SIPEF

Annual Report 2019

Part 1 - Company report

Mission

SIPEF is convinced that palm oil is an essential part of a balanced diet for an increasingly large and wealthy global population.

What SIPEF does

SIPEF produces certified sustainable tropical agricultural commodities, primarily crude palm oil and palm products.

Why SIPEF does it

SIPEF is convinced that palm oil, as the most productive and efficient vegetable oil, is an essential part of a balanced diet for an increasingly large and wealthy global population. The Company's goal is to be a reliable partner for its customers, suppliers, employees and other stakeholders in the production and sale of sustainable palm products, so that they in turn, can be successful.

How SIPEF creates value

Above all, SIPEF creates value by growing in a sustainable manner; investing in the quest for maximum yield per hectare; optimising waste management; creating a huge number of jobs and providing general welfare in often very remote areas for own employees and suppliers. SIPEF also pursues a regular dividend income and a rising share price by means of rigorous cost control and an increasing asset basis.

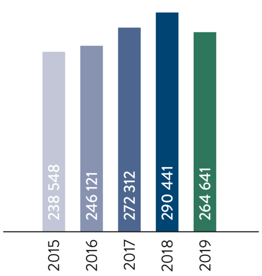
Key figures 2019

312 514 tonnes
Produced palm oil

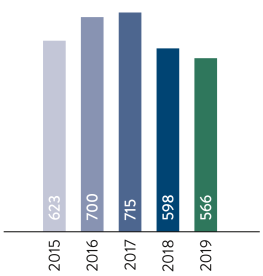
566 USD/tonne (CIF)
Average world market price of palm oil

37 162 KUSD
Gross profit

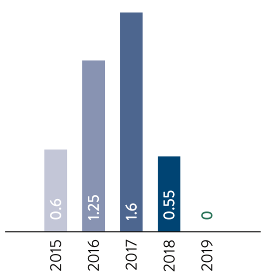
TOTAL OWN PRODUCTION OF PALM OIL OF CONSOLIDATED COMPANIES (IN TONNES)



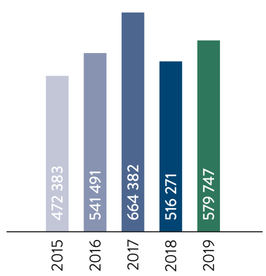
AVERAGE WORLD MARKET PRICE OF PALM OIL (USD/TONNE)



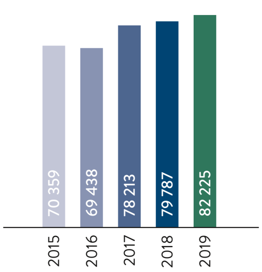
GROSS DIVIDEND (IN EUR)



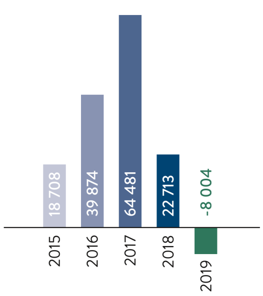
STOCK EXCHANGE CAPITALISATION AT 31/12 (IN KEUR)



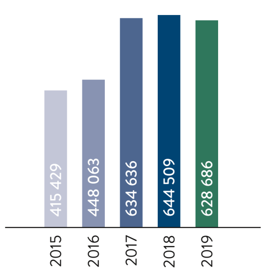
TOTAL PLANTED HECTARAGE (IN HA)



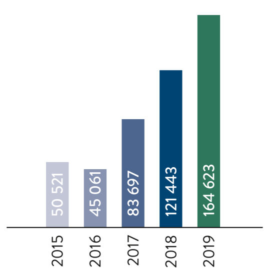
RECURRING NET PROFIT - SHARE OF THE GROUP (IN KUSD)



SHAREHOLDER'S EQUITY - SHARE OF THE GROUP (IN KUSD)



NET FINANCIAL DEBT (IN KUSD)



The connection to the world of sustainable tropical agriculture

100%	21 509	30
RSPO-compliant	employees (FTE)	certificates
all the criteria for processing RSPO certified oil palm products have been met	working on the plantations and related processing facilities	granted to the operational units of the Group

Oil palms (90%)

SIPEF manages more than 35 oil palm plantations and produces palm oil at 6 palm oil mills in Indonesia and 3 palm oil mills in Papua New Guinea.

Rubber (7%)

SIPEF manages 3 rubber estates and runs 1 crumb rubber factory, producing Standard Indonesian Rubber (SIR) and 2 rubber factories producing Ribbed Smoked Sheets (RSS).

Tea (2%)

SIPEF produces high quality black CTC tea on a unique estate which still harvests using skilled hand plucking.

Bananas (1%)

SIPEF owns 3 banana plantations sites along with 4 packing stations in Ivory Coast, mainly exporting to the European market.

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SIPEF at a glance

Palm oil

SIPEF has in total nine palm oil mills, all RSPO certified. In Indonesia it has six mills, also partly ISCC and ISPO certified, where crude palm oil and palm kernels are produced. The three palm oil mills in Papua New Guinea produce crude palm oil and crude palm kernel oil. SIPEF intends to offer its customers 100% certified physically segregated traceable supply chains.

Sustainability certification
- RSPO
- ISPO
- ISCC

Main operations
- Indonesia (65% of CPO)
- Papua New Guinea (35% of CPO)

Main markets
Most of SIPEF's oils are directly or indirectly sold to the European market for both food and biofuel consumption. These markets are the most willing to pay a premium for sustainable oil.

Average world market price 2019 (vs 2018 in %)
CPO USD 566 per tonne (-5%)
PKO USD 668 per tonne (-28%)

Hectares planted

73 977

Rubber

SIPEF has in Indonesia three natural rubber factories, which solely process latex or cup lumps from its own estates. Both estates and factories are Rainforest Alliance certified. Two factories process the latex into RSS1, a niche grade used for mainly the automotive industry. A third factory produces SIR3CV60, another specialty rubber grade, as well as a more generic grade SIR10.

Sustainability certification
- Rainforest Alliance

Main operations
- Indonesia

Main markets
SIPEF's natural rubber is mostly sold at an FOB Indonesian port. Given its location, as well as the high production grades, the majority of the rubber is shipped to the United States.

Average world market price 2019 (vs 2018 in %)
RSS3 USD 1 640 per tonne (+5%)

Hectares planted

5 653

* of the SIPEF-group's revenue

Tea

SIPEF has a 1 700-hectare tea estate in West Java, one of the largest tea gardens in the world. The bushes are still hand-plucked to achieve the high standards of a superb black CTC tea (Cut, Tear and Curl). The garden and factory are Rainforest Alliance certified.

Sustainability certification
- Rainforest Alliance
- FSSC 22000-4.1

Main operations
- Indonesia

Main markets
SIPEF's high quality black CTC teas are mainly sold to Pakistan. But there is an increasing demand locally for high quality teas, and Cibuni tea is their preferred supplier.

Average Mombasa auction price 2019 (vs 2018 in %)
Combined grades
USD 2 226 per tonne (-14%)

Hectares planted

1 768

Bananas

SIPEF has three production sites in Ivory Coast, West Africa, where green bananas are grown, packed and exported according to international standards. The plantations, located on the periphery of Abidjan, are already GLOBALG.A.P. and Rainforest Alliance certified, and the fair-trade initiative is now being developed. SIPEF thus ensures a strict control of the entire quality chain, food security and logistics. The variety cultivated is Cavendish and it is packaged in standard cardboard boxes with SIPEF's own brand, or as ordered and prepacked with the customer's brand.

Sustainability certification
- Rainforest Alliance
- GLOBALG.A.P.
- Fairtrade
- Sedex

Main operations
- Ivory Coast

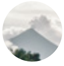
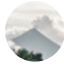
Main markets
SIPEF's main commercial output is Europe, where it enjoys privileged access with exemption from customs duties on imports. Europe is still the biggest banana import market in the world. Markets in the West African subregion are growing steadily. SIPEF's customers are 'ripeners' who distribute 'ready-to-eat' bananas in supermarkets or wholesale markets.

Average European market price 2019 (vs 2018 in %)
EUR 662 per tonne (+2%)

Hectares planted

796

Significant events in 2019

May June July August

January – December 2019

Due to a general decline in palm crops in Indonesia and the effect of three volcanic eruptions in Papua New Guinea, the palm oil production of the SIPEF group throughout the year decreases by 11.2% compared to the previous year.

Mainly due to the low market prices for palm oil, the result before tax is KUSD 852, compared to KUSD 39 598 in 2018.

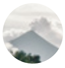
Due to the tax expense and a negative share of the research activities, the IFRS net result, share of the Group, is KUSD -8 004, compared to KUSD 30 089 last year. In line with the applied dividend policy, it is proposed that no dividend will be paid for the 2019 financial year.

Despite the limited cash flow, the expansion of the activities in South Sumatra continues steadily, as a result of which the planted hectares increase by the end of 2019 by 2 427 hectares to 82 967 (of which 76 302 hectares share of the Group).

The second semester is characterised by an unprecedented revival of the palm oil price of USD 480 CIF Rotterdam in early July to a high of USD 860 CIF Rotterdam at the end of December.

June, August and October 2019

Hargy Oil Palms Ltd in Papua New Guinea is affected by three consecutive volcanic eruptions of Mount Ulawun, the reason why several thousand staff members and their families need to be evacuated. As a result of these eruptions, a substantial part of the plantation becomes less productive or totally unproductive for a longer period of time, a few months to a few years.

September — October — November — December

September 2019

As a consequence of the extreme drought conditions during the summer of 2019, the SIPEF group is impacted by a total of 201 hotspots, of which 182 at Dendymarker are mainly related to the concession areas that are not controlled by the Company.

October 2019

- SIPEF wins the ‘Award for Best Financial Communication 2019’, granted by ABAF/BVFA (Belgian Association of Financial Analysts).
- At Plantations J. Eglin, the Motobé plantation is certified as a Fairtrade banana producer.

December 2019

- A first framework agreement (in PT AKL) for the development of a plasma activity in the Musi Rawas region is signed.
- In 2019, SIPEF celebrates its 100th year anniversary on 14 June and is listed for 100 years on the Brussels stock exchange on 22 December.

As a result of volcanic eruptions, a substantial part of the plantation becomes less productive or totally unproductive for a longer period of time.

SIPEF expects palm oil prices to recover well

INTERVIEW WITH THE CHAIRMAN AND MANAGING DIRECTOR

2020 is another important year for the Belgian agro-industrial group SIPEF. In 2019, the festive mood in connection with the Company's centenary was greatly tempered by several negative developments that resulted in recording a loss for the year. After a very challenging year, we look forward with chairman of the board of directors Baron Luc Bertrand and managing director François Van Hoydonck. They make a well-founded assessment of what's in store for the industry and the Group.

2019 was an "annus horribilis" for SIPEF. We can say that, can't we?

FRANÇOIS VAN HOYDONCK: "That's one way of putting it. Against all expectations, and in the run-up to our centenary, which we were so looking forward to, since the second half of 2018 the Group had gradually entered a period of low production, combined with lower market prices. Furthermore, the Group had to deal with three successive volcanic eruptions close to its plantations in Papua New Guinea. Due to the combination of these factors, SIPEF closed the financial year with a loss, for the first time in 18 years."

We'll begin with palm oil production. What are the reasons for the fall in volumes of more than 11% compared with 2018?

FRANÇOIS VAN HOYDONCK: "After a very strong production year in 2018, when we posted an 8.6% rise in production at our own plantations, 2019 was primarily a year of extreme weather. In Indonesia, a very wet start to the year was followed by more than five months of exceptional drought, with precipitation under 100 mm per month, and finally the year ended with two to three months of high rainfall, which often hampered harvesting. This resulted in a general fall in palm oil production in Indonesia, particularly in Sumatra, where we have most of our plantations."

What are the actual consequences for production in Indonesia?

FRANÇOIS VAN HOYDONCK: "While in 2018 a 4.3% rise was noted for the Tolan Tiga group at the mature plantations in North Sumatra, in 2019 production fell by 3.3%. For the younger UMW/TUM plantations, too, a 1.4% rise in 2018 became a 4.1% fall over the past financial year. In Bengkulu province, which was battered by extreme weather in 2019, the 6.0% rise in 2018 at Agro Muko, which is being replanted, was turned into an 8.6% fall in the financial year 2019. Fortunately, there was a big rise of 42.9% in production at the newly developed plantations in South Sumatra compared with 2018, which acted as somewhat of a counterweight. The phenomenon of lower production was observed across almost the whole of Indonesia, but primarily in Sumatra."

Do we see the same scenario at other plantations?

FRANÇOIS VAN HOYDONCK: "Yes, unfortunately. The production figures were below expectations at all the Indonesian rubber plantations too, due to the Pestalotiopsis fungus, which caused a protracted wintering period, reducing production across Southeast Asia by more than 25% compared with the previous year. There is no efficient treatment at the moment, with production in the SIPEF group down 20.7% compared with 2018. It looks like we won't have any effective agents to combat this disease in the year to come either. The tea plantations in Cibuni experienced a relatively tough year in 2019. There was a strong start with production up 10.7% over the first three months, but then there was a gradually slowdown caused by the persistent drought, and we ended the financial year with production down 3.8% compared with the previous year."

42.9%

Rise in production at the newly developed plantations in Sumatra

Are you satisfied with the business conditions in Indonesia?

BARON LUC BERTRAND: "2019 was an election year and we clearly felt that in our relations with the administration. But business conditions have clearly improved since the presidential elections in April, when President Joko Widodo was confirmed in office for another five years. In his speeches, the re-elected president has been a lot more friendly towards foreign businesspeople who are already established in the country, as well as those who are considering investing in real estate, companies and so on in Indonesia. This confidence was also reflected in the interest rate cut and the rise in the value of the local currency, which was not devalued against the US dollar for the first time in several years. The president is primarily focused on economic growth and improving infrastructure, with the construction of new motorways and cargo ports. Indonesia's gross domestic product (GDP) grew a steady 5.1% in 2019, and inflation was just 3.0%."

Did you experience the same approach in Papua New Guinea?

BARON LUC BERTRAND: "Unfortunately, that's not something we can say. Papua New Guinea has had a very tough year politically. The government of Prime Minister Peter O'Neill was deposed and replaced by a new one in May 2019 headed by James Merape, who found a huge shortfall in the budget upon taking office. To make up the deficit, a series of protective measures were taken, which were not all conducive to business.
However, the SIPEF plantations are located in remote agricultural areas and all the oil produced by Hargy Oil Palms Ltd on the island of New Britain is sold on the export market, where premiums are paid for sustainable palm oil.

These protective measures kept inflation down to 3.9% and limited the fall in value of the currency against the strong US dollar.”

We haven’t mentioned the volcanic eruptions yet. How great an impact have they had on the activities?

FRANÇOIS VAN HOYDONCK: “The three successive eruptions in June, August and October have had a huge impact on the operations at the plantations in the province of West New Britain, where around 45% of the land was covered by falling ash and stones. Around 3 000 hectares have been affected so badly that it will take more than two years before they can harvest in optimal conditions again. This, along with the impact of the fall in production over the first three months of the year due to excessive precipitation, means that the normalised result for the financial year is around USD 8.8 million lower than what it otherwise would have been.”

How should we interpret the multi-year impact of the eruptions?

FRANÇOIS VAN HOYDONCK: “The most recent major eruption was almost 50 years ago. Thankfully we don’t have any precedents to quantify the impact, but looking at the literature on defoliation on such a scale, we know it will take more than two years before the leaf development will be fully restored and the palms are able to concentrate fully on bearing fruit. In concrete terms, this means a 20% fall in volumes compared with normalised production will have to be taken into consideration in 2020 for the activities in Papua New Guinea. We also expect a 16% negative impact on volume in 2021 and possibly another fall in production of 12% in 2022, although that is much less certain.”

The three successive eruptions in June, August and October have had a huge impact on the operations at the plantations in the province of West New Britain, where around 45% of the land was covered by falling ash and stones.

-- FRANÇOIS VAN HOYDONCK

There was strong growth in Ivory Coast, however. Aren’t they holding elections there in 2020?

FRANÇOIS VAN HOYDONCK: “After a few years of disappointing production figures and a root and branch restructuring of the management, we have managed to get a grip on export banana production again, which is a rather more complex business. In 2019, we were able to get back up to past levels in terms of yields. This was reflected in an 18.2% rise in production compared with the previous year. The Motobé plantation actually posted a growth of 44.3%. We continue to believe in the gradual growth of our export banana and ornamental plant activities in Ivory Coast and this in an also fairly stable political situation. The presidential elections in October of this year are obviously important. In 2011, the presidential elections triggered a civil war, but we assume they have learned lessons from the crisis back then and will be able to avoid a repetition of this scenario.”

> The long-term expectations for palm oil remain generally very favourable.That's based on the fact that the global population is growing, especially in countries south of the Equator, where the population sees the rising consumption of palm oil as a basic ingredient in their food as self-evident.

-- BARON LUC BERTRAND

Let's turn our attention to the future. What is the outlook for palm oil production?

BARON LUC BERTRAND: "The long-term expectations for palm oil remain generally very favourable. That's based on the fact that the global population is growing, especially in countries south of the Equator, where the population sees the rising consumption of palm oil as a basic ingredient in their food as self-evident. This vegetable oil is capturing alarger and larger share of the food (32%) and biofuel (39%) markets worldwide — with the exception of Europe. That is due among, other things, to its efficient industrial processing and its low-cost price compared with other vegetable oils. Farming land is getting scarcer and scarcer. The palm oil yield per hectare is five to ten times higher than any other vegetable oil, and it will only rise as efficiency is improved."

18.2%

Rise in production of bananas in Ivory Coast

And in the short term?

FRANÇOIS VAN HOYDONCK: "The short-term expectations are very good. In response to the low prices over the past 18 months, smallholders around the world — who account for almost half of global production — have used much less fertiliser than usual. This will certainly have a clear impact on production volumes over the next two years. And ecological measures mean there has generally been very limited growth in the number of planted hectares too. Furthermore, with biofuel being mandated in Indonesia and Malaysia, the rising demand for palm oil is strong enough to reduce the accumulated stocks to levels we have not seen in recent years. This can only lead to rising prices on the global market over the next two years."

Could the coronavirus disrupt the market?

FRANÇOIS VAN HOYDONCK: "We can clearly see a temporary fall in demand for palm oil in China. However, this appears to be due to logistics issues rather than an issue of the fundamental demand. Furthermore, there's no direct link between the virus and palm oil consumption. So, we assume the fall in price is a temporary phenomenon, and the structural shortages mentioned earlier will have a positive impact on pricing."

What's the outlook for palm oil in Europe?

FRANÇOIS VAN HOYDONCK: "While demand for palm oil is growing on the global market, the saturated European market has been stable in recent years. That goes for both food and biodiesel. Palm oil is the only commodity not eligible for subsidies under the EU's biofuel directive. As a result, consumption has stagnated at 3.8 million tonnes. This volume will probably not change until 2024, when the directive mandates the reduction in the share of palm oil as a raw material of biodiesel in the EU to zero by 2030. However, the long-term impact of this negative measure will be offset in full by rising global demand, which continues to rise by 3-4% per year."

You do not think it's right that palm oil is targeted by the EU?

BARON LUC BERTRAND: "It is regrettable that the EU has not recognised the existence of sustainable palm oil. It's a missed opportunity to support certified palm oil producers. The European Parliament is also unjustly targeting palm oil production for its share in worldwide deforestation. Various studies show that extensive livestock farming in particular, but also cacao, coffee and rubber cultivation, forestry and the growth of soya and rapeseed areas contribute more significantly to the deforestation of wooded areas. The establishment of the Roundtable on Sustainable Palm Oil (RSPO) and other certifications has made palm oil one of the most regulated agricultural activities in recent years. The consumers of certified, sustainable palm oil can be sure of the guaranteed sustainable origin of the product, and that they are playing their part in the realisation of at least 12 of the 17 Sustainable Development Goals (SDGs) of the United Nations."

So the focus continues to be on sustainable palm oil production?

BARON LUC BERTRAND: "Yes indeed. As a tropical agricultural company, we remain focused on the sale of palm products: crude palm oil, palm kernel oil and palm kernels. We continue to do that within the framework of certified goods flows covered by the RSPO and the International Sustainability and Carbon Certification (ISCC), for use in the food industry and green energy production respectively. Incidentally, this monitoring also applies to our other products, rubber, tea and bananas, all of which are supplied through those certified physical goods flows, with complete traceability of raw materials, which are produced with due respect for people and the planet."

The establishment of the Roundtable on Sustainable Palm Oil (RSPO) and other certifications has made palm oil one of the most regulated agricultural activities in recent years. The consumers of certified, sustainable palm oil can be sure of the guaranteed sustainable origin of the product.

-- BARON LUC BERTRAND

Can you rely on the support of consumers for that?

BARON LUC BERTRAND: "Unfortunately, we cannot always rely on similar efforts from palm oil consumers, although the use of certified and traceable palm products can positively answer all questions about environmental harm and/or social aspects. Consequently, we continue to work hard in the industry associations, often supported by influential NGOs, to change the mentality of consumers and impose an obligation on the processing industry to use only certified and particularly traceable sustainable palm oil in production processes."

SIPEF is determined to continue to be a role model in terms of sustainability. As a listed European company, we have to be able to guarantee our investors that people and the planet are respected, by means of the renowned certification of all our activities and products, that takes account of ecological and socially responsible standards for tropical industrial agriculture.

-- BARON LUC BERTRAND

Is it correct to blame the unexpected forest fires in Indonesia earlier this year on the palm oil industry?

FRANÇOIS VAN HOYDONCK: "The long drought in 2019 gave rise to very big forest fires worldwide, especially in Australia and Brazil, but also in Indonesia, with around 1.6 million hectares destroyed in August and September. Although only 3% of that was attributed to the palm oil industry, the RSPO certified palm oil producers were again unjustly associated with these forest fires. The many sources of the hot spots that originated at the new South Sumatra business unit, either spontaneously or deliberately lit, were a real challenge for the SIPEF management team. In spite of the extensive Company fire-fighting teams and the large investments in fire prevention and extinguishing equipment, it was not easy to put out the fires in areas adjacent to the Group's plantings but not controlled by the Group. As the expansion is gradually completed, we expect to be able to control these risks more easily. In line with the regulations, all cases of deliberate arson were reported to the authorities and to the RSPO when relevant."

Mention of South Sumatra brings us to the aspect of 'expansion'. What more can we expect?

FRANÇOIS VAN HOYDONCK: "Especially in a year of low production figures we see the importance of the newly developed activities in South Sumatra, and the positive contribution they have on palm oil volumes. This contribution will only grow in the future, as the young plantings with the latest seeds will drive up the yield of the SIPEF group significantly."

Could you give any figures for the expansion activities in South Sumatra?

FRANÇOIS VAN HOYDONCK: "We are, indeed, continuing to focus on developing our activities in South Sumatra. Since 2011, we have acquired four concessions in Musi Rawas through three local companies. Three more concessions were added in 2018, adjacent to the land acquired earlier. During the financial year 2019, 1 532 hectares of additional activities were compensated and an additional 1 524 hectares planted, resulting in a total of 12 203 hectares of cultivated land. That is 71.5% of the total of 17 074 compensated hectares, of which 2 363 hectares were acquired for planting by smallholders and 14 711 for internal development."

And then there's the Dendymarker plantation acquired in 2017?

FRANÇOIS VAN HOYDONCK: "The acquisition of 95% of the PT Dendymarker Indah Lestari plantation company in August 2017 was a major step in strengthening our presence in South Sumatra. Since the acquisition, 2 824 hectares have already been replanted. In the meantime, we continue to harvest the 'old' planted areas, which have been completely overhauled to make harvesting easier, until they are replanted too over the next four years. All fruits from our mature hectares in South Sumatra can be processed in our own extraction mill, which is already operating at full capacity. In 2020, capacity of DIL will be tripled to 60 tonnes per hour to ensure we continue to be able to process the rising production volumes, and construction of a second extraction mill of the same size will begin in 2021."

What scale are we talking about over the coming years?

BARON LUC BERTRAND: "SIPEF is one of the few RSPO certified palm oil companies currently focusing on expansion by turning inefficiently run local rubber plantings into profitable oil palm plantations. However, this is always done in due compliance with the RSPO's New Planting Procedures (NPP), which were tightened up just last year. All plantings are done in consultation with the surrounding communities. Moreover, 20% of the land is planted for the benefit of these communities. Due to these acquisitions and the further expansion of the recently acquired concessions, we expect to be able to expand the business unit in South Sumatra to more than 33 000 planted hectares of oil palms over the next few years."

So, we can say that sustainability remains a key priority of the SIPEF group?

BARON LUC BERTRAND: "Absolutely! SIPEF is determined to continue to be a role model in terms of sustainability. As a listed European company, we have to be able to guarantee our investors that people and the planet are respected, by means of the renowned certification of all our activities and products, that takes account of ecological and socially responsible standards for tropical industrial agriculture. The publication of the first Sustainability report was in 2015, and a biennial update is now available on our website. However, this year for the first time, the Sustainability report will be an integral part of the Annual report. And from now on we'll update our Sustainability report every year!"

60 tonnes

In 2020, capacity of DIL will be tripled to 60 tonnes of fruit processing per hour

FRANÇOIS VAN HOYDONCK: "The Group is now fully RSPO compliant for all palm oil plantations, with certification for all areas that could already be certified, after obtaining their permanent Indonesian leasehold (HGU licence). Furthermore, after gaining full Rainforest Alliance certification for all rubber, tea and banana plantations, in 2018 we obtained new integrated ISO 9001 certification for all Indonesian companies, which will guide the structured management of our activities there.

The banana activities at the Motobé plantation were certified by Fairtrade in 2019. This certification will be extended to the other banana plantations in Ivory Coast in the near future. This is fully in line with the expectations of our customers and stakeholders, who need assurance that the sustainability standards are fulfilled at all times."

How is that expressed specifically for the palm oil industry?

FRANÇOIS VAN HOYDONCK: "We remain very actively involved in the organisations that look after the reputation of palm oil in Europe and the rest of the world, and have set themselves the goal of encouraging the use of sustainable palm oil in the food industry and among consumers.

> We promote a balanced image of the nutritional properties of palm oil, clarify the ecological and social criteria used by sustainable producers, and stress the high value creation of the industry in the production countries, the consequence of the highly labour-intensive nature of our activities.
>
> -- FRANÇOIS VAN HOYDONCK

We promote a balanced image of the nutritional properties of palm oil, clarify the ecological and social criteria used by sustainable producers, and stress the high value creation of the industry in the production countries, the consequence of the highly labour-intensive nature of our activities. That has led us to issue our own Responsible Plantations Policy (RPP), which is updated annually and encourages us to apply the most innovative standards, which typically go further than what the aggregated certifications impose today."

Does that also apply to the extraction mills?

FRANÇOIS VAN HOYDONCK: "SIPEF continues to invest in driving down the greenhouse gas emissions. Five of the nine processing mills are equipped with methane capture systems, ensuring they fulfil the certification standards for green energy purposes in Europe. In North Sumatra, an ultra-modern compost system was delivered that takes the empty fruit bunches and palm oil effluent from the mill. This zero-emission process generates sufficient compost for the long-term improvement of our oldest plantations to significantly reduce the use of chemical fertilisers. A system for producing electricity from methane was built in Bengkulu and, since late 2017, the Group has injected the energy that cannot be used internally into the public grid. As a result, SIPEF became a direct supplier of green energy to the public sector for the first time. We are also looking forward to the completion of the facility in North Sumatra, which will turn the empty bunches that are not used as fertiliser into high-grade bio-coal pellets for export to China for the production of green electricity."

Nature conservation is also an important aspect of sustainability. What does SIPEF do there?

BARON LUC BERTRAND. “Through an Indonesian foundation, SIPEF has been making a long-term contribution to nature conservation in that country for a several years now. We do this by protecting two beaches along the south coast of Sumatra, where endangered turtles lay their eggs. More than 2 000 young protected turtles are put out to sea every year. We also provide for the active protection of 12 000 hectares of endangered forest bordering the Kerinci Seblat National Park. Action was taken in a close partnership with the local population to stop poachers and illegal felling. Furthermore, we have also started planting forests there, within the framework of a 60-year agreement with the government.”

Can research and development also be seen as an aspect of sustainability?

BARON LUC BERTRAND: “You bet. Research and development remain very important for an industry under pressure to increase production with virtually no access to additional land, which means we must primarily work towards improving efficiency in already planted areas. In this context, the participation in the partnership agreement with Verdant Bioscience Pte Ltd (VBS), signed in 2013 with BioSing, an organisation of scientists, and New Britain Palm Oil Ltd (NBPOL), a plantation company of the Sime Darby Plantation Group with a renowned palm seed production research centre in Papua New Guinea, was of exceptional importance. VBS provides active agronomic guidance. Through the development of high-yield palms, which are expected to take the industry to the next level, in the medium-long term we expect major support for the future profitability of the oil palm plantations in the Company.”

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-- BARON LUC BERTRAND

Besides palm oil, can you say a little more about the other SIPEF products?

FRANÇOIS VAN HOYDONCK: "Rubber, tea and banana plantations remained part of our tropical agricultural activities in 2019, albeit with varying success with regard to their contribution to the results. The **rubber markets** continued to have to contend with an oversupply of natural rubber in 2019, particularly due to additional volumes from Vietnam and Africa. In spite of rising demand, particularly from China, and a fall in supply from the production countries in Southeast Asia, due to the impact of the Pestalotiopsis fungus, there is still a structural oversupply on the market. That means it's very tough for our Indonesian rubber activities to make a positive contribution to the Company's gross margin.

The **tea plantations** in Java supply high-quality hand-plucked tea, primarily to the Middle East, but an oversupply from Kenya means the price remained far below expectations, so, in combination with the rising labour costs, tea too made a negative contribution for the Group in 2019.

The same cannot be said for the **banana activities** in Ivory Coast. After a root-and-branch management restructuring, in 2019 the contribution to the result was brought back to where it should be, on the back of increased production, good export quality standards and sales at fixed prices. This resulted in a contribution to the gross margin in 2019 a full 68% higher than in the previous year. All three cultures are much more labour-intensive than the more profitable oil palm cultivation, which means the focus will be on limiting the rise in labour costs and increasing profitability to offset this rising cost factor."

What impact have these plans already had on SIPEF's finances?

BARON LUC BERTRAND: "Our investments amounted to USD 257 million in 2017. These were structurally financed from operational cashflow of USD 110 million, long-term bank financing of USD 50 million and a highly successful capital increase of USD 97 million. After this exceptionally active year, in spite of the much lower palm oil prices, over the past two years we have been set on carrying through the scheduled investments in full and continuing to prioritise full capacity utilisation of the expansion in South Sumatra. As a result, the Net Financial Debt has increased over the past two years to KUSD 164 623. We aim to find the right balance between the planned investment and the debt position over the coming years. However, in spite of a higher debt position in the short term, our strategy continues to be to finance the development of new land within the Group, with due consideration for an annual remuneration for shareholders, which we wish to maintain at 30%."

What does that mean for the dividend for 2019?

BARON LUC BERTRAND: "In line with 2019's negative results, we will propose to the ordinary general meeting that the 30% pay-out ratio be maintained. Therefore, no dividend will be paid to shareholders this year."

Could you summarise the results of the Group?

FRANÇOIS VAN HOYDONCK: "The reduced production volumes in palm, rubber and tea, together with the exceptional impact of the volcanic eruptions in Papua New Guinea and the sustained low palm oil prices in the first 10 months of the financial year, the consolidated recurring results, share of the Group, are negative for the first time in 18 years, at KUSD 8 004, compared with a profit of KUSD 30 089 in 2018. The new consolidated equity at the end of 2019 is KUSD 628 686."

Can we expect any news about the director tenures at the ordinary general meeting?

BARON LUC BERTRAND: "The tenures of four of our directors are due to end. The auditor's contract also ends at the next ordinary general meeting of 10 June 2020. At this meeting the board of directors will propose the renewal of the directorship of Petra Meekers as independent director for a four-year term until 2024, while the renewal of Baron Jacques Delen's tenure, despite exceeding the age limit, will be proposed for one year until 2021. Based on the same reasoning, the meeting will also be invited to renew the directorship of the chairman for three years until 2023. Regnier Haegelsteen has also reached the age limit of 70 years, but he has notified the board that he will not stand for re-election as director. We respect his decision and sincerely thank Regnier for his contribution to the development of the Company over more than 21 years."

We have maintained our policy of sustainability and transparency, even when it was not so easy to continue to communicate proactively about the possible negative consequences of the phenomena that made our year so difficult. Unfortunately, the centenary year 2019 was not a successful one.

-- BARON LUC BERTRAND

Who will replace him?

BARON LUC BERTRAND: "We propose appointing Gaëtan Hannecart to replace Regnier Haegelsteen with a seat as a non-executive director for a four-year term until the conclusion of the ordinary general meeting of 2024. Mr Hannecart has very long experience as a company manager and director of Belgian companies and is also chairman of Guberna. We are convinced that he will make a very important contribution to the further development of the Company going forward."

Do you have any closing thoughts as chairman of SIPEF?

BARON LUC BERTRAND: "Yes, I have a sense of pride. It is my opinion that we can be very proud that, in a year of intense operational difficulties and low prices, as a result of which the financial year ultimately closed with a loss, we have been recognised with the Best Financial Communication award for 2019 by the Belgian Association of Financial Analysts. That shows that we have maintained our policy of sustainability and transparency, even when it was not so easy to continue to communicate proactively about the possible negative consequences of the phenomena that made our year so difficult. Unfortunately, the centenary year 2019 was not a successful one. That being said, we are looking forward to significantly better results in 2020 and possibly also in the next decade, because palm oil remains the most popular vegetable oil for the food and biofuel industries."

And would the managing director like to make any final remarks?

FRANÇOIS VAN HOYDONCK: "With pleasure. I would like to express my exceptional gratitude to all SIPEF group employees, who have contributed, each at their own level and in their own activity, to achieving the Company's goals, including the expansion in terms of land. Within the framework of our expansion financing, in times of lower prices it is important to control costs and manage the plantations and mills in the most efficient way. I hope that everyone will continue to work towards that in their own work situation."

Within the framework of our expansion financing, in times of lower prices it is important to control costs and manage the plantations and mills in the most efficient way.

-- FRANÇOIS VAN HOYDONCK

Schoten, 11 February 2020

This interview was recorded on the date of the board of directors of February 11, 2020. For any important developments after this date, we refer to the Financial statements, Note 31 Events after the balance sheet date.

Strategy of the Group

SIPEF is an agro-industrial business that specialises in the production of certified sustainable tropical agricultural commodities. Specifically, the Group produces palm oil products, natural rubber, tea and bananas in Indonesia, Papua New Guinea and Ivory Coast.

Since 2005, SIPEF has actively worked on its growth in selected core businesses, primarily palm oil in Indonesia and Papua New Guinea. The centre of gravity of activities is palm product cultivation in these two countries, which accounts for around 90% of total turnover.

SIPEF is convinced that palm oil, as the most productive and efficient vegetable oil, will remain an essential part of a balanced diet of an increasingly large and more wealthy global population.

SIPEF is convinced that palm oil, as the most productive and efficient vegetable oil, will remain an essential part of a balanced diet of an increasingly large and more wealthy global population. It is therefore obvious that the Group will grow.

This can be achieved in two ways: by raising palm production efficiency and by external growth.

Improving efficiency

The future of the palm oil industry depends on optimising planting yield. As the global population rises, there is an increasing demand for vegetable oils and fats, but less and less available farmland. Climate change is also leading to more extreme weather. Most of the required growth in production can be achieved in palm oil, the most efficient vegetable oil. Only by developing stronger, more productive palm species can SIPEF rise to this challenge. With that in mind, the Company invests in research to ensure it can profit from the strong growth the industry is set to experience.

The continuation of the partnership agreement with Verdant Bioscience Pte Ltd is part of this growth strategy. This agreement was signed in 2013 with New Britain Palm Oil Ltd, a plantation company with a renowned palm oil production research centre in Papua New Guinea, and BioSing, a group of scientists with experience in the industry.

6.2%

Combined annual growth percentage of planted hectares (2005-2019)

Under this agreement, the Group benefits from active agronomic guidance and will be able to benefit from the development of high-yield palms. SIPEF therefore expects to raise the productivity of its oil palm plantations in the medium-long term and significantly support and improve their future profitability by applying these scientific developments.

External growth of the Group

The Group's expansion strategy consists of external growth by acquiring extra areas that can be planted and meet the requirements for RSPO certification. The Group concentrates on land suitable for agricultural use that fits within its sustainability policy and can be acquired under economically sound conditions. These areas can be acquired outright or through concession agreements. Furthermore, SIPEF's door is wide open to independent smallholders who wish to sell their production and cooperate with the Company. That is because of the permanent demand from the local population for the Group to continue to expand its activities and accelerate the economic development of these remote communities in close association with the smallholders.

SIPEF is pursuing a planted area of 100 000 hectares and wishes to achieve that expansion in a sustainable way, with a limited debt ratio. The number of planted oil palm hectares at the end of the financial year 2019 was 73 977 and the total planted hectares was 82 225, compared with 48 093 hectares in 2005 (SIPEF-CI, Brasil and Vietnam not included).

The combined annual growth percentage between 2005 and 2019 was therefore 3.9%. Taking into account the buy-out of minority shareholders, the growth, share of the Group, even amounted to 6.2%.

Slowly but surely, the goal of 100 000 planted hectares is being achieved. SIPEF continues to actively look for investment opportunities for the expansion of the planted areas in remote regions where the agricultural sector is the most important employer.

SIPEF continues to actively look for investment opportunities for the expansion of the planted areas in remote regions where the agricultural sector is the most important employer.

In this context, the retention of the property rights and concession rights is essential for the Group to safeguard and develop production in the various countries.

The Company's long-term ambition is to double the palm oil production volume. In concrete terms, SIPEF could account for 1% of global palm production rather than half a percent.

In 2018, annual production of palm oil of the Group surpassed 350 000 tonnes for the first time, a volume that will grow strongly over the next few years due to the steady enlargement of planted hectares and the introduction of high yielding palms. The Group expects an annual production of 500 000 tonnes by 2023.

In 2019, the Group experienced a disappointing production year, with total production of 312 514 tonnes, a consequence of generally poor weather, but, predominantly, three successive volcanic eruptions in Papua New Guinea. This temporary downturn should not have any impact on the aforementioned long-term strategy.

Sustainability policy

SIPEF is determined to continue to be a role model in terms of sustainability. As a listed European company, it has to be able to guarantee its investors that people and the planet are respected, through the renowned certification of all its activities and products that takes account of ecological and socially responsible standards for tropical industrial agriculture.

92%

of the Group's crude palm oil products is traded after RSPO certification

With this in mind, SIPEF is focused on the sale of certified products. Approximately 92% of the Group's crude palm oil, palm kernel oil and palm kernels is traded in certified physical goods flows of the RSPO and International Sustainability and Carbon Certification (ISCC) for respective use in the food industry or for the production of green energy. Incidentally, those checks also go for the Group's other products, tea, rubber and bananas.

In the future, SIPEF will continue to endeavour to deliver all its products in certified physical goods flows (for more details about certification, see page 17 of the Sustainability report).

The Group serves a limited number of customers with whom it has built a long-term relationship and who are prepared to pay a premium for quality certification.

SIPEF remains very actively involved in the organisations that safeguard the reputation of certified palm oil in Europe and the rest of the world, and have set themselves the goal of encouraging the use of sustainable palm oil in the food industry and among consumers. It promotes a balanced image of the nutritional properties of palm oil; clarifies the ecological and social criteria used by sustainable producers; and stresses the high value creation of the industry in the production countries, the consequence of the highly labour-intensive nature of its activities. That has led the Company to issue its own Responsible Plantations Policy (RPP), which is updated annually. It encourages SIPEF to apply the most innovative standards, which typically go further than those imposed by the aggregated certifications today.

Traceability

SIPEF also wants to provide complete transparency about its goods supply chain with full commodities' traceability. It feels customers have a right to know the origin of the Group's products. So the production location of every product sold by SIPEF can be checked, be that a plantation managed by the Group or a plot farmed by a smallholder who works with SIPEF.

Restoration and protection of ecological areas

For many years now, SIPEF has made a long-term contribution to nature conservation and the protection of important ecological areas in Indonesia through the Indonesian foundation the Group helped set up. The SIPEF Biodiversity Indonesia (SBI) project, which manages a 12 656-hectare forest, is the foundation's biggest project. This initiative combats illegal felling, the illegal planting of oil palms and poaching, with reforestation work also carried out in the project area in association with groups of local farmers. The satisfying results of these projects encourage SIPEF to continue these activities in the long term (see page 35 of the Sustainability report).

Financial policy — Dividend policy

SIPEF aims to optimise its results by improving its production volumes and controlling the costs of the palm oil activities more efficiently. For the other three businesses, rubber, tea and bananas, management is concentrating on improving returns and lowering costs with the focus on labour costs, as these cultures are more labour-intensive than the palm oil activities.

In the recent past, the Company has financed its investments structurally from operating cash flow, long-term bank loans and its own funds, which were bolstered by USD 97 million from a successful capital increase in 2017. However, as a consequence of the low palm oil prices in the following two years, the net financial debt increased at the ends of the financial years 2018 and 2019.

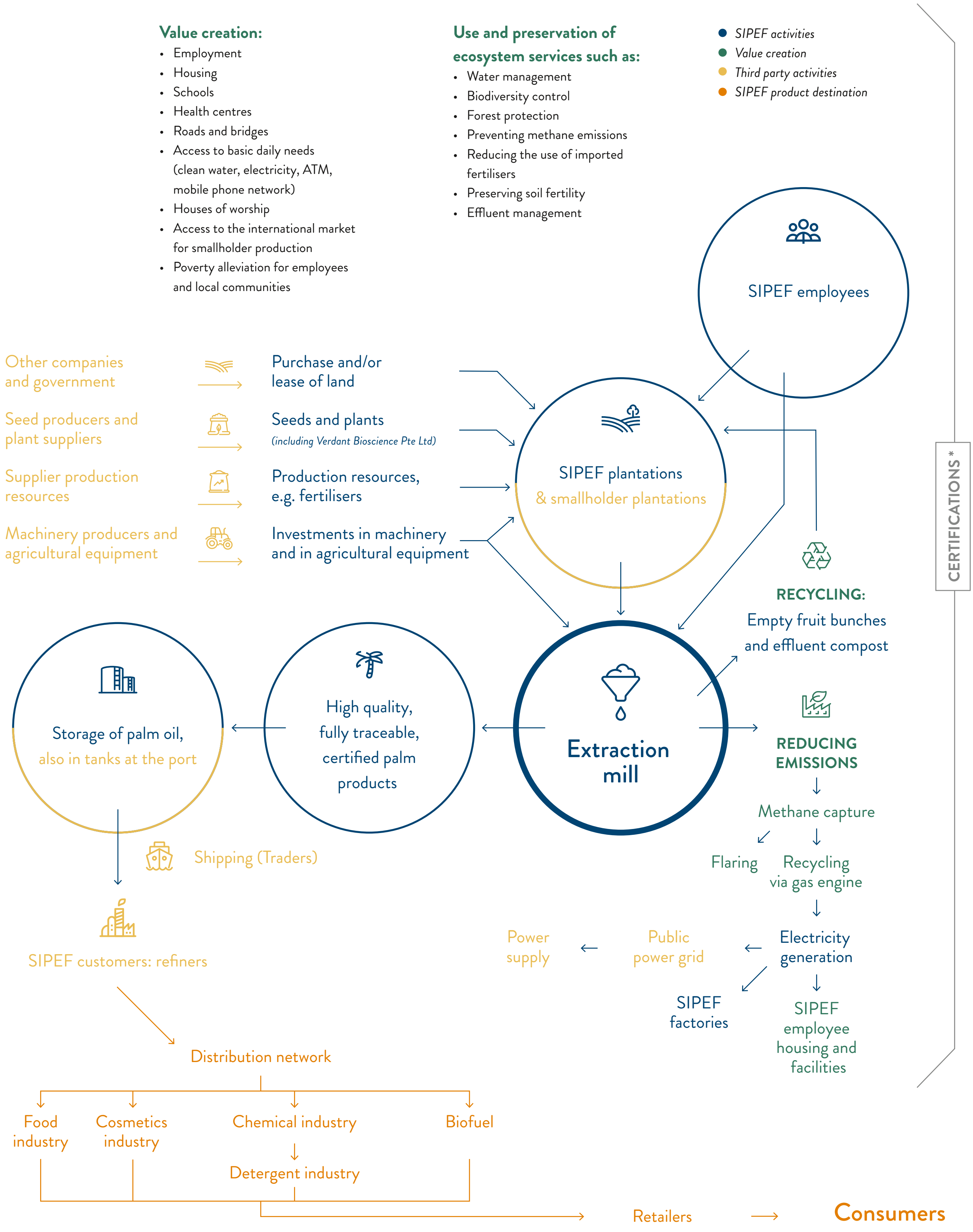
It is the Company's intention to find, with a limited leverage, the right balance between the scheduled investments, mainly the continued expansion in South Sumatra, and the financing of said investments out of operational cash flows. This will be done with due consideration for an annual remuneration for shareholders, which, for the past eight years, has been set at 30% of recurring profit. SIPEF expects to continue the prevailing remuneration policy in the future.

SIPEF aims to optimise its results by improving its production volumes and controlling the costs of the palm oil activities more efficiently.

From palm seed to palm oil

Value creation:
- Employment
- Housing
- Schools
- Health centres
- Roads and bridges
- Access to basic daily needs (clean water, electricity, ATM, mobile phone network)
- Houses of worship
- Access to the international market for smallholder production
- Poverty alleviation for employees and local communities

Use and preservation of ecosystem services such as:
- Water management
- Biodiversity control
- Forest protection
- Preventing methane emissions
- Reducing the use of imported fertilisers
- Preserving soil fertility
- Effluent management



* Certifications: see Sustainability report page 17

Business model

The chart represents the business model of SIPEF in relation to palm oil production. As the production of palm oil generates 92.7% of the Group's gross margin, it is the core of the production activity of the Company. This model also applies broadly to the other activities of the Group.

Costs of the Group

The production of palm products, rubber, tea and bananas is very labour-intensive. The following employee ratios apply:

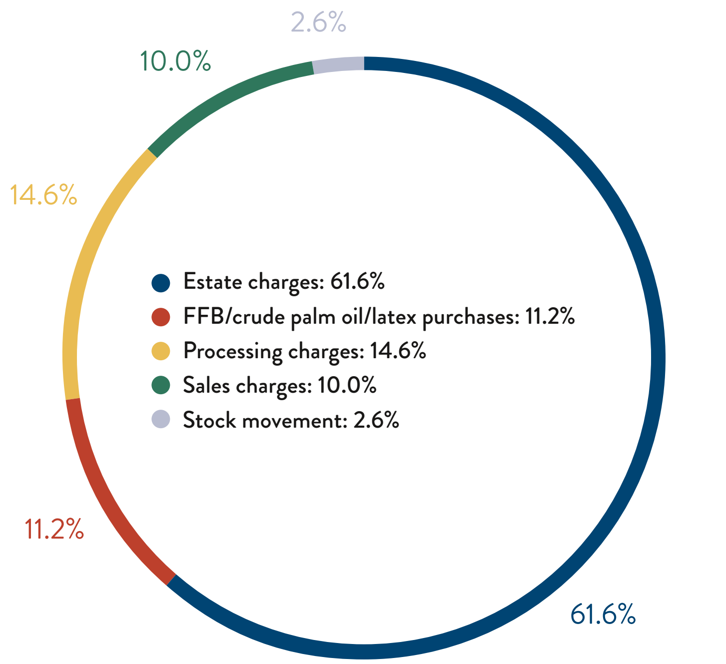
NUMBER OF WORKERS PER 100 HECTARES OF CROP

In total, the Group currently employs 21 509 employees (full-time equivalent, FTE). Labour is one of the most important costs of SIPEF. Other important recurring expenses of the Group relate to the acquisition of chemical and organic fertilisers.

The Group works hard to improve its productivity and stimulate its growth as efficiently as possible, based on sustainable practices.

The total operational charges (including depreciations) within the SIPEF group can be divided into five different categories, based on the business model of the Group:

TOTAL OPERATIONAL CHARGES



- **Estate charges (61.6%):** include all charges relating to the fieldwork to produce the base agricultural products (i.e. fresh fruit bunches (FFB), latex, tea leaves, bananas, horticulture);
- **FFB/crude palm oil (CPO)/latex purchases (11.2%):** include all purchases from third parties (smallholders) or associates and joint ventures;
- **Processing charges (14.6%):** include all charges relating to the processing of the base agricultural products into the finished agricultural commodities (i.e. palm oil, rubber, tea);
- **Sales charges (10.0%):** include all direct costs attributable to the sales of the year (i.e. transport charges, palm oil export tax);
- **Stock movement (2.6%):** includes the variance in stock compared to the previous year.

For additional information related to the costs of the Group we refer to Note 7 — Operational result and segment information of the Financial statements.

In addition to these costs incurred during the year, the Group invests significantly in biological assets (bearer plants), buildings, infrastructure, installations and machinery, vehicles, office equipment and other property plant and equipment. These investments are capitalised on the balance sheet and afterwards depreciated. Depreciation costs are calculated based on the estimated useful lives of the asset, and are included in either estate charges or processing charges, depending on the asset.

In order to ensure the continuity of its activities, SIPEF needs to acquire and retain land rights and renew the land rights agreements for the long term. Acquisition of these land rights are capitalised and are not depreciated over time, as these are considered to be indefinite. The renewal costs related to the original land rights are capitalised, and are depreciated over the period of the renewal. Finally, the Group continues to look for opportunities to expand by acquiring plantations from other companies and/or collaborating with local owners.

Slowly but surely, the goal of 100 000 planted hectares is almost being achieved.

In implementing its business model, the Group works hard to improve its productivity and stimulates its growth as efficiently as possible, based on sustainable practices. By doing so, SIPEF creates value for the Company, the environment and society. Moreover, as a sustainable company, the business model of SIPEF constantly deals with the requirements of stakeholders on the level of sustainable development and value creation.

SIPEF creates value for the company

Since 2005, SIPEF has actively worked on growth, primarily in the palm oil industry in Indonesia and Papua New Guinea.

The activities in South Sumatra is at the forefront of the Group's development. This region has good agronomic qualities, and there are many opportunities for the employment of local people in industrial agriculture developments. Since 2011, SIPEF has acquired seven concessions in South Sumatra through three local subsidiaries. Supported by the expatriate management of Medan Office, the expansion has gained momentum, and a new business unit is currently being developed for the SIPEF group. During the financial year, an additional 1 532 hectares were compensated and 1 550 hectares prepared for planting or planted, bringing the total to 12 203 cultivated hectares. This is 71.5% of the total of 17 074 compensated hectares, of which 2 363 hectares were provisionally acquired for planting for smallholders and 14 711 hectares for own development. After the acquisition of 95% of the oil palm plantation, from 1 August 2017, PT Dendymarker Indah Lestari (DIL) is an integral part of the SIPEF group. Optimising the loss-making plantation activities and gradually replanting the old palms, which are around 20 years old, are priorities in the SIPEF investment program over the next few years. A start was also made on the enlargement of currently fallow land within the permanent operating licence (*Hak Guna Usaha* — HGU), always within the framework of the RSPO New Planting Procedure (NPP). By the end of 2019, 2 831 hectares had been replanted and 757 hectares prepared for expansion of the planted area.

In Papua New Guinea, continued expansion proved difficult due to the NPP rules. This means that only limited growth is possible in coming years with regard to bringing the 13 707 planted hectares up to 15 000 hectares, thanks to some acquisitions of land already used for farming. This scale corresponds to the full capacity utilisation of the three mills in Papua New Guinea, with due consideration for the additional production of approximately 3 700 smallholders, who account for 42% of the oil production.

All these transactions bring the number of planted oil palm hectares at the end of the financial year to 73 977 and the total planted hectares, to 82 225, compared with 48 093 hectares in 2005 (SIPEF-CI, Brasil and Vietnam not included). Slowly but surely, the goal of 100 000 planted hectares is being achieved.

SIPEF continues to actively look for investment opportunities for the expansion of the planted areas in remotely situated areas, where most people are active in the agricultural sector. Lastly, thanks to the partnership with Verdant Bioscience Pte Ltd, a renowned palm oil production research centre in Papua New Guinea, the Group will be able to benefit from the development of high-yield palms. SIPEF therefore expects to raise the productivity of the oil plantations in the medium- to long-term and significantly support and improve their future profitability by applying these scientific developments.

SIPEF creates value for the environment

A. Valuable waste

The SIPEF group owns and operates six palm oil mills in Indonesia and three in Papua New Guinea, which all together processed 1 342 648 tonnes of FFB in 2019. That activity generated an estimated 1 010 226 m³ in wastewater and 268 530 tonnes of EFB. In the past, wastewater and EFB were considered as palm oil production process waste without any value for the Company and were treated in secondary processes that generated extra costs.

60%

Percentage of chemical fertiliser in the Bukit Maradja plantation SIPEF hopes to replace with recycled compost

The wastewater was processed through anaerobic ponds, which led to the emission of methane. It is worth reiterating that the global warming potential of methane is 21 times that of carbon dioxide.

In recent years, SIPEF has taken steps to reduce the emission of greenhouse gases (GHG). One of the greatest efforts by the SIPEF group to drive down the emission of methane and generate sustainable revenues for its shareholders is the building of methane capture systems at the palm oil mills of Mukomuko, Bukit Maradja, Perlabian, Umbul Mas Wisesa and Barema. All these investments have been registered as projects under the Clean Development Mechanism (CDM) in the United Nations Framework on Climate Change (UNFCC). The methane capture systems at these sites are able to flare the methane, or even better burn it in the mill boilers or in a gas engine, generating electricity. The Mukomuko palm oil extraction mill processes wastewater to produce biogas with a significant methane content, which is captured in a closed reactor tank, replacing the anaerobic settling tanks in the methane capture system. However, the biogas produced in the reactor tank is not ready for use, as it contains a lot of moisture and hydrogen sulphide. Primarily, it must undergo a necessary treatment to remove sulphur and moisture before it can power a gas engine, in order to produce electricity.

Unprocessed EFB are very moist and so unsuitable as boiler fuel. In addition, their size does not allow efficient combustion in a biomass boiler. They can be used as mulch in the plantation or, in recent years, be recycled into compost. At the end of 2016, the first composting system was put into operation: it processes wastewater and EFB into compost, after the addition of other secondary products, i.e. deposits from the decanting systems and boiler ash. This compost is used in the plantations as soil improver instead of chemical fertiliser.

The composting system comprises eight ventilated bunkers and processes 100% of the EFB and the wastewater into organic fertiliser with a high nutrient content. The system maintains the aerobic conditions at a constant level to ensure that no methane is produced during the composting process. That is achieved by ventilating the soil and the successive transfer of the compost from one bunker to the next. The oxygen content and the temperature are constantly monitored and registered. The system, which fulfils the standards of the International Sustainability and Carbon Certification (ISCC), recycled 22 380 tonnes of EFB and 55 950 m^3 of wastewater from the Bukit Maradja palm oil extraction mill in 2019.

To ensure the compost is always suitable for the intended use, its nutrient content is checked every month. Composting waste is a good way of recycling raw materials and protecting the environment. SIPEF's goal is to replace more than 60% of the chemical fertiliser in the Bukit Maradja plantation with compost.

B. Generating electricity from biomass

A palm oil mill produces three sources of biomass: palm kernel shells, mesocarp fibre and EFB.

Palm kernel shells and mesocarp fibre are currently used in the palm oil mills as fuel in the boilers that produce steam. That steam is used to generate electricity through steam turbines. The steam emitted is also used in the sterilising process in the mill.

As stated above, unprocessed EFB are unsuitable for use as fuel due to their high moisture content and large size. However, they are ground and compressed at the Mukomuko palm oil extraction mill, reducing the volume, releasing a small quantity of oil and cutting the moisture content to below 50%. After this treatment, the EFB are also suitable for use as fuel in the boiler.

165 000

Number of litres of diesel saved in the Mukomuko palm oil extraction mill in 2019

The electricity generated by the steam turbines is used in the mills, which reduces the dependence on fossil fuels like diesel. The efficient use of these raw materials in 2019 resulted in diesel consumption in Indonesia falling by more than 165 000 litres compared with 2018. This corresponds to an estimated saving for the Group of more than USD 100 000.

This power generated by the steam turbines and biogas engine at the Mukomuko palm oil mill will be used to operate the mill and for other Company activities, such as the central workshop, the rubber factory, the management offices and housing. In 2019, the Mukomuko steam turbines and biogas engine generated 9 788 665 kWh of electricity in total, 5 383 766 kWh of which was consumed by other activities. The surplus, mainly produced by the gas engine, is injected into the public grid of Perusahaan Listrik Negara (PLN) in Bengkulu province.

SIPEF creates value for society

SIPEF's plantation operations in Indonesia, Papua New Guinea and Ivory Coast create a lot of value for the production countries, whose economic development is accelerated.

- To optimise the management of the plantations, a lot of attention is given to training the employees in agricultural and management methods and general aspects.
- SIPEF works closely with smallholders, who are able to expand their activities together with the Group.
- Expansion in remote areas is always linked to investments in infrastructure, housing and facilities that the Company puts at the disposal of the workers.
- SIPEF actively consults with public and private stakeholders. It believes that, by working with customers, social and environmental NGOs, governments and industry bodies, civil society, producers, researchers and other willing stakeholders, it can maintain its social and legal support, and so bring about and promote the introduction of safe, sound and sustainable standards and practices.

A few examples of value creation are briefly described. For more detailed insight into how the Group creates value at various levels, see Part 3 of the Sustainability report of this Annual report.

Products of SIPEF — customers

SIPEF offers its customers crude palm oil (CPO), palm kernel oil (PKO) and palm kernels. It targets RSPO certification for 100% of its palm oil products. But in order to fulfil its sustainable development obligations and ensure sound practices are followed, including traceability of all its products, the Company applies many other generally recognised standards, such as the Indonesian Sustainable Palm Oil (ISPO) system and ISCC. The Sustainability report of this Annual report gives a detailed overview of all the certifications on page 17.

The oil palm products of the Group are sold on the local market (Indonesia) as well as on the European market. They are destined for use in the food industry and green energy (biodiesel) production.

The customers of SIPEF are refiners, who are willing to pay a sustainable premium for the fully traceable and certified palm products.

Furthermore, SIPEF produces both latex (ribbed smoked sheets — RSS) and cup lump grade rubber (SIR10 and SIR3CV60) in its rubber factories, all of which are Rainforest Alliance certified. The main market for the rubber products is the United States.

SIPEF has one tea garden where the tea leaves are still plucked by handto produce high quality 'Cut, Tear and Curl' (CTC) tea. The main market for this tea is Pakistan, and the rest is sold to multinational companies specialising in the bespoke blending of tea. There is also an increasing demand for the tea on the local market in Indonesia. The garden is also Rainforest Alliance certified.

Finally, bananas are sold within the framework of certified goods flows with full raw material traceability. Bananas are picked and packed in the Group's packing stations. More than 80% of the high-quality bananas are sold to the European market, after shipping, in accordance with the European guidelines, while the balance is sold in the West-African region and to the local market in Ivory Coast.

