



SAMPOERNA KAYOE



# Sustainability Report 2017

Samko Timber Limited

UNLIMIT POSSIBILITIES

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# SUSTAINABILITY REPORT

I would like to present our first Sustainability Report. This Report illustrates our selected current efforts on sustainability and collaborations with business partners across the value chain to enhance our economic, environmental, and social outlook. These efforts are grounded on our brand mission.

The Board oversees the identification, management and monitoring of material sustainability topics that we disclose in this Report. We see the value of reporting on our current sustainability initiatives and performance to our stakeholders.



**Riko Setyabudhy Handoko**  
Executive Director and Chief Executive Officer

In line with our commitment to safeguarding the environment, we continue to source our materials (especially our logs) from legal sources and sustainable suppliers. We are committed to empowering our employees as we consider them our most important asset.

On the business front, we aim to continue being one of the leading industry players through our innovative and sustainable solutions. For example, we are conducting research to improve timber quality, which will benefit our smallholder suppliers while increasing our productivity and profitability. We have pursued legality and sustainability certifications, partly to help our buyers expand the market for their products and we outsource some of our process activity to micro businesses (our local community) as part of our commitment to supporting the local economy.



**SAMPOERNA KAYOE**

This spirit of collaboration is at the center of our core values, as reflected in our "Three Hands" philosophy of working alongside our business partners, employees, and the community, as we strive towards a more sustainable business model.



# OUR BUSINESS AT A GLANCE

Samko Timber Limited is a publicly listed company, in the form of a limited liability company, which was established under the law of the Republic of Singapore on 26 December 2005, and its shares have been listed on the Singapore Stock Exchange Securities Trading Limited since 25 February 2008.



SAMKO presently has 11 subsidiary companies, engaging in the business of plywood and other wood industries and their distribution, which are established and located in various countries, including Singapore, Indonesia, Malaysia, and the United States, through either direct or indirect shareholding ownership, which all together form the Samko Timber Group Companies.

SAMKO is domiciled with its head office in Singapore.

Presently SAMKO sells its products both domestic and overseas, with export to all around the world, including Singapore, Malaysia, Thailand, South Korea, Japan, Australia, the United States, the European Union countries and Middle East countries.

## OUR FACILITIES

SAMKO currently owns 18 production facilities that operate as wood processing facilities, chemical glue producer and veneer satellite factories.

Our facilities have the combined production capacity of 800,000 m<sup>3</sup> per annum.

## OUR PRODUCTS

| Primary processing wood   | Secondary processing wood  | Other wood products  | Chemical glue  |
|---|--|--|--|
| <ul style="list-style-type: none"><li>•Plywood</li><li>•LVL</li><li>•Piano Body Parts</li></ul> | <ul style="list-style-type: none"><li>•Processed Plywood</li><li>•Truck Body Parts</li></ul> | <ul style="list-style-type: none"><li>•Doors &amp; Door-frames</li><li>•Windows &amp; Flooring</li><li>•Decking &amp; Roof-truss</li></ul> | <ul style="list-style-type: none"><li>•Used in the production process of industrial wood</li></ul> |

# Our Approach to Sustainability

We at SAMKO understand that sustainability is a journey. As will be clear in the following sections, we are currently in the early phase of embracing sustainability as an integral part of our business operations and corporate functions. As a start, we have identified material sustainability topics that may affect, and be affected by, our business operations.

A cross-disciplinary Sustainability Reporting team developed a preliminary long list of material topics based on general sustainability reporting practice within the timber sector, as well as a brainstorming session with the management. This was followed by an assessment of data availability and quality across different departments and shortlist of material topics were then subject to consultation with the Senior Management for their approval.

## THE FINAL LIST OF MATERIAL TOPICS:

|               |  |
|---------------|--|
| Economic      | <ul style="list-style-type: none"><li>• Ethical business conduct</li><li>• Research and development</li><li>• Legality and sustainability certifications</li></ul>       |
| Environmental | <ul style="list-style-type: none"><li>• Sustainable sourcing</li><li>• Waste management</li></ul>  |
| Social        | <ul style="list-style-type: none"><li>• Human rights</li><li>• Empowering people</li><li>• Occupational health and safety</li><li>• Local community engagement</li></ul> |

Based on those topics, we are in the process of developing tools and procedures as part of a systematic approach in getting more sustainable over time. We have also developed a sustainability performance commitment card to monitor and track our performance under a set of indicators against the committed targets.

