Written questions to the General Assembly of 14 June 2023

1. Both, the CFO and the CEO recently indicated in interviews that it is time for a new long-term (20 years) strategic plan. Previous plans are nearing completion 100 000 ha planted (another 20 000 ha to go?), divestment of loss-making activities and focus on palm oil and bananas. When will SIPEF come out with that new strategic plan and what are the key points in it?

   SIPEF still needs about 5 years to fully complete the current long-term plan. Several hectares still need to be planted and a lot of infrastructure, such as housing and a palm oil extraction mill, needs to be finished. This expansion would result in SIPEF being able to market around 600 000 tonnes of palm oil within +/- 8 years.

   A follow-up strategy may not just only be further expansion of hectares or production volumes. We are currently looking at how and with which partner(s) we can create further added value for our sustainable and fully traceable palm oil. This is a strategy for which the necessary contacts are being made and the teams are being retrained and, if necessary, expanded.

   The transition to this follow-up strategy will evolve rather gradually and will not be accompanied by a separate publication.

2. François Van Hoydonck quits as CEO in August 2024. How is the search for a new CEO taking place? Or is his successor/star already known?

   According to the current corporate governance rules at SIPEF, a mandate in the day-to-day management does indeed end at 65 and it is not François' intention to continue his mandate as CEO after this age, and after a 45-year career.

   The succession has been prepared behind the scenes for many years. Today, there is an experienced ExCom, and expat team ensuring the management of SIPEF, under François' leadership. It is likely that the succession will come from this group.

3. Taxation in Indonesia is apparently a nightmare, and it is not so obvious to send cash to Belgium. Has that situation improved today or not? What are the lawsuits about?

   This question falls into 2 parts: a) taxation and b) free transfer of funds.

   a) In general, we can say that legal certainty in Indonesia and by extension, all countries where SIPEF operates, is moving in the right direction. This is also the case for everything tax related. There are mainly the classic discussions with the authorities about 'transfer pricing' and in SIPEF's case these mainly concern the commissions charged on sales and management fees. However, these discussions are rather universal and certainly not limited to a specific country. It is true that SIPEF in Indonesia still has a lot (more than 100) of outstanding court cases relating to a VAT deductibility dispute dating back more than 10 years. Every year a number of cases are closed. Sometimes we win, sometimes we lose. This is disturbing because it is structurally about the same 'ground'. A provision of 50% of the total 'exposure' of USD 2 524 is still outstanding.

For your information: in 2011 SIPEF filed a VAT dispute against the Belgian state, which was settled in SIPEF's favour only in 2022, i.e., 11 years later. So, it is not only in Indonesia that lawsuits can take a long time.

b) With regard to the free transfer of funds, it is important to note that SIPEF operates in countries where there is a structural shortage of foreign currency. This applies to Ivory Coast, Indonesia, and Papua New Guinea.
Consequently, rules have been issued in these 3 countries which mean that within a relatively short period of time after export, the full amount of the claim must effectively be mandatory in the exporting country. In addition, for all outgoing foreign currency payments, the necessary supporting documents must be provided before these amounts can be transferred abroad. These rules for inbound and outbound foreign exchange transactions already existed for some time but are being checked more and more strictly, with ever-improving technological means of verification.
That said, SIPEF has not yet encountered any material problems regarding the free movement of funds. For example, a dividend of USD 50 million was paid from Papua New Guinea to Belgium in 2023 without any problem. There is currently no money blocked in any local currency either, which could cause undesirable exchange rate effects.

4. Recently, there are clearly more indications again that we will have an El Niño. How high do you estimate that probability to be? And what impact could it have on SIPEF's business?

Indeed, there has been more and more talk about El Niño in recent months. This would mean a hot and dry period in Southeast Asia (Indonesia). This could have a negative effect on the production of agricultural crops, thus also on the productivity of oil palms. Thus, there is a chance that SIPEF, and by extension the entire palm oil sector, could face a more difficult production period. However, the past has shown that annual weather phenomena very rarely have an impact of more than 5% on oil palm production volumes. Moreover, bad production periods are predominantly interspersed with good production periods. Thus, over a longer term, the impact is negligible.

As for the financial impact of a drop in production, the sensitivity test conducted by SIPEF indicates the following: for every 1% higher or lower production of palm oil and at the current palm oil price, profit after tax, share of the Group, increases or decreases by about USD 2 million. A 5% drop in production would therefore mean a USD 10 million drop in profit. However, if production falls across the sector, this will also impact the price of palm oil. To compensate for that USD 10 million 'loss', the palm oil price only needs to rise by USD 40/tonne. If global palm oil production falls by 5% or some 4 million tonnes, then there is a good chance that palm oil prices will rise by more than USD 40/tonne.

In conclusion, the short- and medium-term impact of an El Niño can have relatively large agronomic consequences but its financial impact is usually rather limited.

