

MESSAGE FROM OUR GROUP MANAGING DIRECTOR & CHIEF EXECUTIVE



DEAR STAKEHOLDERS,

In the face of the natural disasters occurring at all corners of the world, the concept of merely “do no further harm” seemed increasingly insufficient to address the loss of natural capital and the onset of climate tipping points. As a corporation, we are aware, now more than ever, that the fate of the natural environment is deeply intertwined with our operations. As challenging as our 2022-2023 financial year was due to the advent of El Niño weather phenomenon and high energy prices, etc., there were also achievements and proud moments based on IOI’s strides forward. As always, we addressed our interlinked natural and social challenges as a company that holds strong to our core values of commitment, team spirit and integrity together with innovation and excellence in execution.

DATO' LEE YEOW CHOR

Group Managing Director & Chief Executive



Driving Nature Positive Impacts

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Our continued focus on the sustainable development priorities that are based on an integrated narrative and action agenda, is clearly guided by our double materiality considerations (page 27). The balance of **People, Planet & Prosperity** plus **Partnership** that we have continually emphasised becomes even more important in order to manage the intertwined risks posed by climate change, biodiversity loss, food security, and social inequality. Thus, **our Net-Zero by 2040** journey, which starts formally in 2019 under the Climate Change Action initiative (“CCAI”), is part and parcel of our activity-driven approach to not only deal with these risks but to also create opportunities that would benefit all involved. On biodiversity, we are crafting strategies to enhance its role while monitoring its impact in the overall ecosystem where we operate.

Overall, Environmental, Social, and Governance (“ESG”) considerations remain high in IOI’s order of business concerning both our internal and external stakeholders. Our commitment towards strong Governance (“G”) ensures that both Social Practices (“S”) and Environmental Stewardship (“E”) are transparently disclosed in line with global reporting frameworks (GRI, TCFD, ISSB, etc.) and peer disclosure practices (CDP, Sustainalytics, Ecovadis, etc.). **“Driving Nature Positive Impacts”** is another step towards transparently sharing our activities and the various positive impacts that we hope to achieve as we move forward with our sustainability agenda.



IOI's new Palm Wood Manufacturing facility in Johor

NET-ZERO BY 2040 (SCOPES 1, 2 & 3) (details in page 34 - 41).

IOI’s CCAi can be viewed as a journey with many challenges and just as many opportunities. In FY2022, as a sustainable Malaysian business corporation with a global presence, we pledged to reduce our climate change impact by committing to achieving Net-Zero in carbon emissions by 2040. In March 2023, we further reaffirmed our Net-Zero by 2040 target by committing to the Science Based Target Initiative Forest, Land and Agriculture (“SBTi FLAG”). IOI aims to meet this challenging target not only by decarbonising our current activities but to also seek technologies and innovations to help design activities that will decarbonise future businesses and operations.

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To achieve these goals, we further intensified activities surrounding our 7R's (**R**ethink, **R**epurpose, **R**educe, **R**euse, **R**ecycle, **R**epair and **R**ecover) of circularity by:

- Repurposing oil palm trunks (“OPT”) into premium palm-based wood products named “OnCore” with the commissioning of our palm wood factory. The idea of repurposing OPT waste into engineered wood panels, based on a customised European technology, is to replace tropical wood while locking in the GHGs which would otherwise be released into the atmosphere
- Generating renewable energy using the methane captured from our palm oil mill effluent (“POME”), which is one of the largest contributors of GHG emissions in our plantation operations. Beginning 2013, we have installed 10 methane captures plant to curb these emissions, which have the capacity to trap about 45 million m³ of biogas, which is then utilised for the boilers in the mills and for electricity generation within our plantation
- Introducing electrical agriculture machines to progressively replace conventional fossil fuel-powered machineries in our plantations. So far, we have purchased 18 electrical machines and tools (note: include electric Cantas) and plan to purchase another 19 units during FY2024
- Improving the operations in our refineries through implementing process changes that reduce GHG emissions. The enhancements made to improve combustion efficiency of biomass, such as Empty Fruit Bunch (“EFB”), etc., has resulted in 30% lower fuel consumption within their operations. The refineries also took further steps to reduce power consumption by adopting an Energy Management System (“EMS”) as well as heat and steam recovery
- Optimising the usage of green electricity through solar panels and the implementation of Realtime Prod Organiser-Operation Management (“RPO-OM”) that has been initiated at IOI Oleo to assist in monitoring and reducing energy consumption. Additionally, a new 6.5MW Combine Heat and Power Cogeneration (“Cogen”) plant, which substantially reduces the consumption of fossil fuel, has been installed at our Pasir Gudang facility

In managing our risks and opportunities, especially pertaining to our Scope 3 emissions, we have undertaken measures to map our supply chains to understand the extent of the impact their GHG emissions would have on our Net-Zero target. This financial year, we started to engage through a webinar, Sustainability Consultation Forum (“SCF”), meetings, etc., with our suppliers to share our CCAi goals, understand their challenges in addressing climate change as well as how to address these challenges collaboratively with them.



