Our Material ESG factors

The table below describes each ESG factor. Examples of activities or projects relating to the ESG factors are shown throughout this report.

<table>
<thead>
<tr>
<th>ESG Factor</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price Visibility &amp; Fair Pricing in Supply Chain</td>
<td>The key narrative of Halcyon’s sustainability drive. The reason for the development of HeveaConnect, for sustainably processed natural rubber at fair prices where all natural rubber stakeholders from smallholders to consumers can benefit.</td>
</tr>
<tr>
<td>Responsible &amp; Traceable Supply Chain</td>
<td>A key element of Halcyon’s sustainability policy and GPSNR principles. Progress on Rubberway, a risk assessment tool for raw material source jointly developed with Michelin, will be reported together with raw material tracing to source through HEVEATRACE which feeds into HeveaConnect.</td>
</tr>
<tr>
<td>Occupational Health and Safety</td>
<td>A crucial issue due to the labour intensive nature of our factory and plantation operations. Keeping track of occupational injury and disease rate statistics is important as we constantly work towards improving working conditions. The implementation of HEVEAPRO’s EHS standards has helped reduce occupational incident and injury rates.</td>
</tr>
<tr>
<td>Waste and Effluent Management</td>
<td>Water is a crucial component of natural rubber processing with high amounts of sludge/waste generated. This report shares statistics on waste generated, disposed and recycled at an operational level. This report also shares statistics on the volume of water used in operations and recycled as well as effluent discharge parameters.</td>
</tr>
<tr>
<td>Community Investment and Empowerment</td>
<td>A key element of the Halcyon Global Village, our corporate social responsibility programme where we support activities financially as well as with volunteering. On top of our regular Corporate Social Responsibility (CSR) activities at factory and plantation level, Halcyon Agri supports Sports for the Disabled at a corporate level.</td>
</tr>
<tr>
<td>Biodiversity Protection and Conservation</td>
<td>A primary focus of Halcyon’s sustainability policy and GPSNR principles. This report will discuss the set up of the Sustainability Council for the Cameroonian operations and activities at SudCam and HeveCam.</td>
</tr>
<tr>
<td>Industry Standards for Sustainable Product Offering</td>
<td>The vision for HeveaConnect is to set the industry standards for sustainable natural rubber. HEVEAPRO, HEVEAGROW and HEVEATRACE standards provide the tools to help ensure the implementation of Halcyon’s sustainability policy.</td>
</tr>
<tr>
<td>Energy Consumption and Management</td>
<td>Energy is a crucial element of natural rubber processing. This report discusses our energy emissions and the steps we take to manage our energy use better to minimise greenhouse gas emissions.</td>
</tr>
<tr>
<td>Ethics and Compliance</td>
<td>Anti-corruption is included in our sustainability policy and is one of the 12 GPSNR principles. We share mechanisms we have in place to ensure compliance with business ethics and code of conduct.</td>
</tr>
<tr>
<td>Fair, Responsible and Inclusive Employment</td>
<td>Factory operations are human-intensive, and as a large employer with a workforce of more than 16,000 factory and plantation workers, we must address issues of minimum wage, child and forced labour.</td>
</tr>
</tbody>
</table>
Stakeholder Engagement

Our stakeholders are those who have a considerable influence on our business, and whom our business has a significant impact on, socially and economically. Our economic and social role is tied to our capacity to create value through a multi-stakeholder approach. The table below shows eight groups of stakeholders and the impact and significance of each of them. Examples are shown throughout this report on our approach to our stakeholders. Our 2017 Sustainability Report provides more details on methods of engagement and frequency.

Our Employees
- Fair employment practices with no discrimination
- Annual performance review and feedback sessions
- Ensure country employment laws and regulations are followed
- Stringent occupational health and safety measures in place
- Proper grievance and whistleblowing procedures in place with assurance of confidentiality and appropriate actions taken
- Internal communication and sharing of updates amongst the countries and subsidiaries through various channels
- Training and career development programmes
- CSR activities and social activities
- Collective bargaining agreement with factory workers

Our Customers
- Transparency and accountability from us
- Consistent, quality and efficient delivery
- Meeting our sustainability policies
- Quality and price of the product
- Supply chain resilience
- Reduce environmental risks
- Response to criticisms from NGOs through various channels
- On-site assessment of our factories and plantations at their own timeframe

Our Community
- Well-being of the local community
- Reduce environmental and societal risks
- Education campaigns on health issues
- CSR programmes along our 7 pillars to address concerns raised
- Infrastructure projects
- Meetings with community leaders

