

2019

Sustainability
Report

CREATING FUTURE VALUE

Economic

Leveraging a three-pronged strategy to create future value

Environmental

Innovative use of scheduled wastes and by-products

Social

Employee volunteerism fuels CMS' 'Doing Good & Building Sustainable Communities' programme

Supporting Sarawak's Progressive Growth for over **40 years**

Welcome to CMS' 2019 Sustainability Report which aims to provide concise insights into the Group's sustainability endeavours whilst underscoring our efforts to champion the agenda of sustainability across our organisation and the State of Sarawak.



CAHYA MATA SARAWAK

Cover Rationale



The year 2019 was a highly challenging one characterised by sluggish economic growth made worse by external and domestic headwinds. Despite the year's tough operating conditions, Team CMS delivered a resilient performance.

Adapting quickly to marketplace changes, our people maintained a steadfast focus on their targets and the Group's strategic direction to ensure CMS remained relevant to its market segments. We also streamlined our Top Management to give it more clarity and direction. At the same time, we raised the engagement levels across all our audiences, speaking at length about the positive developments within CMS and the strategic measures we are bringing into play to secure the future of the Group. By fine-tuning our strategies and strengthening our fundamentals, CMS has been laying solid foundations that will result in the creation of future value for the Group.

The cover design of our 2019 Sustainability Report seeks to conceptually convey the idea of expansion, growth and progress emanating from a single source. With CMS representing that source, the Group is seen to be creating diverse spheres of value as we expand upwards and outwards into the marketplace. Today, CMS is well-primed to create future value as we leverage on a three-pronged strategy. The first prong of this strategy calls for us to reposition and fortify all traditional core businesses; the second prong mandates that we fully implement and grow our strategic businesses; while the third prong dictates that we work to reposition and strengthen the CMS brand.

Moving forward, CMS remains one the best proxy investments for Sarawak's accelerating economic growth. We are well-positioned to benefit from the key economic growth drivers within the State. These include the energy-intensive industries under SCORE; impactful infrastructure development projects; upcoming water and electricity grid projects; as well as the rollout of Sarawak's Digital Economy initiative. By leveraging on our three-pronged strategy, continuously reinvesting into our core competencies, and capitalising on the State's key economic growth drivers, we are confident that we will continue to create good value for our stakeholders, as well as establish a long-term, sustainable growth pathway for both CMS and Sarawak.

What's Inside this Report

- 01 About This Report
- 02 Who We Are Today
- 04 Our 2019 Performance Highlights and Achievements
- 06 Message from Our Group Managing Director
- 10 Our Four Stakeholder Group Model
- 12 Materiality Mapping

PILLAR 1:

14 Economic

PILLAR 2:

30 Environmental

PILLAR 3:

Social

- 64 Labour Practices and Decent Work
- 80 Society
- 98 Product Responsibility

- 104 Ensuring A Sustainable Future
- 105 Aligning with the Sustainability Development Goals
- 107 Adopting the GRI Standards for Greater Transparency

Navigation Icons

The following icons are used in this Report to indicate where additional information can be found.



This icon tells you where you can find related information in this Report.



This icon tells you where you can scan or go through more information online.

About This Report

Welcome to Cahya Mata Sarawak Berhad's (CMS or the Group) Sustainability Report 2019. This, our fifth Sustainability Report (Report), serves as a tool to demonstrate to our stakeholders and other interested parties how CMS continued to undertake its operations in a responsible and sustainable manner throughout 2019.

This Report discloses our sustainability achievements in a transparent and objective manner in line with the Global Reporting Initiative or GRI Guidelines among other standards. Together with our Integrated Annual Report 2019, which features the financial and non-financial aspects of our business, as well as our strategies and value creation efforts in line with the International Integrated Reporting Council or IIRC's International <IR> Framework, these two reports provide a clear, comprehensive and transparent account of our performance in managing the Economic, Environmental and Societal (EES) aspects of our operations.

There have been no changes to the boundaries of this Report from the previous Sustainability Report 2018. That Report saw us disclosing substantial new content most of which sought to fulfil the requirements of the FTSE4Good Bursa Malaysia Index. As a result of the new information that we disclosed, our FTSE4 Good rank shifted upwards by 0.7 points from 2.2 (as at July 2016) to 2.9 (as at July 2019).

Today, we continue to report on CMS' sustainability achievements in a comprehensive and factual manner which we trust will go down well with our stakeholders. Outlined on the right is detailed information on the scope and criteria used in the preparation of this Report.

1 Reporting Period

1 January to 31 December 2019
(Financial Year or FY 2019), unless specified.

2 Reporting Cycle

Annually

3 Scope

- CMS' Departments and Divisions:
 - Head Office Departments
 - Cement Division
 - Construction Materials & Trading Division
 - Construction & Road Maintenance Division
 - Property Development Division
 - Samalaju Development Division

* *Note that the scope of this Report only covers the abovementioned Departments and Divisions that CMS has full management control over and which we are able to apply our Sustainability Agenda to.*

The activities of the Group's Associate Companies are not covered in this Report due to the fact that at the Associate level, CMS' influence is at Board level only. At each Associate Company, the respective Management teams are responsible for implementing their own sustainability agenda.

- The scope of this Sustainability Report aligns with that of the Integrated Annual Report to ensure consistency by way of reporting and financial statements.

4 References and Guidelines

- Global Reporting Initiative (GRI) Sustainability Reporting Guidelines
- Bursa Malaysia's Sustainability Reporting Guide
- Association of Chartered Certified Accountants (ACCA) Malaysia
- Sustainability Reporting Awards (MaSRA) Guidelines for Malaysian Companies
- International Organisation for Standardisation (ISO) 26000:2010 Guidance on Social Responsibility

ABOUT THIS REPORT

WHO WE ARE TODAY

OUR 2019 PERFORMANCE HIGHLIGHTS AND ACHIEVEMENTS

MESSAGE FROM OUR GROUP MANAGING DIRECTOR

OUR FOUR STAKEHOLDER GROUP MODEL

MATERIALITY MAPPING

ECONOMIC

ENVIRONMENTAL

SOCIAL

ENSURING A SUSTAINABLE FUTURE

ALIGNING WITH THE SUSTAINABILITY DEVELOPMENT GOALS

ADOPTING THE GRI STANDARDS FOR GREATER TRANSPARENCY



Who We Are Today



Total Revenue (RM)



Employee Training (Person)



CMS Doing Good (Man-hours)



WHO WE ARE

“ — ”

Cahaya Mata Sarawak Berhad (CMS or the Group) is Sarawak's leading infrastructure facilitator and a prime mover in the State's growth story. Our roots go back to 1974 when we began supporting the State's rapid growth as its first cement manufacturer. Having steadily grown from strength to strength, we are today a listed entity on the Main Market of Bursa Malaysia with an enlarged and diversified portfolio. Our portfolio encompasses our Core Businesses, namely our Cement, Construction Materials & Trading, Construction & Road Maintenance and Property Development businesses; as well as our Strategic Investments which centre on export-oriented industries within the Sarawak Corridor of Renewable Energy (SCORE) and also the telecommunications industry.

As the State moves into a new era of growth with SCORE, CMS' expansion path too is moving into a new trajectory to take advantage of the business investment opportunities in energy-intensive industries and their infrastructure and related needs. Given the vast business potential within SCORE and throughout the State, we continue to leverage on our healthy balance sheet, local knowledge, an experienced management team, proven strategies, and a synergised portfolio of Sarawak-based businesses, to maximise our participation in the Sarawak growth story.

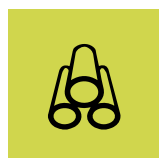
BUSINESS OVERVIEW

CMS' solid progress over the last 45 years mirrors Sarawak's own dynamic progress. Today, our operations encompass more than 34 companies across 6 business segments, and a workforce of over 2,186 people in 40 offices throughout the State.

CORE BUSINESSES



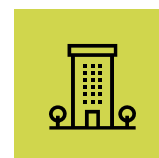
Cement



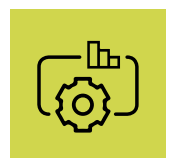
Construction Materials & Trading



Construction & Road Maintenance



Property Development



Samalaju Development Division



STRATEGIC INVESTMENTS

Our Strategic Investments

- Ferrosilicon and manganese alloys smelter operations under OM Materials (Sarawak) Sdn Bhd
- Integrated phosphate complex under Malaysian Phosphate Additives (Sarawak) Sdn Bhd
- Information and Communication Technology business under SACOFA Sdn Bhd
- Kenanga Investment Bank Berhad
- KKB Engineering Berhad

Other Investments

- COPE Private Equity Sdn Bhd
- COPE-KPF Opportunities 1 Sdn Bhd
- COPE Opportunities 2 Sdn Bhd
- HELP IBRACO CMS Sdn Bhd

ABOUT THIS REPORT

WHO WE ARE TODAY

- Vision
- Mission
- Business Overview

OUR 2019 PERFORMANCE HIGHLIGHTS AND ACHIEVEMENTS

MESSAGE FROM OUR GROUP MANAGING DIRECTOR

OUR FOUR STAKEHOLDER GROUP MODEL

MATERIALITY MAPPING

ECONOMIC

ENVIRONMENTAL

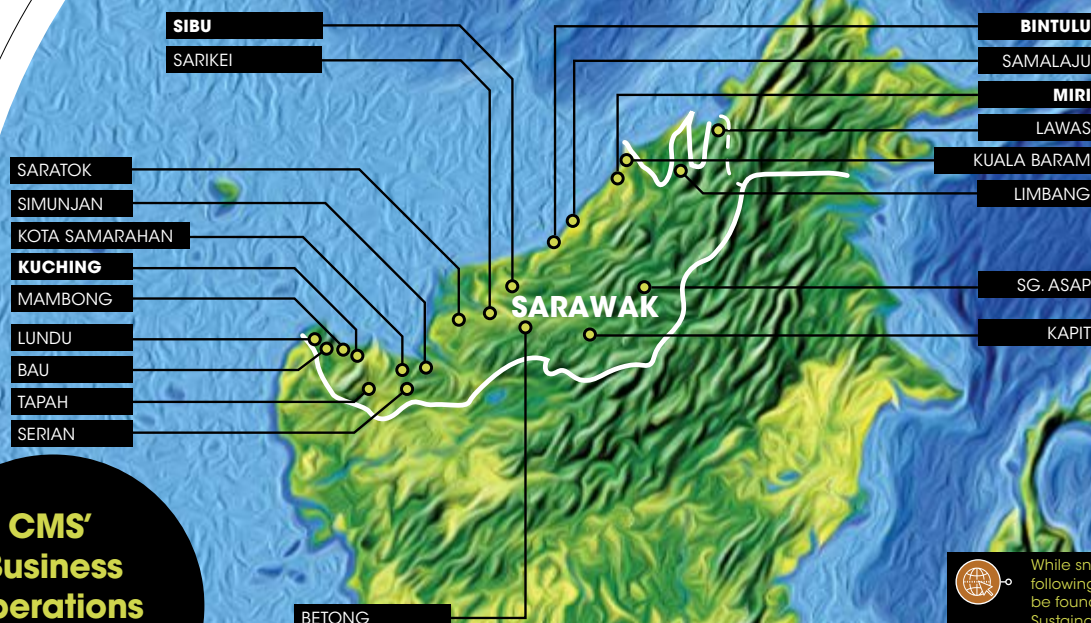
SOCIAL

ENSURING A SUSTAINABLE FUTURE







ALIGNING WITH THE SUSTAINABILITY DEVELOPMENT GOALS

ADOPTING THE GRI STANDARDS FOR GREATER TRANSPARENCY

CMS' Business Operations across Sarawak



While snippets of the following content can be found throughout this Sustainability Report, for more detailed information kindly refer to the specific sections highlighted below within CMS' Integrated Annual Report 2019 which is accessible at <http://www.cmsb.my/investor-relations/reports/annual-reports/>

Our Performance	Weathering external and internal headwinds, CMS turned in a resilient performance in FY 2019. We registered revenue of RM1.74 billion and a profit before tax (PBT) of RM247.90 million, a marginal 2% increase in revenue and a dramatic 33% drop in PBT in comparison to revenue of RM1.71 billion and PBT of RM372.32 million previously. This softer performance was due to the significant decrease in the aggregate contribution from our associate companies, as well as lower operating profits from our traditional core business divisions. Our profit after tax and non-controlling interests too dropped by 39%. This led to a lower return on shareholders' equity and earnings per share.	 For more information please refer to Group Chairman's Message, Strategic Review by the Group Managing Director and Financial Overview sections.
Our Targets	We aspire to achieve the following targets within a five-year timeframe: <ul style="list-style-type: none"> • To double the annual profit after tax and non-controlling interests or PATNCI to RM500 million; and • To be the most admired Sarawak public-listed company. 	 For more information please refer to Strategic Review by the Group Managing Director .
Our Strategy	We have evolved our strategy from a two-pronged one into a three-pronged strategy in response to the increasingly challenging political and business landscape. This calls for us to: <ul style="list-style-type: none"> • Reposition and fortify our traditional core businesses; • Fully implement and grow our strategic businesses; and • Reposition and strengthen the CMS brand. 	 For more information please refer to Strategic Review by the Group Managing Director and Creating Future Value section.
Our Commitment to Growing Our Diverse Businesses	We remain very clear about our plans for our core and strategic businesses. We intend to continue extracting value from our traditional core businesses by bolstering their overall operations and optimising efficiencies. We are also looking into re-focusing and growing our strategic businesses by expanding the market base of our strategic businesses beyond Sarawak, among other things.	 For more information please refer to Strategic Review by the Group Managing Director, Operational Review and Creating Future Value sections.
Our Commitment to Responsible Operations	Our four-stakeholder group model guides us in the running of our business. We measure performance by using financial and non-financial performance indicators related to our strategic objectives. We leverage on good governance practices and stringent risk control measures to ensure our operations at the Group, divisional and subsidiary levels are run in a responsible and transparent manner.	 For more information please refer to Strategic Review by the Group Managing Director, Top Business Risks and Mitigation Strategies , as well as Governance & Risk Management sections.
Our Commitment to Sustainability	We continue to embed a strong sustainability culture in all our businesses. Our aim is to create a vibrant performance-driven workplace, be a leader in good environmental practices, and serve as a model for giving back to the community. Moving forward, we have begun to take our sustainability efforts up to the next level by engaging PwC to review our practices and incorporate sustainability in a more effective manner within our day-to-day operations.	 For more information please refer to Determining What is Material to CMS, Nurturing People, Sustaining Communities , as well as Tapping Innovation to Preserve Our Environment sections.