Furthermore, we are looking forward to engage our key stakeholders more closely. These stakeholders include internal (employees and management) and external stakeholders (government, investors, buyers, suppliers, local communities and the general public). Their perspectives will help us assess our economic, environmental and social risks and fine-tune our approach to managing those risks. We are committed to pursuing sustainability because we believe that a sustainable business is a better business: for ourselves and our stakeholders, for the country and for the environment.

Looking at our business from a sustainability perspective will inform our business decisions as part of the precautionary principle; and enable us to identify and act upon improvement points effectively.

Moving forward on our sustainability journey, we will continue to evaluate the material topics in line with the changing business landscape and our key business developments, in order to ensure that they remain relevant. We will strengthen our existing sustainability framework, step up our stakeholder engagement, set improvement targets and report on our progress towards reaching those targets.

This Report presents the sustainability performance of Samko Timber for the period 1 January 2017 to 31 December 2017. This Report covers material issues for Samko Timber's facilities as shown earlier (*"Our business at a glance"*), unless specifically mentioned otherwise in other sections. This Report excludes our trading offices in Indonesia, Singapore, Malaysia, and the United States.

We also exclude our forest plantations in the current report, because they are currently still in the development stage. Data presented in the Report have been either sourced centrally from our enterprise resource planning system or directly from the facilities. The data and statements presented in this Report have not been externally assured. As our first Sustainability Report, this Report does not contain revisions of previous sustainability reports.

The Report is organized and presented following the Global Reporting Initiative (GRI) Standards 'Core Option'

| Where We Are Now                                    |  | Where We Want to be   |  |
|---|--|---|--|
| Contributing to Economic Growth                     | Ethical Business Conduct                   | Zero litigation case and law enforcement regarding corruption against the company in our operations during 2017<br><br>All employees received re-socialization of whistleblowing policy through in-house socialization and newsletters in 2017                  | Zero incident and litigation case due the incompliance to law and regulations regarding corruption in our operations<br><br>All of our new recruits read and agree in writing to comply with our whistleblowing policy |
|   | Research and Development                   | 69% of project plan have been initiated during 2017   | We shall initiate and contribute 80% of project plan to the latest research and technology development related to environment-friendly materials and techniques on a yearly basis                                      |
|   | Legality and Sustainability Certifications | Zero breach regarding legality and sustainability certification requirements during 2017  | We aim to fulfil the legality and sustainability certification requirements of our products along the value chain in our operations  |
| Learning about Our Risks, Impact, and Opportunities | Sustainable sourcing                       | We were at the final stage on getting FSC-certified logs for our raw material in 2017 in Jambi. We procure all our logs from legal sources  | We aim to obtain FSC-certified logs for our raw materials, i.e. rubber in Jambi and Sengon (falcataria) in Java  |
|   | Waste Management                           | Our facilities comply with the relevant regulations in waste management, especially regarding hazardous waste   | We continue to support any Indonesian regulations regarding waste management, especially regarding hazardous waste   |
| Serving as a Responsible Member of the Community    | Human Rights                               | We fully support any Indonesian regulations regarding minimum legal working age in our operations   | We continue to support any Indonesian regulations regarding minimum legal working age in our operations  |
|   | Empowering People                          | We committed to providing various types of training to our employees as part of their development. In 2017, as much as 58% of the total employees received formal training<br><br>100% of our employees in all operations received a performance review in 2017 | All employees received formal training at least once a year<br><br>100% of employees receive annual performance review based on a standardized KPI system  |
|   | Occupational Health and Safety             | Zero incident involving work-related fatality in our operations during 2017   | We aim to maintain high standard for Occupational Health and Safety Management System in our operations  |
|   | Local Community Engagement                 | We have established 85% of our local community engagement plan and distributed more than 1,9 million free seeds to foster a green culture during 2017   | We committed to fully support our local community engagement plan on a yearly basis  |

## ECONOMIC PERFORMANCE: CONTRIBUTING TO ECONOMIC GROWTH

We operate our business in collaboration with our suppliers and buyers as a way to contribute to the economic growth of Indonesia. We continue to improve our operations and innovate in order to maintain and improve our competitiveness, secure vital resources and optimize the economic benefits for our stakeholders.

