysia as at 31 December 2011, of which 14.7% comprising of staff and management (the remaining 85.3% are categorised as workers.)

Employee Policy and Guidelines

Our fundamental guiding principle is that all employees must be treated equally, fairly and with respect. Our labour policy is based on the International Labour Organisation ("ILO") Declaration on Fundamental Principles and Rights at Work, covering the core labour standards such as the elimination of discrimination in respect of employment and occupation. These topics are covered in our Kulim Sustainability Handbook. The handbook is distributed to all our employees and is translated into standard operating procedures, guidance documents and training throughout our operations. It is also available on our corporate website.

Incorporating feedback from the employee climate survey

A total of 977 employees took part in the Employee Climate Survey as compared to 674 when it was first undertaken in 2005. The updated climate survey in 2010 indicated that the employees are generally satisfied with the working conditions and employment policies; 83.8% of the participants responded positively.

On the other hand, the survey highlighted employees' concern with remuneration, especially relating to market competitiveness and fairness of the current salary scheme. In response, we have a salary benchmarking survey to review the competitiveness of the salary scheme. Going forward, we will focus on strengthening our remuneration package and offering employees other benefits.

Employee development

Our employees are one of our key stakeholders for engagement. In our engagement workshops, one of the issues highlighted was the lack of young people in the plantation business and the problem of retaining talent. We will need to prepare for a possible shortage in skilled management talent in the plantation industry when the current batch of older employees retire. One of the main ways to retain young people, or commonly known as Gen Y, is to give them room to develop their professional skills and provide opportunities for feedback.



We have training and development programmes for our Gen Y employees and generally for all levels. These programmes are structured around formal courses, seminars and workshops, which are organised internally or by external consultants. The Human Resource and Administration Department ("HRAD") is responsible for coordinating the comprehensive training programmes, which include subjects such as effective communication, sustainability, productivity and executive development. Structured induction programmes are also conducted for new employees.

We spent about 5% of payroll cost on training in 2011 as compared 4% in 2009, and achieve average training man-days of 4.13 per employee, which exceeded our target of 3 man-days. In addition, 11 employees received formal qualifications funded by Kulim, one of whom was on an Executive Master of Business Administration Programme – programme collaborated with Johor Corporation and UTM-SPACE.



PEDOMAN 2011, Persada Johor International Convention Centre

Developing leadership

We have an in-house management trainee programme, Strategic Enhanced Executive Development System (“SEEDS”). The first batch of management trainees in 2008 has a retention rate of 77%, of which 20 are still with the company and are working in the different operating units.

Annual gathering of employees

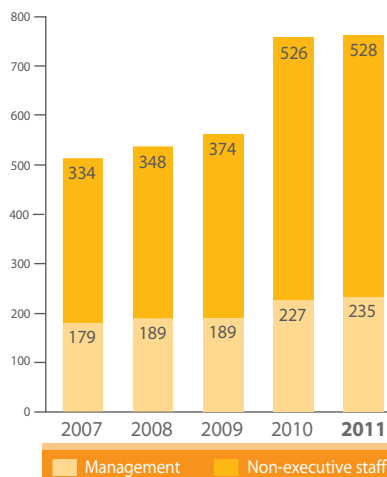
We recognise the need to provide platforms for employees at the estates, mills and head office. The annual gathering of our employees, otherwise known as *Perhimpunan Dialog dan Amanat* (“PEDOMAN”), addresses this need and also provides a communication platform for the Senior Management, giving an opportunity to communicate performance highlights, the goals, challenges and aspirations for the future, as well as to gather feedback from employees.

Measuring performance

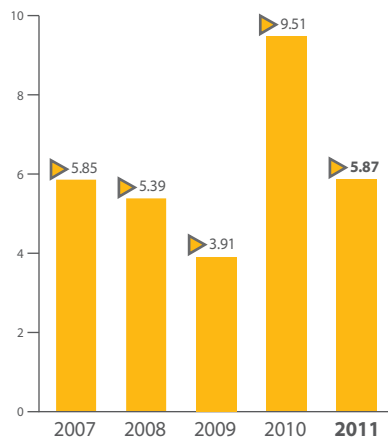
We are constantly communicating our performance appraisal system via road shows within the Group’s operations. The Performance Management System (“PMS”) aims to measure individual performance against critical targets, in particular Key Performance Indicators (“KPIs”). The PMS includes a peer review appraisal system, while the KPIs include dimensions on sustainability such as Health and Safety.

Each mill and estate has a designated OHS Coordinator who is responsible for organising safety training, meetings, investigations and reporting of accidents and incidents. These OHS Coordinators report to the corporate office.

STAFF AND MANAGEMENT
(Total number)



STAFF AND MANAGEMENT
(Turnover rate (%))



▶ SOCIAL

Occupational health and safety

Occupational Health and Safety (“OHS”) is one of the top priority impact areas for the company. Our external and internal stakeholders want to be assured of a workplace that is safe from work-related accidents and illnesses. Given the tight labour market for workers, a low accident rate is critical for productivity. It is also our ethical and social responsibility to ensure the wellbeing of our workers.





We have an OHS plan to improve the safety of our employees, which is reviewed periodically to reflect current realities at work. The OHS plan is documented and effectively communicated to all our employees. We have a set of metrics to measure the efficacy of our OHS plan. These are listed below:

Lost time accident rate

We are glad to note that our lost time accident (“LTA”)* rate has consistently met targets for the past three years. We aim to keep the LTA rate under 10. Our LTA rates were 7.5 in 2009, 7.6 in 2010 and 5.8 in 2011.

*see item 3 under “Notes to Data”

Zero accident and zero fatality

We aim for zero accident and zero fatality. Nevertheless, it was with great regret that we report four work-related deaths in the past two years. We have one fatality in 2011 and three in 2010, an increase from zero fatalities in 2009. All of us at Kulim offer our condolences to the families of the deceased. Decisive action has been taken to avoid such occurrences in the future. Safety measures include monitoring system of safety targets, awareness training and safety talks, awareness campaigns, dedicated health and safety officers.

Severity rate*

We managed to meet our target for severity rate for 2010 but not for 2011. We have set a targeted severity rate of 3.5. As with our 2009 report, the severity rates are due to the same types of injuries that prevail in our field.

The major causes of injuries were thorn pricks and cuts from palm fronds. Workers often have to remain absent for 2-4 days before returning to work, due to the risk of wound infection. In 2011, there were 149 incidents of thorn pricks and 87 incidents of cuts from palm fronds. We are working on a plan to solve the root cause of this issue.

*see item 4 under “Notes to Data”

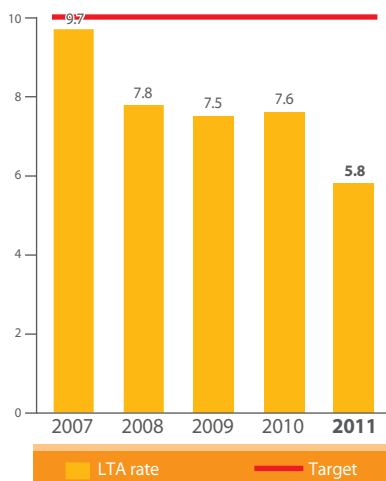
Beyond OHS

Issues beyond OHS in the workplace are prioritised because these also have an impact on productivity in the workplace. For example, we operate a strict No Drugs policy that is enforced through regular and random drug testing. At the same time, periodical inspection conducted on all internal grocery shops in operating unites to avoid any sales of illegal medication and alcohol.

