



SAMPOERNA KAYOE

SUSTAINABILITY REPORTING 2019



# CONTENTS



- Statement from Our Executive Director and Chief Executive Officer .....2
- About Our Business .....3
- Our Approach to Sustainability .....5
- List of Stakeholder Groups .....5
- The Final List of Material Topics ..... 6
- SAMKO’s Value Chain..... 6
- Material Topics with Impact Across our Value Chain .....7
- Sustainability Report Governance Structure Committee.....7
- Our Commitment Card .....8
- Ethical Business Conduct ..... 9
- Research and Development .....10
- Legality and Sustainability Certifications . 11
- Sustainable Sourcing ..... 12
- Waste Management ..... 13
- Child Labor & Compulsory Labor..... 14
- Empowering People..... 15
- Occupational Health and Safety ..... 17
- Local Community Engagement ..... 18
- GRI Standards Content Index ..... 19



## STATEMENT FROM OUR EXECUTIVE DIRECTOR AND CHIEF EXECUTIVE OFFICER

We continue to grow positively driven by various transformation effort in several aspects of our business operations, and also continue to improve capabilities on an ongoing basis. For us, sustainability is a journey in which every step is important. We get learnings from our past and leverage on the insights to refocus and improve our action. It is a continuing process and one which we must keep accelerating. We also continue to strengthen our corporate branding, improve efficiency, reduce operational costs as well as enhance business performance. On the business front, we aim to continue being one of the leading industry players through our innovative and sustainable solutions.

We are committed to adopt an integrated approach in achieving business development and responsible environmental management. Our commitment to sustainable development is reflected in our Corporate Values and Code of Ethics. In the process of converting raw materials into finished products, we adopt a fundamental principle: "Satisfying the present needs without compromising on the future". As a trusted timber-processing company, we are committed to our mission and corporate values to ensure long-term sustainability of business, community, and environment.

With the fast-paced and ever-changing business environment, we continue to the next stage of our brand transformation and and rebranded our products under the "Sampoerna Kayoe" brand.

At Sampoerna Kayoe, we believe in possibilities and the need to break the limitations that surrounds them. Our key brand identity is clearly defined by our tagline, "Unlimit Possibilities", as we strive to unlimit possibilities for our wood solutions in our journey to grow and expand internationally. Nurtured with Sampoerna's value and philosophy, we embrace "Anggarda Paramita", which means "Towards Excellence", as a way of life and live the "Three Hands" philosophy of working alongside our business partners, employees, and the community, as we strive towards a more sustainable business model.

The Board of Directors guide and oversee the identification, management and monitoring of relevant sustainability topics that we disclose in this report. We recognize the importance of adopting sustainable practices and how it can enhance our business operations and performance. We believe that sustainability is the only way for us to be successful in the future, and therefore, an end-to-end approach along the value chains required, whether through our brands, our processes and our people.



**SAMPOERNA KAYOE**

### Sampoerna Kayoe Vision & Mission

Champion enabler  
that inspires  
sustainable future  
for all

#### Sustainable Sourcing

- Engrained commitment to only source from sustainable and eco-forest suppliers with building a better future in mind

#### People Empowerment

- Engage, collaborate and empower the most important asset to the company to ensure a sustainable future for all stakeholders

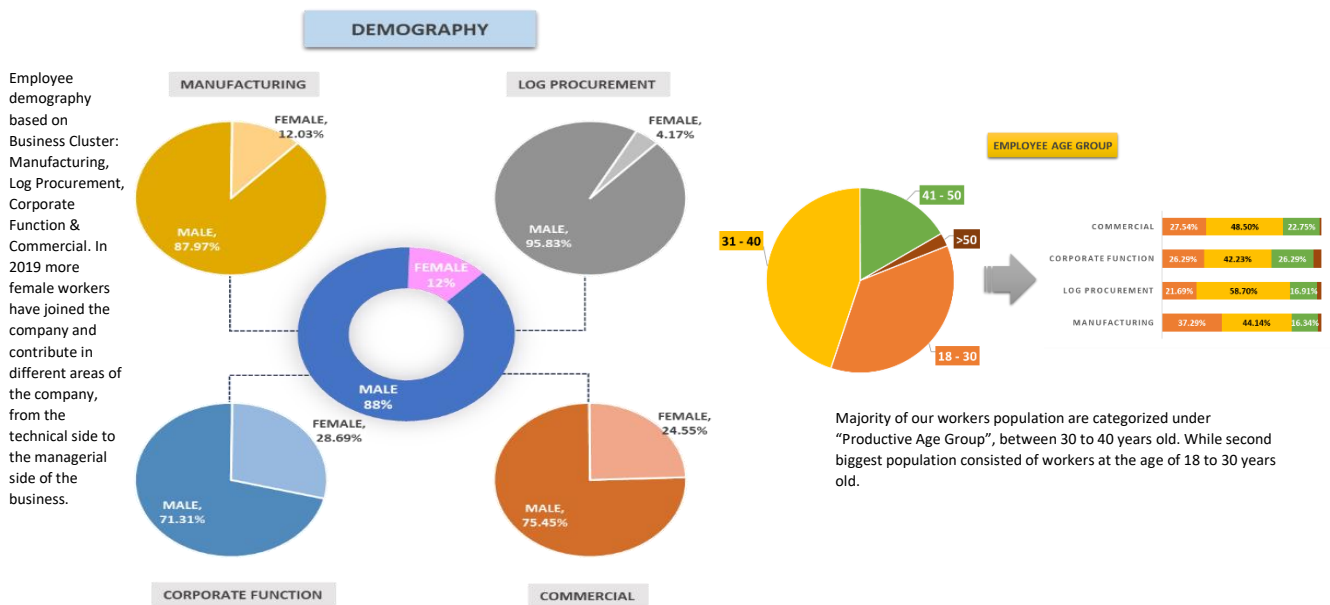
#### Championing Economic Value

- As the industry leader through innovative and sustainable solution in any market we are present

