


Company Engagement Report | 22 January 2024
SIME DARBY PLANTATION BERHAD (SDP)

Date/Time : 22 January 2024 (Monday) at 10:00 am. - 11.00 am.
 Venue : Boardroom, Level 12, Sime Darby Plantation Berhad, Plantation Tower,
 No. 2, Jalan PJU 1A/7, Ara Damansara, 47301 Petaling Jaya, Selangor

	Attendance: IIC Representatives	Attendance: SDP Representatives
1.	Mr. Gerald Michael Ambrose Council Member/Chief Executive Officer, abrdn Malaysia Sdn. Bhd	Tan Sri Dr. Nik Norzrul Thani Nik Hassan Thani Chairman, Non-Independent Non-Executive Director Sime Darby Plantation Berhad
2.	En. Muazzam bin Mohamad Working Committee/Senior Vice President and Head of the Investment Stewardship ("IS") Division Permodalan Nasional Berhad (PNB)	Dato' Halipah Esa Independent Non-Executive Director Sime Darby Plantation Berhad
3.	En. Muhammad Fadhil bin Jamaluddin Director, Head of Sustainability & Investment Management Operations Principal Islamic Asset Management Sdn Bhd	Datuk Mohamad Helmy Othman Basha Group Managing Director Sime Darby Plantation Berhad
4.	Mr. Lim Wei Ren Sustainability Manager Eastspring Investments Berhad	En. Mohd Haris Mohd Arshad Managing Director Sime Darby Oils
5.	En. Iqmal Abdul Jalil Fund Manager, Equities Eastspring Investments Berhad	Ms. Renaka Ramachandran Chief Financial Officer Sime Darby Plantation Berhad
6.	Ms. Tan Yee Cheng (Helen) Head of Research AmFunds Management and AmIslamic Fund Management	
7.	Mr. Ong Soon Chong Head, ETF & ESG Investment Kenanga Investors Berhad	
8.	Mr. Padharmendren Annadorai VP, Portfolio Startegy & Research Department Kumpulan Wang Persaraan (Diperbadankan)	
9.	En. Nor Azam Yahya Head of Research Kumpulan Wang Simpanan Pekerja (EPF)	
10.	Haji Sabaruddin Ismail IIC Secretariat Institutional Investors Council	



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11.	Mohamad Firdaus Rosli IIC Secretariat Institutional Investors Council	
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Introduction

The Chairman of Sime Darby Plantation Berhad (SDP), Tan Sri Dr. Nik Norzrul Thani Nik Hassan Thani welcomed everyone present at the engagement session. The Group MD, Datuk Mohamad Helmy Othman Basha introduced his fellow Board members and also informed them of the presence of key senior management at the engagement.

Tan Sri Dr. Nik Norzrul asked IIC delegates to introduce themselves individually.

Presentation by Sime Darby Plantation Berhad

Datuk Mohamad Helmy Othman Basha, the Group Managing Director of Sime Darby Plantation Berhad (SDP) welcomed everyone and presented the company's financials and operations. The salient points from the presentation were as follows:

- 1) SDP is the largest producer of Certified Sustainable Palm Oil (CSPO) and is 100% certified by the Roundtable on Sustainable Palm Oil (RSPO), Malaysian Sustainable Palm Oil (MSPO), and Indonesian Sustainable Palm Oil (ISPO).
- 2) Business Snapshot for FY2022: SDP has approximately 600,000 hectares of planted area across various crops including oil palm, rubber, sugar cane, coconut, and grazing pastures. The operations are spread across 13 countries to focus on innovation and transformation in operations.
- 3) SDP's business is divided into two main parts: upstream and downstream. Upstream involves growing and managing plantations for oil palm, rubber, sugarcane, and coconut. This includes processing fresh fruit bunches (FFB) into crude palm oil (CPO) and palm kernel (PK), and selling rubber, sugarcane, and coconut products. Downstream focuses on producing and selling oils and fats, catering to different needs. It also includes making biodiesel from palm oil and selling derivatives and oleochemicals for industrial use.
- 4) In FY2022, the group's financial performance notably improved, especially in the downstream segment. Revenue increased by 13% YoY to RM 21.03 billion, and profit before interest and tax (PBIT) rose by 2% YoY to RM 3.674 billion. Continuing operations PBIT amounted to RM 1.853 billion. The dividend policy ensures a payout ratio of at least 50% of consolidated recurring PATAMI. Return on equity for continuing operations stood at 15.2%, with basic earnings per share at RM 36.00. These highlights indicate a strong performance in FY2022.
- 5) The palm oil industry faces challenges such as climate action, human rights, and the necessity to reduce manual labor by speeding up mechanization. To tackle these issues, efforts are underway to prioritize stakeholders' interests, enhance workplace safety, and promote sustainability. The industry is also working on modernizing



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operations and reshaping the perception of palm oil employment. Moreover, there's a focus on operational efficiency and decreasing reliance on foreign labor.