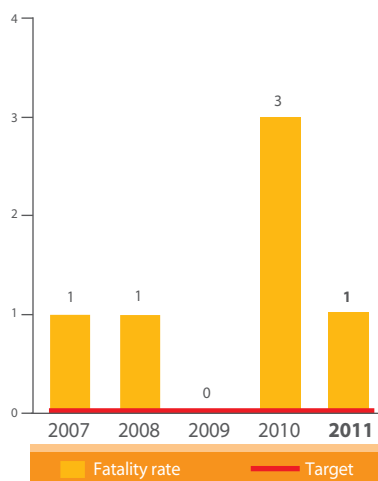
We also have a HIV/AIDS policy for the workers. We provide training to ensure that our employees are aware of the policy. There is a non-discrimination clause if there are affected workers on our plantations. The policy also guarantees the confidentiality of the workers.

We have also expanded our scope of health and safety measures to include occupational illness. This means that we monitor for the prevalence of any longer term health issues arising from our operational activities, especially the risk of lumbago for our harvesters.

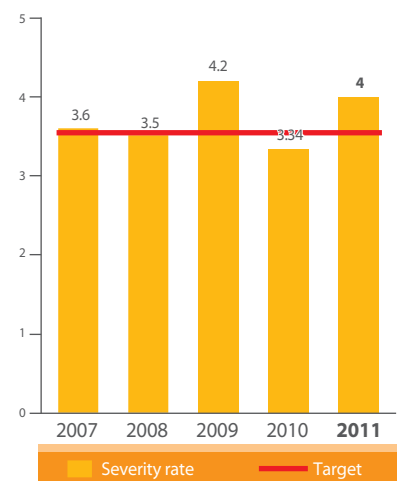
LOST TIME ACCIDENT RATE



FATALITY RATE



SEVERITY RATE



SOCIAL

Occupational health and safety (continued)



Mohd Khir Tamby is the Senior Safety and Health officer at the Quality and Sustainability Department. He is in charge of planning as well as implementing action plans, monitoring and control to ensure a safe workplace for all at Kulim. He began his career at Kulim in 1999 as an assistant security officer and has been with the Company since. We interviewed Khir on how the department is learning from its work on the job.

Identifying root causes of illness

Q: What made you look into lumbago?

A: We started monitoring the increased incidents of lumbago among harvesters few years ago, when harvesters started to visit our clinics in the estate complaining of backaches. Lumbago is a form of backache that can be debilitating if not addressed correctly and timely.

Q: What were your initial plans to address these issues?

A: We thought that the height of the palm fronds could be an issue, so we started to review whether a slightly shorter replanting cycle will remedy the situation.

Q: How did you realise that your initial diagnosis was wrong?

A: The numbers of backache cases at the estates' clinic did not decrease over time. We realised our initial simple understanding of the situation may not have been right. I believe we are one of the first plantation companies to look into occupational illnesses and hence, we had no precedence to learn from.

Q: Did you make any changes to your earlier plan?

A: We are making changes to our earlier assumptions, with experimental controls to find out the root cause. The main problem may lie in the way that harvesters lift the FFB. A FFB can weigh between 25-30kg, which can be quite heavy for a worker, especially for his back, on a prolonged basis. Thus, we provided extra training on the lifting techniques of FFB. The number of reported incidents was subsequently reduced by 47% from 171 in 2010 to 91 in 2011.

SOCIAL

Empowering women

Our commitment to gender equality is seeing positive results. Our Women OnWards (“WOW”) initiative goes from strength to strength, increasing opportunities for women at all levels. We are also supportive of the recommendations adopted by the Government and Bursa Malaysia that 30% of decision-makers in PLCs should be female.

Composition of women employees within our management group is now at 17%. Recent Board changes included an addition of a woman director, bringing female representation up to 21% before the resignation of Kua Hwee Sim, a woman director, in 2012. We believe that this diversity is creating a more balanced, productive and attractive workplace for all employees.

Women OnWards (“WOW”)

WOW was originally called *Panel Aduan Wanita* or the Women’s Grievance Panel, part of a larger strategy to reach out to all levels of employees, in particular the field workers. It is endorsed by the management and the activities are fully funded by the Company. In the early days, WOW conducted awareness programmes of its existence and how WOW can help the women.

Kulim recognised the celebration for International Women’s Day annually. WOW organised the Kulim International Women’s Day (“KIWD”) programme in March 2010 and June 2011. The celebration in 2010 was themed *Memperkasa Hak-hak Wanita* (Empowering Women) and had motivational and spiritual enhancement programs conducted at all operating units. The celebration in 2011 was themed *Wanita & Ekonomi* (Women & Economy). As at the time of writing, WOW is planning for its third KIWD, slated to be held in June 2012. This year the theme will be based on healthy and active lifestyles.

WOW also aims to develop and equip the ladies with entrepreneurship skills, particularly among the female employees, with free trainings that can provide additional income, such as sewing, handcrafting and baking.

Sexual harassment

Our efforts in reaching out to the women in the Company and getting them to report cases on sexual harassment are proving to be successful. The women in the Company are now more aware of their rights and are more open to reporting cases on sexual harassment.

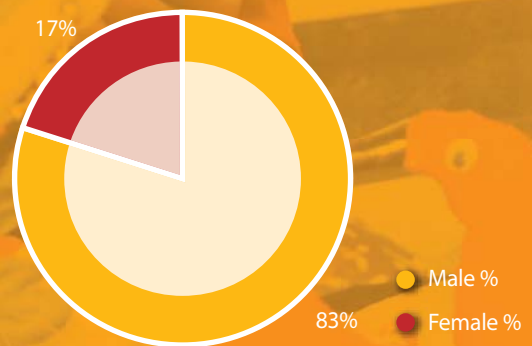
We have no reported incidents of sexual harassment in 2010 and two incidents in 2011. As for the two incidents in 2011, the employee found to be at fault was terminated for one case, while the other case was dropped because there was not enough evidence to prove guilt.

Regardless of the low numbers of reports, we will continue to refine our outreach programme to encourage more women to speak up and to seek advice, if applicable.

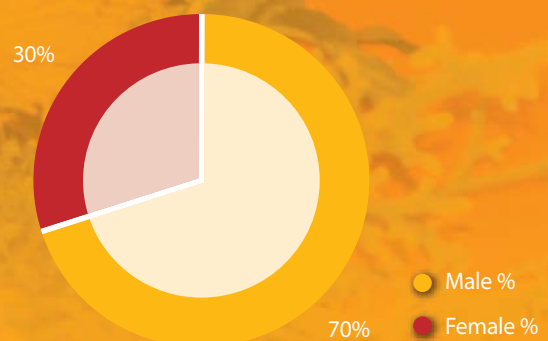
Return to work and maternity leave

All our female employees are entitled to 60 consecutive days of paid maternity leave, in accordance to the Malaysian Government regulations. The number of female employees who took maternity leave in 2010 and 2011 was 17 respectively. All employees returned to work after their maternity leave ended and remain employed with the Company twelve months after their return to work. We are proud of the 100% retention rate.

WOMEN IN MANAGEMENT
AS AT 31 DECEMBER 2011



WOMEN EMPLOYEES
AS AT 31 DECEMBER 2011



SOCIAL

Community and Economic Contributions

We recognise that our presence among the local communities impacts the social environment surrounding our operations, and not just the economics. Our business has strong dependencies on the surrounding communities for continuity and growth.

We adopt a management approach that has a holistic understanding of the net impact of our presence. We conduct annual social impact assessments ("SIA") to measure our overall impact and review the Social Action Plan based on these SIAs. We try to create a positive impact with an active community investment programme that combines cash contributions, in-kind donations and employee volunteering activities.

