



Ordinary General Meeting of 13 June 2018

Message from the Chairman and the Managing Director

Ladies and Gentlemen,

On the occasion of this 99th ordinary general meeting, it is our pleasure to run through the main events of the first five months of 2018 together with you.

We experienced 'typical' harvests for the *S I P E F* group at the oil palm plantations over the first five months of the year, with a 6.9% growth in fruit from the own plantations and an increase in own palm oil volumes by 6.4%. Due to a decline in the deliveries of surrounding farmers, the net growth in palm oil volumes was, however, limited to 1.48%.

We noted rising palm oil volumes (+10.2%) at the mature plantations of North Sumatra, where the agricultural conditions were very favourable, particularly in the plantations of Tolan Tiga, which continue to form the backbone of our profitability in the region. Over the next few months, we expect volumes to normalise and be slightly up at the end of the year compared with the good production year 2017.

Fruit production of the UMW/TUM group, the most recent expansion in North Sumatra, continues to grow, with a 10.6% higher contribution compared with the same period a year ago. The increasing maturity of the palms means that the extraction rates in the new mill are excellent (24.2%) and, since the completion of the investment programme, this recent activity has been delivering a constant contribution to Group profit and cash flow.

Palm oil production at the mature plantations of Agro Muko, in the province of Bengkulu in Indonesia, increased 8.4% compared with the same period a year ago. This region did not experience the usual high precipitation, which facilitated harvesting on the hilly terrain. At Agro Muko, which was under our full control for the first year, we are focused on planting the second generation of oil palms and in coming years the volumes of this group will remain constant.

At Hargy Oil Palms in Papua New Guinea we again experienced a 'typical' rainy season, unlike last year, when first-quarter harvesting activities and transport were disrupted by the high precipitation, which exceeded more than 4 000 mm over the first five months of the year. As a result, we noted a sharp -4.3% fall in produced oil volumes at our own plantations and a -20.2% decline in volumes purchased from smallholders up to the end of May. However, we have already observed a gradual recovery in the second quarter and expect a slight general rise in the palm oil volumes towards the end of the year.

Palm oil prices have remained fairly stable over the first five months of the year, with prices of USD 690/tonne CIF Rotterdam at the beginning of the year gradually declining to USD 640/tonne CIF Rotterdam, a level that has fluctuated relatively little over recent weeks. The negative trend is sustained by the better than expected production of palm oil in the Far East, but, above all, the unexpected USD 100/tonne increase in palm oil import duties in India has slowed down demand for palm oil. On the other hand, we remain hopeful about the impact of

the higher crude oil prices on the use of palm oil for biodiesel, with prices already at a level that makes discretionary blending an economically attractive option.

We are also looking forward with interest to the higher blending volumes for biodiesel announced by the Indonesian government. This compulsory blending is subsidised by the government through a fund fed by a minimum levy of USD 50/tonne for crude palm oil producers.

The prospect of these strong crude oil prices and additional biodiesel blending means that, despite the announcement of a new record soybean harvest in the United States, we remain relatively favourably disposed to the price level of palm oil in the second half of the year, and expect the current price of USD 660/tonne to be maintained.

Capitalising on the slightly higher prices at the beginning of the year, *SIPLEF* has already sold 54% of the projected production volumes at an average price of USD 736/tonne CIF Rotterdam, including premiums, compared with 53% at USD 781/tonne at the same time last year. Given the market trends, our sales for the second half of the year remain focused on gradually putting the expected volumes on the market without significant forward sales.

The Group's rubber production is a mixed picture at the moment, depending on the timing of the wintering period, which this year arrived earlier in North Sumatra. As a result, production is currently lower, but there is a distinct rise at Agro Muko in Bengkulu, where the young plantations produce higher yields. The expectations for the coming months are in line with last year's production volumes.

