GROUP MANAGING DIRECTOR AND CHIEF EXECUTIVE'S STATEMENT

DATO' LEE YEOW CHOR
Group Managing Director and Chief Executive

STRATEGIC PRIORITIES

The Group initiated a Five-Year Plan in March 2020, to provide a clear direction for the Group to progress from a cost competitive palm oil producer to a high value-added diversified palm-based products producer. Now in its fourth year, the Five-Year Plan is driven by five strategic priorities to build sustainable growth for the Group.

The first priority is to increase plantation oil yield by at least 15% by the end of 2024. We aim to achieve this through utilisation of our high-yielding planting materials, encompassing elite clonal palms and third-generation hybrid palm seedlings, while employing the best agricultural and labour management practices. Notably, our best performing estates where we have planted with our elite clonal palms, have delivered oil yield in excess of 6.5 metric tonne ("MT") per hectare ("ha"), significantly surpassing the Malaysian industry average oil yield of 3.05 MT per ha in 2022.

However, the industry-wide labour shortage situation made worse by the freezing of new migrant workers intake during the pandemic period has hindered our ability to fully optimise the best agricultural practices and realise further operational efficiencies to improve oil yield on a Group-wide basis. Consequently, the Group's average oil yield stood at 3.90 MT per ha, falling short of its full potential. The situation has shown vast improvement with the return of migrant workers earlier this year, particularly in our Peninsular Malaysia estates. Given time, these new workers will become more productive and help to achieve our targeted oil yield.

Our second strategic priority centres on reduction of our plantation workforce by increasing the land to worker ratio through implementation of various estate mechanisation and digitalisation initiatives. As at the end of August 2023, 96% of our terrain-suitable estates, covering approximately 80% of our planted area, have been converted to the mechanised mainline fresh fruit bunches ("FFB") evacuation system. Hundreds of mechanical equipment and tools have also been procured to assist in our infield FFB evacuation as well as field upkeep operations. Furthermore, we are implementing an e-wallet salary crediting system built on our integrated SAP platform in all our Malaysian plantation operating units to simplify our workers' payroll system. With the aforementioned progress, the Group is nearing the completion of this second strategic priority.

The Group's third strategic priority is aimed at mitigating exposure to palm oil price volatility as well as to generate higher returns from its land bank by diversifing the planting of crops to other higher value crops. Under this initiative, we have planted about 1,000 ha of coconuts for the financial year ended 30 June 2023 ("FY2023"), making up a total of 1,471 ha of coconut planted as at June 2023. We target to plant another 1,807 ha of coconut by next year. However, our coconut planting has lagged behind our initial target of reaching 5,000 ha by the end of 2024, primarily due to worker shortage experienced over the past two years. Nevertheless, we remain committed to achieve this target beyond FY2024.

The fourth strategic priority is to increase the non-crude palm oil ("CPO") income by converting oil palm by-products and processing waste into value-added products at competitive cost. I am delighted to report that the Group has completed the construction of a first-of-its-kind palm wood factory in Segamat, Johor to convert oil palm trunks into high performance palm wood boards and panels, and subsequently launched the *OnCore*® branded palm wood products at the Malaysian Wood Exhibition in July 2023. Going forward, we intend to scale up production of these palm wood boards once we established a strong market presence globally.

Finally, the Group is committed to increase our oleochemical sub-segment's profit contribution through organic growth from capacity expansion, improvement in production efficiency and introduction of innovative high value-added product applications. In this respect, I am pleased to report that the new 110,000 MT/year capacity fatty acid plant in Prai, Penang and state-of-the-art soap noodles plant in Pasir Gudang, Johor started commissioning in the second quarter of 2023. This new fatty acid plant has increased the Group's oleochemical production capacity by about 14% from 780,000 MT/year to 890,000 MT/year.

Meanwhile, our oleochemical business unit in Germany has recorded yet another strong performance for FY2023 anchored by its pharmaceutical business segment. The German business unit has developed 14 new formulations for personal care and cosmetic applications and filed another two new patents for food and cosmetic applications during FY2023.

Progress of the Group's Strategic Priorities are further detailed in pages 46-51 of this Annual Report.

"Our oleochemical business unit in Germany has recorded yet another strong performance for FY2023 anchored by its pharmaceutical business segment."

IOI Palm Wood's factory in Segamat, Johor, with a current capacity of 30,000m³ per annum, has a potential maximum annual capacity of approximately 80,000m³ of finished panels.

CORPORATE SUSTAINABILITY AND ENVIRONMENTAL, SOCIAL & GOVERNANCE ("ESG")

As mentioned in the preceding section by our Group Chairman, for this financial year, we further strengthened our sustainability governance by introducing a Board Sustainability Committee ("BSC") which is chaired by an Independent Non-Executive Director. The BSC will hold accountability to the Board for the diligent execution of its duties and responsibilities.

On the social front, the Group continues to protect its employees' welfare and safety by implementing policies and guidelines such as the Worker's Work Verification Guidelines and adhering to IOI's Code of Conduct on Ethical Recruitment and Responsible Employment to protect the rights of our workforce. We also continued with the child education initiative to counter child labour which we had launched in 2021. We completed a third-party audit on our compliance with both the governance and social aspects of the International Labour Organization's ("ILO") Force Labor Indicators and are collaborating with International Organisation for Migration ("IOM") to facilitate improved communication with workers particularly in respect of our No Recruitment Fees policy and on worker's rights.

