



2017  
**SUSTAINABILITY  
REPORT**

KENCANA AGRI LIMITED





Kencana is embarking on a new course of expanding our disclosure commitments to our stakeholders on our journey to achieving growth through sustainability. This report represents our commitments and progress to becoming a more sustainable palm oil business by balancing our business targets with social and environmental consciousness.







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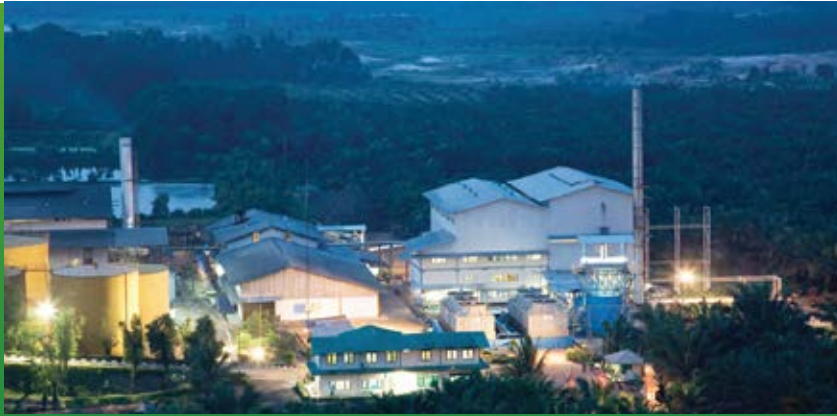
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# ABOUT US

Kencana Agri Limited (“Kencana”, “the Group”) is an Indonesian plantation company engaged mainly in the cultivation of oil palms; processing of Fresh Fruit Bunches (“FFB”) into Crude Palm Oil (“CPO”), Crude Palm Kernel Oil (“CPKO”) and Palm Kernel Cake (“PKC”); provision of bulking, port and logistics services. The Company was officially listed on the main board of the Singapore Exchange (“SGX”) on July 25th, 2008. [102-1][102-2][102-5]

The Group’s palm oil plantations are located in the islands of Sumatra, Kalimantan and Sulawesi in Indonesia. Since its inception in 1995, the Group’s planted area has grown to approximately 68,483 ha in 2017, including plasma areas, along with five palm oil mills with a total processing capacity of 275 tonnes per hour and two kernel crushing plants with the capacity of 435 tonnes per day. [102-6][102-4]

To date, the Group has planted up to 36% of its total landbank and aims to continue expanding its planted area in a sustainable manner. The Group’s potential is not fully realized yet as 53% of its nucleus palm oil trees are still in the immature and young mature stage. This relatively young profile of palm oil trees, with weighted average of 8.9 years, will soon enter their prime mature phase, driving up the potential for strong FFB production growth in the next few years.

As part of its strong commitment in environmental aspects of sustainability and Corporate Social Responsibility (“CSR”), the Group invested in two renewable biomass power plants in Bangka-Belitung Islands, with another power plant currently under construction in Bangka, whilst working together with the state owned electricity company, PT. Perusahaan Listrik Negara (“PLN”) to supply “green” electricity to the local community. In addition, the Group has signed an Emissions Reduction Purchase Agreement (“ERPA”) with the Danish Ministry of Climate and Energy to attain Certified Emission Reduction (“CER”) credits.

Moreover, The Group strives to attain Indonesian Sustainable Palm Oil (“ISPO”) certifications for all its plantations as required by the Indonesian government as well as other sustainability certifications. Two of its subsidiaries, PT. Sawindo Kencana and PT. Alamraya Kencana Mas, have been certified by both ISPO and International Sustainable and Carbon Certification (“ISCC”). PT. Sawindo Kencana currently a member of Roundtable on Sustainable Palm Oil (“RSPO”). [102-12]

## Company Data Sheet

[102-1][102-2][102-3][102-5][102-6][102-7]

Company Name	Kencana Agri Limited
Business Sectors	Oil Palm Plantations
Market Customer	Markets: Indonesia
Segment Served	Customers: Reputable trading companies, refineries and oleochemical companies in Indonesia
Ownership & Legal Form	Listed Company
Date of Establishment	26 September 2007
Issued and Fully Paid Capital	\$93,860,009
Total Number of Employees as of 2017	6,540
Revenue 2017	\$148,096,098
Net Profit 2017	\$4,988,000
Registered Office Address	36 Armenian Street #03-02, Singapore, 179934
Principal Office Address	Kencana Tower, 9th Floor Business Park Kebon Jeruk Jl. Meruya Ilir Raya No.88, West Jakarta 11620, Indonesia
Number of Operations	16 estates in Indonesia
Sales Volume of CPO	198,565 MT*
Total Liabilities	\$342,695,000
Shareholders' Equity	\$48,570,000

\* Sales value is determined by market price at that time of transactions



## Vision [102-16]

To be a leading sustainable palm oil producer and supplier of choice for both local and global markets.

## Mission

To expand our plantation business through sustainable and environmentally-friendly best-in-class management practices whilst reinforcing our responsibility as a good corporate citizen.

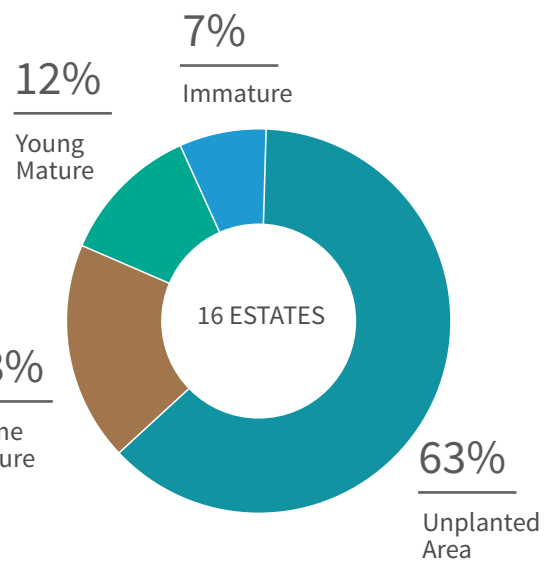
## Business, Operation & Value Chain

The Group's integrated value chain comprises of plantation areas (land), palm oil mills, kernel crushing plants, port & bulking facilities, logistics services and renewable biomass power plants to support and complement our plantation operations. [102-4][102-9] [102-7]

### Total Land Bank 187,291 ha (Nucleus + Plasma)

Land Bank (ha)	Planted Area (ha)	%	Unplanted Area (ha)	%	Total	%
Nucleus	54,188	33	111,649	67	165,837	89
Plasma	14,295	67	7,159	34	21,454	11
Total	68,483	37	118,808	63	187,291	100

Age Profile	Immature	%	Young Mature	%	Prime Mature	%	Total
Nucleus	11,465	21	17,045	32	25,678	47	54,188
Plasma	1,398	10	5,043	35	7,854	55	14,295
Total	12,863	19	22,088	32	33,532	49	68,483



### Total Land Bank

**187,291 ha**

Nucleus : 165,837 ha

Plasma : 21,454 ha

### Total Planted Area

**68,483 ha**

Nucleus : 54,188 ha

Plasma : 14,295 ha

### Processing

We have five palm oil mills, and two kernel crushing plants located in Sumatra and Kalimantan, Indonesia.

#### 1. Palm Oil Mills

No. of Mills: 5

Total Processing

Capacity: 275MT/hour

#### 2. Kernel Crushing Plants

No. of Plants: 2

Total Processing

Capacity: 435MT/day



## Products [102-2][102-6][102-7]

We have 3 (three) main products, including CPO, CPKO and PKC which are derived from the fresh fruit bunches harvested from our plantations, our plasma farmers, and purchases from third parties. Our customers, includes both domestic and international reputable trading companies, refineries, and oleochemical companies.

## Supporting Business [102-9]

Our port & bulking facilities and logistics services complement and support our plantation operations by providing storage facilities and transportation for our products.

The “green” electricity generated by our renewable biomass power plants in Bangka and Belitung are mainly sold to the state-owned electricity company PLN. The Bangka power plant has also been approved as a Clean Design Mechanism (“CDM”) project, which allows us to sell carbon credits to international markets.

### Main Products

- Crude Palm Oil (“CPO”)
- Crude Palm Kernel Oil (“CPKO”)
- Palm Kernel Cake (“PKC”)

### Port & Bulking Facilities

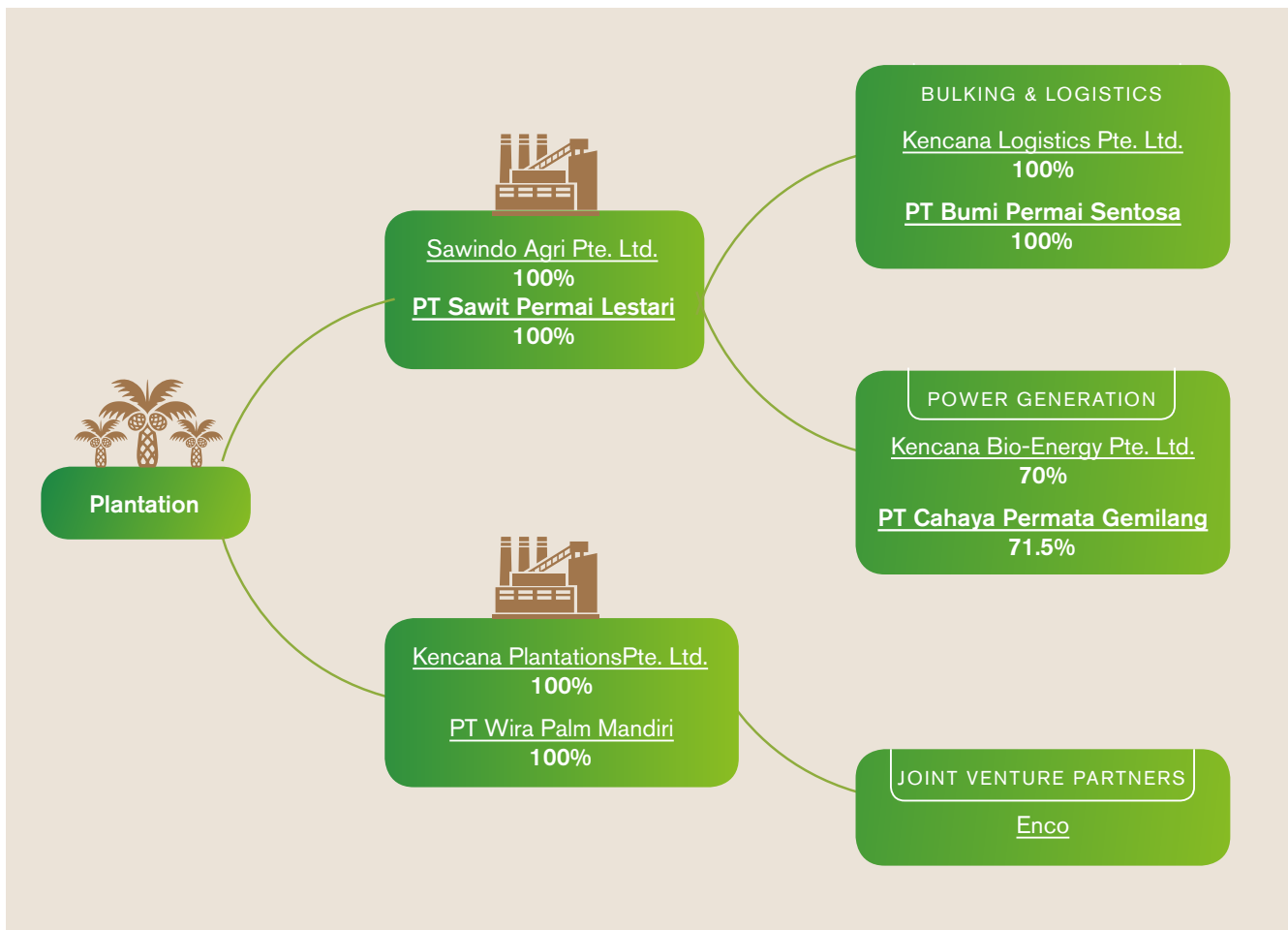
- Total Capacity : 15,500 MT

### Logistics Services

- No of Vessels : 3
- Total Capacity: 6,700 MT

### Biomass Power Plants

- 1st Plant (2005)  
Location : Bangka  
Capacity : 6.0 MW
- 2nd Plant (2009)  
Location : Belitung  
Capacity : 7.5 MW



In our effort to streamline our operations, we have divested our downstream joint venture with Louis

Dreyfus Company Asia Pte Ltd. The proceeds will be utilized to support our core businesses in plantations.

## Operational Regions Map [102-4] [102-7]



# ABOUT THIS REPORT

In 2015, Kencana issued its first Sustainability Policy to reflect its commitment to develop its plantation business based on best management practices that are sustainable and environmentally friendly, while also ensuring to comply with applicable government rules and regulations in areas where it operates. The Group's second annual Sustainability Report is a continuation of our commitment to our Sustainability Policy and part of the Group's journey and efforts towards developing its best sustainability practices. Our first FY 2015 Sustainability Report was published in August 2016, and as part of our commitment to achieve growth through sustainability, we will be publishing our Sustainability Report on an annual basis. This report has been prepared in accordance with the GRI Standards: Core option. [102-51][102-52][102-54]

## Scope and Boundaries

The scope of this report is based on our operations in Sumatra, Kalimantan, and Sulawesi, Indonesia for the year ended in 31 December 2017 ("FY2017"). This report covers various policies and criteria's for the selection and evaluation of all aspects of sustainability practices with regards to related stakeholders including but not limited to; our suppliers, the environment, customers, community, employees and the protection of employee rights, as well as respect for human rights. [102-50]

Our material analysis and stakeholder engagements are outlined within relevant sections of this Report, along with information regarding the implementation of our strategic sustainability initiatives which aligns with our business needs and fulfills our stakeholders' expectations.

## Guidelines and Reporting Standards

This report is prepared in accordance with GRI Standards criteria by the Global Reporting Initiative (GRI) and the SGX Sustainability Reporting Guideline. GRI Standards Guidelines have two options for Sustainability Report content preparation; Core and

Comprehensive. For this 2017 Sustainability Report, we will apply the GRI Standards.

Readers can identify the content relevance of this Sustainability Report with Standards indicators included on each related page. A complete list of all GRI Standards aspects and indicators can be found on page 73. [102-55]

There has been no significant change in relation to the reporting structure, neither to the organization and its supply chain. There is also no restatement of information on this sustainability report from previous period. [102-10] [102-48][102-49]

## Defining Report Content [102-46]

In defining the contents of this report, the GRI Standards guideline provides a 4-step process. The process starts with identifying material aspects and reporting boundaries, followed by deciding the level of priority and validation of these aspects. Finally, a review will be conducted after publication of each Sustainability Report for the next reporting cycle.

The content and the relevance of this report is based solely on the Group's business thus far. Our Sustainability Report contains the latest information and data related to sustainability practices along with current stakeholder interests. Our Sustainability Report will include materials pertaining to the three main aspects of environmental, social and economic factors throughout the FY2017.

Determination of the Sustainability Report content is based on the four GRI Standards principles, namely:

### 1. Stakeholder Engagement

Our stakeholders are involved in the drafting process, starting from determination of report content, to providing input on published Sustainability Reports.

### 2. Sustainability Context

Our Sustainability Report covers all sustainability issues relevant to the Group.



### 3. Materiality

This Sustainability Report contains issues or material aspects required by stakeholders in decision-making.

### 4. Completeness

The Group's Sustainability Report is compiled with a specific scope and reporting period and is supported by complete data for that scope and reporting period.

## Disclosure of Management Approach

Management approach disclosure for every aspect of the identified material will be categorized and discussed in each relevant chapter.

## Validation and Assurance

This Sustainability Report presents qualitative and quantitative indicators that are relevant to improving report comparability, transparency and accountability. To ensure the accuracy of the data presented in this Sustainability Report, we have implemented thorough verification processes and internal reviews.

Particularly for areas that have PROPER, ISPO and ISCC certifications, all data and information have been also submitted to and verified by respective bodies.

Moreover, to ensure that this report is developed in accordance with GRI Standards Core Option, we have conducted GRI Standards accordance check by the National Center for Sustainability Reporting (NCSR) Indonesia.

