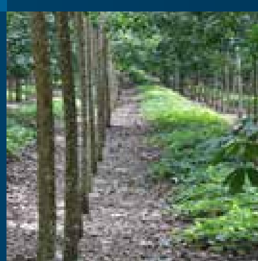
SIPEF

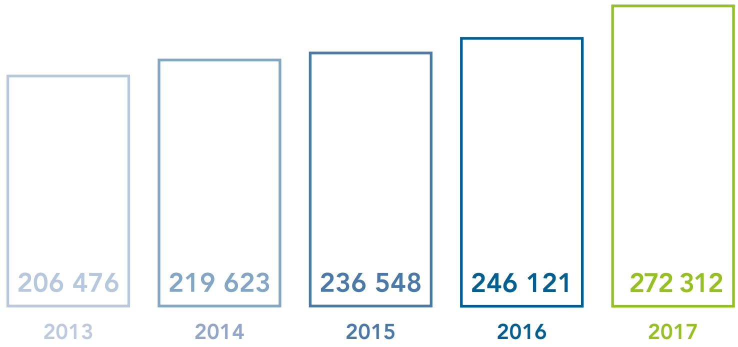
ANNUAL REPORT 2017

The connection to the world of sustainable tropical agriculture



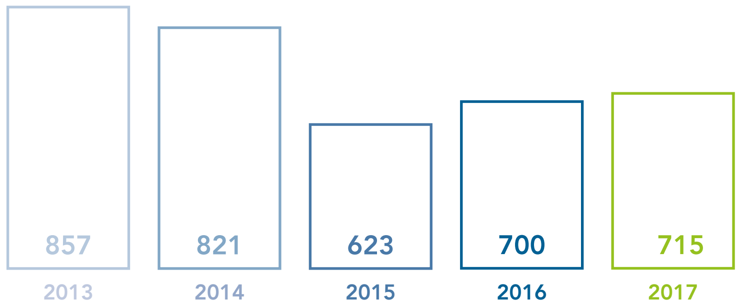
1

Total own production of palm oil of consolidated companies (in tonnes)



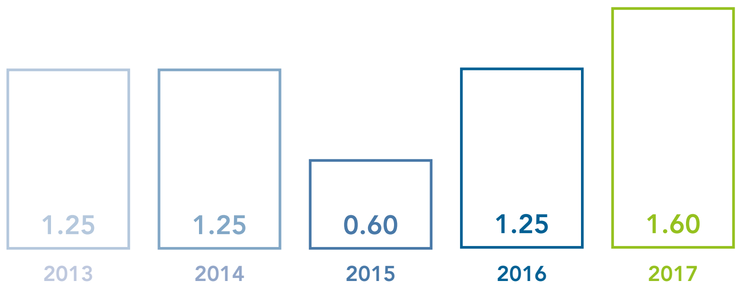
2

Average market price of palm oil (USD/tonne)



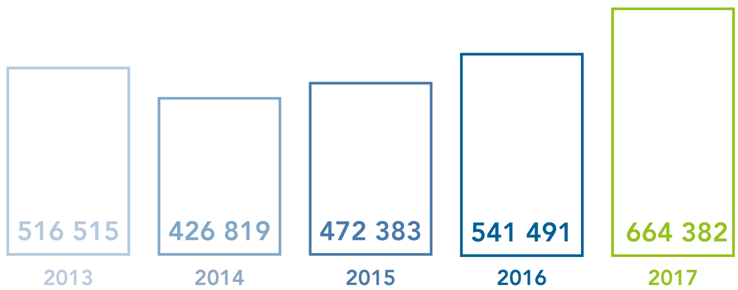
3

Gross dividend (in EUR)



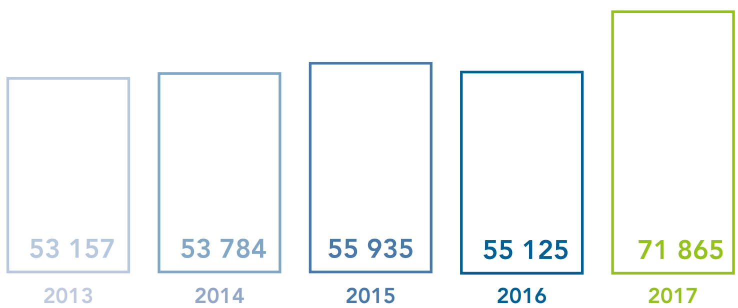
4

Stock Exchange capitalisation at 31/12 (in KEUR)



5

Total planted hectarage - share of the group



Key figures

Activity		2017	2016R	2015R	2014	2013
Total own production of consolidated companies (in tonnes)	palm oil	272 312	246 121	238 548	219 623	206 476
	rubber	8 179	9 017	9 622	9 675	9 773
	tea	2 402	2 940	2 726	2 816	2 850
	bananas	29 772	24 991	24 286	23 595	22 325
Average market price (USD/tonne)	palm oil	715	700	623	821	857
	rubber	1 995	1 605	1 559	1 958	2 795
	tea *	2 804	2 298	2 742	2 045	2 399
	bananas	899	905	903	1 043	1 022
Own FFB production (in tonnes/ha)	Indonesia (excl. DIL)	22.36	21.34	21.23	20.46	19.25
	PNG	27.21	25.53	26.46	27.14	26.26
Palm oil extraction rate	Indonesia (excl. DIL)	21.80%	21.83%	22.15%	22.17%	22.21%
	PNG	24.59%	23.92%	23.36%	23.08%	23.88%
Stock exchange share price *(in EUR)*						
Maximum		69.84	60.49	53.90	64.00	65.30
Minimum		57.76	45.95	40.01	45.10	49.52
Closing 31/12		62.80	60.49	52.77	47.68	57.70
Stock Exchange capitalisation at 31/12 (in KEUR)		664 382	541 491	472 383	426 819	516 515
Results *(in KUSD)*						
Turnover		321 641	266 962	225 935	285 899	286 057
Gross profit		120 474	73 792	43 650	78 903	79 014
Operating result		169 585	47 479	21 447	60 819	53 888
Share of the group in the result		139 663	39 874	18 708	48 967	46 625
Cash flow from operating activities after taxes		119 853	51 218	31 357	73 737	54 978
Free cash flow		- 16 512	13 328	- 9 948	27 264	- 25 439
Balance sheet *(in KUSD)*						
Operating fixed assets (1)		614 351	414 989	404 166	343 199	322 126
Shareholders' equity		634 636	448 063	415 429	413 031	378 805
Net financial assets (+)/obligations (-)		- 83 697	- 45 061	- 50 521	- 24 617	- 35 077
Investments in intangible and operating fixed assets (1)		59 625	41 095	49 002	58 380	88 203
Data per share *(in USD)*						
Number of shares		10 579 328	8 951 740	8 951 740	8 951 740	8 951 740
Number of own shares		124 000	110 000	100 000	62 000	62 000
Equity		60.70	50.68	46.93	46.46	42.61
Basic earnings per share		14.21	4.50	2.11	5.51	5.24
Cash flow from operating activities after taxes (2)		12.20	5.79	3.53	8.29	6.18
Free cash flow (2)		-1.68	1.51	-1.12	3.07	-2.86

(1) Operating fixed assets = biological assets, property, plant & equipment and investment property
(2) Denominator 2017 = weighted average number of shares issued (9 826 091 shares).
R: We refer to note 36 for additional information relating to the restatement of the 2016 comparative figures (reclassification of land rights)

* Mombasa auction

FINANCIAL YEAR
2017

SIPEF

NAAMLOZE VENNOOTSCHAP

Report of the board of directors and of the statutory auditor
to be submitted at the 99th ordinary general meeting to be held on 13 June 2018

Translation: this annual report is available in Dutch, French and English. The Dutch version is the original; the other language versions are free translations. 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.

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:

- the interim report for the first 3 months on 19 April 2018;
- the half-year results on 16 August 2018;
- the interim report for the first 9 months on 18 October 2018;
- the results of the financial year in February 2019, accompanied with comments on the activities of the group;
- 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.

The next ordinary general meeting of shareholders will be held on 12 June 2019 at 3:00 pm at Kasteel Calesberg, Calesbergdreef 5, 2900 Schoten.

Useful addresses

Responsible for the financial information:
François Van Hoydonck,
managing director
Johan Nelis, CFO
finance@sipef.com

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RPR Antwerpen
VAT BE 0404 491 285

Content

Significant events of the SIPEF group in 2017

February 2017

Finalisation of the acquisition of the additional 47.71% stake in *PT Agro Muko* (*PT AM*), bringing the total stake of the group in *PT Agro Muko* to 95%.
Signing of the agreement in principle with PT Agro Investama Gemilang (AIG) for the acquisition of 95% of the shares of *PT Dendymarker Indah Lestari (DIL)*.

May 2017

Completion of a very successful capital increase through the issue of 1 627 588 new shares offered at EUR 54.65 per share for a total amount of EUR 88.9 million (USD 97.1 million).

July 2017

Distribution of a gross dividend of EUR 1.25 per share.

August 2017

Definitive acquisition of 95% of the shares of the RSPO-certified *DIL* for a sum of KUSD 53 105 and assumption of the management as of 1 August 2017.
Rainforest Alliance certification was obtained for our rubber estate *PT Melania* in Palembang.

September 2017

The first supply of electricity to the public power grid by *PT Agro Muko* in Indonesia, converting methane from wastewater into continuous electricity generation by means of a biogas engine.

November 2017

Inauguration of the Pata-Painave Primary School, a project for which *HOPL* mobilised its construction teams, in financial partnership with the government of Australia and of Papua New Guinea to provide new school facilities for the benefit of the people in the north of the East New Britain province.

December 2017

Signing by *SIPEF* and Ackermans & van Haaren of an agreement on the sale of 100% of the share capital of *BDM-ASCO* for KEUR 35 000.

January - December 2017

Annual palm oil production rose by 11.2% compared with a rather weak production year in 2016.

There was a rising trend in market prices for palm oil in the first half of the year and they remained relatively constant in the second half of the year.

Higher sales prices for palm oil, lower unit cost prices and the effect of the full consolidation of *PT Agro Muko* resulted in a gross profit of KUSD 120 474, a rise of KUSD 46 682 or 63.3%.

The net result, share of the group, before the remeasurement gain of *PT Agro Muko* was KUSD 64 481, a rise of 61.7% compared with 2016.

The recent acquisitions in *Agro Muko* and *Dendymarker* and the expansion in Musi Rawas increased the planted areas (share of the group) in 2017 by 16 740 hectares (30.4%) to a total of 71 865 planted hectares.

Dividend proposal of EUR 1.60 gross per share, in line with the pay-out ratio of previous years.

History

Société Internationale de Plantations et de Finance was incorporated in 1919 with the principal aims of promoting and managing plantation companies in tropical areas. At that time the company had two 'agencies': one operating in Kuala Lumpur in Malaysia, and one in Medan in Indonesia.

Over the years, the company has developed into an agro-industrial group with production and export facilities in Asia, Oceania, Africa and South America, where it manages important plantations of traditional crops, such as rubber, palm oil and tea.

Starting in 1970, other crops, such as bananas, pineapples, ornamental plants, guava and pepper, were also introduced. The group invested in the insurance sector and in the real estate sector in Belgium and in the United States, but these activities were later phased out completely.

In the last decade, *SIPEF* has concentrated its efforts in the agro-industrial sector solely on the sustainable production of palm oil, rubber and tea (in Indonesia and Papua New Guinea) and bananas (in Ivory Coast). The group sells its own products throughout the world.

A team of women equipped to distribute fertiliser on one of our oil palm plantations in Indonesia

Business model

General

SIPEF is a Belgian company, headquartered in Schoten and listed on Euronext Brussels. It currently operates agro-industrial activities exclusively in the production of palm products, i.e. fresh fruit bunches (FFB), palm oil, palm kernels and palm kernel oil, natural rubber, tea and bananas in Indonesia, Papua New Guinea and Ivory Coast.

SIPEF is devoted to sustainable agriculture and sells the majority of its products in physical sustainable supply chains. It also purchases FFB from 3 700 smallholder farmers, who cultivate 14 037 hectares of palms in Papua New Guinea, and also benefit from the technical support of *SIPEF*'s agricultural advisory team. In Indonesia, smallholder communities are also building as a result of the changes in local legislation.

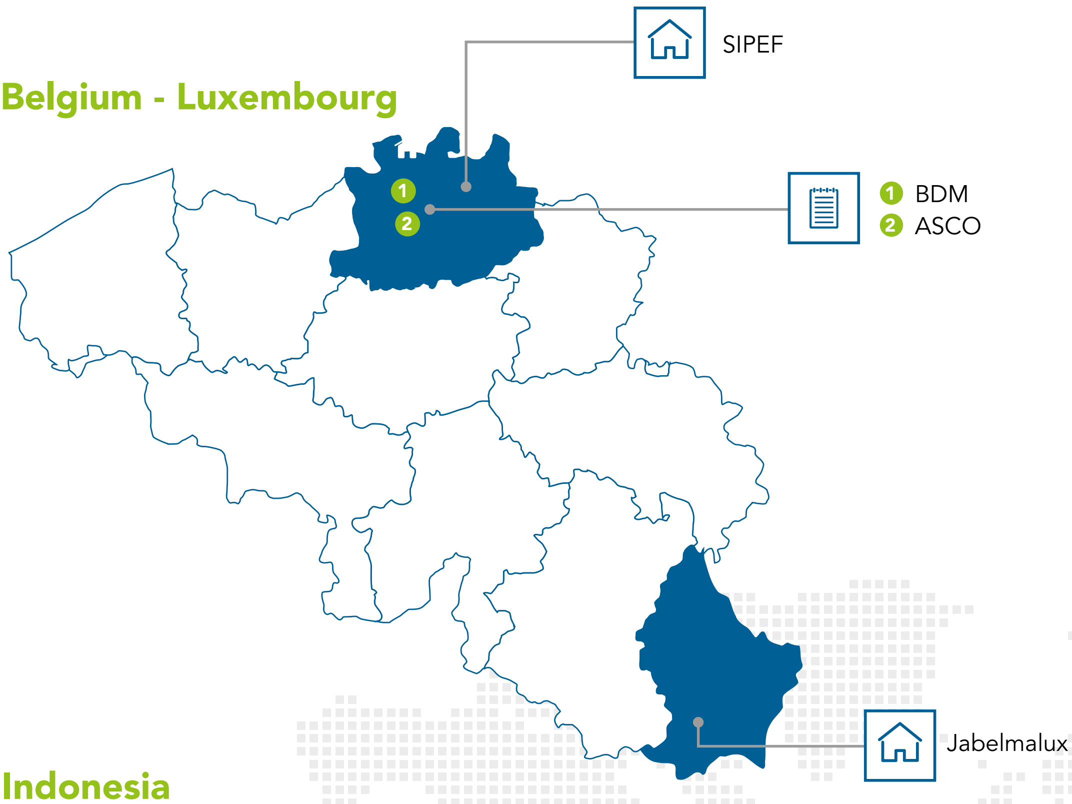
Below is an overview of the Company's planted hectares per product (31/12/2017).

	Oil palms	Rubber	Tea	Bananas	Other	Total	%	Group Share
Indonesia	55 686	6 425	1 752	0	0	**63 863**	**82%**	57 512
Papua New Guinea	13 621	0	0	0	0	**13 621**	**17%**	31 621
Ivory coast	0	0	0	690	42	**732**	**1%**	732
Total	**69 307**	**6 425**	**1 752**	**690**	**42**	**78 216**	**100%**	**71 865**
%	89%	8%	2%	1%	0%	**100%**		
Group share	64 153	5 398	1 581	690	42	**71 865**		

The collection of freshly harvested palm fruit bunches from the smallholder areas in Papua New Guinea

Activities

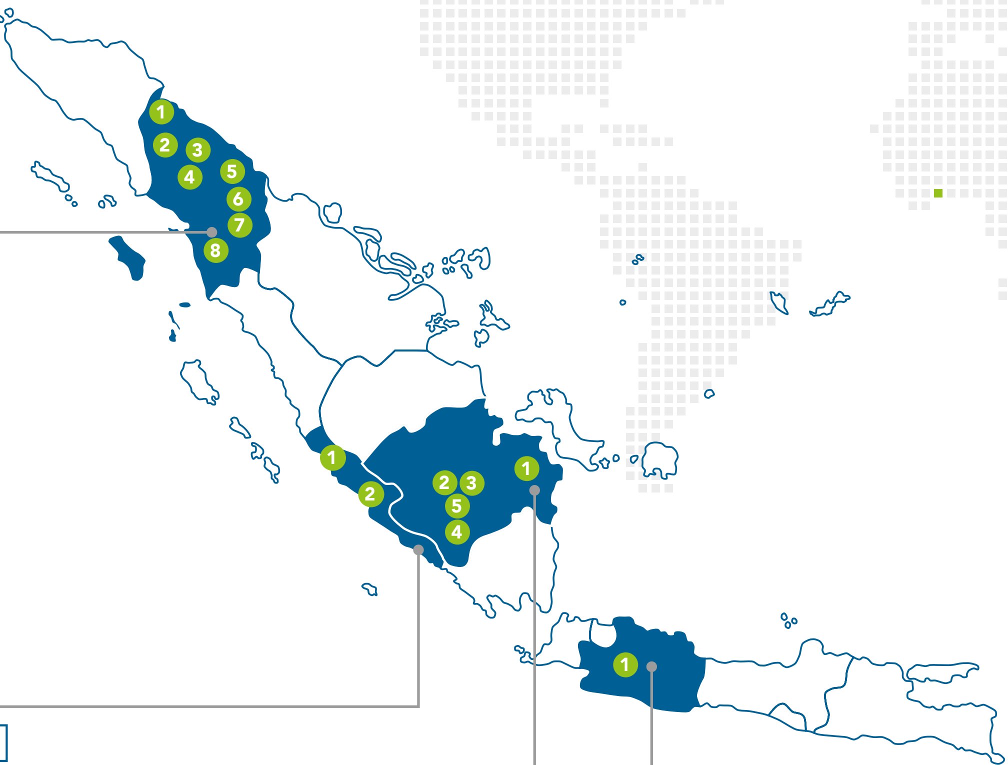
Belgium - Luxembourg



Legend

- Palm oil
- Rubber
- Bananas
- Tea
- Horticulture
- Insurance

Indonesia



Province of North Sumatra

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

Province of Bengkulu

1. Agro Muko (Palm oil) (Rubber)
2. Mukomuko Agro Sejahtera (Palm oil)

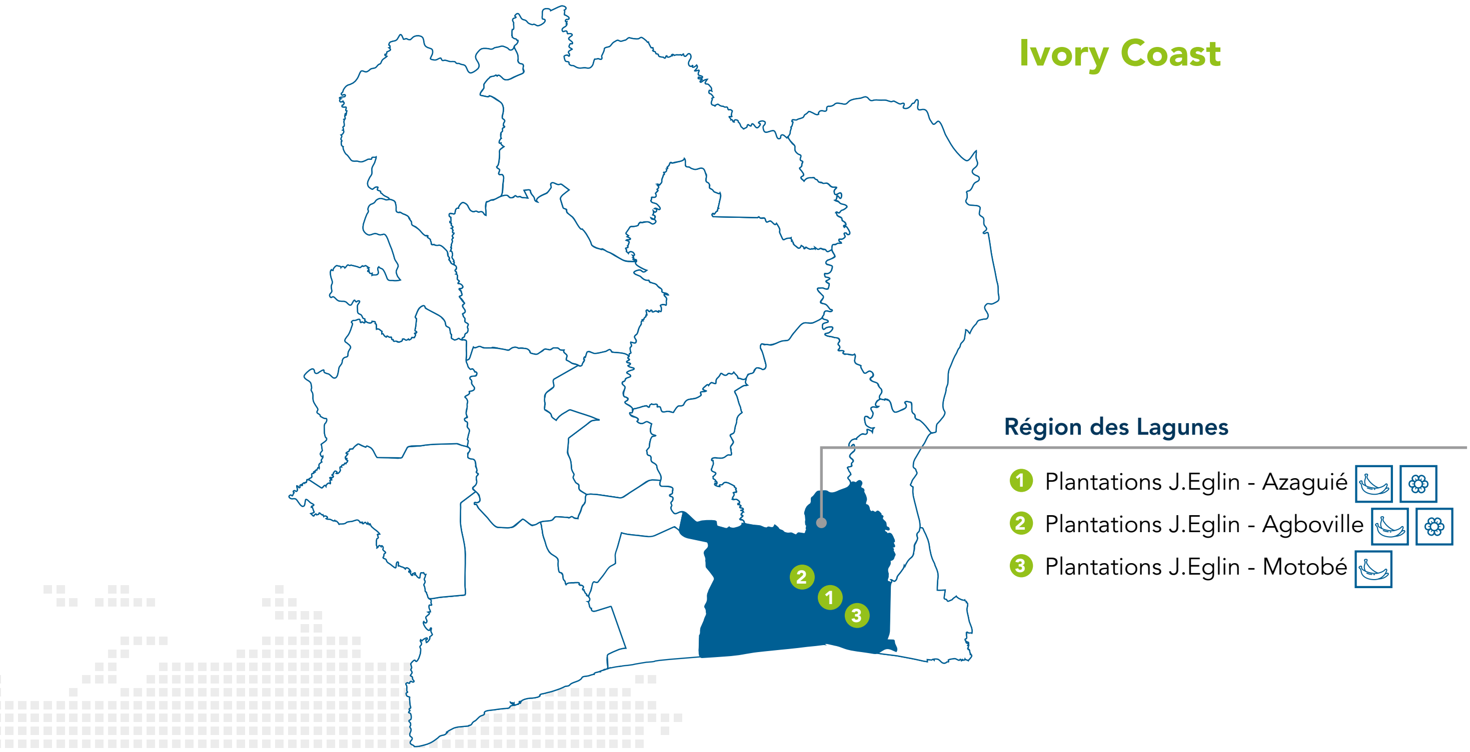
Province of South Sumatra

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

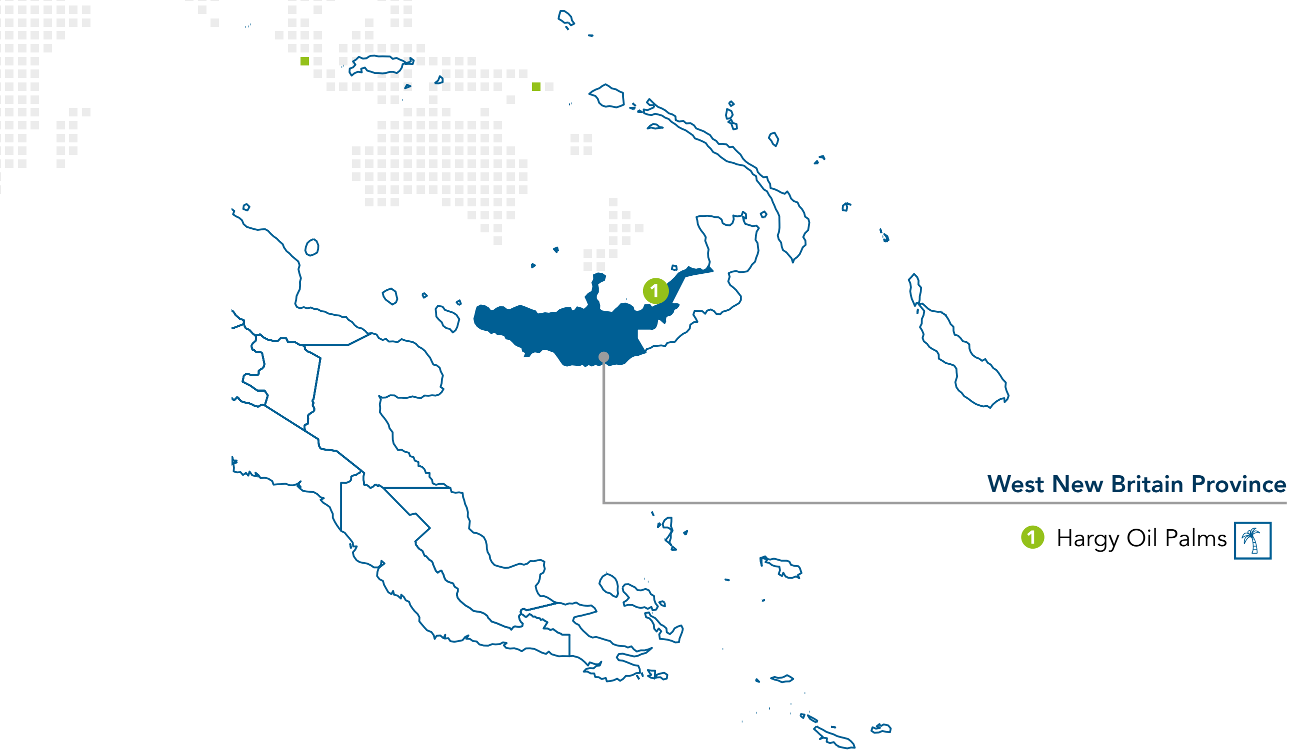
Province of West Java

1. Melania (Cibuni Estate) (Tea)

Ivory Coast



Papua New Guinea



Indonesia

Company	percentage of control	percentage of interest
PT TOLAN TIGA INDONESIA	95%	95%
PT EASTERN SUMATRA INDONESIA	95%	90%
PT KERASAAN INDONESIA	57%	54%
PT BANDAR SUMATRA INDONESIA	95%	90%
PT TIMBANG DELI INDONESIA	38%	36%
PT MELANIA INDONESIA	95%	90%
PT UMBUL MAS WISESA	95%	95%
PT TOTON USAHA MANDIRI	95%	95%
PT CITRA SAWIT MANDIRI	95%	95%
PT AGRO MUKO	95%	90%
PT MUKOMUKO AGRO SEJAHTERA	95%	86%
PT AGRO KATI LAMA	95%	95%
PT AGRO RAWAS ULU	95%	95%
PT AGRO MUARA RUPIT	95%	95%
PT DENDYMARKER INDAH LESTARI	95%	90%

Ivory Coast

percentage of control	percentage of interest
100%	100%

PLANTATIONS J. EGLIN SA

Papua New Guinea

percentage of control	percentage of interest
100%	100%

HARGY OIL PALMS LTD

Europe

percentage of control	percentage of interest
100%	100%

JABELMALUX SA

percentage of control	percentage of interest
50%	50%

ASCO NV

percentage of control	percentage of interest
50%	50%

BDM NV

Singapore

percentage of control	percentage of interest
38%	38%

VERDANT BIOSCIENCE SINGAPORE PTE LTD

Labour-intensive industry

The production of palm products, rubber, tea and bananas is very labour-intensive and the following employee ratios apply: palm 14, rubber 25, tea 90 and bananas 161 per 100 hectares of crop. In total, the Group currently employs more than 21 000 employees.

In order to optimise the management of the plantations great importance is attached to the training of our employees, both in agricultural and management techniques and knowledge.

The Group's policy concerning agricultural, technical, environmental and general aspects is detailed in Standard Operating Procedures (SOP) manuals containing practical guidelines and all the best management practices to achieve these goals. Training sessions support proper implementation of these policies. The management sees to it that all employees are able to work in a healthy and safe environment.

Responsible plantations policy

The *SIPEF* 'Responsible Plantations Policy' (http://www.sipef.com/sustainability.html), applicable to all its plantation operations, is revised annually to match evolving legal, social and environmental requirements. The latest update was endorsed by the board of directors at the board meeting on 22 November 2017.

Certifications

To accompany and support its growth, *SIPEF* continues to fulfil its sustainable development obligations based on responsible practices and complete traceability, and sanctioned by certifications and recognised standards: ISO 9001 and ISO 14001, the Roundtable on Sustainable Palm Oil (RSPO), International Sustainability and Carbon Certification (ISCC), Indonesian Sustainable Palm Oil standard (ISPO), GLOBALG.A.P., Rainforest Alliance and the United Nations Clean Development Mechanism (CDM).

Employee ratios per 100 hectares

14	25	90	161
OIL PALM	RUBBER	TEA	BANANAS

Multi-stakeholder engagement

In order for *SIPEF* to operate its plantations on a long-term and durable basis, it is required to engage actively with all public and private stakeholders involved to keep its social and legal licence to operate. *SIPEF* believes that through cooperation with the customers, social and environmental NGOs, public authorities or sectors, civil society, producers, researchers and other willing stakeholders, the Company can develop and promote the adoption of responsible and sustainable standards and practices for the industry.

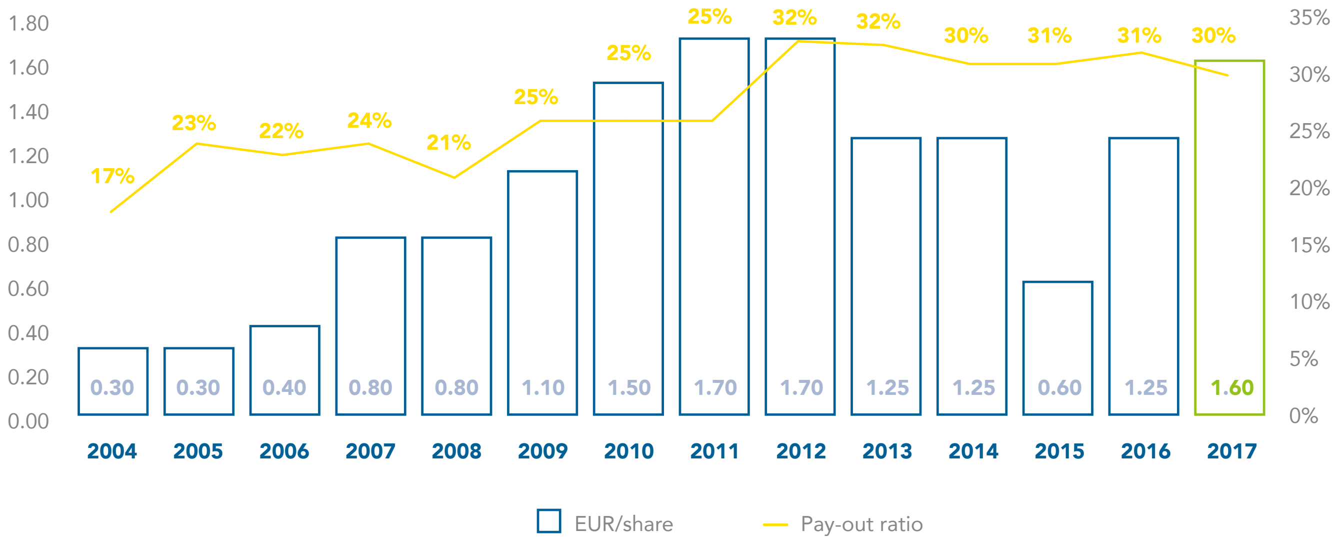
Growth

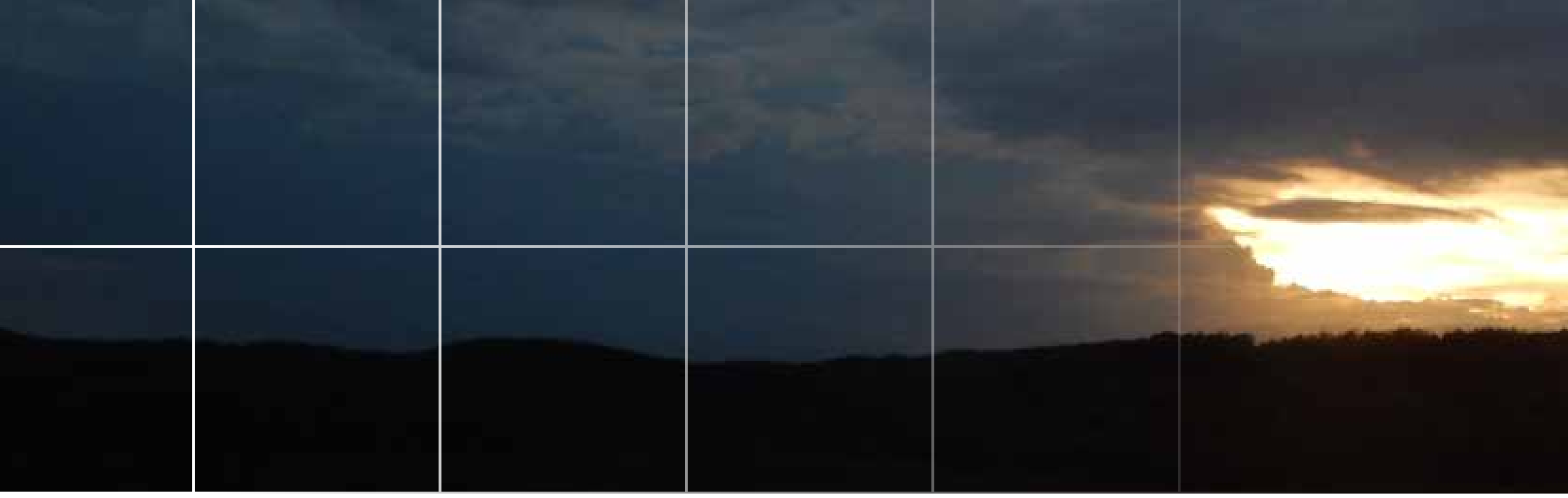
Since 2005 *SIPEF* has been engaged in a growth project, mainly in palm oil in Indonesia and Papua New Guinea, with the target of reaching 100 000 hectares planted (share of the group). *SIPEF* intends to realise this expansion with limited leverage.

At the end of 2017 the planted hectares (share of the group) amounted to 71 865 hectares against 32 784 in 2005. The compound annual growth rate between 2005 and 2017 was therefore 6.8%.

Dividend policy

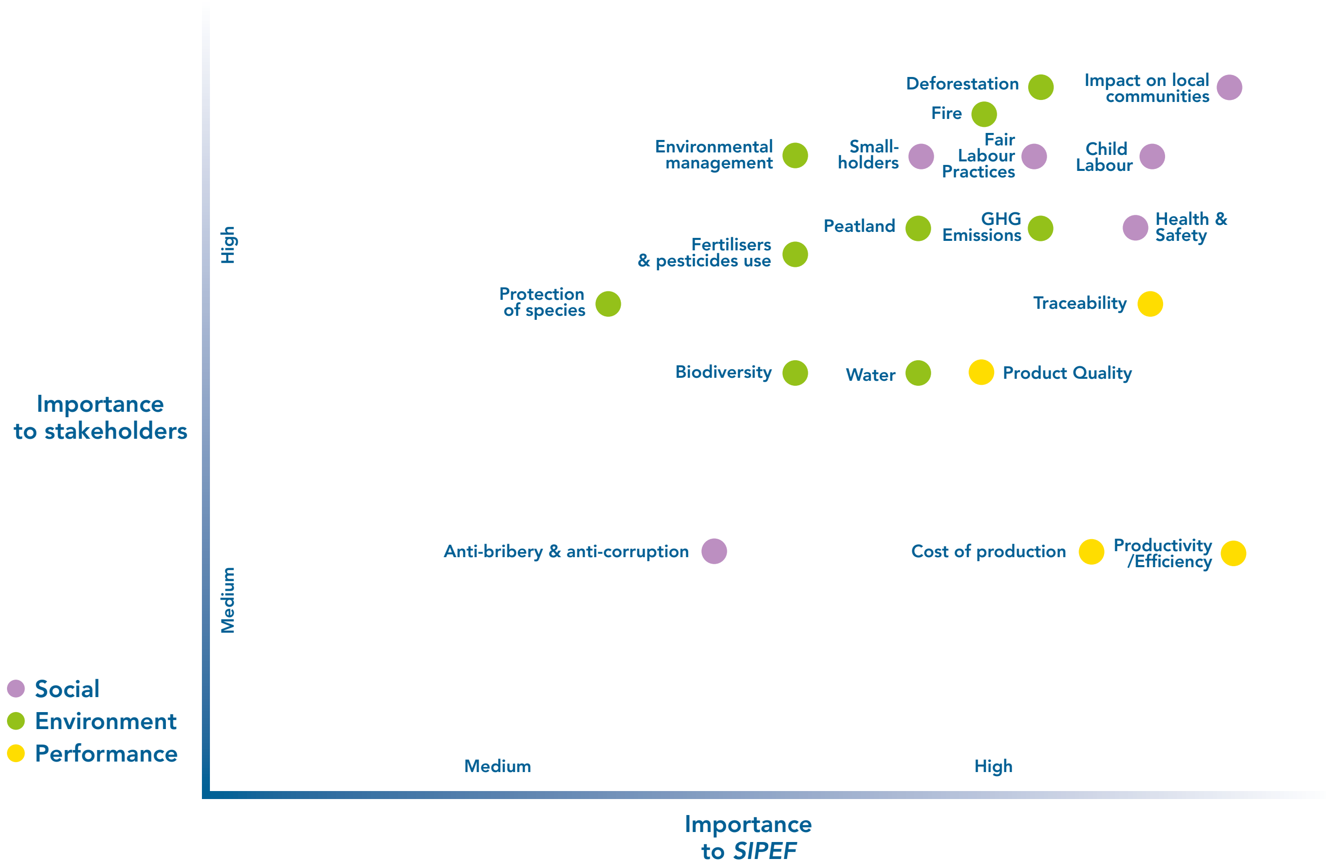
As from 2004 the pay-out ratio increased from 17% in 2004 to about 30% over the last six years. *SIPEF* expects to maintain the current pay-out ratio and to reinvest the balance in further growing the company.





Materiality, stakeholder inclusiveness and sustainability context

SIPEF determines the material aspects of its business based on ongoing widespread stakeholder dialogue and a review of content that is critical to the *SIPEF* group. The *SIPEF* sustainability team, guided by a reputable external consultant, has jointly benchmarked customers, related NGOs as well as peer plantation companies to determine these material aspects.



Directors, auditors and management

Board of directors

Baron Luc BERTRAND	chairman
François VAN HOYDONCK	managing director
Priscilla BRACHT	director
Baron Jacques DELEN	director
Bryan DYER	director
Antoine FRILING	director
Regnier HAEGELSTEEN	director
Sophie LAMMERANT-VELGE	director
Petra MEEKERS (as from 22 November 2017)	director
Antoine de SPOELBERCH till 16 August 2017)	director

Statutory auditor

DELOITTE Bedrijfsrevisoren BV o.v.v.e. CVBA represented by Kathleen De Brabander	auditors

Executive committee

François VAN HOYDONCK	managing director
Charles DE WULF	manager estates department
Thomas HILDENBRAND	manager marketing bananas and horticulture
Robbert KESSELS	chief commercial officer
Johan NELIS	chief financial officer


François
Van Hoydonck
Baron
Luc Bertrand

Message from the chairman and the managing director

Ladies and gentlemen,

It gives us great pleasure to present the annual report of the consolidated financial statements of the Group and the public limited company. They will be presented to the 99th ordinary general meeting, which is to be held on 13 June 2018.

The year 2017 was characterised by substantially higher palm oil production in the first three quarters, particularly compared with the production year 2016, which was heavily impacted by the delayed consequences of the drought caused by El Niño in 2015. The year's highest production volume came in the fourth quarter, although it was slightly lower (-1.7%) than the exceptionally good fourth quarter of 2016. Over the year as a whole, *SIPEF* group palm oil production volumes rose by 11.2% and for the first time we exceeded our target of 330 000 tonnes, a volume that will increase significantly in the years to come, surpassing 500 000 tonnes in 2024, as a result of the gradual expansion of the planted hectares.

A similar recovery was not noted in the other cultivations. The Indonesian rubber plantations generated identical volumes to 2016, while the *Cibuni* tea plantations in Java suffered from a constant lack of sunshine, resulting in an 18.3% fall in production compared with the previous year. The banana plantations in Ivory Coast produced 19.1% more volume, primarily due to the additional production of the new plantings in Azaguié 2 (+76.4%), whereas the existing plantings gave 8.7% more fruit.

It was a strong year for the Indonesian economy, with growth of almost 5%, limited inflation and a controlled deficit on the balance of payments due to robust export figures. The country's macroeconomic fundamentals were strengthened, due to the hard work of the Indonesian government under the leadership of President Joko Widodo. He has been able to better manage his policy, which is focused on eliminating the inequality between rich and poor; reducing the dependence on natural resources; diversifying exports; investing in infrastructure and production; as well as research and development. His popularity has grown constantly since his election three years ago and a recent poll in December gave him a 56% rating, which bodes well for his re-election in 2019. 'Pancasila', the ideology that guarantees religious freedom under the slogan 'Unity in Diversity', is generally accepted as being consistent with Islamic values and will ensure that the country does not slide into extremism.

After the elections in Papua New Guinea in 2017, Peter O'Neil returned to the position of prime minister at the head of a reshuffled government for a second four-year term. However, 2017 was not a good year for the country from an economic perspective, with growth stuck at 2.2%, which is below the official population growth of 3.1%. The deficit for 2017 is expected to be 5.7% of the gross national product (GNP) and state debt has tripled over the past five years. The economy is primarily wrestling with a lack of foreign currency, which is undermining the growth of foreign investment. That said, the new government shows more interest in agriculture, which is the main source of income for 80% of the population, albeit primarily in small coffee and cocoa production. Palm oil production is less well spread across the country but it does account for 60% of agricultural exports and recently attracted new Asian players, although they do not appear to support the country's reputation for sustainability.

In spite of lower cocoa prices, last year the economy of Ivory Coast grew by around 7%, with limited inflation of 1.1% and a stable currency that is linked to the strong euro. The government of the current President, Alassane Ouattara, who was elected for a further five-year term in October 2015, is focused on attracting foreign investments in industrial production, along with the modernisation of the road network and the expansion of the port infrastructure, which benefits our banana exports from the port of Abidjan.

The long-term expectations for palm oil remain generally favourable, based on a rising global population, primarily in countries south of the equator, whose populations take the increasing consumption of palm oil as a basic ingredient in their diet as a matter of course. The share of this vegetable oil in the global food and biofuel industry is growing all the time, in part because of efficient industrial processing and its low cost price compared with other liquid oils. More than 31% of global volumes are already palm oil-related.

The short-term price trend continues to be subject to the joint supply of soy and rapeseed oil and the demand for biofuels, which is linked to crude oil prices and the willingness of certain countries to subsidise compulsory blending. The European Parliament recently issued a directive to exclude palm oil from the group of basic commodities for the consumption of biodiesel in Europe by 2021, a discriminatory decision that has already elicited a lot of negative responses in EU28 countries and the oil-producing countries of Southeast Asia. It may lead the World Trade Organization (WTO) to impose sanctions. However, it is as yet unclear how this will be implemented. The hope is that sustainable palm oil, which does not have the same negative aspects, will be treated differently.

The fixed Indonesian export levy of USD 50 per tonne, introduced in July 2015, has supported the local consumption of palm oil for the energy industry. However, lower stocks due to the lower production in 2016 as a consequence of El Niño was the main factor driving up palm oil markets at the beginning of the year, which enabled us to put large quantities on the market at better than expected prices. The prices were lower throughout the rest of the year due to reports of big soybean harvests in South and North America, and rising production palm oil volumes in the fourth quarter.

At the beginning of 2018 we see palm oil prices, especially in the first half of the year, being impacted by conceivably lower soy yields and a stronger biodiesel scenario, as the crude oil prices begin to rise to between USD 60 and 70 per barrel. These factors are pushing palm oil prices towards USD 700 per tonne CIF Rotterdam, enabling us to again put large volumes on the market. Maintaining these price levels will be tougher in the second half of the year, unless the crude oil market continues to improve or production problems occur in the soy or rapeseed regions.

We are very happy to have sold around 99% of our palm oil, palm kernel oil and palm kernels in 2017 in the certified physical goods flows of the Roundtable on Sustainable Palm Oil (RSPO) and the International Sustainability and Carbon Certification (ISCC) for use in the food indus-

try and green power production respectively. This has certainly strengthened our long-term relationships with our customers, and going forward we will continue to work hard to supply 100% of our products through certified physical goods flows that value the full traceability of raw materials. We hope to be able to continue to count on similar efforts from palm oil consumers, as the use of certified, traceable palm oil can remove all potential doubts about environmental and/or social aspects.

The 11.2% rise in annual palm oil volumes across the *SIPEF* group was due to the good performance of the mature 'old' plantations in North Sumatra, where volumes increased by 13.8%. As well as the steady 6.5% growth in the yield of our young oil palm areas in the expansion projects of *PT Umbul Mas Wisesa* (*PT UMW*) and *PT Toton Usaha Mandiri* (*PT TUM*) in North Sumatra, which have now been completed, this was especially due to the rising maturity of the palms at *Hargy Oil Palms Ltd* in Papua New Guinea, where full production is now also getting started in the northern expansion areas. Both our own plantations and smallholders were able to take advantage of very favourable weather, and production volumes rose by 18.6% and 14.2% respectively. The plantations of *PT Agro Muko* in Bengkulu, which are currently being replanted, maintained the level they had achieved the previous year. All fruits of the above-mentioned plantations were processed into RSPO certified palm oil in a sustainable way at the palm oil extraction mills.