The rubber markets have been very slow since last year, with a slight oversupply of natural rubber. As a result, price levels are low, eliminating profit margins for industrial producers. The global production of natural rubber is mainly driven by smallholders, who continue to tap in spite of the low prices. We do not expect any spectacular movements here in the second half of the year, unless there is another Chinese purchasing wave like the one we unexpectedly experienced in the first quarter of last year. Today, the RSS3 is again selling on the Singapore market for just USD 1 650/tonne FOB, a price that is slightly higher than what it was when we held last year's meeting.

We have now sold 43% of the expected rubber production in Indonesia at an average price of USD 1 636/tonne, compared with 55% at USD 2 265/tonne at the same time last year, and we continue to gradually sell on this stable but unduly low market.

Tea prices have also remained stable in recent months on the Mombasa market, with good demand met by sufficient production of Kenyan tea. The purchases ahead of Ramadan in the Middle East have bolstered demand further. As a result, we have now already sold 56% of production at a price that is 11.6% higher than the price realised at the same time last year.

However, Cibuni tea production volumes are again lower than expected, albeit identical to last year, due to protracted cloud cover, which noticeably reduced the number of sunshine hours. We have already seen an improvement in May and over the coming months we hope to achieve the annual volumes we have been used to in past years.

We note local price rises for fertilisers and diesel over recent months, while the salary raises imposed by the government have remained rather limited. These cost-raising aspects are largely offset by the 6.4% rise in the Group's own palm oil volumes and a gradual weakening of the local currency against the USD, which means that the average cash unit cost price of palm oil at the end of April was the same as last December.

In Ivory Coast we were not able, despite higher yields of the additional planted areas, to increase our banana production compared to the first five months of 2017 and we do note lower volumes for all three of the mature plantations. We saw a drop in temperature due to the impact of the Harmattan winds in January delaying fruit bunch formation, but growth is expected to return to normal over the next few months, while the improved quality of the harvested bananas will enable higher export volumes to Europe. The gradual expansion from 740 to almost 1 000 hectares will be continued over the coming years, to achieve export volumes in excess of 45 000 tonnes.

We have stepped up the expansion of our oil palm activities at Musi Rawas in the province of South Sumatra and controlled by the end of May, already 14 466 hectares, after paying an additional compensation to local land users for 1 173 hectares. During the first five months of 2018, a net 625 hectares were added to the 9 225 prepared and planted hectares at the end of last year, which means that we now manage 9 850 hectares. We expect to be able to convert a large majority of the four concessions – a total of 24 607 hectares – into palm plantations.

We recently got two additional licences for a total of 5 504 hectares, which are all adjacent to the existing concession of Agro Muara Rupit (AMR). We will start work as soon as we can to incorporate this area into the existing approved development plan, in accordance with the RSPO standards for new plantations. We expect to develop at least half of this into palm oil plantations.

We are also finalising discussions on an additional concession of 3 137 hectares, all adjacent to Agro Kati Lama (AKL), which will follow the same process. We hope to develop at least 50% of this concession beginning next year. As a consequence, the total area of Musi Rawas is now 33 248 hectares, more than 22 500 hectares of which we expect to convert to oil palm plantations in due course.

After the acquisition of the existing RSPO-certified plantation company Dendymarker Indah Lestari (DIL), situated among the four Musi Rawas concessions, the gradual replanting of the existing 6 205 hectares of Group plantations and discussions on the replanting of the 2 781 hectares of the surrounding communities (plasma) began in May. Another 2 005 hectares have also been identified within the perimeter of the permanent licence (HGU), 80% of which we expect to convert to additional palm plantations. As a consequence, the total area of DIL will exceed 10 500 hectares planted.

With due consideration for the above, within five years we will be able to increase the planted hectares in South Sumatra from the current 18 514 to around 33 000 hectares of young oil palms, 20% of which will belong to the local communities but will be exploited by us. The total estimated size of the *SIPEF* group will then comprise 86 900 hectares of own plantations, while the total 'supply base' for our mills will already exceed 100 000 hectares.

The Dendymarker palm oil mill will be able to process the entire production of South Sumatra from June, which will lead to the doubling of capacity from 20 tonnes/hour to 40 tonnes/hour in 2019.

