Written questions to the General Assembly of 8 June 2022

1. During the presentation of the quarterly figures, you assumed an expected 4% increase in palm oil production, although this was not evident given the difficult Q1. Can you repeat this prediction?

   The decline in production compared to last year was mainly noticeable in the first two months of the year. However, since March the palm oil productions, except for those of Agro Muko, are on the rise again and the prospects for the next three months are generally positive, certainly also in Papua New Guinea. Considering the above, we assume that the 4% production increase is still possible by the end of the year.

2. In the same quarterly report, you predicted that in all likelihood the profit in 2022 will be able to exceed that of 2021. Is this not an overly cautious estimate? Can you give a more precise estimate? Even the less communicative Socfin group is making more specific and tangible forecasts for 2022.

   We are only at the beginning of June, there is a lot of volatility in the vegetable oil market, and we have to take into account an Indonesian government that often takes 'surprising' measures to keep the local palm oil price under control. Therefore, it is not easy to make a reliable forecast of net palm oil prices for the second semester. Given that we have only sold 30% of our Indonesian production volumes, it seems to us a little too early to give a quantified indication of the profits for 2022.

   We can, however, state that the result for 2022 put forward by the analysts of KBC Securities and Degroof Petercam, based on their own estimates, amounts to an average of USD 107.5 million.

3. The President of Indonesia Joko Widodo took several drastic measures at short notice to keep the price of palm oil affordable for the Indonesian consumer. At one point, the shelves of palm oil in Indonesian supermarkets were empty. Can you give a historical overview of these measures? And what is the most recent situation? At what net price are you currently selling in the local Indonesian market?

   As cooking oil prices were rising sharply for the local Indonesian consumer, the President introduced measures to increase the supply of oil in the country. It was decided on 25 January 2022 to introduce a Domestic Market Obligation (DMO) with a Domestic Price Obligation (DPO). This required refiners to sell 20% of their volume locally, at a reduced price of IDR 14 000 per litre of cooking oil. If the producers of cooking oil met this requirement, they could continue to export palm oil. When that proved insufficient to ensure local supply, it was decided to increase from 17 March 2022 the maximum export tax/export levy from 375 USD/tonne to 575 USD/tonne.

However, these measures did not have the desired effect, as the distribution sector continued to drive up the local consumer price through stock constraints, and on 28 April 2022, the President issued a general export ban on all crude palm oil and related products. This created an abundance of stockpiled oil in the country, causing refineries and palm oil mills to shut down after three weeks and preventing buying fruit from smallholders.

After protests from the farmers, the export ban was lifted on the 23rd May and the DMO and DPO were reinstated. The modalities to fulfil these obligations were only released on the 30th May. As a result, the first export licences could only be issued from that date. It will probably take a few more weeks before palm oil exports are fully normalised. Meanwhile, prices on the world market remain exceptionally high. Since the export ban was lifted, SIPEF has sold very limited volumes of palm oil on the local market. We have enough storage space to wait for further selling until the local market prices, which are now under pressure due to the large volumes on offer, normalise. As soon as there will be more oil available for immediate processing in the refineries, we will restart sales.

4. At what net price did SIPEF sell its palm oil in Papua New Guinea in 2022 so far?

Given the uncertainty of the measures in Indonesia, we decided to continue selling our oil from Papua New Guinea. This allowed us to take advantage of the increased prices over the last few months and to conclude contracts for the second half of the year as well. To date, 83% of the volumes have been sold at a net, ex-factory, price of USD 1 218 per tonne.

5. In your past presentations, you gave a nice overview of SIPEF's performance in comparison with many peers. Can you update and share these again?

It is our intention to continue to publish this overview. However, we always wait until all the annual reports of the peers are available in order to re-establish a basis for comparison based on this published data. I expect the update to be available upon publication of the half-year figures.

6. In a recent newspaper article (de Tijd) you stated that the SIPEF share is far too cheap. If that is the case, why does your reference shareholder not buy additional shares? Or yourself, or other executives or directors? Or why does SIPEF not buy back its own shares? And what do you think is a fair price? Can you make an estimate, like MP Evans (who posts an external valuation on its website and includes it in the annual report?).