Due to the higher vegetation, the new rules applicable to new planting procedures for RSPO certification make it harder to continue the expansions at *Hargy Oil Palms Ltd* in Papua New Guinea. That said, there is permanent demand from the local population for the continued expansion of our activities, in close association with the neighbouring farmers, and the acceleration of the economic development of these remote communities. We have therefore been forced to limit the expansion of the 13 621 hectares already planted to around 15 000 hectares, through the possible acquisition of some plots that were already being used for agricultural purposes. This corresponds to the full capacity utilisation of our three mills there, taking account of the production of the more than 3 700 smallholders, who account for 40% of oil production. From an agronomical perspective, this area continues to give us the highest yields per hectare across the Group, and the larger surface area and the valued efforts of local and expat management have slashed the cost price by almost 20% over the past two years.

The focal point of this expansion continues to be our activities in the South Sumatra province, where four concessions have been acquired through three local companies since 2011. This region has very good agronomic properties and there are many employment opportunities for the local population in industrial agriculture developments. Supported by the expat management of Medan Office, the expansion gained momentum and we can say with reasonable certainty that we will develop a new business unit for the *SIPEF* group. Over the financial year, an additional 1 928 hectares was compensated and an additional 3 125 hectares prepared for planting or planted, bringing the total to 9 225 cultivated hectares. This is 69.4% of the total of 13 283 compensated hectares, of which 2 109

hectares were acquired for planting for smallholders and 11 174 for own development.

As well as expanding our concessions in Musi Rawas, a major step was taken to strengthen our presence in South Sumatra with the acquisition of 95% of the *PT Dendymarker Indah Lestari* oil palm plantation in August 2017. Although this is an existing activity that demands major optimisation efforts, with the replanting of the areas owned and the plasma zones, and the expansion of the mill's capacity, it does mean that, at the end of the year under review, we own more than 18 000 hectares of planted oil palm in South Sumatra. We continue to develop Musi Rawas and look forward to opportunities in the vicinity of our current operations.

As a consequence of these transactions and the purchase of additional shares in *PT Agro Muko* in Bengkulu earlier in the year, we have a 95% controlling interest in this plantation group; the planted area, share of the group, increased by 30.4% in 2017 to 71 865 hectares. As a result, 100 000 hectares, share of the group, is a very realistic target.

It was an exceptionally busy year, with investments surpassing USD 257 million, structurally funded from operational cash flow of USD 110 million, long-term bank financing of USD 50 million and a very successful capital increase of USD 97 million, exclusively for the existing shareholders, who supported this transaction in full. This capital increase led to an 18.2% rise in the number of shares, which now totals 10 579 328.

As well as the acquisition of the above-mentioned stakes in *Agro Muko* and *Dendymarker*, *SIPEF* is again examining the full possibility of investing in the expansion of the planted areas far from the cities, where agriculture is the biggest employer. These expansions are coupled with investments in infrastructure, housing and facilities to create long-term ties with workers. In spite of the brief rise in the debt position in 2017, our strategy continues to be focused on financing the development of new areas within the Group with own funds, with due consideration for the annual dividend for shareholders, which we want to maintain at 30% this year.

Rubber, tea and banana plantations also continued to be part of our tropical agriculture activities in 2017, albeit with varying success with regard to their contribution to our results. The rubber markets in particular continue to wrestle with an oversupply of natural rubber, mainly due to additional volumes from Vietnam and Africa, which means our Indonesian rubber activities continue to find it hard to achieve the expected profit margins. The tea plantations in Java produce high-quality handplucked tea, mainly for the Middle East, but the weather in the year under review made it more difficult to harvest the volumes needed to offset the impact of the rising payroll in Indonesia. Despite rising volumes due to additional planting, the banana and flower plantations in Ivory Coast are also wrestling with quality issues, which hamper the most profitable exports to Europe. For these three sectors, management has targeted increasing yield and lowering costs with a focus on labour costs, as these cultivations are more labour-intensive than the more profitable palm oil activities.

On 18 December it was announced that *SIPEF* and Ackermans & van Haaren, each a 50% shareholder of the Belgian insurance group *BDM-ASCO*, had reached agreement with the Nasdaq-listed US insurer The Navigators Group, Inc. on the sale of 100% of the share capital of *BDM-ASCO*. The transaction is now being examined for approval by the regulators and is expected to be finalised before the end of the first quarter of 2018. This divestment is completely in line with the wish to concentrate our activities in tropical agriculture, with the emphasis on palm oil in Indonesia and the sale price of KUSD 20 783, hedged at the time of signing, will first and foremost contribute to reducing the Group's debt position.

In recent years, major steps have been taken in the integration of financial and operational reporting systems for the activities in Indonesia and Papua New Guinea, and the focus is now on the continued integration with information processing at the *SIPEF* main office in Belgium, which will improve communication and lead to an intensive analysis of the cost ratios in the Group.

First and foremost, *SIPEF* wants to continue to act as a role model in terms of sustainability. As a listed European company, we must be able to guarantee our investors respect for people and nature, by means of the renowned certification of all our activities and all our products, with due consideration for ecological and socially responsible standards for tropical industrial agriculture. After the publication of the first sustainability report in 2015, we now have an update available for you on our website, which again shows continued advancements in this domain. After obtaining Rainforest Alliance certification for the tea and banana plantations, in 2017 the first certification was obtained for our rubber plantations in *MAS* Palembang, and for 2018 we are working on the full certification of all our rubber plantations in North Sumatra and new integrated ISO 9001 certification for all our Indonesian companies.

We continue to be very actively involved in the organisations that defend the reputation of palm oil in Europe and the rest of the world, and work to encourage the use of sustainable palm oil in the food industry and by consumers. We promote a balanced picture of the nutritional properties of palm oil; clarify the ecological and social criteria used by sustainable producers; and emphasise the higher value creation of our industry in the production countries, the consequence of the highly labour-intensive nature of our activities. This has prompted us to issue our own Responsible Plantations Policy, which is adapted every year and encourages us to always apply the most innovative standards, which often go much further than those currently imposed by the aggregated certifications.

We continue to invest in driving down greenhouse gas (GHG) emissions. Five of the nine processing mills are equipped with methane capture systems, as a result of which they fulfil the standards for green power certification in Europe. In North Sumatra a state-of-the-art composting system was commissioned to absorb the Empty Fruit Bunches (EFB) and the Palm Oil Mill Effluent (POME) from the plant. This can improve the soil structure of the oldest oil palm plantations and drive down the use of chemical fertilisers. A system to produce electricity from methane

The construction of new workers' housing in Musi Rawas in South Sumatra

was commissioned in Bengkulu and the first electricity was injected into the local public network in the fourth quarter of 2017. This heralds a new era for the *SIPEF* group, as the first direct supplier of green energy for the public sector.

Through our own Indonesian foundation, we have made a long-term contribution to nature conservation in that country by protecting two beaches on the southern seaboard of Sumatra, where endangered turtle species lay their eggs, but first and foremost, through the active protection of more than 12 000 hectares of endangered forest next to Kerinci Seblat National Park. Here we work closely with the local population to stop poachers and illegal tree fellers, but we have also begun replanting forests as part of a 60-year-old agreement with the state.

The partnership agreement signed in 2013 with New Britain Palm Oil Ltd (NBPOL), a plantation company with a renowned palm seed production research centre in Papua New Guinea that is now part of the Sime Darby Group and Biosing (an organisation of scientists), was continued. With its active agronomic guidance and the development of high-yield palms that is expected to increase productivity within the industry, we expect major support in the medium- to long-term for the future profitability of the oil palm plantations in the company.

The Group's consolidated recurring result increased by 61.7% compared with the financial year 2016 to KUSD 64 481, mainly due to rising production volumes and higher prices for palm oil in the first half of the year. The recognition of a one-off remeasurement gain from the acquisition of a controlling interest in *PT Agro Muko* means we end the financial year 2017 with an IFRS result of KUSD 139 663. Consolidated equity is now KUSD 634 636.

At the next ordinary general meeting, the maintenance of the pay-out ratio at 30% and a dividend of EUR 1.60 per share will be proposed, compared with EUR 1.25 per share the previous year on a number of shares that rose by 18.2%, to be approved for payment on 4 July 2018.

In August, Mr Antoine de Spoelberch asked the board to end his term as director for health reasons. We thank Antoine for his interest and his abiding dedication to fulfilling his duties as a director. In November the board co-opted Ms Petra Meekers to replace Mr de Spoelberch until the general meeting of June 2020, a decision we will

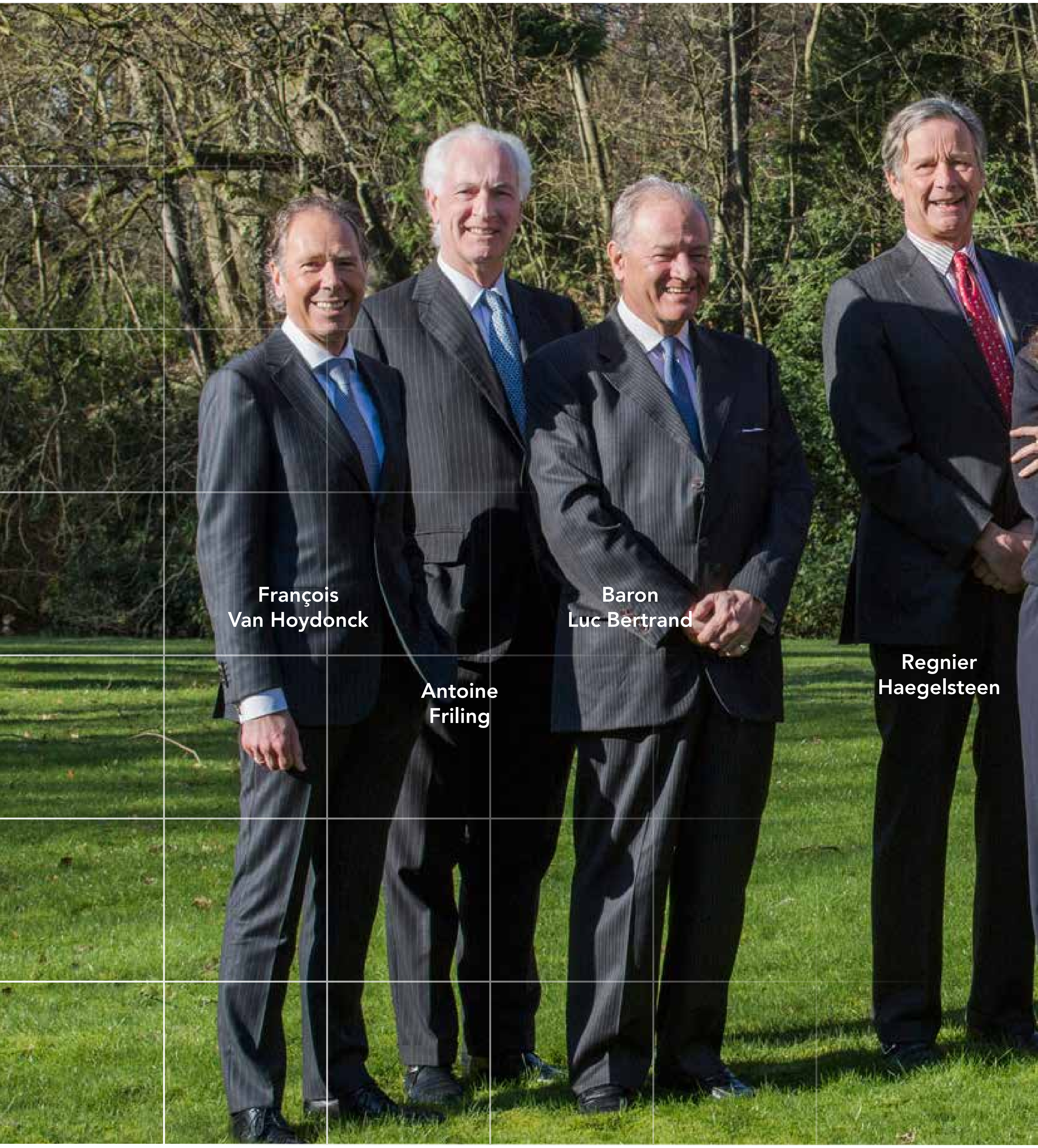
submit to the next general meeting, together with the re-appointment of Ms Priscilla Bracht and the enlargement of the board with the appointment of Mr Tom Bamelis, both for a term of four years until the general meeting of 2022.

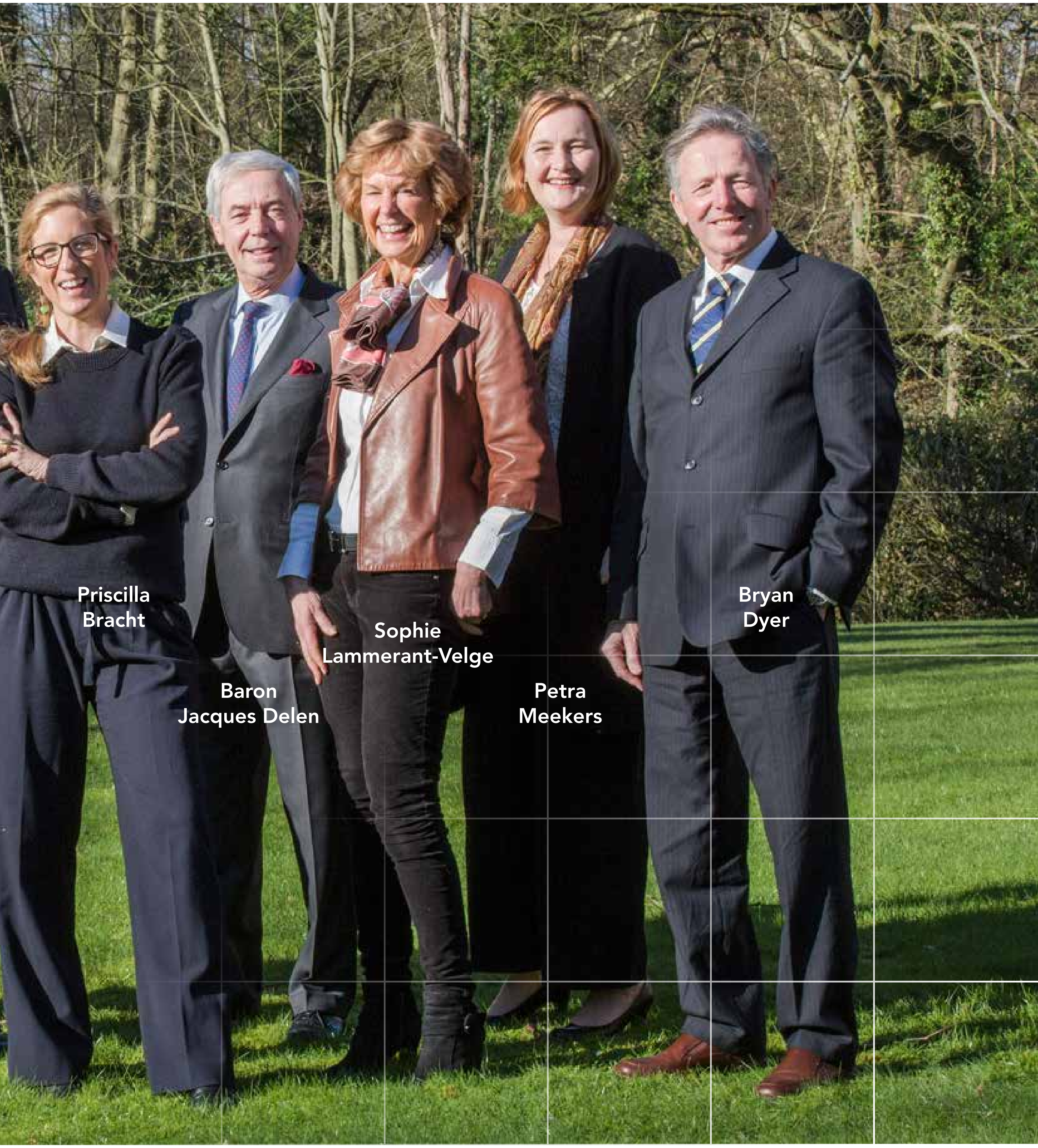
We would like to express our gratitude to all employees of the *SIPEF* group, each of which has contributed, at their own level and in their own activity, to achieving these results and acquiring the additional strategic assets. Bearing in mind the expansion financing, it is important to control costs and manage the plantations and plants as efficiently as possible. We hope that everyone will continue to work on this in their own work situation.

Schoten, 13 February 2018

François Van Hoydonck	**Baron Luc Bertrand**
managing director	chairman

Board of directors




Priscilla
Bracht
Baron
Jacques Delen
Sophie
Lammerant-Velge
Petra
Meekers
Bryan
Dyer

Annual report of the board of directors

To the ordinary general meeting of 13 June 2018.

Dear shareholders,

We are honoured to bring you a report about the operating activities of our company during the past financial year, with the individual and consolidated annual financial statements, balanced on 31 December 2017, for approval.

In accordance with the Royal Decree of 14 November 2007 (regarding the obligations of issuers of financial instruments that are permitted to trade in the Belgian regulated market), *SIPEF* must make its annual financial report available to the public.

This report includes the combined statutory and consolidated annual report from the board of directors, drawn up in accordance with article 119, last paragraph, of the Companies Code.

The report also includes an abbreviated version of the statutory annual financial statements (page 193), drawn up in accordance with article 105 of the Companies Code, and the integral version of the consolidated annual financial statements (page 115). The complete individual annual financial statements are deposited at the National Bank of Belgium, in accordance with articles 98 and 100 of the Companies Code, along with the annual report from the board of directors and the report from the auditor.

With respect to the statutory and consolidated annual financial statements, the auditor has provided a declaration of approval without reservations.

The annual report, the integral versions of the statutory and the consolidated annual financial statements and the reports from the auditor regarding the afore-mentioned annual financial statements, are available on the website (www.sipef.com) but can also be obtained by request, free of charge, at the following address: Calesbergdreef 5 – 2900 Schoten, Belgium, or by email: finance@sipef.com.

1. INDIVIDUAL ANNUAL FINANCIAL STATEMENTS

1.1 Capital and ownership of shares

On 24 May 2017 a capital increase was concluded, through the issue of 1 627 588 new shares at EUR 54.65 per share. The total capital increase of EUR 88 947 684.20 (USD 97 121 976.38) was subscribed in respectively capital and share premiums for an amount of USD 6 882 112.63 and USD 90 239 863.75. The new endorsed capital amounts to USD 44 733 752.04 and is represented by 10 579 328 shares, without designation of nominal value and with payment in full.

The company's updated Articles of Association, including information about the legal form, the statutory goal, the capital structure, the authorised capital and the type of shares, are available on the website (www.sipef.com).

With respect to the share option plan, 18 000 new options were assigned in 2017. The options that were assigned as of 31 December 2017 and options not yet exercised collectively provide the right to the acquisition of 124 000 *SIPEF* shares (1.17%).

1.2 Activities

For an overview of the main activities of the *SIPEF* group during the financial year 2017, we refer to the 'Chairman and managing director's message' (page 17).

1.3 Explanatory notes to the statutory annual financial statements

1.3.1 Conversion of EUR into USD

SIPEF received the official approval from the FPS Economy to keep the accounts and to prepare the financial statements, as from 1 January 2016, in US dollars - the functional currency of *SIPEF*.

The conversion into USD has an impact on the financial results of *SIPEF* in 2016.

The increase in financial income in *SIPEF* is therefore mainly due to the conversion of long-term receivables and loans within the group from the historical exchange rate to the closing rate. This conversion has created a net exchange gain of KUSD 19 237 in the financial year 2016.

1.3.2 Financial position as at 31 December 2017

SIPEF's statutory financial statements have been drawn up in accordance with the Belgian accounting legislation.

The company's balance total as at 31 December 2017 amounts to KUSD 415 291 compared to KUSD 364 866 the previous year.

The 'Financial fixed assets – receivables from associated companies' increased by KUSD 11 433; this movement breaks down as follows:

	KUSD
Increase due to financing of further expansion in Indonesia	16 885
Decrease as a result of the repayment of the financing by *Jabelmalux SA*	-5 452
Net movement	11 433

The 'amounts receivable within one year - other receivables' increased (+KUSD 46 491) due to a receivable of KUSD 44 000 on *PT Tolan Tiga* because the acquisition of an additional share in *PT Agro Muko* by *PT Tolan Tiga* was financed by *SIPEF*.

SIPEF's equity before profit distribution is KUSD 239 537, which corresponds with USD 22.64 per share.

The statutory results of *SIPEF* are determined to a significant degree by dividends and increases/reductions in values.

Since *SIPEF* does not directly hold all of the interests of the group, the consolidated result of the group is a more accurate reflection of the underlying economic development.

The result for the financial year 2016 was strongly influenced by the conversion from EUR into USD which led to a non-recurring foreign exchange gain of KUSD 19 237 (see paragraph 1.3.1.).

The statutory profit of the financial year 2017 amounts to KUSD 2 078 compared to a profit of KUSD 23 132 in the previous financial year.

1.3.3 Allocations of the results

The board of directors proposes to allocate the results as follows (in KUSD):

Profit carried over from the previous financial year	74 207
Profit from the financial year	2 078
Total to be allocated	76 285
Transfer to the legal reserve	-104
Transfer to other reserves	-1 735
Payment to the shareholders*	-20 276
Profit to be carried over	54 170

* EUR 1.60 per share x 10 579 328 shares / 0.8348 (EUR/USD at 31/12/2017)

The board of directors proposes to pay a dividend of EUR 1.60 gross per share. After deduction of the withholding tax (30%), the net dividend is EUR 1.12 per share.

If the ordinary general meeting approves this proposal, the dividend will be payable from 4 July 2018.

1.4 Prospects

The results of the current financial year will, as in the past, depend to a significant degree on the dividends that will be paid out from the subsidiary companies.

1.5 Notices

1.5.1 Important events after the close of the financial year

Since the close of the financial year 2017, no significant events have occurred that could noticeably affect the development of the company.

1.5.2 Additional compensation to the auditor

By virtue of Article 133/2, §1 to 5 of the Belgian Companies Code: Without prejudice to the prohibitions following from Article 133/1, the statutory auditor shall not perform any services other than the tasks ascribed to statutory auditors by the law or by European Union legislation, if the sum total of the fees for these services exceeds seventy per cent of the sum total of the fees referred to in Article 134, § 2. The 70% rule shall be calculated as an average over the course of the current appointment. This calculation includes fees for services invoiced by Deloitte Bedrijfsrevisoren BV o.v.v.e. CVBA, with the exception of fees for statutory tasks ascribed to the statutory auditor of the company. *SIPEF* NV was not in breach of the 70% rule as at 31 December 2017.

In accordance with article 134, § 2 and 4, of the Companies Code, we also inform you that in addition to the normal fee (as approved by the general meeting) an additional fee of KUSD 41 (KEUR 37) was paid to the statutory auditor for the work conducted in the context of the publication of the prospectus in May 2017 and KUSD 31 (KEUR 28) for accounting advice. We paid KUSD 34 (KEUR 29) to related companies of the statutory auditor for fiscal advice.

1.5.3 Research and development

The company has not engaged in any activities related to research and development.

1.5.4 Acquisition and transfer of own shares

On 11 February 2015 the extraordinary general meeting authorised the board of directors of *SIPEF* to acquire own shares within a well-defined price range during a period of five years.

In the course of the 2017 financial year, *SIPEF* acquired 14 000 additional own shares. These shares were acquired to cover the company's obligations under the stock option plan.

The situation as per 31 December 2017 is as follows:

Number of treasury shares	124 000 (1.17%)
Average price per share (USD 64.03)	53.45 EUR
Total investment value (KUSD 7 939)	6 628 KEUR
Total carrying amount (KUSD 7 939)	6 628 KEUR

1.5.5 Changes in the Articles of Association

On 4 April 2017, the extraordinary general meeting of *SIPEF* approved on a change in the articles of associations subject to conditions precedent, regarding a capital increase in cash. This condition was fulfilled on 24 May 2017 as a result of which the articles of associations were adjusted to the new amount of shares issued and the new endorsed capital and share premiums.

1.5.6 Application of article 524 of the Companies Code

In accordance with article 524, §2 and §5 of the Companies Code, prior to any decision or transaction between *SIPEF* and any affiliated company of *SIPEF*, a committee of three independent directors must provide an assessment thereof. Such committee shall be assisted by one or more independent experts appointed by the committee. Pursuant to article 524, §3 of the Companies Code, after having taken note of the advice of the committee, the board of directors shall deliberate on the proposed decision or transaction. The statutory auditor shall issue an opinion on the accuracy of the information set out in the committee's advice and the board minutes.

In the context of the capital increase with preferential subscription right for the existing shareholders, which was approved by the extraordinary general meeting held on 4 April 2017 Ackermans & van Haaren NV has committed to subscribe to (i) the number of New Shares that it is entitled to subscribe for pursuant to the Preferential Subscription Rights arising out of its shares and (ii) the number, if any, New Shares that remain available for subscription after the Subscription Period and the Scrips Private Placement for which no rights have been exercised during the Subscription Period and for which no Scrips could be placed during the Scrips Private Placement. As consideration for that commitment, Ackermans & van Haaren NV has been granted a right of first refusal, in priority to all other participants to the Scrips Private Placement to acquire such number of Scrips as it determines, at the price which results from the Scrips Private Placement bookbuilding, provided that the number of New Shares for which it may decide to subscribe in the Scrips Private Placement shall not exceed the total number of Shares to be placed in accordance with the Scrips Private Placement. Ackermans & van Haaren NV's obligations under the Shareholder Subscription Commitment are subject to several conditions precedent, including but not limited to no material adverse effect having occurred.

The committee of independent directors, assisted by the independent expert Eubelius CVBA, judged in the report of 27 April "that the nature of the transaction is not such as to entail a disadvantage for the company in the light of the current policy pursued by the company. The committee is also of the opinion that the transaction will not lead to disadvantages that are not compensated by the advantages for the company. The transaction will actually contribute to the success of the capital increase".
After deliberation and taking this into account, the board of directors has taken the following decision as included in the minutes of the meeting of the board of directors of 27 April 2017: "The board of directors takes cognisance of the application of article 524 of the Companies Code and decides to approve the registration agreement with Ackermans & van Haaren".
In accordance with article 524, §3 of the Companies Code, the statutory auditor judges the faithfulness of the data stated in the recommendation of the committee of independent directors and in the minutes of the board of directors as follows: "Based on our activities, we have not taken cognisance of any aspects that would lead to us deciding that the data in the recommendation of the committee of independent directors or the minutes of the board of directors are not faithful representations." The report of the statutory auditor of 28 November 2017 is attached as an attachment to the minutes of the board of directors.

1.5.7 Protection measures

On 8 June 2016, the extraordinary general meeting renewed the authorisation of the board of directors to proceed, in case of a takeover bid for the securities of *SIPEF*, with a capital increase in accordance with the provisions and within the limits of Article 607 of the Companies Code.
The board of directors is allowed to use these powers if the notice of a takeover bid is given by the Financial Services and Markets Authority (FSMA) to the company not later than three years after the date of the abovementioned extraordinary general meeting (i.e. 8 June 2019).

The extraordinary general meeting assigned authorisation to the board of directors on 11 February 2015, to acquire or transfer the company's shares for a period of three years, if this were to become necessary in order to prevent the company from suffering a serious and threatening loss. This authorisation will expire on 3 March 2018 and a renewal will be submitted to the extraordinary general meeting of 13 June 2018.

2. CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

2.1 Risks and uncertainties

The text below shows the commercial risks as evaluated by the management and the board of directors. Each of these risks could have a significantly negative impact on our financial situation, operating results or liquidity, and could result in special impairment losses affecting assets.

There could be risks that the *SIPEF* group currently assumes to be limited, but which ultimately could have a significantly negative effect. There could also be additional risks that the group is not aware of.

The main non-covered commercial risks are identified as follows:

- fluctuations in the market prices for the basic products of palm oil, rubber, tea and bananas;
- climatological conditions;
- geopolitical developments;
- expansion risks.

The realised turnover and margin are largely dependent **on fluctuations in the market prices** of mainly palm oil and palm kernel oil. A change in the palm oil price of USD 100 CIF Rotterdam per tonne has an impact of about USD 27 million per year on the results after tax.

The volumes produced and thus the turnover and margins are to a certain degree affected by **climatological conditions**, such as precipitation, sunshine, temperature and humidity.

In view of the fact that the majority of the investments of the *SIPEF* group is located in developing countries (Indonesia, Papua New Guinea and Ivory Coast), the **geopolitical developments** in these regions are an extra point of interest to the management. The recent past has shown that the possible unrest in these countries has had a limited effect on the group's net results, subject to the impact of macro-economic measures.

Whether the *SIPEF* group will succeed in realising the intended additional **expansion** will depend on the acquisition of new concession agreements for agronomically suitable land, which fits into the group's policy on sustainability in economically responsible terms. If the group does not succeed in this, it could put pressure on its growth plans.

Aside from these most significant risks, the group also has other, more general risks, to consider, such as:

- currency, interest, credit and liquidity risks, as discussed in the financial section of this annual report;
- risks associated with social campaigns;
- risks associated with information technology systems;
- risks associated with regulations;
- risks associated with legal matters;
- risks associated with internal audit;
- risks associated with fiscal inspection;
- risks associated with environmental liability;
- …

Regarding risks involved in the regulatory process, we can point out that currently on each export of palm oil from Indonesia a tax/levy is applied. Since this tax/levy is also charged for local sales by our local clients, this tax/levy weighs on all palm oil we produce in Indonesia. In 2017 this export tax/levy amounted on average to USD 53 per tonne against 51 per tonne in 2016, 28 per tonne in 2015, USD 68 per tonne in 2014 and USD 75 per tonne in 2013.

2.2 Explanatory notes to the consolidated annual financial statements

The consolidated annual financial statements for the financial year 2017 are drawn up in accordance with the International Financial Reporting Standards (IFRS).

Balance sheet:

The consolidated balance sheet total as at 31 December 2017 is KUSD 907 008, an increase of 47.30% compared to the balance total of KUSD 615 332 at the end of 2016.

Four aspects had a strong impact on the changes to the balance sheet positions in 2017:

- the full inclusion of *PT Agro Muko* in the consolidated financial statements of the *SIPEF* group from 1 March 2017;
- the purchase and full inclusion of *PT Dendymarker* in the consolidated financial statements of the *SIPEF* group from 1 August 2017;
- the moving of the land rights of intangible assets to tangible assets;
- a capital increase in May 2017.

Due to the acquisition of an additional stake in *PT Agro Muko*, the assets and liabilities of this company were remeasured at their actual value ('market value') and the individual items from 1 March 2017 in the consolidated statements were recognised in full (rather than aggregated under 'Investments in associated companies and joint ventures') – see note 34.

The assets and liabilities of *PT Dendymarker* were also included at our current estimate of the actual value from 1 August 2017 (see note 34). Under IFRS rules the estimate may be revised up to one year after the acquisition.

The impact of the two acquisitions on the balance sheet is summarised in note 34.

Following the acquisition of *PT Agro Muko*, the *SIPEF* group reviewed the presentation of the land rights and decided to present the land rights as tangible assets rather than intangible assets, in line with the presentation method in the industry and the relevant advice. The comparative balance sheet of 31 December 2016 was revised to include this change in the comparative figures.

On 24 May 2017 a capital increase of KUSD 97 122 was successfully concluded, through the issue of 1 627 588 (+18.2%) new shares.

The net assets held for sale (KUSD 12 010) concern the net carrying value of the insurance segment, for which an agreement was signed with Navigators Group, Inc. at the end of December 2017.

The consolidated equity of the *SIPEF* group, group share prior to allocation of profit, has increased to KUSD 634 636. This corresponds to USD 60.70 per share (excluding own shares).

Result:

The financial statements of 2017 and the comparison with last year are significantly influenced by the full inclusion of *PT Agro Muko* in the *SIPEF* consolidation as from 1 March 2017.

Other operating income/charges on the income statement (financial statements in note 23) include a one-off gain of KUSD 79 324 on the revaluation of the original stake in *PT Agro Muko* in accordance with IFRS 3 (see note 34). To promote the readability of the annual report, the remeasurement gain of *PT Agro Muko* is isolated at the bottom of the income statement.

Total turnover rose by 20.5% to USD 322 million. The full inclusion of *PT Agro Muko* has only a minor impact on turnover, given that virtually the whole of production of *PT Agro Muko* used to be sold through *SIPEF*.

Turnover of palm oil rose by 21.8%. The much higher volumes were also sold at higher unit prices.

Rubber turnover rose by 11.6%. Excluding the impact of the disposal of Galley Reach Holdings Ltd from the *SIPEF* group at the beginning of July 2016, this increase was even as high as 26.5%. This rise is almost exclusively due to the higher sales prices, especially during the first half of 2017.

In the tea activities, higher volumes were sold on the export market. As a result, gross turnover rose by 6.0%.

Turnover followed the higher volumes in the banana and horticulture activities (+20.8%).

The average ex-works unit cost price for the palm segment (92% of the total gross margin) fell by around 3% compared with 2016, primarily due to the higher volumes and the lower purchase prices for fertilisers and power.

The adjustment in fair value is due to the impacts on the valuation of:

- the stock of finished products at their market value rather than their production cost (IAS 2);
- the measurement of the hanging palm fruits at their fair value (IAS 41R).

Gross profit rose from KUSD 73 792 in December 2016 to KUSD 120 474 in December 2017 (+63.3%).

Gross profit in the palm segment rose by 63.9% (+KUSD 43 171) compared with 2016 due to the '*PT Agro Muko*' effect (KUSD 19 963), the excellent production, the higher sales prices and the lower unit cost prices.

Gross profit in rubber recovered (+ KUSD 3 276) compared with 2016, especially due to higher prices on the world market in the first quarter. The contribution of the following three quarters was negligible. There were also two non-operational effects: the disappearance of the negative margin in 2016 (KUSD 199) through the sale of Galley Reach Holdings in Papua New Guinea and the effect of the full consolidation of *PT Agro Muko* in 2017 (KUSD 382).

Gross profit of the banana and horticulture business was around 8.5%, which was below expectations, primarily due to temporary quality problems at our production unit in Ivory Coast. This means that relatively more bananas were sold in Africa, at lower prices.

The general and administrative expenses increased sharply (+15.6%), primarily due to a higher bonus provision as a consequence of the higher profit, the increased IT costs, the further development of a regional office in the Musi Rawas region and one-off lawyer and consultancy fees in relation to the acquisition of *PT Agro Muko* and *PT Dendymarker*. The USD equivalent of the euro costs of the head office in Belgium also increased.

Other operating income/charges (excluding the one-off remeasurement gain on *PT Agro Muko*) of KUSD 962 included a partial reversal of our provision for a continuing VAT dispute in Indonesia (KUSD 1 020), which is slowly and surely coming to a favourable conclusion.

The operating result was KUSD 90 261 compared with KUSD 47 479 the previous year (+90.11%).

Financial income primarily comprises the positive time effect of the discount of the claim from the sale of the stake in the SIPEF-CI SA palm oil plantation in Ivory Coast at the end of 2016 (KUSD 1 436). This claim will be paid over the next five years.

The financial costs can be split into a one-off payment for setting up the bridge financing for the acquisition of *PT Agro Muko* (KUSD 576) and an interest expense of KUSD 2 635. The rise in the interest expense compared with 2016 was the consequence of the increase in the average debt position in 2017 compared with prior year.

The limited positive exchange differences are primarily due to the hedging of the expected EUR dividend, the exchange differences on the unhedged euro claim from the sale of SIPEF-CI and the hedging cost to USD of the short-term euro financing.

Profit before tax was KUSD 89 942 compared with KUSD 46 026 in 2016, a rise of 95.4%.

The actual tax expense was 26.7% completely in line with the theoretical tax expense.

The share of results of 'associated companies and joint ventures' includes the result of:

- *PT Agro Muko* up to and including 28 February 2017 (KUSD 2 011),
- *PT Timbang Deli* and *Verdant Bioscience Singapore Pte Ltd* (KUSD -597 combined) and
- our insurance branch (KUSD 1 723) where good technical results and a one-off gain on the acquisition of Canal Re SA in Luxembourg of KUSD 871 had a favourable impact on the result.

Profit for the period was KUSD 69 034 compared with KUSD 42 701 the year before, a rise of 61.7%.

The net result, share of the group, before the remeasurement gain of *PT Agro Muko*, was KUSD 64 481, 61.7% higher than in 2016.

The net result, share of the group, including the remeasurement gain of *PT Agro Muko*, was KUSD 139 663.

Cash flow:

Cash flow from operating activities rose by KUSD 50 451 in line with the higher operating result.

The improvement in working capital (+KUSD 8 622) is primarily due to the application of the applicable delivery and payment arrangements with our customers.

In Indonesia and Papua New Guinea we always pay corporate tax one year later. The limited size of the tax paid in 2017 of KUSD 13 611 reflects the lower profit in 2016.

The main investments were the payment of additional land compensations and the planting of oil palms in the new project in South Sumatra, alongside the usual replacement investments and the maintenance of the immature plantations.

In June 2017, in accordance with the contractual stipulations, the next tranche of KUSD 1 500 was received from the sale of Galley Reach Holdings Ltd in 2016. We will receive a further KUSD 3 600 from this sale over the next three years.

The recurring free cash flow (free cash flow excluding the acquisition of financial assets) in 2017 was KUSD 62 174 compared with KUSD 16 378 during the same period the previous year.

The acquisition of the additional share in *PT Agro Muko* and the acquisition of *PT Dendymarker* had the following impact on the cash flow:

	PT AM	PT DIL	Total
Total acquisition price	-144 080	-52 833	-196 913
Advance paid in 2016	1 250	0	1 250
Available liquidity	17 852	5	17 857
Net impact	**-124 978**	**-52 828**	**-177 806**
Presentation in the consolidated cash flow			
Acquisition financial assets	-25 208	-52 828	-78 036
Equity transactions with NCI	-99 770	0	-99 770
Net impact	**-124 978**	**-52 828**	**-177 806**

In addition, another KUSD 650 was paid to *Verdant Bioscience Singapore Pte Ltd* for the further construction of a research centre, as a result of which 'Acquisitions financial assets' was totally KUSD 78 686.

The capital increase of KUSD 97 122, after deduction of the direct costs of this transaction of KUSD 2 027, had a net impact of KUSD 95 095.

The 'other financing activities' primarily include a new five-year bank loan of KUSD 50 000, an additional share buyback (KUSD -1 050), the sale of scrips (KUSD 204), the dividend paid to shareholders and third parties (KUSD -14 138) and paid interest (KUSD -2 471). The balance of KUSD 7 611 concerns new short-term debts.

2.3 Significant events after the close of the financial year

Since the close of the financial year 2017, no significant events have occurred that could noticeably affect the development of the company.

2.4 Research and development

The research and development activities are undertaken together with our joint venture partner *Verdant Bioscience Singapore Pte Ltd* (also see page 76). In 2017, *SIPEF* contributed KUSD 2 053 (against KUSD 2 965 in 2016) in cash for the further development of this activity.

2.5 Financial instruments

Within the *SIPEF* group, we make limited use of financial tools for risk management. These are financial instruments that supposedly ameliorate the effect of the increase in interest rates and exchange rates.

The providers of these financial tools are exclusively reputable Belgian banks that *SIPEF* has built up long-term relationships with.

2.6 Prospects for 2018

Productions

The new production year for Indonesian palm oil has started in favourable conditions, with rising volumes for most of our Indonesian plantations and the general expectations for the first quarter remain positive. The weather is less favourable in Papua New Guinea, where the harvesting conditions in January were disrupted by the rainy season. The production expectations remain dependent on the weather in the first quarter for group-owned plantations and for neighbouring farmers, who are also harvesting smaller volumes than the previous year. Everything would therefore suggest that we will maintain the expected 9% total rise in annual palm oil production for the *SIPEF* group.

Markets

The palm oil market had to endure a Malaysian Government ruling of removing the export tax for Crude Palm Oil (CPO) in the first week of January. The ruling was justified as reducing the stocks, but many think it was part of a campaign to influence the smallholders and win their support in the elections in Malaysia later this year. There was also a vote in the European Parliament to ban palm oil as a feedstock in the European Union (EU) biodiesel market after 2021. This vote fed a bearish sentiment, but it has not yet been decided by the European Commission whether it will be fully implemented. We struggle to see this vote being passed by the World Trade Organisation (WTO) and we do not believe it will have any significant impact on the vegoil market in the coming years, as it will be a change like-for-like. In the meantime, the weather in South America has improved and the earlier troublesome soybean growing areas seem to be within yield expectations now, albeit the crop is likely to be lower than last season's record crops. The recent strong, but volatile, petro market, together with its underlying gasoil market, are certainly triggering higher mandated biodiesel volumes in Indonesia, and we are getting very close to discretionary biodiesel blending to become economic sense in general. This has provided a very solid, but higher floor for palm oil. Therefore, we are positive that prices will remain steady, certainly for the first half of the year.

The rubber market has increased its prices slightly due to the export reduction, predominantly by Thailand, but this is coinciding with the wintering period. Therefore, it remains to be seen what the actual impact will be. However, the first quarter could see a further rally as the wintering continues, and longer term, we expect the market to remain within its narrow trading range.

Tea production in Kenya usually drops during the first quarter amid hot and dry conditions, and is acting this year within seasonal expectations. Prices at the Mombasa auction have increased and are expected to remain firm during the first quarter of the year, after which the 'long rains' are due. The timing and intensity of the 'long rains' will direct the prices from the second quarter onwards

Results

We have capitalised on the price fluctuations of recent weeks to sell 41% of the expected palm oil production for 2018 at an average price of USD 741 per tonne CIF Rotterdam, equivalent and premiums for sustainability and origin included, compared with 39% of the volumes at USD 785 per tonne at the same time in the previous year. Bearing in mind the lower price expectations in the second half of the year, we want to continue to capitalise on the current market trends and we continue to gradually put volumes on the market at prices in excess of USD 700 per tonne, premiums included. At the same time, given the not very inspiring prospects on the rubber markets, 15% of the expected rubber volumes were sold at an average price of USD 1 638 per tonne, which is substantially lower than the average price of USD 2 236 per tonne during the same period the previous year. Approximately 31% of the tea volumes were also sold at slightly higher market prices. Our marketing strategy for the sale of bananas, with primarily fixed prices for the whole year, continued in 2018 with deliveries of the best quality to the United Kingdom and France and of other volumes to North Africa.

To a large degree, the ultimate recurring result will be determined by the achievement of the expected production growth, the level of market prices over the rest of the year, the preservation of the current export levies on palm oil in Indonesia, which despite compulsory increases in wages and a strong natural oil price are still favourably influenced by the continuing weak rates of the local currencies of Indonesia and Papua New Guinea compared with the reporting currency USD.

Cash flow and expansion

Except for the usual replacement capital expenditure budgets and the replanting of existing areas in Indonesia and Papua New Guinea, for 2018 the investment programmes continue to be focused on South Sumatra, with the expansion of our activities in Musi Rawas and the replanting and improvement of our recently acquired palm oil plantations and mill in *Dendymarker*. Negotiations are also ongoing in Papua New Guinea with neighbouring communities on the acquisition of 1 500 hectares of additional agricultural land to bring the total area of palm plantations to 15 000 hectares, to allow them to utilise the capacity of the three mills optimally.

After the acquisition of 95% of the palm oil plantation *PT Dendymarker Indah Lestari (DIL)*, since 1 August 2017 it is an integral part of the area of the *SIPEF* group. Optimising the currently loss-making plantation activities, rehabilitating the palm oil mill and gradually replanting the approximately 20 year old trees are priorities in the *SIPEF* investment programme over the next few years.
We expect to be able to begin replanting as early as the first quarter of 2018, and a study round was also begun into approximately 2 000 hectares of fallow land for development within the framework of the RSPO New Planting Procedures.

The enlargement of the concessions at three locations in Musi Rawas continues with success and we remain interested in acquiring additional land in the region, adjacent to our current project locations. Over the past year, an additional 1 928 hectares were compensated and an additional 3 125 hectares prepared for planting or planted, bringing the total to 9 225 cultivated hectares, which is 69.4% of the total of 13 283 compensated hectares, of which 2 109 hectares acquired for planting for neighbouring farmers and 11 174 for internal development. There are now almost 1 000 hectares in production and for the time being the harvested fruits are being sold locally. As well as the expansion of the planted areas, the investment focus is oriented to the development of the road network and the housing for the workers and local management.