Our 2019 Performance Highlights and Achievements

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As Sarawak's leading infrastructure facilitator and a prime mover in the Sarawak growth story, CMS continues to make advances on several fronts. The following are some of our performance indicators and achievements for 2019.

2019 FINANCIAL HIGHLIGHTS

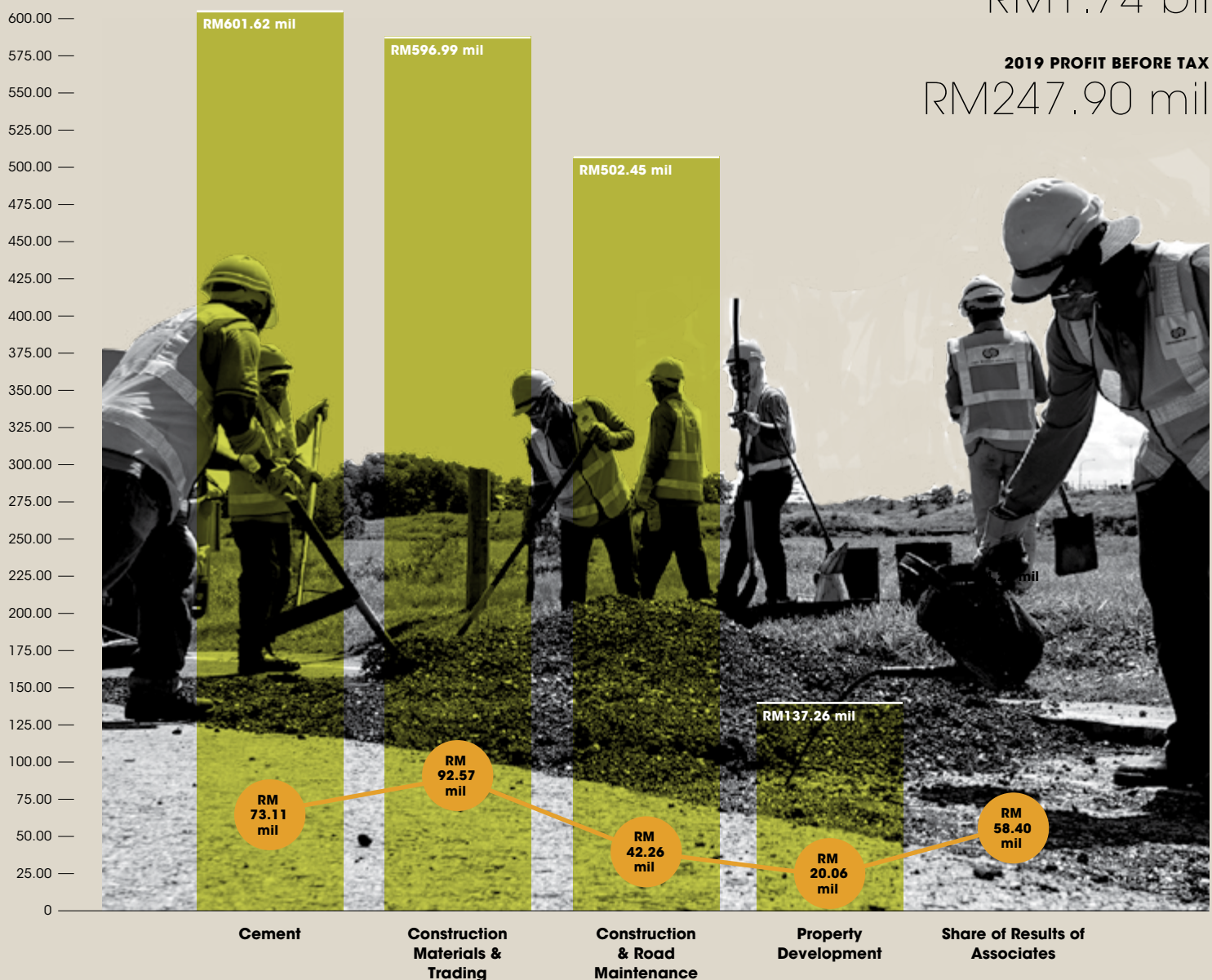
Revenue
Profit Before Tax

2019 GROUP REVENUE

RM1.74 bil

2019 PROFIT BEFORE TAX

RM247.90 mil



2019 ACHIEVEMENTS

CMS continued to be honoured for its commitment to excellence in the year under review, even as the Group and its subsidiaries made good progress on several fronts.

1 MARCH 2019 COPE NAMED ONE OF TOP 3 'EXIT OF THE YEAR' WINNERS

COPE Private Equity Sdn Bhd's exit from Serba Dinamik was hailed as one of the Top 3 Exits of the Year by global publication, Private Equity International.

13 MARCH 2019 CEMENTING POSITION AS SARAWAK'S LEADING INFRASTRUCTURE FACILITATOR

In March 2019, the PPES Works-CCCC joint venture was awarded the RM466.68 million Package 5 contract pertaining to the proposed construction and completion of the Bintulu-Jepak Bridge Crossing which makes up a part of the Sarawak Coastal Road project. In November 2019, CMS' Construction & Road Maintenance Division was awarded a contract to maintain 3,343 km of State roads thus solidifying CMS' position as a dominant player in the State's road connectivity programme.

1 APRIL 2019 PUBLICATION OF FOURTH STANDALONE SUSTAINABILITY REPORT

CMS' commitment to embedding sustainability within the Group and undertaking good Economic, Environmental and Social measures was underscored through the publication of its 2018 Sustainability Report, its fourth standalone report.

4 APRIL 2019 CMS WINS GOLD AT 11TH GLOBAL CSR SUMMIT AND AWARDS 2019

CMS clinched Gold in the CSR Leadership Category at Asia's most prestigious CSR recognition awards programme. Over the tenure of the CMS 'Doing Good' programme, CMS employee volunteers have invested 363,926 man-hours across 393 different projects.

30 OCTOBER 2019 TUAN SYED HIZAM ALSAGOFF NAMED BEST CFO FOR INVESTOR RELATIONS (MID-CAP) IN MALAYSIA

CMS' Group Chief Financial Officer, Tuan Syed Hizam Alsagoff, was named the Best CFO for Investor Relations (Mid Cap) at the Malaysian Investor Relations Association's Investor Relations Awards 2019 event. This win reflects the Group's IR unit's aim to ensure transparent and timely communications among the investment community.

Dato Isaac Lugun and Mr Sahil Singh Dev were also nominated as Best CEO and Best IR Professional respectively.

1 AUGUST 2019 CMS REMAINS A CONSTITUENT OF FTSE4GOOD BURSA MALAYSIA (F4GBM) INDEX

As testament to its strong Environmental, Social and Governance (ESG) practices, CMS maintained its position as a constituent of the F4GBM Index for the fourth consecutive year. CMS' F4GBM rank shifted upwards by 32% from 2.2 points (as at July 2016) to 2.9 points (as at July 2019). It is the only Sarawak public-listed company on the F4GBM Index to date.

28 JUNE 2019 CMS RECOGNISED FOR BEST PRACTICE REPORTING AT 2019 ARA

CMS received Silver and Bronze awards for its sustainability reporting and annual reporting endeavours respectively at the 2019 Annual Australasian Reporting Awards event in Melbourne. The Group's reports were benchmarked against ARA's world best practice criteria.

9 APRIL 2019 CMS RANKED AMONG TOP 10 EMPLOYERS OF CHOICE

CMS bagged fourth place on JobStreet's Top 10 Employers of Choice 2019 online survey thus attesting to its good HR practices.

31 OCTOBER 2019 CMS AWARDED THE BRANDLAUREATE - CONGLOMERATE AWARD 2019

CMS was awarded the BrandLaureate - Conglomerate Award 2019 at the BrandLaureate World Best Brands Awards 2019 event in Singapore. This prestigious accolade saw CMS fulfilling stringent criteria to qualify as a brand that impacts communities and represents the best-of-the-best in its respective segments.

21 NOVEMBER 2019 CMS WINS 2019 GLOBAL ROAD ACHIEVEMENT AWARD 2019

CMS Roads Sdn Bhd was one of 12 elite road industry companies globally that was recognised by the International Road Federation (IRF) for its commitment to excellence. The company received the IRF's prestigious Global Road Achievement Award for Quality Management for long-term management and maintenance of State Roads in Sarawak.

FULL YEAR 2019 CMS QUALIFIES FOR BURSA MALAYSIA'S GREEN LANE POLICY

CMS remains the only Sarawakian company to qualify as a member of Bursa Malaysia's Green Lane Policy due to its good track record of public disclosure.

UPHOLDING A STRONG EMPLOYEE VOLUNTEERISM CULTURE

In 2019, CMS' employees raised a total of RM86,535.00 and clocked up 43,894 man-hours for CSR activities under the CMS 'Doing Good' banner.

ABOUT THIS
REPORT

WHO WE ARE
TODAY

OUR 2019
PERFORMANCE
HIGHLIGHTS AND
ACHIEVEMENTS

• 2019 Financial
Highlights
• 2019
Achievements

MESSAGE FROM
OUR GROUP
MANAGING
DIRECTOR

OUR FOUR
STAKEHOLDER
GROUP MODEL

MATERIALITY
MAPPING

ECONOMIC

ENVIRONMENTAL

SOCIAL

ENSURING A
SUSTAINABLE
FUTURE

ALIGNING WITH
THE SUSTAINABILITY
DEVELOPMENT GOALS

ADOPTING THE
GRI STANDARDS
FOR GREATER
TRANSPARENCY



Message from Our Group Managing Director

Group Managing Director

Y Bhg Dato
Isaac Lugun

Dear Stakeholders,

It is my pleasure and privilege to present the 2019 Sustainability Report of Cahya Mata Sarawak Berhad (CMS or the Group) which underscores our efforts to champion the agenda of sustainability across our organisation and the State of Sarawak. This, CMS' fifth Report to date, aims to provide concise insights into the Group's sustainability endeavours for the financial year ended 31 December 2019 (FY 2019).

As CMS goes about its daily business of helping shape economies, society and businesses through its myriad activities, we acknowledge the need to create long-term shared value for our various stakeholders and to secure our future. One of the tangible manners in which we continue to create value for our stakeholders is via upholding the agenda of sustainability within CMS. By keeping an unwavering focus on responsible business practices and sustainable growth, we continue to create tangible stakeholder value and ensure the Group's long-term success.

In FY 2019, the Group's commitment to sustainability was evident in the steadfast progress that we continued to make on the Economic, Environmental and Social or EES fronts.



→ UPHOLDING GOOD MARKETPLACE PRACTICES

In recognition of our EES achievements, CMS continues to be included as a constituent of the FTSE4Good Bursa Malaysia (F4GBM) Index. This international recognition for the fourth consecutive year validates CMS' commitment to implementing robust environmental, social and governance (ESG) practices and entrenches us in the international market as a progressive and ethical company that is upholding a sustainability-based (and thus safer) business model. I am pleased to say that as a result of the substantial new content that we disclosed in our 2018 Sustainability Report (to align with the F4GBM Index), our rank shifted upwards by 32% from 2.2 points as at July 2016 to 2.9 points as at July 2019. We are delighted with this result and will continue to undertake the necessary measures to ensure we remain an attractive value proposition to financial institutions who have set down strict ESG criteria for their investments.