Communicating with local communities

We have an open approach to communication with the local communities. Local communities can contact the estate or the mill manager directly if they wish to address any issues regarding our operations. The communication process is complemented by annual SIAs, which are conducted by our internal and external auditors.

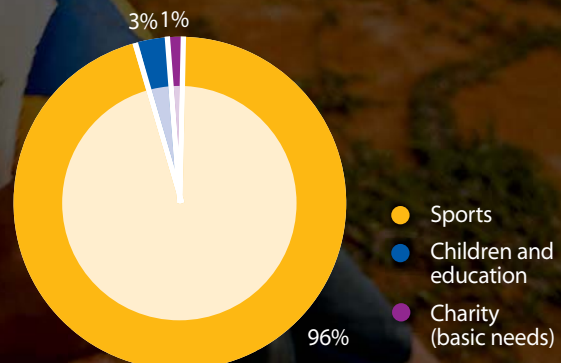
Measuring our community investments

The key themes of our community investments are community sports, community health and infrastructure as well as children and education. The community investment activities are structured around a company-wide programme known as We Care We Share. This programme was rolled out in January 2009 to promote the spirit of volunteerism amongst our staff.

Our total expenditure on donations, community investments and commercial initiatives were RM5.21 million in 2010 and RM6.73 million in 2011, of which 99% of our expenditure was donations.

CONTRIBUTION BY SUBJECT

AS AT 31 DECEMBER 2011



DOING OUR PART FOR THE PALM OIL SUPPLY CHAIN



Sustainable oil delivered

The bulk of our crop is sold to refineries, which in turn produce food ingredients and cooking oils largely for domestic sales. There is a growing pressure on the palm oil players to ensure an ethical and sustainable supply chain that is fully traceable to the origins of the crop. We are working on full certification of all the Fresh Fruit Bunches (“FFB”) processed by our mills, as part of our commitment to RSPO. More than 35% of our FFB are purchased from independent FFB traders, outgrowers and smallholders. Our strategy is to map out the suppliers of external FFB to our mills, identify partners who can help us increase awareness for RSPO certification and most importantly, enhance understanding on practical implementation in the estates.

▶ DOING OUR PART FOR THE PALM OIL SUPPLY CHAIN (continued)

The sale of palm oil for non-food use, especially biofuel, has been largely reduced in recent years. Our biofuel plant is currently not in operation.

Engaging FFB traders, outgrowers and smallholders

According to the Roundtable on Sustainable Palm Oil ("RSPO"), smallholders produce much of the world's palm oil. In the two major producing countries – Indonesia and Malaysia – which account for over 80% of the world's production, smallholders cultivate about 40% of the oil palm area in these two countries.

Outgrowers and smallholders are therefore key stakeholders for a fully traceable sustainable supply chain, as they supply most of the crops to the mills. As with most mill owners, it is challenging to include external FFB in the certification. We have set a target initially to certify 100% of the outgrowers' FFB in our mills by 2011. We are still working on this target, but we have extended the timeline to 2013 instead. The certification is challenging because of the complexity in tracing the individual outgrowers, given most of our mills purchases are from independent FFB traders. In an initial consultation with a sample group of suppliers, comprising of outgrowers and FFB traders, most of them were aware of RSPO but did not have detailed knowledge of the RSPO requirements.

We developed a work plan in 2010 to conduct an awareness and training programme for outgrowers and FFB traders. Currently we are progressing with compliance and implementation of RSPO P&C with a controlled group of smallholders – Asam Bubok Estate ("ABE"). We aim to include ABE for coming surveillance due at the end of this year. The Sustainable and Quality Department ("SQD") is responsible for implementing the RSPO P&C with the outgrowers and independent FFB traders.

We are also working with Malaysian Palm Oil Board ("MPOB") on the Smallholder Certification Program, which started in February 2010 – Smallholders engagement session conducted for both Sedenak Palm Oil mill and Sindora palm oil mill with 68 smallholders and FFB Traders attended at Sedenak and 44 attended the session at Sindora mill. The programme aims to foster greater understanding of the RSPO P&C for smallholders, at the same time to also work out potential cooperation and extension services to the smallholders group.



Establishing an ethical and sustainable supply chain

The RSPO has made significant progress in sustainable sourcing since our last report. Over the last two years, industry players have worked hard to iron out issues on practical implementation of the mechanisms – testimony to the strength of a formal multi-stakeholder initiative. For example, some of the rules were changed to better reflect commercial realities, rather than from a technical and process engineering perspective.

Kulim's sustainable palm oil is sold to the market via the Green Palm Book and Claim and the Mass Balance mechanisms. The Green Palm trading mechanism, a Book and Claim system, allows our customers to buy certificates for the volume of certified palm oil required. The Book and Claim mechanism is the most simplified method for a buyer to obtain certified oil without the high administrative costs and complex logistics. On the other hand, the Mass Balance mechanism allows certified palm oil to be mixed with conventional palm oil, but the entire process is monitored administratively. This method is slightly more stringent and complex than the Book and Claim system.



A group of harvester, Basir Ismail Estate

Consuming palm oil

Obesity among Malaysians is increasingly a health concern due to changes in lifestyle and diet. Obesity can lead to other chronic diseases such as high blood pressure, heart and kidney problems. Malaysian consumers are also concerned about high fat intake and the types of fat they consume, which translates into choices on cooking oil types.

Palm oil is a basic and inexpensive ingredient for cooking in Malaysia, where we sell most of our palm oil. The vast majority of our palm oil is used for edible consumption, either as cooking oil or further processed into other food ingredients.

The palm oil is rich in natural chemical compounds important for health and nutrition. It is a natural source of Carotenoids (including pro-vitamin A), Vitamin D, E and K, as well as supplying fatty acids and other important fat-soluble micronutrients. No other vegetable oil has as much Vitamin E as palm oil and Vitamin E is a powerful anti-oxidant.

Often labelled as vegetable oil, palm oil is actually a type of fruit oil, much like coconut and olive oil. Many people mistake palm oil for coconut oil. However, the two have distinct uses and compositions. It is palm kernel oil that is similar to coconut oil in terms of chemical composition, physical characteristics and uses. Besides fatty acid composition, palm oil also differs from coconut oil with regard to its potential impact on the heart, as palm oil contains distinctly less saturated fat to coconut oil.

Moreover, palm oil in its solid state is much better for health as compared to other edible oils, as it does not have to undergo a chemical composition known as hydrogenation. Hydrogenation produces trans-fat, along with saturated fatty acids and modifies cis-fatty acids. Trans-fat has been linked as a contributory factor to breast and colon cancer, and heart disease.

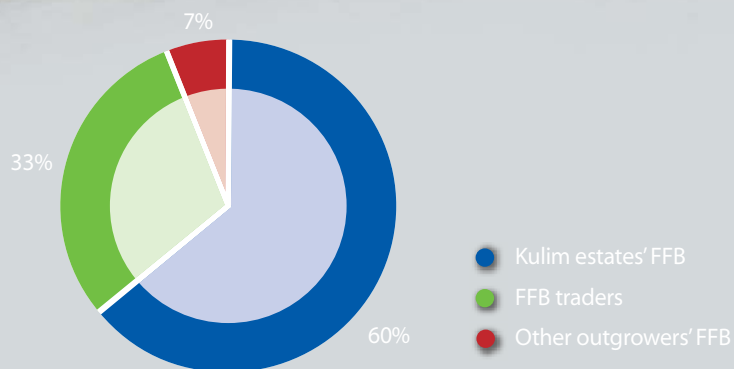
We have no incident of non-compliance with regulations and voluntary codes concerning the health and safety impacts of our crude palm oil products.