For the environment, when we introduced our Climate Change Action initiative ("CCAi") back in 2019, we took steps to align our CCAi with the Task Force on Climate-Related Financial Disclosures ("TCFD") framework which formed the basis for the Group's path towards decarbonising our business operations and building climate resilience. I am happy to report that we are on track to meet our short-term target of a 40% greenhouse gas ("GHG") reduction by 2025 for Scope 1 and 2 (based on 2015 level). Following this consistent performance, the Group launched its long-term target to achieve net zero GHG emissions by 2040 for Scope 1, 2 and 3. As a pledge towards transparency and disclosure, we further committed to the Science Based Target initiative ("SBTi") Forest, Land and Agriculture ("FLAG") in March 2023 where we will reiterate our commitment to zero deforestation and develop verifiable science-based emissions reduction targets.

IOI Oleo GmbH developed 14 new formulations for personal care and cosmetic applications in their CARE Studio at Hamburg, Germany during FY2023.

Last year, I reported the resolution of the long-standing IOI-Pelita land dispute following the Roundtable on Sustainable Palm Oil ("RSPO") Resolution Plan. This significant achievement was marked by the signing of a final settlement agreement in 2022 with all the communities and all compensation including ex-gratia payments completed. Further to that, I am pleased to announce that in June 2023, the RSPO Complaints Panel had deliberated and reached a decision to close the case pertaining to worker conditions and grievances at our Mekassar Estate, originally raised in November 2020. As of now, the Group has no outstanding complaint cases in the RSPO Complaints system.

As for corporate social responsibility ("CSR"), the Group undertakes CSR activities via IOI Foundation (formerly known as Yayasan Tan Sri Lee Shin Cheng), a charity foundation funded solely by the Group and its sister company, IOI Properties Group Berhad. IOI Foundation has awarded more than 337 students with university scholarships and adopted more than 1,500 students under its Student Adoption Programme and also operates Bargain Basement, a charity retail-based establishment which has four outlets in Putrajaya, Selangor and Perak. It also sponsors after-school science, technology, engineering and mathematics ("STEM") programmes in collaboration with Universiti Tunku Abdul Rahman ("UTAR"). During December 2022 and August 2023, IOI Foundation organised a Leadership Youth Camp where some of our employees' children honed their communication and leadership skills.

> **"The Group launched its long-term target to achieve net zero GHG emissions by 2040 for Scope 1, 2 and 3."**

Our guests witnessing how technology has enabled us to power up our productivity and execute our environmental, social and governance strategies more effectively at our IOI familiarisation trip to Gomali Estate and Gomali Palm Oil Mill.

OUTLOOK AND PROSPECTS

Crude palm oil ("CPO") price has been volatile since May 2023, ranging from RM3,300 to RM4,100 per tonne. We foresee CPO price to remain range-bound between RM3,500 and RM4,000 per tonne until the end of the year before moving higher as a result of lower palm fruits production due to the effects of El Niño phenomenon, which is expected to intensify in the coming months.

For our plantation segment, we forecast a moderate increase in FFB production for FY2024 notwithstanding the adverse effects of the abovementioned El Niño phenomenon and the ongoing accelerated replanting programme in Sabah. The growth would be achieved primarily through increased efficiency from our fully replenished new workers in Peninsular Malaysia and higher production from the young palm trees in our Indonesian plantations. At the same time, production cost is expected to be considerably lower due to the higher palm fruits yield and decline in fertiliser as well as diesel costs compared to FY2023. All things considered, we are optimistic of a satisfactory financial performance for plantation segment in FY2024.

Regarding our refinery and commodity marketing sub-segment, we expect it to continue to face low or negative refining margins due to stiff competition from Indonesian refiners who benefit from their country's CPO export duty policy. However, our refineries' efficient cost structure and capability in producing low 3-MCPD and GE oil blends will give us a competitive advantage in the challenging operating environment.

The outlook for our oleochemical sub-segment remains subdued in light of the weak global economic environment and rising geopolitical tensions that undermined global trade. Despite these challenges, the expected better demand from China will help to alleviate some of the global demand slow down. Our new fatty acid and soap noodles plants will also help to lower our production cost and give us the flexibility to tailor our products to meet customer requirements.

For our specialty fats sub-segment comprising our associate company, Bunge Loders Croklaan Group BV ("BLC"), its performance is less dependent on global economic growth as demand for food is more resilient. We anticipate improved performance for FY2024, driven by the newly acquired refinery facility in North America and the introduction of innovative product applications.

The US Dollar-Ringgit exchange rate which affects the foreign exchange translation gain/loss arising from our USD-denominated borrowings will be volatile with the uncertainties in the US Federal Reserve's monetary policy.

Overall, the Group expects its operating and financial performance for FY2024 to be satisfactory.

CLOSING REMARKS

The Group remains steadfast on building sustainable growth and is committed in the disciplined execution of its Five-Year Plan, despite the weaker external environment.

In pursuing these objectives, our team continues to uphold a values-centric culture based on the six IOI core values namely integrity, commitment, team spirit, cost efficiency, innovation and excellence in execution.

Building on the platforms of innovation to maintain our competitive advantage, people development to empower talents, and prudent risk management to withstand external shocks, the Group remains resilient and is poised for future growth and expansion.

Dato' Lee Yeow Chor
Group Managing Director and
Chief Executive