Moving forward, Kencana is considering to conduct third party assurance process on our future sustainability reports. [102-56]

## Accessibility [102-53]

In supporting the nature of conservation, this Sustainability Report has been printed in limited numbers.

The 2017 Sustainability Report can be downloaded from our website [www.kencanaagri.com](http://www.kencanaagri.com)

We invite all readers and stakeholders to submit advice, ideas, constructive criticism and opinions to: Kencana Agri Ltd Indonesia office Kencana Tower, 9th Floor Business Park Kebon Jeruk, Jalan Raya Meruya Ilir No.88 Jakarta Barat 11620, Indonesia.



# CHAIRMAN'S STATEMENT [102-14]

Dear Shareholders,

On behalf of the Board of Directors, it is my pleasure to present Kencana's Second Sustainability Report for the year ended December 31, 2017.

## Realizing Our Sustainability Practices

2017 was a year where the Group continued to implement our Sustainability Policy, hand in hand with implementing ISPO and ISCC certifications where PT. Sawindo Kencana and PT. Alamraya Kencana Mas both attained ISPO and ISCC certifications.

As Kencana grows through the years, we are committed to continue to implement eco friendly practices, and improve our quality and productivity of the plantations. Our strategy is to deliver economic performance whilst strengthening our environmental, social and governance (ESG) values by reaching out further, beyond our operations into our stakeholders.

In doing so we make improvement on plasma programmes, standard operating procedures, traceability, our workers competencies through both in-house and external trainings, and energy efficiencies. As the Group grows we recognize that health and safety will always run adjacent to our daily operations. In 2017 we gratefully report that there was zero fatality. Through our learning curves, the Group continues to improve its methods and implementation to ensure the health and safety of our workers. The group certified eight Occupational Health and Safety (AK3 Umum) officers around

the estates to help train other workers and prevent accidents. We expect the number of our certified AK3 Umum officers to rise in the coming years.

As we continue to protect our conservation areas as stated in our Sustainability policy by way of implementing HCV and HCS studies, the group identified 18,081 Ha of conservation area.

## Moving Forward

We expect more robust sustainability practices to be implemented within our plantations by way of more plantations being ISPO certified and improved Health and Safety. We would also be completing our 6th mill which will be our first in the Sulawesi region. As we have left the El Nino behind, the Group will also expect higher production resulting from more favourable weather conditions. While the market will be volatile in the short run, we believe that in the long run the demand for palm oil will be well supported by global consumption growth coming from increasing global population and wealth.

## Appreciation

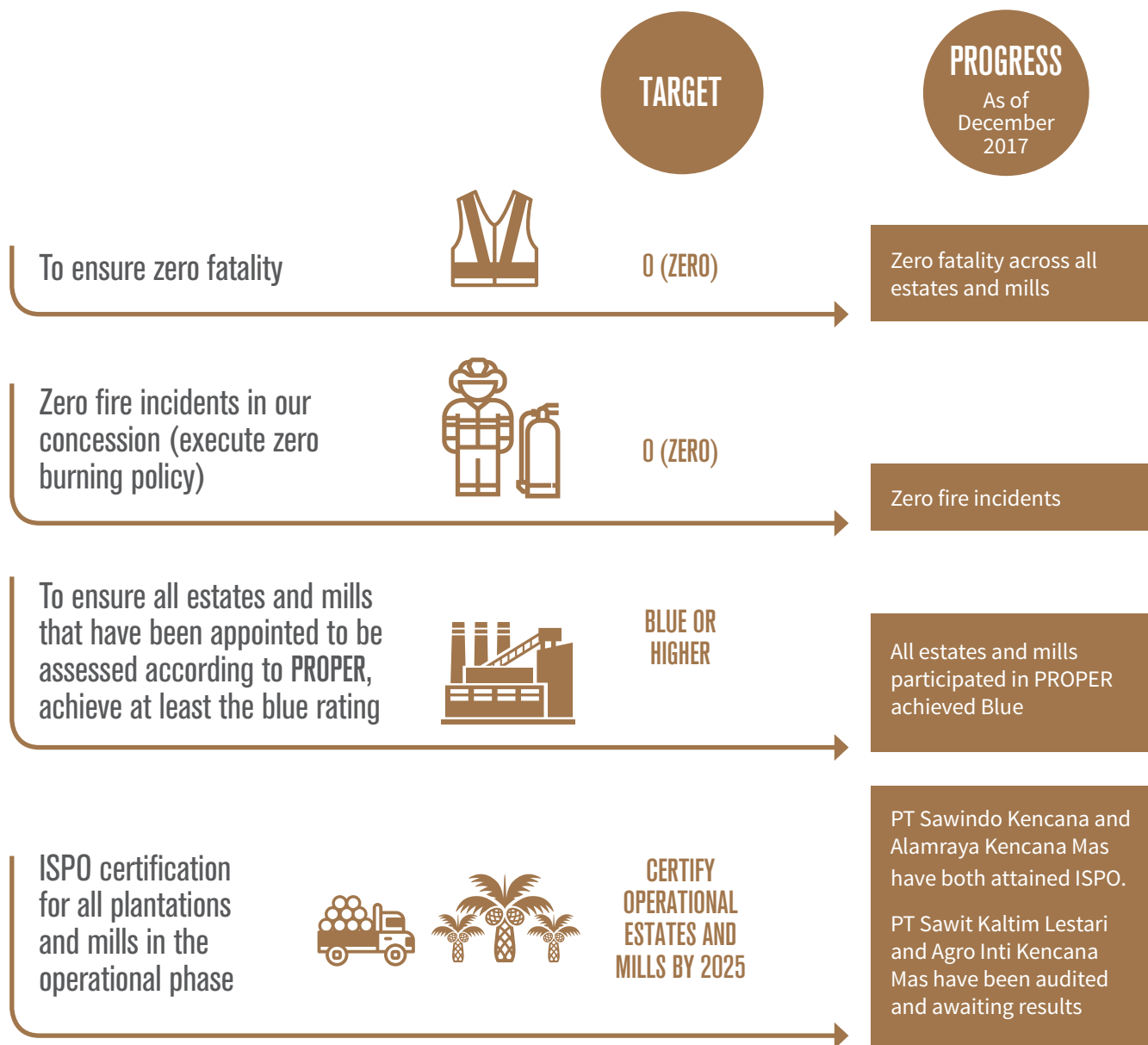
On behalf of the Board of Directors, I would like to thank all our stakeholders and all of our staff for their hard work, continued support, commitment, and dedication.

We are confident of meeting future challenges and seizing opportunities which may come our way to take the Group to the next level of sustainable growth.

**Henry Maknawi**  
Executive Chairman

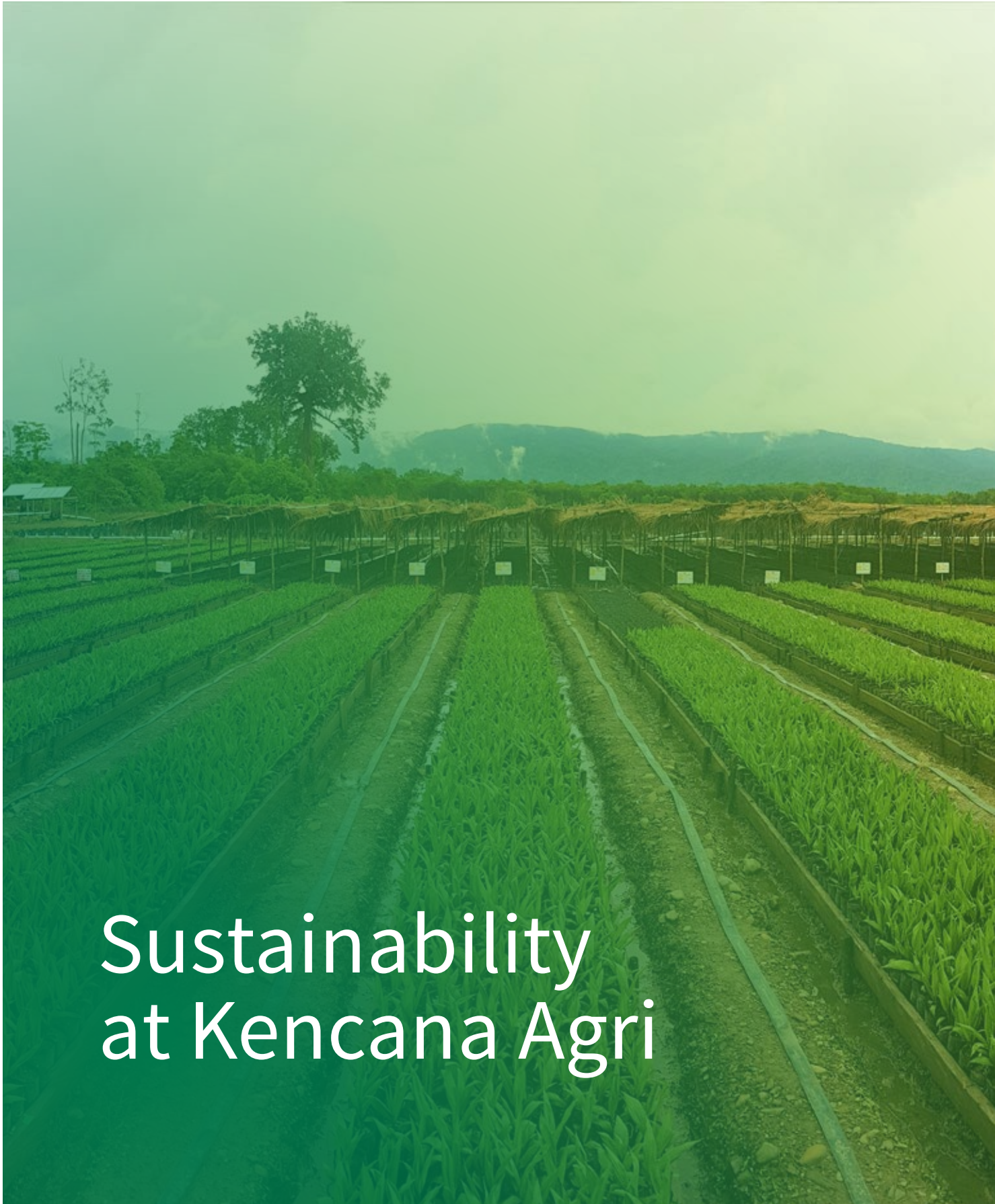


# ACHIEVEMENT & TARGET

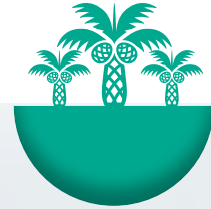








# Sustainability at Kencana Agri





# SUSTAINABILITY AT KENCANA AGRI [102-14]

## Stakeholder Engagement

Stakeholder engagement is recognized as an integral part in our attempts to become a more sustainable Group achieved through numerous sustainability programs along with continuous efforts to improve. Our key stakeholders have been identified through our activities in the palm oil sector and comprises: shareholders, customers, employees, non-governmental organizations, industry groups, and government agencies. These stakeholders are engaged through various platforms that help us gauge our performance in meeting their expectations as well as providing necessary feedback.

Our engagement approach varies from formal to informal settings, with all issues being given due consideration and evaluation on the impact that our actions and decisions make on both the Group and our stakeholders. Keeping all our stakeholders in mind, the Group conducted an external stakeholder engagement survey to gauge feedback and determine the material topics that our stakeholders would like us to include within the contents of this report. Our engagement principles are based on: Inclusivity, Materiality, and Responsiveness [102-42]

### Inclusivity

We consider our stakeholders to be those who have a direct interest in our business and those who are impacted by our business and how we operate.

### Materiality

The stakeholder engagement process helps us identify and manage current and emerging issues.

### Responsiveness

We continually monitor the changing environment in which we operate to ensure stakeholder concerns are captured and managed on a continuous basis. We recognize that material issues can be very complex with diverging stakeholder expectations. We endeavor to manage these expectations in a transparent, prudent and fair manner.

The survey enables the Group to get a better understanding of any concerns from our stakeholders. These points of interests then become the groundwork material and matrix for our Group Sustainability report. A thorough description of our stakeholders, their concerns, and our ability to manage and take action on these issues are outlined in the following table. The following data were feedback collected from the stakeholder engagement reviews we compiled throughout 2017.

Stakeholders [102-40]	Issues [102-44]	Engagement Method [102-43]	Outcome	Frequency [102-43]
Shareholders & Investor	Transparency and disclosure of Health, Safety & Environment and social report	Meetings upon request	Issuance of Annual Report	Annually
CPO Buyers	Product traceability	Meetings, surveys and audits	Sustainable and traceable palm oil	Upon request
Local Suppliers & Contractors	Lack of knowledge within health and safety issues	Technical assistance and one-on-one meetings	Correct use of PPE and safe working methods	At least once a year
Governments and Regulators	Government regulations and ISPO certifications	Public forums and regular meetings	Comply with government regulations	Upon request
Non-Governmental Group	ISCC and RSPO certification adoptions, change within criterias and indicators	ISCC and RSPO stakeholder meetings and annual meetings	Internal audit analysis	Annually
Employees	Employee empowerment, working conditions, health and safety issues	Grievance procedure, whistleblower process, health and safety training	Investment on well trained employees	Based on training matrix
Smallholders (Plasma & 3 <sup>rd</sup> Party FFB Suppliers)	Sustainable agricultural practices	Training and introduction towards ISCC, RSPO, and ISPO standards	Safe working condition and correct use of PPE	Upon request
Local Community	Native customary rights	Feedback and awareness meetings, stakeholder forums for complaints, grievance resolution and other adhoc engagements	Contribution on education, scholarship, medical facilities, improved infrastructure	Upon request
Media	Sustainable agricultural practices and CSR of Group	Meetings	Information about sustainable agricultural practice in Palm Oil Company and their multiplier effect to Indonesia society	Upon request
Registered Office Address	36 Armenian Street #03-02, Singapore, 179934	36 Armenian Street #03-02, Singapore, 179934	36 Armenian Street #03-02, Singapore, 179934	36 Armenian Street #03-02, Singapore, 179934
Principal Office Address	Kencana Tower, 9th Floor Business Park Kebon Jeruk Jl. Meruya Ilir Raya No. 88, Jakarta 11620, Indonesia	Kencana Tower, 9th Floor Business Park Kebon Jeruk Jl. Meruya Ilir Raya No. 88, Jakarta 11620, Indonesia	Kencana Tower, 9th Floor Business Park Kebon Jeruk Jl. Meruya Ilir Raya No. 88, Jakarta 11620, Indonesia	Kencana Tower, 9th Floor Business Park Kebon Jeruk Jl. Meruya Ilir Raya No. 88, Jakarta 11620, Indonesia



## Kencana Agri Limited Environmental Sustainability Policy <sup>[103-1]</sup>

WITH EFFECT FROM 19 JANUARY 2015

### Scope of Policy

The provisions of this policy apply to all operations of Kencana Agri Limited (“Kencana Agri”), as well as the operations of its subsidiary companies and associated companies where Kencana Agri has management control.

### Commitment Statement

Kencana Agri strives to develop its plantation business based on best management practices that are sustainable and environmentally friendly, and also seeks, wherever possible, to ensure compliance with applicable government rules and regulations in areas where we operate. This is realised through continuous balanced assessment and development of its operations while simultaneously conserving and improving the natural environment, and uplifting the socio-economic conditions of our employees, local communities, and smallholders (plasma farmers). Being a good corporate citizen, we would also seek guidance from the local authorities and local communities whenever there is any inconsistency or conflict between the provisions of this sustainability policy and the prevailing applicable rules and regulations.

### Environmental Management

- No deforestation of high carbon stock (“HCS”) forest areas and no further land clearing of potential HCS areas until the results of the proposed HCS study are adopted.
- Preservation of high conservation value

### ("HCV") Areas

- Apply a zero burning policy in respect of new planting and replanting.
- Refrain from undertaking new development on peat land of any depth.

- Endeavour to align ourselves with the industry practices and standards generally adopted by the market in relation to sustainable palm oil production.