## ABOUT OUR BUSINESS

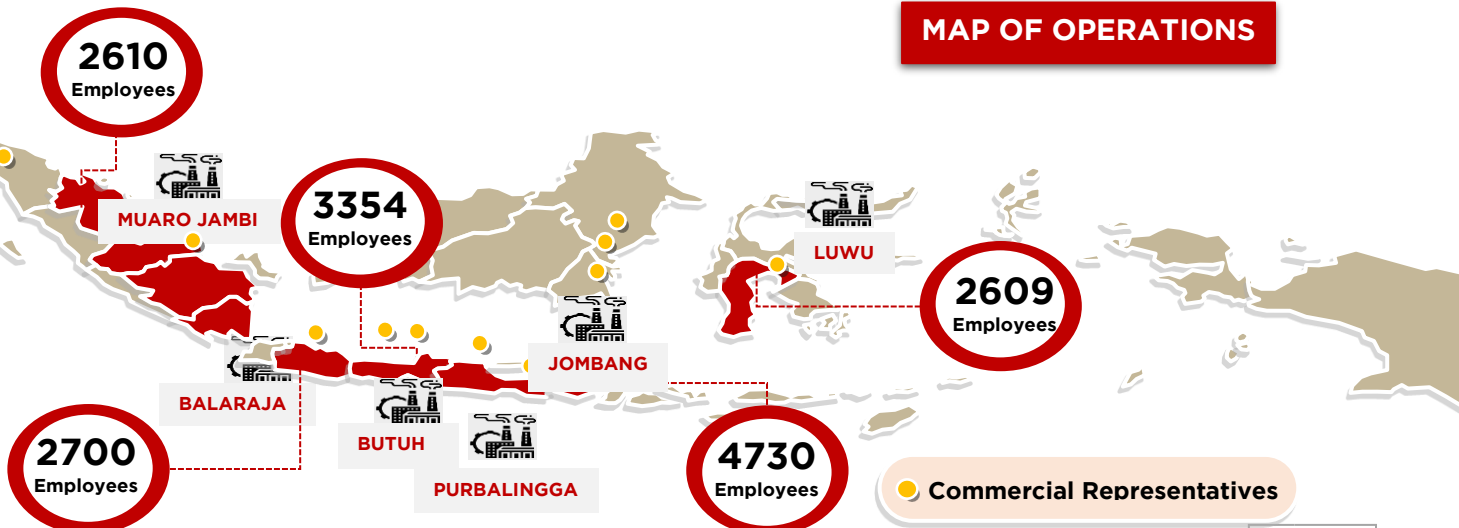
Listed on the Mainboard of the Singapore Exchange on 25 February 2008, Samko Timber Limited (“STL”) is a publicly listed company, in the form of a limited liability company, which was established under the law of the Republic of Singapore on 26 December 2005. STL presently has more than 10 subsidiary companies which forms a leading vertically integrated wood resources processor engaging in the primary and secondary processed timber businesses. The subsidiary Companies are established and located in various countries including Singapore, Indonesia, Malaysia, and United States through either direct or indirect shareholding ownership which all together form the Samko group and also known as Sampoerna Kayoe Group of companies (“SAMKO”). SAMKO is domiciled in Singapore.

We are cognizant of the vital role that our employees and workers play in our success and sustainability, and we strive to be a fair and responsible employer to them. In 2019, SAMKO has 16,003 employees, a decrease of 9.20% compared to 17,624 employees in 2018 resulting from current on-going modernization & optimization project occurring in several plants. Our plants are located mainly in Java, with several others situated in Sumatra and Sulawesi. In 2019 we rolled out structure and grading standardization across the six assembly plants, eleven affiliate plants and one chemical glue producer and have completed the exercise in December. This initiative was taken in order ensure responsibilities and competencies for similar jobs across plants. New structures are to be implemented gradually in 2020.



We have developed a strong business and operating model enabling us to continuously expand our processing capacity and maintain sustainability in production. Our strong experience has helped us gain success and grow steadily amid the changing business environment. Sampoerna Kayoe currently owns 18 production facilities that operate as wood processing facilities, chemical glue producer, and veneer satellite factories. The organic expansion in our group contributed a total production capacity approximately 900,000 m3 annually, allowing us to be a major engineered wood manufacturer in Indonesia and one of the largest globally. Our company is equipped with high capacity production facilities to meet the growing market demand from all segments and to fulfil our mission of becoming the market leader in the industry.

## MAP OF OPERATIONS





## Sampoerna Kayoe

A Leading Engineered  
Wood Solution Provides  
in South East Asia

Our manufacturing facilities:



Production Capacity  
**+/- 900,000 m<sup>3</sup>**



6 main processing  
plants in Java,  
Sumatera, Sulawesi



11 satellite veneer  
plants and 1  
chemical glue  
producer in Java,  
Sumatera and  
Sulawesi

With unrelenting focus on excellence at every stage of its supply chain, we have garnered international environmental accreditations as a testament of our long-term commitment to quality and sustainability. The Research and Development department is tasked with ongoing process improvement, wood maximization and product innovation, setting the stage for value creation and growth.

With over 40 years of experience and industry knowledge condensed into our primary and secondary processed timber products. Our products are found in residential, commercial and industrial applications in the form of plywood, wood-decking, wood-doors, wood-flooring, piano and truck parts. Our products enjoy a dominant market share in Indonesia, and are distributed in more than 28 countries across the world, including the Asia Pacific region, Europe, the Middle East, and the United States of America. We will continue to explore new markets, develop and be innovative in our product offerings.

### Available Worldwide

(Asia, America, Australia, Europe)

Algeria, Australia, Belgium, China, Croatia, Denmark, France, Germany, Hong Kong, India, Indonesia, Iraq, Italy, Japan, Jordan, Kuwait, Malaysia, Mexico, New Zealand, Oman, Philippines, Poland, Puerto Rico, Saudi Arabia, Singapore, South Korea, Spain, Sri Lanka, Sweden, Switzerland, Taiwan, Thailand, Timor Leste, United Arab Emirates, United Kingdom, USA.



## OUR APPROACH TO SUSTAINABILITY

At Sampoerna Kayoe, we are governed by a fundamental principle: "Satisfying the present needs without compromising the future". We are committed to being a sustainable business; adopting an integrated approach in achieving business development and responsible environmental management.

We keep this commitment by investing in our people, empowering the local communities in which we operate in, sourcing from sustainable suppliers, and implementing continuous improvement programs.



We believe effective engagement with our stakeholders allows us to understand their concerns and how we can best respond to them. 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.

### Our Approach towards Stakeholder engagement

Group	Expectations	Response	Engagement Type
Shareholders	Financial health, reputation and transparency	Respond to any queries through Corporate Secretary Team, provide timely and accurate information on our website, annual and sustainability report in a transparent manner	Annually meeting
Customers	Quality of product and product certification	Quality control management, and Implementing SVLK, CoC-FSC, California Airborne Resource Board (CARB) Phase 2, US EPA standard, Singapore Green Label, CE Mark and Japan Agricultural Standard (JAS) and ISO standard	Periodic updating certifications
Regulators	Regulatory compliance	Comply with any applicable laws and regulations	Regular update
Local Community	Employment opportunities and improvement in standards of living	Preference for local hiring, contributing for construction of communal and religious facilities, offering scholarships to best performing students and school fees and contributing free seedling to local communities	Corporate social Responsibility Programmed
Employees	Occupational health & safety, and raining & development (welfare)	Health benefits and providing various types of training to employees as part of their development	Regular trainings

