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# UNLOCKING VALUE RISE TO APEX

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**Plantation**

**ANNUAL REPORT**  
6-MONTH FINANCIAL PERIOD ENDED  
31 DECEMBER 2018

# 16<sup>th</sup>

## ANNUAL GENERAL MEETING (AGM) OF SIME DARBY PLANTATION BERHAD

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**VENUE:**

Grand Ballroom, First Floor,  
Sime Darby Convention Centre,  
1A, Jalan Bukit Kiara 1,  
60000 Kuala Lumpur,  
Malaysia

**DATE:**

Thursday, 23 May 2019

**TIME:**

10.00 a.m.

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## Our Vision

To be the Leading Integrated Global Palm Oil Player

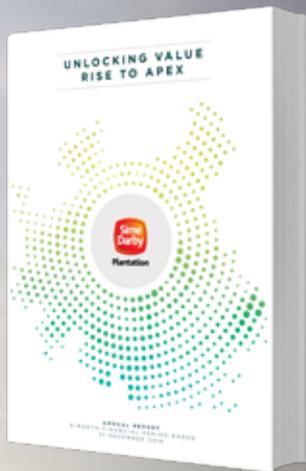
## Our Values

Integrity  
Respect & Responsibility  
Enterprise  
Excellence

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**Cover Rationale**

'RISE to APEX' — the combination of a vigorous culture transformation and rigorous value creation programme — continues to be the rallying call to drive Sime Darby Plantation towards becoming a high-performance organisation. It remains as the ensuing theme for this 2<sup>nd</sup> Integrated Report, which accounts for our performance from July to December 2018 and chronicles our journey in unlocking value for our shareholders.



# ABOUT THIS REPORT

**THIS IS SIME DARBY PLANTATION BERHAD'S (SDP OR THE GROUP) 2<sup>nd</sup> INTEGRATED REPORT; REPRESENTING A COMPREHENSIVE AND CLEAR ACCOUNT OF OUR FINANCIAL AND NON-FINANCIAL PERFORMANCE.**

SDP's global operations impact a wide range of stakeholders, all of whom are important to us. With this report, we endeavour to communicate our progress and plans to achieve our vision of becoming the Leading Integrated Global Palm Oil Player, whilst creating long-term value for our shareholders.

This report covers the financial performance of the Group, as well as the social and environmental performance from 1 July 2018 to 31 December 2018, unless otherwise stated.

With emphasis on high standards of disclosure and transparency, the structure and broad-based contents of this report have been prepared in accordance with the Global Reporting Initiative (GRI) Standards: Core Option and guided by the International Integrated Reporting Council (IIRC) framework.

All financial statements have been prepared according to requirements of the Malaysia Companies Act 2016 and Malaysian Financial Reporting Standards (MFRS), and audited by our auditors, PricewaterhouseCoopers PLT.

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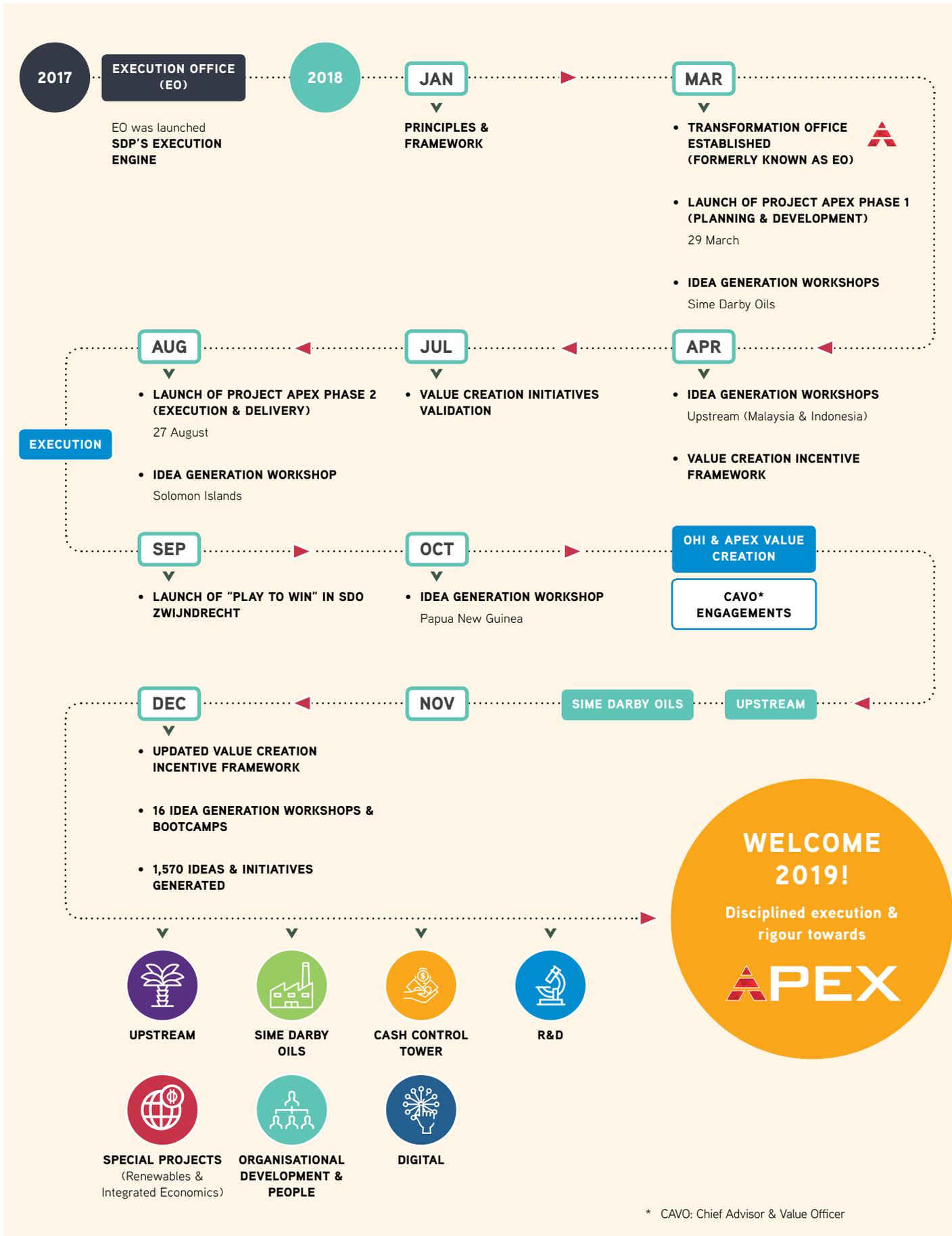
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# THE APEX JOURNEY 2017-2018





**SIME DARBY PLANTATION'S (SDP) TRANSFORMATION JOURNEY**

**RISE to APEX** represents the transformational rallying call to drive performance through culture change to achieve SDP's value creation aspirations.

In FP December 2018, we intensified our culture transformation journey with APEX, a value creation

programme aimed at accelerating the performance of our core businesses through results-driven initiatives. APEX monitors and fast-tracks high value, quick turnaround initiatives through a structured and vigorous execution process. The Transformation Office (TO) acts as the custodian of APEX to ensure effective planning, development and execution; and timely delivery of value creation projects' results.

# PATAMI: Profit After Tax and Minority Interest

THE APEX JOURNEY 2017-2018

The APEX journey has shown encouraging results for the Group during FP December 2018. Idea Generation Workshops were conducted across our global operations where a total of 1,570 ideas were generated within the seven (7) Workstreams namely Upstream, Sime Darby Oils, Cash Control Tower, R&D, Special Projects (Integrated Economics and Renewables), Organisation (People) and Digital. From these ideas, a total of 522 initiatives have been carefully validated.

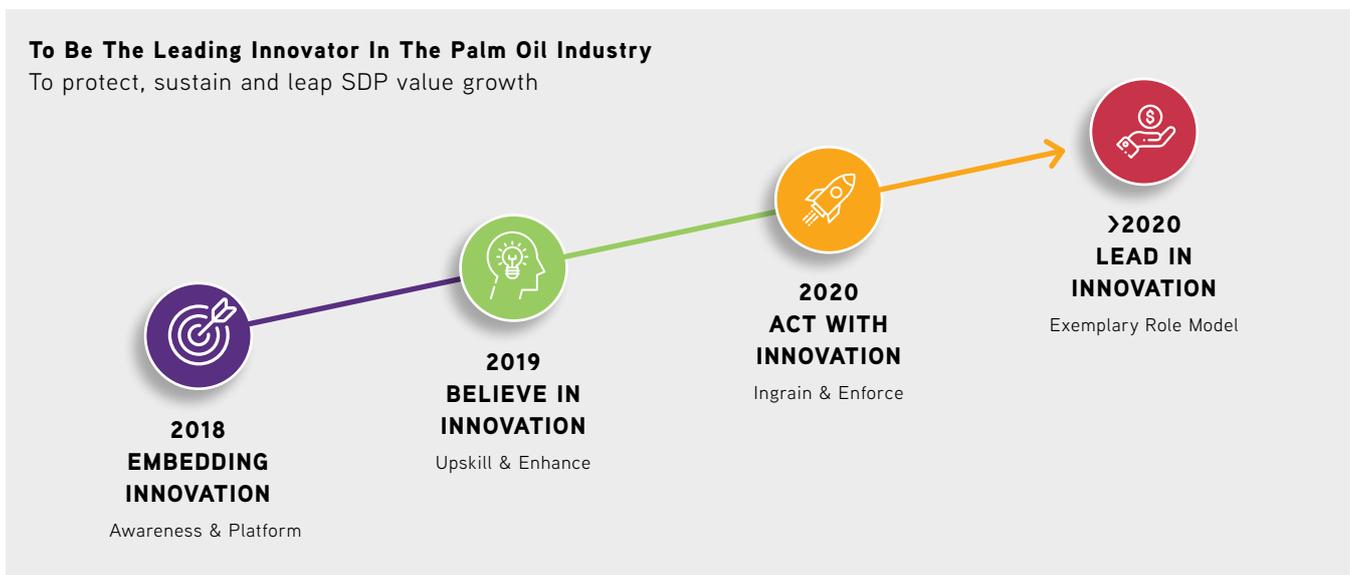
Through disciplined execution and rigour across APEX, we have been able to build and sustain the momentum towards achieving the desired results. At present, 91 initiatives have successfully reached the implementation stage, while 14 initiatives have been commercialised.

A successful transformational programme focusing on delivering results would not be complete without an all encompassing culture transformation. With this realisation, SDP has, in the past three (3) years, been nurturing the RISE to APEX culture among all employees, to ensure the culture transformation success.

Throughout the RISE to APEX Value Creation, periodic communication through roadshows, engagement sessions and internal publications such as APEXpedition, have been found to be effective in engaging employees on regular basis. Through the roadshows and engagement sessions, we recognise and celebrate employees' outstanding performance in delivering results for the Group.

- **91** initiatives have successfully reached the implementation stage
- **14** initiatives have been commercialised

SIME DARBY PLANTATION'S INNOVATION JOURNEY



SDP strongly believes that transformational results can only be achieved when status quos are challenged. On that believe, we adopt "Business Unusual" as a working concept to ensure we remain relevant and ahead of others.

We focus our energy on developing a sustainable innovation culture to ensure the organisation embraces a single purpose – to protect, sustain and leap SDP's value growth, in our quest to make SDP the leading integrated global palm oil player. In this innovative culture, we foresee having the edge in penetrating new markets, accelerating profitable top-line

revenue growth and enhancing capabilities, while constantly reducing cost. We aim to achieve this through incremental step-by-step changes, and by making more breakthroughs and transformative solutions towards a more future-proof plantation Group.

We believe that the knowledge and ability to innovate and transform lie within us. Coupled with the recent advances in technology and digital resources, the combination provides a strong platform for change.

## THE RIGHT PLATFORM FOR A SUSTAINABLE INNOVATION CULTURE

The year 2018 was the year innovation became firmly embedded company-wide. At SDP, we encourage bottom-up discoveries. We provide our employees with an open and safe environment, suitable for generating new ideas and creative thinking. The **Innovation Portal** which was launched in March 2018, allows employees globally to share and submit new and breakthrough ideas related to the business, suggest process or operational improvements, or even suggest new business models. With the introduction of this platform, employees are able to express their innovative ideas. Ideas that would otherwise go unnoticed or unexplored will now have a chance to be presented to the management. Ideas from the Innovation Portal will subsequently be pitched to the Plantation Innovation Committee to be evaluated and ideas with value creation potential will be selected for implementation.

Since March 2018, we have started conducting **Idea Generation Workshops** throughout the organisation. These workshops which allowed our operational teams across the world to contribute to the value creation process, had managed to deliver some of the most creative ideas with immediate value to the Group.

Realising that knowledge is essential in promoting creative thinking, we initiated a monthly publication called **MindQuest** that provides employees with the trending innovation news within and outside the industry. Through MindQuest, ideas are shared and readers gained knowledge from the articles which include emerging technologies, know-how and ideas from competitors and other industries. Knowledge and innovation intertwined further at SDP's first **Innovation Forum** on 9 August 2018, which saw the presence of expert speakers from our Scientific Advisory Committee.

## SIME DARBY PLANTATION'S RISE JOURNEY

**RISE** is our performance-driven culture transformation programme incorporating **six (6) Winning Mindsets** which propagates a culture of accountability.



Realising that sustaining performance is crucial to the organisation, we embarked on a comprehensive Organisational Health Index (OHI) evaluation in July 2018.

The health score provides a measure of the organisational elements that drive the organisation's performance. Amongst others, it indicates the ability of employees to adapt to the ever changing business landscape, vis-a-vis the various continuous improvement and innovation initiatives.

Following the OHI evaluation, engagement sessions across business segments were carried out to develop action plans that would set the stepping stones to strengthen the health level of the organisation, which in turn will enhance the performance of the Group.

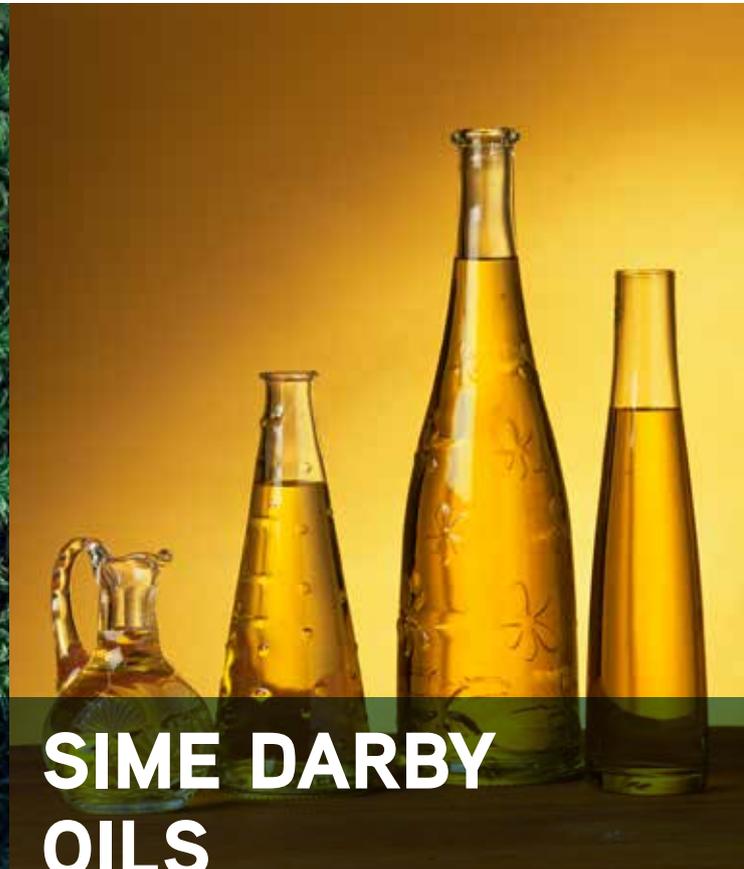
## WHO WE ARE



### UPSTREAM

**Total planted area of approximately 633,000 ha\***

\* As at 31 December 2018 including oil palm, rubber, sugarcane and grazing pasture



### SIME DARBY OILS

**Operations across 14 countries comprising production as well as the sales and marketing of oils and fats products, oleochemicals, biodiesel, and other palm oil derivatives**

**The world's largest producer of Certified Sustainable Palm Oil (CSPO) with a production capacity of 2.46 million MT.**

A strong proponent of responsible agriculture, Sime Darby Plantation (SDP) is a founding member of the Roundtable On Sustainable Palm Oil (RSPO), and about 97% of the palm oil produced from our plantations is Certified Sustainable Palm Oil (CSPO).

Formerly a part of multinational conglomerate, Sime Darby Berhad (SDB), SDP was listed on Bursa Malaysia on 30 November 2017 following a strategic decision by SDB to unlock value for its shareholders through the demerger of its plantation and property divisions thereby creating three (3) independent pure play entities. Today, with a market capitalisation of RM35.04 billion (as at 31 December 2018), a global operation across 15 countries and supported by a workforce of more than 95,000 employees, SDP is not only among the largest companies listed on Bursa Malaysia but also one of the most valuable plantation companies in the world.





## OTHER BUSINESSES

**Leveraging the potential of related products along the palm oil value chain to create a portfolio of sustainable businesses**



## R&D

**Over 190 technocrats, scientists and technicians working together to improve every aspect of the business**

SDP is involved in the full spectrum of the palm oil value chain. Under Upstream operations, the Group owns approximately one (1) million hectares of landbank across Malaysia, Indonesia, Liberia, Papua New Guinea (PNG) and Solomon Islands (SI), of which approximately 633,000 ha are currently cultivated primarily with oil palm. Under this sector, the Group is also involved in rubber and sugarcane plantations as well as cattle rearing.