We also continue to look for potential limited expansions of our areas in Papua New Guinea to make maximum use of the capacity of our three mills. However, it is increasingly hard 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 goes further than the applicable RSPO standards and explicitly requires new expansions to comply with the 'No Deforestation', 'No Peat', 'No Exploitation' rules. *SIPEF* continues to follow its sustainability policy and every new expansion is subject to a voluntary assessment, ensuring we remain a 100% sustainable plantation company going forward.

The aforementioned expansion plans will be revised, where possible, to enable self-financing of the Group and, as a rule, should not be combined with additional external financing. Since the acquisitions of 2017, partly financed by a successful capital increase that was exclusively open to existing shareholders, *SIPEF* has continued to have a net financial debt position of around USD 80 million on the balance sheet, which we wish to lower further with the revenue from the sale of our 50% stake in the BDM/ASCO insurance activities to an American insurer, as announced earlier. This transaction was finalised last week with a net gain of USD 7.4 million, and the sale price of KUSD 20 783 hedged at the time of signing will be used in full to clear the bank debts.

In spite of an expected 9% rise in our palm oil production and local currencies weakening against the USD, the further development of palm oil prices on the global market will be decisive for the 2018 recurring result of the *SIPEF* group. The expectation, that palm oil prices will stabilise over the coming six months at a lower level than the 2017 average, leads us to decide that the recurring result of the *SIPEF* group for 2018 will have to be slightly lower than it was for the financial year 2017.

The available cash flow should enable us to complete our investment programme for this year, which, apart from the usual replacement investments, will be mainly focused on the new plantings at Musi Rawas and the rehabilitation of Dendymaker.

In the technical sphere, the first methane biogas engine generating electricity with continual supplies to the public power grid in Bengkulu in Indonesia has been operational since September 2017, and the construction of the fifth methane gas capture plant and the composting activity in North Sumatra have been completed.

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

Furthermore, subject to your approval, KEUR 16 927 or EUR 1.60 gross per share, will be paid out to the holders of coupon 11, a 28% rise in the dividend. Payment is scheduled for 4 July 2018.

On the date of this general meeting, the term of office of Priscilla Bracht expires, and we ask you to renew this for a term of 4 years until 2022. Petra Meekers has been co-opted by the Board to complete the term of office of Antoine de Spoelberch until 2020, and, lastly, we ask you to approve the new appointment of Tom Bamelis as additional director for a term of 4 years until 2022.

This ordinary general meeting will be immediately followed by an extraordinary general meeting, which will renew a number of existing statutory protective measures for which we are also counting on your approval.

In conclusion, we would like to thank all members of the *SIPeF* group for their efforts during the past financial year and say that we keep counting on them to help us achieve the ambitious plans the company has for the coming years.

Schoten, 13 June 2018

Group production - (in tonnes)