At Sampoerna Kayoe, we understand that sustainability is a journey. As will be clear in the following sections, we are currently still in the early phase of embracing sustainability as an integral part of our business operations and corporate functions. Thus far, we have identified material sustainability topics that may affect, and be affected by, our business operations. We believe the importance of material

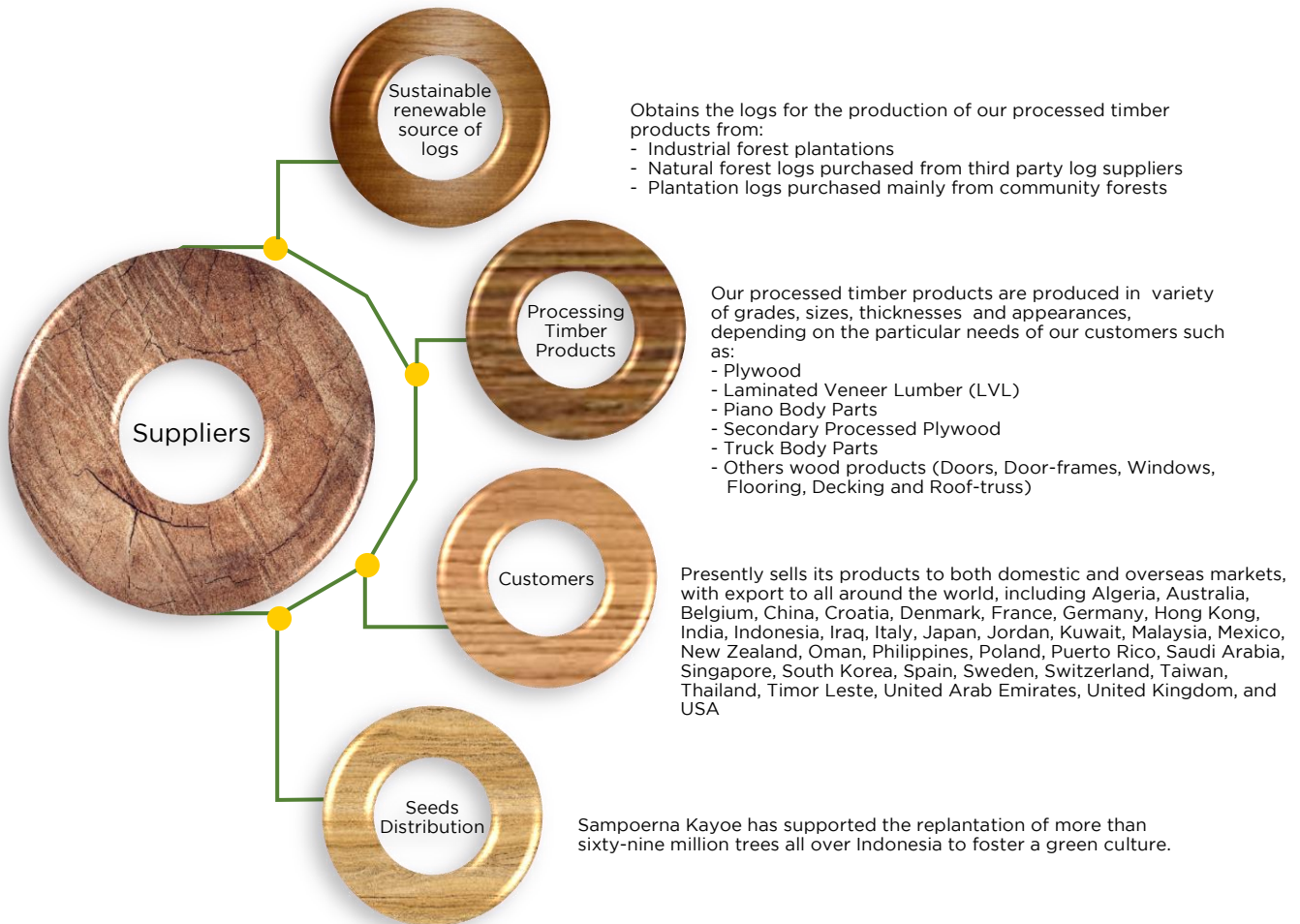


topics to focus on specific areas to grow our business and align future sustainability efforts. We have conducted a materiality assessment as follows: identifying a list of potential material topics by reviewing material topics reported by other similar industry players, to consider the sustainability context of the plywood industry and interviewing Senior Management to understand their business environment, future plans and any concerns. We then refined and prioritized the materiality of each topic and the result was presented to Management for discussion and approval.

**The result of our materiality assessment is summarized below:**



**Sustainability in our Value Chain**



### Material topics with impact across our value chain

Material Topics	Source of Logs	Processing	Customers
Ethical Business Conduct			
Research and Development			
Legality and Sustainability Certifications			
Sustainable Sourcing			
Waste Management			
Child Labor & Compulsory Labor			
Empowering People			
Occupational Health and Safety			
Local Community Engagement			



Recognizing that sustainability development is an ongoing journey, Management has set the tone for sustainability from the top while being supported by the Sustainability Committee who look after implementation of sustainability plans and performance monitoring.

### Sustainability Report Governance Structure Committee



Looking at our business from a sustainability perspective will inform our business decisions and enable us to identify and act upon improvement points effectively as we mention in Ethical Business Conduct in page 9, Empowering People in page 15 and Occupational Health and Safety in page 17. We have also developed a sustainability performance card to monitor and track our performance under a set of indicators against the committed targets. This report presents the sustainability performance of SAMKO for the period 1 January 2019 to 31 December 2019. This report covers material issues for SAMKO's facilities as shown earlier, 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 early development stage.

Data presented in the Report have been either sourced centrally from our enterprise resource planning system or directly from the facilities. We have not sought external assurance for this inaugural report and 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'. We welcome your views on this report as an important input to help us improve our sustainability practices and reporting.

For any comments or response regarding the content of this report, please direct your feedback to:

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## Our sustainability performance cards

### Ethical Business Conduct

#### Our Commitment

Zero incidents and litigation cases due to in compliance to law and regulations regarding corruption in our operations

#### Where We are now

Zero litigation cases regarding corruption against the Company

### Research and Development

#### Our Commitment

Focused on process improvement and development of environmentally friendly materials and techniques

#### Where We are now

Developed unique composition of glue base to diversify our Sengon based products.

### Legality and Sustainability Certifications

#### Our Commitment

Comply with the legality and sustainability certification requirements of our products along the value chain in our operations

#### Where We are now

1. Obtained FSC CoC certification for our factory in Jambi
2. In progress for our factories in Jombang and Semarang

### Sustainable Sourcing

#### Our Commitment

1. Source FSC-certified logs for our raw materials
2. Procure logs from legal concession areas in Indonesia

#### Where We are now

1. Supported SLIMF FSC certification process for smallholder suppliers in Jambi
2. In progress to obtain SLIMF FSC certification for smallholder suppliers in Jombang and Semarang

### Waste Management

#### Our Commitment

Comply with prevailing Indonesian regulations regarding waste management, especially regarding hazardous waste.