Our Sime Darby Oils operations include production of oils and fats, oleochemicals, biodiesel, and other palm oil derivatives, as well as sales and marketing office of these products in 14 countries. SDP's business philosophy in the manufacturing of a comprehensive range of palm oil-based products is to maintain the highest quality at all times. This ensures that the Group has an edge in our selling proposition while setting us apart from the competition.

Committed to operational excellence, innovation and sustainability, SDP established R&D and Innovation Centres across the globe with over 190 technocrats, scientists and technicians working together to improve every aspect of the agricultural value chain. This includes developing quality planting materials and environmentally friendly fertilisers, enhancing systems and processes in cultivating, harvesting and milling as well as manufacturing high quality and traceable refined palm products.

Additionally, SDP is also involved in various other businesses that leverage on the potential of related products along the palm oil value chain.

# OUR GLOBAL PRESENCE

## World's Largest Producer of Certified Sustainable Palm Oil (CSPO)

### Certifications



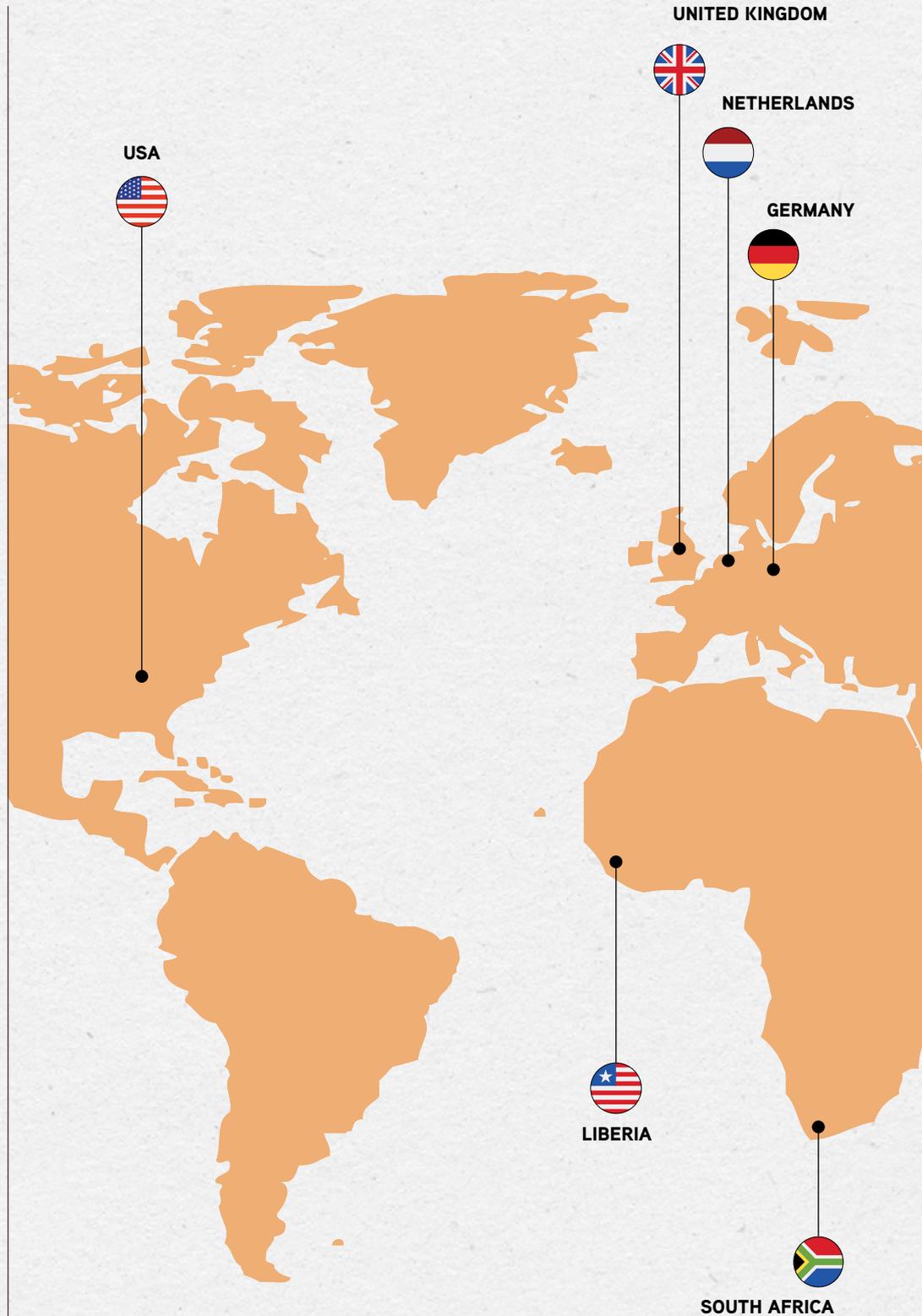
Malaysian Sustainable Palm Oil (MSPO)



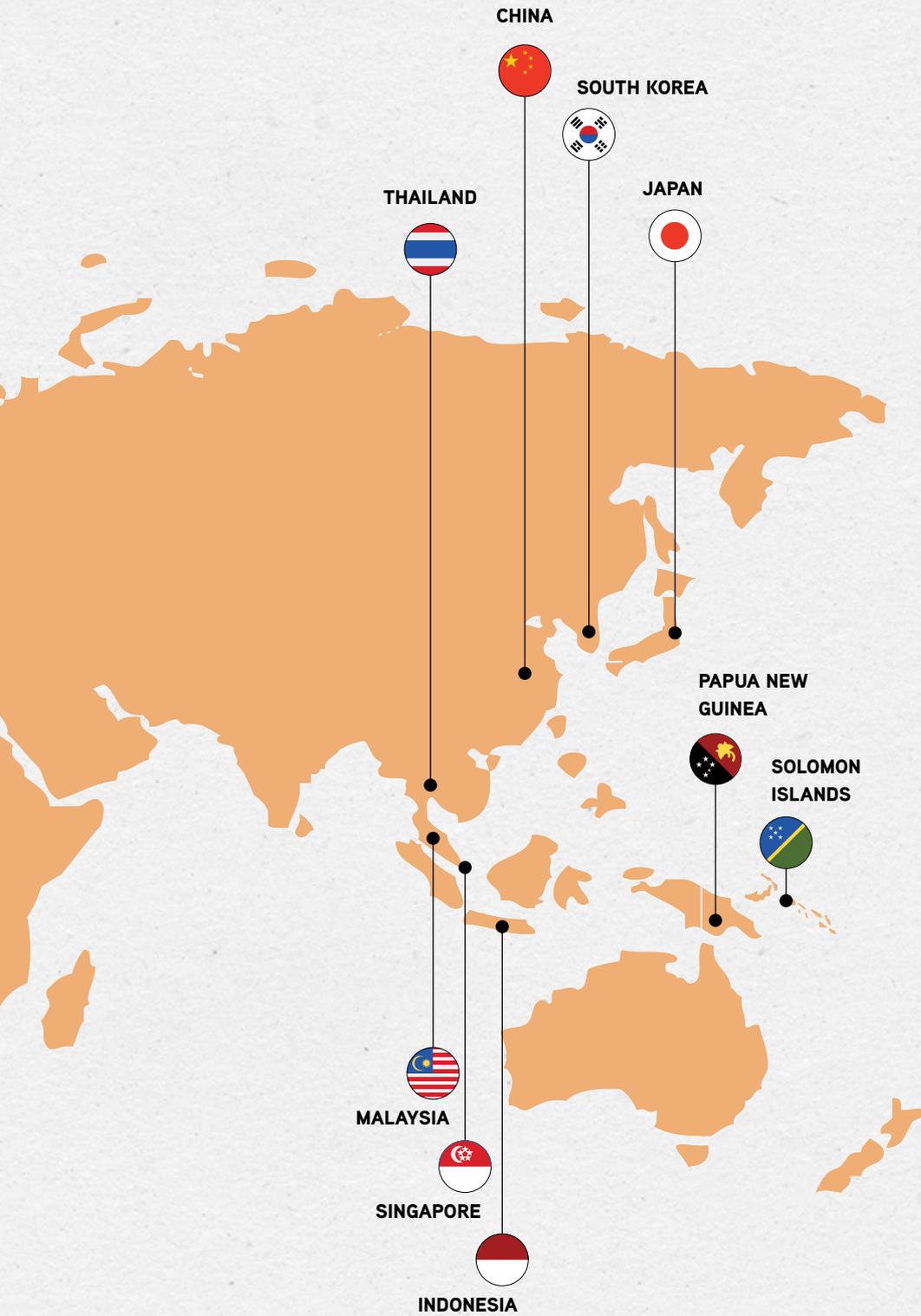
Roundtable on Sustainable Palm Oil (RSPO)



Indonesian Sustainable Palm Oil (ISPO)



OUR GLOBAL PRESENCE



**15**  
Countries

**633,000 ha**  
Planted Area

**250**  
Estates

**73**  
Mills

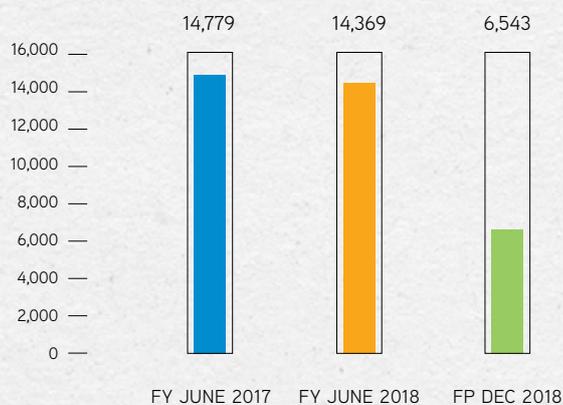
**5**  
R&D Centres

**11**  
Refineries

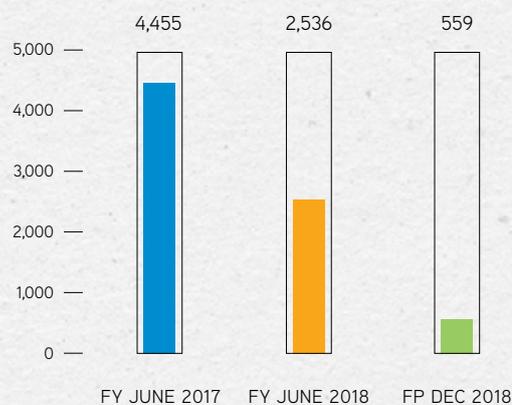
**3**  
Innovation Centres

As at 31 December 2018

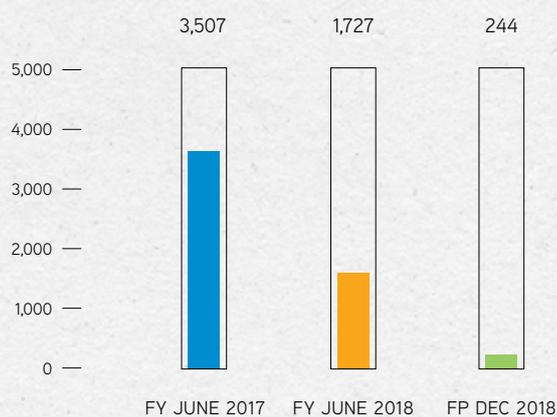
## OUR KEY HIGHLIGHTS



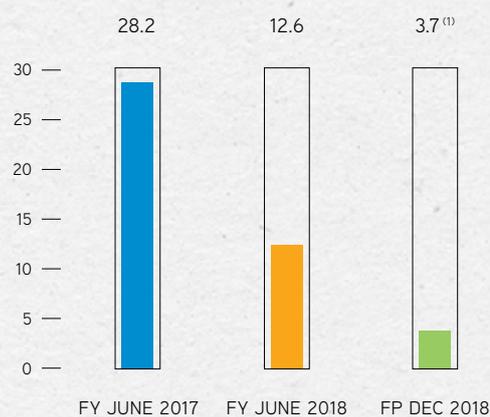
**REVENUE (RM Million)**



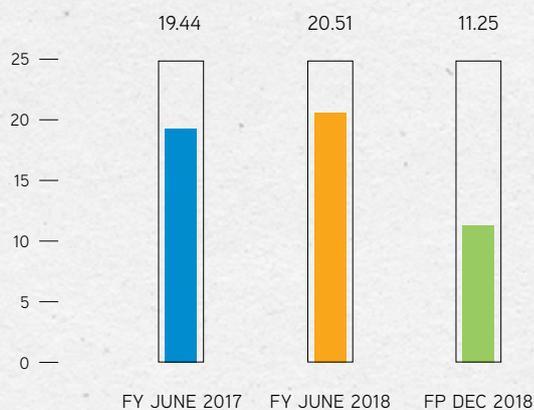
**PROFIT BEFORE INTEREST AND TAX (RM Million)**



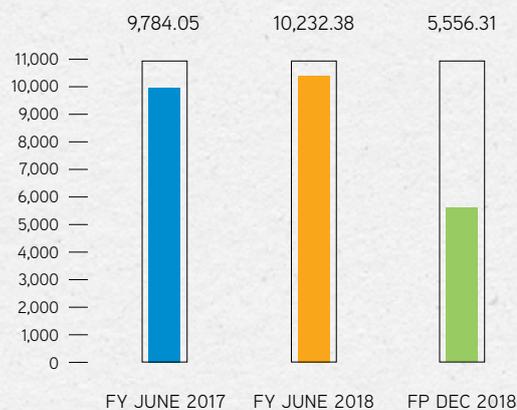
**NET EARNINGS (RM Million)**



**RETURN ON SHAREHOLDERS' EQUITY (%)**



**FFB<sup>(2)</sup> YIELD (MT per ha)**



**FFB<sup>(2)</sup> PRODUCTION (Million MT)**

<sup>(1)</sup> Annualised

<sup>(2)</sup> FFB: Fresh Fruit Bunch

## OUR CORPORATE INFORMATION

As at 5 April 2019

### BOARD OF DIRECTORS

- 1 **TAN SRI DATO' A. GHANI OTHMAN**  
Non-Independent Non-Executive Chairman
- 2 **TAN SRI DATO' SERI MOHD BAKKE SALLEH**  
Executive Deputy Chairman & Managing Director
- 3 **TAN SRI DATUK DR YUSOF BASIRAN**  
Independent Non-Executive Director
- 4 **MUHAMMAD LUTFI**  
Independent Non-Executive Director
- 5 **DATUK ZAITON MOHD HASSAN**  
Senior Independent Non-Executive Director
- 6 **DATO' MOHD NIZAM ZAINORDIN**  
Non-Independent Non-Executive Director
- 7 **DATO' MOHAMAD NASIR AB LATIF**  
Non-Independent Non-Executive Director
- 8 **DATO' HENRY SACKVILLE BARLOW**  
Independent Non-Executive Director
- 9 **ZAINAL ABIDIN JAMAL**  
Non-Independent Non-Executive Director
- 10 **TAN TING MIN**  
Independent Non-Executive Director
- 11 **LOU LEONG KOK**  
Independent Non-Executive Director

### EXECUTIVE DEPUTY CHAIRMAN & MANAGING DIRECTOR

- **TAN SRI DATO' SERI MOHD BAKKE SALLEH**

### SECRETARIES

- **NORZILAH MEGAWATI ABDUL RAHMAN**  
(LS 0009247)
- **MAZLINA MOHD ZAIN**  
(LS 0008287)

### REGISTERED OFFICE

- Level 10, Main Block  
Plantation Tower  
No. 2, Jalan PJU 1A/7  
Ara Damansara  
47301 Petaling Jaya  
Selangor Darul Ehsan, Malaysia.
- t +(603) 7848 4000
- f +(603) 7848 5360
- e communications@  
simeдарbyplantation.com
- w www.simeдарbyplantation.com

### AUDITORS

- PricewaterhouseCoopers PLT  
(LLP0014401-LCA & AF 1146)  
Chartered Accountants  
Level 10, 1 Sentral, Jalan Rakyat  
Kuala Lumpur Sentral  
50706 Kuala Lumpur, Malaysia.

t +(603) 2173 1188  
f +(603) 2173 1288

### SHARE REGISTRAR

- Tricor Investor & Issuing House  
Services Sdn Bhd  
(Company No. 11324-H)
- Office:  
Unit 32-01, Level 32, Tower A  
Vertical Business Suite  
Avenue 3, Bangsar South  
No. 8, Jalan Kerinchi  
59200 Kuala Lumpur, Malaysia.  
  
t +(603) 2783 9299  
f +(603) 2783 9222  
e is.enquiry@my.tricorglobal.com

- Customer Service Centre:  
Unit G-3, Ground Floor  
Vertical Podium  
Avenue 3, Bangsar South  
No. 8, Jalan Kerinchi  
59200 Kuala Lumpur, Malaysia.

### FORM OF LEGAL ENTITY

- Incorporated on 2 April 2004 as a private company limited by shares under the Companies Act, 1965 and converted into a public company limited by shares on 20 July 2017.

### STOCK EXCHANGE LISTING

- Listed on the Main Market of Bursa Malaysia Securities Berhad since 30 November 2017.

Stock Code : 5285  
Stock Name : SIMEPLT

### PLACE OF INCORPORATION AND DOMICILE

- Malaysia

## OUR APPROACH TO SUSTAINABILITY

**As the world’s largest producer of Certified Sustainable Palm Oil (CSPO), we are committed to implementing responsible agricultural practices whilst balancing a wide range of stakeholder expectations. Our sustainability approach is in line with the United Nations Sustainable Development Goals (UN SDGs) and is guided by our sustainability purpose to contribute to a better society, minimise environmental harm and deliver sustainable development.**



**CONTRIBUTE TO A BETTER SOCIETY**



**MINIMISE ENVIRONMENTAL HARM**



**DELIVER SUSTAINABLE DEVELOPMENT**

Our sustainability performance report has been integrated into this Annual Report and summarises our progress around key sustainability issues we face. A more detailed report of our sustainability performance can be read in our Supplementary Progress Report on Sustainability which is available on our website at [www.simedarbyplantation.com](http://www.simedarbyplantation.com).

