

# Corporate Governance

The Board of Directors (“**Board**”) and Management of Indofood Agri Resources Ltd. (the “**Company**” and together with its subsidiaries, the “**Group**”) firmly believe that good corporate governance is critical to the sustainability and long-term success of the Group’s businesses and performance. The Board is responsible for the corporate governance framework and policies, and is committed to continuously enhance the standards of corporate governance principles and processes so as to drive a culture of accountability and transparency within the Company.

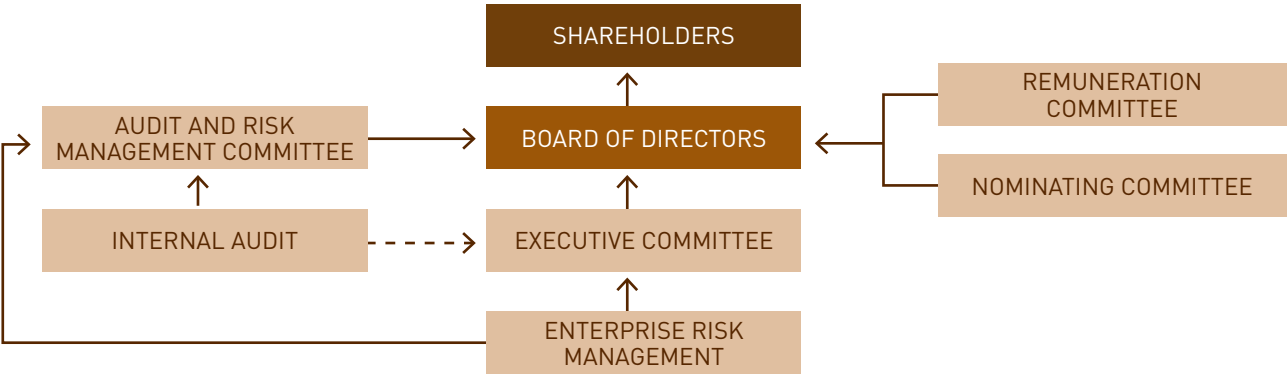
This report sets out the key aspects of the Company’s corporate governance framework and practices, with specific reference to the principles and guidelines of the Code of Corporate Governance 2012 (“**2012 Code**”). The Company has complied with all material aspects of the 2012 Code, with exception to Guidelines 4.4, 8.4, 9.2 and 9.3.

For Guideline 4.4, the Nominating Committee (“**NC**”) has reviewed the participation and contribution of the current Directors, as well as the number of meetings they have attended in 2016. The NC is satisfied that all the Directors have devoted sufficient time to the affairs of the Company. They have adequately discharged their duties as Directors and provided objective views to the Board and Management. The Board does not see a need at present to stipulate a policy for the maximum number of listed company board representations that a Director may hold.

For Guideline 8.4, the Company does not stipulate a policy for the reclamation of variable incentives. However, the Remuneration Committee (“**RC**”) has the discretion not to award or reclaim the variable incentives from Executive Directors and key management personnel in exceptional circumstances involving material misstatement of financial results or misconduct resulting in financial loss to the Company.

As for Guidelines 9.2 and 9.3, the exact remunerations of the Directors and the CEO are not disclosed after the Board and Management have carefully considered the competitive nature of the industry and the potential for such information to be used by competition to undermine the Company’s efforts in attracting and retaining talent.

## CORPORATE GOVERNANCE STRUCTURE



## BOARD MATTERS

### Board’s Conduct of Its Affairs [Principle 1]

The Board comprises Directors with a wide range of skills and experience in operations management, banking, finance, accounting, risk management, and industry knowledge. The Board has reviewed the qualifications of its Directors and is satisfied that they possess the necessary competencies to lead and govern the Company effectively. A brief biography of each Director is given on pages 46 to 48 of this Annual Report.

### Roles and Responsibilities:

The principal functions of the Board are to:

- review the financial performance and condition of the Group;
- approve the Group’s strategic plans, key operational initiatives, major investment, divestment and corporate restructuring, as well as major funding decisions;
- identify principal risks of the Group’s businesses, and implement systems to manage these risks;
- assume the responsibility of corporate governance;
- establish and maintain exemplary values and standards for the Company; and
- ensure all statutory obligations to shareholders and other stakeholders are understood and met.

## Corporate Governance

**Board Approval:** The Company has adopted internal guidelines, which set out all matters requiring the Board's approval as specified under the Singapore Exchange Securities Trading Limited's ("SGX-ST") Listing Manual. Some of the material items that require the Board's approval would include the Company's strategic and operating plans, quarterly and full-year financial results, dividend matters, issuance of shares, succession plan for the Board and Senior Management such as Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO") and Chief Operating Officer ("COO"), acquisition and divestment of businesses exceeding certain material limits, and all material commitments to term loans, lines of credit and credit support from banks and financial institutions.

**Independent Judgement:** All the Directors shall exercise independent judgement and make objective decisions that are in the best interest of the Company. This is one of the performance criteria for the peer and self-assessment on the effectiveness of the individual Directors. Based on these assessments for 2016, all the Directors have discharged this duty.

**Board Committees:** In discharging its responsibilities and fiduciary obligations more effectively, the Board is assisted by the Executive Committee ("Exco") and various Board Committees including the Audit and Risk Management Committee ("AC & RMC"), the NC and the RC. The Board Committees are actively engaged and play a key role in enhancing corporate governance, improving internal controls and driving the performance of the Group. Each of these Board Committees has clearly defined terms of reference, which set out its duties, authority and accountabilities. The terms of reference are reviewed annually.

The Exco is chaired by Mr Mark Julian Wakeford, and comprises Messrs Tjhie Tje Fie, Moleonoto Tjang and Suaimi Suriady as its members. The Board delegates the Exco certain discretionary limits and authority for business development, investment, divestment, capital expenditure, finance, treasury, budgeting, human resource, and business planning. The Exco is entrusted to execute the business strategies approved in the annual budget and business plan, implement the appropriate accounting systems and other financial controls, put in place a robust risk management framework, monitor compliance to laws and regulations, adopt competitive human resource practices and compensation policies, and ensure that the Group operates within the approved budget.