#### Where We are now

Complied with relevant waste management regulations.

### Child Labor & Compulsory Labor

#### Our Commitment

Support any Indonesian regulations regarding child labor and compulsory labor in our operations.

#### Where We are now

1. Maintained 100% records of work applicants (family card & identity card)
2. Zero reported forced labor and child labor incidences
3. Aligned with all Indonesian regulations regarding minimum legal working age in our operations

### Empowering People

#### Our Commitment

1. Provide formal training for employees at least once a year
2. Conduct annual performance reviews for all employees based on a standardized KPI system

#### Where We are now

1. More than 77% of the total employees received formal training
2. Always give 100% regular performance review for our employees in 2019

### Occupational Health and Safety

#### Our Commitment

Zero employee fatalities

#### Where We are now

1. Zero incident involving work-related fatality in our operations during 2019
2. Reinforcing the importance of complying with standard working procedure for all layers in the organization and holds plant managers accountable in ensuring safety in the work field

### Local Community Engagement

#### Our Commitment

Increase welfare of local communities.

#### Where We are now

1. Established more than 86% of our local community engagement plan
2. Distributed more than a cumulative 69 million free seeds to local communities.

## Ethical Business Conduct



Our Principle:  
Business is  
conducted lawfully  
and with integrity

SAMKO continuously improves the implementation of the highest possible standards lawful business conduct practices from year to year in order to generate significant and profitable impacts for all shareholders and stakeholders. Our management and employees must fully understand and apply this standard when building work relationship with other employees, customers, suppliers, shareholders, the government and the general public. It also governs the improvement mechanism for sanctions of misconduct and violations.

We are consistently maintaining zero litigation regarding corruption against the company in our operations during 2019.

Pursuant to the Company's standard operating procedure (SOP), any legal cases, lawsuit, and/or court cases (litigation cases) which involves the Company and/or its officers and/or employees, must be notified to and consulted with the Company's legal division.

Throughout 2019, according to the file and record of the Company's legal division, there is no pending, outstanding, and/or ongoing legal cases or litigation involving the Company, which relates to any violation (non-compliance) of prevailing laws and regulations by the Company, that raises any legal cases or litigation cases against the Company which may led to any revocation cases of it licenses.

SAMKO conducted cross-section and cross-company communication processes to maintain the effectiveness of work relationships by utilizing various digital and physical media such as email, e-news, flyer-blasts, and bulletin boards. By conducting intensive socialization and communication processes, SAMKO and its employees have a good mutual relationship and work together for the same objectives. Each employee is encouraged to behave and act in accordance with corporate values and culture, to ensure that SAMKO's reputation is always reflected through the quality of its people.

In particular, SAMKO has a commitment to open communication and good corporate governance, by implementing 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 and SAMKO Group, 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 to raise concerns about possible improprieties was updated and implemented in 2017. As part of our effort in implementing Good Corporate Governance (GCG), the Board of Directors (BOD) from all companies within the Samko Timber Group have composed the procedures for reporting irregularities and violations of ethical business conduct and/ or applied laws and regulations, Articles of Association, contract/agreement made under Company's name and other acts that could be detrimental to the company. The reporting procedure have been regulated under Company's Standard Operating Procedure (SOP) titled "Law and Business Ethics Violation Reporting Procedure", managed by the Violation Reporting Team (Tim Khusus Pelaporan Pelanggaran) that was formally elected and formed under Samko Timber Group.

## 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 alternative products that aggressively target the current market. We are the only processed-wood manufacturer in Indonesia that has a research and development facility, proving our commitment towards innovation and quality.



Research and development ("R&D") help 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.

We are the first timber processing company in Indonesia to use plantation logs for veneer production. We strive to capture the maximum value of wood used at our production sites, especially in our strategy to increase the usage of smaller diameter plantation logs. The percentage of wood that is successfully extracted as sheets is referred to as recovery rate. We aim to achieve high recovery rates to capture a higher proportion of wood to be converted into higher value products which in turn reduces the amount of waste produced.

We pioneered the utilization of rubber plantation waste. At the end of its thirty-year lifespan, rubber trees have been traditionally regarded as waste. With our technology, we are able to transform this waste into high quality wood products.

Our current research focuses on five functions:

1. Research on developing and engineering the right usage of **Supporting Materials** such as glue, preservative, coating and other materials for balancing the requested quality with reasonable cost;
2. Research on focusing alternative **New Raw Materials** for timber species beyond the main current (Sengon and Rubber Wood) for source of veneer;
3. Research on **Machine Technology**, for new processing machinery and current machinery improvements to keep ahead of technological advantages in quality or efficiency;
4. Research on **Process Engineering**, by evaluating and improving our production process for more efficient methods without compromising quality;
5. Research to find and develop a **Selective Breeding of Sengon and Rubber** species aimed to obtain the best quality recovery rate of veneer from its stem.



Hermawan (Sampoerna Kayoe's Lab & Material Research Division)

Since I was little, timber has been an integral part of my life. I come from a family of woodcarvers in Solo, Central Java. My parents always said that timber is a valuable resource to be used wisely. Today, I apply the same principle at my work place, to balance quality with sustainability. My parents believe that Indonesian timber is one of the best in the world. They feel so proud today, knowing that their son is working at one of the nation's best companies in wood processing, Sampoerna Kayoe.

One of our breakthroughs in 2019 is the formulation of a unique composition of glue base. The new glue base can be used to produce more varieties of Sengon based plywood products. It allows us to expand our market for our products where we create customized solutions for our customers. We are also equipped with high capacity production facilities to meet the growing market demand from all segments and to fulfill our mission of becoming the market leader in the industry.

Quality control and quality assurance are continuously upheld. The same commitment can be found in all of our plants. Our spirit to unlimit the possibilities does not end in our plant facilities. It can also be found in the products that we are supplying for our customers all over the world.





## 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 work towards a wider uptake of legality and sustainability certification. We maintain zero breach regarding legality and sustainability certification requirements.

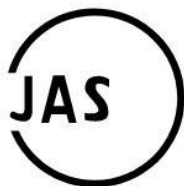
We are proud to mention that all our facilities comply with the Indonesian national legality verification scheme, Sistem Verifikasi Legalitas Kayu (SVLK). This scheme is the implementation of the Voluntary Partnership Agreement (VPA) on Forest Law Enforcement, Governance and Trade (FLEGT) signed by European 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 have obtained certifications from Japan Agricultural Standard (JAS), CE Marking, United States Environmental Protection Agency (US EPA), California Air Resource Board (CARB), ISO 9001 (Quality Management System), ISO 14001 (Environment), Green Label Singapore, and many more.