▶ DOING OUR PART FOR THE PALM OIL SUPPLY CHAIN (continued)



FFB receiving area, Ladang Tereh Mill

FFB PROCESSED BY OUR MILLS 2011



VEGETABLE OILS AND SHORTENING	POLYUNSATURATED FATTY ACIDS	MONOUNSATURATED FATTY ACIDS	TOTAL UNSATURATED FATTY ACIDS	SATURATED FATTY ACIDS
Safflower Oil	75%	12%	86%	9%
Sunflower Oil	66%	20%	86%	10%
Corn Oil	59%	24%	83%	13%
Soybean Oil	58%	23%	81%	14%
Cottonseed Oil	52%	18%	70%	26%
Canola Oil	33%	55%	88%	7%
Olive Oil	8%	74%	82%	13%
Peanut Oil	32%	46%	78%	17%
Soft Tub Margarine	31%	47%	78%	17%
Stick Margarine	18%	59%	77%	19%
Vegetable Shortening	14%	51%	65%	31%
Palm Oil	9%	37%	46%	49%
Coconut Oil	2%	6%	8%	86%
Palm Kernel Oil	2%	11%	13%	81%

*source: www.nutristrategy.com/fatsoils.htm

DATA SECTION

Indicator	Measurement unit/breakdown	31.12. 2011	31.12. 2010	31.12. 2009	31.12. 2008	31.12. 2007
CATEGORY						
Total revenue Kulim Group	RM Million	7,042	5,489	5,806	3,988	2,741
Total revenue Malaysia plantations	RM Million	821	575	508	536	340
Customers (% of sales)	Refinery	89	90	72	86	90
	Oleochemicals (subsidiary)	0	0	0	9	9
	Traders	11	10	10	3	1
	Biodiesel	0	0	16	1	0
EMPLOYEES						
Number of employees		5,206	4,906	4,909	5,029	5,048
Employee turnover		8.94	7.05	8.1		
	Management and staff	5.87	9.51	3.91	5.39	5.85
	Workers	4.64	24.63	8.49		
Employee categories	Management	235	227	189	189	179
	Non-executive staff	528	526	374	348	334
	Workers	4,443	4,153	4,301	4,492	4,535
Female employees		610	615	579	560	564
Male employees		4,596	4,291	4,285	4,469	4,484
Number of foreign workers	Indonesian	3,268	2,972	3,039	3,095	
	Indian	4	4	13	64	
	Bangladeshi	115	138	146	151	
	Others	3	0	0	0	
Male non-executive staff		339	344	236	217	
Female non-executive staff		189	182	138	131	
Female workers		382	390	400	389	
Male workers		4,061	3,763	3,901	4,103	
Female management		39	43	41	40	
Male management		196	184	148	149	
Ethnic/racial breakdown	Bumiputra	728	712	516	484	
	Chinese	4	4	5	6	
	Indian	31	37	42	45	
	Other non-Malaysian	0	0	0	2	
TRAINING						
Number of employees receiving formal qualifications funded by Kulim	Management	1	0			
	Non-management (males)	10	5			
	Total	11	5			
Total training cost as % of payroll		5.81	2.00	1.00	2.00	

DATA SECTION (continued)

Indicator	Measurement unit/breakdown	31.12. 2011	31.12. 2010	31.12. 2009	31.12. 2008	31.12. 2007
LABOUR STANDARDS						
Minimum starting wage (inclusive of Special Gratuitous Payment ("SGP"))	RM per month	850	850			
Number of employees who are members of a trade union		1,334	1,602	1,544		
Number of women left on maternity leave		17	17			
% returned after maternity leave		100%	100%			
Number of complaints via grievance mechanism		0	0			
Reported sexual harassment cases		2	0	2		
COMMUNITY AND HOUSING						
Breakdown of charitable contributions (RM)	Sports	6,480,000	4,300,000	4,852,112	4,935,170	
	Culture/religion	5,500	36,288	500,000	40,000	
	Community health facilities	22,500	195,178	25,303	507,350	
	Children and education	167,500	584,917	116,720	73,365	
	Charity (basic needs)	56,100	97,656	84,400	7,372	
Number of employees and dependants housed		4,434				
Square metres per inhabitant		9.6	9.6	9.6		
HEALTH AND SAFETY						
Fatalities		1	3	0	1	1
Lost time accident rate (see item 3 under "Notes to Data")	Incidents per 200,000 working hours	5.8	7.6	7.5	7.8	9.7
Severity rate (see item 4 under "Notes to Data")	Average number of lost time per incident	4	3.34	4.2	3.5	3.6
Number of sprayers sustaining chemical injuries and eye injuries (chemical)	As per monthly report	Nil	Nil	Nil	Nil	
Types of injuries	Breakdown as per monthly report	Nil	Nil	Nil	Nil	
AGRICULTURE/ PRODUCTION						
Herbicide usage per hectare	Active ingredients per hectare litres	0.84	0.72	1.34	2.00	1.37
Paraquat usage per hectare	Active ingredients per hectare litres	0.03	0.02	0.04	0.04	0.06
Yield per hectare (mature palm)	Tonnes	21.89	19.01	21.22	22.70	22.65
Extraction rate (CPO)	%	20.20	20.24	19.90	19.13	18.75
Total titled land	Hectares (Malaysia)	43,890	37,450	38,069	37,796	31,312
Total hectares of planted oil palm	Hectares	40,323	34,413	34,966	35,261	28,779
Peat developed	Hectares	1,380	1,380	1,380	1,380	1,380

Indicator	Measurement unit/breakdown	31.12. 2011	31.12. 2010	31.12. 2009	31.12. 2008	31.12. 2007
ENVIRONMENT						
CO ₂ Equivalents (mills only) (see item 5 under "Notes to Data")	CO ₂ -eq mt	168,571	151,643	130,701	124,674	88,625
	CO ₂ -eq/mt FFB	0.18	0.19	0.16	0.16	0.16
	Methane from POME	166,545	149,683	128,770	122,580	
	Emissions from diesel	2,027	1,960	1,931	2,094	
BOD level – new mill	PPM	261	298	292	262	485
Total fertiliser usage	Tonnes	39,692	38,609	37,535	41,173	
Total chemicals	Tonnes	130	154	193	145	50
Total FFB processed	Tonnes	919,307	806,297	834,271	740,244	561,036
Total effluents	Tonnes	664,881	597,567	522,227	574,068	561,036
Total boiler ash	Tonnes	4,597	4,031	4,171	3,971	3,570
Total production	CPO (tonnes)	185,666	163,233	166,059	141,634	105,216
	PK (tonnes)	53,678	47,758	49,950	42,102	29,256
	Fibre (tonnes)	128,837	115,109	124,917	85,715	76,879
	EFB (tonnes)	182,467	150,005	156,915	148,741	127,753
	Acid oil (tonnes)	26	351	1,226	882	676
Total water usage (mills only)	Tonnes	864,050	818,850	767,871	846,584	1,280,965
Total water usage (mills only)	Tonnes/tonne FFB	0.94	1.02	0.92	1.07	1.79
Total diesel usage (all uses)	Litres	758,411	733,436	804,686	872,574	885,268
Diesel use per tonne of FFB	Litre/ tonne FFB	0.82	0.91	0.96	1.10	1.24
Total number and volume of significant spills		Nil	Nil	Nil	Nil	Nil
SUPPLIERS						
Kulim estates FFB	Tonnes	554,156	453,391	449,341		
Johor Corp linked FFB	Tonnes	Nil	Nil	8,075		
FFB traders	Tonnes	305,672	297,634	330,883		
Smallholders FFB						
– Controlled	Tonnes	6,031	7,625	2,203		
– External	Tonnes	53,449	47,647	43,819		

▶ ABOUT THE REPORT

Scope of the report

This is the third sustainability report for the Plantation Division of Kulim (Malaysia) Berhad, covering the calendar years of 2010 and 2011. Our previous reports were published in October 2008 and May 2010. We continue to use the Global Reporting Initiative (“GRI”) Guidelines as the basis of reporting, and have adopted GRI G3.1 for this report. The principles of the AA1000AS standard of responsiveness, materiality and inclusivity have guided the contents.