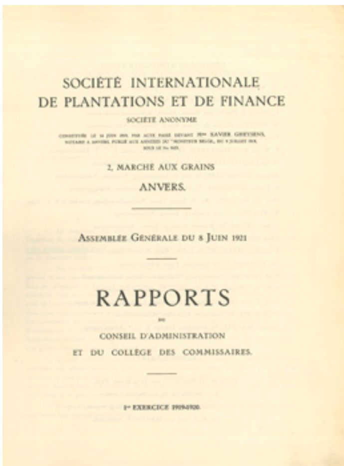
The customers of SIPEF are refiners, who are willing to pay a sustainable premium for the fully traceable and certified palm products.

History

1919
–
1939

1919 – 1939: The trailblazing years

14 June 1919 the “Société Internationale de Plantations et de Finance” (SIPEF) was created, with its stated objective of promoting and managing plantation companies in overseas tropical areas. The Company’s head office was established at Graanmarkt 2 in Antwerp, was fairly quickly listed on the stock exchange in Antwerp and started with two sites in Kuala Lumpur (Malaysia) and Medan (Indonesia). The acquisition of three plantations in Indonesia: Tolan Satoe, Tolan Dua and Tolan Tiga soon followed. Initially, SIPEF focused primarily on the production of rubber. However, the post-war depression and the bottom prices for rubber on the international market led to the decision in the late 1920s to convert from rubber to palm oil to keep the plantations profitable.



SOCIÉTÉ INTERNATIONALE
DE PLANTATIONS ET DE FINANCE
SOCIÉTÉ ANONYME

2, MARCHÉ AUX GRAINS
ANVERS.

ASSEMBLÉE GÉNÉRALE DU 8 JUIN 1921

RAPPORTS

CONSEIL D'ADMINISTRATION
ET DU COLLÈGE DES COMMISSAIRES.

1939
–
1969

Due to the low market prices of rubber, SIPEF decided to invest primarily in palm trees.

1939 – 1969: Turbulent times

During the Second World War the Japanese occupiers seized some of the plantations for food production and the others were reclaimed by the jungle, which was able to grow unrestrained. The recovery was costly and time-consuming.

On top of that, the invention of synthetic latex caused the market price of rubber to tumble to a historically low point. Therefore, the decision was taken by SIPEF to invest primarily in palm trees when replanting. Unfortunately, the rebuilding was hampered by the unstable political situation in Indonesia. Indeed, after independence the country found itself in the grip of Islamic and communist rebel forces.

With regard to spreading the risk, SIPEF invested in the Congo, a Belgian colony that, at that time, seemed to be a beacon of stability. The Group's range was enlarged with new products, such as coffee, cacao, tea and medicinal plants. But the Congo, too, soon experienced political unrest and violence perpetrated by independence fighters. These events brought down the SIPEF share price. Charles Bracht took this opportunity to strengthen his participation in the Company and subsequently became chairman of SIPEF. A new chapter in the history of SIPEF began under his chairmanship.

1969 – 1989: Diversification

1969
–
1989

Under the leadership of Charles Bracht, later assisted by his son Theo, SIPEF expanded geographically and was quickly embedded on every continent: from Asia (Indonesia and Malaysia) to Oceania (Papua New Guinea and the Solomon Islands) and from Africa (Ivory Coast, South Africa, Guinea, Zaire and Liberia) to South America (Brazil and Venezuela). As well as managing plantations and the manufacture of traditional products like rubber, palm oil and tea, the Company also traded coffee, cacao, hearts of palm, grapes, pineapples, spices and even ornamental plants. Investments were also made in 'safe' real estate projects in America and Belgium, as well as, in banks and insurance companies. In doing so, the shareholders wanted to protect themselves against political instability in the overseas areas, a risk that later proved to be justified when the Group was confronted with civil wars in Africa and chronic inflation in South America.

The kidnap and murder of Charles Bracht in 1978 was one of the blackest pages in SIPEF's hundred-year existence. After this tragic event, Theo Bracht succeeded his father.

1989 – 2009: Focus and transformation

By the end of the 1980s the diversification across various continents had left a high indebtedness. A difficult period of downsizing and remediation measures followed. In 1994, SIPEF opted for a capital increase which resulted in an influx of new shareholders. At the request of these investors, including Ackermans & van Haaren, restructuring was implemented to safeguard the independence of the management. In 2004, again a capital injection followed to usher in a period of exponential growth.

1989
–
2009

SIPEF has always played a pioneering role and therefore, the Group was one of the first palm oil producers worldwide to be granted the RSPO certification.

Sustainability has always been an important value within the Group. Already in the trailblazing years, the enlargement of plantations had led to the building of roads and the provision of housing, schools and medical care for the employees and their families. SIPEF has always played a pioneering role with respect to sustainability. Therefore, the Group was one of the first palm oil producers worldwide to be granted Roundtable on Sustainable Palm Oil (RSPO) certification. In this way, SIPEF was one of the founders of the Roundtable on Sustainable Palm Oil.

There is still a lot of potential for growth, but always within the framework of the Principles and Criteria for the production of sustainable palm oil.

2009 – Ongoing: Yesterday is the present for tomorrow

Over the last decade, SIPEF has focused exclusively on the sustainable production of palm oil, rubber and tea (in Indonesia and Papua New Guinea) and bananas (in Ivory Coast).
Furthermore, the pursuit of sustainability has driven SIPEF to invest more in recycling and research, more specifically, with the investment in a joint venture, Verdant Bioscience Pte Ltd, which aims to develop high-yielding palm seeds. In the context of the global population increasing, available farmland decreasing and more extreme weather conditions, the future of commodities depends on improving performance.

As the demand for vegetable fats will increase the development of stronger, more productive palm species is the answer to that. There is still a lot of potential for growth, but always within the framework of the Principles and Criteria for the production of sustainable palm oil.

Together with its reference shareholders, Ackermans & Van Haaren and the Baron Bracht family, SIPEF believes in the future of the Group. The commodities sector has always been volatile, but they have, within the board of directors, always thought long-term. Thanks to the foundations the families laid in the past, we look to the future full of confidence.

2009 – ongoing


Global trends
in the palm oil
market

Palm oil and soybean oil dominate the global edible vegetable oils market, with around a 36% and 24% annual production share, respectively.

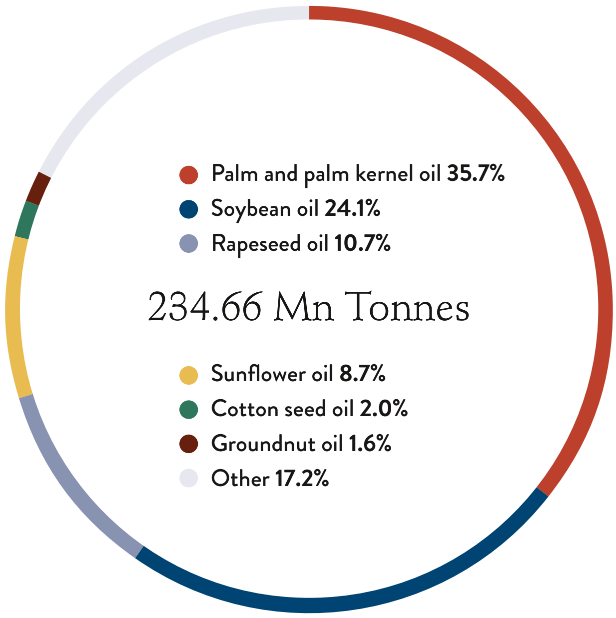
Crude palm oil (CPO) is an edible vegetable oil obtained from the pulp of the oil palm fruit and is refined/fractionated into refined products for final use. Palm kernel oil (PKO) is derived from the kernel of the palm fruit but has significantly different chemical properties and fat composition, being higher in lauric acid and similar in nature to coconut oil. It too is refined for further use.

One hectare of oil palm trees yields on average about 22 tonnes of fruit (fresh fruit bunches or FFB). Trees yield fruit around two to three years after planting, hit peak production after seven years (up to 36 to 40 tonnes of FFB) and decline from 18 years. The typical commercial lifespan of a tree is between 22 and 25 years. Production efficiency is typically driven by the FFB yield per hectare and the oil extraction rate (CPO per tonne of FFB). CPO is produced via a milling process and then either sold as a raw product 'upstream' or further refined 'downstream'.

Palm oil is one of a group of 17 major oils and fats (from sesame oil to palm oil). The total vegetable oil market represents some 234 million tonnes.

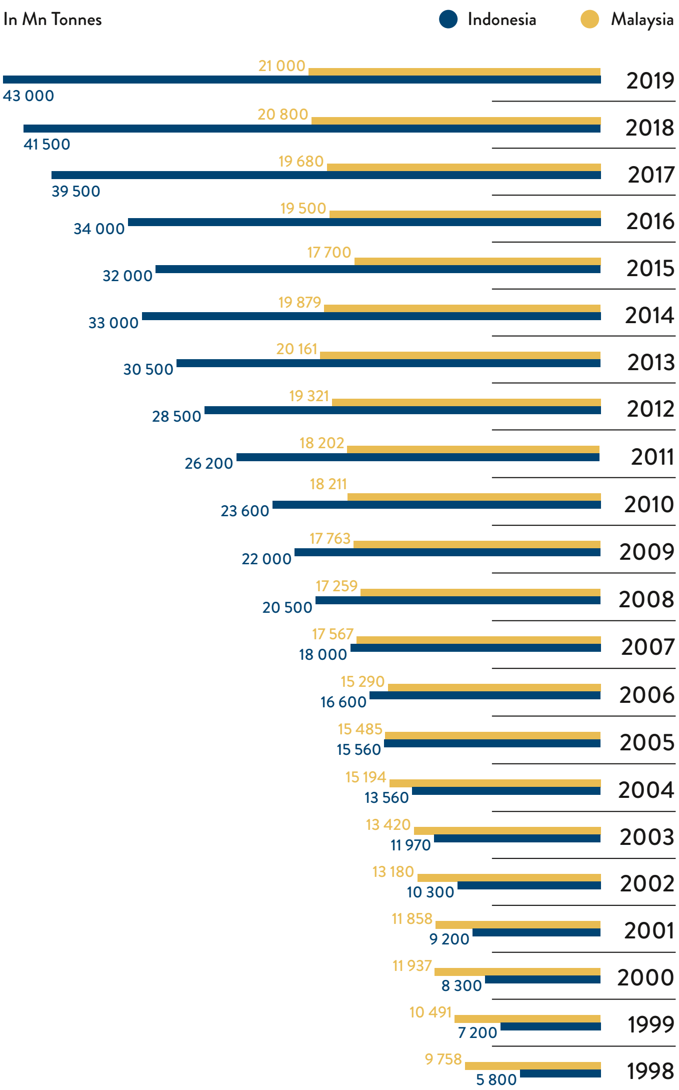
Edible oil consumption is mainly dominated by the food industry (>70% of edible oils use), but there are important uses in fuel (palm, soy and rapeseed oil are key components of biodiesel) and industry/chemicals. Palm oil is commonly used as cooking oil, in shortenings and in products such as margarine. CPO and PKO refined products can be found in everything from soap to cosmetics.

SHARE OF OIL PRODUCTION (2019) SOURCE: OIL WORLD

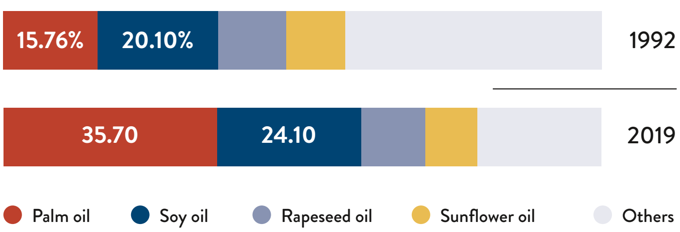


Palm oil and soybean oil dominate the global edible vegetable oils market, with around a 36% and 24% annual production share, respectively. However, palm oil is by far the most exported oil in the world, since most of the soybean oil is used intensively in the domestic sector in the United States and Brazil for food, animal feed and fuel.

MALAYSIA VS. INDONESIA CPO PRODUCTION SOURCE: USDA



MARKET SHARE
PALM OIL VS. SOYBEAN OIL (1992-2019) SOURCE: OIL WORLD



Ideal growing conditions for oil palm entail that plantations are concentrated close to the equator, mainly in Malaysia and Indonesia (85% of annual CPO production combined), and some parts of West Africa, whilst Indonesia has increased its relative share of the world CPO production over the years. Soybean production is concentrated in the United States, Argentina and Brazil (the three combined account for 81% of annual production).

Large plantation companies, often vertically integrated with refineries, play a big role in the palm oil market although approximately 40% of the oil palm cultivation itself is in the hands of small-holders. It has proven to be the perfect poverty alleviation crop for smallholders, albeit there is still a challenge to increase their yields, which on average are still 20% below plantation yields.

Whilst palm oil and palm kernel oil represent roughly 36% of the world's edible oil production, the planted area accounts for only 7.9% of the total planted area.

One of the main drivers has been the significantly higher yield that palm oil affords: at world averages of four tonnes per hectare (4 t/h) it is six to ten times higher than for competing oils. No doubt this is a sustainable competitive advantage, but there is a trade-off, since the required land is often located in tropical, forested areas. Environmental compliance pressures and sustainability requirements have slowed growth in recent years.

While Malaysia and Indonesia dominate supply, a significant amount of their output is exported. The largest export markets are China, India and the EU, which account for around one-third of global demand[1]. Growth in global demand has been resilient at a 5% compound annual growth rate in the past decade[2]. There are multiple drivers, but rising consumer income in emerging markets as well as biodiesel demand are certainly key.

1 OIL WORLD
2 OIL WORLD

In addition, demand can be heavily influenced by the price relationship between competing oils, given many are interchangeable in their core use as cooking oil.

Relationship with soybean oil

Palm oil is closely linked to the performance of its main rival, soybean oil. It traditionally trades at a 10-20% discount (last 12-month average) to soybean oil, primarily reflecting its greater supply. Yet, the oils are interchangeable in their main uses (cooking and fuel) so the Company would not expect a sustained period of disconnection. The relationship means that demand and especially supply shocks (such as weather events) in either oil can have a significant impact on the other.

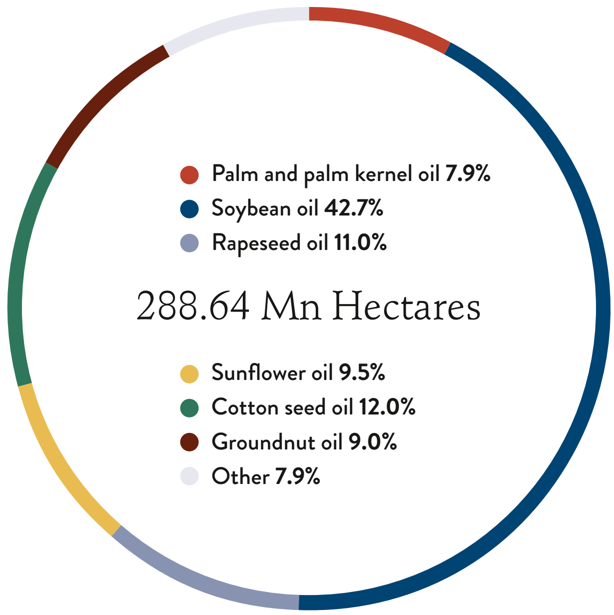
Demand trends in key markets

Trends in consumption of palm oil in the key market are closely watched, particularly domestic Indonesia, India and China.

Since the biodiesel mandate kicked in in Indonesia, the local demand has grown significantly over and above the big local demand for the food industry. In 2019 the local market achieved 20% biodiesel (B20) and there were bigger governmental targets set for 2020, namely B30. Whilst the commitment from the Indonesian government is partially macro-driven to reduce the dollar outflow for importing diesel, it also supports millions of smallholders with a higher palm oil price. The Palm Oil Support Fund is funded by the export levy on palm oil that is leaving the country and is used to subsidise the biodiesel producers. During most of 2018 and 2019 palm oil was cheaper than gasoil, so there was no need for subsidies. The Palm Oil Support Fund is very well funded and can easily support the B30 program this year despite the premium of palm oil over gasoil.

Whilst palm oil and palm kernel oil represent roughly 36% of the world's edible oil production, the planted area accounts for only 7.9% of the total planted area.

SHARE IN PLANTED AREA 2019/2020F SOURCE: OIL WORLD



The Indonesian government has already been suggesting that B40 is the next step but needs to be tested first. Longer term the ambition is to look at B100, albeit that this cannot be achieved by traditional biodiesel. These kinds of volumes require hydro treatment of palm oil. There is already investigation ongoing to convert a conventional petroleum refinery into a hydro cracking facility. Time will tell.

India has traditionally been a big consumer of palm oil. This will remain the case, as the local production of seed oils is still not able to catch up with the rise in demand due to Gross Domestic Product (GDP) growth, particularly of the middle class, as well as population increase itself. The swings in demand are driven by the local production and the competitiveness of palm oil versus competing imported oils.

China has invested heavily in soybean crushing, but still needs additional palm oil as it has done over the years. Due to the outbreak of African swine fever (ASF) in China in August 2018, almost half of the pig population had to be culled, resulting in a significant reduction in soybean meal demand. Therefore, there was a significant reduction in soybean (and rapeseed) crushing and consequently much less soybean oil was produced. Another impact of ASF is that fewer pigs by far were slaughtered for human consumption, which implied less lard (pig fat) on the market. These shortages of oil were compensated predominantly by palm oil in 2019 and there was a massive increase in palm oil imports. It will take a few years before the pig population is restocked and it is expected that China will continue to import good volumes of palm oil.

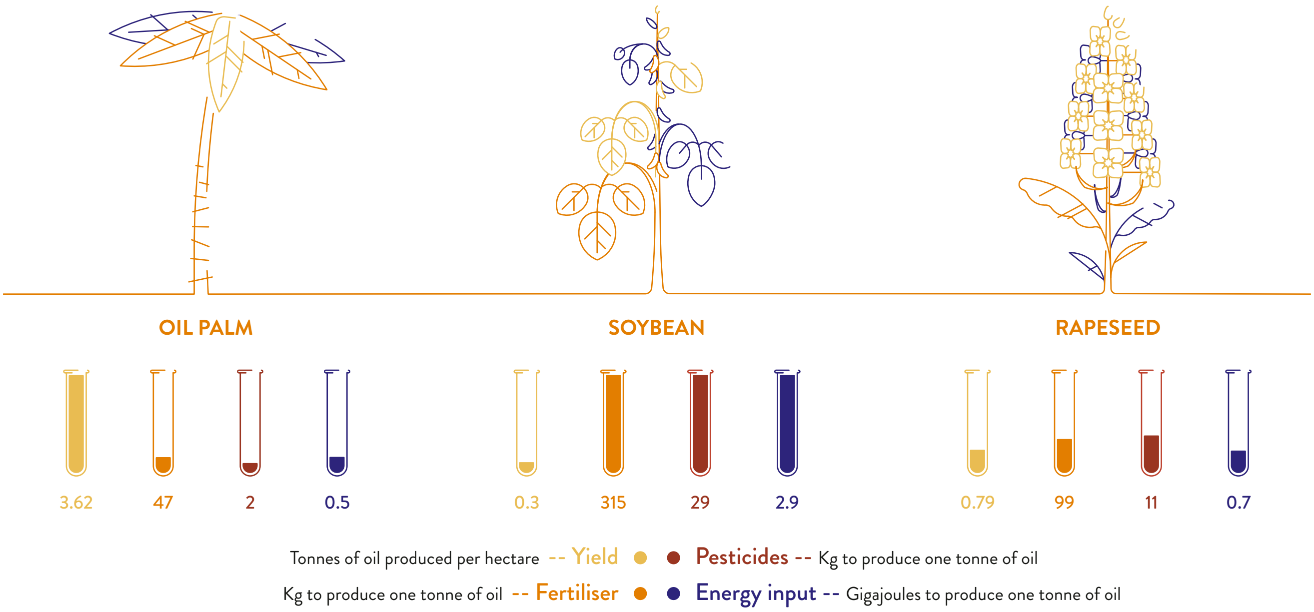
Additional long-term elements to consider:

Regulation, compliance and taxation

Palm oil has often raised sustainability issues with customers, investors and NGOs around forest land usage, land clearance techniques and carbon emissions, as well as labour regulations. A dramatic change in customer attitudes could have an impact on long-term demand (a negative for CPO), while ever tighter restrictions on land usage could tighten supply (a positive for CPO). These will remain significant issues for the industry.

On the other hand, industry oversight is not new: significant internal and third-party efforts to regulate and monitor the palm oil industry have been around for more than a decade. The Roundtable on Sustainable Palm Oil (RSPO) emerged in 2001 and was formally established in 2004. It is a non-profit body with some 4 500 members working to promote the sustainable production and full traceability of palm oil. In November 2018, new Principles and Criteria were adopted, which made it effectively a deforestation-free certification scheme. This was even admitted by the most critical NGOs. There are several national and voluntary schemes trying to achieve similar objectives but the RSPO is still considered to be the norm.

Palm oil is a major source of employment and revenue for Indonesia and Malaysia (85% of the world's supply). In late 2015 Malaysia and Indonesia formed the Council of Palm Oil Producing Countries (CPOPC) to address common challenges faced in the palm oil industry, remove undercutting tactics and ensure the long-term sustainability of CPO prices. Palm oil accounts for 36% of global vegetable oil supply. It has a vastly superior yield and a significantly



SOURCE: WWW.THEOILPALM.ORG/DAVOS-AND-FOOD-SECURITY-THE-FACTS-ON-OILSEED-EFFICIENCY

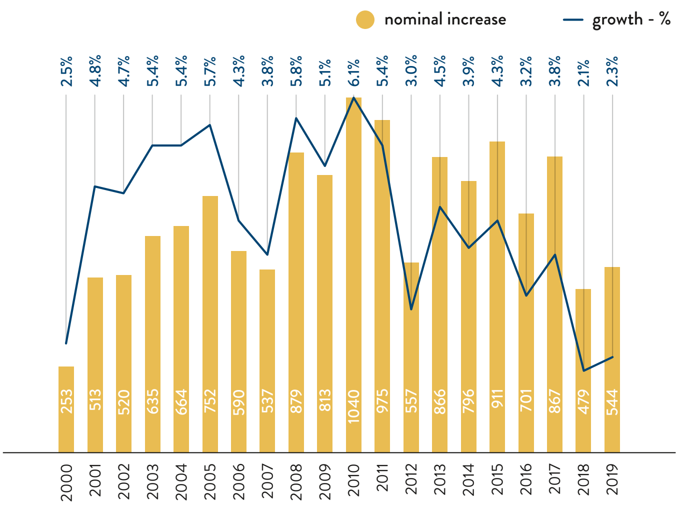
lower fertiliser application level to competing oils. It also has a large emerging market customer base (especially in Indonesia, India and China). Given these considerations, the Company does not believe it is the intention of anyone in the mainstream to regulate CPO out of existence. Steady palm oil growth and global share gains, even as the importance of sustainability has become more apparent, support this.

Also, regulation tightens supply. Probably the most relevant impact of this increased oversight has been the gradual reduction in available land. Planted area growth has reduced significantly in Malaysia and in Indonesia. Production growth has been sustained as a result of the improvements in yields, as well as the development of estates in new countries in Southeast Asia, West Africa and South America. The Company views this fundamental tightening of supply as inherently positive for the CPO price and sees no sign of it abating. Indonesia imposed a prolonged moratorium effective 1 May 2016 on new oil palm plantations and mining permits to protect the environment. Palm oil plantations already account for 70% of agricultural land in Malaysia, and industry participants expect little further growth. The new criteria of the RSPO, like the High Carbon Stock (HCS) Approach, provide very tight guidelines which make green fielding, developing agricultural land from forested areas, effectively unlikely. Brown fielding, converting an existing agricultural crop to another, is still very well accepted as the land has already been declared as agricultural.

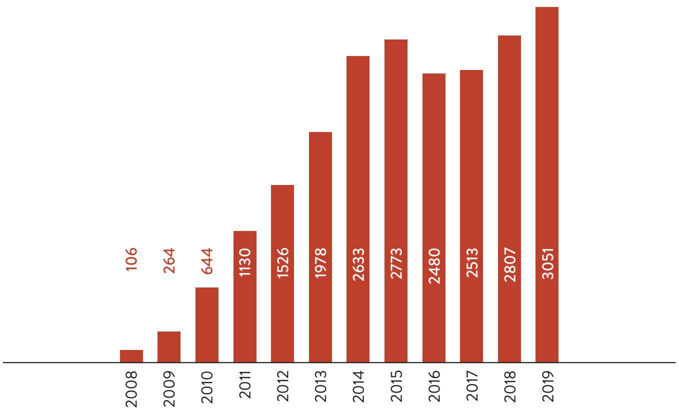
Biodiesel

Vegetable oils like palm oil are a major component of biodiesel, with corn, sugar and wheat the feedstock for the main alternative, bioethanol. Growth of the biodiesel industry has been another significant influence on the CPO price. Biodiesel has consistently taken share from the vegetable oil market over the past decade as environmental awareness steadily increases and governments

GLOBAL PALM PLANTED AREA TRENDS SOURCE: USDA



RSPO CERTIFIED HECTARES (KHA) SOURCE: RSPO



introduce minimum levels of mandated biofuel consumption. Palm oil represents 38.6% of biodiesel feedstock, with Indonesia a large producer (about 16.5% of global biodiesel). This in turn has driven an increasing correlation between the CPO price and the crude oil price.

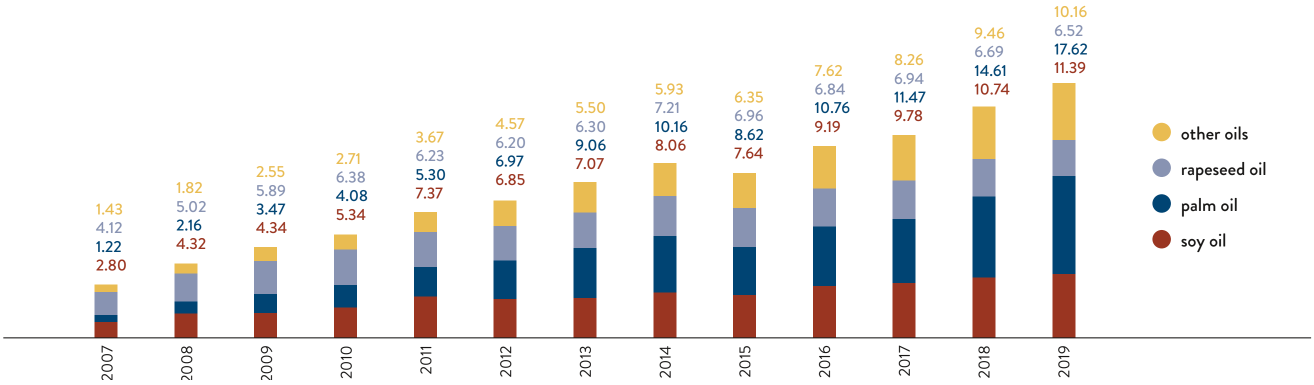
Implicit in this relationship is that high petroleum prices increase the relative attractiveness of biofuels. This means enforcement and growth of mandates, rather than discretionary blending, will be drivers for the biodiesel industry. The crude oil price should nevertheless remain a realistic floor for CPO prices.

Palm oil in the future

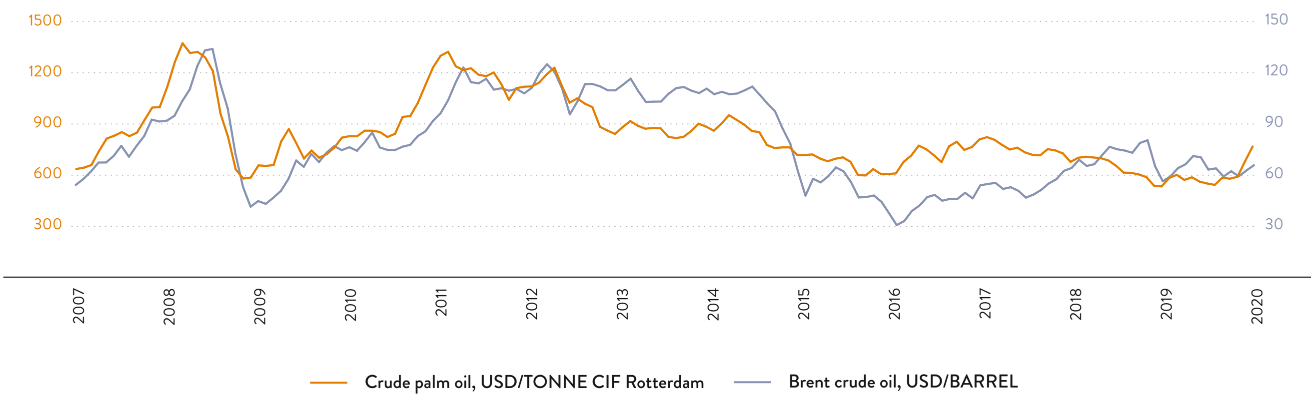
Over the last decades, the total consumption of oils and fats (foods, bioenergy, cosmetics, etc.) has grown steadily. In the period 2009 to 2019, statistics indicate that consumption increased from roughly 165 million tonnes in 2009 to 235 million tonnes in 2019 according to ‘Oil World’. All over the world, the consumption of oils and fats tends to favour locally produced oils and fats. Therefore, in North America, Europe and Russia, annual seed crops (soybean, rapeseed and sunflower) are the main sources of oil. In tropical countries, palm oil, coconut oil and groundnut oil are mainly produced and consumed.

The world average oil and fat consumption per capita (including bioenergy) increased from 21 kg in 2005 to 29.9 kg in 2018. In general, the consumption of oils and fats increases in correlation to disposable income. Over the past few years, consumption has grown even faster than expected as a consequence of incremental demand from the biofuels market.

BIODIESEL USE OF MAJOR FEEDSTOCK (IN MILLION TONNES) SOURCE: OIL WORLD



CPO VS. BRENT CRUDE OIL IN USD/BARREL SOURCE: WORLD BANK COMMODITY PRICES - UPDATED DATABASE

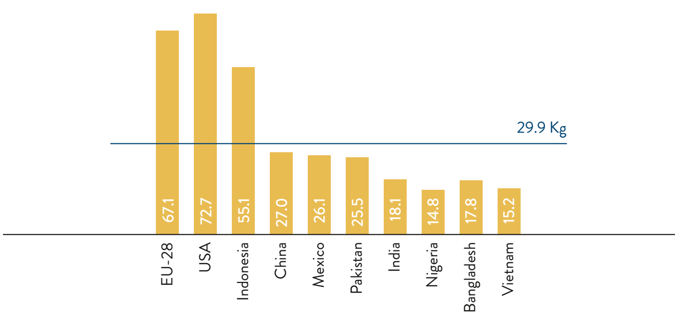


Population growth will have a huge impact on future food demands and will result in an increased demand for meat, fat and processed foods, and for biofuel. New land is needed, or yields need to improve in order for supply to meet demand. Historically, increased production has gone hand in hand with deforestation. But with the latest Principles and Criteria of the RSPO, and legislative action such as the moratorium in Indonesia, new expansion is very limited. Therefore, to increase production all focus should be on yield increase. This means absolute yield increase with new seeds and better management practice on one hand, and improving smallholder yields, by providing more support and new seeds on the other hand.

Given that palm oil is a perennial crop, historically there has been less investment in research and development in increasing yields, compared to annual crops such as soybean and corn. The palm oil industry needs to catch up as expansion of plantations is limited. SIPEF is invested in improving yield by its shareholding in Verdant Bioscience Pte Ltd.

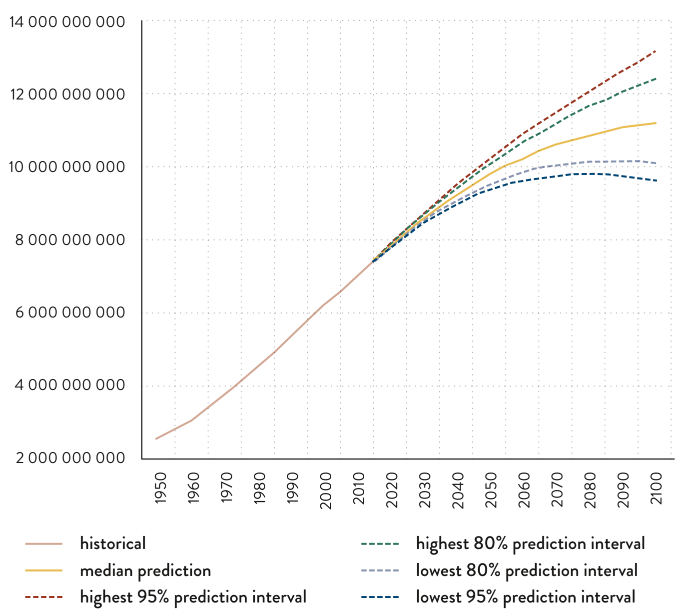
As a fully compliant producer of certified sustainable palm oil, SIPEF is ideally placed to benefit from these future trends.

PER CAPITA CONSUMPTION OF OILS AND FATS 2018 (KG) SOURCE: OIL WORLD



Usage in the EU-28, USA and Indonesia 'inflated by biodiesel production'

PROJECTED GROWTH OF WORLD POPULATION SOURCE: WWW.UN.ORG



Demographic trends in emerging regions (mainly Asia Pacific and Africa) have already contributed to more than a doubling of global palm oil demand in the last 15 years as consumption per capita is closely related to income. For this reason, the Company believes that the biggest increase in consumption will take place in the countries with rising income per capita, combined with high population growth. As a result, the Company expects the biggest increase in palm oil consumption to occur in the developing countries where palm oil is already embedded in the consumption pattern.

Therefore, demand growth will most likely outpace production growth in the future. This view is supported by most of the analysts who monitor the long-term perspectives of vegetable oils and palm oil in particular. As a fully compliant producer of certified sustainable palm oil, SIPEF is ideally placed to benefit from these future trends.

Product markets

Palm oil

The 2019 palm oil market can be characterised by a few events that had a tremendous effect on prices, namely high stocks; strong production followed by a massive drop in production; great demand in food and biodiesel in a low price environment; and external factors such as the US-China trade war and the African swine fever outbreak in China.

The year started with high stock levels in both Malaysia and Indonesia, but also in the destinations, which bought a lot of cheap palm oil during the fourth quarter of 2018. The market continued to suffer due to these high inventories and the price gradually moved lower.

From a supply perspective, the production was still very strong, particularly in Malaysia. Indonesia was experiencing the first signs of 'tree rest' (reduced production) in the first semester. The lack of fertiliser application since the summer of 2018, when the low-price environment commenced, as well as the dry weather conditions were impacting the yields.
The haze during the third quarter, caused by many wildfires, also impacted the photosynthesis process in the palms. Whereas Indonesia had been experiencing this since the second quarter, it only impacted Malaysia during the fourth quarter.

In the second quarter, the impact of the African swine fever outbreak became visible in China where nearly half of the pig population had to be culled. This had a massive impact on the demand for soybeans, as the crushed meal is used for animal food. Due to the strongly reduced crush, there were also a few million metric tonnes less soybean oil produced in the domestic Chinese market. This had to be replaced with an alternative and palm oil was, in combination with sunflower oil, the gap filler. Another impact, which only surfaced later in the year in China, was the lack of lard (pig fat) produced, which was replaced by palm oil. Obviously, the reduced Chinese buying demand for soybeans had a tremendous negative effect for the US soybean farmer who was already suffering from the US-China trade war.

The year started with high stock levels in both Malaysia and Indonesia, but also in the destinations, which bought a lot of cheap palm oil during the fourth quarter of 2018.

USD 860

The price for crude palm oil at the end of 2019

The prices of many agricultural products were suffering from the trade war and all the uncertainties it was carrying. During the summer, soybean prices as well as palm oil prices sank below the prices of the 2008 crisis. Not even the poor planting conditions for the US soybean market could bring a spark of hope and the American soybean crop harvested in 2019 ended almost 20% lower.

The demand for palm oil was outstanding in 2019.

In general, demand for palm oil was outstanding in 2019. The low prices created a quick realisation of the B20 biodiesel mandate in Indonesia, without subsidies being needed.

The government of Indonesia became determined to increase the biodiesel blending rate to reduce its dependency on diesel imports and reduce a dollar outflow, at the same time supporting its millions of smallholders and the entire palm industry. Indonesia could even afford to relieve the growers of the export levy, which was introduced to support the biodiesel program.

Not only did the biodiesel market grow strongly, but the food demand for palm oil was also very good. Due to the low prices, palm oil gained a lot of demand in many countries.

Therefore, 2019 was a year of great offtake, and stocks were steadily reducing, but it took until the third quarter, when Indonesia announced its plan to increase the biodiesel blending rate from 20% to 30% in 2020, to see a slight price increase. Indonesian palm oil production was already suffering, but the market really realised that demand was outpacing supply when Malaysian production dropped strongly during the fourth quarter. The market rallied in three months from 2 200 ringgit to almost 3 100 ringgit by the end of the year, a rally we have hardly ever seen. The speed as well as the timing with which the market jumped, took many market players by surprise.

The average price for CPO CIF Rotterdam in 2019 was USD 566 against an average of USD 598 in 2018, a decrease of 5%. However, the year closed at its high of USD 860.

The volatility was very strong and, from an absolute price perspective as well as from a premium over palm oil which went down to almost zero, the lauric market had a weak performance in 2019.

Palm kernel oil

The lauric oil market, the generic term for crude palm kernel oil (CPKO) and coconut oil, dropped significantly during the year 2019. The production of CPKO grew in line with the palm growth, but more importantly it was carrying a high stock number of kernels for the entire year. Coconut oil production was big for the second year in a row. During the setback of the lauric oil prices, the market was actively searching for the demand it had lost in the previous year due to its high price environment. The volatility was very strong and, from an absolute price perspective as well as from a premium over palm oil which went down to almost zero, the lauric market had a weak performance in 2019. The price of CPKO was on average at a USD 100 premium over palm oil, about USD 100 below the historical average. The average price of CPKO CIF Rotterdam in 2019 was USD 668 against an average in 2018 of USD 921. Again, the year ended with prices above USD 1 000.

> USD 1000

The price for crude 'Palm Kernel Oil' at the end of 2019

The largest Chinese rubber trader closed business leaving about 250 000 tonnes of existing contracts unshipped.

Rubber

2019 was not the most inspiring year in the natural rubber market. Prices continued at low levels and bullish inputs were largely ignored. During the first half of the year, prices were slightly firmer on the back of the wintering season, the Tripartite's (a governmental organisation among Thailand, Indonesia and Vietnam) decision to limit export volumes and the *Fusiccocum* leaf disease affecting production in the main producer Indonesia, but physical action remained subdued, and lower car sales in China and the US-China trade war limited the upward movement.

+1.9%

Estimated increase in demand for natural rubber in 2020

Bearish factors, most prominently a weak Chinese automobile industry, appeared in the price development during the third quarter of 2019, and this was substantiated by the news that the largest Chinese rubber trader closed business leaving about 250 000 tonnes of existing contracts unshipped. Improved sentiment in the US-China trade war towards the end of the year and news of dropping production in the main producing countries, Thailand and Indonesia, allowed for the prices to come back from the lows seen in 2019.

Prices for RSS3 started the year at USD 1 543 per tonne on SICOM (Singapore Commodity Exchange, rubber) and closed at USD 1 684 per tonne, an increase of 9.1%. The average price for RSS3 during 2019 of USD 1 640 per tonne was 5% higher than in 2018, when the average was USD 1 565 per tonne.

According to the latest statistics published by the International Rubber Study Group (IRSG), demand for natural rubber during 2019 declined marginally (-0.1%), but a recovery in growth is expected for 2020 (+1.9%) and 2021 (+2.9%) based on IMF figures. Supply of natural rubber on the other hand dropped by 1.1% in 2019, whereas 2018 had shown a growth of 2.5%. Based on IMF figures, supply of natural rubber will grow in 2020 (+1.9%) and 2021 (+2.9%). Therefore, IRSG expects that the natural rubber market will be balanced near term.
The insignificant drop in production in 2019 will be offset by high stocks keeping prices depressed around or even below the cost of production.

The average tea price in the Mombasa auction ended at a multiyear low.

Tea

The Cibuni tea quality is compared to Kenyan quality; hence, the benchmark for the prices is the Mombasa tea auction. Cibuni estates produce black Cut, Tear and Curl (CTC) tea and Kenya is the biggest exporter of black CTC in the world. The year started with high stocks after the record production of 2018 in Kenya and prices slid throughout the first quarter. An extended dry period during March and April gave a little energy to the market, but this effect was short lived as continuing economic instability in Pakistan, the major importer of Kenyan tea, reversed the limited upward movement in prices. Tea buyers in Pakistan have been limiting their purchases as new laws have been implemented throughout the year, creating some uncertainty about the impact of those new regulations. The slightly lower production in Kenya was not sufficient to offset the depressed buying interest from Pakistan in particular. The average tea price in the Mombasa auction ended at a multiyear low of USD 2 226 versus an average of USD 2 579 in 2018 (-13.7%). Prices closed the year more or less unchanged at USD 2 210 versus USD 2 297 the year before.

Bananas

Global export of dessert banana production continues to grow, helped by a combination of higher yields and few or no exceptional weather events in the major production areas in Central America, the Philippines, Africa, the Caribbean and Europe.

2 000 000

Tonnes of bananas China imports annually

The Philippines, which primarily supplies the Asian market, records a sharp increase in production, a record in 2019, with almost 4 million tonnes exported, a growth of almost 20% versus 2018. The country has become a major global supplier, second only to Ecuador, which exports almost 6.5 million tonnes, mainly due to the growth in consumption and imports in Asian markets. Nowadays, China imports bananas in large volumes, almost 2 million tonnes per year, from Ecuador, the Philippines and other countries, such as Colombia, which are diversifying their marketing. China now serves as a barometer for the international market.

World production, import and consumption are in equilibrium, with green shelf life, the time it takes to get bananas into the shops after harvest and logistic handling, at no more than 30 days.

However, the discovery of new infestation foci of the *Fusarium* disease, 'Tropical Race' 4 (TR4), has provoked great uncertainty about global banana production. TR4 has become widespread in areas of major production, such as the Philippines (since 2005) and Colombia (2019). It is a soil fungus that infests roots, ultimately leading to the death of the plant. And, as the soil remains contaminated, the same plant can no longer be grown on the site. As a consequence, it is important for producers of 'Cavendish', the most widespread commercial variety of banana, to adopt the right procedures to limit the uncontrolled spread of the disease, which could disrupt the global market in the short or medium-long term. At the same time, most research institutes and plant material suppliers are working on resistant varieties.

The Fusarium disease, 'Tropical Race' 4 (TR4), has provoked great uncertainty about global banana production.

The four-year fall in import prices for green bananas in Europe has come to a standstill, with an annual average price rise of almost 3% in 2019 compared with 2018. Modest as it may be, this turnaround is certainly welcome.

For Plantations J. Eglin, the average FOB Europe selling price of bananas ended at EUR 500 per tonne in 2019, an improvement of 4% compared to the previous year. Regional sales revenue FOB is EUR 416 per tonne, up 5% compared to 2018.

Further analysis reveals various factors that help generate an understanding of the risks and opportunities in Europe, which continues to be the biggest market for bananas from all producing countries, well ahead of the United States:

- A continual rise in consumption has been observed for almost a decade. This has been fueled by population growth in the European Union (EU), due to new Union members, combined with a general increase in the consumption of fruit and vegetables as purchasing power improves.

- Historically good margins enjoyed by importers, distributors and exporters/producers have been eroded, and 2018 prices were in line with the global average. Europe is no longer a niche market, with limited spot speculation due to the introduction of some annual sales contracts.

- The euro is the currency of commerce in the EU, whereas the extensive banana production area based in Central and South America prices its production and transport in US dollars. As a result, there is a major foreign exchange impact.

- Bananas from the African, Caribbean and Pacific (ACP) Group of States and, of course, the EU are exempt from any import duties. There has also been a slow but constant easing of customs duties on ‘dollar banana’ imports from EUR 176 per tonne 15 years ago to EUR 82 per tonne in 2019, to achieve EUR 75 per tonne in 2020. It is important to stress that duties cannot be reduced further without affecting the competitiveness of ACP and EU bananas.

Indonesia

Indonesia is the largest palm oil producing country with 43.3 million tonnes in 2019. With an estimated 57 million hectares of agricultural land, farming has long been the backbone of Indonesia's economy. Indonesia shows a 5.0% GDP growth increase, the lowest annual rate since 2016.

The SIPEF Indonesian operations are arranged across four provinces. The Head Office in Medan gives the regional offices the responsibility for planning, organising and managing the daily estate operations.

North Sumatra

1. Timbang Deli
2. Bandar Sumatra
3. Kerasaan
4. Eastern Sumatra
5. Citra Sawit Mandiri
6. Toton Usaha Mandiri
7. Umbul Mas Wisesa
8. Tolan Tiga

South Sumatra

1. Melania (Rubber Estate)
2. Agro Rawas Ulu
3. Agro Muara Rupit
4. Agro Kati Lama
5. Dendymarker Indah Lestari

Bengkulu

1. Agro Muko
2. Mukomuko Agro Sejahtera

West Java

1. Melania (Tea Estate)

82%

The Indonesian operations represent 82% of the total planted area of SIPEF

86%

The Indonesian subsidiaries contribute 86% to the SIPEF palm oil gross margin in 2019 (61% in 2018)

+42%

The FFB yield of the new developments of Musi Rawas increases by 42%

-20.5%

Rubber production decreases by 20.5% due to Pestalotiopsis (leaf blight) and extended wintering

-37%

Since 2017, the use of pesticide spray treatments is reduced by 37%

68 433 HA

- 88% Palm oil
- 9% Rubber
- 3% Tea

PALM OIL

Own production: 919 919 tonnes FFB
Outgrowers production: 24 362 tonnes FFB
6 palm oil mills

RUBBER

Own production: 5 496 tonnes
Outgrowers production: 831 tonnes
3 rubber factories

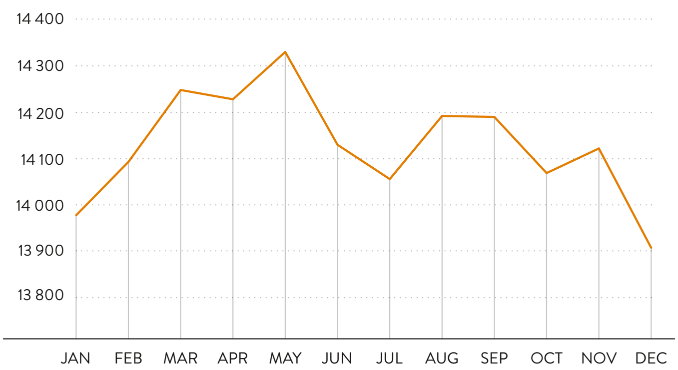
TEA

Own production: 2 331 tonnes
Outgrowers: none
1 tea factory

1. Country introduction

INDONESIA	SOURCE: THE WORLD FACTBOOK
Capital city	Jakarta
Total area (+ world ranking)	1 904 569 km² (Ranked 16)
Border countries	Malaysia 1 881 km, Papua New Guinea 824 km, Timor-Leste 253 km
Population	267 026 366 (July 2020 est.)
Growth rate	0.79% (2020 est.)
Urban population rate	2.27% annual rate of change (2015-20 est.)
Life expectancy (M/F)	Male: 71.1 years / Female: 76.5 years
Age structure	0-14 years: 23.87% / 15-24 years: 16.76% / 25-54 years: 42.56% / 55-64 years: 8.99% / 65 years and over: 7.82%
Major language(s)	Bahasa Indonesia, English, Dutch, local dialects (of which the most widely spoken is Javanese) Note: more than 700 languages are used in Indonesia
Major religion(s)	Muslim 87.2%, Protestant 7%, Roman Catholic 2.9%, Hindu 1.7%, Other 0.9% (includes Buddhist and Confucian), Unspecified 0.4%
Main natural resources	Petroleum, tin, natural gas, nickel, timber, bauxite, copper, fertile soils, coal, gold, silver
Currency	Indonesian rupiah
2019 inflation rate	3.03%
GDP (2017 est.)	Agriculture: 13.7% / Industry: 40.9% / Services: 45.4%

EXCHANGE RATE GRAPH: INDONESIAN RUPIAH TO US DOLLAR FOR 2019



1.1 Economic and financial overview

President Widodo won the April 17 election, defeating opponent Prabowo Subianto with 55.5% of the vote. The incumbent president's campaign focused on human capital development and the country's large-scale infrastructure rollout, as well as efforts to increase foreign investment and diversify the economy away from a reliance on natural resources. President Widodo's victory came amid a difficult economic environment globally, with the trade war between the US and China leading to a slowdown in commerce and demand across the region. The International Monetary Fund (IMF) and the World Bank both cut their 2019 growth forecasts from 5.2% to 5.0%, the lowest annual rate since 2016.

SOURCE: OXFORD BUSINESS GROUP – INDONESIA: YEAR IN REVIEW 2019

The Indonesian rupiah currency is seen trading at an average of 14 000 to 14 400 per US dollar this year. "Bank Indonesia wants to maintain stability but also to stimulate economic growth starting this year," Warjiyo, Governor of the central bank, told a hearing of lawmakers, adding that the bank expected annual growth of 5.05% in gross domestic product (GDP) in 2019, and 5.3% in 2020. "All the bank's policy instruments are set to support economic growth by maintaining the inflation and foreign exchange stability."

SOURCE: REUTERS

1.2 Special topics

Drought

Regions in at least 11 southern Indonesian provinces, some of which have gone more than seven months without rain, are expected to see the prolonged dry spell continue until December, another sign of changing weather patterns in the country. Climate variability analysis head of the Meteorology, Climatology and Geophysics Agency (BMKG), Indra Gustari, said an anomaly had been observed this year, marked by the lateness of the rainy season that would not come until late November or December in southern Indonesia, including Java, Bali and Nusa Tenggara. This contrasts with most of Sumatra and Kalimantan, which are expected to see their rainfall peak over the same period. "There are two factors: First is the weak El Niño phenomenon that we observed from the middle of last year until July this year. However, a more dominant factor is the relatively low sea surface temperature, a global phenomenon known as the positive Indian Ocean Dipole (IOD) [...], which was similar to El Niño but it occurred in the Indian Ocean instead of in the Pacific Ocean. The IOD, also known as the Indian Niño, is an irregular oscillation of sea surface temperatures in which the western Indian Ocean becomes alternately warmer and then colder than the eastern part of the ocean. It has three phases: neutral, positive and negative. A positive IOD, which is currently being observed, means the eastern Indian Ocean, that is Indonesia's waters, is cooler while the western waters near Africa are warmer. This phase tends to cause droughts in Indonesia, as the low sea surface temperature slows down sea water evaporation and cloud formation, resulting in less rainfall. Climate change is believed to contribute to strengthening the intensity [of the phenomenon] as the average global temperature keeps rising," Gustari said.

SOURCE: CLIMATE CHANGE BRINGS WORST DROUGHT TO INDONESIA SINCE 2015. ARDILA SYAKRIAH. THE JAKARTA POST. SAT, NOVEMBER 23, 2019

Elections 2019

In the roughly twenty years since the fall of Suharto's authoritarian New Order regime in 1998, Indonesia has made considerable progress toward becoming a fully functional democracy — no small feat in a highly heterogeneous country of over 260 million people dispersed across more than seventeen thousand islands. The election campaigns, as well as the election's aftermath, were highly divisive due to the prevalence of religion-based identity politics and the political polarisation of the candidates' supporters. Prabowo ran an ultranationalist hard-line campaign and allied with conservative Islamist groups that are seeking to expand Islam's role in public life. Jokowi campaigned on his first-term record of improving social programs and economic conditions, while also selecting the Islamic cleric Ma'ruf Amin as his running mate, to boost his credentials among those who prioritise religion in their vote. Jokowi is popular among urban and rural youth. He is considered as a 'clean' politician, close to the public and has a reputation of 'getting things done' in his previous positions as a mayor of Solo city and governor of the capital, Jakarta. His slogan since the 2014 election has been 'Work, work, work!'.

SOURCE: THE NATIONAL BUREAU OF ASIAN RESEARCH

Elections 2020

On 23 September 2020, a total of 270 regions in Indonesia, comprising nine provinces, 224 districts, and 37 cities, will hold regional elections. Regional heads in question include governor, regent, and mayor. Whilst the Company maintains a neutral position regarding political affiliation, the local elections have the potential to cause disruption to normal operations, as competing candidates often make grandiose claims and unrealistic promises to communities in exchange for votes. Issues surrounding land ownership, wages and workers' rights are popular campaigning platforms.

ELECTIONS (2019) -- General elections were held in Indonesia on 17 April 2019. For the first time in the country's history, the president, the vice president, members of the People's Consultative Assembly (MPR), and members of local legislative bodies were elected on the same day with over 190 million eligible voters.

ELECTIONS (2020) -- Local elections will be held in Indonesia on 23 September 2020. Voters in the elections will elect nine governors, 224 regents, and 37 mayors across the country. All the elections will be held on the same day, and over 100 million people are expected to be eligible to vote.

1.3 Country agriculture production figures

With an estimated 57 million hectares of agricultural land, farming has long been the backbone of Indonesia's economy. From small-scale farming to large commercial plantations, the sector employs around one-third of the workforce, is an important source of income for local households and has contributed much-needed export revenue. Partly as a result of adopting business-friendly initiatives, the sector has been able to attract necessary investment, which in turn is helping to bridge structural gaps. However, there remains a number of challenges, including slow adoption of mechanisation and vulnerability to climate change. Rural income is predominately generated by small-scale growers who lack access to finance and technology, which limits their commercial viability. Nevertheless, the country's vast areas of arable land and extensive marine resources, combined with a thriving technology innovation ecosystem, offer significant potential for long-term, value-added expansion.

COMMODITY	LOCAL PRODUCTION	CONSUMPTION
PALM OIL	40.6 million TONNES	12.6 million TONNES
RUBBER	3.8 million TONNES	0.6 million TONNES
TEA	141 000 TONNES	92 000 TONNES

2. SIPEF operations in Indonesia

Challenge of controlling wildfires

The impact of drought was felt to a greater or lesser degree across all of Tolan Tiga's growing areas across North Sumatra, Bengkulu, South Sumatra and West Java during 2019. Whilst all estates have fire-fighting resources, trained fire-fighters and a documented series of alert stages linked to the number of days without rain, the impact of the drought was most keenly felt in the South Sumatra region, where SIPEF experienced the burning of approximately 3 190 hectares with costs incurred to patrol, manage and control fires at USD 303 000. The bulk of the fires was centred on the new acquisition of Dendymarker Indah Lestari (DIL) where 2 556 hectares were burnt. The vast majority of these fires were deliberately lit by disgruntled communities, with villagers often influenced by political provocateurs. Lingering historical resentments and frustrations regarding lack of Plasma (smallholder) development and unresolved land claims were also used as reasons for people to set fires as a way of expressing their dissatisfaction.

Challenge of Hak Guna Usaha (HGU) renewal

The renewal process of the HGU, the legal right to work and cultivate on land, is directly controlled by the Indonesian state. An HGU is granted for a period up to a maximum of 35 years and may be extended for a maximum period of 25 years. After more than two years of waiting, the Indonesian Government finally passed the moratorium on oil palm plantation permit policy in September 2018. The policy is contained in Presidential Instruction (Inpres) No. 8/2018. One of the four agendas defined within the regulation is whether the permit holders have fulfilled their obligations, which include the allocation of 20% of the total plantation to Plasma and the development of High Conservation Value Forest (HCVF) areas.

The Plasma requirement applies directly to the recent developments in South Sumatra, but is however also presently a highly topical issue in Bengkulu and ultimately for the North Sumatra estates whose renewals are due to start within the next few years. In response to the published regulations, SIPEF established a Smallholders Department with a department head based in Medan and regional management structures to plan, organise and manage the many complexities of securing the required Plasma hectares.

The biggest current challenge is for the Bengkulu region, which has a combined HGU hectarage of approximately 23 000 hectares, wherefore 4 600 hectares of Plasma land will need to be associated. For that specific region, four concepts are being considered, namely:

1) Existing *Kebun Masyrakat Desa* (KMD): These village schemes that currently form part of the Bengkulu supply base qualify as part of the Plasma requirement.
2) New planting/replanting: Interested communities or individuals will form partnerships with the Company, which will assist in developing or replanting their land.
3) Purchase of fruit: The Company will partner with existing smallholders and enter into a fruit purchasing arrangement in return for their agreement to add their land area to the registered Plasma supply base.
4) Provision of seedlings: The Company will provide discounted oil palm seedlings to communities that wish to develop their own land, in return for their agreement to add their land area to the registered Plasma supply base.

With each of these evolving concepts, there is a number of issues surrounding sustainability, legality of land ownership, fiscal feasibility and community engagement, which require tact, patience and diplomacy to navigate and negotiate.

Impression of new oil palm developments in South Sumatra

2.1 North Sumatra

40%
of total planted land area

5 038
Workers

148
Staff

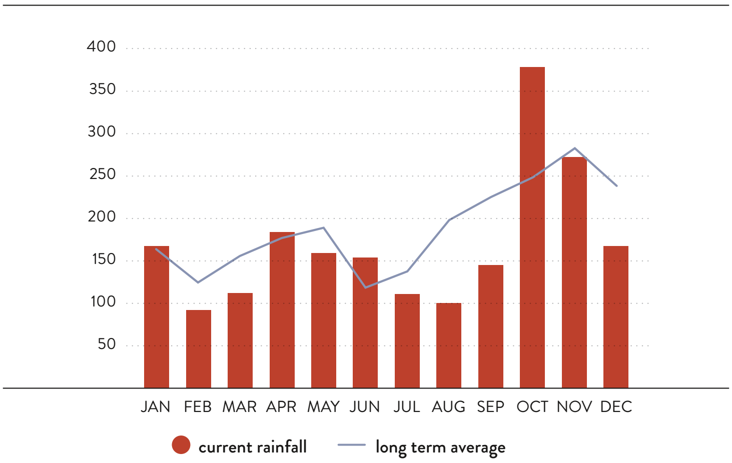
27 401
Hectares covered by 10 estates

With management responsibility for 8 oil palm estates, 3 palm oil mills, 2 rubber estates and 2 rubber factories, North Sumatra represents over half of the fresh fruit bunches (FFB) production of the total Indonesian operations. The 10 estates of North Sumatra cover 27 401 hectares, or 40% of the total planted land area, and employ 148 staff and 5 038 workers.

2.1.1 Rainfall

The rainfall versus the long-term average for all 10 estates across North Sumatra averaged out at 2 041 mm versus 2 259 mm for the year, **a deficit of 10%**. Whilst the overall picture does not appear too serious, there was considerable local variation across the different parts of Sumatra and estates suffered between **2-5 months with rainfall below 100 mm**, the accepted limit below which oil palms begin to suffer stress from soil moisture deficit. It is likely that the Group will experience yield reductions in 2020 and 2021 as a result of these periods of moisture deficit, with the impacts being more pronounced in the older palms compared to the younger palms.

