Ordinary General Meeting of 12 June 2019

Message from the Chairman of the Board of Directors and the Managing Director

Ladies and Gentlemen,

On the occasion of this 100th Ordinary General Meeting, it is my pleasure to look back, with you, on the preceding year and run through the main events in the first five months of 2019.

We should actually look back over 100 years of history, but it would take us too far away. We have tried to do this with a brief historical review in our annual report. Some of you, as loyal shareholders, will have experienced these historical events first hand and discussed them at general meetings; for others it will constitute a guide through the development of our company into what it is today.

At this meeting we present the annual accounts as at 31 December 2018 and ask for these to be approved. The financial year 2018 was a particularly good year in production, operating activities and expansion, but palm oil prices dipped unexpectedly, particularly in the second half of the year, with prices in November/December that we have not seen for a decade. The consequence was a negative impact on our results overall, as we ended the financial year with a net recurring result, share of the group, of KUSD 22 713, which is 65.8% lower than the KUSD 66 408 posted in 2017. In 2018 the stake in BDM-ASCO was sold, which generated a gain of KUSD 7 376, so the net result, share of the group, was KUSD 30 089. Due to the continued expansion the net financial debt increased from KUSD 83 697 to KUSD 121 443.

Palm oil prices have continued to suffer from the persistently high stocks in 2019, with stronger than expected production in Malaysia and in Kalimantan, Indonesia, which meant that stocks were not depleted fast enough. Despite good general demand for palm oil, the dark cloud of the negative oilseed situation continued to hang over our markets. African swine fever in China, which has greatly reduced the Chinese pig population, resulted in a substantially lower demand for soy meal. The trade war between the US and China has also driven down the price of soybeans to its lowest level in a decade. The whole price complex of farming products remains under pressure, with successful harvests in the last five years and few weather problems to damage production. The trade war and the strong dollar are not helping the commodities markets either.

In the April presidential elections, the incumbent Joko Widodo was confirmed in his position for a new five-year term. We therefore expect the continuation of the biodiesel policy in Indonesia, where the 20% blending has now been fully introduced and even a 30% blend in the short term, which will certainly benefit local palm oil consumption. The recent EU decisions to gradually reduce the use of palm oil as a commodity for subsidised biodiesel will not have any immediate impact on palm oil volumes or prices. Palm oil does continue to list with a higher than usual discount compared with other vegetable oils and petroleum, which will continue to push demand. The Indonesian export levy was postponed in December and, given the current price levels for palm oil, we do not expect it to be reintroduced immediately.

While we are no longer faced with the price levels of the fourth quarter of 2018, with a minimum price of USD 470/tonne CIF Rotterdam, the price remained fairly stable in the first half of 2019, albeit rather low at USD 510 to 550 per tonne. Given the supply and demand trend for vegetable oils in general we do not immediately see that improving to any great extent over the next few months.

We have sold 46% of our expected palm oil production at USD 578/tonne CIF Rotterdam, premiums included, compared with 54% at USD 736/tonne CIF Rotterdam at the same time last year, before the considerable fall in price in the second half of that year had made itself felt.

Compared to 2018, which was one of the better production years for the SIPEF Group, frankly the beginning of 2019 has been tough in agronomic and operational terms. There has also been a general fall in production in 2019, as already noted in the final quarter of 2018, in Indonesia, particularly Sumatra, where a lack of fruit set has been seen in the palms and yields have been generally lower than in the past two years.

The number of available bunches in the palms remains much lower than in the same period last year at most mature plantations in North Sumatra (-6.6%), at the younger UMW/TUM (-7.5%) and, in Bengkulu province, at Agro Muko, which is being replanted (-14.3%). Our employees are unable to pinpoint any specific reasons for this. Maintenance and fertilisation were carried out properly. There are therefore no short-term measures that can be taken to remedy this. The only thing we can do is accept that nature is doing its work. This trend continues in the second quarter and it will not be until the third quarter that we could expect normal production in most of our mature plantations in North Sumatra and Bengkulu.