### Community Development and Social Impact

- Continually develop our plasma program based on applicable Indonesian laws and regulations.
- Facilitate the inclusion of qualified smallholders into the supply chain.
- Implement corporate social responsibility programs.
- Respect the rights of indigenous and local communities to give or withhold their Free, Prior and Informed Consent (FPIC) on lands to which they hold legal, communal or customary rights in line with applicable government regulations.
- Endeavour to resolve complaints and conflicts through an open, transparent and consultative process.
- Respect land tenure rights.

### Human Rights and Workplace

- Respect and support the Universal Declaration of Human Rights.
- Respect and recognize the rights of all workers, including contract, temporary and migrant workers.
- Comply with minimum wage policies.
- Prohibit child labour and forced labour at every stage of our operations.
- Promote a healthy and safe working environment

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### Henry Maknawi

Chairman and CEO  
By Order of the Board

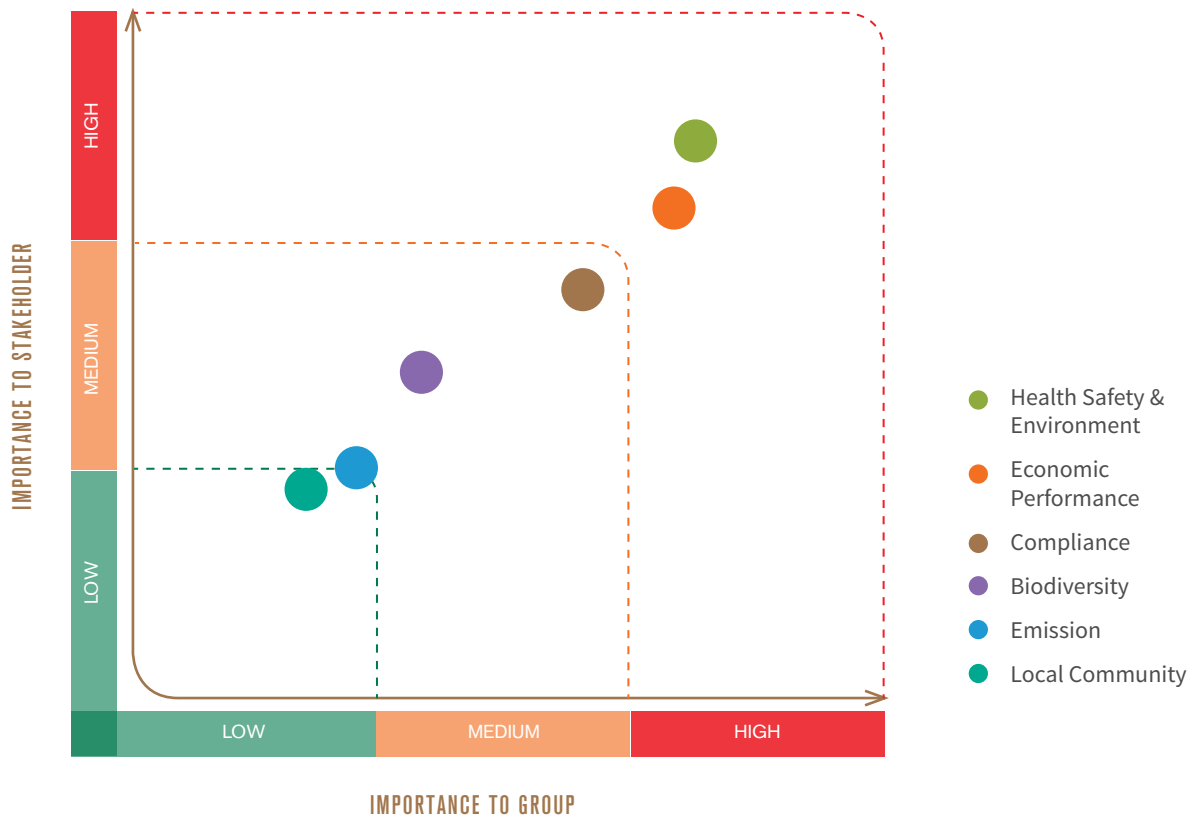




## Material Analysis & Evaluation

Once key issues and concerns from our stakeholders have been identified through our stakeholder engagement process mentioned above, the Group further analyzes these points of interests as well as evaluating impacts on our business and stakeholders.

The priority and level of urgency for different matters are based on the utilization of the Global Reporting Initiatives Reporting Guidelines GRI Standards materiality analysis with Kencana’s Materiality Matrix outlined below.



In the year 2015, GHG was one of the warmest issues for the oil palm industry globally. GHG is one of the most important requirements in ISPO and ISCC certifications and serves as an important aspect of Certified Sustainable Palm Oil ("CSPO") sales. As a form of the Group’s commitment in sustainability development, our management invites all employees to cooperate in implementing GHG emission reduction throughout our Group.

In 2017, our employees are more aware of the Group’s environmental management implementation. Thus, the highest materiality issue for the year 2017 was Health Safety & Environment.

As our culture shifted towards a more sustainable practice, our employees begin to realise that their health and safety is utmost importance. To improve their awareness, the Group conducts trainings across the estates and Head Office, as well as certifying 2 additional Occupational Health and Safety officers. This is done as part of the Group’s commitment in acquiring a safe and healthy working environment

In the future, we aim to integrate Kencana’s materiality matrix to better align our business and stakeholder concerns more effectively. Every year, we will continue to identify risks associated with our industry and will re-categorize stakeholders based on the perceived level of impact.



# Kencana Agri Sustainability Focus Area & Report Boundary

## Focus Area & Report Boundary GRI Standards-In Accordance “Core” [102-47] [103-1]

Sustainability Focus Area	GRI Standards Material Aspects	Applicability of The Material Aspect Within the Group's Business Activities			External Parties
		Head Office	Plantation with Mills	Plantations	
Corporate Governance	Compliance	Green	Blue	Purple	Light Brown
	Anti corruption	Green	Blue	Purple	Light Brown
Sustainable Operation & Products	Customer Health & Safety	Green	Blue	Purple	Light Brown
	Marketing Communication	Green	Blue	Purple	Light Brown
	Compliance	Green	Blue	Purple	Light Brown
	Human Right	Green	Blue	Purple	Light Brown
Preserving the Environment	Energy	Green	Blue	Light Brown	Dark Brown
	Water	Green	Blue	Purple	Light Brown
	Biodiversity	Green	Blue	Purple	Light Brown
	Emission	Green	Blue	Purple	Light Brown
	Effluent and Waste	Green	Blue	Purple	Light Brown
	Product & service	Green	Blue	Purple	Light Brown
	Waste Management	Green	Blue	Purple	Dark Brown
Community Development	Indirect Economic Impact	Green	Blue	Purple	Light Brown
	Local Communities	Green	Blue	Purple	Light Brown

### Notes:

The scope of this report includes data and information from Kencana's significant subsidiaries, which are: [102-45]

1. PT. Sawindo Kencana (Sumatra)
2. PT. Alamraya Kencana Mas (Kalimantan)
3. PT. Agro Inti Kencanamas (Kalimantan)
4. PT. Sawit Kaltim Lestari (Kalimantan)
5. PT. Agri Eastborneo Kencana (Kalimantan)

This sustainability report places emphasis on the issues that matters the most. These issues are defined based on their impacts to our business along with the feedback received from key stakeholders as part of the reporting

process throughout the year. The issues that ranked highest have been reported more thoroughly and been included in the reported GRI Standards Indicators.

The list of issues that are associated with our Group's operations and the plantation industry in general are highlighted as follows:

1. Health and Safety
2. Compliance
3. Economic performance
4. Local community
5. Biodiversity
6. Emission



# Corporate Governance





## Corporate Governance Structure [102-18]

Kencana’s Board of Directors is the highest governing body and is responsible for the strategic direction of the Group.

The Board consists of six members with extensive experience and a strong track record in oil palm and various industries.

<b>HENRY MAKNAWI</b> Executive Chairman
<b>TENGGU ALWIN AZIZ</b> Vice-Chairman and Independent Director
<b>RATNA MAKNAWI</b> Executive Vice Chairman
<b>SOH YEW HOCK</b> Lead Independent Director
<b>SIM IDRUS MUNANDAR</b> Independent Director
<b>DARWIN INDIGO</b> Non-Executive and Non-Independent Director

The ultimate function of the Board is to protect and enhance long-term value and returns for its shareholders.

The Board meets regularly to review the Group’s overall performance, to deliberate on specific issues including major acquisitions and disposals, to approve the annual budget and to approve the release of the quarterly, half-yearly and year-end financial results. The Board meets at least four times a year. In addition to the scheduled meetings, ad-hoc board briefings, conference calls and physical meetings are held as warranted by particular circumstances or as deemed appropriate by the Board members. A total of five board meetings were held in 2017.

To assist the Board in the execution of its duties, the Board has established various Board Committees, namely the Nominating Committee (NC), the Remuneration Committee (RC) and the Audit & Risk Management Committee (ARC). Each of these committees is empowered to make decisions on matters within its terms of reference.

Besides carrying out its statutory responsibilities the Board’s role is also to consider sustainability issues, e.g. environmental and social factors, as part of its strategic formulation. Our Audit & Risk Management Committee is updated on a quarterly basis on matters relating to material sustainability risks and concerns.

Committee	Description [102-18]
Nominating Committee (NC)	The NC is established for the purposes of ensuring that there is a formal and transparent process for all Board appointments. It has adopted written terms of reference defining its membership, administration and duties. The NC has adopted a process for assessing the performance of the Board as a whole instead of individual assessment.
Remuneration Committee (RC)	The RC is established for the purposes of ensuring that there is a formal and transparent procedure for fixing the remuneration packages of individual directors. The RC will work within the principle that the remuneration should be structured so as to link rewards to corporate and individual performance
Audit and Risk Management Committee (ARC)	The role of the ARC is to assist the Board with discharging its responsibility to safeguard the Group’s assets, maintain adequate accounting records and develop and maintain an effective system of risk management and internal controls, including matters related to sustainability issues. The ARC has undertaken an annual review of the audit and non-audit services provided by the external auditors to satisfy it that the nature and extent of such services will not prejudice the independence and objectivity of the auditors before recommending their re-nomination to the Board

## Communication with Shareholders

As our shareholders are one of the most important stakeholders for our business, the Group ensures that there are regular and informative communications about the Group’s operations that will be useful for our stakeholders to know. Any information pertaining to the

Group’s dealings are published via the SGXNET and also includes any news release about the Group. Price sensitive information are more cautiously updated and released to the public in order to reduce possible complications. Note that the Group does release all of its information online whether it be financially or operationally related. However, the timing of said release dates are determined

in order to cause the least disruption to the Group as possible.

Moreover, we also publish Annual reports while notices of AGMs are sent to all shareholders. AGMs notices are also published in local newspapers and made available on the SGXNET. At the AGMs, shareholders are given the opportunity to express their views and raise any queries regarding the Group.

All results are announced or issued within the assigned period and are available on the Group's website. The Group strictly does not engage in selective disclosure. The Group communicates with its shareholders through its corporate website <http://www.kencanaagri.com>.

## Governance & Transparency

[102-11] [102-17]

The Group has zero tolerance on fraud and corruption. To mitigate the risk the Group has place Code of Ethics that are based on values and principles that serve as the fundamental aspects for working etiquette and decision making that has been adopted by the Board of Directors and applies to every director, officer and employee in all our companies. Our Code comprises values which include: compliance to laws and regulations, equality and non-discrimination, honesty and integrity through our anti-corruption and anti-bribery policies, work ethos morals and integrity, avoidance of conflict of interest, contribution and target achievement, being humble, work-life balance, mutual welfare, respecting human rights, and knowledge development. Our Code of Ethics and policy has been socialized and hard copies have been distributed to all employees and directors. In addition, the Group also provides guidance to the Group's directors and employees on their dealings in securities and other business ventures.

Moreover, the Group risk management committee conducts a meeting quarterly and identifies its key risks to assess the effectiveness of the risk management and internal control systems, especially dealing with financial, operational, compliance and climate change risks. The Board, through the Audit and Risk Management Committee continuously identify, review and monitor the key risks, control measures and management actions as part of the risk management process.

The Group's risk management framework comprises of assessments which separate the risks into three categories: preventable, unpreventable and external.

The risk management group would then utilize a risk matrix to determine the significant issues, which shall be prioritized and monitored in more sound manner. To ensure mitigation efforts are conducted accordingly the risks the committee place a quarterly meeting where risks are reviewed and subsequently reported to the Audit and Risk Committee board meeting.

In addition, embedded within our Code of Ethics and Risk Management, our whistleblowing policy, which is closely monitored by the Internal Audit, guarantees confidentiality and freedom in raising concerns. The whistleblowing policy shall identify contact points for reports in fraud, corruption, and other risks. We follow the spirit of our policy, and it has been socialized to our workers.

## External Initiatives and Associations [102-12] [102-13]

In light of our Group's external initiatives, we commit and strive to adopt sustainable agricultural practices through certification with the ISPO, ISCC, and/or RSPO certifications. In addition to our Community Development agendas and initiatives, stakeholder engagement and awareness is crucial to achieve the required certifications and approval as well as satisfaction from our external stakeholders.

To fulfill government regulations the Group conducts environmental impact assessments, also known as "AMDAL" (Analisis Mengenai Dampak Lingkungan) as the first step to assessing new development areas. This step serves as a guide for Kencana to ensure that our operations will not have a negative impact on the environment. Aside from AMDAL, the Group also conducts HCV and Social Impact Assessment ("SIA") analyses to evaluate impacts of our operations before proceeding to planting.

Another benefit of our external initiatives is the better communication of our sustainability standards throughout all our supply chains while at the same time firmly encouraging everyone to join in making a more sustainable business in general. Such initiatives will boost the Group's efforts in becoming a more sustainable business whose operations always aim to benefit and satisfy all our stakeholders.

To date, the Group has participated actively as a member in a number of associations, namely: Gabungan Pengusaha Kelapa Sawit Indonesia ("GAPKI"), Indonesian Palm Oil Conference ("IPOC"), ISCC, ISPO, RSPO, ISO (PC 248).