**Board and Board Committee Meetings:** All Board, Board Committee and Annual General Meetings ("AGM") for the year are scheduled in advance in consultation with the Directors. The Board and Board Committees meet regularly to discuss the Group's business results and performance, strategic decisions and policies, operational matters and governance issues. The Board meets at least four times each year. For the Board Committees, the AC & RMC meets eight times each year, while meetings by the RC and NC are held at least once a year.

The Company's Constitution provides for the Board and Board Committee meetings to be conducted via telephone or any other forms of communication facilities as well as decisions to be made by way of written resolutions. Directors who are unable to attend the Board and Board Committee meetings are provided with the meeting materials, to facilitate follow-ups on any matters covered in the meetings.

The Directors' attendance at the Board and Board Committee meetings held during the financial year ended 31 December 2016 is set out below:

| Description                            | Board                       | AC & RMC | NC | RC |
|--|-----------------------------|----------|----|----|
| <b>Number of meetings held in 2016</b> | 4                           | 8        | 1  | 1  |
| <b>Name of directors</b>               | Number of meetings attended |          |    |    |
| Lee Kwong Foo, Edward                  | 4                           | -        | 1  | -  |
| Lim Hock San                           | 2                           | 6        | 1  | 1  |
| Mark Julian Wakeford                   | 4                           | -        | -  | -  |
| Moleonoto Tjang                        | 4                           | -        | -  | -  |
| Suaimi Suriady                         | 4                           | -        | -  | -  |
| Tjhie Tje Fie                          | 4                           | -        | 1  | 1  |
| Axton Salim                            | 4                           | -        | -  | -  |
| Goh Kian Chee                          | 4                           | 8        | -  | 1  |
| Hendra Susanto                         | 2                           | 7        | 1  | -  |

 Chairman

"-" refers to not applicable

## Corporate Governance

**Training and Induction for Directors:** The Board recognises the importance of continuous professional development in order to contribute effectively to the Board. All newly appointed Directors are briefed by the respective Chairmen of the Board on key areas and issues. In addition, new Directors are required to undergo orientation and training conducted by the Senior Management to familiarise them with the Group's organisation, business operations, strategic direction, industry trends and developments, governance practices, as well as their statutory and other responsibilities as Directors. There was no new Director appointed in 2016.

The Directors receive continuing education and training in areas pertaining to their duties and responsibilities, corporate governance, and the changes to relevant laws and regulations, such as the SGX-ST Rules, Code of Corporate Governance, Companies Act, as well as changes in financial reporting standards and regulations. The Directors are also invited to attend seminars and trainings organised by the Singapore Institute of Directors ("SID") and various professional bodies and organisations to stay abreast of relevant developments and issues in financial, legal, corporate governance and regulatory requirements.

In 2016, some of the Directors participated in the following seminars, workshop and training programmes:

- A Board briefing on regulatory changes, such as changes to the Companies Act and the SGX Listing Manual.
- Briefings by the Group's external auditor to AC and RMC members on the new accounting standards and corporate governance.
- Executive seminars organised by the SID including "Improving Board Risk Oversight Effectiveness", "Understanding the Regulatory Environment in Singapore", "Audit Committee Essentials", "Of Enron, Entanglement and Enlightenment", "Disruptive Technologies for Directors Series – Internet of Things", "Directors' Conference 2016 – Digital Disruption", "Launch of the Board Guide", and "Director Financial Reporting Essentials" to keep the Directors updated on developments relevant to their roles.
- A workshop organised by the National University of Singapore on "Strategic Renewal for Survival and Growth".
- A seminar organised by Pricewaterhouse Coopers LLP on "Preventing another Enron – The Current State of Play".

### BOARD COMPOSITION AND GUIDANCE [PRINCIPLE 2]

**Board Independence:** The Board is required to determine on an annual basis whether a Director is deemed to be independent based on the guidelines in the 2012 Code and the assessment of the NC. The Board is required to take into account the existence of relationships or circumstances that are relevant to its evaluation. The 2012 Code states that the independence of any Director who has served on the Board beyond nine years from the date of his first appointment should be subjected to a more rigorous review. The NC reviews the independence of each Non-Executive Director annually. The results of the assessments conducted in 2017 are disclosed under "Annual Assessment of Directors' Independence".

**Board Composition and Size:** The Company recognises and views diversity at the Board level as a critical aspect in achieving its strategic objectives and long-term sustainability. The NC ensures a balanced representation at the Board by taking into consideration factors such as the diversity of skills, knowledge, experience, background and age of all the Directors. The NC reviews the Board's composition and succession plans annually to ensure they are commensurate with the Group's business and operations.

As at 31 March 2017, the Board comprises nine Directors, of whom three are Executive Directors, two are Non-Executive Directors and four are Independent Directors. Taking into account the nature and scope of the Company's operations, the Board and the NC concur that the current Board size is appropriate and adequate for effective decision making. Three out of the nine Directors, namely the CEO, Mr Mark Julian Wakeford, and the Executive Directors, Messrs Moleonoto Tjang and Suaimi Suriady, are deemed to have extensive experience in plantation and downstream refinery operations in Indonesia.

| Board of Directors    |                  |               |          |          |          |          |
|-----------------------|------------------|---------------|----------|----------|----------|----------|
| Name                  | Status           | Position      | Exco     | AC & RMC | NC       | RC       |
| Lee Kwong Foo, Edward | Lead Independent | Chairman      |          |          | Chairman |          |
| Lim Hock San          | Independent      | Vice Chairman |          | Member   | Member   | Chairman |
| Mark Julian Wakeford  | Executive        | Member        | Chairman |          |          |          |
| Moleonoto Tjang       | Executive        | Member        | Member   |          |          |          |
| Suaimi Suriady        | Executive        | Member        | Member   |          |          |          |
| Tjhie Tje Fie         | Non-Executive    | Member        | Member   |          | Member   | Member   |
| Axton Salim           | Non-Executive    | Member        |          |          |          |          |
| Goh Kian Chee         | Independent      | Member        |          | Chairman |          | Member   |
| Hendra Susanto        | Independent      | Member        |          | Member   | Member   |          |

## Corporate Governance

**Board Information:** The Directors receive updates from the Management on relevant business initiatives, industry developments, and matters relating to the Group or the industries in which it operates. The Directors also receive analysts' reports on the Group and other plantation companies from time to time, which provide updates on key issues and developments in the industry, as well as the challenges and opportunities for the Group. As part of ongoing efforts to maximise the effectiveness of the Board, site visits to plantations, mills and factories are arranged periodically for the Directors. Where necessary, the Directors may seek professional advice, either individually or as a group, to support their duties.