The report brings together our sustainability initiatives, including current and future directions. It is intended to be useful to all our stakeholders – our customers, employees, shareholders, communities as well as being a communication tool to various interested parties about our approach to the social, environmental and economic aspects of our business.

This report does not cover Kulim’s plantation operations outside Malaysia. Kulim’s then-subsiary, New Britain Palm Oil Ltd produces its Sustainability Report for 2010/11, which can be found on the company’s website. However, where some synergies are material, they are mentioned in this report. The boundaries of the report also do not cover the Company’s Foods and Restaurants Division as it is in the process of being divested as at the time of reporting. The report also does not cover Intrapreneur Ventures Division in Malaysia.

Unless otherwise stated, all data is as at 31 December 2010 and 31 December 2011.

We are committed to continuing our reporting journey, and expect to publish a sustainability report bi-annually.

Materiality

We define material issues as those with high interest or impact for both Kulim and our stakeholders. Please refer to section “Strategy, policy and management systems” for more information on the prioritisation of material issues.

We have made every effort to augment our reporting with detailed performance indicators in areas where we have material control, and where the impact of our activities is considered significant. Other issues, such as detailed data on our operations and business activities that are already covered in our Annual Report, are not repeated at length here.



Materiality tiers (in order of importance)				
ENVIRONMENT				
Tier	Topic	Significance	Sections in report	
1	Use of chemicals such as paraquat, herbicides and pesticides in our estates	Significant to Kulim and to stakeholders	Environment – “Protecting biodiversity and mitigating negative impacts”	
	Amount of water used for our estates and mills		Environment – “Keeping our natural waterways free from contamination”	
2	Health and safety standards in the workplace		Social – “Occupational health and safety”	
	Climate change: greenhouse gas emission in the palm oil industry		Environment – “Addressing climate change issues”	
	Foreign workers: working conditions and welfare in the context of the tight labour market		Social – “Labour standards”	
3	Training and development for employees	Significant to Kulim but not so significant to stakeholders	Social – “Employees retention”	
	Talent attraction in the context of the lack of young people in the palm oil industry		Social – “Employees retention”	
	Inclusion of smallholders into certification process		“Doing our part for the palm oil supply chain”	
	Negative impacts on the environment by the neighbouring sand miners		Not reported	
	Welfare of local communities and workers		Social – “Labour standards” and “Community and economic contributions”	
	Environment rehabilitation: reversing the negative impacts on the environment	Significant to stakeholders but not so significant to Kulim	Environment – “Protecting biodiversity and mitigating negative impacts”	
	Biodiversity loss		Environment – “Protecting biodiversity and mitigating negative impacts”	
	Responsible waste management		Environment – “Keeping our natural waterways free from contamination”	
	Workers’ unions: workers’ rights to collective bargaining		Social – “Labour standards”	
	Gender diversity		Social – “Empowering women”	
	Agricultural productivity to maximise land use		Business Profile – “Malaysia”	
	Ethnic diversity		Not reported	
	Good Agricultural Practices		Significant to Kulim	Not reported
	Air pollution: pollutants emitted into the atmosphere by the milling activities		Not reported	
Practices in the marketplace	“Doing our part for the palm oil supply chain”			

Responsiveness

We aim to ensure that our disclosures address the needs of stakeholders. The report covers key areas that have been raised directly with us in our stakeholder engagement, as well as areas being raised in multi-stakeholder platforms such as the RSPO.

Inclusivity

We have formal process of stakeholder participation via the multi-stakeholder initiative, the RSPO and through various initiatives by our Sustainability and Quality Department, which is responsible for outreach programmes to our various stakeholders in an ongoing manner. We maintain an open door policy for anyone who is impacted by our operations. Please refer to “Engaging our stakeholders” for more information.

▶ ABOUT THE REPORT

Global Reporting Initiative G3.1 Index

Indicator

C – Core indicators

A – Additional indicators

Type (of reporting)

F – Full reporting

P – Partially reporting

Not – Not reported

	GRI Disclosure	Indicator	Location-Section	Page	Type	Comment
STRATEGY AND ANALYSIS						
1.1	Statement from the most senior decision-maker of the organisation.		Welcome from the Chairman and the Managing Director	2-3	F	
1.2	Description of key impacts, risks and opportunities.		Commitments and targets	5	F	
			Business Profile – Malaysia	8-9		
			Corporate Governance	14-15		
			Strategy, policy and management systems	16-20		
ORGANISATIONAL PROFILE						
2.1	Name of the organisation		Business Profile	6-13	F	
2.2	Primary brands, products and/or services		Business Profile	6-13	F	
2.3	Operational Structure		Business Profile	6-13	F	
2.4	Headquarters location		Business Profile	6-13	F	
2.5	Countries of operation		Business Profile	6-13	F	
2.6	Nature of ownership and legal form		Business Profile	6-13	F	
2.7	Markets served		Doing our part for the palm oil supply chain	41-44	F	
2.8	Scale of organisation		Kulim in brief	4	F	
			Business Profile	6-13		
2.9	Significant changes during the reporting period regarding size, structure, or ownership.		Business Profile	6-13		
2.10	Awards		Business Profile	6-13		
REPORT PARAMETERS						
3.1	Reporting period		Scope of the report	48-49	F	
3.2	Date of most recent previous report		Scope of the report	48-49	F	
3.3	Reporting cycle		Scope of the report	48-49	F	
3.4	Contact		Contact and feedback	62	F	
3.5	Process for defining report content		Scope of the report	48-49	F	
3.6	Boundary of the report		Scope of the report	48-49	F	
3.7	Specific limitations on the scope or boundary of report.		Scope of the report	48-49		
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations and other entities.		Annual report			



	GRI Disclosure	Indicator	Location-Section	Page	Type	Comment
REPORT PARAMETERS (continued)						
3.9	Data measurement techniques and the bases of calculations.		Data Section	45-47	F	
3.10	Effect of any restatements.				NA	No restatements
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.				NA	No significant changes
3.12	Table identifying the locations of the Standard Disclosures in the report.		Global Reporting Initiative G3.1 Index	50-56	F	
GOVERNANCE, COMMITMENT AND ENGAGEMENT						
4.1	Governance structure of the organisation.		Corporate Governance	14-15	F	
4.2	Indicate whether the Chair, of the highest governance body is also an executive officer.		Corporate Governance	14-15	F	
4.3	For organisations that have a unitary board structure, state the number and gender of members of the highest governance body that are independent and/or non-executive members.		Corporate Governance	14-15	F	
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.		Corporate Governance	14-15	F	
4.5	Linkage between compensation for members of the highest governance body, senior managers and executives, and the organisation's performance.		Corporate Governance	14-15	F	
4.6	Processes for the highest governance body to ensure conflicts of interest are avoided.		Corporate Governance	14-15	F	
4.7	Process for determining the composition, qualification, and expertise of the members of the highest governance body and its committees, including any consideration of gender and other indicators of diversity.		Corporate Governance	14-15	F	
4.8	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental and social performance, and the status of their implementation.		Strategy, policy and management systems	16-20	F	
4.9	Procedures of the highest governance body for overseeing the organisation's identification and management of economic, environmental, social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct and principles.		Corporate Governance Strategy, policy and management systems	14-15 16-20	P	
4.10	Process for evaluating the highest governance body's own performance, particularly with respect to economic, environmental and social performance.		Corporate Governance	14-15	F	