AVERAGE RAINFALL (IN MM)



2.1.2 Oil palm estates

COMPANIES	PALM PLANTATIONS	MATURE HA	IMMATURE HA	FFB (TONNE) 2019	FFB (TONNE) 2018	YIELD 2019 FFB/HA (TONNE)
PT KERASAAN	KERASAAN	2 316.65	0	54 422	51 659	23.49
PT EASTERN SUMATRA	BUKIT MARADJA	2 647.02	451.03	56 844	57 578	21.48
PT TOLAN TIGA	PERLABIAN	3 985.10	548.45	104 063	108 003	25.98
	TOLAN	3 614.15	0	96 887	105 593	26.81
PT CITRA SAWIT MANDIRI	CITRA SAWIT MANDIRI	1 693.64	52.42	39 152	35 127	23.12
PT TOTON USAHA MANDIRI	TOTON USAHA MANDIRI	1 134.95	0	25 494	24 664	22.46
PT UMBUL MAS WISESA	UMBUL MAS WISESA NORTH	2 601.22	0	53 735	56 110	20.66
	UMBUL MAS WISESA SOUTH	4 446.18	0	81 154	92 162	18.25
TOTAL		22 458.91	1 031.90	511 751	530 897	22.79

Overall FFB yields in 2019 dropped by 4% compared to the previous year at 511 751 tonnes from 530 897 tonnes. One of the main contributing factors was due to a steep drop in production within the UMW-TUM group of estates of approximately 20% compared to management targets. It is believed that the significant decline experienced in these estates is due to nutritional issues associated with the complex chemical and textural properties of the highly organic soil. The Company has been working closely with SIPEF's research partner, Verdant Bioscience Pte Ltd (VBS), to find a solution, and the necessary adjustments to the fertiliser regime, related to potassium and certain micronutrients, namely copper, zinc and boron, will be made in 2020. Besides these nutritional issues, some crop loss was also experienced during the first and last quarters of the year in the same estates, where road conditions were badly damaged due to heavy rainfall and localised flooding, resulting in problems with access, harvesting and crop evacuation.

CITRA SAWIT MANDIRI

PT Citra Sawit Mandiri (CSM) estate is located two hours' drive to the north of the UMW-TUM group and comprises 1 746 hectares, of which 1 694 hectares are mature and 52 hectares immature. Due to the legacy issues on this partly organic soil estate linked to the development and planting dates, as well as the ongoing process of attaining the cultivation licence (HGU), CSM is not currently certified to the standards of RSPO.

Considerable progress was made in 2019 towards achieving HGU, involving close coordination among the PT Tolan Tiga legal and corporate affairs department, the estate team and Government authorities. The requirement to secure 20% of the potential HGU hectarage as Plasma was also managed during the year, to the point where the HGU is expected to be received within the first semester of 2020.

These promising developments have encouraged the Company to consider investigating the possibility of RSPO certification for this valuable asset, and it is hoped that this option will be pursued following the successful achievement of the HGU.

CSM is a productive estate which follows the best management practices in organic soils and has seen yields improve significantly over recent years, to the point where it achieved an average yield of 23.12 tonnes FFB per hectare in 2019. It is hoped that the estate can soon be added to Tolan Tiga's sustainable and certified supply base.

WORKERS

The labour situation has remained stable in the North Sumatra region with no significant industrial relations problems faced by the estates. In 2019, the regional minimum wage increased by 9.7%, putting upward pressure on the costs and driving the increased focus on efficiency and reducing labour numbers. Labour availability across the oil palm and rubber estates remains good. Relationships between the Company and the Workers' Union remain constructive and amicable, supported by monthly meetings to enable issues to be resolved in a timely way. Every estate continues to operate a successful Workers' Co-operative where it manages and administers supermarket-style shops, as well as sourcing and providing contract or seasonal labour. Each year, profits from the Co-op, following an AGM and audit, are distributed as a dividend to the members, comprised of the workers.

The biometric finger printing technology instigated last year has now been extended to all estates within North Sumatra. It allows the management teams to more accurately capture attendance of seasonal labour. With the support of the IT department, the uploading of data directly into the Company software system is now done, increasing the integrity, accuracy and reliability of the previously hand-written information.

In line with Company policies, 33% of all workers' houses received full repairs and maintenance during the year and this was further supported by maintenance to schools, mosques, churches, community halls and other ancillary buildings to ensure that the workers and their families enjoy safe, comfortable and secure housing and facilities.

FERTILISER

The manuring program for all estates was completed by year-end in line with recommendations. Availability of adequate manpower and storage capacity, well-maintained field access and timely delivery of fertilisers enabled the estates to complete the work on time, despite some restrictions to the timing of applications during the prolonged dry spell. The fertiliser recommendations for all areas are provided by VBS, based on the nutrient analysis of leaf and rachis samples as well as soil properties and nutrient status, to provide the optimum economic response to applications of fertiliser. This is the single most expensive input in estate upkeep costs.

The compost plant at Bukit Maradja POM, which was commissioned in 2017, continued to operate well during 2019. Approximately 1 361 hectares in

Bukit Maradja estate received compost during the year and the field application rate for the compost was increased from 10 tonnes/hectare in 2018 to 15 tonnes/hectare in 2019. This increase in compost application was combined with a reduction in inorganic fertiliser application rates from around 7 kg of fertiliser per palm down to 2 kg per palm. It is expected that an additional benefit of the compost application will be an enriching of the soil quality and it is hoped that a subsequent yield improvement of up to 2 tonnes FFB per hectare will be achieved.

In Perlabian estate, the application of Empty Fruit Bunches (EFB) continues in designated fields as recommended by VBS at a rate of 40 tonnes per hectare. Certain inorganic fertilisers like muriate of potash (MOP) are reduced where EFB is applied.

PESTS AND DISEASES

The year of 2019 remained relatively free of major pest attacks across the region, with minor occurrences of nettle caterpillar and bagworm detected by regular census operations, which were in turn managed in line with the Company's integrated pest management (IPM) policies. The biggest pest challenge remains at Kerasaan Estate, which is host to an endemic area of nettle caterpillar infestation covering 300 hectares. Intense management focus has been continued to provide adequate resources of manpower, equipment and treatment of affected palms, as well as the additional planting of beneficial flowers. These flowers act as hosts for predators to the pests, combined with the mass rearing and release of predator insects. We are seeing evidence that the strategy is working with falling populations of pest larvae detected by the census teams. Maintaining vigilance and discipline over a long period of time is crucial if we are to get on top of this issue once and for all.

In terms of diseases, the biggest risk to the older estates remains that of basal stem rot (BSR) caused by the fungus *Ganoderma boninense*. This debilitating disease is fatal once the palm is infected, and in the worse affected areas, up to eight palms/hectare/year are being lost. In recent years, the Company has taken an aggressive approach to this disease. Intensive land preparation techniques before and during replant are undertaken, combined with the rapid establishment of the cover crop, *mucuna bracteata*, followed by a 1-year fallow period in an attempt to break or at least interrupt the fungus' life cycle. 'Gano-tolerant' planting material was planted in the most susceptible estates 2014-2016, and now that these palms are mature, the presence of *Ganoderma* is being tracked very closely. The use of antagonistic and beneficial fungi such as *Trichoderma* and the soil improver Rhizoplex is also being used in the armoury against this virulent fungus.

REPLANTING

As part of the Company's ongoing replanting program to replace old, tall and poorer performing oil palms with new, high-yielding planting material, a total of 278 hectares was replanted in 2019, consisting of 173 hectares in Perlabian and 105 hectares in Bukit Maradja. With the low palm oil commodity prices experienced during the year and the projected drop in financial results, the difficult decision was taken at budget time to postpone the 2020 replants for the region and focus capital expenditure on the new developments in South Sumatra. As a result, the felling of palms ahead of the one-year fallow period and the ordering of seed for the nurseries was stopped.

2.1.3 Rubber estates

COMPANIES	RUBBER PLANTATIONS	MATURE HA	IMMATURE HA	RUBBER (TONNE) 2019	RUBBER (TONNE) 2018	YIELD 2019 RUBBER/HA (TONNE)
PT BANDAR SUMATRA	BANDAR PINANG	939.09	171.01	972	1 383	1.040
PT MELANIA	MAS PALEMBANG	1 874.27	926.12	2 379	2 976	1.285
TOTAL		2 813.36	1 097.13	3 351	4 359	1.203

Overall rubber production in 2019 fell by 23% compared to the previous year, at 3 351 tonnes from 4 359 tonnes dry rubber.

The main contributing factor for this severe decline in production was the spread of leaf blight caused by the Pestalotiopsis fungus which resulted in severe defoliation, and this condition combined with prolonged wintering affected the trees' ability to produce latex. The spread of the disease has occurred within Indonesia as well as neighbouring rubber producing countries, and of more concern is that at the present time, there is no effective treatment for the disease. The general lack of research investment into rubber means that a plant breeding solution in terms of resistant varieties is unlikely in the near future and, at this stage, The Group is maintaining close communication with SIPEF's research partner, VBS, to find a viable treatment.

The presence and treatment of white root disease remains under control at <1% across Bandar Pinang and MAS estates and is also being closely monitored.

Besides the above, the opening of tapping panels in the newly matured areas was delayed due to depressed commodity prices, which also contributed to the decline in production. With low rubber prices experienced throughout the year, the management teams have been proactive in focusing on worker numbers and making reductions by increasing productivity and task sizes, as well as curtailing non-essential functions of the estate.

The postponement of the rubber replants in Bandar Pinang and MAS Palembang estates in 2019 has also been extended into 2020 due to the ongoing low rubber commodity prices. Whilst this action is based on expediency, it has a significant negative impact on yields, as bark reserves on the trees run out and slaughter tapping becomes increasingly ineffective. Provision has been made on the estates to continue with felling and land preparation, to ensure a supply of rubber wood to fuel the smoke houses, as well as to ensure that the high agronomic standards of disease prevention for white root disease are maintained. In this way, the land is well prepared and ready for when replanting recommences.

2.1.4 Palm oil mills

PALM OIL MILL	BUKIT MARADJA			PERLABIAN			UMBUL MAS WISESA		
CAPACITY (TONNES FFB/H)	30			55			40		
	2018	2019	Variance (%)	2018	2019	Variance (%)	2018	2019	Variance (%)
Actual throughput	29	30	+3.50	51	53	+3.90	40	41	+2.50
FFB processed (TONNE)	109 237	111 901	+2.40	213 596	200 950	-5.90	173 207	161 033	-7.00
Oil Extraction Rate (%)	23.68	23.91	+0.23	21.82	21.84	+0.02	24.01	23.75	-0.26
Kernel Extraction Rate (%)	5.51	5.08	-0.43	5.62	5.68	+0.06	3.92	3.76	-0.16

BUKIT MARADJA PALM OIL MILL (BMPOM)

This mill receives the fruit from Bukit Maradja and Kerasaan estates and, in 2019, there was a 2.4% increase in FFB processed compared to 2018, with an overall gain in oil extraction rate (OER) of 0.23% and a decrease in kernel extraction rate (KER) of 0.43%. A total of 22 345 tonnes of compost was produced in 2019, compared to 17 787 tonnes of compost in 2018. 2019 has very much been a year of improving the efficiencies in the composting systems and practices at the site, in close co-ordination with the site's technology providers Compost Advice and Analysis (CAA). This has resulted in improving the compost production ratio from 16.28% to FFB in 2018 to 19.97% to FFB in 2019. The plan remains to replace the inorganic fertiliser requirements for Bukit Maradja estate.

PERLABIAN PALM OIL MILL (PLPOM)

This mill receives the fruit from Perlabian and Tolan estates and in 2019, there was a 5.92% decrease in FFB processed compared to 2018, with an increase in OER of 0.02% and an increase in KER of 0.06%. The engineering department continued to plan for the future improvement of the boiler water treatment system in 2020. Fruit from the old Marihat 'Dumpy' plantings (16% of the supply base) with OERs of around 18% is still affecting the OER at Perlabian Mill, whereas the fruit from the other planting materials was achieving and exceeding OERs of 23%, as expected. The replacement of the 'Dumpy' planting material is being targeted as a priority. The bioreactor methane capture system has operated well during the year, with the methane currently either being used in the boiler or flared.

Silos for bulk storage of palm kernels

UMBUL MAS WISESA PALM OIL MILL (UMWPOM)

This mill receives the fruit from Umbul Mas Wisesa South (UMWS), Umbul Mas Wisesa North (UMWN) and Toton Usaha Mandiri (TUM) estates and RSPO certified smallholders. In 2019, there was a 7.03% decrease in FFB processed compared to 2018, a decrease in OER of 0.26% and in KER of 0.16%. This decrease in performance was very much related to lower bunch weights and lower oil content in the fruit. The bioreactor methane capture plant operated well during the year.

One of the key compliance issues of the *Hak Guna Usaha* (HGU) or cultivation licence for UMW is the Company's commitment to buy smallholder fruit. Work has continued with its smallholder supply base during 2019, where RSPO certification was achieved for part of the smallholder supply base in early 2018. This has given the opportunity to add their fruit to the certified estate supply base, as well as providing ongoing support, training and extension services to its surrounding communities. It means that all fruit processed by the UMW mill is RSPO certified and the palm products have been declared as identity preserved (IP), attracting the premiums enjoyed by the other mills in the Group.

In 2019, Umbul Mas Wisesa Mill transported and applied more than 30 000 tonnes of EFB to Perlabian Estate at a total cost of more than USD 300 000. Several options were considered by the engineering department for converting this waste product into a value-added product and eventually it was agreed that the production of bio-coal pellets would be the best option, from both an operational point of view, and also provide a sufficient return on investment.

In 2020 Umbul Mas Wisesa Mill will produce biocoal pellets, that therefore, in 2019, will add an estimated additional revenue of more than USD 300 000 per year and make a return on investment after five years.

2.1.5 Rubber factories

RUBBER FACTORY	BANDAR PINANG			MAS PALEMBANG		
CAPACITY (TONNES RUBBER/H)	1.50			1.50		
	2018	2019	Variance (%)	2018	2019	Variance (%)
Actual throughput	1.54	1.24	-19.48	1.56	1.56	0.00
Rubber processed (TONNE)	1 893	1 402	-25.96	2 267	1 852	-18.27

BANDAR PINANG RUBBER FACTORY (BPRF)

The factory still processes the latex and second grade rubber from both Bandar Pinang and Timbang Deli estates. It performed below management expectations in 2019 with production of ribbed smoked sheets (RSS) at 1 402 tonnes compared to 1 893 tonnes in 2018 or a 25.96% decrease. RSS production is lower than expected, due to defoliation of the rubber trees by Pestalotiopsis (leaf blight) and extended wintering.

MAS RUBBER FACTORY (MASRF)

This factory, which still processes the latex from the MAS Palembang estate, performed below management expectations in 2019, with production of RSS at 1 852 tonnes compared to 2 267 tonnes in 2018 or a 18.27% decrease. RSS production is lower than expected, also due to defoliation of the rubber trees by Pestalotiopsis and extended wintering.

2.2 Bengkulu

32%
of total planted land area

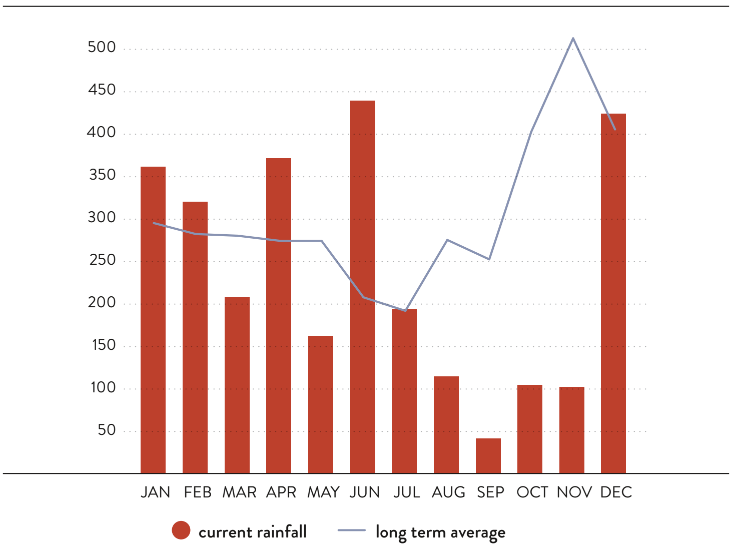
4 406
Workers

138
Staff

21 475
Hectares covered by 12 estates

With management responsibility for 11 oil palm estates, 2 palm oil mills, 1 rubber estate and 1 rubber factory, Bengkulu represents over a third of the FFB production of the total Indonesian operations. The 12 estates of Bengkulu cover 21 475 hectares or 32% of the total planted land area, employing 138 staff and 4 406 workers.

AVERAGE RAINFALL (IN MM)



2.2.1 Rainfall

The actual rainfall versus the long-term average across the Bengkulu region averaged out at 2 840 mm versus 3 665 mm for the year, a deficit of 23%. The weather pattern in this more southern region of Sumatra was somewhat different from that experienced by the estates to the north. The overall rainfall during the first semester was generally supportive of palm growth and crop production, but a very distinct and severe dry spell was felt across the region from August to November, where monthly totals were at or below the threshold for inducing soil moisture deficit conditions. It is very likely that yield reductions in 2020 and 2021 will be experienced, as a result of these periods of moisture deficit, with the impacts being more pronounced in the older palms compared to the younger palms.

2.2.2 Oil palm estates

COMPANIES	PALM PLANTATIONS	MATURE HA	IMMATURE HA	FFB (TONNE) 2019	FFB (TONNE) 2018	YIELD 2019 FFB/HA (TONNE)
PT AGRO MUKO	SUNGAI KIANG	1 646.10	295.96	28 709	31 751	17.44
	TALANG PETAI	1 715.43	406.84	35 351	42 685	20.61
	TANAH REKAH	2 106.12	937.60	53 970	68 070	25.63
	MUKOMUKO	2 810.52	860.32	68 293	61 368	24.30
	SUNGAI BETUNG	1 292.16	0.00	29 643	29 568	22.94
	BUNGA TANJUNG	2 312.19	0.00	42 297	49 494	18.29
	AIR BIKUK	670.16	543.40	10 608	15 356	15.83
	AIR BULUH	2 170.79	0.00	46 512	51 446	21.43
PT MUKOMUKO AGRO SEJAHTERA	AIR MANJUNTO	881.60	95.95	10 654	8 812	12.09
	MALIN DEMAN	616.51	15.25	13 194	11 608	21.40
	SUNGAI TERAMANG	249.45	105.64	2 346	940	9.40
TOTAL		16 471.03	3 260.96	341 577	371 098	20.74

Overall FFB yields in 2019 dropped by 8% compared to the previous year, at 341 577 tonnes from 371 098 tonnes. The shortfall in crop production against last year's performance and management targets for 2019 was predominantly due to the four-month dry spell experienced during the second half of the year, which had a significant impact on the tall palms. As most of the estates across Bengkulu are approaching replanting, the age profile is biased towards older palms and, as a result, this region was harder hit by the drought than the other regions.

Nevertheless, OER in 2019 improved considerably compared to the previous year, mainly due to the enhancement of harvesting ripeness standards in the field and an improvement in crop quality delivered to mills; drastic reduction in ground crop levels following ongoing investment in transport resources; road stoning initiatives; the amalgamation of harvesting gangs to push efficiency; the impact of continuous replanting initiatives with improved planting materials, i.e. higher oil to bunch ratio; and drier weather patterns. especially during the third and fourth quarters of the year.

WORKERS

Worker availability in Bengkulu tends to be more challenging than in North Sumatra, due to the more remote and challenging terrain and the significant areas of taller palms there, which are physically and technically more difficult to harvest. As part of the strategy to manage these challenges, the methodology for setting standard daily productivity targets, as well as achieving premium payments for increased productivity, were reviewed and introduced during the year. This has enabled the Company's harvesters to become more productive, and increase their daily take-home pay, but it has had minimal impact on the production costs.

The relationship with the Workers' Union remains constructive in Bengkulu, and regular meetings between the Company and the Union are held. The concept of the Workers' Co-operatives providing supermarket shops and seasonal labour for short term contracts was introduced there last year and continued successfully throughout Bengkulu in 2019. The co-operative's financial records and performance for 2019 are currently undergoing the routine audit and the annual general meeting (AGM) will be held in March 2020, at which time the profits and dividend payments will be declared.

Migration of security services to Safeguarding Solutions Indonesia (SSI), a third-party security service provider, was established in April 2018 and rolled out across the whole Bengkulu region. In 2019, has seen the consolidation of the services, and security has been well under control and enhanced.

FERTILISER

The manuring program for all estates was completed by year end, in line with recommendations. Availability of adequate manpower and storage capacity, improved field access, and timely delivery of fertilisers enabled the estates to complete the program on time, despite the pressures of the drought during the second half of the year. The fertiliser recommendations for all areas are provided by VBS, based on the nutrient analysis of leaf and rachis samples, as well as soil properties and nutrient status. This is to provide the optimum economic response to applications of fertiliser, which is the single most expensive input in estate upkeep costs. A total of 52 506 tonnes of EFB was mulched across 1 613 hectares to improve soil amelioration, as well as provide an organic fertiliser supplement for sustainable palm growth.

PESTS AND DISEASES

Unlike North Sumatra, there is generally very little impact to the Bengkulu estates from pests or diseases, although vigilance must be maintained, as periodic attacks from the rhino beetle in some of the replants are experienced. There has also been an increase in rat activity resulting in damage across some of the Company's estates.

A program of establishing barn owl boxes was introduced during the year, with 130 boxes. Occupation of the boxes ranges from 50-70% and breeding pairs of barn owls are using the boxes, indicating some success for the program. Regular census work for rat damage before and after the establishment of the boxes will allow the Company to quantify the results and determine the success of the project. The Company IPM program is also followed in Bengkulu, whereby beneficial plants are planted in all replant areas to act as hosts for the predators to the known pests.

REPLANTING

As part of the Company's ongoing replanting program to replace old and poorer performing palms with new, high-yielding planting material, a total of 1 523 hectares were replanted on five estates in 2019. All the estates successfully completed their replanting program during the year. This was mainly due to an early start on the replanting program. Opportunity has been taken during the replanting exercise to improve the field accessibility and realignment, and the repositioning of the drainage system to enhance operational efficiencies and future mechanisation initiatives.

2.2.3 Rubber estate

COMPANIES	RUBBER PLANTATION	MATURE HA	IMMATURE HA	RUBBER (TONNE) 2019	RUBBER (TONNE) 2018	YIELD 2019 RUBBER/HA (TONNE)
PT AGRO MUKO	SEI JERINJING	1 455.23	287.31	2 143	2 569	1.472

Overall rubber production fell by 17% compared to last year, at 2 143 tonnes dry rubber from 2 569 tonnes dry rubber. Widespread infection leaf blight caused by the fungus Pestalotiopsis across the estate has severely impacted latex production, whereby excessive leaf fall became endemic throughout the estate. The recovery process was very slow, due to secondary infection and extended dry weather in the second half of the year, causing an extension of the usual wintering season. This double impact also prevented the estate from carrying out the normal stimulation rounds, which are a part of crop maximisation during a regular growing season. The ongoing postponement of replanting is also impacting production, because the yield of the remaining old trees is reduced, as the availability of bark is very limited in these areas. As with the other rubber estates, Sei Jerinjing (SJE) has also gone through a program of labour reduction to conserve and reduce costs as far as possible.

Replanting was postponed for 2019 due to the low rubber commodity prices, and the decision has also been taken to postpone replants in 2020 and focus the limited capital resources on the new developments in South Sumatra.

2.2.4 Palm oil mills

PALM OIL MILL	MUKOMUKO			BUNGA TANJUNG		
CAPACITY (TONNES FFB/H)	60			30		
	2018	2019	Variance (%)	2018	2019	Variance (%)
Actual throughput	59	56	-5.08	30	30	0.00
FFB processed (TONNE)	247 135	231 041	-6.51	137 461	123 852	-9.90
Oil Extraction Rate (%)	23.07	24.42	+1.35	22.76	23.53	+0.77
Kernel Extraction Rate (%)	4.90	4.69	-0.21	5.11	5.04	-0.07

MUKOMUKO PALM OIL MILL (MMPOM)

This mill receives the fruit from Mukomuko (MME), Sei Betung (SBE), Tanah Rekah (TRE), Talang Petai (TPE) and Sei Kiang (SKGE) estates. In 2019, there was a 6.51% decrease in FFB processed compared to 2018, and an overall gain in OER of 1.35%, but a decrease in KER of 0.21%. Improvement in fruit quality played a major role in the increase in OER in 2019, with more focus by management on addressing field related issues.

The biogas plant continued to function well during the year, with methane being used as a fuel source in the rubber dryers at Mukomuko crumb rubber factory (CRF), and also in the biogas generator to supply electricity to PT Perusahan Listrik Negara (PLN) and as required for internal use. During 2019, the biogas generator produced a total of 5 694 025 kilowatt hours of electricity, of which 1 972 940 kilowatt hours were exported to PLN and 3 721 085 kilowatt hours were used internally, which reduced the reliance on fossil fuels. This year, four estates (MME, TRE, SBE and SJE) have switched their electricity source from gensets to the PLN grid. This will result in significant additional savings to the business in the costs of diesel.

BUNGA TANJUNG PALM OIL MILL (BTPOM)

This mill receives the fruit from Bunga Tanjung (BTE), Air Bikuk (ABKE) and Air Buluh (ABE) estates. In 2019, there was a 9.90% decrease in FFB received compared to 2018, an overall gain in the OER of 0.77% and a decrease in KER of 0.07%. The mill was built, for historical reasons, with a throughput of 60 tonnes FFB per hour, but is operating at half capacity achieving 30 tonnes FFB per hour in 2019, which is in line with the throughput of 2018.

This mill did not see the same increase in OER as MMPOM, due to lower than expected fruit quality. FFB quality at BTPOM nevertheless improved in 2019 compared to 2018, with significant progress made by management to improve fruit quality. Mill processing performance was well controlled during the year, with oil losses well within acceptable parameters, and repair and maintenance programs followed in line with the schedule.

2.2.5. Rubber factory

CRUMB RUBBER FACTORY	MUKOMUKO		
CAPACITY (TONNES RUBBER/H)	0.50		
	2018	2019	Variance (%)
Actual throughput	0.53	0.51	-3.77
Rubber processed (TONNE)	3 302	2 669	-19.15

MUKOMUKO CRUMB RUBBER FACTORY (MMCRF)

This factory, which processes the latex and second grade rubber from SJE, as well as the second-grade rubber from MAS estate in Palembang, had a challenging year in 2019 due to lower production caused by defoliation of the rubber trees by Pestalotiopsis. The crumb rubber factory produced a total of 2 669 tonnes of rubber in 2019 against 3 302 tonnes in 2018, or a 19.15% decrease.

2.3 South Sumatra

3 698
Workers

25%
of total planted land area

17 048
Hectares covered by 10 estates

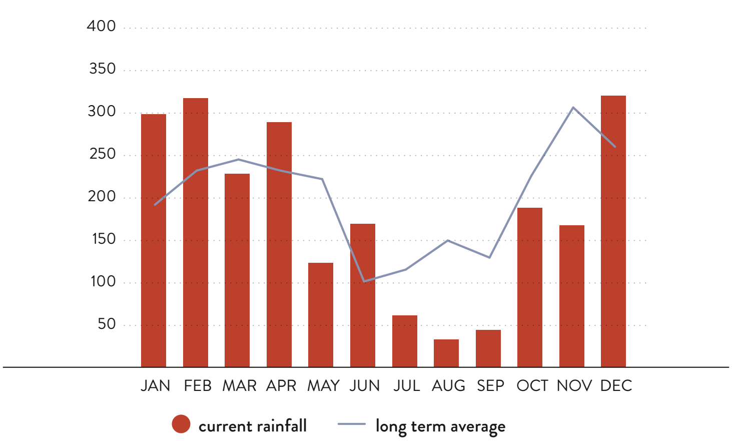
159
Staff

With management responsibility for 10 oil palm estates and 1 palm oil mill, the new development and rehabilitation projects of South Sumatra currently represent a growing percentage of the FFB production of the total Indonesian operations. The 10 estates of South Sumatra cover 17 048 hectares or 25% of the total planted land area, employing 159 staff and 3 698 workers.

2.3.1 Rainfall

The rainfall versus the long-term average across the South Sumatra region averaged out at 2 237 mm versus 2 401 mm for the year, a deficit of 7%. The weather pattern for South Sumatra was very similar to that experienced in Bengkulu, with a good first semester followed by a much drier second semester. It is expected that the negative impact of the drought on the younger palms on yield will be much less than in the taller palms of North Sumatra and Bengkulu. Another disadvantage of the long dry spell was that planting activities across the region were temporarily halted until rains picked up again in the last quarter.

AVERAGE RAINFALL (IN MM)



2.3.2 Oil palm estates

COMPANIES	PALM PLANTATIONS	MATURE HA	IMMATURE HA	FFB (TONNE) 2019	FFB (TONNE) 2018	YIELD 2019 FFB/HA (TONNE)
PT AGRO MUARA RUPIT	AMR W	364.07	1 698.07	1 915	0	5.26
	AMR E	737.71	1 513.07	3 692	1 374	5.00
	AMR S	0.00	0.00	0	0	0
PT AGRO RAWAS ULU	ARU W	342.64	600.98	2 344	1 532	6.84
	ARU E	487.88	752.54	5 852	2 269	11.99
PT AGRO KATI LAMA	AKL N	668.61	747.99	4 936	1 473	7.38
	AKL S	1 825.60	572.84	14 261	6 119	7.81
	AKL E	0.00	0.00	0	0	0
PT DENDYMARKER INDAH LESTARI	SEI LIAM	1 472.09	1 043.32	13 708	11 018	9.31
	SEI MANDANG	2 432.76	1 787.35	22 231	24 459	9.14
TOTAL		8 331.36	8 716.16	68 939	48 244	8.27

Overall, FFB yields in 2019 rose by 42% compared to the previous year at 68 939 tonnes from 48 224 tonnes. Despite the dry spell, the combined effect of an increasing mature area is being seen, as young palms start producing fruits (8 331 hectares mature in 2019 from 7 136 hectares last year) and young mature palms are increasing their yield. The advantage of removing older, less productive palms from Sei Mandang estate at DIL as the replant continues there is also being seen.

2.3.3 New development on the Musi Rawas estates

LAND COMPENSATION

Land compensation activities continued across all Musi Rawas estates during 2019, with progress affected by a number of influences including: increasing land price demands; management's reluctance to increase land compensation prices for the existing projects, due to the probable inflationary impact that would be seen in the new projects; landowners' unwillingness to sell plots containing rubber trees which are widespread in South Sumatra; as well as the significant impact on delays to the RSPO New Planting Procedure (NPP) requirements on the three newly acquired *Izin Lokasis*. Despite the challenges encountered, the teams on the ground remained committed and dedicated to securing land for development. The total land compensated during 2019 was 1 437 hectares, bringing the project total to 14 710 hectares. In addition to compensating land for planting of the *Inti* palms, land acquisition for Plasma also continued with another 75 hectares acquired during the year, bringing the total to date to 2 341 hectares.

PLANTING

Planting operations were closely linked to land compensation activities and land clearing operations. Some difficulties were encountered at the beginning of the year, as development was slowed by budgetary restrictions, which were subsequently lifted. The NPP process also hampered the efforts to clear and plant, and then the dry spell in the second half of the year also caused planting activities to be halted. Despite these restrictions, some 1 210 hectares were planted to *Inti* and 314 hectares planted to Plasma during the year, bringing the project totals to 10 312 hectares of *Inti* and 1 485 hectares of

Plasma to date. Both nurseries remained full to capacity during the year, carrying more than one million seedlings (enough to plant over 5 500 hectares), with the nurseries supplying seedlings to the Musi Rawas estates as well as the DIL replant and development.

UPKEEP AND INFRASTRUCTURE

As the projects make the transition from new developments into more settled, productive estates, there is the requirement to invest in and provide the necessary infrastructure to support the staff and workers in carrying out their daily activities, and ensuring that fruit can be effectively harvested from the field and transported to the mill. To that end, significant funds and effort were put into building roads, bridges and culverts, as well as investing in additional trucks to meet the rising crop performance. Growth in the building and construction programs across the emplacements was also seen at AKL (both the estate emplacement and RMO complex), at ARU and AMR. Staff and workers' houses were erected, as well as supporting buildings such as offices, fertiliser and material warehouses, mosques, pesticide sheds, fuel sheds and tanks etc. In addition to the normal estate infrastructure, new Government regulations also prescribe the building of fire watch towers, as well as wastewater treatment plants, in all of the estates. This program is also ongoing in South Sumatra, as it is across all of the PT Tolan Tiga Indonesia regions.

The status of progress with the Musi Rawas new development projects as at the end of December 2019 is as follows:

DESCRIPTION (HECTARE)	ORIGINAL PROJECTS				NEW PROJECTS				GRAND TOTAL
	AKL	ARU	AMR	SUB TOTAL	AMR 3	AMR S	AKL E	SUB TOTAL	
Izin Lokasi original	10 500	9 000	12 309	31 809	1 303	4 201	3 173	8 677	40 486
Izin Lokasi revised	6 590	5 712	11 532	23 834	1 303	4 201	3 090	8 594	32 428
OWN (INTI)									
Compensated area [1]	4 333	3 047	6 965	14 345	33	199	133	365	14 710
Identified area for development	163	173	785	1 078	510	1 551	1 155	3 216	3 542
Potential area for development	4 496	3 220	7 750	15 423	640	1 347	800	2 787	18 253
THIRD PARTIES (PLASMA)									
Incorporated area [2]	571	525	1 245	2 341	0	0	0	19	2 363
Identified area for development	328	119	305	752	109	351	257	717	1 427
Potential areas for development	899	644	1 550	3 093	109	351	257	717	3 790
TOTAL POTENTIAL AREA	5 395	3 864	9 300	18 559	652	2 101	1 545	4 298	22 043
TOTAL ACQUIRED AREA [1] + [2]	4 904	3 572	8 210	16 686	33	202	152	387	17 074
PLANTED/CLEARED									
Own planted	3 815	2 184	4 313	10 312	0	0	0	0	10 312
Third parties planted	573	407	505	1 485	0	0	0	0	1 485
Land cleared (not planted)	74	27	305	406	0	0	0	0	406
TOTAL PLANTED/CLEARED	4 462	2 618	5 123	12 203	0	0	0	0	12 203
% Secured area/acquired	91%	73%	62%	73%	0%	0%	0%	0%	71%
% Secured area/potential	83%	68%	55%	66%	0%	0%	0%	0%	55%
HEADCOUNT									
Estate staff	51	21	41	113	0	5	5	10	123
Estate workers	1 103	857	822	2 782	0	3	8	11	2 793
TOTAL EMPLOYEES	1 154	878	863	2 895	0	8	13	21	2 916

2.3.4 Rehabilitation at Dendymarker Indah Lestari (DIL)

Following the 2018 post-acquisition consolidation and steep learning curve required to start bringing this project towards normal Tolan Tiga standards and practices, 2019 saw an acceleration of investment, activity and progress across the two *Inti* estates of the DIL group. As the Company worked through many of the legacy issues from the previous owners, part of that activity was land compensation within it's the HGU. During 2019, 75 hectares on Sei Mandang estate and 309 hectares on Sei Liam estate were completed. This is where there is a portion of land (2 000 hectares) to the northeast with considerable encroachment and a high degree of social conflict that has involved resolving some long outstanding and previously ignored grievances from the local communities. These conflicts, combined with the impacts of the drought, also had the effect of slowing down the replanting and planting activities. But despite this, a total of 1 868 hectares were planted during the year.

There are 36 staff and 905 workers across the DIL estates and mill, and 2019 also saw a high degree of investment in the ongoing construction of the central emplacement complex, with the building of 4 manager houses, 7 staff houses, 38 double labour quarters, several other buildings, warehouses and fire watch towers.

The final element of the rehabilitation is the restructuring and replanting of the Plasma on Sei Rupit estate (SRE). This is a complex issue involving hundreds of individuals from the nine surrounding villages representing the 2 781 planted hectares. A time consuming but vital process of community engagement continued during the year to ensure that full 'Free, Prior and Informed Consent' (FPIC) is achieved. Moving forward, the South Sumatra team supported by the Medan Head Office senior management resources has made significant progress in preparing a Plasma business model in consultation with the local communities. It is expected that this will be rolled out across the region in the early part of 2020. This positive action leading to solid, long-term and sustainable development is expected to be the most effective tool to rebuild trust and a constructive relationship between the Company and the surrounding communities.

The research and verification of land ownership, drafting of memoranda of understanding (MOUs) and the roles and responsibilities of both the Company and Plasma members have been negotiated and socialised during the year, and it is expected that the first replanting will take place on SRE in 2020.

2.3.5 Palm oil mill

PALM OIL MILL	DENDYMARKER		
CAPACITY (TONNES FFB/H)	20		
	2018	2019	Variance (%)
Actual throughput	20	20	0.00
FFB processed (TONNE)	47 934	73 784	+53.93
Oil Extraction Rate (%)	18.02	20.67	+2.65
Kernel Extraction Rate (%)	4.05	4.07	+0.02

DENDYMARKER PALM OIL MILL (DMPOM)

This mill receives the fruit from Sei Liam, Sei Mandang, Sei Rupit, Agro Muara Rupit, Agro Rawas Ulu East, Agro Rawas Ulu West, Agro Kati Lama South and Agro Kati Lama North estates. In 2019, there was an increase of 53.93% in FFB processed compared to 2018, an overall increase in oil extraction rate of 2.65% and an increase in KER of 0.02%. As crop quality parameters from the Musi Rawas estates improved and there was a corresponding reduction in the supply of 'dura' fruit from Sei Mandang as the replant progressed.

2.4 West Java

3%
of total planted land area

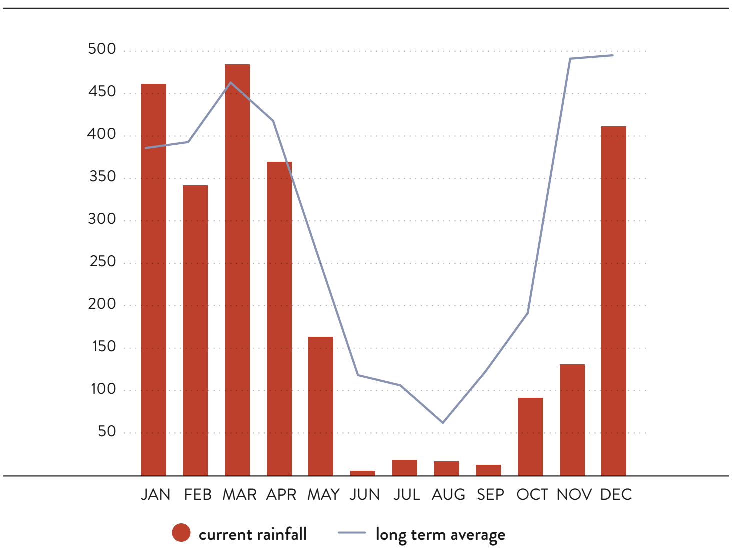
1 729
Workers

15
Staff

1 768
Hectares covered by 1 estate

With management responsibility for 1 tea estate and 1 tea factory, the activities in Java currently represent a very small percentage of the production of the total Indonesian operations. The tea estate in Java covers 1 768 hectares or 3% of the total planted land area employing 15 staff and 1 729 workers.

AVERAGE RAINFALL (IN MM)



2.4.1 Rainfall

The rainfall versus the long-term average for Cibuni was 2 519 mm versus 3 519 mm for the year, a deficit of 28%. Rainfall in West Java for the first five months of the year was reasonably well aligned with the normal long-term average. Then there was an extreme dry spell from June to November, causing tea leaf yields to drop dramatically. The tea crop generally requires 2 mm of rain and five hours of sunshine per day to be at its most productive and, whilst sunshine hours were not an issue, the shortage of water certainly was.

TEA PLANTATION	MATURE HA	IMMATURE HA	TEA (TONNE) 2019	TEA (TONNE) 2018	YIELD 2019 TEA/HA (TONNE)
CIBUNI	1 735.10	33.09	2 331	2 422	1.344

2.4.2 Tea estate

Overall tea production fell by 4% compared to last year at 2 331 tonnes from 2 422 tonnes. Production of tea has been impacted over the last two years due to prolonged dry spells in the second semester.

Upkeep and pruning practices have been followed in line with the Company's SOPs and plucking rounds have been well maintained during the year. A combination of low yields and poor commodity prices is seriously impacting the profitability of the tea enterprise.

WORKERS

The management team has worked on a number of initiatives to increase operational efficiencies. These include: increasing plucker productivity whilst maintaining tea quality; identification and re-training of less skilled pluckers; continuing to reduce worker numbers in non-core activities to cut costs and improve discipline and task allocation. The year-on-year increase in provincial minimum wages over the last three years has averaged out at just over 9%, and expectations for 2020 are an increase of 8.6%, which is awaiting ratification by the provincial authorities.

Relationships with the Workers' Union remain cordial and constructive, and the current negotiated collective agreement between the Company and the union remains valid until December 2020.

The Cibuni Workers' Co-operative has been operating since January 2016. The shop supplies the main consumable requirements for the workers and the Co-op profit for 2019 was 7% above last year's performance.

FERTILISER

The estate applied 1 114 tonnes of fertiliser against a full recommendation of 1 023 tonnes, a surplus of 9%. A portion of this fertiliser was carried over from 2018 and, in turn, part of the actual 2019 was not able to be completed due to the long drought.

PESTS AND DISEASES

Cibuni continues to engage the services of Dr Suzanne Neave, a visiting consultant from The Centre for Agriculture and Bioscience International (CABI), managed through SIPEF's research partner VBS. Her work is proving an invaluable resource to help the estate teams develop an IPM program from the wide and varied pests and diseases that infect the tea crop each year. The fundamentals of the IPM strategy are combining cultural, physical, biological and chemical controls together in a targeted way that is applied with a greater understanding of the lifecycle of each pest and disease. By following these principles, there has been a progressive reduction in the hectarage of pests and diseases treated (-18% from 2018 to 2019), as well as a reduction in chemical usage of 13% for the same period.

REPLANTING

The economic lifespan of tea is much longer than oil palm or rubber trees, with replanting taking place 80 years or more after planting. As a result, the hectares per year being replanted are much smaller than with the other commodities and in 2019, some 12 hectares were replanted and another 18 hectares were scheduled for replanting in 2020, as there are seedlings growing in the nursery and the land preparation for the fallow period has largely been completed.

2.4.3 Tea factory

TEA FACTORY	THROUGHPUT		TONNES TEA		
	RATED	ACTUAL	2018	2019	VARIANCE (%)
CITF	0.86	0.86	2 422	2 331	-3.76%

CIBUNI TEA FACTORY (CITF)

The factory processed 11 210 tonnes of green leaf to produce 2 331 tonnes of made tea in 2019. This compares to 11 288 tonnes of green leaf to produce 2 422 tonnes of made tea in 2018 or a 3.76% decrease compared to 2018.

2.5 Medan Head Office and services departments

During 2019, the executive team in Indonesia continued to be led by the president director, Adam James, who has occupied the position since 2011. He is supported by the senior executive management team consisting of directors and heads of department, collectively known as the executive committee (ExCom). ExCom meets monthly to review progress across a range of performance indicators and to guide Company strategy in response to social, environmental, business and legal influences and challenges. The ExCom meeting also forms the basis of communications across the large geographical spread of the Indonesian operations and the varying number of departments and disciplines.

2019 saw the departure of the director of sustainability and marketing who was replaced by a regional sustainability officer, who brings with him a wealth of experience in sustainability management as well as close associations with the RSPO. 2019 also saw the recruitment of a new position of regional director estates department to support the vice president estates department in field visits, administration and strategic planning for the expanding operations throughout Indonesia. The Indonesian executive team comprised 601 staff by the end of December 2019, an increase of 5% over the 2018 figure of 570, as the Company continued to grow and expand during the year. Gender representation remains one of the key focus areas for all the Indonesian operations, and 2019 saw 88 of the executive positions filled by women (15%). Of the 601 executive staff, 12 are expatriates and the balance 589 Indonesian nationals. Motivation, company spirit and team building remain important pillars of SIPEF's business in Indonesia, and there are several activities during the year aimed at bringing the diverse and geographically spread teams together. These events include an annual managers' meeting, which in 2019 was held in Medan; a family day and shared picnic; blood donor drives; and an annual dinner, where highly valued prizes for innovations or contributions to Company success are awarded. There is also a new annual format of holding a staff tennis tournament and a staff golf tournament to promote networking, camaraderie and some healthy inter-regional competition. The 2020 competition will be held at Agromuko, and the 2021 event will be held at Musi Rawas. Each of the regions also arranges monthly social gatherings, known locally as 'arisans', where staff and their families share food, entertainment and stories of their work, lives and experiences. In a further development to staff facilities, the Company continues to work on the establishment of two additional golf courses in Perlabian and Musi Rawas, to add to the existing course at Agromuko.

The rolling two-year **cadet training program** continues to be successful, ensuring that there is an ongoing succession plan in place. The scope of the cadet scheme continues to include engineering and office administration positions. Between 2011 and 2019, 295 cadets were recruited. To date, 209 are still working with the Company, a success rate of 71 %. There are currently 90 cadets working their way through the two-year program, either as utility assistants (47) or on three-monthly rotations (43). The balance of 119 executives are confirmed in their positions around Company estates and mills. In April 2020, the plan is to engage another 45 cadets, consisting of 34 for the field and 11 for office assistant positions. The engineering department advises that there are currently enough cadets working their way through the system, so the department does not require any additional personnel.

71%

Success rate of the cadet training program

The provision of appropriate medical care to all employees and their dependents remains a key concern of our **medical department**, and at the end of December 2019, some 35 285 people (the workers and their dependents) were registered as participants in the national health and insurance scheme BPJS. The 24 Company polyclinics have been registered as part of the BPJS framework, and the network is supported by 8 visiting doctors and 45 paramedics. The Company doctor, who works out of an office and small clinic at Medan Head Office, also advises ExCom regarding statistics on reportable diseases, sick pay and all associated health issues. During 2019, the medical department performed annual medical checks for 2 276 workers in the high-risk category, those working with pesticides, herbicides, exposed to dust, noise etc., and routine medical check-ups for 6 706 workers in the non-high-risk category.

35 285

People (the workers and their dependents) were registered for national health and insurance

Starting in 2019, the management, recording and reporting of the Company's occupational health and safety programs have been the responsibility of the **safety manager**, who has a reporting line to the director of engineering. The safety department has a network throughout the regions of experts whose role is to check, inform, train and manage all aspects of performing tasks safely in the workplace.

The **quality department**, which was established in 2016, has the responsibility of leading and guiding the Company's quality management system, using the ISO 9001 framework. Certification was achieved in May 2018 and this was followed by a successful surveillance audit in 2019, where certification was maintained. The benefits across the organisation of following the simple maxim of 'write what we do and do what we write' will continue to yield a level of standardisation and introspection to drive continuous improvement.

The **internal audit department** continues to perform its essential role to provide independent assurance that the Company's risk management, governance and internal control processes are operating effectively. In 2019, permanent teams of internal auditors were established across the three regions, where they have been able to give full-time, regular and targeted attention to checks and audits on the sites. Results of routine audits, as well as registered grievances and whistle-blower investigations, are presented and discussed on a quarterly basis at senior executive level.

In response to the 20% Plasma requirement for both Company new developments and existing estates at the time of HGU renewal, **a separate smallholders department** was established during 2019 to centralise, coordinate and guide this evolving process. Each region in turn has established a smallholders' team, and several concepts are being devised to enable local communities to participate in Company business, in a mutually beneficial way, within the requirements of the Indonesian legal framework as well as RSPO commitments.

The legal and corporate affairs department plays a hugely important and influential role in the Company's activities. The department has a wide-ranging portfolio, that includes managing legal compliance for all licences and permits; having responsibility for interpreting and implementing all new regulations handed down by national and local governments; managing the complexities of land registration as well as fielding all criminal and legal cases; whilst at all times maintaining relationships with government, police, army and a wide range of interested stakeholders.

With the increasing importance of **Information Technology** (IT) in business, and the need to stay safely connected across different countries and time zones, the IT team in Medan maintains regular contact and communications with the Head Office IT team in Antwerp related to a numerous ongoing projects.

Group of participants in the 'bootcamp' at the start of the two-year training programme for young talent

Verdant Bioscience Pte Ltd (VBS)

Verdant Bioscience Pte Ltd (VBS) is a joint venture company, established in October 2013, with the primary objective of developing high yielding F1 hybrid oil palms, together with other supporting technologies. These underpin the potential for significant yield and productivity enhancements in the global palm oil industry. SIPEF's investment in this company is not only to secure access to these high yielding oil palm varieties but also to deliver a very significant world-wide sustainability benefit. Increasing yields per unit area is considered the only real solution to meeting the world's growing demand for vegetable oil without increasing oil palm planted areas, which is likely to increase the risk of rainforest and biological diversity loss. Oil palm is already the world's highest yielding vegetable oil, but there is still the physiological potential to at least double yields per hectare. Such a potential yield increase is unique for a crop of oil palm's world economic significance.

The VBS operating company, PT Timbang Deli Indonesia, started to produce and sell oil palm seed for the Indonesian market in 2019. The seed

palms (clones and seedlings) to produce this commercial seed were imported from the New Britain Palm Oil Development Ltd renowned Dami Oil Palm Research Station, Papua New Guinea. Verdant is the first Indonesian seed producer to market semi-clonal seed, using clones produced by a tissue culture process as female seed palms. The production of semi-clonal seed allows Verdant to produce selected elite crosses in commercial quantities, which have been extensively tested by Dami in both Papua New Guinea and Indonesia. Other seed producers are currently producing many hundreds of different crosses for commercial sale, resulting in significant variation in both yield and growth performance.

As a significant VBS shareholder, SIPEF has partnered with the company to test their candidate oil palm commercial varieties on its Sumatran estates. As VBS's breeding programme develops, new highly selected commercial materials will become more responsive to different environments and management conditions. It will be possible for the Company to lever greater value from its VBS shareholding by being able to select new varieties which are proven on its estates, and to monitor the performance of the new planting materials. The progress in increasing yields will mainly come from increasing the percentage of palm oil in the fruit bunches rather than increasing the fresh fruit bunch (FFB) yield per hectare. It is therefore essential that SIPEF gains early management experience on how to manage, harvest, transport and mill these new materials.

Verdant's agronomists and crop protection staff also work with SIPEF estate management staff to provide recommendations for realising the potential of existing plantation assets, primarily by increasing yields per hectare. As generally >50% of an estate's direct costs are fertiliser, there is great emphasis on optimising the fertiliser recommendation to achieve the maximum return of investment, and the fertiliser recommendation for major and minor nutrients is tailored for each individual field. The recommendation is largely based on the nutrient status of a representative sample of oil palm plant tissue samples collected on an annual basis and analysed at Verdant's in-house laboratory at Timbang Deli. Long-term fertiliser trials have also been set up on representative soils of each region, so that fertiliser recommendations may be further refined for the specific growing conditions, based on the results from objective science.

Trials are also in progress to ensure that maximum value is gained from the PT Eastern Sumatra Indonesia (ESI) compost bunker facility. The objective is not only to provide an organic fertiliser to provide the necessary nutrients but also to improve the 'health' of the soil. Moreover, the composting system is an aerobic process, and therefore there is no release of greenhouse gasses (GHG). Long-term Verdant field trials are in progress on estates, which are demonstrating that 'soil health' increases significantly following compost application. The soil health is assessed objectively using microbial genomics techniques to assess microbial diversity in the soil rhizosphere. Increases in microbial diversity following compost application have already demonstrated improved nutrient uptake, and compost is also expected to reduce the risk of soil disease infection, for example *Ganoderma*. The objective of these compost field trials is to quantify the value of this organic fertiliser, and to assess the optimum application rates and frequency of application.

Headquarters of the 'Verdant Plantation Science Centre' in Timbang Deli, Indonesia

Verdant works with the Tolan Tiga estate management team to develop effective integrated pest and disease management strategies, to prevent and control commercial losses in oil palm, rubber and tea. The emphasis is therefore on biological control with only minimal use of pesticides, and to ensure these pesticides only target the pests and diseases causing the losses. For sustainable solutions to crop protection issues it is essential that the ecology of the estate is maintained and broad-spectrum pesticides are not blanket sprayed.

The photograph shows a drone image of the Verdant Plantation Science Centre at Timbang Deli at the end of 2019. SIPEF has provided the necessary equity finance for a modern science centre at Timbang Deli estate, with offices, laboratories, accommodation and supporting infrastructure. The site has been developed within the Verdant rubber and oil palm plantation and overlooks rice paddy fields. Part of the first oil palm seed garden is shown at the top left. SIPEF currently also provides Verdant with facilities at Bukit Maradja estate for their oil palm crop protection work and for the production of an antagonistic fungus (Trichoderma) as a biopesticide for Ganoderma disease prevention. Ganoderma results in the highest disease losses to oil palm in Southeast Asia, and is a significant threat when first and subsequent generations of oil palm are replanted.

Papua New Guinea

Papua New Guinea is the ninest largest palm oil producing country worldwide with 0.51 million tonnes in 2019. Agriculture in Papua New Guinea contributes 15% of the foreign exchange inflow. The GDP growth for 2019 is 5.6% and is the highest of all Pacific nations.

Hargy Oil Palms Ltd is currently managing three groups of plantations, each with its own mill and associated smallholder supply base. All three are located north from Bialla township, along the north-west coast of the island of New-Britain.

17%

The operations in Papua New Guinea represent 17% of the total planted area of SIPEF

4%

Hargy Oil Palms Ltd generates 4% palm oil gross margin in 2019 (31% in 2018)

42%

Smallholders contribute 42% of the total FFB supply to HOPL mills

-24%

FFB yield decreases with 24% due to the very wet season and the three volcanic eruptions

20%

Hargy Oil Palms Ltd represents close to 20% of Papua New Guinea's total palm oil production

28 259 HA

- 49% own estates
- 51% smallholders

ESTATES

28 259 planted hectares
14 552 hectares own
14 076 hectares smallholders

MILLS

440 390 tonnes of FFB processed
3 palm oil extraction mills
23.37% average OER
1.97% average PKOER

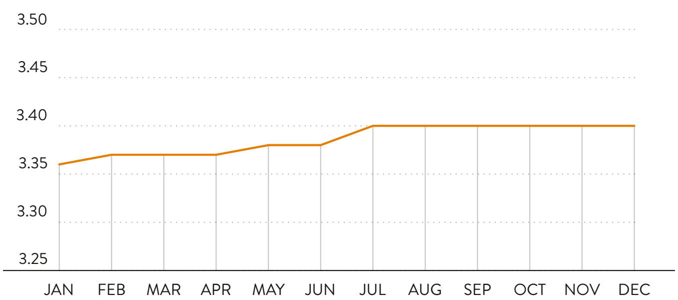
PALM OIL

100% RSPO certified palm oil production
102 837 tonnes palm oil
8 665 tonnes palm kernel oil

1. Country introduction

PAPUA NEW GUINEA	
Capital city	Port Moresby
Total area (+ world ranking)	Third largest island country with 462 840 km² (Ranked 54) -- *"Island Countries of the World" - www.worldatlas.com - Archived from the original on 7 December 2017 - Retrieved 10 August 2019*
Border countries	Shares a land border with Indonesia to the west (824 km) and maritime borders with Australia to the south, the Federated States of Micronesia to the north, the Solomon Islands and New Caledonia (France) to the east
Population	8.8 million
Growth rate	1.97%
Urban population rate	13% (2019) -- *www.worldometers.info*
Life expectancy (M/F)	Male 64 years / Female 68 years (2016) -- *www.who.int*
Age structure	0-14 years: 31.98% / 15-24 years: 19.87% / 25-54 years: 37.68% / 55-64 years: 5.83% / ≥ 65 years: 4.64% -- *www.cia.gov*
Major languages	English, Hiri Motu and Tok Pisin
Major religions	Christian (95.6%) -- *2011 PNG Census*
Main natural resources	Liquefied natural gas (LNG), oil, gold, copper ore, nickel, cobalt, timber, palm oil, coffee, cocoa, copra, spices (turmeric, vanilla, ginger and cardamom), crayfish, prawns, tuna, sea cucumber
Currency	Kina (PGK)
2019 inflation rate versus USD	3.9% -- *World Bank Group. PNG Facing Economic Headwinds. Jan 2020.*
GDP growth 2019	5.6%
GDP	USD 25 billion -- *World Bank Group. PNG Facing Economic Headwinds. Jan 2020.* Agriculture: 22.1% / Industry: 42.9% / Services: 35.0% -- *www.cia.gov - Retrieved 7 April 2019*
Elections State/Provincial Local Level Government	past: 2017 / 2017 / next: 2022 / 2022 past: 2019 / next: 2022
Current Papua New Guinea Prime Minister	30 may 2019 – The eighth Prime Minister of Papua New Guinea the Honourable James Marape was nominated, elected and sworn into office by the National Parliament on 30 May 2019. This was facilitated through a vote of no confidence against the former Prime Minister Peter O'Neill, who was at that time 251 days in office as Prime Minister.

EXCHANGE RATES: PGK VERSUS USD IN 2019



1.1 Economic and financial overview

The Papua New Guinean economy made an impressive economic growth upswing in 2019. Real gross domestic product (GDP) growth by early estimates is 5.6% (-0.8% in 2018), on the back of a rebound in the resource sector (gold and LNG production) and the disaster recovery from a 7.5 magnitude earthquake, which affected the highlands in 2018. This estimated GDP growth rate is the highest of all Pacific nations. Inflation has reduced down from 5% in 2018 and is estimated to be 3.9% for 2019, indicating a further

reduction into 2020. Inflation in 2019 has reduced due to a number of factors, including the appreciation of the kina against the Australian dollar; weakening in internal domestic demand; and anticipation of a reduction in the telecommunication costs, due to the roll out of the high-speed Internet sea cable in 2020. Agriculture in Papua New Guinea contributes 15% of the largest foreign exchange inflows, as compared to the finance and business sector at 16%, forestry at 9% and the largest contributor mining at 44%. Job growth at the current time and in recent years has only been active in the mining sector. Whilst it is important to note that the informal sector employs the vast majority of the working-aged, an estimated 2.5 million of a total of 3 million workers in Papua New Guinea, this is directly attributed to the low-productivity subsistence agriculture sub-sector, while the growth rate in the formal sector is in steady decline. The central bank recorded a 10% reduction from 2013 through to 2018.

Agriculture in Papua New Guinea contributes 15% of the largest foreign exchange inflows.

In 2019, due to the political changes at the national level the previous Governor of West New Britain Province, the Honourable Sasindran Muthuvel on 7 June 2019 took up the office of Minister for State Owned Enterprises under the newly formed 'Marape-Steven' Papua New Guinean Government. This resulted in the West New Britain Provincial Assembly, which met on 15 September 2019 electing Talasea member, the Honourable Francis Maneke, as the new Governor of West New Britain Province. Governor Maneke was elected unopposed following the swearing

1.2 Special topics

Natural disasters

This year Hargy Oil Palms Ltd (HOPL) has had an extraordinarily difficult full year with the worst wet season being experienced for twelve years in quarter one and the three subsequent volcanic eruption events of Mount Ulawun, which impacted the second half of the year.