Our Suppliers
- Market price, market access, rubber prices
- Education about how to prevent diseases
- Training on proper usage of agricultural methods, pesticides and fertilizers
- Training on health & safety and environment protection

The Smallholders
- Land rights
- Rubber prices volatility
- No child labor
- Infrastructure projects to improve access and safety
- Training on proper usage of agricultural methods, pesticides and fertilizers to address concerns with low yield and diseases
- Traceability projects

Regulatory bodies, governments, industry associations and certification bodies
- Timely disclosure of sustainability issues via various channels
- Compliance with rules and regulations
- Regulatory updates
- Renewals of certifications
- Site assessments to update certifications
- Communication of sustainability and business updates in our Annual Reports, Sustainability Reports and website

The Civil Society
- Derelictive concerns
- Land and indigenous rights concerns
- Free Prior and Informed Consent (FPIC) process
- Biodiversity conservation
- No political affiliations
- Open letters and responses posted on our websites
- Communication and meetings with NGOs
- WWF visit to plantation and villages

The financial community, financial institutions, investors, regulators, analysts and shareholders
- Financial reporting through various channels
- Risk management, compliance with laws and regulations
- Transparency and comprehensive reporting through various channels
- Ethical business practices
- Timely disclosure of information through various channels
- Channels include company newsletter, website, press release, quarterly briefings, industry talks, interviews, AGM and EGM

Maintaining Sound Corporate Governance

We are committed to upholding the highest standards of corporate governance to create long-term shareholder value. Under the Board’s leadership, six key capitals – financial, manufacturing, intellectual, human, social and natural capital are allocated efficiently and productively in the best interests of our shareholders and other stakeholders. We adhere to all material principles and guidelines of the Code of Corporate Governance 2012, the disclosure guide developed by the Singapore Exchange Securities Trading Limited (SGX-ST), and all other applicable laws, rules and regulations. We also engage proactively with regulators, governments, industry leaders and industry associations to understand the local legal requirements across the jurisdictions where we operate. The details of the Group’s corporate governance practices can be found in Book Two of the 2018 Corporate Report.

Corporate Governance Structure

The Board embraces the principle of empowerment. While the Board delegates certain functions to the Chief Executive Officer (CEO), Board Committees and Management, the responsibility of overseeing the design, implementation and monitoring of the GRI Standards in conformance with the ‘Core’ option and in accordance to the SGX Sustainability Reporting Guide, ultimately remains with the Board.

The CEO leads the management of the issues we cover in the GRI Standards that are indivisible from the day-to-day operations while Management maintains a structured risk management approach that incorporates a continuous process of identification, evaluation and effective management of the risk factors. The Board also appoints professional firms to identify impacts, risks, and opportunities, as well as conduct comprehensive studies on issues or concerns relating to the GRI risks as and when necessary.
Ethics and Compliance

We act with integrity, fairness and transparency and we do not tolerate corruption in any form. Our business principles underpin how our corporate culture delivers growth and positive contributions to the host communities where we operate. The Board oversees these principles, recorded in our standardised Global Employee Policy made available and easily accessible by all employees. We encourage our partners and suppliers to adhere to the principles by undertaking declarations of commitment to integrate these principles into their operations.

Furthermore, we hold regular engagement sessions with them to understand any issues they might face in integrating these principles in their operations and provide assistance where required. Where needed, we will visit our supplier sites to ascertain demonstrable integration of the principles in their operations.

Our employees are also expected to uphold strict standards of ethical business conduct and are made aware of the standards through our mandatory induction programmes. As in 2017, we maintained an unblemished record of zero confirmed cases of corruption in 2018. We have a whistleblowing policy outlined in our employee handbook. All grievances can be directed to a dedicated email that goes to the Audit Committee members. We encourage our employees to raise any concerns relating to suspected improprieties. In the event of a reported whistleblowing case, the Audit Committee ensures an investigation is instituted followed by the appropriate actions. In 2018, an anonymous letter was mailed to SGX and some of our customers. The Board and Management examined the content of the letter to determine the grievance. After the investigation, the Board and Management concluded that no action was required as there was no concrete accusations of corruption or non-compliance.

We recognise the risk of regulatory penalties and the resulting loss of reputation arising from non-compliance with relevant legal requirements. As we expand rapidly through acquisitions, we proactively keep abreast of applicable legal requirements in the countries we operate. In 2018, we did not record any material breaches of relevant laws and regulations in our respective jurisdictions of operations.