▶ ABOUT THE REPORT

Global Reporting Initiative G3.1 Index (continued)

	GRI Disclosure	Indicator	Location-Section	Page	Type	Comment
GOVERNANCE, COMMITMENT AND ENGAGEMENT (continued)						
4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organisation.		Protecting biodiversity and mitigating negative impacts	22-25	P	We adopt the Precautionary Approach as a general guide for our business practices.
4.12	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organisation subscribes or endorses.		Business Profile – Malaysia	8-9	F	
			Strategy, policy and management systems	16-20		
4.13	Memberships in association and/or national/ international advocacy organisations.		Strategy, policy and management systems	16-20	P	
4.14	List of stakeholder groups engaged by the organisation.		Engaging our stakeholders	21	F	
4.15	Basis for identification and selection of stakeholders with whom to engage.		Strategy, policy and management systems	16-20	F	
			Engaging our stakeholders	21		
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.		Engaging our stakeholders	21	P	
4.17	Key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded to these key topics and concerns, including through its reporting.		Engaging our stakeholders	21	F	

Performance Indicators

	GRI Disclosure	Indicator	Location-Section	Page	Type	Comment
ECONOMIC						
	Disclosure on Management Approach		Business Profile	6-13	P	
			Strategy, policy and management systems	16-20		
EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.	C	Kulim in brief	4	P	
			Business Profile	6-13		
EC2	Financial implications and other risks and opportunities for the organisation's activities due to climate change.	C	Addressing climate change issues	28-29	F	We are working on a carbon footprint to better assess and quantify the risks and/or opportunities, given the regulatory and industry requirements.
EC3	Coverage of the organisation's defined benefit plan obligations.	C	Addressing the issue of foreign workers in Malaysia	30-32	P	



	GRI Disclosure	Indicator	Location-Section	Page	Type	Comment
ECONOMIC (continued)						
EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.	C	Doing our part for the palm oil supply chain	41-44	F	Given the highly perishable nature of the oil palm crops or “Fresh Fruit Bunches (FFB),” all FFB for our mills have to be sourced from our neighbouring estates. By industry norms, we prefer locally based suppliers.
EC7	Procedures for local hiring and proportion of senior management hired from the local community at locations of significant operations.	C	Employees retention	33-35	F	While we do not have a specific policy for hiring local residents, all our staff are Malaysians.
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.	C	Community and economic contributions	40	F	While we do not normally conduct community needs assessments, we have an open-door policy for local communities to approach the Company for assistance.

Not reported: EC4, 5 and 9.

ENVIRONMENTAL						
	Disclosure on Management Approach		Strategy, policy and management systems	16-20	P	
			Environment	22-29		
EN1	Materials used by weight or volume	C	Business Profile – Malaysia	8-9	P	The key raw materials for our estates and mills are FFB water, fertilisers and herbicides.
			Keeping our natural waterways free from contamination	26-27		
EN8	Total water withdrawal by source.	C	Keeping our natural waterways free from contamination	26-27	P	
EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	C	Protecting biodiversity and mitigating negative impacts	22-25	F	Please refer to our annual RSPO surveillance document for the size of each operational sites in hectares.
EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.	C	Protecting biodiversity and mitigating negative impacts	22-25	P	
EN13	Habitats protected or restored.	A	Protecting biodiversity and mitigating negative impacts	22-25	P	
EN14	Strategies, current actions, and future plans for managing impacts on biodiversity.	A	Protecting biodiversity and mitigating negative impacts	22-25	F	
EN15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.	A	Protecting biodiversity and mitigating negative impacts	22-25	F	

▶ ABOUT THE REPORT

Global Reporting Initiative G3.1 Index (continued)

	GRI Disclosure	Indicator	Location-Section	Page	Type	Comment
ENVIRONMENTAL (continued)						
EN16	Total direct and indirect greenhouse gas emissions by weight.	C	Addressing climate change issues	28-29	P	EN16 recommend the reporter to refer to the Greenhouse Gas Protocol Initiative, the Kyoto Protocol and the Intergovernmental Panel on Climate Change ("IPCC"). However, the RSPO Greenhouse Gas calculator is a more relevant industry tool, as it is a harmonised framework that is compatible with international GHG accounting methodologies such as IPCC and the International Sustainability and Carbon Certification ("ISCC"), which are the applicable standards for the sustainable palm oil industry. As we have yet to conduct a full carbon footprint, we cannot fully disclose against this indicator for this report.
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved.	A	Addressing climate change issues	28-29	P	As we have yet to conduct a full carbon footprint, we cannot fully disclose against this indicator for this report.
EN21	Total water discharge by quality and destination.	C	Keeping our natural waterways free from contamination	26-27	F	The information related to water discharged falls under the "planned" category.
EN22	Total weight of waste by type and disposal method.	C	Keeping our natural waterways free from contamination	26-27	F	We reuse, recycle or incinerate all the solid wastes for the mills, as per standard industry operating practices.

Not reported: EN2,3,4,5,6,7,9,10,17,19,20,23,24,25,26,27,28,29 and 30.

LABOUR

	Disclosure on Management Approach		Strategy, policy and management systems	16-20	P	
			Social	30-40		
LA1	Total workforce by employment type, employment contract, and region, broken down by gender.	C	Addressing the issue of foreign workers in Malaysia	30-32	F	
			Employees retention	33-35		
			Empowering women	39		
LA2	Total number and rate of new employee hired and employee turnover by age group, gender, and region.	C	Addressing the issue of foreign workers in Malaysia	30-32	P	
			Employees retention	33-35		
LA15	Return to work and retention rates after parental leave, by gender.	C	Empowering women	39		Parental leave refers to maternity leave.



	GRI Disclosure	Indicator	Location-Section	Page	Type	Comment
LABOUR (continued)						
LA4	Percentage of employees covered by collective bargaining agreements.	C	Addressing the issue of foreign workers in Malaysia	30-32	F	
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender.	C	Occupational health and safety	36-38	F	The pertinent Health and Safety matrix for our operations are lost time accident rate, fatality rate and severity rate.
LA8	Education, training, counselling, prevention, and risk-control programmes in place to assist workforce members, their families, or community members regarding serious diseases.	C	Occupational health and safety	36-38	P	The case study on training to prevent lumbago is for our workers.
LA10	Average hours of training per year per employee, by gender, and by employee category.	C	Employees retention	33-35	P	
LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	A	Addressing the issue of foreign workers in Malaysia	30-32	F	
			Employees retention	33-35		
			Empowering women	39		
LA13	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity.	C	Addressing the issue of foreign workers in Malaysia	30-32	P	
			Employees retention	33-35		
			Empowering women	39		

Not reported: LA3,5,6,9,12 and 14.