Rainfall for the first quarter was on average 1.6 times as much as the last three years' average. The full year rainfall was still 1.17 times as much as the last three years' average, the last quarter being drier than the last three years' average. Navo estate recorded 6 989 mm per annum, Hargy estate 5 823 mm and Pandi estate 5 174 mm. As a consequence, a number of bridges were either washed away by flood waters or damaged over the year. Several wet crossings and bridges were closed for a few days as water levels increased, affecting general access and normal work operations. Replacement and repairs were required, which at times delayed removal of fresh fruit bunches (FFB) to the mills.

On the morning of 26 June, Mount Ulawun erupted and disrupted work for more than two weeks, while causing moderate to severe damage to several plantations, due to ashfall on the south and western sides of the volcano crater and wind direction. A second eruption occurred on the afternoon and evening of 3 August, with heavy ashfalls causing even more damage to plantations and some building structures, with work being disrupted for another two weeks. This eruption has been the most damaging to the business operations. A third and final eruption was recorded in the early morning hours of 3 October, and all employees were evacuated to Barema plantation for a third time. This eruption caused the least amount of damage and workers were repatriated back to their homes in just under a week.

in of the twelve Local-Level Government (LLG) Presidents. The LLG elections and swearing in of LLG Presidents was held in July 2019, with two results being of interest for the footprint of Hargy Oil Palms Ltd. Firstly, was the election of the President for Central Nakanai LLG, the Honourable Francis Kevin, representing the Silanga Ward, and the second the election of the President for Bialla, James Laula.

During the fourth quarter 2019 an independence referendum was held in Bougainville, known as an autonomous region within Papua New Guinea. HOPL employees of Bougainvillean descent who were registered, were encouraged to vote at this time in Bialla. The referendum question was a choice between greater autonomy within Papua New Guinea and full, outright independence. When the votes were counted this was recorded as an overwhelming 98.31% vote in favour of full independence from Papua New Guinea. However, this vote is non-binding and the Government of Papua New Guinea has the final authority on how this eventuates. The clear result of the vote makes this hard for the National Government to ignore; however, in reality that independence could take years to achieve.

This year Hargy Oil Palms Ltd (HOPL) has had an extraordinarily difficult full year with the worst wet season being experienced for twelve years in quarter one and the three subsequent volcanic eruption events of Mount Ulawun, which impacted the second half of the year.

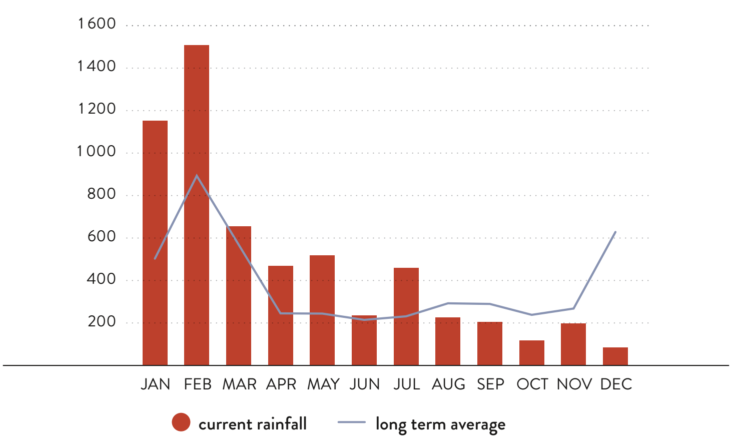
Work has been progressively under way to heavily prune, removing collapsed fronds and gradually rejuvenate these damaged palms back into full harvest. This, however, is a slow process due to the ash contamination within the palm frond butts and bases in and around the bunches, making pole harvesting slow and difficult for the harvesting employees. As a direct result of these natural disasters, the crop volumes are significantly down versus the estimates. HOPL estates have been more exposed and were well below the budget, while smallholders were a bit less affected but still below estimates.

The majority of the population of Papua New Guineans, approximately 80%, rely on the subsistence and formal agriculture markets for their main income and food production.

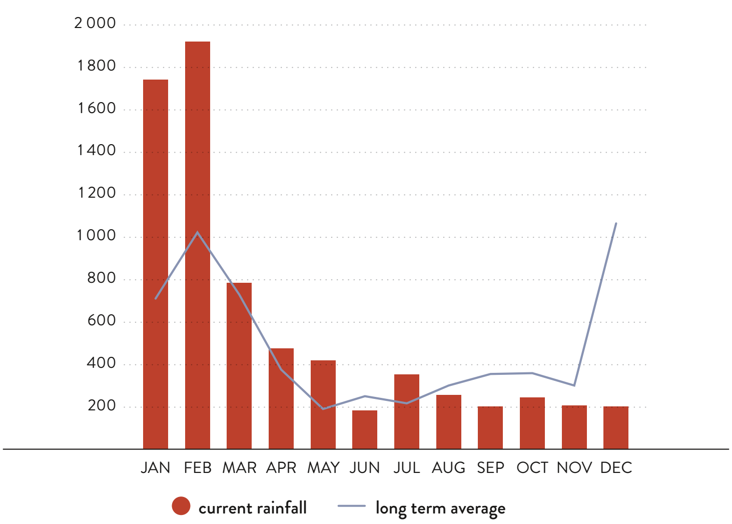
2. SIPEF operations in Papua New Guinea

HOPL has been operating in Papua New Guinea for a period of forty-one years. During 2019, the company produced a total of 440 390 tonnes of fresh fruit bunches (FFB), with plantations producing 255 515 tonnes and smallholders producing 184 875 tonnes. This was a yield reduction of 23.7% from the 2018 tonnages, mainly attributed to the multiple volcanic eruptions and the quarter one heavy rainfall.

HARGY ESTATE - AVERAGE RAINFALL (IN MM)



NAVO ESTATE - AVERAGE RAINFALL (IN MM)



The 2019 wet season started in December 2018 and continued until the end of March 2019. During that time HOPL experienced heavier rainfall than usual throughout the 'normal' wet season period. This rainfall occurred mostly in quarter one, as the overall rain days reduced from 255 in 2018 down to 234 days in 2019. However, this heavily impacted harvesting and, as a result, lowered the FFB quality. The remainder of the year, HOPL experienced average rainfall, except for a particularly drier than usual December, which meant a delay in the usual wet season for 2020.

The multiple eruptions of Mount Ulawun severely impacted the fertiliser programs at Navo estates, as due to workers being evacuated off-site for long periods, normal work was slow to restart after each eruption. There was an additional requirement, as a priority, to assess the status of the palms before commencing any fertiliser application, after the eruption ashfall caused moderate levels of damage on the palm leaflets. In August, it was also decided to delay 28% of the 2019 fertiliser into early 2020. Overall, a total of 6 742 tonnes of fertilisers were imported in 2019, comprising 693 tonnes (10.3%) of urea being imported specifically for use by HOPL's smallholders. The amount was lower than planned, due to the continually low FFB prices and the effects of the multiple volcanic eruptions. In-field application of empty fruit bunches (EFB) is continuous in designated fields at a rate of 40 tonnes per hectare, with priority being placed on newly planted palms, where EFB is applied inside the palm circle. This mulch provides a good source of nutrients; the organic matter maintains soil moisture and suppresses weed emergence and growth.

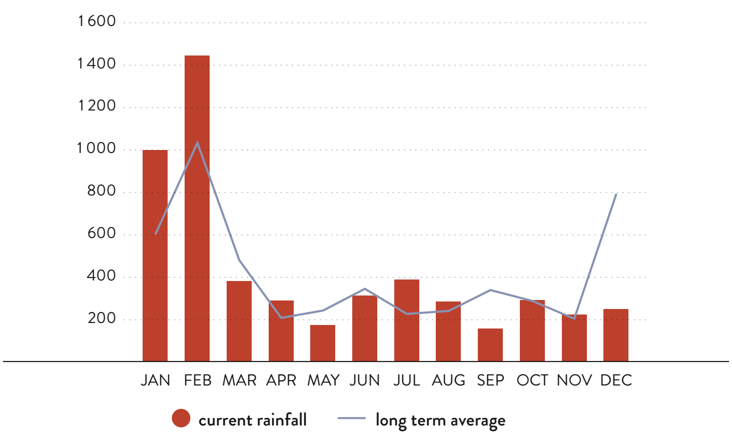
The main risk pests for oil palm planted in West New Britain Province are caused by two species of long-horned grasshoppers, also known as *Sexava*, *Segestes decoratus* and *Segestes defoliaria*, and the stick insect *Eurycantha calcarata*. The latter is less frequent in HOPL operations. These pests are voracious leaf eaters and can inflict mild to severe levels of defoliation in plantations and smallholder blocks, if not properly controlled. HOPL works in conjunction with the Papua New Guinea Oil Palm Research Association (PNG OPRA), which recommends a control treatment with an approved active chemical ingredient, if damage levels exceed thresholds.

HOPL was successfully Roundtable on Sustainable Palm Oil (RSPO) recertified in 2019, after the annual external audit by the British Standards Institution (BSI) as the certification body (CB). Zero non-conformances were received during this audit process. Only one observation was noted. An ISO14001:2015 audit was also conducted by Sustainable Certification in March and two minor non-conformances were issued. Corrective actions have been put in place and accepted by the auditing CB.

During 2019, there were no significant events or issues in conjunction with industrial relations matters. HOPL has completed the close of 2019 with 4 692 workers, made up of 3 547 males and 1 145 females. A decrease of 189 employees compared to the 2018 figure can be attributed to a cessation in new employment positions after the three volcanic eruptions, as only replacement of existing employee positions was approved.

The 2019 wet season started in December 2018 and continued until the end of March 2019. During that time HOPL experienced heavier rainfall than usual throughout the 'normal' wet season period.

PANDI ESTATE - AVERAGE RAINFALL (IN MM)



2.1 Estates

HOPL is currently managing three groups of plantations, each with its own mill and associated smallholder supply base, that represents a total of 28 259 planted hectares of oil palm.

The overall estates land bank is currently 13 707 hectares, of which 1 494 hectares are declared as immature plantings. This is part of HOPL's ongoing replanting program to replace tall and low yield performing palms with new high yielding planting materials called Dami 'Super Family' hybrids. A total of 351 hectares were replanted in 2019. Replanting operations were ceased at Hargy plantation after the second eruption of Mount Ulawun in August, due to considerable damage to the company nursery. Replanting operations recommenced again in December in one affected plantation of Navo estates.

Plantations recorded an average yield per hectare of 20.9 tonnes, while in 2018 this was 27.6 tonnes. This can be wholly attributed to the disruptions of the multiple volcanic eruptions and the quarter one wet season issues.

Due to the replanting and reorganising of existing plantations, a number of blocks, fields and divisions within the plantations have been reorganised within the new structure. Some plantation blocks have also been amalgamated to form management units of more or less the same average area. HOPL now comprises six plantations, each ranging between 1 800 to 2 800 hectares.

OWN ESTATES AND SMALLHOLDERS	MATURE HA	IMMATURE HA	FFB (TONNE) 2019	FFB (TONNE) 2018	YIELD 2019 FFB/HA (TONNE)	OIL YIELD 2019 (CPO+CPKO)/HA (TONNE)
OWN ESTATES	12 213	1 494	255 515	348 381	20.9	5.3
SMALLHOLDERS	13 825	727	184 875	229 135	13.4	3.4
HOPL TOTAL	26 038	2 221	440 390	577 516	16.9	4.3

2.1.1 Pandi Estate

PANDI ESTATE	MATURE HA	IMMATURE HA	FFB (TONNE) 2019	FFB (TONNE) 2018	YIELD 2019 FFB/HA (TONNE)
BAKADA PLANTATION	2 492	95	53 875	62 682	21.6
TOTAL	2 492	95	53 875	62 682	21.6

Over 100 kilometres north from Bialla township, Pandi estate has a total land area of 2 587 hectares grouped into one plantation, Bakada, of which 2 492 hectares are declared mature. The estate includes five lease-leaseback agreements, where the local landowners have obtained the land title and this land is then subleased via the State back to HOPL. These agreements are on a twenty-five-year basis. Overall, the 2019 yield was slightly up from the 2018 figure, as the young palms are maturing. Pandi estate is supplying all FFB produced directly to the NPOM supply base.

Although Pandi estate is closer in proximity to Mount Ulawun's crater summit, HOPL's palms, housing and buildings were totally unaffected by any ashfall, due to the prevailing winds during the eruption events. However, there were some disruptions to work activities after the first and second eruption of Mount. Ulawun, due to all employees and dependants being evacuated from HOPL's housing compounds to a designated government care centre.

Rainfall for 2019 in Pandi estate was slightly above the average ten-year annual rainfall by 232 millimetres. Quarter one was particularly wet; however, the remainder of the year the rainfall did not impact highly on limiting FFB production. Pandi estate has also benefited from HOPL's new fleet purchases of four additional Volvo 15 tonne hook lift trucks received in 2019. The new trucks will ensure a high outturn and availability for timely pickup of FFB crops from Pandi fields.

2.1.2 Navo Estate

NAVO ESTATE	MATURE HA	IMMATURE HA	FFB (TONNE) 2019	FFB (TONNE) 2018	YIELD 2019 FFB/HA (TONNE)
IBANA PLANTATION	2 792		43 090	79 482	15.4
ATATA PLANTATION	1 883		34 320	38 129	18.2
KIBA PLANTATION	1 895	77	40 896	58 690	21.6
TOTAL	6 571	77	118 306	176 301	18.0

Over 55 kilometres north from Bialla township, Navo estate is made up of 6 648 hectares and only 77 hectares of immature plantings, done in December on a less affected area. The estate comprises three plantations on state lease land, those being Atata, Kiba and Ibana. Overall, the 2019 yield was 18 tonnes per hectare, which was markedly reduced, down 11.2 tonnes from the 2018 figure. This yield impact reduction was mainly attributed to the effects of the multiple eruptions of Mount Ulawun in the second half of 2019, which severely affected the Navo plantations' operations. Navo estate is supplying FFB mainly to the NPOM mill supply base. At times, due to mill breakdowns and requirements, some FFB crop is sent to BPOM.

Navo estate has suffered from three ashfall events, and this has resulted in 950 hectares of oil palm during the first eruption and 2 932 hectares during the second eruption being declared as severely affected. Due to these numerous natural disasters, overall work was heavily disrupted and normal operations were the most severely affected within HOPL. The impacts and damage caused will take some time to correct the yield losses and damage to palms, and the consequential crop losses will be highly significant over at least the next two years in the disaster affected areas.

Rainfall for 2019 in Navo estate was slightly above the annual average. Quarter one was also particularly wet in Navo estate. However, the remainder of the year the rainfall did not impact highly on limiting FFB production, as this is essentially attributed to the eruption damage in the second half of 2019.

HOPL also has its seedling nursery located within Navo estate. This is a two-stage nursery and was working well with seedlings ready for planting at ten months of age. The seeds are only sourced from Dami high yielding planting material 'Super family'. Navo Nursery also suffered significant damage to the main nursery seedlings after all three eruptions. Due to the eruptions, a decision was taken to stop the current felling and planting operations until the end of 2019, and all seedlings in the nursery above 14 months were destroyed due to damage. The total area planted for 2019 was 351 hectares of Hargy and Navo estates, while smallholders planted a total of 312 hectares. In late 2019, a decision was also taken to close the nursery for the remainder of 2019 until mid-2020.

The entire population of Navo estates, employees and dependants (4 000), were temporarily given shelter at the dedicated Barema Care Centre (BCC) after each eruption.

2.1.3 Hargy Estate

HARGY ESTATE	MATURE HA	IMMATURE HA	FFB (TONNE) 2019	FFB (TONNE) 2018	YIELD 2019 FFB/HA (TONNE)
HARGY PLANTATION	1 250	1 322	33 036	42 305	26.4
BAREMA PLANTATION	1 900		50 297	63 654	26.5
TOTAL	3 150	1 322	83 333	105 959	26.5

Hargy estate currently consists of two plantations, Hargy and Barema. FFB production at Hargy plantation increased in 2019, 4.5% above estimation, due to the young immature palms starting to come into peak production. These palms are Dami 'Super Family' high yielding hybrid material and the planting was done to a high standard at 120 palms per hectare, with these palms now fully accessible and being harvested. Replanting in Hargy plantation began in 2015 and was supposed to be completed in 2020. However, due to interruptions in the nursery supply because of the eruption events, the replant has been partially postponed. Apart from that, the Mount Ulawun eruptions did not have any direct impacts on the field conditions or operations for Hargy plantation, for which a total of 274 hectares of the initially planned 430 hectares for replant was completed in 2019.

The Barema plantation crop 2019 yield was 26.5 tonnes per hectare, which was markedly reduced compared to the 2018 figure of 33.2 tonnes per hectare. This reduction can be attributed to high rainfall and flooding in quarter one, and also the disturbance from the Mount Ulawun eruptions. The entire population of Navo estates, employees and dependants (4 000), were temporarily given shelter at the dedicated Barema Care Centre (BCC) after each eruption. This has had indirect impacts on the overall operational activities within Barema plantation for the time that the care centres were operating.

Rainfall for 2019 in Hargy estate was 1 452 mm above the ten-year annual rate. Quarter one was also a heavy rain period in Hargy estate, with a couple of flood events experienced in Barema plantation.

2.1.4 Smallholders

OIL PLANTATIONS	MATURE HA	IMMATURE HA	FFB (TONNE) 2019	FFB (TONNE) 2018	YIELD 2019 FFB/HA (TONNE)
SMALLHOLDERS DIVISION 1	5 337	190	89 347	99 909	16.7
SMALLHOLDERS DIVISION 2	5 640	520	67 389	88 695	11.9
SMALLHOLDERS DIVISION 3	2 848	17	28 138	40 531	9.9
TOTAL	13 825	727	184 875	229 135	13.4

Smallholder hectares planted are sitting at 14 552 hectares. Yields were down, mainly from the smallholders in the Navo mill supply base, due to growers being absent from their blocks for a period of up to and over six months, as a result of the multiple volcanic eruption effects of Mount Ulawun.

HOPL smallholders consist of nearly 3 700 individual growers and they contribute 42% of the total FFB supply base to HOPL operating mills. The smallholder crop was 19.3% lower than the 2018 production. This can be directly attributed to the rainfall of the first quarter and the multiple volcanic eruptions, which occurred during the third quarter of the year. Smallholders within the northern division have been particularly affected by the eruptions, as they fled their villages and were residing in temporary care centres due to fear of further eruptions. As of the end of December, not all growers had returned to their villages, therefore abandoning their blocks for months.

As part of the replanting program, the Small Holder Agricultural Advisory Services (SHAAS) team, a section within the HOPL community affairs department, assisted in replanting 312 hectares in 2019, exceeding the annual target of 300 hectares. The SHAAS team has been working closely with the Oil Palm Industry Corporation (OPIC) and the Bialla Oil Palm Growers Association (BOPGA) for all matters pertaining to smallholder growers. In 2019, the SHAAS team was restructured to face the recurrent challenges from the smallholder sector. Training has been specially adapted to the smallholder environment and includes Training of Trainers (TOT), partially supported by some COLEACP funds. This was organised in August 2019, to develop new techniques to empower and teach adults, and to improve external sessions with growers.

Smallholders were planning to harvest on a fourteen-day harvesting cycle, although many growers in 2019 were not 100% compliant with this practice, resulting in a low frequency of harvesting, which in turn highly impacted the production volumes. Harvesting frequency for growers in 2019 was on average 15 actual harvest rounds, against the 26 planned. It remains an ongoing challenge for SHAAS to monitor the quantity and quality of FFB being sourced from smallholder blocks, which continue to harvest only once a month. Smallholder yield has also been directly affected by the continuing lower purchase of fertiliser by growers in previous years. The amount of fertiliser distributed is significantly lower than 2018 and can be attributed to the low farm gate price for FFB and the high price of fertiliser. The majority of the smallholders are unfortunately not taking the required quantities.

Pest and disease outbreaks were minimal in 2019 and are largely under control in most of the smallholder areas. A total of 311 hectares have been treated against *Sexava* grasshopper infestations. Both initial and follow-up pest treatment recommendations are done in partnership with PNG OPRA. There have been issues with some independent estates, where *Sexava* treatment has not been possible, due to the poor general state of the block and sanitation that was required before treatment.

The 2019 RSPO smallholder sustainability bonus payment for growers was agreed at kina 12.16 per tonne and will be paid out in late February 2020.

The smallholder transport department has also benefited from HOPL's fleet replacement of five new Volvo 15 metric tonne Palfinger crane fitted trucks received in 2019. The new trucks will ensure a high outturn and availability for timely pickup of FFB crops from HOPL growers.

2.2 Mills

PALM OIL MILL	HARGY			NAVO		
CAPACITY (TONNES FFB PER HOUR)	45			45		
	2019	2018	Variance (%)	2019	2018	Variance (%)
FFB PROCESSED (TONNES)	122 810	145 052	-15%	170 420	239 392	-29%
OWN	33 380	45 213	-26%	142 369	198 935	-28%
SMALLHOLDERS	89 430	99 839	-10%	28 051	40 457	-31%
CPO (TONNES)	27 944	34 540	-19%	39 841	58 277	-32%
PK (TONNES)	6 385	9 568	-33%	7 969	11 008	-28%
PKO (TONNES)	2 532	3 249	-22%	-	-	-
OER (%)	22.75	23.81	-4%	23.38	24.34	-4%
KER (%)	5.2	6.6	-21%	4.68	4.6	2%
PKOER (%)	2.06	2.24	-8%	-	-	-
TONNES PER HOUR	41.1	41.8	-2%	50.6	43.7	16%

2.2.1 Navo Mill

Navo palm oil mill (NPOM) was originally commissioned in 2002 with a milling capacity of 45 tonnes per hour. Currently the milling capacity has been increased to 50 tonnes per hour through the upgrading of the press machinery. Full year 2019 figures for extraction are oil extraction rate (OER) 23.38% versus 24.34% in 2018, and kernel extraction rate (KER) 4.68% versus 4.60% in 2018. The main constraints that affected the lower performance of OER as compared with the previous years were from the aftermath of the three eruptions of Mount Ulawun and also the destructive rainfall of quarter one. These issues affected FFB quality and disrupted milling operations. KER, although improved, was also affected by the additional immature FFB delivery from scout harvesting and the loss of loose fruits that could not be harvested, due to volcanic ash cover and consequent disruption of operations. Smallholder FFB constituted 16.5% of total FFB in 2019 processed by the mill. NPOM has an FFB supply base of 7 701 hectares of own estates and 2 215 hectares of smallholders.

Due to the subsequent short-term effects of the volcanic eruptions and the ash damage to palms, the planned upgrade of NPOM to 60 tonnes per hour capacity over a three-year phasing period, aimed at commissioning in 2021, has now been deferred to 2025. This capacity increase was initially needed as expected yield projections before the volcanic eruptions were showing the requirement for additional milling capacity. As a result of the upgrade delay, the major repair work for existing mill machinery has been split up over three years 2019-2021 and will ensure NPOM has smooth milling operations until upgrading mill project works commence.

Both OER and KER extraction rates have slowly started improving since October 2019 after the volcanic eruptions.

BAREMA			HOPL TOTAL *		
45			135		
2019	2018	Variance (%)	2019	2018	Variance (%)
146 856	192 562	-24%	440 087	577 005	-24%
79 420	103 868	-24%	255 168	348 015	-27%
67 436	88 694	-24%	184 919	228 990	-19%
35 050	47 870	-27%	102 835	140 687	-27%
7 430	9 834	-24%	21 784	30 409	-28%
6 133	8 456	-27%	8 665	11 705	-26%
23.87	24.86	-4%	23.37	24.38	-4%
5.06	5.11	-1%	4.95	5.27	-6%
1.93	1.96	-2%	1.97	2.03	-3%
41.6	42.4	-2%	44.83	42.8	5%

* small deviation with the total group production because certain tonnes of FFB have not yet undergone the entire milling process at the time of closing

2.2.2 Barema Mill

Barema palm oil mill (BPOM) was commissioned in 2014. This mill operational design includes two tilting sterilisers with a total 45 tonnes per hour milling capacity. The associated effluent treatment plant capturing the methane was initially underdesigned, and effluent ponds were constructed in 2017 and 2018 to enable the smooth processing of FFB at maximum capacity over a 24-hour period. BPOM also incorporates a kernel crushing plant rated to 120 tonnes per hour, enabling the processing of palm kernels produced by BPOM and NPOM. BPOM processed for crushing and extraction a total of 15 397 tonnes palm kernels versus 20 801 tonnes last year.

BPOM has an OER of 23.87% versus 24.86% in 2018 and a palm kernel oil extraction rate (PKOER) of 1.93% versus 1.96% last year. The main factors that influenced these lower levels of performance were the quarter one excessively high rainfall and the impact of the multiple volcanic eruptions. Some upgrading works are, however, planned in 2020 to maximise OER and PKOER.

BPOM installed and commissioned a second boiler in 2019, which is now operational. The field recycling conveyor and storage area were built in 2018 and into 2019, with the addition of an EFB chipper, which has been planned for 2020 for continued turbine operation hours after milling hours cease. This will also assist in the reduction of diesel consumption, as the need for diesel generated power will diminish. Power generation will be utilised for both mill use and for the employee houses and compound requirements.

Smallholder FFB processed by the mill constituted 46% of total FFB in 2019, which is the same as the previous year. BPOM has an FFB supply base of 3 498 hectares of own estates and 5 304 hectares of smallholders.

2.2.3 Hargy Mill

Hargy palm oil mill (HPOM) was originally commissioned in 1980, this being the first mill for HOPL operations. The overall performance of HPOM deteriorated in both OER and PKOER during 2019. Full year 2019 figures for extraction are OER 22.75% versus 23.81% in 2018 and PKOER 2.06% versus 2.24% in 2018. There were 6 385 tonnes palm kernels produced by HPOM for crushing and further processing versus 9 568 tonnes in 2018. Smallholder FFB processed by the mill constituted 73% of total FFB in 2019. HPOM has an FFB supply base of 2 508 hectares of own estates and 7 033 hectares of smallholders, with a combined contribution of 9 541 hectares.

The main limiting factor on extraction rates and throughput has been a reduction in the available FFB, due to extensive replanting that has been undertaken on Hargy plantation and the higher percentage of immature palms commencing into first harvesting. This has resulted in shorter milling hours and hence poor availability of steam to heat the processing tanks. Sterilisation vessels have also been impacted as a cause for the low OER. Some improvements, which are ongoing into 2020, have been made to tackle the issue of low OER. During 2019 the boiler number one re-tubing work and the automation of the fuel, draft and water intakes were completed to ensure continuous supply, improved operational efficiency and the supply of consistent steam pressure. The lower steam consumption, thanks to an efficient turbine, allows the storage of fuels, that being kernel and fibre shell, for the boiler to operate after milling hours and also be utilised for heating of the process tank and sterilisers for up to three hours before the milling operations begin.

3. Head Office and service departments

Graham King, after ten years as general manager for HOPL, decided to retire and departed from Bialla in late June. Since then, new management organisation has been introduced and an executive committee (ExCom) structure has been created. This is a team that works closely with the new position of chief executive officer (CEO) undertaken by Ian Winstanley, who has been working with HOPL since 2013, and in the capacity of head of plantations since 2015.

The ExCom replaced the previous heads of department titles, with general managers now all reporting directly to the CEO. All members of ExCom are now tasked with setting the strategic future of HOPL, and to monthly performance reviews against set key performance indicators (KPIs) per department.

The head of security is responsible for 370 guards who watch over all HOPL compounds, housing and facilities, mills, offices, the nursery and other high value assets.

The compliance department includes the evolution, implementation, maintenance and relentless improvement of the RSPO, the environmental management system (EMS) and ISO14001:2015 standards.

Due to the strict guidelines pertaining to land titles for smallholder growers in Papua New Guinea, HOPL, through the **community affairs department** lands section, has been active in conducting awareness activities to ensure their titles are formally and legally recognised. This includes support from extension officers to disseminate information related to land transfer applications, title replacements, deceased estates, tender applications and other information which the block holders require. Evidently, population pressure from the current Land Settlement Scheme (LSS) blocks is now becoming an issue, with a heavy burden on initial family members to sustain their livelihoods and those of their extended families.

A geographic information system (GIS) is responsible for all mapping and boundary demarcation for departments within HOPL. This includes palm census information for both plantations and smallholder departments, conservation area buffer zone mapping and plantation replant requirements. The HOPL satellite dataset was acquired in 2017, enabling all HOPL plantation blocks and road networks to 2017 to be digitised. This is currently much more convenient and cost effective, compared to the manual fieldwork that is involved in on the ground censuses or the use of drones. New updates to existing changes in relation to plantation blocks and associated hectarage are now captured utilising the high precision Trimble GPS receivers. At the time of replants, GIS assistance is provided through locating lease boundary pegs and identifying conservation buffers, so as to avoid any overplanting and non-conformance with RSPO. These are all requirements under the New Planting Procedure (NPP) of RSPO.

The community engagement team in 2019 faced many challenges, due to the first quarter unprecedented rainfall and the third quarter multiple volcanic eruptions. Several projects were rolled out, including the distribution to smallholders of Calopogonium seedlings, a legume cover crop, to assist with soil surface protection, control of weeds and improve soil fertility. Also distributed were Canarium sp. (Galip nut) seedlings, which can be utilised as an alternative food source and generate income for landowners. Training was given to raise the awareness and understanding of block holders and villagers of how to better manage their income and food security issues. It included financial literacy; family farming; oil palm net mending; and life skills training for women and unemployed youth, who were strongly encouraged to also attend to start up new small and medium enterprises (SMEs).

The construction department continues to use the new housing design system, which is working very well. Houses are built to a high standard, totally in-house within the construction factory, and moved in sections on the back of side-lifter trucks to the steel foundation pegs.

With regard to **human resources, wellbeing and development**, the department focused on striving to improve customer service across all HR plantation sub-offices. Areas that have seen some notable improvements were Nasfund (superannuation contributions); updated policies; employment processes; final entitlement payments; and workers' compensation. Team Nasfund managed to register a total of 4 635 employees and was recognised with an award from Nasfund for this milestone in late November 2019. In addition, corporate services continued to provide support in the management of 2 233 company houses with associated fittings and furnishings across the company housing compounds.

The **'Sir Brown Bai Learning and Training Centre'** was officially opened on Saturday 26 October 2019. The event was well attended by the late Sir Brown Bai's family members, including his son Michael Bai. Sir Brown Bai who had been a HOPL as well as a Galley Reach Holdings director for many years, passed away on 1 February 2019.

HOPL internal training has been progressive and productive: a total of 7 832 employees have been trained in 408 courses, delivered from both HOPL's internal business trainers as well as external trainers, as set out by the workforce development section. HOPL has seen an increase of 94 additional courses introduced during this year's training programs. Due to operations, HOPL has maintained average training hours per employee at a minimum of two hours, this providing a very effective turnaround of productivity, with employees being released back into operations in a timely manner. A remarkable record of 23 541 training hours was achieved this year.

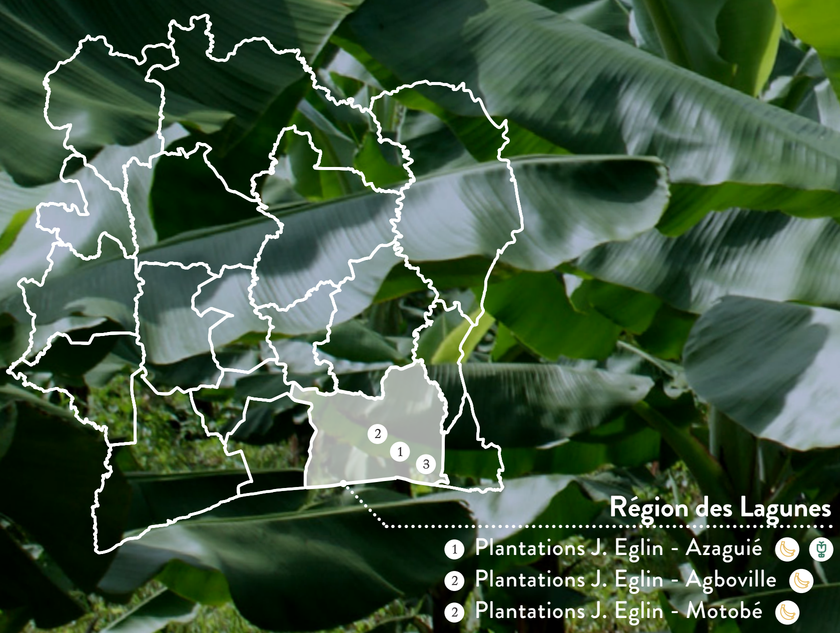
The company's **Bialla International Primary School** had a total of 188 students enrolled in 2019. The school manages with eight trained teachers, including the school principal, while eleven teacher assistants are also engaged. A total of 40 students were enrolled at Kimbe International School. These combined to make a total of 228 students enrolled and receiving schooling assistance through HOPL.

The **health department** continued to maintain the focus on providing quality care to all HOPL employees and dependants, despite some extremely challenging environmental incidents with floods and multiple volcanic eruptions. The five most common ailments reported throughout 2019 were as follows: skin infections (12 792 cases), simple cough (9 114 cases), malaria (4 710 cases), pneumonia (3 365 cases) and diarrhoea (3 260 cases).

Ivory Coast

Ivory Coast remains a major exporter of cacao, palm oil, rubber and bananas. It has taken the lead of the African ACP countries in exporting bananas to Europe. Ivory Coast is one of the world's fastest-growing economies in 2019 and presents an average annual GDP growth of 8.6% since 2012.

Plantations J. Eglin is operating on three different plantation sites, all located at a maximum distance of 80 km from the port of Abidjan, from where all the banana containers are shipped.



x 2.08

Plantations J. Eglin multiplies its gross margin by 2.08 compared to 2018

+ 18.2%

Production increases with 18.2% versus 2018

75.5%

of the SIPEF bananas are sold on the EU market

+ 16.3%

Export of bananas to the regional markets increases with 16.3%

+ 18.6%

Export of bananas to the EU rises with 18.6%

827HA

- 96% Bananas
- 4% Horticulture

BANANAS

796 planted hectares
3 production sites
4 packing stations
32 849 tonnes own production

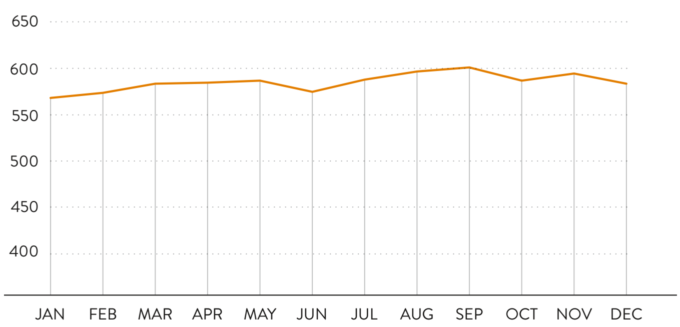
HORTICULTURE

31 planted hectares
451 149 units of pineapple flowers
1 322 758 units of ornamental leaves
128 520 units of lotus

1. Country introduction

IVORY COAST	
Capital city	Legislative: Yamoussoukro (since 1983) Administrative-Economical: Abidjan
Total area (+world ranking)	322 462 km2, including water (Ranked 70)
Border countries	Liberia 716 km, Guinea 610 km, Mali 532 km, Burkina 584 km, Ghana 668 km, Atlantic Ocean 515 km
Population	27 481 086 (est.)
Growth rate	2.26%
Urban population rate	51.7% urban with 5.203 million inhabitants in Abidjan
Life Expectancy (M/F)	Male 61.3 years / Female 63.6 years
Major language(s)	French (official). 60 native dialects
Major religion(s)	Muslim 42.9%, Catholic 17.2%, Evangelical 11.8%, Other (other Christian, Animist, others and non-believers) 28.1%
Main natural resources	Cacao (= 40% of export income, its production increased by 9.4%, its income by 17.2%), coffee, timber, petroleum, cotton, bananas, pineapples, palm oil, fish
Currency	XOF “Franc CFA”, may be reformed in 2020
2019 inflation rate versus USD	Inflation rate contained to near 1%
GDP (2017 est.)	USD 97.16 billion (20.1% agriculture, 26.6% industry, 53.3% services)
Past Presidential elections (2015)	Alassane Ouattara won the elections and was installed for a second term in 2015
Next Presidential elections (2020)	November 2020

EXCHANGE RATES: CFA VERSUS USD IN 2019



1.2. Economic and financial overview

In 2019, the growth rate in Ivory Coast was among the highest in the world, confirming it as the leading economy in the West African region. Income from agriculture was up again, while the country also pursued its policy of economic diversification.

The International Monetary Fund (IMF) said it expected the economy to grow by 7.5% in 2019, a slightly higher rate than in 2018. That confirmed the upward trend that has seen the Ivoirian economy post an average annual growth of 8.6% since 2012.

In 2019, Ivory Coast, in association with Ghana, announced the introduction of a new pricing mechanism for cacao beans to guarantee higher revenue for two million farmers, with a minimum price to be introduced in 2020/2021. The two countries produce 65% of the world's cacao.

Furthermore, the government is introducing incentives to drive up the cacao bean processing rate in the country. This has already led to the first private investments, with income from agriculture expected to grow fairly rapidly, making an impact on global markets also likely.

The CFA franc, established in 1945 and used in 15 West African countries may be reformed in 2020, but this will be carried out in phases over an indeterminate period, given the many political and economic obstacles.

The government has continued to work to reduce the budget deficit.There has been a rise in the export of manufactured products. Construction remains steady and there are many public infrastructure projects, including: repairs to the Félix Houphouët-Boigny bridge; the construction of a fourth bridge over the lagoon; the development of a metro network in Abidjan and the extension of the "Autoroute du Nord", ...

Complementary efforts to diversify the economy and reduce dependence on farming have led to a substantial expansion of activities in the fossil fuel sector, with oil up 20% and gas 4%. The industry still has lots of potential, with considerable reserves in the country, and licences could be granted to exploit gas and oil blocks, a lucrative prospect for the country. The partnership with Ghana in this domain will also help strengthen relations with investors in the borderlands between the two countries.

Another important driver of diversification is tourism, which posted growth in 2019. Under its "Sublime Côte d'Ivoire" programme, the country aims to become one of the top five visitor destinations in Africa by 2025 by modernising road and tourism infrastructure and developing new attractions.

Last, but certainly not least, in the context of sustained economic growth, the government has improved its social development indicators, including the official launch of a universal health insurance system, known as "Couverture Maladie Universelle" (CMU). In return for a monthly contribution of 1 000 CFA francs (USD 1.71), 70% of treatment costs in state hospitals will be covered.

2. SIPEF operations in Ivory Coast

2.1. Banana plantations

PLANTATIONS	PLANTED AREA (HA)	PRODUCTION 2019 (TONNES)	PRODUCTION 2018 (TONNES)	YIELD 2019 TONNES/HA
AZAGUIE 1	138.2	4 976	4 530	36.0
AZAGUIE 2	197.3	9 928	9 208	50.3
AGBOVILLE	228.1	8 836	7 749	38.7
MOTOBÉ	216.4	9 109	6 312	42.1
TOTAL	780.0	32 849	27 799	42.1

Banana operations are located in three production areas, with four packing units, comprising a total planted area of 796 hectares at the end of 2019.

This has increased very well over the past two years, mainly as a consequence of the return to a traditional one-year fallow system and efforts to maximise the continued use of the planted areas.

Production increased by 18% in 2019 compared with 2018, from 27 779 tonnes to 32 849 tonnes, primarily due to:

- Optimisation of agronomic factors, including the reversion to two fertilisation rounds per month rather than one. This has improved the efficiency of fertiliser while reducing the quantities used, in due compliance with the programme of applying fertiliser based on leaf analysis, as well as better control of cercosporiosis with treatment administered in good time and with mechanical sanitation.
- Improvement of field quality by better control of fruit care, creating more value at the packing station;
- Good internal communication within the company, with much more responsibility being taken by all those involved in the production chain, from management to the employees, who must be more careful and meticulous about achieving the goals.

Some agronomic tests were implemented in 2019, with a view to more responsible agriculture such as organic treatment products, bio-stimulants and spraying by drone, and constant efforts to limit and optimise the use of phytosanitary products are made.

The main challenges in 2020 are the essential improvement in quality, and further changes to move towards more responsible agriculture and the acquisition of new sites.

2.1.1. Azaguié 1 and 2

Azaguié, which is the site closest to Abidjan, is the location of most of the company's general services, the two banana production sectors and associated packing stations, and the horticulture activities, including a production sector and the packing station.

The sites dedicated to bananas are planted entirely with Grand Nain Cavendish bananas and sprayed under the foliage.

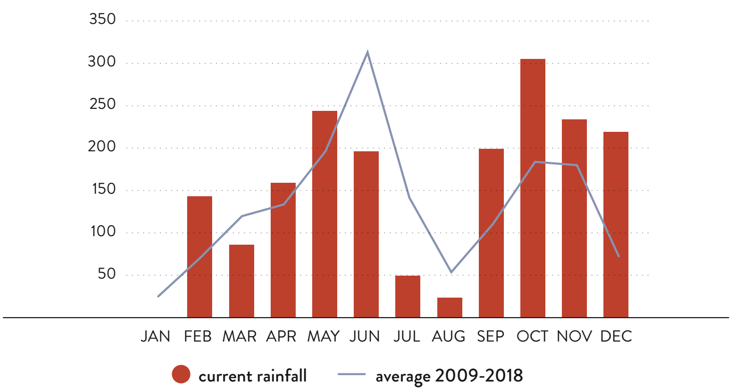
At the end of the financial year, 136 hectares at Azaguié 1 were planted with bananas. A few tens of hectares could be added in the future by changing the capacity of the packing station.

Production in 2019 was 4 976 tonnes, compared with 4 530 tonnes the previous year, a 10% increase; but productivity can be improved even more.

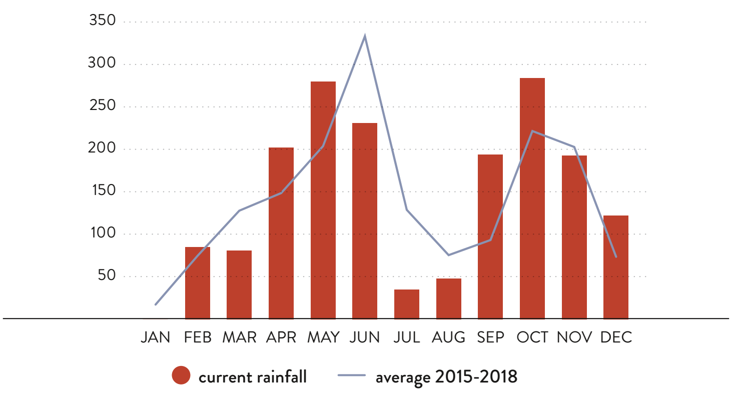
Azaguié 2 was first planted in 2015 and 203 hectares are now fully planted.

Production in 2019 was 9 928 tonnes, compared with 9 201 tonnes in 2018, an 8% increase. This production will stabilise before falling slightly over the next few years, due to the ageing of the plots and the introduction of future fallow areas, which are necessary for the sustainability of the soil.

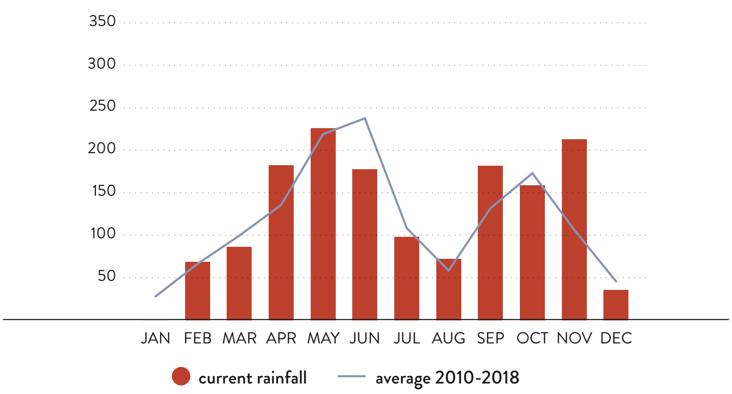
AZAGUIE 1 RAINFALL (IN MM)



AZAGUIE 2 RAINFALL (IN MM)



AGBOVILLE RAINFALL (IN MM)



There is no doubt that the Fairtrade certification launched at Motobé in 2019 will be rolled out at all Plantations J. Eglin sites.

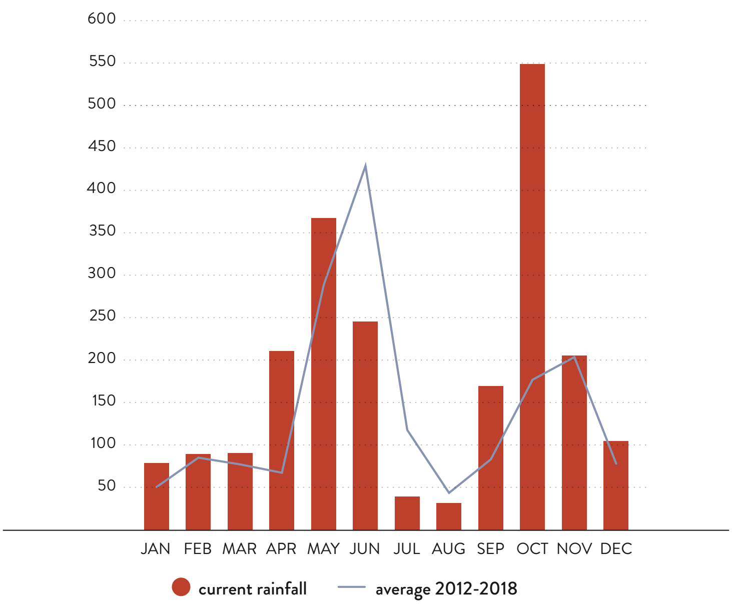
2.1.2. Agboville

The Agboville plantation is mature and balanced. The site is fully planted and the surface areas are appropriate to the water reserves, which are the restrictive factor at this plantation.

Production in 2019 was 8 836 tonnes, compared with 7 749 tonnes in 2018, a 14% increase. This is due to the agronomic improvements explained above (more appropriate fertilisation, improved control of cercosporiosis) and is characterised by a gross average weight per bunch in excess of 12%.

Our goals are to continue optimising the productivity of the parcel plots, which are all planted with Grand Nain Cavendish.

MOTOBÉ RAINFALL (IN MM)



2.1.3. Motobé

Motobé is the most complex plantation to manage in the rainy season, and good drainage is key to the success of these compact clayey soils. The hardiest cultivars in these soils are William rather than the Grand Nain preferred elsewhere, as they are better adapted to the potential excess of water.

The whole plantation is equipped with a cableway for harvesting and transporting the bunches of bananas to the packing station.

Motobé posted the most spectacular rise in production in 2019, at 9 109 tonnes compared with 6 312 tonnes the year before, a 44% increase. Average yields per hectare returned to the levels of the other production sites.

For the second successive year, over the final few months of 2019, some of the production areas were inundated by the Comoé River. The rise in water also caused considerable damage to the route used to transport the fruit off site and towards the port of Abidjan. Repairs have to be made to this route virtually all the time.

The Motobé site successfully completed its Fairtrade certification process, and the share of the fruit exported with this label will increase, as the social conditions of the workers and neighbouring residents and villages constantly improve. The Fairtrade premium from sales is managed by a committee, that actively and responsibly participates in the positive development of the communities. There is no doubt that the Fairtrade certification launched at Motobé in 2019 will be rolled out at all Plantations J. Eglin sites.

2.2. Horticulture activities

The horticulture activities are based at the Azaguié 2 site.

The Plantations J. Eglin produce striatus pineapple flowers grown on a 20-hectare site; various ornamental foliage, including cordylines and draceanas for bouquets, on a 7-hectare site; and lotus harvested in the reservoirs at the Agboville plantation. These are all exported to northern Europe (Belgium and the Netherlands) on scheduled passenger flights.

In 2019, pineapple flower production and export volumes were slightly higher (2.8%) than the year before, at 478 409 units.

Ornamental foliage sales were up 14.0% to 1 322 758 units exported, and this result can even be optimised by improving the culture and logistics processes in partnership with the company's main customer.

The European lotus market has been totally decimated, with export quantities down by almost 33%, but this product makes a minimal contribution to the performance in the horticulture sector anyway.

Plantations J. Eglin marked its sixtieth anniversary in 2019.

2.3. Packing stations

BANANAS	AZAGUIE 1			AZAGUIE 2		
CAPACITY (TONNES/DAY)	30			40		
Volumes per destination (in TONNES)	2019	2018	Variance (%)	2019	2018	Variance (%)
EU	4 063	3 546	14.6%	7 505	7 211	4.1%
REGIONAL	913	984	-7.2%	2 422	1 998	21.2%
LOCAL	522	423	23.4%	1 190	1 212	-1.8%
TOTAL	5 498	4 953	11.0%	11 117	10 421	6.7%

FLOWERS AND ORNAMENTAL FOLIAGE (UNITS)	PINEAPPLE FLOWERS			ORNAMENTAL FOLIAGE			LOTUS		
	2019	2018	Variance (%)	2019	2018	Variance (%)	2019	2018	Variance (%)
AZAGUIE 2	478 409	465 374	2.8%	1 322 758	1 160 708	14.0%	128 520	191 605	-32.9%

Bananas are packed six days a week at the four packing stations, which have a combined capacity of 50 tonnes per day.

In 2019, production was rationalised at the four stations, as part of the company's social approach with regard to working hours, on the back of Rainforest Alliance certification. This approach has been fully approved and applied, as it incorporates the environmental, ethical and social principles the company follows.

2.4. Head Office and service departments

Plantations J. Eglin marked its sixtieth anniversary in 2019. This milestone was celebrated at the start of 2020 and the opportunity was taken to reward many employees who have worked for the company for more than 25 years. Some 70 people were honoured in the presence of representatives of the local authorities, economic partners, work colleagues and company management.

A few days after this memorable day of celebration, came the sad news of the passing of the president of the board of directors of SA Plantations J. Eglin, Mr Joseph Aka Anghui, in his ninetieth year. He had guided and advised the company in this great fruit adventure in Ivory Coast for several decades. The SIPEF group has lost not only a partner, but also a friend.

In terms of human resources, Plantations J. Eglin ended the financial year with a workforce of 1 342, comprising 11 managers, 44 supervisors and 1 287 workers and employees, compared with 1 296 people at the end of 2018.

AGBOVILLE			MOTOBÉ			TOTAL		
40			40			150		
2019	2018	Variance (%)	2019	2018	Variance (%)	2019	2018	Variance (%)
7 649	6 709	14.0%	7 806	5 327	46.5%	27 023	22 793	18.6%
1 187	1 041	14.0%	1 303	986	32.2%	5 825	5 009	16.3%
640	721	-11.2%	610	511	19.4%	2 962	2 867	3.3%
9 476	8 471	11.9%	9 719	6 824	42.4%	35 810	30 669	16.8%

There was a major reorganisation of the management team, which was slimmed down considerably in the year under review. Six managers left the company and were replaced by two new hires and three managers promoted from within. The structure was simplified with the heads of the various sites given more responsibility and closer ties between the sites and general management. These changes also helped soothe social relations.

BAM - BANANA ACCOMPANYING MEASURES

The aim of this almost 1.36-million-euro program, jointly funded by the European Union (59%) and Plantations J. Eglin (41%) is to improve the social conditions of workers and the environmental conditions of production.

The program was launched three years ago and is nearing completion. Its main achievements are as follows:

- Construction of 180 homes at two sites at Azaguié, with electricity and running water. Fifty-four homes are scheduled for completion at the end of the first quarter of 2020;
- Improvement of kitchens by closing them off, and construction of improved fireplaces to reduce firewood consumption;
- Construction of a workers' canteen on the Azaguié 2 site;
- Construction and equipment of a nursery school with three classes at Azaguié 2;
- Establishment of three grocery stores, one on each site, run by the workers' wives;
- Implementation of selective rubbish sorting, collection trucks, collection tricycles, and storage areas;
- Purchase of a vehicle to transport staff.

The production was rationalised at the four stations, as part of the company's social approach with regard to working hours, on the back of Rainforest Alliance certification. It incorporates the environmental, ethical and social principles the company follows.

Europe

SIPEF

Historically, the Group is managed in strategic, financial and commercial terms by SIPEF in Belgium. In recent years, a broader framework for IT and legal affairs has been added. As a result, the staff in Belgium (currently around 25 employees) has been expanded in recent years with a core IT team of five people and a legal counsel.

Jabelmalux SA

Jabelmalux SA is the Luxembourg parent company of the latest oil palm expansions in North Sumatra (PT Umbul Mas Wisesa, PT Toton Usaha Mandiri and PT Citra Sawit Mandiri) and of one of the expansions in the Musi Rawas region in South Sumatra (PT Agro Muara Rupit).

After the successful public purchase bid that was issued in 2011, the company disappeared from the Luxembourg stock exchange. The initial offer was then continued. At the end of 2019 the SIPEF group controlled 99.9% of the company. SIPEF aims, in the future, to also acquire the remaining shares that are still in public hands.

Operational key figures

Group production (in tonnes)

FRESH FRUIT BUNCHES PRODUCED	YTD 2019	YTD 2018	% CHANGE
OWN			
INDONESIA	**922 265**	**950 239**	**-2.94%**
Tolan Tiga group	312 216	322 834	-3.29%
Umbul Mas Wisesa group	199 535	208 063	-4.10%
Agro Muko group	341 576	371 098	-7.96%
South Sumatra group	68 938	48 244	42.89%
PAPUA NEW GUINEA	**255 515**	**348 381**	**-26.66%**
Hargy Oil Palms Ltd	255 515	348 381	-26.66%
TOTAL OWN	**1 177 780**	**1 298 620**	**-9.31%**
OUTGROWERS			
INDONESIA	**22 016**	**17 262**	**27.54%**
Tolan Tiga group	637	0	-
Umbul Mas Wisesa group	650	271	139.90%
Agro Muko group	15 673	13 496	16.13%
South Sumatra group	5 056	3 495	44.67%
PAPUA NEW GUINEA	**184 875**	**229 135**	**-19.32%**
Hargy Oil Palms Ltd	184 875	229 135	-19.32%
TOTAL OUTGROWERS	**206 891**	**246 397**	**-16.03%**
TOTAL FFB PRODUCED	**1 384 671**	**1 545 017**	**-10.38%**

FRESH FRUIT BUNCHES SOLD	YTD 2019	YTD 2018	% CHANGE
INDONESIA	**41 514**	**38 932**	**6.63%**
Tolan Tiga group	2	0	-
Umbul Mas Wisesa group	39 152	35 127	11.46%
Agro Muko group	2 360	0	-
South Sumatra group	0	3 805	-100.00%
TOTAL FFB SOLD	**41 514**	**38 932**	**6.63%**

FRESH FRUIT BUNCHES PROCESSED	YTD 2019	YTD 2018	% CHANGE
INDONESIA	**902 767**	**928 569**	**-2.78%**
Tolan Tiga group	312 850	322 834	-3.09%
Umbul Mas Wisesa group	161 033	173 207	-7.03%
Agro Muko group	354 889	384 594	-7.72%
South Sumatra group	73 994	47 934	54.37%
PAPUA NEW GUINEA	**440 390**	**577 516**	**-23.74%**
Hargy Oil Palms Ltd	440 390	577 516	-23.74%
TOTAL FFB PROCESSED	**1 343 157**	**1 506 085**	**-10.82%**

OIL EXTRACTION RATE	YTD 2019	YTD 2018	% CHANGE
INDONESIA	**23.2%**	**22.7%**	**2.18%**
Tolan Tiga group	22.6%	22.5%	0.55%
Umbul Mas Wisesa group	23.7%	24.0%	-1.20%
Agro Muko group	24.1%	23.0%	4.98%
South Sumatra group	20.6%	18.0%	14.38%
PAPUA NEW GUINEA	**23.4%**	**24.4%**	**-4.14%**
Hargy Oil Palms Ltd	23.4%	24.4%	-4.14%
TOTAL OIL EXTRACTION RATE	**23.3%**	**23.4%**	**-0.38%**

PALM OIL	YTD 2019	YTD 2018	% CHANGE
OWN			
INDONESIA	**204 812**	**205 426**	**-0.30%**
Tolan Tiga group	70 489	72 492	-2.76%
Umbul Mas Wisesa group	38 089	41 568	-8.37%
Agro Muko group	82 007	85 219	-3.77%
South Sumatra group	14 227	6 147	131.45%
PAPUA NEW GUINEA	**59 829**	**85 015**	**-29.63%**
Hargy Oil Palms Ltd	59 829	85 015	-29.63%
TOTAL OWN	**264 641**	**290 441**	**-8.88%**
OUTGROWERS			
INDONESIA	**4 865**	**5 644**	**-13.80%**
Tolan Tiga group	150	0	-
Umbul Mas Wisesa group	151	63	139.68%
Agro Muko group	3 541	3 091	14.56%
South Sumatra group	1 023	2 490	-58.92%
PAPUA NEW GUINEA	**43 008**	**55 672**	**-22.75%**
Hargy Oil Palms Ltd	43 008	55 672	-22.75%
TOTAL OUTGROWERS	**47 873**	**61 316**	**-21.92%**
TOTAL PALM OIL	**312 514**	**351 757**	**-11.16%**

PALM KERNELS	YTD 2019	YTD 2018	% CHANGE
OWN			
INDONESIA	**42 288**	**44 715**	**-5.43%**
Tolan Tiga group	17 064	18 026	-5.34%
Umbul Mas Wisesa group	6 024	6 774	-11.07%
Agro Muko group	16 390	18 513	-11.47%
South Sumatra group	2 810	1 402	100.43%
TOTAL OWN	**42 288**	**44 715**	**-5.43%**
OUTGROWERS			
INDONESIA	**938**	**1 178**	**-20.37%**
Tolan Tiga group	31	0	-
Umbul Mas Wisesa group	23	10	130.00%
Agro Muko group	688	631	9.03%
South Sumatra group	196	537	-63.50%
TOTAL OUTGROWERS	**938**	**1 178**	**-20.37%**
TOTAL PALM KERNELS	**43 226**	**45 893**	**-5.81%**

PALM KERNEL OIL	YTD 2019	YTD 2018	% CHANGE
PAPUA NEW GUINEA			
Hargy Oil Palms Ltd Own	5 064	6 961	-27.25%
Hargy Oil Palms Ltd Outgrowers	3 601	4 762	-24.38%
TOTAL PALM KERNEL OIL	**8 665**	**11 723**	**-26.09%**

RUBBER	YTD 2019	YTD 2018	% CHANGE
OWN			
INDONESIA	**5 495**	**6 930**	**-20.71%**
Tolan Tiga group*	972	1 383	-29.72%
Melania	2 379	2 976	-20.06%
Agro Muko	2 144	2 571	-16.61%
TOTAL OWN	**5 495**	**6 930**	**-20.71%**
OUTGROWERS			
INDONESIA	**831**	**1 052**	**-21.01%**
Tolan Tiga group*	831	1 052	-21.01%
TOTAL OUTGROWERS	**831**	**1 052**	**-21.01%**
TOTAL RUBBER	**6 326**	**7 982**	**-20.75%**

* Tolan Tiga group rubber production have been split into own and outgrower production.
The outgrower production consists of production from PT Timbang Deli. The figures of prior year have been restated.

