

## MESSAGE FROM THE CHAIRMAN AND THE MANAGING DIRECTOR



### **2018 Overview**

In 2018, as the global supply of FFB and CPO remained abundant, CPO price softened and inventory piled up. The global supply of CPO increased by 13% to 70 million MT in 2018 (2017 : 62 million MT).

The output of FFB in the Kingdom was around 15 million MT, about the same level as the previous year, while total CPO production in the Kingdom was the highest recorded at 2.8 million MT (2017 : 2.6 million MT). The CPO stock nationwide was maintained at a high level throughout the year. Monthly CPO price in the Kingdom in 2018 ranged between 16.22 - 23.20 Baht/Kg. The annual average CPO price was 19.57 Baht/Kg (2017 : 24.88 Baht/Kg), the lowest average level in 12 years, and in some months lower than or close to global market price. During the year 372,950 MT of palm oil was exported to overseas markets, mainly to India.

Several negative factors dampened industry sentiment namely anti-palm oil campaigns in EU and the West, trade tension between the United States and China, and hike in the import duty of palm oil in India. As a result, global CPO price reached a two-year low since 2016. Moreover, in July the Ministry of Public Health announced the prohibition of partially hydrogenated oils, being the main components of trans fatty acids for import or distribution in the Kingdom. However, your Company has been aware of trans fat issue for quite some time, and has undertaken the necessary product reformulation; margarine, shortening and cooking oil are safe from trans fat. Such issue could be turned to a good opportunity to promote and communicate to consumers, in both online and offline media, to build consumer trust in the healthy products.

To mitigate the volatility of the palm oil business, your Company has taken steps to diversify into other non palm oil businesses. Under the Corporate Strategic Direction, your Company aims to:-

1. add value to the bakery ingredient channel with its margarine and shortening,
2. be a leader in healthy consumer food products in the retail channel, under the Yok Extra and Naturel brands for our core grocery range, and the UFC sub-brands for fruit and vegetable based products, and
3. work with third party brand owners to widen our product offering and enhance distribution synergies. In addition, your Company intends to explore new markets overseas along with expanding its product portfolio. It is expected that such move would enhance the existing businesses and further create sustainable growth of your Company.

### **Company's Performance**

In 2018, your Company recorded sales revenue at 5,572.6 million Baht, a year on year decrease of 881.0 million Baht or 13.65% (2017 : 6,453.6 million Baht); gross profit at 670.0 million Baht, an increase of 11.1 million Baht (2017 : 658.9 million Baht). In 2018, your Company received dividends from two subsidiaries amounting to 84.9 million Baht, an increase of 50.1 million Baht. As a consequence, your Company recorded a net profit of 339.9 million Baht, an increase of 99.4 million Baht or 41.3% (2017 : 240.4 million Baht).

United Palm Oil Industry Public Company Limited (UPOIC), a 69.96% subsidiary of the Company, recorded a net profit of 14 million Baht (2017 : net loss at 18.3 million Baht) on revenue of 628 million Baht (2017 : 763 million Baht). FFB crops from its own plantations decreased by 9.4% and that from the concession lands increased by 21.5%. As such, the total own crops was approximately same as the previous year. During the year, Krabi prosecutor filed a lawsuit against UPOIC in connection with 4,376 rais of land reform area, currently, the case is in process of scheduling dates for witness examination. As a matter of prudence, UPOIC has set aside the allowance amounting to 28.5 million Baht. The Company does not otherwise expect the litigation to have a material impact on the Company.

At Universal Food Public Company Limited (UFC), a 98.83% subsidiary of the Company, sales revenue decreased by 10.3% to 2,039.1 million Baht (2017 : 2,271.9 million Baht). Domestic sales revenue dropped significantly while export revenue was adversely impacted by the depreciation of the USD versus Baht (by about 4.3%) and more intense price pressures from competitors. Consequently, the net profit from operation dropped by 26% to 150.8 million Baht (2017 : 204.0 million Baht).



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Overall, the consolidated net profit decreased from 400.8 million Baht in 2017 to 388.3 million Baht, or a decrease of 3.12%.