CMS also maintained its position as one of the Qualifying Companies under Bursa Malaysia's Green Lane Policy thereby entitling us to specific privileges including the ability to issue circulars without having to seek Bursa Malaysia's approval. This recognition attests to our high standards of corporate governance conduct and good disclosure practices. For our effective and transparent reporting practices, we went on to win a Silver award for our Sustainability Report and a Bronze for our Annual Report at the 2019 Annual Australasian Reporting Awards (ARA).

We also bagged the BrandLaureate – Conglomerate Award 2019 at the BrandLaureate World Best Brands Awards 2019; and were voted among the Top Four companies in JobStreet's 'Top 10 Employers of Choice' survey – an affirmation of our progressive human capital practices.

On top of this, CMS Roads Sdn Bhd was one of 12 elite road industry companies from around the world to be recognised by The International Road Federation (IRF) for its excellence in maintaining and developing State roads in Sarawak. The company received the IRF 2019 Global Road Achievement Award for 'Quality Management – Long-term Management and Maintenance of State Roads in Sarawak'. This speaks volumes of the Group's commitment to maintaining the best roads team in the State with a highly trained and completely dedicated staff who possess a level of experience that is second to none.

The finer details of these and other developments, including that relating to CMS' revamped three-pronged business strategy to drive our second wave of growth, our risk management and governance efforts, as well as other initiatives to strengthen our businesses and the State, can be found in the Economic section of this Report.

→ IN SUPPORT OF EFFECTIVE ENVIRONMENTAL PRACTICES

As a good steward of the resources we have been entrusted with, we continue to apply innovative operating strategies, technologies and best practices to our operations in a manner which mitigates our carbon footprint whilst preserving the environment for future generations. The year in review saw us focusing our energies on improving our environmental practices, tapping innovation, and sharing our best practices as part of our efforts to safeguard the environment.

Where it makes sense to do so, we are open to sharing our best practices and insights in an effort to elevate the industries and markets in which we operate. At a knowledge sharing session organised by the Institution of Engineers Malaysia (Sarawak Branch) in collaboration with Swinburne University of Technology (Sarawak Campus), CMS imparted detailed knowledge of its construction methods on peat and organic soils to over 100 professional engineers. Such initiatives underscore our willingness to share our wealth of information with our industry peers

to ensure that real and consistent State-wide growth is delivered with absolute quality.

In FY 2019, we continued to undertake research and development (R&D) activities, as well as introduce innovative environmental-friendly methodologies and technologies to treat scheduled wastes and by-products within the Samalaju Industrial Park (SIP). One of the biggest issues within the SIP centres on the management of scheduled wastes of new by-products by new industries. Recognising that many of these by-products from new industries within the SIP can be recycled and used to replace the typical raw materials or traditional fuel used in clinker, cement and concrete operations, we continue to leverage on our cement and premix laboratory facilities, as well as dedicated teams to manage and recycle waste and by-products. Our efforts on the waste management and product development front, as well as our other environmental-friendly endeavours, are outlined in the Environmental section of this Report.

ABOUT THIS REPORT

WHO WE ARE TODAY

OUR 2019 PERFORMANCE HIGHLIGHTS AND ACHIEVEMENTS

MESSAGE FROM OUR GROUP MANAGING DIRECTOR

• Upholding Good Marketplace Practices

• In Support of Effective Environmental Practices

• Safeguarding and Building Sustainable Communities

• Embedding Sustainability within CMS in a Greater Measure

OUR FOUR STAKEHOLDER GROUP MODEL

MATERIALITY MAPPING

ECONOMIC

ENVIRONMENTAL

SOCIAL

ENSURING A SUSTAINABLE FUTURE

ALIGNING WITH THE SUSTAINABILITY DEVELOPMENT GOALS

ADOPTING THE GRI STANDARDS FOR GREATER TRANSPARENCY



Message from Our Group Managing Director

→ SAFEGUARDING AND BUILDING SUSTAINABLE COMMUNITIES

As the agenda of sustainability continues to gain good momentum within the Group, it continues to be embedded within the mindsets of our employees and our work culture in a greater manner. Our people have come to understand the importance of sustainable growth and are doing their best to deliver true and sustainable value to our key stakeholders whilst building enduring ties with them.

We acknowledge that the Group's success to date is owing to the strong ties that we enjoy with our employees whom we regard as part and parcel of the CMS Family. As always, CMS remains deeply committed to nurturing the well-being of the CMS Family through according them the warmth and camaraderie of a family environment, coupled with the professionalism of a well-run meritocratic listed company. We continue to look for the best talent, retain them, nurture them within a conducive environment, as well as work together with them to explore new and innovative ways to deliver ever-increasing value to our stakeholders. As we do so, we are leveraging on a host of employee engagement activities that engender unity, positivity and commitment within our Family.

As part of our efforts to enrich communities, we launched the CMS 'Doing Good' programme back in 2007. Twelve plus years into the programme and our employees continue to generously come forward to invest their time, effort and resources to help those in need. In FY 2019, CMS' employees raised a total of RM86,535.00 under this initiative. The funds were distributed among various locally-based charitable organisations, mosques, churches, a home for the elderly and children's homes to assist them in their day to day expenses. The year under review also saw our employees dedicating a total of 43,894 man-hours for CSR activities including fund-raising charity sales, rebuilding communities, jog-a-thons, community work and much more. For our long-standing efforts on this front, CMS clinched Gold in the CSR Leadership Category at the Global CSR Awards and Summit 2019 event, Asia's most prestigious CSR recognition awards programme.

Our long-term goal is to build sustainable communities throughout Sarawak and we continue to look for ways to enrich communities and strengthen ties with them while helping fortify CMS' position as a friend to them. In January 2019, we launched a pilot corporate social responsibility (CSR) project at Kampung Murud Plaman in Serian under our 'Doing Good & Building Sustainable Communities' banner. This involved several CMS volunteers and locals coming together to collectively undertake refurbishing activities that benefited the entire village. Our long-term engagement initiatives with communities in the vicinity of Mambong too have proven fruitful. Initiatives such as these serve as proven models for the good things we can do with other communities across Sarawak. We will leverage on the 'Doing Good & Building Sustainable Communities' platform to work with communities where we can truly make a long-term difference by way of elevating lives and creating growth opportunities.

We also organised the fifth annual CMS Tribal Run in Miri and Kuching on 7 July and 4 August 2019 respectively which collectively drew over 3,700 participants and raised registration fees totalling RM154,800. All proceeds were divided equally among 12 charitable bodies. Barring unforeseen circumstances, come August 2020, the ever-popular CMS Tribal Run is scheduled to return for the sixth consecutive year.

Moving forward, employee volunteerism will feature strongly in our efforts to impact and strengthen communities across Sarawak for the better and in a more sustainable manner. The finer details of our workplace and community building efforts can be found in the Social section of this Report.

WHAT WE ACHIEVED IN 2019

CMS' employees raised

a total of

RM86,535



The funds were distributed among various locally-based charitable organisations, mosques, churches, a home for the elderly and children's homes to assist them in their day to day expenses.

Our employees dedicated

a total of

43,894
man-hours



for CSR activities including fund-raising charity sales, rebuilding communities, jog-a-thons, community work and much more.

→ EMBEDDING SUSTAINABILITY WITHIN CMS IN A GREATER MEASURE

Several developments have taken place which highlight that the agenda of sustainability is being embedded in a greater measure within CMS. One of these is greater involvement by the Group's leadership in sustainability matters. With stronger Board and Management oversight in the area of sustainability today, the agenda of sustainability at CMS has gained a stronger momentum and is being cascaded down across the organisation in a reinvigorated manner. Moreover, a new Sustainability Blueprint is in the pipeline that will provide us the impetus to move forward and build upon the many impactful sustainability initiatives already in place. As we work on strengthening our sustainability leadership position by embedding a stronger sustainability culture, as well as a host of other measures within our business, these will enable us to continue creating value while meeting growing investee company compliance criteria.

Moving forward, we remain resolute about creating long-term shared value for our stakeholders. We will achieve this by making the most of top-line growth opportunities, bottom-line improvements and risk mitigation activities. As we set our sights on integrating sustainability into every level of our organisation, we will continue to prioritise excellence and innovation throughout our operations to bolster efficiency and our competitive edge. In all that we do, we remain committed to building upon our existing programmes and implementing new ones so that we will truly achieve meaningful long-term, sustainable growth and create good stakeholder value.

ACKNOWLEDGEMENTS

Many parties have supported us in our journey of sustainable long-term growth and we wish to acknowledge them for their worthy contributions. Our sincere gratitude to our valued customers, suppliers, business partners, the Federal and State Governments and agencies, as well as our joint venture partners and associate companies, for their resolute trust and confidence in us.

Our utmost appreciation also goes to our Board of Directors for their guidance and wise counsel which helped us navigate through the year's challenges and to stay on course. To the dedicated and diligent CMS family of employees, our heartfelt appreciation for your resilience and commitment to excellence.

To the diverse communities that we operate in and which in turn support us, our sincere gratitude for your unwavering trust in us. We look forward to your staunch support as we work closely together to see the development and the progression of your communities and our State.

Today, the building blocks that are in place to ensure the sustainable growth of the Group's business for the long-term are steadily being strengthened. As we venture forth to secure the future of the Group and create long-term shared value for our stakeholders, our stakeholders can rest assured that CMS remains committed to upholding the agenda of sustainability through responsible practices and good EES performance. We call upon all our stakeholders to continue lending us their untiring support as we work towards enhancing our sustainability initiatives and our sustainability disclosure. I trust that you will find CMS' Sustainability Report 2019 an informative and interesting read. Thank you.

Yours sincerely,

Y Bhg Dato Isaac Lugun
Group Managing Director

ABOUT THIS
REPORT

WHO WE ARE
TODAY

OUR 2019
PERFORMANCE
HIGHLIGHTS AND
ACHIEVEMENTS

MESSAGE FROM
OUR GROUP
MANAGING
DIRECTOR

- Upholding Good Marketplace Practices
- In Support of Effective Environmental Practices
- **Safeguarding and Building Sustainable Communities**
- **Embedding Sustainability within CMS in a Greater Measure**

OUR FOUR
STAKEHOLDER
GROUP MODEL

MATERIALITY
MAPPING

ECONOMIC

ENVIRONMENTAL

SOCIAL

ENSURING A
SUSTAINABLE
FUTURE

ALIGNING WITH
THE SUSTAINABILITY
DEVELOPMENT GOALS

ADOPTING THE
GRI STANDARDS
FOR GREATER
TRANSPARENCY



Our Four Stakeholder Group Model

A defining feature of CMS as a conscientious corporate citizen is that the Group is primarily run for our four key stakeholders, namely our employees, our customers/suppliers, the communities in which we operate, and our shareholders.

Within our organisation, our employees clearly understand that given the leading role we play in Sarawak's economy, we are obliged to adopt a long-term perspective, as well as ensure we remain responsible and accountable in every aspect of our business. These responsibilities range from delivering quality on spec and on time, to treating all stakeholders with respect and integrity (which includes for example paying our suppliers, consultants and contractors on a timely basis), to ensuring we innovate so that we are continuously staying ahead of the competition.

For our staff, this is further manifested internally via our commitment to upholding their well-being and through implementing meaningful CSR activities at several levels. By way of employee volunteerism, our employees continue to immerse themselves in community projects as they feel a strong sense of duty to fulfil their responsibilities to the people they work among. At the Divisional level, we emphasise sustainable, ethical and honourable operational performance to uphold our obligations to the *rakyat* (the citizens).

STAKEHOLDER ENGAGEMENT

While CMS upholds a four-stakeholder group model, it does not mean that we do not consider the needs and perspectives of our other stakeholders. Our stakeholders are defined as individuals, interest groups or organisations who are impacted or influenced in one way or another by our business activities

Stakeholder Engagement at CMS



Shareholders





Employees

Customers/
Suppliers

Through systematic and regular engagement with our various stakeholders, we aim to garner insights into their perspectives, as well as better understand their needs. The results of these engagement activities are essential as they may influence our Management's decision-making process.

We continually endeavour to strengthen our engagement methods and practices to ensure that the quality of these engagements is constantly enhanced. Above all, we are continuously improving our engagement initiatives to ensure that CMS remains a respected and integral part of the fabric of society.