## ETHICAL BUSINESS CONDUCT

Samko Timber is committed to the highest possible standards of legal business conduct. We have in place a code of conduct to drive compliance to this commitment. Throughout 2017, there have been no public legal cases regarding corruption brought against our company or employees.

NO PUBLIC  
LEGAL  
CASES

In line with this commitment and our commitment to open communication and good corporate governance, we have implemented a whistle-blowing policy since 2008. This policy aims to provide an avenue for employees to raise concerns about possible improprieties and obstructive action within the company when they become aware and to ensure:

- a) Independent investigations are carried out in an appropriate and timely manner;
- b) Appropriate action is taken to correct the weaknesses in internal controls and policies which allowed the perpetration of fraud and/or misconduct and to prevent a recurrence; and
- c) Administrative, disciplinary, civil and/or criminal actions that are initiated following the completion of investigations are appropriate balanced and fair, while providing reassurance that the employees will be protected from reprisals or victimization for whistle-blowing in good faith and without malice.

This policy is intended to cover serious concerns that could have an adverse impact on the company, such as actions that may lead to incorrect financial reporting, are unlawful, are not in line with a legal obligation or a policy of our company, deliberately conceal serious wrongdoings or malpractices, may pose serious breach of fundamental internal controls, otherwise amount to serious improper conduct, or deliberately conceal information tending to show any of the above.

All complaints shall be reported to the Audit Committee either in person or in writing by e-mail or in a sealed envelope, marked "Private and Strictly Confidential". Every effort will be made to protect the complainant's identity. We do not tolerate nor condone obstructive action against any employee who wishes or intends to, or who is in the process of filing a complaint, and/or retaliatory action any employee who has filed a complaint alleging possible improprieties.

The procedure mechanism for raise concerns about possible improprieties been updated on 1 February 2017. All employees received re-socialization of whistleblowing policy through in-house socialization and newsletters in 2017.

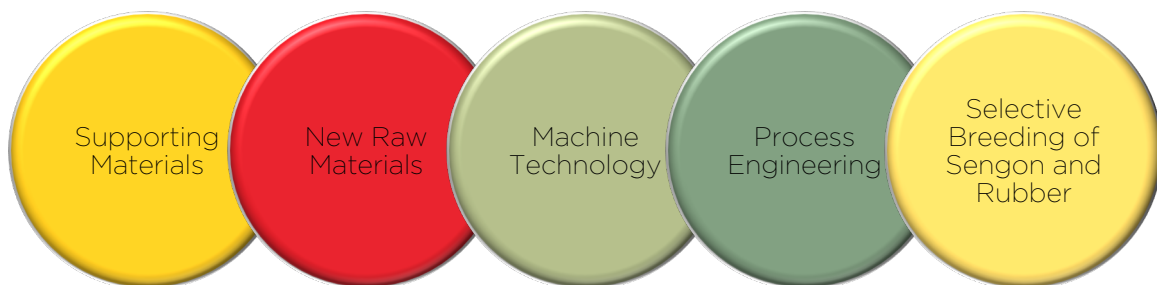


## RESEARCH AND DEVELOPMENT

As a prominent player in the global market of timber products, SAMKO is aware of the need to stay competitive. Competition comes in various forms: technological advance of timber manufacturing processes, development of new and higher-quality timber products, and development of substitute products that aggressively target the current market.

Research and development ("R&D") helps SAMKO protect its market share and expand to new markets. Through R&D, SAMKO could always be prepared, both in response to today's challenges as well as anticipating future risks and opportunities. R&D enables SAMKO to deliver higher-quality products through process improvement and new raw and supporting materials, securing both the economic and environmental sustainability of our business.