- 6) The strategic pillars of Sime Darby Plantation's comprehensive five-year strategic blueprint. These elements guide the company's growth and long-term success. The plan emphasizes leadership in climate action and social responsibility, enhancing core operations to deliver value to customers, and preparing for the future with unique insights. These pillars are driven by the company's focus on sustainability, particularly in climate action. It offers a glimpse into the company's goals and areas of focus for achieving sustainable growth and success.
- 7) The sustainability strategy focuses on key areas like climate action, human rights, responsible sourcing, and innovation. SDP aims to lead in climate action and social responsibility, focusing on reaching net-zero targets through renewables, land use changes, and recycling biomass. It also prioritizes its people, ensuring fair recruitment and worker welfare, and preventing forced labor. Responsible sourcing is emphasized, with commitments to avoid deforestation, peat use, and exploitation, and engaging suppliers to cut emissions. Lastly, innovation and digitalization are used to boost business, especially by using automation and digital platforms to improve plantation operations.
- 8) The operational excellence strategy for SPDL focuses on transforming Sime Darby Oils (SDO) to achieve high performance and efficiency. It includes initiatives like improving manufacturing, modernizing operations, and speeding up mechanization to create better jobs locally. The strategy also aims to boost upstream productivity, replanting efforts, and use digital plantation technologies. Sustainability, human rights, and climate action are central to this strategy. The goal is to improve workplace safety, grow the business through innovation and digitalization, and ensure long-term success by providing the best value to customers.

Issues Discussed

Issues	Remarks/Comment
<p>Labour Rights & Human Rights</p> <p>1. Mr. Padharmendren asked about SPDL's social dialogues for their workers and how management assesses their effectiveness.</p>	<p>1. Ms. Renaka addressed the inquiries by explaining that social dialogues have been implemented across all operational units of SPDL, totaling approximately 150 in Malaysia. These dialogues commence with meetings involving representatives who represent the various local communities within the group from different countries. This approach aims to facilitate interactions and overcome language barriers. To assess the effectiveness of these social dialogues, monthly reporting meetings are conducted, and an app is provided for workers to raise questions and highlight issues. This app will be</p>


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	<p>monitored by operating units but also monitored ahead of this for 2 critical reasons:</p> <ol style="list-style-type: none"> i. Timeliness of closing the issues (different issues have their timelines) ii. The quality of the closure <p>This enables comparison of the consistency of closure quality across the units, ensuring transparency in the social dialogue process.</p>
<p>Withhold Release Orders (WROs)</p> <ol style="list-style-type: none"> 1. Mr. Gerald brought up an issue concerning the commencement of SDP exports coinciding with the implementation of the United States WRO. Is there a negative perception surrounding Malaysian goods after the implementation of WRO? 2. Mr. Gerald also raised a concern about the deforestation occurring in the Cerrado. He inquired about the non-profit organization (NPO) initiatives aimed at addressing these companies' public relations (PR) efforts. 	<ol style="list-style-type: none"> 1. Ms. Renaka responded to the question by stating that SDP has been very transparent about the issue over the past two years, particularly regarding the challenges faced by American-based companies. Despite this, the majority of SPDL's customers have remained loyal, resulting in no significant decline in business due to the implementation of the WRO. However, when asked about the potential stigma on Malaysian goods resulting from the WRO, Ms. Renaka indicated that there could be some impact. Specifically, she mentioned that one critical aspect for Malaysian companies is the reimbursement of workers' equipment expenses. Until this issue is fully resolved, there may be an infringement of at least one possible indicator. 2. Datuk Mohamad Helmy responded by stating that initially, the company was unable to verify the amount of money workers have paid. Regarding industries and sectors employing foreign workers, the prevailing sentiment is questioning why companies or employers should be held responsible for workers' debts. However, SPDL is committed to meeting expectations and adhering to the established standards. While there is some acceptance of these standards in Malaysia, they cannot be verified through any formal means. For SDP, it's an integral part of the employer's responsibility. Moving forward, SDP plans to decrease reliance on foreign


