SIPEF

Ordinary General Meeting of 9 June 2021

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

Ladies and Gentlemen,

We have the pleasure, on the occasion of this 102nd Ordinary General Meeting, to look back with you at the past year and to go over the main events of the first five months of 2021.

At the beginning of last year, with our centenary celebrations still fresh in our minds, we found ourselves in an unprecedented environment that exceeded anyone's imagination by far. Meanwhile, more than a year further into this corona era we have found that such crises can often also provide a basis for reflection, and can contribute to an accelerated modernisation of ideas and procedures.

In this way, today you are participants in the General Meeting which is being streamed via the Internet. By means of a digital platform you can vote on the items on the agenda, and through the online chat box you can put questions to the decision-makers of this Company. This format is not our first choice, as personal contact with our shareholders is still preferred. However, technology has ensured that life does not stand still when people are no longer allowed to move around or meet in person.

Especially for a company such as SIPEF, this crisis has represented a significant change in the day-to-day management of operations with a priority on keeping our employees safe as well as the continuation of the daily operations. Being located in tropical countries on the equatorial belt, adjusted work procedures and restriction in mobility were required.

However, looking at the financial statements for 31 December 2020, which are being submitted for your approval today, it can be seen that, operationally, SIPEF has had a relatively strong year, with normalised production in our activities in Indonesia, Papua New Guinea and Ivory Coast, and without any natural disasters. Only the significantly lower sales prices from the second quarter onwards, as an initial reaction to the corona crisis, combined with the lingering after-effects of the three volcanic eruptions in Papua in 2019, have affected our results negatively.

Therefore, we ended the 2020 financial year with a profit, share of the Group, of KUSD 14 123, compared to a loss of KUSD 8 004 in 2019. Despite the steady continuation of expansion, the net financial debt also reduced from KUSD 164 623 at the end of 2019 to KUSD 151 165 at the end of the fiscal year 2020.

The continued strong demand for vegetable oils, combined with lower than expected production in soybeans, corn and cereals, led to a straightforward rise in prices for agricultural commodities from October last year to the current high price levels, not seen for 10 years for most products. Palm oil prices also followed this upward trend, with the usual discount to the other oils, reaching a peak of USD 1 300 per tonne CIF Rotterdam mid-May. Meanwhile, the price level dropped by USD 100 per tonne as a result of profit taking on positions held by financial funds. Nevertheless, the markets of most agricultural commodities remain strong and no immediate sensitive price declines are expected. However, due to the limited stocks of most of these products, spot positions continue to be priced higher than more deferred positions, making forward sales less profitable.

While these exceptionally good market prices for palm oil contribute fully to the results of our palm activities in Papua New Guinea, the results of our business in Indonesia are to a large extent being skimmed by exceptional local levies on the production of crude palm oil. Indeed, since 10 December last year, in addition to the already existing export tax, the Indonesian government has unilaterally introduced an export levy of up to USD 255 per tonne to finance and stimulate the production and consumption of biodiesel from palm oil. As such, Indonesia is the only country in the world where the production of biodiesel from palm oil is financed by the industry itself, and not by government subsidies.

These levies ensure that gross sales prices for the month of June will be taxed at USD 438 per tonne. Despite reports that the biofuel production financing fund is now sufficiently funded to cover the next few months, there is no sign yet that the Indonesian political authorities will actually reduce these taxes in the near future.

Taking advantage of the rising curve of palm oil prices since October last year, we have now sold 58% of our expected palm oil production at USD 965 per tonne CIF Rotterdam, premiums included, against 52% at USD 692 per tonne at the same time last year. Due to the uncertainty of the monthly level of the levies on palm oil, it is not appropriate to make forward sales in Indonesia and, therefore, only the sales prices of the expected production volumes of the second half of the year from our own estates in Papua New Guinea are fixed.

The start of 2021 has already been very favourable from an agronomic and operational point of view. The first four months of the year were characterised by well spread precipitation volumes, which positively influenced the formation and ripening of the palm fruits. There were also no exceptional losses due to insect pests or short-lived disease phenomena. As already mentioned in our interim statement, we again experienced a significant increase in the production volumes of palm oil. At the end of April, volumes were already 17.8% higher than those for the same period last year, and this favourable trend has continued. It is also the result of rising yields from the Group plantations, which are the effects of the sustained efforts to replant zones in a timely manner and of the constant expansion of areas since the start of our activities in South Sumatra in 2011.

