PREPT CLUSTER 3
CSPKO – Challenges & Issues from a Producers Perspective
8 November 2016

The Largest CSPO Producer in the World
Annual Global CSPO Production Capacity

Other Certified Players ~75%
Sime Darby ~25%
10.95 mil MT (31 July 2016)

Source: RSPO
35 Years of Sustainability Leadership

- 1995: Zero burning
- 1999: Biological control for IPM
- 1992: EUROP Global 500 Award of Honour for commercialisation of Zero Burning practice
- 1994: EMS-ISO 14001
- 2002: Founding member of RSPO
- 2004: First GlobalUP certification
- 2008: First certification of SSSC and ISCC
- 2010: Sustainable Agriculture Charter (SAC)
- 2014: Pioneers of the Zero Burning Policy
- 2016: Responsible Agriculture Charter (RAC)

Today:
- Largest producer of certified sustainable palm oil (LSPO)
- Leading total sustainable production, food safety, CSR, and GHG reduction
- Pioneers of the Zero Burning Policy

Challenges Related to PK Industry

1. Availability of SG PK
2. Capacity utilisation
3. Logistical issues
4. Extra costs involved
5. Export related issues
1 & 2. Lower Supply of CSPK leading to Inadequate PK to Fill Refineries’ Capacity Utilisation

Issues faced by SD Crushing Plants
- Not all of the PK produced can be fed to own crushing plant due to logistical reasons
- Extremely high competition for PK in East Malaysia
- Limited availability of segregated sustainable PK to suit requirement at own crushing plant
- Lack of SG PK sellers in the market

SD utilisation rate of Nuri KCP in Peninsular Malaysia fell to 81% from 93% the year before due to El Nino.

In 2016, the global CSPK supply is expected to decline by 14% to 2.59 mil MT. The drop in output will have severe impact on buyers seeking CSPK and its products.

TOTAL PK PRODUCED FY 2015/16
279,574 MT

34% of PK from the East region (Sarawak mills) are fed into Austral KCP

• Our East Malaysia, Austral KCP’s utilisation rate was only half of its capacity resulting in high operation cost.

PK Fed into KCPs in SD Indonesia

TOTAL PK PRODUCED FY 2015/16
161,946 MT

25% of PK from the North, 100% of PK from the Central & 83% of PK from the South region are fed into Nuri KCP

PK from Kalsel+Sul region were fed into the KCP, the utilisation rate achieved was only 54%

Similarly, SD’s crushing plant in Indonesia is also suffering from low utilisation

Pemantang KCP only started its operations in FY 2015/16, at 66% of utilisation
3. Logistical Issues Related to PK & its Derivatives

- Mills are located too far away that KCP’s transporters are unable to do collection
- Too much handling/processing before it reaches the crushing plant when the PKs are transported from different states (mainly PKs from Sabah mills to Austral KCP), resulting in quality issues
- Reluctance of transporters to collect PK due to distance
- Due to bad weather/delayed ship arrival at port
- PKEs are sold in bulk quantity, where it needs to be accumulated at the warehouse. This may lead to the occurrence of fire due to high temperature of the processed PKE.
- Contamination on products if storage area is not maintained well at warehouse
- Sellers to bear the cleaning cost if there’s any spillage/leakage at warehouse

Safety & Hygienic Level of Storage Area

- PKE loaded into ships using conveyor

- Slow loading rate

4. Additional Costs

- Logistical cost – Shipping and bulking
  - Transporting/shipping of CSPK & CSPKO from different locations require proper delivery/shipment planning

- Operating cost
  - Warehouse related costing for storage of bulk PKE – additional cost for pallet, wrapping or cleaning in case of spillage
5. Heavy Taxes That Producers Have to Bear