On 18 December 2017 it was announced that *SIPEF* and Ackermans & van Haaren, each 50% shareholder of the Belgian insurance group *BDM-ASCO*, had reached agreement with the Nasdaq-listed US insurer The Navigators Group, Inc. on the sale of 100% of the share capital of *BDM-ASCO*. The transaction is now being examined for approval by the regulators, particularly the National Bank of Belgium, and is expected to be finalised before the end of the second quarter of 2018.

The acquisition price for 100% of the shares of *BDM-ASCO* was set at EUR 35 million. *SIPEF* will realise a gain of approximately USD 7 million. The gross proceeds, which were covered for KUSD 20 783 upon signing, will contribute to the further reduction in the debt position of the Group.

2.7 Explanation of the responsibilities

The undersigned declare that, to their knowledge:

- the consolidated financial statements for the financial year ended on 31 December 2017 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 2017 and their effects on the financial position, as well as a description of the main risks and uncertainties for the *SIPEF* group.

On behalf of the board of directors, 14 February 2018.

François Van Hoydonck
managing director

Baron Luc Bertrand
chairman

3. CORPORATE GOVERNANCE

SIPEF's Corporate Governance Charter can be found under the heading 'Investors' on the website www.sipef.com.

3.1 General

The board of directors of *SIPEF* approved the first corporate governance charter ('Charter') on 23 November 2005. The Charter was prepared in accordance with the provisions of the Belgian Corporate Governance Code ('the Code') that was announced by the 'Corporate Governance Committee' on 9 December 2004. This version of the Charter already coincided with various Royal Decrees implementing European rules on market abuse.

SIPEF used, so far, the Belgian Corporate Governance Code 2009 as a reference (http://www.corporategovernancecommittee.be). In 2016, the Charter was amended to bring it into line with the European legislation (Regulation (EU) No. 596/2014 of the European Parliament and of the Council). This legislation (directly applicable in every Member State) replaces the directives of the European Parliament and of the Council as well as the directives of the Commission on market abuse, which have been implemented by the Belgian Corporate Governance Code in our national law.
The Corporate Governance Charter approved by the board of directors of *SIPEF* is written in accordance with the stipulations of this European regulation.

As specified in the Code and by law, *SIPEF* must devote specific attention in a chapter of its annual report (the 'Corporate Governance Chapter') to factual information concerning corporate governance, any amendments to the corporate governance policy and relevant events in connection with corporate governance that have occurred during the previous year. The 'Corporate Governance Chapter' also provides a more detailed explanation of the deviations from the Code recommendations, in terms of the 'comply or explain' principle, during the past financial year (see 3.9).

3.2 Board of directors

3.2.1 Membership

The board of directors consists of nine members.

	end of term of appointment
Baron Luc Bertrand, chairman	2020
François Van Hoydonck, managing director	2019
Priscilla Bracht, director	2018
Baron Jacques Delen, director	2020
Bryan Dyer, director	2019
Antoine Friling, director	2019
Regnier Haegelsteen, director	2019
Sophie Lammerant-Velge, director	2019
Petra Meekers, director (as from 22 November 2017)	2018
Antoine de Spoelberch, director (till 16 August 2017)	-

The board of directors will propose to the ordinary general meeting of 13 June 2018 the reappointment of Priscilla Bracht as non-executive director for a term of 4 years, ending at the general meeting of 2022.

On 16 August 2017 Antoine de Spoelberch voluntarily resigned as director. The board of directors decided to fill the vacancy and appoint Petra Meekers as non-executive director until the general meeting of 2018, in accordance with the legal stipulations.

The board of directors will propose to the ordinary general meeting of 13 June 2018 to confirm the replacement of Antoine de Spoelberch by Petra Meekers and to appoint her as non-executive director for a term of 2 years, ending at the general meeting of 2020.

The board of directors will propose to the ordinary general meeting of 13 June 2018 the appointment of Tom Bamelis as additional non-executive director for a term of 4 years, ending at the general meeting of 2022.

3.2.2 Non-executive and executive directors

François Van Hoydonck has been managing director since 1 September 2007.

The remaining eight directors are non-executive directors. Ackermans & van Haaren on the one hand, and Baron Bracht, his children and their affiliated companies CABRA NV and GEDEI NV on the other hand, have declared on 24

May 2017, that they possess together 42.55% of the shares in *SIPEF*.

The directors who hold directorships in other listed companies outside the group are:

Baron Luc Bertrand:
Ackermans & van Haaren, CFE, Atenor Group
Baron Jacques Delen:
Ackermans & van Haaren

3.2.3 Independent directors

Antoine Friling
Sophie Lammerant-Velge
Bryan Dyer
Petra Meekers

These directors fulfil all of the independence criteria set out in article 526ter of the Companies Code.

3.2.4 Activity report

The board of directors of *SIPEF* met six times in the course of 2017. The average attendance rate was 94%. Individual attendance records were as follows:

Baron Luc Bertrand, chairman	6/6
François Van Hoydonck, managing director	6/6
Priscilla Bracht	6/6
Baron Jacques Delen	6/6
Bryan Dyer	6/6
Antoine Friling	6/6
Regnier Haegelsteen	6/6
Sophie Lammerant-Velge	6/6
Antoine de Spoelberch (till 16 August 2017)	1/4

During 2017, the board of directors followed the group results and the development of the activities of the various subsidiaries by means of reports prepared by the executive committee. The board of directors also took major investment and disposal decisions during the past financial year.

At its meeting on 14 February 2017, the board of directors discussed the relationship between itself and the executive committee, in accordance with article 2.7 of the Charter and in the absence of the executive director. The directors concerned expressed their satisfaction with the transparency and the excellent collaboration between the two bodies, in this context, they passed a few suggestions to the executive director.

The directors also assessed the size, composition and operation of the board of directors and of the committees, paying particular attention to their current composition, which was assessed in comparison with the desired composition. It was also established that there was a proportionate balance of specific skills, such as the interpretation of financial reporting, familiarity with the sector, experience in management of a company and operation of financial markets, within the current composition of the board of directors.

The board of directors held a special meeting on 11 October 2017, concerning the group's strategic development, based on a business plan covering ten years.

3.2.5 Rules of conduct concerning conflicts of interest

The board of directors announced in the Charter (2.9 and 4.7) its policy in relation to transactions that might give rise to conflicts of interest (whether or not coinciding with the definition in the Companies Code). There was no need to apply this policy, with the exception of the discussion of the agreement between *SIPEF* and Ackermans & van Haaren in the context of the capital increase in 2017 (supra 1.5.6.).

3.2.6 Rules of conduct concerning financial transactions

The board of directors announced its policy concerning the prevention of market abuse in chapter 5 of the charter

3.3 Audit committee

3.3.1 Membership

Regnier Haegelsteen
- chairman and non-executive director
Antoine Friling
- independent and non-executive director
Sophie Lammerant-Velge
- independent and non-executive director

All members of the audit committee have the necessary accounting and auditing skills, and the committee has collective expertise in respect of the activities of *SIPEF*.

Regnier Haegelsteen holds a Law degree and attended an MBA programme in New York. He has acquired relevant experience during a career of over 20 years in banking.

Antoine Friling holds a Bachelor of Business Administration, Finance & Marketing and an MBA in International Management. Antoine Friling has had several years of experience in banking and is director of family, industry and financial companies in Europe and South America.

Sophie Lammerant-Velge holds a degree in Economics and attended an MBA programme. She is also executive director of FBNet België (Family Business Net Belgium), director of FBNet International and director of Bekaert Stichting Administratie Kantoor.

3.3.2 Activity report

The audit committee met on four occasions in 2017. The attendance rate (or representation by proxy) was 100%. In February and August, the committee focused primarily on analysing the annual and six-monthly financial reports, in the presence of the auditor. It also considered the figures for the proposed press release, as well as the 'one-to-one' rule for the waiver of the auditor's independence. There was also an explanation and discussion on:

- the procedures for valuing the biological assets, in the context of IAS 41 and the revision of IAS 41 in particular;
- the valuation rules for land rights and land compensations in Indonesia;
- the accounting of the acquisition of an additional share in *PT Agro Muko* and of the acquisition of *PT Dendymarker*;
- the audit reform.

In November, the reports of the internal audit committee from Indonesia and of *Hargy Oil Palms Ltd*, were also analysed and discussed by the committee. The internal auditors of the respective activities do not personally attend the meetings of the audit committee. The managing director and CFO meet regularly with the local internal auditor during their visits to Indonesia and Papua New Guinea.

The audit committee was regularly attended by the statutory auditor (3x) and also attended by a representative of Ackermans & van Haaren (4x).

3.4 Remuneration committee

3.4.1 Membership

Regnier Haegelsteen
- chairman and non-executive director
Antoine Friling
- independent and non-executive director
Sophie Lammerant-Velge
- independent and non-executive director

The committee has the necessary expertise with respect to the remuneration policy.

3.4.2 Activity report

The remuneration committee met twice in 2017, on 14 February and on 22 November. The average attendance rate (or representation by proxy) was 100%.
The remuneration committee was also assisted by the chairman of the board as an observer.

The remuneration committee made recommendations to the board of directors in connection with fixed remuneration for the directors and the chairman, as well as for the remuneration of the executive committee, the amount and payment formats for the variable remuneration and individual payments for the executive committee. Other recommendations were made on the salaries and variable remuneration for board members of subsidiaries residing abroad. At the meeting of 22 November, the remuneration committee made recommendations to the board of directors in connection with the offer of share options to the executive committee and the group's foreign management teams, and regarding the organisation of the executive committee.
The remuneration committee also prepares the remuneration report.

3.5 Executive committee

3.5.1 Membership

François Van Hoydonck	managing director
Charles De Wulf	manager estates department
Thomas Hildenbrand	manager marketing bananas and horticulture
Robbert Kessels	chief commercial officer
Johan Nelis	chief financial officer

3.5.2 Activity report

Except in unforeseen circumstances, the executive committee meets once each week. The executive committee's responsibilities include the day-to-day management of the group and it also prepares the decisions that have to be taken by the board of directors.

3.6 Remuneration report

3.6.1 Procedure to develop a remuneration policy and to adopt remuneration levels

The remuneration of the non-executive directors consists exclusively of a fixed payment. This fixed payment consists of a basic payment and, in appropriate cases, an additional payment depending on whether the director concerned is a member of a specific committee.

The remuneration committee periodically assesses the payment of non-executive directors. The remuneration committee submits any proposed adjustments to the board of directors for approval.

The members of the executive committee receive a fixed remuneration and a variable payment depending on the consolidated recurrent results of the *SIPEF* group (see also under 'Policy regarding variable payments'). They also have use of a company car and membership of a group insurance plan (pension accrual, death benefit cover, invalidity cover), meal tokens, a legal assistance insurance policy offering worldwide coverage and hospitalisation cover. The group insurance is of a 'fixed contribution' type.

As from the year 2011 share options have been offered to the members of the executive committee and some of the executive directors of the foreign affiliated companies. The share options, which were offered under the *SIPEF* share option plan, have the following features:

- Offer: end of November;
- Exercise price: price established on the basis of the average closing price for the share over 30 days prior to the offer;
- Exercise period: the options may be exercised from the end of the third calendar year after the year in which the offer is made, until the end of the tenth year, counting from the date of the offer.

These elements are assessed each year by the remuneration committee, and tested for market conformity. This is generally done at a meeting in November or December. The test is undertaken on the basis of public information (for instance, the remuneration data included in the annual reports of other comparable listed companies) and salary studies. Any amendments proposed by the remuneration committee are submitted to the board of directors for approval.

3.6.2 Policy regarding variable remuneration

The variable remuneration that is awarded to members of the executive committee depends upon individual, both qualitative and quantitative, predetermined and objectively verifiable performance criteria, measured over a period of one financial year (as mentioned in the bylaws) and depends in particular upon the consolidated recurrent results of the *SIPEF* group.
The remuneration committee determines whether the conditions have been met.

In other words, there is no long-term cash incentive plan. The variable remuneration is paid in July of the ensuing financial year, the same month when dividends are distributed to the shareholders.

There is a provision for the company to have a right to reclaim the net variable remuneration that is awarded to the managing director and the members of the executive committee on the basis of incorrect financial data.

3.6.3 Remuneration of executive and non-executive directors

The fees of non-executive directors consist entirely of a flat fee. This flat fee is composed of a basic fee and an additional fee, depending on the director in question's membership of a certain committee. Non-executive directors' fees are periodically assessed by the remuneration committee.

The figures are therefore not related to the amount of the results and can be regarded as fixed, non-performance related payments awarded during the financial year.

Directors who retire or are appointed during the financial year are paid pro rata, depending on the length of their mandate in the financial year.

The individual remuneration figures for the directors, as actually received in 2017 in the form of payments for 2017, were:

	In KEUR
Baron Luc Bertrand, chairman	60
François Van Hoydonck, managing director	29
Priscilla Bracht	29
Baron Jacques Delen	29
Bryan Dyer	29
Antoine Friling	40
Regnier Haegelsteen	44
Sophie Lammerant-Velge	40
Antoine de Spoelberch (till 16 August 2017)	15

3.6.4 Remuneration of members of the executive committee

The fixed and variable remuneration elements, and other benefits paid to members of the executive committee in 2017, either directly or indirectly, by *SIPEF* and its subsidiaries, can be summarised as follows (total cost to the company):

In KEUR	CEO	Other members of executive committee	Total	Relative share
Fixed payment	374	969	1 343	51.67%
Variable payment	269	413	682	26.24%
Group insurance	259	202	461	17.74%
Share options 2016	37	49	86	3.31%
Benefits in kind (company car)	4	23	27	1.04%
	943	**1 656**	**2 599**	**100.00%**

The options that have been offered in 2017 are only awarded finally in 2018 and are therefore not included in the table shown above.

3.6.5 Options granted to and exercised by the members of the executive committee in 2017

The following options were offered to the members of the executive committee in 2017.

Due Date	31 December 2027
Exercise price	EUR 62.87

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**

In total, 4 000 options were awarded to some of the managing directors of the foreign subsidiaries.

In 2017, no options were exercised. 12 000 options have expired in 2017.

3.6.6 Most significant contract terms

The agreements of the executive committee members contain the usual provisions on fees (flat-rate and variable fees), non-competition and non-disclosure. They are applicable for an indefinite period of time and will terminate on the manager's 65th birthday. The agreements also provide the company with a reclaim right for variable fees granted on the basis of incorrect financial data.

The managing director is subject to the Statute for the Self-employed and has a permanent contract. The contract can be terminated unilaterally by the managing director, subject to a notice period of 6 months, while the company must observe a notice period of between 18 and 24 months depending on the timing of termination of the contract. The notice period will be extended by 12 months in the event of termination of the agreement as a result of changes in the company's control in terms of which more than half of the directors are replaced, and in the event of serious restrictions in the essential powers introduced unilaterally by the company. This final provision was approved by the extraordinary general meeting of 27 December 2007, in the context of article 556 of the Companies Code.

Executive committee

Since 1 July, 2014, the other executive committee members have been affiliated through an agreement of independent service provision, after having previously been considered as employees. The term of notice in case of termination by the company is 1 month for every year of service, with a minimum of 3 months and a maximum of 18 months.

The term of notice in case of termination by the executive committee member is 1.5 months for each 5 years of service that has commenced, with a maximum of 6 months.

3.6.7 Changes to the remuneration policy

No significant changes were made to the remuneration policy in 2017.

3.6.8 Remuneration policy for the next two financial years (2018-2019)

The board of directors does not expect to make any fundamental changes to the remuneration policy in the current and next financial years.

3.7 Internal and external audit

The company's auditor is Deloitte Bedrijfsrevisoren BV o.v.v.e. CVBA, represented by Kathleen De Brabander.

The auditor arranges for the external audit of the consolidated and summarised figures for the *SIPEF* group and reports twice each year to the audit committee and the board of directors.

The mandate of Deloitte Bedrijfsrevisoren BV o.v.v.e. CVBA, represented by Kathleen De Brabander, was prolonged in June 2017, for a period of three years, until the closing of the ordinary general meeting of the year 2020.

The annual payment to the auditor for the audit of the summarised and consolidated annual financial statements of *SIPEF* amounts to KUSD 89 (KEUR 78). An additional fee of KUSD 41 (KEUR 37) was also paid to the statutory auditor for the work conducted in the context of the publication of the prospectus in May 2017 and KUSD 31 (KEUR 28) for accounting advice. We paid KUSD 34 (KEUR 29) to related companies of the statutory auditor for fiscal advice.
These payments are approved by the audit committee, which received a summary of these honoraria at each meeting.
The total cost paid for the external audit of the *SIPEF* group to the Deloitte network was KUSD 429 and the amount paid to the same auditor and his affiliated businesses for advice was KUSD 233, for legal KUSD 41, accounting KUSD 57 and fiscal KUSD 134 advice.

The internal audit for Indonesia and *Hargy Oil Palms Ltd* in Papua New Guinea is structured within an audit department, with a committee meeting four times each year to consider the internal audit reports. The internal audit for our insurance business is subcontracted. The audit committee at *SIPEF* receives a summary of their work, with an explanation and estimate of the potential impact of the findings, which allows it to assess the work of the local audit department. In the Head Office in Belgium and in the other subsidiaries, the internal audit is organised by the financial controller. Bearing in mind the more limited size of these companies, the audit committee has decided that there is no need, for the time being, to set up any separate audit department.

3.8 Shareholder structure

As stated in note 17 in the explanatory notes to the consolidated financial statements, 24 May 2017, two shareholders have announced a holding in excess of 5% in our company. According to this declaration Ackermans & van Haaren NV holds 30.25% and the Bracht Group holds 12.30% of the voting rights. The relevant information concerning this transparency report can be found on the company's website (www.sipef.com).

The company has no knowledge of any agreements among these shareholders, nor of the existence of committees of shareholders or directors, with the exception of a shareholders' agreement of 12 February 2007.

On 12 February 2007, Ackermans & van Haaren (AvH) NV and acting in consultation with Baron Bracht and children, CABRA NV and GEDEI NV, notified the company of the conclusion of a shareholder agreement with a view to the creation of a stable shareholding in *SIPEF*. This was done to promote the balanced development and profitable growth of *SIPEF* and its subsidiary companies. The shareholder agreement includes voting arrangements in connection with the appointment of directors and arrangements in connection with the transfer of shares and was amended and renewed for a period of fifteen years on 3 March 2017.

3.9 Coincidence with the Belgian Corporate Governance Code – 'comply or explain'.

The Charter at *SIPEF* deviates from the recommendations of the Code on a limited number of points.

3.9.1 Membership of the nomination committee

In accordance with recommendation 5.3.1 of Appendix D to the Code, the nomination committee must have a majority of independent non-executive directors.

The nomination committee of *SIPEF* consists of every member of the board of directors. Since only 44% of the membership of the board of directors is composed of independent non-executive directors, the Charter deviates from the Code on this point.

The board of directors considers, however, that this deviation is well-founded, bearing in mind the fact that its relatively limited size (with nine members) does not hinder efficient deliberation and decision-making processes. Furthermore, the board of directors as a whole is in a better position to consider its own size, membership and succession plans.

3.9.2 Gender diversity

In accordance with paragraph 2.1 of the Code, the board of directors must be composed in a manner compliant with the principles of gender diversity as well as of diversity in general.

As of 22 November 2017 the board of directors of *SIPEF* is composed of six men and three women with varying yet complementary knowledge bases and fields of experience, as a result of which the composition of the board of directors will from then on meet the requirements set by the current regulations.

3.10 Report on internal controls and risk management systems

The board of directors of *SIPEF* is responsible for assessing the company's inherent risks and the effectiveness of its internal controls.

SIPEF's internal control system was set up in accordance with the accepted principles relating to internal controls (relevant statutory regulations, Code 2009 and COSO).

The basis of the internal controls and risk management system is established by means of a risk assessment that has been carried out at a group level. Particular attention is paid to the reliability of financial reporting and the communications process.

3.10.1 Control environment

SIPEF implements a Corporate Governance Charter, which aims to promote the observance of accepted ethical standards by directors, management and staff in carrying out their duties.

The board of directors at *SIPEF* supports the application of clear rules on sustainability, which are applied in terms of the policy governing our day-to-day operations and which are also more stringent than the statutory requirements in the countries in which we operate.

Our operations are assessed in accordance with commonly applied standards, such as ISO 9001, ISO 14001, the Roundtable on Sustainable Palm Oil (RSPO), Indonesian Sustainable Palm Oil (ISPO), the International Sustainability and Carbon Certification (ISCC), the Clean Development Mechanism (CDM) of the United Nations, Rainforest Alliance and GLOBALG.A.P..

In general terms, the company structure, company philosophy and management style may be described as being clear, which is supported by the limited number of decision-making processes within its hierarchy. This limited number of decision-making processes, together with the limited degree of staff rotation, also enhances the social controls within the company.

The group is subdivided into a number of departments as set out in an organisational chart. Each department and each person within the relevant department has his/her own job description. The required qualifications and/or level of experience are specified for each position and job.

There is a clearly defined policy of delegated powers.

3.10.2 Risk assessment and controlling activities

Strategic, operational, financial, tax-related and legal objectives are defined in a strategic plan, which is approved annually by the board of directors. The risks that may jeopardise the ability to meet these objectives have been identified and designated according to their potential importance, the probability with which the risk might occur and the measures that have been taken to deal with the risk according to its importance. Risk management is divided into various categories (reduction, transfer, prevention or acceptance).

The necessary instructions and/or procedures have been issued to ensure that the identified risks are managed appropriately.

3.10.3 Information and communication

A complete set of operational and (internal and external) financial reports has been set up to provide the necessary information periodically (daily, weekly, monthly, six-monthly or annually) and at the appropriate levels in order to ensure that assigned responsibilities are performed properly.

3.10.4 Control

It is the responsibility of each employee to report any potential shortcomings in the internal controls in relation to their respective responsibilities.

In addition, the internal audit departments (in Indonesia and in Papua New Guinea at *Hargy Oil Palms Ltd*) and the subcontracted internal audit (for our insurance business) are

responsible for continuous supervision of the effectiveness and observance of the existing internal controls for their respective activities. They propose any necessary adjustments based upon their findings. The reports from these internal audit departments are discussed on a quarterly basis in a local audit committee. A summary of the most important findings is submitted annually to the group's audit committee.

For small subsidiaries, for which no separate internal audit position has been created, supervision of the internal inspection is fulfilled by the responsible member of the management together with the managing director and chief financial officer of the group.

In addition, each subsidiary of the group is (as a minimum requirement) subjected annually to scrutiny of its financial statements by an external auditor. Any comments relating to this external audit are passed on to the management in the form of a 'management letter'. No significant shortcomings in internal controls have been found in the past.

3.10.5 Internal controls and risk management system associated with financial reporting

The process for drawing up financial reports is organised as follows:

- The process is directed by the 'corporate finance' department, which falls under the direct supervision of the group's CFO;

- Depending on the (internal and external) deadlines to be met, a retrospective schedule is drawn up, which is submitted to each reporting entity and to the external auditor at the start of the year. The external deadlines are also published on the company website;
- The following reporting entities can be identified:
  a. the entire group of companies in Indonesia, including *PT Timbang Deli*
  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. *BDM NV / ASCO NV* in Belgium
  g. *Verdant Bioscience Singapore Pte Ltd* in Singapore
- There is a certified accountant at the head of the financial department of each entity;
- The start of the annual reporting cycle consists of drawing up a budget for the following year. This is completed during the months of September to November and is submitted for approval to the board of directors by the end of November / the start of December. The strategic options that are included in this budget also fit into the long-term strategic plan that is updated and approved annually by the board of directors;
- The necessary sensitivity analyses are drawn up for both the strategic plan and the annual budget, to be able to assess the correct risk profile for the decisions that need to be taken;
- During the first week of each new month the production figures and net financial position of the previous month are received and consolidated by the corporate finance department and are submitted to the managing director and the executive committee;
- During this first week the intergroup transactions are also reconciled before proceeding to close the accounts;
- The monthly financial reporting consists of an analysis of the volumes (starting stock, production, sales and finishing stock), the operating result, a summary of the other items in the profit-and-loss account (financial result and taxes), a balance sheet and cash-flow analysis;
- The accounting standards that are applied for monthly reporting are exactly the same as those that are used for the statutory consolidation under the IFRS standards;
- The monthly figures are compared with the budget and with the same period for the previous year for each reporting entity in which any significant variations are investigated;
- These (summary) operating and financial figures are converted on a monthly basis by the 'corporate finance' department into the operating currency (usually USD), consolidated into the reporting currency (USD) and then once again compared in terms of their consistency with the budget or the previous period;
- The consolidated monthly report is submitted to the managing director and the executive committee;
- The board of directors receives this report periodically (months 3, 6, 9 and 12) in preparation for the board of directors meetings. This report involves a memorandum containing a detailed description of the operational and financial trends over the past quarter;
- The board of directors is also notified in the intervening period in case of any exceptional events;
- The individual financial statements (only in December for smaller entities), as well as the technical consolidation for June and December undergo an external audit before the consolidated IFRS figures are submitted to the audit committee;
- Based upon the advice of the audit committee, the board of directors states its opinion in relation to approving the consolidated figures before publishing the financial statements in the market;
- Twice a year, after the first quarter and after the third quarter, an interim report is published on the evolution of the produced volumes, the world market prices and possible changes in the prospects;
- It is the 'corporate finance' department that is responsible for monitoring any changes in (IFRS) reporting standards and for implementing these changes within the group;
- The monthly management report and the statutory consolidation are maintained in an integrated system. Appropriate care is taken to provide antivirus security software, continuous backups and measures to ensure continuity of service.

4. NON-FINANCIAL INFORMATION

4.1 General

SIPEF is a plantation company, which was established in 1919. The adoption and constant improvement of practices with long-term positive impacts has been the core of our identity for close to one hundred years.

Plantations form an integral part of the natural and social environments in which they operate. Their establishment and operations have social and environmental impacts, both positive and negative. Not all of these impacts are predictable.

- One significantly negative, and very visible, potential impact of establishing plantations can be deforestation which is the permanent loss of ecological values and services by the conversion of forests and forested areas.
- Another, less visible, but also significant negative impact of operating plantations can be the emission of methane by Palm Oil Mill Effluent (POME).
- A significant positive impact of plantation development can be the very large social and economic contribution to the development of rural communities and poverty alleviation.

We believe that through cooperation with our customers, social and environmental NGOs, producers, researchers and other public or private willing stakeholders, we can jointly develop and promote the adoption of responsible and sustainable standards and practices for our industry.

SIPEF is committed to establishing and managing plantations responsibly.

All commodities offered by *SIPEF* are traceable to their place of production.

4.2 Certifications

To accompany and support its growth, *SIPEF* continues to fulfil its sustainable development obligations based on responsible practices and complete traceability, and implemented following recognised standards: ISO 9001 and ISO 14001, the Roundtable on Sustainable Palm Oil (RSPO), International

Sustainability and Carbon Certification (ISCC), the Indonesian Sustainable Palm Oil standard (ISPO), GLOBALG.A.P., Rainforest Alliance and the United Nations Clean Development Mechanism (CDM).

In the oil palm sector, the RSPO is the most relevant example of stakeholders gathering to establish a global, demanding standard. For our other crops, the Sustainable Agriculture Standard (SAS) from the Sustainable Agriculture Network (SAN) is our reference. Compliance with the SAS is demonstrated by obtaining Rainforest Alliance certification.

SIPEF has developed its own Responsible Plantations Policy which highlights in particular the company's policies to mitigate environmental and social impacts on new development and on operating the existing estates and mills, and is updated and approved annually by the board of directors. This policy is based upon the RSPO principles and criteria, but, especially for new development areas, goes beyond the currently applicable RSPO rules, with the clear objective to motivate all stakeholders in the sector towards continuous improvement.

Since palm products currently represent 90% of *SIPEF*'s volumes produced/turnover/gross margin we mainly focus on the RSPO certification

4.3 RSPO

4.3.1 Objective

SIPEF is fully committed to the RSPO, and to the implementation of its principles and criteria. This demanding, global and multi-stakeholder standard is the way forward for the palm oil sector.

SIPEF's policies and management are aligned with the RSPO principles and criteria with the objective of 100% of the palm products produced by the Group being RSPO certified. 100% RSPO certification for established mills and its supply base is the main key performance indicator (KPI) for the Group regarding non-financial indicators.

4.3.2 Outcomes

In 2015 we certified our two new palm oil mills with their supply bases to continue our journey of being 100% RSPO certified, both in Indonesia and in Papua New Guinea. This is particularly significant for *Hargy Oil Palms Ltd* in Papua New Guinea, where about half of the bunches received by our three mills is produced by 3 700 certified surrounding smallholders. They received their certification in 2009, and remain fully committed. *SIPEF* thus keeps its commitment to certify all its oil mills according to the RSPO standard. *SIPEF* continues to actively participate in the functioning of the RSPO by holding a seat on the 'Board of Governors' as an alternate on behalf of the 'Rest of the World' growers, representing Papua New Guinea and the Solomon Islands. We are also participating in the Trade and Traceability Standing Committee (SC-T&T), the Biodiversity and High Conservation Values (BHCV) Working Group, the principles and criteria Revision Task Force, and the forums of producer members of the RSPO in Papua New Guinea and Indonesia.

99% palm products produced by the *SIPEF* group in 2017 were sold in certified RSPO or ISCC traceable physical supply chains.

4.3.3 Principles and criteria

The RSPO certification for sustainable palm oil production is built around eight principles:

1. Commitment to transparency
2. Compliance with applicable laws and regulations
3. Commitment to long-term economic and financial viability
4. Use of appropriate best practices by growers and millers
5. Environmental responsibility and conservation of natural resources and biodiversity
6. Responsible consideration of employees, and of individuals and communities affected by growers and mills
7. Responsible development of new plantings
8. Commitment to continuous improvement in key areas of activity

Each of these principles is cascaded into a number of more detailed criteria and they help us in mitigating the main risks concerning environmental, social/employee, human rights and anti-bribery/anti-corruption topics such as:

- Peatland and deforestation (included in the *SIPEF* Responsible Plantations Policy)
- Soil erosion
- Soil depletion
- Water level and/or contamination
- Pest and diseases
- Greenhouse gas (GHG) emission
- Conservation of natural resources and biodiversity in high conservation value habitats
- Fire control
- Compliance to applicable laws
- Land ownership
- Health and safety of our workers
- Relations with employees and surrounding communities
- Human rights, including child labour, discrimination, forced or trafficked labour, freedom of association
- Bribery and corruption

More information regarding the RSPO and the RSPO certification can be found on the RSPO website (https://rspo.org). The current RSPO principles and criteria will be completely reviewed again and subsequently submitted for ratification by the general assembly of the RSPO by November 2018.

A detail of approval dates, expiry dates, hectares certified, volumes certified etc. for every processing facility is available on the RSPO website.

4.3.4 Other

SIPEF is furthermore involved in numerous social and sustainability projects. Details can be found in the sustainability section of this report (page 99) or in the recently updated sustainability report being published on the *SIPEF* website in February 2018 (http://www.sipef.com/sustainability.html).

5. DIVERSITY

SIPEF is committed to the proper application of the corporate governance stipulations. The diversity of the board of directors, the executive committee and executive management contributes to good governance, which is why *SIPEF* aspires to apply the diversity principle to its bodies with governance responsibilities. So *SIPEF* applies diversity criteria in the selection of new directors and members of the executive committee; discrimination, for any reason, is not tolerated. Furthermore, the board of directors sees to it that there is a sufficient number of independent directors with the appropriate qualifications who can give their input to ensure the interests of all shareholders are given due consideration. *SIPEF* fulfils the quota of one third gender diversity as provided for by the law of 28 July 2011, the aim of which is to ensure that both genders have a seat on the board of directors of listed companies.

Activity report by product

Palm oil

In 2017 the palm oil market started with low stocks following the poor production year of 2016, impacted by the El Niño weather phenomenon. Palm prices were high in January and the market showed an inverse; however, the perception of good soybean crops in the Americas; a lacklustre buying attitude by consumers; and the expectation that the palm oil production would be growing fiercely during the second semester, triggered a sell-off that lasted till the middle of the third quarter. Strangely enough, this happened during the tightest stock situation that we have seen for years.

The lower palm prices during the summer months attracted good demand, as depleted stocks needed to be replenished throughout the supply chains globally. Palm oil was competitively priced against liquid oils and there were some signs that production was not as good as expected. The production in Malaysia was dropping in August and September, which in hindsight was the anomaly. The petroleum market rallied nearly 50% in the second semester of 2017, which certainly triggered better biodiesel margins, and biodiesel blending mandates were easier to fulfil.

However, palm oil production increased fiercely but unexpectedly during the last quarter, and stocks grew rapidly. Despite its price competitiveness palm oil prices dropped, but the strong petroleum market provided a solid floor to protect the market from falling further.

The average price for Crude Palm Oil (CPO) CIF Rotterdam in 2017 was USD 685 per tonne against an average of USD 680 per tonne in 2016, an increase of almost 1%.

Both Indonesia and Malaysia have shown their willingness to increase domestic biodiesel consumption. Indonesia's impact, in particular, could be substantial by collecting an export levy of USD 50 per tonne of CPO to subsidise the biodiesel blenders. In 2017 the volumes were rather similar to 2016, roughly 3 million tonnes, since there was a hiccup in collection of the levy by Pertamina (National energy company) during the second quarter. However, Indonesia's ambitions to blend in 20% could become more fruitful in 2018 with the stronger petroleum prices.

In 2017, *SIPEF* sold about 99% of its palm oil, palm kernel oil and kernels in certified physical supply chains of the Roundtable on Sustainable Palm Oil (RSPO) and International Sustainability and Carbon Certification (ISCC). This is an achievement we are proud of and it has reinforced our relationships with our long-standing customers. *SIPEF* is striving to achieve 100% uptake in certified physical supply chains for all of its products.

Unfortunately, during 2017 we saw some bigger consumer brands, stepping away from physical RSPO certified palm oil and palm kernel oil. We do not believe that is the right direction and we call for commensurate effort from the consuming industry.

Palm kernel oil

The market for lauric oil, the generic term for Palm Kernel Oil (PKO) and coconut oil, traded at a steep premium over palm oil in 2017. The production of both PKO and coconut oil increased in 2017, but the underlying tight stock situation in combination with good demand, provided a lot of support on prices. The relative bigger increase in PKO created a disparity during the summer months when coconut oil was a USD 500 premium over PKO, which on its own was a USD 350 premium over palm oil. In conjunction with the stronger palm oil and petroleum market, the PKO market also rallied during the second semester, but the coconut oil premium reduced to a more normal proportion of USD 150 per tonne. The price spread between the peak of USD 1 650 per tonne and the lowest point of USD 930 per tonne for PKO was massive in 2017, showing its volatility. The average price of PKO CIF Rotterdam in 2017 was USD 1 218 per tonne against an average in 2016 of USD 1 225. The price of PKO was on average at a USD 533 premium over palm oil.

Rubber

The natural rubber market finally turned around in 2016, ending a four-year drop in prices. In 2017 we started the year with a continued rally on the back of floods in Thailand and Vietnam. The market rallied to almost USD 3 000 per tonne for SICOM RSS3 (Singapore Commodity Exchange, Ribbed Smoked Sheets) in February 2017. This was predominantly a speculator-driven rally as the physical buying interest was lagging behind. From the peak In February, the market dropped rapidly once the floods were over, and production came back due to a very mild wintering. Stocks were high and consumers well covered, and on top of that the Thai Government released a significant part of its stocks.

The market remained range-bound for most of the year, except for a short-lived rally instigated by Chinese speculators and supported by stronger petroleum prices during the third quarter. There were several signs that showed that this market could create upward support from the speculators; however, the high stocks and the well covered consumer kept a lid on the prices. The market traded in a narrow range for the remainder of the year.

The natural rubber market closed the year of 2017 at USD 1 681 per tonne of RSS3 on the SICOM future exchange, a 27% drop from USD 2 310 at the beginning of the year. However, the average price for Natural Rubber RSS3 was USD 2 000 per tonne in 2017 against USD 1 590 in 2016, an increase of more than 25%.

According to the International Rubber Study Group (IRSG), the global demand for natural rubber grew by 3.5% in 2017, compared to an increase of 3.7% in 2016. The IRSG is forecasting a demand growth of 2.4% and 2.7% for 2018 and 2019 respectively under normal economic circumstances, based on International Monetary Fund (IMF) figures. Following a small growth of 1.5% in 2016, the supply of natural rubber grew by 6.1% in 2017, despite the bad weather in the first quarter of 2017. The newly planted areas of the mid-2000s are coming into maturity going forward, particularly the new areas in Vietnam and Ivory Coast, which are coming up strongly. The IRSG expects a supply growth of 1.9% for 2018 and 2.4% for 2019 under normal circumstances. Based on these rough indications, which seem to be very conservative, we can argue that the supply and demand situation is almost in balance.

Tea

The best reference for our *Cibuni* teas is the tea market in Kenya, which is the biggest exporter of black Cut, Tear & Curl (CTC) tea. Tea prices in the Mombasa auction moved in a narrow range during 2017. The year started on a bullish note as a result of the early set-in of dry weather at the end of 2016, which resulted in a sharp drop in production during the first quarter of 2017. This resulted in higher prices in the first quarter; however, as the shortfall in production could not be made up, it formed a solid price base for the remainder of the year. The elections in Kenya in August had a clear impact on the tea prices as major packers stocked up to counter possible supply disruptions, keeping prices firm. After the elections prices softened, but when the outcome of the elections was annulled, prices moved up again and came close to the peak seen during the first quarter. Only during the fourth quarter did we see a setback in prices on the back of improved production.

Bananas

In 2017 we recorded a 19% rise in our banana volumes, exclusively produced by our *Plantations J. Eglin SA* subsidiary and marketed by our fruit department. The annual tonnage of 29 771 tonnes mainly comprises sales to the European market (25 054 tonnes), which grew most sharply (+24%) compared with sales in Senegal and Mauritania, whose market share (4 717 tonnes) was identical to what it was the year before.

However, over the same year we saw a general erosion of banana prices on the European market, in spite of continued dynamic consumption. Europe now consumes some 6.4 million tonnes of bananas, almost a million tonnes more than five years ago. Between 2012 and 2017 consumption was boosted primarily by Eastern Europeans, who are gradually rising to the same annual level of consumption as seen in established Western European countries. Even the periods of scorching heat experienced during the summer did not disrupt general consumption, which is good news. The trend is almost identical on the American market, where annual consumption has increased from 3.9 to 4.2 million tonnes over the same five-year period. The Russian market accounts for 1.5 million tonnes, with another rise in annual consumption recorded.

A virtually permanent oversupply on the European market is the primary cause of falling prices. The three main exporting producers in Latin America – Ecuador, Colombia and Costa Rica – continued to grow their market share and become more competitive, as a result of the exchange rate effect and the permanent lobbying of governments in the dollar zone. Europe currently sources 69.6% from Latin America, 19.1% from ACP (African, Caribbean and Pacific) countries and 11.3% from the European Union (EU). Contrary to past years, the weather in the foremost banana production areas: Latin America, Caribbean, Philippines, Africa, was generally favourable. The main weather-related damage was caused by Hurricane Maria, which totally wiped out Guadeloupe's production and part of Martinique's production. In spite of that and bearing in mind volumes from all sources, market share lost in one sourcing zone was very quickly compensated by gains in other sourcing zones.

The constant fall in third party customs duties (except ACP and EU) on banana imports to Europe continued. At the beginning of 2017 Ecuador made up the gap on the import tax rate of other dollar zone countries and now pays EUR 97 per tonne, one euro per tonne more than such countries as Colombia, Costa Rica, Honduras and Guatemala. As planned since 2006 and in accordance with the relevant agreements, these custom duties will continue to fall to EUR 75 per tonne by 2020.

Brexit negotiations continue and, while no impact has yet been felt, we will follow developments on the British market in the months and years to come.

The competitiveness of the origins and brands was confirmed, due to product quality and the regularity of the weather and logistics, while the social and environmental standards set for international trade were also maintained.

Our business in Europe is primarily concentrated in three countries: the United Kingdom, France and Spain. Our annual sales contract strategy remains relevant and this method appears to be becoming widespread elsewhere: in times of crisis, markets contracted on an annual basis are the most able to withstand a fall and we work with regular customers that mostly honour their commitments.

The quality standards are more stringent, with more complex specifications, but as a rule they can still be met by producers, and we work in association with the production teams and our customers to optimise our product. We also work on the segmentation of our business by introducing new packaging types, like returnable plastic casing, along with other pre-packaged products we already use. These niche markets enable us to achieve an even better capital gain when selling our fruit.

The regional West African trade in Mauritania and Senegal remains stable in spite of increasing fruit and vegetable volumes distributed and consumed. We are currently witnessing a general increase in imports and exports in West Africa and the population of the capital cities is adapting very well to recent and constant investment by major retailers: new retailers are growing their market share and consumer habits similar to those in Europe, such as shopping centres, are emerging in most of the region's capitals.

Horticulture

The volume of our horticultural productions, which is entirely exported by air from Abidjan, was 620 000 pineapple flowers (+9% compared with 2016), 1 290 000 ornamental plants (-13%) and 235 000 lotus flowers (+20%). All of our production is sold in Northern Europe to Belgian and Dutch customers, which distribute the flowers and plants in Europe. Special orders are received for some specific periods: Valentine's Day, Mother's Day and Christmas and New Year. The summer, which coincides with the rainy season in Ivory Coast, is the least busy time of year when the volumes produced and sold are lower.

In order to being able to promote and distribute more ornamental plants among specialised florists in Europe, GLOBALG.A.P. certification has now been confirmed for all our products.

The development of new varieties of foliage continues and volumes of *Dracaena Cappucino* and *Snow Queen* increase in step with market demand.

Activity report by country

Indonesia

General

Sustained by a diverse landscape, Indonesia's agriculture sector has long been an important source of income for local households, and has also contributed much-needed export revenue. The sector has historically served as a pillar of the Indonesian economy, but has yet to achieve its full potential, though significant progress has been made in recent years under the business-orientated administration of President Joko Widodo. 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. Despite major gains, crop yields are being restricted by a host of challenges, including limited access to capital for farmers and outdated infrastructure. In order to address these issues, the administration of President Widodo has successfully increased the use of mechanised agricultural technology, invested in infrastructure and expanded the total area of farming land.

While the implementation of dynamic reforms has triggered an increase in farming output, progress in the sector continues to be hindered by an underdeveloped downstream segment, as well as the inability of smallholder farmers to capture growing international demand. In terms of structure, Indonesia's agricultural sector consists of two types of production: large-scale plantations under the guidance of the government or private investors, and smallholders using traditional farming methods. The latter tend to focus on agricultural commodities, while large plantations dominate leading exports such as palm oil, although a recent shift has seen smallholders increasingly account for a dominant share in other exports such as rubber.

In terms of palm oil, according to the Indonesian Palm Oil Association (GAPKI) and the Ministry of Agriculture, 31.1 million tonnes of crude palm oil were produced in 2015, of which 26.4 million tonnes were exported, contributing up to USD 15.4 billion in export revenue. Around 70% of plantations are located on the island of Sumatra, while the remaining 30% are situated in Kalimantan on the island of Borneo. In total, the segment accounts for 11.3 million hectares, and is expected to reach 13 million hectares by 2020, according to GAPKI. In terms of market share, private plantations are dominant with 58.5% of production, followed by neighbouring farmers which produce a combined 33.9% and state-owned plantations with 7.6%, according to figures from investment research firm, Indonesia Investments.

Domestic consumption of palm oil received a boost when the government imposed a minimum 20% biodiesel blending (B20) policy on non-subsidised diesel fuel, while power plants were obliged to blend at least 30% biodiesel (B30). The government-backed Indonesian Oil Palm Estate Fund (BPDP-KS) allocated IDR 10.6 trillion (USD 799 million) in 2016 and IDR 9.6 trillion (USD 723.6 million) in 2017 to support the B20 and B30 initiatives.

Speaking to local media in early 2017 about the biodiesel schemes, Airlangga Hartarto, the Minister of Industry, said, "In our mid-term plan we want to prioritise efforts to boost investment in the palm oil processing industry to anticipate

Skilled workers take care of the grafting of young rubber plants in the Melania plantation in Indonesia

the growing domestic production that will need 40 million tonnes of Crude Palm Oil by 2020. In the upstream sector we also expect to boost the replanting programme to increase [the] productivity of all local producers."

Regarding the availability of workers for our labour-intensive agricultural operations, there are some positive indications, namely that the Government's objective to achieve higher sustainable and inclusive growth will help create jobs for the young and growing population. Indonesia's working age population is growing rapidly, estimated at 1.6% or 2.5 million people per year.