SUSTAINABILITY  
AT KENCANA AGRIS



CORPORATE  
GOVERNANCE



SUSTAINABLE  
OPERATION &  
PRODUCTS



# Sustainable Operation & Products



ENVIRONMENTAL &  
SOCIAL ECONOMIC  
COMPLIANCE



COMMUNITY  
DEVELOPMENT



OUR  
PEOPLE



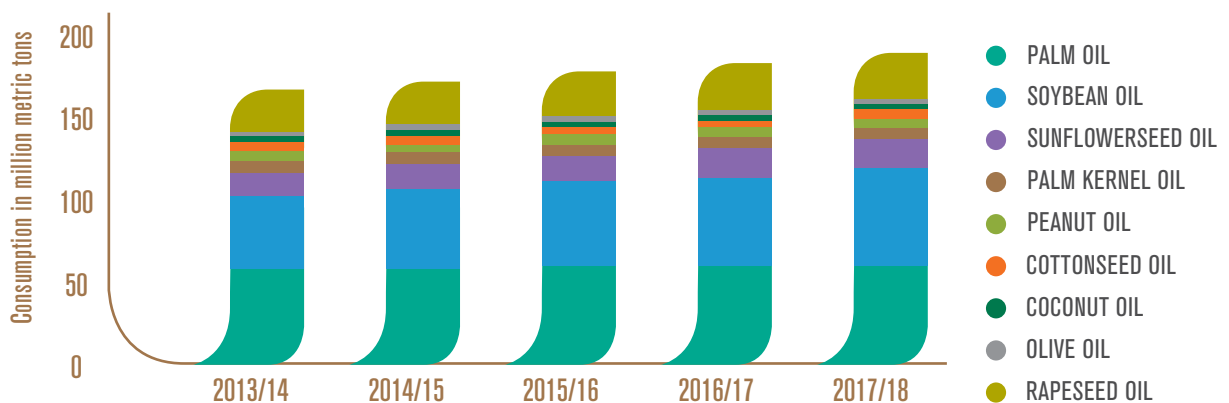
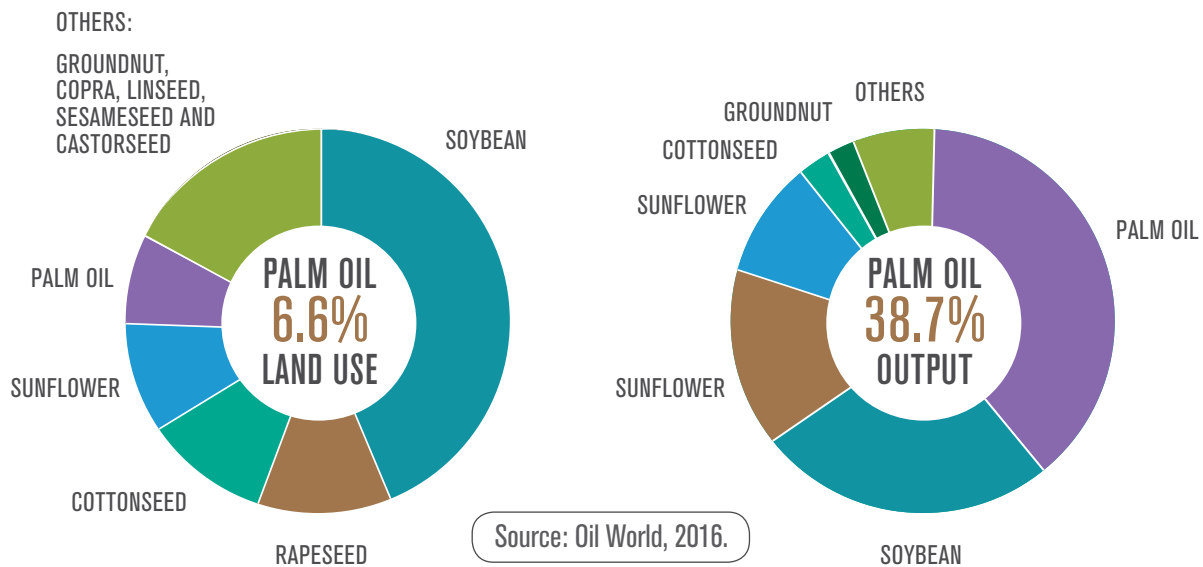
Kencana Agri Limited



# SUSTAINABLE OPERATION & PRODUCTS

## Economic Sustainability

Palm oil products have been part of our daily lives. Around half of the products we use and consume everyday have palm oil mixed along with many different ingredients. Based on Oil World data in 2016, oil palm total planted area was only 6.6% of the total land needed to produce vegetable oil in the world. Although small in hectarage, oil palm is still the largest contributor in vegetable oil, which was around 38.7% (palm oil and palm kernel oil) of the total vegetable oil production in 2016 (Oil World, 2016). This shows the immense role of oil palm for the world's vegetable oil consumption. The efficiency of oil palm's yield cannot be rivaled by any other vegetable oil.



Source: Oil World, 2016.



In 2017, according to the research from the Research and Market titled “The Palm Oil Market: Global Industry Trends, Share, Size, Growth, Opportunity and Forecast 2018-2023”, the global palm oil market grew to around 7% during 2010-2017. Based on GAPKI the production of palm oil in Indonesia in 2017 reached 42 million tons; 32 million tons of it being exported while 11 million tons was used domestically.

As the demand for palm oil is expected to continue to grow in the coming years, Kencana understands that as new land developments for oil palm is becoming more difficult, we must push on to create oil palms that have higher productivity, more sustainable and produce better quality products to meet global market demand and maintain the sustainability of our environment.

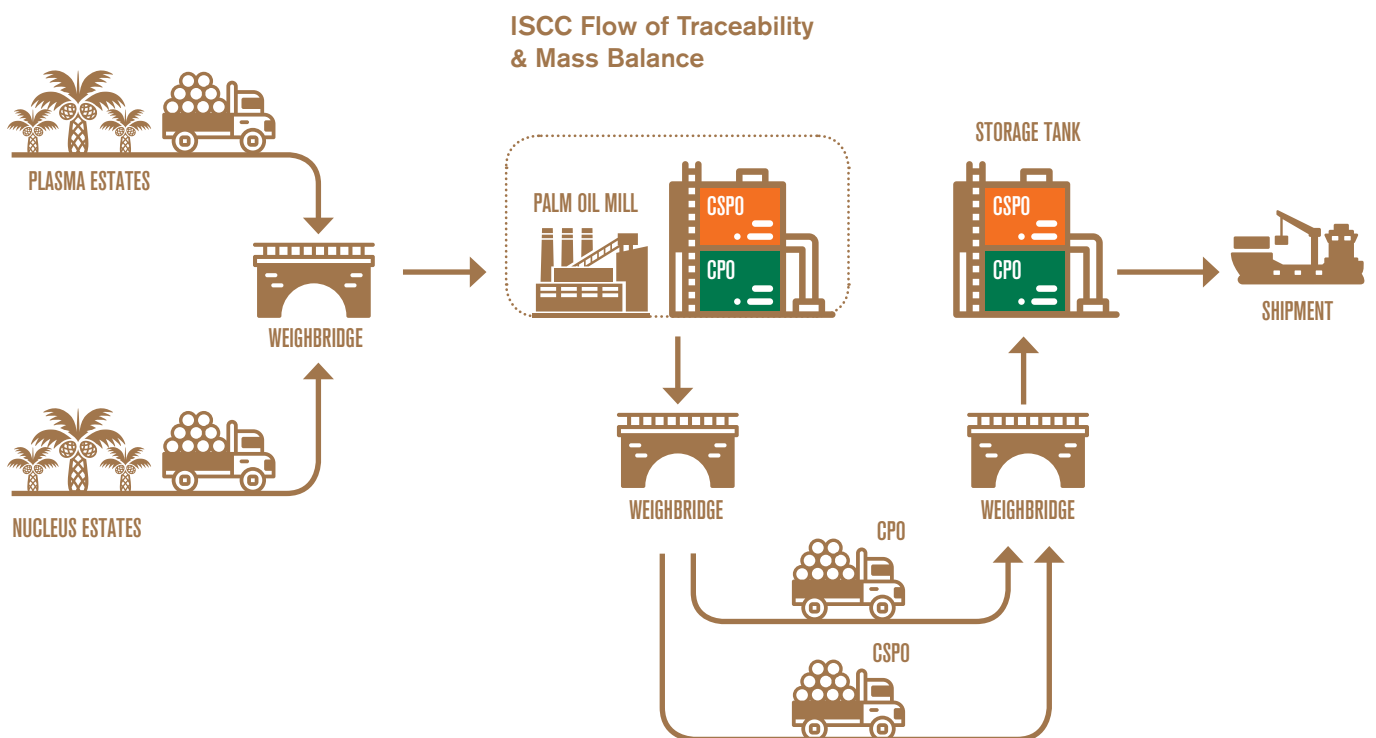
For more details about our performance and business strategy discussion, please refer to the Group’s 2017 Annual Report.

## Customer and Marketplace

Kencana serves both domestic and international markets such as Malaysia, with supplies going to palm oil refiners, traders, brokers, oleochemical companies and fast-moving consumer goods companies (FCGC). However, in 2017, all of our sales were dominated by domestic sales due a more profitable domestic market. [102-6]

The Group believes that keeping a positive and close relationship with our valued customers remains one of the keys to success. We assure customers that they are receiving nothing but the best by going on periodic site visits and continuous communication with buyers to receive more feedback. Doing so enables us to tend to and solve any concerns in order to deliver products and service experience to our buyers.

In addition, the Group safeguards customer privacy and meets all prevailing regulations regarding production, distribution, and traceability. Throughout 2017, there were no significant complaints from customers and marketplace authorities regarding the Group’s products, marketing communication practices or anti-competitive behavior.





## Primary Products and Production

Throughout 2017, the Group managed an accumulated 68,483 ha of planted area within our palm oil plantations. 14,295 ha of this total planted area is dedicated for our smallholders. Based on 2017 figures, the Group produced 591,471 and 167,422 tonnes of fresh fruit bunches (FFB) from the nucleus and plasma estates respectively. The total CPO produced in 2017 was 147,716 tonnes, which was a 13% increment compared to 2016 production.

### Kencana Agri 2017 Plantation Profile & Production Volume



FRESH FRUIT BUNCES- PRODUCED (TON)	758,893
FRESH FRUIT BUNCES- PROCESSED (TON)	723,966
CPO-CRUDE PALM OIL (TON)	147,716
CPKO (TON)	3,721
PKE (TON)	4,471



## Sustainable Operations

The ability to manage our resources and making the most of what we have efficiently underlines our operations and will bring positive impacts on the environment and our stakeholders.

Efficiency and better resource management will be achieved by continually optimizing the use of our resources including land, soil, water, fertilizers, seeds, etc. Improving efficiency is beneficial for the Group as we are able to minimize costs within our procurement department by better managing existing resources to run operations. We constantly attempt to improve our production by applying Best Management Practices, replanting programs, efficient FFB transportation, and better tending of our crops in order to produce better yields as well as improving soil fertility. Moreover, we focus on improving our effective water management

systems, chemical spraying system as well as continual engineering improvement programs in order to reduce our carbon footprint within our daily operations.

In addition, we maintain and sustain our soil fertility by allowing the organic nutrients in biomass waste to return back into the soil. The use of legume cover crops protects soil integrity, conserves moisture, boosts nutrients and reduces soil surface runoff. The Group maintains buffer zones in order to protect riparian areas and water quality.

## Maintaining Product Quality

[103-1][103-2][103-3] [416-1]

In our effort to maintain good product quality in Kencana, the Group ensures that Good Management



Practices (“GMP”) are applied and reflected within all of our Standard Operating Procedures (“SOP”). These include FIFO treatment for FFB, fulfillment of labour so that harvesting rotation is maintained, and minimizing mill breakdown hence FFA quality can be maintained. The Group also adopts the principles from both ISPO and ISCC within our operations. To ensure that all companies that have attained ISPO and ISCC certifications maintain their product quality, an ISPO surveillance audit is conducted yearly, while a re-certification audit for ISCC also being conducted on a yearly basis. In compliance to ISCC principles, all FFB products coming into and from PT. Sawindo Kencana are traceable to any of our stakeholders Our ability to provide traceability guarantees that our CPO and FFB were produced in and by reputable sources.

## Sustainable Product

Indonesian Sustainable Palm Oil Organization (ISPO) certification standard is at the core of our sustainability strategy for all plantations that implemented at all plantations.

ISPO certification represents external acknowledgement of our commitment in the implementation and compliance to all sustainable plantation requirements as mandated in the ISPO assessment criteria emphasizing on the following main aspects:

1. Legality.
2. Plantation Management.
3. Protection and Utilization of Primary Forest and Peat land.
4. Environment Management.
5. Responsibility for Workers.
6. Social Responsibility & Economic Environment.
7. Sustainable Business Improvement.

In addition, the Group adopts ISCC principles. The Group collaborates with independent certification bodies in conducting ISPO and ISCC principles implementation review and assessment, namely SAI Global & TUV NORD.

In 2017, two of the Group’s plantations have been successfully awarded both ISPO and ISCC certifications, namely PT. Sawindo Kencana and PT. Alamraya Kencana Mas.

Meanwhile, PT. Agro Inti Kencanamas and PT. Sawit Kaltim Lestari have been audited for ISPO certification and are awaiting for an announcement from the ISPO commission.

Yearly surveillance audits were also carried out in 2017, in order to ensure that ISPO principles were implemented thoroughly and properly at all plantations.

Up to 2017, the Group has achieved Sustainable Palm Oil certification from ISCC for 22.34% of its eligible palm oil plantation area which represents 12,111 hectares of plantation, equal to 44,446 tonnes of CSPO, and equivalent to 30% of the total CPO produced in 2017.



# Environmental & Social Economic Compliance





# Environmental & Social Economic Compliance

The year 2017 was an enthralling time to be an oil palm producer as global demand for food and fuel is constantly rising and yields per hectare of palm oil production are higher than that of any other oil producing crop. However, as the industry is still recovering from the effects of the El Niño in 2016, the Group is making the most of the resources, improve yields and productivity while minimizing the impacts on our environment.

As we welcome better weather conditions in 2017, Kencana continues to operate in the utmost responsible way as to preserve the environment in the best possible way. This notion has shaped the way we view our environmental surroundings and allows us to be more mindful of nature within our operations. Although it is essentially managements' decision to act sustainably, we are ultimately grateful to all employees who have embedded this notion and culture within their daily tasks.

In 2017, the Group continues to commit on our official Sustainable Policy which took effect on 19 January 2015. The policy and our commitment include improved Environmental, Community Development & Social Impact, and Human Rights & Workplace management.



## A. Environmental Management Systems

In order to enforce an effective management system, Kencana believes that maintenance and improvements of our sustainability environmental practices must always be in the back of our minds. Thus the Group adopts practices from the Indonesian National Company Rating System (PROPER), Indonesian Sustainable Palm Oil System (ISPO), and International Sustainability & Carbon Certification (ISCC). Since our plantations originated by developing land that has been leased and licensed to us by local governments, especially for the cultivation of palm oil as per Indonesian Law No. 5/1990, a majority of these lands are degraded and logged-over secondary forests. These lands are where we employ best agricultural practices based on ISPO, RSPO, ISCC and GAP standards.

ISPO and ISCC both covers aspects of environmental, economic and social. While ISCC consists of major and minor indicators, ISPO consists of 29 criteria and 147 indicators that are compulsory to be adhered to. To achieve the required standards, Kencana commits to a number of actions that are rigorously monitored. Routine assessments are conducted to review our compliance to the PROPER, ISCC, and ISPO provisions. In 2017 a new milestone was reached as two companies, PT. Sawindo Kencana and PT. Alamraya Kencana Mas, both attained ISPO and ISCC certifications.

Through this we aim to:

- Achieve a minimum certification with Blue PROPER rating across all our operations.
- Attain an additional of two ISPO certificates by 2018, and subsequently ISPO certify all plantations with mills.
- Continue to maintain and re-certify all ISCC certified plantations and mills
- Improve the plants yield the workers welfare.