Although, since March last year, the coronavirus has imposed many restrictions on us business-wise, and has complicated the management of the plantations and mills, it has not had a substantial impact on the Group's efficiency. We have been able to safeguard our people and their resident family members from infection as best as we can, and our offices have remained operational, often through telework. Therefore, our thanks go to the management and employees in the overseas territories, all of whom have remained on site for long periods of time and have contributed devotedly to the continuation of our activities. It is our endeavour to be able to offer all our overseas employees and family members a vaccine as soon as possible, which will once again give them freedom of movement in their countries, where medical care remains a scarce commodity.

In view of the fruit formation, the production increase for the coming months will probably remain in line with expectations. We stay convinced that the SIPEF group will be able to achieve a production increase of more than 10% compared to the 2020 volumes, as announced at the beginning of the year, and pass the milestone of 370 000 tonnes of palm oil. This forecast is also supported by the constantly growing, but still limited, production contribution of our new activities in South Sumatra, where, at the end of April, more than 7 400 tonnes of palm oil had already been produced. But also, the faster than expected recovery of the plantations affected by the volcanic eruptions in Papua New Guinea, is relevant for the current growth in production volumes of the Group.

Rubber production continues to suffer from fungal diseases that have spread to most producing countries in Asia. It appears that no adequate remedy has been found yet, which significantly reduces the world supply of natural rubber. Nevertheless, this general reduction in production is not sufficient to support natural rubber prices, and latex grade markets continue to maintain between USD 2 000 and 2 400 per tonne. The tight container traffic also makes it difficult for customers to transport the rubber bales for processing.

Rubber production in the SIPEF group at the end of April remained in line with last year's volumes. To date, 37% of the expected volumes have been sold at an average price of USD 2 095 per tonne FOB, which is 32.7% higher than the same volume sold at USD 1 579 per tonne at the same time last year. For the time being, the better prices have ensured that the rubber activity in the SIPEF group is yielding a small positive gross margin.

Our Cibuni tea plantation saw its production decline by 21.6% at the end of April compared to 2019, which was a good production year. This decline, which was caused by the changeable weather conditions in the mountains near Bandung in Java, was partially offset by the purchase of leaves from smallholder farmers, and finally amounted to only 8.7% at the end of April. This new purchase activity was necessary to obtain the renewal of the land rights for the Cibuni plantation. Tea prices remain low due to the continued oversupply in Kenya's tea markets, and there is also no immediate prospect of prices rising. As a result, the profitability of the tea activities in the SIPEF group has so far remained negative for the third year in a row.

The wage increases imposed by the Indonesian government for 2021 were relatively limited. However, rising prices for diesel and fertilisers were recorded, resulting in a slight increase in unit cost prices for palm products in most plantations. This is not the case for the palm activities in Papua New Guinea. There, the strong increase in volumes, due to the accelerated recovery of production after the volcanic eruptions, is normalising unit cost prices. The average unit cost price for palm products for the SIPEF group thus remains fully in line with that recorded at the same time last year.

Banana production in Ivory Coast at the end of April increased by 7.6% compared to that of the first four months of 2020, mainly due to production delays from the fourth quarter of last year. We expect this growth to continue in the following months. Due to sales based on annual contracts at fixed prices, we are recording a recurring positive banana contribution, which will be at least in line with that of the previous year.

The expansion of our oil palm operations in Musi Rawas in the province of South Sumatra is accelerating. Today, more than 17 600 hectares are operationally controlled by the Company. There are also more than 14 400 prepared and planted hectares, so that now more than 80% of the hectares under management are also effectively cultivated.

In May, the RSPO gave us the green light for the sustainable development of an area adjacent to the existing Agro Kati Lama plantation in Musi Rawas. This extension concerns a concession of approximately 3 000 hectares, which will, however, only be partially developed, depending on the feasibility study and taking into account the sustainability aspects indicated by the consultants. Land compensation will start soon, and the first plantings could take place before the end of the year.

The replanting of the existing RSPO certified plantation company, Dendymarker Indah Lestari (DIL), acquired in 2017 and located among the Musi Rawas concessions, is progressing gradually. More than 5 700 hectares have already been replanted, of which almost 600 hectares are in the area provided for the surrounding communities.

Today, the SIPEF group has planted or replanted more than 24 300 hectares in South Sumatra, of which, however, almost 15 000 hectares are not yet in production.

The Dendymarker palm oil mill has been processing all of South Sumatra's production since August 2018. However, it had reached its limits and the processing capacity is now being expanded from 20 tonnes per hour to 60 tonnes per hour. The works were delayed last year due to the corona measures. This was also the case with the construction in North Sumatra of a plant for the production of high-quality bio-pellets from the waste fibres of the palm fruit, which can be started up this month.