This year, we focus our reporting on our recently launched Innovation and Productivity Charter (IPC) which articulates our aspirations across the value chain in achieving prosperity, via enabling high levels of productivity, in delivering sustainable development. The IPC is the third of our charters

and complements our Responsible Agriculture Charter (RAC) and Human Rights Charter (HRC), covering the aspect of Prosperity in delivering sustainable development.

The RAC communicates our commitments to responsible environmental, social and governance practices whilst the HRC conveys how we aspire to implement respect for human rights in line with the United Nations Guiding Principles on Business and Human Rights (UNGPs). We monitor, verify and report on our performance against commitments made in these charters via internal systems, policies and procedures.

### FLAWLESSLY IMPLEMENT SUSTAINABILITY STANDARDS

Our practices across our operations follow Good Agricultural and Best Management Practices. We are committed to flawlessly implementing sustainability standards. These include international standards such as the Roundtable on Sustainable Palm Oil (RSPO) and Rainforest Alliance (RA), as well as national mandated standards such as the Malaysian Sustainable Palm Oil (MSPO) and Indonesian Sustainable Palm Oil (ISPO) in the countries where we operate.

One of our key priorities is the safety and health of all our workers. We continuously enhance our approaches and procedures to ensure workers come to work safely, conduct their work safely and go home safely.

We also strive to embed a culture of innovation and continuous improvement through our Operational Excellence and Quality Management programmes. In February 2018, we launched our Operational Excellence and Innovation Business Management Strategy 2.0 (OEIBMS 2.0), which will see Sime Darby Plantation (SDP) continue to enhance productivity towards a target of RM550 million in Lean Six Sigma (LSS)-derived cumulative benefits by FY2022.

### LEADERSHIP IN DEVELOPMENT OF NEW STANDARDS AND APPROACHES

We are proactively going beyond certification to meet the increased expectations of our stakeholders. This is done through participation in multiple thought-leadership and collaborative platforms. One such platform is the High Carbon Stock Approach (HCSA) that develops tools for corporates to implement their no-deforestation commitments.

## OUR APPROACH TO SUSTAINABILITY

We continue to be an active member of the RSPO, most recently as part of the Working Group that further strengthens the RSPO Principles and Criteria for the production of sustainable palm oil.

Our leadership in responsible palm oil production and advancement of sustainable practices was recognised by the Rainforest Alliance (RA), which presented New Britain Palm Oil Ltd (NBPOL) with the 'Sustainable Pathfinder Award.' This is the first time that such an award was given to a company in the palm oil sector.

### INCLUSION OF STAKEHOLDERS AND COMMUNITIES

We believe in engaging and collaborating with our stakeholders across our operations. Our key stakeholders include our peers, customers and civil societies with whom we collaborate to resolve complex issues via collective action. Such examples include the Fire Free Alliance to combat regional fire and haze issues; the Palm Oil & NGO (PONGO) Alliance which aims to effectively manage human-wildlife conflict in plantations; and the Decent Rural Living Initiative, a pre-competitive collaborative platform with large influential growers, aimed at tackling complex human rights and social challenges facing the agricultural sector in rural settings.

### MANAGE SUPPLY CHAIN SUSTAINABILITY RISKS

Our business is highly dependent on having a sustainable supply chain. For the year under review, our global supply chain is 98% traceable to the mill. Our Open Palm Traceability Dashboard available at <http://www.simedarbyplantation.com/sustainability/open-palm-traceability-dashboard> provides full transparency of our supply chain and records actions we are taking in ensuring it remains sustainable. It now includes a complete grievance register. To further manage the sustainability of our supply chain, we are developing an initiative that will further enhance and strengthen our approach to implementing responsible agricultural practices throughout our supply chain and contribute towards meeting, if not exceeding, expectations of our stakeholders around sustainability. This will be launched by 2019.

We are also partnering with our stakeholders to manage sustainability risks within our supply chain by identifying potential environmental and social risks associated with third-party suppliers. Our Responsible Sourcing Guidelines (RSG) have programmes that assist third-party suppliers including smallholders, to uplift their practices to be in line with our sustainability requirements and to eventually attain relevant certifications such as the RSPO, MSPO and ISPO.

### LEVERAGE ON SUSTAINABILITY TO CREATE VALUE

We believe our commitment to sustainability across our value chain will enable us to create value within our organisation and our diverse stakeholders. Through our initiatives and efforts, we will be able to leverage on our unique position to further develop responsible agricultural practices within the industry.

*Summary of our progress made in implementing our sustainability commitments throughout this FP December 2018 can be found on pages 55 to 62 of this report. For more details on our sustainability efforts, please refer to our "Supplementary Progress Report on Sustainability 2018" which can be found on our website at [www.simedarbyplantation.com](http://www.simedarbyplantation.com).*



The world's **largest producer of Certified Sustainable Palm Oil (CSPO)** with a production capacity of 2,464,175 million (MT) per annum.



**Operational Excellence and Innovation Business Management Strategy 2.0 (OEIBMS 2.0)** developed with a set target of RM550 million by 2022 to further embed a culture of continuous improvement.



**Responsible Agriculture Charter (RAC)** articulates our commitments to **responsible environmental, social and governance** practices.



**Human Rights Charter (HRC)** articulates our commitment to **respect human rights** in line with the United Nations Guiding Principles on Business and Human Rights.



**Innovation and Productivity Charter (IPC)** articulates our aspirations to enable higher productivity across the value chain to deliver sustainable prosperity.

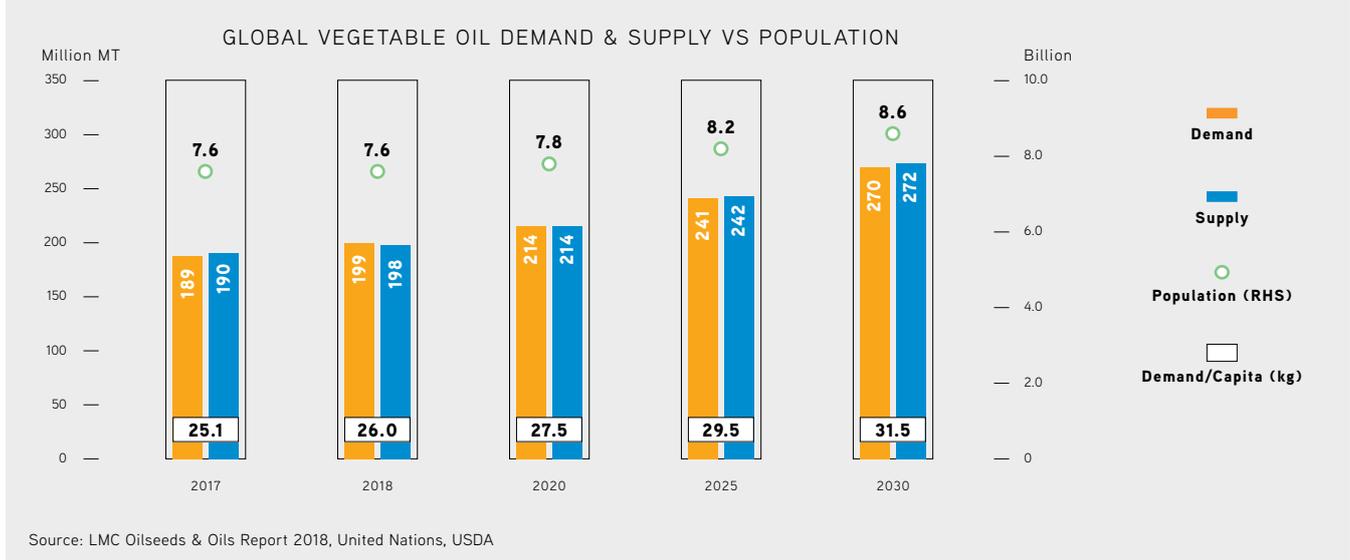


Participation in **thought leadership platforms**, e.g. High Carbon Stock Approach, Fire Free Alliance, PONGO Alliance and Decent Rural Living Initiative.

# OUR MARKET LANDSCAPE

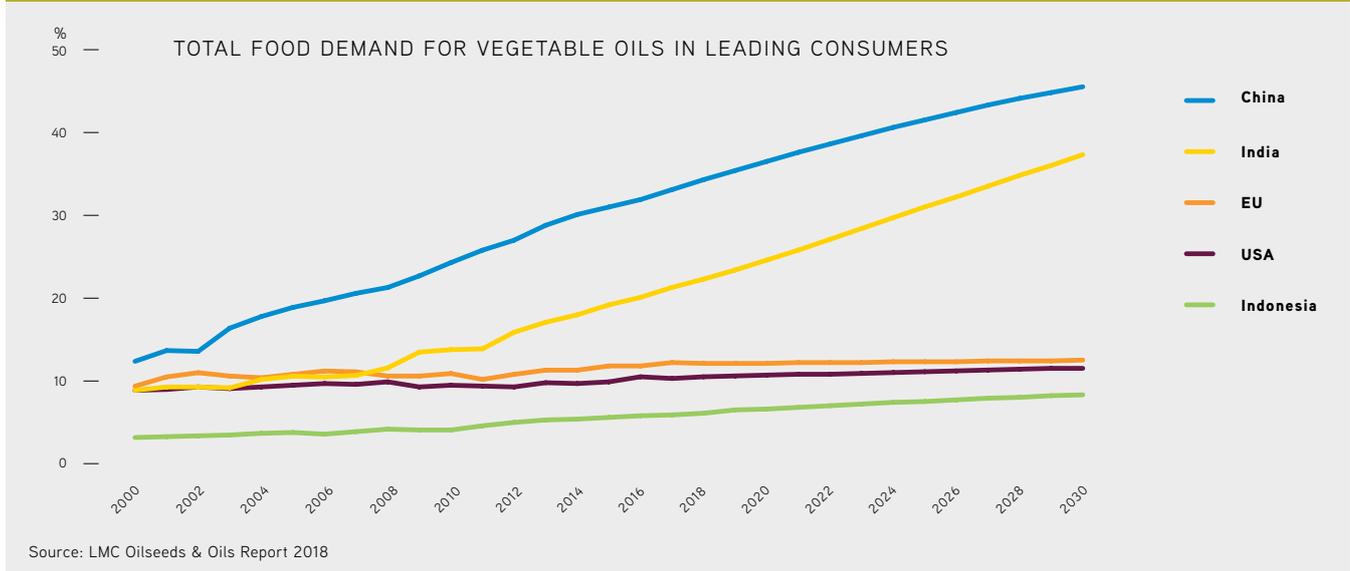
## GLOBAL TREND & MARKET OUTLOOK

### Supply and Demand



Demand for vegetable oils in both the developing and developed world continues to grow, driven largely by rapidly expanding populations as well as an increase in per capita intake especially in China, India, European Union, United States and Indonesia.

### Outlook of Vegetable Oil Consumption in Major Markets



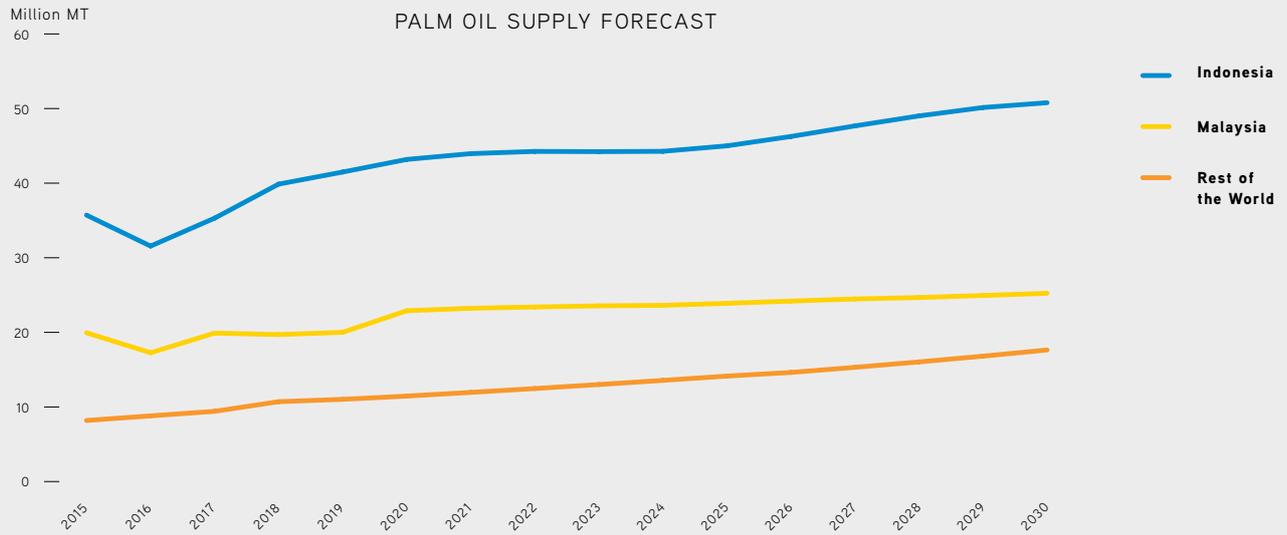
For vegetable oil (food use), India and China together account for over a third of total food oil consumption today. This is up from a share of less than 30% in 2000 of which 20% of the consumption was palm oil. By 2030, their combined share will have climbed close to 40% of which 30% of the consumption is palm oil, making these two (2) markets fundamental to the sector’s development.

Globally, palm oil is the largest consumed vegetable oil making up 35% of total vegetable oil consumption. This is followed by soybean oil (30%) and rapeseed oil (15%). Global dependence on palm oil is expected to rise in 2019, particularly with higher import needs from India and China.

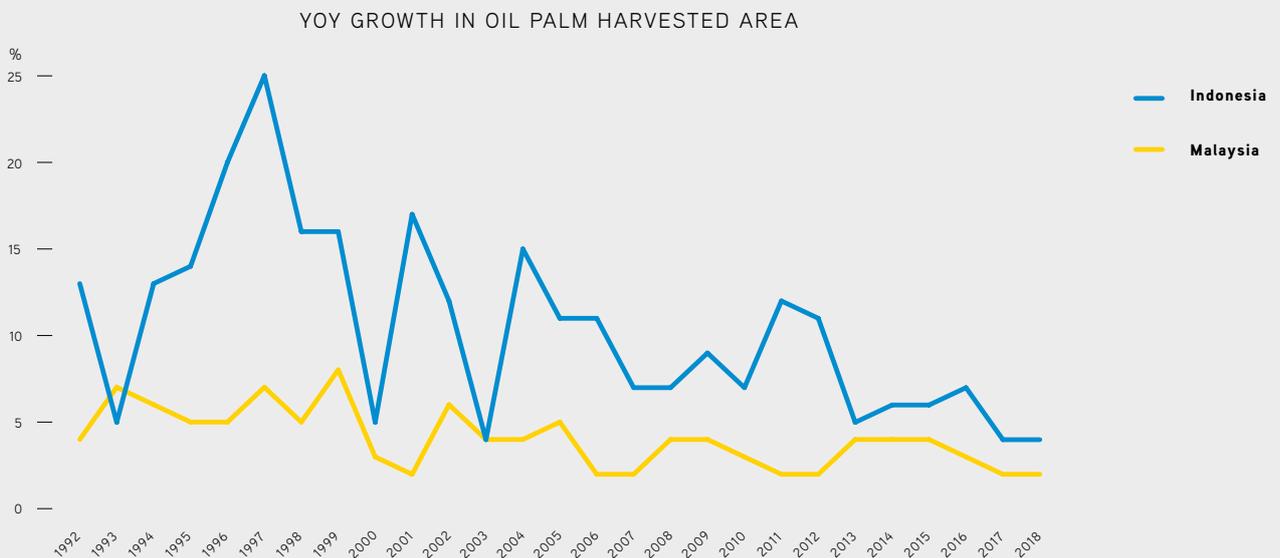


OUR MARKET LANDSCAPE

Outlook of Palm Oil Supply



Source: LMC Oilseeds & Oils Report 2018



Source: USDA & MPOB

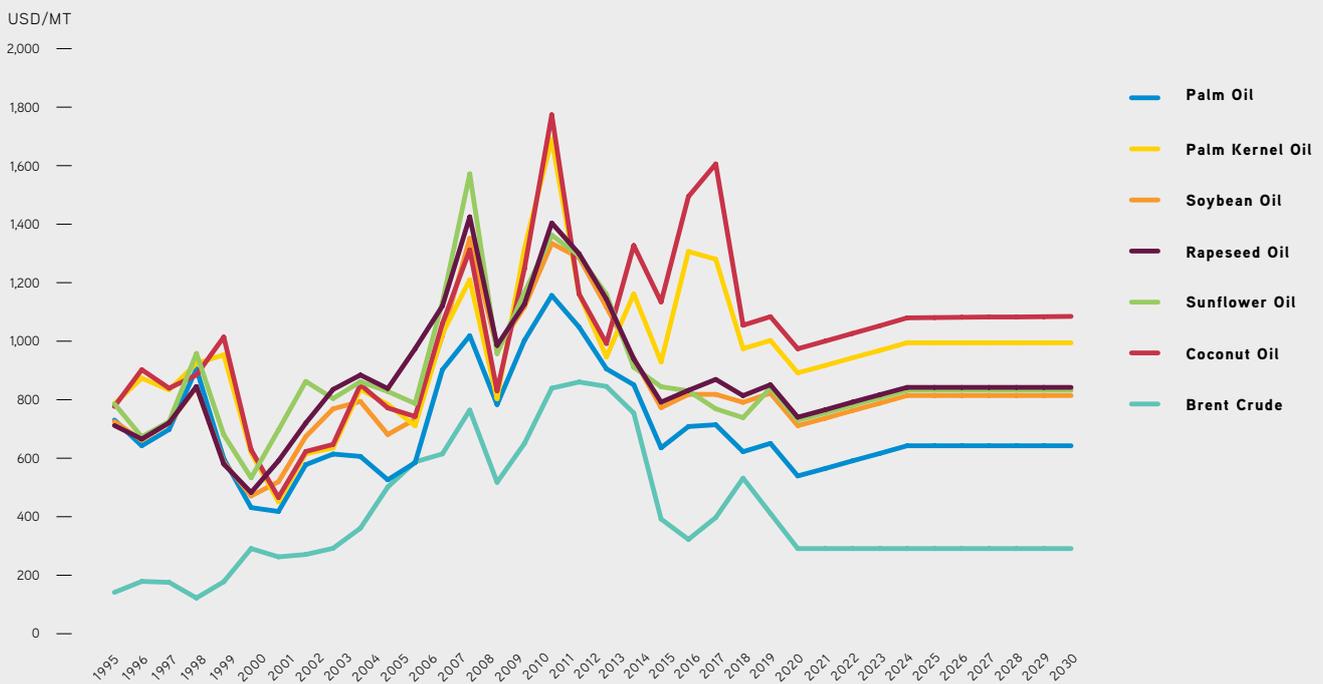
Despite the slowdown in plantings due to moratoriums and other expansion challenges, palm oil has consistently contributed to around 35% of total vegetable oil supply over the past few years. This is expected to remain over the coming years. Malaysia and Indonesia will remain as key producers of palm oil, supplying around 80% of total palm oil output by 2030. The focus going forward will be on improving productivity and efficiency to improve yields.