TEA	YTD 2019	YTD 2018	% CHANGE
INDONESIA	**2 331**	**2 422**	**-3.76%**
Melania	2 331	2 422	-3.76%
TOTAL TEA	**2 331**	**2 422**	**-3.76%**

BANANAS	YTD 2019	YTD 2018	% CHANGE
IVORY COAST	**32 849**	**27 788**	**18.21%**
Azaguie 1	4 976	4 530	9.85%
Azaguie 2	9 928	9 197	7.94%
Agboville	8 836	7 749	14.03%
Motobé	9 109	6 312	44.31%
TOTAL BANANAS	**32 849**	**27 788**	**18.21%**

Group planted area (in hectares)*

Total planted area of consolidated companies excluding PT Timbang Deli.

	2019			2018		
	MATURE	IMMATURE	PLANTED	MATURE	IMMATURE	PLANTED
OIL PALMS	**59 531**	**14 446**	**73 977**	**58 463**	**13 037**	**71 500**
INDONESIA	**47 241**	**13 029**	**60 270**	**46 129**	**11 684**	**57 813**
Tolan Tiga group	12 562	1 000	13 562	12 473	1 029	13 502
Umbul Mas Wisesa group	9 876	52	9 928	9 705	226	9 931
Agro Muko group	16 471	3 260	19 731	16 815	2 514	19 330
South Sumatra group	8 331	8 716	17 048	7 136	7 915	15 051
PAPUA NEW GUINEA	**12 290**	**1 417**	**13 707**	**12 334**	**1 353**	**13 687**
Hargy Oil Palms Ltd	12 290	1 417	13 707	12 334	1 353	13 687
RUBBER	**4 269**	**1 384**	**5 653**	**4 329**	**1 416**	**5 745**
INDONESIA	**4 269**	**1 384**	**5 653**	**4 329**	**1 416**	**5 745**
Tolan Tiga group	2 813	1 097	3 910	2 874	1 128	4 002
Agro Muko group	1 455	287	1 743	1 455	287	1 743
TEA	**1 735**	**33**	**1 768**	**1 716**	**47**	**1 763**
INDONESIA	**1 735**	**33**	**1 768**	**1 716**	**47**	**1 763**
Tolan Tiga group	1 735	33	1 768	1 716	47	1 763
BANANAS	**796**	**0**	**796**	**749**	**0**	**749**
IVORY COAST	**796**	**0**	**796**	**749**	**0**	**749**
Plantations J. Eglin SA	796	0	796	749	0	749
PINEAPPLE FLOWERS	**21**	**9**	**31**	**21**	**9**	**31**
IVORY COAST	**21**	**9**	**31**	**21**	**9**	**31**
Plantations J. Eglin SA	21	9	31	21	9	31
TOTAL	**66 352**	**15 873**	**82 225**	**65 279**	**14 509**	**79 787**

* = actual planted hectares

Group planted area (in hectares)*

Total planted area of consolidated companies (share of the Group) excluding PT Timbang Deli.

	TOTAL	BENEFICIAL INTEREST - %	SHARE OF THE GROUP
OIL PALMS	**73 977**	**92.61%**	**68 510**
INDONESIA	**60 270**	**90.93%**	**54 802**
Tolan Tiga group	**13 562**	**86.94%**	**11 791**
PT Tolan Tiga	8 148	95.00%	7 740
PT Eastern Sumatra	3 098	90.25%	2 796
PT Kerasaan	2 317	54.15%	1 254
Umbul Mas Wisesa group	**9 928**	**94.90%**	**9 422**
PT Umbul Mas Wisesa	7 047	94.90%	6 688
PT Toton Usaha Mandiri	1 135	94.90%	1 077
PT Citra Sawit Mandiri	1 746	94.90%	1 657
Agro Muko group	**19 731**	**89.80%**	**17 719**
PT Agro Muko	17 768	90.25%	16 035
PT Mukomuko Agro Sejahtera	1 964	85.74%	1 684
South Sumatra group	**17 048**	**93.10%**	**15 871**
PT Agro Kati Lama	3 815	95.00%	3 624
PT Agro Muara Rupit	4 313	94.90%	4 093
PT Agro Rawas Ulu	2 184	95.00%	2 075
PT Dendymarker Indah Lestari	6 736	90.25%	6 079
PAPUA NEW GUINEA	**13 707**	**100.00%**	**13 707**
Hargy Oil Palms Ltd	13 707	100.00%	13 707
RUBBER	**5 653**	**90.25%**	**5 102**
INDONESIA			
Tolan Tiga group	3 910	90.25%	3 529
PT Bandar Sumatra	1 110	90.25%	1 002
PT Melania	2 800	90.25%	2 527
Agro Muko group	1 743	90.25%	1 573
PT Agro Muko	1 743	90.25%	1 573
TEA	**1 768**	**90.25%**	**1 596**
INDONESIA			
Tolan Tiga group	1 768	90.25%	1 596
PT Melania	1 768	90.25%	1 596

* = actual planted hectares

	TOTAL	BENEFICIAL INTEREST - %	SHARE OF THE GROUP
BANANAS	**796**	**100.00%**	**796**
IVORY COAST			
Plantations J. Eglin SA	796	100.00%	796
PINEAPPLE FLOWERS	**31**	**100.00%**	**31**
IVORY COAST			
Plantations J. Eglin SA	31	100.00%	31
TOTAL	**82 225**	**92.47%**	**76 034**

Age profile (in hectares)

	OIL PALMS						RUBBER TREES		
YEAR	Tolan Tiga group	Umbul Mas Wisesa group	Agro Muko group	South Sumatra group	Hargy Oil Palms	TOTAL	Tolan Tiga group	Agro Muko group	TOTAL
2019	278	0	1 528	3 250	351	**5 407**	0	0	**0**
2018	303	6	1 080	2 769	533	**4 691**	42	150	**192**
2017	399	47	1 047	2 663	609	**4 765**	30	202	**233**
2016	328	171	412	2 320	231	**3 461**	40	279	**319**
2015	679	86	1 079	1 220	743	**3 806**	40	255	**295**
2014	709	0	986	706	1 369	**3 771**	18	207	**225**
2013	434	0	1 240	723	1 092	**3 488**	51	354	**405**
2012	746	172	1 427	117	1 446	**3 908**	24	315	**339**
2011	754	760	26	0	876	**2 416**	20	226	**246**
2010	625	1 524	313	0	618	**3 080**	41	249	**289**
2009	103	1 658	524	0	253	**2 537**	0	105	**105**
2008	395	1 959	167	0	197	**2 717**	34	191	**224**
2007	319	2 152	101	0	1 737	**4 308**	94	275	**368**
2006	619	367	672	0	853	**2 511**	0	331	**331**
2005	652	1 004	411	0	173	**2 239**	76	141	**217**
2004	133	0	781	0	160	**1 074**	90	81	**172**
2003	1 163	0	131	0	148	**1 442**	115	103	**218**
2002	470	0	102	0	331	**903**	63	90	**152**
2001	481	0	580	0	901	**1 962**	41	52	**92**
2000	302	0	1 116	532	353	**2 303**	77	198	**275**
1999	526	0	1 836	370	373	**3 105**	55	145	**199**
1998	467	0	2 159	1 868	238	**4 732**	66	140	**206**
1997	756	0	266	504	121	**1 648**	93	199	**292**
1996	857	0	253	7	0	**1 117**	0	78	**78**
1995	331	24	38	0	0	**392**	0	101	**101**
Before 1995	735	0	1 456	0	0	**2 192**	0	78	**78**
	13 562	9 928	19 732	17 048	13 707	73 977	1 110	4 543	5 653
Average age	13.29	10.61	11.92	5.67	9.41	10.09	13.53	11.00	11.50

Risks and uncertainties

In November 2019, the audit committee reanalysed the various risks which the Group is facing.

In this process the committee identified and classified 71 risks (general, product, operational, workforce, financial, commercial, legal and political). The audit committee paid extra attention to the risk of natural disasters for the plantations and the mills, since the Group had been confronted three times during the course of 2019 with volcanic eruptions in Papua New Guinea.

All of these risks were then assessed on the basis of the likelihood that they would occur and their impact on the Company and mapped. Only the specific risks that, based on the analysis, are certain, virtually certain or likely to occur in the SIPEF group and that could have a significant or moderate negative impact on the financial situation, the operating results or the liquidity of the Group, and lead to impairments of assets, are stated below.

1. Description of the specific risks

Following **specific risks** were identified:

Risks	Certain	Virtually certain	Likely
Risks connected with the spread of the activities over a limited number of countries and with the limited product diversification	High		
Risks connected with expansion		High	
Risks of the dependence on a limited number of large customers		High	
Risks connected with land property rights and rights of use		High	
Risks of natural disasters (plantations — mills)			High
Risks of rising raw material-related input prices		Average	
Risks of not finding sufficient staff in remote areas		Average	
Risks of wage rises		Average	
Climate risks		Average	
Risk of an unexpected fall in future short-term margins		Average	
Risk connected with the concern of Europe for sustainability and the increased RSPO restrictions		Average	

Impact

Possibility

1.1 Risks connected with the spread of the activities over a limited number of countries and with the limited product diversification

The Group produces palm products, natural rubber, tea and bananas in Indonesia, Papua New Guinea and Ivory Coast. The centre of gravity of its activities is in palm product cultivation in Indonesia and Papua New Guinea, which constitutes approximately 85% of total turnover. So, if problems of any nature occur in Indonesia, and to a lesser degree in Papua New Guinea or Ivory Coast, to obstruct the cultivation or production of these products, this could have a significant negative impact on the results and the financial situation of the Group.

1.2 Risks connected with expansion

LIMITED AVAILABILITY OF SITES

The Group's expansion strategy consists, amongst others, of expansion by organic growth, by acquiring extra plots that can be planted and meet the requirements for RSPO certification. There is no certainty that the Group will be able to acquire on economically responsible terms, sufficient and agronomically suitable land which satisfies its sustainability policy. The acquisition of these areas, under ownership or through concession agreements, has become more difficult by the limited availability of agricultural land and the intense competition of other plantation companies. The limited availability of land for future expansion could have an adverse impact on the Group's growth strategy.

ACQUISITIONS, DIVESTMENTS, STRATEGIC ALLIANCES AND JOINT VENTURES

Acquisitions, divestments, strategic alliances and joint ventures are an integral part of the Group's growth strategy. However, there is no certainty that any of these transactions will be completed or will be favourable for the Group. As a result of one of these transactions the Group, for example, could face difficulties integrating new companies in other countries into its existing activities. In spite of due diligence, unforeseen legal, regulatory, contractual, labour related and other problems may still arise to obstruct the integration advantages, quality levels and cost savings identified for the transaction in question.

1.3 Risks of the dependence on a limited number of large customers

SIPEF sells approximately 92% of its palm oil, palm kernel oil and palm kernels in certified physical goods flows of the RSPO and the International Sustainability and Carbon Certification (ISCC) for respective use in the food industry or for the production of green energy. It addresses a limited number of customers with which it has built long-term relationships and who are prepared to pay a premium for quality certification. In the future, SIPEF will continue to endeavour to supply 100% of its products in certified physical goods flows that are fully traceable. The Company counts on similar efforts from the palm oil consumers, but has no certainty whatsoever about this.

1.4 Risks connected with land property rights and rights of use

The retention of the property rights and concession rights is essential for the Group to safeguard and develop the production in the various countries. The Group's activities and results could therefore be seriously impacted if it does not manage to retain these rights or, in the event of concession agreements, renew them for a long term. There is also a risk for the Group as soon as the existing rights of use of land are limited.

1.5 Risks of natural disasters (plantations – mills)

Virtually all the activities of the Group are located in Indonesia and Papua New Guinea. These countries are volcanic areas where there is a great risk of natural disasters, such as earthquakes, landslides, mudflows and tsunamis. Ivory Coast, on the other hand, is sometimes affected by local tornados. All these natural disasters can have disastrous consequences for both plantations and mills. Furthermore, the plantations may have to deal with insect plagues or new plant and tree diseases, which can wipe out an entire harvest. Such disasters can have a material negative impact on the turnover and financial results of the Group.

1.6 Risk of rising raw material-related input prices

The main agricultural raw materials of the Group, such as fuel and fertiliser, are exposed to price fluctuations. These can have a significant impact on the Group's costs and can accordingly have a negative impact on the Group's operating results.

1.7 Risks of not finding sufficient staff in remote areas

The production of palm oil products, rubber, tea and bananas is very labour-intensive. The remote location of certain sites could make it difficult in the future to find staff prepared to work there.

1.8 Risk of wage rises

Labour costs, staff costs and the costs of fringe benefits could rise by a significant degree in the future in countries in which the Group operates. Such rises could be the result of protective regulations imposed by local authorities. As the Group's activities are very labour-intensive, unexpected rises could generate a great cost and put a serious strain on the Group's results.

1.9 Climate risks

The volumes produced and turnover and margins generated are impacted to a certain degree by weather conditions, such as precipitation, sunshine, temperature and humidity. Unfavourable weather can cause disruption to the agricultural activities and have a negative impact on agricultural production. Serious adverse weather (floods, droughts, severe storms) could result in significant damage to properties, protracted interruptions to the activities, personal injury and other damage to the operating activities of the Group. The potential physical consequences of climate change are uncertain, and may differ depending on the region and the product.

1.10 Risk of an unexpected fall in future short-term margins

The turnover and margins generated depend to a great degree on fluctuations in market prices, primarily of palm oil and palm kernel oil. Economic factors the Group has no control over affect the supply and demand of these products, as well as their prices. There is a risk that such fluctuations will have an adverse impact on the Group's profitability. Based on the 2020 budget, a change in the palm oil price of USD 100 CIF Rotterdam per tonne would impact the post-tax result by approximately USD 26 million per year, not including the impact of export duties.

1.11 Risk connected with the concern in Europe for sustainability and the increased RSPO restrictions

The Group's reputation is based on its RSPO certification. Bearing in mind that concern for sustainability and Corporate Social Responsibility among consumers is rising, the European Union or the various authorities in the countries in which SIPEF operates could impose tougher rules on companies. It is uncertain whether the Group and the local producers would be able to comply with these certification requirements at any time. If the Group fails to meet these requirements, it could lose its certification or the certification could be suspended. Such a loss or suspension could have an adverse impact on the activities, reputation and financial situation of the Group.

None of the aforementioned risks are insured, except for the risk to mills in connection with natural disasters. For this risk, insurance has been taken out to cover the potential damage to the buildings, systems, tools and products physically present in the factories.

2. Description of the general risks

As well as the specific risks, the Group also has to contend with more **general risks** associated with:

- currency, interest rates, credit and liquidity (see Note 26 of this Annual report);
- social actions;
- computer systems;
- regulations;
- court cases;
- internal control;
- tax audits;
- environmental liability.

Regarding the risks associated with the regulations, it should be noted that there is currently a tax levy on every export of palm oil from Indonesia.

The prices of sales to Indonesian customers are also affected by this tax, since the local population is not willing to pay more than the net export price. Therefore, these levies have a major impact, both directly and indirectly, on all palm oil produced by SIPEF in Indonesia.

Due to the low palm oil prices, the minimum threshold for applying this step-by-step levy was not reached in 2019 and therefore, this cost was not applicable. However, the previous years, this tax amounted to USD 42 per tonne in 2018, USD 53 per tonne in 2017, USD 51 per tonne in 2016 and USD 28 per tonne in 2015 on average.

Lastly, there are more risks that SIPEF group currently suspects to be limited, but that ultimately could have a significant negative impact. There may also be additional risks the Group is currently not aware of.

Corporate governance statement

1. General

May was a very important month for companies with regard to corporate governance in 2019. A new Companies and Associations Code (CAC) was published on 1 May 2019. The new 2020 Belgian Corporate Governance Code (the Code), replacing the previous 2004 and 2009 versions, was then presented to the general public on 9 May 2019. Both the CAC and the Code apply to SIPEF, effective 1 January 2020. The present statement, which for the most part relates to the financial year 2019, should primarily be read in light of the (old) Companies Code that applied up to and including 31 December 2019 and the 2009 Corporate Governance Code. The references to the Companies Code therefore refer to the articles that were effective up to and including 31 December 2019. For the application of the 'comply or explain' principle, the Company still uses the 2009 Corporate Governance Code as its benchmark code. However, the 2020 Code will be SIPEF's new benchmark code from 1 January 2020.

(www.corporategovernancecommittee.be)

SIPEF has always formulated the Company's policy to be in line with the best practices of good governance. In 2005 the board of directors of SIPEF adopted the original version of the Corporate Governance Charter ('Charter'), which was drawn up in accordance with the Belgian Corporate Governance Code 2004. The Charter has been regularly updated since then, in line with changes to applicable regulations and the best practices of good governance. It was most recently amended on 22 November 2019 to bring it into line with the provisions of the CAC and the Code. On that date the board of directors approved the Company's Code of Conduct, which was drawn up under the provisions of the Code. The new Charter and Code of Conduct can be read at the website (www.sipef.com).

The Charter sets out the structure and powers of the Company's bodies; the obligations of the members of the board of directors and the various committees of the Company; and the guidelines for the composition and ways of working of these bodies. It also contains the rules of conduct that apply to the persons discharging managerial responsibilities and the staff of the Company if they conduct transactions relating to SIPEF's financial instruments. These rules will be supplemented on 1 January 2020 by the provisions of the Code of Conduct, which sets out the ethical rules of conduct for managers and staff of SIPEF.

The 'Corporate governance statement' gives special attention to factual information regarding a given financial year. This chapter describes any changes that were made to policy and the relevant events regarding corporate governance during the past financial year and the financial year closing period until the meeting of the board of directors of 11 February 2020. Furthermore, any deviations from the recommendations of the Code over the same period are explained in accordance with the 'comply or explain' principle. Lastly, the statement contains the diversity policy that SIPEF applies for the composition of the board of directors and the executive committee, as laid down by the law of 3 September 2017 about the announcement of non-financial information and information regarding diversity by certain large companies and groups.

The board of directors: Regnier Haegelsteen, Sophie Lammerant-Velge, Jacques Delen, François Van Hoydonck, Petra Meekers, Luc Bertrand, Priscilla Bracht, Nicholas Thompson, Tom Bamelis, Antoine Friling

2. Board of directors

2.1 Composition at 31 December 2019

	TERM
Baron Luc Bertrand, chairman	2016-2020
François Van Hoydonck, managing director	2019-2023
Tom Bamelis	2018-2022
Priscilla Bracht	2018-2022
Baron Jacques Delen	2016-2020
Antoine Friling	2019-2023
Regnier Haegelsteen	2019-2020
Sophie Lammerant-Velge	2019-2023
Petra Meekers	2017-2020
Nicholas Thompson	2019-2023

The board of directors consisted of 10 members on 31 December 2019. At least half of the members of the board, that is nine of the ten, are non-executive directors.

Three of the ten directors are women. The Company accordingly respects the legal gender diversity quota of one third.

Furthermore, at 31 December 2019 the following independent directors sat on the board of directors:

- Sophie Lammerant-Velge
- Petra Meekers
- Nicholas Thompson

These directors meet all independence criteria stated in article 526ter of the Companies Code, replaced from 1 January 2020 by principle 3 of the Code.

The Company's shareholder structure is characterised by the presence of two controlling shareholders, Ackermans & van Haaren and the Bracht group, composed of the Baron Bracht family and Cabra NV, which act in mutual consultation, on the basis of a shareholder agreement that was originally entered into in 2007 for a period of 15 years. In 2017, this agreement was amended and renewed for a further period of 15 years.

In spite of the controlling shareholder structure, no director or group of directors has a dominant influence on the functioning of the board of directors.

Non-executive directors

Female directors

Independent directors

Luc Bertrand
chairman

François Van Hoydonck

Tom Bamelis

Priscilla Bracht

Jacques Delen

Antoine Friling

Regnier Haegelsteen

Sophie Lammerant-Velge

Petra Meekers

Nicholas Thompson

2.2 Members of the board of directors in 2019

Luc Bertrand

BORN: 14 FEBRUARY 1951

NATIONALITY: BELGIAN

Luc Bertrand qualified as a commercial engineer at the “Katholieke Universiteit Leuven”. He started his career as vice president and sales manager, Northern Europe at Corporate Finance Bankers Trust. He joined Ackermans & van Haaren in 1986 and chaired the executive committee from 1990 to 2016. He is currently chairman of the board of directors. His other positions include chairman of the board of directors of DEME and CFE, and director of Delen Private Bank and Bank J. Van Breda & Co. He also has a seat on the board of directors of various nonprofit organisations. He has been a director of SIPEF since 1996.

François Van Hoydonck

BORN: 29 AUGUST 1959

NATIONALITY: BELGIAN

François Van Hoydonck graduated in accounting and taxation at Sint-Eligius Business School Antwerp. He joined SIPEF in 1979, specialising in the palm oil sector, other agro-industrial activities and their financial management. He was chief financial officer of the SIPEF group between 1995 and 2007. He has been managing director of SIPEF since 2007 and Chairman of the Executive Committee since 2014.

Tom Bamelis

BORN: 20 JUNE 1966

NATIONALITY: BELGIAN

Tom Bamelis is a qualified commercial engineer from the “Katholieke Universiteit Leuven” and has a master’s degree in financial management from the VLEKHO Business School. He began his career in 1988 as an auditor at Touche Ross (now Deloitte) in Brussels and joined the financial department at Groep Brussel Lambert as management representative in 1994. In 1999 he moved to Ackermans & van Haaren, where he is chief financial officer and a member of the executive committee. He has been a director of SIPEF since 2018.

Priscilla Bracht

BORN: 18 MAY 1977

NATIONALITY: BELGIAN

Priscilla Bracht is a licentiate in art history and archeology from the “Université Libre de Bruxelles” and has studied European relations and international politics. She specialises as a director of family firms. She has been a director of SIPEF since 2004.

Jacques Delen

BORN: 17 OCTOBER 1949

NATIONALITY: BELGIAN

Jacques Delen is a qualified broker. In 1975 he took over the reins of the Antwerp-based listed company Delen & Co, which had been founded by his father in 1936. He then founded the Delen holding company, which was floated on the stock exchange in 1989 and in 1992 merged with Ackermans & van Haaren. He became a director of Ackermans & van Haaren that year and chaired the board of directors from 2011 to 2016. Under his leadership as CEO between 1975 and 2014, the listed Delen & Co grew into the Delen Private Bank, one of Belgium’s biggest private banks, where he has chaired the board of directors since 2014. He has also been director of Bank J. Van Breda & Co since 1998. He has had a seat on the SIPEF board of directors since 2005.

Antoine Friling

BORN: 29 JANUARY 1958

NATIONALITY: BELGIAN

Antoine Friling is a bachelor of business administration, finance and marketing and a master of business administration – international management. He has been active in the banking industry for several years and a director of family, industrial and financial companies in Europe and South America for many years. He is president of PRAXIS Private Office, a family office based in Antwerp. He has been a director of SIPEF since 2007.

Regnier Haegelsteen

BORN: 10 JULY 1950

NATIONALITY: BELGIAN

Regnier Haegelsteen is a licentiate in law from the "Université Catholique de Louvain" and has a master's degree in business administration. He started his career at Morgan Bank in Brussels and New York. In 1985 he joined Groep Brussel Lambert, where he was given responsibility for the financial holding companies. In 1990 he moved to Bank Degroof, where he was given responsibility for investment banking in 1993. He was chairman of the management committee and CEO of Bank Degroof from 2006 to 2014. He has had a seat on the board of directors of Etex, Atenor and Schreder. He has been a director of SIPEF since 1999.

Sophie Lammerant-Velge

BORN: 9 JULY 1956

NATIONALITY: BELGIAN

Sophie Lammerant-Velge is a licentiate in economics (ICHEC Brussels Management School), and has a master's degree in business administration (INSEAD Business School) and an executive master's degree in corporate finance (Vlerick Business School). She is co-founder and vice-chair of Family Business Net Belgium. She was a director of Family Business Net International, where she is currently a member of the nomination and sustainability committee. She is also a director of Bekaert SAK and Banque Transatlantique Belgium, where she has a seat on the audit committee. She is on the advisory committee of Spencer Stuart and Landon Investments Family Office (Barcelona). She has been active in various educational, art and philanthropic associations for many years. She has been a director of SIPEF since 2011.

Petra Meekers

BORN: 1 DECEMBER 1973

NATIONALITY: DUTCH

Petra Meekers has a biomedical sciences qualification and a bachelor's degree in biochemistry. From 2006 to 2008 she was active in the renewable energy industry as an independent consultant at BioX Sdn Bhd. She was group sustainability manager at New Britain Palm Oil until 2015, when she was appointed director of CSR and Sustainable Development at Musim Mas Holdings Ltd. She is currently active at Unilever Asia Pte Ltd as vice president Sustainable Sourcing Unilever. She has been a director of SIPEF since 2017.

Nicholas Thompson

BORN: 12 DECEMBER 1959

NATIONALITY: BRITISH

Nicholas Thompson has an honours degree in agricultural science (plant breeding, agronomy and soil science) from Nottingham University, a master of science in agriculture from Reading University, a certificate in rice production from the International Rice Research Institute (Philippines) and a master of business administration from Bath University. He began his career in Papua New Guinea in 1984 as assistant manager at New Britain Palm Oil Ltd (NBPOL), where he was promoted to deputy director plantations in 1991 and managing director in 1994. Under his leadership, NBPOL grew into one of the largest employers in Papua New Guinea and a renowned sustainable palm oil company, which was taken over by Sime Darby Plantations in 2015. That year he was awarded the honour of 'Commander of the Most Excellent Order of the British Empire'. He sat on the board of directors of the National Development Bank PNG, West New Britain University Centre and various palm oil industry professional organisations in Papua New Guinea. He is now a member of the board of Feronia Inc., a plantation company listed in Canada. He has been a member of the SIPEF board since 2019.

2.3 Diversity policy

POLICY

The board can only deliberate and make decisions efficiently when the number of members is limited and the appropriate diversity is present on the board.

The Company applies various criteria when appointing directors, including experience, knowledge, training, age, gender and nationality.

The board also gives special attention to the complementary competences of its members, which are often associated with the diverse backgrounds of the directors.

The Company also endeavours to protect the interests of all stakeholders through the presence of independent directors.

SIPEF does not tolerate any form of discrimination.

APPLICATION

The background and professional experience of the members are very diversified within the board. They extend over the agricultural, financial, manufacturing and marketing industries. Sustainability being a key aspect of all activities of the SIPEF group, the Company ensures that the board is able to call on the requisite expertise in this domain from within its ranks.

Three nationalities are represented by the members of the board: Belgian, British and Dutch.

Women have sat on the SIPEF board of directors for many years. Priscilla Bracht was the first female director to be appointed in 2004. Sophie Lammerant-Velge joined the board in 2011 and in 2017 the number of female directors increased to three, when Petra Meekers was co-opted to replace Antoine de Spoelberch.

SIPEF aspires to have a sufficient number of independent directors on the board of directors. At the end of 2018, four of the ten directors were independent.

2.4 Changes to the composition of the board of directors

ENDING AND RENEWAL OF DIRECTORSHIPS IN 2020

The directorships of Luc Bertrand, Jacques Delen, Regnier Haegelsteen and Petra Meekers expire at the end of the ordinary general meeting of 10 June 2020.

The directorship of Regnier Haegelsteen will not be renewed, as he passes the age limit of 70 years in 2020.

The other directors will put themselves forward for the position of director on the board. Since Jacques Delen did pass the age limit of 70 years in 2019 and Luc Bertrand will also turn 70 in 2021, the board of directors has decided to propose the renewal of their directorships for a term of one and three years respectively to the general meeting of 10 June 2020. Petra Meekers' mandate would be extended for four years. Petra Meekers also fulfils the independence criteria stated in principle 3 of the Code, as she confirmed in a letter of 20 March 2020 to the chairman. The board will therefore propose the renewal of her independent directorship to the ordinary general meeting of 10 June 2020.

APPOINTMENT OF A NEW DIRECTOR

The appointment of Gaëtan Hannecart as a new director for a term of four years will be proposed to the general meeting of 10 June 2020. His directorship will therefore expire at the end of the general meeting of June 2024, which gives its opinion on the accounts of the financial year 2023.

2.5. Directorships at listed companies at 31 December 2019

The Code limits to five the number of directorships that a director is permitted to hold in listed companies.

The following directors hold a directorship in other listed companies:

Baron Luc Bertrand:
- → Ackermans & van Haaren
- → CFE
- → SIPEF

Baron Jacques Delen:
- → Ackermans & van Haaren
- → SIPEF

Nicholas Thompson:
- → Feronia Inc.
- → SIPEF

2.6 Meetings of the board in 2019 and attendance record

The SIPEF board of directors met five times in 2019. The weighted average attendance was 98%. The individual attendance record was as follows:

	ATTENDANCE
Baron Luc Bertrand, chairman	5 / 5
François Van Hoydonck, managing director	5 / 5
Tom Bamelis	5 / 5
Priscilla Bracht	5 / 5
Baron Jacques Delen	4 / 5
Bryan Dyer (until 12 June 2019)*	2 / 2
Antoine Friling	5 / 5
Regnier Haegelsteen	5 / 5
Sophie Lammerant-Velge	5 / 5
Petra Meekers	5 / 5
Nicholas Thompson (from 12 June 2019)**	3 / 3

* attendance calculated up to and including the day of the ordinary general meeting of 12 June 2019 and based on the meetings during his directorship

** attendance calculated from the ordinary general meeting of 12 June 2019 and based on the meetings during his directorship

The boards of directors of February and August established the annual and semi-annual financial statements. The meeting in September deliberated on the Group strategy.

As a rule, the development of the activities of the various subsidiaries was checked at each meeting, based on a report drawn up by the executive committee.

The board of directors of 12 February also approved the bonus pool for Group staff and the variable remuneration of the members of the executive committee, as proposed by the remuneration committee.

It also gave its opinion on the interaction between the board and the executive committee, for which the managing director absented himself. The same meeting deliberated on the Annual report, including the remuneration report. Furthermore, it deliberated on the renewal of the directorship of four directors, the composition of the audit and remuneration committee, the delegation of the daily management and the appointment of Nicholas Thompson as a new member of the board of directors.

On 12 June the board undertook an in-depth examination of the latest developments in sustainability in relation to the four products marketed by the Group. The directors also looked at the presentations to be made to the ordinary general meeting and the agenda of the extraordinary general meeting.

The board of directors of 13 August approved the restructuring of the short- and medium-term financing in USD, which entails a rise in SIPEF's total debt.

We also investigated a potential investment in a banana plantation in Ivory Coast.

The ten-year business plan was amended, the future marketing strategy and the sustainability course to be followed were established at the meeting of 10 September. The board also decided to incorporate the Sustainability report into the Annual report, based on the United Nations Sustainability Development Goals. It ratified the recommendations of management with regard to the amendments to be made to the Charter and the articles of association.

On 22 November the board examined the IT developments through the Group. It set the 2020 Group budgets. It also approved the Responsible Plantations Policy and Charter updates, and agreed to the introduction of a Code of Conduct and Crisis Communication Manual, the texts of which it approved. It deliberated on the update to the Company's materiality matrix and studied possible investments and divestments.

Lastly, the remuneration of the members of management was analysed and the decision was made to set up a new option plan for members of the executive committee.

2.7 Assessment

In accordance with the Code, every three years the directors assess the scale, composition and functioning of the board of directors and the committees of the Company.

Furthermore, the non-executive directors assess the relationship between the board of directors and the executive committee once a year in the absence of the managing director (article 2.8 of the Charter). This annual assessment of the interaction was held in February 2019. The directors in question were of the opinion that there is a sufficient degree of transparency and a good working relationship between the two bodies.

On 18 September 2018 an extraordinary meeting of the board of directors was entirely devoted to assessing the scale, composition and functioning of the board of directors and the committees. Special attention has been paid to the current composition of the board. It was found to be appropriate in terms of scale, and the essential qualifications were judged to be present to an adequate degree. The board also made a small number of proposals with regard to how the meetings were organised.

The composition and operation of the board and its committees will be next assessed in 2021.

3. Executive committee

3.1 Composition at 31 December 2019

Charles De Wulf, Johan Nelis, François Van Hoydonck, Robbert Kessels, Thomas Hildenbrand

COMPOSITION EXECUTIVE COMMITTEE AT 31 DECEMBER 2019	
François Van Hoydonck, chairman	managing director
Charles De Wulf	estates department manager
Thomas Hildenbrand	fruit department manager
Robbert Kessels	chief commercial officer
Johan Nelis	chief financial officer

3.2 Members of the executive committee

At 31 December 2019 the executive management comprised five people to whom the board of directors in 2014 delegated day-to-day management and who act together as the 'executive committee'. The committee is chaired by François Van Hoydonck, who is also a director of the Company.

The board appoints the members of the executive committee for an indefinite period of time, with the exception of the members who are directors. Then, the term of the delegation of day-to-day management is determined by the term of the directorship.

This explains why the board of directors of 12 February 2019 renewed the delegation of day-to-day management to François Van Hoydonck, provided his directorship is renewed by the ordinary general meeting of 12 June 2019. This ensures continuity in the functioning of the executive committee.

The Company does not intend to change the composition of this committee in 2020.

François Van Hoydonck

MANAGING DIRECTOR
BORN: 29 AUGUST 1959
NATIONALITY: BELGIAN

François Van Hoydonck graduated in accounting and taxation at Sint-Eligius Business School Antwerp. He joined SIPEF in 1979, specialising in the palm oil sector, other agro-industrial activities and their financial management. He was chief financial officer of the SIPEF Group between 1995 and 2007. Since 2007, he has been managing director of SIPEF and chairman of the executive committee since 2014.

Charles De Wulf

ESTATES DEPARTMENT MANAGER
BORN: 22 AUGUST 1964
NATIONALITY: BELGIAN

Charles De Wulf holds a master degree as an industrial engineer in tropical agronomy and also in business administration and management. He began his career as financial controller on a SIPEF group plantation in West Africa in 1989 and was active in the management of various fruit plantations in South and Central America and the Caribbean until 2003. He was an independent consultant for private and institutional customers for a decade, specialising in responsible and sustainable policy, primarily in banana cultivation. In 2013 he joined SIPEF as estates department manager. He has been a member of the executive committee since 2014.

Thomas Hildenbrand

FRUIT DEPARTMENT MANAGER
BORN: 29 DECEMBER 1962
NATIONALITY: FRENCH

Thomas Hildenbrand trained as an agronomist and was awarded a master's degree as an agricultural technician (horticulture option). He began his professional career in Switzerland in 1983, before relocating to Ivory Coast in 1984 to work for SIPEF group at Plantations J. Eglin SA as production manager and subsequently general manager. Between 1990 and 1994 he founded and developed Société Bananière de Motobé, which is now part of Plantations J. Eglin SA, where he is currently a director.

In 1994 he transferred to SIPEF head office in Belgium, where he worked as a management representative. He is currently fruit department manager and a member of the executive committee.

Robbert Kessels

CHIEF COMMERCIAL OFFICER
BORN: 21 MARCH 1975
NATIONALITY: DUTCH

Robbert Kessels earned a master's degree in international business at Maastricht University. He began his career at Cargill Rotterdam as commercial trainee at the trading desk. He went on to fill various positions in Cargill's tropical oil trading department in Indonesia and Singapore over a seven-year period. In 2012 he left Cargill after more than 12 years to join SIPEF, where he was appointed marketing commodities manager in 2013. In 2014 he was appointed chief commercial officer and a member of the executive committee.

Johan Nelis

CHIEF FINANCIAL OFFICER

BORN: 20 OCTOBER 1968

NATIONALITY: BELGIAN

Johan Nelis holds a degree in applied economic sciences ("Universiteit Antwerpen") and in development cooperation ("Université Libre de Bruxelles"). He began his career as an auditor at Ernst & Young in Belgium (now EY) in 1992. He then worked at Fortis Group (insurance) in Belgium as an internal auditor, where he was responsible for operational and functional audits. He joined SIPEF as a financial controller in 1998. In 2007 he was appointed chief financial officer of the Group. He has been a member of the executive committee since 2014.

3.3 Diversity policy

POLICY

The diversity policy, on which basis the composition of the board of directors is determined, also applies to the executive committee. A balanced and varied composition is all the more important for the committee, which must be composed of a limited number of people with the knowledge and experience to be able to handle all aspects of the Company's activities.

When appointing the members, the Company is primarily focused on the experience, knowledge and training of the candidates to ensure sufficient complementary competences are present.

Age, gender and nationality are other criteria that are considered. They guarantee a diverse way of thinking and acting.

No form of discrimination is tolerated.

APPLICATION

Each member of the committee has his own specific competences in various fields, be they agrarian management, commercial and administrative management, finance, legal or IT. Where necessary, the members have the required experience in countries where SIPEF is active or in countries in tropical and sub-tropical regions.

The age of the members varies from early forties to early sixty. The age limit is set at 65.

There are three different nationalities in the committee: French, Dutch and Belgian.

Although SIPEF is completely open to appointing women to positions at all echelons of the company, with women holding key positions in Belgium and elsewhere, no women currently has a seat on the executive committee.

3.4 Meetings in 2019

As a rule, the executive committee meets every Tuesday, subject to unforeseen circumstances, and whenever required in the interests of the Company.

The committee is responsible for the daily management of the Group, including all actions connected with the day-to-day operations of the Company and the other companies of the Group, as well as all actions that are not important enough for the board of directors or too urgent to justify the intervention of the board. It has the appropriate operational freedom and resources to duly perform its work.

In practice, the committee prepares all decisions of the board and ensures all decisions taken are implemented. In 2019, among other things, the committee prepared the individual and consolidated accounts and the quarterly figures of the Group, and established the short-term and long-term budgets, which were submitted to the board for approval. It followed the operational and financial developments of the Group and made related proposals to the board of directors. It reported on the organisation of the internal audit in the operational companies of the Group. It formulated proposals concerning the strategy to be followed. It deliberated on the Sustainability Development Goals (SDGs) to be set by the Company and the update to the materiality matrix with a view to the Sustainability report and submitted various drafts to the board of directors for approval, including the Sustainability Report, the Corporate Governance Statement, the Code of Conduct and the Crisis Communication Manual.

3.5 Assessment

The Charter does not set out any special procedure for assessing the composition, functioning and performance of the executive committee, as laid down in the 2009 Belgian Corporate Governance Code. In practice, these aspects are assessed throughout the year by the board of directors, based on the work of the committee and the preparations for the board.

The non-executive directors also give their opinion on the interaction between the board of directors and the executive committee annually, in the absence of the managing director. Their opinion on 12 February 2019 was that the board has a good working relationship with the executive committee and is sufficiently transparent.

Furthermore, the contribution of every member of the executive committee to the development of the activities and the results of the Group is assessed annually by the remuneration committee, together with the managing director. The chairman of the committee does not take part in the assessment of his own performance. These assessments were made during the meeting of the remuneration committee of 22 November 2019.

4. Committees of the board of directors

4.1 Audit committee

COMPOSITION AT 31 DECEMBER 2019

At 31 December 2019 the audit committee had three members, all non-executive directors. Two members are independent directors. The committee is chaired by Tom Bamelis.

	TERM
Tom Bamelis, chairman	2019-2022
Sophie Lammerant-Velge	2019-2023
Nicholas Thompson	2019-2023

The term of office of the committee members coincides with the term of their directorship, except in the case of Tom Bamelis, who was appointed a member and chairman of the audit committee during his term as director.

All members of the audit committee have the necessary accounting and auditing skills, and the committee has collective expertise with regard to the activities of SIPEF.

MEETINGS IN 2019 AND ATTENDANCE RECORD

The audit committee met four times in 2019. The weighted average attendance was 100%.

	ATTENDANCE
Regnier Haegelsteen, chairman (until 12 June 2019)*	1 / 1
Tom Bamelis, chairman (from 13 June 2019)**	3 / 3
Antoine Friling (until 12 June 2019)*	1 / 1
Sophie Lammerant-Velge	4 / 4
Nicholas Thompson (from 13 June 2019)**	3 / 3

* attendance calculated up to and including the day of the ordinary general meeting of 12 June 2019 and based on the meetings during his directorship.

** attendance calculated from 13 June 2019 and based on the meetings during his directorship.

In February and August the committee's primary focus was on analysing the annual and semi-annual financial statements and the press release relating to these accounts. At each of these meetings, the auditor presented the results of the audit of these statements.

In addition, the following were also explained and discussed during the various meetings:

- → the update of the existing risks and their classification;
- → the impact of the refined assessment procedure for IAS 41 and IAS 2 applicable as from December 2018;
- → the impact of the initial application of IFRS 16 - Leases on the 2018 accounts;
- → the analysis of the accounting treatment of the 2018-2019 tax expenses (effective and deferred tax);
- → the financial covenant regarding the long-term loan as at 30 June 2019 and how this develops over the next six months;
- → the pending disputes before the courts regarding recoverable VAT in Indonesia and their impact on the accounts;
- → the steps taken to collect the outstanding receivable relating to the sale of SIPEF-CI and its accounting treatment;
- → the application in the SIPEF group of the transfer pricing method since the end of 2016;
- → the new model for the goodwill impairment test;
- → the reports of the internal audit committees of the operating units in Indonesia and Hargy Oil Palms Ltd in Papua New Guinea.

The auditor attended all meetings of the committee in 2019.

The internal auditors of the operational subsidiaries did not attend the meetings of the audit committee of the mother company. The managing director and chief financial officer met regularly with the local internal audit managers during their site visits in Indonesia and Papua New Guinea.

A representative of Ackermans & van Haaren was present at one meeting of the committee, as a non-member. From 13 June 2019 Priscilla Bracht has been invited to the meetings of the audit committee as an observer.

ASSESSMENT

The periodic assessment of the composition and functioning of the board of directors also relates to the committees of the board of directors.

4.2 Remuneration committee

COMPOSITION AT 31 DECEMBER 2019

At 31 December 2019 the remuneration committee had three members, all non-executive directors. The majority of the committee, two of the three members, are independent directors. The committee is chaired by Antoine Friling.

	TERM
Antoine Friling, chairman*	2019-2023
Sophie Lammerant-Velge	2019-2023
Petra Meekers	2019-2020

* Antoine Friling has chaired the committee since 13 June 2019.

The term of office of the committee members coincides with the term of their directorship, except in the case of Petra Meekers, who was appointed a member of the remuneration committee during her term as director.

The committee has the required expertise in remuneration policy.

MEETINGS IN 2019 AND ATTENDANCE RECORD

The remuneration committee met twice in 2019. The weighted average attendance was 100%.

	ATTENDANCE
Regnier Haegelsteen, chairman (until 12 June 2019)*	1 / 1
Antoine Friling, chairman (from 13 June 2019)	2 / 2
Sophie Lammerant-Velge	2 / 2
Petra Meekers (from 12 June 2019)**	1 / 1

* attendance calculated up to and including the day of the ordinary general meeting of 12 June 2019 and based on the meetings during his directorship

** attendance calculated from 13 June 2019 and based on the meetings during her directorship.

On 12 February the remuneration committee analysed the Group expatriate remuneration trend over recent years and, based on its findings, made recommendations concerning their variable remuneration. The committee then made recommendations concerning the bonus to be paid out in 2019 for the head office. Specifically, it assessed the members of the executive committee individually and, based on its findings, proposed individual variable remuneration. The remuneration committee also prepared the remuneration report to the ordinary general meeting of 12 June 2019.

At the meeting of 22 November 2019 the committee deliberated the management succession plan for the Group subsidiaries and the Schoten head office. It analysed the emoluments of the directors and the members of the various committees of the board of directors and the members of the executive committee. The committee then compared all of these remunerations with those of similar operational listed companies. Lastly, the committee proposed the 2019 share option plan for the executive committee and the foreign management of the Group.

The managing director also attended the meetings of the remuneration committee.

A representative of the reference shareholders, Ackermans & van Haaren and the Bracht family, was also present at the February meeting. From 13 June 2019 Luc Bertrand and Priscilla Bracht were invited to the meetings of the remuneration committee.

ASSESSMENT

The periodic assessment of the composition and functioning of the board of directors also relates to the committees of the board of directors.

4.3. Nomination committee

COMPOSITION AT 31 DECEMBER 2019

The SIPEF nomination committee is composed of all the members of the board of directors.

The change to the composition of the nomination committee is identical to the change to the composition of the board of directors (see point 2.1.).

MEETINGS IN 2019 AND ATTENDANCE RECORD

The board met twice in 2019 in its capacity of nomination committee, on 12 February and 22 November. The weighted average attendance was 100%.

The committee of 12 February deliberated on the renewal of the directorships of Antoine Friling, Sophie Lammerant-Velge and François Van Hoydonck for a period of four years and Regnier Haegelsteen for one year. The committee also proposed Nicholas Thompson as a new director subject to approval of the directorships of the general meeting of 12 June 2019. The committee established the composition of the audit and remuneration committees.

On 22 November the committee acquainted itself with the future composition of the board of directors.

	ATTENDANCE
Baron Luc Bertrand, chairman	2 / 2
François Van Hoydonck, managing director	2 / 2
Tom Bamelis	2 / 2
Priscilla Bracht	2 / 2
Baron Jacques Delen	2 / 2
Bryan Dyer (until 12 June 2019)*	1 / 1
Antoine Friling	2 / 2
Regnier Haegelsteen	2 / 2
Sophie Lammerant-Velge	2 / 2
Petra Meekers	2 / 2
Nicholas Thompson (from 12 June 2019)**	1 / 1

* attendance calculated up until the ordinary general meeting of 12 June 2019 and based on the meetings during his directorship

** attendance calculated from the ordinary general meeting of 12 June 2019 and based on the meetings during his directorship

4.4 Assessment of the committees of the board of directors

The board of directors regularly assesses its composition and functioning, as well as the composition and functioning of its committees.

At the meeting of 18 September 2018, as well as the assessment of the board, the composition and functioning of the committees were also on the agenda.

There were no remarks about the current composition of the committees, but there were remarks about their future composition. That is because four directors would have reached the age limit of 70 between 2019 and 2021. All members of the board, in their capacity of member of the nomination committee, were invited to re-examine the composition of the audit committee and remuneration committee based on this fact, with due consideration for the legal requirements.

Lastly, the communication between the board of directors and the committees was analysed and concrete proposals were made on the future reports of the audit committee and the remuneration committee.

The composition and operation of the board and its committees will be next assessed in 2021.

5. Remuneration report

5.1 Procedure for developing the remuneration policy and setting the remuneration level

The remuneration policy and the remuneration level are proposed by the remuneration committee and set by the board of directors.

NON-EXECUTIVE DIRECTORS

The amount of the remuneration of the non-executive directors is proposed by the remuneration committee and set by the board of directors, which presents it to the general meeting for approval.

The remuneration committee compares the emoluments of the directors with those of similar operational listed companies annually and proposes changes if needed.

MANAGING DIRECTOR AND THE OTHER MEMBERS OF THE EXECUTIVE COMMITTEE

The composition of the remuneration and the amounts are proposed by the remuneration committee and set by the board of directors.

The remuneration of the members of the executive committee, including the managing director, are the subject of external benchmarking every year. This comparative study is conducted by the Company itself, based on salary studies and remuneration data published in the annual reports of similar operational listed companies with a comparable market capitalisation.

The market median is used as reference for the remuneration of the members of the executive committee. This comparative study, which is normally conducted in November and December, primarily concerns the fixed remuneration of the members of the executive committee and to a lesser degree the variable remuneration.

The general meeting of 8 June 2011 agreed, contrary to article 520ter of the Companies Code, that the entire variable remuneration of the members of the executive committee is based on performance criteria established in advance and objectively measurable over a period of one year. The variable remuneration can therefore be paid at once, rather than spread over three years as provided for by law. The Company's articles of association have been amended in that sense.

The option plans are proposed by the remuneration committee and set by the board of directors.

5.2 Remuneration policy

NON-EXECUTIVE DIRECTORS

The non-executive directors receive fixed remuneration that is not linked to the scale of the results. This remuneration consists of the emoluments for the meetings of the board of directors and, where applicable, remuneration for membership of a given committee.

In 2019 the non-executive directors received the following remuneration:

On an annual basis per person in EUR	Member	Chairman
Board of directors	29 000	60 000
Audit committee	7 500	9 750
Remuneration committee	4 000	5 200

The outgoing and incoming directors are remunerated in accordance with the number of months they served as directors in the financial year.

The non-executive directors do not receive any variable remuneration, shares or options. They benefit from director liability insurance.

EXECUTIVE MANAGEMENT

The members of executive management, consisting of the managing director and the other members of the executive committee, receive fixed remuneration, variable remuneration and possibly share options.

A. Fixed remuneration

The managing director receives emoluments for participating in the meetings of the board of directors and additional fixed remuneration for his executive duties.

The amount of the fixed remuneration of the members of the executive committee, including the managing director, is set on the basis of market practices and is assessed annually (see supra).

The members of the executive committee benefit from group insurance with fixed premiums. This comprises a supplementary pension, as well as disability and life insurance. In addition, the Company has taken out hospitalisation insurance and assistance insurance with global coverage for every member. The members also receive a company car and meal vouchers.

B. Variable remuneration

The total amount of the variable remuneration of the members of the executive committee depends on the consolidated recurring result of the SIPEF group.

The board of directors may grant a special bonus over and above this to one or more members for specific accomplishments.

The individual distribution of the total variable remuneration among the members of the committee is based on qualitative and quantitative performance criteria established in advance and objectively measurable over a period of one financial year.

The linking of the variable remuneration to the performance in one financial year — rather than performance criteria over two or three financial years as laid down by law — is justified by the seniority of all members of the executive committee. They have proven over many years that they are driven by a long-term vision. Such a vision is entirely in line with the strategy of the Company, whose activities can only be assessed in the long term. Furthermore, all members of the executive committee have signed a clawback clause. This means that the Company is entitled to demand variable net remuneration is returned if it was granted on the basis of incorrect financial data.

Besides the short-term variable remuneration, the members of the executive committee receive no long-term variable remuneration in cash.

C. Profit-sharing plan

SIPEF has created option plans to increase the engagement of the executive management in the development of the Company and provide extra motivation. Share options have been offered to members of the executive committee every financial year since 2011. The share options offered in the SIPEF share option plan have the following characteristics:

- → Type: SIPEF share options (one option gives the holder the right to one SIPEF share);
- → Time of the offer: late November;
- → Exercise price: price based on the average closing price of the share over the 30 days preceding the offer;
- → Term of the plan: 10 years;
- → Exercise term: from 1 January of the year following the third anniversary of the grant, up to and including the end of the tenth year after the date of the offer.

5.3 Application of the remuneration policy in 2019

THE AMOUNTS IN INDIVIDUAL REMUNERATION OF THE DIRECTORS PAID IN 2019

EUR	Member of the board of directors	Member of the audit committee	Member of the remuneration committee	Total
Baron Luc Bertrand, chairman	60 000	-	-	60 000
François Van Hoydonck	29 000	-	-	29 000
Tom Bamelis	29 000	4 875 (1)	-	33 875
Priscilla Bracht	29 000	-	-	29 000
Baron Jacques Delen	29 000	-	-	29 000
Bryan Dyer	14 500 (2)	-	-	14 500
Antoine Friling	29 000	3 750 (3)	4 600 (3)	37 350
Regnier Haegelsteen	29 000	4 875 (4)	2 600 (4)	36 475
Sophie Lammerant-Velge	29 000	7 500	4 000	40 500
Petra Meekers	29 000	-	2 000 (5)	31 000
Nicholas Thompson	14 500 (6)	3 750	-	18 250
TOTAL	321 000	24 750	13 200	358 950

(1) remuneration prorated over the term as chairman of the audit committee
(2) remuneration prorated over the term as director
(3) remuneration prorated over the term as member of the audit committee and chairman of the remuneration committee
(4) remuneration prorated over the term as member and chairman of the audit committee and remuneration committee
(5) remuneration prorated over the term as member of the remuneration committee
(6) remuneration prorated over the term as member of the audit committee

REMUNERATION OF THE MEMBERS OF THE EXECUTIVE COMMITTEE IN 2019

The fixed and variable remunerations, just like the other benefits granted and paid to the members of the executive committee directly or indirectly by SIPEF and by its subsidiaries, in 2019 can be summarised as follows (total cost for the Company):

kEUR	Managing director	Other members	Total	Relative share
Fixed remuneration	398	1 043	1 441	59.01%
Variable remuneration	165	251	416	17.04%
Group insurance	264	203	467	19.12%
2018 share options*	36	47	83	3.40%
Benefits in kind (company car)	3	32	35	1.43%
TOTAL	866	1 576	2 442	100.00%

* the value of the benefit in kind on which the beneficiaries paid tax in 2019

No shares were granted to the members of the executive committee in 2019.

OPTIONS GRANTED TO THE MEMBERS OF THE EXECUTIVE COMMITTEE IN 2019

On 22 November 2019, SIPEF decided to grant 14 000 options to the members of the executive committee. These were split among the beneficiaries as follows:

François Van Hoydonck	6 000
Charles De Wulf	2 000
Thomas Hildenbrand	2 000
Robbert Kessels	2 000
Johan Nelis	2 000
TOTAL	14 000

Another 6 000 options were granted to general managers of the foreign subsidiaries.

The options granted in 2019 have the following characteristics:

Exercise price	→ EUR 45.61
Expiry date	→ 22 november 2029
Exercise period	→ from 1 January 2023 up to and including 22 November 2029

In 2019 the members of the executive committee exercised no options. 3 300 of the options granted to the general managers of the foreign subsidies expired.

5.4 Most important clauses of the agreements of the executive committee

All members have a self-employed status. Besides the aforementioned information stated in the remuneration report, the agreements of the members of the executive committee include non-compete and non-disclosure clauses.

The members cannot claim any severance pay in the event of the ending of their provision of services or ending of their directorship by the Company for urgent reasons.

The managing director may unilaterally end his agreement subject to six months' notice. The notice term to be respected by the Company varies from 18 to 24 months, depending on when the agreement is ended. The notice term shall be extended by 12 months if the agreement is ended pursuant to a change of control in the Company, by which more than half of the directors is replaced, and if serious restrictions of the essential powers of the managing director are imposed unilaterally by the Company. The extraordinary general meeting of 27 December 2007 approved this clause in accordance with article 556 Companies Code.

The notice term for the other members of the executive committee in the event of ending by the Company is one month for each year of provision of services, with a minimum notice term of three months and a maximum notice term of 18 months. The notice term if the employment is ended by a member of the executive committee is 1.5 months for each five years in employment or six months, whichever is lower.

5.5 Changes to remuneration policy

The remuneration policy was not changed in 2019.

5.6 Remuneration policy for the financial years 2020 and 2021

The board of directors has no intention of making far-reaching changes to the remuneration policy in 2020 and 2021.

6. External and internal audit

6.1 External audit

The ordinary general meeting of 12 June 2017 renewed the contract of Deloitte Bedrijfsrevisoren CVBA/Réviseurs d'Entreprises SCRL, represented by Kathleen De Brabander, for a period of three years. This contract will accordingly expire at the end of the ordinary general meeting of the financial year 2020. The same meeting set the annual remuneration at EUR 76 740, indexation and VAT not included.

The auditor conducts the external audit on the consolidated and individual financial statements of SIPEF. She reports to the audit committee and the board of directors twice a year.

The annual remuneration of the statutory auditor for the financial year 2019 regarding the statutory audit of the accounts and consolidated financial statements of SIPEF amounts to KUSD 90 (KEUR 81).

The remuneration for the non-audit services in 2019 came to KUSD 41 (KEUR 37). These fees were for tax advice. These non-audit services were approved by the audit committee, which receives a summary of these fees at each meeting.

The total cost of external control of the SIPEF group paid to the Deloitte network amounted to KUSD 396. The fees paid for advice from the same statutory auditor and related companies came to KUSD 108. All details regarding the fees paid to Deloitte can be found in Note 32 of the Financial Statements.

The term of the auditor ends at the end of the general meeting of 10 June 2020. The renewal of the contract with Deloitte Bedrijfsrevisoren CVBA/Réviseurs d'Entreprises SCRL for a further three-year term and at a fee of EUR 81 438, not including indexation and VAT will be proposed to the meeting. If the meeting approves this renewal, Deloitte will be represented under this contract by Kathleen De Brabander.

This renewal is fully in line with the EU audit reform regulation of 16 April 2014. However, the Belgian legislator interprets the transitional provisions with regard to the external rotation of corporate auditors in this regulation in a restrictive way. As a consequence, Deloitte will only be able to fulfil its duties in the 2020 financial year before interrupting its duties for the next two financial years.

SIPEF will therefore initiate a private call for proposals in the course of 2020 with a view to appointing a new external auditor, in accordance with EU rules with regard to external rotation of the corporate auditors at listed companies.

6.2 Internal audit

An internal audit department has been set up at the operating units in Indonesia and at Hargy Oil Palms Ltd in Papua New Guinea, reporting four times per year to the local audit committee that assesses the internal audit reports.

The internal audit function at the Head Office in Belgium and in the other subsidiaries is exercised by the member of management responsible, along with the managing director and the chief financial officer of SIPEF. Given the limited size of these companies, in 2019 the SIPEF audit committee did not change its opinion that no separate internal audit department should be set up at this time.

7. Report in connection with internal control and risk management systems

The SIPEF board of directors is responsible for assessing the inherent risks of the Group and the effectiveness of internal control.

SIPEF's internal control systems were set up in accordance with the Belgian legal requirements for risk management and internal control, the principles stated in the 2009 Belgian Corporate Governance Code, and are organised on the basis of the COSO model (the Committee of Sponsoring Organizations of the Treadway Commission).

An analysis conducted at Group level forms the basis of the internal control and risk management system, an important pillar of which is the reliability of the financial reporting and the communication process.

7.1 Control environment

SIPEF is a Belgian-listed company specialising in agro-industrial activities in tropical and subtropical regions. The Group produces primarily palm products but also rubber, tea and bananas in Indonesia, Papua New Guinea and Ivory Coast. The production of these products is a very labour-intensive process.

To optimise the management of the plantations, a lot of attention is given to the employees' general knowledge and training in agricultural and management methods. The Company draws up manuals with standard procedures containing practical guidelines and appropriate management practices, to ensure the implementation of the Group policy in agriculture, technology and environment by the various members of staff in different parts of the world. The Group management ensures that all employees are able to work in a safe and healthy environment.

The SIPEF board of directors has also drawn up a 'Responsible Plantations Policy' (www.sipef.com/hq/sustainability/policies/responsible-plantations-policy), which applies to all plantation activities. It reviews this policy every year to ensure it is adapted to the latest legal, social and environmental standards.

To facilitate and encourage further growth in the day-to-day management of its activities, SIPEF pursues clear sustainable regulations that are stricter than the legal requirements of the countries in which the Company does business. That undertaking is documented by certificates and generally accepted standards: see the Sustainability report on page 17.

The internal control exercised by SIPEF monitors compliance with all these procedures, guidelines and rules to protect the assets, staff and activities of the Group and optimise their management.

The corporate structure, corporate philosophy and management style of the SIPEF group can be generally described as 'flat'. This is explained by the limited number of decision channels in the hierarchy. This and the low staff turnover increase the social control in the Company.

The Group is split into a number of departments. Each department has specific functions and each person in that department has a specific job description. The required level of education and/or experience is established for each job and duty. There is a well-defined policy of delegating powers.

Lastly, SIPEF monitors the strict application of the rules set down in its Corporate Governance Charter to ensure that the directors, all managers and the staff of the Group act honestly and ethically, and in accordance with the applicable rules and principles of good governance.

7.2 Risk analysis and control activities

Every year, the board of directors approves the strategic plan setting out the strategic, operational, financial, tax and legal goals.