Our current research focuses on five functions:



Around 69% of R&D project plan have been initiated during 2017, resulting in two innovation breakthroughs. We performed a complete new coating formula and method for HEVEATECH decking products to enhance their resistance to mold and white jelly in extremely wet use. We also successfully tested a new concept for thick LVL beam production to overcome the long processing time and overheating risk. We completed the research and pilot production in 2017; and expect to start mass production in 2018.

## LEGALITY AND SUSTAINABILITY CERTIFICATIONS

We understand the need of the government, buyers and the general public to ensure the legality and sustainability of our products along the value chain. We aim to go beyond regulatory compliance and actively support a wider uptake of legality and sustainability certification. We had no incidents of breaching legality and sustainability certification requirements during 2017.

We are proud to mention that all our facilities comply with the Indonesian national legality verification scheme, SVLK. This scheme is the implementation of the voluntarily partnership agreement (VPA) on forest law enforcement, governance and trade (FLEGT) signed by European Union countries in 2013. SVLK is recognized in European Union countries, and the Indonesian government is campaigning for its wider recognition in other markets. We were

honored to welcome the representatives of ASEAN countries at our facility in Jombang in February 2017, to see how we implement SVLK in collaboration with local farmer groups.

Our facility in Jambi obtained Chain of Custody certification ("CoC-FSC") certification last year. Furthermore, we are in the final stage on getting FSC-certified for raw material ("FSC-SFM"). We are supporting smallholder cooperatives in Jambi to apply for FSC's Small or Low Intensity Managed Forests ("SLIMF") certification. In return, they will provide our facility with the FSC-certified timber harvest. With the eventual certification of the rubber logs, SAMKO would be able to stamp its products in Jambi as FSC certified. Other types of certifications obtained by SAMKO include the California Airborne Resource Board ("CARB") Phase 2, Singapore Green Label, and Japan Agricultural Standard ("JAS"). These certifications help us in developing our brand and capture the increasing demand for certified timber products. Our facilities in Balaraja and Jambi hold ISO 14001 certification, while other factories implement similar environmental management systems.

### *What is SVLK?*

SVLK stands for "Sistem Verifikasi Legalitas Kayu" (Timber Legality Assurance System). It is designed to check the legality of timber from the forest through to the point of export using independent auditors.

SVLK is an effort by the Indonesian government to assure the legality of its timber products, which is in line with the trend of major timber market globally and will meet the stronger demand for legal timber. The Government of Japan applies Goho-wood or Green Konjuho which requires that timber imported into the country comes from legal sources. The Government of the United States of America amended the Lacey Act, aimed at avoiding import of illegal timber into the country. The European Union issued Regulation No.995/2010 (Timber Regulation) obliging operator to possess irrefutable proofs that timber products that they trade do not come from illegal sources and prohibiting illegal timber.



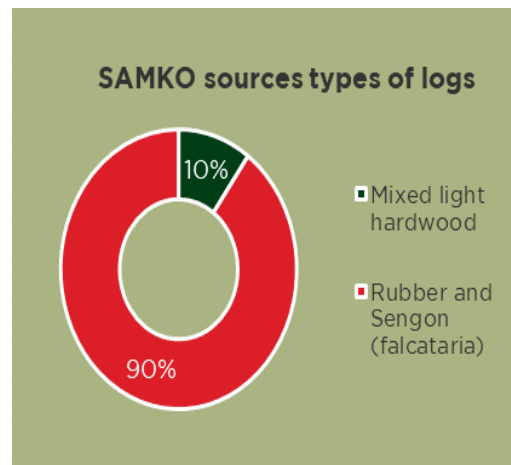
## Environmental Performance: Learning about Our Risks, Impact, and Opportunities

As a company that is committed to sustained growth and value creation, we strive to adopt responsible practices towards our people, our supply chain, the business community and the environment. We did not have any incident of non-compliance with Indonesian environmental regulations during 2017. We are in the process of understanding more closely about our environmental risks and impact. During this learning process, we hope to be able to also recognize opportunities to mitigate risks and minimize our negative impact to the environment.