OUR MARKET LANDSCAPE

Increasing Uncertainty in Market Conditions

Economic growth rates have become less predictable, with increasing volatility in commodity prices and foreign exchange rates as markets become more interconnected.

Based on a low Brent crude oil price scenario at USD40 per barrel from 2020 onwards, the vegetable oil price outlook is as follows:



Source: LMC Oilseeds & Oils Report 2018

Crude palm oil (CPO) prices are also partially influenced by unpredictable extreme weather patterns which has become more frequent over the past few years. The current outlook for the potential development of an El Nino in 2019 could curb CPO production and lend support to prices in the short term.

Other factors such as the movement of the ringgit, the revision of biodiesel mandates in Malaysia and Indonesia, tax regulations in major consuming countries and competition from other edible oils are also likely to influence the market prices of CPO and other palm products.

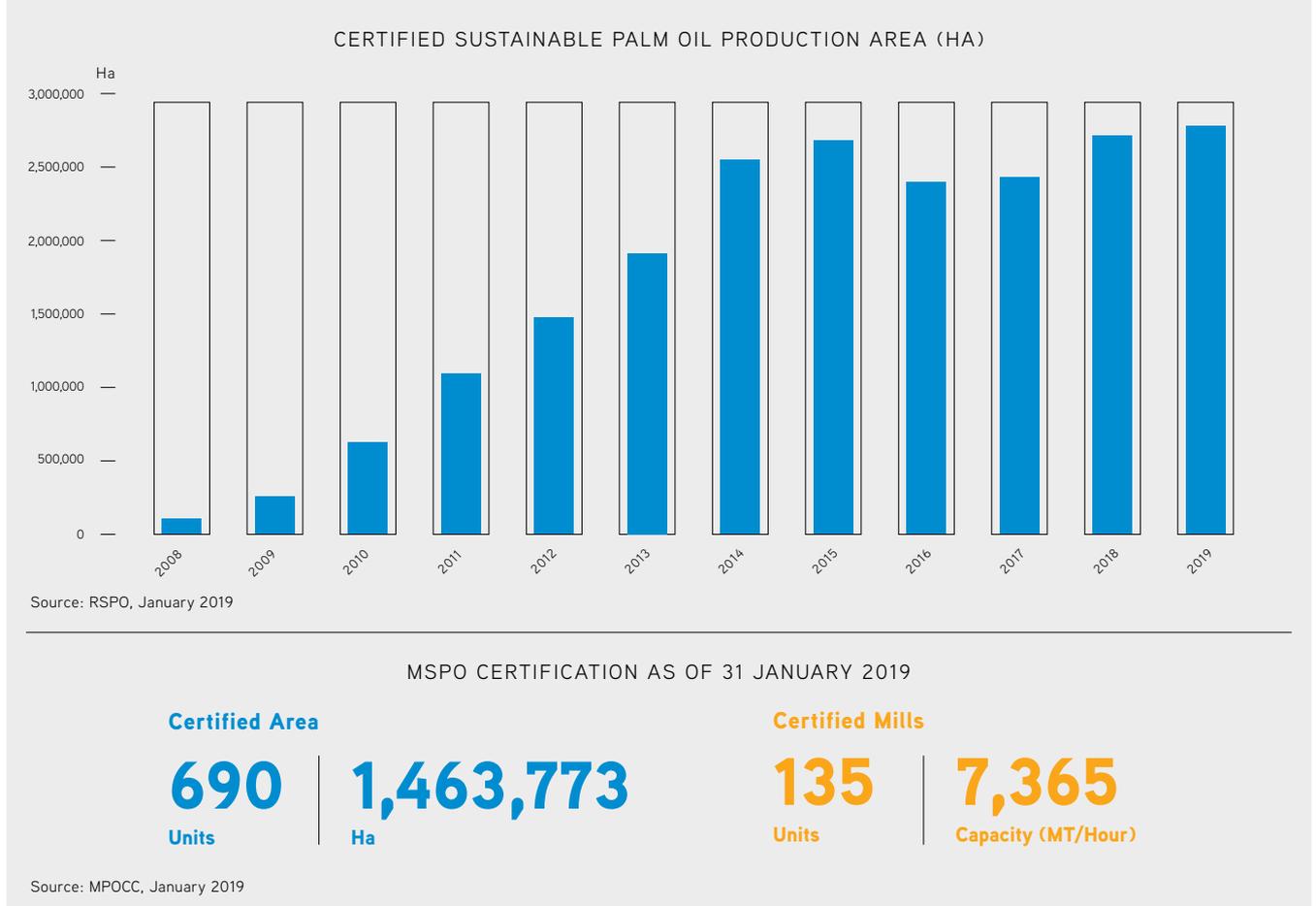
SIME DARBY PLANTATION'S KEY ACTIONS

**SDP has always been proactive in adapting our strategies to harness opportunities available while mitigating threats that arise from the drivers of future change.**

**1** We are well-positioned in fast growing and key strategic markets.

**2** We develop long-term strategies that capitalise on the underlying growth trajectory of emerging market populations.

## Increasing Awareness of Responsible Practices



With increasing awareness on global issues such as climate change and human rights, there is greater expectation and demand by stakeholders for organisations to operate in an environmentally, socially and economically responsible manner. The agricultural sector, particularly the palm oil industry, has continued to be under intense scrutiny by a wide range of stakeholders including customers, governments, investors and civil society organisations who demand the adoption and implementation of sustainable practices. More and more palm oil companies are taking the initiative to comply with recognised certification standards e.g. RSPO, MSPO and ISPO.

- 3** We pursue sustainability in a way that creates value, meeting the expectations of our wide range of stakeholders:
- Flawlessly implement standards, e.g. RSPO, MSPO, ISPO, RA, Responsible Agriculture Charter, Human Rights Charter
  - Lead in the development of new approaches, e.g. High Carbon Stock Approach (HCSA)
  - Mitigate sustainability risks within our supply chain

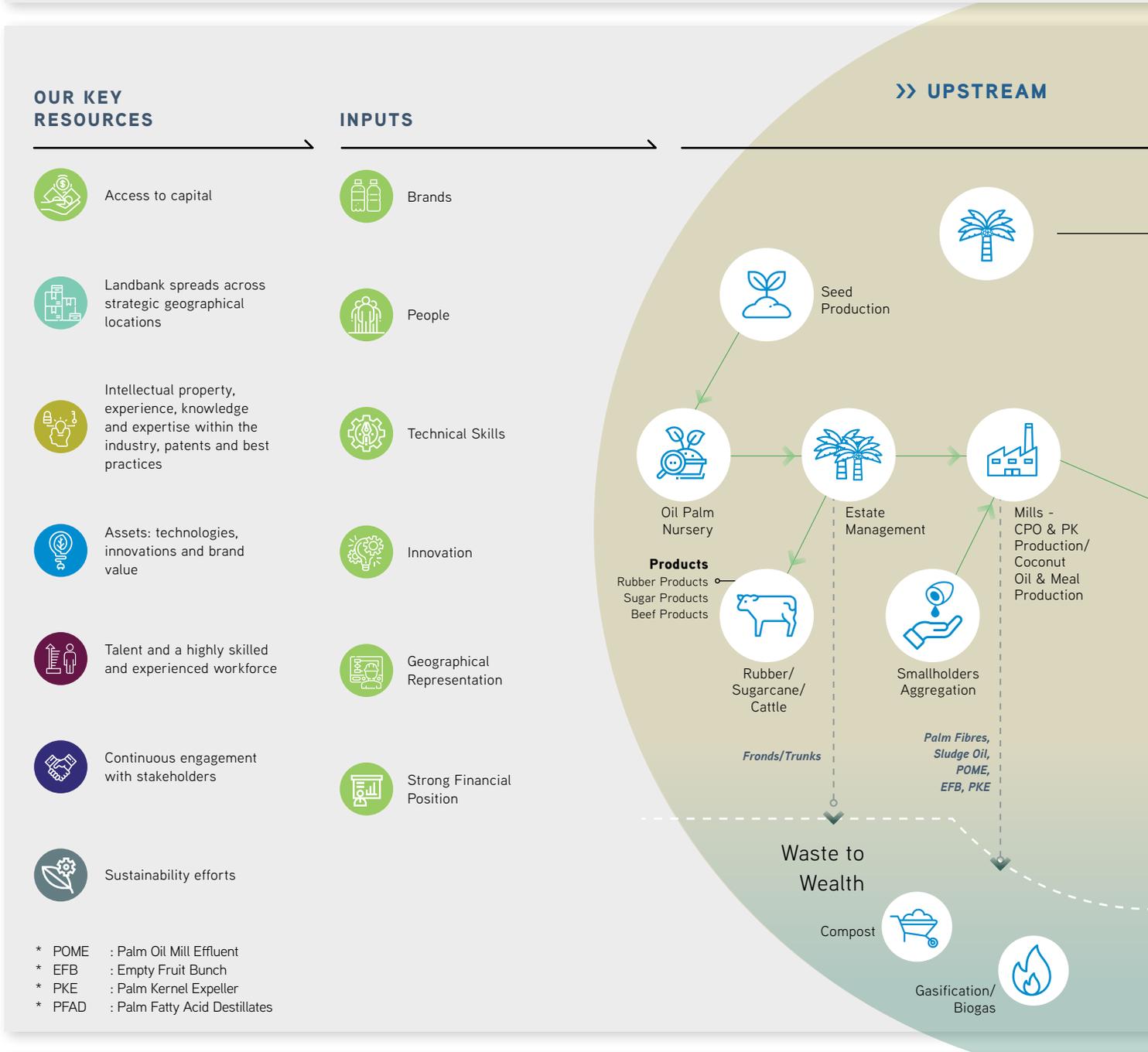
- 4** We develop robust systems and processes for more effective execution of productivity improvements and operational excellence initiatives.

# OUR VALUE CREATION MODEL

As a fully integrated palm oil Group, our operations are diversified within the palm oil industry. This allows the Group to mitigate volatilities in segment margins and maximise value by de-commoditising our crude palm oil (CPO) into high-value differentiated products that garner higher margins.

### OUR COMPETITIVE ADVANTAGE

- **World's Largest Palm Oil Plantation Company by Planted Area**  
Proven track record with over 100 years of experience in the plantation industry.
- **Leadership in Sustainability**  
Taking a leadership position in the sustainable production of palm oil.



### MATERIAL MATTERS WHICH ALIGN

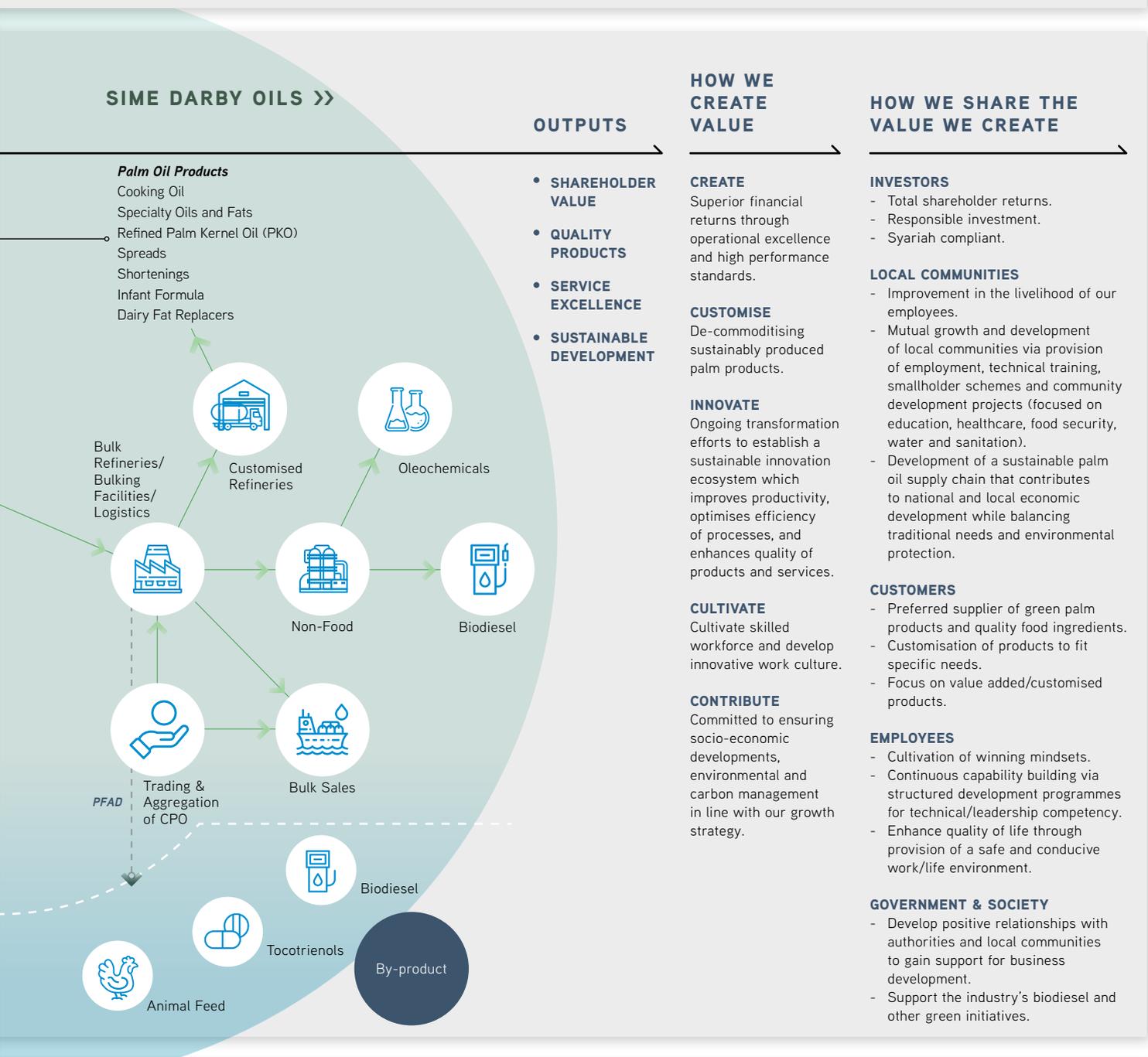
- Operational Performance
- People Management
- Macroeconomic Conditions

OUR VALUE CREATION MODEL

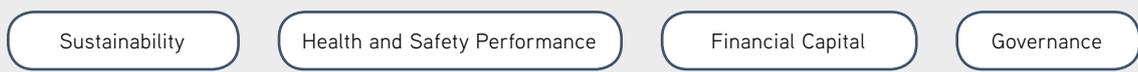
Our 'Waste-to-Wealth' initiatives convert co-products into applications such as animal nutrition and feed from palm kernel expellers as well as tocotrienols from palm fatty acid distillates. Our value creation model reflects this agility and is formulated to better withstand an ever-changing business landscape, whilst maximising returns.

- **Performance & Innovation Driven Culture**  
Develop talent to propel SDP into becoming a high performance organisation.
- **Value Chain Integration**  
Fully integrated operations across the value chain with economies of scale.
- **Wide & Diverse Geographical Reach**

  - Upstream operations in five (5) countries.
  - Sime Darby Oils operations spread across 14 countries.



OUR VALUE CREATION MODEL



## MANAGING OUR MATERIAL MATTERS

Sime Darby Plantation (SDP) acknowledges the criticality of understanding material matters in enhancing our inherent value to our stakeholders. SDP believes that sufficient mitigation plans are currently being employed, constantly reviewed and closely monitored to mitigate any potential impacts on our performance and/or reputation.