Certain risks can threaten the achievement of these goals. These risks have been identified and classified based on their potential importance, the likelihood they will become reality and the steps taken to deal with them. The risk actions are split into the following categories: reduction, transfer, avoidance and acceptance.

The Company has issued the appropriate instructions and/or established the required procedures to enable the identified risks to be dealt with appropriately.

7.3 Information and communication

A set of internal and external operational and financial reports ensures the appropriate information can be made available at the appropriate levels on a periodic basis (daily, weekly, monthly, quarterly, every six months or annually) so that the assigned responsibilities can be duly taken.

7.4 Supervision and monitoring

It is the responsibility of every employee to report potential failings in the internal control to the appropriate person.

In addition, the internal audit departments at the operating units in Indonesia and at Hargy Oil Palms Ltd in Papua New Guinea, are responsible for the constant supervision of the effectiveness and compliance of the existing internal control for their respective activities. They propose the appropriate adjustments based on their findings. A local audit committee discusses the reports of the internal audit departments every quarter. A summary of the most important findings is submitted to the SIPEF audit committee every year.

The responsible member of management, together with the managing director and the chief financial officer of SIPEF monitors the internal control at small subsidiaries for which a separate internal audit function has not been created.

In addition, the financial statements of every Group subsidiary are checked by an external auditor at least every year. Any remarks ensuing from this external audit are submitted to the board of directors in the form of a management letter. No major failures in the internal control have been established in the past.

7.5 Internal control and risk management systems related to financial reporting

The process for drawing up financial reports is as follows:

- The process is led by the corporate finance department, which is under the direct supervision of the chief financial officer of SIPEF.
- A schedule is drawn up based on the imposed internal and external deadlines. This is given to every reporting entity and the external auditor at the start of the year. The external deadlines are also published on the Company's website.
- The following reporting entities can be identified:
  a. The companies in Indonesia, including PT Timbang Deli, taken as a whole
  b. Hargy Oil Palms Ltd in Papua New Guinea
  c. Plantations J. Eglin SA in Ivory Coast
  d. Jabelmalux SA in Luxembourg
  e. SIPEF in Belgium
  f. Verdant Bioscience Pte Ltd in Singapore
- The financial department of each entity is headed by a certified accountant.
- The first step in the annual reporting cycle is drawing up a budget for the following year. This is done in the period September to November and is submitted to the board of directors for approval in November. The strategic options in this budget also fit in with the long-term plan strategy that is updated and approved by the board of directors annually.
- Sensitivity analyses for the strategic plan and the annual budget are drawn up to be able to make the right risk profile for the decisions to be made.
- The production figures and the net financial position of the previous month are received and consolidated by the corporate finance department in the first week of every month, before being submitted to the managing director and the executive committee.
- The intergroup transactions are also reconciled in this first week before the accounts are closed.
- The monthly financial reporting comprises an analysis of the volumes of initial stock, production, sales and end stock; the operational result and a summary of the other items on the income statement, i.e. financial result and tax, a balance sheet and cash flow analysis.
- The accounting policies used for the monthly reporting are identical to those used for the legal consolidation under IFRS.
- The monthly figures are compared with the budget and the same period a year earlier for each reporting entity, and significant differences are investigated.
- The corporate finance department converts these summary operational and financial figures on a monthly basis to the functional currency (mostly USD), consolidated in the reporting currency (USD), and checks once again that they are consistent with the budget or the previous period.
- The consolidated monthly reporting is submitted to the managing director and the executive committee.
- The board of directors receives this report on a periodic basis, i.e. 3, 6, 9 and 12 months, as preparation for the board meeting. This report is accompanied by a memorandum with a detailed description of the operational and financial trends of the preceding quarter.
- In the event of exceptional events, the board of directors is also notified immediately.
- An external audit controls the individual financial statements and the technical consolidation at the end of June and the end of December, but only in December for the smaller entities. The consolidated IFRS figures are then submitted to the audit committee.

- Based on the advice of the audit committee, the board of directors gives its opinion on the correctness of the consolidated figures before publishing the financial statements on the market.
- An interim management report is published twice a year, after the first and after the third quarter, stating the trends in production volumes, global market prices and any changes in the pipeline.
- The corporate finance department is responsible for monitoring any amendments to IFRS reporting standards and implementing these amendments in the Group.

The monthly management reports and the legal consolidation are done in an integrated system. Appropriate care is also given to anti-virus and security applications, uninterrupted backups and steps to ensure the continuity of the service.

8. Rules of conduct concerning conflicts of interest

The Charter describes the policy with regard to transactions between the Company, or one of its affiliated companies, and a member of the board of directors or a member of the executive committee, that could entail a conflict of interest, within the meaning of the Companies Code or otherwise. It also states the legal procedures that are laid down in articles 523 and 524 of the Companies Code.

In 2019 two transactions giving rise to a conflict of interests within the meaning of article 523 of the Companies Code were reported to the board of directors of respectively 12 February and 22 November. The legal procedures provided by this article were applied to the related decisions of the board. The Company's auditor was notified in advance and the excerpt of the minutes relating to these transactions are provided in full below:

Excerpt of the minutes of 12 February 2019

'The Chairman of the Remuneration Committee, Regnier Haegelsteen, summarizes the proposals of the committee to the Directors as follows:

The individual evaluation of the members of the executive committee has resulted in an individual bonus proposal which is communicated to the Directors.

As this item concerns part of his remuneration, François Van Hoydonck, managing director, states that there is a conflict of interest on his behalf. Article 523 of the Companies Code is therefore applicable and the statutory auditor of the company has been informed of this situation. He leaves the meeting temporally. The Directors take notice of the evaluation and the proposals of the Remuneration Committee for François Van Hoydonck and confirm their approval with the proposed amount.

François Van Hoydonck enters the meeting room again.'

Excerpt of the minutes of 22 November 2019

'The Chairman of the Remuneration Committee, Antoine Friling, summarizes the advice of the committee for the Directors as follows:

"As the next item concerns his remuneration, François Van Hoydonck, Managing Director, states that there is a conflict of interest on his part. Article 523 of the Belgian Companies Code is therefore applicable, and the statutory auditor of the Company has been informed of this situation. He leaves temporally the meeting.

The Chairman of the remuneration committee explains that the yearly option scheme, started in 2011, would be continued in 2019. The options would have the same characteristics as those granted last year, being an annual stock option plan on existing SIPEF shares and in line with Belgian tax legislation. The committee proposes to grant a total number of 20 000 share options to the Managing Director, the Executive Committee and the 3 managers in charge of the operations of SIPEF in Indonesia, PNG and Ivory Coast.

One option giving the beneficiary the right to buy one SIPEF share, 20 000 options correspond to an amount of approximately KEUR 920 (on the basis of a stock price of approximately 46 euro per share), of which 6 000 options (KEUR 276) would be granted to François Van Hoydonck.

After deliberation, the Board of Directors approves the proposal as formulated by the committee. François Van Hoydonck enters the meeting room again."

There were no other conflicts of interest in 2019.

9. Policy concerning financial transactions

The board of directors has drawn up and set down the rules of conduct that the directors, employees and self-employed staff of SIPEF must comply with in financial transactions with Company stock and its policy to prevent market abuse in chapter 5 of the Charter.

10. Shareholder structure

The SIPEF shareholder structure is characterised by the presence of two controlling shareholders, Ackermans & van Haaren and the Bracht group (comprising the Baron Bracht family and Cabra NV), which act together in mutual consultation on the basis of a shareholder agreement that was originally entered into in 2007 for a period of 15 years. On 3 March 2017, this agreement was amended and renewed for a further period of 15 years.

With a stable shareholding of SIPEF, the aim of this shareholder agreement is to promote the balanced development and profitable growth of SIPEF and its subsidiaries. Among other things, it contains voting arrangements in relation to the appointment of directors and arrangements in relation to the transfer of shares.

As a result of the merger of Cabra NV and Gedei NV on 31 August 2018, SIPEF received a transparency statement from the controlling shareholder. As a result, Ackermans & van Haaren, together with the Bracht group holds 42.86% of the votes, of which 30.56% are in the hands of Ackermans & van Haaren and the rest in the hands of the Bracht group. The relevant details of this transparency statement have been published on the Company's website (www.sipef.com/hq/investors/shareholders-information/shareholders-structure/).

On that date, no other shareholder held more than 5% of the votes of SIPEF.

11. Agreement with the Belgian Corporate Governance Code 2009 — "comply or explain"

SIPEF's corporate governance deviates from a limited number of recommendations of the 2009 Belgian Corporate Governance Code:

→ *The option plans were not submitted to the general meeting in advance for approval.*

The plans are included in the remuneration report and are therefore indirectly submitted to the shareholders for approval in this report. Furthermore, the options are granted to the beneficiaries at the end of November. So it is impossible in practice to submit the share option plan to the ordinary general meeting held in June. And lastly, the options are just a small part of the total remuneration package of the managers in question.

→ *SIPEF does not have a permanent secretary that can advise the board of directors with regard to corporate governance.*

These duties are fulfilled jointly by the managing director and chief financial officer, assisted by the Company's internal legal counsel.

→ *The Charter does not set out any special procedure for assessing the composition, functioning and performance of the executive committee.*

The board of directors has not drawn up any special assessment procedure for this because it is able to assess the executive management throughout the year on the basis of the work done by this executive committee and its preparations for the board.

→ *The SIPEF nomination committee is composed of all members of the board of directors and is only made up of 30% independent directors, and no more than 50% as required by the Belgian Corporate Governance Code.*

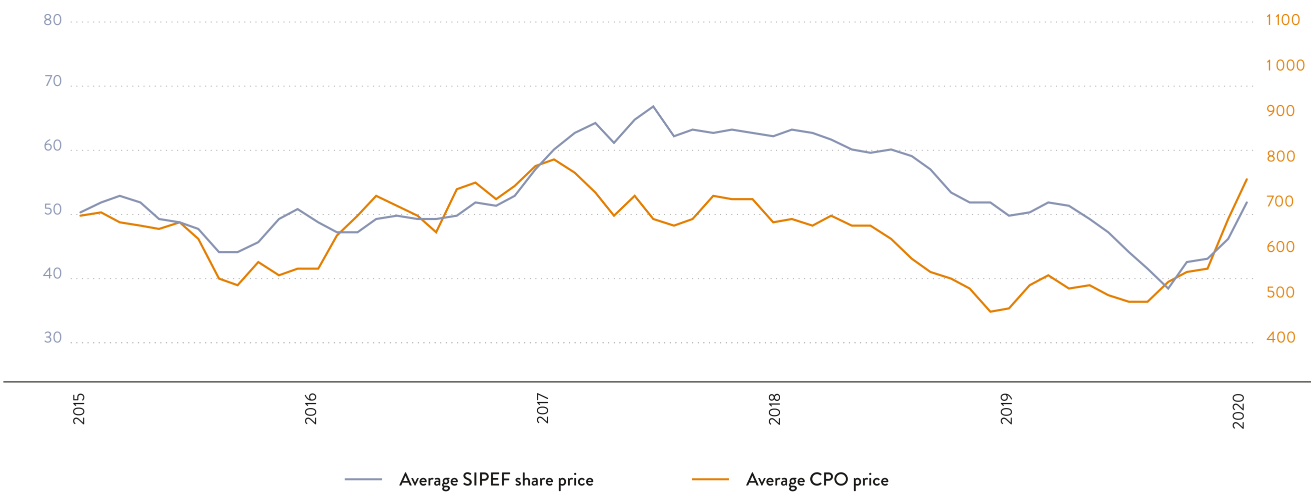
SIPEF is of the opinion that the full board is better able than a nomination committee to prepare and organise its composition and the succession plans. Furthermore, the relatively limited size of the board — ten members — does not hamper efficient deliberation and decision-making.

SIPEF on the stock market

Stock market listing

The SIPEF shares have been listed on the Brussels stock market since the establishment of SIPEF in 1919. Currently, the shares are listed on the continuous market of Euronext Brussels (share code: SIP, ISIN code: BE0003898187).

EVOLUTION OF THE SIPEF SHARE (IN EUR) COMPARED TO THE CRUDE PALM OIL PRICE (IN USD)



The graph above shows that the value of SIPEF shares in EUR follows the same trend as the crude palm oil price (restated in EUR). The change in trend in 2017 is probably due to the expansions at the end of 2016 and the beginning of 2017, and the corresponding capital increase in May 2017. Since these transactions in the first semester of 2017, the relationship between SIPEF shares and the crude palm oil price has been restored.

EVOLUTION STOCK MARKET DATA OF THE SIPEF SHARE (IN EUR)

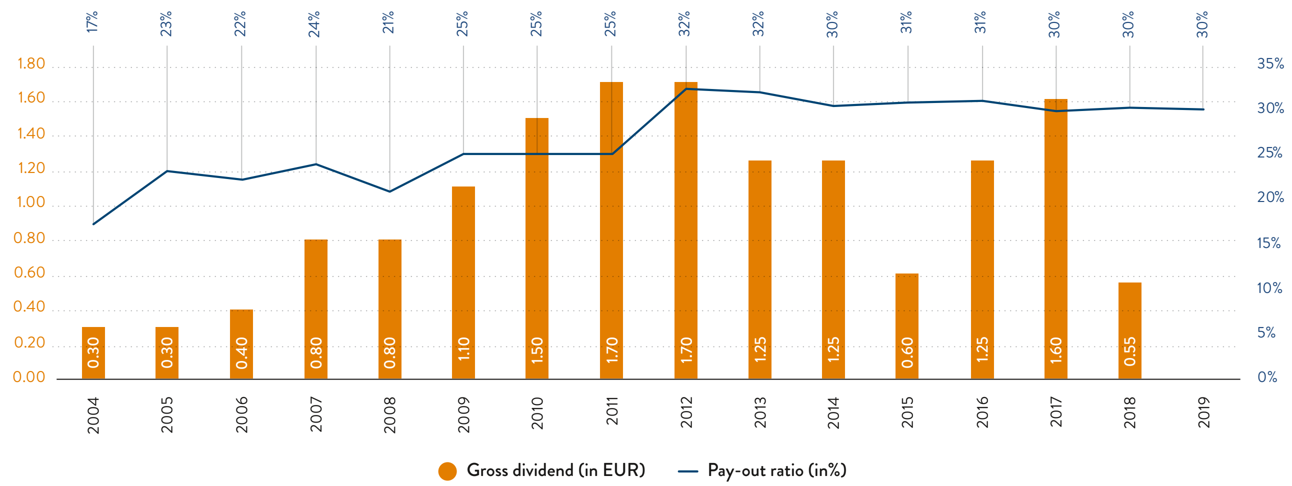
	2019	2018	2017	2016	2015
Highest stock price of the year	54.80	65.0	70.0	60.8	53.9
Lowest stock price of the year	35.25	46.5	57.0	45.5	40.0
Closing stock price per 31/12	54.80	48.8	62.8	60.5	52.8
Market capitalisation per 31/12 (KEUR)	579 747	516 271	664 382	541 491	472 383
Number of shares per 31/12	10 579 328	10 579 328	10 579 328	8 951 740	8 951 740
Average number of shares traded per trading day	5 081	4 967	5 014	3 042	4 799
Average turnover per trading day (KEUR)	229	287	318	155	230

Dividend policy

As from 2004, the pay-out ratio increased from 17% to about 30% in 2012. This percentage has remained stable over the 2012-2018 period. In 2019, SIPEF recorded a loss so that no dividend payment is proposed for 2020.

Considering the profit forecasts for 2020 onwards, as from 2021, SIPEF expects to start again with a dividend payment of approximately 30% of the profit of the previous financial year and to reinvest the balance in the further growth of the Company.

EVOLUTION OF THE DIVIDEND AND PAY-OUT RATIO



Financial calendar

The periodical and occasional information relating to the Company and to the Group will be published before opening hours of the stock exchange as follows:

Thursday 23 April 2020: interim results for the first three months
Wednesday 13 August 2020:
half-year results
Thursday 22 October 2020: interim report for the first nine months
February 2021: results of the financial year, accompanied with comments on the activities of the Group
Wednesday 9 June 2021: next ordinary general meeting of shareholders will be held at 3:00 pm.
(Kasteel Calesberg, Calesbergdreef 5, 2900 Schoten)

In accordance with the legal regulations all important data that could influence in one way or another the results of the Company and of the Group will be subject to a separate press release.

Financial service

The main paying agent is Bank Degroof Petercam.

Corporate website

The website (www.sipef.com) plays an increasingly important role in the SIPEF financial communication. Therefore, a substantial part of the corporate website is reserved for investor relations. As from the launch of the renewed SIPEF website in October 2018 reference is made to the daily stock price and the daily crude palm oil price (www.sipef.com/hq/investors/daily-share-price-cpo-price/).

Other information about the Company

Legal form, formation, legal publication

The Company was established on 14 June 1919 in the form of a limited liability company ("naamloze vennootschap"), under Belgian law, executed by deed before Xavier Gheysens, notary public in Antwerp, and published in the Appendices to the Belgisch Staatsblad of 9 July 1919 under number 5623. The articles of association have been amended on many occasions, most recently by the deed of 12 June 2019, published in the Appendices to the Belgisch Staatsblad of 2 July 2019 under number 19087786.

Legislation applicable to the activities of SIPEF

The Company is governed by the existing and future legal and regulatory provisions applicable to the "naamloze vennootschappen" and by the articles of association.

Term

The Company exists for an indefinite term.

Corporate purpose

The purposes of the Company are:

a) Planting and cultivating, among other things rubber trees, coffee trees, tea plants, palm trees and other trees or plants. Acquiring, processing and selling all products; acquiring, selling, leasing, renting ground or property or any related concessions; and, generally, everything that can be considered part of the agricultural domain.
b) Participating, in any form, in the formation, expansion, conversion and control of all Belgian or foreign companies in trade, finance, industry or other, acquiring all titles and rights by means of participation, contribution, transfer, permanent participation or purchase option, trading and all other means. Giving the companies in which it has an interest, all assistance, loans, advances or guarantees, in other words all arrangements in general that are related directly or indirectly to its purpose or that facilitate the fulfilment or enlargement of this purpose.

c) All real estate transactions in the broadest sense, at its own expense or at the expense of third parties or in participation with third parties or in any way, in Belgium or abroad, including acquiring, selling, parcelling out, constructing, reconstructing, appropriating, converting, forestation and deforestation, leasing as lessor or lessee of all real estate, as well as all companies of public or private works.

Capital

OUTSTANDING CAPITAL

SIPEF has been granted official approval from the Federal Public Service (FPS) Economy, from 1 January 2016, to keep its accounts and draw up its financial statements in US dollars, the functional currency of SIPEF.

At 31 December 2019 the fully paid-up registered capital was USD 44 733 752.04. It is represented by 10 579 328 shares without nominal value.

All shares representing the capital have the same rights.

Each share gives the right to one vote. SIPEF has issued no other categories of share, such as shares without voting rights or preferential shares.

Pursuant to the law of 14 December 2005 abolishing bearer shares, the holders of bearer shares were obliged to convert their shares into registered shares or dematerialised shares no later than 31 December 2013. The bearer shares not converted to registered shares or dematerialised shares by 1 January 2014 were converted to dematerialised shares by law and registered on the share account in the name of SIPEF.

The exercise of the rights linked to the shares has been suspended by law since 1 January 2014.

The law also imposed an obligation on issuers to sell all unclaimed bearer shares on the stock exchange from 1 January 2015 and remit the proceeds from the sale to the "Deposito- en Consignatiekas" within fifteen days.

Since 31 December 2015, the owners of the old bearer shares have the right to request the payment of the corresponding proceeds from the "Deposito- en Consignatiekas", provided they are able to prove they are the rightful holder. The law of 14 December 2005 states that, from 1 January 2016, a fine of 10% of the proceeds from the sale of the underlying bearer shares will be payable on the reimbursement calculated per started year's delay. SIPEF accordingly no longer has a role to play in this process.

AUTHORISED CAPITAL

The extraordinary general meeting of 8 June 2016 passed a resolution to extend by five years the authorisation granted to the board of directors to increase the capital on one or more occasions:

- in the amount of USD 37 851 639.41
- in accordance with the terms established by the board of directors, such as:
  - → by means of a contribution in kind within the limits permitted by the Companies Code;
  - → by converting reserves and share premiums;
  - → with or without issue of new shares, with or without voting rights;
  - → by issuing convertible bonds, whether or not they are subordinated;
  - → by issuing warrants or bonds to which warrants or other securities are attached;
  - → by issuing other securities, such as shares as part of a share option plan.

Furthermore, in the interests of the Company the board of directors can limit or abolish the preferential subscription rights of the shareholders, within the limits and in accordance with the conditions set down in the Companies Code.

That authorisation is valid for a period of five years, commencing on 27 June 2016, the date of publication in the Appendices to the Belgisch Staatsblad, and ending on 26 June 2021 (including).

The extraordinary general meeting of 12 June 2019 decided that, if the Company receives an announcement from the Financial Services and Markets Authority (FSMA) that it has been informed of a public bid to acquire the shares of the Company, in accordance with article 607, second paragraph, item 2 of the Companies Code, the board of directors can only use its authorisation with regard to the authorised capital, if this notification is made no later than three years after the date of the extraordinary general meeting that renewed the authorisation in question, being from 12 June 2019 up to and including 11 June 2022.

At 31 December 2019 the fully authorised capital was USD 37 851 639.41.

Based on this amount, no more than 8 951 739 new shares can be issued.

TREASURY SHARES

The extraordinary general meeting of 13 June 2018 renewed for a period of five years the authorisation given to the board of directors of the Company, as a result of which the board, with due consideration for the legal provisions, may acquire or dispose of, a maximum number of 2 115 865 own shares with a par value no higher than 20% of the issued capital. These shares may only be acquired at a price no lower than one euro and no higher than the average closing price of the share over the 30 calendar days preceding the transaction, plus 10%.

This authorisation also concerns the acquisition of own shares by the companies in which SIPEF, alone or by virtue of a shareholders' agreement, directly holds, exercises or controls the majority of the voting shares, or in which the Company has the right to directly appoint the majority of directors or managers.

That authorisation is valid for a period of five years, commencing on 19 June 2018, the date of publication in the Appendices to the Belgisch Staatsblad, and ending on 18 June 2023 (including).

This extraordinary general meeting also renewed the authorisation granted to the board of directors of the Company to buy or sell own shares if this purchase or sale is necessary to avoid an imminent serious disadvantage for the Company. That authorisation is valid for a period of three years, commencing on 19 June 2018, the date of publication in the Appendices to the Belgisch Staatsblad, and ending on 18 June 2021 (including).

The purchase and sale of own shares in 2019 are discussed in more detail in Note 22 of this Annual report.

At 31 December 2019, SIPEF owns 160 000 treasury shares (1.51% of the total number of outstanding shares) which are reserved for the exercise of the same number of granted and not yet exercised options.

EXCHANGEABLE AND CONVERTIBLE LOANS
SIPEF has not granted any exchangeable or convertible loans.

Voting right

There are no limitations in the articles of association on the exercise of the voting right, without prejudice to the general rules on admission to the general meeting.

Documents available to the public

ACCESS TO THE INFORMATION FOR THE SHAREHOLDERS AND WEBSITE
SIPEF has a website (www.sipef.com) where the shareholders can have access to full information on the Company.

This website is regularly updated and contains the information required under the Royal Decree of 14 November 2007 on the obligations of issuers of financial instruments admitted to trading on a regulated market.

Among other things, the website contains the financial statements and annual reports, all press releases published by the Company and all useful and necessary information on the general meetings and the participation of the shareholders in these meetings, particularly the conditions provided by the articles of association for the convening of the (ordinary and extraordinary) general meetings of the shareholders.

Lastly, the results of the votes and the minutes of the general meetings are also published on the website.

PLACES WHERE DOCUMENTS ACCESSIBLE TO THE PUBLIC CAN BE CONSULTED

The coordinated articles of association of the Company can be inspected at the Registry of the Commercial Court in Antwerp, at the Company's registered office and its website (www.sipef.com/hq/investors/shareholders-information/corporate-governance).

The annual financial statements are deposited with the National Bank of Belgium and can be consulted on the website of SIPEF.

The resolutions concerning the appointment and the removal of the members of the executive bodies of the Company are published in the Appendices to the Belgisch Staatsblad.

The financial notices of the Company are published in the financial press. The other documents available for public inspection can be consulted at the Company's registered office.

The Annual report of the Company is sent every year to registered shareholders and to everyone who has expressed a wish to receive the report. It is available free of charge at the registered office.

The Annual reports of the three most recent financial years and all other documents mentioned in this paragraph can be consulted on the Company's website.

Glossary

General

ACP -- The African, Caribbean and Pacific Group of States organisation was created by the Georgetown Agreement in 1975. It is composed of 79 states, which are bound to the European Union via the EU Partnership Agreement. One of the main objectives is the sustainable development of its member states and their gradual integration into the global economy.

CDM -- The Clean Development Mechanism allows a country with an emission limitation or reduction commitment under the Kyoto Protocol to implement an emission reduction project in developing countries. Such projects can earn saleable Certified Emission Reduction (CER) credits, each equivalent to one tonne of CO_2, which can be counted towards meeting Kyoto targets. It is the first global, environmental investment and credit scheme of its kind, providing a standardised emissions offset instrument, CER. A CDM project activity might involve, for example, a rural electrification project using methane captured from the effluent of palm oil processing units. CDM is managed by the UNFCCC (United Nations Framework Convention on Climate Change).

CIF Rotterdam -- Cost, Insurance and Freight (CIF) is the selling price to cover all costs including insurance and freight up to the port of destination which is Rotterdam in this case. The buyer will pay for the goods delivered in Rotterdam. The CIF Rotterdam price is a worldwide reference in the palm oil market.

CPO -- Crude Palm Oil is an edible oil which is extracted from the pulp of the fruit of the oil palm.

CSPKO -- Certified Sustainable Palm Kernel Oil is palm kernel oil produced by palm oil plantations, which have been independently audited and certified against the Roundtable on Sustainable Palm Oil (RSPO) standard.

CSPO -- Certified Sustainable Palm Oil is palm oil produced by palm oil plantations, which have been independently audited and certified against the RSPO standard.

CTC tea -- During the Cut, Tear and Curl tea process, the leaf is not rolled. Instead, it goes through a CTC machine, which results in a different tea from orthodox tea. It infuses more quickly and makes stronger cups of black tea.

EFB -- Empty Fruit Bunches are the remains of the Fresh Fruit Bunches (FFB) after the fruit has been removed for palm oil pressing.

EMS -- An Environmental Management System is a set of processes and practices that enable an organisation/company to reduce its environmental impacts.

FFA -- Free Fatty Acids are found in palm oil, as in all fats. The major FFA in palm oil are palmitic and oleic. Crude palm oil quality and price are dependent on the FFA content at time of shipping.

FFB -- Fresh Fruit Bunches are the palm fruits that grow on the oil palm in bunches, the raw material to be transported to a palm oil mill for processing. The mill process extracts the palm oil from the flesh of each individual piece of fruit on the bunch.

FOB Indonesia -- Free On Board: is the selling price indicating that the seller pays for the transportation of the goods to the port of shipment, in this case Indonesia, plus loading costs. The buyer pays, in addition to the goods, the cost of freight, insurance, unloading and transportation from the arrival port to the final destination.

FPIC -- Free, Prior and Informed Consent (FPIC) is a specific right that pertains to indigenous peoples and local communities, and is recognised in the United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP). It allows indigenous peoples and local communities with demonstrable user rights over an area to give or withhold consent to a project that may affect them or their territories.

GHG -- Greenhouse gases are the emissions into the Earth's atmosphere of any of various gases, amongst others carbon dioxide and methane, that contribute to the greenhouse effect, leading to changes in temperature.

GLOBALG.A.P. -- Is a worldwide recognised farm certification program that translates consumer requirements into Good Agricultural Practices among multiple retailers and their suppliers.

GRI -- The Global Reporting Initiative (GRI) is an independent international organisation that has pioneered sustainability reporting since 1997. GRI helps businesses and governments worldwide understand and communicate their impact on critical sustainability issues such as climate change, human rights, governance and social well-being. This enables real action to create social, environmental and economic benefits for everyone.

HCSA -- The High Carbon Stock Approach is a methodology that distinguishes forest areas for protection from degraded lands, with low carbon and biodiversity values that may be developed. The methodology was developed with the aim of ensuring a widely accepted practical, transparent, robust and scientifically credible approach to implement commitments to halt deforestation in the tropics, while ensuring the rights and livelihoods of local peoples are respected.

HCV -- The High Conservation Value (HCV) concept was originally developed by the Forest Stewardship Council in 1999 for use in forest management certification. In 2005 the HCV Resource Network was established and the scope was widened from 'HCV Forest' to 'HCV Area'. It is now a keystone principle of sustainability standards for palm oil, soy, sugar, biofuels and carbon, as well as being widely used for landscape mapping, conservation and natural resource planning and advocacy.

HCVA -- High Conservation Value Areas are designated on the basis of high HCVs which are biological, ecological, social or cultural values considered outstandingly significant at the national, regional or global level.

HFCC -- High Forest Cover Countries (HFCC) are defined as those having > 60% forest cover (based on recent, trusted recognition of their Reduction of Emissions from Deforestation and Forest Degradation (REDD+) and national data); < 1% oil palm cover; a deforestation trajectory that is historically low but increasing or constant; and a known frontier area for oil palm or where major areas have been allocated for development.

HFCL -- High Forest Cover Landscapes (HFCL) are landscapes having > 80% forest cover. The High Carbon Forest Landscape (HCFL) concept was developed by the High Carbon Stock Approach (HCSA) and a specific section in the HCSA Toolkit relating to HCFL is being developed in conjunction with RSPO.

HGU -- "Hak Guna Usaha" is a cultivation licence issued by the Indonesian Government.

Inti -- The nucleus estate of a plantation company in Indonesia is referred to as "inti". They are stated as 'own' in the Group production figures.

IPM -- Integrated Pest Management is an ecosystem approach to crop production that combines different management strategies and practices to grow healthy crops and minimise the use of pesticides.

ISCC -- International Sustainability and Carbon Certification is an independent certification scheme designed to demonstrate that biomass and bioenergy, and other biomass-based products used as ingredients by the feed, food and chemical industries, comply with requirements related to sustainability and GHG emissions. The scheme aims to reduce GHG emissions; ensure that biomass is not produced on land with high carbon stock or high biodiversity; ensure the application of good agricultural practices related to soil, water and air; and finally, ensure respect for human, labour and land rights.

ISEAL -- The International Social and Environmental Accreditation (ISEAL) is the global membership association for credible sustainability standards. These sustainability standards meet the Codes of Good Practice and promote measurable change through open, rigorous and accessible certification systems. They are supported by international accreditation bodies, which are required to meet accepted international best practice.

ISPO -- The Indonesian Sustainable Palm Oil system is a policy adopted by the Ministry of Agriculture on behalf of the Indonesian Government. The aims are to improve the competitiveness of Indonesian palm oil in the global market; reduce GHG; draw attention to environmental issues and also lead the ISPO GHG Working Group. The ISPO Commission and the GHG

Working Group have worked together to formulate the calculation guidelines for palm oil plantations in Indonesia. These guidelines will be used as a reference and be incorporated by the Government into the latest ISPO standard.

Izin Lokasi -- This licence issued by the Indonesian Government authorises a developer to compensate land from private owners in a specific location for a defined project.

MDGs -- The Millennium Development Goals (MDGs) are eight goals with measurable targets and clear deadlines for improving the lives of the world's poorest people. To meet these goals and eradicate poverty, leaders of 189 countries signed the historic Millennium Declaration at the United Nations Millennium Summit in 2000.

NPP -- The New Planting Procedure (NPP) was introduced with the aim of providing a framework for the responsible development of new land for oil palm cultivation. The NPP includes a set of assessments and verification activities carried out by both growers and certification bodies before any new oil palm development commences. The assessments ensure that new oil palm plantings will not negatively impact primary forest, High Conservation Value (HCV) areas, High Carbon Stock (HCS), fragile and marginal soil, or local peoples' lands. A successful implementation of the NPP ensures that all indicators of the RSPO Principles and Criteria (P&C) 2013, Principle 7, are being implemented, and are therefore in compliance when a new development starts.

PKO -- Palm Kernel Oil is an edible vegetable oil derived from the kernel of the oil palm fruit.

Plasma -- Cooperative programs for plantation development in Indonesia oblige oil palm plantation companies by law to assist individual farmers to develop their agricultural land and manage oil palm planted areas, called 'plasma' areas. Their production is stated as 'outgrowers' in the Group production figures.

POIG -- The Palm Oil Innovation Group (POIG) is a multi-stakeholder initiative that strives to achieve the adoption of responsible palm oil production practices by key players in the supply chain, through developing and sharing a credible and verifiable benchmark that builds upon the Roundtable on Sustainable Palm Oil (RSPO), and creating and promoting innovations. Founded in 2013, the initiative was developed in partnership with leading NGOs as well as with progressive palm oil producers.

POME -- Palm Oil Mill Effluent is waste water generated from palm oil milling activities. With its high organic content POME is a source with great potential for biogas production and/or composting.

Rainforest Alliance -- The Rainforest Alliance is an international non-profit organisation working at the intersection of business, agriculture and forestry to make responsible business the new normal, and awarding certifications. It is an alliance of companies, farmers, foresters, communities and consumers committed to creating a world where people and nature thrive in harmony.

RSPO -- The Roundtable on Sustainable Palm Oil is a non-profit global certification scheme that unites stakeholders from the palm oil industry: oil palm producers, processors or traders, consumer goods manufacturers, retailers, banks/investors, and environmental and social non-governmental organisations (NGOs), to develop and implement global standards for sustainable palm oil. A set of environmental and social criteria has been developed, with which companies must comply in order to produce Certified Sustainable Palm Oil (CSPO). When properly applied, these criteria can help to minimise the negative impacts of palm oil cultivation on the environment and communities in palm oil producing regions. The RSPO members have committed to produce, source and/or use sustainable palm oil certified by the RSPO.

RSS -- Ribbed Smoked Sheets (commonly known as RSS 1 to 5) are a natural rubber which comes directly from the latex of rubber trees. The coagulated latex, rolled in sheets, is graded on the basis of certain parameters, after having been smoked, dried, and then packed in bales. The number 1 to 5 indicates the level of purity of the sheet. The RSS3 processed in Indonesia is mainly used for tires and tubes.

SAN -- The Sustainable Agriculture Network (SAN) is a coalition of non-profit conservation organisations in America, Africa, Europe and Asia promoting the environmental and social sustainability of agricultural activities through the development of standards for best practices, certification and training for rural farmers around the world. Their vision of the world is one where agricultural activity contributes to biodiversity conservation and sustainable livelihoods. Their mission is to be a global network transforming agriculture into a sustainable activity.

SDGs -- Sustainable Development Goals (SDGs), also known as the Global Goals, were adopted by all United

Nations Member States in 2015 as a universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity by 2030. The 17 SDGs are integrated — that is, they recognise that action in one area will affect outcomes in others, and that development must balance social, economic and environmental sustainability.

SIR -- Standard Indonesian Rubber. The different parametres are specified with numbers and letters defining the specifications content (dirt, ash, viscosity, etc.). According to SNI (Indonesian National Standard) specifications, a SIR 10 means that it is a cleaner rubber with less impurities than a SIR 20 and a SIR3CV60 presents a higher viscosity than a SIR3CV50 rubber.

SPOTT -- The Sustainable Palm Oil Transparency Toolkit (SPOTT) is a free, online platform supporting sustainable commodity production and trade. By tracking transparency, SPOTT incentivises the implementation of corporate best practice. SPOTT assesses commodity producers and traders on their public disclosure regarding their organisation, policies and practices related to environmental, social and governance issues.

UNFCCC -- The United Nations Framework Convention on Climate Change (UNFCCC) is an international environmental treaty negotiated at the United Nations Conference on Environment and Development (UNCED), informally known as the Earth Summit, held in Rio de Janeiro from 3 to 14 June 1992. The objective of the UNFCCC is to stabilise greenhouse gas (GHG) concentrations in the atmosphere at a level that will prevent dangerous human interference with the climate system, in a time frame which allows ecosystems to adapt naturally and enables sustainable development.

Finance

IFRS terminology

Associated companies -- Entities in which SIPEF has a significant influence and that are processed using the equity-method.

Biological assets — bearer plants -- The bearer plants (trees, tea bushes, banana plants, ...) on which the biological produce grows.

Biological assets — agricultural produce -- The harvested product coming from biological assets - bearer plants.

CGU -- Cash Generating Unit or cash flow generating unit.

Earnings per share basic -- Net result for the period (Group share)/Average outstanding shares over the period.

Earnings per share diluted -- Net result for the period (Group share)/ [Average number of outstanding shares over the period – own shares + (number of possible new shares that have to be issued within the framework of the existing outstanding stock options plans x dilution effect of the stock option plans)].

Joint ventures -- Entities that are controlled jointly. These companies are consolidated following the equity method.

Net financial position -- Interest bearing financial debts at more than one year + interest bearing financial debts within the maximum of one year – cash and cash equivalents.

Purchase Price Allocation or 'PPA' -- The allocation of the purchase price of a new subsidiary to the value of various assets and liabilities acquired from the transaction.

Subsidiaries -- Fully consolidated entities under SIPEF control.

Financial Performance Measures

EBIT -- Operating results + profit/loss from equity companies.

EBITDA -- EBIT + depreciation and additional impairments/increases on assets.

Market capitalisation -- Closing price x total number of outstanding share.

Working capital -- Inventories + trade receivables + other receivables + recoverable taxes – trade payables – payables taxes – other payables.

Notes

For further information

SIPEF

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Tel.: +32 3 641 97 00

Dit jaarverslag is ook verkrijgbaar in het Nederlands.

Translation: this Annual report is available in Dutch and English. The Dutch version is the original; the other language version is a free translation. We have made every reasonable effort to avoid any discrepancies between the different language versions. However, should such discrepancies exist, the Dutch version will take precedence.

Concept and realisation: Focus advertising

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portraits of the chairman, the members of the board of directors and the members of the executive committee © Wim Kempenaers - some images of estates and products © Jez O'Hare Photography, © Adrian Tan Photography en © Hien Bamouroukoun

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Responsible persons

RESPONSIBILITY FOR THE FINANCIAL INFORMATION

François Van Hoydonck
managing director

Johan Nelis
chief financial officer

DECLARATION OF THE PERSONS RESPONSIBLE FOR THE FINANCIAL STATEMENTS AND FOR THE MANAGEMENT REPORT

Baron Luc Bertrand, chairman and François Van Hoydonck, managing director declare that, to their knowledge:

- the consolidated financial statements for the financial year ended on 31 December 2019 were drawn up in accordance with the 'International Financial Reporting Standards' (IFRS) and provide an accurate picture of the consolidated financial position and the consolidated results of the SIPEF group and its subsidary companies that are included in the consolidation;
- the financial report provides an accurate overview of the main events and transactions with affiliated parties, which occurred during the financial year 2019 and their effects on the financial position, as well as a description of the main risks and uncertainties for the SIPEF group.

STATUTORY AUDITOR

Deloitte Bedrijfsrevisoren CVBA/
Réviseurs d'Entreprises SCRL

Represented by
Kathleen De Brabander,
Gateway Building,
Luchthaven Brussel Nationaal 1 J
1930 Zaventem
Belgium

Evolution of key data over five years

ACTIVITY		2019	2018	2017	2016	2015
Total own production of consolidated companies (in tonnes)	palm oil	264 641	290 441	272 312	246 121	238 548
	rubber*	5 495	6 930	6 964	7 551	8 009
	tea	2 331	2 422	2 402	2 940	2 726
	bananas	32 849	27 788	29 772	24 991	24 286
Average world market price (USD/tonne)	palm oil**	566	598	715	700	623
	rubber***	1 640	1 565	1 995	1 605	1 559
	tea ***	2 226	2 579	2 804	2 298	2 742
	bananas****	662	647	684	737	765
Own FFB production (in tonne/ha)	Indonesia	19.52	20.60	22.36	21.34	21.23
	Papua New Guinea	20.79	28.25	27.21	25.53	26.46
Palm oil extraction rate	Indonesia	23.23%	22.73%	22.80%	21.83%	22.15%
	Papoea-Nieuw-Guinea	23.35%	24.36%	24.64%	23.92%	23.36%

STOCK EXCHANGE SHARE PRICE (IN EUR)	2019	2018	2017	2016	2015
Maximum	54.80	65.00	69.84	60.49	53.90
Minimum	35.25	47.10	57.76	45.95	40.01
Closing 31/12	54.80	48.80	62.80	60.49	52.77
Stock Exchange capitalisation at 31/12 (in KEUR)	579 747	516 271	664 382	541 491	472 383

RESULTS (IN KUSD)	2019	2018	2017	2016	2015
Turnover	248 310	275 270	321 641	266 962	225 935
Gross profit	37 162	72 096	120 474	73 792	43 650
Operating result	4 940	50 065	169 585	47 479	21 447
Share of the Group in the result	- 8 004	30 089	139 663	39 874	18 708
Cash flow from operating activities after taxes	31 887	33 682	119 853	51 218	31 357
Free cash flow	- 27 751	- 12 912	- 16 512	13 328	- 9 948

BALANCE SHEET (IN KUSD)	2019	2018	2017	2016	2015
Operating fixed assets (1)	665 413	640 435	614 351	414 989	404 166
Shareholders' equity	628 686	644 509	634 636	448 063	415 429
Net financial assets (+) /obligations (-)	- 164 623	- 121 443	- 83 697	- 45 061	- 50 521
Investments in intangible and operating fixed assets (1)	66 546	69 428	59 625	41 095	49 002

DATA PER SHARE (IN USD)	2019	2018	2017	2016	2015
Number of shares	10 579 328	10 579 328	10 579 328	8 951 740	8 951 740
Number of own shares	160 000	143 300	124 000	110 000	100 000
Equity	60.34	61.76	60.70	50.68	46.93
Basic earnings per share (2)	-0.77	2.88	14.21	4.50	2.11
Cash flow from operating activities after taxes (2)	3.06	3.22	12.20	5.79	3.53
Free cash flow (2)	-2.66	-1.24	-1.68	1.51	-1.12

(1) Operating fixed assets = biological assets, property, plant & equipment and investment property
(2) Denominator 2019 = weighted average number of shares issued (10 434 244 shares)

* PT Timbang Deli rubber production is considered as third party production
** Oilworld price data
*** World bank commodity price data - updated database
**** CIRAD price data (in EUR)

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Annual report 2019

Part 2 - Financial statements

Contents

Comments on the consolidated financial statements

The consolidated financial statements for the financial year 2019 are prepared in accordance with the International Financial Reporting Standards (IFRS).

1. Balance sheet

The balance sheet positions were relatively stable on the whole, compared with 31 December 2018. The biological assets and other fixed assets increased due to the continuing expansion.

In KUSD	Explanation	31/12/2019	31/12/2018
Inventories	2	26 251	36 274
Biological assets		6 030	4 870
Trade receivables		33 284	35 001
Other receivables		45 367	41 024
Current tax receivables	1	14 787	9 280
Other current assets	3	1 639	2 014
Trade payables		-17 292	-19 647
Advances received		-2 377	- 450
Other payables		-8 747	-9 455
Income taxes	1	-480	-71
Derivatives		-42	-771
Other current liabilities	3	-4 406	-6 136
Net current assets, net of cash		**94 013**	**91 932**

There were a few major movements in the net current assets, excluding liquidities, which consist of the following accounts:

1 Rise due to the compulsory advance payment of tax (KUSD 5 098);
2 Decrease of the stocks at the end of the year (KUSD -10 023);
3 Increase in other current assets and liabilities (KUSD 5 117) primarily from an increase in VAT receivable.

From 2019 the net cash position (KUSD -164 623) also includes the leasing debt recognised in accordance with IFRS 16 (KUSD 3 037 as of 31 December 2019):

In KUSD	31/12/2019	31/12/2018
Other investments and deposits	0	0
Cash and cash equivalents	10 653	29 595
Financial liabilities > 1 year	-63 000	-30 000
Leasing liabilities > 1 year	-2 513	0
Current portion of amounts payable > 1 year	-18 000	-10 000
Financial liabilities	-91 239	-111 038
Leasing liabilities < 1 year	-524	0
Net cash position	**-164 623**	**-121 443**

2. Result

Total revenue fell to USD 248 million (-9.8% compared with 2018).

Palm oil revenue fell by 12.4%, due to a combination of lower production volumes, particularly at Hargy Oil Palms Ltd in Papua New Guinea (-26.9%), and the lower price for crude palm oil (CPO) on the world market. The average world market price for CPO in the most recent year was USD 32 per tonne CIF Rotterdam or 5% lower than in the same period the year before.

Rubber revenue fell by 11.7% compared with 2018, mainly due to the lower volumes sold at comparable prices.

Tea revenue fell by 7.0%, in spite of the higher volumes sold (+11.1%), due to the considerably lower sales prices (-13.7%).

Revenue in the banana and flower activities increased by 28.7%, primarily due to the higher production volumes (+18.2%). Furthermore, from 2019 turnover is reported 'Cost & Freight' rather than FOB.

The average ex-works unit cost price for the mature oil palm plantations increased by some 9.5% compared with 2018. In Indonesia, the average ex-works unit cost increased by 6.7%, which can be viewed as a normal rise in a period without currency devaluation. The Indonesian currency has been devalued by 54.6% since 2010, but this trend has flipped somewhat recently. At Hargy Oil Palms Ltd in Papua New Guinea the ex-works unit cost rose by 26.1%, as a consequence of the major fall in production caused by the difficult weather conditions in the first half of the year and, particularly, the three volcanic eruptions between the end of June and October 2019.

The adjustment in fair value was due to the impact on the measurement of hanging fruits at their fair value (IAS 41R).

Gross profit fell from KUSD 72 096 in 2018 to KUSD 37 162 (-48.5%) in 2019.

The gross profit of the palm segment (92.7% of the gross profit) decreased by KUSD 34 335 (-49.9%) compared to 2018 due to lower productions and lower palm oil prices. The lower productions in Hargy Oil Palms Ltd alone represented a negative effect of approximately USD 9 million on the gross profit.

The contribution of the rubber segment remained negative due to the disappointing production figures and persistently low sales prices, which do not currently cover production costs.

The tea margin was also negative in 2019, because of the sharp fall in the sales price. Additionally, there was an uptick in unit cost (+7.1%) compared with the previous year.

In the banana and flower activities, the announced improvement of profitability was confirmed with a rise in the gross margin from KUSD 2 793 to KUSD 4 697 (+68.2%).

The general and administrative expenses remained virtually stable (-0.9%). On the one hand there was normal inflation, which slightly increased costs, but on the other hand there was a sharp decrease in the bonus provision for 2019.

The operating result, excluding one-off gains, was KUSD 4 940, compared with KUSD 42 689 the previous year.

Financial income primarily comprises the positive time effect of the discount of the receivable from the sale of the stake in the SIPEF-CI SA oil palm plantation in Ivory Coast at the end of 2016 (KUSD 1 689). This receivable will be settled over the next three years.

The financial charges mainly comprised the interest on long-term and short-term financing at Libor-related rates. The rise in interest charges is the consequence of a higher debt position, against which a higher margin was charged in accordance with the credit agreements with the banks.

The result before tax, excluding one-off gains, was KUSD 852, compared with KUSD 39 598 in 2018.

The tax expense was largely due to:

→ The reversal of a number of active deferred tax amounts that expired in 2019 and could not be recovered due to the continued disappointing results;
→ The downward adjustment of the profit forecast for the coming years, as a consequence of which the previously estimated results for 2021-2025 had been downgraded and some of the deferred tax assets had to be reversed;
→ Application of the 'thin cap' rule in Indonesia, as a consequence of which interest on intergroup loans were taxed in Belgium but were not deductible in selected Indonesian group companies.

The share of the result of 'associated companies and joint ventures' (KUSD -1 485) comprised the research activities that are centralised at PT Timbang Deli and Verdant Bioscience Pte Ltd.

Profit for the period, excluding the one-off gains, was KUSD -7 404 or KUSD 31 993 lower than the KUSD 24 589 of the previous year.

The sale of the insurance branch (BDM-ASCO) was completed in the first half of 2018 with a gain of KUSD 7 376. There were no one-off gains in 2019.

Net result, share of the Group, was KUSD -8 004.

3. Cash flow

The cash flow from operating activities fell by KUSD 33 672, which is in line with the lower operating result. The increased use of working capital (KUSD -1 647) was primarily due to the additional advances of approximately USD -3.5 million that were granted to smallholders in the Musi Rawas region for the development of their land within the framework of the Plasma Law.

In Indonesia and Papua New Guinea, in 2019 the Group made advance tax payments based on the previous year's results (2018), in accordance with local laws. Therefore, a relatively large amount of tax was paid in 2019 (KUSD 14 693) compared with the actual tax expense of KUSD 6 772. At the end of 2019, the Group has outstanding tax receivables of USD 14 787, which will be recovered over the next two years.

The total investment expenditure for the Group was KUSD 66 746, which is almost identical with last year's expenditure. The scheduled but not yet confirmed investments were re-examined and postponed where possible in 2019, as part of the reduction in liquid assets from operations from the end of 2018 and to keep the debt position under control. The expansion programme for the Musi Rawas region was geared down significantly, for example, albeit without threatening the long-term potential.

The selling price of PP&E and financial assets alongside the regular sales of fixed assets of KUSD 1 795 also include an amount of KUSD 1 500 from the sale of Galley Reach Holding and KUSD 3 813 from the sale of SIPEF-CI.

The recurring free cash flow over 2019 was KUSD -27 751, compared with KUSD -33 375 over the same period last year.

Other financing activities (KUSD 8 809) comprise the buyback of shares (KUSD -854), the dividend paid over the preceding financial year (KUSD -6 495), a net increase in the long-term financing (KUSD 41 000), paid interest (KUSD -5 042) and partial repayment of the short-term financing (KUSD -19 799).

Consolidated balance sheet

In KUSD	Note	2019	2018
Non-current assets		**805 114**	**780 310**
Intangible assets	8	517	441
Goodwill	8	104 782	104 782
Biological assets - bearer plants	9	306 342	283 712
Other property, plant & equipment	10	359 071	356 723
Investment property		0	0
Investments in associates and joint ventures	24	5 751	7 239
Financial assets		73	77
Other financial assets		73	77
Receivables > 1 year		13 442	11 112
Other receivables	11	13 442	11 112
Deferred tax assets	23	15 135	16 224
Current assets		**138 011**	**158 058**
Inventories	12	26 251	36 274
Biological assets	13	6 030	4 870
Trade and other receivables		78 651	76 025
Trade receivables	26	33 284	35 001
Other receivables	14	45 367	41 024
Current tax receivables	23	14 787	9 280
Investments		0	0
Other investments and deposits		0	0
Derivatives	26	0	0
Cash and cash equivalents	19	10 653	29 595
Other current assets		1 639	2 014
Assets held for sale		0	0
Total assets		**943 125**	**938 368**

In KUSD	Note	2019	2018
Total equity		**663 010**	**678 759**
Shareholders' equity	15	628 686	644 509
Issued capital		44 734	44 734
Share premium		107 970	107 970
Treasury shares (-)		-10 277	-9 423
Reserves		498 052	512 914
Translation differences		-11 793	-11 686
Non-controlling interests	16	34 325	34 250
Non-current liabilities		**137 008**	**102 041**
Provisions > 1 year		1 548	1 550
Provisions	17	1 548	1 550
Deferred tax liabilities	23	46 850	50 936
Trade and other liabilities > 1 year	26	1	0
Financial liabilities > 1 year (incl. derivatives)	19	63 000	30 000
Leasing liabilities > 1 year	27	2 513	0
Pension liabilities	18	23 096	19 555
Current liabilities		**143 107**	**157 568**
Trade and other liabilities < 1 year		28 896	29 623
Trade payables	26	17 292	19 647
Advances received	26	2 377	450
Other payables	14	8 747	9 455
Income taxes	23	480	71
Financial liabilities < 1 year		109 763	121 038
Current portion of amounts payable after one year	19	18 000	10 000
Financial liabilities	19	91 239	111 038
Leasing liabilities < 1 year	27	524	0
Derivatives	26	42	771
Other current liabilities		4 406	6 136
Liabilities associated with assets held for sale		0	0
Total equity and liabilities		**943 125**	**938 368**

Consolidated income statement

In KUSD	Note	2019	2018
Revenue	7	248 310	275 270
Cost of sales	7	-212 038	-201 040
Changes in fair value	7	889	-2 134
Gross profit		**37 162**	**72 096**
General and administrative expenses	7	-31 480	-31 759
Other operating income/(charges)	20	- 741	9 728
Operating result		**4 940**	**50 065**
Financial income		2 161	2 308
Financial charges		-5 473	-3 733
Exchange differences		- 775	-1 666
Financial result	21	**-4 088**	**-3 091**
Profit before tax		**852**	**46 974**
Tax expense	23	-6 772	-14 155
Profit after tax		**-5 920**	**32 819**
Share of results of associated companies and joint ventures	24	-1 485	- 854
Result from continuing operations		**-7 404**	**31 965**
Result from discontinued operations		0	0
Profit for the period		**-7 404**	**31 965**
Attributable to:			
- Non-controlling interests	16	600	1 876
- Equity holders of the parent		-8 004	30 089
Earnings per share (in USD)			
From continuing and discontinued operations			
Basic earnings per share	30	-0.77	2.88
Diluted earnings per share	30	-0.77	2.88
From continuing operations			
Basic earnings per share	30	-0.77	2.88
Diluted earnings per share	30	-0.77	2.88

Statement of consolidated comprehensive income

In KUSD	Note	2019	2018
Profit for the period		**-7 404**	**31 965**
Other comprehensive income:			
Items that may be reclassified to profit and loss in subsequent periods			
- Exchange differences on translating foreign operations	15	- 107	805
- Cash flow hedges - fair value result for the period	26	- 392	503
- Income tax effect (cash flow hedges)		114	- 146
Items that will not be reclassified to profit and loss in subsequent periods			
- Defined Benefit Plans - IAS 19R	18	- 289	-1 073
- Income tax effect		72	268
- Revaluation assets held for sale		0	0
Total other comprehensive income for the year		**- 602**	**357**
Other comprehensive income attributable to:			
- Non-controlling interests		- 10	- 67
- Equity holders of the parent		- 592	423
Total comprehensive income for the year		**-8 006**	**32 322**
Total comprehensive income attributable to:			
- Non-controlling interests		590	1 810
- Equity holders of the parent		-8 596	30 512

Consolidated cash flow statement

In KUSD	Note	2019	2018
Operating activities			
Profit before tax		**852**	**46 974**
Adjusted for:			
Depreciation	8,9,10	42 285	38 745
Movement in provisions	17	3 267	-1 967
Stock options		126	157
Unrealized exchange result		65	113
Changes in fair value of biological assets		- 889	2 134
Other non-cash results		-1 634	-1 693
Hedge reserves and financial derivatives	26	-1 120	1 707
Financial income and charges		4 705	3 391
Loss on receivables		0	80
Loss/(gain) on sale of investments	20	0	-7 376
Result on disposal of property, plant and equipment		570	- 366
Result on disposal of financial assets		0	0
Cash flow from operating activities before change in net working capital		48 227	81 899
Change in net working capital	25	1 883	-13 680
Variation in long term receivables		-3 530	0
Cash flow from operating activities after change in net working capital		46 580	68 219
Income taxes paid	23	-14 693	-34 537
Cash flow from operating activities	**25**	**31 887**	**33 682**
Investing activities			
Acquisition intangible assets	8	- 160	- 261
Acquisition biological assets	9	-33 305	-27 496
Acquisition property, plant & equipment	10	-33 081	-41 671
Acquisition investment property		0	0
Acquisition subsidiaries		- 200	- 300
Dividends received from associated companies and joint ventures		0	0
Proceeds from sale of property, plant & equipment		1 795	1 171
Proceeds from sale of financial assets	11,29	5 313	21 963
Cash flow from investing activities		**-59 638**	**-46 594**
Free cash flow		**-27 751**	**-12 912**
Financing activities			
Capital increase	15	0	0
Equity transactions with non-controlling parties		0	0
Decrease/(increase) of treasury shares	22	- 854	-1 115
Decrease in long-term financial borrowings	19	-9 500	-10 000
Increase in long-term financial borrowings	19	50 500	0
Decrease short-term financial borrowings	19	-19 799	0
Increase short-term financial borrowings	19	0	41 161
Last year's dividend paid during this book year		-6 495	-19 682
Dividends paid by subsidiaries to minorities	16	0	- 607
Interest received - paid		-5 043	-3 430
Cash flow from financing activities		**8 809**	**6 327**
Net increase in investments, cash and cash equivalents	19	**-18 942**	**-6 585**
Investments and cash and cash equivalents (opening balance)	19	29 595	36 180
Effect of exchange rate fluctuations on cash and cash equivalents	19	0	0
Investments and cash and cash equivalents (closing balance)	19	10 653	29 595

Statement of changes in consolidated equity

In KUSD	Issued capital SIPEF	Share premium SIPEF	Treasury shares	Defined benefit plans IAS19R	Reserves	Translation differences	Share-holder equity	Non-controlling interests	Total equity
January 1, 2019	**44 734**	**107 970**	**-9 423**	**-3 391**	**516 305**	**-11 686**	**644 509**	**34 250**	**678 759**
Result for the period					-8 004		**-8 004**	600	**-7 404**
Other comprehensive income				- 207	- 278	- 107	**- 592**	- 10	**- 602**
Total comprehensive income				**- 207**	**-8 282**	**- 107**	**-8 596**	**590**	**-8 006**
Last year's dividend paid					-6 495		**-6 495**	- 516	**-7 011**
Other (note15)			- 855		122		**- 733**		**- 733**
December 31, 2019	**44 734**	**107 970**	**-10 277**	**-3 598**	**501 650**	**-11 793**	**628 686**	**34 325**	**663 010**
January 1, 2018	**44 734**	**107 970**	**-8 308**	**-2 652**	**505 384**	**-12 491**	**634 636**	**33 140**	**667 776**
Result for the period					30 089		**30 089**	1 876	**31 965**
Other comprehensive income				- 739	357	805	**423**	- 67	**357**
Total comprehensive income				**- 739**	**30 446**	**805**	**30 512**	**1 809**	**32 322**
Last year's dividend paid					-19 682		**-19 682**	- 606	**-20 288**
Other (note15)			-1 116		157		**- 959**	- 93	**-1 052**
December 31, 2018	**44 734**	**107 970**	**-9 423**	**-3 391**	**516 305**	**-11 686**	**644 509**	**34 250**	**678 759**

Notes

1. IDENTIFICATION

SIPEF (the 'company') is a limited liability company ('naamloze vennootschap' / 'société anonyme') incorporated in Belgium and registered at 2900 Schoten, Calesbergdreef 5. The consolidated financial statements for the year ended 31 December 2019 comprise SIPEF and its subsidiaries (together referred to as 'SIPEF group' or 'the Group'). Comparative figures are for the financial year 2018.
The consolidated financial statements have been established by the Board of Directors on 11 February 2020. The subsequent events were updated and approved for issue by the directors on April 2, 2020. These financial statements will be presented to the shareholders at the general meeting of June 10, 2020 (or at a later date if this meeting would be adjourned due to the Covid-19 crisis). A list of the directors and the statutory auditor, as well as a description of the principal activities of the Group, are included in 'Part 1 – Company report' of this annual report.

2. STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) which have been adopted by the European Union as per 31 December 2019.

The following standards or interpretations are applicable for the annual period beginning on 1 January 2019:

- IFRS 16 Leases
- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments to IAS 19 Plan Amendment, Curtailment or Settlement
- Amendments to IAS 28 Long term interests in Associates and Joint Ventures
- Amendments to IFRS 9 Prepayment Features with Negative Compensation
- Annual improvements to IFRS Standards 2015-2017 Cycle

These changes did not have a significant impact on the equity or net result of the Group.

The Group did elect for early adoption of the following new standards and interpretations which were issued at the date of approval of these financial statements but were not yet effective on the balance sheet date:

- Amendments to IFRS 9, IAS 39 and IFRS 7 Interest Rate Benchmark Reform (applicable for annual periods beginning on or after 1 January 2020)

The amendments modify specific hedge accounting requirements, so that the Group can apply those hedge accounting requirements assuming that the interest rate benchmark is not altered as a result of the interest rate benchmark reform.

The Group did not elect for early application of the following new standards and interpretations which were issued at the date of approval of these financial statements but were not yet effective on the balance sheet date:

- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-Current (applicable for annual periods beginning on or after 1 January 2022, but not yet endorsed in the EU)
- Amendments to IAS 1 and IAS 8 Definition of Material (applicable for annual periods beginning on or after 1 January 2020)
- Amendments to IFRS 3 Business Combinations (applicable for annual periods beginning on or after 1 January 2020, but not yet endorsed in the EU)
- Amendments to references to the Conceptual Framework in IFRS standards (applicable for annual periods beginning on or after 1 January 2020)
- IFRS 17 Insurance Contracts (applicable for annual periods beginning on or after 1 January 2021, but not yet endorsed in the EU)

At this stage the Group does not expect first adoption of these standards and interpretations to have any material impact on the financial statements of the Group.

IFRS 16 Leases

IFRS 16 replaces IAS 17 'Leases' and related interpretations. For lessees, IFRS 16 requires most leases to be recognized on-balance (under a single model), eliminating the distinction between operating and finance leases. In accordance with the new standard, the lessee will recognize assets and liabilities for the rights and obligations created by leases. The new standard increases interest-bearing liabilities and property, plant and equipment in the consolidated financial statements of the SIPEF group. The Group has applied the cumulative catch-up approach whereby the assets are measured at an amount equal to the liabilities at 1 January 2019.

Lessee accounting
Due to the nature of our business whereby our operations are primarily taking place in relatively remote areas, the Group owns most of the assets used. Therefore, we have only a limited amount of leases which qualify for lease accounting. The three main categories consist of:

Office rental
Office rentals are currently accounted for as operational leases. Analysis shows that these meet the definition of a lease and as such a right-of-use asset and corresponding lease liability will need to be accounted for under the new standard. Considering that most of the office rentals are long-term leases, the main areas management actions are required:

- Determining the lease term;
- Calculating the incremental borrowing rate.

Company cars
Company cars in Belgium meet the definition of a lease and therefore the same approach as office rentals will be applied.

Papua-New-Guinea land rights
In our subsidiary Hargy Oil Palms Ltd in Papua-New-Guinea, a part of the land rights include a fixed annual rental payment for the usufruct of the land, as well as a variable royalty depending on the production levels of the year measured in tons FFB. The annual fixed rental payment meets the definition of a lease, whereby the lease term of asset has been determined as the average lifespan of an oil palm (25 years).

Lessor accounting
The Group has no contracts that could lead to lessor accounting.

We refer to note 27 for the impact of IFRS 16.

3. ACCOUNTING POLICIES

Basis of preparation
Starting in 2007 the consolidated financial statements are presented in US dollar (until 2006 this was done in euro), rounded off to the nearest thousand (KUSD). This modification is the result of the changed policy with regard to the liquidity and debt management since the end of 2006, whereby the functional currency of the majority of the subsidiaries has been changed from the local currency to the US dollar.

The consolidated financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: investments classified as available-for-sale, financial derivative instruments and biological produce.

The accounting policies have been consistently applied throughout the Group and are consistent with those used in the previous year.

Business combinations
Business combinations are accounted for using the purchase method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of acquisition. Any costs directly attributable to the acquisition are recognized in profit or loss. The purchase consideration to acquire a business, including contingent payments, is recorded at fair value at the acquisition date, while subsequent adjustments to the contingent payments resulting from events after the acquisition date are recognized in profit or loss. The 'full goodwill' option, which can be elected on a case by case basis, allows SIPEF to measure the non-controlling interest either at fair value or at its proportionate share of the acquiree's net assets. All acquisition-related costs, such as consulting fees, are expensed.

If the initial accounting for a business combination is incomplete by the end of the financial year in which the combination occurs, SIPEF group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see paragraph below), and/or additional assets and/or liabilities are recognised to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the acquisition date to the date SIPEF group obtains complete information about facts and circumstances that existed as of the acquisition date. The measurement period shall not exceed one year from the acquisition date

Step acquisitions
Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the company.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

Consolidation principles
Subsidiaries:
Subsidiaries are those enterprises controlled by the company. An investor controls an investee if and only if the investor has all of the following elements, in accordance with IFRS 10:

- Power over the investee, i.e. the investor has existing rights that give it the ability to direct the relevant activities;
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect the amount of the investor's returns.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases (or a date nearby).

Associates:
Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognized gains and losses of associates on an equity accounting basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases (or a date nearby). When the Group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

Joint ventures:
Joint ventures are those enterprises over whose activities the Group has joint control, established by contractual agreement. The consolidated financial statements include the Group's share of the total recognized gains and losses of joint ventures on an equity accounting basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases (or a date nearby).
When the Group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the joint ventures.

Transactions eliminated on consolidation:
All intra-group balances and transactions, and any unrealized gains arising on intra-group transactions, are eliminated for companies included using the full consolidation method in preparing the consolidated financial statements.

Unrealized losses are eliminated in the same way as unrealized gains except that they are only eliminated to the extent that there is no evidence of impairment.

Foreign currency

Foreign currency transactions
In the individual Group companies, transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate ruling at the balance sheet date. Foreign exchange differences arising on translation are recognized in the income statement. Non-monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction.

Financial statements of foreign operations
Functional currency: items included in financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity (the functional currency). Starting from 2007 the consolidated financial statements are presented in USD, this is the functional currency of the majority of the Group companies.
To consolidate the Group and each of its subsidiaries, the financial statements of the individual entities are translated as follows:

- Assets and liabilities at the closing rate;
- Income statements at the average exchange rate for the year;
- The components of shareholders' equity at the historical exchange rate.

Exchange differences arising from the translation of the net investment in foreign subsidiaries, joint ventures and associated entities at the year-end exchange rate are recorded as part of the shareholders' equity under "translation differences". When a foreign entity is sold, such exchange differences are recognized in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as local currency assets and liabilities of the foreign entity and are translated at the closing rate.

Biological assets

SIPEF group only recognizes a biological asset or growing agricultural produce ("agricultural produce") when it controls the asset as a result of past events, when it is probable that future economic benefits associated with the asset will flow to SIPEF group and when the fair value or cost of the asset can be measured reliably.

In accordance with the amendments to IAS 16 and IAS 41, bearer plants are stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is calculated using the straight-line method based on the estimated useful life (20 to 25 years).

The growing agricultural produce of palm oil is defined as the oil contained in the palm fruit, so that the fair value of this distinct asset can be estimated reliably.

The growing biological produce of tea is defined as the leaves that are ready to be plucked and processed, even if not yet fully grown, so that the fair value of this distinct asset can be estimated reliably.

SIPEF group has opted to measure growing biological produce of rubber at fair value at the point of harvest in accordance with IAS 41.32 and not to measure it at fair value as it grows less costs to sell in accordance with IAS 41.10c as we are of the opinion that all parameters used in any alternative fair value measurement (future productions, determination of the start of the life cycle, cost allocation,…) are clearly unreliable. As a consequence, all alternative fair value measurements are also considered clearly unreliable.

The growing biological produce of bananas is measured at fair value as it grows less costs to sell, taking into account that all the parameters for the fair value calculation are available and reliable.

A gain or loss arising on initial recognition of a biological asset at fair value less estimated point of sale costs and from the change in fair value less estimated point of sale costs of a biological asset is included in net profit or loss in the period in which it arises.

Goodwill

Goodwill represents the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired in a business combination. Goodwill is not amortized but reviewed for impairment at least annually. For the purpose of testing goodwill for impairment, goodwill is allocated to operating companies which is the lowest level at which the goodwill is monitored for internal management purposes (i.e. cash flow generating unit). Any impairment is immediately recognized in the income statement and is not subsequently reversed.

Negative goodwill represents the excess of the Group's interest in the fair value of the net identifiable assets acquired over the cost of acquisition. Negative goodwill is immediately recognized in the income statement.

Intangible assets

Intangible assets include computer software and various licenses. Intangible assets are capitalized and amortized using the straight-line method over their useful life.

Property, plant and equipment

Property, plant and equipment, including investment property, are stated at cost less accumulated depreciation and any accumulated impairment losses. Borrowing costs attributable to the construction or production of qualifying assets are capitalized. Expenses for the repair of property, plant and equipment are usually charged against income when incurred. Property held for sale, if any, is stated at the lower of amortized cost and fair value less selling charges.
Depreciation is calculated using the straight-line method based on the estimated useful lives of the related assets:

Buildings	5 to 30 years
Infrastructure	5 to 25 years
Installations and machinery	5 to 30 years
Vehicles	3 to 20 years
Office equipment and furniture	5 to 10 years
Other property, plant and equipment	2 to 20 years

Land is not amortized.

The Group presents the cost of land rights as a part of property, plant & equipment, consistently with practices in the industry and with relevant guidance in that respect. In addition, The Group closely monitors the situation of each land title in terms of renewal and only depreciates its land rights if there is an indication that the land title might not be renewed.

Impairment of assets

Property, plant and equipment and other non-current assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may be higher than the recoverable amount. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's net selling price and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. If impairment is no longer justified in future periods due to a recovery in assets' fair value or value in use, the impairment reserve is reversed.

Financial instruments

Classification and measurement of financial instruments

Financial assets and financial liabilities are recognised when a Group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The financial assets include the investments in equity instruments designated at fair value through other comprehensive income, loans to related parties, receivables including trade receivables and other receivables, derivative financial instruments, financial assets at fair value through profit or loss, cash and cash equivalents. The acquisitions and sales of financial assets are recognised at the transaction date.

Financial assets – debt instruments

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets. Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments include:

- Receivables that are measured at amortised cost
- Trade receivables measured at amortised cost
- Cash and cash equivalents

Financial assets – investments in equity instruments

On initial recognition, the Group made an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investment's revaluation reserve. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, instead, they will be transferred to retained earnings.
Because of the lack of sufficient recent information available to measure fair value, management has assessed that cost is an appropriate estimate of fair value for those unquoted equity investments.

Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial instruments other than purchased or originated credit-impaired financial assets, the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. On the other hand, the gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

1. Derivatives

The Group uses financial derivative instruments primarily to manage its exposure to interest rate and foreign currency risks arising from operational, financing and investment activities. The Group applies hedge accounting under IFRS 9 – "Financial Instruments".

Derivative instruments are valued at fair value at initial recognition. The changes in fair value are reported in the income statement unless these instruments are part of hedging transactions, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as hedging instruments in respect interest rate risk in cash flow hedges. Derivatives related to the foreign currency risk are not documented in a hedging relationship.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all the following hedge effectiveness requirements:

- There is an economic relationship between the hedged item and the hedging instrument;
- The effect of credit risk does not dominate the value changes that result from that economic relationship; and
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i. e. rebalances the hedge) so that it meets the qualifying criteria again.

The value fluctuations of a derivative financial instrument that complies with the strict conditions for recognition as a cash flow hedge are recorded in other comprehensive income for the effective part. The ineffective part is recorded directly in the profit and loss account. The hedging results are recorded out of other comprehensive income into the profit and loss account at the moment the hedged transaction influences the result.

A derivative with a positive fair value is recorded as a financial asset, while a derivative with a negative fair value is recorded as a financial liability. A derivate is presented as current or non-current depending on the expected expiration date of the financial instrument.

2. Impairment of financial assets

In relation to the impairment of financial assets an expected credit loss model is applied. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. Specifically, the following assets are included in the scope for impairment assessment for the Group: 1) trade receivables; 2) non-current receivables and loans to related parties; 3) cash and cash equivalents.

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group has applied the simplified approach and records lifetime expected losses on all trade receivables.

IFRS 9 requires the Group to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition. On the other hand, if the credit risk on a financial instrument has not increased significantly since initial recognition, the Group is required to measure the loss allowance for that financial instrument at an amount equal to 12month expected credit losses. For long term receivables IFRS 9 provides a choice to measure expected credit losses applying lifetime or a general (3 stages of expected credit loss assessment) expected credit losses model. The Group selected the general model. All bank balances are assessed for expected credit losses as well.

3. Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between a) the asset's carrying amount and b) the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss.

4. Financial liabilities
All financial liabilities of the Group are subsequently measured at amortised cost using the effective interest method.
The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

5. Receivables and payables
Amounts receivable and payable are measured at amortised cost price. Amounts receivable and payable are measured at their nominal value. Amounts receivable and payable in a currency other than the functional currency of the subsidiary are translated at the prevailing Group exchange rates on the balance sheet date.

6. Cash and cash equivalents
Cash and cash equivalents are measured at their amortised value and include cash and deposits with an original maturity of three months or less. Negative cash balances are recorded as liabilities.

7. Interest-bearing borrowings
Interest-bearing borrowings are measured at amortised cost price. Borrowings are initially recognized as proceeds received, net of transaction costs. Any difference between cost and redemption value is recognized in the income statement using the effective interest method.

Inventories
Inventories are valued at the lower of cost or net realizable value.

The stock finished products including biological assets are valued by adding production cost to the fair value of the biological asset concerned.

Inventories are written down on a case-by-case basis if the estimated net realizable value declines below the carrying amount of the inventories. Net realizable value is the estimated selling price less the estimated costs necessary to make the sale. When the reason for a write-down of the inventories has ceased to exist, the write-down is reversed.

Shareholders' equity
Dividends of the parent company payable on ordinary shares are only recognized as a liability in the period in which they are declared.

Costs incurred with respect to the issuance of equity instruments are recorded as a deduction in equity.

Non-controlling interest
Non-controlling interests include a proportion of the fair value of identifiable assets and liabilities recognized upon acquisition of a subsidiary, together with the appropriate proportion of subsequent profits and losses.
In the income statement the minority share in the company's profit or loss is separated from the consolidated result of the Group.

Provisions
Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation and when a reliable estimate of the amount can be made.

Pensions and other post-employment benefits
Group companies have various pension schemes in accordance with the local conditions and practices in the countries they operate in.

1. Defined benefit plans
The defined benefit plans are generally un-funded but fully provisioned for using the 'projected unit credit'- method. This provision represents the present value of the defined benefit obligation. The actuarial gains and losses are recognized in the Other Comprehensive Income.

2. Defined contribution plans
The Group pays contributions to publicly or privately administered insurance plans. Since the Group is obliged to make additional payments if the average return on the employer's contribution and on the employees' contributions is not attained, those plans should be treated as "defined benefit plans" in accordance with IAS 19.

Revenue recognition
IFRS 15 was published in May 2014 and replaces IAS 18 *Revenue* and IAS 11 *Construction Contracts*. This standard introduces a new model consisting of five steps for the recognition of revenue from contracts with customers, except for revenue from leases, financial instruments and insurance contracts. The core principle of this standard is that an entity recognizes revenue to the extent it represents the transfer of promised goods or services to customers for a consideration that is the reflection of the remuneration to which the entity expects to be entitled in exchange for those goods or services. The timing of the revenue recognition can take place over time or at a point in time, depending on the transfer of ownership.

The standard also introduces new guidance on costs of fulfilling and obtaining a contract, specifying the circumstances in which such costs should be capitalized or expensed when incurred. Furthermore, the new disclosures included in IFRS 15 are more detailed than those applicable under the previous IAS 18.

The SIPEF group's core activity is the sale of goods. SIPEF group recognises revenue at the moment the control over the asset is transferred to the customer. The goods sold are transported by ship and recognized as revenue as soon as the goods are loaded onto the ship. Revenue recognition occurs at the moment when the goods are loaded onto the ship. Revenue is recorded at this point in time for all contracts within the SIPEF group. The payment terms depend on the delivery terms of the contract and can vary between prepayment, cash against documents and 45 days after handover of the bill of lading. Deliveries are at a fixed price. For each contract there is only one performance obligation which needs to be fulfilled: the delivery of the goods.

The Group has no material incremental costs of obtaining a contract which would fulfil the capitalization criteria as defined by IFRS 15.

The Group has adopted the new standard on the required effective date. We can conclude that the IFRS 15 does not have an impact on the financial statements of the SIPEF group. The Group will continue to sell its products at defined incoterms.

Cost of sales

Cost of sales includes all costs associated with harvest, transformation and transport. Purchases are recognized net of cash discounts and other supplier discounts and allowances.

General and administrative expenses

General and administrative expenses include expenses of the marketing and financial department and general management expenses.

Income taxes

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly to equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax liabilities and assets are recognized for temporary differences between the carrying amount in the balance sheet and the tax bases of assets and liabilities and are subsequently adjusted to reflect changes in tax rates expected to be in effect when the temporary differences reverse. Deferred tax assets are included in the consolidated accounts only to the extent that their realization is probable in the foreseeable future.

4. USE OF ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the consolidated financial statements in conformity with IFRS requires the Group to use accounting estimates and judgements and make assumptions that may affect the reported amounts of assets and liabilities at the date of the balance sheets and reported amounts of revenue and expense during the reporting periods. Actual results could differ from those estimates.

The main areas in which judgements are used are:

- Judging over the control of an entity
- Judging that growing biological produce of rubber cannot be reliably measured at fair value
- Judgement of the functional currency of an entity
- Judgement of the inclusion of deferred tax assets
- Judging that land rights will not be amortized unless there is an indication that the land title might not be renewed.

The main areas in which estimates are used are:

- Post-employment benefits (note 18)
- Deferred tax assets (note 23)
- Provisions (note 17)
- Impairment of assets (see note 8)

5. GROUP COMPANIES / CONSOLIDATION SCOPE

The ultimate parent of the Group, SIPEF, Schoten/Belgium, is the parent company of the following significant subsidiaries:

	Location	% of control	% of interest
Consolidated companies (full consolidation)			
PT Tolan Tiga Indonesia	Medan / Indonesia	95.00	95.00
PT Eastern Sumatra Indonesia	Medan / Indonesia	95.00	90.25
PT Kerasaan Indonesia	Medan / Indonesia	57.00	54.15
PT Bandar Sumatra Indonesia	Medan / Indonesia	95.00	90.25
PT Melania Indonesia	Jakarta / Indonesia	95.00	90.25
PT Mukomuko Agro Sejahtera	Medan / Indonesia	95.00	85.74
PT Umbul Mas Wisesa	Medan / Indonesia	95.00	94.90
PT Citra Sawit Mandiri	Medan / Indonesia	95.00	94.90
PT Toton Usaha Mandiri	Medan / Indonesia	95.00	94.90
PT Agro Rawas Ulu	Medan / Indonesia	95.00	95.00
PT Agro Kati Lama	Medan / Indonesia	95.00	95.00
PT Agro Muara Rupit	Medan / Indonesia	95.00	94.90
Hargy Oil Palms Ltd	Bialla / Papua N.G.	100.00	100.00
Plantations J. Eglin SA	Azaguié / Ivory Coast	100.00	100.00
Jabelmalux SA	Luxembourg / G.D. Luxemburg	99.89	99.89
PT Agro Muko	Jakarta / Indonesia	95.00	90.25
PT Dendymarker Indah Lestari	Medan / Indonesia	95.00	90.25
Associates and joint ventures (equity method)			
Verdant Bioscience Pte Ltd	Singapore / Republic of Singapore	38.00	38.00
PT Timbang Deli Indonesia	Medan / Indonesia	38.00	36.10
Companies not included			
Horikiki Development Cy Ltd	Honiara / Solomon Islands	90.80	90.80

Despite the possession of the majority of voting rights, the Group has no control over the non-consolidated companies because they are established in inaccessible regions (Horikiki Development Cy Ltd).

There are no restrictions to realise assets and settle liabilities of subsidiaries.

6. EXCHANGE RATES

As a result of a revised liquidity- and debt management as from the end of 2006 the functional currency in the majority of the subsidiaries has been changed to US dollar as from January 1, 2007. Following subsidiary has however a different functional currency:

Plantations J. Eglin SA EUR

The exchange rates below have been used to convert the balance sheets and the results of these entities into US dollar (this is the currency in which the Group presents its results).

	Closing rate			Average rate		
	2019	2018	2017	2019	2018	2017
EUR	0.8916	0.8738	0.8348	0.8941	0.8487	0.8792

7. OPERATIONAL RESULT AND SEGMENT INFORMATION

SIPEF's activities can be classified into segments based on the type of product. SIPEF has the following segments:

- Palm: Includes all palm products, including palm kernels and palm kernel oil, both in Indonesia and Papua New Guinea.
- Rubber: Includes all different types of rubber produced and sold by the SIPEF group, both in Indonesia and Papua New Guinea:
  - Ribbed Smoked Sheets (RSS)
  - Standard Indonesia Rubber (SIR)
  - Scraps and Lumps
- Tea: Includes the “cut, tear, curl” (CTC) tea produced by SIPEF in Indonesia.
- Bananas and flowers: Includes all sales of bananas and flowers originating from Ivory Coast.
- Corporate: Mainly includes management fees received from non-group companies, commissions charged on sea freight and other commissions which are not covered by the sales contract.

The overview of segments below is based on the SIPEF group's internal management reporting. The most important differences with IFRS consolidation are:

- Instead of revenue the gross margin per segment is used as the starting point.

In KUSD	2019	2018
Gross margin per product		
Palm	34 445	68 800
Rubber	-2 244	-1 065
Tea	- 370	627
Bananas and flowers	4 697	2 794
Corporate	634	941
Total gross margin	**37 162**	**72 096**
Selling, general and administrative expenses	-31 481	-31 759
Other operating income/(charges)	- 741	2 352
Financial income/(charges)	-5 002	-3 457
Discounting Sipef-CI	1 689	2 031
Exchange differences	- 775	-1 668
Profit before tax	**852**	**39 597**
Tax expense	-6 772	-14 155
Effective tax rate	-794.7%	-35.7%
Profit after tax	**-5 920**	**25 442**
Share of results of associated companies	-1 485	- 854
Gain on sale BDM-ASCO	0	7 376
Profit for the period	**-7 404**	**31 965**

Below we present the segment information per product and per geographical region in accordance with the IFRS profit and loss accounts. The segment result is revenue minus expense that is directly attributable to the segment and the relevant portion of income and expense that can be allocated on a reasonable basis to the segment.

Gross profit by product

Total revenue fell to USD 248 million (-9.8% compared with 2018).

Palm oil revenue fell by 12.4%, due to a combination of lower production volumes, particularly at Hargy Oil Palms Ltd in Papua New Guinea (-26.9%), and the lower price for crude palm oil (CPO) on the world market. The average world market price for CPO in the most recent year was USD 32 per ton CIF Rotterdam or 5% lower than in the same period the year before.

Rubber revenue fell by 11.7% compared with 2018, mainly due to the lower volumes sold at comparable prices.

Tea revenue fell by 7.0%, despite the higher volumes sold (+11.1%), due to the considerably lower sales prices (-13.7%).

Revenue in the banana and flower activities increased by 28.7%, primarily due to the higher production volumes (+18.2%). Furthermore, from 2019 turnover is reported ‘Cost & Freight’ rather than FOB.

The average ex-works unit cost price for the mature oil palm plantations increased by some 11.8% compared with 2018. In Indonesia, the average ex-works unit cost increased by 10.1%, which can be viewed as a normal rise in a period without currency devaluation. The Indonesian currency has been devalued by 54.6% since 2010, but this trend has flipped somewhat recently. At Hargy Oil Palms Ltd in Papua New Guinea the ex-works unit cost rose by 26.1%, as a consequence of the major fall in production caused by the difficult weather conditions in the first half of the year and, particularly, the three volcanic eruptions between the end of June and October 2019.

2019 - KUSD	Revenue	Cost of sales	Changes in the fair value	Gross profit	% of total
Palm	210 250	-176 683	877	34 445	92.7
Rubber	10 330	-12 574	0	-2 244	-6.0
Tea	5 072	-5 454	12	- 370	-1.0
Bananas and plants	22 024	-17 327	0	4 697	12.6
Corporate	634	0	0	634	1.7
Total	**248 310**	**-212 038**	**889**	**37 162**	**100.0**

2018 - KUSD	Revenue	Cost of sales	Changes in the fair value	Gross profit	% of total
Palm	240 057	-169 088	-2 169	68 800	95.4
Rubber	11 699	-12 764	0	-1 065	-1.5
Tea	5 454	-4 862	35	627	0.9
Bananas and plants	17 119	-14 326	0	2 793	3.9
Corporate	941	0	0	941	1.3
Total	**275 270**	**-201 040**	**-2 134**	**72 096**	**100.0**

Gross profit fell from KUSD 72 096 in 2018 to KUSD 37 162 (-48.5%) in 2019. The gross profit of the palm segment (92.7% of the gross profit) decreased by KUSD 34 335 (-49.9%) compared to 2018 due to lower productions and lower palm oil prices. The lower productions in Hargy Oil Palms Ltd alone (see above) represented a negative effect of approximately USD 9 million on the gross profit.

The contribution of the rubber segment remained negative due to the disappointing production figures and persistently low sales prices, which do not currently cover production costs. The tea margin was also negative in 2019, because of the sharp fall in the sales price. Additionally, there was an uptick in unit cost (+7.1%) compared with the previous year. In the banana and flower activities, the announced improvement of profitability was confirmed with a rise in the gross margin from KUSD 2 793 to KUSD 4 697 (+68.2%).

The segment "corporate" comprises the management fees received from non-group entities, additional commissions on sea freights and any other commissions that are not included in the sales contracts.

Gross profit by geographical segment

2019 - KUSD	Revenue	Cost of sales	Other income	Changes in the fair value	Gross profit	% of total
Indonesia	149 050	-121 260	143	911	28 844	77.6
Papua New Guinea	72 643	-69 610	0	- 22	3 011	8.1
Ivory Coast	25 840	-21 167	0	0	4 673	12.6
Europe	634	0	0	0	634	1.7
Total	**248 167**	**-212 038**	**143**	**889**	**37 162**	**100.0**

2018 - KUSD	Revenue	Cost of sales	Other income	Changes in the fair value	Gross profit	% of total
Indonesia	163 653	-118 738	381	-1 477	43 819	60.8
Papua New Guinea	93 232	-67 976	0	- 657	24 599	34.1
Ivory Coast	17 120	-14 326	0	0	2 794	3.9
Europe	884	0	0	0	884	1.2
Total	**274 889**	**-201 040**	**381**	**-2 134**	**72 096**	**100.0**

Total cost of sales can be split up in the following categories:

1. Estate charges - includes all charges relating to the field work to produce the base agricultural products (i.e. fresh fruit bunches, latex, tea leaves, bananas, horticulture);
2. Processing charges - includes all charges relating to the processing of the base agricultural products to the finished agricultural commodities (i.e. palm oil, rubber, tea, ...);
3. FFB/CPO/latex purchases - includes all purchases from third parties (smallholders) or associates and joint ventures.
4. Stock movement - includes the variance in stock and changes in fair value;
5. Changes in fair value includes the changes in the fair value of the biological assets of palm oil, bananas and tea;
6. Sales charges - includes all direct costs attributable to the sales of the year (i.e. transport charges, palm oil export tax, ...);
7. General and administrative expenses – includes all general and administrative charges (i.e. rent, maintenance, etc.).

In KUSD	2019	2018
Estate charges	130 439	129 769
Processing charges	31 065	32 263
FFB/CPO/latex purchases	23 808	23 105
Stock movement	3 663	1 033
Changes in fair value	889	-2 134
Sales charges	21 286	19 138
Cost of sales	**211 149**	**203 174**
General and administrative expenses	31 480	31 759
Total cost of sales and general and administrative expenses	**242 629**	**234 933**

Estate charges have remained relatively stable compared to last year due to:

- a general increase in costs due to inflation;
- the additional mature hectares in the Musi Rawas region, whereby estate and general field charges are now increasing annually;
- offset by a decrease cost due to a decrease in total FFB production

The decrease in processing charges is linked to the decrease in palm oil production, offset by a general increase in prices due to inflation.

FFB / CPO / latex purchases have only increased slightly. However, the small increase is a consequence of:

- A purchase of CPO from Sipef-CI (KUSD 3 840);
- CPO purchases from third parties for a total of KUSD 2 609 to fulfil our contracted deliveries to our clients;
- The remaining KUSD 16 859 relate to outgrower FFB and latex purchases. These are considerably lower than last year (KUSD 23 105) due to a decrease in total outgrower productions as well as a decrease in purchase price because of the lower CPO world market prices on which the purchase prices are based.

The increase in sales charges is primarily due to the banana sales being reported as ‘cost and freight’ rather than FOB, whereby both revenue and related sales charges are higher.

The average ex-works unit cost price for the mature oil palm plantations increased by some 11.8% compared with 2018. Total depreciation in the estate and processing charges amounts to KUSD 36 520. A total of KUSD 4 068 of depreciation charges is recorded in the "General and administrative" expenses and 1 698 KUSD in "other operating income/charges"

The general and administrative expenses remained virtually stable (-0.9%). On the one hand there was normal inflation, which slightly increased costs, but on the other hand there was a sharp decrease in the bonus provision for 2019.

Revenue by location of the debtors

In KUSD	2019	2018
Indonesia	94 352	29 641
The Netherlands	70 595	118 640
Singapore	37 467	7 073
France	14 007	6 114
Switzerland	7 206	87 602
Belgium	6 308	5 806
Malaysia	3 897	0
United States	3 332	3 024
Ivory coast	3 235	493
United Kingdom	2 496	1 067
Ireland	1 293	8 442
Afghanistan	1 171	1 442
Pakistan	915	1 675
Germany	878	1 161
Spain	702	612
United Arab. Emirates	203	0
Luxembourg	72	0
Senegal	0	2 321
Mexico	182	156
Total	**248 310**	**275 270**

The revenue of the Group is realised against a relatively small number of first-class buyers: per product about 90% of the turnover is realized with a maximum of 10 clients. For additional information we refer to note 26 – financial instruments.

Segment information – geographical

	2019					
In KUSD	**Indonesia**	**PNG**	**Ivory Coast**	**Europe**	**Others**	**Total**
Intangible assets	0	0	0	517	0	517
Goodwill	104 782	0	0	0	0	104 782
Biological assets	218 923	87 162	257	0	0	306 342
Other property, plant & equipment	247 686	106 766	3 858	761	0	359 071
Investment property	0	0	0	0	0	0
Investments in associates and joint ventures	- 821	0	0	0	6 572	5 751
Other financial assets	46	0	12	15	0	73
Receivables > 1 year	11 612	0	0	1 829	0	13 442
Deferred tax assets	12 581	0	380	2 174	0	15 135
Total non-current assets	**594 811**	**193 928**	**4 506**	**5 297**	**6 572**	**805 114**
% of total	73.88%	24.09%	0.56%	0.66%	0.82%	100.00%

In KUSD	2018 Indonesia	PNG	Ivory Coast	Europe	Others	Total
Intangible assets	0	0	0	441	0	441
Goodwill	104 782	0	0	0	0	104 782
Biological assets	195 561	87 871	280	0	0	283 712
Other property, plant & equipment	241 860	109 894	4 440	530	0	356 724
Investment property	0	0	0	0	0	0
Investments in associates and joint ventures	1 043	0	0	0	6 196	7 239
Other financial assets	46	0	16	15	0	77
Receivables > 1 year	7 212	0	0	3 900	0	11 112
Deferred tax assets	13 537	0	387	2 300	0	16 224
Total non-current assets	**564 040**	**197 765**	**5 123**	**7 186**	**6 196**	**780 310**
% of total	72.28%	25.34%	0.66%	0.92%	0.79%	100.00%

8. GOODWILL AND OTHER INTANGIBLE ASSETS

	2019		2018	
In KUSD	Goodwill	Intangible assets	Goodwill	Intangible assets
Gross carrying amount at January 1	**104 782**	**918**	**103 008**	**843**
Acquisitions	0	160	0	262
Sales and disposals	0	0	0	0
Transfers	0	0	0	- 187
Final PPA PT Dendymarker	0	0	1 774	0
Translation differences	0	0	0	0
Gross carrying amount at December 31	**104 782**	**1 078**	**104 782**	**918**
Accumulated amortization and impairment losses at January 1	**0**	**- 477**	**0**	**- 537**
Depreciations	0	- 84	0	- 45
Sales and disposals	0	0	0	0
Transfers	0	0	0	105
Remeasurement	0	0	0	0
Accumulated amortization and impairment losses at December 31	**0**	**- 561**	**0**	**- 477**
Net carrying amount January 1	**104 782**	**441**	**103 008**	**306**
Net carrying amount December 31	**104 782**	**517**	**104 782**	**441**

Goodwill impairment analysis

Goodwill is the positive difference between the acquisition price of a subsidiary, associated company or joint venture and the share of the Group in the fair value of the identifiable assets and liabilities of the acquired entity on the acquisition date. Under standard IFRS 3 – Business Combinations, goodwill is not amortized, but rather tested for impairment.

Goodwill and intangible fixed assets are tested annually by management to see whether they have been exposed to impairment in accordance with the accounting policies in note 2 (regardless of whether there are indications of impairment).

To be able to assess the necessity of an impairment, the goodwill is allocated to a cash-generating unit (CGU). A cash-generating unit is the smallest identifiable group that generates cash that is to a large degree independent of the inflow of cash from other assets or groups of assets. This cash-generating unit is analysed on each balance sheet date to determine whether the carrying value of the goodwill can be fully recovered. If the realizable value of the cash-generating unit is lower in the long term than the carrying value, an impairment is recognized on the income statement in the amount of this difference.

In the SIPEF model, the cash-generating unit is compared with the total underlying asset related to the palm oil segment as of 31 December 2019. This consists of the following items:

Assets (in KUSD)*	2019
Biological assets – bearer plants	290 268
Other fixed assets	350 275
Goodwill	104 782
Current assets – current liabilities	34 581
Total	**779 906**

** Assets include only the entities with palm oil activities*

The SIPEF group has defined the “cash-generating unit” as the operational palm oil segment. It consists of all cash flows from the palm oil activities of all plantations in Indonesia and Papua New Guinea. The cash flows from the sale of rubber, tea and bananas are not included here, as the goodwill has been allocated exclusively to the palm oil segment. This concerns the following entities:

Entities
SIPEF NV
PT Tolan Tiga
PT Eastern Sumatra
PT Kerasaan
PT Mukomuko Agro Sejahtera
PT Umbul Mas Wisesa
PT Citra Sawit Mandiri
PT Toton Usaha Mandiri
PT Agro Rawas Ulu
PT Agro Muara Rupit
PT Agro Kati Lama
PT Agro Muko*
Hargy Oil Palms LTD
PT Dendymarker Indah Lestari

** For PT AM a division is made between the cash flows from palm oil and the cash flows from rubber.*

The recoverable value of the cash-generating units to which goodwill is allocated was determined by means of a calculation using a discounted cash flow model (DCF model). The starting point is the operational plans of the Group, which look a decade ahead (to 2029) and have been approved by the Board of Directors. In this model, the macro-economic parameters, such as palm oil price and inflation, are deemed constant for each year. The constant palm oil price used in the model (USD 690/ton) is management's best estimate of the long-term palm oil price expressed as CIF Rotterdam.

The average palm oil price for 2019 amounts to USD 566/ton whereas the spot price per 31 December 2019 amount to USD 860/ton.

In the model, the growth of sales is the same as the normal improvement of the production volumes due to the maturity of the palm trees of the various subsidiaries. Any improvement in the future EBITDA margins in the model is a normal consequence of the same improvement in production volumes.

The current model was established with a weighted average cost of capital (after tax) of 8.01% and an average tax rate of 25%-30%. The terminal value in the discounted cash flow model is based on perpetual growth of 2% in accordance with the Gordon growth model. In the model we use a sensitivity analysis for various palm oil prices and various weighted average costs of capital (WACC):

Palm oil price (CIF Rotterdam)	
Scenario 1	USD 640/ton CIF Rotterdam
Scenario 2 (base case)	USD 690/ton CIF Rotterdam
Scenario 3	USD 740/ton CIF Rotterdam

WACC	
Scenario 1	7.01%
Scenario 2 (base case)	8.01%
Scenario 3	9.01%

Summary assumptions of 2019:

PO / WACC	7.01%	8.01%	9.01%
USD 640/ton CIF Rotterdam	Scenario 1	Scenario 4	Scenario 7
USD 690/ton CIF Rotterdam	Scenario 2	Scenario 5 (base case)	Scenario 8
USD 740/ton CIF Rotterdam	Scenario 3	Scenario 6	Scenario 9

Summary assumptions of 2018:

PO / WACC	10,25%	11,25%	12,25%
USD 641/ton CIF Rotterdam	Scenario 1	Scenario 4	Scenario 7
USD 691/ton CIF Rotterdam	Scenario 2	Scenario 5 (base case)	Scenario 8
USD 741/ton CIF Rotterdam	Scenario 3	Scenario 6	Scenario 9

For the sensitivity analysis, the price was increased and decreased by USD 50/ton. The WACC was increased and decreased with one percent. A sensitivity matrix is shown below for the total discounted cash flow for various palm oil prices and various weighted average costs of capital (WACC).

Sensitivity matrix

WACC/PO price (in KUSD)	7.01%	8.01%	9.01%
USD 640/ton CIF Rotterdam	1 071 867	863 755	715 545
USD 690/ton CIF Rotterdam	1 429 280	1 161 902	971 346
USD 740/ton CIF Rotterdam	1 774 071	1 450 358	1 219 483
Value of underlying assets*	779 906	779 906	779 906

** Concerns the underlying asset related to the palm oil segment*

The headroom is the difference between the total discounted cash flows and the value of the underlying asset:

Headroom (in KUSD)	7.01%	8.01%	9.01%
USD 640/ton CIF Rotterdam	291 961	83 850	-64 361
USD 690/ton CIF Rotterdam	649 374	381 997	191 440
USD 740/ton CIF Rotterdam	994 165	670 453	439 577

Green = base scenario

We also calculate the breakeven palm oil price based on the various WACCs.

Breakeven price	7.01%	8.01%	9.01%
USD/ton	561 $/ton	626 $/ton	653 $/ton

Management is of the opinion that the assumptions used in the calculation of the value in use as described above give the best estimates of future development. The sensitivity analysis shows that goodwill is in most of the cases fully recoverable. As a result, management is of the opinion that there is no indication of any impairment. Future sales prices continue to be difficult to predict over a long period of time and will be continuously monitored in the future.

9. BIOLOGICAL ASSETS – BEARER PLANTS

Movement schedule biological assets - bearer plants

The balance sheet movements in biological assets can be summarized as follows:

In KUSD	2019	2018
Gross carrying amount at January 1	**376 331**	**362 042**
Change in consolidation scope	0	0
Acquisitions	33 305	27 496
Sales and disposals	- 3 945	- 2 944
Transfers	2 254	3 229
Other	- 108	- 13 431
Translation differences	- 28	- 61
Gross carrying amount at December 31	**407 810**	**376 331**
Accumulated depreciation and impairment losses at January 1	**- 92 619**	**- 93 956**
Change in consolidation scope	0	0
Depreciation	- 13 452	- 12 877
Sales and disposals	4 524	3 054
Transfers	0	79
Other	58	11 033
Translation differences	22	48
Accumulated depreciation and impairment losses at December 31	**- 101 467**	**- 92 619**
Net carrying amount January 1	**283 712**	**268 086**
Net carrying amount December 31	**306 343**	**283 712**

The movement in 2018 ‘other’ concerns a correction on the assets of PT Dendymarker due to the finalization of the purchase price allocation.

10. OTHER PROPERTY, PLANT AND EQUIPMENT

	2019							
In KUSD	Land, buildings and infrastructure	Installations and machinery	Vehicles	Office equipment, furniture and others	Leasing	In progress	Land rights	Total
Gross carrying amount at January 1	**168 016**	**191 540**	**66 052**	**31 449**	**0**	**23 617**	**115 030**	**595 703**
Change in consolidation scope	0	0	0	0	0	0	0	0
Acquisitions	10 207	5 797	7 137	1 669	0	4 509	4 880	34 200
Sales and disposals	- 1 057	- 10 793	- 3 833	- 1 114	0	- 4 004	0	- 20 800
Transfers	3 695	138	497	714	0	- 7 296	0	- 2 251
Other	0	0	0	0	3 253	- 117	2 516	5 652
Translation differences	- 207	- 68	- 42	- 7	0	- 13	- 4	- 341
Gross carrying amount at December 31	**180 654**	**186 614**	**69 811**	**32 711**	**3 253**	**16 696**	**122 422**	**612 163**
Accumulated depreciation and impairment losses at January 1	**- 66 070**	**- 104 346**	**- 50 051**	**- 15 647**	**0**	**0**	**- 2 865**	**- 238 979**
Change in consolidation scope	0	0	0	0	0	0	0	0
Depreciation	- 7 397	- 10 962	- 5 753	- 2 935	- 358	0	- 55	- 27 460
Sales and disposals	202	10 684	3 696	981	0	0	0	15 563
Transfers	0	0	0	0	0	0	0	0
Other	25	15	11	0	0	0	- 2 516	- 2 465
Translation differences	146	48	36	17	0	0	2	249
Accumulated depreciation and impairment losses at December 31	**- 73 094**	**- 104 561**	**- 52 061**	**- 17 584**	**- 358**	**0**	**- 5 434**	**- 253 092**
Net carrying amount January 1	**101 946**	**87 194**	**16 001**	**15 802**	**0**	**23 617**	**112 165**	**356 724**
Net carrying amount December 31	**107 560**	**82 053**	**17 750**	**15 127**	**2 895**	**16 696**	**116 988**	**359 071**

	2018							
In KUSD	**Land, buildings and infrastructure**	**Installations and machinery**	**Vehicles**	**Office equipment , furniture and others**	**Leasing**	**In progress**	**Land rights**	**Total**
Gross carrying amount at January 1	**163 485**	**190 467**	**64 541**	**19 838**	**0**	**10 875**	**114 848**	**564 053**
Change in consolidation scope	0	0	0	0	0	0	0	0
Acquisitions	8 485	6 825	6 553	2 833	0	8 145	8 831	41 672
Sales and disposals	- 402	- 1 015	- 2 872	- 210	0	- 1 726	0	- 6 225
Transfers	- 869	- 7 222	- 2 278	9 110	0	- 2 176	187	- 3 248
Other	- 2 223	2 635	198	- 101	0	8 525	- 8 826	208
Translation differences	- 460	- 150	- 90	- 21	0	- 26	- 10	- 757
Gross carrying amount at December 31	**168 016**	**191 540**	**66 052**	**31 449**	**0**	**23 617**	**115 030**	**595 703**
Accumulated depreciation and impairment losses at January 1	**- 59 414**	**- 97 640**	**- 47 286**	**- 10 797**	**0**	**0**	**- 2 651**	**- 217 788**
Change in consolidation scope	0	0	0	0	0	0	0	0
Depreciation	- 6 893	- 10 377	- 5 590	- 2 916	0	0	- 55	- 25 831
Sales and disposals	181	961	2 853	201	0	0	0	4 196
Transfers	22	2 399	- 15	- 2 278	0	0	- 104	24
Other	- 282	195	- 80	110	0	0	- 60	- 117
Translation differences	316	116	67	33	0	0	5	537
Accumulated depreciation and impairment losses at December 31	**- 66 070**	**- 104 346**	**- 50 051**	**- 15 647**	**0**	**0**	**- 2 865**	**- 238 979**
Net carrying amount January 1	**104 071**	**92 827**	**17 255**	**9 041**	**0**	**10 875**	**112 197**	**346 266**
Net carrying amount December 31	**101 946**	**87 194**	**16 001**	**15 802**	**0**	**23 617**	**112 165**	**356 724**

The acquisitions included, in addition to the standard replacement capital expenditure, investments for the improvement of the logistics and infrastructure of the plantations and the palm oil extraction mills.

Below is a table with the proprietary rights on which the plantations of the SIPEF group are established:

	Hectares	Type	Maturity	Crop
PT Tolan Tiga Indonesia	6 042	Concession	2023	Oil palm
PT Tolan Tiga Indonesia	2 437	Concession	2024	Oil palm
PT Eastern Sumatra Indonesia	3 178	Concession	2023	Oil palm
PT Kerasaan Indonesia	2 362	Concession	2023	Oil palm
PT Bandar Sumatra Indonesia	1 413	Concession	2024	Rubber
PT Melania Indonesia	5 140	Concession	2023	Rubber and tea
PT Toton Usaha Mandiri	1 199	Concession	2046	Oil palm
PT Agro Muko	2 270	Concession	2019*	Oil palm
PT Agro Muko	2 500	Concession	2020	Oil palm
PT Agro Muko	315	Concession	2031	Oil palm
PT Agro Muko	1 410	Concession	2028	Oil palm
PT Agro Muko	2 903	Concession	2028	Oil palm
PT Agro Muko	7 730	Concession	2019*	Oil palm
PT Agro Muko	2 185	Concession	2022	Oil palm
PT Agro Muko	1 515	Concession	2022	Rubber
PT Agro Muko	2 100	Concession	2022	Oil palm
PT Umbul Mas Wisesa	4 397	Concession	2048	Oil palm
PT Umbul Mas Wisesa	2 071	Concession	2048	Oil palm
PT Umbul Mas Wisesa	679	Concession	2049	Oil palm
PT Umbul Mas Wisesa	462	Concession	2049	Oil palm
PT Umbul Mas Wisesa	155	Concession	2049	Oil palm
PT Dendymarker Indah Lestari	13 705	Concession	2028	Oil palm
PT Mukomuko Agro Sejahtera	1 705	Concession	2053	Oil palm
PT Mukomuko Agro Sejahtera (STGE)	1 770	Concession	2024	Oil palm
PT Timbang Deli Indonesia	972	Concession	2023	Rubber and oil palm
Hargy Oil Palms Limited	128	Concession	2075	Oil palm
Hargy Oil Palms Limited	2 967	Concession	2076	Oil palm
Hargy Oil Palms Limited	17	Concession	2077	Oil palm
Hargy Oil Palms Limited	6 460	Concession	2082	Oil palm
Hargy Oil Palms Limited	2 900	Concession	2101	Oil palm
Hargy Oil Palms Limited	170	Concession	2102	Oil palm
Hargy Oil Palms Limited	694	Concession	2106	Oil palm
Hargy Oil Palms Limited	18	Concession	2113	Oil palm
Hargy Oil Palms Limited	246	Concession	2117	Oil palm
Plantations J. Eglin SA	1 485	Freehold	n/a	bananas and pineapple flowers
Plantations J. Eglin SA	322	Provisional concession	n/a	bananas and pineapple flowers
Total	**86 022**			
PT Agro Muko	242	In negotiation	-	Oil palm
PT Citra Sawit Mandiri	1 814	In negotiation	-	Oil palm
PT Agro Rawas Ulu	5 712	In negotiation	-	Oil palm
PT Agro Kati Lama	7 568	In negotiation	-	Oil palm
PT Agro Kati Lama	3 091	In negotiation	-	Oil palm
PT Agro Muara Rupit	4 811	In negotiation	-	Oil palm
PT Agro Muara Rupit	7 498	In negotiation	-	Oil palm
PT Agro Muara Rupit	1 303	In negotiation	-	Oil palm
PT Agro Muara Rupit	4 201	In negotiation	-	Oil palm
PT Mukomuko Agro Sejahtera	623	In negotiation	-	Oil palm
Total	**36 863**			

** All documentation for the renewal of the land rights which matured in 2019 has been delivered in time to the relevant authorities. The authorities are in the process of reviewing and approving. There is no indication that these land rights will not be renewed.*

In addition, our subsidiary Hargy Oil Palms Ltd has a total of 3 902 hectares of planted area on subleased land.

11. RECEIVABLES > 1 YEAR

In KUSD	2019	2018
Receivables > 1 year	13 442	11 112

The receivables > 1 year as per 31 December 2019 mainly consist out of a long-term receivable which has been discounted and the plasma receivables.

In KUSD	2019	2018
Sale of Sipef-CI SA	1 813	3 272
Sale of Galley Reach Holdings Ltd	0	594
Plasma receivable	11 612	7 211
Other	17	35
Total	**13 442**	**11 112**

Plasma receivables represent a loan granted to the smallholders for the accumulated costs to develop plasma plantations which are currently being financed by the Group. When the plasma plantations start to mature, the plasma farmers are obliged to sell their harvests to the Group and a portion of the resulting proceeds will be used to repay the loans.

The total sales price of Sipef-CI SA amounts to KEUR 11 500 of which KEUR 7 513 remains to be received at the end of the year. Converted at the closing rate of the year this amounts to KUSD 8 426. The total sales price of Galley Reach Holdings Ltd amounts to KUSD 6 600, of which KUSD 600 remains to be received at the end of the year.

The plasma receivables will be gradually repaid from the moment the plasma holders become a going concern plantation whereby proceeds of the FFB sales will be partly used to repay the loan.

The Group has calculated the expected credit loss in accordance with IFRS 9 and determined it to be immaterial.

Below we present an overview of the remaining contractually determined non-discounted cash flows related to these receivables:

In KUSD	2020 - short term	2021	> 2021	Total
Sale of Sipef-CI SA	5 363	3 063	0	8 426
Sale of Galley Reach Holdings Ltd	600	0	0	600
Plasma receivable	0	0	11 612	11 612
Total	**5 963**	**3 063**	**11 612**	**20 638**

12. INVENTORIES

Analysis of inventories:

In KUSD	2019	2018
Raw materials and supplies	16 489	20 132
Finished goods	9 762	16 142
Total	**26 251**	**36 274**

The remaining stock of raw materials and supplies has decreased with KUSD 3 643 in comparison to prior year. This is mainly due to timing differences in purchases.

The decrease in finished goods is caused by a large decrease in CPO/PK stock per year-end.

13. BIOLOGICAL ASSETS

The total biological assets at the end of the year is presented below:

In KUSD	2019	2018
Biological assets	6 030	4 870

The growing agricultural produce of palm oil is defined as the oil contained in the palm fruit. When the palm fruit contains oil, then this distinct asset is recognised and the fair value is estimated based on:

- The estimated quantity of oil that is available in the palm fruit;
- The estimated sales price of palm oil at the time of closing;
- The estimated cost to harvest and process the palm fruit;
- The estimated sales charges (transport, export tax, …).

Different scientific studies have shown that the oil in the palm oil fruit develops exponentially in approximately 4 weeks. The estimated quantity of oil in the palm oil fruit is therefore determined based on the harvest of the 4 weeks after the time of closing. In the calculation of the estimated quantity of available oil, the weighted importance of the harvest decreases step-by-step per week, in order to approximate the quantity of oil at the time of closing as well as possible. The fair value of the biological assets calculated at the closing value on the 31st of December 2019 is based on level 2 data input.

Per 31 December 2019 the total biological assets of palm oil amounted to KUSD 3 518 compared to KUSD 2 640 per 31 December 2018.

Impact of the estimated quantity of available oil	-10%	Carrying amount	+10%
Carrying value of the biological assets - palm oil	3 166	3 518	3 870
Gross Impact income statement (before tax)	- 352		352

The estimated sales price and the estimated costs and charges are the actual sales prices and costs at the time of closing. The results from the change of the fair value of the palm fruit are included in “changes in fair value”.

The biological assets at the end of December also contain the growing biological produce of bananas of our subsidiary Plantations J. Eglin SA. The balance of 2019 amounted to KUSD 2 465 (2018 KUSD 2 195) and has remained relatively stable compared to last year. In addition, it also contains the growing biological produce of Tea for a total of KUSD 47.

Impact of the estimated quantity of available bananas	-10%	Carrying amount	+10%
Carrying value of the biological assets - bananas	2 219	2 465	2 712
Gross Impact income statement (before tax)	- 247		247

14. OTHER CURRENT RECEIVABLES AND OTHER CURRENT PAYABLES

The ‘other receivables’ have increased from KUSD 41 024 in 2018 to KUSD 45 367 in 2019. The other receivables mainly consist of VAT receivables in the various entities, a current account with Verdant Bioscience PTE Ltd (KUSD 6 788) and the plasma receivables in Hargy Oil Palms Ltd.

This section also contains a receivable of KUSD 4 659 (discounted value) following the sale of Sipef-CI. It concerns a transfer from the long-term receivables to the short-term receivables. For further information relating to the long-term receivables we refer to note 11.

The increase in ‘other receivables’ (KUSD 4 342) is explained by an increase in the GST receivable (VAT receivable) in Hargy Oil Palms Ltd. (+ KUSD 1 065) as well as in our Indonesian subsidiaries, primarily the South Sumatra Group due to the continuing expansion (+ KUSD 2 128), The remaining increase consist of various smaller items in our different subsidiaries.

The Group has calculated the expected credit loss in accordance with IFRS 9 and determined it to be immaterial.

The ‘other payables’ (KUSD 8 747) mainly concern social obligations (salaries to be paid, provisions for holiday pay and bonus) and have decreased slightly in comparison to prior year.

15. SHAREHOLDERS' EQUITY

Capital stock and share premium

The issued capital of the company as at December 31, 2019 amounts to KUSD 44 734, represented by 10 579 328 fully paid ordinary shares without nominal value.

	2019	2018	Difference
Number of shares	10 579 328	10 579 328	0

In KUSD	2019	2018	Difference
Capital	44 734	44 734	0
Share premium	107 970	107 970	0
Total	**152 704**	**152 704**	**0**

	2019	2018	2019	2018
	KUSD	KUSD	KEUR	KEUR
Treasury shares - opening balance	**9 423**	**8 308**	**7 614**	**6 628**
Acquisition treasury shares	854	1 115	775	986
Treasury shares - ending balance	**10 277**	**9 423**	**8 389**	**7 614**

Since the start of the share buy-back program on 22 September 2011, SIPEF has bought back 160 000 shares for a total amount of KEUR 8 389, corresponding to 1.5124% of the total shares outstanding, as cover for a share option plan for the management.

Authorized capital

The extraordinary general meeting of shareholders on June 8, 2016 authorized the board of directors to increase the capital in one or more operations by an amount of KUSD 37 852 over a period of 5 years after the publication of the renewal.

Shareholder structure

The company has received following shareholders declarations:

Acting in concert	Number of shares	Date of notifying	Denominator	%
Ackermans & Van Haaren NV	3 419 930	22/08/2019	10 579 328	32.327
Cabra NV (Baron Bracht and children)	1 301 032	22/08/2019	10 579 328	12.298
Total votes acting in concert	**4 720 962**			**44.625**

Translation differences

Translation differences consists of all the differences related to the translation of the financial statements of our subsidiaries for which the functional currency is different from the presentation currency of the Group (USD). The deviation from last year is mainly due to the movement of the USD versus the EUR (KUSD -107).

In KUSD	2019	2018
Opening balance at January 1	**-11 686**	**-12 492**
Movement, full consolidation	- 107	- 271
Movement, equity method	0	1 077
Ending balance at December 31	**-11 793**	**-11 686**

Dividends

On February 11, 2020 the proposal was made not to declare a dividend for the financial year 2019, in line with the applied dividend policy.

Capital management

The capital structure of the Group is based on the financial strategy as defined by the board of directors. Summarized, this strategy consists of an expansion policy while respecting a very limited debt ratio. The management puts forward yearly the plan for approval by the board of directors.

Chain of control

1. Chain of control on Ackermans & Van Haaren NV

I. Ackermans & Van Haaren NV is directly controlled by Scaldis Invest NV, a company incorporated under Belgian law.
II. Scaldis Invest NV is directly controlled by Belfimas NV, a company incorporated under Belgian law.
III. Belfimas NV is directly controlled by Celfloor SA, a company incorporated under Luxembourg law.
IV. Celfloor SA is directly controlled by Apodia International Holding BV, a company incorporated under Dutch law.
V. Apodia International Holding BV is directly controlled by Palamount SA, a company incorporated under Luxembourg law.
VI. Palamount SA is directly controlled by Stichting administratiekantoor “Het Torentje”, incorporated under Dutch law.
VII. Stichting Administratiekantoor “Het Torentje” is the ultimate controlling shareholder. In accordance with article 11, §1 of the Law of 2 May 2007, Stichting administratiekantoor “Het Torentje” is acting under its own name and at the expense of the companies mentioned under (II) and (VI).

2. Chain of control on Cabra NV

Priscilla Bracht, Theodora Bracht and Victoria Bracht exercise joint control over Cabra NV.

16. NON CONTROLLING INTERESTS

According to Indonesian law, no foreign investor is allowed to own more than 95% of the shares of a plantation company. Therefore, all Indonesian subsidiaries have at least a 5% non-controlling interest. The non-controlling interests of our Indonesian subsidiaries mainly consist of one Indonesian pension fund.

The table below presents the non-controlling interests per company, as well as their share of the equity and the profit of the year.

	2019			2018		
In KUSD	% Non-controlling interests	Share of the equity	Share of the profit of the year	% Non-controlling interests	Share of the equity	Share of the profit of the year
PT Tolan Tiga Indonesia	5.00	17 402	430	5.00	16 942	610
PT Eastern Sumatra Indonesia	9.75	5 576	310	9.75	5 267	338
PT Kerasaan Indonesia	45.85	4 415	962	45.85	4 000	983
PT Bandar Sumatra Indonesia	9.75	1 405	- 77	9.75	1 481	- 49
PT Melania Indonesia	9.75	2 917	- 237	9.75	3 153	- 85
PT Mukomuko Agro Sejahtera	14.26	- 376	- 100	14.26	- 275	- 69
PT Umbul Mas Wisesa	5.10	- 768	- 152	5.10	- 615	26
PT Citra Sawit Mandiri	5.10	- 259	- 48	5.10	- 211	- 38
PT Toton Usaha Mandiri	5.10	24	9	5.10	16	13
PT Agro Rawas Ulu	5.00	- 63	- 56	5.00	- 6	- 41
PT Agro Kati Lama	5.00	- 292	- 189	5.00	- 100	- 102
PT Agro Muara Rupit	5.10	- 2	- 127	5.10	125	- 38
PT Agro Muko	9.75	5 928	476	9.75	5 453	748
PT Dendymarker Indah Lestari	9.75	-1 523	- 602	9.75	- 920	- 420
Jabelmalux SA	0.11	- 59	0	0.11	- 60	0
Total		**34 325**	**600**		**34 250**	**1 876**

The non-controlling interest's share of the property, plant and equipment (including biological assets - bearer plants) amounts to KUSD 37 541 in 2019 (2018: KUSD 35 463).