At Hargy Oil Palms in Papua New Guinea, unlike last year, the rainy season was exceptionally “bad”, starting as early as December and persisting until the end of April. In this period we lost more than 20 harvesting days due to persistent rain, which on average exceeded 4.5 metres/m² and peaked at more than 6 metres/m² in the northern plantation, the highest in the past 15 years. For almost five months, due to a lack of passable roads and bridges, our employees worked hard to transport the available bunches to the mills, once more with no support from the government. In spite of a number of new bridges now being built, the government apparently expects the palm companies in New Britain to keep the roads passable for the surrounding farmers and guarantee their income. We hope that budgets will be made available again after the recent change of government.

Due to the precipitation and the transport problems, bunch production on our own plantations and at the surrounding smallholders fell by 5.6% on average compared with the same four-month period last year. The low quality and the high moisture content of the bunches contributed to the fall in the oil extraction percentage from the usual 24% to 22.68%; as a consequence, the final oil production is 9.5% lower than in the same period last year. We also shipped with higher than usual acidity, which was reflected in a price reduction for the oil delivered to Rotterdam.

The situation is now back to normal. The roads were repaired by our employees and the construction of new bridges subsidised from abroad continued. We therefore expect production to be in line with expectations over the next few months, with higher extraction percentages, but the lost production of recent months will not be made up.

In spite of the constantly growing but still limited contribution to production of our new activities in South Sumatra, this means that we will not achieve the 8% growth forecast at the beginning of the year for palm oil production in 2019. However, we expect a positive growth percentage for the year as a whole. What that will be mainly depends on how well the individual harvests in North Sumatra, Bengkulu and Papua New Guinea recover to expected volumes.

Subject to the usual wintering period in the first half of the year, Group rubber production has been adversely affected by the Fusicoccum fungus attack, a phenomenon that has gradually spread over Asia and moves in fits and starts over the production areas. While MAS Palembang was affected last year, North Sumatra and Bengkulu are experiencing a longer wintering period this year, due to the same fungus. There are currently no effective fungicides to fight this disease. As a consequence, production at the plantations of North Sumatra and Agro Muko fell by 26.3% and 17.3% respectively, while production at MAS Palembang declined by only 6.8% and the virus does not appear to have an endemic effect. We expect production to return to normal in the second half of the year.

After very weak rubber markets in the second half of 2018 and at the start of 2019, we have observed slightly higher prices for natural rubber in recent months. The prices quoted on the rubber market are rising, due to the export restrictions imposed by the Tripartite countries (Indonesia, Malaysia and Thailand) and the lower production due to the Fusicoccum fungus, in combination with lower stocks in China. However, this often does not have an impact on physical trade prices. They continue to be weighed down by the perception of a plentiful supply of natural rubber for the coming years. We have made full use of these price rises to place 37% of our annual production on the market at an average price of USD 1 543/tonne FOB, compared with 43% at USD 1 636 at the same time last year. We also continue to gradually sell on this market, which is picking up somewhat.

The exceptionally favourable weather in the first quarter, which led to a production rise of more than 24% at our Cibuni tea plantation, did not continue in the second quarter. The drier conditions saw production fall in April and beyond, although it did remain 11.4% above last year's volume.

A large supply of African tea at the Mombasa auction meant that tea prices have continued to fall in recent months, with the average price more than a half dollar lower than in the same period last year. There was sufficient demand for high-quality tea ahead of Ramadan in the Middle East and so 63% of the expected volumes have already been sold at lower prices.

Recent months have seen local rises in the price of fertilisers and diesel, while the impact of wage increases imposed by the government was particularly felt in North Sumatra, Indonesia. For the second half of the year we have already seen a general fall in local fertiliser prices as a result of the high stocks. These have accumulated because local producers whose use depends on palm oil prices have not been buying fertilisers.

Banana production in Ivory Coast posted steady growth of 16.9% compared with the same period last year. This was due to favourable weather in the first quarter but was mainly the result of the better production quality, which meant that a higher volume could be exported. All plantations recorded increased production volumes, but the Motobe plantation in particular, where the management was replaced, returned to the previously seen yield per hectare.

We have stepped up the expansion of our palm oil activities in Musi Rawas in the province of South Sumatra and now control more than 16 000 hectares, including 246 hectares at the new concessions acquired last year. There are more than 11 000 prepared and planted hectares, which means 69% of the hectares already under control have been effectively converted to cultivated hectares.