Material Matters/Risks	Affected Stakeholders
<p><b>OPERATIONAL PERFORMANCE</b></p> <p><b>Productivity &amp; Efficiency Improvements</b></p> <ul style="list-style-type: none"> <li>- Variations in yield levels due to age profile and other factors.</li> </ul> <p><b>Disruption to Production due to External Factors</b></p> <ul style="list-style-type: none"> <li>- Volatile weather patterns, natural disasters, etc.</li> <li>- Pest and disease outbreaks.</li> </ul> <p><b>Quality and Safety of Products</b></p>	<ul style="list-style-type: none"> <li>• Investors</li> <li>• Customers</li> <li>• Suppliers/Business Partners</li> <li>• Partners</li> <li>• Employees</li> </ul>
<p><b>PEOPLE MANAGEMENT</b></p> <ul style="list-style-type: none"> <li>- Availability of skilled and adequate manpower.</li> <li>- Increase in minimum wage.</li> <li>- Succession management.</li> </ul>	<ul style="list-style-type: none"> <li>• Employees</li> <li>• Investors</li> </ul>
<p><b>MACROECONOMIC CONDITIONS</b></p> <ul style="list-style-type: none"> <li>- Fluctuations in commodity and raw material prices.</li> <li>- Trade wars and protectionist policies e.g. import tariffs and taxes.</li> <li>- Legal and regulatory changes.</li> <li>- Adverse forex movements.</li> </ul>	<ul style="list-style-type: none"> <li>• Investors</li> <li>• Customers</li> <li>• Suppliers/Business Partners</li> <li>• Partners</li> <li>• Employees</li> </ul>
<p><b>SOCIAL AND ENVIRONMENTAL IMPACT</b></p> <ul style="list-style-type: none"> <li>- Reputational risks arising from real or perceived concerns around issues such as the environment, human rights, labour rights and community standards within our operations and throughout our supply chain.</li> </ul>	<ul style="list-style-type: none"> <li>• Investors</li> <li>• Customers</li> <li>• Suppliers/Business Partners</li> <li>• Civil Society Organisations/NGOs</li> <li>• Employees</li> <li>• Society/Communities</li> <li>• Government/Authorities/Regulators</li> </ul>
<p><b>OCCUPATIONAL SAFETY &amp; HEALTH PERFORMANCE</b></p> <ul style="list-style-type: none"> <li>- Fatalities, injuries, accidents and illnesses of our employees, their families, contractors and customers.</li> </ul>	<ul style="list-style-type: none"> <li>• Investors</li> <li>• Customers</li> <li>• Employees</li> <li>• Civil Society Organisations/NGOs</li> <li>• Government/Authorities/Regulators</li> </ul>
<p><b>CAPITAL MANAGEMENT</b></p> <ul style="list-style-type: none"> <li>- Credit rating matrix, debt covenants, debt equity ratio.</li> </ul>	<ul style="list-style-type: none"> <li>• Investors</li> <li>• Suppliers/Business Partners</li> <li>• Employees</li> </ul>

## Mitigation Strategies

- Strategy execution in an effective manner.
  - Systematic replanting programme to ensure optimal output in the long-term.
  - Dedicated performance monitoring units to monitor operational performance.
  - Technical support to our Upstream and Sime Darby Oils businesses by advisors to ensure continuous operational excellence.
  - Focus on innovation to improve productivity, optimise efficiency of processes, and enhance quality of products and services.
- Robust planning to optimise harvesting and crop recovery during wet weather conditions.
- Irrigation mechanisms deployed during dry weather conditions.
- Research & Development for high-yielding and infection-resistant oil palm breeds as well as methods to manage diseases.
- Commitment to the Innovation & Productivity Charter (IPC), which states our aspirations across the value chain in achieving prosperity by enabling high levels of productivity in delivering sustainable development.
- Ensuring robust safety and quality checks and adherence to food safety standards.

- Sourcing of workers from a number of countries to reduce dependency on one (1) source country.
- Supervisory and technical training programmes for executives & non-executives, e.g. Staff and Supervisor Enhancement Programme, Harvesting Skills Training for plantation workers.
- Mechanisation and productivity enhancement initiatives to reduce dependence on labour.
- Robust development programmes to fill capability gaps in sustaining long-term performance.

- Fully integrated business model, hedging mechanisms and diverse geographical presence to diversify earnings risk from the volatility of commodity prices, additional restrictions imposed by other countries and adverse forex movements.
- Enhancing margins via greater focus on high value customised and niche products.
- Proactive monitoring of changes in macroeconomic landscape and development of appropriate response mechanisms.

- Flawlessly implement sustainability standards such as the RSPO, MSPO, ISPO.
- Go beyond certification via commitments in the Responsible Agriculture Charter (RAC), Human Rights Charter (HRC) and IPC, in line with stakeholder expectations.
- Manage supply chain risks by improving traceability and engagement with suppliers.
- Participate in development of new standards and approaches, e.g. High Carbon Stock Approach.
- Engagement and inclusion of stakeholders with collaborations, e.g. PONGO Alliance, Fire Free Alliance.

- Excellent implementation of Occupational Safety and Health (OSH) Systems and Standards.
- Continuous improvement of our OSH systems with a goal of achieving Zero Harm.
- Increase awareness and accountability by implementing campaigns such as iCARE.
- Develop a proactive safety and health culture by promoting concern reporting.
- Implement targeted intervention programmes to tackle critical issues and locations.

- Disciplined approach in capital allocation and cash flow management.
- Optimise our capital structure to ensure competitive cost of capital which includes balancing debt and equity levels by putting in place appropriate dividend and financing policies.
- Maintain strong financial position for ready access to capital market.

## OUR STRATEGIC PLAN

### OUR VISION:

# To be the Leading Integrated Global Palm Oil Player

Sime Darby Plantation (SDP) is a forward-looking organisation focused on creating long-term value, emphasising on growth and competitive strategies which will be achieved through:

#### Strategic Objectives

## 01

**Driving operational excellence in our Upstream operations**

## 02

**Serving our customers' evolving needs through Sime Darby Oils**

## 03

**Maximising returns across the palm oil value chain by leveraging on our integrated business model**



### Progress Highlights

- Replanting with high yielding planting materials to improve age profile and yields.
- Implementation of innovative irrigation and water management system to drive better yields.
- Expansion of mechanisation, automation and digitisation initiatives and identification of new innovative tools to improve productivity, efficiency and reduce cost.
- Full reinforcement of the Upstream operations restructuring exercise to initiate culture change and a more entrepreneurial mindset.

- Higher premiums from CSPO through increased focus on the physical sale of CSPO.
- Increased sale of customised products for better margins.
- Premium quality oil production and higher sales margins of refined products.
- Increased purchase of external oils to improve refinery utilisation.
- Higher margins from trading for bulk refineries.

- Efficient supply chain into target markets and traceable supply chain for customers.
- Enhanced trading around the asset.
- Strategic partnerships to address gaps.
- Rationalise portfolios across the value chain.
- Actively pursuing digital strategy growth.

### Priorities for 2019

- Scale up preparation of GenomeSelect™ materials for replanting.
- Commercialise and roll out irrigation plans.
- Model Plantations to rapidly scale Best Practices of the Plantation of the Future: to drive productivity and efficiency.
- Cost reduction initiatives.

- Greater focus on customised, sustainable and traceable products.
- Continuous efforts and focus on high margin customised products.
- Develop strategic partnerships to grow customer base and market reach.
- Continuous efforts to increase purchase of external oils to improve refinery utilisation.
- Improve logistics.

- Optimise supply chain to ensure seamless connectivity.
- Intensify trading around the assets.
- Disciplined portfolio management across the value chain.
- Integrate all data points throughout SDP and implement data analytics to enhance efficiency and productivity across the value chain.

## LETTER FROM OUR CHAIRMAN

“

Notwithstanding the difficult market conditions in the financial period under review, the Group continued to record satisfactory performance for our shareholders. The Group also remained committed in our efforts to unlock and deliver value to our shareholders during the FP December 2018. ”



**TAN SRI DATO' A. GHANI OTHMAN** - Chairman

**DEAR VALUED SHAREHOLDERS,**

I am pleased to present to you our 2<sup>nd</sup> annual report which accounts for our performance for the financial period from 1 July to 31 December 2018 (FP December 2018). In line with the Malaysian Code on Corporate Governance (2017), this report continues our journey in adopting the Integrated Reporting guidelines to provide greater transparency in the reporting of our strategies, goals and performance.

## LETTER FROM OUR CHAIRMAN

The decision to shift the Group's financial year-end from 30 June to 31 December has resulted in a 6-month transition period from 1 July to 31 December 2018 and necessitated the preparation of a one-time, 6-month transitional financial statement for FP December 2018. As you read this statement, our new financial year 2019 would have already commenced from 1 January 2019 to 31 December 2019. Thereafter, our subsequent financial years will continue to coincide with the calendar year.

The unfavourable business environment we experienced throughout our previous financial year ended 30 June 2018, persisted to impact the performance of Sime Darby Plantation Berhad (SDP or the Group) in FP December 2018. The lower prices of crude palm oil (CPO) and palm kernel (PK) arising from pressures of the United States – China trade war, relentless negative sentiment against palm oil from Europe, as well as high inventory levels and weaker export demand from major consuming countries, were the key challenges faced by the palm oil industry throughout this period.

Notwithstanding the difficult market conditions in the financial period under review, the Group continued to record satisfactory performance for our shareholders.

The Group also remained committed in our efforts to unlock and deliver value to our shareholders during the FP December 2018. These efforts were executed through operational excellence and value creation initiatives, which were supported by innovation and a culture of high performance. The Group's commitment is reflected in our choice to retain the theme "Unlocking Value. RISE to APEX" for this report, similar to that of our maiden annual report.

The combination of RISE as a vigorous culture transformation programme, and APEX, a value creation programme, continued to be the rallying call throughout the period under review to drive SDP towards becoming a high-performance organisation. With this blueprint in place, as well as our strong fundamentals, we are determined to deliver more sustainable value to all stakeholders whilst pursuing our vision to be the leading integrated global palm oil player.

#### FINANCIAL PERFORMANCE

For FP December 2018, the Group registered a total revenue of RM6,543 million and profit before tax (PBT) of RM457 million on the back of a sharp decline in average CPO and PK prices realised, mitigated by continued earnings improvement from our Downstream operations.



*Transformation Office Young Leaders play an important role in rallying employees towards the APEX goal*

The combination of RISE as a vigorous culture transformation programme, and APEX, a value creation programme, continued to be the rallying call throughout FP December 2018 to drive SDP towards becoming a high-performance organisation.

## LETTER FROM OUR CHAIRMAN

Earnings were supported by productivity improvements in our Upstream operations, where we recorded a 2% growth in fresh fruit bunch (FFB) production, better oil extraction rate (OER) and lower costs compared to the corresponding period in the previous year. The Group reported a net profit of RM244 million, comprising a recurring net profit of RM230 million and a non-recurring net profit of RM14 million.

As a testament to our strength and credibility, I am pleased to note that during FP December 2018, the Group continued to be recognised by the Malaysian Rating Corporation Bhd's (MARC) corporate credit rating at AAA with a stable outlook, as well Fitch's Long-Term Foreign-Currency Issuer Default Rating at BBB+ with a stable outlook.

*Please refer to the Group Financial Review section on page 112 of the Annual Report for a detailed discussion on our financial performance.*

**DIVIDEND**

A final single tier dividend of 1.7 sen per share for FP December 2018 has been approved by the Board and a total payout of approximately RM117 million will be made on 21 May 2019. This represents a dividend payout ratio of 51% out of the recurring consolidated profit attributable to the owners of the Group.

**CORPORATE GOVERNANCE**

At SDP, we strongly uphold the principles set out in the Malaysian Code on Corporate Governance (MCCG) 2017. Throughout the years, we have been persistent in ensuring that the Group's business and operations strictly adhere to the philosophy of good corporate governance by embracing ethical behaviour, accountability, transparency and sustainability to produce long-term value to our stakeholders.

Through corporate governance, the Board promotes and protects the interests of the Group and its stakeholders. We strive to demonstrate good corporate citizenship as we acknowledge that economic, environmental and social responsibilities are integral to the Group's performance and sustainability.

To demonstrate the transparency and accountability of our leadership, the Board and Management team of SDP had, on 27 February 2019, signed the Malaysian Anti-Corruption Commission's (MACC) Corruption Free Pledge, in order to strengthen our stance against corruption. Various campaigns have also been introduced during the period under review to heighten awareness on our Code of Business Conduct (COBC) among employees.

*Read more about the Group's approach to governance in the Corporate Governance section on page 75 of the Annual Report.*



*Oil palm trees at our West Estate in Carey Island, Malaysia*

## LETTER FROM OUR CHAIRMAN

## RISK MANAGEMENT AND INTERNAL CONTROLS

The Group is committed to managing all risks in a proactive and effective manner, which requires high quality risk analysis to support management decisions within the organisation. A common approach to risk analysis and management is adopted and is enshrined in SDP's Risk Management Standard and Framework. The focus of risk management activities is to ensure that internal risks are appropriately managed as well as to proactively identify and manage, where possible, external risks that can impact the achievement of the Group's strategies and objectives.

In addition, SDP is committed to safeguarding the interests of all stakeholders in times of disaster and/or emergency. Therefore, Business Continuity Management is critical to ensure that the Group is able to continue operations with minimal impact to stakeholders in the event of a disruption. During FP December 2018, the Board of Directors approved SDP's Business Continuity Standard that provides the overarching framework and guiding principles for the ongoing development of adequate business continuity procedures.

To further augment our business conduct and practices befitting our new identity as a listed pure play entity, we have also instituted enhancements to the Group's regulatory and legislation compliance programme. This includes reporting format, content, frequency and accountability, as well as carrying out an overall revision of our Group Policies and Authorities (GPA) to better address reporting and disclosures.

*The risk management framework and approach is further described in the Statement on Risk Management and Internal Control section on page 104 of the Annual Report.*

## STAKEHOLDER ENGAGEMENT

Our continuous engagements with stakeholders such as investors, policymakers, peers and non-governmental organisations, are of utmost importance to the Group, allowing us to align our strategy with their expectations whilst keeping ourselves ahead of the curve.

We maintain a systematic and robust schedule of engagements with our stakeholders through various platforms to discuss matters important to the Group, industry, country and community. Material issues relating to the Group's financial and operational performance, strategy, environmental and social performance, as well as sustainable development, are discussed at length through the various committees of the Board and acted upon by our Leadership team.

*Please refer to the Materiality and Stakeholder Engagement sections on pages 20 to 21 of the Annual Report for further information.*



PT Pulau Laut Refinery in Pulau Laut, Indonesia

## SUSTAINABILITY COMMITMENTS

During the period under review, we launched our Innovation and Productivity Charter (IPC) with the aim of further expanding our sustainability commitments. This is to develop our production capabilities without compromising our sustainability purpose thus allowing us to contribute to a better society and minimise environmental harm. The IPC articulates our aspirations across the value chain to achieve prosperity through high levels of productivity and deliver sustainable development. This charter complements the pledges we made in the Responsible Agriculture Charter (RAC) and the Human Rights Charter (HRC) to holistically implement leading responsible agricultural practices across our global operations.

The Group's efforts in taking the leadership in sustainability and responsible practices have not gone unnoticed by our stakeholders as we became the recipient of several awards and recognitions during the period under review. These included 'The Best CR Initiative' award at The Edge Billion Ringgit Club 2018; the Best Sustainable Palm Oil Leader award at the Europa Awards for Sustainability 2018; and five (5) major awards at the Sustainable Business Awards Malaysia 2018, including the Overall Winner award.

We continue to make progress in implementing leading sustainability standards across our operations, which include certifying our operations to standards such as the Roundtable on Sustainable Palm Oil (RSPO), the Malaysian Sustainable Palm Oil (MSPO) and the Indonesian Sustainable Palm Oil (ISPO).

## LETTER FROM OUR CHAIRMAN

In support of the Sustainable Development Goals (Goal 17 – Partnerships for the Goals), we continue to go beyond certification by constantly developing partnerships and participating in thought-leadership platforms with our stakeholders such as the High Carbon Stock Approach (HCSA), Fire Free Alliance (FFA) and the PONGO Alliance, to name a few. Another collaboration which took-off during FP December 2018 was with Nestlé, where we piloted a project that will help eliminate human and labour rights abuses in our supply chain through a highly enhanced helpline. We believe that partnerships like these are the way forward towards responsible agricultural practices in line with our stakeholders' expectations.

Staying true to the principle of transparency and welcoming constructive feedback from our stakeholders, we also believe that the next frontier of our leadership in sustainability would include full traceability of our supply chain. I am pleased to share that the Group has been working diligently to develop what we hope would be a ground-breaking initiative on our supply chain traceability to be revealed in 2019. This new initiative will not only solidify the credibility of our responsible practices, but more importantly, contribute towards further raising the sustainability standards of our entire supply chain and the palm oil industry in general.

*Please refer to the Sustainability section on page 55 of the Annual Report for further details on our progress around sustainability.*

## OUR PEOPLE

SDP is where it is today because of its dynamic employees. We remain focused on our endeavours to develop, unlock and grow capabilities. In the period under review, we implemented structured development plans such as upskilling technical competencies within our Upstream business, focusing on

three development areas – water management, replanting and financial management. To inculcate diversity, we developed a coaching programme to equip our women leaders with the required leadership and technical skills. This programme will help to prepare them for higher level positions within our Upstream business. This is exemplified by the numerous female estate and mill assistant managers within our operations as well as our first female mill manager, who has been making headlines in the media.

Organisational health, aimed at accelerating and sustaining performance excellence, continued to gain momentum through engagement and focus group sessions with employees throughout our business segments globally. Ranging across five (5) countries, over 40 employee engagement sessions have been carried out with the core objective of identifying action plans to elevate management practices that are crucial to the strategy of various departments or operating units. These action plans became the “blueprint” for SDP, as we embark on executing a combination of specialised and also cross-functional action plans, targeting towards better organisational health and culture across the organisation.

Furthermore, the insights gained from various review sessions with leaders and employees indicated the importance of appropriate, effective and continuous feedback. In addressing this issue, a Performance Feedback and Coaching Training Programme was launched to equip managers with the necessary skills to provide effective feedback to their subordinates. This did not only create a positive work environment from frequent recognition and appreciation for outstanding performance, but also enabled constructive discussion on areas for development and growth.

*Read more about the Group's culture in the Our People section on page 47 of the Annual Report.*

## STRATEGY AND OUR FUTURE

We will continue to make meaningful strides in our growth strategies across our work streams. Our Upstream operations will remain focused on improvements in productivity and operational efficiencies through progressive replanting using high-yielding planting materials, water management and mechanisation, as well as cost reduction via labour rationalisation to better manage the manpower ratio, and cheaper fertiliser.