2017 was a solid year for the Indonesian economy. The macroeconomic fundamentals of the nation have strengthened, due to the hard work of the Indonesian Government under the leadership of President Widodo. However, there is no room for complacency as there remain major bottlenecks, while legislative and presidential elections, in which voters can approve or disapprove Widodo's performance, are scheduled for 2019. If the Indonesian Government manages to continue and possibly improve its performance, then chances are big that Joko Widodo, who is already leading in the reliable opinion polls, will be allowed a second (and final) five-year term in the presidential seat.

The President's approval rating stood at 56.4% in December, nearly level with his highest result in September 2017 and more than double the level at the start of his presidential term. Jokowi's popularity has been growing steadily, suggesting he has won hearts and minds despite the lingering challenges facing the economy and the rise of identity politics in Indonesia.

Political tensions are expected to escalate again this year as Indonesia holds regional elections on June 27 in 171 provinces, districts and mayoralties. The regional elections matter for Jokowi's ruling coalition because they set the stage for the presidential and legislative elections in April

2019. Chief among their concerns is the vote for the next governor of West Java, a province with the largest population and economy in Indonesia. It is also among the few where Jokowi's opponent in the 2014 presidential election, Prabowo Subianto, won more votes than he did. Despite the increasing prominence of religious sentiment in Indonesian politics, about 90% of respondents to a recent Nikkei Asia survey believe 'Pancasila', the country's pluralistic, foundational ideology, is consistent with Islamic values. The ideology guarantees religious freedom and has 'Unity in Diversity' as its motto. This finding negates fears that rising political Islam could gradually lead to Indonesia becoming an Islamic republic.

Economic growth has stabilised at near 5%; inflation has moderated; the current budget deficit is manageable; and systemic risks are contained. Indonesia is in a good position to address its socio-economic challenges. In terms of outlook for 2018, growth was projected at 5.1% in 2017 and 5.6% over the medium term, led by robust domestic demand. Inflation is expected to remain within the target band due to stable administered prices and well-anchored inflation expectations.

The current account deficit is expected to remain contained due to robust exports. Risks, however, remain tilted to the downside and are mainly external, including a reversal in capital inflows, triggered by global financial volatility or uncertainty around US monetary and fiscal policies; lower growth in China; and geopolitical tensions. The impact of these shocks could be amplified by the fiscal and corporate sectors' heavy reliance on non-resident financing (61% and 33% of total debt, respectively). On the upside, global growth and commodity prices could be stronger than expected. Domestic risks include tax revenue shortfalls; larger fiscal financing needs due to higher interest rates; political uncertainty in the run-up to the 2019 presidential elections; and natural disasters.

While the Indonesian rupiah remained stable against the US dollar in the first nine months of 2017, there was significant weakening of the Indonesian rupiah, in line with the overall performance of emerging market currencies, from mid-September 2017. However, the rupiah has been among the most-affected Asian emerging market currencies since mid-September, together with the Philippine peso and Hong Kong dollar. This is related to the net capital outflow that has occurred so far this year.

Indonesia and its currency enter 2018 in a strange place. The Indonesian economy will need to spend a lot of the coming 12 months in a transitional mindset; government spending and exports have been the main drivers of expansion, and consumption by both businesses and private individuals needs to be there to pick up the slack.

The crucial constituent of the macroeconomic picture remains mineral oil prices. Given the recent OPEC decision that will see production cuts remain for at least the next nine months, should the price of crude rise to more than the USD 70/75 a barrel, then the central bank will be concerned over whether local inflation busts through the upper end of its inflation targets. In 2018 the Indonesian rupiah is likely to remain under pressure too, as the US Federal Reserve Board of Governors is expected to implement two more rate hikes.

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Activity report by country

North Sumatra

The rainfall for the year, averaged across all of the North Sumatra estates in 2017, was generally higher than that experienced in 2016 (2 480 mm versus 2 103 mm), and that of the long term average for the region of 2 290 mm. Oil palms grow best with a minimum of 2 000 mm rainfall evenly spread throughout the year, and for 2017 the monthly rainfall was generally well distributed during the year. Whilst estates had the occasional month with rainfall below 100 mm, there were no drought conditions which could cause soil moisture deficits and impact crop production. We did, however, see a spike in rainfall during the fourth quarter, which caused localised flooding in our young peat estates at the *PT Umbul Mas Wisesa (UMW)* and *PT Toton Usaha Mandiri (TUM)* estates and had a negative effect on harvesting, crop quality, access road conditions and crop recovery. However, due to diligent work on the drain desilting programs, these conditions were temporary and were soon overcome. The local government also continued work during 2017 on raising the main access road between the *UMW/TUM* group of estates and Perlabian estate, meaning that the transport of palm products could continue uninterrupted throughout the year.

The supportive weather pattern during the year; combined with full and timely applications of fertiliser; achieving the required numbers of harvesting rounds; good fruit set on the palms and impressive early yields from the young mature palms, all combined to drive production in 2017.

Part of improving the productivity and profitability of an estate is to ensure the replanting of palms when they become too tall to effectively harvest, or the stand per hectare reduces to the point where yields fall below 18 tonnes Fresh Fruit Bunches (FFB) per hectare. In the North Sumatra estates, a replanting program of 399 hectares was completed during 2017, consisting of 153 hectares at Perlabian and 246 hectares at Bukit Maradja. This was in line with our business plans and higher than the 2016 program of 328 hectares.

Estate	Hectares mature	Production 2017 tonnes FFB	Production 2016 tonnes FFB	Yield 2017 tonnes FFB/hectare
Perlabian	3 718	99 439	90 362	26.74
Tolan	3 614	100 368	89 091	27.77
Total	**7 332**	**199 807**	**179 453**	**27.25**

Perlabian and *Tolan* estates are both long-term, well-established and productive estates within the group located in the central part of North Sumatra. In 2017, the estates comprised 7 967 hectares, of which 7 332 hectares were mature and 635 hectares immature. Crop production for these estates surpassed management expectations by 6% and *Tolan* estate surpassed the psychological barrier of 100 000 tonnes FFB for the year. Despite the impacts of the ongoing replant program at Perlabian estate, the estates finished the year at a creditable 27.25 tonnes FFB per hectare, an increase from 24.82 tonnes FFB per hectare in 2016. A remarkable development at Perlabian estate during the year was the construction of the golf course, which was formally inaugurated by the managing director during his December visit. This is an extremely picturesque course, making use of variations in the natural terrain and meandering through and around the general manager's office (GMO) housing complex.

Estate	Hectares mature	Production 2017 tonnes FFB	Production 2016 tonnes FFB	Yield 2017 tonnes FFB/hectare
Bukit Maradja	2 487	59 740	55 148	24.02
Kerasaan	2 077	50 025	42 086	24.08
Total	**4 564**	**109 765**	**97 234**	**24.05**

Bukit Maradja and Kerasaan are also long-term members of the group located in the northern part of North Sumatra. In 2017, these estates comprised 5 088 hectares, of which 4 564 hectares were mature and 524 hectares immature. In terms of crop production and despite the effects of the replanting program at Bukit Maradja, these estates finished the year with an average yield of 24.05 tonnes FFB per hectare, an increase from 22.59 tonnes FFB per hectare. These two estates are being negatively impacted by some pest and disease issues, namely a limited area of approximately 300 hectares on Kerasaan estate which is affected by endemic leaf eating caterpillars, as well as both estates being affected by basal stem rot, a fatal disease caused by the Ganoderma fungus. For both of these challenges, we are maintaining close coordination with our research partners, *Verdant Bioscience Pte Ltd* (*VBS*). In terms of the leaf eating caterpillars, we are working to introduce and promote accurate pest census work and timely responses of treatment in accordance with the life cycle growth stage of the pest. There is also work being done to harness nature to help us in an Integrated Pest Management system by boosting the populations of beneficial insects, which in turn prey on the pests. Concerning the basal stem rot caused by Ganoderma, considerable research resources are being targeted to investigate and find solutions to mitigate this significant threat. The current directions of research are based on land preparation techniques at replanting; the use of a fallow period of one year at replanting to help reduce the fungal burden in the soil; and the use of disease tolerant planting materials. Preliminary results from our plantings since 2010 are showing a much-reduced incidence and spread of basal stem rot and, whilst it is very much early days, these initial results are giving us cause for optimism.

Estate	Hectares mature	Production 2017 tonnes FFB	Production 2016 tonnes FFB	Yield 2017 tonnes FFB/hectare
UMW North	2 603	55 565	51 807	21.35
UMW South	4 446	88 257	80 063	19.85
TUM	1 135	24 484	23 533	21.57
Total	**8 184**	**168 306**	**155 403**	**20.57**

Our area of most recent expansion for North Sumatra is the *UMW/TUM* group of estates located in the central part of North Sumatra adjacent to the island's eastern coast, consisting of *PT Umbul Mas Wisesa (UMW)* and *PT Toton Usaha Mandiri (TUM)*. These estates were planted between 2005 and 2011, and in 2017, they comprised 8 184 hectares, all mature. In terms of crop production for the year, the estates finished the year at an average unit yield of 20.57 tonnes FFB per hectare, which was a solid improvement on the 2016 performance of 18.99 tonnes FFB per hectare. These estates planted on organic soils have presented numerous management challenges, but with an ongoing focus on water management; harvesting standards; timely fertiliser applications; the use of the soil conditioner, Rhizoplex, to improve root health; as well as close monitoring and control of the occasional pest outbreak, we have seen the progressive improvement in yield and profitability of the *UMW/TUM* group.

The single most important and expensive input in terms of managing the estates is that of fertiliser and, for the North Sumatra estates overall, a total of 21 868 tonnes of fertiliser was applied for 2017, compared to 21 448 tonnes in 2016. During the year, we saw prices for the three main nutrients of nitrogen, phosphorus and potassium remain below budgeted levels and, with additional support from a slightly weaker Indonesian Rupiah we saw Companywide savings of USD 2.2 million against management calculations for our total fertiliser bill. The estate teams have continued to give the job of fertiliser application considerable focus during the year. Where terrain, palm height and stand per hectare allow (more than 100 palms per hectare), fertiliser is applied mechanically utilising tractor mounted fertiliser spreaders, which provide an even, widespread cover of nutrients for the palms to access. In other areas, manual application is carried out with individual doses of each nutrient pre-packed for distribution in the field, and our workers use measuring cups to broadcast the fertiliser around the palm circles. The inorganic fertilisers are also supplemented by palm oil mill by-products, mainly Empty Fruit Bunches (EFB), which are applied back to the field as mulch. For the first time in the estates with organic soils, a mechanical fertiliser spreader called the 'Super Bull' was purchased and utilised for an even application of fertiliser in the fields. The estates plan to expand the usage of this machine to approximately 60% of the total area in the future, hence minimising the requirement for manual application and a significant reduction in worker numbers.

Close co-ordination between the estates and the central purchasing team has meant that fertiliser deliveries were made to the estates in a timely way, and supported by adequate storage facilities on the estates. This resulted in a planned and organised approach to efficiently manage the applications of fertiliser in the field.

Plantation agriculture continues to be heavily reliant on human resources and we remain acutely aware of the corporate social responsibility towards the 32 846 people (workers and their families) that we have registered for the BPJS (Indonesian welfare) scheme Companywide as at the end of December 2017. The labour situation remained stable in the North Sumatra region with minimal industrial relation problems faced by the estates. In 2017, the minimum wage determined by the provincial government increased by 8% and the total estate and mill workforce numbered 5 466 at year-end compared to 6 213 in December 2016, with the main reason for the decrease being the handover of the management of our *Timbang Deli* rubber estate to our research partners, *VBS*. A significant milestone in the way workers' salaries are paid was achieved this year by ensuring that all wages are directly transferred to individual workers' bank accounts, hence eradicating the practice of cash payments. This method has been well received by the workforce, and minimises the security and integrity risks associated with handling large amounts of cash. 2017 also saw the successful implementation and roll-out of the Lintramax Contract Worker (CW) module, which has enabled the Company to more efficiently manage the recording, use and payment of temporary workers in all our oil palm, rubber and tea estates. With the CW module, payments are also made directly to individuals' bank accounts and the discipline of the system ensures that the Company remains fully compliant with regulations regarding the number of days a temporary worker can be employed on a monthly basis.

In terms of engineering, the three palm oil mills had the following performances in 2017:

Mill	Throughput (tonnes FFB/hour)		Tonnes FFB processed		Oil Extraction Rate (OER %)		Kernel Extraction Rate (KER %)	
	Capacity	Actual	2017	2016	2017	2016	2017	2016
BMPOM	30	30	109 751	97 202	23.29	23.62	5.53	5.60
PLPOM	55	45	202 913	184 057	22.07	21.72	5.54	5.70
UMWPOM	40	40	165 200	150 799	23.47	24.27	3.82	3.94

Handover ceremony of the Dendymarker palm oil mill by the Lippo Management to *SIPEF* in August 2017.

Bukit Maradja palm oil mill:

This mill receives the fruit from Bukit Maradja and Kerasaan estates, and in 2017 we saw a 13% increase in FFB received compared to 2016, but an overall drop in Oil Extraction Rate (OER) of 0.33% and a drop in Kernel Extraction Rate (KER) of 0.07%. This was largely caused by the impacts of the wetter year affecting fruit quality. Whilst capital replacement and maintenance programs continued as scheduled during the year, the mill also saw the continuing operation of the aerated bunker composting system, which was commissioned in December 2016. A total of 12 362 tonnes of compost was produced in 2017, covering an application area of 1 249 hectares at an application rate of 10 tonnes of compost per hectare. A key objective of the compost site is to be able to utilise 100% of the Palm Oil Mill Effluent (POME) and at the same time produce finished compost at a consistent nutrient status. The year of 2017 has very much been a year of learning and adjusting the systems and practices at the site, in close coordination with the site's providers, Compost Advice and Analysis, and towards the year-end, utilisation of POME had improved considerably and was approaching 100%. The plan remains to replace the inorganic fertiliser requirements for Bukit Maradja estate and, based on the results of the leaf analysis work carried out by *VBS*, we are expecting to start reducing the inorganic fertiliser requirements in 2019. We expect that an additional benefit of the compost application will be the enrichment of the soil quality and, as a result, we are hopeful of achieving a subsequent yield improvement of up to 2 tonnes FFB per hectare.

Perlabian palm oil mill:

This mill receives the fruit from Perlabian and *Tolan* estates and in 2017, we saw a 10% increase in FFB received compared to 2016, and an overall gain in OER of 0.35%, but a drop in KER of 0.16%. The engineering department worked hard during the year to complete capital works aimed at improving the steam pressure from the ageing boilers and turbines. As this much needed work was completed, we saw OERs improve slightly but we did not see the expected results exceeding 23% and, as such, further investigations were carried out on the fruit from the supply base. As a result of these investigations, it became clear that fruit from the old Marihat 'Dumpy' plantings was only achieving OERs of around 18%, whereas the fruit from the other planting materials was achieving and exceeding OERs of 23%, as expected. As the 'Dumpy' material consisted of approximately 25% of the supply base in 2017, it caused us to reconsider our replanting program and we have now set a target to replace the 'Dumpy' planting material as a priority.

The bioreactor methane capture system has operated well during the year with the methane currently either being used in our boiler or flared, but we are investigating possible opportunities with the local power provider, PLN, to invest in a biogas engine to generate electricity, which can be used internally, with surplus power exported to the local grid.

Umbul Mas Wisesa palm oil mill:

This mill receives the fruit from *UMW South*, *UMW North* and *TUM* estates and in 2017, we saw a 10% increase in FFB received compared to 2016, but an overall drop in OER of 0.80% and a drop in KER of 0.12%. This drop in performance was very much related to the unseasonal spike in rainfall during the fourth quarter, which significantly impacted crop quality. As these palms get taller and move from chisel harvesting to sickle harvesting, the recovery of loose fruit will be increasingly important to maintain OERs.

The bioreactor methane capture plant operated well during the year and, following on from the construction of a series of 14 shallow effluent ponds, the discharge parameters of the waste water have been controlled within the limits set by local laws and regulations. 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. During the year, the Company purchased fruit from the smallholders and then sold it on to a third-party mill. This has meant that all fruit processed by the *UMW* mill is sustainably certified estate fruit and the palm products have been declared as identity preserved, attracting the premiums enjoyed by the other mills in the Group. We continued to work with our smallholder supply base during 2017 with the aim of securing RSPO certification in early 2018, which will then give us the opportunity to add their fruit to the certified estate supply base, as well as providing ongoing support, training and extension services to our surrounding communities.

As part of the search for improved efficiencies, the engineering department continued work in 2017 recording, monitoring and controlling diesel consumption, worker productivity and water consumption. Each mill is now able to set realistic and achievable targets, which will be further refined in 2018.

Activity report by country

At field level, the management teams remained focused on pushing production and controlling costs, which saw the North Sumatra estates achieve overall average field costs of USD 43.19 per tonne FFB which were better than management forecasts, and this compared favourably to the 2016 costs of USD 44.24 per tonne FFB. In a similar pattern to 2016, we saw the impact of increasing wages during 2017 negated by cheaper fertiliser and diesel prices. The effect on the exchange rate was supportive by 3%, with the average exchange rate of IDR 13 400 against 1 dollar for the year. For the North Sumatra mills, average processing costs for 2017 across the three mills were USD 25.11 per tonne palm products (Palm Oil-Palm Kernel or PO-PK), which were also better than management predictions but slightly higher than the 2016 costs of USD 23.74 per tonne PO-PK.

Estate	Hectares mature	Production 2017 tonnes rubber	Production 2016 tonnes rubber	Yield 2017 kg rubber/ hectare
Bandar Pinang	990	1 653	1 644	1 669

We saw a significant change in our rubber operations for North Sumatra during the year, with the handover of the management for *Timbang Deli* estate to *VBS* taking effect in April, 2017. This left the Bandar Pinang estate and rubber factory to the north of North Sumatra and the *MAS* estate and rubber factory located near the city of Palembang in South Sumatra. Bandar Pinang estate comprises 990 hectares mature and 168 hectares immature. Crop production fell short of management expectations by 2% as the impact of rain in the mornings caused lost tapping days and late tapping days during the fourth quarter of the year. We also saw the effect of management induced late opening of newly mature areas due to the low rubber prices. Bandar Pinang estate also continued with the normal replanting program, replacing older plantings based on bark reserves, trees per hectare and latex yields. A total of 30 hectares was completed during the year, with a minimum requirement being 25 hectares to ensure a supply of firewood to the factory for the smoke houses.

The Bandar Pinang rubber factory, which still processes the latex and second grade rubber from both Bandar Pinang and *Timbang Deli* estates, had a solid year in 2017, although placed under pressure by the continuing low commodity prices of rubber and reduced volumes through the factory due to *Timbang Deli* estate's program of converting rubber to oil palm. Against the climate of relatively flat commodity prices, the factory management team made appreciable cost savings against forecasts for the year, finishing 2017 at a cost of USD 155.95 per tonne rubber, which compared with the 2016 processing costs of USD 155.91 per tonne rubber. On the estates, the focus on expenditure control enabled costs of USD 954.61 per tonne rubber to be achieved. These were lower than management calculations, with savings achieved in more efficient upkeep practices, low incidence of pests and diseases, as well as a tightening of control on estate overheads.

South Sumatra

The rubber estate of *PT Melania (MAS)* located in South Sumatra, near the city of Palembang comprises 2 790 hectares, of which 1 901 are mature and 889 hectares are immature. This is *SIPEF*'s largest rubber estate, making up 49% of the total rubber area managed in Indonesia.

Estate	Hectares mature	Production 2017 tonnes rubber	Production 2016 tonnes rubber	Yield 2017 kg rubber FFB/ hectare
MAS	1 901	3 101	3 377	1 631

Crop production for the estate in 2017 surpassed management expectations, but fell short of the 2016 production by 8% due to a combination of reasons including the weather, the effect of slaughter tapping and replanting, as well as lower crops for young areas coming into maturity. In this part of Sumatra, there is traditionally a pronounced dry period from June to September and, apart from wetter months than normal in April and May, the rainfall pattern during 2017 followed closely the long-term average. The total rainfall for the year was 2 611 mm versus the long-term average of 2 483 mm (+5%). The ongoing program of replanting continues at *MAS* with 145 hectares replanted in 2017. As at the end of 2017, 889 hectares were within the immature phase with field standards being managed to a high level. Close attention to upkeep operations, fertiliser applications, as well as the identification and treatment of pest and disease issues mean that the areas coming into maturity are healthy, uniform and robust, and able to produce good early yields of latex during the first years of tapping. During the year, a new rubber nursery was created on a larger, flatter site, which will enable improved management of the seeds and young seedlings to cater for the proposed annual replant programs in years to come.

Another threat to *MAS* arising from the mid-year dry period is that of fire, and this is certainly an area which is receiving much more attention from the local authorities. It is pleasing to report that whilst there were a small number of isolated incidents during the year, there was no significant damage to the estate caused by fire, and this is very much attributable to proper resources, training and vigilance during the dry weather, as well as close contact with the communities surrounding the estate.

A significant milestone for *MAS* and the rubber factory during 2017 was the achievement of Rainforest Alliance certification in August. Whilst this certification is not currently being demanded by customers, it gives the Company the potential for alternative marketing opportunities, something which may become very important at times when rubber margins remain quite thin.

The *MAS* rubber factory, which processes the latex from the estate, performed well during the year and coped well with the estate's production. The second grade rubber is transported to the crumb rubber factory at Mukomuko for processing. As with the other rubber estates, the focus for 2017 was on cost reduction in line with the lower rubber commodity prices. The factory processed rubber at a cost of USD 154.00 per tonne rubber, which compared very well with the 2016 costs of USD 164.68 per tonne rubber and also fell within management targets. On the estate, costs of USD 943.49 per tonne rubber were achieved and, whilst these costs were essentially in line with management objectives, they were a significant increase on the 2016 costs of USD 847.75 per tonne rubber, largely as a result of outsourcing our security services.

The performance of the Cooperative shop, in partnership with a local grocery retailer, has gone from strength to strength during the year. The wide range of desired products held by the shop and extremely competitive pricing, combined with the management of the ordering, sale and distribution of the workers' rice ration, have meant that good profits are being made, which in turn generate dividends back to the Cooperative members, who are our workers.

Bengkulu

This group of nine estates, eight oil palm and one rubber, under the umbrella of *PT Agro Muko* is located at the northern end of Bengkulu province on the western coast of Sumatra. The oil palm estates comprise 17 333 hectares, of which 15 406 hectares are mature and 1 927 are immature. Following *SIPEF*'s acquisition in December 2016 of the shares, of PT Austindo Nusantara Jaya (10.87%) and MP Evans Plc (36.84%), the Company operated in 2017 with exclusive control over *PT Agro Muko* through a 95% stake. This has enabled greater business synergies and marketing opportunities to be developed.
Conditions here are quite different from those experienced in North Sumatra, with the terrain considerably hillier and with significantly higher annual rainfall. These conditions, coupled with the legacy of an inadequate road system, pose additional challenges to the management team on site. Considerable effort and resources have been directed towards improving the access the *Agro Muko*-group in recent years, with road surfacing programs ongoing in mature areas as well as in the immature areas during the replanting phase. Before 2005, only 160 km of roads had been surfaced; between 2005 and 2016 an additional 1 630 km were surfaced and in 2017 a program of 202 km was completed. The target for 2018 is another ambitious program of 261 km, demonstrating the Company's commitment to increasing efficiency and standards. The results of this program to date are already having beneficial impacts on the ability of the estates to collect and transport crop to the mills in a timely fashion.

The rainfall for the year averaged across all of the *Agro Muko* estates in 2017 was generally in line with that experienced in 2016 (3 667 mm versus 3 681 mm), but was also wetter by 3% than the long term average for the region of 3 554 mm. Whilst the total rainfall was in line with normal expectations, the monthly phasing was somewhat different with two very wet months in August and September, which had significant negative impacts on the estates' ability to effectively harvest and recover crop, and transport it to the mills. The highest rainfall was at Talang Petai to the north with 4 286 mm and the lowest was at Sungei Kiang, also to the north, with 3 300 mm.

Activity report by country

Several of the *Agro Muko* estates now contain palms older than 23 years, which are starting to get too tall to harvest. This, combined with the declining numbers of palms per hectare and yields in these older palms, is generating the replant activities across the *Agro Muko*-group. With the importance of maintaining enough Fresh Fruit Bunch (FFB) production for the mills to process efficiently, the numbers of hectares to be replaced each year are carefully considered to ensure a minimum overall FFB production of 300 000 tonnes. Across the *Agro Muko* estates, a replanting program of 971 hectares was completed during 2017, consisting of 445 hectares at Mukomuko, 296 hectares at Sungei Kiang and 230 hectares at Air Bikuk. A combination of favourable weather and securing an early start to replant operations during the year meant that programs were well completed before year end.

Crop production for the *Agro Muko* estates fell a little short of management expectations as a result of the timing of felling for replanting; poorer yields than predicted from the older palms; the unseasonable wet weather in August and September with high rainfall during the day compromising harvesting efficiency; crop recovery and transport; and finally, a shortage of harvesters after the long Muslim holiday of Idul Fitri to celebrate the end of the fasting month, when significant numbers of the *Agro Muko* harvesters remained in their villages and did not return to work.

Estate	Hectares mature	Production 2017 tonnes FFB	Production 2016 tonnes FFB	Yield 2017 tonnes FFB/hectare
All Agro Muko Estates	15 406	334 963	341 921	21.74

This was remedied by the phased recruitment of harvesters from elsewhere in Indonesia during semester two, but took several weeks to achieve. Whilst the overall crop production was 2% below the levels achieved in 2016, this was also as a result of having 445 fewer mature hectares due to the impact of the replant. We are seeing encouraging yield performances of our latest planting materials as they come into maturity following the ongoing replanting program, with strong early returns in the first 2-3 years and yields reaching or exceeding 28 tonnes FFB per hectare by the third year of harvesting.

Throughout the Bengkulu region, there is a network of 56 village plots known locally as *Kebun Masyarakat Desa* (KMD). These plots are managed by our estate teams and form an important part of the socio-economic life of our surrounding communities. The KMDs comprise 670 hectares, of which 641 are mature and 29 hectares immature. These KMDs, like our estates, are certified to 'RSPO' standards and form part of the sustainable supply base generating 'identity preserved' palm products. In 2017, the KMDs produced 8 826 tonnes FFB, which was an increase of 6% on the 2016 production of 8 317 tonnes FFB. As community interest in developing oil palms increases, this is one area where we are looking at increasing the supply base for our mills, but this can only be done hand in hand within the prescribed procedures of RSPO so that our sustainability credentials are not compromised.

In common with all of the estates managed under *PT Tolan Tiga Indonesia*, the fertiliser recommendations for the Bengkulu estates are compiled by our research partners, *Verdant Bioscience Singapore Pte Ltd* (*VBS*). The predominantly undulating terrain, higher rainfall and free draining soils in this region pose compelling logistical challenges to the timely application of fertiliser. The terrain means that the majority of the fertiliser is applied manually across all ages of palms, and the higher rainfall gives a smaller window of time within which to apply all of the required nutrients within the year. Despite the challenges, the Bengkulu estates completed their programs before the end of the year. A total of 15 347 tonnes of fertiliser was applied during the year and this is in comparison to 12 160 tonnes in 2016.

The estates across Bengkulu remain reasonably free of pests and diseases; there are some impacts from the activities of pigs and monkeys, but these are not at economically significant levels. We have seen some activity by the Rhinocerous Beetle (Oryctes) in our newly planted palms, particularly where the establishment and spread of the legume cover crop mucuna has been delayed at Mukomuko and Tanah Reka estates. These attacks are readily controlled by the targeted application of insecticide granules into the crown of the palm. In the young estates of the Bengkulu region, basal stem rot (BSR) caused by the fungus Ganoderma is not yet a significant problem but that does not mean that the estate teams can be complacent. Regular census work is done, and the occasional infected palm is felled and removed from the field. The estate teams are also pushing on

with a program of propagating beneficial plants, which in turn become hosts to insects which prey on oil palm pests, such as leaf eating caterpillars and bagworms.

As part of *SIPEF*'s goal to augment the volume of FFB being processed by the Mukomuko and Bunga Tanjung palm oil mills, another area of development was established in 2011 under the Company name of *PT Mukomuko Agro Sejatera* (*MMAS*).

Estate	Hectares mature	Production 2017 tonnes FFB	Production 2016 tonnes FFB	Yield 2017 tonnes FFB/hectare
MDE	545	8 894	5 589	16.33
AME	402	6 089	3 510	15.15
Total	**947**	**14 983**	**9 099**	**15.82**

This area of development was split into two sectors, one adjacent to Air Buluh estate in the south, known as Malin Deman estate (MDE), and a second sector located to the north nestled between Talang Petai and Sungei Kiang estates, known as Air Manjunto estate (AME). The two *MMAS* estates now comprise 1 591 hectares, of which 947 hectares are mature and 644 hectares are immature. Crop production for *MMAS* in 2017 totalled 14 983 tonnes FFB and, whilst this fell short of management projections, it was a sharp increase from the 2016 production of 9 099 tonnes FFB as the area of mature palms increased in conjunction with the increasing age profile. The unit yield from the *MMAS* estates also improved from 11.08 tonnes FFB per hectare in 2016 to 15.83 tonnes FFB per hectare last year. The fruit from the *MMAS* estates has been certified to RSPO standards as part of the *Agro Muko* supply base with effect November 2014 and the process for obtaining the cultivation licence (HGU) through the formal Indonesian Government channels continued during 2017 in line with the time-bound plan. In addition to these areas, there are another 336 hectares of plasma plantings, which has been a legal compliance issue since 2007, whereby investors in the palm oil industry have to comply with the 'plasma obligation' by providing land for the local community with an area of at least 20% of the total land given in the plantation business licence.

In terms of engineering, the two palm oil mills had the following performances in 2017.

Mill	Throughput (tonnes FFB/hour)		Tonnes FFB processed		Oil Extraction Rate (OER %)		Kernel Extraction Rate (KER %)	
	Capacity	Actual	2017	2016	2017	2016	2017	2016
MMPOM	60	58	233 150	222 916	22.81	22.12	5.11	5.12
BTPOM	60	31	130 622	140 559	22.65	22.32	5.40	5.25

Activity report by country

Mukomuko palm oil mill:

This mill receives the fruit from the northern and central estates, and the total FFB processed in 2017 increased by 5% over the levels supplied in 2016. The Oil Extraction Rate (OER) saw a significant improvement of 0.69% over the levels achieved in 2016, to average 22.81% for the year. The mill has struggled in recent years to achieve the targeted 23% OER, and it has been acknowledged by management that the issue is largely related to field operations, as mill losses have remained well controlled, and capital and maintenance programs have been well managed. On the field side, this year's milling results have been aided by a generally better weather pattern, apart from the heavy rains in the third quarter as previously reported; a concerted effort in harvester training; and the continuing amalgamation of harvesting gangs to concentrate supervision and transport resources into more defined areas. The ongoing road stoning program is making the collection and transport of crop more efficient; the use of contract trucks to cart fruit is also helping to reduce the volumes of crop that are carried forward from one day to the next and, finally, the wholesale change of harvesting ripeness standards across all mature areas to five detached loose fruit in the palm circle before the bunch is harvested. The estate teams are not prepared to rest on these achievements as there is still work to be done to consistently achieve and exceed the target OER of 23%. Following the resignation of the senior field manager in August 2017, the Company has taken the opportunity to review the responsibilities of the position and, with effect January 2018 the *Agro Muko* estates will be split into northern and southern regions with a senior field manager allocated to each region, both reporting directly to the general manager. With additional management support, it is hoped that further gains can be made in our OERs. The management of harvester numbers also came under the spotlight in 2017 following the departure of harvesters, and the estate teams have been tasked with maintaining surplus harvesters during the year so that we are less exposed should we see a repeat of last year's trend. The Company also made adjustments to internal recruitment and promotion policies, which were identified as being part of the reason for harvesters leaving. The bioreactor methane capture system continued to function well during the year, with methane being used as a fuel source in one of the boilers. After a feasibility study in 2016 regarding the potential to install a biogas engine and supply excess power to the local grid, work started during the year to install the engine and secure the connection to PLN, the Indonesian power supplier. The World Bank reports that over 70 million Indonesians are estimated to be unconnected to electricity. Of this number, over 80% live in rural areas and over half live outside of the dominant economic centres of Java and Bali. Given that three out of four Indonesian poor live in the countryside and outlying islands, rural electrification is a recurring problem, as much about poverty as infrastructure. The Government has responded to this problem by aiming to expand electrical access to 90% of the Indonesian population by the year 2020. To achieve the Government's vision, nearly 1.3 million new connections will need to be sustained per year. In this climate of rural power shortage and with the support of the *Bupati* (the area's regent), the Mukomuko biogas engine was operational in October, and in the three months to the end of the year had exported 1.3 million kilowatt hours (kWh) to the local grid. That is enough electricity in just three months to power 750 rural households for a full year.

Bunga Tanjung palm oil mill:

The mill is rated at a throughput of 60 tonnes FFB per hour but is operating at half capacity, achieving 31 tonnes FFB per hour in 2017, in line with the throughput of 2016. This is a historical issue where, at the time of construction, the Company was obliged to build a mill of this size to theoretically cater for smallholder fruit, a requirement which dissolved with the advent of a number of independent mills in the area. In terms of FFB, the mill processed 7% less fruit for the year compared to 2016, with the drop in crop due to the effects of replanting at Air Bikuk estate. This mill received FFB from the southern estates of the zone and, as with MMPOM, also saw a significant improvement in OER for the year of 0.33% over the levels achieved in 2016 to average the year at 22.65%. This still remains short of the Company target of 23% and the initiatives reported above for MMPOM also apply for BTPOM. Mill processing performance was well controlled during the year, with oil losses well within acceptable parameters, and repair and maintenance programs followed on schedule. This mill does not currently have a methane capture plant, as the reduced fruit throughput does not support the investment in the necessary infrastructure, but it is a possibility for the future once we are able to secure additional fruit through the mill.

For the *PT Agro Muko* estates, we saw field costs of production averaging USD 48.42 per tonne FFB, which were within management expectations and resulted in a good achievement. As with the North Sumatra estates, the impact of increasing wages during 2017 was largely mitigated by cheaper fertiliser and diesel costs than budgeted. We also saw significant savings in the overhead costs due to the delay in rolling out the contract security services. This activity was planned to take place during the year but was deferred due to the process of the HGU renewal and the more urgent requirement for security support following our new acquisition of *PT Dendymarker Indah Lestari* in August. It is expected that the contract security rollout across the Bengkulu estates will take place in 2018.

In the young mature areas of *MMAS*, field costs of production averaged USD 72.64 per tonne FFB, which were slightly higher than management forecasts due to the shortfall in crop against budget, but showed a good improvement from 2016 when costs of USD 98.54 per tonne FFB were achieved. These improvements are in line with our business plan calculations, resulting from increasing crop from the maturing palms.

For the Bengkulu mills, the processing costs were USD 22.03 per tonne palm oil products (Palm Oil and Palm Kernels -- PO-PK), and these were comparable with the 2016 costs which were USD 21.11 per tonne PO-PK.

The rubber estate of *Sungei Jerinjing* (*SJE*) is located in the central area of our Bengkulu properties and comprises 1 737 hectares of which 1 298 are mature and 439 hectares are immature.

Estate	Hectares mature	Production 2017 tonnes rubber	Production 2016 tonnes rubber	Yield 2017 kg rubber/ hectare
Sungei Jerinjing	1 298	2 161	1 851	1 665

All of the rubber production for the Bengkulu region is centred on this single estate. Crop production for the estate surpassed management expectations as a result of higher yields than calculated for the young mature trees, and we also saw an increase in the total crop produced from 2016 by 17% as the estate had an additional 171 mature hectares in 2017. The achievements for 2017 are more impressive when we look at the weather pattern, with rubber production being more sensitive to rainfall than oil palm. *SJE* received a total of 3 520 mm of rain in 2017, which is 19% more than the long-term average of 2 958 mm, with two very wet spells in January/February and again in August/September. This caused lost tapping days and late tapping days, which the estates recovered with our workers' support on Sunday tapping. Despite these constraints, the estate's unit yields of 1 665 kg per hectare were an improvement on the 2016 results of 1 643 kg per hectare. The replanting program of 40 hectares on *SJE* was part of the normal cycle to replace old rubber trees that have no remaining bark reserves.

The Mukomuko crumb rubber factory (CRF), which processes the latex and second grade rubber from *SJE* as well as the second grade rubber from *MAS* estate in Palembang, had another sound year in 2017. The CRF produced a total of 2 918 tonnes rubber against the 2016 results of 2 445 tonnes rubber, an increase of 19%.
The increased throughput during the year also supported efforts to control unit costs and the CRF costs for 2017 were USD 137.71 per tonne rubber, which fell compared with the 2016 costs of USD 140.04 per tonne rubber. On the estates with the focus on efficiency and production, costs of USD 759.48 per tonne rubber were achieved for the year, which compared very well with the 2016 costs of USD 789.49 per tonne rubber.

The labour situation remained stable in the Bengkulu region, with minimal industrial relation problems faced by the estates. In 2017, the minimum wage determined by the provincial government increased by 8%, and the total estate and mill workforce numbered 4 551 for the Bengkulu and *MMAS* properties and mills at year end, compared to 4 671 in December 2016.

A major task for 2017 has been managing the process of HGU renewal for 12 500 hectares across several of the Bengkulu estates. This process is being led by the director of legal and corporate affairs in conjunction with the estate teams on the ground. This is a time-consuming and administratively challenging process involving several layers of local and national authorities, and it is also a time of potential risk exposure for the Company from individuals or communities who wish to raise grievances, real or imaginary. It is pleasing to be able to report that the process to date has proceeded well and in line with management expectations. It is expected that the HGU renewals will be secured during 2018.

Java

Our tea estate, *Cibuni* (*CIE*) is located two hours' drive south of Bandung in West Java, nestled in the Ciwidey valley at an altitude between 900 m and 2 000 m above sea level. The estate comprises 1 752 hectares, of which 1 708 are mature and 44 hectares immature.

Estate	Hectares mature	Production 2017 tonnes tea	Production 2016 tonnes tea	Yield 2017 kg tea/hectare
Cibuni	1 708	2 402	2 940	1 406

Crop production for the year was disappointing, falling well short of management expectations and also 18% below the crops achieved in 2016. The unit yield of 1 406 kg per hectare also was well down on the 2016 results of 1 726 kg. The production of tea is very sensitive to the weather conditions of rainfall, sunshine hours, temperature and humidity. The rainfall pattern for 2017 was not too dissimilar to long-term trends, with 3 359 mm of rainfall versus the long-term average of 3 549 mm (-5%), and the monthly rainfall pattern was also in line with long-term trends. However, when we looked at the sunshine hours, we saw a very different story evolve during the year, with monthly sunshine hours remaining below long-term averages every month except March and December. The year's total sunshine hours were 1 181 hours versus the long-term average of 1 480 hours (-20%). These conditions gave the management team considerable challenges during the year, and made it doubly important that other aspects of our upkeep and plucking practices were carried out to the highest standards.

In the tea estates, the pluckers form the majority of the employees in the field. For 2017, plucker numbers were maintained at 1 324 compared to 1 481 in 2016, and total employees were 1 837 compared to 2 261 in 2016. It is a management target to make better use of the large numbers of workers required in the tea estate, which is typically up to nine times more people than in an equivalent sized oil palm estate. But it is always a fine balancing act between pushing the productivity of the pluckers, whilst at the same time maintaining the quality of the leaf being plucked. The high quality of *CIE*'s hand-picked Cut, Tear & Curl (CTC) black tea attracts the best price from our discerning customers, but at times of low commodity prices, maintaining a profit margin in this labour intensive industry remains our biggest challenge. In a positive recent development, nearly two years after being Rainforest Alliance certified and following ongoing efforts by our Antwerp marketing team, they have confirmed a long-term contract with Unilever Indonesia, and the total, yearly contracted volume of 272 tonnes made tea represents 9% of our expected 2018 volume.

The fertiliser recommendations for *CIE* are compiled by *VBS* in conjunction with our in-house visiting agent Mr Dev Thapar. The 2017 recommendations were for a total of 885 tonnes fertiliser compared to 2016 at 1 042 tonnes fertiliser. During 2017, the program was not completed with 872 tonnes applied (99%); the shortfall was due to the higher rainfall towards the end of the year and the resulting delayed bush recovery following pruning.

Pests and diseases have a potentially serious negative impact on tea production with the crop affected by a range of insect and fungal attacks. The management team has continued the association with Dr Suzanne Neave from the Centre for Agriculture and Bioscience International (CABI), who visited *CIE* again in 2017 to follow up on her 2016 visit as part of the process to work towards an Integrated Pest Management (IPM) system for the recording, monitoring and controlling of the various pests and diseases of tea.

The economic lifespan of tea is much longer than oil palm or rubber, 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 2017, some 21.6 hectares was replanted. The team are in contact with Indonesian authorities looking at beneficial tea clones to plant in our conditions, considering the soil, terrain, elevation and climate.

The tea factory processed 11 645 tonnes of green leaf to produce 2 402 tonnes of made tea in 2017, compared to 14 631 tonnes of green leaf to produce 2 940 tonnes of made tea in 2016. The new arrangement of the processing lines in 2016 allowed the factory management to continue work in 2017 and boost productivity with reduced numbers of workers involved.

The field costs for *CIE* in 2017 were USD 1 269 per tonne made tea, and this compared favourably to the 2016 costs which were USD 1 172 per tonne made tea, an increase of only 8% despite the significant crop shortfall against expectations. We also saw an increase in the factory costs of 8% as a result of the lower throughput, with 2017 costs at USD 325.90 per tonne made tea against the 2016 costs of USD 302.61 per tonne made tea. In a cost saving initiative, work was completed during the year to connect PLN to the factory and main emplacement. This now allows *CIE* to utilise cheaper power during the dry season when the water turbines are not working and make considerable savings on the cost of diesel on an annual basis.

The staff situation on *CIE* and in the factory remain stable, and some good innovations have been made during the year in managing the contract workers (CW) via the Lintramax CW module as well as giving further support to the workers' Cooperative shop, which used part of its profits to distribute a dividend of food parcels to the CW after the Idul Fitri holiday (end of the Ramadan).

Management and Expansion

During 2017, the executive team in Indonesia continued to be led by the president director, Mr 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). The 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.

The executive team comprised 513 people by the end of December 2017, an increase of 12% over the 2016 figure of 459, as the Company continued to grow and expand during the year. 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 our diverse and geographically spread teams together. These events include an annual managers' meeting which in 2017 was held in Bali; a family day; blood donor drives; an annual dinner, where highly valued prizes for innovations or contributions to Company success are awarded; and every two years, an intra-Company tennis tournament known as the '*SIPEF* Cup', which in 2017 was held over two days at Bukit Maradja estate. 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. Despite the programs aimed at building a shared corporate spirit, it is not always possible to include the participation of everyone. It was, therefore, with some disappointment that our internal audit department uncovered a fraud case involving several staff at the *UMW* group of estates, whereby identity cards for contract workers were being falsified. Management reacted quickly and decisively, with the employment of the eight ringleaders being terminated and the 20 junior staff being transferred elsewhere within the Company, with severe local penalties. This case underlies the importance that *Tolan Tiga* places on 'integrity and honesty', and is an example of management's zero tolerance stance towards fraud.

The rolling two-year cadet training program continues to be successful, ensuring that we have an ongoing succession plan in place. The scope of the cadet scheme now includes engineering and office administration positions. Between 2011 and 2017 we recruited 188 cadets. To date, 142 are still with the Company, a success rate of 76%, with 87 allocated throughout the Company as full assistants in the field, mill and office. Of the balance, 19 cadets are working through their second year and 36 working through their first year.

Tropical agriculture remains a labour-intensive operation and at the end of 2017, the Company employed 15 128 workers comprising 10 399 permanent workers, who are trained and skilled at performing the essential and more technically demanding jobs, and 4 729 temporary contract workers known as free labour (FL), who are utilised to perform the more seasonal or technically less demanding jobs. In a change from previous years, the numbers of FL are calculated and reported as 'Full Day Equivalents' by the Lintramax Contract Worker (CW) module. This has been reasonably stable since the 2016 total worker numbers of 15 214. At the current time, the availability of labour remains good across the Company, although employment numbers of this magnitude bring a high degree of corporate social responsibility and *SIPEF* takes this duty very seriously. For the workers and their families living in our emplacements, the provision of safe and comfortable housing with functional utilities, access to health and medical infrastructure as well as religious and social amenities, is budgeted for and managed on a regional basis.