Company Name	Certificate	Ranking / Certification Status	Period Institute / Certification Body	Institute/ Certification Body
Sawindo Kencana	Proper National	Blue	2013-2017	Ministry of Environment and Forestry
	ISCC	Certified	2015-2018	TUV NORD
	ISPO	Certified	2015-2020	SAI Global
	RSPO	Member	2008-2017	RSPO
Belitung Energy	Proper National	Blue	2015-2017	Ministry of Environment and Forestry
Alamraya Kencana Mas	Proper National	Blue	2013-2017	Ministry of Environment and Forestry
	ISCC	Certified	2016-2018	GUT CERT
	ISPO	Surveillance 1	2016-2021	SAI Global
Agro Inti Kencanamas	Proper Regional	Blue	2014-2016	Department of Environment, East Kalimantan Province
	Proper Regional	Green	2016-2017	Department of Environment, East Kalimantan Province
	ISPO	Audit Stage 2 – In Progress of Review in ISPO Commission	2017	SAI Global
Sawit Kaltim Lestari	Proper Regional	Blue	2014-2017	Department of Environment, East Kalimantan Province
	ISPO	Audit Stage 2 – In Progress of Review in ISPO Commission	2017	SAI Global
Agri Eastborneo Kencana	ISPO	In Progress	2017	SAI Global
Agrojaya Tirta Kencana	Proper National	Blue	2016-2017	Department of Environment and Forestry

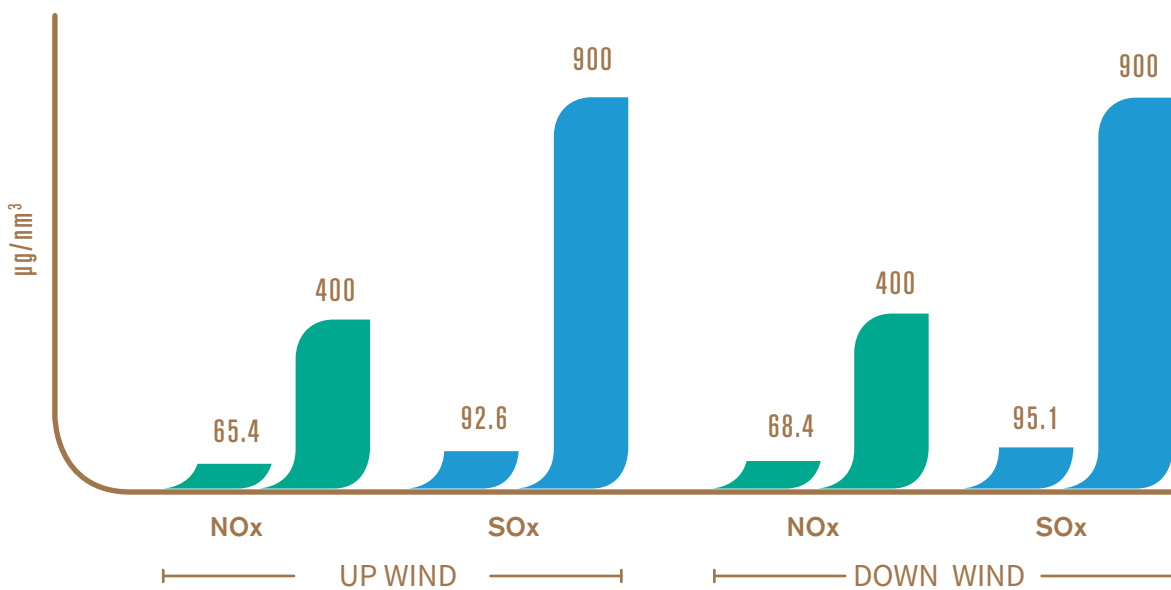




One of our main focuses in our environmental management system is our aim to reduce our GHG emissions throughout our operations. The GHG emissions in PT. SWK was reported to be 742.1kg CO<sub>2</sub> eq/ton CPO while PT. AKM has 1,035.64kg CO<sub>2</sub> ed/ton CPO (calculations were made using ISCC calculator EU Version 2.3). These GHG values were affected by the amount of fuel consumption, application of fertilizers, herbicides and chemicals used in both our plantation and mills. Some of our efforts to improve our environmental management systems to lower our GHG emmissions, are listed down as follows:

1. Utilizing biomass to use as fertilizer and an alternative fuel substitute for generators and boilers as to reduce emissions from the use of fertilizers and diesel fuel in our estate and factories.
2. Monitoring the use of generators for housing electricity. Housings in estates are connected to the government grid whenever possible, thus reducing emissions from diesel generators.
3. Monitoring air quality every 6 months within our estate and mills area. For example, reporting on NOx and SOx values found around our plantation and mills. Under the Indonesian government regulations, BML for NOx and SOx values that needs to be met are 400 and 900 µg / nm<sup>3</sup> respectively. Based on these data, the average NOx and SOx values are well under the BML. Even though we are under the BML limit, we strive to keep lowering our air emissions to the best that we can.

### Air Emission





## B. Energy Consumption

Focusing on lowering the amount of energy consumption is imperative for the Group to maintain its growth sustainably. As part of our corporate commitment to reduce the impact of emissions in the environment, the Group seeks to implement the reapplication of biomass to support our production output. [103-1]

To lower energy consumption, The Group’s estates must optimize the quality and the quantity of the FFB produced, hence resulting in a higher percentage of utilization in mills.

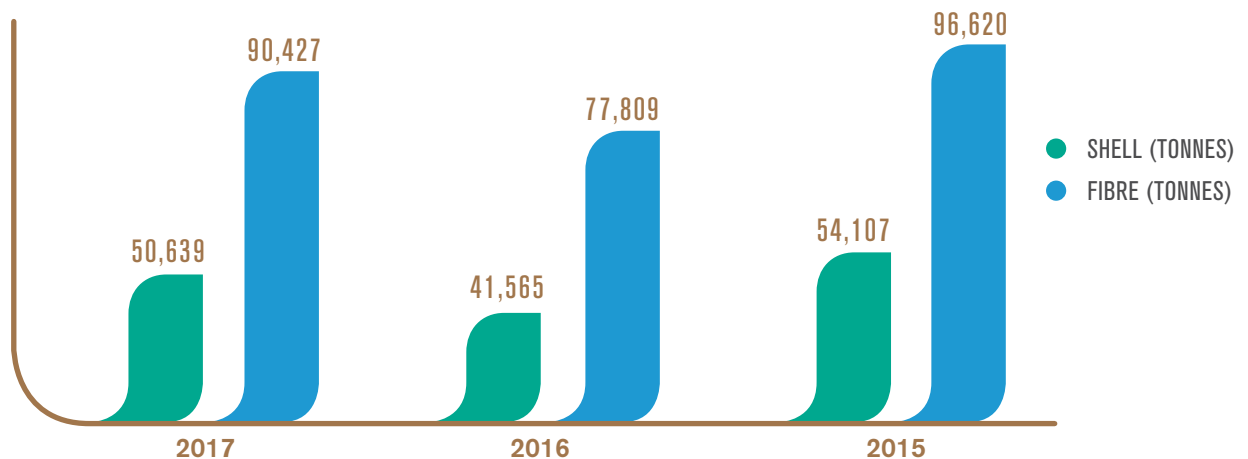
In 2017, the average FFB yields were 13.8 tonnes (nucleus) and 13.00 tonnes (plasma) per hectare, while our Oil Extraction Rate (“OER”) was 20.40%. This OER and FFB yield shows that the Group’s growth potential is not yet fully realized as 53% of its nucleus oil palms are in the immature and young mature stage. This implies that the Group’s current processed FFB derived mostly from 47% production of its prime mature oil palms (nucleus and plasma), which amounted to 723,966 tonnes of FFB in 2017. [103-2]

From this amount of FFB, the mills were able to produce biomass fuel such as fibres and shells amounting to 141,066 tonnes, or 1,668,252 Gigajoules of energy. This is equivalent to 14,609,892 kWh of generated electricity. In comparison to the total 17,221,974 kWh of electricity generated the biomass fuel accounts for 85% of the total generated electricity. [103-3][302-1]

### Energy Consumption of Mills [302-1]

Energy Sources	2017		2016		2015	
	Volume	GJ	Volume	GJ	Volume	GJ
Shells (tonnes)	50,639	798,979	41,565	655,812	54,107	853,700
Fibre (tonnes)	90,427	869,273	77,809	754,311	96,620	936,671
Diesel-vehicles, machineries, housing (litres)	154,895	5,561	192,703	6,918	277,569	9,965
Fuel (Litres)	3,179	102	1,525	49	1,699	55
Diesel-electricity generation (litres)	1,127,750	40,486	1,089,616	39,117	955,381	34,298

Note: The total volume conversion of biomass usage to GJ is multiplied by the Net Calorie Value. Net Calorie Value can be obtained from our laboratory sample test results at Sucofindo Laboratory in 2009.





## C. Soil Fertility

The quality of our soil plays an important role in attaining good palm oil yields. Although the quality of soil is relative to the location of our plantation, we were able to make some improvements through effective management practices. Vital nutrients are reintroduced to plantation soil through the mulching of empty fruit bunches, the use of cover crops, and the application of nitrogen-rich palm oil mill effluent: a fertilizer substitute. Mulching suppresses weed growth, and cover crops conserve soil integrity and fertility, increase water retention, and reduce surface runoff.

In areas where our trees are planted on a sloped terrain, we build terraces and silt pits to minimize soil erosion and the leaching of fertilizers and pesticides into water bodies.

We preserve buffer zones between estates and rivers to protect riverbanks and maintain water quality.

In line with our Sustainability Policy the Group does not convert peat land in newly developed areas, even though the Indonesian government regulation allows the development of peat land up to a depth of three meters. Normally, the identification of peat land is determined during HCV and/or HCS studies prior to new land conversion.

As part of the Group's effort in maintaining soil fertility, a yearly Leaf Sampling Unit ("LSU") analysis is conducted to ensure soil fertility and fertilizers are accurately used throughout the plantation.

## D. Water Usage

Water remains an essential element for the cultivation of oil palms and production activities. In order to ensure the sustainability of this important resource, the Group carries out various initiatives that aim to ensure optimal water conditions, thereby creating an ideal environment for oil palm cultivation. The objective of the Group's water system management is to prevent flooding, minimize erosion, and to secure the water supply for our plantation areas during the dry season. [103-1]

Implementation of the Group's water management systems has been designed with careful consideration and comprehensive hydrology, agronomy, and topography studies, as well as environmental and social impacts. The effectiveness and impact of the water management system, including its construction phase, have been carefully analyzed and evaluated. Computer software modeling and simulation of the system were used, thus aiding the Group in designing an optimal system for each particular area. Throughout 2017, there were no reports or allegations regarding water supply or quality from any parties to the Group. [103-2]

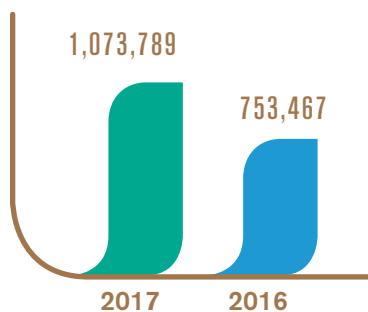
Moreover, water gate systems in low laying areas, terracing system, and cover crops planting, were among of these efforts for creating a better environment for our trees. The comprehensive water system management enables accurate control and monitoring of water flow and level in our

plantation areas. Furthermore, water reservoirs were constructed to ensure medium and long-term availability of water. Ideal land conditions and an effective water system management will enhance the effectiveness of fertilizers and natural organic nutrients absorbed by oil palms. [303-1]

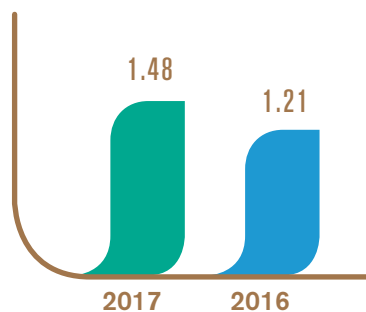
Throughout the year 1,172,446 m<sup>3</sup> of water, sourced from nearby reservoirs and rivers in our estates, were used in the production process. This represents 1.62 m<sup>3</sup> of water per ton of CPO produced, showing an improvement of 34% due to efficiencies within our water usage for production processes in comparison to last year. Total water usage by the Group consists of 60% from the reservoir and the remaining 40% from rivers surrounding our estate areas. [303-1]

To further improve protection on our water bodies around the plantation, the Group utilizes modified mobile water tanks that are used to fill knapsacks and mix chemicals prior to spraying activities take place. This ensures that no chemicals will contaminate any nearby streams, and prevent workers from collecting water with contaminated containers in water streams or creeks. Therefore, our Group's target is to reduce approximately 10% of water consumption in our mills and plantation in 2018 to ensure the good management of water usage. [103-3]

Water Consumption (m<sup>3</sup>)



Water Usage for CPO Production (m<sup>3</sup>/ton CPO)



## E. Zero Burning

The Group upholds a policy of zero burning for our operations. The Group does not use fire for land clearing purposes. Instead, we mechanically clear land and harness the organic contents within fallen decomposing biomass to replenish plantation soil. This provides a rich substrate for new plantings and reduce fertilizers application.



## F. Waste Management

All plantation waste and production by-products are recovered and reused. Empty fruit bunches are mulched, naturally returning nutrients to plantation soil. Shells and fiber also provide renewable boiler feedstock. Recycling production and plantation waste as a fertilizer substitute reduces operational costs. In 2017, we recovered 143,408 million tonnes of empty fruit bunches which is an increase of 10% from the year 2016, and 617,878 million m<sup>3</sup> of effluents as processing waste which is also an increase of 6.8% from the previous year. [103-1][103-3]

Efficient waste management plays an important role within our Group to reduce the impact of environment pollution. Aside from ensuring the sustainability of the environment, our waste management system also acts as a way to cut our operational costs. For example, by efficiently utilizing land application methods to supplement our palm oil trees, the Group can increase our overall yields while at the same time cutting costs by using less chemical supplements. Moreover, through the utilization of other biomass forms such as shells and fiber as a substitute for diesel, we can reduce the costs needed to run our boilers and generators. [103-2]

Primary Waste	Recovered and Recycled	Total Amount Recovered & Recycled in 2017	Total Amount Recovered & Recycled in 2016	Total Amount Recovered & Recycled in 2015	Units
Empty Fruit Bunches	Used as fertilizer and as biomass fuel	143,408	129,929	162,322	Ton
Mesocarp Fibers	Biomass fuel	90,427	77,809	96,620	Ton
Shells	Biomass fuel	50,639	42,565	54,107	Ton
Palm oil mill effluent	Fertilizer	617,878	578,209	441,606	m <sup>3</sup>

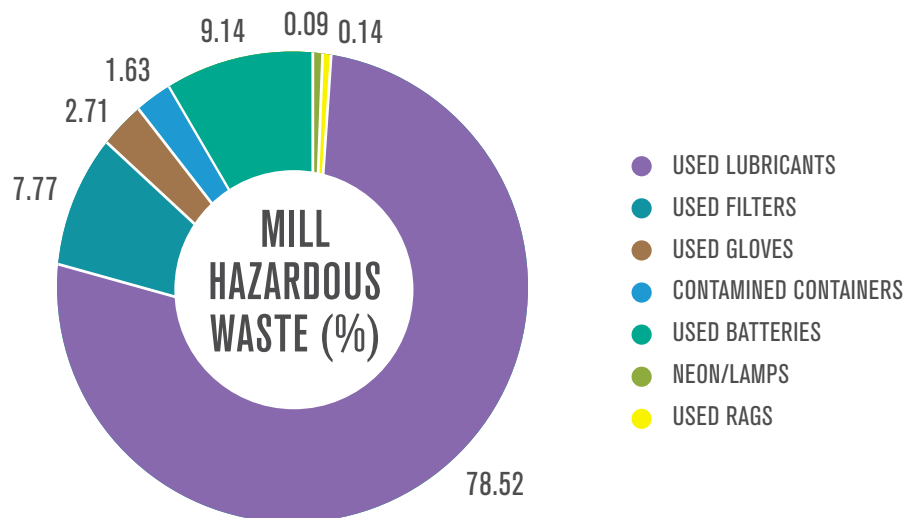
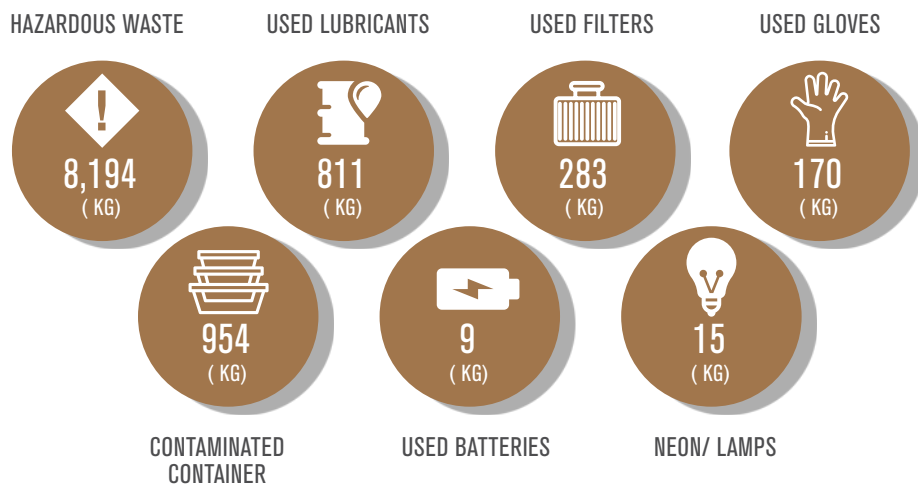
Hazardous waste produced as an outcome of our operations consists of used lubricants, used rags, used batteries, used filters, empty paint cans and printer cartridges, and needles from health clinics. The waste produced at our site office amounts to less than 50kg each day, all of which are segregated, labeled and stored in a secure, fire resistant temporary storage facilities. Our storage facilities are equipped with accidental spill containment kits, alarms, firefighting gears and first aid kits.

The period of waste disposal relies on its type and category, with storage times ranging from 180-365 days. After being stored within its stipulated time and in accordance with hazardous waste management regulations, the waste would be taken away by a third party. The carrier would then issue a manifest of handling of hazardous waste transport which Kencana will use as proof to report to the Ministry of Environment and Forestry.

However, there are also cases where the Group could recycle and reuse the waste output from our operations. In these cases, the waste would be stored for a total of 5 years. After that time has elapsed, the waste could be recycled into compost fertilizer that could be applied as an addition to our palm trees.