### **Production and Investment**

Your Company is committed to ensure compliance with the international standards of quality and safety, and to establish operating principles through continuous training and development of working process and operating procedures. In 2018, your company qualified for the new version of ISO 9001 (Version 2015) from Management System Certification Institute (MASCI). This will facilitate your Company to achieve significant gains in terms of quality, operational efficiency and customer satisfaction.

Furthermore, to maximise production efficiency, in Q2/2018, its Bangpoo refinery completed major maintenance for blowing machine, packing line and label machine.

UFC invested in the color sorter machine and robot for carton palletising at its Lampang plant. This will reduce labour costs and increase productivity. All projects were completed and operational in 2018.

### **Marketing**

Over the past few years, health and wellness concerns continue to increase steadily. With greater awareness that what we consume affects our bodies from the inside out, consumers are placing more importance on their nutrition.

As a leader in the vegetable oil market under the "Yok" brand, your Company has moved forward by expanding the line of Naturel healthy product to include "Corn oil", better choice for health conscious consumers, good for health and suitable for all menus.

At the same time, products under the Margarine and Shortening segment have been developed to meet the needs of small to large customers. In 2018 we launched the new Margarine Zest Gold (fresh butter flavor formula) in the bucket packing size of 2 kg. being easy to use under the concept "Convenience and Easy". Without trans fat but good taste, the product is value added highlighting Zest's leadership in the market segment.

We continue in our marketing communications and campaigns via several media channels including radio, printed matter, and online, with a focus on providing knowledge regarding the wise consumption of fats and building confidence that your Company's products are free from partially hydrogenated oils and as such safe from trans fat.

In doing so we are reaffirming that your Company's products are harmless for consumers, and the importance we have placed on product quality and food safety over the past 40 years.

### **Responsibility to Community, Society and the Environment**

Besides conducting the business with integrity, your Company recognises the importance of community, social and environmental responsibility. In September 2018, your Company was granted Carbon Footprint Certification for products under the "Yok", "Yok Extra" and "Naturel" brands at the 100 Hearts Effort to Reduce Global Warming Event, organised by Thailand Greenhouse Gas Management Organization (Public Organization). Your Company is committed to play its part in helping to reduce greenhouse gas emissions in every stage of production. This award is another step in reaffirming its leadership in the palm oil business, along with our commitment to the principles of sustainability.

Furthermore, in Q2/2018, your Company qualified for the new version of ISO 14001 certification (Version 2015) from Management System Certification Institute (MASCI) that can assure that environmental management system meets international industry standards.

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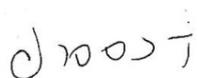
### **Human Resources and Corporate Culture**

Your Company considers human resource as a major asset for the success and long-term growth. To retain quality employees with integrity and cut down on staff turnover, your Company has developed strategies to foster a more productive and satisfying work environment. It supports and encourages employees to expand their responsibilities for their individual growth and career advancement. This will build their motivation and working spirit, lead to great productivity, loyalty and create driving force for seamless transfer of working knowledge and skills between generations. Your Company also supports employees to plan a career path with the Company.

To ensure new employees comply with the established policy, vision and mission, and the Corporate values, the Code of Business Conduct is contained as a part of the orientation, your Company also provides relevant and disciplinary rules and regulations for both levels of supervisor and sub-ordinate as measures of good practices.

In 2018, your Company received the Outstanding Labor Relations and Labor Welfare Award from the Department of Labour Protection and Welfare, Ministry of Labour, proving that your Company respects the importance of taking care of people as well as building trust and our continuous aim to be the best place to work.

We wish to express our sincere thanks and appreciation to the Board of Directors, our Management team, employees, customers, and all stakeholders for rendering their full-fledged support to the Company for all these years. All of you are a crucial part of Lam Soon eminent standing today in the palm oil business in the Kingdom. We look forward to your continued support in the future.



Art-ong Jumsai Na Ayudhya, Ph.D.  
The Chairman



Ms. Anchalee Suebchantasiri  
Managing Director