HUMAN RIGHTS						
	Disclosure on Management Approach		Strategy, policy and management systems	16-20	P	
			Addressing the issue of foreign workers in Malaysia	30-32		
HR2	Percentage and total number of significant investment agreements and contracts that include clauses incorporating human rights concerns, or that have undergone human rights screening.	C	Doing our part for the palm oil supply chain	41-44	P	
HR4	Total number of incidents of discrimination and corrective actions taken.	C	Empowering women	39	F	

▶ ABOUT THE REPORT

Global Reporting Initiative G3.1 Index (continued)

	GRI Disclosure	Indicator	Location-Section	Page	Type	Comment
HUMAN RIGHTS (continued)						
HR5	Operations and significant suppliers identified in which the right to exercise freedom of association or collective bargaining may be violated or at significant risk, and actions taken to support these rights.	C	Addressing the issue of foreign workers in Malaysia	30-32	P	
HR7	Operations and significant suppliers identified as having significant risk for incidents of forced or compulsory labour, and measures taken to contribute to the elimination of all forms of forced or compulsory labour.	C	Addressing the issue of foreign workers in Malaysia	30-32	F	
Not reported: HR1,3,6,8,9,10 and 11.						
SOCIETY						
	Disclosure on Management Approach		Strategy, policy and management systems	16-20	P	
SO1	Percentage of operations with implemented local community engagement, impact assessments, and development programmes.	C	Protecting biodiversity and mitigating negative impacts	22-25	F	
			Community and economic contributions	40		
Not reported: SO2,3,4,5,6,7,8,9 and 10.						
PRODUCT RESPONSIBILITY						
	Disclosure on Management Approach		Doing our part for the palm oil supply chain	41-44	P	We sell our product to other businesses, which in turn use the products as raw materials for food items. It is difficult for us to address that directly affect customers, namely, health and safety, information and labelling, marketing, and privacy. This is because we do not have control over how our customers address the issues relevant to Product Responsibility.
PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services during their life cycle, by type of outcomes.	A	Doing our part for the palm oil supply chain	41-44	F	No incidents recorded in 2010-11
Not reported: PR1,3,4,5,6,7,8 and 9.						

ABOUT THE REPORT

Notes to Data

1. Oil Extraction Rate ("OER") – the total amount of crude palm oil produced divided by total amount of Fresh Fruit Bunches ("FFB") used, giving a ratio scale. This is often used in the industry as a measure of quality of the FFB.
2. This calculation is only limited to the mills. It does not include the estates and the journey of the FFB from the estates to the mills.
3. Lost time accident rate shows how many employees per 100 employees have been injured or suffered an accident that had to be recorded. The number of recordable cases is multiplied by 200,000, and then divided by the total number of labour hours by the company.
4. Severity rate shows days lost due to work injuries. Average number of lost days per injury.
5. Calculations of CO₂ from POME effluents and has been calculated using "Brinkmann Consultancy in Greenhouse Gas Emissions from Palm Oil Production – Literature review and proposals from the RSPO Working Group on Greenhouse Gases"
 - FFB Processed x 0.7 x 50 x 0.21 x 1/1000 x 21
 - Diesel Usage x 2.4/1000

▶ ABOUT THE REPORT

Independent Assurance Opinion Statement

2010/2011 Kulim (Malaysia) Berhad Sustainability Report

The British Standards Institution (BSI) is independent to Kulim (Malaysia) Berhad and has no financial interest in the operation of Kulim (Malaysia) Berhad other than for the assessment and verification of the sustainability statements contained in this report.

This Independent assurance opinion statement has been prepared for Kulim (Malaysia) Berhad only for the purpose of verifying its statements relating to its sustainability more specifically described in the Scope below. It was not prepared for any other purpose. BSI will not, in providing this Independent assurance opinion statement, accept or assume responsibility (legal or otherwise) or accept liability for or in connection with any other purpose for which it may be used, or to any person by whom the Independent assurance opinion statement may be read.

This Independent assurance opinion statement is prepared on the basis of review by BSI of information presented by Kulim (Malaysia) Berhad. The review does not extend beyond such information and is solely based on it. In performing such review, BSI has assumed that all information is complete and accurate.

Any queries that may arise by virtue of this Independent assurance opinion statement or matters relating to it should be addressed to Kulim (Malaysia) Berhad only.

Scope

The scope of engagement agreed upon with Kulim (Malaysia) Berhad includes the followings:

1. The assurance covers the whole sustainability report focusing on systems and activities during the 2010/2011 calendar year on Kulim (Malaysia) Berhad headquarters and relevant operations in its plantation division in Malaysia only.
2. The evaluation of the nature and extent of the adherence of Kulim (Malaysia) Berhad to all three AA1000 AccountAbility Principles and the reliability of specified sustainability performance information in this report was conducted in accordance with type 2 of AA1000AS (2008) sustainability assurance engagement.

This statement was prepared in English only.

Opinion Statement

We conclude that the 2010/2011 Kulim (Malaysia) Berhad Sustainability Report provides a fair view of the programmes and performance of Kulim (Malaysia) Berhad during 2010/2011. We believe that the 2010/2011 economic, social and environment performance indicators are correctly represented.

Our work was carried out by a team of CSR report assurors in accordance with the AA1000 Assurance Standard (2008). We planned and performed this part of our work to obtain the necessary information and explanations we considered sufficient to provide evidence that the description of the approach of Kulim (Malaysia) Berhad to AA1000 Assurance Standard and their self-declaration of compliance with the GRI guidelines were fairly stated.

Methodology

Our work was designed to gather evidence on which to base our conclusion. We undertook the following activities:

- A top level review of issues raised by external parties that could be relevant to policies of Kulim (Malaysia) Berhad to provide a check on the appropriateness of statements made in the report.
- Discussion with managers on the approach of Kulim (Malaysia) Berhad to stakeholder engagement. Moreover, we had sampled two external stakeholders with which to conduct interviews.
- 19 interviews with staff involved in sustainability management, report preparation and provision of report information were carried out.
- Review of key organizational developments.
- Review of the extent and maturity of the relevant accounting systems for financial and non-financial reports.
- Review of the findings of internal audits.
- The verification of performance data and claims made in the report through meeting with managers responsible for gathering data.
- Review of the processes for gathering and ensuring the accuracy of data, followed data trails to initial aggregated source and checked sample data to greater depth during site visits.

- The consolidated financial data are based on audited financial data; we checked that this data was consistently reproduced.
- Review of supporting evidence for claims made in the reports.
- An assessment of the company's reporting and management processes concerning this reporting against the principles of Inclusivity, Materiality and Responsiveness as described in the AA1000 AccountAbility Principles Standard (2008).

Conclusions

A detailed review against the AA1000 AccountAbility Principles of Inclusivity, Materiality and Responsiveness and sustainability performance information as well as the GRI guidelines are set out below:

Inclusivity

This report reflects that Kulim (Malaysia) Berhad has continually made a commitment to its stakeholders, as there was participation of stakeholders in developing and achieving an accountable and strategic response to sustainability. There are fair reporting and disclosures for economic, social and environmental information in this report, so that appropriate planning and target-setting can be supported. In our professional opinion the report covers the inclusivity issues of Kulim (Malaysia) Berhad. However, the future report could be enhanced in the following area:

- Future reporting may consider including external stakeholder opinions when selecting material issues. This will enable the Sustainability Report to be more comprehensive.

Materiality

Kulim (Malaysia) Berhad publishes sustainability information completely with materiality analysis that enables its stakeholders to make informed judgments about the company's management and performance. In our professional opinion the report covers the material issues of Kulim (Malaysia) Berhad. However, the future report could be enhanced in the following area:

- To consider establishing a systematic process for identifying stakeholders and their concerns through participation from stakeholders besides management to address issues comprehensively.