As mentioned earlier, proper hazardous waste management in accordance to the Indonesian regulation is taken very seriously at Kencana. Hence, our Health and Safety Officers at each site has been properly trained and are qualified to monitor and ensure that the waste management practices are in accordance with the rules.

On the other hand, medical waste are disposed through the collaboration with local hospitals or “puskesmas” which will incinerate the waste safely. Facilities are inspected regularly by the Regional Environmental Agency, and each plantation ensures that facility permits are up to date. In 2017 each mill produced an average 10.4 tonnes of hazardous waste, of which around 78.5% comes from used lubricants. Lastly, there were no reports of any chemical spillages in 2017. [306-2][306-3]



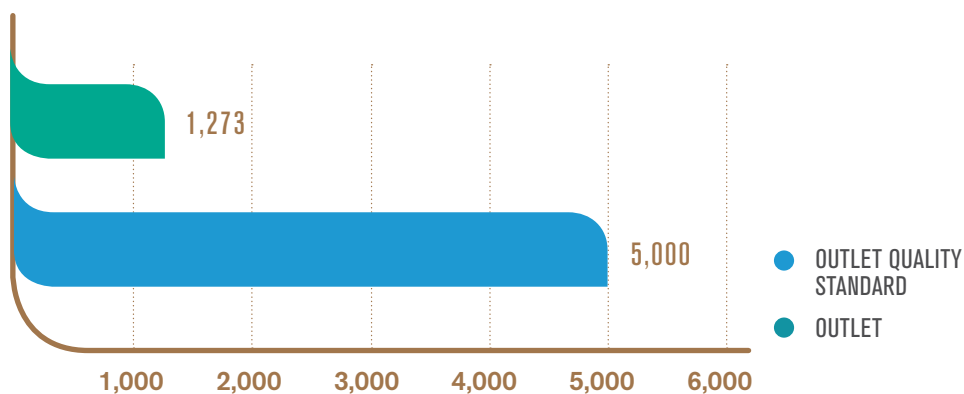


Our Palm Oil Mill Effluent (“POME”) is treated in the Group's Waste Water Treatment Plant through Cooling Ponds, Mixing Ponds, Anaerobic Ponds, and Settling Ponds. In newer mills, the POME is treated in a multi-feeding waste water treatment system where only anaerobic bacteria are used. In 2017 we discharged 617,878 m<sup>3</sup> of wastewater from 5 of our mills. The effluent quality is expressed using a median Biological Oxygen Demand (BOD) level of 1,273 mg/l, which is lower than the permissible BOD level at 5,000mg/l. We put into use all of our production POME as fertilizers back into the field on areas that have already been licensed for land application. It is important to note that the Group does not discharge any of our POME into rivers. [103-3]

Illustrated below is our Biological Oxygen Demand (“BOD”) level across our mills of the wastewater treatment outlets, with the water later used for land application. The Group ensures that the BOD level of effluents to be applied for land application is safely below the standard. [306-1]

Subsidiaries	BOD		Outlet Quality Standard	Unit
	Inlet	Outlet		
Sawindo Kencana	17,541	2,173	5,000	mg/L
Alamraya Kencana Mas	22,770	1,347	5,000	mg/L
Agro Inti Kencanamas	25,039	968	5,000	mg/L
Sawit Kaltim Lestari	19,157	722	5,000	mg/L
Agri Eastborneo Kencana	9,633	1,154	5,000	mg/L
Average	18,828	1,273	5,000	mg/L

Group's Mill Averaged Biological Oxygen Demand (BOD) Level [306-1]



Even though BOD levels across all mills are already below allowable standards, we still ensure that ground water is not contaminated by installing monitoring wells. These wells are covered, locked and maintained regularly. Representatives from the Regional Environmental Agency inspect the quality of the water within the wells regularly as part of the PROPER assessment.

Having a BOD value under the BML has been one of Kencana's targets as having efficient waste management practices. The Group will continue striving to improve its good liquid waste management system as to ensure that our waste value stays as low as possible.

## G. Reduction in Chemical Use

The use of agro-chemicals such as pesticides, fungicides and herbicides is unavoidable in the oil palm industry. However, we are aware of the needs to reduce excessive use of these agrochemicals to mitigate environmental damages that may be caused. As part of our commitment to reduce chemical usage, non-chemical pest control measures are preferred at all Kencana's palm oil plantations, in particular through Integrated Pest Management Systems designed to minimize use of chemicals by relying on biological and cultural alternatives. [103-1]

The spraying process is a very important stage within our production process. With this in mind, all workers responsible for spraying are required to undergo training on the use of Personal Protective Equipment (PPE) as well as on the handling, use and storage of chemicals. The standard PPE uniform includes protective eye-wear, facial masks, rubber gloves and boots that have to be worn whenever the workers carry out their duties. These workers are also subject to regular check-ups to detect any internal presence of residual chemicals. To mitigate miscarriages or health complications, female sprayers who are pregnant are temporarily assigned other job responsibilities that are much less hazardous. Training is essential for all new workers, while existing workers are required to undergo periodic refresher courses. [103-2]

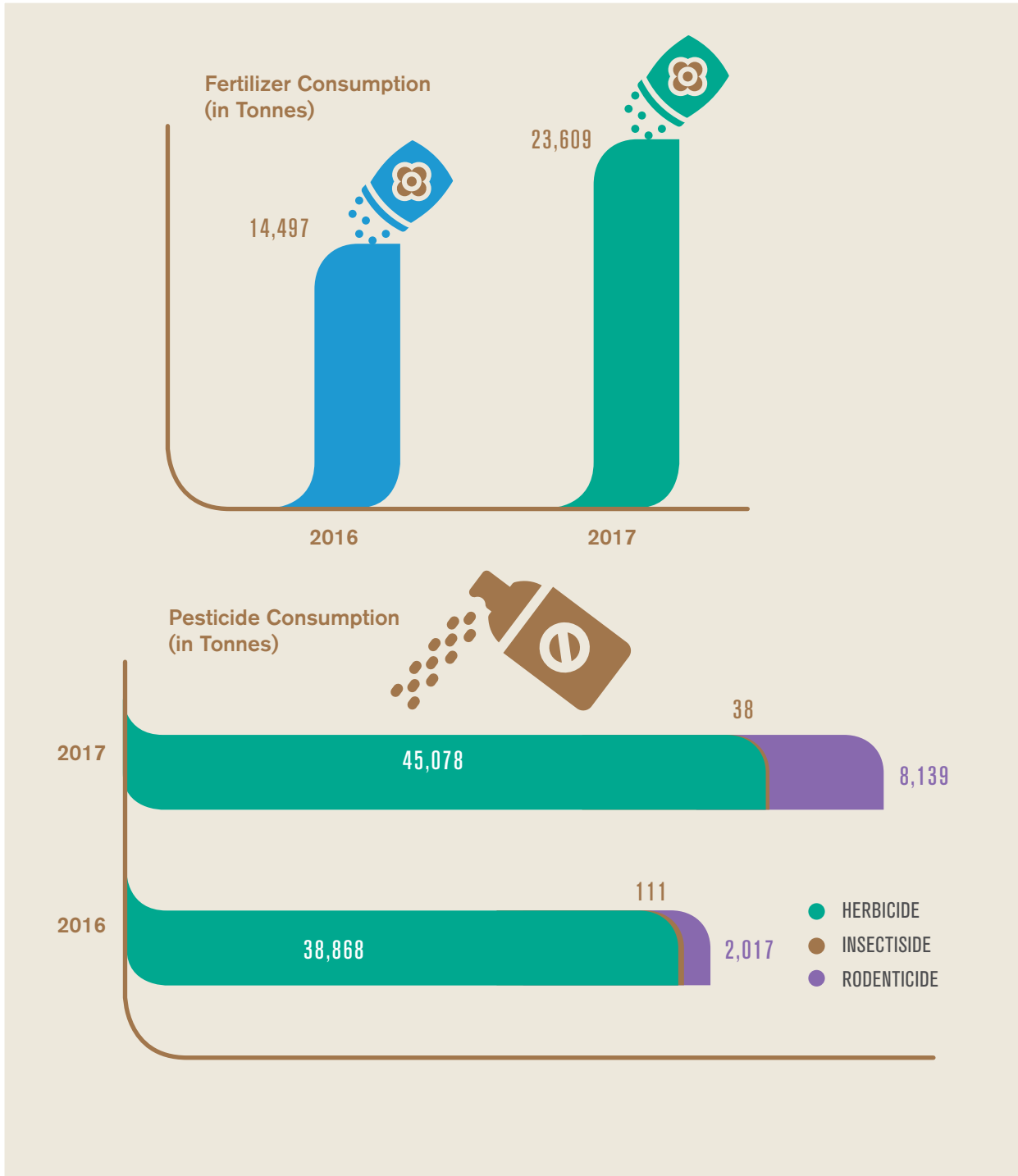
Specifically for PT. SWK and PT. AKM, Kencana provides "rinse houses" where sprayers are required to store their knapsack, aprons, PPE and have a shower once they have completed their daily activities. Sprayers are also provided with portable water tanks where they are able to attain water and mix chemicals in a controlled environment. [103-3]

All chemicals are stored in locked facilities where only authorized personnel have access to them. There are also measures in place to prevent and respond rapidly to accidental spillage. Containers previously used for storing chemicals are collected, stored and disposed of according to legal requirements.





Kencana continues to adhere to the ISPO principles to phase out the use of Paraquat by means of using other alternative pesticides. In 2014, one of our subsidiaries no longer use Paraquat within their chemical application, and we intend to continue this trend within other subsidiaries.





## H. Integrated Pest Management

### RATS



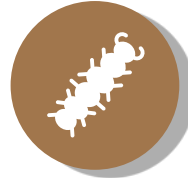
Owls (*Tyto alba*) and rodenticide (*Sarcocystis singaporensis*)

### BAGWORM



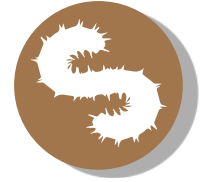
*Cordyceps* sp, *Cassia cobanensis*, *Antigonon leptopus*, *Turnera subulata*; insecticide only in a major outbreak

### NETTLE CATERpillARS



*Bacillus thuringiensis*, MNVP virus, *Cordyceps entomopathogenic*, *Cassia cobanensis*, *Antigonon leptopus*, *Turnera subulata*; insecticide only in a major outbreak

### SETHOTOSEA ASIGNA



Parasitoid insect, planting, and Chemical control (*Lamda sihalotrin* and *Deltametrin*)



CONTROL SOLUTIONS



Integrated pest management is the practice of using a range of strategies to sustainably maintain pest populations within economic thresholds while causing minimal harm to local ecosystems. Encouraging natural predators reduces pesticide application, and over the last two years we managed to reduce our use of chemical pesticides. [103-1][103-2]

Oil palm pests include rats, rhinoceros beetles, bunch moths, bagworms, and nettle caterpillars. In order to organically and sustainably limit the presence of said pests, we breed owls to control rat populations, and encourage the predators of bagworms and caterpillars to flourish by planting *Turnerasubulata*, *Turneraulmifolia*, *Antigononleptopus*, *Cassia tora*, and *Nephrolepis*. Moreover, to control *metisanaplana*, a pesky caterpillar native to West and Central Sulawesi region, the Group cultivates *Turnerasubulata*, *Turneraulmifolia*, *Cassia tora*, *Euphorbia heterophylla*, and *Antigononleptopus* which are planted at each block alongside palm oil crops. These plants contain nectar and pollen that serve as a food source for parasitoid insects and predators of the pest caterpillars, ultimately bringing pest populations under control. [103-3]



# OWL PATROL

In 2017, PT. Sawindo Kencana's owl (*Tyto alba*) population had increased to 101 adults, 11 juveniles and 94 unhatched eggs. It has been estimated that one owl can cover a range of 30Ha. With a total of 101 adults, thus the owls are able to safeguard up to 3,030Ha. Since there are juveniles that are yet to become adults, the area coverage is likely to increase in 2018.

A new owl population is being developed in PT. Alamraya Kencana Mas. At the end of the year, there were 35 barns with an estimate of 13 owls and 6 eggs in total. We expect the trend of cultivating owls to spread throughout our estates once the oil palm trees have reached a sufficient height for the birds to survive.

Subsidiaries	Next Boxes	Adults	Juveniles	Egg
Sawindo Kencana	174	101	11	94
Alamraya Kencana Mas	35	10	3	6

## I. Nature Conservation [304-1]

Understanding that the conservation of biodiversity is an important aspect of corporate responsibility, Kencana pushes to ensure that our operations are mindful of our plantations environmental surroundings. Our efforts to remain environmentally responsible towards the conservation of biodiversity also acts as our compliance with the ISPO and ISCC rules.

The Group believes that effective conservation is achieved through a combination of approaches. These include continual improvement of our High Conservation Value (HCV) area monitoring efforts, internal capacity building, engagement with local communities and other oil palm plantation companies, as well as partnerships with academic and research institutions, NGOs and governmental organizations. [103-1] [304-3]

The Group has been protecting conservation areas since its inception, as well as following government regulations. Furthermore, to fulfill the requirement of conservation areas for certifications from ISPO, ISCC, RSPO and others, the Group conducts HCV studies for all new development areas through accredited independent HCV assessors. We are committed to preserve all conservation areas, maintaining habitats and not convert HCV land into plantation. Our commitment is evident in the increase of HCV land area locations within the Group. By the end of 2017, the Group has identified 18,081Ha of HCV area. Apart from our conservation studies the Group has also conducted HCS studies. Keeping in mind that Kencana will continue ensuring that the HCV areas are and will remain protected. [103-2][103-3]

In managing HCV areas the Group refers to a management strategy that focuses on these following key stages:

- Preserve river border lines.
- Cultivate local trees in HCV area.
- Educate the local community in the importance of preserving HCV areas.
- Regularly monitor river water quality.
- HCV areas are regularly monitored and audited by the internal sustainability team.
- Record every wildlife species found in the estates, and taking notes of those classified as vulnerable and above on the list of protected species under Indonesian Government Regulation No. 7 of 1999 on Preservation of Flora and Fauna.