**MALAYSIA**

<table>
<thead>
<tr>
<th>Export Duty</th>
<th>State Government Sales Tax</th>
<th>GST</th>
<th>Windfall Profit Levy</th>
</tr>
</thead>
<tbody>
<tr>
<td>• 10% for CPKO &lt;br&gt;• 5% for RBD PKO</td>
<td>• 7.5% in Sabah &lt;br&gt;• 5% in Sarawak</td>
<td>• 6% tax</td>
<td>• Peninsular Malaysia – 15% on CPKO price above RM 2,500/mt &lt;br&gt;• Sabah &amp; Sarawak – 7.5% on CPKO price above RM 3,000/mt</td>
</tr>
</tbody>
</table>

**Price Range**

<table>
<thead>
<tr>
<th>Price Range</th>
<th>New System USD per MT</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; $750</td>
<td>0</td>
</tr>
<tr>
<td>$750 - $800</td>
<td>3</td>
</tr>
<tr>
<td>$801 - $850</td>
<td>18</td>
</tr>
<tr>
<td>$851 - $900</td>
<td>33</td>
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<td>$901 - $950</td>
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<tr>
<td>$951 - $1,000</td>
<td>74</td>
</tr>
<tr>
<td>$1,001 - $1,100</td>
<td>150</td>
</tr>
<tr>
<td>$1,101 - $1,200</td>
<td>146</td>
</tr>
<tr>
<td>$1,201 - $1,300</td>
<td>116</td>
</tr>
<tr>
<td>$1,301 - $1,400</td>
<td>80</td>
</tr>
<tr>
<td>$1,401 - $1,500</td>
<td>56</td>
</tr>
<tr>
<td>$1,501 - $1,600</td>
<td>32</td>
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<tr>
<td>$1,601 - $1,700</td>
<td>18</td>
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<tr>
<td>$1,701 - $1,800</td>
<td>10</td>
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<tr>
<td>$1,801 - $1,900</td>
<td>6</td>
</tr>
<tr>
<td>$1,901 - $2,000</td>
<td>3</td>
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<tr>
<td>$2,001 - $2,100</td>
<td>1</td>
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<tr>
<td>$2,101 - $2,200</td>
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</tr>
<tr>
<td>$2,201 - $2,300</td>
<td>0</td>
</tr>
<tr>
<td>$2,301 - $2,500</td>
<td>0</td>
</tr>
</tbody>
</table>

**INDONESIA**

And, additional export levy for respective products:
- USD50/MT export tax on CPKO/CPKOLN/CPKCTN
- USD40/MT on PKFA
- USD20/MT on PK/ PK meal/ RBD PK products

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SDP’s Sustainability Effort

*Sime Darby Plantation plays a leading role in the development and promotion of sustainable practices in the palm oil sector*

**Open Palm Dashboard**

“Open Palm” online traceability dashboard that provides critical information on the traceability of its full supply chain.
- To demonstrate **transparency** and **integrity** in our supply chain.
- Significant milestone for SDP in their effort to provide more value to its discerning customers.
- To show our enduring commitment to promote sustainable products and practices in the industry.

**Sime Darby Hotspot Dashboard**

The Sime Darby Hotspot Dashboard tracks and reports hotspots occurring within our concession areas where we respond immediately to contain and put out the fire.
Traceability from Upstream to Downstream
Open Palm Traceability Dashboard

Sime Darby Responsible Agriculture Charter
Key Elements – Launched in September 2016

1. Human rights and social development commitments
   - Respect human rights and empower communities
   - Protect labour standards and enhance employment conditions

2. Environmental commitments
   - Protect and enhance forests
   - Protect and disclose environmental impacts and minimise resource use

3. Corporate integrity commitments
   - Protect ethical standards
   - Disclose performance and objectives
   - Enhance supply chain traceability

4. Phased Implementation and Enforcement
5. Engagement and Continuous Improvement
6. Verification
7. Scope of this charter

The Responsible Agriculture Charter is a summary of commitments made by Sime Darby through other initiatives (e.g. RSPO, SPOM), and company policies.
Thank you