**Non-Executive Directors' Meetings:** The Non-Executive Directors may set aside time at each quarterly meeting to meet without the presence of Management on matters such as Board processes, corporate governance initiatives, succession planning, leadership development and remuneration matters. Such meetings may be scheduled as and when necessary.

### **CHAIRMAN AND CHIEF EXECUTIVE OFFICER [PRINCIPLE 3]**

**Separation of Roles:** The roles of Chairman and CEO are held by separate persons, each with his own area of responsibilities and accountabilities, to ensure an appropriate balance of power and independence.

The office of the Chairman is assumed by Mr Edward Lee, who is also the Lead Independent Director. He is a Non-Executive Director and is unrelated to the CEO or other members of the Management. As the Chairman, Mr Edward Lee bears the responsibility for the proper functioning of the Board and the effectiveness of its governance processes. The Chairman works closely with the CEO on issues and decisions to be tabled at meetings, and in ensuring that Board members receive accurate and timely information. The Chairman plays an important role in fostering constructive exchanges amongst the shareholders, the Board and Management at the AGM and other shareholder meetings.

Mr Mark Julian Wakeford holds the office of the CEO. His responsibilities include charting and reviewing the corporate directions and strategies, which cover the areas of marketing and strategic alliances, and providing the Company with strong leadership and clear vision. The CEO, supported by the Exco, is responsible for the day-to-day operation and management of the businesses. The CEO is accountable to the Board for all decisions, actions and performance of the Group.

**Lead Independent Director:** Mr Edward Lee, who chairs the Board and the NC, is the Lead Independent Director. The role of the Lead Independent Director includes meeting with the Non-Executive Directors as and when such meetings are deemed necessary. He is also available to shareholders on matters of concern that cannot be resolved through contact with the Group CEO or Group CFO, or where such contact is deemed inappropriate.

### **BOARD MEMBERSHIP [PRINCIPLE 4]**

**Nominating Committee (NC):** The NC, chaired by Mr Edward Lee, with Messrs Lim Hock San, Tjhie Tje Fie and Hendra Susanto as members, meets at least once a year to carry out the following duties and functions:

- review the Board succession plans for Directors and Management;
- recommend to the Board all board appointments and re-nomination of Directors in consideration of their respective contribution and performance;
- ensure all Directors submit themselves for re-nomination and re-election at regular intervals and at least once every three years;
- determine annually whether a Director is independent, according to the 2012 Code;
- assess the ability of a Director to adequately carry out his duties especially when he has multiple board representations;
- decide on the evaluation criteria for the Board's performance; and
- review the professional training and development programmes for the Board.

**Appointment of New Directors and Re-nomination of Directors:** The NC has the following process of selecting and appointing new Directors and re-nomination of Directors should the need arise:

- review annually the size of the Board and determine that the composition of the Board has a balance of diverse skills, experience and knowledge;
- leverage the help of external sources such as recruitment firms to identify potential candidates in consultation with the controlling shareholders and Management;
- assess the suitability of the potential candidates, and consult with the Board and Management to determine the selection criteria. The considerations include, among others, integrity, diversity of core competencies, knowledge and experience, and the ability to devote time and effort to carry out the role and duties independently and effectively; and
- recommend the best candidate to the Board for approval.

## Corporate Governance

**Re-nomination of Directors:** The NC is also responsible for the re-nomination of Directors, taking into consideration factors such as their attendance record and participation at Board meetings, preparedness and candour. Pursuant to the Company's Constitution, at each AGM, at least one-third of the Directors shall retire from office by rotation. Existing Directors shall submit themselves for re-nomination and re-election at least once every three years, unless the member is disqualified from holding office. Newly appointed Directors shall submit themselves for re-election at the AGM immediately following the appointment.

**Annual Assessment of Director's Independence:** The NC reviewed the independence of each Non-Executive Director in February 2017 based on the respective Directors' self-declaration in the Directors' Independence Checklist and their performance on the Board and Board Committees, and was satisfied that the Company had complied with the guidelines of the 2012 Code, which required at least one-third of the Board to be made up of Independent Directors. All the Independent Directors, Messrs Edward Lee, Lim Hock San, Goh Kian Chee and Hendra Susanto had been with the Board for more than nine years. The NC was of the view that the four Independent Directors demonstrated independent judgement in the best interests of the Company at the Board and Board Committee meetings. These Directors continued to provide valuable and objective contributions to the Board in the discharge of their Director's duties. The NC deemed that Messrs Edward Lee, Lim Hock San, Goh Kian Chee and Hendra Susanto had fulfilled their obligations as Independent Directors. The Board concurred with the assessment of the NC on the independent status of the four Independent Directors.

**Annual Assessment of Director's Commitment:** For Directors with board representations in other public-listed companies, the NC reviewed whether they would be able to carry out their fiduciary duties as Directors of the Company based on the level of participation and contribution of the respective Directors, as well as the number of meetings they have attended in the year. The NC was satisfied that all the Directors had devoted sufficient time to the affairs of the Company. They adequately discharged their duties as Directors and provided objective views to the Board and Management. The Board did not see a need at present to stipulate a policy for the maximum number of listed company board representations that a Director might hold.