	Method(s) of Engagement	Frequency
	<ul style="list-style-type: none"> • AGM presentation by Group Managing Director • Quarterly results briefings • Media statements • Investor presentations • Meetings or telephone calls with (potential) investors • Comprehensive investor relations portal 	<ul style="list-style-type: none"> • Annually • Quarterly • Regularly • Regularly • Regularly • 24/7
	<ul style="list-style-type: none"> • Koffee Talk sessions • Town Hall sessions • Management/Senior Management retreats • Employee Satisfaction Surveys • Departmental meetings • <i>OurCMS</i> Magazine • CMS intranet • E-blasts • Annual dinners • CMS Friendly Games • Safety Month • Family Day • Bowling games/birthdays • Festive open houses • Employee engagement initiatives • Incentive trips 	<ul style="list-style-type: none"> • Biennially • Annually • Annually • Biennially • Regularly • Tri-annually • Daily • Regularly • Annually • Biennially • Annually • Annually • Ad hoc • Annually • Ad hoc • Regularly

The various platforms and processes that we have brought into play to engage with our stakeholders are covered in the Group's *OurCMS* digital magazine which is available for viewing 24/7 on our corporate website. *OurCMS* magazine

and/or presence and vice versa. We may influence them through several ways i.e. via our role as a private sector corporation, an employer, or a business that generates revenue and helps to boost local economies.



Media



Department of Environment



Various Government Agencies



Communities

In order to ensure that we maintain our reputation as an accountable and conscientious corporate citizen, it is imperative that we hear the voices of the communities that surround us. As such, we continue to explore different ways by which we can improve our engagement methods and practices so as to provide the best and most feasible platforms for communication with our stakeholders.

The following section highlights the diverse stakeholder engagement practices that the Group undertook in 2019 and the frequency of these activities.

	Method(s) of Engagement	Frequency
	<ul style="list-style-type: none"> • Customer surveys • Customer training within the respective Divisions • Code of Ethics and Business Conduct • Dialogue with customers/dealers 	<ul style="list-style-type: none"> • Annually • Quarterly • Regularly • Regularly
	<ul style="list-style-type: none"> • Press releases • Meet & Greet the Media sessions • Media get-togethers 	<ul style="list-style-type: none"> • Ad hoc • Regularly • Ad hoc
	<ul style="list-style-type: none"> • Meetings • Progress updates • Compliance reports 	<ul style="list-style-type: none"> • Regularly • Regularly • Quarterly
	<ul style="list-style-type: none"> • Meetings • Project progress updates • CMS Friendly Games 	<ul style="list-style-type: none"> • Regularly • Regularly • Regularly
	<ul style="list-style-type: none"> • Sponsorships and donations • Employee volunteerism • CMS Friendly Games • Corporate Social Responsibility activities • Dialogue sessions 	<ul style="list-style-type: none"> • Regularly • Regularly • Regularly • Regularly • Regularly

reports all events, corporate news and feature stories about CMS and is released on a tri-annual basis. The magazine serves as an easily accessible and comprehensive source of information for our stakeholders.

ABOUT THIS REPORT

WHO WE ARE TODAY

OUR 2019 PERFORMANCE HIGHLIGHTS AND ACHIEVEMENTS

MESSAGE FROM OUR GROUP MANAGING DIRECTOR

OUR FOUR STAKEHOLDER GROUP MODEL

Stakeholder Engagement

MATERIALITY MAPPING

ECONOMIC

ENVIRONMENTAL

SOCIAL

ENSURING A SUSTAINABLE FUTURE

ALIGNING WITH THE SUSTAINABILITY DEVELOPMENT GOALS

ADOPTING THE GRI STANDARDS FOR GREATER TRANSPARENCY



Materiality Mapping

DETERMINING WHAT IS MATERIAL TO CMS

To guide us in our sustainability endeavours for financial year 2019 (FY 2019), we reviewed the material matters determined in FY 2018 and found that these were still valid. These material matters stemmed from a materiality assessment exercise that we undertook in November 2018 via an independent consultant. The exercise entailed engagement with both internal and external stakeholders to garner feedback and insights into the sustainability topics that were important or material to both CMS and our stakeholders.

Material topics were defined as those which had a direct or indirect impact on our ability to create, preserve or erode EES value for CMS, our stakeholders and the community. The exercise also involved a review of our materiality matrix to identify the elements which influenced our delivery of value. It provided independent insights to help us validate the issues identified, whilst uncovering new matters of significance to our stakeholders and our business.

METHODOLOGY AND FINDINGS

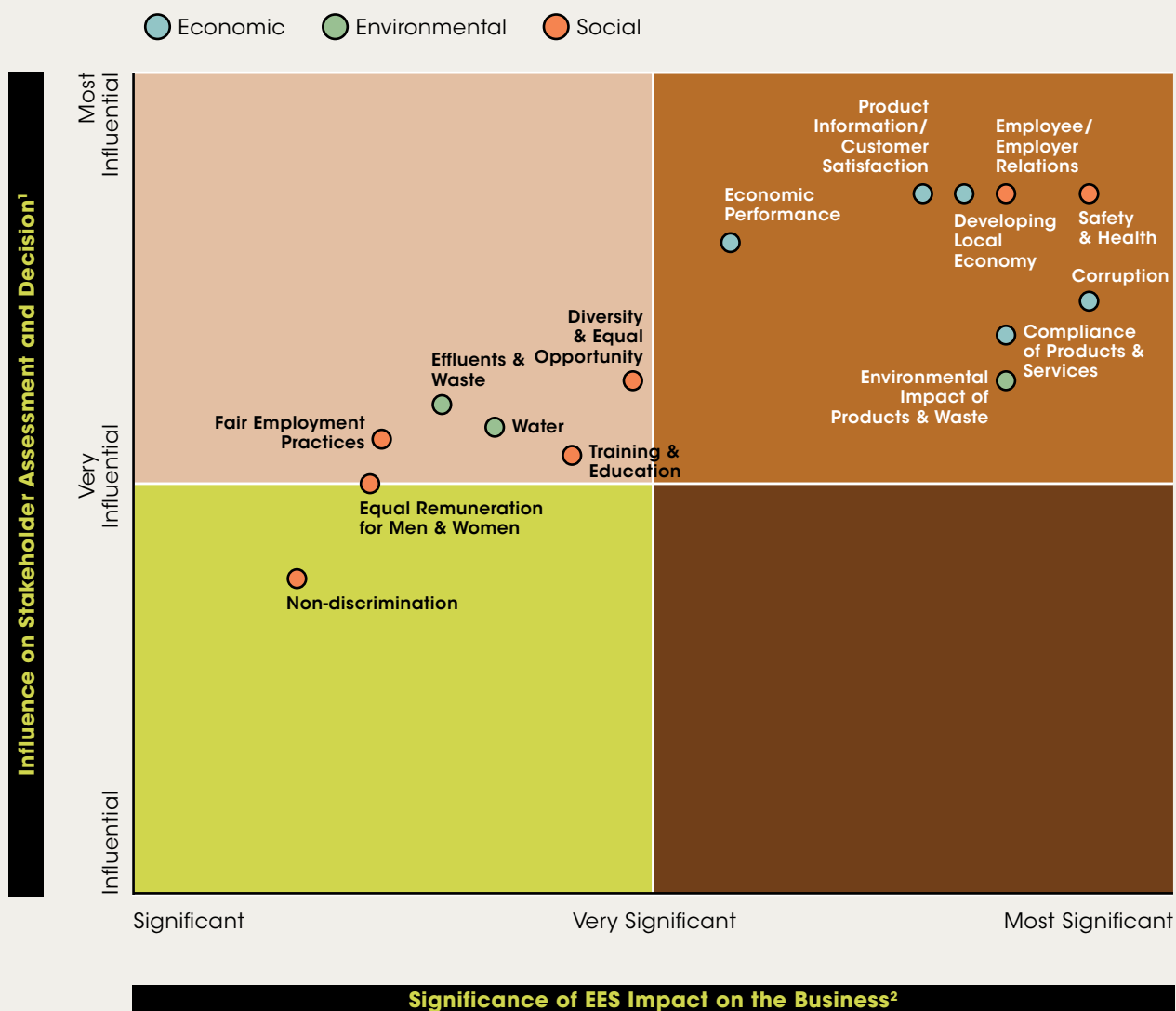
The online materiality survey that was developed back in November 2018 was made available to groups of internal and external stakeholders that included employees, local communities, suppliers and vendors, as well as customers, investors and analysts. Our Board of Directors and members of our Senior Management team also participated in the survey with their responses representing the views of CMS. Respondents were requested to indicate how important each criterion was to them on a scale of 1 (least important) to 5 (most important). A 5-point Likert Symmetric Scale was chosen so respondents could specify their level of agreement with 3 being neutral.

Our stakeholder scores ranged from 4.41 to 4.58. As all issues were important to some degree, scales from 'Influential' to 'Most Influential' and 'Significant' to 'Most Significant' were adopted and a materiality matrix was developed.

The issues that could impact our ability to create value are presented in the diagram on the right. As per the diagram, the topics that are most relevant to our stakeholders are plotted towards the top of the matrix; with those towards the right being the most important to CMS. The issues in the top right quadrant are material to both stakeholders and CMS and will be prioritised moving forward. These issues have also been mapped to the EES pillars in line with the holistic approach we have adopted in formulating our business strategies.

MOVING FORWARD INTO 2020

As we embrace a new year, the Group will be refining its sustainability efforts based on the findings of our 2018 materiality assessment and any ongoing materiality analysis by the Sustainability Working Committee as they fine-tune the Sustainability Blueprint.



As per the matrix, the top five material matters for the 2018/2019 period were as follows:

- Product Information/ Customer Satisfaction
- Developing Local Economy
- Safety & Health
- Employee/Employer Relations
- Economic Performance

Axes Definitions

¹ "Influence on Stakeholder Assessment and Decision" is defined as the importance of a sustainability matter to a stakeholder

² "Significance of EES Impact on the Business" is defined as the importance of a sustainability matter to CMS

With the new findings in hand and the blueprint to guide us, we will be in a better position to ensure that future reports provide a more balanced, accurate and comprehensive assessment of our strategy, performance and prospects in response to material matters.

Our aim in all this is to present a holistic and clear-cut view of our strategic thinking and responses to the issues that are most significant to our stakeholders and which have the most influence on our long-term value creation efforts. As we make good progress in these areas, we are confident of cementing CMS' position as a progressive and ethical company that is continually creating tangible, and sustainable value for its diverse stakeholders.

ABOUT THIS REPORT

WHO WE ARE TODAY

OUR 2019 PERFORMANCE HIGHLIGHTS AND ACHIEVEMENTS

MESSAGE FROM OUR GROUP MANAGING DIRECTOR

OUR FOUR STAKEHOLDER GROUP MODEL

MATERIALITY MAPPING

- Determining What is Material to CMS
- Methodology and Findings
- Moving Forward into 2020

ECONOMIC

ENVIRONMENTAL

SOCIAL

ENSURING A SUSTAINABLE FUTURE

ALIGNING WITH THE SUSTAINABILITY DEVELOPMENT GOALS

ADOPTING THE GRI STANDARDS FOR GREATER TRANSPARENCY



Pillar:

1

Economic



For more information about the Economic aspects of CMS' business, scan the QR code or log on to <http://www.cmsb.my/csr/>

GROWING IN A RESILIENT MANNER

Being Sarawak's leading infrastructure facilitator and a prime mover in the State's growth story, we continue to leverage on our healthy balance sheet, local knowledge, experienced management team, proven strategies and a synergised portfolio of Sarawak-based businesses to reinforce our position of strength, particularly amidst the headwinds buffeting us on diverse fronts. Over the years, we have grown steadfastly through our focus on extracting value from our traditional core businesses, namely our Cement, Construction Materials & Trading, Construction & Road Maintenance and Property Development divisions, as well as our strategic investments which centre on export-oriented industries within the Sarawak Corridor of Renewable Energy (SCORE) and the telecommunications industry.

"When we consider the Economic dimension of sustainability, we are referring to the capacity of a company to generate steady, improving growth in relation to its economic indicators."

We view this economic dimension of sustainability as a fundamental component of our business for a strong, stable and sustainable financial and economic system upholds not just CMS but a variety of other activities essential to our business. These include our ability to continually create good shareholder value, to look after the well-being of our workforce and the communities across Sarawak in a sustainable manner, to continuously improve our product and service

quality, as well as to safeguard our environment. These and other economic activities are critical to the Group's make-up as a conscientious corporate entity and underpin our absolute commitment and focus on delivering long-term sustainable economic growth.



Our First Wave of Growth (2009-2015)

As a business, things really began turning around for CMS in financial year 2009 (FY 2009) when we began to experience our first wave of growth. During that phase, we repositioned and rationalised our businesses to focus on our key competencies in Sarawak. FY 2009 saw us posting revenue of RM874.60 million and a profit after tax and non-controlling interests (PATNCI) of RM40.98 million. Thereafter, our performance kept on strengthening year-on-year until we hit a hurdle in FY 2016 due to market and operational challenges. Nevertheless, we picked ourselves up and kept on going.