Our CoGeneration Plant in Johor

COMMITMENT TO STRONG GOVERNANCE

(details in page 22 - 23).

This financial year, IOI further enhanced the importance of sustainability within IOI by strengthening our sustainability governance framework. A new board committee, namely the Board Sustainability Committee (“BSC”) was formed to assist the Board of Directors (the “Board”) in the performance of its duties and responsibilities. The current Group Sustainability Steering Committee (“GSSC”) reports directly to the BSC to ensure our Group’s sustainability agenda, commitments and issues are effectively deliberated and implemented by management. Additionally, we have a committee for the CCAi called the IOI Climate Change Action Financial Disclosure Committee to systematically track and document the financial investments or projects related to the reduction and/or removal of GHG emissions throughout IOI’s operations.

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ACTIVITY-DRIVEN APPROACH TO SOCIAL PRACTICES (details in page 60 - 68).

In our efforts to ensure that our recruitment agents in the source countries adhere to our “No Recruitment Fee” policies, IOI collaborated with one of our multinational customers, to conduct audits on our recruitment agents in Indonesia and Nepal. These audits, conducted by a 3rd party auditor on behalf of the customer, utilised an adapted version of ILO’s Global Business Network Toolkit for Conducting Due Diligence and was completed in March, 2023. Based on the learnings from these audits, the customer and IOI have jointly decided to conduct further audits of other recruitment agents in the upcoming financial year. We continue to work with the International Organisation for Migration (“IOM”) on social related climate change and environment degradation with the objective of comprehending how environmental factors can impact the migrant workers. We also collaborate with IOM to establish a pre-employment orientation programme for our migrant workers in their home countries before their departure to Malaysia.

We recognise our migrant workers hard work and understand the challenges that their families had undergone during the pandemic. As such, we made several gratuity payments to them since August 2020 as part of our “Shared Prosperity” scheme. We continue to ensure their well-being by building 90 new houses in FY2023 as well as upgrading 12% of existing housing facilities for our workers.

On matters related to the IOI Pelita land dispute raised by RSPO in 2010, I am pleased to say that in July, 2022, the RSPO Complaint Panel officially declared the closure of the complaint on this land dispute grievance. In the final settlement, IOI Pelita will excise more than 4000 ha of land from its provisional lease, making this land available to the eight communities as native communal reserve.



Interview conducted with our recruitment agent in Nepal

PARTNERSHIP APPROACH TOWARDS ENVIRONMENTAL STEWARDSHIP

(details in page 48 - 57).

IOI recognises our operations’ dependencies and impacts on biodiversity and its corresponding ecosystems. To manage these impacts and dependencies effectively and positively, we collaborate with multiple stakeholders such as civil society organisations, governmental authorities, and local communities. For example, our subsidiary, PT SNA in Ketapang, Indonesia, continues to collaborate closely with *Balai Konservasi Sumber Daya Alam* (BKSDA) for biodiversity conservation and wildlife protection particularly on the orangutan population surrounding our plantations. Recently, PT SNA embarked on a new collaboration engagement with IDH Indonesia to incorporate the Production, Protection and Inclusion (“PPI”) compact concept into the Ketapang Landscape.

In Peninsular Malaysia, we continued with the Bukit Leelau mini landscape-level project. This impactful project serves as a successful example of how an empowerment programme for the ‘Orang Asli’ communities can provide sustainable livelihood options which results in the protection and revitalisation of the peatland areas. Around Lahad Datu, Sabah, we continue to enrich biodiversity through collaboration in the Nestle ReLeaf reforestation project where the goal is to complete the planting of 100 hectares of indigenous forest trees around the Kinabatangan river by the end of FY2024. Our collaboration with Sabah Wildlife Department (“SWD”), HUTAN & Seratu Aatai in protecting Rare, Threatened and Endangered (“RTE”) - IUCN species like the pygmy elephants and proboscis monkeys, surrounding our plantations give us valuable insights on how to deal with human-wildlife conflict more effectively, using tools such as motion sensors to identify biodiversity hotspots.

At the national level, IOI is part of the Business Advisory Group to develop the business action plan for the implementation of the Kunming-Montreal Global Biodiversity Framework as part of Malaysia’s National Policy on Biological Diversity 2022-2030.

MOVING FORWARD

Based on the systematic approach that we have taken and activities that we have implemented, we have achieved a positive impact on not only our business but also on the society and environment where we operate. Looking ahead, I believe IOI is well-placed, to adapt to the challenging yet opportunistic environment that we find ourselves in. Our pledge to – “Being Sustainable” by evaluating the short and long term impact of our actions; “No Greenwashing” by being transparent about key decisions made; and “Engagement” by listening to involved stakeholders when making key decisions is simply an extension of IOI’s six core values. At the same time, we are also aware of the difficulties and pitfalls ahead. In this respect, constructive engagement and collaboration with various stakeholders are critical in addressing any disparities in understanding certain issues and in achieving good outcomes across the many different business cycles.