**Alternate Directors:** The Company has no Alternate Directors on its Board.

### **BOARD PERFORMANCE [PRINCIPLE 5]**

**Evaluation of the Board, Board Committees and Directors:** To assess the effectiveness of the Board and the Board Committees, as well as the contribution of the Chairman and the respective Directors to the effectiveness of the Board, every Director is required to complete the following appraisal forms annually:

- Board Assessment – This evaluates the effectiveness of the Board in key areas such as governance, leadership and strategy, Board meeting and decision-making, Board performance, development and training, control and risk management, and communication.
- Board Committees Assessment – This evaluates the effectiveness of the AC & RMC, RC and NC based on key criteria recommended by the "Nominating Committee Guide in Singapore".
- Peers Assessment – This evaluates the performance of each Director, including the level of commitment, standard of conduct, competency, training and development, and interaction with Directors, Management and stakeholders.

The NC conducts these assessments to gather constructive feedback on each Director's contribution to the Board and on ways to improve the Board performance. The NC will evaluate the feedback, ascertain key areas for improvement and make suitable recommendations in a consolidated report that the NC Chairman presents to the Board for consideration.

The Board has reviewed the NC's report on the performance of the Board, the Board Committees and the Directors, and is satisfied that they have been effective and met the performance objectives in 2016.

### **ACCESS TO INFORMATION [PRINCIPLE 6]**

The role of the Company Secretary is to provide ready secretarial support to the Board and its various committees, which includes taking minutes of the meetings, ensuring compliance with Board procedures and regulatory requirements, and assisting the Board to implement and strengthen corporate governance policies and processes.

The Company Secretaries for the respective Board and Board Committees are responsible for circulating the schedules of the meetings to the Directors at the beginning of the calendar year. Board papers and related materials, such as financial results, project updates, budgets and forecasts are circulated to the Directors before the meeting and in a timely manner so that they could consider the issues adequately and engage in productive discussions during the meetings.

## Corporate Governance

The Company Secretaries may invite other Management members or external consultants to the meetings to present or advise on specific matters. The Directors have direct and independent access to the Company Secretaries as well as the Management. They are regularly updated on significant developments or events regarding the Group, and may seek professional advice, either individually or as a group, in executing their duties. The cost of such professional advice is borne by the Company.

**Company Secretaries:** The Company Secretaries attend all Board meetings and is directly accountable to the Board, through the Chairman, on all matters relating to the proper functioning of the Board, including its compliance with the Company's Constitution, the Companies Act, the Securities and Futures Act and the SGX Listing Manual. The Company Secretaries assist the Board to implement and strengthen corporate governance policies and processes. They act as the primary point of contact between the Company and the SGX, and are experienced in legal matters and company secretarial practices. The appointment and removal of the Company Secretaries are subject to the approval of the Board.

### REMUNERATION MATTERS

#### PROCEDURES IN DEVELOPING REMUNERATION POLICIES [PRINCIPLE 7]

**Remuneration Committee:** The RC is chaired by Mr Lim Hock San, with Messrs Tjhie Tje Fie and Goh Kian Chee as members. All the RC members are Non-Executive Directors. Messrs Lim Hock San and Goh Kian Chee are also Independent Directors. The RC meets at least once a year to review and approve the remuneration package and terms of employment of the Company's Directors and Key Executives.

The RC covers all aspects of remuneration, including Directors' fees, salaries, allowances, bonuses and benefits-in-kind. RC members are refrained from deciding on their own remuneration. For Key Executives, the RC also recommends their termination payments, retirement payments, gratuities, ex-gratia payments, severance payments and other similar payments, as well as ensures the contracts of service for the Key Executives provide fair and reasonable termination terms which are not overly generous.

The RC consolidates the Directors' fees as a total sum and submits it, along with the other recommendations, to the Board for endorsement before tabling it for shareholders' approval at the AGM. The RC is also empowered to review the human resource management policies of the Group.

#### LEVEL AND MIX OF REMUNERATION [PRINCIPLE 8]

The remuneration policy seeks to reward the Executive Directors and Key Executives based on their performance and contributions to the Group, and to ensure the remuneration is commercially competitive to attract and retain the right talent.

**Remuneration of Independent Directors and Non-Executive Directors:** The RC adopts a base fee remuneration model for the Independent Directors. The Chairmen of the Board and Board Committees who are Independent Directors are paid higher fees in view of their greater responsibilities. Independent Directors who are involved in Board Committees are paid additional fees for their services. If the Independent Director is required to travel on behalf of the Company, the Company will reimburse the travel expenses incurred along with a prescribed travel allowance. Non-Executive Directors are not paid a Director's fee.

**Remuneration of Executive Directors and Key Executive:** The RC approves the framework of remuneration for the Executive Directors and Key Executives. The RC exercises broad discretion and independent judgement, and consults with controlling shareholders to ensure that the compensation amount and remuneration mix are appropriate for the Company and the respective roles. The remuneration mix of the Executive Directors and Key Executives consists of two components: an annual fixed cash component comprising an annual basic salary and other fixed allowances, and an annual variable cash incentive that is directly linked to the performance of the Company, the respective operating unit and the individual.

Appropriate Key Performance Indicators ("KPI"), covering the six strategic objectives of crop, cost, condition, people, process and product, are used to assess individual performance and to determine the quantum of annual rewards and cash incentives. In determining the quantum for the variable component of the remuneration, the RC takes into account the extent to which the KPIs have been met. The RC has the discretion not to award or to reclaim the variable incentives from the Executive Directors and Key Executives in exceptional circumstances involving material misstatement of financial results or misconduct resulting in financial loss to the Company. The RC is satisfied that the remuneration is aligned to the performance of the Executive Directors and Key Executives in 2016.

## Corporate Governance

### DISCLOSURE ON REMUNERATION [PRINCIPLE 9]

The salary band of every Director and Key Executive is to be duly disclosed with a breakdown, either in percentage or dollar terms, of the remuneration earned as stipulated by the 2012 Code. The exact remuneration of the Directors and the CEO are not disclosed after the Board and Management have carefully considered the competitive nature of the industry and the potential for such information to be used by competition to undermine the Company's efforts in attracting and retaining talent.

