Ordinary General Meeting of 10 June 2020

Message from the Chairman of the Board of Directors and the Managing Director

Ladies and Gentlemen,

On the occasion of this 101st Ordinary General Meeting, it is our pleasure to join you in reflecting on the past year and run through the main events of the first five months of 2020.

Last year, we celebrated our centenary. We thought it would be a unique event in our history. At that time, of course, it was unimaginable that the General Meeting of our 101st year of activity would have to take place in circumstances that have not previously been experienced. The worldwide spread of the coronavirus has had such an impact on daily life that the General Meeting must be kept behind closed doors.

However, on the occasion of the General Meeting, the utmost has been done to accommodate your concerns as much as possible in order to broaden your insights into the Company. At the least, it is hoped that everyone has taken sufficient opportunity to write to the Board of Directors and the management, and to obtain answers prior to this General Meeting. This will allow the announced agenda items to be assessed to the best of our ability.

The financial statements, as at 31 December 2019, will be submitted to this meeting for approval. The financial year 2019 was an operationally difficult year, with lower production volumes and with exceptional circumstances in Papua New Guinea. It was also characterised by generally low palm oil and rubber prices. For this reason, for the first time in 25 years, the financial year closed with a loss, share of the Group, of KUSD 8 004, compared to a profit of KUSD 30 089 in 2018. By continuing the expansion, net financial debt increased from KUSD 121 443 to a level of KUSD 164 623.

However, towards the end of last year, a recovery of palm oil prices was observed, driven by increasing demand with relatively low production volumes. As a result, the persistent high stocks that dominated the market in 2019 disappeared relatively quickly. During the first two months of the year sharply rising prices were therefore recorded, reaching USD 830 per tonne CIF Rotterdam. The outlook for the rest of the year remained very positive, given the expected very limited increase in production in both Indonesia and Malaysia.

Corona, however, has decided otherwise and has considerably reduced world demand for palm oil over the last four months. The restriction of freedom of movement in Asia, not only resulted in the closure of restaurants, and the reduction of the consumption of palm oil in food, but was also accompanied by the sudden drop in demand for transport diesel. Therefore, not only did the crude oil price drop, but the biodiesel market also lost interest, causing prices to fall below USD 600 per tonne CIF Rotterdam fairly quickly.

For the last few weeks, a stabilisation of demand has been seen, both in food and in biodiesel, and slightly firmer prices have been noted for palm oil, especially for the positions with delivery in the second half of the year. The easing of the corona measures; the pick-up in oil prices; the abolition of the export tax on palm oil in Malaysia; the normalisation of freight rates; and the fact that many customers have held very limited stocks in recent months, are elements that are contributing to the support of the demand for palm oil.

However, the short-term most determining factor for the palm oil price remains the success of the Indonesian government’s biodiesel programme. The government has confirmed its intention to stick to the B30 objective (a blending of up to 30% palm oil with conventional diesel), despite the necessary heavy financial burden, due to the relatively large price difference between the two products that has to be absorbed by the government. The national fund is supported by the palm oil producers, who from the beginning of the year again contribute USD 50 fixed compensation for each tonne exported. They will continue to finance this price difference in the following months, but an increase in this levy by USD 5 per tonne in June has already been announced. Additional subsidies will also be needed from the government if crude oil prices remain so low.

Taking advantage of the better prices in the first two months of the year, 52% of our expected palm oil production has now been sold for USD 692 per tonne CIF Rotterdam, including premiums. This compares to 46% at USD 578 per tonne at the same time last year, when the market suffered significantly from an oversupply of palm oil in Asia and Europe.

The start of the 2020 year has already been much better on agronomic and operational levels than 2019. After all, last year, both the drought in Indonesia in the third quarter, as well as the abundant rainy season at the start of the year and the three volcanic eruptions in June, August and October in Papua New Guinea, had a detrimental impact on the production volumes of palm oil. As already mentioned in our interim statement, we again experienced an increase in the production volumes of palm oil, which at the end of April was already 7.4% compared to the same period last year. This favourable trend has continued since then.

The coronavirus has placed many restrictions on our business operations and made it difficult to manage plantations and factories, but this has not had a material impact on the Group's production. We have also been able to protect all our people and their resident family members from infections and our offices have remained operational, often via telework. We would like to express our gratitude to the management and staff in the overseas territories, who have all remained on site and have contributed diligently to the continuation of our activities.