The provision of appropriate medical care remains a key concern and, at the end of December 2017, some 32 846 people (our workers and their dependents) were registered as participants in the national health and insurance scheme, known locally as BPJS. Our medical clinics have been registered as part of the BPJS framework, and this consists of a network of 25 polyclinics, 8 visiting doctors and 50 paramedics (26 midwives and 24 nurses). The Company doctor also advises the ExCom regarding statistics on reportable diseases, sick pay and lost time injury data to support the Company's Occupational Health and Safety programs. During 2017, the medical department performed annual medical checks for 1 625 workers categorised as at high risk (those working with pesticides, herbicides, exposed to dust, noise etc.) and routine medical check-ups for 6 409 workers in the non-high-risk category.

The quality department, which was established in 2016, has been tasked with the implementation of a new Quality Management System using the ISO 9001 framework. The department had a busy year aligning all departments, operations and practices with the new framework, and this has required considerable socialisation, training and awareness, in conjunction with the support of external consultants. Fully updated documentation of all operational procedures was completed before the end of the year, and the Company looks forward to the audit and certification process during 2018.

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. The department, headed up by a general manager (GM), is supported by seven auditors and an administrative assistant. It is currently the intention to boost the staffing of this key department by adding a further nine auditors in 2018, and recruitment is in progress for these positions. Whilst the staff members are nominally based in the Head Office (HO) in Medan, operationally they are given assignments to Bengkulu, North Sumatra and South Sumatra on three-month rotations. The GM of the audit department reports directly to the president director, and the results of routine audits as well as whistle-blower investigations are presented and discussed at senior executive level, in Indonesia known as the audit committee, on a quarterly basis. The recommendations by management following the audit findings are documented, resulting in corrective or punitive action; retraining; or in the case of criminal activity, the involvement of local law enforcement officials. The results of the audit committee meetings are also shared with the Company's HO in Belgium.

The use of the Lintramax software package to manage the Company's information technology (IT) requirements continued in 2017 after its implementation during 2015, with further improvements achieved during the year on the management of the Company's free labour as well as within the marketing module. Following the resignation of the general manager IT in May 2017, it proved difficult to attract and recruit a suitably qualified and experienced IT manager into the Company, but this was achieved at the end of the year. The IT requirements and daily management were well handled during the year by the departmental staff, in conjunction with support from HO Antwerp. Significant IT management resources were taken up in the latter part of the year with the planning and organisation for the planned office move on 19 February 2018 from the current location in the Bank Sumut building to the new site at 'Forum Nine' in the nearby CIMB Niaga Building.

Expansion – Musi Rawas Projects

Our new development expansion in the Musi Rawas region of South Sumatra, near the town of Lubuk Linggau, progressed very well during 2017. There have been many challenges involved with establishing estates in this region of Sumatra, which is known for its socio-economic problems, lawlessness, lack of coherent political and police support, and a general distrust of outsiders, but every member of the management team from top to bottom has continued to give full support to the ongoing projects, and we are really seeing the fruits of our efforts. Whilst considerable effort and management focus remain on land compensation, land clearing and planting, we also saw increasing hectares become mature during the year, as parts of the project settled into a more routine and steady state of operation. The splitting of the three projects into six individual estates, and those estates further into divisions with clearly identified boundaries and areas of responsibility, has also yielded positive results in terms of development, upkeep and harvesting standards.

At the end of December 2017 the status of the three projects was as follows:

Description	PT AKL	PT ARU	PT AMR	TOTAL
Izin Lokasi ha	10 500	9 000	12 309	**31 809**
Izin Lokasi ha revised	6 590	5 712	12 305	**24 607**
OWN (hectares)				
Hectares compensated	3 759	2 626	4 789	**11 173**
Hectares identified	737	594	2 918	**4 250**
Hectares potential	4 496	3 220	7 707	**15 423**
PLASMA (hectares)				
Hectares incorporated	577	394	1 138	**2 109**
Hectares identified	322	250	403	**975**
Hectares potential	899	644	1 541	**3 084**
TOTAL (hectares)				
Total acquired area	4 336	3 020	5 927	**13 283**
Total projected area	5 395	3 864	9 248	**18 507**
Own planted	3 776	1 558	2 410	**7 744**
Own cleared	2	259	184	**445**
Plasma planted	459	303	168	**929**
Plasma cleared	3	15	33	**51**
Total secured	4 239	2 134	2 795	**9 169**
Secured area/acquired area	98%	71%	47%	**69%**
Secured area/projected area	79%	55%	30%	**50%**
Investments December 2017 - KUSD	29 546	16 877	22 055	**66 478**

The progress of land compensation in 2017 became increasingly challenging, as much of the remaining land is now owned by villagers with rubber plantings and other land uses, as well as land owned by individuals who do not want to sell. Despite these constraints, the teams on the ground have continued with patience, achieving total land compensation of 1 468 hectares. This was 11% below the management target of 1 650 hectares for the year, but compared well with the 2016 total of 1 908 hectares, considering the ageing of the projects and the increasing difficulties of securing land. The planting program for the year was exceptional with the three projects achieving 3 054 hectares planted, of which 2 673 was our own land and 381 hectares plasma. This also fell short of management expectations by 10% (3 380 hectares), mainly due to the shortfall in plasma plantings, but this compared extremely well with the 2016 results of 2 993 hectares planted. An additional 460 hectares of plasma land was acquired during the year and this important part of the project development requires constant attention, as we are bound by regulations to ensure that 20% of the total development is allocated to plasma.

As our presence in South Sumatra becomes more widely accepted and appreciated, with the three projects now providing stable and permanent employment to 2 031 people, the management teams have become aware of potential further expansions adjacent to our existing projects. Towards the later part of 2017, the estate teams working closely with our legal and corporate affairs department as well as our environmental department have been coordinating with the appropriate local authorities investigating additional location licences (*Izin Lokasi*) near to our projects of *PT Agro Kati Lama (AKL)* and *PT Agro Muara Rupit (AMR)*, and it is hoped that we will be able to add to the potential size of these projects during 2018.

In terms of preparing seedlings for our planting programs, the two nurseries located at *AKL* and *PT Agro Rawas Ulu (ARU)* continued to perform well in 2017, with a total of 600 000 seeds received during the year. To augment variations in timing for seedling availability we have also been able to purchase from reputable external nurseries certified seedlings, which are ready for field planting. Our seed intake for 2018 is 1 000 000 units of seeds, which will be sufficient to plant over 5 500 hectares in 2019, and is testament to the growth and expansions planned for South Sumatra.

The main achievements during 2017 for the three individual projects are summarised below:

PT Agro Kati Lama (AKL):

This is the oldest of the three projects and, therefore, the most advanced. The location permit is for 6 590 hectares, of which 3 759 hectares has been compensated and 577 hectares acquired for plasma, a total of 4 336 hectares. Of that, 4 248 hectares has been planted or cleared ready for planting, meaning 98% of the compensated land has been secured. Land compensation is now very much focused on mopping up the last few available areas, particularly on *AKL*-South, whereas *AKL*-North still has reasonable potential. Some important milestones were passed during 2017; crop production continued with 1 483 tonnes FFB produced from 644 hectares; all of the FFB was sold to a local third party mill; and this will continue until the project achieves its cultivation licence (HGU) and can thereafter become RSPO certified. During 2018, another 787 hectares will become mature and start yielding. As we learn more about the yield potential from the actual performance on the ground and crop projections for the areas yet to come into maturity, we expect to be in a position to construct our own palm oil mill at *AKL* in 2021-2022. Secondly, the estate emplacement located on *AKL*-North in the centre of the project adjacent to the nursery grew significantly with the addition of estate offices, workshop and materials storage, as well as staff and worker housing. The power supply, which was connected to the local provider PLN, is functioning well and the emplacement is well on the way to having all of the facilities and infrastructure needed to run an estate operation. Thirdly, plans were put in place during the year to create a general manager's office site separate from the estate emplacement, also on *AKL*-North but at the northern tip of the project for easy access to the town of Lubuk Linggau, as well as convenient for the GM to travel to the other projects. The land was cleared during the year for offices and housing, and this also enabled us to follow through on a promise given by the shareholders to the *Bupati* (Regent) at the start of the projects, that *SIPEF* would establish a golf course as part of the Musi Rawas developments. The layout of the fairways and greens has been confirmed and landscaping was carried out during the year as part of the golf course establishment.

PT Agro Rawas Ulu (ARU):

This project is located two hours' drive north of Lubuk Linggau and is the most challenging of the three projects. It is a long, narrow concession with village access through the middle of the project. The management teams on the ground have tackled their constraints 'head-on' and good progress was made during the year in compensating and creating an internal road which we own, from the east to the west of the project. By the end of the year, there remained a section of approximately 1 000 m out of the full 40+ km distance which remained to be completed and this was expected to be achieved in the early part of 2018. Despite these challenges, significant progress is being made and four main areas of development focus are continuing on the project, so that temporary delays in one area will not impact on progress in the other areas. The location permit is for 5 712 hectares, of which 2 626 hectares has been compensated and 394 hectares acquired for plasma, a total of 3 020 hectares. Of that, 2 149 hectares has been planted or cleared ready for planting, meaning that 71% of the compensated land has been secured. *ARU* continued harvesting during the year with 629 tonnes FFB produced from 240 hectares; all of the FFB was sold to a local third-party mill, and this will continue until the project achieves its HGU and can thereafter become RSPO certified. During 2018, another 309 hectares will become mature and start yielding. At this stage, the location for the estate emplacement has not yet been confirmed, as the team continues to assess progress with development in the four focus areas. Based on planting and crop projections for *ARU* and *PT Agro Muara Rupit (AMR)*, we plan to construct the next palm oil mill in 2022-2023.

PT Agro Muara Rupit (AMR):

This is the most recent of the three projects and is located adjacent to *ARU*. It is also the project with the most potential, where we hope to plant 50% of the Musi Rawas total hectarage. With better terrain and a large portion of lower lying land to the east of the project where local communities find cultivation difficult, the progress for land compensation and development has been easier. There are also four main areas of focus on *AMR* with activity now split over the east and west estates. The location permit is for 12 305 hectares, of which 4 789 hectares has been compensated and 1 138 hectares acquired for plasma, a total of 5 927 hectares. Of that, 2 828 hectares has been planted or cleared ready for planting, meaning 48% of the compensated land has been secured. The emplacement site for *AMR*-East was confirmed during the year and site clearing started. It is planned to start establishing infrastructure and buildings on the emplacement site during 2018. The site, situated on slightly undulating ground is central in location for the estate, has a good source of water and access to PLN power from one of the neighbouring villages. Part of the progress during 2017 resulted in the completion of an internal road through east and west estates, making access much safer and more efficient. This internal road now links up with a recently acquired corridor joining the west estate to the main asphalt highway.

PT Dendymarker Indah Lestari (DIL):

As part of the expansion plan for South Sumatra, we had the opportunity to conduct a due diligence exercise upon the *DIL* plantation and mill located in between our existing three projects in Musi Rawas. Following a process of investigation, discussion and negotiation with the owners, the acquisition of 95% of the *DIL* palm oil plantation was completed and the management was transferred to the *SIPEF* group on 1 August 2017. This added 8 878 planted hectares to the Musi Rawas group, of which 6 097 hectares are our own plantations and 2 781 hectares plasma. The concession also has the potential for the further development of 2 000 hectares, which will be assessed by external consultants in line with published RSPO procedures. The priorities are optimising the currently loss-making plantation activities, rehabilitating the palm oil mill and gradually replanting the approximately 20-year-old trees, so that we are able to secure a return on the expansion of our activities in Musi Rawas as soon as possible. The acquisition presents an ideal opportunity to revitalise a distressed asset and, during the second half of 2017, staff changes were made to ensure that experienced staff were transferred from existing *Tolan Tiga* operations to take up positions at *DIL* and start work immediately. It had been hoped to commence replanting activities almost immediately; however, due to the interpretation of regulatory compliance issues for *DIL* from the Department of Environment and Forestry, management decided to defer the replanting operation to 2018 until the outstanding areas of concern had been resolved. In the meantime, an aggressive program of upkeep, harvester access, palm pruning, fertiliser application, drain clearing and road maintenance took place with the aim of maximising the harvesting potential of the existing palms. From the engineering perspective, much needed repair and maintenance issues were progressively tackled to allow the 20-tonnes-per-hour mill to start performing to expected levels. The mill will need to be shut down for a fortnight in early 2018 to allow for some more significant repair work to be done. Most importantly, the mill has the potential to be expanded, which will become necessary in the future, as our new plantings start to perform to their true potential.

PT Citra Sawit Mandiri (CSM)

Our estate, *PT Citra Sawit Mandiri (CSM)* is located two hours' drive to the north of the *UMW* group of estates and comprises 1 741 hectares, of which 1 434 are mature and 307 immature. Due to legacy issues linked to the development and planting dates of this peat estate, *CSM* is, so far, not certified to the standards of RSPO and it has, therefore, always been the intention of *SIPEF* to sell this asset once the HGU process has been completed. Part of the delay in progressing with this file had been ongoing litigation with PT Hijau Pryan Perdana (HPP), part of the Anglo Eastern Plantations Group over an area of 212 hectares within our concession. The decision of the Supreme Court was awarded in our favour during 2016 and work was completed on felling and replanting the standing palms within the disputed area towards the end of 2016 and into 2017. A further development in the area, whereby local government is considering a new permanent road and bridge, which will link *CSM* to the *UMW* group of estates, has thrown new light on the business plan for *CSM*. This is a productive estate, which has seen yields improve significantly over the last three years to the point where it achieved a yield of 25.70 tonnes FFB per hectare in 2017. Every effort is being made to obtain RSPO certification for this asset, but if that is eventually not possible within the current regulatory framework, then the Company will pursue the option to sell the asset once the HGU process is complete.

Verdant Bioscience Singapore Pte Ltd

The relationship with our research partner, *Verdant Bioscience Singapore Pte Ltd* (*VBS*) continues to grow. The management of *Timbang Deli* estate was formally handed over from *Tolan Tiga* to *VBS* at the beginning of April, 2017. We continue to utilise them for our fertiliser recommendations across all three commodities in all regions. A network of field trials has been established within North Sumatra and Bengkulu to investigate a range of challenges from Ganoderma and optimum fertiliser regimes to breeding potentials for the F1 Hybrids and pest and disease threats.


PK 11001
PALFING

Papua New Guinea

General

2017 was not a good year for the Papua New Guinea economy. The official growth rate was 2.2%, which is well below the official population growth rate of 3.1%. Sixty per cent of business CEOs consider the greatest barrier to business to be the crippling shortage of foreign exchange, which is linked to Papua New Guinea's move to a fixed exchange rate. The latest budget deficit now appears to be around 5.7% of gross domestic product (GDP) and government public debt has trebled over the last five years. Interest repayments thereon are now equivalent to 15% of total government revenue.

A recent review of the Papua New Guinea economy by the International Monetary Fund (IMF) has highlighted the impact of the shortage of foreign exchange on business activity in 2017. Foreign exchange shortages are damaging growth and business uncertainties are undermining investment. The forecast for growth in the 2018 National Budget was estimated to be 3.5%. However, most commentators predict that growth will be somewhat less.

The national elections for Papua New Guinea were held in 2017 and Prime Minister Peter O'Neil was returned as the leader of the new government. The Government has announced that agriculture will receive much greater support during this term. The Minister for Agriculture organised the Inaugural Agriculture Summit in November, which was very well attended by both private sector and government representatives. *Hargy Oil Palms Ltd (HOPL)* presented a paper showing the improvement in smallholder production as a result of the privatisation of the agricultural extension service. It is to be hoped that the Government implements the recommendations that resulted from this important summit. A number of speakers at the conference highlighted the difficulties of obtaining land for development and the fact that financial institutions will not accept customary land as security for finance.

Over 80% of the Papua New Guinea population (>7 million) is dependent on agriculture for their livelihood. Palm oil exports account for 60% of all agricultural exports. Palm oil production, however, only benefits a relatively small population (21 000 smallholders and 27 000 employees) in a few provinces, compared to the other main agricultural exports, coffee and cocoa. Coffee, which is 25% of agricultural export value, and cocoa (11%) are over 95% smallholder-based, and several million people are involved in these industries, which are considered to be the main sources of income for rural Papua New Guinea. However, production of cocoa has been severely impacted by the cocoa pod borer (insect) and, the coffee berry borer (insect) was also found in a number of the main coffee growing areas in the Highland region for the first time. Both are expected to cause increasing levels of damage over the next few years. The success of the oil palm industry has encouraged the Papua New Guinea Government to invite other investors to develop new oil palm plantations. There has been a number of new oil palm developments in East New Britain, East and West Sepik, and more recently, Morobe provinces, but none of these projects is sustainably certified.

Hargy Oil Palms Ltd

Hargy Oil Palms Ltd (HOPL) is located in Bialla, West New Britain Province. The first palms were planted in 1973 and *SIPEF*'s investment in the business commenced in 1976. The original plantings were all replanted between 1994 and 1998, and these plots are being replanted again, but as of 2015 with Dami 'Super Family' hybrids.

Our plantations extend into the neighbouring province of East New Britain. The most recent census data indicates that the population impacted by the Company's operations is over 60 000. The Company employs 4 932 people, of which only 20 are expatriates. There are over 3 700 local producers oil palm growers, and in 2017 they produced 40% of the Fresh Fruit Bunches (FFB) processed by the company mills from approximately 14 000 hectares.

Production of FFB at *HOPL* broke the 500 000 barrier for the first time and a combined total of 557 018 tonnes was produced (plantations 332 177 tonnes, smallholders 224 841 tonnes). At the end of 2017 *HOPL* had a total of 13 621 hectares planted, of which 1 583 hectares (11.6%) were immature. Production in 2017 has been characterised by a large increase in both Crude Palm Oil, (CPO), and Crude Palm Kernel Oil (CPKO), with volumes of 16.8% and 16.5% respectively, compared to 2016. This is due to increased mature hectares; higher FFB yields per hectare in both plantations and local farmers; greatly improved extraction rates; and lower losses in the mills. The impact of the 2015 El Niño caused a male flowering phase which commenced in young palms in May and in older palms in September. Consequently, production was lower in the second half of the year.

The 2017 wet season was very mild and operations were not interrupted by high rainfall. Just 2 779 mm was recorded at Hargy plantation by the end of November, making this year one of the driest years on record. The wet season commenced in December and 874 mm was recorded, taking the annual rainfall to 3 652 mm compared to the average annual rainfall of 4 414 mm. There were no road closures due to high rainfall or flooding in 2017.

Maintenance of government road infrastructure has been a major cost for *HOPL* again in 2017, as the Department of Works received no funding for road maintenance in West

The first palm oil extraction mill of Hargy Oil Palms Ltd in Papua New Guinea

GALLEY REACH HOLDINGS LTD

In June 2016, we agreed on the sale of 100% of our equity interest in Galley Reach Holdings Ltd (GRH), the company in which all of *SIPEF*'s previous rubber activities in Papua New Guinea were concentrated. The transaction value was to be paid in deferred instalments over four years, secured by a corporate guarantee from the buyer and by a mortgage over two strategic land-titles.

While expired land-titles have been renewed, *SIPEF* continues to work on the renewal of one last land-title, which is currently part of a political investigation on government officials potential land transactions, whereby the company was not involved but the location is being included in the scope for investigation.

In the meantime, and as agreed, in June 2017 a deferred instalment was received and we expect to complete the file and receive timely all outstanding receivables on this transaction.

New Britain. There are 12 bridges under construction with Asian Development Bank (ADB) funding but, due to the termination of the main contractor, progress has halted. Two large bridges are being replaced with funding from Japanese aid. *HOPL* has spent KUSD 1 780 on maintenance of both Government (KUSD 955) and Company (KUSD 825) roads. Although this is a large expense and it is not the responsibility of the Company, all plantation and smallholder blocks now have road access in preparation for the next wet season. The main bridges on the New Britain Highway have remained intact.

Estate FFB at the end of December were 15.4% better than in 2016. The weather had minimal impact from January to November 2017. Heavy December rainfall resulted in the loss of five working days during the period leading up to Christmas. Control of harvest rounds and crop recovery on the estates was challenged by the high crop volumes. There was a strong male flowering phase caused by the El Niño in 2015 and this impacted production in Q3-Q4/2017. The smallholder crop was 20.3% above last year at the end of October, but only 10.6% at 31 December. Smallholder harvesting standards are improving in response to both price and the intensive agricultural advisory message to harvest every fortnight. A significant achievement was the improved control of Free Fatty Acids (FFA) and all but one parcel of oil, loaded on the February shipment, were below 5%. The FFB transport fleet has been able to deliver over 55 000 tonnes of FFB per month to the mills and has been able to deliver all the FFB. The critical link in the supply chain from the palm to the mill is the collection of loose fruit. During high crop periods, separate loose fruit collectors are engaged by the plantations. These teams of women are unable to keep up with the harvesters and the collection of loose fruit can lag behind by 2-3 days. This has serious impacts on extraction rates and FFA. Plantation management is looking at ways to make the collection of loose fruit more efficient, and ensure that it is collected and delivered to the mills at the same time as the bunches. New Volvos have arrived and new John Deere tractors have been received to replace the old Chinese fleet. Driver training programs were implemented prior to issuing the trucks and tractors to the plantations.

HOPL has been engaging five to six new university agriculture graduates (both Papua New Guinean and expatriate) each year as plantation cadets. Under the direction of the head of plantations they are completing their training modules to a high standard. A number of the cadets also took part in our Emerging Leaders Program in 2017, and we are seeing a significant improvement in their confidence and performance.

All the necessary upkeep tasks to ensure 100% access to all mature and replant blocks were completed during the dry season. Labour numbers were managed to match the available crop, and harvest rounds were reasonably well controlled. During high crop periods the manual system of harvesting and crop evacuation is not able to keep up with the high volumes. An Italian-made machine designed for infield collection, Caron, has been tested and six of these machines are included in our capital budget for 2018.

The first shipment of 2017 fertiliser arrived in March and applications were completed by the end of October. The fertiliser consultant reviewed our requirements for 2018 and has recommended an increase of 21%. The main increase is in the volume of NP (Nitrogen and Potassium) Blend (26%). This is due to high yields being achieved, with leaf analysis data showing that nutrient levels are low and trial data showing that there is an economic response to increasing NP applications from 1.6 kg per palm to 2.0 kg per palm.

Hargy Estate is comprised of Hargy plantation (2 582 hectares) and Barema plantation (1 900 hectares). Due to the replanting of palms, crop produced by the estate in 2017 was 4.9% lower than in 2016. Hargy plantation was originally planted in 1973 and replanted for the first time in 1995-1998. The second replant commenced in 2015 (173 hectares), 2016 (101 hectares) and continued in 2017 with 609 hectares being replanted. A further 550 hectares is planned for replanting in 2018. The 2015 and 2016 replant blocks are being managed to a good standard and harvesting commenced in the 2015 blocks 24 months after planting. At the end of the year, 883 hectares of Hargy plantation was immature with 1 699 hectares mature. The 2015 plantings of 173 hectares will be declared mature in 2018.

Navo Estate is situated 55 kilometres from Bialla town. Navo Estate crop was 21.5% higher than in the same period for 2016. The entire estate is now mature, with an area of 5 234 hectares, divided into two plantations, Karla and Ibana. The

replanting of Karla 3 (1998, 1999, 2000 and 2001 plantings on 1 281 hectares) is scheduled to commence in 2019/2020.

The Company seedling nursery is also located at Navo Estate. The two-stage nursery system is working well and seedlings are ready for planting at 10 months of age. All of the plantings are Dami 'Super Family' hybrids and sufficient seed has been planted to cater for the 2018 replanting program for both plantation and smallholders. The smallholder replanting program has largely caught up with the backlog and the requirement in 2018 will be for 250 hectares only.

Our plantation expansion project began in 2010 at what is now known as Bakada plantation. This plantation is the amalgamation of several lease-lease back developments including Alaba, Alangili, Magalona and Abulmosi, as well as Gamupa and Sabalbala. The local landowners have obtained title to the land and have signed a 25-year sublease

Aerial view of the management housing and facilities surrounded by oil palms, at Hargy Oil Palms Ltd in Papua New Guinea agreement with *HOPL*. Bakada plantation has a total of 2 492 hectares planted, of which 91 hectares is immature. Crop at Bakada was 53% better as at 31 December than in 2016.

Permanent housing is now available for the majority of the workers. There have been issues with the septic system at Sabalbala compound. To correct this, a new package sewerage treatment plant was installed recently at Sabalbala compound. Workshops and offices are still temporary structures but are adequate.

Yanaswali plantation is the amalgamation of several lease-lease back developments including Vamakuma, Sena and Remaling. 805 hectares is mature and a further 609 hectares is immature, of which 487 hectares will be declared mature as of 1 January 2018. Road gravelling and drainage work have been completed in Remaling, Sena and Vamakuma. The Yanaswali crop was at 31 December 86% better than in 2016. Road access to Vamakuma has been a continuing problem; however, this is now much improved. The search for a better bridge site is underway and a permanent bridge will eventually be required. Old steriliser pipes from Hargy palm oil mill have been used to construct a permanent crossing to Vamakuma. Definitive housing for workers has been constructed next to the Ibana housing area.

The plan for further plantation expansion has been put on hold, due to the lack of suitable land to conform to the ever more stringent High Conservation Value (HCV) and High Carbon Stock (HCS) requirements of the Roundtable on Sustainable Palm Oil (RSPO). Management has, therefore, determined that the maximum plantation area will be 15 000 hectares for the foreseeable future. This area along with the smallholder crop will fill all three mills to maximum capacity. As of 31 December 2017, the total planted area was 13 621 hectares leaving approximately a further 1 000 hectares for development in 2018/2019. Negotiations with customary landowners have continued and further progress will be made in 2018.

The smallholder crop as of 31 December was 10.6% higher than the same period in 2016. The 2015 El Niño caused a male flowering phase, which reduced production from local farmers commencing in August. The smallholder truck fleet remains at 16 Volvo crane trucks, fitted with hydraulic cranes. The neighbouring farmers load their fruit onto harvesting nets, which are picked up by the crane and loaded into the bin on the truck. The cranes are fitted with electronic load cells so that the fruit can be accurately weighed on the block. The smallholder receives a printout from the truck immediately and is paid by electronic funds transfer to his bank account the following week. *HOPL* also purchases loose fruit separately and in 2017 the women produced 21% of the crop. Small 2-3 tonne trucks deliver fruit from Village Oil Palm (VOP) blocks close to the mills. The average farm gate price for smallholder FFB in 2017 was PGK 280 (USD 87) per tonne. The continued slow depreciation of the PNG kina against the USD has helped improve the farm gate price to a higher level in kina terms. World market prices have been favourable all year.

The smallholder extension section was approved by the Oil Palm Industry Corporation Board in January 2015, and has the support of the majority of the neighbouring farmers. The team's name has been changed to the agricultural advisory service to distinguish its members from government officers. The team has expanded to 11 officers, the majority of whom have been recruited from the Government extension service.

HOPL has smallholder debtors, comprised of individual smallholder block owners who have purchased on credit from *HOPL* such items as seedlings, harvesting tools, wheel barrows and fertiliser, to use on their respective palm oil blocks. *Hargy Oil Palms Ltd* charges no interest on these loans, with repayment being recouped by deductions from FFB payments that are made to the respective smallholders concerned. *HOPL* has invoiced KUSD 1 112 in 2017 and recovered KUSD 1 411, while debt at 31 December was KUSD 631. With the higher volumes, more frequent harvesting and good FFB prices the rate of recovery is improving. The amount deducted remains limited to 30% of the farm gate price.

1 600 tonnes of urea was distributed to neighbouring farmers this year. Contractors have been engaged to apply fertiliser if not already done by the growers themselves.

The smallholder advisory section has been working closely with the Section Committee representatives to deliver messages targeted at better harvesting standards. This program has been very well-received by the growers. A great deal of time has been spent trying to sort out land titles for RSPO compliance, rather than in increasing production. The Company lands section has been increased to assist local farmers to prove that they have the right to use the land. It has to be noted that it is very difficult for local farmers to comply with criterion 2.2.1 of the RSPO certification process, given the underperformance of the Department of Lands.

The RSPO New Planting Procedure (NPP) does not allow us to approve new smallholder blocks without detailed expensive HCS/HCV surveys. The recent Round Table declared a moratorium on Smallholder New Planting Procedures, but an external HCV assessment is still required. The Smallholder RSPO Planting Approval Form is sufficient for the purpose of replanting.

A community affairs department has been established to coordinate lands, smallholder agricultural advisory services, security, business development, and geographic information system (GIS) activities. A key achievement of the department in 2017 was the construction of a new primary school and the Women's Resource Centre at Pata-Painave. An Australian Aid project provided the funding (USD 1 million) and the project was constructed by the *HOPL* construction department, with project coordination and management under the community affairs department. The school was opened in November by Mr James Passmore representing the Australian Government and our managing director Mr François Van Hoydonck.

The business development section has instituted a programme of financial literacy training. This has so far trained over 750 mainly smallholder women, but also Company security personnel, and plantation supervisors and their wives. Business development officers also assist landowner groups leasing land to *Hargy Oil Palms Ltd* to comply with financial reporting requirements. The Company has established a number of small trade stores in the Company housing areas and business development officers assist the local business people to manage these stores.

To end December 2017, 137 237 tonnes of CPO was produced, 16.8% more than in the same period in 2016. Similarly, 12 007 tonnes of PKO was produced by the end of December 2017, 16.5% more than in the same period in 2016. *HOPL* has three palm oil mills with a total milling capacity of 135 tonnes FFB per day. Two of the three mills also have kernel crushing plants with the capacity to process 219 tonnes of kernel per day. The engineering team has focused on mill maintenance standards and minimisation of losses. Mill performance was greatly improved in 2017 with throughput at an average of 41.7 tonnes per hour; Oil Extraction Rate (OER) was 24.64%; and Palm Kernel Oil Extraction Rate (PKOER) was 2.28%. Barema palm oil mill achieved an average extraction rate for the year of 24.98%, which is an exceptional result. Hargy mill had an extraction rate of 24.64% in 2017 compared to 23.81% in 2016. Navo mill recorded an extraction rate of 24.38% compared to 23.85% in 2016.

Continued efforts to improve harvesting standards and transport performance, as well as mill performance, have resulted in better control of FFA. The improved standards of harvesting by local producers are also contributing to the improved control of FFA, as well as better extraction rates.

The effluent treatment plant was not able to treat the Palm Oil Mill Effluent (POME) to the required standards and the cost of operating the plant was very high. New ponds were constructed in 2017 to treat the effluent after the main anaerobic digester tank has removed the methane gas. The new primary pond has been designed so that it can be covered at some stage in the future should methane power production become financially viable. Final effluent is discharged into trenches on the Barema plantation.

Apart from the construction of new ponds, other capital expenditure projects in the mills were mainly to replace worn out machinery and equipment. A concrete bund wall has been constructed around the main tank farm at Hargy mill, while a new concrete loading pad has been constructed at Navo mill. Both these projects were to improve compliance with environmental standards. A second boiler has been ordered for Barema mill and it will be installed and commissioned in 2018.

The RSPO audit was conducted in July 2017. No major or minor non-conformances were identified by the auditors. Management worked very hard to ensure that previous non-conformances relating to smallholder and Company land titles were closed out. However, the poor administration of land by the relevant government departments and agencies remains a serious threat to our continuing certification. Our new certification date will be October each year, which is much more convenient given the often difficult weather conditions in the early part of the year. Annual audits will now be held in July rather than February/March.

A consultant was engaged to conduct HCV/HCS surveys of land adjacent to our Bakada developments and also approximately 10 km south of Bialla. The landowners had invited *HOPL* to develop the land for new oil palm plantings and, as a first step in the process, suitability as per the RSPO NPP, had to be assessed. The consultant, however, has advised that all of the land cannot currently be converted to oil palm under the current NPP. We hope that in future the RSPO will take into consideration the needs of local communities in remote areas in Papua New Guinea to develop oil palm as a means of reducing poverty and improving living standards.

The company oil pipeline wharf remains certified as compliant with the International Ship and Port Facility Security Code (ISPS Code), the governing security for all international wharves, which came into force in June 2004. The wharf is being regularly inspected and any concrete and/or steel requiring maintenance can be repaired by the

Students in one of the classrooms of the school on our estates in Papua New Guinea
In the foreground, a student holds the resin replica of a tool of archaeological interest, carved in obsidian and found in Barema during the laying of foundations for a house. The original, which is more than 3 000 years old, is kept at the National Museum in Port Moresby

construction department. New ladders have been installed on the mooring dolphins. Products shipped from Bialla wharf to 31 December 2017 were 141 315 tonnes of Certified Sustainable Palm Oil (CSPO) and 13 273 tonnes of Certified Sustainable Palm Kernel Oil (CSPKO). There were 12 shipments in 2017 and all oil was sold as certified sustainable. The mutually beneficial shipping agreement with Sime Darby/New Britain Palm Oil Ltd continued in 2017.

The construction of new staff housing also continued in 2017. As the supply of locally sawn timber is no longer available, all construction is now done using steel frames and lightweight panel. Qpanel® is an innovative building product internationally developed and manufactured for a wide range of rapid construction applications.

The advantage of this construction method is that it is fast, and maintenance costs over the life of the building are much reduced. A survey of existing housing at *HOPL* has estimated that many of the houses constructed 25 years or more ago are not economically repairable and need to be replaced. The estimated cost of replacing old housing is USD 6.5 million. It is proposed that this will be completed over a five-year period commencing in 2019.

The cost reduction exercise continued in 2017. Monthly cost meetings are held to analyse costs and make recommendations for improvements in cost reporting. Power and transport (fuel, equipment, spare parts) costs make up 42% of the total amount paid to suppliers. Up to 31 December a total of 6.85 million litres of diesel was purchased at an average price per litre of USD 0.70 compared to USD 0.67 in 2016. Diesel consumption in 2017 was 12.3 litres per tonne of FFB. Mill turbines have been repaired and upgraded to increase the power produced by the mills and reduce reliance on diesel for power generation. In the past, generic spare parts were ordered on the basis of price rather than quality. However, generic parts for screw presses and kernel presses have a much shorter life than genuine high quality press components. Although the genuine parts are more expensive, the longer life results in a reduced cost per hour of operation. Further cost reduction opportunities are being identified, including possible direct container vessel calls to Bialla, which could save significant costs for fertiliser and other imports.

A company lawyer was engaged in 2016 and most legal cases are now dealt with in-house. This lawyer also performs the duties of Company secretary. Ownership of an old copra plantation (520 hectares) adjacent to Hargy mill has been disputed for many years. A court-ordered mediation in November 2016 has resulted in the current landowners accepting an offer from *HOPL* to purchase the plantation on behalf of the original customary landowners. In return *Hargy Oil Palms Ltd* will acquire 26 hectares, which will enable future development of company housing and workshops, and the original landowners will sublease the remaining 490 hectares to the Company for planting with oil palm. This land is immediately adjacent to the existing Hargy mill and is ideal for oil palm. The original stand of senile coconuts will have to be removed to prevent infection with Ganoderma. The plan is to complete all legal requirements in 2018 and have the land ready for clearing and planting in 2019.

The number of employees at *HOPL* in 2017 was 4 932, of which 1 138 (23%) were female. To administer the engagement, transfer and termination of this number of employees, and ensure that all Company policies and legal requirements under the Labour Act are followed, is a major undertaking. Personnel management software has been introduced and is managed by the human resource department. The link between the software and the payroll system has been developed and will go live in early 2018. A system to fingerprint all employees has also been introduced. This system prevents terminated employees from being re-employed and will also be used as a time clock when fully integrated with the payroll. All employees are paid by funds transfer to their bank account. This process is now managed in-house and, with timely payments, there has been an improvement in worker attendance and productivity on pay days.

The minimum wage of PGK 2.47 per hour was increased to PGK 2.56 in April 2017. Salary and wages were increased by a general consumer price index (CPI) increase of 3% as from 4 April. The Minimum Wage Tribunal has approved the Company's application for exemption from paying the national minimum wage of PGK 3.50, based on the non-salary benefits provided to *HOPL* employees.

The Company medical service has continued to improve. An emergency treatment room has been constructed at Head Office, while an X-ray room and laboratory are currently un-

der construction. A second doctor has been recruited and is based at Navo. Clinics are staffed by trained nurses and a health extension officer is based at Navo. Links with the provincial health authority have been established and work has commenced on a PNG Incentive Fund (PNGIF) project for the upgrade of Bialla Health Centre to a rural hospital. The PNGIF will contribute KUSD 2 785 if *HOPL* can commit KUSD 309 through its Tax Credit scheme.

The Bialla International Primary School (BIPS) continues to improve. Currently 159 children are enrolled and an additional 20 students are enrolled at Kimbe International School to do secondary studies. Funding has been approved in the 2018 capital expenditure budget to commence construction of a new school facility at Bialla. This school will cater for primary students and the existing BIPS will later be converted to a secondary school.

Hargy Oil Palms Ltd had two Tax Credit projects approved for 2017. Approximately 8.2 km of the New Britain Highway from Area 7 to Balaha bridge is being upgraded at a cost of KUSD 1 350. The second project approved in 2017 is for the construction of two executive style houses at the Bialla Health Centre, at a cost of KUSD 155. Unfortunately, the government has decided to suspend the Tax Credit scheme to maximise tax revenue. A letter has been sent to the Minister for Agriculture and Livestock requesting that this decision be reversed. Applications for exemption from the suspension are being considered by the Minister for Treasury, and this avenue will be further explored in 2018.

The contract with Islands Petroleum Ltd was renewed in July 2013 for a period of 10 years. Construction of a 500 000-litre bulk tank was completed in 2014 and diesel is now supplied by sea. The diesel pipeline from the wharf to the bulk tank has had to be replaced. Further work is required to relocate and refurbish the filling station to ensure compliance with environmental and safety standards.

The senior management team at *HOPL* has been very stable for the last 12 months. The financial controller was promoted to finance manager in June, on the departure of the previous one. There are 20 expatriates employed, of which nine are heads of department. Four Papua New Guineans with responsibility for internal audit, sustainability, information technology (IT) and smallholders are also members of the senior management team. The expatriates are required to train and mentor their local employees.

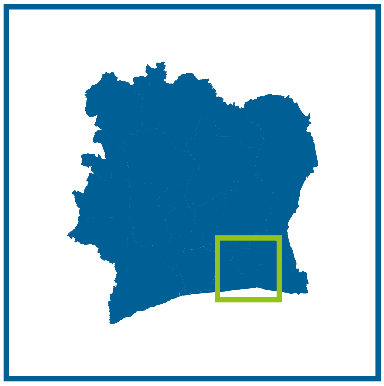
The internal audit team has four members and there has not been any change in personnel in the last year. The internal audit manager reports directly to the general manager. An annual audit program is set by the internal audit committee and three Audit Committee meetings were held in 2017 to consider the findings of the audits. Following the introduction of the new ERP-system, much of the work of the internal audit team was to review Standard Operating Procedures (SOP). These were largely updated by early 2017 and the team is now auditing against those SOPs. No instances of material fraud were uncovered in 2017. There is a whistle blower system in place but only a very few messages were submitted in 2017, and most of these were anonymous. They have all been investigated.

Links between *SIPEF* Indonesia and *HOPL* have also developed. The director of sustainability is in regular contact with the *HOPL* sustainability team and visited once in 2017 to assist with the RSPO audit. An independent sustainability consultant from Australia conducted two visits in 2017 to assist the sustainability team. Continued RSPO certification is very important to the viability of the Company and it is therefore very important to have the support of both.

The director of engineering has visited twice and has made recommendations for the *HOPL* Engineering team to implement. An independent agronomist has been engaged to inspect the Company plantations and he visited twice in 2017. This is in addition to the fertiliser consultant who also visited twice in 2017.

Hargy Oil Palms Ltd is well-regarded as a leading oil palm company and a major driver of the rural economy in Papua New Guinea. The Company will be celebrating its 40th Anniversary in 2018, and a review of the history of the Company reveals that out of hardship and natural disasters has emerged a company that is going from strength to strength. Throughout the 40 years of our existence *SIPEF*, as main shareholder, has continually supported the development of *HOPL*. In 2017 we achieved record yields and extraction rates that would be the envy of very many oil palm businesses anywhere in the world. However, the cost of doing business in Papua New Guinea is high. Over the last three years our focus on finding efficiencies, increasing volumes and reducing our costs has led to a much lower cost of production. However, by world standards our costs remain high and we continue to analyse them on a monthly basis to improve our profitability.


SIPEF
HARGY OIL PALMS LTD



Ivory Coast

General

Ivory Coast achieved growth of around 7% in 2017, in spite of a reduction in revenue caused by a fall in the cocoa price and social unrest at the beginning of the year. Strong growth was accompanied by continuing low inflation, with the consumer price index edging up 1.1% in the course of the year.

These solid results are partly due to a substantial rise in manufacturing production, following efforts to diversify the industry and attract more foreign investors, as part of the government strategy to increase the industry's share of the economy to 40% of gross national product (GNP) by 2020.

The price of cocoa, of which Ivory Coast remains the leading producer worldwide, continued to fall.

Several infrastructure projects were launched in the country, including work to expand and modernise the road network in the commercial capital Abidjan, which should help improve the transport of goods to and from the port, where equipment is also being upgraded. The Government has also accelerated spending on road repairs and extensions within the country, which will increase transport capacity in the country and strengthen business relations with neighbouring countries.

SIPEF-CI

At the end of 2016, we completed negotiations with the majority shareholders of SIPEF-CI, an oil palm plantation company, to sell our remaining 32% in the share capital, for the contractual price of KEUR 11 500. Besides the down payment at time of completion, the balance of the consi deration will be settled by deferred payments, which will be staggered until 2021. The positive time effect on the discount of the deferred receivable has generated in 2017 a financial income of KUSD 1 436.

Plantations J. Eglin SA

2017 was a fairly rainy year for Ivory Coast, which was good news for our banana production. The Harmattan, the cold, dry wind that blows in from the Sahel, which generally severely disrupts flowering at the start of the year, had practically no negative impact on our production. With annual rainfall up between 15% and 50%, depending on the production area, compared with previous years, we had optimal water reserves and we drew on our irrigation network for only short periods compared with past years. This meant that production cycles were satisfying and banana production in the fields was good. The new check dam we built ahead of the rainy season on the new Azaguié 2 production site filled quickly, and we currently have peace of mind that there will be no water shortages in the near future. The project to enlarge the Azaguié 2 site is nearly completed and on schedule, with close to an additional 200 hectares planted. As a result, at the end of 2017 *Plantations J. Eglin SA* had planted bananas over a total area of 742 hectares. The extension programme will continue on Azaguié 1 in 2018

with the development of existing land. This will enable us to optimise the availability of land and foil constant attempts to claim our land in an urbanising region.

At the same time, in order to focus all our efforts on optimising the productivity and quality of our product in an increasingly complex banana market, we have made the decision to put the development of 150 hectares to extend the Motobé site in the Grand Bassam region east of Abidjan on hold for a year. This was originally scheduled to begin in 2018.

Over the financial year 2017, *Plantations J. Eglin* exported 29 771 tonnes of bananas, 24 054 tonnes to the European Union and 4 717 tonnes to regional West African markets, particularly Senegal and Mauritania. The improvement we noted between 2016 and 2017 was mainly due to the enlargement of Azaguié 2 and the improved productivity of Motobé after a very tough 2016 for this site. Volumes remained roughly the same at Azaguié 1 and Agboville, although as a rule, higher prices were generated for exports to the European Union, where the sales result remains higher than in the sub-region. Average export yields can still be improved and we have set targets here without compromising on the product quality expected by our customers in consumer markets, especially in Europe.

We have started work to build and renovate housing and social facilities for our staff across all our production sites, particularly Azaguié, cofunded by the European Union (EU) as part of the Banana Accompanying Measures (BAM). 180 homes will be built over three years, at a total cost of KEUR 1 066, with 59% of the funding provided by the European Union and 41% internally. Other ongoing projects are also focused on improving living conditions, waste management, electrification and drinkable water conveyance, as well as the building of canteens.

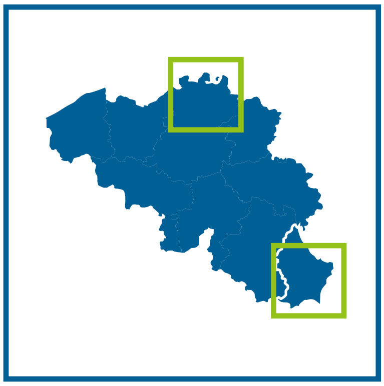
With regard to the environment, we continue to develop selected isolated areas through reforestation, planting Gmelina arborea. In 2017 we also launched the first phase of the thinning of the areas planted a decade ago.

At the end of the year a major customer visited our plantation together with one of its distributors. We passed this 'audit', enabling us to secure good sales for the year to come. Throughout the process and in all communications between production and consumers, it is noted that the supply chain is increasingly focused on high-quality products cultivated in a clean environment, but particularly that we need to remain competitive with regard to consumer prices.