**Director's Remuneration:** The remuneration of the Directors and the CEO, for the financial year ended 31 December 2016 are as follows:

| Name of Directors             | Fixed / Variable Salary | Directors' Fees |
|-------------------------------|-------------------------|-----------------|
| <b>Above S\$1,250,000</b>     |                         |                 |
| Mark Julian Wakeford          | 100%                    | -               |
| Moleonoto Tjang               | 100%                    | -               |
| <b>Below S\$250,000</b>       |                         |                 |
| Lee Kwong Foo, Edward         | -                       | 100%            |
| Lim Hock San                  | -                       | 100%            |
| Goh Kian Chee                 | -                       | 100%            |
| Hendra Susanto                | -                       | 100%            |
| Tjhie Tje Fie <sup>(1)</sup>  | -                       | -               |
| Axton Salim <sup>(1)</sup>    | -                       | -               |
| Suaimi Suriady <sup>(1)</sup> | -                       | -               |

<sup>(1)</sup> Remuneration paid by PT ISM or other companies in the PT ISM Group.

**Director's Fee for Independent Directors:** The fees paid to the Independent Directors are as follows:

| Fees Framework (in S\$)                         | Board    | AC & RMC | NC       | RC       |                |
|---|----------|----------|----------|----------|----------------|
| Chairman  | 75,000   | 30,000   | 15,000   | 15,000   |                |
| Member  | 50,000   | 15,000   | 10,000   | 10,000   |                |
| Name of Directors                               | Board    | AC & RMC | NC       | RC       | Total (S\$)    |
| Lee Kwong Foo, Edward                           | Chairman | -        | Chairman | -        | 90,000         |
| Lim Hock San                                    | Member   | Member   | Member   | Chairman | 90,000         |
| Goh Kian Chee                                   | Member   | Chairman | -        | Member   | 90,000         |
| Hendra Susanto                                  | Member   | Member   | Member   | -        | 75,000         |
| <b>Total Fees paid to Independent Directors</b> |          |          |          |          | <b>345,000</b> |

**Remuneration of Key Executives:** The remuneration bands of Key Executives who are not Directors of the Company are similarly disclosed in bands of S\$250,000. The total aggregate remuneration paid to the top five key management personnel who are not Directors or the CEO for the financial year ended 31 December 2016 was S\$1,862,804.

| Remuneration Band         | Number of Executives |
|---------------------------|----------------------|
| S\$250,000 – S\$500,000   | 5                    |
| S\$500,000 – S\$750,000   | 2                    |
| S\$750,000 – S\$1,000,000 | 1                    |

**Remuneration of employees who are immediate family members of a Director or the CEO:** There was no employee of the Company or its subsidiaries who was an immediate family member of a Director or the CEO and whose remuneration exceeded S\$50,000 during the financial year ended 31 December 2016.

**Other Remuneration Matters:** The Company has no share option scheme.



# Corporate Governance

## ACCOUNTABILITY AND AUDIT

### ACCOUNTABILITY [PRINCIPLE 10]

The Board is accountable to the shareholders. It is required to furnish timely information and ensure full disclosure of material information to the shareholders in compliance with legislative and regulatory requirements, including statutory requirements and the requirements under the Listing Manual of the SGX-ST.

### RISK MANAGEMENT AND INTERNAL CONTROLS [PRINCIPLE 11]

The Board has overall responsibility for the governance of risk and the oversight of material risks in the Group's business. For the financial year ended 31 December 2016, the AC & RMC assisted the Board to maintain oversight of the Group's risk in financial reporting, and to review the adequacy and effectiveness of the Group's internal control and compliance systems. They also supported the operation and review of the risk management system, including the framework and processes for the identification and management of material risks.

The AC & RMC reports to the Board on the material impact from the findings and its recommendations on risk mitigation measures. The report covers operational, financial and compliance controls, risk management policies and systems. The AC & RMC meets with internal and external auditors four times a year and at least one of these meetings is conducted without the presence of the Management. The AC & RMC also meets with the Enterprise Risk Management ("**ERM**") team four times a year.

During the financial year 2016, the AC & RMC reviewed and recommended the Group's quarterly and full-year financial statements to the Board for approval and subsequent publication. It also reviewed key control findings from the Internal Audit Department ("**IAD**") and ERM team, as well as remedial actions recommended by the Management to resolve the discrepancies. The AC & RMC was kept abreast of changes to accounting standards and their impact on the financial statement as reported by the independent external auditor.

The ERM team has worked closely with IAD to manage high-risk areas, ensure accuracy of the risk assessment reports, and enforce risk mitigation controls and strategies. The IAD has performed independent reviews of the risks and controls identified by the ERM team to ensure adequate monitoring and proper resolution. The AC & RMC is satisfied that effective internal controls have been put in place with robust Internal Audit and ERM frameworks to identify, monitor, manage and report material risks affecting the Group.

The Board also reviewed the adequacy and effectiveness of the Company's risk management and internal control systems with the AC & RMC and the ERM team in the year. The Board confirmed, with the AC & RMC's concurrence, that the Group's internal controls were adequate and effective in addressing the financial, operational, compliance and information technology control risks, and risk management system.

In making its assessments, the Board has received assurance from the CEO and the CFO that the financial records were properly maintained to their best knowledge and ability and the financial statements provided a true and fair view of the Group's operations and finances. The Board was also assured that the Company had implemented effective risk management and internal control systems to safeguard stakeholders' interest.

Noting that, as no internal control system or ERM framework can provide absolute assurance against material, judgement or human errors, frauds and other irregularities, the Board deems that the Group's internal control system and ERM framework has provided reasonable assurance against material financial misstatement or loss and is sufficient in safeguarding the Company's assets and shareholders' value.