Fast-forward to FY 2018 where we posted revenue of RM1.71 billion and PATNCI of RM262.14 million – double FY 2009's revenue and six times its PATNCI! The year's commendable performance came on the back of the good performance of our traditional core businesses and an increase in the share of results of associates, namely OM Materials (Sarawak) Sdn Bhd (OMS), SACOFA Sdn Bhd (Sacofo), KKB Engineering Berhad (KKB) and Kenanga Investment Bank Berhad (Kenanga). The main contributor to this performance was OMS which displayed an impressive turnaround and became the Group's biggest PATNCI contributor after the Cement Division.

However, in FY 2019 our growth momentum was once again interrupted – this time by highly challenging market and operating conditions that included lacklustre economic conditions and political challenges. Amidst a barrage of internal and external headwinds, the Group registered revenue of RM1.74 billion and PATNCI of RM159.46 million – a marginal 2% increase in revenue and a dramatic 39% drop in PATNCI in comparison to FY 2018's results. The year's softer performance was mainly due to the significant decrease in the aggregate contribution from our associate companies, as well as lower operating profits from our traditional core business divisions such as the Cement, Construction & Road Maintenance, as well as Property Development divisions. Only the Construction Materials & Trading Division posted higher results.

Where in FY 2018, our associate companies had provided the Group a bumper contribution of RM105.34 million, in FY 2019, however, our share of profits from associates dropped noticeably by 45% to RM58.40 million. OMS in particular, was impacted by weak commodity prices at the onset of FY 2019. Although OMS' prospects over the immediate-term remain challenging due to macro-economic factors, we remain cautiously optimistic of the company's longer-term prospects.

We are also hopeful that our strategic investments in the Group's other associate companies, including Sacofo, KKB and Kenanga, will all continue to deliver decent growth. These companies remain integral components of our growth strategy and are set to drive the next wave of growth for CMS.

Under the Group's growth strategy, our traditional core businesses together with our strategic investments will counter-balance each other over the long-term to equally contribute towards doubling the Group's earnings capacity in the next five years. Having said that, in view of the economic impact of the Covid-19 pandemic and the prolonged Movement Control Order (MCO) enforced by the Federal Government on 18 March 2020, we are unable to fully estimate how these very recent developments will affect the Group's businesses moving forward. Rest assured, however, that we are implementing the necessary measures and will continue to adapt and fine-tune our strategies to safeguard the sustainability of our business for the long-term.

ABOUT THIS REPORT

WHO WE ARE TODAY

OUR 2019 PERFORMANCE HIGHLIGHTS AND ACHIEVEMENTS

MESSAGE FROM OUR GROUP MANAGING DIRECTOR

OUR FOUR STAKEHOLDER GROUP MODEL

MATERIALITY MAPPING

ECONOMIC

• Growing in a Resilient Manner

- Laying Strong Foundations for CMS' Second Wave of Growth
- In Support of CMS' Three-Pronged Strategy
- Reinforcing the Group's Position of Strength
- In Support of the State's Economic Progress
- Robust Risk Management and Governance Measures
- Upholding Sustainable Procurement
- Recognised for Our Commitment to Business Excellence

ENVIRONMENTAL

SOCIAL

ENSURING A SUSTAINABLE FUTURE

ALIGNING WITH THE SUSTAINABILITY DEVELOPMENT GOALS

ADOPTING THE GRI STANDARDS FOR GREATER TRANSPARENCY

LAYING STRONG FOUNDATIONS FOR CMS' SECOND WAVE OF GROWTH

OUR TARGETS

As we prepare to embrace CMS' second wave of growth, we aspire to achieve the following targets within a five-year timeframe barring unforeseen circumstances:

To double PATNCI to RM500 million

To be the most admired public listed company in Sarawak

A THREE-PRONGED STRATEGIC RESPONSE

We have evolved our initial two-pronged strategy into a three-pronged strategy in response to the increasingly challenging political and business landscape. This will entail the following:

Our first strategic prong will see us continuing to strengthen and defend our traditional core businesses, namely our Cement, Construction Materials & Trading, Construction & Road Maintenance, and Property Development businesses. By making these businesses more efficient, we aim to realise more value from them. If all goes as planned, our traditional core businesses are expected to generate 50% of our PATNCI or RM250 million per year in five years' time.



Our second strategic prong mandates that we ramp up our efforts on the strategic investment front even as some of these businesses begin to bear fruit. Barring unforeseen circumstances, we expect these businesses to contribute the other 50% of PATNCI or RM250 million per year in five years' time.

Our third strategic prong in response to the changing political landscape, calls for us to reposition the CMS brand by undertaking specific initiatives.

These entail the strengthening of the Group's agenda of Sustainability; a solidifying of employee volunteerism efforts and the momentum of the 'CMS Doing Good & Building Sustainable Communities' programme; as well as ensuring corporate donations are redirected in a manner which truly impact beneficiaries for the better while enhancing CMS' reputation.

Strategy #1 Reposition and Fortify Our Traditional Core Businesses

Our first strategic prong will see us continuing to strengthen and defend our traditional core businesses, namely our Cement, Construction Materials & Trading, Construction & Road Maintenance, and Property Development divisions. By making these businesses more efficient, we aim to realise more value from them. Barring unforeseen circumstances, our traditional core businesses are expected to generate 50% of our PATNCI or RM250 million per year in five years' time.

To reposition and fortify the Group and our traditional core businesses, these are the measures that are being undertaken:

Group-wide	Status/Ongoing Measures
Across the CMS Group	<ul style="list-style-type: none"> CMS remains the largest company in Sarawak due to its strong balance sheet and cash position. Going forward, it will focus on collaboration with the Government and various stakeholders to maximise business potential and ensure mutually beneficial relationships. CMS has also embarked on a Group-wide Digital Transformation exercise to operate on a single unified platform which will improve productivity, cost efficiency, accessibility and digital security in the long-term.
Traditional Core Business Segment	Status/Ongoing Measures
Cement Division	<ul style="list-style-type: none"> Once the extended MCO is lifted, the Division will focus on improving its clinker plant production capacity to maximise production as: <ul style="list-style-type: none"> The price of imported clinker continues to crimp the margin; and There is a need to mitigate the high maintenance costs especially in relation to the aging clinker plant. Barring unforeseen events, we are hopeful that the unprecedented spike in major infrastructure projects in Sarawak in the run-up to the 2021 State elections will increase demand and revenue for the Division.
Construction Materials & Trading Division	<ul style="list-style-type: none"> Post-MCO, the Division will leverage on a second 1.3 MTpa line at the Sibanyis quarry and a 1-MTpa production line from the recently acquired Borneo Granite operations to significantly increase production. A plan is underway for the Division to develop its own quarry sand supply source. Barring unforeseen events, we are hopeful that the unprecedented spike in infrastructure projects in Sarawak in the run-up to the 2021 State elections will result in increased demand and revenue.
Construction & Road Maintenance Division	<ul style="list-style-type: none"> Although the Division has lost half of its road maintenance contract, it will still continue to play a dominant role on the State road maintenance front. Today, it is well-positioned to bid for future road maintenance contracts due to its vast experience and inventory of cutting-edge equipment and technology. The Division continues to undertake works on the RM466.68 million Coastal Road package (Bintulu-Jepak Bridge) project which was awarded to the PPES Works-CCCC joint venture in March 2019. If all goes as planned, the unprecedented spike in infrastructure projects in Sarawak in the run-up to the 2021 State elections will present more work opportunities.

ABOUT THIS REPORT

WHO WE ARE TODAY

OUR 2019 PERFORMANCE HIGHLIGHTS AND ACHIEVEMENTS

MESSAGE FROM OUR GROUP MANAGING DIRECTOR

OUR FOUR STAKEHOLDER GROUP MODEL

MATERIALITY MAPPING

ECONOMIC

Growing in a Resilient Manner

Laying Strong Foundations for CMS' Second Wave of Growth

In Support of CMS' Three-Pronged Strategy

Reinforcing the Group's Position of Strength

In Support of the State's Economic Progress

Robust Risk Management and Governance Measures

Upholding Sustainable Procurement

Recognised for Our Commitment to Business Excellence

ENVIRONMENTAL

SOCIAL

ENSURING A SUSTAINABLE FUTURE

ALIGNING WITH THE SUSTAINABILITY DEVELOPMENT GOALS

ADOPTING THE GRI STANDARDS FOR GREATER TRANSPARENCY



LAYING STRONG FOUNDATIONS FOR CMS' SECOND WAVE OF GROWTH

Strategy #2 Fully Implement and Grow Our Strategic Businesses

Our second strategic prong mandates that we ramp up our efforts on the strategic investment front even as some of these businesses begin to bear fruit. If all goes as planned, our expectation is that these businesses contribute the other 50% of PATNCI or RM250 million per year in five years' time. We are hopeful that our ferrosilicon and manganese alloys smelter operations under OMS will generate RM100 million upon realising its second phase by 2022; the integrated phosphate complex under MPAS will contribute RM100 million when both Phase 1 and 2 are completed by 2023; and Sacofa will turn in RM50 million in PATNCI to CMS by then. On top of this, both Kenanga and KKB will provide us additional upside potential.

To fully implement and grow our Strategic Investments, these are the measures that are being undertaken:

Strategic Business Segment	Status/Ongoing Measures
OM Materials (Sarawak) Sdn Bhd (OMS)	<ul style="list-style-type: none"> The prospects for OMS are challenging and in the immediate term will be impacted by: <ul style="list-style-type: none"> - The trade war between China and the US; - The recent weak commodity prices; and - The uncertainties brought on by the Covid-19 pandemic which have taken a heavy toll on the global economy and also caused supply chain disruptions to OMS. However, the Group remains confident of OMS' longer-term prospects owing to its strong underlying fundamentals due to its position in the first quartile of the global production cost curve and its strong global presence. With its initial expansion plans having taken off, OMS is working on the design and preparation for Phase 2 of the project which is targeted for completion by 2022.
Malaysian Phosphate Additives (Sarawak) Sdn Bhd (MPAS)	<ul style="list-style-type: none"> Work on Phase 1 commenced on 1 September 2018 and is scheduled for completion and commissioning in 4Q 2020. Full production is targeted to take place by 1Q 2021 barring unforeseen circumstances. The plant has secured 60% of long-term commitments for both raw material supply and product offtake.
SACOFA Sdn Bhd (Sacofa)	<ul style="list-style-type: none"> While competitors have emerged in the tower construction business, the company is confident of maintaining its dominance due to its first-mover advantage. Barring unforeseen events, the prospects for the company remain positive as it capitalises on the State's push to fully embrace the Digital Economy with a State allocation of RM1 billion for the development of telecommunications infrastructure. Today, despite the MCO, Sacofa continues to operate as it is deemed to be providing essential services.

Meanwhile, the Group's associates, Kenanga and KKB, continue to perform well. Aside from its water grid-oriented capabilities which puts KKB in a very competitive position with regard to the State Water Grid project, it continues to enjoy the higher revenues from both its Engineering and Manufacturing businesses especially on the steel pipes manufacturing front. KKB turned in a record revenue and stellar 181% hike in PBT in FY 2019 and we are benefiting from our 20.05% equity stake in the company.