It is becoming increasingly difficult for plantation companies to fit new plantings into the tightening rules of the RSPO and our own ‘Responsible Plantations Policy’, which explicitly imposes ‘No Deforestation’, ‘No Peat’ and ‘No Exploitation’ regulations. However, SIPEF continues to faithfully follow its sustainability policy. Every new expansion is subject to a voluntary evaluation, so that SIPEF will continue to be a 100% sustainable plantation company in the future.

The focus for the future will also be on improving the technical quality of the palm oil produced, through close partnerships with process developers. Given the extensive replanting and expansion programs for the next years, we have been strategic investors in Verdant Bioscience since 2013. This joint venture was established to develop high-yielding oil palms in Indonesia, and gives us access to the latest technologies in the business. At the end of last year, the shareholding was rearranged once again, with the inclusion of PT Dharma Satya Nusantara (DSNG), an Indonesian listed plantation company, alongside the well-known partners Ackermans & van Haaren, BioSing (scientists) and SIPEF.

Given the recurrent stable contribution of the banana activities to the SIPEF results, it was decided to expand the planted areas of 780 hectares of Plantations J. Eglin in Ivory Coast by 550 hectares. This was through the acquisition of the assets of an existing insolvent banana plantation, Wanita, which had been placed under judicial protection. Subject to the fulfilment of a number of conditions precedent, we expect to commence the replanting of the first 150 hectares and the rehabilitation of the infrastructure, including the packing plants, from September. Plantations J. Eglin will, therefore, over a period of three years and through a staggered investment of USD 8 million, increase its production by almost 80% from 32 000 to 57 000 tonnes of export bananas.

Given the continuing negative contribution of rubber and tea in recent years and the lack of positive prospects of a turnaround in the near future, it was decided to convert the rubber plantations to oil palm plantations, where possible, and to divest the Company of the remaining rubber and tea activities.

We can confirm that the sale of PT Melania, announced early March, has been completed for a gross sales price of USD 36 million. The sale of the first tranche of 40% of the shares for the sum of USD 19 million has already been completed. The procedure for the renewal of the permanent land rights (HGU), which will lead beyond 2023 to the sale of the remaining 60%, (55% held by SIPEF and 5% held by a third party) for the sum of USD 17 million, has now started. The final net selling price and the possible capital gain on the sale will depend to a large extent on the cost price of the renewal of the HGU and the severance payments of the personnel employed, who will probably be taken over almost completely.

Taking into account the sales of palm oil already achieved, and based on recent market prices, the Group expects a significant improvement in the net recurring annual results for the year. The final recurring result will largely depend on the continuation of current production growth, the level of market prices for the remainder of the year, the evolution of production costs and, unfortunately, also on the level of government introduced levies on the production of crude palm oil in Indonesia.

The Group will generate a positive cash flow from increased production volumes, sold at significantly better prices, which will be supplemented by the aforementioned proceeds from the sale of PT Melania. This cash flow will make it possible, in addition to financing the detailed investment budget, to further reduce the Group's net financial debt.

As already announced in our press release and annual report, and in line with the shareholders' remuneration policy, the Board of Directors will propose to the General Meeting the payment of a dividend of EUR 0.35 per share for the fiscal year 2020, payable as of 7 July 2021.

On the date of this General Meeting, Jacques Delen's directorship expires and, despite exceeding the age limit, the Board of Directors will propose to the General Meeting that his directorship still be renewed for one year until the General Meeting of June 2022. In addition, Petra Meekers will be included in the Group's Executive Committee as of 10 June and will therefore end her directorship of SIPEF. We propose to appoint Yu-Leng Khor to replace Petra Meekers for a four-year term as an independent non-executive director, until the closure of the 2025 General Meeting. She has acquired, through her professional activities, a very extensive knowledge of the agricultural business in Southeast Asia, and we are convinced that she will be able to make a very important future contribution to the further development of the Company.

At this General Meeting, the replacement of the auditor is also requested, as Deloitte, after years of loyal service, is no longer legally allowed to fulfil this mandate. Therefore, it is proposed that the audit team of EY takes over this task worldwide from Deloitte, for the usual mandate of three years until the closure of the General Meeting of 2024.

Finally, we would like to thank all the members of the SIPEF group for the efforts made during the past financial year, especially in these current, very difficult times, where the coronavirus has severely limited the travel opportunities of our staff, and they have remained faithfully at their posts in areas where medical support is often limited. Thanks to their strong support and perseverance, the 2020 corona year has nonetheless become a successful year for the SIPEF group. We hope we will be able to continue to count on them to help realise the ambitious plans the Company wants to complete in the coming years.

Schoten, 9 June 2021