5. Through Verdant Bioscience, SIPEF is conducting research into new palm oil seeds that can lead to more than 100% higher yields per hectare.

    a. Can you provide an update on the latest status (e.g. when can SIPEF replant with the F1-Hybrid seeds).

    Verdant Bioscience's operations were started in 2013 and are fully on track to bring commercial F1-hybrid seeds to market by 2029. This process cannot be shortened for now. However, new techniques can speed up the evaluation process. This increases the likelihood that seeds with significant yield improvement will actually be on the market by 2029.

    b. What are the chances of success with F1-Hybrid seeds?

    The development of F1-hybrid plants has already been finalised. Currently, the selection process is ongoing to identify the right hybrids to lead to successful commercial seeds so that sufficient volumes are available from 2029. So, the chances of success are very high.

    c. Verdant Bioscience produces various seeds. Could you please list the target yield per hectare of the seeds it sells today, as well as the new seeds coming into production in the coming years?

        i. Verdant V-80? 6-7.5 tonnes/ha

        ii. Verdant Select

        iii. F1-Hybrid-seeds

        iv. Any others in the pipeline?

    Seed yields are expressed in 'tonnes of palm product per hectare per year'. The Verdant V-80 seeds give a yield in palm product of 8 tonnes/ha/year. According to the same calculation, the Verdant Select seeds give a similar yield of 10 tonnes/ha/year. The F1-hybrid seeds are not yet in full production. So, the reference base is still insufficient to already give a final figure. However, we can say that the yield of these seeds will be at least twice that of conventional seeds, in other words at least 16 tonnes/ha/year.

    F1-hybrid production will also keep improving with new varieties that will be developed in a second phase. New hybrids will increasingly provide the ideal combination of high yields per hectare, disease resistance, lower fertiliser requirements, limited height growth of the palm tree and specific characteristics of palm oil produced. The F1-hybrid process guarantees consistent traits. Through new crosses with other genetic lineages, better and better yields will be achieved. In other words, once the F1-hybrid is developed, each subsequent generation will bring new additional benefits. The pipeline will remain filled....

6. How do you rate the chances of VBS versus other projects by other players? SIPEF is not alone in researching high-yield oil palm seeds. Others have much larger R&D teams.

    VBS's approach is unique in the market.

First, the seeds that VBS is already placing in the market are different from those of other producers. The 'semi-clonal' seeds offered by VBS are 'Dura clonal'. This means that the maternal side of the cross is 'identical' for all seeds. All other seeds in the market are 'Pisifera clonal', seeds whose paternal side is identical. The variability of the VBS seed is smaller because the impact of the mother palm (the 'Dura') is greater than that of the father palm (the 'Pisifera'). VBS seeds are therefore more homogeneous than what is offered by other producers and also guarantee higher profitability per hectare due to their parentage.

In many other cultures, such as maize, rice and vegetables, the development of the F1 hybrid has already caused significant yield increases in the past. Palm is, for now, one of the few cultures that does not yet have F1 hybrid seed available. F1 is expected to cause a quantum leap in palm as well. In addition, the seeds will be adapted to the agronomic and climatic conditions of the zones where they are planted and will also be Ganoderma resistant.

7. What are your expectations for the palm oil price that recently dipped below USD 900 CIF Rotterdam?

I think this question has already been explained in the chairman's speech. Still, perhaps I should briefly reiterate that over the last month the supply of agricultural commodities, and palm oil in particular, remains above expectations. This is due to a large quantity of liquid oils currently on offer in the market, combined with weaker demand, due to macroeconomic conditions and a temporary lack of imports from major consumers, India, and China. It is expected that once macroeconomic conditions improve and consumer countries China and India re-enter the market to replenish their strategic stocks, palm oil prices will pick up again. The El Niño weather phenomenon, which usually puts pressure on palm oil production volumes, will also help support palm oil prices in the second half of the year.

8. You are positive in the long term for palm oil. But how will supply/demand ratios change should palm oil fall away as a feedstock in biodiesel (due to increasing pressure from NGOs e.g.) and if all palm oil companies start using high-yield oil palms?

Palm oil as a biodiesel feedstock has gradually become a fixture in global demand for palm oil. This demand will not disappear in the next few years, even if Europe decided to completely phase out the use of palm oil as a biodiesel feedstock on its continent. We are talking about up to 5% of world consumption, which however is growing by 2-3% a year. The European biodiesel effect in the global supply-and-demand situation is thus negligible.

Due to the rising world population and their diet, as well as the need for biofuels and, now recently, for green paraffin for aircraft, we see an annual growth in demand for vegetable oils. This increase, due to the lack of available agricultural land, can only be met by efficiency improvements. Annual seeds, such as soya, turnip, and sunflower, were already the subject of such efficiency improvements to a large extent. Only palm oil remained excluded from this in recent decades. If more efficient palm seeds are developed in the future, they will not lead to overproduction but will be a necessary commodity to meet the expected shortages of vegetable oils in the future.