After major congestion problems caused by work in the port compound, the export logistics for our bananas were heavily disrupted and there was damage to some lots of fruit, which is the subject of an insurance claim. To maintain a service with a consistent transit time and secured docking windows for European shipments, some shipping lines have been forced to cancel some intermediate stops in the region, while speeding up vessels to catch up the two or three days lost due to stops in Ivory Coast. With our current combined volume in the banana pool formed with other export producers in Ivory Coast, we observe a general improvement in the organisation of the sector. In the event of a problem, we are better able to manage these situations with our stevedore partners and shippers in West Africa. Containerisation continues to spread globally and that includes West Africa.

The average banana price FOB Europe closed at EUR 472 per tonne, a rise of 3% compared with the previous year. Regional sales revenue was EUR 379 per tonne FOB, around 8% down compared with 2016.

Sales in the horticultural business were up 3%, mainly driven by pineapples and to a lesser degree lotus flowers. Ornamental plant production and sales, which were ideal in the first half of the year, were not in line with our targets and historical volumes, as the heavy rainy season did not allow us to optimise the export specifications of *Cordylines* and *Compactas*, which we usually export in large quantities for Christmas and New Year. However, it should be noted that this sector absorbes a considerable part of the company's general costs. Booming trade in Europe, with efficient export logistics by air accompanied by a good technical itinerary, will enable us to further optimise the profitability of this activity.



Europe

Jabelmalux SA

Jabelmalux SA is the Luxembourg parent company of *PT Umbul Mas Wisesa* (*PT UMW*), *PT Toton Usaha Mandiri* (*PT TUM*) and of *PT Citra Sawit Mandiri* (*PT CSM*), the latest oil palm expansions in North Sumatra, as well as the parent company of *PT Agro Muara Rupit* (*PT AMR*), the most recently acquired concession in the Musi Rawas region in South Sumatra.

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 2017 the *SIPEF* group controlled 99.89% of the company. *SIPEF* aims, in the future, to also acquire the remaining shares that are still in public hands.

ASCO NV – BDM NV

The insurance group *ASCO-BDM* primarily sells maritime and industrial insurance through brokers. *BDM NV* (*BDM*) is an underwriting agency that sells risk coverage in niche markets for account of the insurer *ASCO NV* (*ASCO*) and a number of major international insurers. The intensive partnership between *BDM* and *ASCO* in the same group generates significant advantages: *BDM* has access to extensive underwriting capacity and *ASCO* has access to a powerful commercial tool.

BDM

Sustained restructuring over recent years, primarily in 'Marine' and 'Auto', has generated very good technical results across all *BDM* product lines. Furthermore, the portfolio grew once again in 2017. Premium revenue in 'Cargo' and 'Hull' increased by 4% compared with the previous year, in spite of what continues to be a very competitive market. The 'Property & Casualty' portfolio grew by 2% in 2017. Strong growth in the niche branches, such as 'Engineering' and 'P & C Private and Small Commercial', was tempered somewhat by a deliberate reduction of the share of more volatile business. The overall premium volume increased from EUR 53 million at the end of 2016 to EUR 54 million at the end of 2017.

ASCO

Gross premiums at *ASCO* rose by 1% in 'Property & Casualty', but fell by 22% in 'Marine' as a result of restructuring. This approach paid dividends in terms of technical results, with *ASCO* posting an even better technical result at the end of 2017 than at the end of 2016. Together with well-controlled overheads, and in spite of disappointing investment results (in line with the performance of the financial markets), this generated a consolidated result after tax under 'International Financial Reporting Standards' (IFRS) at the end of 2017 of KEUR 3 095, compared with KEUR 1 376 at the end of 2016.

After the acquisition by *ASCO* of the Luxembourg reinsurer Canal Re in 2017, the latter became a 100% subsidiary and joined *ASCO*'s reinsurance programme.

Disposal

Lastly, on 18 December 2017 Ackermans & van Haaren and *SIPEF*, which each hold 50% of the shares of insurance group *ASCO-BDM*, announced the sale of 100% of the shares of *ASCO-BDM* to The Navigators Group, Inc. for a total price of EUR 35 million. This transaction is, of course, subject to the approval of the relevant regulators.

The Navigators Group is an international insurance holding company that specialises in niche insurance, with activities in the United States of America, the United Kingdom, the European continent and Asia.

The acquisition of *ASCO-BDM* plays a central role in the continued expansion of The Navigators Group in Europe. For *SIPEF*, this sale fits in with the move to concentrate on the core business of tropical agro-industry in Southeast Asia, which is nearing completion. We expect the transaction to be finalised by the end of the first six months of 2018, generating a gross revenue of KUSD 20 783 and a consolidated gain of around USD 7 million for the *SIPEF* group.

Palm oil being transported by truck from the mill to the privately owned export facilities in Papua New Guinea

Group production (in tonnes)

Total of the consolidated companies

	2017			2016		
Products	**Own**	**Outgrowers**	**Total**	**Own**	**Outgrowers**	**Total**
Palm oil	**272 312**	**58 646**	**330 958**	**246 121**	**51 584**	**297 705**
Indonesia	**190 623**	**3 098**	**193 721**	**177 261**	**2 959**	**180 220**
Tolan Tiga group	72 809	1 108	73 917	63 955	903	64 858
Umbul Mas Wisesa group	39 640	0	39 640	37 221	344	37 565
Agro Muko group	76 495	1 821	78 316	76 085	1 712	77 797
PT Dendymarker	1 679	169	1 848	0	0	0
Papua New Guinea	81 689	55 548	137 237	68 860	48 625	117 485
Palm kernels	**42 429**	**659**	**43 088**	**40 067**	**612**	**40 679**
Indonesia	42 429	659	43 088	40 067	612	40 679
Tolan Tiga group	17 844	260	18 104	16 160	209	16 369
Umbul Mas Wisesa group	6 535	0	6 535	6 108	70	6 178
Agro Muko group	17 592	353	17 945	17 799	333	18 132
PT Dendymarker	458	46	504	0	0	0
Palm kernel oil	**7 090**	**4 917**	**12 007**	**5 942**	**4 365**	**10 307**
Papua New Guinea	7 090	4 917	12 007	5 942	4 365	10 307
Rubber	**8 179**	**0**	**8 179**	**9 017**	**175**	**9 192**
Indonesia	8 179	0	8 179	8 185	0	8 185
Tolan Tiga group	6 015	0	6 015	6 339	0	6 339
Agro Muko group	2 164	0	2 164	1 846	0	1 846
Papua New Guinea	0	0	0	832	175	1 007
Tea	**2 402**	**0**	**2 402**	**2 940**	**0**	**2 940**
Indonesia	2 402	0	2 402	2 940	0	2 940
Pineapple flowers ('000 units)	**621**	**0**	**621**	**569**	**0**	**569**
Ivory Coast	621	0	621	569	0	569
Bananas	**29 772**	**0**	**29 772**	**24 991**	**0**	**24 991**
Ivory Coast	29 772	0	29 772	24 991	0	24 991

Group planted area (in hectares) *

Total of the consolidated companies

	2017			2016		
Estates	**Mature**	**Immature**	**Planted**	**Mature**	**Immature**	**Planted**
Oil palms	**56 928**	**12 376**	**69 304**	**49 324**	**11 312**	**60 636**
Indonesia	44 718	10 965	55 683	38 046	8 969	47 015
Tolan Tiga group	12 843	1 829	14 672	12 354	2 393	14 747
Umbul Mas Wisesa group	9 618	307	9 925	9 618	87	9 705
Agro Muko group	15 406	1 927	17 333	15 851	1 526	17 377
Musi Rawas group	901	6 755	7 656	223	4 963	5 186
PT Dendymarker	5 950	147	6 097	0	0	0
Papua New Guinea	12 210	1 411	13 621	11 278	2 343	13 621
Rubber	4 896	1 529	6 425	4 606	1 720	6 326
Indonesia	4 896	1 529	6 425	4 606	1 720	6 326
Tolan Tiga group	3 598	1 090	4 688	3 479	1 125	4 604
Agro Muko group	1 298	439	1 737	1 127	595	1 722
Tea	**1 708**	**44**	**1 752**	**1 704**	**40**	**1 744**
Indonesia	1 708	44	1 752	1 704	40	1 744
Pineapple flowers	**23**	**19**	**42**	**23**	**19**	**42**
Ivory Coast	23	19	42	23	19	42
Bananas	**630**	**60**	**690**	**630**	**60**	**690**
Ivory Coast	630	60	690	630	60	690
Others	**0**	**0**	**0**	**0**	**0**	**0**
Total	**64 185**	**14 028**	**78 213**	**56 287**	**13 151**	**69 438**

* = actual planted hectares

Group planted area (in hectares) *

Share of the group

	2017		
	Planted	% of interest	Group's share
Oil palms	**69 304**	**92.57%**	**64 153**
Indonesia	**55 683**	**90.75%**	**50 532**
Tolan Tiga group	14 672	86.54%	12 697
PT Tolan Tiga	7 966	95.00%	7 568
PT Eastern Sumatra	2 771	90.25%	2 501
PT Kerasaan	2 317	54.15%	1 255
PT Mukomuko Agro Sejahtera	1 591	85.74%	1 364
PT Timbang Deli	27	36.10%	10
Umbul Mas Wisesa group	9 925	94.90%	9 419
PT Umbul Mas Wisesa	7 049	94.90%	6 690
PT Toton Usaha Mandiri	1 135	94.90%	1 077
PT Citra Sawit Mandiri	1 741	94.90%	1 652
Agro Muko group	17 333	90.25%	15 643
PT Agro Muko	17 333	90.25%	15 643
Musi Rawas group	7 656	94.97%	7 271
PT Agro Kati Lama	3 688	95.00%	3 504
PT Agro Muara Rupit	2 410	94.90%	2 287
PT Agro Rawas Ulu	1 558	95.00%	1 480
PT Dendymarker	6 097	90.25%	5 503
Papua New Guinea	**13 621**	**100.00%**	**13 621**
Hargy Oil Palms Ltd	13 621	100.00%	13 621
Rubber	**6 425**	**84.02%**	**5 398**
Indonesia	**6 425**	**84.02%**	**5 398**
Tolan Tiga group	4 688	81.71%	3 831
PT Bandar Sumatra	1 158	90.25%	1 045
PT Timbang Deli	739	36.10%	267
PT Melania	2 791	90.25%	2 519
Agro Muko group	1 737	90.25%	1 568
PT Agro Muko	1 737	90.25%	1 568
Thee	**1 752**	**90.25%**	**1 581**
Tolan Tiga groep	1 752	90.25%	1 581
PT Melania	1 752	90.25%	1 581
Pineapple flowers	**42**	**100.00%**	**42**
Ivory Coast			
Plantations J. Eglin SA	42	100.00%	42
Bananas	**690**	**100.00%**	**690**
Ivory Coast			
Plantations J. Eglin SA	690	100.00%	690
Total	**78 213**	**91.88%**	**71 865**

* = actual planted hectares

Age profile (in hectares)

	Oil palms							Rubber trees		
Plant year	Tolan Tiga group	Umbul Mas Wisesa group	Agro Muko group	Musi Rawas group	PT Dendy-marker	Hargy Oil Palms	Total	Tolan Tiga group	Agro Muko group	Total
2017	227	49	964	2 680	0	609	4 529	193	40	233
2016	343	171	419	2 625	0	231	3 788	257	62	319
2015	1 037	87	725	1 451	0	743	4 043	237	58	295
2014	942	0	757	678	515	1 369	4 262	150	75	225
2013	652	0	1 031	223	798	1 092	3 797	208	205	413
2012	1 462	182	719	0	123	1 446	3 932	187	195	382
2011	754	755	26	0	0	876	2 411	166	100	266
2010	625	1 515	304	0	0	618	3 063	139	150	288
2009	103	1 658	504	0	0	253	2 518	43	57	100
2008	395	1 960	167	0	0	197	2 718	108	117	224
2007	319	2 152	101	0	0	1 737	4 308	254	173	426
2006	619	367	672	0	0	853	2 511	166	188	354
2005	652	1 004	438	0	0	173	2 266	292	0	292
2004	133	0	759	0	0	160	1 052	219	0	219
2003	1 163	0	131	0	0	148	1 442	256	0	256
2002	470	0	63	0	0	331	865	190	0	190
2001	481	0	578	0	0	901	1 960	92	0	92
2000	357	0	1 116	0	0	392	1 865	340	78	418
1999	595	0	1 888	0	360	608	3 451	157	83	240
1998	467	0	2 327	0	3 404	627	6 824	256	0	256
1997	756	0	676	0	636	121	2 189	230	158	388
1996	923	0	163	0	260	0	1 346	181	0	181
1995	331	25	155	0	0	136	646	166	0	166
1994	498	0	496	0	0	0	994	89	0	89
1993	332	0	147	0	0	0	479	112	0	112
Before 1993	36	0	2 009	0	0	0	2 044	0	0	0
	14 672	**9 925**	**17 333**	**7 657**	**6 097**	**13 621**	**69 304**	**4 688**	**1 737**	**6 425**
Average age	**11.37**	**8.61**	**13.72**	**1.10**	**15.53**	**8.67**	**10.26**	**11.76**	**8.71**	**10.93**

The release of baby sea turtles on the beach of our biodiversity project in the southwest of Sumatra, Indonesia

SIPEF: Lasting Sustainability

At the age of 99 years, *SIPEF* is looking confidently into its next century. This exceptional longevity is owed to strong values, those of a responsible economic operator, actively pursuing operational excellence, and maximising its positive impacts for all stakeholders. The wealth of experience accumulated by *SIPEF* is further enriched by an open attitude to change.

SIPEF has adapted to evolving social, economic and ecological environments, and has adopted best management practices as they became available. Today, *SIPEF* remains active in improving its performance in all sectors of its operations, including sustainability, enabling all levels of its management and operations to achieve excellence.

In 2014, the board of directors of *SIPEF* decided that the key commitments and guidelines of the Group should be collated in a single, top-level document. The *SIPEF* Responsible Plantations Policy (RPP) was adopted at the November 2014 board meeting.

The four pillars of the *SIPEF* RPP are:

- responsible social practices
- responsible plantation and processing management
- responsible developments of new operations
- full traceability.

The *SIPEF* RPP is discussed annually by the *SIPEF* board of directors. It is revised annually, to reflect the strengthening of existing commitments, the changes in standards and practices, and to ensure that all operations meet the *SIPEF* RPP principles and goals.

The scope of the RPP includes the operations managed by *SIPEF* or in which *SIPEF* has a controlling stake, as well as scheme smallholders and associated smallholders delivering products to *SIPEF* mills. We encourage independent local farmers to join our efforts. We provide them with clear information on the costs and benefits of joining a certified supply base, technical support, and guaranteed access to the market.

With the convergence of the High Carbon Stock Approach (HCSA) and the High Carbon Stock Study (HCS+) into a common methodology called HCSA, the 'no deforestation' commitment of the RPP was updated in November 2017.

SIPEF: Lasting Sustainability

Two examples of protected species in our biodiversity project in Bengkulu, Indonesia

Combined HCV/HCS assessments can now be conducted, resulting in clear 'go' and 'no-go' areas for the development of oil palm areas. This methodology works well for already fragmented landscapes, such as Indonesia, but it still requires improvements to be applicable in High Forest Cover Landscapes (HFCL) in countries, such as Papua New Guinea. We are actively participating to adapt the HCSA tools to Papua New Guinea and other HFCL countries. This is important for our own potential expansion, and critical for the smallholders in these areas, who are fully dependent on oil palm.

The *SIPEF* RPP is the sustainability roadmap for all our operations. Progress is reviewed as a normal part of management reports.

The reduction of the Greenhouse Gas (GHG) footprint of our palm oil mills is a constant focus. Five of our nine mills had been equipped with methane capture mechanisms prior to 2017. In the course of 2017, three major projects were commissioned, to support reduced GHG emissions.

First, the methane capture mechanism of our Perlabian mill was upgraded to a latest-generation, reactor-based process. It is now the fourth mill with an anaerobic reactor for methane capture, along with the Umbul Mas Wisesa (*UMW*), Mukomuko and Barema mills.

Second, going one step further, our first biogas electricity generator has started operations in Mukomuko. After expected minor teething problems, Mukomuko is now supplying power to the public grid, increasing the electricity supply of a rural area of Sumatra. We are particularly proud of this new facility. It is an example of meaningful community development.

Third, the Bukit Maradja composting plant has been producing high-quality compost continuously during the year, following its commissioning at the very end of 2016. The 'aerated bunkers' concept allows for no discharge from the compost plant, as the Empty Fruit Bunches (EFB) and the liquid effluent are contained in purpose-built bunkers. Aerobic conditions are maintained throughout the process, producing no methane.

Long-implemented practices, such as 'zero burning' and the use of integrated pest management plans are actively maintained. Positive social contributions in the operations and their surroundings are standard practice, with a strong focus on education in Indonesia, as well as in Papua New

Guinea, where a new school was built by *Hargy Oil Palms Ltd*, supported by the 'Incentive Fund', partner of the Government in Papua New Guinea, and by the Australian Government development agency, which was opened in November 2017.

SIPEF operations are primarily certified under two recognised international standards, either the Roundtable on Sustainable Palm Oil (RSPO) for the oil palm operations, or the Sustainable Agriculture Standard, which is certified by the Rainforest Alliance for tea, bananas and rubber.

Both standards implement strict third-party audits, which guarantee the integrity of the certification process and its value to the continuous improvement of our operations.

The first RSPO certification was obtained in 2009, for the three mills and kernel crushing plants of *Hargy Oil Palms Ltd* in Papua New Guinea.

As of 31 December 2017, all nine *SIPEF* palm oil mills in Papua New Guinea and Indonesia, with their entire supply bases, are certified RSPO. The entire Crude Palm Oil (CPO), Palm Kernel (PK), and Crude Palm Kernel Oil (CPKO) production of *SIPEF* is certified RSPO, and is fully traceable to the field. In 2017, 99% of all these products were sold in physical certified supply chains.

The oil palm projects still in development will be certified as soon as their mills are commissioned, or as they reach maturity if building a mill would not be economical.

Our banana operations in Ivory Coast, managed by *Plantations J. Eglin*, and our *Cibuni* tea estate in Indonesia, were certified by the Rainforest Alliance in 2016.

In 2017, our first rubber operation was certified by the Rainforest Alliance. *MAS* Palembang in South Sumatra received its certificate in August 2017. This will be followed by Bandar Pinang in North Sumatra and Sei Jeringing in Agromuko in 2018. We had planned on achieving Rainforest Alliance certification for all three operations in 2017, but the acquisition of *Dendymarker Indah Lestari* changed our priorities for the year. Both operations are slated for audit in the first half of 2018, and are well prepared.

Apart from the two core standards, other more specific certification standards have also been adopted. For palm oil, three of our mills in Indonesia are certified under the International Sustainability and Carbon Certification (ISCC) standard.

Finally, our five Indonesian mills are certified under the Indonesian Sustainable Palm Oil standard (ISPO). This is a national initiative of the Government of Indonesia to demonstrate the sustainability of the local industry.

SIPEF remains an active member of the standards to which it adheres. In the RSPO, *SIPEF* is present on the Board of Governors as an alternate member representing Papua New Guinea and the Solomon Islands; in the Trade and Traceability Standing Committee (T&T SC); in the working group for Biodiversity and HCV; on Compensation panels; and for 2017/2018 as a member of the working group revising the Principles and Criteria of the RSPO.

In 2016, *SIPEF* joined the ISCC as a full member, and is active in the ISCC Technical Committee for Southeast Asia.

SIPEF FOUNDATION

The *SIPEF* Foundation is active in Indonesia, running two projects in Mukomuko, in the southwest of Sumatra, in the province of Bengkulu.

Started in 2010, the sea turtle project is one of the very few such community-based conservation projects in Sumatra. A strip of beach of about five kilometers is watched for egg-laying by sea turtles by two cooperating villages. The eggs are collected to protect them from scavenging monitor lizards, and are hatched in controlled facilities. In recent years, changing sea currents have brought pebbles to the beach, reducing the area available to turtles. Egg collections in 2017 have remained low, just over 1 000 eggs from Olive Ridley turtles (Lepidochelys olivacea). We are continuing to support the local authorities and the villagers committed to this project, to be ready when the beach conditions have improved and turtles once again land in great numbers. We were encouraged in the early days of 2018, when a Leatherback turtle (Dermochelys coriacea) was sighted laying eggs, the first in seven years. Sea turtles have long memories, and always return to the beach where they were born.

SIPEF: Lasting Sustainability

Furthermore, our major operation is the *SIPEF* Biodiversity Indonesia (SBI) project which manages a 12 755 hectare area of forest, acting as a buffer to the Kerinci Seblat National Park. It is one of only 16 projects in Indonesia to have been granted a licence for 'Ecosystem Restoration' by the Ministry of Forestry. SBI employs 35 people in its Mukomuko field office, from seasoned rangers to younger graduates, hired mostly from the surrounding villages.

The first patrols and the first camera trapping took place in 2015. In 2016 the first community groups started reforestation work within the project area. More groups were set up in 2017, almost bringing the project to its full size.

The most degraded zones have been partly allocated to villagers, gathered in groups registered with the Forestry Services and controlled by SBI. Only tree crops are planted in the individual plots, a mix of more than twenty varieties of fruit trees, rubber and timber. Twelve groups are operating as of the end of 2017, and have rehabilitated 176 hectares of degraded land. SBI alone planted 138 hectares with timber species in the same period.

The 'forestry farmers' groups are a critical aspect of the project, as important for its long-term success as the patrols. Their strong relationship with SBI ensures that the goals of the project are understood by the surrounding communities, and largely supported. We continue to cut down oil palms grown illegally in the project area. While in 2016, 396 palms were destroyed, in 2017 we rid the project area of 1 438 palms. The felling was carried out with the consent of the farmers, who understood both the land rights and the conservation situation. Most of these farmers have joined the project groups.

SBI has one base camp with a fire watch tower at the north end of its area, and is building a second camp to cover the centre of its concession. Each base camp fulfills three main functions: a permanent presence in known entry points to the project; staging areas for patrols and biodiversity monitoring; and nursery sites for upcoming planting activities.

As in 2015 and 2016, also in 2017 patrolling has been an important activity of SBI. Indeed, the SBI team logged 1 601 man-days of patrolling, against 833 in 2016. Close co-operation with the Forestry Services and the security forces continues, to suppress illegal logging, which remains a clear and present threat.

Camera trapping and biodiversity monitoring are two of the most rewarding activities of the project. The rich megafauna present in our area continues to be recorded: tigers, clouded leopards, Malayan sunbears, tapirs, barking deers and great argus pheasants. We had two interesting sightings this year, one of a rather large golden cat, and another of the elusive dhole, a wild dog species rarely sighted.

WASTE TO VALUE

INTRODUCTION

SIPEF group owns and operates six palm oil mills in Indonesia and three palm oil mills in Papua New Guinea, which processed a total of 1 424 531 tonnes of Fresh Fruit Bunches (FFB) in 2017 and this generated an estimated 1 160 235 M^3 of Palm Oil Mill Effluent (POME) and 313 398 tonnes of Empty Fruit Bunches (EFB).

Digester (top) and screw press (bottom), with fibre waste in the foreground

Loading ramp full of FFB

Removal of EFB, loaded in a truck

In the past both POME and EFB have been treated as waste products of the palm oil milling process, and have been seen to have added very little to no value to the business. In fact, these by-products added additional costs to the business, due to the secondary processes required to dispose of them.

MILL	FFB Processed (tonnes)	POME (M^3)	EFB (tonnes)	Biogas (Nm^3)
BMPOM	109 750	85 944	24 145	3 055 200
PLPOM	202 912	114 047	44 641	5 589 769
UMWPOM	165 200	109 873	36 344	3 153 033
MMPOM	233 150	185 070	51 293	4 162 495
BTPOM	130 622	117 666	28 737	n/a
DMPOM*	25 938	23 344	5 707	n/a
HPOM	171 839	179 700	37 805	n/a
NPOM	218 042	229 273	47 969	n/a
BPOM	167 078	115 318	36 757	3 399 247
TOTAL	**1 424 531**	**1 160 235**	**313 398**	**19 359 744**

Processing figures

**Full year 2017 processing*

Two steam turbines in the foreground, and the steam expansion tank in the background

Doors of a boiler furnace

The secondary process for the treatment of POME is traditionally in open lagoon systems, which produces large amounts of methane gas from the anaerobic process. This methane gas has the Global Warming Potential (GWP) of 21 times that of carbon dioxide and EFB has traditionally been applied back to the field as a form of organic fertiliser.

SIPEF's commitment to reducing greenhouse gas (GHG) emissions is demonstrated by the material capital investment we have made to install methane capture facilities at five of our nine palm oil mills, including the composting facility located at Bukit Maradja palm oil mill.

BIOGAS/METHANE CAPTURE AND POWER GENERATION

One of the key factors considered by the *SIPEF* group to reduce GHG emissions and to provide a sustainable income to its shareholders was the construction of methane capture facilities at Mukomuko (MMPOM), Bukit Maradja (BMPOM), Perlabian (PLPOM), Umbul Mas Wisesa (UMWPOM) and Barema (BPOM) palm oil mills, which are all registered as Clean Development Mechanism (CDM) projects with the United Nations Framework Convention on Climate Change (UNFCCC).

The methane capture facilities at all of the above mills have the facility to either combust the methane in a biogas generator, boiler or in an open flare.

Mukomuko palm oil mill produces biogas with methane (CH4) as a major gas fraction from the POME, and this is recovered in the methane capture facility by changing the anaerobic lagoons to a sealed reactor tank.

The production of biogas at Mukomuko palm oil mill is a mesophilic process which operates at temperatures between 35-40 degrees Celsius in the reactor tank and this produces on average 17 Nm^3 biogas per tonne of FFB processed or 40 Nm^3 biogas per cubic meter of POME, with an average Chemical Oxygen Demand (COD) of 75 000 mg per litre. The biogas that is produced in the reactor tank goes through a pretreatment process before it can be utilised in the biogas engine due to the high moisture and hydrogen sulphide (H2S) content of the biogas. The pretreatment process consists of a gas holder, a scrubber to reduce the H2S from 2 500 ppm to < 100 ppm, a dehumidifier to reduce the moisture content, a gas blower and finally a gas filter, before the biogas enters the gas engine.

The gas engine used at Mukomuko palm oil mill is a Jenbacher JGS 320 GS-BL biogas engine with a power rating of 1 067 kWe, of which approximately 950 kWh is exported to the Perusahan Listrik Negara (PLN) public power grid in Bengkulu province and balance is used to provide electricity to operate the biogas plant and parasitic load of the biogas engine.

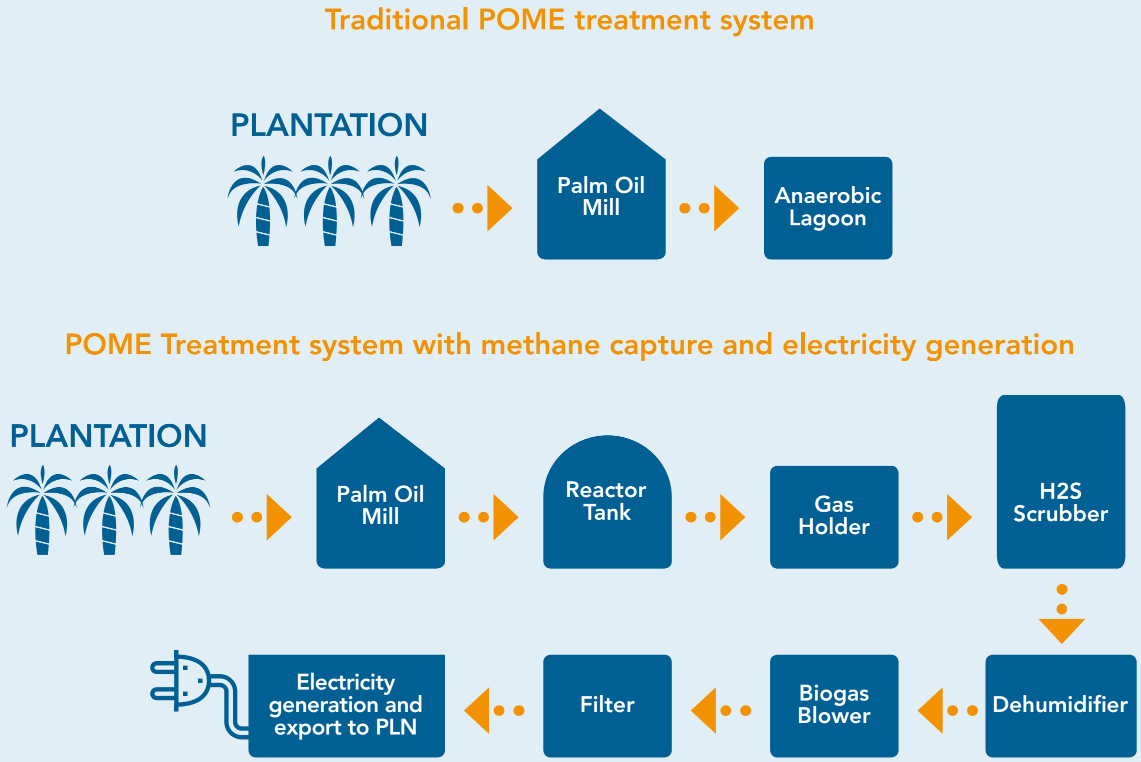
The business entered a new and exciting phase in October 2017 with the first export of electricity to PLN which is the government electricity provider in Indonesia.

Month	Kilowatt Hours (kWh)	Revenue (USD)
October 2017	440 040	34 121
November 2017	435 300	33 754
December 2017	431 880	33 420
TOTAL	1 307 220	101 296

Electricity exported to PLN

Anaerobic reactor tank (centre), and part of the methane capture facilities

As at 31 December 2017 Mukomuko biogas plant had exported 1 307 220 kWh of electricity to PLN and generated revenue of USD 101 296. It is the first biogas plant within the *SIPEF* group that is currently exporting electricity to PLN, but its success will pave the way for future biogas engines at mills which suit a viable business plan.



Process Flow

COMPOST

Compost is produced through a combination of the two largest constituents of mill wastes, POME and EFB, as well as other by-products, decanter cake and boiler ash. Compost is applied in the estates as a soil conditioner in an effort to reduce the use of inorganic fertilisers.

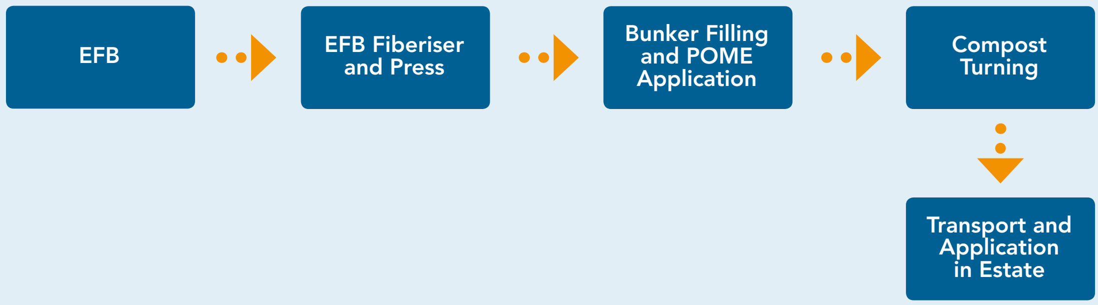
The Bukit Maradja composting plant was commissioned at the end of 2016, with the first batch of compost being delivered to the estate in January 2017. The aerated bunker composting plant is designed to utilise 100% of the EFB and POME from Bukit Maradja palm oil mill, to produce a nutrient rich organic fertiliser, which will partially become a replacement for the current inorganic fertiliser. The aerated bunker system always maintains aerobic conditions, so no methane is produced during the composting process and this is achieved by underfloor aeration and regular turning of the bunkers. Parameters such as oxygen and temperature levels are continuously monitored and logged. It is expected that the operation will comply with International Sustainability and Carbon Certification (ISCC) standards.

The composting plant comprises eight aerated bunkers which process waste from Bukit Maradja palm oil mill, with an input of 24 145 tonnes Empty Fruit Bunches (EFB) and 85 944 M^3 Palm Oil Mill Effluent (POME) for 2017. The compost plant also utilises decanter cake and boiler ash as part of the composting process. As such, composting of this waste is an attractive option for resource recovery and environmental improvement. Monthly monitoring of the nutrient levels of the compost plays an integral part of ensuring the compost is fit for its purpose. It is expected that the compost will replace up to 60% of the inorganic fertiliser used at Bukit Maradja estate.

COMPOST FLOW CHART

Previous System

New Aerated Bunker Composting System



Compost Process Flow

Loading shredded EFB into the feeder of one of the composting bunkers of Bukit Maradja

BIOMASS POWER GENERATION

The three sources of biomass produced by a palm oil mill are Palm Kernel Shells (PKS), Mesocarp fibres and Empty Fruit Bunches (EFB). PKS and Mesocarp fibres are the two main biomass residues currently being used as fuel in boilers in a palm oil mill, and EFB is used for either producing compost or is left to mulch in the estate.

Unprocessed EFB is very wet, with a moisture content of approximately 60-65%, and is not suitable for fuel in a boiler due to this high moisture content. In addition, the physical size of the EFB does not allow for efficient burning in the biomass boiler.

DIESEL CONSUMPTION	LITRES	Litres/tonne FFB
2014	1 732 442	2.15
2015	1 641 413	1.99
2016	1 187 122	1.43
2017	1 150 508	1.33

Diesel Consumption

Gas scrubber next to the anaerobic reactor tank

Close-up of the gas engine

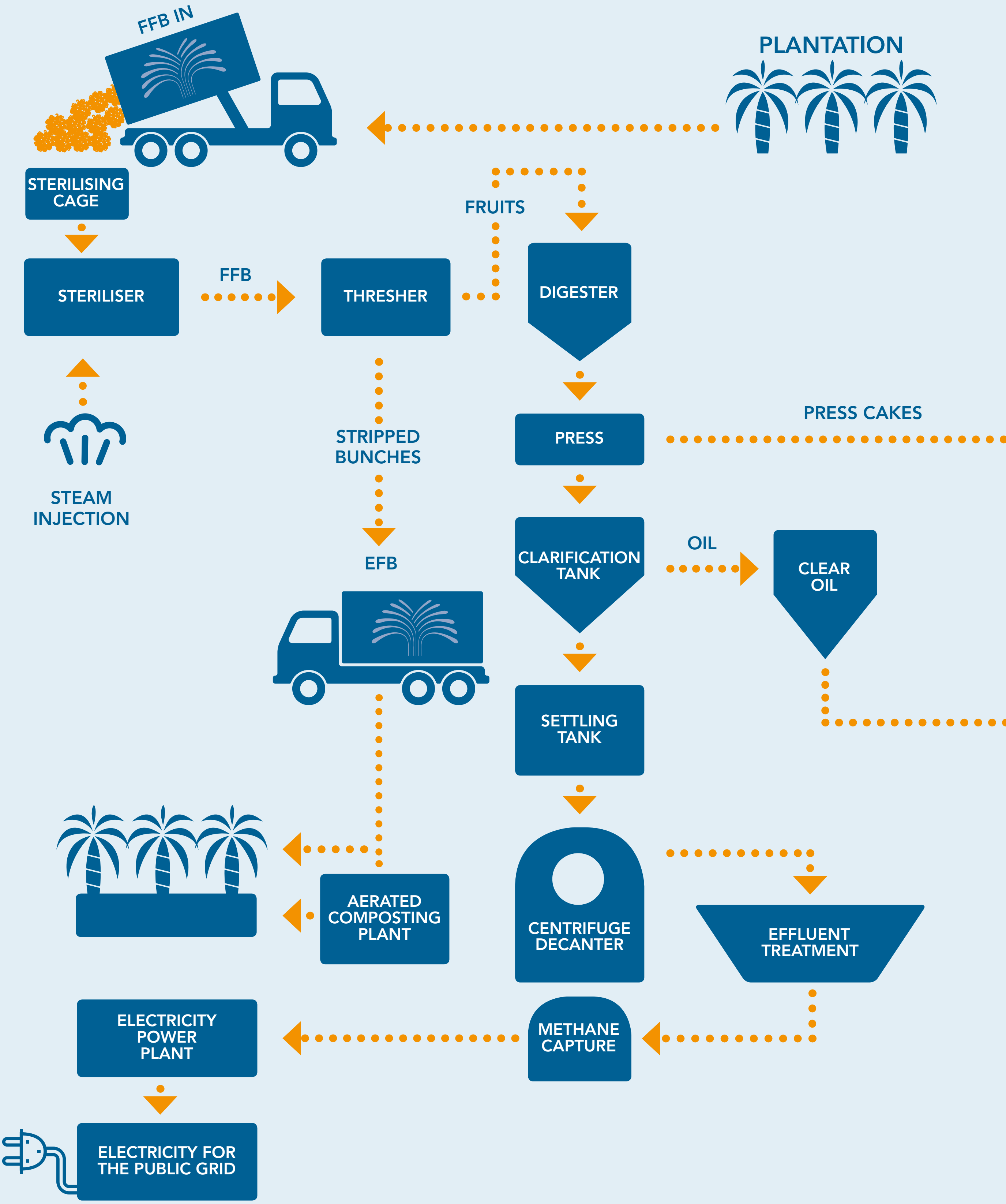
All palm oil mills within the *SIPEF* group utilise PKS and Mesocarp fibre as boiler fuel, to generate electricity from steam turbines, which is the traditional practice seen in most palm oil mills. The electricity generated from these steam turbines is used to operate the mill and therefore, reduce the reliance on fossil fuels such as diesel. More effective utilisation of this resource in Indonesia in 2017 has seen a decrease in diesel consumption of more than 500 000 litres from 2014 to 2017, or an estimated saving of more than USD 390 000.

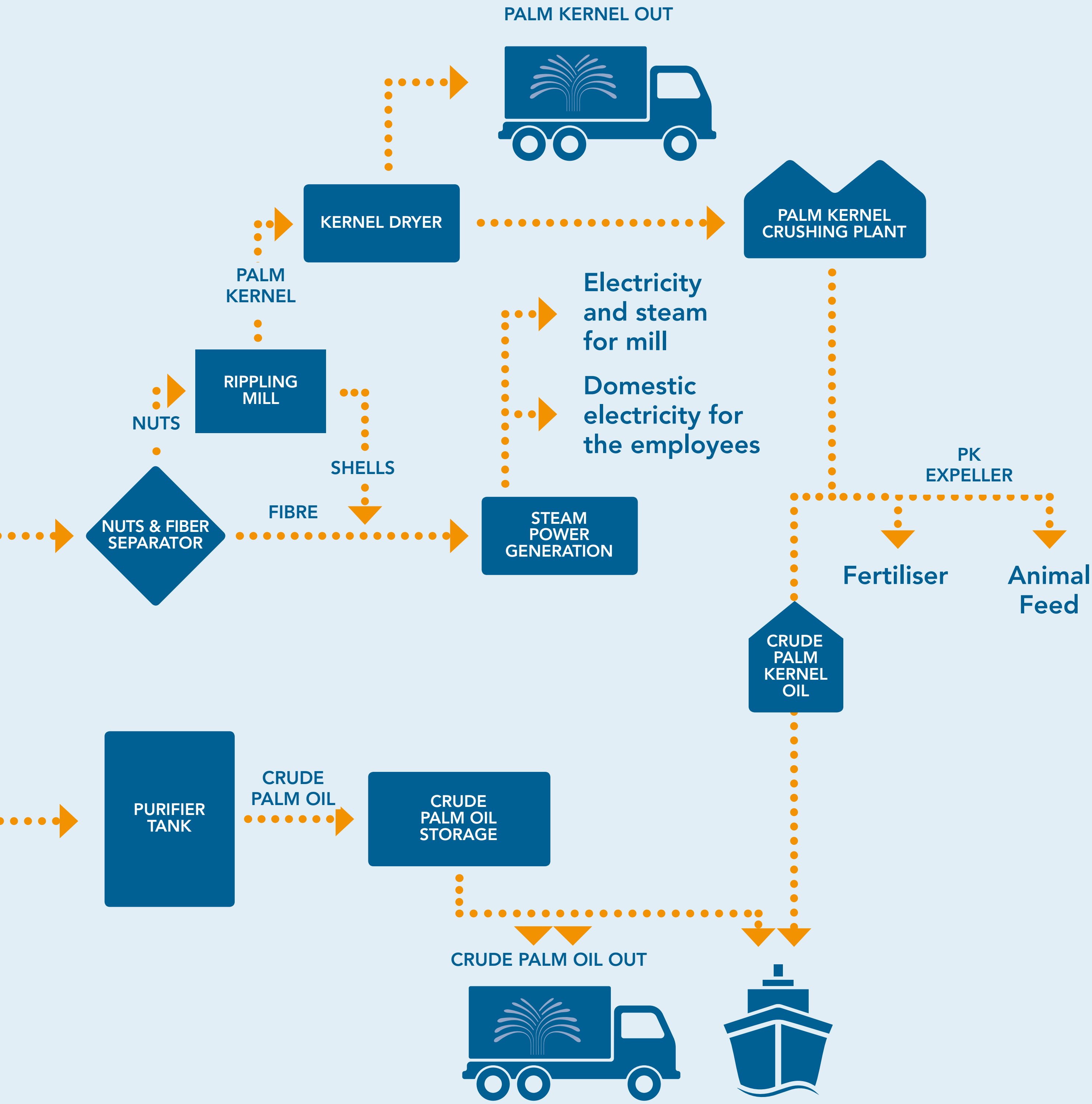
At Mukomuko palm oil mill the EFB is processed through a shredder and empty bunch press, which reduces the fuel size, extracts a small amount of oil, but also reduces the moisture content to <50%, which then makes it suitable to utilise as fuel for the biomass boiler.

The steam produced from the biomass boilers produces electricity through steam turbines, with the exhaust steam being used in the mill process. The electricity generated from the steam turbines at Mukomuko palm oil mill is used to operate the mill and to also supply electricity to the Company's external operations, which is unique to Mukomuko palm oil mill.

In 2017, the steam turbines at Mukomuko palm oil mill produced a total of 4 759 004 kWh of which 1 525 560 kWh was utilised by the Company's externally operations, such as the central transport workshop, general manager's offices and housing.

Crude palm oil milling process




PALM KERNEL OUT
KERNEL DRYER
PALM KERNEL CRUSHING PLANT
PALM KERNEL
RIPPLING MILL
NUTS
Electricity and steam for mill
Domestic electricity for the employees
SHELLS
NUTS & FIBER SEPARATOR
FIBRE
STEAM POWER GENERATION
PK EXPELLER
Fertiliser
Animal Feed
CRUDE PALM KERNEL OIL
PURIFIER TANK
CRUDE PALM OIL
CRUDE PALM OIL STORAGE
CRUDE PALM OIL OUT

Partial view of the control panels of the power generation facilities

Financial statements

Consolidated balance sheet

In KUSD	Note	2017	2016*	01/01/16*
Non-current assets		**747 529**	**501 560**	**482 490**
Intangible assets	8	306	136	57
Goodwill	8	103 008	1 348	1 348
Biological assets - bearer plants	9	268 086	178 346	163 505
Other property, plant & equipment	10	346 265	236 643	240 658
Investment property	11	0	0	3
Investments in associates and joint ventures	27	8 116	60 937	56 875
Financial assets		78	22	3 822
Other financial assets	12	78	22	3 822
Receivables > 1 year		6 643	8 323	0
Other receivables	13	6 643	8 323	0
Deferred tax assets	26	15 027	15 805	16 222
Current assets		**159 479**	**113 772**	**96 542**
Inventories	14	28 879	23 757	21 301
Biological assets	15	7 018	4 133	1 896
Trade and other receivables		72 562	62 681	39 194
Trade receivables	29	36 465	40 401	22 801
Other receivables	16	36 097	22 280	16 393
Current tax receivables	26	1 610	4 084	5 224
Investments		0	0	0
Other investments and deposits		0	0	0
Derivatives	29	579	0	0
Cash and cash equivalents	21	36 180	17 204	19 128
Other current assets		641	1 913	2 377
Assets held for sale	22	12 010	0	7 422
Total assets		**907 008**	**615 332**	**579 032**

* Restated due to the reclassification of the land rights from intangible assets to tangible assets. We refer to note 36.