Global Platform for Sustainable Natural Rubber (GPSNR)

In October 2018, natural rubber stakeholders convened in Singapore for the ceremonial launch of an independent platform to lead improvements in the socio-economic and environmental performance of the natural rubber value chain. Halcyon was one of the 18 founding members. Other founding members who signed on the GPSNR Member Statement included 11 members of the Tire Industry Project (TIP), Ford Motor Company, ITOCHU Corporation, PT Kirana Megatara, SIPEF, The Socfin Group, and Southland Global Pte Ltd. In joining the platform, we demonstrate our commitment to the integration of principles for sustainable natural rubber into our operational activities. HeveaConnect represents our first step towards a sustainable natural rubber supply chain.

Stakeholders including tyre manufacturers, other rubber users, suppliers and processors, vehicle makers and NGOs, contributed to the development of the GPSNR. This included alignment on a wide-reaching set of priorities for the natural rubber supply chain. The GPSNR will work to harmonise standards across 12 principles to improve respect for human rights, prevent land-grabbing and deforestation, protect biodiversity and water resources, improve yields, and increase supply chain transparency and traceability. Some of these principles are reflected in our material ESG factors seen on page 36.

Development of the platform was initiated by the CEOs of the World Business Council for Sustainable Development (WBCSD) and TIP in November 2017 and has since been led by a working group of TIP member companies. TIP will financially support the platform during start-up and its first two years of operations while a paying membership base is being established. The GPSNR, headquartered in Singapore with a dedicated secretariat, will maintain its independence. The inaugural GPSNR General Assembly kicked-off operations in March 2019.
Good agricultural practices and yield improvement
To promote effective and safe methods to maximise yields, including providing training, encouraging natural fertilisers and improving environmental conservation practices

Ecosystem protection
To achieve zero-net deforestation and ensure responsible cultivation, harvesting and processing of natural rubber across the value chain

Working conditions and living environment
To protect the rights of all supply chain stakeholders and create a positive work environment

Responsible land acquisition and use
To promote a socially and environmentally responsible value chain and improve the livelihoods and economic viability of local communities, ensuring FPIC methodology and guidelines are applied

Traceability
To actively facilitate the development of traceability across the supply chain

Ethics and transparency
To prevent corruption across the value chain, practice fair and fair competition and develop a transparent grievance mechanism process for all stakeholders

Policy implementation and compliance
To ensure corruption-free and transparent implementation and reporting of this policy across the value chain

The Group is committed to adhering to the principles stated in the SNRSCP and providing customers with a premium sustainable product. We will also work closely with our suppliers to ensure they integrate the principles of the SNRSCP within their operational activities. We will send out letters to suppliers to acknowledge and ensure compliance with the principles of the SNRSCP in 2019. To monitor compliance with the policy, Halcyon will commission random audits as and when required.

Biodiversity Protection and Conservation

World Wildlife Fund (WWF) Visit to SudCam Plantation
In the face of allegations from NGOs, Halcyon invited World Wildlife Fund (WWF) to visit our SudCam plantation in Cameroon in August 2018. The visit enabled WWF to gain an understanding of the situation on the ground and provide some guidance to SudCam on how to address environmental and social issues and move towards a sustainable natural rubber plantation practices. This included gathering background information from documentation and discussions with the local communities and SudCam employees.

In summary, the villages reported improved relations with SudCam since it was acquired by Halcyon.

The local communities acknowledged that Halcyon has contributed to local development by implementing drinking water facilities, building rubber training centres, constructing primary schools and a well-resourced hospital as well as fostering greater dialogue. The villages did express dissatisfaction with certain aspects of SudCam’s engagement, especially the lack of access to employment within SudCam operations. SudCam continues to provide jobs to riverine communities. Currently, 178 out of the 841 workers of SudCam are from neighbouring villages. In addition, subcontractors employ more than 1,000 workers, of which the majority are from riverine communities. Villagers have access to medical services and are supported in the establishment of small-scale rubber plantations. Halcyon will continue collaborating with local communities and step up its social investments. SudCam anticipates employing approximately 10,000 workers in the coming years. Taking into consideration their families, SudCam would ensure housing and food for about 50,000 inhabitants.

Local communities expressed concern about the limited space left for their farming activities and the collection of forest products and SudCam will work to address this. They absolved SudCam of any direct responsibility in restricting their access to land. Land allocation was determined by the Government of Cameroon and not SudCam/Halcyon and the process was not aligned with FPIC as defined by the UN-REDD Programme. The local communities insisted SudCam should find a solution to the land access issue given that the company is the entity now developing the area.