FAUNA [304-4]



*Bubalus quarlesi*  
EN C1+2a(i)  
ver 3.1 (2008)



*Bubalus depressicornis*  
EN C1+2a(i)  
ver 3.1 (2008)



*Nasalis larvatus*  
EN A2cd  
ver 3.1 (2008)



*Pongo pygmaeus*  
EN A2cd+3cd+4cd  
ver 3.1 (2008)



*Orlitia borneensis*  
EN A1d+2d  
ver 2.3 (2000)



*Aceros cassidix*  
VU A4cd  
ver 3.1 (2012)



*Penelopides exarhatus*  
VU A4cd ver 3.1 (2012)



*Macaca nigrescens*  
VU A2cd+3cd+4cd;  
B1ab(ii,iv) ver 3.1 (2008)



*Babyrousa babyrussa*  
VU B1ab(iii)  
ver 3.1 (2008)



*Cervus unicolor*  
VU A2cd+3cd+4cd  
ver 3.1 (2015)



*Accipiter nanus*  
NT ver 3.1 (2012)



*Gracula religiosa*  
LC ver 3.1 (2012)



*Ictinaetus malayensis*  
LC ver 3.1 (2012)



*Haliastur indus*  
LC ver 3.1 (2012)



*Elanus caeruleus*  
LC ver 3.1 (2013)



*Spilornis rufipectus*  
LC ver 3.1 (2012)



*Nisaetus lanceolatus*  
LC ver 3.1 (2012)



*Accipiter griseiceps*  
LC ver 3.1 (2012)



*Accipiter trinotatus*  
LC ver 3.1 (2012)



*Halcyon smyrnensis*  
LC ver 3.1 (2015)



*Todiramphus chloris*  
LC ver 3.1 (2015)



*Halcyon coromanda*  
LC ver 3.1 (2012)



*Halcyon pileata*  
LC ver 3.1 (2012)



*Phylloscopus sarasinorum*  
LC ver 3.1 (2012)



*Egretta garzetta*  
LC ver 3.1 (2015)



*Anthreptes malacensis*  
LC ver 3.1 (2012)



*Aethopyga siparaja*  
LC ver 3.1 (2012)



*Dicaeum monticulum*  
LC ver 3.1 (2012)



*Lariscus insignis*  
LC ver 3.1 (2008)



*Anthracoceros albirostris*  
LC ver 3.1 (2012)



*Bubulcus ibis*  
LC ver 3.1 (2015)



*Alcedo meninting*  
LC ver 3.1 (2012)



*Hystrix brachyura*  
LC ver 3.1 (2008)



*Presbytis rubicunda*  
LC ver 3.1 (2008)



*Pernis celebensis*  
LC ver 3.1 (2014)



*Felis Bengalensis*  
LC ver 3.1 (2015)

**FLORA [304-4]**



*Cattleya Orchid*  
LC



*Cymbidium Orchid*  
LC



*Grammatophyllum Speciosum*  
LC



*Pholidota Chinensis Lindl.*  
LC

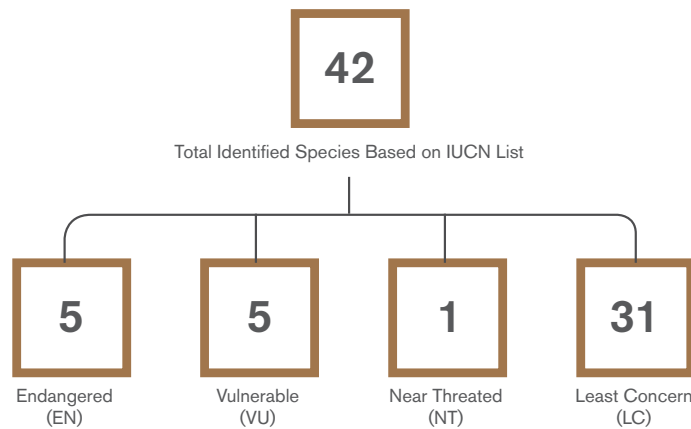


*Nepenthes Gracilis*  
LR/lc ver 2.3 (2000)



*Turnera Ulmifolia*  
LC

**Flora and Fauna Species Distribution in Kencana Agri based on IUCN Category**



Notes:

EN: Endangered VU: Vulnerable NT: Near Threatened LC: Least Concern

Conservation list based on Republic of Indonesia Government Regulation No. 7 of 1999 and the International Union for Conservation of Nature (IUCN)





# Community Development





# COMMUNITY DEVELOPMENT

[103-2][103-3]

2017 was a positive year for our community development program. Kencana believes that the advancement of our local community, both economically and socially, is essential for the sustainability of the Group. Kencana has helped to improve the quality of life of the communities where we operate by enabling them to earn a more sustainable income for themselves, have better healthcare and education and help to maintain a better environment to live in through numerous programs. [103-1]

Ensuring that the local communities are well taken care of is very important for them to be more accepting of our business and operations within their area. Helping to improve their living standards enables them to trust us and allows us to have a better relationship with them.

We support the responsible and peaceful resolution of conflicts that arise due to our operations. We believe in working with the relevant stakeholders through a process that is agreed upon by all appropriate parties. We are committed to resolving conflicts in an open, transparent and consultative manner Explained in page 39.

As the foundation of our CSR programs, we follow with ISO 26000, Limited Liability Company Law No. 40 year 2007 point 74, Government Regulation No. 47 year 2012, Government Regulation No. 93 year 2010 and Finance Ministry Regulation No. 76/PMK.03/2011 dated April 5th, 2011. The Group implements community development programs in all area of operations





## Plasma Partnership [203-1][203-2][413-1]

One of the Group's main community development goals is to support the growth of an independent and strong socio-economic condition, especially for the communities surrounding our operational sites. Therefore, the plasma partnership program was initiated in 1997. Through the plasma partnership, the Group supports the development of an inclusive agribusiness which helps to improve the welfare and livelihood of the communities where we operate. [103-1][413-2]

Our plasma partnership programs engaged by the Group has produced a lot of positive social-economic impact for the farmers. Among others, the plasma partnership program in PT SWK enables numerous individuals living below the poverty line to now live a simple yet enjoyable life where they could afford basic life necessities and some luxuries like a car, etc. A small village located near our plantation called Tempilang, also became a part in the gradual positive changes brought by the program. The previously small, and almost unknown coastal village, is now buzzing with activities as monetary circulation has increased in the last two decades, coupled with the cultural event, Ruahan, which Tempilang hosts once a year.

To date, our plasma planted area in Bangka is over 70% of the total nucleus planted area, which is more than the 20% minimum required by the government. The Group is supported by various stakeholders to conduct our plasma program, namely government, cooperatives, banks, and business partners. [103-2]

Currently, our plasma program has engaged over 8,000 farmers from the local community with total plasma area of 14,295 ha. Throughout 2017, Kencana's Plasma Program managed to generate revenue of approximately IDR 284.6 billion through FFB sales. Moreover, the Group provides technical training, quality seeds, advice on manuring application, and even new technologies and methodologies in oil palm cultivation. [103-3]

Kencana's plasma partnership can be divided into three main programs, which are:

### a. **KKPA (Kredit Koperasi Primer untuk Anggota or Credit for Members of Primary Cooperative)**

The KKPA program helps to provide funds for communities' plantation development. We collaborate with banks and cooperatives. The Group acts as the Guarantor in this program. On top of that, we provide training and mentoring sessions for local farmer cooperatives and its members about good agricultural practices, administration, cooperative management, basic financial management, and more.





## b. **KKSR (Kebun Kelapa Sawit Rakyat or Community's Oil Palm Plantation)**

The KKSR program is a joint collaboration program with the local government aiming to empower local communities and help them to improve their welfare through the utilization of uncultivated lands in the region which are owned by the government as palm oil plantation. The Group takes an active role together with the government in this program by offering a purchase guarantee of the KKSR plantation output as our raw material.

## c. **Revitbun (Revitalisasi Perkebunan or Plantation Revitalization)**

Revitbun is a national program initiated by the Indonesian government to help accelerate the growth of local plantations through expansion, revitalization, rehabilitation of various commodity crops, including palm oil and corn. In this program, the Group works together with the government and provide our expertise to help develop plantation areas, cultivation, agronomy practices and technology, production process and product marketing for the local farmers/communities, while the government provides investment loan.

## **Empower Remote Indigenous Communities**

[103-2][103-3]

Initially called Orang Rintis or commonly the Mountain People, are indigenous people who live scattered within the mountains of Tempilang, Bangka. They live by way of farming (planting pepper), hunting, and fishing. Due to their genetic pool, the people of Pelaik have distinctive posture. They stand at an average of 1.3 meters in height. [103-1]

In early 1996 the Social Department of South Sumatra began a project to put together the community in one area. Those who were willing to settle were given facilities in a form of a house, and land as much as 2 hectares. Various ways in which the Ministry of Social Affairs tried to ensure the community can be independent and no longer mobile, starting with providing seeds for rice and corn. However, the community preferred to return to their usual way of life.

Within the same year, another effort was made when the Social Department of South Sumatra issued a letter of recommendation on the 'Development of Social Welfare of Remote Communities', together with PT. Sawindo Kencana (SWK) to help the Mountain People in an oil palm smallholder project. The project was initiated in village called Pelaik. More than 100 families were recorded in Pelaik, and 94 of them were willing to become smallholder oil palm farmers with PT.SWK. It is now has been more than 22 years since the project initiated, and the villagers' life are much better. Their houses which were originally made with boards and rumbia (Metroxylon sagu) are now permanent buildings made with concrete. Access paths that were originally only accessible by foot, are now paved roads. Most of the villagers' children are now also in schools, some have even gone to universities.



The economic condition of the Mountain People in Pelaik has improved considerably since PT. SWK initiated its CSR program in a form of smallholder cooperation, bringing people out of poverty, and keeping them in touch of the changes in the modern world. The smallholder cooperative of PT. SWK, Bina Tani Sejahtera (BTS) believes that the program shall be sustainable and continuous for years to come.

Through this community empowerment program, PT SWK's commitment to improve the welfare of the community around its business unit is in line with the work program of the government of the Republic of Indonesia as stipulated in the Regulation of the Minister of Social Affairs of the Republic of Indonesia No. 6 of 2016 in which prioritize those who are in poverty, neglected, disabled, remote, exploited and discriminated. As a form of appreciation, the Government of Indonesia rewarded PT. SWK with the Padmamitra Award in 2017, which is the most prestigious form of appreciation given by the Social Ministry, for private companies who have contributed to social and environmental programs.

PT. SWK believes that by receiving this award, it could encourage and inspire not only other estates within Kencana, but also other oil palm business actors to accelerate the realization of *Program Indonesia Sejahtera* by 2025.



## Educating The Public On The Importance of Oil Palm

In 2017, palm continues to become the leading vegetable oil in terms of production volume and consumption. Indonesia, together with Malaysia, were the top palm oil producers, and it has been so for many years. Kencana believes as part of the palm oil industry, we are obliged to educate the world on the importance of palm oil within the current world's vegetable oil demand, and the ripple effects that it has on the surrounding communities. Thus, in 2017, the Group focused our CSR program on educating the community, and reaching out farther than before.

Together with Agency for Funding of Oil Palm Plantations (BPDP-KS), in 2017 Kencana invited 25 companies from various mass media, including CNN, Info SAWIT, Media Perkebunan, Hortus, Kompas, Tempo, Koran Jakarta, Jakarta Post, RCTI, Media Indonesia, Kumparan, Berita Satu, Bisnis.com among others.

In addition to the rampant negative news surrounding the recent palm oil industry, this project also aims to inform and educate both the media, and their listeners, to understand further about the oil palm plantation industry. The project began in April 2017, where the media crews were invited to tour the plantations and palm oil mill, to see the processing flow from FFB to become CPO. After the tour, the journalists were given a chance to see one of the plasma cooperatives in PT. SWK, Bina Tani Sejahtera (BTS). In this occasion, Head Deputy of BTS, Arizal Efendi conveyed, "The symbiosis of mutualism that occurred between PT SWK & BTS Cooperation has been ongoing since the beginning of PT SWK in 1996. Now, the area of BTS plasma field has reached over 3,700 hectares with a number of 1,115 households."

From this project, the media is gradually beginning to understand the role of the oil palm plantation industry for both Indonesia and the world. Our world is still heavily dependent on palm oil, as it is the most efficient vegetable oil, and its derivatives being utilized in many household products around the world. No other vegetable oil has the yield like palm oil. Kencana believes that this project shall continue for the years to come, to help educate the people.



## Hand-in-hand with NGO and Researchers

In 2016, Kencana together with Dr Arya Hadi Dharmawan, Director of Study Program of Rural Sociology of the Graduates School in Institut Pertanian Bogor University (IPB), agreed to work together to better improve our sustainability program. In doing so, the Group collaborated with a consortium of Swiss funded research group named Oil Palm Adaptive Landscape team (OPAL). Within the group there are representatives from WWF Indonesia, ETH Zürich, Center for International Forestry Research, and Swiss National Funded Science Foundation.



The project initiated with a desktop study, involving the Community Development Department in Kencana Head Office. The OPAL team then conducted a 4 day site visit in Kutai Kartanegara and was invited to see 3 estates. The research group emphasized their visit on HCV areas, CSR programs, plasma programs, learning facilities for children, and how the El Niño has affected the oil palms, as well as understanding the challenges of sustainable expansion of oil palm agriculture and the implementation of Reducing Emissions from Deforestation and Degradation (REDD) initiatives in the tropics. The group visited 7 cooperatives built by Kencana, and a number of CSR programs in the Muara Kaman District, Kutai Kartanegara.

One of the CSR programs which they looked into, was the clean water project in Sabintulung Village. The Group built a water treatment unit measuring 4 x 4m, with a height of 2m, and 2 reverse osmosis units that treat the nearest river water into drinkable water. The water treatment program ensures a flow of clean water for the village all year round. Meanwhile, in terms of education, the team also looked at how Kencana has helped children by providing extra teachers at schools, fulfillment of student learning facilities, and scholarships.

Among the guests, there were a number of PhD students majoring in both environmental and social. This program is not only intended to improve sustainability development in oil palm plantations, but it shall also help bring awareness of the multiplier effects in an oil palm plantation and its surrounding communities, around the world. This ongoing project is expected to continue

The program is an ongoing project, both OPAL and Kencana are continuously learning from one another.





# Our People





# WONDER WOMEN OF KENCANA



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The oil palm industry is often seen as an industry that is heavily dominated by men. There are perceptions that women are not able to handle much of the jobs within this industry. That view is certainly denied by Reni Mauliana, who works in one of Kencana's subsidiaries. Reni currently serves as the head of civil and transport in Kalimantan Selatan estate. She has been with Kencana for over 10 years, and has proved to many men that sometimes the delicate touch of women is an advantage.

Reni is in charge of all the civil works and heavy equipments in the estate. Usually this is perceived as a men's world job. But Reni states that "the limitation of someone's work is only in his mind."

Apart from Reni, there is also Novera who has been working in Kencana's estate in Bangka since 1997. She started off as being in the field, then moving up to become head of the estate's office. Her job certainly comes with challenges, many which will trouble most men. However, Novera proves that women are entitled to get a work position in accordance with their achievements regardless of gender.

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In order to become a sustainable agribusiness, we need to produce high yields both within the estates and mills. To do so, we must manage our people, and produce successors of champions through training, evaluation, engagement, and fair remuneration. Kencana believes that our employees satisfaction and good health is directly linked to our productivity.

Furthermore, the Group aims to achieve zero accident, because we believe that even one accident or injury is one too many. Thus, our pristine health and safety policies and practices are designed to provide a safe workplace for all our employees. One of the ways we achieve this is by ensuring health and safety standards through SMK3 education to raise awareness amongst our workers.



## Importance of Health, Safety and Environment for our Employees [103-2]



With thousands of workers working for us, we strive to ensure a safe working environment, and promote the importance of being healthy amongst our employees. Our commitment to ensure that we are providing a

healthy, safe and good environment for all our employees is strengthened through the implementation of the Environmental Policy, HSE and Social Responsibility Rules issued by Kencana's COO in 2015. [103-1]

### Environmental, Occupational Health & Safety Policies and Social Responsibility

- 1 Preventing environmental pollution, occupational accidents and sicknesses.
- 2 In terms of social labour practices, we ensure that:
  - a. We are against child workers and strictly only employ individuals above the age of 18.
  - b. We are strictly against forced labours.
  - c. Meet the minimum wage provisions imposed within each operational area.
  - d. We give equal opportunities and do not discriminate against workers based on their gender, ethnicity, religion, etc.
- 3 Comply will all laws and regulations regarding Environment, Occupational Health and Safety provisions and corporate social responsibility.
- 4 Implementing a Zero Burning Policy regarding new land clearing and replanting within our operations.
- 5 Continuously striving and encouraging the improvement of our waste management systems in order to better conserve natural resources and the environment.
- 6 Encouraging our suppliers and contractors to operate within the environmental, occupational health and safety regulations.
- 7 Always having continuous improvement to our own environmental performance, occupational health and safety policies, labour policies and corporate social responsibility.

In addition to these policies, the Group's management also implemented several standard operating procedures regarding to HSE issues listed down as follows:

### Standard Operating Procedures for Occupational Healthy & Safety Concerns:

1. Enforcing strict procedures for the use of all personal protective equipment.
2. Safety procedures for contractors and guests.
3. First aid response to accidents.
4. Work safety inspections.
5. Waste and chemical management.
6. Emergency Action Plan and Response for the occurrence of fire.

