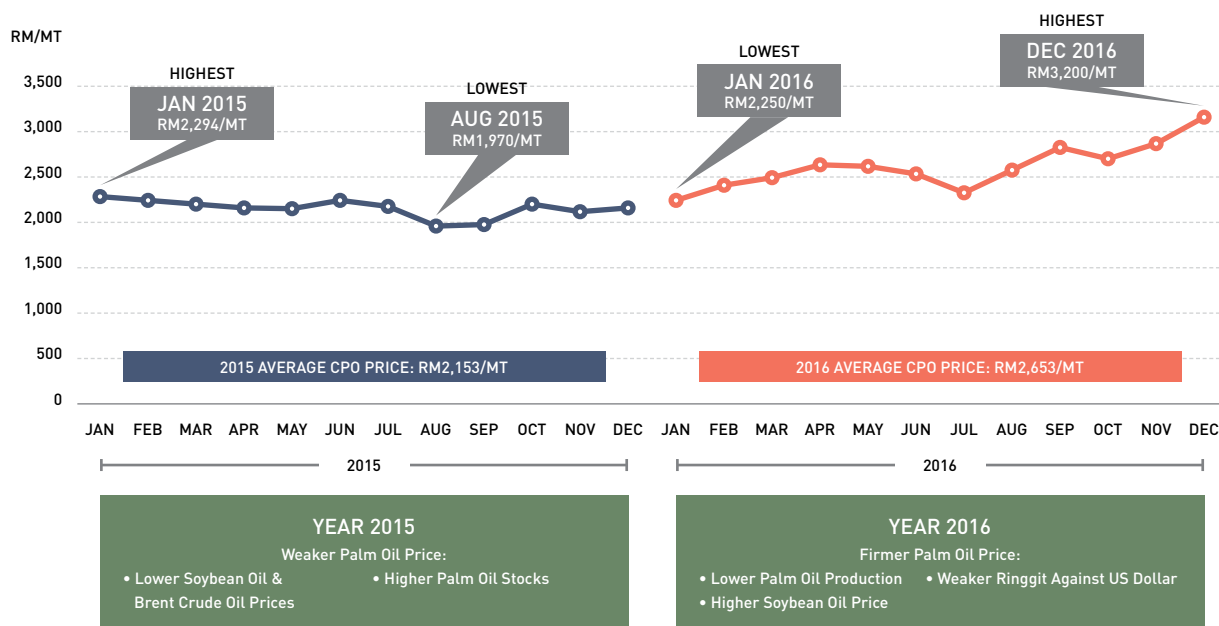


## MALAYSIAN MONTHLY CPO PRICE TREND IN YEARS 2015 AND 2016



[Source: MPOB, 2017]

## COMPETITIVENESS AND SUSTAINABILITY

The oil palm industry is facing some challenging times with a multitude of uncertainties which include volatile palm product prices that is set against an uncertain global economy, volatility in currency movements, weather patterns, shortage of workers, rise in cost of production and managing other materiality aspects relating to 'Planet and People'. On the other hand, global food demand continues to be robust with limited arable land and therefore the world needs to rely on high yielding crops like oil palm to address sustainable food security. Taking palm oil out of the food equation will not help to address the increasing demand especially when palm oil also offers competitive prices *vis-à-vis* other edible oils and fats. It can be expected that palm oil's dominance to increase in this world and continue to be an attractive long term choice commodity for both producers and consumers.

Moving forward, the sustainability of the oil palm industry is very dependent on continuous improvements to sustain high productivity, raising the floor and ceiling in innovations, adopting best management practices, exploring and discovering cost-effective and fitting technologies, continued availability of skilled workers and provision of assurance. Issues relating to sustainability must be considered more objectively along with recognition of the importance and competitiveness of palm oil to ensure adequate supply in the food equation for the world in the future.

## KEY FINANCIAL AND OPERATIONAL RISKS AFFECTING THE GROUP PERFORMANCE

As a commodity producer, the Group is subjected to externalities such as price volatility, weather changes, policies, market developments as well as global macroeconomic conditions. Strategically, the Group is focused on achieving high yields with cost effectiveness in order to remain resilient through different market cycles.

KEY RISKS IDENTIFIED	MANAGING THE RISKS
Fluctuations in CPO prices	<ul style="list-style-type: none"> <li>• The Group recognises that CPO is a commodity and as such is fundamentally a 'price taker and not a price maker'.</li> <li>• However the Group manages this risk by constantly monitoring the price trends of all major oils and fats as well as crude oil prices.</li> <li>• The Group sells CPO using the MPOB's average price mechanism either on spot or long term contracts as well as hedging through forward sales and/or CPO pricing swap arrangements.</li> </ul>
Weather Related ie. <i>El Niño</i>	<ul style="list-style-type: none"> <li>• The Group continues to take proactive steps to locate additional sites to serve as supplementary water catchment ponds.</li> <li>• Additional ponds are constructed and/or deepened especially to meet the requirements of the CPO processing mills.</li> <li>• Water canals were also deepened and additional bunds constructed for better water retention.</li> </ul>
Shortage of workers	<ul style="list-style-type: none"> <li>• Additional plantation areas were integrated with site-specific in-field crop evacuation while the Group continues to address shortage of workers by increasing productivity through other mechanisation options towards improving efficiency and to lessen dependency on workers.</li> <li>• The Group remains focused with its High Performance Culture programme investing in our people which include attracting and developing various ways to retain skill and talent.</li> </ul>