It is not for us to answer questions about share ownership. I suggest you ask the question at the appropriate time at the General Meeting of Ackermans & van Haaren (AvH). By the way, from the transparency reports, we see that AvH is systematically increasing its stake in SIPEF. As members of the executive committee of SIPEF, we have already been benefiting for 11 years from an option programme which will be exercised in due course and gives the management access to 1.68% of the shares. Furthermore, as persons with 'insider information' we do not wish to exert any influence on the pricing of the SIPEF share.

The purchase of own shares is a formula that we have not chosen so far, because the extensive investment programme and debt reduction do not allow such initiatives. Value creation through expansion is until now more important for the future of the company than short-term support of the share price.
SIPEF has no intention of having an external valuation carried out on its assets. Such a valuation is to a large extent determined by the estimation of several crucial variables, such as the future price of palm oil, and it is not for the company to predict the palm oil price. We can only underline the quality and positive characteristics of palm oil. We are sellers for at least 20 years, once we have planted. We work as efficiently as possible towards yield and cost to create the best possible environment for profitability. The palm oil price is complex, it is a commodity and is also largely shaped by the price of the vegetable oil market, of which palm oil now accounts for just over a third.
The statement that the SIPEF share is relatively cheap is based on a comparison with the valuation of other palm oil plantations and the current 'price/earnings' ratio. A valuation of a good palm oil plantation in Indonesia and Papua New Guinea should be between 12 000 USD/ha and 15 000 USD/ha, which would result in a value for the SIPEF share between 80 and 95 EUR/share.
Based on the analysts' estimate of USD 107.5 million, the SIPEF share is currently quoted at a P/E of 7x. Historically and in line with the market, this is rather 10x-12x, which would mean a price between 95 and 113 EUR/share. Even if we assume the result of 2021, a P/E of 12x would result in a share price of approximately 90 EUR/share.

7. You stated in the same article that SIPEF would be worth EUR 1 billion, based on a 50% increase in production over five years. It is not clear whether that 1 billion is in euros or in US dollars. Does this correspond to about 95 - 100 euros per share? Please clarify the basis for this statement.

Given the evolution of the exchange rate, there is currently no major difference between 1 billion EUR and USD.
The EUR 1 billion was a simple approximation based on the current market capitalisation and the evolution of the expected palm oil production. This production should increase from the current 400 000 tonnes to 600 000 tonnes in the next five years.
Considering the current market capitalisation is EUR 680 billion and the production and the related profit potential will increase by 50% in the next five years, the market capitalisation would be EUR 1 billion within five years based on the current market stock valuation.

8. To what extent has climate change affected the plantations in Indonesia and Papua New Guinea in recent years? Heavier precipitation and greater drought? Can you show this in a graph? Early 2021 (Jan/Feb), in Papua New Guinea, there seemed to be much less rainfall compared to the long-term average (especially at the Navo and Bakada estates).

Climate change for tropical plantations is mainly impacted by the excesses we experience. The rainy season/dry season patterns are increasingly broken and make the traditional 'seasons' less predictable.

The fact, cited by you, that in the last two years the rain in Papua New Guinea has fallen much less in the rainy season, may be positive for our activities there, but it is different from what we have known in the past. We recorded a deviation in rainfall of 30% from the five-year average in 2021; meanwhile in 2022 it is already 40%.
In Indonesia, a drought of more than three months, with less than 100 mm rainfall per month, has an effect on production that can last up to 36 months, and we have seen more and more such effects in the last 10 years.

9. What is the enterprise value per planted hectare? And at what prices (EV/planted ha) palm oil plantations are traded today?