All three SudCam concessions are former logging concessions. In line with government regulations, a logging company appointed by the government cleared the areas of all economically valuable timber. The remaining trees were cleared by SudCam in preparation for planting rubber trees. SudCam is reviewing the return of 13,000 ha of its south concession to the government as most of the concession is classified as High Conservation Value (HCV) because of its function as an elephant corridor.

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The full WWF report is published on our website together with the SNRSCP.

Zero-Net Deforestation
Halcyon acknowledges the legacy issues prior to our acquisition of SudCam, particularly regarding access to land, limited space for local farming activities and the slow implementation of a concrete environmental management plan. Halcyon is committed to achieving zero-net deforestation in all its plantations and will implement an integrated landscape management approach in consultation with key environmental and social civil society organisations.

All clearing and felling operations have been ceased, until the Sustainability Council has been formed and oriented to conduct necessary inquiries. Halcyon remains fully committed to the people of Cameroon and will create additional business pathways that enable the development of a local ecosystem of smallholders and outgrower farmers complementary to estates in HeveCam and SudCam.

Halcyon is working on next steps based on the recommendations of WWF and will share updates in the next report.
HEVEAPRO and ISO Industry Standards

In 2018, we audited all of our factories across four pillars of Quality Standards, Environmental Health & Safety, Supply Chain Security and Social Responsibility. Social Responsibility was the latest pillar added to the HEVEAPRO standards in 2017, increasing the number of total audit points to about 1,000. Three of our factories attained the highest rating of ‘Platinum’ in 2018 as compared to only one in 2017 after being independently audited by TÜV SÜD.

All our factories possess ISO 9001 certification. In 2018, 19 factories were certified ISO 14001. All of our Indonesian factories except for the recently acquired ones have ISO 14001 certification. We aim to have all factories certified and transitioned to the ISO 14001:2015 standards by 2021. Factories exporting products to the U.S. have acquired the Customs-Trade Partnership Against Terrorism (C-TPAT) certification. Our Indonesia factories have also obtained SNI (Indonesian National Standard) certification that ensures safe and quality products are sold to the Indonesian market. We further aim to have all our factories certified to ISO 45001:2018 by the end of 2021.

Our Four Core Principles

01 Quality Standards
02 Environmental, Health & Safety
03 Social Responsibility
04 Supply Chain Security

Country | Name of Factory | ISO 9001 | ISO 14001 | ISO 18001 | C-TPAT | HEVEAPRO TÜV SÜD Rating
---|---|---|---|---|---|---
Malaysia | HKB 1 & 2 (Perak) | • | • | • | Platinum
| JJ (Euroma Kedah) | • | • | • | Platinum

Indonesia | SCM (Hekk Lie Rantau Prapat) | • | • | • | Gold
| SCU (Hekk Lie Sunggal) | • | • | • | Silver
| SCK (Hek Tong Sunggal) | • | • | • | Platinum
| SDI (Hek Tong II) | • | • | • | Gold
| SDG (Hewea MK I) | • | • | • | Gold
| SEA (Hewea MK II) | • | • | • | Gold
| SDQ (Remco Palembang) | • | • | • | Gold
| SCY (Sunan Rubber) | • | • | • | Gold
| SBE (Remco Jambi) | • | • | • | Gold
| SCL (Hek Tong Jambi) | • | • | • | Gold
| KAB (Sunar Djarum Pontianak) | • | • | • | Silver
| KAZ (Hek Tong Pontianak) | • | • | • | Gold
| KBO (Sunar Alum Pontianak) | • | • | • | Silver
| KRM (GMS Sentosa Pontianak) | • | • | • | Gold
| KBE (Sunar Djarum Sambas) | • | • | • | Gold
| KBP (Sunar Djarum Sanggau) | • | • | • | Silver
| KBO (Bumy Jaya Tanjung) | • | • | • | Gold
| SAR (Pulau Briton Daya) | • | • | • | Silver

China | BX1B (Jinghong) | • | • | • | Gold
| AX (Hainan) | • | • | • | Gold
| CX (Hainan) | • | • | • | Gold

Africa | TRC (Ivory Coast) | • | • | • | Gold
| TCA (Ivory Coast) | • | • | • | Gold
| HeveCam (Cameroon) | • | • | • | Gold

Thailand | TBH HBS (Surathani) | • | • | • | Gold
| TBH HCY (Yala) | • | • | • | Gold
| TBH HBN (Narathiwat) | • | • | • | Gold

HEVEAPRO TÜV SÜD Rating:
Bintan Islands, Indonesia

Traceability of our natural rubber supply chain is a key principle of our sustainability policy and a material ESG factor. In June 2018 we partnered with CropIn, a digital agriculture solutions provider, to conduct traceability studies in Bintan Islands. Using the digital application created by CropIn, we interviewed smallholder rubber farmers with the help of the local government using smartphones. Through the exercise, we identified 60 farmer groups comprising a total of 1,038 smallholder farmers. Only 40 farmer groups comprising of about 300 farmers remain actively involved in the natural rubber trade while the rest tap rubber periodically.

