Sipef NV

Statutory auditor's report to the shareholders' meeting on the consolidated financial statements for the year ended 31 December 2017

The original text of this report is in Dutch

Statutory auditor's report to the shareholders' meeting of Sipef NV on the consolidated financial statements for the year ended 31 December 2017

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 to you. This report includes our report on the consolidated financial statements together with our report on other legal and regulatory requirements. These reports are one and indivisible.

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. Our mandate will expire on the date of the shareholders' meeting approving the consolidated 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 subsequent years.

Report on the audit of the consolidated financial statements

Unqualified opinion

We have audited the consolidated financial statements of the company and its subsidiaries, which comprise the consolidated balance sheet as at 31 December 2017, 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 USD 907.008 (000) and the consolidated income statement shows a consolidated profit for the year then ended of USD 148.358 (000).

In our opinion, the consolidated financial statements of Sipef NV give a true and fair view of the group's net equity and financial position as of 31 December 2017 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 our unqualified opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). 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 judgement, 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 adressed the key audit matters?
Significant and unusual transactions There were a number of transactions during the year that warranted particular additional audit focus due to the magnitude, the nature and the complexity of the transactions for which the application of the accounting policies introduce significant judgements and estimates. Key transactions subject to additional audit focus were: - Acquisition of PT Agro Muko In 2017, Sipef completed the agreements reached with its joint venture partners, ANJ and MP Evans, on the sale of an interest of 10,87% and 36,84% respectively in PT Agro Muko to Sipef. Through its subsidiary PT Tolan Tiga Indonesia, the company already held an interest of 47,29%. As a result of this transaction, the group has, with a controlling interest of 95%, acquired exclusive control over PT Agro Muko. - Acquisition of PT Dendymarker In 2017, Sipef completed the acquisition of 95% of the shares of PT Dendymarker Indah Lestari. Both transactions are considered as a business combination under IFRS 3, under which for the transaction of PT Agro Muko, the previously held interest is remeasured at fair value resulting in a gain recognized in profit and loss, and under which for both transactions, identifiable assets acquired and liabilities assumed are measured at their fair values, resulting in a purchase price allocation and a remaining goodwill. We consider the accounting treatment of these transactions as a key audit matter, because of: • The judgement made by management in assessing the fair value of the previously held interest in the case of the Agro Muko transaction; • The judgements and estimates included in the discounted cash flow (DCF) valuation model, built by management, to determinate the fair value of the net assets acquired, including key assumptions about the future, amongst others evolution of sales prices, production growth and production yield, as well as the assessment of the discount rate approximating the weighted average cost of capital (WACC); • The allocation of the resulting enterprise value to the assets acquired and the liabilities assumed. We refer to the Financial statements, including notes to the Financial Statements: Business combinations, acquisitions and divestitures (note 34).	• We obtained an understanding of the internal control processes around the accounting treatment of these transactions, more specifically management's review process of the development of the cash flows, and the approval of the board of directors of the assumptions applied in the valuation of the net assets acquired. We carried out testing relating to the design and implementation of controls over the accounting treatment of these transactions; • We assessed and challenged management's assessment of the fair value of the previously held interest in Agro Muko; • We assessed and challenged the assumptions that management made in valuing the net assets acquired via the DCF valuation model: we engaged our internal valuation expert to evaluate the work performed by management, including: - Checking that cash flows were based on a business plan approved by the board of directors; - Reviewing the business plan and the underlying assumptions through discussion with management, KPI analysis of peer companies, review of analysts' reports; - Assessing reasonableness of the key predictive assumptions such as inflation rate and projected crude palm oil price; - Assessing the appropriateness of the DCF valuation model utilised by management and review of the calculation methodology; - Reviewing the DCF valuation model and performing sensitivities on the valuation; - Reviewing the WACC calculation methodology by reviewing analyst's reports supporting the WACC assumptions and by performing a WACC recalculation; - Performing mathematical accuracy checks. • We reviewed the allocation of the fair value of net assets acquired, as derived from the DCF valuation model, to the identified assets acquired and liabilities assumed by comparing the obtained values for land titles, biological assets and other PP&E (production facilities) to underlying support and external references. We reviewed the adequacy of the disclosure relating to this business combination, as included in note 34.

Key audit matters	How the matter was addressed
Impairment assessment of goodwill As at 31 December 2017, the carrying amount of goodwill amounted to USD 103.008 (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 significant operational and predictive assumptions, such as the fresh fruit bunch yield rate, the extraction rate, the projected crude palm oil price, the inflation rate, the capital expenditure level as well as assumptions in determining the terminal value after the implicit period of 10 years. 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 inflation rate, projected crude palm oil price and discount rate used; • We compared the operational assumptions against historical data and trends to assess their reasonableness; • 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.