### SUSTAINABLE SOURCING

Our main raw material is timber logs; we also use glue and other materials at much smaller scales. SAMKO procures logs from community farmers (in community forests located in Java, Sulawesi and Sumatera) and through third-party suppliers (in natural forests).

All of Samko Timber's log is sourced from legal concession areas in Indonesia, with 90% of our wood sourced from community forest (*Hutan Rakyat*) and plantations forest (*Hutan Tanaman Industri*). We continually strive to create new commercial growing areas and seek out new sources of plantation wood in the field. Our log purchase policy requires any log purchase to be conducted in accordance with the applicable regulations and legal procedures of the Indonesian Government. We forbid any log purchase from any log suppliers or log farmers that provide logs from land that use fire to clear the land.



Any operational log purchasing activities by all our personnel should be conducted based on rules mentioned above. We also inform and educate our log suppliers/ land clearing contractors regarding zero burning method and early warning system if any fire occurred.



If any forest fire occurred, we will refer to the applicable regulations and legal procedures in Indonesia. As previously mentioned, we were at the final stage on getting FSC-certified logs for our raw material in 2017 in Jambi. We aim to obtain FSC-certified logs for our raw materials, i.e. rubber in Jambi and sengon (*falcataria*) in Java. We strive to minimize the environmental impacts of our raw material sourcing and maximize their efficiencies. Our Tree Improvement Program aims to develop better timber cultivars, supported by our laboratory facilities in Jasinga (West Java) and Jambi, which being plant-tested in our site in Jambi.

## WASTE MANAGEMENT

Our operational processes result in various forms of waste, in particular waste veneer. Our facilities comply with the relevant regulations in waste management, especially regarding hazardous waste. At the same time, we strive to go beyond compliance by minimizing our waste and capturing the value of our waste.

For instance, each of our facilities is assigned an indicator in the timber recovery rate i.e. ratio of plywood vs logs. This indicator aims to achieve higher productivity, reduce waste, and reduce raw material consumption, thus reducing our use of trees. Starting in 2017, we also recycle used glue, which results in cost reduction without compromising quality. We use our waste veneer as feedstock to our boilers. Some of our waste veneer is given to the local community for free as fuelwood for brick making or home cooking.

Our operations have a waste management mechanism that separate waste based on its types, including for hazardous waste. Hazardous waste is handled by third-party waste processors. In line with regulations, each of our facilities has its own wastewater treatment. Our facilities use water for maintenance, particularly to wash logs and machinery, and much less in the actual production process. Hence, we use a relatively small volume of water, which can then be recycled and reused. Going forward we intent to measure the waste generated through our operations and report quantity of waste by different disposal methods. We will strengthen data collection process with regards to waste and effluents and will be reporting in the subsequent years.

For several years we have been participating in the Indonesian Government's Program for Pollution Control, Evaluation, and Rating ("PROPER"), a public environmental reporting initiative. Our factories in Balaraja, Lampung and Jambi received the provincial-level PROPER awards (Blue rating) while our factory in Batang received the national-level PROPER award (also Blue rating). SAMKO sees PROPER as standardized guidelines for all factories on how to manage the environment, beyond the mandatory environmental management and monitoring work.

## Social Performance: *Serving as a Responsible Member of the Community*

We run our business such to improve the social welfare of our employees and surrounding communities. We continue to learn about the social impact and risk of our operations. This is even more important going forward, with our recent rebranding to Sampoerna Kayoe and strengthened commitment to creating a sustainable future for the company, our business partners, and the community.

### *CHILD LABOR (HUMAN RIGHTS)*

We understand the importance of managing our human resources to comply with regulations and to improve the employees' welfare. In line with Indonesian regulations, we do not employ any person below the minimum legal working age, i.e. 17 years. All our operations comply with regional minimum wage rules for both male and female employees. As part of socially responsible conduct, we are against discrimination, i.e. we also recruit and employ persons with disabilities in our facilities. Around 18% of our employees are covered by collective bargaining agreements.