In KUSD	Note	2017	2016*	01/01/16*
Total equity		**667 776**	**473 126**	**438 829**
Shareholders' equity	17	634 636	448 063	415 429
Issued capital		44 734	37 852	45 819
Share premium		107 970	17 730	21 502
Treasury shares (-)		-8 308	-7 425	-6 817
Reserves		502 732	417 997	372 430
Translation differences		-12 492	-18 091	-17 505
Non-controlling interests	18	33 140	25 063	23 400
Non-current liabilities		**113 382**	**45 146**	**42 398**
Provisions > 1 year	19	2 898	1 702	1 257
Provisions		2 898	1 702	1 257
Deferred tax liabilities	26	51 326	31 582	30 632
Trade and other liabilities > 1 year		0	0	0
Financial liabilities > 1 year (incl. derivatives)	21	40 000	0	0
Pension liabilities	20	19 158	11 862	10 509
Current liabilities		**125 850**	**97 060**	**97 805**
Trade and other liabilities < 1 year		39 931	30 515	25 401
Trade payables	29	18 243	16 630	11 675
Advances received	29	678	11	285
Other payables	26	8 530	8 223	13 212
Income taxes	26	12 480	5 651	229
Financial liabilities < 1 year		79 877	62 265	69 649
Current portion of amounts payable after one year	21	10 000	0	0
Financial liabilities	21	69 877	62 265	69 649
Derivatives	29		1 176	837
Other current liabilities		6 042	3 104	1 439
Liabilities associated with assets held for sale	22	0	0	479
Total equity and liabilities		**907 008**	**615 332**	**579 032**

* Restated due to the reclassification of the land rights from intangible assets to tangible assets. We refer to note 36.

Consolidated income statement

In KUSD	Note	2017	2016
Revenue	7	321 641	266 962
Cost of sales	7	-199 725	-199 107
Changes in fair value	7	-1 442	5 937
Gross profit	7	**120 474**	**73 792**
General and administrative expenses		-31 175	-26 960
Other operating income/(charges)	23	80 287	647
Operating result		**169 586**	**47 479**
Financial income		1 644	120
Financial charges		-3 212	- 879
Exchange differences		1 248	- 694
Financial result	24	**- 320**	**-1 453**
Profit before tax		**169 266**	**46 026**
Tax expense	26	-24 045	-12 384
Profit after tax		**145 221**	**33 642**
Share of results of associated companies and joint ventures	27	**3 137**	**9 059**
Result from continuing operations		**148 358**	**42 701**
Result from discontinued operations		**0**	**0**
Profit for the period		**148 358**	**42 701**
Attributable to:			
- Non-controlling interests	18	8 695	2 827
- Equity holders of the parent		139 663	39 874

Earnings per share (in USD)			
From continuing and discontinued operations			
Basic earnings per share	35	14.21	4,50
Diluted earnings per share	35	14.19	4.50
From continuing operations			
Basic earnings per share	35	14.21	4.50
Diluted earnings per share	35	14.19	4.50

Statement of consolidated comprehensive income

In KUSD	Note	2017	2016
Profit for the period		**148 358**	**42 701**
Other comprehensive income			
Items that may be reclassified to profit and loss in subsequent periods			
- Exchange differences on translating foreign operations	17	5 600	- 587
Items that will not be reclassified to profit and loss in subsequent periods			
- Defined Benefit Plans - IAS 19R	20	- 356	- 309
- Cashflow hedges - fair value result for the period		107	0
- Income tax effect		58	77
- Revaluation assets held for sale	12	0	- 227
Total other comprehensive income for the year, net of tax:		**5 409**	**-1 046**
Other comprehensive income attributable to:			
- Non-controlling interests		- 13	- 20
- Equity holders of the parent		5 422	- 1 026
Total comprehensive income for the year		**153 767**	**41 655**
Total comprehensive income attributable to:			
- Non-controlling interests		8 682	2 807
- Equity holders of the parent		145 085	38 848

Consolidated cash flow statement

In KUSD	Note	2017	2016*
Operating activities			
Profit before tax		169 266	46 026
Adjusted for:			
Depreciation	8,9,10	35 308	28 789
Movement in provisions	19	1 713	1 297
Stock options		160	218
Unrealized exchange result		- 878	0
Changes in fair value of biological assets		528	-2 236
Other non-cash results		-2 985	- 19
Hedge reserves and financial derivatives	29	-1 679	339
Financial income and charges		2 360	702
Capital loss on receivables		0	18
Capital loss on sale of investments		0	39
Result on disposal of property, plant and equipment		372	1 034
Result on disposal of financial assets		0	-1 816
Remeasurement gain acquisition PT Agro Muko		-79 323	0
Cash flow from operating activities before change in net working capital		124 842	74 391
Change in net working capital	28	8 622	-18 804
Cash flow from operating activities after change in net working capital		133 464	55 587
Income taxes paid	26	-13 611	-4 369
Cash flow from operating activities		119 853	51 218
Investing activities			
Acquisition intangible assets	8	- 241	- 73
Acquisition biological assets	9	-22 280	-17 160
Acquisition property, plant & equipment	10	-37 150	-23 865
Acquisition investment property		46	3
Acquisition subsidiaries	34	-78 686	-3 050
Dividends received from associated companies and joint ventures	27	0	4 729
Proceeds from sale of property, plant & equipment		446	114
Proceeds from sale of financial assets	13	1 500	1 412
Cash flow from investing activities		-136 365	-37 890
Free cash flow		**-16 512**	**13 328**
Financing activities			
Capital increase	17	95 095	0
Equity transactions with non-controlling parties	34	-99 769	- 16
Decrease/(increase) of treasury shares	17	- 883	- 608
Increase in long-term financial borrowings	21	50 000	0
Increase short-term financial borrowings	21	150 442	0
Decrease short-term financial borrowings	21	-142 830	-7 383
Last year's dividend paid during this bookyear		-12 408	-6 043
Dividends paid by subsidiaries to minorities	18	-1 730	- 910
Interest received - paid		-2 434	- 702
Cash flow from financing activities		**35 483**	**-15 662**
Net increase in investments, cash and cash equivalents	**21**	**18 971**	**-2 334**
Investments and cash and cash equivalents (opening balance)	21	17 204	19 537
Effect of exchange rate fluctuations on cash and cash equivalents	21	5	1
Investments and cash and cash equivalents (closing balance)	21	36 180	17 204

* Restated due to the reclassification of the land rights from intangible assets to tangible assets. We refer to note 36.

Statement of changes in consolidated equity

In KUSD	Issued capital SIPEF	Share premium SIPEF	Treasury shares	Defined benefit plans IAS 19R	Reserves	Translation differences	Shareholders equity	Non-controlling interests	Total equity
January 1, 2017	**37 852**	**17 730**	**-7 425**	**-2 398**	**420 395**	**-18 091**	**448 063**	**25 063**	**473 126**
Result for the period					139 663		**139 663**	8 695	**148 358**
Other comprehensive income				- 254	76	5 600	**5 422**	- 13	**5 409**
Total comprehensive income	**0**	**0**	**0**	**- 254**	**139 739**	**5 600**	**145 085**	**8 682**	**153 767**
Last year's dividend paid					-12 409		**-12 409**	-1 730	**-14 139**
Equity transactions with non-controlling parties					- 424		**- 424**	424	**0**
ANJ acquisition PT Agro Muko							**0**	59 917	**59 917**
MP Evans acquisition PT Agro Muko					-44 494		**-44 494**	-55 275	**-99 769**
Transfer PT Agro Muko to PT Tolan Tiga					3 618		**3 618**	-3 618	**0**
Capital increase	6 882	90 240			-1 338		**95 784**		**95 784**
Other (note 17)			- 883		296		**- 587**	- 323	**- 910**
December 31, 2017	**44 734**	**107 970**	**-8 308**	**-2 652**	**505 383**	**-12 491**	**634 636**	**33 140**	**667 776**
January 1, 2016	**45 819**	**21 502**	**-6 817**	**-2 186**	**374 616**	**-17 505**	**415 429**	**23 400**	**438 829**
Result for the period					39 874		**39 874**	2 827	**42 701**
Other comprehensive income				- 212	- 227	- 586	**-1 025**	- 20	**-1 045**
Total comprehensive income	**0**	**0**	**0**	**- 212**	**39 647**	**- 586**	**38 849**	**2 807**	**41 656**
Last year's dividend paid					-6 043		**-6 043**	- 911	**-6 954**
Equity transactions with non-controlling parties					217		**217**	- 233	**- 16**
Transfers	-7 967	-3 772			11 739		**0**		**0**
Other (note 17)			- 608		219		**- 389**		**- 389**
December 31, 2016	**37 852**	**17 730**	**-7 425**	**-2 398**	**420 395**	**-18 091**	**448 063**	**25 063**	**473 126**

Notes

to the consolidated financial statements

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 2017 comprise *SIPEF* and its subsidiaries (together referred to as '*SIPEF* group' or 'the group'). Comparative figures are for the financial year 2016.

The consolidated financial statements were authorized for issue by the directors at the board meeting of 13 February 2018 and shall be approved by the shareholders at the annual general meeting of 13 June 2018. A list of the directors and the statutory auditor, as well as a description of the principal activities of the group, are included in the non-financial section 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 2017.

The following standards or interpretations are applicable for the accounting year commencing on the 1st of January 2017:

- Annual improvements to IFRS Standards 2014-2016 Cycle: *Amendments to IFRS 12* (applicable for annual periods beginning on or after 1 January 2017). These amendments have no significant impact on the net result and the equity of the group.
- Amendments to IAS 7 *Statement of Cash Flows - Disclosure Initiative* (applicable for annual periods beginning on or after 1 January 2017)
- Amendments to IAS 12 *Income Taxes - Recognition of Deferred Tax Assets for Unrealised Losses* (applicable for annual periods beginning on or after 1 January 2017)

These changes do not have a significant impact on the net result and the equity of the Group.

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:

- Annual improvements to IFRS Standards 2014-2016 Cycle: *Amendments to IFRS 1 and IAS 28* (applicable for annual periods beginning on or after 1 January 2018)
- Annual improvements to IFRS Standards 2015-2017 Cycle (applicable for annual periods beginning on or after 1 January 2019, but not yet endorsed in the EU)
- IFRS 9 *Financial Instruments and subsequent amendments* (applicable for annual periods beginning on or after 1 January 2018)
- IFRS 14 *Regulatory Deferral Accounts* (applicable for annual periods beginning on or after 1 January 2016, but not yet endorsed in the EU)
- IFRS 15 *Revenue from Contracts with Customers* (applicable for annual periods beginning on or after 1 January 2018)
- IFRS 16 *Leases* (applicable for annual periods beginning on or after 1 January 2019)
- IFRS 17 *Insurance Contracts* (applicable for annual periods beginning on or after 1 January 2021, but not yet endorsed in the EU)
- Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions* (applicable for annual periods beginning on or after 1 January 2018)
- Amendments to IFRS 4 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts* (applicable for annual periods beginning on or after 1 January 2018)
- Amendments to IFRS 9 *Prepayment Features with Negative Compensation* (applicable for annual periods beginning on or after 1 January 2019, but not yet endorsed in the EU)
- Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (the effective date has been deferred indefinitely, and therefore the endorsement in the EU has been postponed)
- Amendments to IAS 19 *Plan Amendment, Curtailment or Settlement* (applicable for annual periods beginning on or after 1 January 2019, but not yet endorsed in the EU)
- Amendments to IAS 28 *Long term interests in Associates and Joint Ventures* (applicable for annual periods beginning on or after 1 January 2019, but not yet endorsed in the EU)
- Amendments to IAS 40 *Transfers of Investment Property* (applicable for annual periods beginning on or after 1 January 2018, but not yet endorsed in the EU)
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration* (applicable for annual periods beginning

on or after 1 January 2018, but not yet endorsed in the EU)

- IFRIC 23 *Uncertainty over Income Tax Treatments* (applicable for annual periods beginning on or after 1 January 2019, 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 9 *Financial Instruments and subsequent amendments*

IFRS 9 *Financial Instruments* will replace IAS 39 *Financial Instruments* and bring together the following aspects of accounting for financial instruments: classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for financial years beginning on or after January 1, 2018, with early application permitted. The *SIPEF*-group plans to apply the new standard in its consolidated financial statements for the year ending December 31, 2018. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. IFRS 9 changes the classification and measurement of financial assets and includes a new model for assessing the impairment of the financial assets based on expected credit losses. IFRS 9 also contains new general requirements for hedge accounting that further align hedge accounting with risk management.

The *SIPEF*-group performed a preliminary impact assessment for IFRS 9 in the course of 2017. The *SIPEF*-group does not expect the application of the classification and measurement requirements to have a significant impact either on its statement of financial position or on its equity. It expects to be able to continue measuring all financial assets at fair value.

IFRS 15 *Revenue from Contracts with Customers*

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 recognises 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 currently applicable under IAS 18.

During 2017, the *SIPEF*-group performed a first assessment of IFRS 15, which will still be subject to changes arising from a more detailed ongoing analysis. The main aspects of this first assessment are mentioned below:

Sale of goods

The *SIPEF*-group's core activity is the sale of goods. *SIPEF*-group recognizes 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.

For the application of IFRS 15 *SIPEF*-group has taken into account the variable and the fixed considerations. For the *SIPEF* Group, the only variable in the sales price is the adjustment for the quality of the palm oil for which a bonus or penalty is paid if the quality exceeds specific contractual thresholds. According to IFRS 15, the effect of the variable consideration on the transaction price should be taken into account in revenue recognition by estimating the probability of the realization of the bonus/penalty. The quality of the palm oil can only be measured when the ship has arrived at the port of discharge. Therefore the bonus/penalty can only be recorded at that point in time. Considering the fact that this can only be 0.5% - 0.75% of the total sales prices, we consider this amount as immaterial and will record this when the analysis is done at the port of discharge.

The Group has no material incremental costs of obtaining a contract which would fulfill the capitalization criteria as defined by IFRS 15.

We can conclude that the new IFRS 15 – revenue recognition standard will not have an impact on the financial statements of the *SIPEF*-group, nor on the balance sheet and equity of the previous financial statements. The Sipef group will continue to sell its products at defined incoterms. Revenue recognition will not change compared to the "old" revenue recognition standard.

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.

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.

SIPEF group has opted to measure growing biological produce of rubber and tea 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. cashflow 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 has reconsidered the presentation of the land rights and concluded to present these land rights as plant, property & equipment instead of intangible assets, 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. The comparative figures of previous years were restated for this reason.

Impairment of assets

Property, plant and equipment, financial assets 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

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 special hedge accounting under

IAS 39 – *"Financial Instruments: Recognition and Measurement"*.

Derivative instruments are initially valued at cost. Subsequently, these instruments are recorded in the balance sheet at their fair value; the changes in fair value are reported in the income statement unless these instruments are part of hedging transactions.

Cash flow hedges
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.

Fair value hedges
Changes in fair value of a derivative instrument that is formally allocated to hedge the changes of fair value of recorded assets and liabilities, are recognized in the profit and loss account together with the profits and losses caused by the fair value revaluation of the hedged component. The value fluctuations of derivative financial instruments, which do not meet the criteria for fair value hedge or cash flow hedge are recorded directly in the profit and loss account.

2. Receivables and payables
Amounts receivable and payable are measured at amortised cost price.

Amounts receivable and payable are measured at their nominal value, less a provision for any doubtful amounts receivable. Amounts receivable and payable in a currency other than the currency of the subsidiary are translated at the prevailing group exchange rates on the balance sheet date.

3. Cash and cash equivalents
Cash and cash equivalents are measured at their nominal value and include cash and deposits with an original maturity of three months or less. Negative cash balances are recorded as liabilities.

4. 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.

5. Financial assets available for sale
Financial assets available for sale are measured at fair value. Fair value gains and losses are recognized in other comprehensive income. If the fair value of a financial asset cannot be measured reliably, the financial asset will be measured at amortized cost.

When a decrease in fair value of a financial asset available for sale is recognized in other comprehensive income and an objective evidence of impairment exists, the cumulated losses previously recognized in equity will be taken into profit or loss.

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

Revenue is measured at the fair value of the amount received for the sale of goods and services net of value-added tax, rebates and discounts, and after eliminating sales within the group. Revenue from the sale of goods is recognized when significant risks and rewards of ownership of the goods are transferred to the buyer. Revenue from rendering services is based on the stage of completion determined by reference to services performed to date as a percentage of total services to be performed. Interest income is recognized using the effective interest rate method. Dividends are recognized when the right to receive payment is established.

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 and tea can not 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 amortised 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 20)
- Deferred tax assets (note 26)
- Provisions (note 19)
- Impairment of assets

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 Singapore Pte Ltd	Singapore / Republic of Singapore	38.00	38.00
PT Timbang Deli Indonesia	Medan / Indonesia	38.00	36.10
BDM NV	Antwerp / Belgium	50.00	50.00
ASCO NV	Antwerp / Belgium	50.00	50.00
Companies not included			
Horikiki Development Cy Ltd	Honiara / Solomon Islands	90.80	90.80

* In February 2017, SIPEF gained full control in *PT Agro Muko*. As a result, the total control percentage increased to 95%.
** As of August 1, 2017, 95% of the shares of *PT Dendymarker Indah Lestari* were acquired.

Inspite of 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).

The non consolidated companies are seen as financial assets available for sale.

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. The following subsidaries have however a different functional currency:

Plantations J. Eglin SA	EUR
BDM NV	EUR
ASCO NV	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		
	2017	2016	2015	2017	2016	2015
EUR	0.8348	0.9505	0.9185	0.8792	0.9059	0.9059

7. 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.
- Other	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:

- All companies are included per segment at their percentage of interests using the proportionate consolidation method instead of the full consolidation method and the equity method.
- There are no inter-company eliminations.
- Instead of revenue the gross margin per segment is used as the starting point.

In KUSD	2017 (1)	2016 (2)
Gross margin per product		
Palm	108 941	75 973
Rubber	2 879	- 9
Tea	1 043	786
Bananas and flowers	3 653	3 377
Other	5 692	5 579
Total gross margin	**122 208**	**85 706**
Selling, general and administrative expenses	-34 581	-30 842
Other operating income/(charges)	1 133	437
Financial income/(charges)	-1 467	- 741
Exchange differences	1 258	- 787
Profit before tax	**88 551**	**53 773**
Tax expense	-23 865	-14 558
Effective tax rate	-27.0%	-27.1%
Insurances	1 723	659
Profit after tax	**66 409**	**39 874**
Correction PT AM @ 44,9273% in Jan-Feb	-1 928	0
Correction PT AM fair value of assets	75 182	0
Profit after tax	**139 663**	**39 874**

(1) PT Agro Muko included at a beneficial interest of 90.25%
(2) PT Agro Muko included at a beneficial interest of 44.93%

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

2017 - KUSD	Revenue	Cost of sales	Changes in the fair value	Gross profit	% of total
Palm	278 272	-166 214	-1 295	110 763	91.9
Rubber	16 032	-12 504	- 204	3 324	2.8
Tea	7 507	-6 448	57	1 116	0.9
Bananas and plants	18 386	-14 559		3 827	3.2
Corporate	1 444			1 444	1.2
Others				0	0.0
Total	**321 641**	**-199 725**	**-1 442**	**120 474**	**100.0**

2016 - KUSD	Revenue	Cost of sales	Changes in the fair value	Gross profit	% of total
Palm	228 509	-166 758	5 841	67 592	91.6
Rubber	14 367	-14 782	463	48	0.1
Tea	7 081	-5 872	- 367	842	1.1
Bananas and plants	15 220	-11 694		3 526	4.8
Corporate	1 784			1 784	2.4
Others	1	- 1		0	0.0
Total	**266 962**	**-199 107**	**5 937**	**73 792**	**100.0**

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

2017 - KUSD	Revenue	Cost of sales	Other income	Changes in the fair value	Gross profit	% of total
Indonesia	186 626	-112 913	522	212	74 447	61.8
Papua New Guinea	115 184	-72 253		-1 654	41 277	34.2
Ivory Coast	18 386	-14 559			3 827	3.2
Europe	923				923	0.8
Others					0	0.0
Total	**321 119**	**-199 725**	**522**	**-1 442**	**120 474**	**100.0**

2016 - KUSD	Revenue	Cost of sales	Other income	Changes in the fair value	Gross profit	% of total
Indonesia	161 859	-122 314	748	2 768	43 061	58.4
Papua New Guinea	84 784	-61 794		3 169	26 159	35.4
Ivory Coast	18 534	-14 998			3 536	4.8
Europe	1 036				1 036	1.4
Others	1	- 1			0	0.0
Total	**266 214**	**-199 107**	**748**	**5 937**	**73 792**	**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. In 2017, this included only 2 months of purchases from *PT Agro Muko*
4. Stock movement - includes the variance in stock and changes in fair value
5. Sales charges - includes all direct costs attributable to the sales of the year (i.e. transport charges, palm oil export tax, ...)

In KUSD	31/12/2017	31/12/2016
Estate charges	113 061	83 243
Processing charges	29 703	23 372
FFB/CPO/latex purchases	39 873	84 912
Stock movement	2 231	-5 372
Sales charges	16 299	7 015
Cost of sales (including changes in fair value)	**201 167**	**193 170**

The increase in estate, processing and sales charges and the decrease in FFB/CPO/latex purchases is primarily explained by the inclusion of *PT Agro Muko* via the full consolidation method as of 1 March 2017. Before that date *PT Agro Muko* was classified as a joint venture and therefore the purchases from *PT Agro Muko* were recorded in the same way as a third party supplier.

The average ex-works unit cost price for the palm segment (92% of the total gross margin) fell by around 3% compared with 2016.

Total depreciation in the estate and processing charges amounts to KUSD 32 958. A total of KUSD 2 350 of depreciation charges is recorded in the “General and administrative” expenses.

Revenue by location of the debtors

In KUSD	2017	2016
The Netherlands	93 312	87 429
Switserland	71 047	43 109
United Kingdom	57 855	61 334
Indonesia	57 365	41 806
Ireland	10 744	6 057
Singapore	8 003	6 875
Belgium	5 932	4 252
France	4 086	3 014
Pakistan	3 496	1 652
United States	3 395	2 586
Senegal	1 947	1 690
Afghanistan	1 577	1 147
Germany	1 237	679
Spain	784	3 001
Ivory Coast	557	496
Others	303	185
Papua New Guinea	0	1 650
Total	**321 641**	**266 962**

Segment information - geographical

	2017					
In KUSD	Indonesia	PNG	Ivory Coast	Europe	Others	Total
Intangible assets			82	224		306
Goodwill	103 008					103 008
Biological assets	181 196	86 591	299			268 086
Other property, plant & equipment	228 091	112 843	4 746	586		346 266
Investment property						0
Investments in associates and joint ventures	1 522				6 594	8 116
Other financial assets	46		17	15		78
Receivables > 1 year				6 643		6 643
Deferred tax assets	12 193		309	2 525		15 027
Total non-current assets	**526 055**	**199 434**	**5 453**	**9 993**	**6 594**	**747 529**
% of total	70,37%	26,68%	0,73%	1,34%	0,88%	100,00%

	2016*					
In KUSD	Indonesia	PNG	Ivory Coast	Europe	Others	Total
Intangible assets			76	60		136
Goodwill	1 348					1 348
Biological assets	88 987	87 021	2 338			178 346
Other property, plant & equipment	119 637	112 537	3 996	473		236 643
Investment property						0
Investments in associates and joint ventures	45 114			8 968	6 855	60 937
Other financial assets			22			22
Receivables > 1 year				8 323		8 323
Deferred tax assets	13 007		199	2 599		15 805
Total non-current assets	**268 093**	**199 558**	**6 631**	**20 423**	**6 855**	**501 560**
% of total	53.46%	39.79%	1.32%	4.07%	1.37%	100.00%

* Restated due to the reclassification of the land rights from intangible assets to tangible assets. We refer to note 36.

8. GOODWILL AND OTHER INTANGIBLE ASSETS

	2017		2016*	
In KUSD	Goodwill	Intangible assets	Goodwill	Intangible assets
Gross carrying amount at January 1	**1 348**	**595**	**1 348**	**635**
Acquisitions	101 660	241		74
Sales and disposals				
Transfers				
Remeasurement				- 109
Other		- 12		
Translation differences		19		- 5
Change in consolidation scope				
Gross carrying amount at December 31	**103 008**	**843**	**1 348**	**595**
Accumulated amortization and impairment losses at Januari 1	**0**	**- 459**	**0**	**- 522**
Depreciations		- 38		- 31
Sales and disposals				
Transfers		- 30		
Remeasurement		- 10		92
Other				
Translation differences				2
Accumulated amortization and impairment losses at December 31	**0**	**- 537**	**0**	**- 459**
Net carrying amount January 1	**1 348**	**136**	**1 348**	**113**
Net carrying amount December 31	**103 008**	**306**	**1 348**	**136**

* Restated due to the reclassification of the land rights from intangible assets to tangible assets. We refer to note 36.

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 analyzed 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 2017. This consists of the following items:

Assets (in KUSD)*	**31/12/17**
Biological assets – bearer plants	251 177
Other fixed assets	338 513
Goodwill	103 008
Current assets – current liabilities	6 016
Total	**698 714**

* 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:

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 Agro Muko a division is made between the cash flows from palm oil and the cash flows from rubber.

The acquisitions of *PT Dendymarker Indah Lestari* and *PT Agro Muko* explain the increase in goodwill and fixed assets in 2017. Part of the acquisition price was allocated to the acquired assets i.e. biological assets – bearer plants and other assets.

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 (through 2028) 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 743/ton) is management's best estimate of the long term palm oil price expressed as CIF Rotterdam.

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 11.25% 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)	
Assumption 1	USD 693/ton CIF Rotterdam
Assumption 2 (base case)	USD 743/ton CIF Rotterdam
Assumption 3	USD 793/ton CIF Rotterdam

WACC	
Assumption 1	10.25%
Assumption 2 (base case)	11.25%
Assumption 3	12.25%

PO / WACC	10.25 %	11.25 %	12.25 %
USD 693/ton CIF Rotterdam	scenario 1	scenario 4	scenario 7
USD 743/ton CIF Rotterdam	scenario 2	scenario 5	scenario 8
USD 793/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 by 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)	10.25 %	11.25 %	12.25 %
USD 693/ton CIF Rotterdam	1 020 817	892 093	789 411
USD 743/ton CIF Rotterdam	1 222 590	1 072 138	951 996
USD 793/ton CIF Rotterdam	1 415 333	1 244 133	1 107 318
Value of underlying assets*	698 714	698 714	698 714

* this concerns the underlying asset related to the PO segment

The headroom is the difference between the total discounted cash flows and the value of the underlying asset:

Headroom (in KUSD)	10.25 %	11.25 %	12.25 %
USD 693/ton CIF Rotterdam	322 103	193 379	90 697
USD 743/ton CIF Rotterdam	523 876	373 424	253 282
USD 793/ton CIF Rotterdam	716 619	545 419	408 604

We also calculate the breakeven palm oil price based on the various WACCs.

Breakeven price	10.25 %	11.25 %	12.25 %
USD/ton	USD 613/ton	USD 639/ton	USD 665/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 always fully recoverable in each scenario.

As a result, management is of the opinion that there is no indication of any impairment.

Goodwill is currently allocated as follows:

Changes to goodwill (in KUSD)	
Goodwill opening balance	**1 348**
Acquisition of PT Agro Muko	82 257
Acquisition of PT Dendymarker	19 403
Goodwill closing balance	**103 008**

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	2017	2016
Gross carrying amount at January 1	**226 858**	**207 448**
Change in consolidation scope	111 928	0
Acquisitions	22 281	17 160
Sales and disposals	- 2 251	- 2 405
Transfers	2 699	4 761
Other	0	0
Translation differences	528	- 106
Gross carrying amount at December 31	**362 042**	**226 858**
Accumulated depreciation and impairment losses at January 1	**- 48 512**	**- 43 943**
Change in consolidation scope	- 35 872	0
Depreciation	- 11 623	- 6 592
Sales and disposals	2 750	1 980
Transfers	- 495	0
Other	0	0
Translation differences	- 204	43
Accumulated depreciation and impairment losses at December 31	**- 93 956**	**- 48 512**
Net carrying amount January 1	**178 346**	**163 505**
Net carrying amount December 31	**268 086**	**178 346**

10. OTHER PROPERTY, PLANT & EQUIPMENT

In KUSD	2017 Land, buildings and infrastructure	Installations and machinery	Vehicles	Office equipment, furniture and others	In progress	Land-rights *	Total	2016 Total
Gross carrying amount at January 1	**112 473**	**142 736**	**50 088**	**14 832**	**6 484**	**54 204**	**380 816**	**369 295**
Change in consolidation scope	41 164	43 032	9 278	2 864	4 879	54 738	155 955	0
Acquisitions	7 881	6 674	8 011	2 076	6 602	5 906	37 150	23 863
Sales and disposals	- 157	- 1 780	- 3 123	- 164	- 1 189		- 6 413	- 7 692
Transfers	950	- 610	50	165	- 5 955		- 5 400	- 4 139
Other							0	- 85
Translation differences	1 174	415	237	65	54		1 945	- 426
Gross carrying amount at December 31	**163 485**	**190 467**	**64 541**	**19 838**	**10 875**	**114 848**	**564 053**	**380 816**
Accumulated depreciation and impairment losses at January 1	**- 33 607**	**- 64 623**	**- 36 179**	**- 7 058**	**0**	**- 2 707**	**- 144 174**	**- 128 693**
Change in consolidation scope	- 19 826	- 25 150	- 8 280	- 1 220		- 5	- 54 481	0
Depreciation	- 6 105	- 10 534	- 5 303	- 1 767		61	- 23 648	- 22 166
Sales and disposals	108	1 727	3 096	165			5 096	6 346
Transfers	906	1 335	- 523	- 909			809	0
Other							0	31
Translation differences	- 890	- 395	- 97	- 8			- 1 390	308
Accumulated depreciation and impairment losses at December 31	**- 59 414**	**- 97 640**	**- 47 286**	**- 10 797**	**0**	**- 2 651**	**- 217 788**	**- 144 174**
Net carrying amount January 1	**78 866**	**78 113**	**13 909**	**7 774**	**6 484**	**51 497**	**236 643**	**240 602**
Net carrying amount December 31	**104 071**	**92 827**	**17 255**	**9 041**	**10 875**	**112 197**	**346 265**	**236 642**

* Restated due to the reclassification of the land rights from intangible assets to tangible assets. We refer to note 36.

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	1 412	Concession	2024	Rubber and oil palm
PT Timbang Deli Indonesia	972	Concession	2023	Rubber
PT Melania Indonesia	5 140	Concession	2023	Rubber, tea and oil palm
PT Toton Usaha Mandiri	1 199	Concession	2046	Oil palm
PT Agro Muko	2 270	Concession	2019	Rubber and oil palm
PT Agro Muko	2 500	Concession	2020	Rubber and oil palm
PT Agro Muko	315	Concession	2031	Rubber and oil palm
PT Agro Muko	1 410	Concession	2028	Rubber and oil palm
PT Agro Muko	2 903	Concession	2028	Rubber and oil palm
PT Agro Muko	7 730	Concession	2019	Rubber and oil palm
PT Agro Muko	2 171	Concession	2022	Rubber and oil palm
PT Agro Muko	1 515	Concession	2022	Rubber and oil palm
PT Agro Muko	2 100	Concession	2022	Rubber and oil palm
PT Umbul Mas Wisea	4 397	Concession	2048	Oil palm
PT Umbul Mas Wisea	2 071	Concession	2048	Oil palm
PT Umbul Mas Wisea	679	Concession	2049	Oil palm
PT Umbul Mas Wisea	462	Concession	2049	Oil palm
PT Umbul Mas Wisea	155	Concession	2049	Oil palm
PT Dendymarker Indah Lestari	13 705	Concession	2028	Oil palm
Hargy Oil Palms Ltd	2 967	Concession	2076	Oil palm
Hargy Oil Palms Ltd	128	Concession	2074	Oil palm
Hargy Oil Palms Ltd	322	Concession	2106	Oil palm
Hargy Oil Palms Ltd	364	Concession	2106	Oil palm
Hargy Oil Palms Ltd	6 460	Concession	2082	Oil palm
Hargy Oil Palms Ltd	2 900	Concession	2101	Oil palm
Hargy Oil Palms Ltd	170	Concession	2097	Oil palm
Hargy Oil Palms Ltd	17	Concession	2077	Oil palm
Hargy Oil Palms Ltd	18	Concession	2113	Oil palm
Plantations J. Eglin SA	1 442	Freehold	n/a	Bananas and pineapple flowers
Plantations J. Eglin SA	322	Provisional concession	n/a	Bananas and pineapple flowers
Total	**82 235**			

PT Citra Sawit Mandiri	3 946	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 Muara Rupit	4 811	In negotiation	-	Oil palm
PT Agro Muara Rupit	7 494	In negotiation	-	Oil palm
PT Mukomuko Agro Sejahtera	1 800	In negotiation	-	Oil palm
PT Mukomuko Agro Sejahtera	1 167	In negotiation	-	Oil palm
Total	**32 498**			

In addition, our subsidiary *Hargy Oil Palms Ltd* has a total of 3 902 hectares of planted area on subleased land.

11. INVESTMENT PROPERTY

There is no more investment property in 2017 and 2016.

12. OTHER FINANCIAL ASSETS

	2017				2016
In KUSD	**Other companies**		**Other receivables**	**Total**	**Total**
	Participations	**Receivables**			
Gross carrying amount at January 1	**906**	**3 184**	**0**	**4 090**	**8 666**
Acquisitions			55	55	4
Sales and disposals				0	- 4 580
Translation differences				0	0
Gross carrying amount at December 31	**906**	**3 184**	**55**	**4 145**	**4 090**
Accumulated impairment losses at January 1	**- 884**	**- 3 184**	**0**	**- 4 068**	**- 4 844**
Sales and disposals				0	776
Translation differences				0	0
Accumulated impairment losses at December 31	**- 884**	**- 3 184**	**0**	**- 4 068**	**- 4 068**
Net carrying amount January 1	**22**	**0**	**0**	**22**	**3 822**
Net carrying amount December 31	**22**	**0**	**55**	**77**	**22**

The remaining amount relating to the participations consists of a participation in Horikiki (acquisition value of KUSD 884, which has been completely impaired) and some remaining smaller participations for a total acquisition value of KUSD 22.

The other receivables have increased with KUSD 55 due to the fact that *PT Agro Muko* is now included in accordance with the full consolidation method.

The receivables, for a total amount of KUSD 3 184, also relate to Horikiki and have been completely impaired.

On 31 December 2017 an impairment test was effected on the participations based on the latest available information. This test did not lead to an adjustment of the book values.

13. RECEIVABLES > 1 YEAR

In KUSD	2017	2016
Receivables > 1 year	**6 643**	8 323

The receivables > 1 year as per 31 December 2017 consist of 2 different long term receivables which have been discounted.

In KUSD	2017	2016
Sale of Sipef-CI SA	4 571	4 788
Sale of Galley Reach Holdings Ltd	2 072	3 535
Total	**6 643**	**8 323**

The applied discount rates of both long term receivables differ depending on the risk profile of the receivable based on the geographical location and the activities of the counterparty.

The total sales price of Sipef-CI SA amounts to KEUR 11 500, of which KEUR 10 925 remains to be received at the end of the year. Converted at the closing rate of the year this amounts to KUSD 13 087. The total sales price of *Galley Reach Holdings Ltd* amounts to KUSD 6 600, of which KEUR 3 600 remains to be received at the end of the year.

Below we present an overview of the remaining contractually determined cash flows related to these receivables:

In KUSD	2018 - short term	2019	2020	2021	Total
Sale of Sipef-CI SA	3 272	3 272	3 272	3 271	**13 087**
Sale of Galley Reach Holdings Ltd	1 500	1 500	600		**3 600**
Total	**4 772**	**4 772**	**3 872**	**3 271**	**16 687**

14. INVENTORIES

Analysis of inventories

In KUSD	2017	2016
Raw materials and supplies	15 626	11 580
Finished goods	13 253	12 177
Total	**28 879**	**23 757**

The increase in inventories is caused by the fact that *PT Agro Muko* (5 million USD) and *PT Dendymarker* (1 million USD) were included in accordance with the full consolidation method.

The remaining stock of raw materials and supplies has remained stable compared to 2016.

15. BIOLOGICAL ASSETS

The total biological assets at the end of the year is presented below:

In KUSD	2017	2016
Biological assets	7 018	4 133

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 assets 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.

Per 31 December 2017 the total biological assets of palm oil amounted to KUSD 4 809 compared to KUSD 4 133 per December 2016.

Impact of the estimated quantity of available oil	-10%	Book value	+10%
Book value of the biological assets - palm oil	4 328	4 809	5 290
Gross Impact income statement (before tax)	- 481		481

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 the cost of sales.

The biological assets at the end of December also contain the growing biological produce of bananas (KUSD 2 209) of our subsidiary *Plantations J. Eglin SA*. These have been transferred from the "biological assets - bearer plants" to the "biological assets" in 2017. The balance of 2016 amounted to KUSD 2 338 and has remained stable compared to last year.

16. OTHER CURRENT RECEIVABLES AND OTHER CURRENT PAYABLES

The 'other receivables' (KUSD 36 097) mainly consist out of various receivables from our our smallholders (plasma) for an amount of KUSD 10 973 (mainly for the expansions in the Musi Rawas region), as well as a VAT receivable in the various entities and a current account with our joint venture *Verdant Bioscience PTE Ltd* for an amount of KUSD 4 134.

This post also contains a receivable from KUSD 2 517 following the sale op 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 13.

The 'other payables' (KUSD 8 530) mainly concern social obligations (salaries to be paid, provisions for holiday pay and bonus) and is in line with prior year.

The increase in other receivables (KUSD 13 817) is mainly attributable to the increase in other receivables to our smallholders (KUSD 3 390), the consolidation of *PT Agro Muko* (KUSD 4 523) in accordance with the full consolidation method, an increase on the current account with respect to *Verdant Bioscience Singapore PTE Ltd* (KUSD 1 402), an increase in the tax receivable in *Hargy Oil Palms Ltd* (KUSD 1 666) and the transfer of Sipef-CI's long-term receivable to short term (KUSD 2 517).

17. SHAREHOLDERS' EQUITY

Capital stock and share premium

The issued capital of the company as at December 31, 2017 amounts to KUSD 44 734, represented by 10 579 328 fully paid ordinary shares without nominal value.

	2017	2016	Difference
Number of shares	10 579 328	8 951 740	1 627 588

In KUSD	2017	2016	Difference
Capital	44 734	37 852	6 882
Share premium	107 970	17 730	90 240
Total	**152 704**	**55 582**	**97 122**

On 24 May, 2017 a capital increase of KUSD 97 122 was successfully completed through the issue of 1 627 588 new shares. This brings the total number of outstanding shares to 10 579 328. The total costs attributable to the capital increase (KUSD 2 028) including the tax effect (KUSD -689) was booked directly through equity.

	2017	2016	2017	2016
	KUSD	KUSD	KEUR	KEUR
Treasury shares - opening balance	7 425	6 817	5 897	5 324
Acquisition treasury shares	883	608	731	573
Treasury shares - ending balance	**8 308**	**7 425**	**6 628**	**5 897**

Since the start of the share buy-back program on 22 September 2011, *SIPEF* has bought back 124 000 shares for a total amount of KEUR 6 628, corresponding to 1,1721% 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:

In mutual consent	Number of shares	Date of notifying	Denominator	%
Ackermans & Van Haaren NV	3 200 469	24/05/17	10 579 328	30.252
Cabra NV	752 695	24/05/17	10 579 328	7.115
Gedei NV	548 337	24/05/17	10 579 328	5.183
Baron Bracht	0	24/05/17	10 579 328	0.000
Total Baron Bracht and children	**1 301 032**			**12.298**
Total votes acting in concert	**4 501 501**			**42.550**

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 2 084) and the recycling of the historical translation differences of *PT Agro Muko* (KUSD 3 516) in the consolidated results due to the acquisition of control of *PT Agro Muko*.

In KUSD	2017	2016
Opening balance at January 1	**-18 092**	**-17 505**
Movement, full consolidation	750	- 189
Movement, equity method	1 334	- 322
Change in consolidation scope (reclassification to income statement after acquisition of control PT AM)	3 516	- 76
Ending balance at December	**-12 492**	**-18 092**

Dividends

On February 13, 2018 a dividend of KEUR 16 927 (EUR 1.60 gross per ordinary share) has been recommended by the board of directors but has not yet been approved by the general meeting of shareholders of *SIPEF* and is therefore not provided for in the financial statements as at December 31, 2017.

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.
II. Belfimas NV is directly controlled by Celfloor S.A., a company incorporated under Luxembourg law.
IV. Celfloor S.A. is directly controlled by Apodia International Holding B.V., a company incorporated under Dutch law.
V. Apodia International Holding B.V. is directly controlled by Palamount S.A., a company incorporated under the law of The Netherlands Antilles.
VI. Palamount S.A. 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 and Gedei NV

Priscilla Bracht, Theodora Bracht and Victoria Bracht exercise joint control over Cabra NV and Gedei NV.

18. 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.

	2017			2016		
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	16 144	4 719	5.00	14 309	515
PT Eastern Sumatra Indonesia	9.75	5 266	464	9.75	4 813	434
PT Kerasaan Indonesia	45.85	3 479	1 492	45.85	2 443	1 215
PT Bandar Sumatra Indonesia	9.75	1 536	58	9.75	1 476	- 22
PT Melania Indonesia	9.75	3 250	104	9.75	3 146	- 48
PT Mukomuko Agro Sejahtera	14.26	- 208	63	14.26	- 270	14
PT Umbul Mas Wisesa	5.10	- 640	350	5.57	-1 100	222
PT Citra Sawit Mandiri	5.10	- 171	64	5.57	- 262	49
PT Toton Usaha Mandiri	5.10	2	61	5.57	- 68	34
PT Agro Rawas Ulu	5.00	35	- 22	5.00	57	- 13
PT Agro Kati Lama	5.00	2	- 33	5.00	36	- 9
PT Agro Muara Rupit	5.10	165	- 19	5.57	181	- 31
PT Agro Muko	9.75	4 744	1 572	2.36	639	466
PT Dendymarker	9.75	- 404	- 178			
Jabelmalux SA	0.11	- 60	0	0.60	- 337	1
Total		**33 140**	**8 695**		**25 063**	**2 827**

The movements of the year can be summarized as follows:

In KUSD	2017	2016
At the end of the preceding period	25 063	23 400
Profit for the period attributable to non-controlling interests	8 695	2 827
Defined Benefit Plans - IAS19R	- 13	- 20
Distributed dividends	-1 730	- 911
Equity transactions with non-controlling parties	424	0
ANJ acquisition PT Agro Muko	59 917	0
MP Evans acquisition PT Agro Muko	-55 275	0
Transfer PT Agro Muko to PT Tolan Tiga	-3 618	0
Other	- 323	- 233
At the end of the period	**33 140**	**25 063**

The distributed dividends to non-controlling interests consist of:

In KUSD	2017	2016
PT Agro Muko	1 300	0
PT Kerasaan Indonesia	430	861
PT Eastern Sumatra Indonesia	0	50
Total	**1 730**	**911**

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. The non-controlling interest's share of the property, plant and equipment (including biological assets - bearer plants) amounts to KUSD 33 722 in 2017 (2016: KUSD 12 298).

19. PROVISIONS

The provisions entirely relate to a VAT dispute in Indonesia (KUSD 2 898). The increase is due to the recording of *PT Agro Muko* in accordance with the full consolidation method. It is difficult to make an estimate of the settlement time of the dispute.

20. 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 8 880. 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 29 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 2016 and 2017:

In KUSD	2016	Pension cost	Payment	Exchange	Translation difference	Change consolidation scope	Other	2017
Indonesia	11 329	3 423	-1 605	- 108		5 261		18 300
Ivory Coast	490	291	-1		68		- 30	818
Others	43	6	-9					40
Total	**11 862**	**3 720**	**-1 615**	**- 108**	**68**	**5 261**	**- 30**	**19 158**

Following assumptions are used in the pension calculation of Indonesia:

	2017	2016
Discount rate	7.50%	8.50%
Future salary increase	5.00%	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	2017	2016
Opening	11 329	10 020
Service cost	1 652	897
Interest cost	1 496	1 006
Benefits paid	-1 605	-1 243
Actuarial gains and losses	275	381
Exchange differences	- 108	268
Change consolidation scope	5 261	0
Other	0	0
Closing	**18 300**	**11 329**

Actuarial gains and losses consist of:

In KUSD	2017	2016
Experience adjustments	232	374
Changes in assumptions used	43	7
Total actuarial gains and losses	**275**	**381**

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 - 356). The remaining difference (KUSD - 81) consists of the actuarial gains and losses of the equity consolidated companies (*PT Timbang Deli*, *BDM* and *ASCO* insurances).