May 2018

	2018					2017					YoY Variation	
	Q1	Apr-May	Q3	Q4	YTD	Q1	Apr-May	Q3	Q4	YTD	Apr-May	YTD
Fresh fruit bunches produced												
Own												
Tolan Tiga Group	73 557	51 107			124 664	67 317	48 602			115 919	5,15%	7,54%
UMW/TUM/CSM Group	46 742	37 657			84 399	44 712	35 346			80 058	6,54%	5,42%
Agro Muko Group	84 280	65 242			149 522	80 677	58 396			139 073	11,72%	7,51%
PT Dendymarker*	6 832	5 017			11 849	0	0			0	-	-
Musi Rawas Group	1 113	1 166			2 279	203	135			338	763,61%	574,26%
Hargy Oil Palms	84 071	62 629			146 700	92 824	57 564			150 388	8,80%	-2,45%
Total own	296 595	222 818	0	0	519 413	285 733	200 043	0	0	485 776	11,38%	6,92%
Outgrowers												
Tolan Tiga Group	0	0			0	0	0			0	-	-
UMW/TUM/CSM Group	0	0			0	0	0			0	-	-
Agro Muko Group	3 441	2 578			6 019	3 038	2 172			5 210	18,71%	15,53%
PT Dendymarker	439	522			961	0	0			0	-	-
Musi Rawas Group	78	50			128	0	0			0	-	-
Hargy Oil Palms	46 628	41 868			88 496	65 521	41 219			106 740	1,57%	-17,09%
Total outgrowers	50 586	45 018	0	0	95 604	68 559	43 391	0	0	111 950	3,75%	-14,60%
Total FFB produced	347 181	267 836	0	0	615 017	354 292	243 434	0	0	597 726	10,02%	2,89%
Fresh fruit bunches sold												
Tolan Tiga Group	0	0			0	5	0			5	-	-100,00%
UMW/TUM/CSM Group	7 674	5 772			13 446	7 767	6 307			14 074	-8,48%	-4,46%
PT Dendymarker*	1 397	0			1 397	0	0			0	-	-
Musi Rawas Group	1 191	1 216			2 407	203	135			338	800,74%	612,13%
Total FFB sold	10 262	6 988	0	0	17 250	7 975	6 442	0	0	14 417	8,48%	19,65%
Fresh fruit bunches processed												
Tolan Tiga Group	73 557	51 107			124 664	67 312	48 602			115 914	5,15%	7,55%
UMW/TUM/CSM Group	39 068	31 885			70 953	36 945	29 039			65 984	9,80%	7,53%
Agro Muko Group	87 721	67 820			155 541	83 715	60 568			144 283	11,97%	7,80%
PT Dendymarker*	5 874	5 539			11 413	0	0			0	-	-
Musi Rawas Group	0	0			0	0	0			0	-	-
Hargy Oil Palms	130 699	104 497			235 196	158 345	98 783			257 128	5,78%	-8,53%
Total FFB processed	336 919	260 848	0	0	597 767	346 317	236 992	0	0	583 309	10,07%	2,48%
PO extraction rate												
Tolan Tiga Group	22,7%	22,7%			22,7%	22,1%	22,2%			22,2%	2,13%	2,42%
UMW/TUM Group	24,5%	23,9%			24,2%	23,4%	23,7%			23,5%	0,80%	2,89%
Agro Muko Group	23,2%	22,9%			23,1%	22,7%	23,1%			22,9%	-0,88%	0,83%
Hargy Oil Palms	23,5%	24,4%			23,9%	24,2%	25,1%			24,6%	-2,66%	-2,62%
PT Dendymarker	15,1%	16,6%			15,8%	-	-			-	-	-
Total PO extraction rate	23,2%	23,5%	0	0	23,3%	23,4%	23,8%	0	0	23,5%	-1,54%	-0,98%
Palm Oil												
Own												
Tolan Tiga Group	16 689	11 612			28 301	14 881	10 813			25 694	7,39%	10,15%
UMW/TUM Group	9 572	7 606			17 178	8 654	6 872			15 526	10,68%	10,64%
Agro Muko Group	19 576	14 985			34 561	18 344	13 530			31 874	10,75%	8,43%
PT Dendymarker	821	884			1 705	0	0			0	-	-
Hargy Oil Palms	19 851	15 373			35 224	22 393	14 411			36 804	6,68%	-4,29%
Total own	66 509	50 460	0	0	116 969	64 272	45 626	0	0	109 898	10,59%	6,43%
Outgrowers												
Tolan Tiga Group	0	0			0	0	0			0	-	-
UMW/TUM/CSM Group	0	0			0	0	0			0	-	-
Agro Muko Group	750	556			1 306	651	473			1 124	17,55%	16,19%
PT Dendymarker	64	33			97	0	0			0	-	-
Hargy Oil Palms	10 862	10 157			21 019	15 958	10 382			26 340	-2,17%	-20,20%
Total outgrowers	11 676	10 746	0	0	22 422	16 609	10 855	0	0	27 464	-1,00%	-18,36%
Total Palm Oil	78 185	61 206	0	0	139 391	80 881	56 481	0	0	137 362	8,37%	1,48%