ABOUT THIS
REPORT

WHO WE ARE
TODAY

OUR 2019
PERFORMANCE
HIGHLIGHTS AND
ACHIEVEMENTS

MESSAGE FROM
OUR GROUP
MANAGING
DIRECTOR

OUR FOUR
STAKEHOLDER
GROUP MODEL

MATERIALITY
MAPPING

ECONOMIC

• Growing in a
Resilient Manner

• **Laying Strong
Foundations for
CMS' Second
Wave of Growth**

• In Support of
CMS' Three-
Pronged Strategy

• Reinforcing the
Group's Position
of Strength

• In Support of the
State's Economic
Progress

• Robust Risk
Management
and Governance
Measures

• Upholding
Sustainable
Procurement

• Recognised for
Our Commitment
to Business
Excellence

ENVIRONMENTAL

SOCIAL

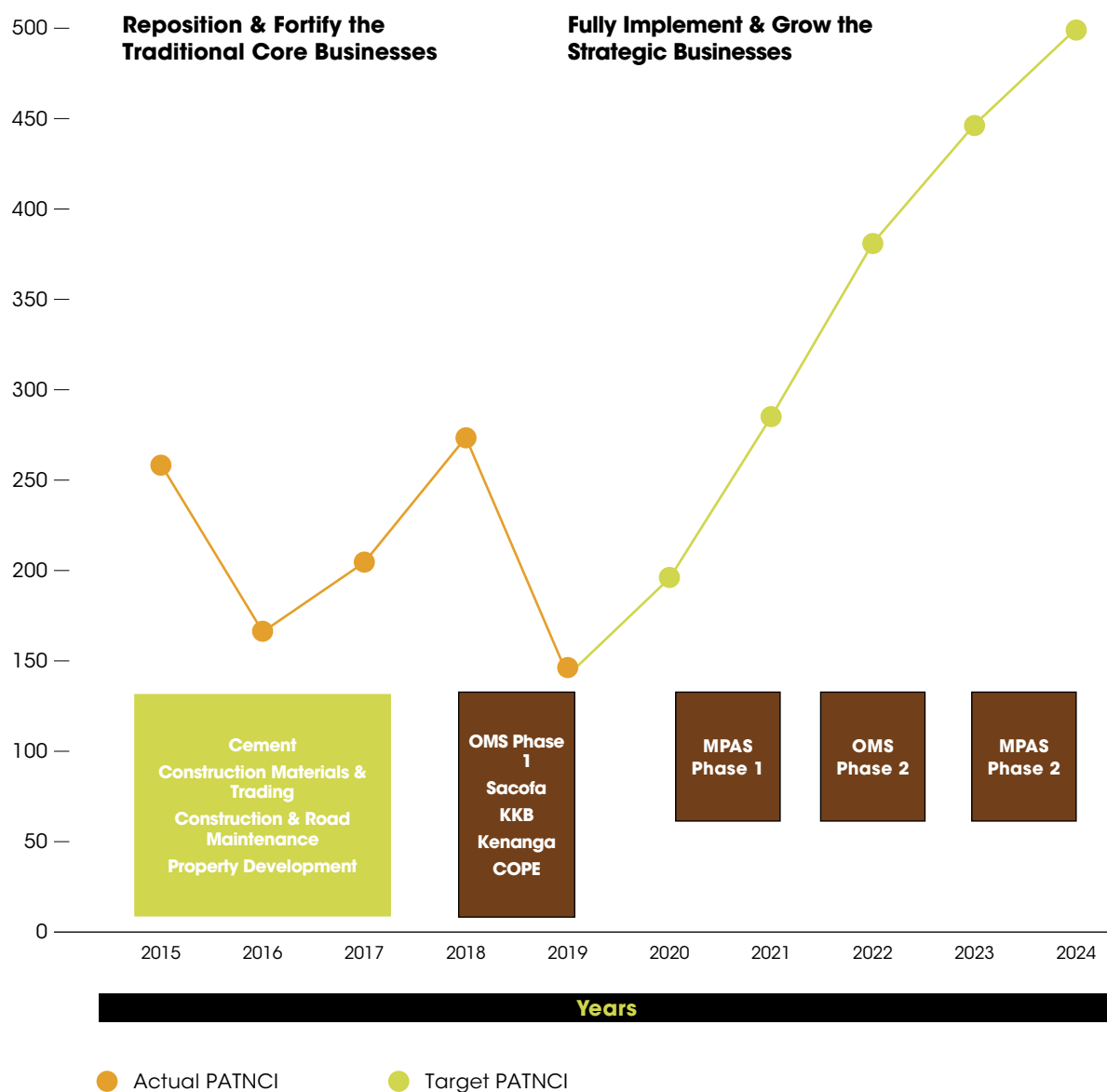
ENSURING A
SUSTAINABLE
FUTURE

ALIGNING WITH
THE SUSTAINABILITY
DEVELOPMENT GOALS

ADOPTING THE
GRI STANDARDS
FOR GREATER
TRANSPARENCY

Charting PATNCI Growth to RM500 Million in Five Years' Time

PATNCI (RM'million)



LAYING STRONG FOUNDATIONS FOR CMS' SECOND WAVE OF GROWTH

Strategy #3 Reposition and Strengthen the CMS Brand

Last but not least, in response to the changing political landscape, our third strategic prong calls for us to reposition the CMS brand by undertaking specific initiatives.

Following the Board's endorsement of a strategic plan to strengthen the CMS brand, FY 2018 saw the Group's in-house Corporate Communications unit renamed the Corporate Reputation and Communications Unit and expanded. The unit went on to undertake a variety of brand building activities to bolster CMS' reputation.

It was also decided to reposition the CMS brand by strengthening the Group's agenda of sustainability. To this end, several measures were rolled out which reflect the Group is on track with its sustainability endeavours. Among these is greater involvement by the Group's leadership in sustainability matters. With stronger Board and Management oversight in the area of sustainability today, the agenda of sustainability at CMS has gained a stronger momentum and is being cascaded down across the organisation in a reinvigorated manner.

In late February 2019, we held a Sustainability Awareness Session for all the Group's Directors and Senior Management including our associate companies to review and update the Group's Sustainability Blueprint. The session was run by a team from PricewaterhouseCoopers' (PwC) South East Asian Consulting Services Sustainability and Climate Change Leader, who are also helping to develop Bursa Malaysia's Sustainability framework. This was followed by the formation of a Sustainability Working Committee in November 2019 which was provided a budget of RM270,000 to move things forward. The committee was given the responsibility for both aligning and integrating our business and sustainability priorities based on the United Nation's Sustainable Development Goals (SDGs), as well as fostering cooperation, collaboration and information sharing pertaining to sustainability across all divisions.

Today, CMS' Sustainability Working Committee continues with its efforts to flesh out the Sustainability Blueprint. In developing the blueprint, the team is concentrating their efforts on processing data and analysis revolving around three key components, namely comparative analysis and sustainability awareness; materiality assessment and stakeholder engagement; as well as sustainability initiatives. As the team works out these matters, we are engaging with PwC to help guide us in our efforts.

On 10 February 2020, PwC conducted a Sustainability Awareness Session comprising CMS' Project Steering Committee helmed by the Group Managing Director and involving the Heads of Divisions and Heads of Departments. Interview sessions are currently underway with all departments and divisions within CMS to understand their views on the existing sustainability metrics. A gap analysis will then be conducted and recommendations made by the target date of April 2020 with a view to strengthening the Group's overall sustainability framework including our sustainability strategy, practices and reporting processes, among others.

The renewed measure in which we are viewing the Group's overall sustainability efforts is evident in the cover of our standalone Sustainability Report 2019 which complements our Integrated Annual Report 2019. All these years, the covers of our Sustainability Report have mirrored that of our Annual Report. This year's Sustainability Report features its very own cover underpinning the fact that the agenda of sustainability has become an increasingly important area of focus at CMS. In essence, sustainability at CMS has definitely come into its own.

To further reinforce the CMS brand, we are also solidifying employee volunteerism and the momentum of the 'CMS Doing Good & Building Sustainable Communities' programme. Engagement efforts are underway on a Group-wide basis to foster employee volunteerism in a manner in which our people take strong ownership of CMS 'Doing Good' projects that are relevant to their communities. At the same time, as part of efforts to strengthen our brand, we will ensure corporate donations are redirected in a manner which truly impact beneficiaries for the better while enhancing CMS' reputation.

We believe that by setting all these measures in motion and keeping a laser-focus on the outcomes, we can and will move on to the next phase of CMS' growth.



For more details on CMS' Doing Good & Building Sustainable Communities programme, go to the Social section of this Sustainability Report. For more details on the Group's overall three-pronged strategy for growth, turn to CMS' Annual Integrated Report 2019.

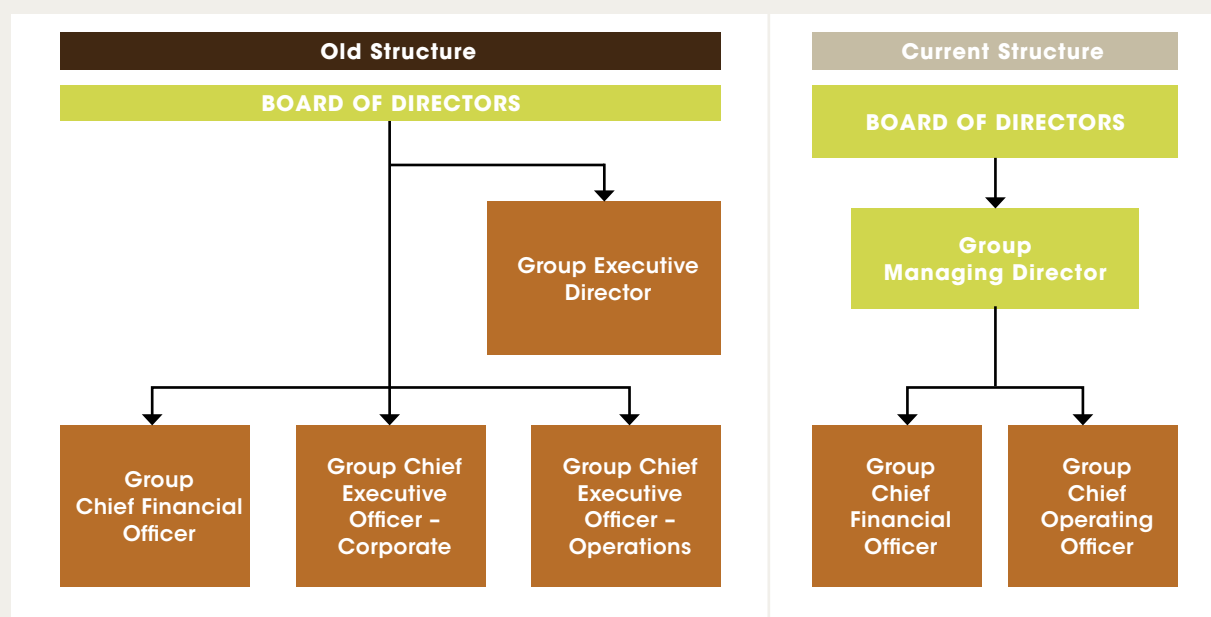
IN SUPPORT OF CMS' THREE-PRONGED STRATEGY

To intensify the Group's business growth, we have brought and are bringing several supporting initiatives into play:

Strengthening CMS' Leadership Bench

The history of CMS has shown that growth can only happen if there is a sustained, dynamic, cohesive and engaging leadership in place. To maintain the momentum that we want to achieve, it is very important to have a very stable team in place for the long-term. To this end, we continue to strengthen leadership across the Group. This exercise also serves to reflect the true shareholding of CMS and dispel the myth that it is a family-owned and controlled company. To date, all executive positions and the subsidiary Boards are filled by professionals who bring a wealth of expertise and experience to the table.

Our new, simpler structure aims to provide the top leadership structure with more clarity and focus. To this end, a new top leadership structure was introduced on 18 October 2019 to provide clarity and focus with a single Group Managing Director (GMD), appointed to the Board.



The reorganisation streamlines the top leadership structure and key positions and simplifies the reporting lines. We are confident that the reorganised and streamlined top leadership structure will help to steer the progress and growth of the CMS Group to the next level.

Bolstering Digitalisation and Innovation

To further strengthen the Group, we are also embracing digitalisation and innovation in a more robust manner. To this end, we have embarked on a Group-wide Digital Transformation exercise which will eventually see all our businesses operate on a single unified platform.

CMS' Digital Transformation initiative, which will span the period of 2019 to 2023, was rolled out in 2019. This key initiative is making waves across our organisation and is doing much to increase the Group's efficiency, agility and communications, in particular within support functions such as our finance, human resources and procurement departments. Making full use of new technologies, in particular Information Computing Technology (ICT), we have begun building a more sustainable and energy efficient future. By embracing these new elements, we are keeping with the times, future-proofing our infrastructure, and lowering our ICT running costs.

IN SUPPORT OF CMS' THREE-PRONGED STRATEGY

Under the Digital Transformation initiative, the Group is adopting cloud computing to deliver communications, project management and enterprise resource planning (ERP) applications.



Cloud computing's on-demand delivery of virtual ICT resources over the internet through a browser, with pay-as-you-go pricing, means that instead of buying, owning, and maintaining physical data centres and servers, we will access technology services, such as computing power, storage, and databases, on an as-needed basis from ICT providers. Following the initial capital outlay and implementation fees, we will pay an ongoing subscription fee to the providers. As our business grows, we can scale dynamically to add more users or computing resources on-the-fly, without the need to invest in new hardware. We will also be able to expand to new geographic regions and deploy globally in minutes in multiple physical locations.

CMS' move to embrace 'all things digital' aligns with the State's own Digital Economy aspirations and we are confident that this will do much to strengthen productivity, cost efficiency, accessibility and digital security across our organisation for the long-term. In line with the Sarawak Digital Economy Strategy 2018-2022, the State Government has committed RM1.15 billion to strengthen the State's digital economy infrastructure in support of the digital industries, commerce and investment that it intends to draw in. The digital economy will be the key enabler of economic transformation. It will involve the creation of a comprehensive digital ecosystem and entrepreneurship culture, as well as investment-driven economic growth, with a focus on higher value-added activities in the manufacturing and services sectors and resource-based industries such as oil and gas, agriculture, biotech, and timber processing.