### AUDIT AND RISK MANAGEMENT COMMITTEE [PRINCIPLE 12]

**Composition of AC & RMC:** The AC & RMC comprises three Independent Directors, including the Chairman, Mr Goh Kian Chee, and members, Messrs Lim Hock San and Hendra Susanto. The AC & RMC possesses expertise in financial management and is fully qualified to discharge its duties and responsibilities as follows:

- review the audit plan, internal accounting controls, audit report, Management letter and Management's response with the external auditor;
- review the quarterly, half-yearly and annual financial statements, focusing on changes in accounting policies and practices, major risk areas, and significant adjustments resulting from the audit, before submitting it to the Board for approval;
- review the on-going concern statement, compliance with applicable accounting standards, and requirements by the SGX, statutes and laws;



## Corporate Governance

- review the effectiveness and adequacy of the Group's internal controls, including financial, operational, and compliance controls and procedures, risk management policies and systems, and co-ordination between the external auditor and the Management;
- review with the external auditor any suspected frauds, irregularities, and infringements of Singapore laws, regulations or the Listing Manual, that would likely have a material impact on the Group's operating results or financial position, and the mitigating measures recommended by the Management;
- review in private and without the presence of the Management, the level of assistance provided by the Management to the external auditor, the resolution of problems and concerns arising from the interim and final audits, and any issues surfaced by the external auditor;
- review Interested Person Transactions;
- review the whistle-blowing system and its effectiveness as a confidential channel for employees to report possible improprieties in financial management and other areas;
- review ERM reports;
- consider the appointment and re-appointment of the external auditor, audit fee, and matters relating to the resignation or dismissal of the external auditor;
- undertake additional reviews and projects requested by the Board, and report its findings and recommendations to the Board; and
- undertake functions and duties as required by Singapore laws, statutes and the Listing Manual.

**External Audit:** The Board is responsible for recommending and appointing the external auditor, which has to be approved by the shareholders at the AGM. The AC & RMC will assess the performance and quality of the audit annually based on ACRA's Audit Quality Indicators, feedback from the Management, and the objectivity and independence of the external auditor during the audit, and recommend the subsequent re-appointment of the external auditor to the Board. An audit partner can only perform up to five consecutive annual audits according to SGX-ST regulations. The current audit partner from Ernst & Young LLP has been appointed with effect from the financial year ended 31 December 2016.

The AC & RMC will consider the external auditor's findings, and where necessary, seek separate clarification from the Management. In addition, the AC & RMC has discussed the list of key audit matters with both the external auditor and Management, and deems that the list of key audit matters has been appropriately addressed and disclosed in the financial statements. It has also reviewed the audit services provided by the external auditor during the financial year and is satisfied with the quality and impartiality of the audit. In accordance with Rule 1207(6)(a) of the Listing Manual, the audit and non-audit fees paid to the external auditor for its services in the financial year ended 31 December 2016 are disclosed on page 103 of this Annual Report.

The external auditors of the Group's subsidiaries, associated companies and a joint venture are also disclosed on pages 121, 124 and 127 of this Annual Report. The AC & RMC and the Board are satisfied that the appointment of these external auditors for the Group would not compromise the standard and effectiveness of the external auditor for the Company, and are of the opinion that the Company is in compliance with Rules 712 and 716 of the SGX-ST Listing Manual. The AC & RMC has recommended to the Board for Ernst & Young LLP to be re-appointed as the external auditor of the Company, subject to the shareholders' approval at the upcoming AGM.

### **INTERNAL AUDIT [PRINCIPLE 13]**

The IAD is led by Mr Rogers H. Wirawan, who reports directly to the Chairman of the AC & RMC on all internal audit matters. The IAD plans the internal audit schedules in consultation with the Management before submitting the plan to the AC & RMC for approval. The internal audit is conducted in accordance with the guidelines and standards set out in the Professional Practice of Internal Auditing by the Institute of Internal Auditors. As at December 2016, there were 89 staff in the IAD.

The IAD is an independent unit separate from the business and corporate activities that it audits. Its duties and responsibilities with regard to risk management and internal controls are as follows:

- review the risk profile of the Company;
- identify and recommend actions to eliminate or mitigate risks so as to improve the risk profile;
- recommend risk parameters for the Company's operations;
- review risk mitigation efforts and related costs;
- monitor the mitigation efforts and risk parameters; and
- establish and maintain a risk reporting and monitoring framework.

# Corporate Governance

The IAD operates within the framework set out in the Internal Audit Charter and Code of Ethics approved by the Management and the AC & RMC. It implements a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, controls and governance processes. As part of the audit plan, IAD performs independent reviews of the risks and controls identified by the ERM team so as to provide additional assurance to the Management, and the AC & RMC is of the view that the key risks and controls are adequately monitored and managed.