### *EMPOWERING PEOPLE*

SAMKO is committed to providing various types of training to employees as part of their development. We strive to engage, collaborate with, and empower our employees as the most important asset to the company.

This includes the provision of various training to our employees in order to equip them with the necessary hard and soft skills. Training on hard skills is available by appointment for ISO certifications, some professional licenses that are mandatory by regulations, and for other technical skills based on the site's specific needs.



On the other hand, training on soft skills is open to all: the training plan is shared to employees so they can apply. The current focus is on the sense of responsibility and discipline - SAMKO is now in the fourth year of emphasizing these themes.

In the near future we aim to shift the focus to teamwork, seeing other employees as humans instead of production tools, and thus considering their personal challenges and issues in delivering their work. Our Operational Acceleration Program (a management training program) nurtures participants to be future factory managers in a few years.



## OCCUPATIONAL HEALTH AND SAFETY

In line with regulations, we maintain an occupational health and safety management system and target zero work-related fatalities accidents at our workplace. In 2017, some of our facilities received zero work-related fatalities accident awards. SAMKO also complies with regulations on covering accident, retirement, and old-age insurance. This coverage also includes some small-scale business partners; SAMKO management is considering making this a formal policy to cover all our local partners as part of our CSR program.

Note: Injury rate is the number of incidents (light, medium, severe injuries and fatalities) in 2017 divided by the number of employees and multiplied by 100. Sick leave rate is the number of sick leaves taken in 2017 divided by the number of employees and multiplied by 100.

### OHS figures in 2017

Injury rate: 6.4 cases per 100 employees  
Sick leave rate: 120.5 days per 100 employees  
Number of work-related fatalities: 0

## LOCAL COMMUNITY ENGAGEMENT

Our business model comprises numerous local operations that are widely dispersed in various areas in Indonesia. This model aims, among others, to facilitate collaboration with local communities and governments. Each SAMKO factory can be considered a local business and an integral part of the local economy.

Distributed > 1.9 million free seeds to foster a green culture and established 85% of local community engagement plan

Our facilities share seeds and provide training to smallholders, thus providing business opportunities. They also provide jobs to locals, as well as outsourcing repair to part-time workers that would not qualify for full-time, formal employment. Through the RBK Program, we outsource some manufacturing processes to home businesses, while providing training and including the workers in insurance coverage.

SAMKO develops annual Corporate Social Responsibility Programs as part of being a good neighbor. We believe that the community will be the first to help us in any difficulties, because they are closest to SAMKO sites. In return, we try to provide support to communities based on their needs. Every year SAMKO demonstrates its dedication through voluntary involvement in various activities, such as:

- Contributing free seedlings to local communities to foster a green culture;
- Offering scholarships to best performing students and offering school fees support for low income families;
- Contributing to the construction of public facilities, including mosques, churches, health clinics, and roads in the vicinity of our factories;
- Contributing funds or parcels of religious offerings to low income families during festive periods such as Ramadhan or Hari Raya Idhul Fitri;
- Partnership with local communities to reuse and recycle wood wastes; and
- Supporting various social activities conducted surrounding our factories.

CSR Programs help maintain and enhance our social license to operate. However, in general we refrain from assistance that might create reliance in the long term. During 2017, we have established most of our local community engagement plan. We are committed to ensure the long-term sustainability of the environment, the communities we operate in, and our business venture in a just and ethical manner.

# GRI Standards Content Index

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|                                   | 102-46                        | Defining report content and topic Boundaries                 | 4, 5   |
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|                                   | 102-49                        | Changes in reporting   | Not applicable   |
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|  |        |   |                       |
|--|--------|---|-----------------------|
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|  | 102-54 | Claims of reporting in accordance with the GRI Standards                                  | 5                     |
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| GRI 308: Supplier Environmental Assessment                       | 308-1  | New suppliers that were screen using environmental criteria                               | 6, 10                 |
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| GRI 103: Management Approach 2016                                | 103-1  | Explanation of the material topic and its boundary  | 5                     |
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| GRI 103:<br>Management<br>Approach 2016               | 103-1 | Explanation of the material topic and its boundary  | 5        |
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