The Forest Stewardship Council (FSC) is a sustainable forest management certification that promotes the responsible management of forests. We recently became members of the FSC's economic chamber which allows us to directly contribute to the organization's standards and to the future of responsible forestry. We have obtained the FSC Chain of Custody certification ("CoC-FSC") certification for our facility in Jambi and the Small or Low Intensity Managed Forests (SLIMF) FSC-certification for our raw materials in Jambi.

We support smallholder cooperatives to apply for and guide them to obtaining SLIMF-FSC certification. Through this program, we ensure that our suppliers maintain a healthy forest with responsible management plans, while we receive a steady and sustainable supply of FSC-certified raw materials. These SLIMF-FSC certified logs will then be processed in our CoC-FSC certified facility in Jambi to produce FSC certified products. Our certifications in Jambi are only the beginning of our sustainability journey and are testament to our commitment in being a responsible industry player. Towards the end of 2019, we started to expand our support of smallholder cooperatives to our suppliers in the Jombang and Salatiga regions, with the aim of building a wider family of suppliers whose raw materials are FSC certified.

Our facilities in Balaraja and Jambi hold ISO 14001 certification, while other factories implement similar environmental management systems. We ensure that our products and process comply with the global standards for quality and environment management.



035-112-2023  
Made from Renewable / Sustainable Materials



*California Environmental Protection Agency*  
**AIR RESOURCES BOARD**



## Sustainable Sourcing

Raw material availability and raw material prices remain as one of the key challenges of our business. As we are increasing our production volume to meet demand, we may face the risk of interrupted supplies of raw materials due to extreme weather condition in some parts of Indonesia.

As one of the biggest group companies in Indonesia, we require an extensive and varied supply of logs. All of SAMKO's log is sourced from legal concession areas in Indonesia, with 90% of our wood sourced from community forests (Hutan Rakyat) and plantation forests (Hutan Tanaman Industri). We continuously improve technology and efficiency to maximize our production capacity while maintaining sustainability of natural resources. Subsequently, our factory in Jambi has obtained Chain of Custody certification ("CoC-FSC") certification and we have secured SLIMF- FSC certified logs for our factory in Jambi.

SAMKO holds a royalty program every year which rewards and encourages suppliers for continuing to work with us. We play an active role within the Hutan Rakyat community to ensure trees are not cut prematurely and have reached an optimum age before being harvested. Currently, SAMKO has approximately 1500 suppliers who are actively involved in developing and shaping the industry of our plywood.

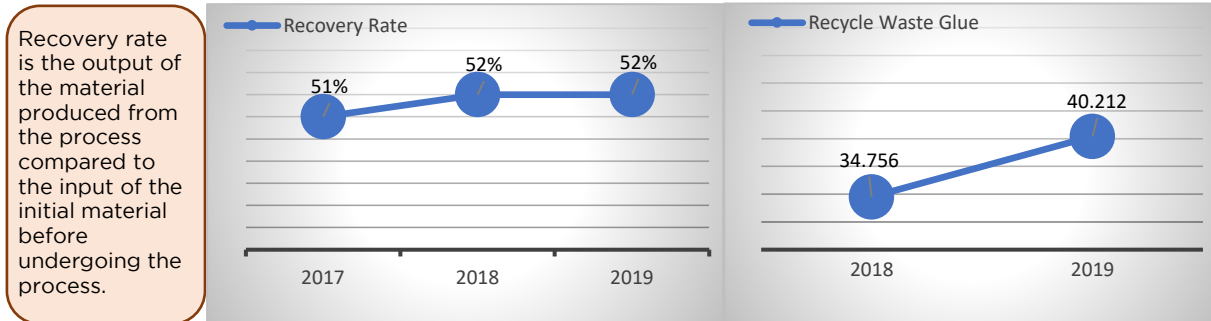
We run an annual seed distribution program that targets surrounding communities with the aim of supporting them plant timber trees. This program secures SAMKO our raw materials, improves the livelihoods of local communities, and also ensures continuity of forest growth. SAMKO procures logs from community farmers (in community forests located in Java, Bali, Sulawesi and Sumatera) and through third-party suppliers (in natural forests).

We continue to ensure that all logs procured are from legal sources. Our log purchase policy requires any log purchase to be conducted in accordance with the prevailing and applicable law and regulations and legal procedures of the Indonesian Government. SAMKO is committed to adopt an integrated approach in achieving business development and responsible environmental management.



## Waste Management

Waste management is one of the key focus areas in our environmental management efforts. The underlying concept of our waste management is to ‘reduce, reuse, recycle’ and we partner up with institutions that are also consistent with this policy. We are mindful of handling different types of waste carefully to prevent pollution and safety hazards and continue to comply with the relevant prevailing regulations in waste management. We continuously enhance efficiency in our production process to increase our recovery rate to minimize waste.



For subsequent years, we have been participating in the Indonesian Government’s Program for Pollution Control, Evaluation, and Rating (“PROPER”) for our assembly plants in Balaraja and Jambi, who constantly monitor by Indonesian Government. We continue our participation in the PROPER program and always give our best effort to maintain the ratings which have been achieved previously. In 2019, we have received the Blue rating PROPER awards, indicate we always take seriously to comply for government standards and guidance regarding environment management.

The most common types of waste generated during our production process are waste veneer and center core log. We utilize most of that waste as feedstock for our boilers to power our plants and decompose the rest in several landfills. Waste oil produced from our production machinery are stored in a temporary shelter for hazardous waste before it is handled by our licensed third-party waste processors.

In 2019, our factory in Balaraja recycled 40.212 Kg of waste glue to become supporting materials for our low-grade plywood, an increase of 15%, compared to 34.756 Kg in 2018. We are working to develop our unused waste to become alternative energy sources for other industries, such as wood pellet making and raw materials to be used by power plants. Our operations have waste water mechanism systems to manage and ensure our waste is safely to dispose outside factory. We tightly monitor our hazardous waste disposal in accordance with relevant prevailing government regulations.

In 2019, our total water consumption in our East Java factories accounted for 625,318 m3. In our Balaraja factory, it accounted for 61,343 m3, in Jambi factory accounted for 320,143 m3, in Purbalingga accounted for 16,866 m3, where most of that consumption are being reused to support our operational activities, such as washing log at log pool area. We intend to continue measuring our water consumption and strengthen our data collection process in subsequent years to implement more robust systems to monitor our performance.