The movements of the year can be summarized as follows:

In KUSD	2019	2018
At the end of the preceding period	34 250	33 140
Profit for the period attributable to non-controlling interests	600	1 876
Defined Benefit Plans - IAS19R	- 9	- 67
Distributed dividends	- 516	- 606
Equity transactions with non-controlling parties	0	0
Other	0	- 93
At the end of the period	**34 325**	**34 250**

The distributed dividends to non-controlling interests consist of:

In KUSD	2019	2018
PT Kerasaan Indonesia	516	430
PT Eastern Sumatra Indonesia	0	176
Total	**516**	**606**

The dividends from PT Kerasaan have been declared, but not yet paid at 31 December 2019.

There are no limitations to the transfer of funds. The non-controlling interests have no rights to use the assets of the Group or to repay the liabilities of the subsidiaries. The non-controlling interests do not have significant protective rights. There are no restrictions to realise assets and settle liabilities of subsidiaries.

17. PROVISIONS

In KUSD	2019	2018
Provision	1 548	1 550

The provisions are entirely related to a VAT dispute in Indonesia (KUSD 1 548). During 2019 there have only been a very limited amount of court cases which were settled). It is difficult to make an estimate of the settlement time of the dispute.

18. PENSION LIABILITIES

Defined benefit plans

Pension liabilities mainly represent defined benefit plans in Indonesia. These pension plans, set up in order to pay a lump sum amount at the time of retirement, are not financed with a third party. The total number of employees affected by the pension plan amounts to 9 717. The pension plan is payable to an employee at the age of 55 or after 30 years of seniority, whichever comes first.

Since the pension plan is adjusted by future salary increases and discount rates, the pension plan is exposed to Indonesia's future salary expectations, as well as Indonesia's inflation and interest rate risk. Furthermore, the pension plan is payable in Indonesian Rupiah, exposing it to a currency risk. We refer to note 26 for further details concerning the currency risk of the Group. As the pension plan is unfunded, there is no risk relating to a return on plan assets.

The following reconciliation summarizes the variation of total pension liabilities between 2018 and 2019:

In KUSD	2018	Pension cost	Payment	Exchange	Translation difference	Change consolidation scope	Other	2019
Indonesia	18 881	4 046	-1 243	742	0	0	- 18	22 408
Ivory Coast	647	282	- 51	0	- 13	0	- 177	688
Others	26	0	- 26	0	0	0	0	0
Total	**19 554**	**4 328**	**-1 320**	**742**	**- 13**	**0**	**- 195**	**23 096**

Following assumptions are used in the pension calculation of Indonesia:

	2019	2018
Discount rate	7.75%	8.50%
Future salary increase	5.25%	6.00%
Assumed retirement age	55 years or 30 years of seniority	55 years or 30 years of seniority

Pension liabilities in Indonesia have changed as follows:

In KUSD	2019	2018
Opening	18 881	18 300
Service cost	1 989	1 709
Interest cost	1 793	1 664
Benefits paid	-1 243	-2 696
Actuarial gains and losses	264	1 041
Exchange differences	742	-1 149
Other	- 18	12
Closing	**22 408**	**18 881**

Actuarial gains and losses consist of the following components:

In KUSD	2019	2018
Experience adjustments	235	1 082
Changes in assumptions used	29	- 41
Total actuarial gains and losses	**264**	**1 041**

The actuarial gains and losses included in the above table contain the largest part of the total actuarial gains and losses included in the other comprehensive income (KUSD -289). The remaining difference (KUSD -25) consists of the actuarial gains and losses of the equity consolidated companies (PT Timbang Deli).

The amounts recognised in the balance sheet are as follows:

In KUSD	2019	2018
Pension liabilities	22 408	18 881

The amounts relating to the pension cost of Indonesia are as follows:

In KUSD	2019	2018
Service cost	1 989	1 709
Interest cost	1 793	1 664
Pension cost	**3 782**	**3 373**
Actuarial gains and losses recorded in Other Comprehensive Income	264	1 041
Total pension cost	**4 046**	**4 414**

These costs are included under the headings cost of sales and general and administrative expenses of the income statement.

Estimated benefit payments in 2020 are KUSD 1 930.

Sensitivity of the variation of the discount rate and of the future salary increase

Values as appearing in the balance sheet are sensitive to changes in the actual discount rate compared to the discount rate used. The same applies to changes in the actual future salary increase compared to the future salary increase used in the calculation. For our Indonesian entities, simulations were made to calculate the impact of a 1% increase or decrease of both parameters on the pension provision, resulting in the following effects:

Impact of the change in discount rate:

In KUSD	+1%	Carrying amount	-1%
Pension liability of the Indonesian subsidiaries	20 558	22 610	24 647
Gross impact on the comprehensive income	2 052		-2 037

Impact of the change in future salary increase:

In KUSD	+1%	Carrying amount	-1%
Pension liability of the Indonesian subsidiaries	24 574	22 610	20 585
Gross impact on the comprehensive income	-1 964		2 025

The pension liability in Indonesia consists of KUSD 20 408 from fully consolidated subsidiaries and of KUSD 202 from equity consolidated companies (PT Timbang Deli).

Defined contribution plans

The Group pays contributions to publicly or privately administered insurance plans. Since the Group is obliged to make additional payments if the average return on the employer's contribution and on the employees' contributions is not attained, those plans should be treated as "defined benefit plans" in accordance with IAS 19.
The liability is based on an analysis of the plans and the limited difference between the legally guaranteed minimum returns and the interest guaranteed by the insurance company, the Group has concluded that the application of the PUC method would have an immaterial impact. The total accumulated reserves amount to KUSD 2 578 by the end of December 2019 (2018: KUSD 3 011) compared to the total minimum guaranteed reserves of KUSD 2 534 at 31 December 2019 (2018: KUSD 2 738).

Contributions paid regarding the defined contribution plans amount to KUSD 571 (KUSD 597 in 2018). SIPEF NV is not responsible for the minimum guaranteed return on the contributions paid for the members of the executive committee (KUSD 523).

19. NET FINANCIAL ASSETS/(LIABILITIES)

Net financial assets/(liabilities) (Non-GAAP measure) can be analysed as follows:

In KUSD	2019	2018
Short-term obligations - credit institutions	-91 239	-111 038
Financial liabilities > 1 year (incl. derivatives)	-63 000	-30 000
Current portion of amounts payable after one year	-18 000	-10 000
Investments and deposits	0	0
Cash and cash equivalents	10 653	29 595
Lease liability	-3 037	0
Net financial assets/(liabilities)	**-164 623**	**-121 443**

Analysis of net financial assets/(liabilities) 2019 per currency:

In KUSD	EUR	USD	Others	Total
Short-term financial obligations	-22 039	-87 200	0	-109 239
Investments and deposits	0	0	0	0
Cash and cash equivalents	712	8 186	1 755	10 653
Financial liabilities > 1 year	0	-63 000	0	-63 000
Lease liability	- 309	-1 700	-1 028	-3 037
Total 2019	**-21 636**	**-143 714**	**727**	**-164 623**
Total 2018	**-21 534**	**-101 450**	**1 541**	**-121 443**

The short-term financial obligations relate to the commercial papers for a total amount of KUSD 22 039. This financial obligation has been completely hedged at an average rate of 1 EUR = 1.1290 USD.

The board of directors of 13 August 2019 approved a new financing structure, which has also been approved by the banks, whereby the total loan capacity was increased by KUSD 36 500 and part of the current short-term facilities was converted into a more structural long-term debt.

The financial liabilities include an 85.5 million USD loan of which 4.5 million USD has already been repaid in 2019. It concerns a long-term loan that was taken out with a banking consortium with a first-class rating for creditworthiness. It concerns an unsecured loan with a term of 5 years. The interest rate is composed as the USD LIBOR 3M + a margin of 1.5 % to 2.75%, depending on the debt/EBITDA ratio. The variable LIBOR was hedged at a fixed interest rate of 1.558% through an "Interest Rate Swap".

There is one financial requirement applicable to the loan covenant which states that the net financial debt may not exceed 3.5 times the REBITDA of the year. This financial covenant is tested every half-year. The EBITDA of the group consists of the operating results + profit/loss from equity companies + depreciation and additional impairment/increases on assets. The REBITDA consists of the same calculation, but excluding the one-off, non-recurring effects. The Group does not breach borrowing limits or covenants (where applicable) on its borrowing facilities per December 31, 2019. The financial covenant ratio will be lowered to 3.25 at 30 June 2020 and to 3.00 at 31 December 2020. Due to the significant volatility of the palm oil prices and the impact on the result and EBITDA of the Group, this covenant is continuously monitored.

Covenant ratio	2019	2018
Operating result	4 940	50 065
Exceptional items	0	-7 376
Recurring operating result	**4 940**	**42 689**
Depreciation and result on sale FA	42 855	38 745
REBITDA	**47 795**	**81 434**
(-) minorities recurring	- 600	-1 876
REBITDA group share	**47 195**	**79 558**
Net Senior Leverage	**3.49**	**1.53**

Reconciliation of the net financial assets/(liabilities) and cash flow:

In KUSD	2019	2018
Net financial position at the beginning of the period	**-121 443**	**-83 697**
Decrease in long-term borrowings	9 500	10 000
Increase in long-term borrowings	-50 500	0
Decrease in short-term financial obligations	19 799	0
Increase in short-term financial obligations	0	-41 161
Net movement in cash and cash equivalents	-18 942	-6 585
Effect of exchange rate fluctuations on cash and cash equivalents	0	0
Lease liability	-3 037	0
Net financial assets/(liabilities) at the end of the period	**-164 623**	**-121 443**

Reconciliation of the total financial liabilities:

In KUSD	2019	2018
Financial liabilities at the beginning of the period	151 038	119 877
Decrease in long-term borrowings	-9 500	-10 000
Increase in long-term borrowings	50 500	0
Decrease in short-term financial obligations	-19 799	0
Increase in short-term financial obligations	0	41 161
Increase leasing liabilities - non cash	3 561	0
Decrease leasing liabilities - cash	- 524	0
Financial liabilities at the end of the period	**175 276**	**151 038**

20. OTHER OPERATING INCOME/(CHARGES)

The other operating income/(charges) can be detailed as follows:

	2019			2018		
In KUSD	Equity holders of the parent	Non-controlling interests	Total	Equity holders of the parent	Non-controlling interests	Total
VAT claim Indonesia	60	6	66	1 112	116	1 228
Gain on sale BDM-ASCO	0	0	0	7 376	0	7 376
Other income/(charges)	- 712	- 95	- 807	1 159	- 35	1 124
Other operating income/(charges)	**- 652**	**- 89**	**- 741**	**9 647**	**81**	**9 728**

The other income/charges mainly consist out of stock adjustments for obsolete stock and warehouse sales, as well a net cost of KUSD 702 related to the disposal of biological assets – bearer plants in PT Dendymarker Indah Lestari, which have been replanted earlier than scheduled to increase future yields in the plantation.

21. FINANCIAL RESULT

The financial income concerns the interests received on current accounts with non-consolidated companies and on temporary excess cash, as well as the income resulting from the discounting of the receivables > 1 year. The financial charges concern the interests on long term and short-term borrowings as well as bank charges and other financial costs.

In KUSD	2019	2018
Interests received	472	277
Discounting of receivables > 1 year	1 689	2 031
Financial charges	-5 473	-3 733
Exchange result	-1 895	187
Financial result derivatives	1 119	-1 852
Financial result	**-4 088**	**-3 091**

22. SHARE BASED PAYMENT

Grant date	Opening balance	Number of options granted	Number of options exercised	Number of options expired	Ending Balance
2011	16 000				16 000
2012	14 000				14 000
2013	16 000				16 000
2014	19 300			-1 300	18 000
2015	20 000			-2 000	18 000
2016	20 000				20 000
2017	18 000				18 000
2018	20 000				20 000
2019	0	20 000			20 000
Balance	**143 300**	**20 000**	**0**	**-3 300**	**160 000**

SIPEF's stock option plan, which was approved in November 2011, is intended to provide long term motivation for the members of the executive committee and general directors of the foreign subsidiaries whose activities are essential to the success of the Group. The options give them the right to acquire a corresponding number of SIPEF shares.

The remuneration committee is responsible for monitoring this plan and selecting the beneficiaries. The options are provided free of charge and their exercise period is 10 years.

IFRS 2 has been applied to the stock options. The total value of the outstanding options 2011 - 2019 (valued at the fair value at the moment of granting), amounts to KUSD 1 588 and is calculated on the basis of an adjusted Black & Scholes model of which the main characteristics are as follows:

Grant date	Share price (in EUR)	Dividend yield	Volatility	Interest rate	Estimated expected lifetime	Black & Scholes Value (in EUR)
2011	58.00	2.50%	38.29	3.59%	5.00	18.37
2012	58.50	2.50%	37.55	0.90%	5.00	15.07
2013	57.70	2.50%	29.69	1.36%	5.00	12.72
2014	47.68	2.50%	24.83	0.15%	5.00	5.34
2015	52.77	2.50%	22.29	0.07%	5.00	8.03
2016	60.49	3.00%	19.40	-0.37%	5.00	8.38
2017	62.80	3.00%	18.88	-0.12%	5.00	5.57
2018	48.80	3.00%	18.60	-0.03%	5.00	3.54
2019	54.80	3.00%	19.56	-0.32%	5.00	8.12

In 2019, 20 000 new stock options were granted with an exercise price of EUR 45.61 per share. The fair value when granted was fixed at KUSD 182 and is recorded in the profit and loss accounts over the vesting period of 3 years (2020-2022). The total cost of the stock options included in the income statement is KUSD 126 in 2019 (2018: KUSD 157).

To cover the outstanding option liability, SIPEF has a total of 160 000 treasury shares in portfolio.

	Number of shares	Average purchase price (in EUR)	Total purchase price (in KEUR)	Total purchase price (in KUSD)
Opening balance 31/12/2018	143 300	52.13	7 614	9 423
Acquisition of treasury shares	16 700	46.40	775	854
Disposal of treasury shares	0	0.00	0	0
Ending balance 31/12/2019	**160 000**	**52.43**	**8 389**	**10 277**

The extraordinary general meeting of shareholders on February 11, 2015 authorized the board of directors to purchase own shares of SIPEF if deemed necessary over a period of 5 years after the publication of the renewal.

23. INCOME TAXES

The reconciliation between the tax expenses and tax at local applicable tax rates is as follows:

In KUSD	2019	2018
Profit before tax	**852**	**46 973**
Tax at the applicable local rates	174	-12 738
Average applicable tax rate	20.42%	-27.12%
Permanent differences	-2 625	-2 320
Losses of the year for which no DTA is recognised	- 566	- 68
Impairment losses recognised on DTA recognised in previous years	-3 755	-1 957
Reversal of impairment losses on DTA recognised in previous years	0	1 230
Corrections prior year	0	- 442
Theoretical tax on capital gain BDM/ASCO	0	2 139
Tax expense	**-6 772**	**-14 155**
Average effective tax rate	794.71%	30.13%

We received from the Indonesian tax authorities the formal approval, that starting from financial year 2014 our Indonesian affiliates are allowed to lodge their tax declaration in USD. From the tax authorities in Papua New Guinea the SIPEF group got permission to prepare the tax declaration based on USD accounts from 2015 onwards. For SIPEF NV and Jabelmalux SA a similar authorisation has been obtained with effect from the financial year 2016.

Deferred tax liabilities and assets are offset per taxable entity which leads to the following split between deferred tax assets and deferred tax liabilities:

In KUSD	2019	2018
Deferred tax assets	15 135	16 224
Deferred tax liabilities	-46 850	-50 936
Net deferred taxes	**-31 714**	**-34 712**

The movements in net deferred taxes (assets - liabilities) are:

In KUSD	2019	2018
Opening balance	-34 712	-36 299
Variation (- expense) / (+ income) through income statement	2 836	623
Tax impact of IAS 19R through comprehensive income	71	244
Tax impact hedge accounting via OCI	114	- 146
Change in consolidation scope	0	0
"Purchase price allocation" PT Agro Muko & PT Dendymarker	0	885
Other	- 23	- 19
Closing balance	**-31 714**	**-34 712**

Deferred taxes in the income statement are the result of:

In KUSD	2019	2018
Addition/(utilization) of tax losses brought forward	1 902	865
Origin/(reversal) of temporary differences - IAS 41 revaluation	- 325	1 154
Origin/(reversal) of temporary differences - fixed assets	921	- 579
Origin/(reversal) of temporary differences - pension provision	734	- 118
Origin/(reversal) of temporary differences - other	- 395	- 699
Total	**2 836**	**623**

Total deferred tax assets are not entirely recognized in the balance sheet. The breakdown of total recognized and unrecognized deferred taxes is as follows:

	2019		
In KUSD	Total	Not recorded	Recorded
Biological assets	-1 243	0	-1 243
Non-current assets	-45 165	0	-45 165
Inventories	-3 420	0	-3 420
Pension provision	5 526	0	5 526
Tax losses	15 684	4 652	11 032
Others	1 555	0	1 555
Total	**-27 062**	**4 652**	**-31 714**

The majority of the unrecognized deferred tax assets at the end of 2019 are located at the companies of the South Sumatra group (KUSD 3 421) and the Tolan Tiga group rubber and tea activities (KUSD 751). The set-up of and the adjustments to the deferred tax assets are based on the most recently available long-term business plans.

The total tax losses (recognized and unrecognized) have the following maturity structure:

	2019		
In KUSD	Total	Not recorded	Recorded
1 year	5 530	922	4 608
2 years	6 176	5 562	614
3 years	5 917	4 369	1 548
4 years	9 752	4 065	5 687
5 years	13 834	2 264	11 570
Unlimited	18 158	1 220	16 938
Total	**59 368**	**18 402**	**40 966**

The net taxes to be received relate mainly to the taxes to be received in Indonesia. In 2019 it involves primarily taxes to receive due to an overpayment in advances which are calculated on the result of previous year. Considering that the results of previous year were higher than those of current year, the SIPEF Group has a net tax receivable.

In KUSD	2019	2018
Taxes to receive	14 787	9 280
Taxes to pay	- 480	- 71
Net taxes to receive/(to pay)	**14 307**	**9 209**

In KUSD	2019	2018
Net taxes to receive/(to pay) at the beginning of the period	9 209	-10 870
Change consolidation scope	0	0
Transfer	0	320
Taxes to pay	-9 608	-14 778
Paid taxes	14 706	34 537
Net taxes to receive/(to pay) at the end of the period	**14 307**	**9 209**

Taxes paid as presented in the consolidated cash flow statement are detailed as follows:

In KUSD	2019	2018
Tax expense	-6 772	-14 155
Deferred tax	-2 836	- 623
Current taxes	**-9 608**	**-14 778**
Variation prepaid taxes	-5 507	-7 350
Variation payable taxes	409	-12 409
Paid taxes	**-14 706**	**-34 537**

24. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The SIPEF group has the following percentage of control and percentage of interest in the associates and joint ventures:

Entity	Location	% of control	% of interest
Verdant Bioscience Pte Ltd	Singapore / Republic of Singapore	38.00	38.00
PT Timbang Deli Indonesia	Medan / Indonesia	38.00	36.10

An associate is an entity over which the Group has significant influence. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. The Group has no joint ventures.
The investments in associates and joint ventures consist of Verdant Bioscience Singapore and PT Timbang Deli, both active in tropical agriculture.

Verdant Bioscience Pte Ltd (VBS) is a company located in Singapore. As of 1 January 2014, the Group holds a 38% interest in VBS. The company is a cooperation between Ultra Oleom Pte Ltd (52%), SIPEF NV (38%) and Biosing Pte (10%) with the objective of conducting research into and developing high-yielding seeds with a view to commercializing them.

The Group holds a 36.10% participation in PT Timbang Deli, a company located on the island of Sumatra in Indonesia. PT Timbang Deli is active in growing rubber. Following the Share Swap agreement with Verdant Bioscience Pte Ltd the SIPEF group contributed 95% of the total number of shares of PT Timbang Deli to Verdant Bioscience Pte Ltd.

The total section "investments in associates and joint ventures" can be summarized as follows:

In KUSD	2019	2018
Verdant Bioscience Pte Ltd	5 766	6 196
PT Timbang Deli Indonesia	- 12	1 043
Total	**5 754**	**7 239**

The total section "Share of results of associated companies and joint ventures" can be summarized as follows:

In KUSD	2019	2018
Verdant Bioscience Pte Ltd	- 431	- 398
PT Timbang Deli Indonesia	-1 054	- 456
Total result	**-1 485**	**- 854**

Below we present the condensed statements of financial position of the associated companies and joint ventures. These are prepared in accordance with IFRS and are before intercompany eliminations and excluding goodwill.

	Verdant Bioscience Pte Ltd		PT Timbang Deli	
In KUSD	2019	2018	2019	2018
Biological assets	0	0	3 906	4 509
Other non-current assets	23 622	23 617	7 763	7 264
Current assets	13 152	10 676	580	716
Cash and cash equivalents	100	141	133	209
Total assets	**36 874**	**34 434**	**12 382**	**12 698**
Non-current liabilities	0	0	1 240	1 066
Long term financial debts	0	0	0	0
Current liabilities	15 632	12 058	13 415	10 978
Short term financial debts	0	0	0	0
Equity	21 242	22 376	-2 273	654
Total equity and liabilities	**36 874**	**34 434**	**12 382**	**12 698**

Below we present the condensed income statements of the associated companies and joint ventures. These are prepared in accordance with IFRS and are before intercompany eliminations and excluding goodwill.

	Verdant Bioscience Pte Ltd		PT Timbang Deli	
In KUSD	2019	2018	2019	2018
Inclusion in the consolidation:	38.00%	38.00%	36.10%	36.10%
Revenue	0	0	1 122	1 654
Depreciation	9	9	1 476	604
Interest income	207	54	2	1
Interest charges	0	0	- 227	55
Net result	-1 134	-1 048	-2 919	-1 261
Share in the consolidation	**- 431**	**- 398**	**-1 054**	**- 456**
Total share of the group	- 431	- 398	-1 054	- 456
Total share minorities	0	0	0	0
Total	**- 431**	**- 398**	**-1 054**	**- 456**

Reconciliation of the associated companies and joint ventures

The below tables are prepared in accordance based on the IFRS financial statements as included in the consolidation, in accordance with the accounting policies of the SIPEF group, before goodwill allocation.

	Verdant Bioscience Pte Ltd		PT Timbang Deli	
In KUSD	2019	2018	2019	2018
Equity without goodwill	21 242	22 376	-2 273	654
Share of the group	8 073	8 503	- 819	236
Goodwill	0	0	807	807
Equity elimination PT Timbang Deli	-2 307	-2 307	0	0
Total	**5 766**	**6 196**	**- 12**	**1 043**

Dividends received from associated companies and joint ventures

During the year no dividends were received from associated companies and joint ventures.

There are no restrictions on the transfers of funds to the Group.

25. CHANGE IN NET WORKING CAPITAL

The cash flow from operating activities fell by KUSD 33 672, which is in line with the lower operating result. The increased use of working capital (KUSD -1 647) was primarily due to the additional advances of approximately USD -3.5 million that were granted to smallholders in the Musi Rawas region for the development of their land within the framework of the plasma law.

In Indonesia and Papua New Guinea, in 2019 the Group made advance tax payments based on the previous year's results (2018), in accordance with local laws. Therefore, a relatively large amount of tax was paid in 2019 (KUSD 14 693) compared with the actual tax expense of KUSD 6 772. At the end of 2019, the Group has outstanding tax receivables of USD 14 787, which will be recovered over the next two years.

26. FINANCIAL INSTRUMENTS

Exposure to fluctuations in the market price of core products, currencies, interest rates and credit risk arises in the normal course of the Group's business. Financial derivative instruments are used to a limited extend to reduce the exposure to fluctuations in foreign exchange rates and interest rates.

Fluctuations in the market price of core products

Structural risk

SIPEF group is exposed to structural price risks of their core products. The risk is primarily related to palm oil and palm kernel oil and to a lesser extent to rubber. A change of the palm oil price of USD 10 CIF per ton has an impact of about KUSD 2 600 (without considering the impact of the current export tax in Indonesia) on result after tax. This risk is assumed to be a business risk.

Transactional risk

The Group faces transactional price risks on products sold. The transactional risk is the risk that the price of products purchased from third parties fluctuates between the time the price is fixed with a customer and the time the transaction is settled. This risk is assumed to be a business risk.

Currency risk

Most of the subsidiaries are using the US dollar as functional currency. The Group's currency risk can be split into three distinct categories: structural, transactional and translational:

Structural risk

Most of the Group's revenues are denominated in USD, while all the operations are located outside the USD zone (particularly in Indonesia, Papua New Guinea, Ivory Coast and Europe). Any change in the USD against the local currency will therefore have a considerable impact on the operating result of the company. Most of these risks are considered to be a business risk.

Transactional risk

The Group is also subject to transactional risks in respect of currencies, i.e. the risk of currency exchange rates fluctuating between the time the price is fixed with a customer, supplier or financial institution and the time the transaction is settled. This risk, with the exception of naturally covered positions, is not covered since most receivables and payables have a short settlement term.

The pension liabilities in Indonesia are important long-term liabilities that are fully payable in IDR. A devaluation or revaluation of 10% of the IDR versus the USD has the following effect on the income statement:

In KUSD	IDR Dev 10%	Book value	IDR Rev 10%
Pension liabilities in Indonesia	20 554	22 610	25 121
Gross impact income statement	2 056		-2 511

The pension liability in Indonesia consists of KUSD 22 408 from fully consolidated subsidiaries and of KUSD 202 from equity consolidated companies (PT Timbang Deli).

On February 11, 2020 the proposal was made not to declare a dividend for the financial year 2019, in line with the applied dividend policy. Even so, during the start of 2019 the Group has already entered into an exchange contract to cover a possible dividend based on the result of the first quarter of the year, in line with the liquidity and currency policy to cover the exchange risk on a possible payment of dividend.

This was covered in one forward exchange contract for the sale of KUSD 1 342 for KEUR 1 150 (average exchange rate of 1.1680):

- KUSD 1 342 (KEUR 1 150) before year end.

Sensitivity analysis
With regard to the cover of the dividend for the end of the year a devaluation or revaluation of 10% of the EUR versus the USD has the following effect on the profit and loss account:

In KUSD	EUR Dev 10%	Closing rate	EUR Rev 10%
Dividend	1 173	1 290	1 433
Gross Impact income statement	- 117		143

Translational risk
The SIPEF group is an international company and has operations which do not use the USD as their reporting currency. When such results are consolidated into the Group's accounts the translated amount is exposed to variations in the value of such local results are consolidated into the Group's accounts the translated amount is exposed to variations in the value of such local currencies against the USD. SIPEF group does not hedge against such risk (see accounting policies).

As from 1st of January 2007 onwards the functional currency of most of our activities is the same as the presentation currency, this risk has been largely restricted.

Interest rate risk
The Group's exposure to changes in interest rates relates to the Group's financial debt obligations. At the end of December 2019, the Group's net financial assets/(liabilities) amounted to KUSD -164 623 (2018: KUSD -121 443), of which KUSD 109 763 short term financial liabilities (2018: KUSD 121 038) and KUSD 10 653 net short-term cash and cash equivalents (2018: KUSD 29 595).

The financial liabilities > 1 year (incl. derivatives) amount to KUSD 63 000 (2018: KUSD 30 000).

Considering that all short-term debts are of a current nature with variable interest rates, we believe a 0.5% change in interest rate will not have a material impact.

Considering that the long-term financial debt is primarily based on a variable interest rate, the risk exists that with an increase of the interest rate, the financing cost will increase. This interest risk is hedged by the use of an interest rate swap (IRS). The goal of this interest rate swap is to decrease the volatility (and with it the interest rate risk) as much as possible

Available funds are invested in short term deposits.

Credit risk
Credit risk is the risk that one party will fail to discharge an obligation and cause the other party to incur a loss. This credit risk can be split into a commercial and a financial credit risk. With regard to the commercial credit risk management has established a credit policy and the exposure to this credit risk is monitored on a continuous basis.

In practice a difference is made between:

In KUSD	2019	2018
Receivables from the sale of palm oil/rubber/tea	31 807	34 139
Receivables from the sale of bananas and plants	1 477	862
Total	**33 284**	**35 001**

The credit risk for the first category is rather limited as these sales are for the most part immediately paid against presentation of documents. Moreover, it concerns a relatively small number of first-class buyers: per product about 90% of the turnover is realized with a maximum of 10 clients. For palm oil there are 2 clients who each represent over 30% of the total sales. For tea there is one client which represents over 45% of total sales and two other clients who combined represent over 45% of total revenues. For rubber there is one client which represent over 50% of total revenues and one client which represents over 30% of total revenues. Contrary to the first category the credit risk for the receivables from the sales of bananas and plants is higher.

For both categories there is a weekly monitoring of the open balances due and a proactive system of reminders. Impairments are applied as soon as total or partial payments are seen as unlikely. The elements that are taken into account for these appraisals are the lengths of the delay in payment and the creditworthiness of the client.

The receivables from the sales of bananas and plants have the following due date schedule:

In KUSD	2019	2018
Not yet due	669	619
Due < 30 days	676	101
Due between 30 and 60 days	132	142
Due between 60 and 90 days	0	- 17
Due > 90 days	0	17
Total	**1 477**	**862**

During 2019, no impairment on receivables was recorded in the income statement

During 2018, one receivable was recorded as doubtful for which a total amount of KUSD 80 was provisioned. It concerns a receivable from the sales of bananas and plants. However, looking at the history of defaults within the SIPEF group, defaults are highly exceptional.

The Group applied the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables based on historical losses. The Group analysed the impact of IFRS 9 and concluded there is no material impact on the bad debt reserve booked. The Group also assessed whether the historic pattern would change materially in the future and expects no significant impact.

Liquidity risk

A material and structural shortage in our cash flow would damage both our creditworthiness as well as the trust of investors and would restrict the capacity of the Group to attract fresh capital. The operational cash flow provides the means to finance the financial obligations and to increase shareholder value. The Group manages the liquidity risk by evaluating the short term and long-term cash flows. The SIPEF group maintains an access to the capital market through short- and long-term debt programs.

The following table gives the contractually determined (not-discounted) cash flows resulting from liabilities at balance sheet date:

2019 - In KUSD	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	2-3 years	3-4 years	More than 5 years
Financial obligations > 1 year (incl. derivatives)	63 000	-70 186	-2 332	-20 313	-19 572	-27 970	0
Trade & other liabilities < 1 year							
Trade payables	17 292	-17 292	-17 292	0	0	0	0
Advances received	2 377	-2 377	-2 377	0	0	0	0
Financial liabilities < 1 year							
Current portion of amounts payable after one year	18 000	-18 730	-18 730	0	0	0	0
Financial liabilities	91 239	-91 291	-91 291	0	0	0	0
Derivatives	42	- 42	- 42	0	0	0	0
Other current liabilities	0	0	0	0	0	0	0
Current liabilities	**191 949**	**-199 918**	**-132 064**	**-20 312**	**-19 572**	**-27 970**	**0**

2018 - In KUSD	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	2-3 years	3-4 years	More than 5 years
Financial obligations > 1 year (incl. derivatives)	30 000	-31 454	- 559	-10 498	-10 298	-10 099	0
Trade & other liabilities < 1 year							
Trade payables	19 647	-19 647	-19 647	0	0	0	0
Advances received	450	- 450	- 450	0	0	0	0
Financial liabilities < 1 year							
Current portion of amounts payable after one year	10 000	-10 331	-10 331	0	0	0	0
Financial liabilities	111 038	-111 161	-111 161	0	0	0	0
Derivatives	771	- 771	- 771	0	0	0	0
Other current liabilities	0	0	0	0	0	0	0
Current liabilities	**171 906**	**-173 814**	**-142 919**	**-10 498**	**-10 298**	**-10 099**	**0**

In order to limit the financial credit risk SIPEF has spread its more important activities over a small number of banking groups with a first-class rating for creditworthiness. The current maximum credit lines available amount to KUSD 205 432 (2018: KUSD 178 889). In 2019, same as in previous years, there were no infringements on the conditions stated in the credit agreements nor were there any shortcomings in repayments.

Financial instruments measured at fair value in the statement of financial position

Companies within the Group may use financial instruments for risk management purposes. Specifically, these are instruments principally intended to manage the risks associated with fluctuating interest and exchange rates. The counterparties in the related transactions are exclusively first-ranked banks.

Derivative instruments are measured at fair value at initial recognition. The changes in fair value are reported in the income statement unless these instruments are part of hedging transactions.

Fair values of derivatives are:

In KUSD	2019	2018
Forward exchange transactions	- 262	-1 382
Interest rate swaps	220	611
Fair value (+ = asset; - = liability)	**- 42**	**- 771**

In accordance with IFRS 13 financial instruments are grouped into 3 levels based on the degree to which the fair value is observable:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly or indirectly;
- Level 3 inputs are unobservable inputs for the asset or liability.

The fair value of the forward exchange contracts and interest rate swap calculated at the closing value on the 31st of December 2019 were also incorporated in level 2. The notional amount from the forward exchange contracts amounts to KUSD 23 526.

The forward exchange contracts are not documented in a hedging relationship and accordingly, all changes in fair value are recorded in the financial result. The Group has documented the interest rate swaps (IRS) in a hedging relationship. The terms of the IRS and the hedged debt match 100%. Therefore, no effectiveness test based on a ratio of changes in fair value of the hedging instrument against that of the hedged debt is required. An IRS with matching contractual terms would have limited inefficiency.

The IRS has a notional amount of KUSD 81 000. The carrying amount is recorded on the derivatives (liabilities) for an amount of KUSD 220, the deferred tax assets for an amount of KUSD 64 and the other comprehensive income in the equity for an amount of KUSD 156.

Financial instruments per category

The following table presents the financial instruments per category as per end 2019 and end 2018:

2019 - In KUSD	Carrying amount	IFRS 9 category	Fair value	Fair value hierarchy
Financial assets				
Other investments	73	AC	73	Level 2
Receivables > 1 year				
Other receivables	13 442	AC	13 442	Level 2
Total non-current financial assets	**13 515**		**13 515**	
Trade and other receivables				
Trade receivables	33 284	AC	33 284	Level 2
Investments				
Other investments and deposits	0	AC	0	Level 2
Cash and cash equivalents	10 653	AC	10 653	Level 2
Derivatives	0	FVTPL	0	Level 2
Derivatives	0	Hedging	0	Level 2
Total current financial assets	**43 937**		**43 937**	
Trade and other obligations > 1 year	0	AC	0	Level 2
Financial obligations > 1 year	63 000	AC	63 000	Level 2
Total non-current financial liabilities	**63 000**		**63 000**	

Trade & other obligations < 1 year				
Trade payables	17 292	AC	17 292	Level 2
Advances received	2 377	AC	2 377	Level 2
Financial obligations < 1 year				
Current portion of amounts payable after one year	18 000	AC	18 000	Level 2
Financial obligations	91 239	AC	91 239	Level 2
Derivatives	262	FVTPL	262	Level 2
Derivatives	- 220	Hedging	- 220	Level 2
Total current financial liabilities	**128 949**		**128 949**	

2018 - In KUSD	Carrying amount	IFRS 9 category	Fair value	Fair value hierarchy
Financial assets				
Other investments	77	AC	77	Level 2
Receivables > 1 year				
Other receivables	11 112	AC	11 112	Level 2
Total non-current financial assets	**11 189**		**11 189**	
Trade and other receivables				
Trade receivables	35 001	AC	35 001	Level 2
Investments				
Other investments and deposits	0	AC	0	Level 2
Cash and cash equivalents	29 595	AC	29 595	Level 2
Derivatives	0	FVTPL	0	Level 2
Derivatives	0	Hedging	0	Level 2
Total current financial assets	**64 596**		**64 596**	
Trade and other obligations > 1 year		AC		Level 2
Financial obligations > 1 year	30 000	AC	30 000	Level 2
Total non-current financial liabilities	**30 000**		**30 000**	
Trade & other obligations < 1 year				
Trade payables	19 647	AC	19 647	Level 2
Advances received	450	AC	450	Level 2
Financial obligations < 1 year				
Current portion of amounts payable after one year	10 000	AC	10 000	Level 2
Financial obligations	111 038	AC	111 038	Level 2
Derivatives	1 382	FVTPL	1 382	Level 2
Derivatives	- 611	Hedging	- 611	Level 2
Total current financial liabilities	**141 906**		**141 906**	

27. Leasing

The Group has adopted IFRS 16 from 1 January 2019 but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognized in the opening balance sheet on 1 January 2019.

On adoption of IFRS 16, the Group recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019.

The lease payments are discounted using the weighted average cost of capital (WACC) implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

The Group leases office space, land rights and vehicles under a number of operating lease agreements with a lease term of one year or more. The rent of the office buildings concerns the monthly rental payments for the offices in Indonesia. The rent of the offices and ancillary parking space in Belgium has not been included in the leases due to the short-term exemption. For the land rights the subject of the lease concerns the usufruct of certain land wherefore a fixed annual rental amount is paid. The remaining land rights in PNG have a duration of 99 years for which no rental amount is paid. These assets will be depreciated over a period of 25 years in line with the lifespan of an oil palm. The vehicles concern the limited number of car leases within the Group.

The future operating lease commitments under these non-cancellable operating leases are due as follows:

	In KUSD
Operating lease commitments disclosed as at 31 December 2018	**5 220**
(-) Discounted using the lessee's incremental borrowing rate of at the date of initial application	-2 200
Lease liability recognised as at 1 January 2019	**3 020**
Of which are:	
Current lease liabilities	496
Non-current lease liabilities	2 524
Total lease liability as at 1 January 2019	**3 020**

The movement during the year of the lease liability can be summarised as follows:

	In KUSD
Operating lease commitments disclosed as at 1 January 2019	**3 020**
Acquisitions	233
Financial costs/(income)	251
Lease repayments	- 524
Exchange result	57
Lease liability recognised as at 31 December 2019	**3 037**
Of which are:	
Current lease liabilities	524
Non-current lease liabilities	2 513
Total lease liability as at 31 December 2019	**3 037**

As the Group has opted to apply option 2B: Cumulative catch-up, the right-of-use asset equals the lease liability as at 1 January 2019. Therefore, there is no impact on the retained earnings. The right-of-use assets can be classified as follows:

Movement	In KUSD
Total right-of-use assets as at 1 January 2019	3 020
Acquisition	233
Depreciation	- 358
Total	**2 895**

	Land rights*	Office rent	Car rent	Total
Total right-of-use assets as at 1 January 2019	818	1 778	424	**3 020**
Total right-of-use assets as at 31 December 2019	1 003	1 580	312	**2 895**

** increase in land rights subject to lease in PNG in 2019*

The total depreciation of the right-of-use assets until 31 December 2019 amounts to 358 KUSD and the financial charges to 251 KUSD. Of the depreciation, 47 KUSD was recorded in the Cost of sales of the palm segment of Papua New Guinea and 310 KUSD in the "General and administrative expenses".

28. RIGHTS AND COMMITMENTS NOT REFLECTED IN THE BALANCE SHEET

Guarantees

No guarantees have been issued by third parties as security for the company's account and for the account of subsidiaries during 2019.

Significant litigation

Nihil

Forward sales
The commitments for the delivery of goods (palm products, rubber, tea and bananas and plants) after the year end fall within the normal delivery period of about 3 months from date of sale. Those sales are not considered as forward sales.

29. RELATED PARTY TRANSACTIONS

Transactions with directors and members of the executive committee
Key management personnel are defined as the directors and the Group's management committee. The table below shows an overview of total remuneration received:

In KUSD	2019	2018
Directors' fees		
Fixed fees	401	406
Short-term employee benefits	2 043	2 995
Share based payments	93	119
Post-employment benefits	522	547
Benefits in kind (company car + cell phone)	40	38
Total	**3 100**	**4 105**

The amounts are paid in EUR. The amount paid in 2019 amounts to KEUR 2 772 (2018: KEUR 3 484). The decrease of KEUR 712 is a consequence of a lower variable fee paid in 2019 compared to 2018.

Starting from the financial year 2007 fixed fees shall be paid to the members of the board of directors, the audit committee and the remuneration committee.

Related party transactions are considered immaterial, except for the rental agreement since 1985 between Cabra NV and SIPEF covering the offices and ancillary parking space at Castle Calesberg in Schoten. The annual rent, adjusted for inflation, amounts to KUSD 193 (2018 KUSD 201) and KUSD 78 (2018 KUSD 81) is invoiced for SIPEF's share of maintenance of the buildings, parking space and park area.

SIPEF's relations with board members and management committee members are covered in detail in the "Corporate Governance statement" section.

Other related party transactions
Transactions with related companies are mainly trade transactions and are priced at arms' length. The revenue and expenses related to these transactions are immaterial to the consolidated financial statements as a whole.

Transactions with group companies
Balances and transactions between the Group and its subsidiaries which are related parties of the Group have been eliminated in the consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

The following table represents the total of the transactions that have occurred during the financial year between the Group and the joint venture PT Timbang Deli and Verdant Bioscience Pte Ltd at 100%:

	Verdant Bioscience Pte Ltd		PT Timbang Deli	
	2019	2018	2019	2018
Total sales during the financial year	0	0	0	0
Total purchases during the financial year	0	0	1 088	1 261
Total receivables as per 31 December 2019	6 781	5 096	17	38
Total payables as per 31 December 2019	300	700	195	189

30. EARNINGS PER SHARE (BASIC AND DILUTED)

From continuing and discontinued operations	2019	2018
Basic earnings per share		
Basic earnings per share - calculation (USD)	-0.77	2.88
Basic earnings per share is calculated as follows:		
Numerator: net result for the period attributable to ordinary shareholders (KUSD)	- 8 004	30 089
Denominator: the weighted average number of ordinary shares outstanding	10 434 244	10 454 309
The weighted average number of ordinary shares outstanding is calculated as follows:		
Number of ordinary shares outstanding at January 1	10 436 028	10 455 328
Effect of shares issued / share buyback programs	- 1 784	- 1 019
Effect of the capital increase	0	0
The weighted average number of ordinary shares outstanding at December 31	10 434 244	10 454 309
Diluted earnings per share		
Diluted earnings per share - calculation (USD)	-0.77	2.88
The diluted earnings per share is calculated as follows:		
Numerator: net result for the period attributable to ordinary shareholders (KUSD)	- 8 004	30 089
Denominator: the weighted average number of dilutive ordinary shares outstanding	10 434 542	10 462 071
The weighted average number of dilutive ordinary shares outstanding is calculated as follows:		
The weighted average number of ordinary shares outstanding at December 31	10 434 244	10 454 309
Effect of stock options on issue	298	7 762
The weighted average number of dilutive ordinary shares outstanding at December 31	10 434 542	10 462 071

From continuing operations	2019	2018
Basic earnings per share		
Basic earnings per share - calculation (USD)	-0.77	2.88
Basic earnings per share is calculated as follows:		
Numerator: net result for the period attributable to ordinary shareholders (KUSD)	- 8 004	30 089
Denominator: the weighted average number of ordinary shares outstanding	10 434 244	10 462 071
The weighted average number of ordinary shares outstanding is calculated as follows:		
Number of ordinary shares outstanding at January 1	10 436 028	10 455 328
Effect of shares issued / share buyback programs	- 1 784	- 1 019
Effect of the capital increase	0	0
The weighted average number of ordinary shares outstanding at December 31	10 434 244	10 454 309
Diluted earnings per share		
Diluted earnings per share - calculation (USD)	-0.77	2.88
The diluted earnings per share is calculated as follows:		
Numerator: net result for the period attributable to ordinary shareholders (KUSD)	- 8 004	30 089
Denominator: the weighted average number of dilutive ordinary shares outstanding	10 434 244	10 462 071
The weighted average number of dilutive ordinary shares outstanding is calculated as follows:		
The weighted average number of ordinary shares outstanding at December 31	10 434 244	10 454 309
Effect of stock options on issue	298	7 762
The weighted average number of dilutive ordinary shares outstanding at December 31	10 434 542	10 462 071

31. EVENTS AFTER THE BALANCE SHEET DATE

Covid-19
The measures to contain the spread of the Covid-19 virus have an important impact on the global economy and consequently also on our company.

Until today the operating activities of Sipef have not been hampered by this global pandemic. Harvesting, processing and transport of the products continue unabated and as most of these products (oil palm, bananas and tea) are basic products in the food supply chain it is generally expected that this will not change in the foreseeable future.
It goes without saying that the necessary measures have been taken to ensure the health and safety of the employees and various stakeholders in different parts of the world.

Financially, the main impact is the sharp fall in the palm oil price since mid-February 2020, mainly due to a fall in demand for palm oil from the biodiesel sector.

However, the decline in profitability is fully in line with the known sensitivity of SIPEF's results to the evolution of the palm oil price, with an increase / decrease of KUSD 2,600 in the Group's result for every 10 USD / tonne increase / decrease in the palm oil price (excluding the impact of the export tax in Indonesia).The evolution of the palm oil price can be found on the Sipef website and it is regularly updated (https://www.sipef.com/hq/investors/daily-share-price-cpo-price/).

According to current forecasts, the Group has sufficient credit lines to bridge this difficult period and the respect of the existing bank covenants should not be compromised either.

Corporate tax in Indonesia
On March 31, 2020, the Indonesian government decided to reduce the corporate income tax from the current 25% to 22% in 2020/2021 and 20% from 2022. This adjustment will have a positive effect on the financial results and cash flow of the Group.

According to our current calculations, the impact on the deferred tax position is estimated as immaterial (less than USD 1.2 million).

32. SERVICES PROVIDED BY THE AUDITOR AND RELATED FEES

The statutory auditor of the SIPEF group is Deloitte Bedrijfsrevisoren CVBA represented by Kathleen de Brabander.
The fees for the annual report of SIPEF were approved by the general meeting after review and approval of the audit committee and by the board of directors. These fees correspond to an amount of KUSD 90 (against KUSD 93 last year). For the Group, Deloitte has provided services for KUSD 503 in 2019 (against KUSD 474 the year before), of which KUSD 108 (2018: KUSD 35) are for non-audit services.

Statutory auditor's report on the consolidated financial statements

Statutory auditor’s report to the shareholders’ meeting of Sipef NV for the year ended 31 December 2019 - Consolidated financial statements

In the context of the statutory audit of the consolidated financial statements of Sipef NV (“the company”) and its subsidiaries (jointly “the group”), we hereby submit our statutory audit report. This report includes our report on the consolidated financial statements and the other legal and regulatory requirements. These parts should be considered as integral to the report.

We were appointed in our capacity as statutory auditor by the shareholders’ meeting of 14 June 2017, in accordance with the proposal of the board of directors (“bestuursorgaan” / “organe d’administration”) issued upon recommendation of the audit committee. Our mandate will expire on the date of the shareholders’ meeting deliberating on the financial statements for the year ending 31 December 2019. We have performed the statutory audit of the consolidated financial statements of Sipef NV for at least 30 consecutive periods.

Report on the consolidated financial statements

Unqualified opinion

We have audited the consolidated financial statements of the group, which comprise the consolidated balance sheet as at 31 December 2019, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, as well as the summary of significant accounting policies and other explanatory notes. The consolidated balance sheet shows total assets of 943 125 (000) USD and the consolidated statement of comprehensive income shows a loss for the year then ended of 7 404 (000) USD.

In our opinion, the consolidated financial statements give a true and fair view of the group’s net equity and financial position as of 31 December 2019 and of its consolidated results and its consolidated cash flow for the year then ended, in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium.

Basis for the unqualified opinion

We conducted our audit in accordance with International Standards on Auditing (ISA), as applicable in Belgium. In addition, we have applied the International Standards on Auditing approved by the IAASB applicable to the current financial year, but not yet approved at national level. Our responsibilities under those standards are further described in the “Responsibilities of the statutory auditor for the audit of the consolidated financial statements” section of our report. We have complied with all ethical requirements relevant to the statutory audit of consolidated financial statements in Belgium, including those regarding independence.

We have obtained from the board of directors and the company’s officials the explanations and information necessary for performing our audit.

We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	How our audit addressed the key audit matters
Impairment assessment of goodwill As at 31 December 2019, the carrying amount of goodwill amounted to USD 104 782 (000). The annual goodwill impairment test is significant to our audit because the recoverable value is determined by a value-in-use calculation prepared by management using a discounted cash flow model, which is complex, highly judgmental and subjective. The palm oil segment is identified as a single cash generating unit (CGU) for impairment testing. The recoverable value of the CGU to which the goodwill is attributed, was determined by using the discounted cash flow model. The cash flow model estimates the relevant cash flows, which are expected to be generated in the future, and are discounted to the present value by using a discount rate approximating the weighted average cost of capital. The estimation of future cash flows requires the use of a number of operational and predictive assumptions. Key assumptions in determining the value-in-use estimate are the projected crude palm oil price and the weighted average cost of capital. We refer to the financial statements, including notes to the financial Statements: Goodwill and other intangible assets (note 8).	• We obtained an understanding of the internal control processes around the goodwill impairment exercise, more specifically management's review process of the discounted cash flow model, and the approval of the board of directors of the underlying business plan; • We reviewed the discounted cash flow model to assess the appropriateness of the methodology employed by management and critically evaluated management's assumptions; • We engaged the assistance of our internal valuation expert to assess the reasonableness of the key predictive assumptions such as the projected crude palm oil price and the weighted average cost of capital as discount rate; • We considered the robustness of management's budgeting process by comparing the actual results versus previously forecasted figures; • We also assessed whether the future cash flows were based on the business plan approved by the board of directors; • We reviewed management's analysis of the sensitivity of the value in use amounts to changes in the respective assumptions; • We reviewed the adequacy of the note disclosures concerning those key assumptions to which the outcome of the impairment test is most sensitive. The group's disclosures about goodwill are in Note 8 to the financial statements, which explains that changes in the key assumptions used could give rise to an impairment of the goodwill balance in the future.

Recoverability of deferred tax assets	
The group recognized deferred tax assets amounting to USD 11 032 (000) on unutilized tax losses. The group exercised its judgement to determine the amount of deferred tax assets that can be recognized, to the extent it is probable that future taxable profit will be available. We refer to the financial statements, including notes to the financial statements: Income taxes (note 23).	• We considered the internal controls implemented by management and we carried out testing relating to the design and implementation of controls over the recoverability of deferred tax assets; • We challenged group and local management in respect of the recognition of deferred tax assets and tax provisions by utilizing both internal as well as external tax experts in Indonesia and Papua New Guinee in order to help understand the potential impacts of local tax regulations on the group's operations; • We assessed, tested and challenged management's assumptions to determine the probability that deferred tax assets will be recovered through taxable income in future years, including comparing the consistency of management's forecasts of taxable income as used in the deferred tax analysis, with those included in the financial budgets as approved by the board of directors; • We assessed the historical accuracy of management's assumptions and estimation process by comparing the forecasted results against actual results of operations to determine the probability that deferred tax assets will be recovered through taxable income in future years; • We assessed the adequacy of the disclosure Note 23 in the financial statements.

Responsibilities of the board of directors for the preparation of the consolidated financial statements

The board of directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium and for such internal control as the board of directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the board of directors is responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters to be considered for going concern and using the going concern basis of accounting unless the board of directors either intends to liquidate the group or to cease operations, or has no other realistic alternative but to do so.

Responsibilities of the statutory auditor for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a statutory auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

During the performance of our audit, we comply with the legal, regulatory and normative framework as applicable to the audit of consolidated financial statements in Belgium. The scope of the audit does not comprise any assurance regarding the future viability of the company nor regarding the efficiency or effectiveness demonstrated by the board of directors in the way that the company's business has been conducted or will be conducted.

As part of an audit in accordance with ISA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from an error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors;
- conclude on the appropriateness of the use of the going concern basis of accounting by the board of directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our statutory auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our statutory auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, amongst other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and we communicate with them about all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our report unless law or regulation precludes any public disclosure about the matter.

Other legal and regulatory requirements

Responsibilities of the board of directors

The board of directors is responsible for the preparation and the content of the directors' report on the consolidated financial statements, including the statement of non-financial information and other matters disclosed in the annual report on the consolidated financial statements.

Responsibilities of the statutory auditor

As part of our mandate and in accordance with the Belgian standard complementary to the International Standards on Auditing (ISA) as applicable in Belgium, our responsibility is to verify, in all material respects, the director's report on the consolidated financial statements, including the statement of non-financial information and other matters disclosed in the annual report on the consolidated financial statements, as well as to report on these matters.

Aspects regarding the directors' report on the consolidated financial statements and other information disclosed in the annual report on the consolidated financial statements

In our opinion, after performing the specific procedures on the directors' report on the consolidated financial statements, this report is consistent with the consolidated financial statements for that same year and has been established in accordance with the requirements of article 3:32 of the Code of companies and associations.

In the context of our statutory audit of the consolidated financial statements we are responsible to consider, in particular based on information that we became aware of during the audit, if the directors' report on the consolidated financial statements and other information disclosed in the annual report on the consolidated financial statements, i.e.:

- Annual report 2019 – part 1 - corporate governance report;
- Annual report 2019 – part 1 - other company information;
- Annual report 2019 – part 2 – comments on the consolidated financial statements

are free of material misstatements, either by information that is incorrectly stated or otherwise misleading. In the context of the procedures performed, we are not aware of such a material misstatement.

The non-financial information as required by article 3:32, § 2 of the Code of companies and associations, has been disclosed in the the directors' report on the consolidated financial statements (part 3 – sustainability report). This non-financial information has been established by the company in accordance with international reporting frameworks (RSPO and SDG). In accordance with article 3:80 § 1, 5° of the Code of companies and associations we do not express any opinion on the question whether this non-financial information has been established in accordance with these frameworks.

Statements regarding independence

- Our audit firm and our network have not performed any prohibited services and our audit firm has remained independent from the group during the performance of our mandate.
- The fees for the additional non-audit services compatible with the statutory audit, as defined in article 3:65 of the Code of companies and associations, have been properly disclosed and disaggregated in the notes to the consolidated financial statements.

Other statements

- This report is consistent with our additional report to the audit committee referred to in article 11 of Regulation (EU) No 537/2014.

Antwerp, 16 April 2020

The statutory auditor

Deloitte Bedrijfsrevisoren/Réviseurs d'Entreprises CVBA/SCRL
Represented by Kathleen De Brabander

Parent company summarised statutory accounts

The annual accounts of SIPEF are given below in summarized form. In accordance with the Belgian Code on Companies, the annual accounts of SIPEF, together with the management report and the auditor's report will be deposited with the National Bank of Belgium.

These documents may also be obtained on request from:

SIPEF, Calesbergdreef 5, B-2900 Schoten

Only the consolidated annual financial statements as set forth in the preceding pages present a true and fair view of the financial position and performance of the SIPEF-group.

The statutory auditor's report is unqualified and certifies that the annual accounts of SIPEF NV give a true and fair view of the company's net equity and financial position as of 31 December 2019 and of its results for the year then ended, in accordance with the financial reporting framework applicable in Belgium.

The balance sheet total of the company as per 31 December 2019 amounts to KUSD 473 371 compared to KUSD 439 739 in previous year.

The 'financial assets – receivables from affiliated companies' increased with KUSD 30 087, mainly due to the financing of the further expansion in Indonesia.

The equity of SIPEF before profit appropriation amounts to KUSD 262 720, which corresponds to 24.83 USD per share.

The individual result of SIPEF are large determined by dividends and capital gains/losses. As SIPEF does not directly hold all of the Group's participating interest, the consolidated result of the Group is a more accurate reflection of the underlying economic development.

The financial income (KUSD 35 266) for the financial year 2019 was strongly influenced by the share buyback of Hargy Palm Oils Ltd shares. A capital gain of KUSD 28 448 was realized on this share buyback.

The statutory profit for the year 2019 amounts to KUSD 30 827 compared to a profit of KUSD 19 291 in the previous year.

The Board of Directors proposes to allocate the result (in KUSD) as follows:

- Profit carried forward from previous year: KUSD 65 443
- Profit of the year: KUSD 30 827
- Total available for appropriation: KUSD 96 270
- Addition to the legal reserve: KUSD 0
- Additional to the other reserves: KUSD - 695
- Compensation of the capital: KUSD 0
- Result to be carried forward: KUSD 95 575

The board of directors proposes not to pay out a dividend for the financial year 2019.

Condensed balance sheet

(after appropriation)

In KUSD	2019	2018
Assets		
Fixed assets	**357 140**	**333 609**
Formation expenses	0	0
Intangible assets	517	441
Tangible assets	450	530
Financial assets	356 173	332 638
Current assets	**116 231**	**106 130**
Amounts receivable after more than one year	1 829	3 900
Stocks and contracts in progress	508	1 104
Amounts receivable within one year	102 244	91 260
Investments	9 409	8 003
Cash at bank and in hand	2 183	1 792
Other current assets	58	71
Total assets	**473 371**	**439 739**
Liabilities		
Equity	**262 720**	**231 892**
Capital	44 734	44 734
Share premium account	107 970	107 970
Reserves	14 441	13 745
Profit/ (loss) carried forward	95 575	65 443
Provisions and deferred taxation	**0**	**26**
Provisions for liabilities and charges	0	26
Creditors	**210 651**	**207 821**
Amounts payable after more than one year	63 000	30 000
Amounts payable within one year	147 185	176 582
Accrued charges and deferred income	466	1 239
Total liabilities	**473 371**	**439 739**

Condensed income statement

In KUSD	2019	2018
Operating income	160 695	267 563
Operating charges	- 159 791	- 264 979
Operating result	**904**	**2 584**
Financial income	35 266	20 512
Financial charges	- 5 321	- 2 748
Financial result	**29 945**	**17 764**
Result for the period before taxes	**30 849**	**20 348**
Income taxes	- 22	- 1 057
Result for the period	**30 827**	**19 291**

Appropriation account

In KUSD	2019	2018
Profit/ (loss) to be appropriated	96 270	73 460
Profit / (loss) for the period available for appropriation	30 827	19 291
Profit / (loss) brought forward	65 443	54 169
Appropriation account	**96 270**	**73 460**
Transfers to legal reserve	0	584
Transfers to other reserves	695	774
Result to be carried forward	95 575	65 443
Dividends	0	6 659
Remuneration to directors	0	0

For further information

SIPEF

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Dit jaarverslag is ook verkrijgbaar in het Nederlands.

Translation: this annual report is available in Dutch and English. The Dutch version is the original; the other language version is a free translation. We have made every reasonable effort to avoid any discrepancies between the different language versions. However, should such discrepancies exist, the Dutch version will take precedence.

Concept and realisation: Focus advertising

Photography:
Portraits of the chairman, the members of the board of directors and the members of the executive committee © Wim Kempenaers
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Responsible persons

RESPONSIBILITY FOR THE FINANCIAL INFORMATION

François Van Hoydonck
managing director

Johan Nelis
chief financial officer

DECLARATION OF THE PERSONS RESPONSIBLE FOR THE FINANCIAL STATEMENTS AND FOR THE MANAGEMENT REPORT

Baron Luc Bertrand, chairman and François Van Hoydonck, managing director declare that, to their knowledge:

- the consolidated financial statements for the financial year ended on 31 December 2019 were drawn up in accordance with the 'International Financial Reporting Standards' (IFRS) and provide an accurate picture of the consolidated financial position and the consolidated results of the SIPEF group and its subsidiary companies that are included in the consolidation;
- the financial report provides an accurate overview of the main events and transactions with affiliated parties, which occurred during the financial year 2019 and their effects on the financial position, as well as a description of the main risks and uncertainties for the SIPEF group.

STATUTORY AUDITOR

Deloitte Bedrijfsrevisoren CVBA/
Réviseurs d'Entreprises SCRL

Represented by
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Notes

www.sipef.com

SIPEF