Our Downstream operations will also continue to sustain its focus on customised products with higher margins and delivering innovative as well as future-focused solutions. In March 2019, the Group rebranded its entire Downstream operations to Sime Darby Oils (SDO). SDO's new tagline of 'Realising Possibilities, Together' reflects our Downstream



*The barn owl or Tyto alba serves as a biological control in our estates to keep rodent population in check*

## LETTER FROM OUR CHAIRMAN

business' philosophy to be a trusted partner in creating quality products with best-in-class oils and fats to enable sustainable living, now and into the future.

As we move into the new financial year 2019, the Group will continue to focus on innovation through digitisation, advanced research and development, product customisation as well as operational efficiency. This will drive transformational ideas throughout the organisation as well as encourage value creation and strengthen operational excellence. In addition, our aspirations will continue to be guided by the Group's commitment to lead the industry and operate in a responsible and sustainable manner.

#### ACKNOWLEDGEMENT

On behalf of the Board, I would like to express my appreciation to all our valued stakeholders for your continued trust and support for the Group. I would also like to thank my fellow directors for the exceptional service and value that they have brought to the Group during the last six (6) months.

My heartfelt gratitude also goes out to the Leadership team and all employees under the Group for their unending support and continuous excellence. I hope we will bring this steadfast determination and perseverance into the next financial year as we strive for greater accomplishments in creating value and delivering sustainable results.

As we transform and aspire to be a leading integrated global palm oil player, I am confident that SDP has the resolve to continuously progress and grow amidst the current challenging business landscape.

**Tan Sri Dato' A. Ghani Othman**  
Chairman



*Sime Darby Oils Zwijndrecht Refinery, Netherlands*

## GROUP FINANCIAL PERFORMANCE

### CHANGE IN THE FINANCIAL YEAR END

The Board of Directors has on 22 February 2018 approved the change in the financial year end of the Group from 30 June to 31 December, which was implemented after the close of the financial year ended 30 June 2018.

The audited financial statements for 31 December 2018 is the first set of financial statements issued subsequent to the change in the financial year end and thus, results and cash flows reflect the 6 months ended 31 December 2018 (FP December 2018).

For more equitable and meaningful review, financial results of the Group for the six-month period ended 31 December 2018 are compared against the results of the corresponding period of the previous year, the unaudited six months ended 31 December 2017 (FP December 2017).

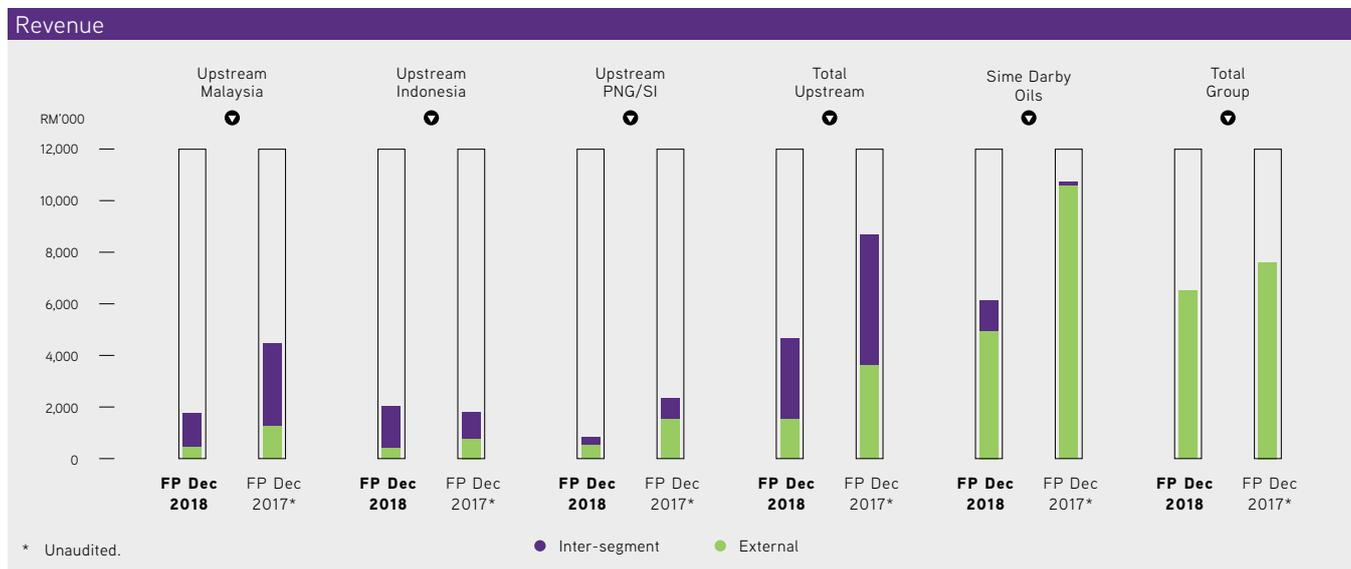
### REVIEW OF OPERATIONS

(RM' million)	FP Dec 2018	FP Dec 2017*	VAR%
Revenue	<b>6,543</b>	7,626	(14)
Recurring Profit Before Interest and Tax	<b>545</b>	1,185	(54)
Non-Recurring Transactions	<b>14</b>	772	(98)
Profit Before Interest and Tax	<b>559</b>	1,957	(71)
Finance Income	<b>8</b>	17	(53)
Finance Costs	<b>(110)</b>	(98)	(12)
Profit Before Tax	<b>457</b>	1,876	(76)
Tax Expense	<b>(145)</b>	(340)	57
Profit After Tax	<b>312</b>	1,536	(80)
Perpetual Sukuk	<b>(62)</b>	(63)	2
Non-Controlling Interests	<b>(6)</b>	(25)	76
<b>Profit Attributable to Owners of the Company</b>	<b>244</b>	1,448	(83)

\* Unaudited.

The Group operations faced a challenging economic environment during the 6-month financial period ended 31 December 2018 (FP December 2018), on the back of prevailing low crude palm oil (CPO) and palm kernel (PK) prices which continued to dampen the industry.

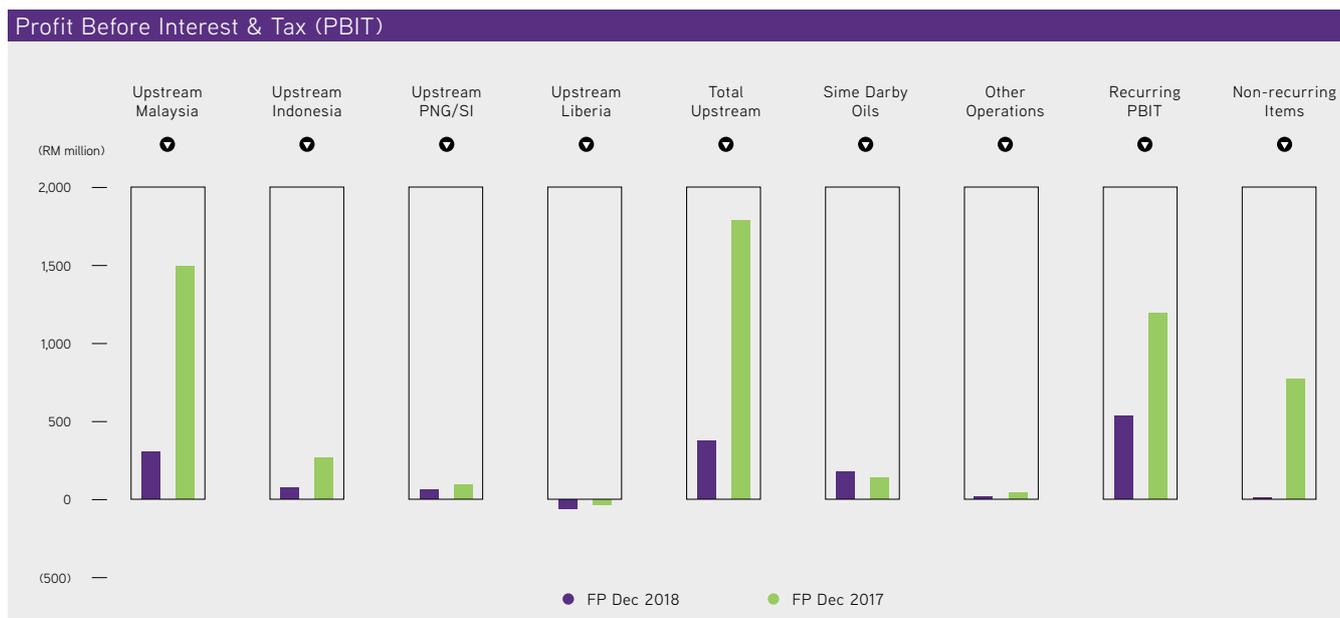
Nevertheless, despite the challenges, the Group registered commendable performance in its recurring operations in the financial period under review. The Group's fresh fruit bunch (FFB) production improved by 2% to 5.56 million MT, as compared to FP December 2017 and oil extraction rate (OER) was higher at 21.17% (FP December 2017: 20.96%). In addition, increased contribution by the Sime Darby Oils segment, as well as our continuous efforts on cost controls and increasing operational efficiencies have partially cushioned the adverse impact arising from the weak market prices.





## GROUP FINANCIAL PERFORMANCE

Group revenue for the six months ended 31 December 2018 was lower by 14% compared to the corresponding period of the previous year, attributable to a 26% lower average CPO realised price of RM1,974 per MT (FP December 2017: RM2,672 per MT), a 38% lower average PK realised price of RM1,479 per MT (FP December 2017: RM2,374 per MT), partially mitigated by the 2% higher FFB production of 5.56 million MT (FP December 2017: 5.46 million MT).



For the financial period ended 31 December 2018, the Group reported a PBIT of RM559 million, compared to RM1,957 million for the corresponding period of the previous year. The decline was largely due to the significantly lower non-recurring PBIT as compared to FP December 2017, as well as lower recurring PBIT.

The Group reported net non-recurring gains of RM14 million in the current period, comprising primarily of gains on sale of a subsidiary in Vietnam, which compensated for the impact of impairment charges of our long term assets in Liberia. In FP December 2017, the Group recorded net non-recurring gains of RM772 million from sale of land to a related party and write-back of contribution to Yayasan Sime Darby.

The current period recurring PBIT of RM545 million was 54% lower than RM1,185 million recorded in FP December 2017, wholly due to weaker average CPO and PK prices realised. Improved operational statistics of the Upstream segments and continued earnings improvement from its Sime Darby Oils operations partially mitigated the impact of lower CPO and PK prices. Comparison of the recurring PBIT between FP December 2018 and the corresponding period of the previous year as follows.

Recurring PBIT	RM' million
FP December 2017 Recurring Profits	1,185
Lower CPO & PK Prices in FP December 2018 as Compared to FP December 2017	(1,007)
	178
Net Positive Impact on Profits Arising from Operational and Other Factors	367
FP December 2018 Recurring Profits	545

## GROUP FINANCIAL PERFORMANCE

**Upstream**

The total recurring PBIT of the Group's Upstream operations fell by 62% to RM385 million in the six-month period ended 31 December 2018, from RM1,013 million registered in the same period last year, wholly attributable to the sharp decline in the CPO and PK prices by 26% and 38% respectively in the current period. The adverse price impact was partially mitigated by a 2% year-on-year rise in FFB production.

Segment	CPO Price Realised (RM per MT)			FFB Production (MT'000)		
	FP December 2018	FP December 2017	Var. %	FP December 2018	FP December 2017	Var. %
Upstream Malaysia	2,072	2,717	(24)	2,798	3,248	(14)
Upstream Indonesia	1,712	2,580	(34)	1,713	1,435	19
Upstream PNG/SI	2,213	2,701	(18)	994	746	33
Upstream Liberia	1,874	2,243	(16)	51	29	76
Total	1,974	2,672	(26)	5,556	5,458	2

PBIT of Upstream Malaysia declined by 58% to RM301 million for the period under review. The decline in PBIT was mainly attributable to the lower average CPO and PK prices realised (which declined by 24% and 35%, respectively) as well as lower FFB production (which declined by 14%). OER for FP December 2018 improved to 20.67% as compared to 20.21% recorded in FP December 2017.

Upstream Indonesia reported a PBIT of RM68 million, significantly lower than FP December 2017 of RM261 million, due to lower average realised prices of CPO (declined by 34%) and PK (declined by 43%). The adverse impact of lower prices was partially mitigated by the 19% increase in FFB production during the period under review.

PBIT of RM57 million recorded by Upstream PNG/SI was 26% lower at RM77 million achieved in the previous year corresponding period, due to the lower average CPO price realised which declined by 18% year-on-year. Nevertheless, the improvement in FFB production of 33% as compared to FP December 2017 has partially cushioned the adverse impact from lower prices.

Upstream Liberia operations reported a loss of RM41 million, which marginally lower than a loss of RM43 million in FP December 2017. Although the segment recorded lower CPO realised prices, the higher FFB production in the current period which was in line with the increased maturity of the planted area curtailed the full impact of the lower CPO prices.

**Sime Darby Oils**

Sime Darby Oils operations registered a PBIT of RM146 million, 9% higher than FP December 2017 of RM134 million. Bulk businesses showed improved results, contributed by

higher sales volumes and better margins. This compensated the lower profits from customised businesses in Asia Pacific ("APAC") and Europe, Middle East and Africa ("EMEA") which suffered from slower demand and declining margins from certain specialty products.

**Other Operations**

Other operations reported a PBIT of RM14 million as compared to RM38 million in the corresponding period of the previous year. The lower share of losses from associates and joint ventures in the current period partially compensated the decline in profits due to the recognition of RM39 million one-off dividend income received from an investment in the previous year.

**Finance Cost**

Finance costs incurred during the current period of RM110 million were 12% higher than FP December 2017, due to the increase in borrowings arising from the financing related to the acquisition of Markham Farming Company Ltd in August 2018 and the increase funding for working capital required in FP December 2018 attributable to the low prevailing market prices.

**Taxation**

The effective tax for the financial period ended 31 December 2018 is 31.8%, higher than the statutory tax rate primarily due to deferred tax assets not recognised in respect of tax losses and deductible temporary differences for certain loss-making subsidiaries mainly in Indonesia, Liberia and Netherlands totaling RM40.8 million.

## GROUP FINANCIAL PERFORMANCE

**Net Earnings**

The Group reported a net profit of RM244 million for the FP December 2018, comprising a recurring net profit of RM230 million and a non-recurring net profit of RM14 million. In comparison with the net profit for the corresponding period in the previous year of RM1,448 million, the decline was largely due to the non-recurring net profit of RM749 million recorded in the previous year related to the gain on sale of land to a related company and a one-off writeback of donation to Yayasan Sime Darby.

Earnings per share for FP December 2018 was similarly lower at 3.6 sen per share, as compared to 21.3 sen per share for FP December 2017.

**Return on Shareholder's Equity (ROE)<sup>(1)</sup>**

%	FP December 2018	FP December 2017*
As Reported	3.7	20.7
Excluding Non-Recurring Earnings	3.5	10.0

\* Unaudited.

<sup>(1)</sup> All ratios are annualised.

**GROUP BORROWINGS POSITION**

RM'million	December 2018	June 2018
Total Borrowings	7,297	6,489
Bank Balances, Deposits and Cash	491	363
Equity	15,746	16,314
Debt/Equity	46.3%	39.8%

The Group's borrowings as at 31 December 2018 increased to RM7.3 billion from RM6.5 billion reported at the end of the previous financial year ended 30 June 2018 (FY 30 June 2018), attributable to financing for the acquisition of Markham Farming Company Limited during the period as well as a net drawdown of RM384 million to finance the Group's working capital.

**GROUP CASH FLOW**

RM'million	FP December 2018	FP December 2017*
Revenue	6,543	7,626
EBITDA – Total	1,168	2,506
EBITDA – Recurring	1,154	1,734
Operating Cash Flow	847	1,178
Capital Expenditure	(801)	(642)
Investments	(228)	(24)
Proceeds from Disposals	111	439
Net Interest Received/ (Finance Cost)	(109)	(91)
<b>Free cash flow</b>	<b>(180)</b>	860

\* Unaudited.

Lower operating cashflow of RM847 million, 28% lower than FP December 2017 largely attributable to the lower profits generated by the operations given lower CPO prices, had posed greater challenges in reducing the Group's debt. However, the Group continued with its deleveraging initiatives which include asset monetisation and capital management which partially cushioned the shortfall in operating cashflow.

**ASSET MONETISATION**

The asset monetisation exercise serves the objective of unlocking value and realising cash from under performing assets or assets which have achieved its value potential.

During the period under review, the Group realised proceeds from disposals which include sale of a mill in Johor, Malaysia and the Group's entire 51% shareholding in Golden Hope Nha-Be, a subsidiary in Vietnam.

In addition to these disposals and as part of the asset monetisation exercise, the Group is in the midst of divesting amongst other the following assets which have been classified as assets held for sale:

- The entire 100% shareholding in PT Mitra Austral Sejahtera, a subsidiary in Indonesia;
- The entire 95% shareholding in PT Indo Sukses Lestari Makmur, a subsidiary which has a rubber development in Indonesia.

## GROUP FINANCIAL PERFORMANCE

## DIVIDENDS

In line with the Group's policy of distributing not less than 50% of the consolidated recurring net earnings as dividends to its shareholders, the Board of Directors of the Group has approved a final dividend of 1.7 sen per share with respect to the 6-month financial period ended 31 December 2018. The dividend will be paid in cash on 21 May 2019.

## DIVIDEND REINVESTMENT PLAN

During the Extraordinary General Meeting held on 21 November 2018, the shareholders of the Company approved the establishment of the Dividend Reinvestment Plan that provides the shareholders of the Company with an option to elect to reinvest their dividend in new ordinary shares of the Company ("DRP"). The Board of Directors of the Company has the authority to determine whether the DRP shall apply to a particular dividend distribution.