Responsiveness

Kulim (Malaysia) Berhad has implemented practices to respond to the expectations and perceptions of its stakeholders. An Ethical Policy for Kulim (Malaysia) Berhad is developed and continually provides the opportunity to further enhance the responsiveness of Kulim (Malaysia) Berhad to stakeholder concerns. In our professional opinion the report covers the responsiveness issues of Kulim (Malaysia) Berhad. However, the future report could be enhanced in the following areas:

- Continuously develop and update the responsiveness strategy for stakeholders by adding Corporate Social Responsibility requirements for supply chain review.
- Enhance the Sustainability Reporting frequency to annual basis in order to allow the comparability and timelines of future Corporate Social Responsibility performance in information given to stakeholders.

Performance information

Our work described in this statement was based on specified sustainability performance information such as GRI G3.1 core indicators disclosed in this report which Kulim (Malaysia) Berhad and BSI have agreed to include in the scope. In our view, the data and information contained within 2010/2011 Sustainability Report of Kulim (Malaysia) Berhad are reliable by means of vouching, re-tracking, re-computing and confirmation.

GRI-reporting

Kulim (Malaysia) Berhad provided us with their self declaration of compliance within GRI G3.1 Guidelines and the classification to align with application level B+. Based on our review, we confirm that social responsibility and sustainable development indicators with reference to the GRI Index are reported, partially reported or omitted. In our professional opinion the self-declaration covers the social and sustainability issues of Kulim (Malaysia) Berhad. In this third year report, extended indicators are fairly disclosed as requested in application level B of GRI G3 guideline.

- Benchmarking the performance indicators from historic and peer data in future report.
- To align current data with GRI G3.1 performance indicator to enable future data collections are covered and collected efficiently.

▶ ABOUT THE REPORT

Independent Assurance Opinion Statement (continued)

Assurance level

Moderate level assurance provided is in accordance with AA1000 Assurance Standard (2008) in our review, as defined by the scope and methodology described in this statement.

Responsibility

This CSR report is the responsibility of the Chairman of Kulim (Malaysia) Berhad as declared in his responsibility letter. Our responsibility is to provide an independent assurance opinion statement to stakeholders giving our professional opinion based on the scope and methodology described.

Competency and Independence

The assurance team was composed of auditors trained in a range of sustainability, environmental and social standards including AA1000 AS, ISO14001, OHSAS18001, ISO 9001, RSPO and ISCC. BSI is a leading global standards and assessment body founded in 1901. The assurance is carried out in line with the BSI Fair Trading Code of Practice.

For and on behalf of BSI:



Alwi Hafiz
 Managing Director, BSI ASEAN
 28 June, 2012



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BSI Singapore is a subsidiary of British Standards Institution.

ABOUT THE REPORT

Glossary

Biodiversity

The diversity (number and variety of species) of plant and animal life within a region.

Biofuels

Biofuels are fuels that are derived from biomass (recently living organisms such as wood or vegetable oil) or their metabolic by-products, such as manure from cows. They are a renewable energy source, unlike other natural resources such as petroleum or coal.

Biological Oxygen Demand ("BOD")

The amount of oxygen used when organic matter undergoes decomposition by micro-organisms. Testing for BOD is done to assess the amount of organic matter in water.

Bumiputra

Indigenous Malaysian. A Malaysian of Malay or other indigenous origin.

Clean Development Mechanism ("CDM")

An arrangement under the Kyoto Protocol allowing industrialised countries with a greenhouse gas reduction commitment (called Annex 1 countries) to invest in projects that reduce emissions in developing countries as an alternative to more expensive emission reductions in their own countries.

CO₂ Equivalents

Carbon dioxide equivalents (CO₂ eq.) provide a universal standard of measurement against which the impacts of releasing (or avoiding the release of) different greenhouse gases can be evaluated.

Effluents

Liquid waste water discharged from processes such as mill process into separate water body.

Employees

Include workers, staff (full-time paid employees in the mills, estates and corporate office) and management.

Generation Y ("Gen Y")

The generation born in the 1980s and 1990s, typically regarded as increasingly familiar with digital and electronic technology.

Global Reporting Initiative ("GRI")

A multi-stakeholder standard for sustainability reporting, providing guidance on determining report content and indicators.

High Conservation Values

The concept of High Conservation Value Forests ("HCVF") was first developed by the Forest Stewardship Council ("FSC") in 1999 as their 9th principle. The FSC defined HCVF as forests of outstanding and critical importance due to their environmental, socio-economic, cultural, biodiversity and landscape value.

International Labour Organisation ("ILO")

A tripartite world body representative of labour, management and government and is an agency of the United Nations. It disseminates labour information and sets minimum international labour standards called "conventions", offered to member nations for adoption.

Independent Director

According to Bursa Malaysia, an independent director means a director who is independent of management and free from any business or other relationship which could interfere with the exercise of independent judgement or the ability to act in the best interests of an applicant or a listed issuer.

Integrated Pest Management ("IPM")

A pest control strategy that uses an array of complementary methods: mechanical devices, physical devices, genetic, biological, legal, cultural management, and chemical management. These methods are done in three stages: prevention, observation, and intervention. It is an ecological approach with a main goal of significantly reducing or eliminating the use of pesticides.

IUCN Red List

The International Union for Conservation of Nature and Natural Resources (also known as The World Conservation Union) is an organisation based in Switzerland which is involved in preservation of natural resources. Publishes the Red Data Book, which lists the endangered species of every nation.

Non-Executive Director

A director who does not currently hold other employment with the company. Unlike an Independent Director, a Non-Executive Director can have significant financial interests or close personal ties to the company.

NGO

Non-governmental organisation. In this report used to refer to grass-roots and campaigning organisations focusing on environmental or social issues.

Peat

Peat is an accumulation of partially decayed vegetation matter. Peat forms in wetlands or peatlands, variously called bogs, moors, muskegs, pocosins, mires, and peat swamp forests.

Ringelmann Index

A chart used in air pollution evaluation for assigning the degree of blackness of smoke emanating from a source. The observer compares the shades of grey (white to black) with a series of shade diagrams formed by horizontal and vertical black grid lines on a white background. A corresponding number, the Ringelmann number, is then assigned to describe the best match; numbers range from 0 (white) to 5 (black).

Roundtable on Sustainable Palm Oil ("RSPO")

A multi-stakeholder organisation based in Kuala Lumpur, Malaysia. The organisation has developed a certification scheme for sustainable palm oil.

Social Impact Assessment ("SIA")

Includes the processes of analysing, monitoring and managing the intended and unintended social consequences, both positive and negative, of planned interventions (policies, programmes, plans, projects) and any social change processes invoked by those interventions. Its primary purpose is to bring about a more sustainable and equitable biophysical and human environment.

SA8000

SA8000 is an international workplace-quality standard based on the concept of social accountability, its major objective is to ensure application of ethical practices in hiring and treatment of employees and in production of goods and services. Released in 1997 by Social Accountability International ("SAI"). It relies on the codes-of-conduct affirmed by the International Labour Organisation ("ILO"), the Universal Declaration of Human Rights, and UN Convention on the Rights of a Child.

Staff

Salaried full-time employee in the mills, estates and corporate office. Does not include workers.

Stakeholders

Any group or individual who are affected by or can affect the company's operations.

Sustainability

A term expressing a long-term balance between social, economic and environmental objectives. Often linked to Sustainable Development which is defined as "Development that meets the need of current generations without compromising the needs of future generations".

▶ CONTACT AND FEEDBACK

We welcome any feedback or questions:

Salasah Elias

Senior Manager

Sustainability and Quality Department

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THIS REPORT IS PRINTED ON
ENVIRONMENTALLY FRIENDLY PAPER FROM
CERTIFIED SUSTAINABLE SOURCES

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