## Child Labor & Compulsory Labor

We are committed to respect and protect human rights, to oppose and to prevent discrimination that may occur in the work and uphold the equality of rights, within the Company and the entire of its business chain. We appreciate and protects human rights as referred to in the Collective Labor Agreement to be one of the means to create harmonious industrial relations in the working environment. Throughout 2019, no incidence of discrimination occurred within our operation. SAMKO and all of its business chains uphold equality without discriminating against our employees with regard to their ethnics, religions, races, groups or genders.

Being a labor-intensive industry operating mostly in developing and remote regions, forced labor and child labor are prominent risks faced by our industry. In Indonesia, the use of both forced labor and child labor are strictly prohibited by law. We have a strict policy against forced labor and child labor of any form in all of our operations. We oppose exploitation of children and ensure that all employees are in their productive age pursuant to government regulations, namely a minimum age of 18 years according to Law No. 13 of 2003, this is confirmed by the Standard Operating Procedure No. HR-02-01-R0-2015 in Recruitment and Selection.

All our employees sign employment contracts voluntarily upon entry into the company to guarantee employee rights and we do not unlawfully withhold their wages or keep in our custody any important documents. We require work applicants to submit a copy of their family card and identity card for verification to ensure that they comply with government regulations on minimum working age.

We align with all Indonesian regulations in our operations to ensure that there is no underage labor work in the Company. We have no reported forced labor and child labor incidences and continue to maintain all records of work applicants (family card and identity card). Our employees are encouraged to report any cases of forced or child labor that they experience or witness to our whistleblowing channel, which is administered by the Audit Committee. Any reports raised in good faith will be treated with the highest confidentiality and without any threat of retaliation.

We give equal treatments to employees having diverse genders, ethnics, races, religions, and political affiliations. As with the plywood industry in general, gender diversity remains a great challenge for Sampoerna Kayoe. We operate in a sector whose employees are widely male dominated. About 28,69% of our workers in the corporate functions are women, contributing in both technical and managerial side of our operation, working in various fields within the organization.

We remain committed to improve gender diversity across our organization and will continue reporting on our progress in our annual Sustainability Report.

Sampoerna Kayoe is an equal opportunity employer. We ensure that each employee receives a fair reward based on their work experience, competence, workload, and performance. We ensure that wages are paid pursuant to the government regulations. In Indonesia, minimum wages are decided by the respective provincial governments whom then stipulate requirements of minimum wages by province and industry sector. We uphold human rights and the principle of equality in determining remunerations for employees. According to applicable laws and regulations, the work hours in Indonesia are 40 per week or seven hours per day for six workdays in a week and eight hours per day for five workdays in a week.

The Freedom of Association and Collective Labor Agreement is guaranteed by the Company and any employee is free to join as a member of the labor union. This Collective Labor Agreement regulates the work relation between employees and the Company. In 2019, more than 67% of employee are members of local labor unions in the Sulawesi region, an increase of 3% from last year's number. Overall more than 50% of our workers are registered members of local labor unions in all our assembly plants. Any significant changes in the Company's organizational and operational structure is communicated to all employees by various means, namely: emails, letters, memo and placed on bulletin boards.

Female Workers

**28,69%**

in our Corporate Functions

Local Labor Union

**>67%**

In Sulawesi region

Work Applicants

**100%**

family and identity card

All workers are free to exercise their right to form and/or join trade unions or to refrain from doing so and to bargain collectively

## Empowering People

We see our workplace as the engine that keeps us running. We are aware of the vital role that our employees play in our success and sustainability, and we strive to be a fair and responsible employer. We recognize that our employees are our most valuable assets, so we organize training programs aimed at providing employees with important skills to achieve their career goals, and in turn, help us achieve our goals as a company.

Training and educational programs conducted throughout 2019 included managerial skills, non-technical skills, technical skills and functional skills. We are committed to providing various types of training to our employees as part of their development and in 2019 more than 77% of total employees received formal training. 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.

We recognize that character and competency are factors that drive business growth. This year in particular, we focused on soft skills and managerial skills for leaders in the organization as an initiative to strengthen our leaders' capabilities, to both produce optimum results and enhance effective teamwork across all divisions.

A total duration of +/- 3,696 training hours were deployed in 2019. SK-LEAP (Sampoerna Kayoe Leadership Acceleration Program) workshops were given to our second batch of managers. Outward Mindset for Leaders and Situational Leadership Training were also given to our top talents as part of this year's leadership development agenda.

We regularly and consistently conduct employee performance assessments. Every employee has goals and performance indicators to be reviewed periodically. The aim is to evaluate our employees' performance, give feedback for self-development to set future goals, and to identify relevant training in order to improve employee performance.

### OUR SIX LEADERSHIP QUALITIES



#### SPEAK THE TRUTH

Open and honest with everyone and value diverse perspectives and debate



#### BE DECISIVE

Align and prioritize actions to drive results everyday



#### ACHIEVE RESULTS

Accountable to exceed short-term and long-term expectations



#### CUSTOMER FOCUS

Understand and anticipate customer's needs and drive innovation for their benefit



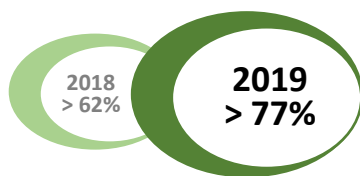
#### IMPROVE EVERYTHING

Reach across boundaries for new ideas to improve our business

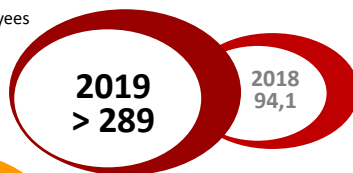


#### DEVELOP SKILLS

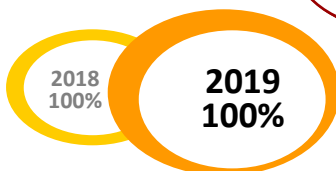
Accountable for the strength and diversity of others and own development



Percentage of total employees receiving training



Average training hours per 100 employees



We always give 100% regular performance review for our employees

Our management system covers several aspects such as excellent system recruitment, management of employee composition in accordance with business needs, HR programs such as awards, remuneration and sanctions, as well as training and competency development on a regular basis.

We treat every employee in a fair and equal manner regardless of their background, ethnicity, religion or race. All policies, guidelines and company rules are universally applicable to all position levels to facilitate building a corporation based on integrity, transparency, and professional behavior. We give the same opportunities for everyone in terms of career path. Every employee has equal rights in career achievement and optimal self-actualization.

## Operational Acceleration Program 2019

Our Management Trainee program has developed since it was first launched last year. In 2018, the program was focused on molding our best talents into future Sampoerna Kayoe Leaders specifically for the operational side of the business. This year we broadened the program and welcomed new talents from various educational backgrounds and placed them in our commercial, log procurement and strategic divisions. We want to strengthen our organization capabilities on every aspect by acquiring talents with diverse perspectives and understanding of the business.