The three new licences that were acquired last year for a total concession of 8 595 hectares, all adjacent to the four concessions acquired in 2011 and 2012, are now being examined by consultants against the RSPO's New Planting Procedures. Both the nature preservation and social impact of this potential development are being assessed. The RSPO needs to give the green light before these lands can be converted to oil palm plantations. We expect to complete these procedures in the second half of the year, in which event we may be able to report the first plantings in the fourth quarter.

These additional licences bring the total concession of Musi Rawas up to 33 202 hectares, 22 800 hectares of which we expect to be able to convert to oil palm plantations in the long term.

After the 2017 acquisition of the existing RSPO-certified Dendymarker Indah Lestari (DIL) plantation company, with a total planted surface area of 8 986 hectares located between the four concessions of Musi Rawas, 957 hectares were replanted last year. The planted areas will be virtually fully renewed within five years. Another 2 005 hectares have also been identified to be added within the scope of the permanent licence (HGU), 80% of which we expect to be able to convert into additional palm plantations. As a result, the total size of DIL will rise to more than 10 500 planted hectares.

The Dendymarker palm oil mill has accounted for the entire production of South Sumatra since August 2018 and the oil extraction percentages have now surpassed 20%, due to the supply of high-quality Musi Rawas fruit. The processing capacity of this mill must be increased within two years from 20 tonnes/hour to 60 tonnes/hour.

Given the extensive replanting and expansion programmes for the coming years, we remain loyal partners in the Verdant Bioscience joint venture, which was set up to develop high-yielding oil palms in Indonesia and give us access to the latest techniques in the industry.

It is increasingly difficult for plantation companies to create new plantings under the tightening rules of the Roundtable on Sustainable Palm Oil (RSPO) and our own Responsible Plantations Policy, which explicitly stipulates that new areas comply with the No Deforestation, No Peat and No Exploitation rules. SIPEF continues to faithfully pursue its sustainability policy and every new expansion is subjected to a voluntary assessment, ensuring we continue to be a 100% sustainable plantation company in the future.

In spite of the lower palm oil prices, the intention is to complete our investment programme for this year, which, apart from the usual replacement investments, is exclusively focused on the new plantings at Musi Rawas and rehabilitation of Dendymarker.

These expansion plans will be adapted where possible to fit the Group's self-financing capacity and should not normally require any additional external financing. After the acquisitions of 2017, which were partly financed by a successful capital increase that only existing shareholders participated in, SIPEF continues to have a net financial debt position of approximately USD 120 million on the balance sheet, due to the low palm oil prices over the past 12 months. This may increase to a limited degree towards the end of the year. However, our long-term policy continues to be to finance the growth of the company with our own funds and, where necessary, to sell non-core activities to support the ongoing expansion of the palm activities.

As a consequence of the temporary fall in palm oil production and the persistently low prices on the world market, the provisional results are considerably lower than they were over the same period last year. In spite of favourable expectations of better production volumes in the second half of the year, the price level of palm oil on the world market remains decisive for the 2019 recurring result of the SIPEF group and we expect it to be considerably lower than it was for the financial year 2018.

With your approval and in line with the shareholder remuneration policy, which continues to be based on a pay-out ratio of 30%, a dividend of KEUR 5 819, or EUR 0.55 gross per share (coupon 12) will be paid out. This will be paid out on 3 July 2019.

The directorships of Bryan Dyer, Regnier Haegelsteen, Sophie Lammerant-Velge, Antoine Friling and François Van Hoydonck expire on the date of this general meeting. Bearing in mind the age limit, Bryan Dyer no longer seeks re-election. We thank Bryan for his valued commitment in the four years that he joined our board as an independent director with a great experience in the plantation sector. We further propose a one-year extension to Regnier Haegelsteen's directorship until 2020. The other directors are once again nominated for a regular four-year term, while Sophie Lammerant-Velge also fulfils the requirements for a position as independent director.

We also have the pleasure of presenting a new director. Mr Nicholas Mark Thompson is a man with 31-plus years of experience in our industry who will add value as an independent director by sharing his views with the members of the SIPEF board of directors.

This ordinary general meeting will be immediately followed by an extraordinary general meeting, which will be asked to renew an existing protective statutory measure. We are counting on your approval.

In conclusion, I would like to thank all members of the SIPEF group for their efforts during the past financial year and reiterate that we continue to count on them to help us achieve the ambitious plans the company has for the coming years.

Schoten, 12th June 2019