At the current market price of EUR 65, the enterprise value is 10 250 USD/planted hectare (based on the balance sheet and exchange rate on 31 December 2021). This corresponds to a price earnings of 9.3 based on the recurring profit of 2021, which will be even lower based on the higher profit expected in 2022.
These values are below those quoted in London, in Singapore and in Malaysia, but more in line with valuations found for listed companies in Indonesia. We do not think that SIPEF should be subject to the same sustainability discount as most Indonesian companies. We can therefore conclude that the premium for a sustainable palm oil company, with a good reputation, is not included in our valuation.

10. Your net debt is melting like snow in the sun with the current high palm oil prices. Do you expect a net cash position in 2022?

We expect the net debt position at year-end to be very close to zero. Depending on whether or not the investment budget of USD 107 million is fully realised, this position could already become positive at the end of 2022.

11. You obtained an excellent score on the Forrest 500 list and ended up on the 5th place of 350 companies and 150 financial institutions... Can you explain how you obtained such a high score? And who dares to claim that your sector (ranked the best of all the agricultural sectors) and SIPEF in particular cause damage to the environment compared to other sectors? Which supermarket (Carrefour?) still dares to put "sans huile de palme" on its packaging after reading this report? Ditto for the SPOTT Rankings where SIPEF is ranked 9th out of 100 palm oil companies.

Forest 500 is a benchmark that specifically focuses on transparency and implementation of policies related to "no deforestation" and "no violation of human rights". SIPEF has a strong policy for the complete prevention of deforestation (including the protection of areas with "High Carbon Stock" or "High Conservation Value" and of new development of peatlands), as well as for the respect of human rights. This is reflected in SIPEF's high score for "Commitment strength" (20/20) and "Social considerations" (16/18), two of the three larger indicator categories under the Forest 500 benchmark. SIPEF has also set up a strong approach for the implementation of this policy, with significant monitoring activities, and for following the RSPO's "New Planting Procedure" for new developments.

SPOTT has a broader focus but is mainly about transparency and the strength of policy. The fact that SIPEF has a higher score therefore mainly has to do with how much the company publishes about its activities and what kind of policy it pursues - which is quite strong compared to a lot of other companies and producers. RSPO certification is also a very important factor for a good SPOTT score, with many of the indicators being linked to certain requirements of the RSPO standard and the percentage of certified operations. An important component of SIPEF's sustainability strategy is certification. A high percentage of the oil palm plantations are RSPO certified, and all the mills are certified (eight of the nine are even fully traceable certified).

It is also a priority for SIPEF to improve its score under these rankings and to use these indicators as a benchmark in the industry.

People who are still attacking the palm oil sector today for sub-standard management to "Environment, Social and Governance" (ESG) standards, have clearly missed the stream of improvements this sector has undergone in the last five years. All the figures on excessive deforestation are at least five years old and we are currently the most regulated sector in terms of monitoring deforestation and hotspots. Any expansion is closely watched by satellite systems, managed by NGOs and financed by our customers. Our highly labour-intensive sector is also constantly monitored for compliance with local social laws and safety conditions. We are the sector with the most commitments, which have also been translated into policies and applications.

SIPEF wants to set an example and show leadership in the way towards greater sustainability, without losing sight of the company's profitability. We remain a relatively small player in the sector and are certainly not determining the policy, but we do want to prove that sustainability and profitability are not incompatible concepts. After more than 14 years of RSPO certification, we are experiencing the benefits of our consistent policy by being rated highly in scores and rankings.

12. The basic yield (70/60) is on the rise from 4.1% in 2017 to 6.7% (2020). Quid in 2021? Is this a consequence of improved cultivation (influence of Verdant Bioscience) or only of the growing share of the most productive crop (palm oil)?

This question relates to SIPEF’s statutory accounts.
The rate of return sought is the ratio of gross margin (or the difference between turnover and purchases of goods) to turnover.
SIPEF's turnover in Belgium consists of three elements:

- Commissions from the sale of commodities
- Management fees for the management of the subsidiaries and
- Commissions on various activities

A commission rate of 3% is consistently charged on the sale of trade goods.
Management fees are determined on a cost-plus basis and are not subject to significant fluctuations depending on the profitability of the operations. Commissions on various activities mainly relate to volume discounts on transport and commissions on local sales.
The increase in the basic yield is only the mathematical consequence of the fact that (i) the margin (the numerator) contains a fixed element due to the management fees and (ii) SIPEF's turnover in Belgium (the denominator) has decreased significantly in recent years due to the increase in the volume of local sales in Indonesia. Thus, the improved basic yield has nothing to do with the operational activities.