2019 marked the second year of our Operational Acceleration Program. Our Trainees have embarked to the next stage of program, requiring a more in-depth interpersonal and managerial skills to accomplish organization goals. The trainees were given additional roles to exercise their leadership abilities and adaptabilities in dealing with larger audiences. They have been given projects that reflect current issues and obstacles the organization is facing, and work through the potential solutions together. Several of our Trainees have proven their excellent capabilities in handling both the technical and managerial side of the role, bringing fresh and effective approaches that also resonates with Management’s expectations. They have been deployed into Head Production roles and crucial roles in this industry such as Strategic, PPIC, QC etc. while still receiving regular mentoring and training sessions.



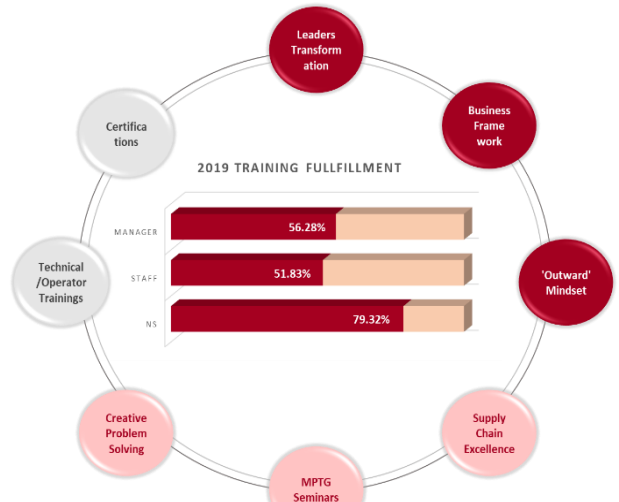
OAP Sharing Session with Alumni, we discussed with SK trainee alumni on their past trainee experiences and what are the traits needed to succeed in the corporate world November 2019

*“I joined Sampoerna Kayoe’s Operation Acceleration Program in June 2018 and it has been a meaningful journey and experience thus far. The program is designed to enhance our technical and leadership skill in tiered as we will assume bigger role and responsibilities as we go on to the program. For the first couple months in our SGS Balaraja plant, I learned about the Plywood Production business from its planning, production, quality control and inventory. The intricate plywood production process provoked my curiosity to deep dive into the veneer core process – the principal material in plywood production.*

*When we discuss about the operation, it is inevitably related to overall organization goals and target. That has encouraged me to be more aware about the business side of the company. I learned that in order to achieve our goals, we can’t solely focus on production only but we have to take in other important aspects as well such as clear communication, impactful leadership, and optimized processes. As I step up the ladder of the trainee program, I learned that it takes a good balance between technical and managerial skill to drive up our achievements.*

*On the second year of my trainee program, I have been appointed to be the Head Veneer Plant Factory in our Banyumas Plant. I am honored and thrilled to face new challenges that come with the role. I now have to learn more on the broader picture of the business, learning how to manage, plan, implement, decide and evaluate all processes that is occurring in the plant. I received a lot of input and advice from my Mentor and Seniors from the trainee program that have helped me to ground my action into the role I am trusted with. I believe our Operation Acceleration Program is a breakthrough trainee program that gives fresh graduates great opportunities to both learn and apply real working and decision-making experience in the industry.”*

**M. Andri Perkasa**  
OAP Trainee SGS Balaraja, 2<sup>nd</sup> Year



76% of our total employees completed seasonal and regular trainings throughout 2019. Emphasizes of trainings vary on different managerial levels, with topics ranging from Advanced Leadership, Business Framework, Interpersonal Skill to Technical Skill Certifications.



OAP More Precious Than Gold – In House Training,



## Occupational Health and Safety

We implement a policy on Environment, Safety and Health at work through the implementation of Kesehatan dan Keselamatan Kerja (K3) programs as a concrete way to improve the safety of employees, prevent accidents in the workplace and work-related diseases for employees and parties involved in the work process in the Company. This commitment is also presented in the Collective Labor Agreement by mentioning articles on Safety and Health at Work. We comply with laws and government regulations on manpower by paying competitive wages to employees.

Occupational Health and Safety (OHS) procedures are implemented in each of our plants. The appropriate implementation of the OHS practices, in turn, ensures the best possible performance of the Company's employees. To ensure worker safety in each unit and to create a safe work environment, the Company provides facilities, tools and Personal Protective Equipment (PPE) that complies with OHS standards.

To ensure worker safety in each unit and to create a safe working environment, the Company provides Personal Protective Equipment (PPE) that complies with OHS standards. PPE includes masks, gloves, and protective glasses. Regular checks are done to ensure the adequacy of PPE at each subsidiary, requiring all employees who work in high risk areas to wear PPE. SAMKO respects the employees' right to refuse to perform certain work that does not come under OHS standards or if there is no required PPE available on the site.

We provide our employees with basic benefits such as: Health Insurance, BPJS Kesehatan (Government Health Security), BPJS Ketenagakerjaan (Government National Social Security), pension fund for permanent employees, maternity leave and childbirth benefits.

To improve employee's compliance with OHS practices, the Company holds regular seminars, deploying promotional strategies to educate its employees about the importance of OHS. During the year of 2019, we started the initiatives to maintain and develop OHS management in all our plants.

Fatalities

0



Zero fatalities in our operations

Sick Leave Rate

1.61

days per 100 employees

Injury Rate

6.17

Cases per 200 employees



Coordination meeting of all plants to standardize vision and mission



Clean factories as a work culture of all lines of employees to create a work environment that supports productivity and healthy

## Local Community Engagement

Our belief in a sustainable future exists in all aspects of our production system, including the place where all of our product comes from. Replanting is an important part of our sustainable log sourcing process. Since 2001, Sampoerna Kayoe has supported the replantation of more than sixty-nine million trees all over Indonesia to foster a green culture. Encouraging community farmers to plant falcata timber has also put us in synergy with the Indonesian government's program to boost the economic potential of the nation's community forest.

The welfare of the communities around the areas of the Company's operations and environmental sustainability form a part of the Company's product development and business growth strategy. We are committed to benefiting the community and the environment around the Company's operations areas.

Our business model comprises of numerous local operations that are widely dispersed around Indonesia. This model aims, among others, to facilitate collaboration with local communities and governments. Each factory is considered a local business and an integral part of the local economy. We recognize that growth and sustainability can only be achieved by working alongside the local communities in which we operate in. We can do little on our own, but we can achieve so much more by forming mutually beneficial partnerships with them.



### Working with Disabilities

In August 2019, SGS Purbalingga have welcomed person with disabilities to work in Purbalingga Assembly Plant. The initiative was first brought up by SGS Purbalingga Operational Head, Bpk. Ugit Wibowo with a vision to give these people opportunity to be more financially independent despite their condition.