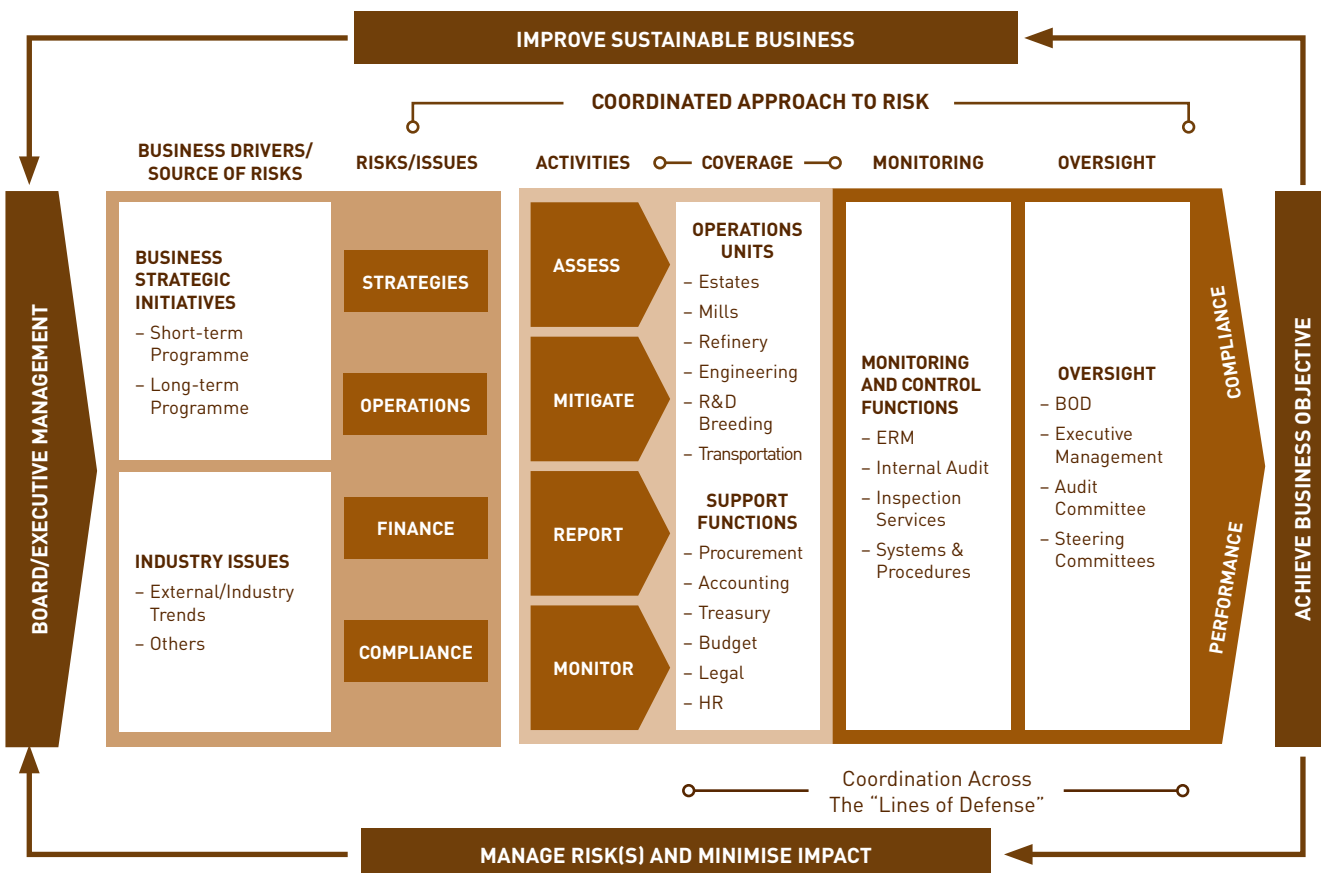
During the year, the IAD adopted a risk-based auditing approach that focused on material internal controls. Audits were conducted on high-risk areas of significant business units. The IAD's key findings and recommendations were presented and discussed at the quarterly meetings with the AC & RMC. Key actions agreed by the Management were subsequently monitored and reviewed by the AC & RMC. The AC & RMC has reviewed the adequacy and effectiveness of the internal audit function and is satisfied with the IAD's performance.

## ENTERPRISE RISK MANAGEMENT

The Group operates in a highly volatile, uncertain, complex and ambiguous environment that has become extremely challenging in recent years due to the global economic slowdown, commodity price and currency volatility, geopolitical uncertainties, erratic weather patterns, security threats, regulatory changes on local, national and cross-border levels, intense public scrutiny, aggressive competition, and evolving customer needs.

To mitigate exposure to these and other risks, the Group has set up a comprehensive ERM framework to proactively manage uncertainties across its operations. The framework reinforces the need for good corporate governance, and contributes to the sustainable operation of the Group by proactively preparing the operations and functional units for the challenges in an increasingly tough and competitive business environment.

**Integrated Risk Management Framework:** The ERM framework underscores the Group's success in effective risk management. It coordinates the "Lines of Defence" across all operating and functional units, which enables the Group to maintain vigilance and oversight of its operations for timely and accurate identification, assessment, mitigation, reporting and monitoring of risks that could have an adverse impact on the business drivers and results.



## Corporate Governance

As part of its commitment to good corporate governance and effective risk management, the Group implemented a Business Continuity Management (“**BCM**”) system in 2013. The BCM is integral to the Group’s overall Operational Risk Management strategy to assure the public of the continual provision of products and services during periods of emergency. It focuses on minimizing the impact of emergencies on business operations and establishing a high level of resilience within the Group to continue to support the public during times of distress.

A number of potential disaster scenarios were developed under the BCM programme. Related controls were identified and put in place for each scenario to mitigate and minimise the operational impact. An example of a possible scenario is plantation fire. The control measures included daily monitoring of hotspots based on data from NOAA18 and NASA satellites and observation of fire incidence by designated fire patrol teams; regular fire prevention training and exercises in fire-prone estates; regular maintenance of fire-fighting equipment; construction of sufficient fire monitoring towers; mapping of water sources at the estates; and regular communication with employees, contract workers and local community members about fire safety. Part of this communication effort was to raise awareness on the Group’s Zero Burn Policy, which resulted in a significant decrease in the number of fires in 2016 as compared with the previous year.

**Significant Risks:** The ERM team, in coordination with the respective risk owners and Heads of operating units and supporting departments, conducts a quarterly assessment of the identified risks and effectiveness of the internal controls. It also monitors the progress of the ERM action plan set out by the Management to mitigate risks, and reports significant risks and exposures to the Board and the AC & RMC. The following risks were deemed significant and were closely monitored during the year:

### (a) Strategic Risks

- Planning – Inadequate planning and forecasting may limit the Group’s ability to anticipate and respond quickly to internal and external changes, make sound and informed decisions, and take advantage of growth opportunities.
- Sustainable Palm Oil – Uncertainty in industry trends and requirements could threaten the Group’s ability to ensure sustainable business operations, resulting in an unfavourable perception amongst the stakeholders and the loss of competitive advantage of the Group.
- Land Expansion – Land is a key resource for the Group, and any limitation on the availability or use of land would threaten the Group’s ability to grow and achieve its strategic objectives.

