

## Board of Commissioners' Report

**The Board of Commissioners supports the Company's ongoing innovations aimed at enhancing its performance through Excellent Productivity program for productivity improvements and operational excellence.**

**Dear Shareholders,**

The Board of Commissioners hereby present its assessment on the financial and operational performance of the Company during 2016, and on the implementation of Good Corporate Governance in accordance with principles set forth in prevailing Indonesian laws and regulations. This report also contains some strategic guidelines to manage the Company in meeting the myriad of business challenges in the commodity sector.

In 2016 the national economic growth reached 5.1%, which is higher compared to 4.8% in 2015. This encouraging figure, however, was still below the projected Government target of 5.3% as set in the national budget. The underlying reason being the slowdown in the global economic growth, including that of the Asian region, caused a slump in commodity prices such as for oil and coal. Obviously, many Indonesian business sectors suffered from the decline in the global economic growth.

The national palm oil sector also had to face a number of severe challenges. One of which was the overall effect of long dry season in 2015, causing a decline in FFB (Fresh Fruit Bunch) production seen by almost all of the palm oil plantations in Indonesia, including the Company. Overcoming other challenges will be among the home work the Company, and other business operators, will have to deal with.

FFB production of the Company's nucleus plantations declined by 11.3% from 4.20 million tons in 2015 to 3.73 million tons. At the same time, FFB production from the plasma plantations decreased by 18.1% from 1.40 million tons in 2015 to 1.15 tons caused by the prolonged dry season in the previous year.

The decline in FFB production from both the nucleus and the plasma plantations affected the Company's CPO production, which saw a decrease of 10.5% from 1.74 million tons in 2015 to 1.55 million tons. Palm Kernel production suffered the same fate, namely a reduction of 9.3% from 370,637 tons to 336,370 tons.

On the other hand, the average price for CPO in 2016 increased from USD 622 per ton in 2015 to USD 700 per ton. In line with this bullish trend, the average selling price of the Company's CPO reached a high of Rp 7,768/kg, equivalent to 11.4%, against an average selling price of Rp 6,971/kg over the same period in 2015.

However, although production showed a decrease, supported by a rise in the average CPO price, by the end of December 2016 the Company succeeded in booking an increase in net revenues of 8.1% equivalent to Rp 14.12 trillion against Rp 13.06 trillion over the same period of the previous year. Two key factors contributing to the improvement in the Company's financial performance were the contraction in operating costs, and the windfall profit caused by a strengthening of the Indonesian Rupiah against the US Dollar. Consequently, the Company succeeded in booking a significant increase in net profits of 224.2% equal to Rp 2.01 trillion compared to Rp 619.1 billion over the previous year.

For this outstanding performance achieved throughout 2016 amidst numerous unfavorable macro economic conditions affecting the palm oil sector, the Board of Commissioners hereby wishes to express its sincere appreciation to the Board of Directors, management, and all employees of the Company. The extraordinary results attained throughout 2016 has proven that the Board of Directors, management, and all employees have done their utmost to meet the set performance targets.

### **Supervision and Assessment**

One of the responsibilities of the Board of Commissioners is to perform its supervisory role in ensuring that the Company's management implements Good Corporate Governance (GCG). Through the Audit Committee, the Board of Commissioners conducted evaluations related to business practices and the Company management's compliance of Good Corporate Governance according to GCG principles. These were among others on aspects such as accountability, responsibility, transparency, reasonableness and independency. A commendable fact is that the management developed a set of corporate governance guidelines according to the Company's needs.

Throughout 2016, the Audit Committee conducted four meetings with the Company's Board of Directors, namely in January, April, July, and October to ensure that they performed their tasks and discharged their responsibilities in accordance with principles of Good Corporate Governance.

### **Corporate Social Responsibility (CSR)**

In addition to ensuring compliance to good corporate governance principles, the Board of Commissioners also oversaw and evaluated the implementation of the Corporate Social Responsibility (CSR) program. As a plantation company operating amidst the people, the Company carries the responsibility of contributing to the improvement of prosperity of the community living in the surrounding of its plantations. In this respect, the Company developed four CSR pillars in the areas of economy, education, health and environment.

The economic program designed to assist in improving the community's welfare comprised several models such as a nucleus and plasma partnership model, KKPA and other forms of collaboration. Moreover, the economic plan also aims at assisting the people in establishing productive small businesses. The objective of the education program is to elevate education of the local communities through schools within and around the plantation areas established and managed by the Company. Scholarships were awarded to achieving students enabling them to enjoy higher education. These efforts undertaken by the Company support existing government programs to enhance educational opportunities for all strata of the community, including those living in remote areas. In regard to the health program, the Company established Public Maternal Health Centers (*Posyandu*) and plantation polyclinics (*Polibun*), which not only serve the Company's employees and their families, but also the public living in the area surrounding the plantations.

The fourth pillar is about environmental responsibility. The Board of Commissioners continuously encourages the Company's management to implement plantation governance in accordance with principles and criteria of the Indonesian Sustainable Palm Oil (ISPO) program. Moreover, it also encourages the management to improve the PROPER rating (Company Performance Rating Program) of its plantations.

The Board of Commissioners hereby expresses its sincere appreciation for the Company's consistency in implementing its corporate social responsibility program, which is in line with the Corporate mission statement to become a role model and contribute to the nation's development and prosperity.

### **Business Challenges and Opportunities in 2017**

We foresee that in 2017 the challenges faced by business operators in the oil palm plantation sector, including our Company, will become increasingly complex. From the economic aspect, we envisage a weakening demand for Indonesian palm oil in a number of Asian countries, which are our main markets.

Another challenge will be trade policies adopted in developed countries that do not support palm oil products through the implementation of tariff and non-tariff barriers.

The Board of Commissioners encourages the management to persist in developing innovations in pursuit of the Company's advancement and continue the mechanization and automation programs, which have proven to be instrumental in developing an efficient and effective management system. The Company has also been working toward productivity improvement and operational excellence through a program referred to as the Excellent Productivity program.

In addition, the Research and Development department must be strengthened so as to become the Company's future core competence. Success of the Research & Development department in developing superior seeds will become the milestone for the Company in producing oil palm crop with high productivity.

The Board of Commissioners also supports the Company's efforts in developing the palm oil downstream sector and seek new palm oil related business opportunities. The integration of cattle in plantations pioneered by the Company will also become a new business opportunity to meet the demand for beef in Indonesia.

In conclusion, the Board of Commissioners hereby wishes to expresses its sincere gratitude to the Board of Directors, management, and all employees of the Company for the remarkable results achieved in 2016. Through relentless hard work at all strata within the Company and with the support of our shareholders, we expect the Company to continue the excellent performance throughout the years to come.

On behalf of the Board of Commissioners

**PT Astra Agro Lestari Tbk**

**Priyono Sugiarto**

President Commissioner