Partnering with local foundation for disabled person, we hired ten people with disabilities to work in our production area (repair station). We had professionals from Sekolah Luar Biasa opened a three days orientation class as an effort to prepare the new hired to adapt with the work environment.

We also applied the buddy system where the disabled workers are paired with experienced workers to ensure smooth transfer of knowledge.

In December 2019 we received an award from Purbalingga Regency as Company that have recruited disabled workers. We are truly honored and more importantly we hope that our business can continue to support and strengthen local economy and provide opportunity for the society as a whole.



CSR Programs help maintain and enhance our social license to operate. We see our role in fostering sustainable independence of the local communities by improving their living conditions and skillsets. Our factories distribute seeds and provide training to smallholder farms, increasing their business capabilities and business opportunities. We prioritize locals during staff recruitment to work at our factories. During 2019, more than 79% of our new recruits comes from local facilities area. Through the RBK Program, we outsource some manufacturing processes to home businesses, while providing training and including the workers in insurance coverage. We also outsource repairs to part-time workers that do not qualify for full-time, formal employment. We believe that the community will be the first to help us in any difficulties, because they are closest to our plant sites. In return, we try to provide support to communities based on their needs.

We do this through the following initiatives:

- Contributing free seedlings to local communities to foster a green culture;
- Offering scholarships to more than 20 of the best performing students (from elementary to high school 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 Hari Raya Idul Fitri and Hari Raya Idul Adha;
- Partnering with local communities to reuse and recycle wood wastes; and
- Supporting various social activities conducted surrounding our factories.

At Sampoerna Kayoe, we believe in possibilities, we also believe in the need to break the limits that surround them. And this is exactly what we do. From the forest where our timber comes from to the projects that utilize them, this spirit will always exist. Enabling us to break limitations and turn possibilities into reality.



## Empowering our Educators



As part of our commitment in giving back to the community, SGS Luwu have regularly donate and subsidize wages for teachers in local schools in Palopo. This initiative is taken as we believe how educators' welfare will impact the quality of learning received by the students. Aside from regular financial aid, SGS Palopo also scheduled in a self-development training; "Workshop Leaders Transformation for Teachers in Palopo" in July 2019. 16 teachers representing schools in Palopo - from Kindergarten to Middle School, participated in a two days workshop facilitated by Sampoerna Kayoe internal trainers, with the purpose of enhancing leadership and thinking process quality in teaching environment. We hope that these facilitations can provide better support for our professional educators in forming more qualified next generation leaders from local community.

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## GRI Standards Content Index

GRI Standard	Disclosure	Page No.	
<b>General Disclosures</b>			
GRI 102: General disclosures 2016	Organizational profile		
	102-1	Name of the organization	3
	102-2	Activities, brands, products, and services	3
	102-3	Location of headquarters	3
	102-4	Location of operations	3
	102-5	Ownership and legal form	3
	102-6	Markets served	3-4
	102-7	Scale of the organization	3-4
	102-8	Information on employees and other workers	3; Please refer our Annual Report for more details
	102-9	Supply chain	6
	102-10	Significant changes to the organization and its supply chain	6-7; Please refer our Annual Report for more details
	102-11	Precautionary Principle or approach	7
	102-12	External initiatives	11; Please refer our Annual Report for more details
102-13	Membership of associations	11; Please refer our Annual Report for more details	
Strategy			
102-14	Statement from senior decision-maker	2	
Ethics and integrity			
102-16	Values, principles, standards, and norms of behavior	2	
Governance			
102-18	Governance structure	7	
Stakeholder engagement			
102-40	List of stakeholder groups	5	
102-41	Collective bargaining agreements	14	
102-42	Identifying and selecting stakeholders	5	
102-43	Approach to stakeholder engagement	5	
102-44	Key topics and concerns raised	6	
Reporting practice			
102-45	Entities included in the consolidated financial statements	Please refer to our Financial Statements	
102-46	Defining report content and topic Boundaries	3, 7	
102-47	List of material topics	6	
102-48	Restatements of information	Not applicable	
102-49	Changes in reporting	Not applicable	
102-50	Reporting period	7	
102-51	Date of most recent report	7	
102-52	Reporting cycle	Annually	
102-53	Contact point for questions regarding the report	7	
102-54	Claims of reporting in accordance with the GRI Standards	7	
102-55	GRI content index	20-21	
102-56	External assurance	No external assurance	
<b>Ethical Business Conduct</b>			
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its boundary	5-7
	103-2	The management approach and its components	5-7,9
	103-3	Evaluation of the management approach	8-9
GRI 205: Anti- corruption	205-1	Operations assessed for risk related to corruption	9
<b>Research and Development</b>			
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its boundary	5-7
	103-2	The management approach and its components	5-7,10
	103-3	Evaluation of the management approach	8,10
Non-GRI		Increase percentage of Research and Development projects plan	10

Legality and Sustainability Certifications			
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its boundary	5-7
	103-2	The management approach and its components	5-7,11
	103-3	Evaluation of the management approach	8, 11
Non-GRI		Maintain legality and sustainability certification requirements during the reporting year	11
Sustainable Sourcing			
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its boundary	5-7
	103-2	The management approach and its components	5-7,12
	103-3	Evaluation of the management approach	8,12
GRI 308: Supplier Environmental Assessment	308-1	New suppliers that were screen using environmental criteria	12
Waste Management			
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its boundary	5-7
	103-2	The management approach and its components	5-7,13
	103-3	Evaluation of the management approach	8,13
GRI 306: Effluents and Waste 2016	306-1	Waste by type and disposal method	13
Child Labor & Compulsory Labor			
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its boundary	5-7
	103-2	The management approach and its components	5-7,14
	103-3	Evaluation of the management approach	8,14
GRI 408: Child Labor 2016	408-1	Operations and suppliers at significant risk for incidents of child labor	14
GRI 409: Forced or Compulsory Labor 2016	409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labor	14
Empowering People			
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its boundary	5-7
	103-2	The management approach and its components	5-7,15-16
	103-3	Evaluation of the management approach	8,15-16
GRI 404: Training and Education 2016	404-1	Average hours of training per year per employee	15
	404-2	Programs for upgrading employee skills and transition assistance programs	16
	404-3	Percentage of employees receiving regular performance and career development reviews	15
Occupational Health and Safety			
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its boundary	5-7
	103-2	The management approach and its components	5-7,17
	103-3	Evaluation of the management approach	8,17
GRI 403: Occupational Health and Safety 2016	403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	17
Local Community Engagement			
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its boundary	5-7
	103-2	The management approach and its components	5-7,18
	103-3	Evaluation of the management approach	8,18
GRI 413: Local Communities 2016	413-1	Operations with local community engagement, impact assessments, and development programs	8,18-19





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