In our pursuit of innovation, we have also expanded the capabilities of our R&D laboratories in the cement and premix areas and are making good inroads on the product innovation front. Innovation will undoubtedly be a game changer for CMS and we are committed to pursuing this wholeheartedly.

Reviewing Participation in Certain Businesses

The Group continues to review its participation and stakes in certain businesses (including businesses with links to the Government) to ensure we derive the best return on investment. We are also shoring up our 'Achilles heels' or the weakest links within CMS by reducing our reliance on government contracts which we have been working on over the years. To augment our efforts in securing contracts through open tender, we are taking immediate steps to strengthen our tendering unit. We also continue to elevate our efforts to ensure we are in strict compliance with all laws and regulations.

REINFORCING THE GROUP'S POSITION OF STRENGTH

As a leading proponent of the Sarawak growth story, CMS continues to identify and implement strategies that are helping build and strengthen linkages between markets, businesses and communities, as well as creating real value for our diverse stakeholders. To strengthen CMS' position and prepare us for the second wave of growth, we continue to rollout several initiatives.

Enlarged Quarry Operations

In line with the State's growing infrastructure needs, the Group is continually seeking opportunities, including strategic investment opportunities, to strengthen, improve and expand our businesses. Back in November 2018, CMS Resources Sdn Bhd (CMSR), a 51%-owned subsidiary company of CMS, acquired a 56% equity stake in Borneo Granite Sdn Bhd (BGSB) for a total cash consideration of RM31 million. Through this acquisition, CMS gained access to a granite quarry (a very limited natural resource in the State) and now has control over a reliable and immediate source of granite stone for the Group's existing and impending projects. Granite is required in large quantities for the construction of the Pan Borneo Highway project and this investment positions us as the key supplier of granite for this project.

Following the assimilation of this granite quarry into the Group's growing asset portfolio, we have strengthened our quarry operations and are well-positioned to meet growing market demand throughout the State. The quarry occupies approximately 139 hectares of land with two hill reserves. It is readily operational and has a logistical advantage for outbound delivery through a waterway. This has enabled us to immediately solve the present shortage of stones instead of acquiring a greenfield granite reserve, which would otherwise take a minimum of two years to be operational.

The BGSB quarry is targeting an annual production of 1.0 million MT. This, coupled with our second production line at Sibanyis Quarry with its annual production output of 1.3 million MT, provides our quarry operations a significantly enhanced capacity. This is particularly timely as

demand for stone materials for the Pan Borneo Highway project (particularly the requirement to use granite stones for the premix wearing course) is anticipated to peak between 2019 and 2021. On top of this, a plan is underway for the Division to develop its own quarry sand supply source.

The Group is also well placed to benefit from other projects such as the pending implementation of the Coastal Road and the Second Trunk Road projects by the State Government. In addition, more infrastructure projects are already in the pipeline to be implemented by the State Government through open tenders. These projects are expected to create huge demand for stones and quarries during the construction period, even after the Pan Borneo Highway project's completion.

Expanded Footprint in SCORE

In January 2019, the Group enlarged its footprint in SCORE, by increasing its stake in Malaysian Phosphate Additives (Sarawak) Sdn Bhd or MPAS to 60% from 49.94% previously. This exercise saw wholly-owned subsidiary Samalaju Industries Sdn Bhd or SISB subscribing for 64,242,800 new ordinary shares in MPAS for a total cash consideration of RM64.24 million. With this enlarged stake, CMS now has Board and Management control of MPAS and Southeast Asia's first integrated phosphate complex, while joint venture partners, Malaysian Phosphate Venture Sdn Bhd and Arif Enigma Sdn Bhd, hold a 27.17% and 12.83% stake respectively. In view of the urgent need by MPAS to hire employees with a petrochemical background, 20 carefully selected candidates underwent comprehensive training (between December 2019 and April 2020) before their potential recruitment.

ABOUT THIS REPORT

WHO WE ARE TODAY

OUR 2019 PERFORMANCE HIGHLIGHTS AND ACHIEVEMENTS

MESSAGE FROM OUR GROUP MANAGING DIRECTOR

OUR FOUR STAKEHOLDER GROUP MODEL

MATERIALITY MAPPING

ECONOMIC

- Growing in a Resilient Manner
- Laying Strong Foundations for CMS' Second Wave of Growth
- In Support of CMS' Three-Pronged Strategy
- Reinforcing the Group's Position of Strength
- In Support of the State's Economic Progress
- Robust Risk Management and Governance Measures
- Upholding Sustainable Procurement
- Recognised for Our Commitment to Business Excellence

ENVIRONMENTAL

SOCIAL

ENSURING A SUSTAINABLE FUTURE

ALIGNING WITH THE SUSTAINABILITY DEVELOPMENT GOALS

ADOPTING THE GRI STANDARDS FOR GREATER TRANSPARENCY

IN SUPPORT OF THE STATE'S ECONOMIC PROGRESS



While Sarawak will not be spared the effects of external headwinds buffeting the global and domestic economies, there are certain plans underway that will keep the State busy and on course for growth over the near-term. These include the continued implementation of major projects and substantial spending on infrastructure.

Some RM21.67 billion in State funds has been set aside for the implementation of various mega infrastructure projects. The bulk of this allocation will go towards the Sarawak Second Trunk Road project (RM6 billion), upgrading of the Coastal Road network (RM5 billion), Sarawak Water Supply Grid Programme for stressed areas (RM2.8 billion), rural electrification projects and other rural transformation initiatives (RM2.37 billion), and the construction of 300 telecommunication towers (RM1 billion).

The State Government has also allocated RM4.5 billion to fund infrastructure development and amenity projects under three development agencies created with the expansion of the SCORE area into the interiors. These agencies, namely the Upper Rajang Development Authority (URDA), Highland Development Authority (HDA) and Northern Regional Development Authority (NRDA), have been allocated RM1.5 billion each to carry out their mandates. The other mega infrastructure project, the Pan Borneo Highway, is being funded by the Federal Government at an additional cost of RM16.48 billion. These projects would act as stimuli to cushion the impact of the global economic slowdown.

Even as the global economy is set to face economic and geopolitical turbulence and uncertainties, the State intends to maintain its resilience by balancing short-term counter cyclical policies with prudent fiscal management and a steadfast focus on strengthening medium-term growth. In line with the State's agenda to transform rural areas and ensure that no one is left behind, the 2020 Development Budget will continue to be rural-biased to further stimulate economic progress. A budget of RM9.9 billion has been brought into play with RM6.6 billion allocated for development expenditure and RM3.3 billion for operating expenditure.

Being Sarawak's leading infrastructure facilitator, the CMS Group continues to explore multiple avenues to assist the State Government to implement projects at lower cost and with enhanced efficiency. Our efforts include the development of concrete roads, high-performance concrete and various new types of cement, among other things.

ABOUT THIS REPORT

WHO WE ARE TODAY

OUR 2019 PERFORMANCE HIGHLIGHTS AND ACHIEVEMENTS

MESSAGE FROM OUR GROUP MANAGING DIRECTOR

OUR FOUR STAKEHOLDER GROUP MODEL

MATERIALITY MAPPING

ECONOMIC

- Growing in a Resilient Manner
- Laying Strong Foundations for CMS' Second Wave of Growth
- In Support of CMS' Three-Pronged Strategy
- Reinforcing the Group's Position of Strength
- **In Support of the State's Economic Progress**
- Robust Risk Management and Governance Measures
- Upholding Sustainable Procurement
- Recognised for Our Commitment to Business Excellence

ENVIRONMENTAL

SOCIAL

ENSURING A SUSTAINABLE FUTURE

ALIGNING WITH THE SUSTAINABILITY DEVELOPMENT GOALS

ADOPTING THE GRI STANDARDS FOR GREATER TRANSPARENCY

Improving Connectivity within the State

CMS continues to create value for the State through our involvement in the highly anticipated Miri-Marudi Road Rehabilitation Project. Connecting towns and people, the project is not only on track but progressing ahead of its original 30-month schedule. It is also directly tackling one of Sarawak's biggest challenges – that of reducing the development gap between the rural and urban areas, not only in terms of infrastructure, but also by way of improving access to markets and lifting the level of income among Sarawak's rural communities.

In carrying out this project, CMS Roads Sdn Bhd continues to strengthen its working relationship with the Public Works Department (Jabatan Kerja Raya or JKR) and deliver on its responsibilities in an effective manner. The company's contract with JKR is a "Performance-Based" one and is the first of its kind in Malaysia. Unlike a normal "Quantity Based" contract (QBC), this Performance-Based Contract (PBC) is results-oriented and focuses on quality and outcomes. It dictates that CMS Roads attain a predetermined performance indicator for each category of work before payment is issued. PBCs are widely used in developed countries and are recommended by the World Bank for the preservation and maintenance of road assets.

At the time of writing, the Construction & Road Maintenance Division continues to undertake works on the RM466.68 million Coastal Road package (Bintulu-Jepak Bridge) project which was awarded to the PPES Works-CCCC joint venture in March 2019. The 48-month contract which commenced on 3 April 2019 is scheduled for completion by 2 April 2023. It signals the State's commitment to seeing the Sarawak Coastal Road initiative take off. With a slew of bridges expected to feature in

both the Sarawak Coastal Road and Second Link Road, CMS will also benefit as the sole cement and major building materials supplier within the State.

On 6 December 2019, PPES Works (Sarawak) Sdn Bhd or PPES Works (the Group's 51%-owned joint venture with the Sarawak Economic Development Corporation or SEDC), signed a Letter of Acceptance from the State Government for a Performance-Based Contract for the long-term management and maintenance of State roads. This contract covers Package 1 encompassing the Kuching, Serian, Samarahan, Kapit, Sibu and Sarikei divisions for a duration of 10 years effective 1 January 2020. Under the new contract, the original 6,262 km road length which PPES Works had previously managed has been reduced to 3,343 km of State roads. Although we have lost half of our road maintenance contract, we will continue to play a dominant role in terms of State road maintenance activities. Given our wealth of experience and immense inventory of leading-edge equipment and technology, we are well-positioned to bid for future road maintenance contracts. We applaud the State for their move because competition in any market naturally breeds competitive efficiency which can only be good for the public and road users. On our part, we remain committed to giving of our best and delivering excellent results.

As we work diligently to fulfil our obligations under the contracts in hand, we are also ramping up the CMS machinery to capitalise on the unprecedented spike in infrastructure projects in Sarawak that is expected to arise in the run-up to the 2021 State elections. If all goes as planned, this will present more work opportunities for the CMS Group in time to come.

Cementing Our Position as Sarawak's Leading Infrastructure Facilitator

Awarded

RM466.68 million

Bridge Construction Contract

In March 2019, the PPES Works-CCCC joint venture was awarded the Package 5 contract for the construction and completion of the Bintulu-Jepak Bridge Crossing, thereby underscoring the State's commitment to seeing the Sarawak Coastal Road project take off.

Awarded

3,343 km

State Roads Maintenance Contract

In November 2019, CMS' Construction & Road Maintenance Division was awarded a contract to maintain 3,343 km of State roads thus reinforcing CMS' position as a dominant player in the State's road connectivity programme.

IN SUPPORT OF THE STATE'S ECONOMIC PROGRESS

In Support of Fair Cement Prices

On 17 June 2019, CMS Cement Industries Sdn Bhd was issued with a notification under the Price Control and Anti-Profitsteering Act 2011 to provide information pertaining to the Group's supply of cement for the period 2016 until May 2019. In line with this, officers of the Ministry of Domestic Trade and Consumer Affairs (MDTCA) visited CMS Cement's Pending and Bintulu Plants to collect and review documents (e.g. sales invoices, customer lists, material invoices, costing sheets, etc.) to facilitate the investigation.

In the discussions held with MDTCA officers during the visits, it became clear that the investigation was actually part of a bigger operation, triggered by reports of impending price increases in Peninsular Malaysia, which then broadened to cover all cement plants in the country, and was focused on determining whether any acts of profiteering has been carried out by cement suppliers. On 23 June 2019, the then Finance Minister made a statement that there was a need to examine cement prices in Sarawak as the prices were higher than prices on the Peninsula. The Minister was reported to have said that the investigation was necessary to determine whether the pricing was due to monopolistic practises.

On 25 June 2019, the MDTCA Enforcement Unit for Sarawak announced that after doing spot-checks and inspections across the State, they had found that cement prices had not undergone drastic hikes. It was actually found that prices had remained unchanged for the past several years. CMS was in fact found only to have increased cement prices back in 2011, 2014 and 2016 upon securing the appropriate approvals.