Both in the most mature plantations in North Sumatra (+2.5%) and in Agro Muko in the province of Bengkulu (+15.9%), where replanting is in full swing, the number of available bunches in the palms continued to increase in April, compared to the same period last year. This does not yet apply in the mature plantations of UMW/TUM in North Sumatra, where the revision of the fertilisation programmes is ongoing. This process has not yet yielded the hoped-for results (-2.3%) and the harvested bunches remain underweight.

After the exceptionally 'bad' rainy season last year, there were much more favourable climatic conditions in 2020 in Hargy Oil Palms in Papua New Guinea, which meant that the harvesting pattern was hardly interrupted. As a result of this, at the end of April there was only a 14.3% drop in harvested fruit, despite the fact that almost 3 000 hectares (-21%) are almost completely but temporarily out of production, due to last year's volcanic eruptions. It is only in 2022 that a normalisation of production in these plantings can be expected.

The plantations of the smallholders were much less damaged by the ash fall and, due to the favourable weather conditions, our purchases from third parties increased by 20.6% compared to the same period of four months last year.

Due to the better quality and lower moisture content of the fruits, the extraction rate climbed from 22.70% last year to an average of 24.0% for the three palm oil extraction mills in the province of West New Britain. This therefore increased the final oil production by an average of 5.9% compared to the same quarter last year. For the coming months, the increase in production remains in line with expectations.

We remain convinced that the SIPEF group will be able to achieve the 10% increase in production, announced at the start of the year, compared to the volumes of 2019, and approach the peak of 350 000 tonnes of palm oil again. This prognosis is reinforced by the constantly growing, but still limited, production contribution of our new activities in South Sumatra, where more than 5 000 tonnes of palm oil had already been produced at the end of April.

The Group's rubber production, with the exception of the normal wintering in the first half of the year, continues to suffer from fungal diseases that have spread to most of the producing countries in Asia. It appears that an adequate remedy has still not been found, causing significant reductions in the world supply of natural rubber. However, this reduction in production is not sufficient to compensate for the sharp fall in demand, boosted by the additional economic impact of the coronavirus on demand for cars and commercial vehicles. We are therefore once again confronted with exceptionally low prices that do not allow profitability for these activities, despite the many cost-cutting measures that have gradually been implemented over the last three financial years.

Production in the SIPEF group decreased by 16.2% compared to the first four months of 2019, spread across all plantations. Sheets and blocks of rubber have continued to be sold in a market with ongoing limited buyer interest. Today, 26% of our estimated annual production has been sold at an average price of USD 1 579 per tonne FOB compared to 37% at USD 1 543 at the same time last year.

The exceptionally favourable weather conditions of the first quarter led to a production increase of almost 10% in our Cibuni tea plantation. In the second quarter, this climate was maintained and a production increase of more than 14% has been achieved to date. Kenyan tea production is also at record levels so far this year. This is resulting in lower auction prices in 2020. So far, half of the expected tea production has been sold at an average price that is almost 20% lower than the sales for the same period last year. As a result, the profitability of the tea activities so far has been negative. In view of the large volumes that continue to be offered in the tea markets, an immediate improvement in this contribution is not being seen.

In recent months, due to the impact of the economic contraction on the demand for oil products, local price decreases have been observed for diesel consumption at all our sites. These cost reductions compensated to a large extent for the government-imposed wage increases, especially in Sumatra in Indonesia. For the second half of the year, it is expected that these favourable production costs related to low crude oil prices will be maintained, along with a weakening of local fertiliser prices due to lower demand.

After a normalisation of the banana activities in Ivory Coast in the course of last year, production levels were 3.1% higher than those of the first quarter of 2019. At the end of April, however, there was a slight decrease of 3.0% in volumes, which depends on the current production cycles of the plantations, admittedly very different from last year's reference period. However, given the scale of this activity, the contribution of bananas to the results for the financial year remains very positive.

The expansion of our oil palm activities in Musi Rawas in the province of South Sumatra is accelerating. Today there are more than 16 800 hectares under Company control. There are also more than 12 800 prepared and planted hectares, so that now about three-quarters of the hectares managed are actually cultivated.

The three new licences acquired in 2018 for a total concession of 8 595 hectares, all subsequent to the four concessions acquired in 2011 and 2012, are being further examined by consultants within the framework of the Roundtable on Sustainable Palm Oil (RSPO) New Planting Procedures (NPP), that have been tightened in the meantime. This research will assess both the conservation and the social impact of this potential development. Only with a green light from the RSPO will it be possible to transform this land into oil palm plantations. These procedures are expected to be finalised in the second half of the year. In this way, it is hoped that the first plantings in the fourth quarter can be reported on, even though 379 hectares have already been compensated.