Palm Kernels	Q1	Apr-May	Q3	Q4	YTD		Q1	Apr-May	Q3	Q4	YTD	Apr-May	YTD
Own													
Tolan Tiga Group	4 118	2 833			6 951		3 793	2 535			6 328	11,76%	9,85%
UMW/TUM Group	1 576	1 217			2 793		1 499	1 146			2 645	6,20%	5,60%
Agro Muko Group	4 310	3 174			7 484		4 188	3 008			7 196	5,52%	4,00%
PT Dendymarker	213	202			415		0	0			0	-	-
Total own	10 217	7 426	0	0	17 643		9 480	6 689	0	0	16 169	11,02%	9,12%
Outgrowers													
Tolan Tiga Group	0	0			0		0	0			0	-	-
UMW/TUM Group	0	0			0		0	0			0	-	-
Agro Muko Group	152	111			263		135	96			231	15,63%	13,85%
PT Dendymarker	16	7			23		0	0			0	-	-
Total outgrowers	168	118	0	0	286		135	96	0	0	231	22,92%	23,81%
Total Palm Kernels	10 385	7 544	0	0	17 929		9 615	6 785	0	0	16 400	11,19%	9,32%
Palm Kernel Oil	Q1	Apr-May	Q3	Q4	YTD		Q1	Apr-May	Q3	Q4	YTD	Apr-May	YTD
Hargy Oil Palms Own	1 616	1 318			2 934		1 945	1 223			3 168	7,77%	-7,39%
Hargy Oil Palms Outgrowers	926	901			1 827		1 418	917			2 335	-1,74%	-21,76%
Total Palm Kernel Oil	2 542	2 219	0	0	4 761		3 363	2 140	0	0	5 503	3,69%	-13,48%
Rubber	Q1	Apr-May	Q3	Q4	YTD		Q1	Apr-May	Q3	Q4	YTD	Apr-May	YTD
Own													
Tolan Tiga Group	643	201			844		791	363			1 154	-44,63%	-26,86%
Melania	965	707			1 672		1 007	710			1 717	-0,42%	-2,62%
Agro Muko	686	486			1 172		535	427			962	13,82%	21,83%
Total Rubber	2 294	1 394	0	0	3 688		2 333	1 500	0	0	3 833	-7,07%	-3,78%
Tea	Q1	Apr-May	Q3	Q4	YTD		Q1	Apr-May	Q3	Q4	YTD	Apr-May	YTD
Melania	595	404			999		578	379			957	6,60%	4,39%
Total Tea	595	404	0	0	999		578	379	0	0	957	6,60%	4,39%
Bananas	Q1	Apr-May	Q3	Q4	YTD		Q1	Apr-May	Q3	Q4	YTD	Apr-May	YTD
Azaguie 1	1 345	502			1 847		1 594	742			2 336	-32,41%	-20,95%
Azaguie 2	2 395	1 374			3 769		1 582	1 015			2 597	35,37%	45,13%
Agboville	2 038	1 401			3 439		2 578	1 099			3 677	27,48%	-6,47%
Motobe	1 538	1 094			2 632		2 387	1 477			3 864	-25,95%	-31,89%
Total Bananas	7 316	4 370	0	0	11 686		8 141	4 333	0	0	12 474	0,86%	-6,32%

* Productions of PT Dendymarker were restated

Commodity Price Data May 2018

Average market prices*

Product	YTD May/2018	YTD May/2017	YTD Q4/2017
CPO (CIF Rotterdam) in \$/mt	669	751	715
CPKO (CIF Rotterdam) in \$/mt	1 075	1 398	1 279
RSS3 (FOB Singapore) in \$/mt	1 726	2 457	1 995
Tea (avg auct Mombasa) in \$/mt	2 649	2 791	2 804
Bananas (FOT Europe) in \$/mt	1 048	846	899

* World Bank Commodity Price Data