Key audit matters	How the matter was addressed
Valuation of biological assets As at 31 December 2017, the fair value of biological assets amounted to USD 7.018 (000). The biological assets relate to agricultural produce growing on the bearer plants ("oil palm trees"), which we refer as Fresh Fruit Bunches ("FFBs"), and fall under the scope of IAS 41. They are held at fair value less costs to sell, determined on the basis of the net present value of expected future cash flows arising in the production of FFBs. The valuation of FFBs is significant to our audit because of the significant judgements applied in management's fair value measurement methodology. The growing agricultural produce is considered to be the oil contained in the palm fruit. When the palm fruit contains oil, then this distinct asset is recognized and the fair value is estimated based on the estimated quantity of oil that is available in the palm oil fruit, the estimated sales price of palm oil at the time of closing, the estimated cost to harvest and process the palm fruit and the estimated sales charges. As such, we identify this as key audit matter. We refer to the Financial statements, including notes to the Financial Statements: Biological Assets (note 15).	• We considered the internal controls implemented by management and we carried out testing relating to the design and implementation of controls over the valuation of biological assets; • We obtained an understanding of management's fair value measurement methodology used to measure the fair value of these produce and assessed and challenged the reasonableness of the significant assumptions used in the valuation; • We compared the estimated costs and charges as applied in the model, with the actual costs at the time of closing; • We compared the estimated quantity of oil as applied in the model, with the actual production based on the harvest after the time of closing; • We checked the post balance sheet harvest data to assess the reasonableness of the quantities projected and recorded by management; • We assessed the adequacy of the disclosures related to valuation of biological assets in Note 15 to the financial statements.

Key audit matters	How the matter was addressed
Impairment of Land titles: indication of refusals of renewals As at 31 December 2017, Plant, Property and Equipment includes land titles for an amount of USD USD 112.197 (000). Land titles are valued at cost and 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. We considered the valuation of land titles to be a key audit matter because of the uncertainty that might exist with respect to the renewal of land titles in countries like Indonesia and Papua New Guinee. We refer to the Financial statements, including notes to the Financial Statements: Other property, plant and equipment (note 10) and Restatement landrights (note 36).	• We considered the internal controls implemented by management and we carried out testing relating to the design and implementation of controls over the impairment of land titles; • We evaluated whether or not an indication exists that land titles would not be renewed by: - Discussing with Group management whether any indication exist that land titles would not be renewed and as such assessing the carrying value of land titles for impairment as required under IAS 16; - Discussing with internal and external local legal counsel on the renewal process that is ongoing for land titles that are about to expire; - Assessing the outcome of renewal process of land titles that were done in the recent past. • Furthermore, we assessed the adequacy of the disclosure Note 10 and 36 in the financial statements.

Key audit matters	How the matter was addressed
Recoverability of deferred tax assets and taxation matters (including indirect taxes) Tax legislation, including indirect taxation can be complex and issues can take a number of years before they are resolved. In addition, the group recognized deferred tax assets 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 26).	• 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 and taxation matters; • We challenged group and local management in respect of the status and treatment of open direct and indirect tax positions and 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 involved our internal tax specialist to review the tax positions and to assess and challenge the assumptions that management used to determine the tax positions; • Assessing the adequacy of the disclosure Note 26 in the financial statements.

Responsibilities of the board of directors for 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 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 financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 financial statements.

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 management's use of the going concern basis of accounting 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 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 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 our independence, and where applicable, related safeguards.

From the matters communicated 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 auditor's report unless law or regulation precludes any public disclosure about the matter.

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Report on 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 this report.

Responsibilities of the statutory auditor

As part of our mandate and in accordance with the Belgian (revised) standard complementary to the International Standards on Auditing applicable in Belgium, our responsibility is to verify the director's report on the consolidated financial statements, including the statement of non-financial information and other matters disclosed in the annual report, in all material respects.

Aspects regarding the directors' report on the consolidated financial statements and other matters disclosed in this report

In our opinion, after performing the specific procedures on the directors' report on the consolidated financial statements, the directors' report on the consolidated financial statements is consistent with the consolidated financial statements for the same year and it has been established in accordance with the requirements of article 119 of the Companies Code.

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 directors' report on the consolidated financial statements, i.e.:

- Annual report of the board of directors – 1. Individual annual financial statements
- Annual report of the board of directors – 2. Consolidated annual financial statements
- Annual report of the board of directors – 3. Corporate governance

is 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. We do not express any kind of assurance on the annual report.

The non-financial information as required by article 119, § 2 of the Companies Code, has been disclosed in the the directors' report on the consolidated financial statements that is part of section 'Annual report of the board of directors' (page 47). This non-financial information has been established by the company following international reporting frameworks (RSPO and GRI). We do however not express any opinion on the question whether this non-financial information has been established, in all material respects, in accordance with these frameworks. Furthermore, we do not express any form of assurance conclusion on individual elements that have been disclosed in this non-financial information.

Statements regarding independence

- We did not perform any services that are incompatible with the statutory audit of the consolidated financial statements and remained independent from the company during the performance of our mandate.
- The fees for the non-audit services compatible with the statutory audit of the consolidated financial statements as defined in article 134 of the Companies Code have been properly disclosed and disaggregated in the disclosures 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, 13 April 2018

The statutory auditor

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BV o.v.v.e. CVBA / SC s.f.d. SCRL
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