### (b) Operational Risks

- Pest and Plant Diseases – Infestation of pests and plant diseases could lower crop productivity and potential death of trees.
- Health and Safety – Failure to implement a system of occupational health and safety to protect the employees and workers from accidents and improve their health conditions might expose the Group to fatalities, compensations, liabilities, financial loss and negative business reputation.
- Resource Availability – Inadequate sources of raw materials, fertilisers, equipment, tools, component parts, etc. could threaten the Group’s ability to produce quality products on time and at competitive prices.
- Social Conflict – Conflicts with local communities could affect the Group’s operations, resulting in limited or controlled access to critical areas, higher operating costs, lower productivity and unsafe work environment.
- Natural Disasters – Disasters such as flooding, drought, earthquake and fire, etc. could result in property damage, stoppage or delay in operations, lower productivity, higher operating costs, and customer dissatisfaction.

### (c) Compliance Risks

- Permits, Licenses and Land Ownership – Failure to obtain the appropriate land permits and licenses on time, overlapping ownership issues and third-party claims could result in loss of land rights.
- Tax Compliance and Tax Authority Examination Management – Non-compliance with local or national tax regulations due to failure in identifying and preventing legal risks, or inadequate communication with tax authorities could result in severe penalties.
- Environmental – Non-compliance to environmental laws might expose the Group to regulatory sanctions, public protests, security problems, fines and penalties.

## Corporate Governance

### (d) Financial Risks

- Credit – Credit defaults by smallholders could result in potential financial loss.
- Liquidity – Insufficient access to capital could threaten the Group's capacity to grow, execute its business strategies and generate returns.
- Commodity Price and Foreign Exchange – Fluctuation in commodity prices and rupiah exchange rates could have an adverse impact on the Group's financial condition.

### WHISTLE-BLOWING POLICY

The Group has put in place a whistle-blowing policy and procedure ("**Policy**"). This Policy provides employees with clearly defined channels and processes through which they could report misconducts, such as suspected frauds, corrupt or unethical practices in strict confidence. The Policy provides an open channel for whistle blowing and protects the identity of the employee making the report to prevent reprisal. All reports will go directly to Exco or AC & RMC for immediate attention. An independent investigation would be conducted by IAD for every case and the appropriate actions taken to resolve the issue. The outcome of each investigation is reported to the AC & RMC on a quarterly basis. The AC & RMC has reviewed and approved the Policy.

### SHAREHOLDER RIGHTS AND RESPONSIBILITIES

#### SHAREHOLDER RIGHTS AND COMMUNICATION WITH SHAREHOLDERS [PRINCIPLE 14 AND 15]

The Company is committed to the regular and timely disclosure of information pertinent to the shareholders. Announcements are made within the prescribed periods through the SGXNET, and where necessary, to the mainstream news media through press releases. All announcements are posted on the Company's Investor Relations ("**IR**") website and disseminated by email to subscribers as news alerts. The IR website is a key source of investor-related information on the Company presentation slides, annual reports, shares and dividend information, and factsheets, for the investment community. The CEO, CFO and senior management team also conduct quarterly and full-year results briefings, as well as hold conferences and conference calls to communicate important corporate developments and announcements, such as merger and acquisition of companies, to the analysts. Apart from these communication channels, we engage in frequent dialogues with the investing community as a group or individually to facilitate their understanding of the Group's business model and growth strategies. We also conduct road shows and investment conferences to stay in touch with the investing community.

In 2016, the Group has conducted 137 meetings and conference calls to engage and share the Group's business strategies, operational and financial results and business outlooks with the shareholders and analysts. These meetings are largely undertaken by selected members of the Company's Management and Directors. In addition, as part of the engagement with the investing community, key shareholders and analysts were taken on site visits to the Group's plantation operations in North Sumatra.

### CODE OF CONDUCT AND COMPANY CULTURE

The Company's Code of Conduct and core values are aligned to those of its parent company, PT ISM. We have implemented PT ISM's Code of Conduct, which comprises two policies on the Company Business Ethics and the Work Ethics of Employees, and PT ISM's core values of Discipline, Integrity, Respect, Unity, Leadership and Innovation in all our subsidiaries and business units. By adopting the same frameworks as PT ISM, we are able to provide a consistent set of guidelines for our employees in their daily interactions with the stakeholders, and to ensure our businesses are conducted in a consistent manner throughout the Group. To ensure the policies on business and work ethics are well understood by the employees, the Code of Conduct is regularly communicated at various staff engagement platforms. Any violation of the Code of Conduct is considered a breach of the employment contract and may lead to sanction or disciplinary action. The Code of Conduct is easily accessible by all employees from the Company's website.

## Corporate Governance

### **CONDUCT OF SHAREHOLDER MEETINGS [PRINCIPLE 16]**

The Company encourages and supports the shareholders' participation at the AGMs. Notice of the AGMs and related information are provided to the shareholders within the prescribed timeline under the listing rules. Shareholders may appoint proxies to attend the AGMs. The AGMs are held at easily accessible venues.

At the AGM held in April 2016, the CEO updated the shareholders on the Group's performance and strategies. The Directors and Management were present to address queries and feedback about the Group. They also used the opportunity to gather shareholders' views and inputs on specific issues. The Company's external auditor also attended the AGM to address queries related to the audit.

All the resolutions were passed by poll voting to enforce shareholders' rights and to reflect shareholding positions. An electronic poll voting system was used to register the number of votes by shareholders who were present at the AGM. An independent party was engaged externally as scrutineer for the poll voting process. The result of each poll, including the number and percentage of votes cast in favour or against the resolution, was immediately computed and presented to the shareholders. The poll voting and proxy voting results were filed with SGX on the same day as the AGM.

### **DEALING IN THE COMPANY'S SECURITIES**

In compliance with Rule 1207(19) of the SGX-ST Listing Manual, the Group has adopted an Internal Code with regard to dealings in the securities of the Company by its officers. Amongst other restrictions, the Company's officers are specifically prohibited from dealing in the Company's securities on short-term considerations, when they have possession of any unpublished, price-sensitive information about the Company's securities, during the two-week period before the announcement of the Group's quarterly and half-yearly financial results or one month before the announcement of the Group's full-year financial results.

The Directors and employees are expected to observe the insider trading laws at all times, even when dealing in securities outside the prohibited trading periods, and to refrain from short-term dealings in the Company's securities.