It is important to note that only the consolidated financial statements provide a correct and reliable picture of the SIPEF group's financial situation and performance. There we see that the ratio of operating result to sales was 33.5% in 2021 compared to 11.2% in 2020.

13. The cultivated area of 83 893 hectares (2020) decreases by about 5% to 79 942 hectares (2021). Is this a result of natural conditions or due to the cessation of certain activities? Page 14 of the annual report: "aims for a developed area of 100 000 hectares", which means an increase of about 25%! Page 72 of the annual report: "while the surface of agricultural land is becoming increasingly scarce". Does SIPEF still have land in reserve and if so, how much?

The reduction of cultivated areas in 2021 is only related to the divestment and conversion of rubber and tea areas. The cultivated areas in oil palm will continue to increase steadily and will rise from the current 77 163 to 87 958, mainly due to the further development of the previously acquired concessions in South Sumatra.
Aiming for a developed area of 100 000 hectares remains a long-term objective. This is necessary to be able to guarantee sufficient production and to continue to supply existing clients with sufficient traceable sustainable palm oil.

Due to the lack of as yet unplanted agricultural land (green field development) and the limitations imposed by SIPEF's sustainable development policy, further expansion will rather take place through the purchase of existing, mostly non-RSPO certified surrounding plantations. These will then be brought up to standard by SIPEF to produce traceable sustainable palm oil in the future.

14. On the risk of monoculture and narrow location. Page 71 of the annual report: "SIPEF is of the opinion that it is better to concentrate on a few products with high returns and good long-term prospects than to invest in several products with lower returns and uncertain prospects." Multiple products: what does one mean by this since one is a quasi-monoculture in palm oil? It is true that one opts for a high return but as one has no pricing power on the market and is dependent on external factors (taxes and natural elements), the high return is more of a legitimate objective than an established fact.

SIPEF believes it is best to concentrate on what it is good at: high-quality labour-intensive tropical agriculture. However, it has been established that a sound financial return on investment can be achieved primarily through palm oil in Indonesia and Papua New Guinea, and through bananas in the Ivory Coast. It is therefore the intention to develop these activities further with a view to developing quality products that are distinct from the mass product that palm oil and bananas often are.

The high return is the result of maintaining selective quality standards, both for the use of planting materials and for the chosen land, and the efficient operation of plantations. In this way, we can offer a quality product that is competitive in terms of pricing and whose return, even with varying selling prices, will be higher than that of the surrounding companies.

15. Verdant Bioscience: From what I understood on page 63 and following, Verdant Bioscience only focuses on improving palm oil production. It is also concerned with the regulation of carbon in the soil, ... the preservation of harmful organisms and diseases. What is meant by this, and can the acquired knowledge also be used in other crops and/or for third parties? Does Verdant contribute to the results of SIPEF NV or is this still in the experimental phase?

Verdant Bioscience's main objective is to develop the F1 hybrid oil palm. This does not yet exist in oil palm but is already fully established in other crops such as rice, corn, and cereals.

In addition, it provides services to the palm oil sector that consist of guiding the growth conditions of oil palms as well as possible. This is done by analysing the soil and palm leaves and setting up adequate fertilisation programmes, with a maximum 'cost-benefit' ratio.

Verdant also assists plantations in reducing the use of chemical treatments against insect pests and diseases. Verdant does this in a natural way by means of long-term organic soil improvement and by introducing predators to avoid pests.

Furthermore, Verdant sells oil palm seeds in the Indonesian market, which are already among the best performing in the sector, but do not yet have F1-hybrid characteristics.

Through the combination of these different activities, Verdant Bioscience has been operating at around cash break-even for the last couple of years, with F1 hybrid seeds still in a development phase.