The mapping of active farmers group in various regions of Bintan Islands can be seen in the map.

GPS coordinates were obtained for about 95% of farmer groups. Difficulties were faced in gathering information on land size, type of clones planted, average yields, farmer access to electricity and financial services. Farmers were also suspicious and apprehensive as to why interviews were being conducted without incentives being provided. They were also instructed by their agents and dealers not to disclose information. Collecting massive amounts of data through the application was a laborious and tedious process. As such, we were not able to obtain sufficient data sets to conduct a feasibility study on traceability. The traceability exercise concluded in November 2018.

While we managed to identify our sources of natural rubber in Bintan Islands, the pilot study highlights the challenges faced in tracing our natural rubber supply chain. Low rubber prices, convoluted supply chains, resistance by incumbents and the lack of technological infrastructure and incentives pose a major hindrance to data collection. The next step for Halcyon would be to scale up its traceability efforts by initiating such studies in Palembang, Pontianak and Jambi. For the next study, we will seek assistance from local NGOs who have on-the-ground expertise in dealing with local communities to secure buy-in. We hope a partnership with an NGO knowledgeable of local rubber communities in Palembang, Pontianak and Jambi will help us to overcome the challenges we faced in the pilot.

Continental and Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)

In 2017, we signed a memorandum of understanding (MOU) with Continental and Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) to pilot a traceability system to increase the traceable production of rubber in West Kalimantan over the next three years. In total, 400 farmers will be trained to grow high-quality rubber by clearly defined sustainability criteria. Continental has secured a vendor to develop an IT traceability system to ensure full traceability of raw material from source to factory gate.

Prior to signing the MOU, GIZ had conducted a baseline household income study with 200 families on agroforestry systems in the Kapuas Hulu district in July 2017. As of mid-2018, around 150 farmers have been registered for this project. GIZ is working to bring in more participants and progress has been slow due to various reasons, particularly weak rubber prices. GIZ has secured a warehouse for collecting raw material within Mentabah village in the Kapuas Hulu District. Farmers will be paid factory gate price at the warehouse and payments will be made through bank transfers. The warehouse will be opened for most days during the week and IT personnel will be stationed there to collate and enter traceability data into the IT system. The raw material will then be transported to Halcyon’s processing facility, KAZ (Hok Tong Pontianak). The traced rubber will be segregated at KAZ and used to fulfill Continental’s orders.

A training manual has been developed by GIZ on implementation of good agricultural practices, management and social and environmental standards. Overarching themes include:
- Farm economics
- Soil fertility management, location selection, species selection, crop protection, tapping, post-harvest treatment and quality management
- Land rights, registration, conflict resolution, local financing opportunities, child labour and formation of farmers’ associations
- Scope for income diversification and simple book-keeping

RUBBERWAY

<table>
<thead>
<tr>
<th>Year</th>
<th>Factories</th>
<th>Intermediaries</th>
<th>Smallholders</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>6</td>
<td>313</td>
<td>167</td>
</tr>
<tr>
<td>2018</td>
<td>8</td>
<td>348</td>
<td>334</td>
</tr>
</tbody>
</table>

In 2018, we extended Michelin’s RUBBERWAY programme in Indonesia on risk mapping of the natural rubber supply chain to two additional factories, SCM (Hock Lie Rantau Prapat) and SAR (Pulau Bintan Djaya). In doing so, we have almost doubled our outreach to smallholder farmers from 197 to 334. As smallholders account for up to 80% of total natural rubber production, we plan to develop a detailed roadmap with Michelin to scale up the outreach to smallholder farmers. This will be shared in our 2019 report. Reaching out to smallholders directly has been a key issue the natural rubber industry is grappling with and we believe that the formation of the Global Platform for GSPNR will provide solutions to address the needs for the smallholder farmers. Our pilot traceability study in Bintan Islands highlights the problems faced in reaching out to smallholder farmers.