The MDTCA officers upon reviewing CMS Cement Industries Sdn Bhd's documents and making comparisons based on their formulas, showed that the company's margins and mark-ups had not exceeded the allowable limits. The fact that we had not increased prices since January 2016 reflected that the improvements in margins were not due to price adjustments (where we supposedly passed on the burden to consumers) but were due to better efficiencies and cost management (which stemmed from more effective internal practices). It was concluded that CMS Cement had not been involved in any profiteering whatsoever.

For the record, the Group unequivocally states that with cement and concrete constituting a significant part of total construction costs for the State's development, CMS supports and will continue to support fair pricing for these products for the benefit of all our stakeholders.

On another note, CMS is not and has never been a cement monopoly. While other industry players are welcome to establish cement operations in Sarawak, they have simply chosen not to venture into Sarawak because the initial start-up costs for development of infrastructure and haulage make it non-viable for them. CMS on the other

hand, has been able to offset and spread our cement operational costs for over 40 years through effective operational efficiencies and cost management activities. Even as MDTCA enforcement officers carry on their duties and make enquiries from time to time, CMS will continue to cooperate openly and transparently with them as per our commitment to operating at the highest levels of business and retail integrity.

Helping Showcase Sarawak's Rich Culture and Heritage

Back in 2014, upon receiving the green light for the museum design-and-build project, PPES Works with its partner architect AKDI, got down to designing and creating the unique 30,000 m² Green Building Index (GBI) certified museum complex. On 9 August 2019, PPES Works completed and handed over of the Sarawak Museum Complex to Jabatan Kerja Raya (Sarawak) and Jabatan Muzium Sarawak. This marked a truly historic milestone in Sarawak's efforts to showcase the State's rich, diverse, multicultural heritage and culture to the world.

Today, the Sarawak Museum Project, which includes the conservation of the historic Old Sarawak Museum building built in 1891, is a landmark in its own right. It stands as an eye-catching icon that will excite local and international visitors and allow them to be part of an immersive and absorbing exposé of Sarawak's history. Being the largest in Malaysia and second largest in Southeast Asia, this truly world-class museum will open its doors to the public with a new 6,000 m² interactive and engaging exhibition by the end of 2020. A well-curated selection of unique artefacts and specimens will take visitors on a journey while telling them stories about Sarawak's history and the lives of its communities.

For decades, CMS and PPES Works have worked hand-in-hand to design and build many of the State's most iconic buildings. The Sarawak Museum Project stands as one of the most important undertakings we have ever undertaken. Sarawak's unique heritage and culture are what makes it the great State that it is and we are both elated and humbled to have played a part in creating its most important showcase.



ROBUST RISK MANAGEMENT AND GOVERNANCE MEASURES

The Board of CMS is dedicated to upholding and implementing robust risk management and internal control measures, as well as strong standards of corporate governance. These fundamental components are helping ensure the sustainable, long-term growth of our businesses, strengthening investor confidence, safeguarding our corporate reputation, and ensuring continued shareholder value creation.

Zero Tolerance Towards Bribery and Corruption

The year saw us reiterating our commitment to upholding high standards of ethical, moral and legal business conduct. In December 2019, as one of Sarawak's largest corporations, we took definitive and decisive steps against corruption and bribery by hosting an engagement session with hundreds of the Group's vendors, suppliers and partners. At this session, we declared an absolute 'zero tolerance' approach to bribery and corruption and urged all in attendance to do their part in stamping out these practices. In line with this, we expect our directors, employees, vendors and third-party representatives, as well as stakeholders to uphold the same high standards of legal, moral and ethical business conduct.

Ramping Up for MACC's New Corporate Liability Provision

Over the course of FY 2019, we worked closely with PwC Malaysia in preparation for the introduction of the Corporate Liability Provision under Section 17A of the Malaysian Anti-Corruption Commission (MACC) Act. This follows the passing of the MACC (Amendment) Bill 2018 by Parliament which makes companies, their boards and management teams liable for corruption in comparison to when only the perpetrators were held liable previously. Any infringement of this upcoming law can result in severe penalties, be it in the form of significant fines, of a maximum 10 times the sum of gratification involved, or RM1 million, whichever is higher, and/or imprisonment up to 20 years.

With the deadline for implementation of this piece of legislation fast approaching, CMS is staying ahead of the curve and has taken early steps to address the new anti-corruption law. To this end, the Group has engaged PwC to analyse and overhaul every area of potential risk within the Group, as well as implement new procedures and protocols before the deadline of 1 June 2020.

We have even implemented an anonymous reporting process where any employee, representative, supplier or contractor can be reported if they are in breach of CMS' Code of Conduct or Ethics Policies in any way. We take pride in the fact that we are the first Sarawakian company to carry out this exercise with our vendors and other third parties.

Maintaining Our Stance as an Independent, Profitable Business

Today, CMS continues to maintain its stance as an independent, profitable business on several levels. With some 52% of the Group's equity being held by institutional and foreign shareholders and investors and the remainder by scores of individual shareholders, we are answerable to the larger investing community, as well as individual shareholders.

In line with the enhanced Malaysian Code of Corporate Governance 2017 (MCCG), as at 31 December 2019 more than 50% of our Board members comprised independent directors reflecting our commitment towards balanced decision making and equitable outcomes. We also continue to work towards implementing the MCCG criteria concerning gender diversity and the tenure of independent directors.

Preserving Our Position as a GLP Qualifying Company

CMS continues to maintain its status as one of the Qualifying Companies under Bursa Malaysia's Green Lane Policy (GLP) thus entitling us to specific privileges. Under the GLP, we are able to issue circulars without having to seek Bursa Malaysia's approval, while our more complex circulars will be fast-tracked. CMS is the only Sarawakian company to qualify as a member of Bursa Malaysia's GLP. This recognition underpins the high standards of corporate governance conduct and the good disclosure practices that the Group has been upholding.

ABOUT THIS REPORT

WHO WE ARE TODAY

OUR 2019 PERFORMANCE HIGHLIGHTS AND ACHIEVEMENTS

MESSAGE FROM OUR GROUP MANAGING DIRECTOR

OUR FOUR STAKEHOLDER GROUP MODEL

MATERIALITY MAPPING

ECONOMIC

- Growing in a Resilient Manner
- Laying Strong Foundations for CMS' Second Wave of Growth
- In Support of CMS' Three-Pronged Strategy
- Reinforcing the Group's Position of Strength
- In Support of the State's Economic Progress
- Robust Risk Management and Governance Measures
- Upholding Sustainable Procurement
- Recognised for Our Commitment to Business Excellence

ENVIRONMENTAL

SOCIAL

ENSURING A SUSTAINABLE FUTURE

ALIGNING WITH THE SUSTAINABILITY DEVELOPMENT GOALS

ADOPTING THE GRI STANDARDS FOR GREATER TRANSPARENCY

UPHOLDING SUSTAINABLE PROCUREMENT

The CMS Group is deeply committed to upholding transparent, ethical and fair procurement practices. Procurement procedures across the Group are transparent, held at arm's length and conducted with a high level of professionalism. Transactions must be struck with standard commercial terms that are not more favourable to related parties than those generally available to the public.

We are committed to leading with integrity and conducting business relationships with high ethical standards. We insist that directors, owners, employees and vendors (contractors, suppliers or consultants) abide by the terms of our Code of Ethics and Business Conduct (the Code) at all times. Compliance with the Code is also mandatory for vendors to maintain their registration.

On top of this, we expect our suppliers to compete honestly, fairly and ethically for all business opportunities. We expect their statements and representations to be true and accurate in all respects. Suppliers and consultants are forbidden from engaging in any of the following activities:

- Manipulating the tendering process with other parties or entities;
- Engaging in any anti-competitive conduct including tender rigging and entering into any arrangement with other parties that will compromise the genuine competition of those tendering; and
- Submitting more than one tender through other parties i.e. with common shareholders, directors, management and/or operating premises; or with shareholders or directors as their close family members.

CMS' tendering framework incorporates specific processes, as well as checks and balances. These elements stem from many years of experience in preventing the abovementioned issues from occurring. Over time, these measures have resulted in tenders being recalled and suppliers and their managers being banned as vendors.

We see the implementation of Section 17A of the MACC Act as a positive move for all of Malaysia because all businesses will award contracts based solely on meritocracy which means standards will rise, quality will increase, and competitiveness will be the halo effect that customers and end users will enjoy. The implications are to be embraced because the playing field will be fair and open. If CMS is the most qualified, experienced and capable company, we will win the tender and likewise our partners and vendors, have the assuredness of fairness and business equality.



ABOUT THIS
REPORTWHO WE ARE
TODAYOUR 2019
PERFORMANCE
HIGHLIGHTS AND
ACHIEVEMENTSMESSAGE FROM
OUR GROUP
MANAGING
DIRECTOROUR FOUR
STAKEHOLDER
GROUP MODELMATERIALITY
MAPPING

ECONOMIC

- Growing in a Resilient Manner
- Laying Strong Foundations for CMS' Second Wave of Growth
- In Support of CMS' Three-Pronged Strategy
- Reinforcing the Group's Position of Strength
- In Support of the State's Economic Progress
- Robust Risk Management and Governance Measures
- Upholding Sustainable Procurement
- Recognised for Our Commitment to Business Excellence

ENVIRONMENTAL

SOCIAL

ENSURING A
SUSTAINABLE
FUTUREALIGNING WITH
THE SUSTAINABILITY
DEVELOPMENT GOALSADOPTING THE
GRI STANDARDS
FOR GREATER
TRANSPARENCY

RECOGNISED FOR OUR COMMITMENT TO BUSINESS EXCELLENCE

In FY 2019, CMS continued to receive recognition for exhibiting excellence on several fronts.



CMS Solidifies its Position on the FTSE4Good Bursa Malaysia Index

As testament to our strong ESG practices, we maintained our position as a constituent of the FTSE4Good Bursa Malaysia (F4GBM) Index for the fourth consecutive year. CMS' F4GBM rank shifted upwards by 32% from 2.2 points (as at July 2016) to 2.9 points (as at July 2019). We are the only Sarawak public-listed company on the F4GBM Index to date.



CMS Recognised for Best Practice Reporting at 2019 Australasia Reporting Awards

We received Silver and Bronze awards for our sustainability reporting and annual reporting endeavours respectively at the 2019 Annual Australasian Reporting Awards (ARA) event in Melbourne. The Group's reports were benchmarked against ARA's world best practice criteria.



CMS Receives the BrandLaureate – Conglomerate Award 2019

CMS was awarded the BrandLaureate – Conglomerate Award 2019 at the BrandLaureate World Best Brands Awards 2019 event in Singapore. In picking up the prestigious accolade, we fulfilled stringent criteria to qualify as a brand that impacts communities and represents the best-of-the-best in our respective business segments.



CMS Clinches Gold at the Global CSR Awards

CMS clinched Gold at the 11th Global CSR Summit & Awards 2019 for the CSR Leadership Category. The award recognises the contributions of an organisation in all aspects of CSR regardless of environment, sustainability, community partnerships and education. Since the introduction of the CMS 'Doing Good' programme, we have contributed 363,926 man-hours across 393 different projects.



Tuan Syed Hizam Alsagoff named Best CFO for Investor Relations (Mid-Cap) in Malaysia

CMS' Group Chief Financial Officer, Tuan Syed Hizam Alsagoff, was named the Best CFO for Investor Relations (Mid Cap) at the Malaysian Investor Relations Association's Investor Relations Awards 2019 event. This win reflects the Group's IR unit's aim to ensure transparent and timely communications among the investment community.



CMS Ranked Among Top 10 Employers of Choice 2019

We bagged fourth placing for JobStreet's Top 10 Employers of Choice 2019 online survey thus attesting to our good HR practices.



CMS Wins Global Road Achievement Award 2019 for Quality Management

CMS Roads Sdn Bhd was one of 12 elite road industry companies globally that was recognised by the International Road Federation (IRF) for its commitment to excellence. The company received the IRF's prestigious Global Road Achievement Award for Quality Management for long-term management and maintenance of State Roads in Sarawak.



CMS Wins Big Win at SHEDA Excellence Award 2019

CMS Property Development Sdn Bhd continued to prove to be a leading force in the Sarawak property market, winning the prestigious SHEDA Excellence Award in the Strata Development (High Rise) category for its Rivervale Condominium development at the Sarawak Housing and Real Estate Developers' Association's gala dinner event.



COPE Named One of Top 3 'Exit of the Year' Winners

COPE Private Equity Sdn Bhd's exit from Serba Dinamik was hailed as one of the Top 3 Exits of the Year by global publication, Private Equity International. CMS, via CMS Capital Sdn Bhd holds a 51% stake in COPE Private Equity Sdn Bhd, a successful private equity firm based in Kuala Lumpur.