These policies are continuously being developed and monitored by the Group's management in order to protect the rights of our employees and to provide a healthy working space for those employed by Kencana. Along with protecting our workers HSE rights, we also aim to be mindful of the environment to keep it in its pristine condition. Ensuring our workers rights and preserving the environment surrounding our operational areas is one of our most valuable investments. [103-2]

As part of the Group's commitment in Health and Safety we continue to elevate the quality of our facilities across the regions and increasing the number of HSE Officers every year. From 2016 to 2017, there was a 60% increased in the number of certified HSE Officers within the Group. [103-3]

Our HSE Officers are responsible to monitor the implementation of our policy and SOP. To ensure this implementation are carried out successfully and controlled in a sound manner, our HSE Officers have a Work Program which they have to follow:

### HSE Work Program:

1. Oversee Health & Safety activities within the Group
2. Monitor the balance sheet and logbook of hazardous waste
3. Submission of hazardous waste to licensed third parties
4. Monitoring and reporting of liquid hazardous

- waste management to relevant agencies
5. Monitoring of emergency response facilities and infrastructure
6. Emergency Response Simulation
7. Emergency Preparedness and Response Evaluation
8. Internal OHS Socialization from Mill to Housing Area
9. Submission of new licenses & renewal of Health & Safety permits
10. Monitoring of Health and Safety licences
11. Safety Patrol
12. Worker Safety and Health Development Committee consultatiuon and reporting (quarterly)
13. OSH Campaign Month
14. Internal Audit
15. Monitor work accidents statistics
16. Organize special health tests periodically

To ensure the health of our workers and their family, all estates are either equipped with a health facility on site in a form of a clinic, or has a collaboration with a Puskesmas (health centre) in the nearest village. Each estate with a clinic is also equipped with an ambulance. Estates that have clinics on site also cooperates with the nearest Puskesmas in case there are referrals and treatments that cannot be treated at the clinics. Each clinic is led by a paramedic and is assisted by several nurses that are HIPERKES certified (Company Hygiene and Occupational Health). A doctor from the nearest Puskesmas also conducts regular visit, thus patients treated at the clinic get proper care.

Aside from this the Group cooperates with a 3rd party to conduct health assessments in a form of cholinesterase test for workers who are exposed to chemicals in their daily routine, and hearing loss test for workers who work in noisy working environment such as engine rooms. Women who work with chemicals also receive pregnancy tests yearly, to ensure that no pregnant women are working while being exposed to chemicals.

In 2017, the Group recorded Zero Fatality. However, to maintain this in the long run the Group has eight certified Occupational Health and Safety (AK3 Umum) officers scattered across the regions to ensure the





safety of our workers. To prevent accidents, all officers implement OHS management system that is inline with the local regulations, including hazard identification, risk management and assessment. Trainings such as first aid practices and emergency responses are conducted regularly across all estates and mills, including making certain all workers are equipped with PPE and worn at all time during working hours.

The Group’s HSE Officers are responsible to monitor all work accidents and summarize them monthly. In one of our Estates, PT. Sawindo Kencana, the severity rate in 2017 is at 111.33. That indicates, within 1,000,000 working hours in one year, PT Sawindo Kencana has lost 111.33 hours. All Health and Safety work program reports from each site are sent to the Sustainability Department to be verified and evaluated. [404-1]

## Our Employees



In 2017 we employed 6,540 individuals, 2,494 of those being local workers while 4,046 individuals employed are non local. In 2017, around 62% of our workers are non local. The high numbers of non locals can be seen in the Kalimantan estates. In Kalimantan, the competition within the oil palm industry increases every year. As we know the oil palm industry is very labour incentive, while there are workers within the local area who are willing to work, the number is not sufficient to cater all companies throughout the region. Thus, to fulfill the number of workers needed, non locals must be recruited. [102-8][103-3][405-1]

In 2017 we began a new ‘execution culture’ to be performed by every single member within our organization, from the workers within the field right up to the Directors. The aim of this program is to start a new culture where workers are able to execute their work plan accordingly. HR will review the progress of each department’s execution to achieve the set-out goal. This execution culture implementation will be fully active by 2018. [103-1][103-2]

**Human Capital Profile of Kencana Agri Ltd. [102-8][405-1]**

Employment		Region					Total	Percentage
(Number of Employees)		Jakarta-Head Office	Singapore Office	Sumatra	Kalimantan	Sulawesi		
<b>Gender</b>								
Male	Permanent	127	2	392	1290	141	1952	80%
	Non-Permanent	0	0	310	2341	636	3287	
Female	Permanent	60	2	42	116	35	255	20%
	Non-Permanent	0	0	85	702	259	1046	
<b>Age</b>								
18-30 years old		42	3	249	1607	465	2366	36%
30-55 years old		140	1	569	2800	605	4115	63%
>55 years old		5	0	11	42	1	59	1%
<b>Worker's Origin</b>								
Local		187	4	544	948	811	2494	38%
Non-Local		0	0	285	3501	260	4046	62%

Note: Currently we do not hire part-time employees. All employees and workers in Kencana are hired on full-time basis.

In addition to providing employees basic remuneration, we also provide benefits. The benefits for all of our employees are explained in the table below. [401-2]

Employees Benefits	Permanent	Non-Permanent
Basic Salary	✓	✓
Religious Days Allowance (THR)	✓	✓
House Keeping Allowance	✓	
Transport Allowance	✓	
Medical	✓	
Leave Allowance	✓	✓
Non-Local	✓	

In addition to their basic monthly payments, the Group will give bonuses and/or incentives subject to Group financial performance and employee performance.





## Training and Development

We believe that our employees are our biggest assets, and they play a very important role in our Group development. Therefore, we provide them with the best training and development programs in order to enhance their knowledge and skills to better equip them towards their career advancement within the

No.	Training Title	Participation
1	Bank Perspective on Credit Analysis and Financial	1
2	Basic Financial Modelling	2
3	Borneo Oil Palm Forum Workshop Balikpapan	1
4	Budgeting Practice and Cashflow Forecasting Techniques	1
5	Assessor Certification Training	1
6	IT Security Measures Training	1
7	Industrial Relation Certification Training	1
8	Indonesia Human Capital Summit 2017	1
9	Induction Training	17
10	International Conference on Indonesia Sustainable Palm Oil (ISPO)	2
11	Kencana Character Development Program	75
12	Foreman Leadership Training	369
13	Leadership Training & Coordination Meeting Finance Directorate	78
14	Motorcycle Ownership Program	11
15	MPOB IPOC	2
16	Palm Oil Conference 2017 Kuala Lumpur	1
17	MSDM SKKN I BNSP Certification & Training	1
18	ISPO Auditor Training Batch X	1
19	ISPO Auditor Training Batch XI	1
20	Negotiation Skills Training in Industrial Relations	3
21	Internal Audit Training	1
22	Training in Developing Working Agreements	1
23	Taxation Training: "PPH Pasal 21 Update PTKP 2017"	1

In 2017, we conducted over 4,105 manhours of training programs for 494 of our employees, with the average ratio of 8.31 manhours/employee, (male: 8.70 manhours/employee, female: 6.94 manhours/employee) amounting to more than a IDR 590 million investment for training and human resources development. [404-1]

Group. Each department within the Group is required to attend these educational programs. [103-1][103-2]

Training and education is carried out in accordance with the needs of the Group each year, and there are several training that must be done to meet government regulations. Some of the trainings conducted during 2017 are: [103-3]

No.	Training Title	Participation
24	Problem Solving & Decision Making	3
25	Profiling with ALC	4
26	Refreshment Training for John Deere Operators	15
27	Referesment Training for Procurement	14
29	SAP Training	3
30	5R Workshop	23
31	8th Asia Sustainable Oil Palm Summit Workshop	2
32	A New Compute Experience in The Era of Digital Transformation Workshop	1
33	"Developing Indonesian Human Resources Capabilities" Training	1
34	National Internal Audit Workshop	2
35	OER Enhancement using PalMega Workshop	6
36	AK3 <i>Umum</i> Training	18
37	Internal Auditor Training	10
38	ISPO Internal Auditor Training	10
39	MSDM BNSP Training	9
40	Risk Management Training	15
41	Training in Scaling & Structuring Wage	3
42	Supply Chain Management	13
43	Training & Certification for AK3 <i>Listrik</i>	2
44	Training & Certification for AK3 <i>Umum</i>	3
45	"Change to Be Better" Training	169
46	MT Training	5
47	Project Management Training	1
48	Office Management Training	1
49	5 BUSI Workshop	226

## Human Rights

Basic human rights call for everyone to be treated fairly and with dignity. Our employees have the freedom to join an association and to bargain collectively We respect the right of all our employees to join and form associations of their choice and to collective bargaining. Each subsidiary and its labour union representatives have agreed upon a Collective Labour

Agreement that aims to protect employees' and employers' rights and obligations. All our employees are protected by the Collective Labour Agreement, which covers industrial relations, working hours, remuneration, out-of-post assignments and transfers, social security and welfare, occupational health and safety, and employment termination. The rights of our employees have been socialised and are written within the Group's regulations. In order to continuously have good working conditions for all staff and employees, Kencana enables employees to express their complaints by filing a Letter of Grievance. Filing this letter ensures that their supervisors are aware of their concerns. Once a letter is filed, the employees superior would get in touch with them at a private meeting to further discuss their complaint and provide solutions that is agreeable to both parties. [102-41][103-1][103-2][103-3][407-1]

Measures taken to support these rights, among others, where by the employee can use grievance form to convey their aspirations to their superior. The superior then will directly address the employee's aspiration. [103-2]

Freedom of association is very important to ensure our employees can state and express their grievances transparently and solve the problem with the Group in an appropriate way. [407-1]

## Diversity and Inclusion

[103-1][103-2] [103-3][405-1]

A diverse and inclusive workforce with strong team work makes us a more competitive player within the palm oil business. We believe in equal treatment amongst genders, nationalities and age groups within the workplace. This is achieved by ensuring that equal opportunities exist for all and do not tolerate discrimination on any grounds.

This commitment is also reflected in the composition of our Board of Directors as described below.

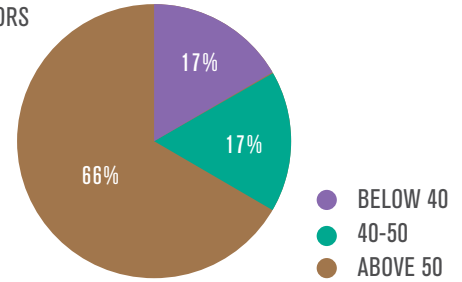
### BOARD OF DIRECTORS - ORIGIN OF COUNTRY

Indonesian	4
Singaporean	2

### BOARD OF DIRECTORS - BY GENDER

Female	1
Male	5

BOARD OF DIRECTORS - BY AGE GROUP



## Child Labours

The Group has a strict policy to uphold the ban on child labour and do not employ anyone under the age of 18 years old. We seek to prevent any mistreatment of children as is written within our Sustainability Policy. As a form of our effort in ensuring the implementation of the policy by ensuring all workers recruited by Kencana Agri must show their Identity Card in the initial process of recruitment. While the parents are working, the Group provides daycare centres and a kindergarten to ensure their children's safety and wellbeing, and at the same time preventing parents from bringing children to the workplace. [103-1][103-2][103-3][408-1]

## Remuneration

One of our main commitments to our people is to provide them with the best of our abilities. This of course includes their earnings. Our entry level permanent employee wages amounts to at least at the local minimum wage rate (UMR), with the total average of 1.58 times above UMR across our area of operations. For our non-permanent employees, we apply minimum wage according to the regulation from each region, since the minimum wage in Indonesia differ from one province to another. [103-1][103-2]

Here at Kencana, we highlight the importance of fairness and equality throughout our whole organization and give fair opportunities based on their competence, regardless of their race, religion, or gender. This is why we give equal chances with equal wages strictly based on the UMR and personal competency and/or achievement.

However, there are no differences between male and female entry level income since both genders would receive wages either equal to or higher than the government regulation. Although unnecessary to pay higher than the rate determined by the UMR, our investment in our people enlightens us as they have better living standards. With this, the total remuneration paid to our employees in 2017 amounted to approximately IDR 128.5 billion. [103-3] [202-1]



## Statement of Review

### The 2017 Sustainability Report of PT Kencana Agri Limited

Number : 01/XI/2018/Rev/TSC/Indonesia

Trisakti Sustainability Center (“TSC”) has been engaged by **Kencana Agri Ltd** (“the Reporting Organization” or “the Company”) to review and provide a statement of review on its **2017 Sustainability Report** (“the Report”). Kencana Agri Ltd is a palm oil company with plantations and mills in Sumatera, Kalimantan and Sulawesi with a head office located at Kencana Tower, Kebun Jeruk Business Park, Indonesia.

The Report primarily contains sustainability performance data and information of the Company. The following standards have been utilized as a reference for sustainability report development; (a) Sustainability Reporting Standards of the Global Reporting Initiative (“the GRI standards”) and SGX Listing rule.

This statement of review is **not an independent assurance statement**. TSC’s responsibility to the Management<sup>1</sup> is to review the Report based on SGX Listing rule and provide Statement of Review. The Management is solely liable for the substance and presentation of the Report. TSC does not accept or assume any responsibility for any other purpose or to any other person or organisation; thus, any dependence that third party has placed on the Report is entirely on its own risk.

#### Scope of Review and Limitation

The scope of service covers the review of Report in accordance to SGX Listing Rule point 711 A and 711 B.

#### Exclusion

The review scope excludes:

1. Data and information not covered in the reporting period, or in the public domain but not included in the Report.
2. Data and information from the Company’s documents other than those mentioned in the Report.
3. Topics that are not included in the section of identifying materiality and defining report content.
4. Analysis on the report content based on the standards and indicators other than those mentioned under the methodology section
5. Stakeholders’ engagement, which may be involved in developing the Report, except for the engagement to identify material topics as discussed in the Report.
6. Statements, claims, and expression of opinion, belief, expectation, advertisement, and future planning of the Reporting Organisation, as described in the Report.
7. None of the evident, either documents or interviews were analyzed in accordance with the information or date stated in the report.

#### Methodology

TSC reviewed the Report in accordance to the SGX Listing Rules. TSC then publish the statement of review to the company as an input to enhance the next sustainability report quality.

<sup>1</sup>“The Management” refers to the management of the Reporting Organisation



### Review Results

**711A – An issuer must issue a sustainability report for its financial year no later than 5 months after the end of the financial year;** The Company has shown commitments to publish sustainability report annually. We are also aware that the Company is provided a timeline up to the end of November 2018 to publish its Sustainability Report. However, for future reports it is recommended to improve the timeline of publication on par with other companies in the respective industry.

**711 B – The sustainability report must describe the sustainability practices with reference to the following primary components**

**(a) material environmental, social and governance factors;** The Company has disclosed six material topics namely biodiversity, emission, local community, economic performance, health safety environment, and compliance. The report also disclosed anti corruption and diversity policy as advised by SGX Mainboard Practice Note 7.6 point 4.5 and 4.6.

**(b) Policies, practices and performance;** The Report has shown the Company's sustainability, environment, occupational health and safety and corporate social responsibility policies.

**(c) Targets;** Targets has been shown in the report, however the target need to be more specified and quantitative.

**(d) Sustainability reporting framework;** The Company has explained the sustainability reporting framework used to develop the Report. The explanation regarding reporting framework can be found in "About this report" section.

**(e) Board Statement;** The Report contains Executive Chairman Statement.

### Statement of Competency, Independency and Impartiality

TSC is an institution within Trisakti University that focuses its services in Sustainability. TSC is established by Rector Decree no. 137/USAKTI/SKR/VII/2012. Since 2012, TSC provides services regarding sustainability such as: Sustainability strategy and policy development, sustainability or integrated report drafting, stakeholder mapping, training, workshop, seminar, research and study regarding sustainability. TSC mission is to facilitate SDGs achievement by increasing individual academic or practical skills related to sustainability.

TSC's Team members are the experts in writing and reviewing sustainability reports and integrated reports of organisations from different industries. They are familiar with ISO 26000, sustainability accounting standards of SASB, and the principles, GRI Standards, and International Integrated Reporting (IR) Framework. TSC confirms that adequate mechanism is implemented to ensure the experts are independent and free bias. No existing relations with the Company can influence the ability of the Review Team members to develop an impartial and faithful statement of review.

Jakarta, 15 November 2018  
Trisakti Sustainability Center  
Trisakti University - Jakarta





### **Statement GRI Standards in Accordance Check**

The National Center for Sustainability Reporting (NCSR) has conducted a GRI Standards in Accordance Check on the Kencana Agri Limited Sustainability Report 2017 (“Report”). The check communicates the extent to which the GRI Standards has been applied in the Report. The check does not provide an opinion on the sustainability performance of the reporter or the quality of the information provided in the report.

We conclude that this Report has been prepared in accordance with the GRI Standards - Core Option.

Jakarta, 15 November 2018

**National Center for Sustainability Reporting**

**Dewi Fitriyani, Ph.D., CSRA, CMA  
Director**

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