The Group's first DRP exercise was applied to the final dividend and the special final dividend for the financial year ended 30 June 2018, with acceptance of 54.0% of the total dividend payout. The acceptance rate would have been higher if not for the sharp decline in SDP's share price to below the DRP exercise price of RM4.85 per share in the weeks leading to the notice of election (NOE) submission date of 26 December 2018.

## VALUE DISTRIBUTION

The value that the Group creates for its stakeholders can either be in the form of financial returns or in non-financial or intangible forms.

The Statement of Value Added illustrates how the Group's performance supports its ability to deliver financial value to its stakeholders.

The financial value in the statement is based on the Profit before Finance Costs, Corporate Social Responsibility (CSR) expenses, Tax, Depreciation & Amortisation and Staff Cost.

## Value Added

(RM'000)	FP December 2018	FY June 2018
Turnover	6,542,548	14,368,888
Direct & Indirect Costs	(4,288,490)	(9,725,354)
<b>Value Added from Operations</b>	<b>2,254,058</b>	4,643,534
Other Operating Income	155,620	997,850
Other Gains/(Losses)	42,423	(52,667)
Share of Results of Joint Ventures	1,591	(22,855)
Share of Results of Associates	1,568	(13,932)
Finance Income	8,473	24,433
<b>Total Value Added</b>	<b>2,463,733</b>	5,576,363

## Value Distributed

(RM'000)	FP December 2018	FY June 2018
<b>Employees</b>	<b>1,294,676</b>	2,442,638
<b>Government &amp; Society</b>	<b>151,874</b>	523,292
<b>Providers of Capital</b>		
Dividends	204,025	238,029
Finance Costs	122,228	218,588
Non-Controlling Interests	5,626	33,624
Perpetual Sukuk	62,661	124,300
	<b>394,540</b>	614,541
<b>Reinvestment and Future Growth</b>	<b>622,643</b>	1,995,892
<b>Total Value Distributed</b>	<b>2,463,733</b>	5,576,363

## Note:

<sup>1</sup> Tax and CSR expenses.

<sup>2</sup> Gross finance costs.

## GROUP FINANCIAL PERFORMANCE

## 5-YEAR FINANCIAL HIGHLIGHTS

FINANCIAL YEAR/PERIOD ENDED (RM'000)	GROUP				
	FY 30 June				FP
	2015 <sup>(1)</sup>	2016 <sup>(1)</sup>	2017	2018	31 December 2018 <sup>(2)</sup>
<b>FINANCIAL RESULTS</b>					
Revenue	10,304,041	11,946,464	14,779,381	14,368,888	<b>6,542,548</b>
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	2,335,604	2,383,825	5,702,007	3,689,624	<b>1,167,664</b>
Profit Before Interest and Tax	1,537,600	1,259,369	4,455,335	2,535,977	<b>558,559</b>
Profit Before Tax	1,315,923	839,039	4,030,963	2,376,950	<b>457,047</b>
Profit After Tax	1,031,446	1,002,935	3,551,910	1,885,403	<b>311,795</b>
Perpetual Sukuk	-	-	(2,724)	(124,300)	<b>(62,661)</b>
Non-Controlling Interests	(34,333)	(35,756)	(42,087)	(33,624)	<b>(5,626)</b>
<b>Profit Attributable to Owners of the Company</b>	<b>997,113</b>	<b>967,179</b>	<b>3,507,099</b>	<b>1,727,479</b>	<b>243,508</b>
<b>FINANCIAL POSITION</b>					
Share Capital	600,000	600,000	600,000	1,100,000	<b>1,100,000</b>
Reserves	8,305,212	8,992,178	11,858,084	12,574,687	<b>12,018,449</b>
Shareholders' Equity	8,905,212	9,592,178	12,458,084	13,674,687	<b>13,118,449</b>
Perpetual Sukuk	-	-	2,231,384	2,230,717	<b>2,231,398</b>
Non-Controlling Interests	560,841	454,959	433,887	408,398	<b>396,078</b>
Total Equity	9,466,053	10,047,137	15,123,355	16,313,802	<b>15,745,925</b>
Borrowings	4,776,704	5,522,365	7,737,927	6,489,398	<b>7,296,914</b>
Liabilities Associated with Assets Held for Sale	-	-	15,395	45,993	<b>21,133</b>
Other Liabilities	13,248,443	12,867,607	6,578,200	4,642,482	<b>5,562,330</b>
<b>Total Equity and Liabilities</b>	<b>27,491,200</b>	<b>28,437,109</b>	<b>29,454,877</b>	<b>27,491,675</b>	<b>28,626,302</b>
Non-Current Assets	22,040,542	23,732,635	23,794,526	22,517,962	<b>23,583,606</b>
Current Assets Excluding Cash	4,337,531	4,064,272	4,763,309	4,391,511	<b>4,426,979</b>
Assets Held for Sale	10,712	3,862	183,594	218,964	<b>124,675</b>
Cash	1,102,415	636,340	713,448	363,238	<b>491,042</b>
<b>Total Assets</b>	<b>27,491,200</b>	<b>28,437,109</b>	<b>29,454,877</b>	<b>27,491,675</b>	<b>28,626,302</b>
<b>FINANCIAL RATIOS</b>					
Operating Margin (%)	15.2	10.6	30.7	17.9	<b>8.5</b>
Return on Shareholders' Equity (%)	11.2	10.1	28.2	12.6	<b>3.7<sup>(5)</sup></b>
Debt/Equity (%)	50.5	55.0	51.2	39.8	<b>46.3</b>
Debt/EBITDA (times)	2.0	2.3	1.4	1.8	<b>3.1<sup>(5)</sup></b>
<b>SHARE INFORMATION</b>					
Basic Earnings Per Share (sen) <sup>(3)</sup>	14.9	14.4	52.2	25.5	<b>3.6</b>
Net Assets Per Share Attributable to Owners of the Company (RM)	1.3	1.4	1.8	2.0	<b>1.9</b>
Net Dividend Per Share (sen)	100 <sup>(4)</sup>	116.7 <sup>(4)</sup>	150.0 <sup>(4)</sup>	17.5	<b>1.7</b>

**Note:**

<sup>1</sup> Restated following the first-time adoption of the MFRS framework and early adoption of MFRS 15.

<sup>2</sup> A six-month financial period.

<sup>3</sup> The weighted average numbers of ordinary shares in issue for the financial year ended (FY) 30 June 2015 to FY 30 June 2017 have been adjusted for 1 : 11.19 share split.

<sup>4</sup> Number of ordinary shares in issue of 600,000,000 as at 30 June 2015, 30 June 2016 and 30 June 2017.

<sup>5</sup> Ratio is annualised.

## MANAGEMENT DISCUSSION & ANALYSIS

**During FP December 2018, the palm oil industry remained volatile on the back of a challenging economic landscape due to the political trade war between China and the United States of America, as well as greater volatility in the foreign exchange markets. These uncertainties were further exacerbated by the European Union’s proposed ban on the use of palm oil in biodiesel, as well as high inventory levels and weaker export demand from major consuming countries, which in turn impacted crude palm oil (CPO) prices. Despite these tough conditions, SDP still recorded a profit before tax (PBT) of RM457 million for the period under review and a net profit of RM244 million, after tax and minority interest.**

Sime Darby Plantation’s (SDP) greater agility as a pure play entity enabled the Group to mitigate these market driven volatilities whilst demonstrating our commitment to creating sustainable value for our shareholders. With the introduction of RISE to APEX – the culture transformation initiative and value creation programme – the Group is confident of its capability to continue unlocking and creating greater sustainable values for shareholders. Our culture transformation, RISE, which incorporates six (6) Winning Mindsets, continued to propagate a culture of accountability to strengthen the organisational health and drive the performance of the Group. Meanwhile, under the custody of the Transformation Office, the APEX journey has thus far shown encouraging results for the Group. From the Idea Generation Workshops conducted across SDP’s global operations, a total of 1,570 ideas were generated within seven (7) workstreams; namely - Upstream, Sime Darby Oils, Cash Control Tower, R&D, Special Projects (Renewables & Integrated Economics), Organisational Development & People and Digital. Out of these ideas, 522 initiatives have been validated.

Moving forward in FY2019, while the Group’s Upstream operations continue to focus on operational excellence to improve efficiency and productivity, our Downstream business will play an important role to bolster the Group’s financial performance amidst the volatile commodity prices. Following a rebranding exercise in March 2019, the Group’s entire Downstream business is now represented by a single entity named Sime Darby Oils (SDO) to realise the full potential of SDP as a trusted brand for its sustainability credentials and superior product qualities. Throughout FP December 2018, the Group continued to seek opportunities to diversify our operations within the palm oil value chain. This was done to maximise value and explore opportunities to enlarge the income stream for Upstream, SDO and the Group’s other businesses. A key highlight is SDP’s acquisition of Markham Farming Company Limited (MFCL) in Papua New Guinea, which proved to be a boost to our Upstream and Downstream sectors. Through the acquisition, SDP now owns two (2) copra mills that have a total combined throughput capacity of 55,000 MT per annum. This will enable SDP to expand our lauric oils business into coconut oil production. SDP’s total operating area also increased by about 6,000 ha, of which 4,000 ha is planted with oil palm.

A total of **1,570** ideas generated within seven (7) workstreams

- UPSTREAM**
- SIME DARBY OILS**
- CASH CONTROL TOWER**
- R&D**
- SPECIAL PROJECTS**  
(Renewables & Integrated Economics)
- ORGANISATIONAL DEVELOPMENT & PEOPLE**
- DIGITAL**

*A panoramic view of Elphil Estate, Malaysia*

## MANAGEMENT DISCUSSION &amp; ANALYSIS

● Profit before tax  
**RM457**  
million

● Net Profit  
**RM244**  
million

● The Group operates  
**250**  
estates and  
**73** mills  
in five (5)  
countries

**BUSINESS REVIEW**

During FP December 2018, the Group's Upstream business contributed 71% of the Group's total recurring PBIT despite significant volatility in CPO prices and the palm oil market. Revenue decreased 16% compared to the previous year due to the decline in actual realised selling prices of CPO and PK by 26% and 38% respectively. However, this was mitigated by our Upstream operations' improvement in production cost by 0.6%, as well as higher yield and oil extraction rate (OER) by 3% and 1% respectively compared to previous corresponding period.

The Group's Upstream business focuses on oil palm, rubber and sugar plantations while the secondary activities are cattle rearing for meat production and copra mills for coconut oil production. The Group operates 250 estates and 73 mills in five (5) countries, with oil palm being our main plantation business covering 603,145 ha of planted area in Malaysia, Indonesia, PNG, Solomon Islands (SI) and Liberia. In addition to oil palm, the Group also owns 14,725 ha of rubber estates in Malaysia, Indonesia and Liberia; 5,613 ha of sugarcane plantations and 9,560 ha of grazing pasture in PNG.

As the world's largest producer of Certified Sustainable Palm Oil (CSPO), 97% of the Group's Strategic Operating Units (SOUs) are certified under the Roundtable on Sustainable Palm Oil (RSPO). Meanwhile, 100% of the Group's SOUs in Malaysia are certified under the Malaysian Sustainable Palm Oil (MSPO) and 96% of the Group's SOUs in Indonesia are certified under the Indonesian Sustainable Palm Oil (ISPO).

SDO contributed 27% of the Group's total recurring PBIT for the period under review. The business recorded continued growth in profits from its Asia Pacific operations. This was highly attributable to increased sales volume and better margins from both the bulk and customised products businesses. Amidst a volatile palm oil market throughout the year, the stronger trading and bulk performance was largely due to increased margins and higher aggregation in our refinery in Indonesia. This has compensated the lower profit contribution from our customised products businesses in Europe, Middle East and Africa, which were impacted by lower demand.

SDO's tagline, '**Realising Possibilities, Together**', reflects its philosophy of collaborating with its partners to produce quality and enriching products as well as ensuring sustainable living for consumers. With our extensive network and global footprint, SDO strives to be the most accessible supplier of oils and fats by focusing on:



**Quality** – Delivered through the highest standards of operational excellence, resulting in optimum cost efficiencies, quality, quantity and timing



**Sustainability** – Commitment to sustainability, as well as fully traceable and segregated supply chain; being a good corporate citizen in all our environmental and social practices



**Integration** – Secured supply of feedstock in an efficient and fully-integrated value chain



**Innovation** – Anticipate the world's oils & fats' needs with innovation and R&D

Several SDO's business units have received recognition and awards from customers as well as the government for their efforts in driving continuous improvement and excellence:



Morakot Refinery (Thailand):

**The Thailand Corporate Excellence 2018** by Thailand Management Association and the Excellence Supplier 2018 by Central Restaurants Group (CRG).



Pulau Laut Refinery (Indonesia):

**The Gold Achievement Award in 2018** by the 7<sup>th</sup> Indonesia Operational Excellence Conference; the **ACE Award 2018 for Best Impact on Transformation** by Global Organisational Excellence Congress in Abu Dhabi; and the **Zero Accident Award in 2018** from the South Kalimantan Governor for operational safety (accumulating 1,880,940 man-hours work without any accidents from January 2014).



MANAGEMENT DISCUSSION & ANALYSIS

**OPERATIONS REVIEW**

During FP December 2018, our Upstream operations focused on continuous improvement to increase productivity and efficiency through replanting high yielding planting materials, effective water management practices, and enhanced mechanisation and digitisation.

The Group also embarked on an asset rationalisation initiative which include disposing or swapping non-performing or non-strategic assets to maximise value. In October 2018, the Group disposed of Bintang Mill in Johor, Malaysia as part of this asset rationalisation exercise. The aforementioned acquisition of MFCL in August 2018 added 4,000 ha of oil palm planted area to the Group and marked our presence in the copra business.

Our Upstream operations also recorded an improvement in yield and OER performance compared to the same period last year. This was driven by continuous operational improvements such as fertiliser application, water management, crop quality improvement initiatives and other best agricultural management practices. Upstream operations recorded a 3% yield improvement, mainly due to the improvements made by operations in Indonesia and PNG/SI, while the 1% OER improvement was mainly recorded by operations in Malaysia.

Apart from yield and OER improvements, SDP also continued to find new ways to improve efficiency and productivity along the palm oil value chain. Through our Outside Crop Purchased (OCP) business, we have strengthened our competitiveness via collaborations with independent smallholders, as well as external private and government growers. OCP has contributed positively



*CPO storage tanks at one of our mills*

to our business by increasing mill utilisation which indirectly benefitted our refineries and kernel crushing operations.

SDO plays a key role in helping the Group overcoming headwinds. With an extensive global network of facilities in eight (8) countries (Malaysia, China, Netherlands, United Kingdom, South Africa, Thailand, Indonesia and Papua New Guinea), SDO's operations oversees the trading, manufacturing and sales and marketing of oils and fats products, palm oil-based biodiesel, nutraceuticals and other derivatives. Under this core business, SDO manages and operates 11 refineries with a total capacity of 3.8 million MT per year and a total bulking installation capacity of 300,000 MT.

- SDO manages and operates **11** refineries with a total capacity of **3.8 million MT** per year and a total bulking installation capacity of **300,000 MT**



*An aerial view of our New Britain Palm Oil Estate, Papua New Guinea*



## MANAGEMENT DISCUSSION &amp; ANALYSIS

Amidst the volatility of commodity prices, SDO completed a total of 167 Lean Six Sigma projects during the period under review focusing mainly on manufacturing efficiencies.

Facility development in SDO is integral to ensure it has the proper infrastructure to function well. The Group is carrying out three (3) key projects under these initiatives. The biodiesel plant expansion is progressing well and is due for completion in April 2019. A segregated bonded storage facility at SDO's PT Pulau Laut Refinery (formerly known as PT Golden Hope Nusantara) is on track and has started operation. SDO's Langat Refinery (formerly known as Jomalina Refinery) has started its capacity expansion in November 2018.

To further improve profit margins, SDO continues to focus on developing customer solutions and speciality products.

### OUTLOOK AND PROSPECTS

Moving forward, the management team will be guided by the three (3) specific growth and competitive strategies encapsulated in our five-year (5) strategy blueprint, namely to drive operational excellence in Upstream operations; to serve our customers' evolving needs through SDO; and to maximise returns across our palm oil value chain by leveraging on our integrated business model. Our culture transformation journey through "RISE to APEX" will further drive performance to achieve the Group's value creation aspirations while the Transformation Office will continue to monitor, track and ensure effective execution of our strategies.

In FY2019, the management will consistently look at continuous improvement initiatives to improve work processes, with the aim of improving operational excellence, efficiency, productivity and cost.

These initiatives will include significant focus on the introduction of digital innovation in all aspects of our business.

In Upstream, we are committed to increasing our drive to leverage on technology to enhance analytics, improve processes and increase productivity to further create value.

SDO will continue to strive for an excellent Refinery Performance Index (RPI), which measures the overall performance of the business units, through full asset utilisation and enhancing process efficiency while strengthening safety and health at work.

SDO will also continue to add value to our products and increase our competitiveness locally and internationally through efficient trading, marketing and logistics management, as well as collaborating with Upstream. We are also working towards growing our trading activities by further enhancing our risk management system to ensure a more holistic management of the sector's financial exposure.

We will also work towards becoming a digitally-enriched integrated global palm oil company. Our current focus areas for digital initiatives cut across both Upstream and SDO operations. Once succeed, they will be replicated in phases throughout the Group.

SDP will continue to embrace "Business Unusual", a working concept to ensure that it remains relevant and ahead of its competitors. By focusing our energy on developing a sustainable innovation culture, we aspire to ensure the organisation embraces a single purpose — to protect, sustain and leap the growth of SDP's value towards making SDP the leading integrated global palm oil player.