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	workers and focus on employing local workers.
<p>SPDL Stock Pile</p> <p>1. En. Muazzam persisted in his inquiry about the decreasing trend of crude palm oil (CPO) stockpiles in December 2023. He requested SDP's comments on the anticipated trajectory for the current year.</p>	<p>1. Datuk Mohamad Helmy addressed the question by explaining that the low stockpile is a seasonal occurrence. Typically, during December, January, and February, there's a decrease in crop yield, although this pattern doesn't vary significantly in Malaysia. Stockpiles usually rebound during March, April, and May. Nevertheless, SDP is content with the current stock level, stating "less is good." Datuk also emphasized the importance of considering developments in Indonesia, as they greatly influence the market. For instance, if the Indonesian government raises diesel landing prices, it reduces CPO stockpiles available for export, impacting SDP. Changes in Indonesia's Domestic Market Obligation (DMO), which dictates export quotas, also significantly affect supply and demand dynamics.</p>
<p>Premium on the CPO</p> <p>1. Ms. Helen noted a slight premium for palm oil and inquired about methods to raise the premium for enhancing the production of sustainable palm oil.</p>	<p>1. En. Mohd Haris explained that the current CPO market premium is around \$12 per tonne, with the potential to increase to approximately \$150 per tonne. He emphasized the importance of understanding that 100 tonnes of produce only yields 10 tonnes of kernel. Despite the upstream receiving \$12 per tonne (weighed more for the basis), in the UK, an additional \$50 to \$60 over what the upstream pays can be obtained. When considering the entire value chain, the premium realization on the CPO basis can reach up to \$90 per tonne. Many benefits are also derived from the downstream. Focusing solely on the upstream will not yield additional benefits from the downstream. This is due to the complexities in the supply chain from oil to the desired basis. Consequently, reflecting the premium on the destination</p>


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	<p>becomes challenging in spreading across the end process and desired delivery.</p>
<p>Manual Labour Ratio</p> <p>1. Ms. Helen mentioned that SDP aims for a man-to-land ratio of 1:17.5 hectares. She inquired about the current average ratios for Malaysia and Indonesia.</p>	<p>1. Datuk Mohamad Helmy explained that the target ratio of 1:17.5 hectares per worker is the company's goal. In Malaysia, for instance, if the total area is approximately 300,000 hectares, with a ratio of 1:10 hectares, there would be 30,000 workers. With a ratio of 1:15 hectares, there would be 20,000 workers, and with a ratio of 1:17.5 hectares, around 17,000 workers would be required. Before the arrival of additional workers, the ratio was about 1:15 hectares or 1:14 hectares. Currently, with the influx of workers, the ratio is approximately 1:12.6 hectares. As SDP is not recruiting anymore, natural attrition, such as workers returning home or retiring, will gradually bring the ratio back to around 1:14 hectares or 1:15 hectares. In Indonesia, SDP maintains a ratio of 1:10 hectares or 1:11 hectares. The industry standard is 1:8 hectares, as mandated by the authorities.</p>
<p>CAPEX</p> <p>1. Mr. Lim Wei Ren noted that SDP's plan for 2030 appears ambitious and requested management to disclose the current CAPEX for SDP.</p>	<p>1. Datuk Mohamad Helmy replied to the question by indicating that SDP typically allocates around 250 million for CAPEX in a given year, with an additional 800 - 900 million designated for replanting. The remaining funds cover replacement CAPEX and new initiatives. Recent plans have escalated the CAPEX to approximately 3 billion, encompassing automation and various new investments, without acquiring new assets.</p>

In closing, Tan Sri Dr. Nik Norzrul Thani expressed gratitude to everyone for their participation in the engagement, emphasizing its role in driving company improvement. He highlighted the collaborative efforts of the management team and board members, which he believes will lead



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to positive outcomes. SDP is committed to positioning itself as a global company in the upcoming year, boasting a strong multinational workforce.

Tan Sri extended appreciation to the IIC members for supporting corporate governance practices at SDP. He also thanked the management for addressing the concerns raised by the IIC members.

With no further matters to discuss, the engagement concluded at 11:12 a.m.