These additional licences bring the total concession size of Musi Rawas to 33 202 hectares. In due course, it is expected that more than 22 000 of these hectares can be converted into oil palm plantations.

Since the acquisition in 2017 of the existing RSPO certified plantation company Dendymarker Indah Lestari (DIL), located among the four concessions of Musi Rawas, with a total planted area of 8 986 hectares, almost 3 000 hectares have been replanted so far. In May, an agreement was also reached with nine surrounding villages for the replanting of the 2 878 hectares of 'plasma'. These plantations for surrounding communities had been planted by previous owners but from this year onwards those plantings will gradually be replaced by ones with higher quality seeds. This will bring the total size of the DIL supply base to more than 10 500 planted hectares.

As from August 2018, the Dendymarker palm oil mill has taken care of the complete processing of the production of South Sumatra. However, it has reached its limits and the processing capacity will be increased from 20 tonnes per hour to 60 tonnes per hour this year. But the works have been delayed in the last few months due to the corona measures.

It is becoming increasingly difficult for plantation companies to fit new plantations into the stricter rules of the RSPO and into our own Responsible Plantations Policy, which explicitly imposes ‘No Deforestation’, ‘No Peat’ and ‘No Exploitation’ regulations on new expansions. SIPEF continues to follow its sustainability policy faithfully. Each new extension is subject to a voluntary evaluation, so that it continues to be a 100% sustainable plantation company in the future.

Taking these stringent sustainability standards into account and considering the extensive replanting and expansion programs for the coming years, we have been strategic investors in Verdant Bioscience since 2013. This joint venture was created to develop high-yielding oil palms in Indonesia and provide access to the latest techniques in the sector. At the end of

May, a new cooperation agreement was signed with Ackermans & van Haaren to jointly acquire the majority stake in this joint venture from Sime Darby Plantation Berhad.

Despite lower palm oil prices once again, it is SIPEF’s intention to continue its investment programme for this year. In addition to the usual replacement investments, this programme is concentrating exclusively on the new planting in Musi Rawas, the rehabilitation of Dendymarker and the expansion of the mill there.

These expansion plans will, where possible, be adapted to the Group's financing capacity and, in principle, will not involve significant additional financial debts. However, it remains long-term policy to finance the Company's growth primarily from its own resources and, where necessary, to dispose of non-core activities in order to further support the ongoing expansion of the palm activities.

Taking into account the sales of palm oil already realised and on the basis of recent market prices, the Group expects a return to a modest profit position for the year 2020. Except for the previously mentioned potential effects of the Covid-19 virus on operational activities and on the palm oil market, the final recurring result will, to a large extent, be determined by achieving the estimated production growth; the level of market prices for the rest of the year; the maintenance of the current policy for the export tax on palm oil in Indonesia; and the evolution of cost prices.

As already announced in our press release and annual report, and in line with the remuneration policy of the shareholders, the Board of Directors will propose to the General Meeting that a dividend not be paid out for the financial year 2019.

On the date of this General Meeting, the mandates of Luc Bertrand, Jacques Delen, Petra Meekers and Regnier Haegelsteen expire. In view of reaching the age limit, Regnier no longer stands as a candidate for a new term of office. We would like to thank him for his highly valued efforts over the twenty-one years he has served on the Board as a director with extensive experience in the financial sector. It is also proposed to renew the mandates of Luc Bertrand and Jacques Delen for three years and one year respectively. Petra Meekers is again proposed for a four-year term of office as an independent director.

It is also a pleasure to propose a new director to you. Mr Gaëtan Hannecart, as an experienced manager in the real estate sector and chairman of Guberna, will be added value to share his vision with the members of the Board of Directors of SIPEF.

This Ordinary General Meeting will then be followed by an Extraordinary General Meeting, which will be asked to renew the usual statutory authorisations of the Board of Directors and to adapt the articles of association to the new company legislation. We are therefore counting on your approval.

Finally, we would like to thank all members of the SIPEF group for their efforts during the past financial year, especially in these current, very difficult times, in which the coronavirus has severely restricted the travel possibilities of our employees. It is hoped that we can continue to count on them to help realise the ambitious plans the Company intends to complete in the coming years.

Schoten, 10 June 2020