*The Mini Tractor Grabber (MTG) is one of the mechanisation initiatives that has long been implemented in SDP*

## MANAGEMENT DISCUSSION &amp; ANALYSIS

## 2.5-Year Operational Review

	FY2017 (July 16 - June 17)				
	Malaysia	Indonesia	PNG & SI	Liberia	Total
FFB Production (in MT)	5,293,071	2,671,576	1,792,361	27,038	<b>9,784,046</b>
<b>OP Hectarage (in ha)</b>					
• Mature hectares	254,703	162,480	75,607	9,305	<b>502,095</b>
• Immature hectares	49,103	39,821	10,616	1,097	<b>100,637</b>
• Total planted hectares	303,806	202,301	86,223	10,402	<b>602,732</b>
Yield per Hectare (in MT/ha)	20.76	16.03	23.88	4.04	<b>19.44</b>
<b>FFB Processed (in MT)</b>					
• Own	5,293,068	2,669,115	1,792,361	27,038	<b>9,781,582</b>
• Outside	544,180	728,156	581,782	3,348	<b>1,857,466</b>
• Total	5,837,248	3,397,271	2,374,143	30,386	<b>11,639,048</b>
<b>Mill Production</b>					
• Crude Palm Oil (in MT)	1,200,041	723,724	548,526	5,691	<b>2,477,982</b>
• Palm Kernel (in MT)	289,120	158,810	136,048	181	<b>584,159</b>
• Oil Extraction Rate (%)	20.56	21.30	23.10	18.73	<b>21.29</b>
• Kernel Extraction Rate (%)	4.95	4.67	5.73	2.48	<b>5.02</b>
<b>Rubber</b>					
• Planted hectare (in ha)	11,514	1,718	N/A	107	<b>13,339</b>
• Rubber production (in '000kg)	7,690	N/A	N/A	N/A	<b>7,690</b>
• Yield per Hectare (kg/ha)	1,845	N/A	N/A	N/A	<b>1,845</b>
<b>Sugarcane</b>					
• Planted hectare (in ha)	N/A	N/A	5,613	N/A	<b>5,613</b>
• Cane yield (MT/ha)	N/A	N/A	67.01	N/A	<b>67.01</b>
<b>Beef Production</b>					
• Total herd (in heads)	N/A	N/A	24,803	N/A	<b>24,803</b>
• Average deadweight (kg/head)	N/A	N/A	261	N/A	<b>261</b>
<b>Total Landbank/Concession</b>	344,783	283,376	141,293	220,000	<b>989,452</b>

## MANAGEMENT DISCUSSION &amp; ANALYSIS

FY2018 (July 17 - June 18)					FY2018 (July 18 - December 18)				
Malaysia	Indonesia	PNG & SI	Liberia	Total	Malaysia	Indonesia	PNG & SI	Liberia	Total
5,822,150	2,614,615	1,731,006	64,611	<b>10,232,382</b>	2,798,425	1,712,521	994,214	51,154	<b>5,556,314</b>
252,055	158,180	77,500	9,701	<b>497,436</b>	244,963	158,791	79,126	9,975	<b>492,854</b>
48,972	43,040	9,804	741	<b>102,557</b>	55,767	42,282	11,955	288	<b>110,292</b>
301,027	201,220	87,304	10,442	<b>599,993</b>	300,730	201,072	91,081	10,263	<b>603,145</b>
23.13	16.40	22.36	6.78	<b>20.51</b>	11.40	10.72	12.59	5.13	<b>11.25</b>
5,822,123	2,614,615	1,731,006	64,611	<b>10,232,354</b>	2,798,425	1,712,521	994,214	51,154	<b>5,556,314</b>
1,133,700	705,801	537,008	10,726	<b>2,387,235</b>	508,669	489,052	287,786	1,281	<b>1,286,788</b>
6,955,823	3,320,416	2,268,014	75,337	<b>12,619,589</b>	3,307,094	2,201,573	1,282,000	52,435	<b>6,843,102</b>
1,418,945	710,207	508,263	15,520	<b>2,652,935</b>	683,678	465,306	288,677	11,042	<b>1,448,703</b>
356,930	159,529	130,437	2,989	<b>649,886</b>	171,670	105,759	75,405	3,156	<b>355,991</b>
20.40	21.39	22.41	20.60	<b>21.02</b>	20.67	21.14	22.52	21.06	<b>21.17</b>
5.13	4.80	5.75	3.97	<b>5.15</b>	5.19	4.80	5.88	6.02	<b>5.20</b>
12,674	1,924	N/A	107	<b>14,705</b>	12,680	1,924	N/A	121	<b>14,725</b>
6,512	N/A	N/A	N/A	<b>6,512</b>	4,038,335	N/A	N/A	N/A	<b>4,038,335</b>
1,318	N/A	N/A	N/A	<b>1,318</b>	770	N/A	N/A	N/A	<b>770</b>
N/A	N/A	5,613	N/A	<b>5,613</b>	N/A	N/A	5,613	N/A	<b>5,613</b>
N/A	N/A	52.59	N/A	<b>52.59</b>	N/A	N/A	50.69	N/A	<b>50.69</b>
N/A	N/A	26,013	N/A	<b>26,013</b>	N/A	N/A	23,527	N/A	<b>23,527</b>
N/A	N/A	268	N/A	<b>268</b>	N/A	N/A	260	N/A	<b>260</b>
343,445	299,278	140,373	220,000	<b>1,003,096</b>	343,251	299,255	146,463	220,000	<b>1,008,969</b>

MANAGEMENT DISCUSSION & ANALYSIS

STRATEGY



Upstream



**Progressive Replanting –**  
Replanting programme at an average of 4% to 5% to improve the Group's average palm age.



**High Yielding Material –**  
Planting of GenomeSelect™ to improve oil yield by up to 15% compared to current commercial offering, Calix 600.



**Human Capital Capacity Building –**  
Strengthen and equip the organisation with the right competencies and capacity to drive performance, sustainable transformation and continuous operational excellence.



**Water Irrigation –**  
To mitigate the adverse effects of potential El-Nino phenomenon on production performance using the best irrigation methods.



**Mechanisation –**  
Expansion of mechanisation area particularly for infield FFB collection to improve operational efficiencies.



**Workers Rationalisation –**  
A 5-year exercise to get the best workers ratio in the field. Upstream Malaysia and Indonesia have shown positive results from this exercise.



**Asset Rationalisation –**  
Evaluation of assets that are not giving the maximum value to Upstream. Disposal of non-performing and under-performing assets.



**Fertiliser Cost Reduction –**  
Opting for a cheaper fertiliser alternative i.e. converting from Compound to Straight fertiliser without compromising on the nutrient contents. The Indonesian region will be the main beneficiary of this initiative.



**Lean Six Sigma –**  
In Financial Period Ended December 2018:  
  
Upstream Malaysia completed a total of 322 Lean Six Sigma projects.  
  
Upstream Indonesia completed a total of 212 Lean Six Sigma projects.



**Continued focus on innovation to improve productivity and efficiency –**  
Introducing innovation in operational processes to reduce manpower, increase productivity and quality i.e. semi-mechanised manuring through a modified version of the *Badang* (mechanical buffalo) and mobile loose fruit collection and cleaning machine.

Sime Darby Oils (SDO)



**Global Trading**  
As the asset managers of SDP's bulk palm oil refineries, the Global Trading team is responsible for the distribution of the Group's CPO and PK to our refineries and third parties, sourcing of feedstock from internal and external sources and the sales of bulk refined products from Malaysia and Indonesia. The team continuously adds value to our bulk products and increases our competitiveness locally and in our destination markets through efficient trading, marketing and logistics management, as well as collaborations with Upstream.



**Customised Products**  
In line with SDO's strategy to focus on customised products with higher margins, the Regional Heads and Customer Solutions Team (CST) are collaborating with our Innovation Centres to introduce and market new product offerings to existing and potential customers globally.

Using the centre-led approach, SDO mandates the Regional Heads of Asia Pacific, Africa and Europe to formulate their own go-to-market strategies and drive tactics to increase sales and market share in both the business-to-business (B2B) and business-to-customer (B2C) segments in their respective regions.



Sime Darby Oils Langat Refinery, Banting, Malaysia

## Sime Darby Oils (SDO) Refinery and Crushing Plant



### Bulk Refineries

- SDO Port Klang Refinery (Nuri Refinery) and SDO Bintulu (SD Austral) in Malaysia,
- SDO Pulau Laut Refinery (PT GH Nusantara) in Indonesia,
- SDO Kimbe Refinery (Kumbango) in PNG.

### Customised Refineries

- SDO Langat Refinery (Jomalina Refinery) and SDO Pasir Gudang Refinery (Kempas Refinery) in Malaysia,
- SDO Morakot in Thailand,
- SDO Zwijndrecht Refinery (SD Unimills) in the Netherlands,
- SDO South Africa Refinery (SD Hudson & Knight Refinery) and SDO Liverpool Refinery (New Britain Oils Liverpool) in the United Kingdom (UK).

### Biodiesel

- SDO Biodiesel Malaysia (production capacity of about 60,000 MT per annum).



### Kernel Crushing Plants (KCP)

- Two (2) in Malaysia (Carey Island KCP, Selangor and Sarawak),
- Two (2) in Indonesia (Pemantang KCP, Kalimantan Tengah and Rantau KCP, Kalimantan Selatan),
- Five (5) in PNG and one (1) in the Solomon Islands.

### Soya Crushing Plant

- SDO Nonthaburi in Thailand.

### Copra Mills

- Buka (Buka CCP) and Madang (Madang CCP) in Papua New Guinea PNG.
  - The recent acquisition of Markham Farming Company Limited (MFCL) in Papua New Guinea PNG which have a total combined copra throughput capacity of 55,000 MT per annum will enable SDO to expand our lauric oils business into coconut oil production.

MANAGEMENT DISCUSSION & ANALYSIS

**OTHER BUSINESSES**

The Group constantly explores new opportunities along the palm oil value chain to generate new income sources for its Upstream and Sime Darby Oils businesses. The implementation of sustainable businesses has spurred our Renewables business to consider utilising feedstocks within the value chain to enhance green technology initiatives such as biomass, biogas and the production of organic fertilisers.

In line with the Group's commitment to proactively reduce carbon emissions and complying with potential future legislations, SDP is operating several biogas plants for feed-in-tariff, captive power and flaring. The Group has completed a total of nine (9) biogas plants – five (5) in Malaysia, two (2) in Indonesia and two (2) in PNG. SDP is also planning to develop several more biogas plants at strategic locations throughout our operations over the next five (5) years. SDP is also proactively exploring other various methane avoidance technologies that can potentially generate cheaper power and steam for our palm oil mills as well as to effectively manage waste.

The nature of our business makes it easy to produce organic fertilisers. Composting converts palm oil milling by-products such as EFBs, POME, decanter cakes and boiler ash into organic fertilisers. SDP is currently marketing our organic fertilisers under the brand Flemington. Our products are divided into three (3) categories and can be used for palm related applications, cash crops as well as turfing and landscaping. The Flemington products can be found at the online shopping platform [www.Lazada.com.my](http://www.Lazada.com.my), through our distributors, or directly purchased from SDP.

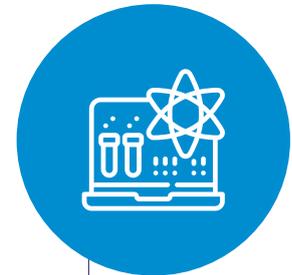
Our agribusiness segment also sells RSPO-compliant rat bait and markets agricultural products such as cover crop seeds, fertilisers and planting material seeds to other plantation companies and corporations, government agencies and smallholders via a network of local distributors.

**Research & Development**

Sime Darby Plantation has been at the forefront of agricultural research and development since the early 1900's. The Group has well-established facilities in five (5) countries; five (5) Research & Development (R&D) centres, in Malaysia, Indonesia and PNG; three (3) Innovation Centres, in Malaysia, the Netherlands and South Africa; and one (1) genetic testing facility in Malaysia. These centres of research and innovation are empowered by more than 190 scientists and technicians, who are developing better seedlings and systems to enhance plantation yields, reinventing the milling process for improved production and designing new technologies to bolster Sime Darby Oils activity.



**5**  
Research & Development (R&D) Centres



**3**  
Innovative Centres



**1**  
Genetic Testing Facility



More than  
**190**  
Scientists and Technicians

Since 2016, we have been planting GenomeSelect™ palms, which were developed by SDP's scientists. Commercial planting of high-yielding GenomeSelect™ materials continued with a further 500 ha planting in three (3) locations in Selangor and Perak, Malaysia. A larger area will be planted in 2019 and efforts to reach full replanting scale in 2022 are on track. GenomeSelect™ fields planted in 2016 are showing very encouraging oil yield results to date and these palms are expected to produce 15% more oil than the previous generation of planting materials. Additional semi-commercial scale planting of dwarf palm materials was completed in Johor to provide detailed proof of value for commercial planting in the future. These shorter materials can increase harvesting efficiency from maturity onwards.

Meanwhile, the Dami Oil Palm Research Station (OPRS) in PNG has been working on SuperFamily™ cultivars with improved oil extraction rates and bunch numbers.

## MANAGEMENT DISCUSSION &amp; ANALYSIS

Several agronomic trials conducted by the research team have brought about refinement and new approaches in fertiliser management leading to higher economic returns while reducing environmental load. Similarly, there have been efforts to optimise the use of green fertiliser to enhance soil health for sustainable production. Semi-dwarf planting materials are being evaluated for high planting density, which will offer longer economic life and greater early returns. Inroads are being made in early pest and disease detection using advanced remote sensing and non-invasive technologies.

A key strategy to enhance productivity and efficiency in our estates is to increase the use of mechanised solutions. Towards this end, machines to assist in more efficient fresh fruit bunch (FFB) evacuation have been tested in the field and is in the process of being scaled up.

An initiative in palm oil milling to improve the oil extraction process is being focused on the application of a biocatalyst and an inorganic surfactant. These initiatives have the potential to increase the OER by 0.5% based on the evaluations in two mills.

The six-month period saw five (5) new quality consumer products developed by the Innovation Centre (IC) in Malaysia, which were subsequently launched in Asia. The IC also provides extensive technical support and services to internal and external customers. Efforts are currently under way to phase out the trans-fats from our product offerings.

In addressing customer's concern on 3-Monochloropropanediol (3-MCPD) and glycidyl esters (GE), research focus has been zeroed in reducing these contaminants. R&D is now able to recommend measures to ensure the levels of 3-MCPD and GE in products meet the requirements of the authorities and customers in all our countries of operations.

Our R&D Lab, an ISO accredited internal laboratory, carried out over 201,000 analysis valued at RM4.53 million for the Group, providing an estimated savings of RM0.62 million. The lab has continued to develop new rapid methods and expand its lab automation and robotics to cover soil, water and food safety tests to increase its throughput. The lab also expanded its scope of accreditation and has more than 150 tests accredited to ISO 17025.

Going forward, in FY2019, R&D will continue to focus on the three (3) key strategies of yield/productivity improvement, increasing revenue streams and developing sustainable practices.

#### R&D will continue to focus on the three (3) Key Strategies



Further progress on the following initiatives can be expected:

- Developing and commercialising new secondary oil palm traits to improve harvesting efficiency, climate change tolerance and disease resistance.
- Research into new ways to understand and improve palm oil quality is also ongoing and being tested in commercial-scale feasibility studies.
- Developing new methods to improve fertiliser uptake efficiency and yields on poorer soils.
- Embarking on Agriculture 4.0 and Nutrient Efficient Genotypes to allow for sustainable use of resources and to improve productivity.
- Progress in various agronomic trials that support continuous improvement of best practices and agronomic efficiencies in our estates.
- Continued development and deployment of mechanisation solutions.
- Large-scale deployment of new precision agriculture tools is targeted in the coming year. Additionally, work will progress in developing models for plant health and nutrition.
- Alternative palm oil extracting method and a waste oil recovery programme that will generate additional value and support our target of zero discharge from our mills.
- Construction of an R&D experimental station for the development of future palm oil milling, equipped with facilities that will enable the measurement of all processing parameters.
- Reformulation of trans-fats into trans-free fats without sacrificing product functionality and performance towards generating of healthy product lines.

MANAGEMENT DISCUSSION & ANALYSIS

Digital Initiatives

SDP operationalised a Digital Strategy team under the Chief Advisory and Value Creation office in 2018. The main objective of this team is to incubate and nurture digital-related ideas in line with the vision of making SDP a digitally-integrated global palm oil company. The focus of the Digital Strategy team during FP December 2018 is to identify the key pain-points and relevant digital use cases to address those pain points. Currently, there are a number of digital initiatives piloted by the Digital Strategy team which cuts across both Upstream and Sime Darby Oils operations. If successful, these pilot initiatives will be replicated in phases throughout the Group. Our current focus areas are as follows:



- Our estates are also digitalising various systems for greater ease and efficiency in managing operations. In this regard, our precision agriculture programme has developed satellite imaging-based methods for conducting routine surveying work and identifying problematic areas. Additionally, our water management project utilising remote sensing, hydrology and hydraulic approaches has proven successful in assisting estate management in making decision on water related issues. At the same time, data collection, calibration and validation for pest and disease detection are on going and preliminary results are promising.
- Meanwhile, drone imagery has become operational in PNG to enable more accurate palm count and to assist in identifying underperforming areas within management units.
- New sensors have been developed and are being tested to enable process control and feedback in mills towards higher OER and quality. Construction of an Experimental R&D Station with a five (5) tonne/hour conventional mini mill has been initiated at KKS Tennamaram, Selangor, Malaysia.

CONCLUSION

SDP is positive about the new financial year based on our efforts and initiatives to increase productivity and efficiency, which are already bearing fruit. We will continue to focus on operational excellence in our Upstream operations, and leverage on the rebranding of Downstream as SDO to increase the segment’s profit contribution towards the Group and enhance SDP’s integrated business model.

The Group believes the new financial year will indeed be an exciting phase in unlocking sustainable value and reinforcing the Group’s aspirations.