The amounts recognised in the balance sheet are as follows:

In KUSD	2017	2016
Pension liabilities	18 300	11 329

The amounts relating to the pension cost of Indonesia are as follows:

In KUSD	2017	2016
Service cost	1 652	897
Interest cost	1 496	1 006
Pension cost	**3 148**	**1 903**
Actuarial gains and losses recorded in other comprehensive income	275	381
Total pension cost	**3 423**	**2 284**

These costs are included under the headings cost of sales and general and administrative expenses of the income statement.

Estimated benefit payments in 2017 are KUSD 863.

Sensitivy 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	16 775	18 330	20 134
Gross impact on the comprehensive income	1 555		-1 804

Impact of the change in future salary increase:

In KUSD	+1%	Carrying amount	-1%
Pension liability of the Indonesian subsidiaries	20 073	18 330	16 805
Gross impact on the comprehensive income	-1 743		1 525

The pension liability in Indonesia consists of KUSD 18 300 from fully consolidated subsidiaries and of KUSD 30 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.

A provision has been recognised for the sum of the positive differences per plan participant between the minimum guaranteed reserves (KUSD 1 472) and the accumulated reserves (KUSD 1 452) as of 31 December 2017 for a total amount of KUSD 20. The impact in P&L is a past service cost recognised in personnel expenses.

The total accumulated reserves amount to KUSD 3 024 by the end of December 2017 (2016: KUSD 2 692) compared to the total minimum guaranteed reserves of KUSD 2 774 at 31 December 2017 (2016: KUSD 2 489).

Contributions paid regarding the defined contribution plans amount to KUSD 576 (KUSD 570 in 2016). *Sipef NV* is not responsible for the minimum guaranteed return on the contributions paid for the members of the executive committee (KUSD 518).

21. NET FINANCIAL ASSETS/(LIABILITIES)

Net financial assets/(liabilities) can be analysed as follows:

In KUSD	2017	2016
Short-term obligations - credit institutions	-69 877	-62 265
Financial liabilities > 1 year (incl. derivatives)	-40 000	0
Current portion of amounts payable after one year	-10 000	0
Investments and deposits	0	0
Cash and cash equivalents	36 180	17 204
Net financial assets/(liabilities)	**-83 697**	**-45 061**

Analysis of net financial assets/(liabilities) 2017 per currency:

In KUSD	EUR	USD	Others	Total
Short-term financial obligations	-22 277	-57 600		-79 877
Investments and deposits				0
Cash and cash equivalents	1 470	32 473	2 237	36 180
Financial liabilities > 1 year (incl. derivatives)		-40 000		-40 000
Total 2017	**-20 807**	**-65 127**	**2 237**	**-83 697**
Total 2016	**-18 779**	**-27 399**	**1 117**	**-45 061**

The short term financial obligations relate to the commercial papers for a total amount of KUSD 22 277. This financial obligation has been completely hedged at an average rate of 1 EUR = 1.1903 USD.

The financial liabilities include the 50 million USD loan used for the acquisition of *PT Agro Muko* and *PT Dendymarker*. It concerns a long-term loan that was taken out with a small number of banking groups 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 6M + a margin of 1.35%. The variable LIBOR was hedged at a fixed interest rate of 1.96% through an "Interest Rate Swap". There are no covenants related to this loan.

Reconciliation net financial assets/(liabilities) and cash flow:

In KUSD	2017	2016
Net financial position at the beginning of the period	-45 061	-50 521
Increase in long-term borrowings	-50 000	0
Increase in short-term financial obligations	-150 442	0
Decrease in short-term financial obligations	142 830	7 384
Net movement in cash and cash equivalents	18 971	-2 334
Effect of exchange rate fluctuations on cash and cash equivalents	5	1
Change in consolidation scope	0	0
Cash and cash equivalents included in assets held for sale	0	409
Net financial assets/(liabilities) at the end of the period	**-83 697**	**-45 061**

22. ASSETS / LIABILITIES HELD FOR SALE

The 'net assets held for sale' refer to the net assets of *BDM-ASCO*.

On 18 December 2017 it was announced that *SIPEF* and Ackermans & van Haaren, each 50% shareholder of the Belgian insurance group *BDM-ASCO*, had reached agreement with the Nasdaq-listed US insurer The Navigators Group, Inc. on the sale of 100% of the share capital of *BDM-ASCO*.

The total amount of the net assets for sale (KUSD 12 010) was included (in 2016) under the heading "Investments in associates and joint ventures" and was included under the heading "net assets held for sale" due to the sales agreement at year-end.

The final settlement of the sale is expected at the end of May / June 2018 after approval by the competent authorities. The acquisition price for 100% of the shares of *BDM-ASCO* has been set at 35 million euros. Upon completion, the transaction will generate a net capital gain of approximately 7 million USD for *SIPEF*.

23. OTHER OPERATING INCOME/(CHARGES)

The other operating income/(charges) can be detailed as follows:

	2017			2016		
In KUSD	Equity holders of the parent	Non-controlling interests	Total	Equity holders of the parent	Non-controlling interests	Total
VAT claim Indonesia	899	121	1 020	- 412	- 43	- 455
Result of the sale of Galley Reach Holdings Ltd			0	- 39		- 39
Result of the sale of Sipef-CI SA			0	1 819		1 819
Remeasurement gain acquisition PT Agro Muko	75 182	4 142	79 324			0
Other income/(charges)	103	- 160	- 57	- 675	- 3	- 678
Other operating income/(charges)	**76 184**	**4 103**	**80 287**	**693**	**- 46**	**647**

24. 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	2017	2016
Interests received	171	120
Discounting receivables > 1 year	1 473	0
Financial charges	-3 212	- 879
Exchange result	- 400	- 355
Financial result derivatives	1 648	- 339
Financial result	**- 320**	**-1 453**

25. SHARE BASED PAYMENT

Grant date	Number options granted	Number options exercised	Number options expired	Balance	Exercise price	Exercise period
2011	22 000		-6 000	16 000	56.99	1/1/2015 - 31/12/2021
2012	20 000		-6 000	14 000	59.14	1/1/2016 - 31/12/2022
2013	20 000		-4 000	16 000	55.50	1/1/2017 - 31/12/2023
2014	20 000			20 000	54.71	1/1/2018 - 31/12/2024
2015	20 000			20 000	49.15	1/1/2019 - 31/12/2025
2016	20 000			20 000	53.09	1/1/2020 - 31/12/2026
2017	18 000			18 000	62.87	1/1/2021 - 31/12/2027
Balance	**140 000**	**0**	**-16 000**	**124 000**		

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 succes 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 stocks. The total value of the outstanding options 2011 - 2017 (valued at the fair value at the moment of granting), amounts to KUSD 1 521 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

In 2017. 18 000 new stock options were granted with an exercise price of EUR 62.87 per share. The fair value when granted was fixed at KUSD 100 and is recorded in the profit and loss accounts over the vesting period of 3 years (2018-2020). To cover the outstanding option obligation. *SIPEF* has a total of 124 000 treasury shares in portfolio. The total cost of the stock options included in the income statement is KUSD 160 in 2017 (2016: KUSD 218).

	Number of shares	Average purchase price (in EUR)	Total purchase price (in KEUR)	Total purchase price (in KUSD)
Opening balance 31/12/2016	110 000	53.61	5 897	7 425
Acquisition of treasury shares	14 000	63.15	884	1 050
Disposal of treasury shares (scrips)		0	- 153	- 167
Ending balance 31/12/2017	**124 000**	**53.45**	**6 628**	**8 308**

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.

26. INCOME TAXES

The reconciliation between the tax expenses and tax at local applicable tax rates is as follows:

In KUSD	2017	2016
Profit before tax	169 266	46 026
Tax at the applicable local rates	-43 865	-12 512
Average applicable tax rate	25.91%	27.18%
Permanent differences	- 522	- 577
Recognition deferred tax on the unrecognized carry forward losses from the past	511	705
Non taxable profit remeasurement gain PT Agro Muko	19 831	0
Tax expense	**- 24 045**	**- 12 384**
Average effective tax rate	14.21%	26.91%

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	2017	2016
Deferred tax assets	15 027	15 805
Deferred tax liabilities	-51 326	-31 582
Net deferred taxes	**-36 299**	**-15 777**

The movements in net deferred taxes (assets - liabilities) are:

In KUSD	2017	2016
Opening balance	-15 777	-14 410
Variation (- expense) / (+ income) through income statement	- 818	-1 453
Tax impact of IAS 19R through comprehensive income	71	95
Change in consolidation scope	- 310	0
"Purchase price allocation" PT Agro Muko & PT Dendymarker	-19 540	0
Other	75	- 9
Closing balance	**-36 299**	**-15 777**

Deferred taxes in the income statement are the result of:

In KUSD	2017	2016
Addition/(utilisation) of tax losses brought forward	-2 371	-5 332
Origin or reversal of temporary differences - IAS 41 revaluation	207	- 614
Origin or reversal of temporary differences - non-current assets	212	-1 791
Origin or reversal of temporary differences - pension provision	360	232
Origin or reversal of temporary differences - inventories	236	- 223
Origin or reversal of temporary differences - other	539	6 275
Total	**- 818**	**-1 453**

Total deferred tax assets are not entirely recognized in the balance sheet. The breakdown of total, recognized and unrecognized deferred taxes is as follows:

	2017		
In KUSD	Total	Not recorded	Recorded
Biological Assets	-1 272		-1 272
Non-current assets	-47 457		-47 457
Inventories	-3 411		-3 411
Pension provision	4 575		4 575
Tax losses	10 729	3 096	7 633
Others	3 633		3 633
Total	**-33 203**	**3 096**	**-36 299**

The majority of the unrecognized deferred tax assets at the end of 2017 are located at the companies of the *Musi Rawas group* (KUSD 1 246) and of the *UMW* group (KUSD 257), for which the main cause of uncertainty is the limited transferability over time (max 5 years), and *Jabelmalux SA* (KUSD 1 428).

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:

	2017		
In KUSD	**Total**	**Not recorded**	**Recorded**
1 year	11 624	2 989	8 635
2 years	5 697	390	5 307
3 years	5 537	426	5 111
4 years	808	562	246
5 years	2 887	2 306	581
Unlimited	14 011	4 886	9 125
Total	**40 564**	**11 559**	**29 005**

The net taxes to be paid relate mainly to the taxes to be paid in Indonesia.

In KUSD	2017	2016
Taxes to receive	1 610	4 084
Taxes to pay	-12 480	-5 651
Net taxes to pay	**-10 870**	**-1 567**

In KUSD	2017	2016
Net taxes to pay at the beginning of the period	-1 567	4 995
Change consolidation scope	- 329	0
Transfer	- 47	0
Reclassification to liabilities associated with assets available for sale	0	0
Taxes to pay	-22 538	-10 931
Paid taxes	13 611	4 369
Net taxes to pay at the end of the period	**-10 870**	**-1 567**

Taxes paid as presented in the consolidated cash flow statement are detailed as follows:

In KUSD	2017	2016
Tax expense	-24 045	-12 384
Deferred tax	1 507	1 453
Current taxes	**-22 538**	**-10 931**
Variation prepaid taxes	6 197	1 140
Variation payable taxes	2 730	5 422
Paid taxes	**-13 611**	**-4 369**

27. 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 Singapore Pte Ltd	Singapore / Republic of Singapore	38.00	38.00
PT Timbang Deli Indonesia	Medan / Indonesia	38.00	36.10
BDM NV	Antwerp / Belgium	50.00	50.00
ASCO NV	Antwerp / Belgium	50.00	50.00

The investments in associates and joint ventures consist of the following 2 sectors:

1. Tropical agriculture - *PT Timbang Deli* and *Verdant Bioscience Singapore Pte Ltd*
2. The insurance sector: *BDM NV* and *ASCO NV*.

Verdant Bioscience Singapore Pte Ltd (*VBS*) is a newly founded 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 commercialising 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 Singapore Pte Ltd*.

The group holds a 50% interest in the *BDM NV* and *ASCO NV* insurance group, which especially targets maritime and industrial insurance. *BDM NV* is an insurance agent for *ASCO NV*, among others, and for a number of large international insurers offering risk coverage in certain niche markets. The remaining 50% interest in *BDM NV* and *ASCO NV* is held by the Ackermans & Van Haaren group.

The total post 'investments in associates and joint ventures' can be summarized as follows:

In KUSD	2017	2016
PT Agro Muko*	0	43 217
Verdant Bioscience Singapore Pte Ltd	6 594	6 855
PT Timbang Deli Indonesia	1 522	1 897
Insurances (BDM NV and ASCO NV)**	0	8 968
Total	**8 116**	**60 937**

The total post 'Share of results of associated companies' can be summarized as follows:

In KUSD	2017	2016
PT Agro Muko*	2 011	9 323
Verdant Bioscience Singapore Pte Ltd	- 262	- 495
PT Timbang Deli Indonesia	- 335	- 428
Insurances (BDM NV and ASCO NV)**	1 723	659
Total result	**3 137**	**9 059**

* As of 1 March 2017, the SIPEF Group took control in PT AM and the Sipef Group holds a % of interest of 90.25%. PT AM is consolidated in accordance with the full consolidation method as of 1 March 2017.

** BDM-ASCO were transferred to the post 'net assets held for sale'. We refer to note 22.

Considering the relatively small impact of the insurance sector, we do not present the aggregated financial statements seperately.

Tropical agriculture

The associated companies and joint ventures included in the tropical agriculture consist of the associated companies *PT Timbang Deli* and *Verdant Bioscience Singapore Pte Ltd.*

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 Singapore Pte Ltd		PT Timbang Deli	
In KUSD	**2017**	**2016**	**2017**	**2016**
Biological assets	0	0	4 420	3 816
Other non-current assets	23 622	23 621	6 567	5 890
Current assets	9 207	6 520	540	651
Cash and cash equivalents	49	110	268	446
Total assets	**32 878**	**30 251**	**11 795**	**10 803**
Non-current liabilities	0	0	1 100	1 200
Long term financial debts	0	0	0	0
Current liabilities	9 454	6 138	8 715	6 586
Short term financial debts	0	0	0	0
Equity	23 424	24 113	1 980	3 017
Total liabilities	**32 878**	**30 251**	**11 795**	**10 803**

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 Singapore Pte Ltd		PT Timbang Deli	
In KUSD	**2017**	**2016**	**2017**	**2016**
Inclusion in the consolidation:	38.00%	38.00%	36.10%	36.10%
Revenue	0	0	1 951	2 141
Depreciation	6	6	300	546
Interest income	47	0	4	4
Interest charges	0	0	15	32
Net result	- 689	-1 303	- 929	-1 186
Share in the consolidation	**- 262**	**- 495**	**- 335**	**- 428**
Total share of the group	- 262	- 495	- 335	- 428
Total share minorities	0	0	0	0
Total	**- 262**	**- 495**	**- 335**	**- 428**

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.

Reconciliation tropical agriculture

	Verdant Bioscience Singapore Pte Ltd		PT Timbang Deli	
In KUSD	**2017**	**2016**	**2017**	**2016**
Equity without goodwill	23 424	24 113	1 980	3 017
Share of the group	8 901	9 162	715	1 090
Goodwill	0	0	807	807
Equity elimination PT Timbang Deli	-2 307	-2 307	0	0
Total	**6 594**	**6 855**	**1 522**	**1 897**

Reconciliation insurances

	Insurances	
In KUSD	**2017**	**2016**
Equity without goodwill	24 019	17 936
Total Share of the group*	**12 010**	**8 968**

* *BDM-ASCO were transferred to the post 'net assets held for sale'. We refer to note 22.*

Dividends received from associated companies and joint ventures

During the year the following dividends were received:

In KUSD	2017	2016
PT Agro Muko	0	4 729
Total	**0**	**4 729**

There are no restrictions on the transfers of funds to the group.

28. CHANGE IN NET WORKING CAPITAL

In line with the increased operating profit, the cash flow from operating activities was significantly higher in 2017 (KUSD 124 842) than in 2016 (KUSD 74 391).

The improvement in working capital (+KUSD 8 622) is primarily due to the application of the applicable delivery and payment arrangements with our customers.

29. 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 2 650 (without taking into account 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

A portion of the group's revenues are denominated in USD, while all of 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	16 664	18 330	20 367
Gross impact income statement	1 666		-2 037

The pension liability in Indonesia consists of KUSD 18 300 from fully consolidated subsidiaries and of KUSD 30 from equity consolidated companies (*PT Timbang Deli*).

On February 13th, 2018 the board of directors has also proposed the payment of KEUR 16 927 (EUR 1.60 gross per ordinary share). In the light of our liquidity and currency policy the exchange risk on the payment of this dividend was covered in five forward exchange contracts for the sale of KUSD 19 967 for KEUR 16 927 (average exchange rate of 0.8478).

- KUSD 17 881 (KEUR 15 258) before year end
- KUSD 2 085 (KEUR 1 669) after 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	16 450	18 278	20 105
Gross Impact income statement	-1 828		1 828

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 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.

On 18 December 2017 it was announced that *SIPEF* and Ackermans & van Haaren, each 50% shareholder of the Belgian insurance group *BDM-ASCO*, had reached agreement with the Nasdaq-listed US insurer The Navigators Group, Inc. on the sale of 100% of the share capital of *BDM-ASCO*. Following this sale, the sales price in euro was hedged at a fixed dollar rate.

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 2016, the group's net financial assets/(liabilities) amounted to KUSD -83 697 (2016: KUSD -45 061), of which KUSD 79 877 short term financial liabilities (2016: KUSD 62 265) and KUSD 36 180 net short term cash and cash equivalents (2016: KUSD 17 204).

The financial liabilities > 1 year (incl. derivatives) amount to KUSD 40 000 (2016: KUSD 0).

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 intrest 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 continous basis. In practice a difference is made between:

In KUSD	2017	2016
Receivables from the sale of palm oil/rubber/tea	34 939	39 280
Receivables from the sale of bananas and plants	1 526	1 121
Total	**36 465**	**40 401**

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 are 2 clients which represents over 30% of total sales and for rubber there is 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 are more important.

For both categories there is a weekly monitoring of the open balances due and a proactive system of reminders. Depreciations 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	2017	2016
Not yet due	877	749
Due < 30 days	319	352
Due between 30 and 60 days	96	20
Due between 60 and 90 days	82	0
Due > 90 days	152	0
Total	**1 526**	**1 121**

In 2017, no capital loss on receivables in the income statement was recorded.

In 2016 a total of KUSD 18 was recorded as capital loss on receivables in the income statement. The recorded capital loss mainly included impairment of receivables from local clients concerning sundry sales (materials,…), as well as capital losses on the receivables from our smallholders in Papua-New-Guinea.

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:

2017 - 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)	40 000	-42 154	- 559	-10 700	-10 498	-10 298	-10 099
Trade & other liabilities < 1 year							
Trade payables	18 243	-18 243	-18 243				
Advances received	678	- 678	- 678				
Financial liabilities < 1 year							
Current portion of amounts payable after one year	10 000	-10 331	-10 331				
Financial liabilities	69 877	-69 972	-69 972				
Derivatives							
Other current liabilities							
Current liabilities	**138 798**	**-141 378**	**-99 783**	**-10 700**	**-10 498**	**-10 298**	**-10 099**

2016 - 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)							
Trade & other liabilities < 1 year							
Trade payables	16 630	-16 630	-16 630				
Advances received	11	- 11	- 11				
Financial liabilities < 1 year							
Current portion of amounts payable after one year							
Financial liabilities	62 265	-62 292	-62 292				
Derivatives	1 176	-1 176	-1 176				
Other current liabilities							
Current liabilities	**80 082**	**-80 109**	**-80 109**	**0**	**0**	**0**	**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.

In 2017, 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 initially valued at cost. Subsequently, these instruments are recorded in the balance sheet at their fair value. 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	2017	2016
Forward exchange transactions	759	-1 176
Interest rate swaps	- 180	0
Fair value (+ = asset; - = liability)	**579**	**-1 176**

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 calculated at the closing value on the 31st of December 2017 were also incorporated in level 2.

The notional amount from the forward exchange contracts amounts to KUSD 60 735.

Financial instruments per category

The next table gives the financial instruments per category as per end 2017 and end 2016. The carrying amount of the financial assets and liabilities approximates the fair value because of the current nature of the financial instruments, except for the available for sale financial assets, which are valued at cost due to the fact that reliable information is not available. The financial instruments are measured at level 2.

2017 - In KUSD	Assets available for sale	Loans and receivables	Derivatives	Total carrying amount
			(1)	
Financial assets				
Other investments				0
Other financial assets		78		78
Receivables > 1 year				
Other receivables		6 643		6 643
Total non-current financial assets	**0**	**6 721**	**0**	**6 721**
Trade and other receivables				
Trade receivables		36 465		36 465
Investments				
Other investments and deposits				0
Cash and cash equivalents		36 180		36 180
Derivatives			579	579
Total current financial assets	**0**	**72 645**	**579**	**73 224**
Total financial assets	**0**	**79 366**	**579**	**79 945**

	Derivatives	Other liabilities	Total carrying amount
		(2)	
Trade and other obligations > 1 year			0
Financial obligations > 1 year (incl. derivatives)		40 000	40 000
Total non-current financial liabilities	**0**	**40 000**	**40 000**
Trade & other obligations < 1 year			
Trade payables		18 243	18 243
Advances received		678	678
Financial obligations < 1 year			
Current portion of amounts payable after one year		10 000	10 000
Financial obligations		69 877	69 877
Derivatives			0
Total current financial liabilities	**0**	**98 798**	**98 798**
Total financial liabilities	**0**	**138 798**	**138 798**

(1) is technically considered as held for trading under IAS 39

(2) at amortized cost

2016 - In KUSD	Assets available for sale	Loans and receivables	Derivatives	Total carrying amount
			(1)	
Financial assets				
Other financial assets				
Other investments	22			22
Receivables > 1 year				
Other receivables		8 323		8 323
Total non-current financial assets	**22**	**8 323**	**0**	**8 345**
Trade and other receivables				
Trade receivables		40 401		40 401
Investments				
Other investments and deposits				0
Cash and cash equivalents		17 204		17 204
Derivatives				0
Total current financial assets	**0**	**57 605**	**0**	**57 605**
Total financial assets	**22**	**65 928**	**0**	**65 950**

	Derivatives	Other liabilities	Total carrying amount
		(2)	
Trade and other obligations > 1 year			
Financial obligations > 1 year (incl. derivatives)			
Total non-current financial liabilities	**0**	**0**	**0**
Trade & other obligations < 1 year			
Trade payables		16 630	16 630
Advances received		11	11
Financial obligations < 1 year			
Current portion of amounts payable after one year			0
Financial obligations		62 265	62 265
Derivatives	1 176		1 176
Total current financial liabilities	**1 176**	**78 906**	**80 082**
Total financial liabilities	**1 176**	**78 906**	**80 082**

(1) is technically considered as held for trading under IAS 39
(2) at amortized cost

The contribution to the net result of the financial instruments per category is presented as follows:

2017 - In KUSD	Assets available for sale	Loans and receivables	Cash	Derivatives	Amortized cost	Total
Revenue						0
Selling, general and administrative expenses						0
Other operating income/(charges)						0
Total	**0**	**0**	**0**	**0**	**0**	**0**
Financial income		1 543	101			1 644
Financial charges		-3 054	- 158			-3 212
Derivatives held for trade purposes				1 648		1 648
Total	**0**	**-1 511**	**- 57**	**1 648**	**0**	**80**

2016 - In KUSD	Assets available for sale	Loans and receivables	Cash	Derivatives	Amortized cost	Total
Revenue						0
Selling, general and administrative expenses						0
Other operating income/(charges)						0
Total	**0**	**0**	**0**	**0**	**0**	**0**
Financial income		31	89			120
Financial charges		- 803	- 76			- 879
Derivatives held for trade purposes				- 339		- 339
Total	**0**	**- 772**	**13**	**- 339**	**0**	**-1 098**

30. OPERATIONAL LEASES

The group leases office space, office equipment and vehicles under a number of operating lease agreements. Future lease payments under these non-cancelable operating leases are due as follows:

In KUSD	2017	2016
1 year	294	279
2 years	75	62
3 years	73	36
4 years	59	34
5 years	25	22
	526	**433**

During the year an amount of KUSD 315 (compared to KUSD 322 in 2016) has been charged in the income statement.

31. FINANCE LEASES

In 2010 in the light of further restructuring of the groups' financing the current financial leasing contracts have been terminated.

32. 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 2017.

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.

33. 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	2017	2016
Directors' fees		
Fixed fees	359	305
Short-term employee benefits	2 273	1 702
Resignation payment	0	0
Share based payments	97	87
Post-employment benefits	524	508
Benefits in kind (Company car+ cell phone)	30	34
Total	**3 283**	**2 636**

The amounts are paid in EUR. The amount paid in 2017 amounts to KEUR 2 886 (2016: KEUR 2 388). The increase of KEUR 498 is on the one hand a consequence of the increase in the fixed fees of the executive committee and the Board of Directors with KEUR 192 and on the other hand due to a higher variable fee paid in 2017 compared to 2016 (KEUR 306).
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 184 (KEUR 166) and KUSD 74 (KEUR 67) 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 (mainly *PT Agro Muko*) are disclosed below.

The following table represents the total of the transactions that have occured during the financial year between the group and the joint venture *PT Agro Muko*, *PT Timbang Deli* and *Verdant Bioscience Singapore Pte Ltd* at 100%:

In KUSD	PT Agro Muko*	PT Timbang Deli	Verdant Bioscience Singapore
Total sales during the financial year	723	0	0
Total purchases during the financial year	11 579	1 767	0
Total receivables as per 31 December 2017	n/a	178	4 134
Total payables as per 31 December 2017	n/a	149	9 183

* PT Agro Muko until February 2017.

34. BUSINESS COMBINATIONS, ACQUISITIONS AND DIVESTITURES

1. Acquisition of PT Dendymarker Indah Lestari

PT Dendymarker Indah Lestari ("*PT DIL*") is an RSPO certified oil palm company, currently consisting of 6 562 planted hectares of oil palms, 2 780 hectares of smallholders and a palm oil extraction mill with a processing capacity of 25 tonnes of bunches per hour, all located in Musi Rawas Ultara, South Sumatra

A. Consideration transferred

The *SIPEF* group has acquired 95% of the outstanding shares of *PT DIL* for a total purchase price of KUSD 52 833. As a result of this purchase, *PT DIL* has been included in the consolidated financial statements of the *SIPEF* group as of 1 August 2017. No contingent consideration or equity instrument has been used for this transaction..

In KUSD	
Purchase price of the shares	15 129
Acquisition of financial liabilities < 1 year	37 704
Cash in PT DIL	- 5
Total consideration paid	**52 828**

B. Acquisition related cost

Direct acquisition related costs in respect of the purchase of the shares of *PT Agro Muko* are considered as insignificant and are neither reflected.

C. Identifiable assets acquired and liabilities assumed

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition:

In KUSD	01/08/17
Biological assets - bearer plants	8 597*
Other property, plant & equipment	23 383*
Deferred tax assets	1 324*
Inventories	268
Trade and other receivables	50
Cash and cash equivalents	5
Total assets	**33 627**
Equity	-4 499
Financial liabilities < 1 year	37 704
Trade and other liabilities < 1 year	422
Total liabilities	**33 627**

There are no contingent liabilities recognised as part of the net assets.

The valuation techniques used for measuring the fair value of material assets acquired were as follows:

Assets acquired

Property plant and equipment - land rights

Market comparison technique: The valuation model considers quoted market prices for similar land rights acquired.

Property, plant and equipment - Biological assets - bearer plants & other property plant and equipment

Discounted cash flow technique and cost technique: The valuation model considers depreciated replacements costs as well as discounted cash flows when appropriate. Depreciated replacement costs reflect adjustments for physical deterioration as well as functional and economical obsolescence.

* As per 31 December 2017, the business combination has been accounted for on a provisional basis using provisional amounts (including the tax impact). Adjustments to the provisional amounts will be made in the 'measurement period' of one year after the acquisition date where they reflect new information obtained about facts and circumstances that were in existence at the acquisition date.

D. Goodwill acquired

In KUSD	01/08/17
Biological assets - bearer plants	8 597
Other property, plant & equipment	23 383
Deferred tax assets	1 324
Inventories	268
Trade and other receivables	50
Total assets (excl. cash and cash equivalents) (A)	**33 622**
Non-controlling interests	- 225*
Trade and other liabilities < 1 year	422
Total liabilities (B)	**197**
Amount paid	52 833
Cash in PT DIL	- 5
Total consideration paid (C)	**52 828**
Total Goodwill (C-A+B)	**19 403**

* - 4.999 * 5% = -225

The goodwill is attributable mainly to the palm oil segment relating to additional synergies and economies of scale within the group. None of the goodwill recognised is expected to be deductible for tax purposes.

E. Contribution of PT Dendymarker

Since the acquisition date of 1 August 2017, *PT Dendymarker* contributed KUSD 429 to the consolidated revenue and KUSD -1 829 to consolidated net profit.

Had the acquisition of *PT Dendymarker* occured on 1 January 2017, the consolidated revenue and net profit would have amounted to KUSD 322 242 and KUSD 145 787 respectively.

2. Acquisition of PT Agro Muko

On 13 February 2017, the Group acquired 10,87% of the shares and voting interests in *PT Agro Muko*. As a result, the Group's equity interest in *PT Agro Muko* increased from 47.2919% to 58.1619%, obtaining control of *PT Agro Muko*.

As this business combination was achieved in stages, the previously held interest in *PT Agro Muko* (classified as a joint venture) was remeasured at the acquisition date fair value and the difference with the carrying amount was recognized in the profit and loss statement. The fair value of the previously held interest in *PT Agro Muko* was established at 12 567 USD per Ha for the fixed assets. Other assets and liabilities are already at fair value and amount to 1 270 USD per ha. This remeasurement has resulted in a net gain of KUSD 79 324 of which KUSD 75 182 share of the group and KUSD 4 142 attributable to the non controlling interests. This gain has been recognised under the line item 'Other operating income' in the income statement.

In KUSD	01/03/17
Fair value of previously held interest (47,2919%)	128 067
- Carrying amount of previously held interest	-45 228
Remeasurement gain	82 839 (a)
Recycling of historical translation adjustments relating to PT Agro Muko	-3 515 (b)
Net gain	**79 324**
Part of the group: 95% *(a)+(b)	75 182
NCI: 5% of (a)	4 142

Taking control of *PT Agro Muko* will enable the group to continue it's strategy towards obtaining 100 000 (own share) of fully RSPO certified Ha. The acquisition is also expected to protect the Group's market share of the palm oil and rubber market and to continue to provide sufficient palm oil and rubber production to meet our client's demands.

A. Consideration transferred

The Consideration transferred is the total of cash paid to PT Austindo Nusantara Jaya TBK ("ANJ") for 10,87% of the total outstanding shares of *PT Agro Muko*. The total cash that was paid amounts to KUSD 44 311.

No contingent consideration or equity instrument has been used for this transaction. Considering the amount of cash and cash equivalent acquired from *PT Agro Muko* amounted to KUSD 17 853 the cash outflow resulting from the acquisition amounts to KUSD 26 458.

B. Acquisition related cost

Direct acquisition related costs in respect of the purchase of the shares of *PT Agro Muko* are considered as insignificant and are neither reflected.

C. Identifiable assets acquired and liabilities assumed

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition:

In KUSD	01/03/17
Property, plant and equipment - land rights	37 351
Biological assets - bearer plants	67 458
Other property, plant and quipment	40 742
Financial assets	46
Deferred tax assets	0
Inventories	5 782
Biological assets	727
Other current assets	17 940
Cash and cash equivalents	17 853
Pension provision	-5 439
Other provisions	-986
Deferred tax liabilities	-21 176
Other current liabilities	-10 258
Total net assets acquired	**150 040**

There are no contingent liabilities recognised as part of the net assets.

The valuation techniques used for measuring the fair value of material assets acquired were as follows:

Assets acquired

Property plant and equipment - land rights

Market comparison technique: The valuation model considers quoted market prices for similar land rights acquired.

Property plant and equipment - Biological assets & Other PP&E

Discounted cash flow technique and cost technique: The valuation model considers depreciated replacements costs as well as discounted cash flows when appropriate. Depreciated replacement costs reflect adjustments for physical deterioration as well as functional and economical obsolescence.

D. Goodwill acquired

In KUSD	01/03/17
Fair value of the consideration paid	44 311
+ Fair value of the previously held interest	121 664
+ NCI interest (determined as non-controlling interest in the fair value of the net assets acquired)	66 318
- Fair value of the net assets acquired	-150 036
= Goodwill	82 257

The goodwill is attributable mainly to the palm oil segment relating to additional synergies and economies of scale within the group. None of the goodwill recognised is expected to be deductible for tax purposes.

E. Contribution of PT Agro Muko

Since the acquisition date of 1 March 2017, *PT Agro Muko* contributed KUSD 8 374 to the consolidated revenue and KUSD 15 094 to consolidated net profit.

Had the acquisition of *PT Agro Muko* occured on 1 January 2017, the consolidated revenue and net profit would have amounted to KUSD 323 753 and KUSD 150 600 respectively.

F. Acquisition of non-controlling interests in PT Agro Muko

In a distinct transaction with MP Evans closed on 17 March 2017, the Group acquired an additional 36,84% of the total outstanding share in *PT Agro Muko* for a cash consideration of KUSD 99 769.

The difference with the carrying amount of non-controlling interests acquired (KUSD 55 275) amounts to KUSD 44 494 and has been recognised in Group equity.

3. Summary of the total impact

During 2017, the Sipef group has acquired two companies:

- *PT Agro Muko* as of 1 March 2017 (change from equity method to full consolidation method)
- *PT Dendymarker Indah Lestari* as of 1 August 2017 (new business combination)

The total impact of the inclusion of *PT Agro Muko* on the consolidated balance sheet can be summarized in 4 movements:

- Two months of result from *PT Agro Muko* as an equity consolidated company.
- Deconsolidation of the equity consolidation of 47.2919% as per 01/03/2017.
- Inclusion of all the remeasured assets (including goodwill paid) and liabilities of *PT Agro Muko*.
- Elimination of intercompany positions which were not yet eliminated as *PT Agro Muko* was an equity consolidated company before.

We have included the total impact of the 4 movements above in the summary below. This summary is including the total of all the transactions relating to *PT Agro Muko* to arrive at the final share of the group of 90,25% in *PT Agro Muko*, including the financial liabilities that incurred to purchase *PT Agro Muko*.

We have also included the impact of the acquisition of *PT Dendymarker* to show the combined effect of both acquisitions on the balance sheet during the year.

In KUSD (condensed)	PT Agro Muko 2 months equity method	PT Agro Muko full consolidation effect	Total PT Agro Muko effect	PT Dendymarker effect	Total acquisition effect
Non-current assets	**2 011**	**182 626**	**184 637**	**52 707**	**237 344**
Intangible assets					0
Goodwill		82 257	**82 257**	19 403	101 660
Biological assets - bearer plants		67 458	**67 458**	8 597	76 055
Other property, plant & equipment		78 093	**78 093**	23 383	101 476
Investment property					0
Investments in associated companies and joint ventures	2 011	-45 228	**-43 217**		-43 217
Financial assets		46	**46**		46
Other financial assets		46	**46**		46
Receivables > 1 year					0
Other receivables					0
Deferred tax assets				1 324	1 324
Current assets	**0**	**31 338**	**31 338**	**323**	**31 661**
Inventories		5 782	**5 782**		5 782
Biological assets		727	**727**	268	995
Trade and other receivables		3 233	**3 233**	50	3 283
Trade receivables		-1 007	**-1 007**	50	- 957
Other receivables		4 240	**4 240**		4 240
Current tax receivables		3 768	**3 768**		3 768
Investments					0
Other investments and deposits					0
Derivatives					0
Cash and cash equivalents		17 853	**17 853**	5	17 858
Other current assets		- 25	**- 25**		- 25
Assets held for sale					0
Total assets	**2 011**	**213 964**	**215 975**	**53 030**	**269 005**

In KUSD (condensed)	PT Agro Muko 2 months equity method	PT Agro Muko full consolidation effect	Total PT Agro Muko effect	PT Dendymarker effect	Total acquisition effect
Total equity	**2 011**	**-36 338**	**-34 327**	**- 225**	**-34 552**
Shareholders' equity	1 910	-37 266	**-35 356**		-35 356
Issued capital					0
Share premium					0
Treasury shares (-)					0
Reserves	1 910	-40 781	**-38 871**		-38 871
Translation differences		3 515	**3 515**		3 515
Non-controlling interests	101	928	**1 029**	- 225	804
Non-current liabilities	**0**	**27 601**	**27 601**	**- 225**	**27 376**
Provisions > 1 year		986	**986**		986
Provisions		986	**986**		986
Deferred tax liabilities		21 176	**21 176**		21 176
Trade and other liabilities > 1 year					0
Financial liabilities > 1 year (incl. derivatives)					0
Pension liabilities		5 439	**5 439**		5 439
Current liabilities	**0**	**143 377**	**143 377**	**53 255**	**196 632**
Trade and other liabilities < 1 year		-1 672	**-1 672**	422	-1 250
Trade payables		-6 719	**-6 719**		-6 719
Advances received		281	**281**		281
Other payables		666	**666**	422	1 088
Income taxes		4 100	**4 100**		4 100
Financial liabilities < 1 year		144 080	**144 080**	52 833	196 913
Current portion of amounts payable > 1 year					0
Financial liabilities		144 080	**144 080**	52 833	196 913
Derivatives					0
Other current liabilities		969	**969**		969
Liabilities associated with assets held for sale					0
Total equity and liabilities	**2 011**	**134 640**	**136 651**	**53 030**	**189 681**
Remeasurement gain		**79 324**	**79 324**		**79 324**

The acquisition of the additional share in *PT Agro Muko* and the acquisition of *PT Dendymarker* had the following impact on the cash flow:

	PT AM	PT DIL	Total
Total acquisition price	- 144 080	- 52 833	- 196 913
Advance paid in 2016	1 250		1 250
Available liquidity	17 852	5	17 857
Net impact	**-124 978**	**- 52 828**	**-177 806**
Presentation in cash flow			
- Acquisition financial assets	- 25 208	- 52 828	- 78 036
- Equity transactions with NCI	- 99 770		- 99 770
	-124 978	**- 52 828**	**- 177 806**

35. EARNINGS PER SHARE (BASIC AND DILUTED)

From continuing and discontinued operations	2017	2016
Basic earnings per share		
Basic earnings per share - calculation (USD)	14.21	4.50
Basic earnings per share is calculated as follows:		
Numerator: net result for the period attributable to ordinary shareholders (KUSD)	139 663	39 874
Denominator: the weighted average number of ordinary shares outstanding	9 826 091	8 851 266
The weighted average number of ordinary shares outstanding is calculated as follows:		
Number of ordinary shares outstanding at January 1	8 841 740	8 880 661
Effect of shares issued / share buyback programs	- 1 120	- 29 395
Effect of the capital increase	985 471	
The weighted average number of ordinary shares outstanding at December 31	9 826 091	8 851 266
Diluted earnings per share		
Diluted earnings per share - calculation (USD)	14.19	4.50
The diluted earnings per share is calculated as follows:		
Numerator: net result for the period attributable to ordinary shareholders (KUSD)	139 663	39 874
Denominator: the weighted average number of dilutive ordinary shares outstanding	9 843 302	8 851 666
The weighted average number of dilutive ordinary shares outstanding is calculated as follows:		
The weighted average number of ordinary shares outstanding at December 31	9 826 091	8 851 266
Effect of stock options on issue	17 211	400
The weighted average number of dilutive ordinary shares outstanding at December 31	9 843 302	8 851 666

From continuing operations		
Basic earnings per share		
Basic earnings per share - calculation (USD)	14.21	4.50
Basic earnings per share is calculated as follows:		
Numerator: net result for the period attributable to ordinary shareholders (KUSD)	139 663	39 874
Denominator: the weighted average number of ordinary shares outstanding	9 826 091	8 851 266
The weighted average number of ordinary shares outstanding is calculated as follows:		
Number of ordinary shares outstanding at January 1	8 841 740	8 880 661
Effect of shares issued / share buyback programs	- 1 120	- 29 395
Effect of the capital increase	985 471	
The weighted average number of ordinary shares outstanding at December 31	9 826 091	8 851 266
Diluted earnings per share		
Diluted earnings per share - calculation (USD)	14.19	4.50
The diluted earnings per share is calculated as follows:		
Numerator: net result for the period attributable to ordinary shareholders (KUSD)	139 663	39 874
Denominator: the weighted average number of dilutive ordinary shares outstanding	9 843 302	8 851 666
The weighted average number of dilutive ordinary shares outstanding is calculated as follows:		
The weighted average number of ordinary shares outstanding at December 31	9 826 091	8 851 266
Effect of stock options on issue	17 211	400
The weighted average number of dilutive ordinary shares outstanding at December 31	9 843 302	8 851 666

36. RESTATEMENT OF THE LAND RIGHTS

The Group has reconsidered the presentation of the land rights and concluded to present these land rights as Plant, Property & Equipment i.s.o. Intangible assets, 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.

The below statement represents the impact on the assets and liabilities of this change in accounting policy.

In KUSD (condensed)	31/12/2016	31/12/2016R	Difference
Actifs non-courants	**501 560**	**501 560**	**0**
Intangible assets	51 633	136	-51 497
Goodwill	*1 348*	*1 348*	*0*
Biological assets	178 346	178 346	0
Property, plant & equipment	185 146	236 643	51 497
Investment property	0	0	0
Investments in associated companies and joint ventures	60 937	60 937	0
Financial assets	22	22	0
Other financial assets	*22*	*22*	*0*
Receivables > 1 year	*8 323*	8 323	*0*
Other receivables	*8 323*	*8 323*	*0*
Deferred tax assets	15 805	15 805	0
Current assets	**113 772**	**113 772**	**0**
Inventories	23 757	23 757	0
Biological assets	4 133	4 133	0
Trade and other receivables	62 681	62 681	0
Trade receivables	*40 401*	*40 401*	*0*
Other receivables	*22 280*	*22 280*	*0*
Current tax receivables	4 084	4 084	0
Investments	0	0	0
Other investments and deposits	0	0	0
Derivatives	0	0	0
Cash and cash equivalents	17 204	17 204	0
Other current assets	1 913	1 913	0
Assets held for sale	0	0	0
Total assets	**615 332**	**615 332**	**0**

In KUSD (condensed)	31/12/2016	31/12/2016R	Difference
Total equity	**473 126**	**473 126**	**0**
Shareholders' equity	**448 063**	**448 063**	**0**
Issued capital	37 852	37 852	0
Share premium	17 730	17 730	0
Treasury shares (-)	-7 425	-7 425	0
Reserves	417 997	417 997	0
Translation differences	-18 091	-18 091	0
Non-controlling interests	**25 063**	**25 063**	**0**
Non-current liabilities	**45 146**	**45 146**	**0**
Provisions > 1 year	1 702	1 702	0
Provisions	*1 702*	*1 702*	0
Deferred tax liabilities	31 582	31 582	0
Trade and other liabilities > 1 year	0	0	0
Financial liabilities > 1 year (incl. derivatives)	0	0	0
Pension liabilities	11 862	11 862	0
Current liabilities	**97 060**	**97 060**	**0**
Trade and other liabilities < 1 year	30 515	30 515	0
Trade payables	*16 630*	*16 630*	*0*
Advances received	*11*	*11*	*0*
Other payables	*8 223*	*8 223*	*0*
Income taxes	*5 651*	*5 651*	*0*
Financial liabilities < 1 year	63 441	63 441	0
Current portion of amounts payable > 1 year	*0*	*0*	*0*
Financial liabilities	*62 265*	*62 265*	*0*
Derivatives	*1 176*	*1 176*	*0*
Other current liabilities	3 104	3 104	0
Liabilities associated with assets held for sale	0	0	0
Total equity and liabilities	**615 332**	**615 332**	0

37. EVENTS AFTER THE BALANCE SHEET DATE

There have been no significant events after the balance sheet date that could have an impact on the consolidated financial statements of the *SIPEF* group.

38. RECENT DEVELOPMENTS

To the best of our actual knowledge, there are no circumstances or developments, which would have a major impact on the further development of the Group.

The board of directors proposes to pay a gross dividend of EUR 1.60 per share payable on July 4, 2018. This corresponds to a payout of 29.86% on the profit, share of the group, and in line with the payout ratio of previous years.

39. SERVICES PROVIDED BY THE AUDITOR AND RELATED FEES

The statutory auditor of the *SIPEF* group is Deloitte Bedrijfsrevisoren BV o.v.v.e. 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 committée and by the board of directors. These fees correspond to an amount of KUSD 89 (against KUSD 85 last year).

For the group, Deloitte has provided services for KUSD 661 in 2017 (against KUSD 483 the year before), of which KUSD 232 (2016: KUSD 154) are for non audit services (legal KUSD 41, accounting KUSD 57 and fiscal KUSD 134).

Deloitte.

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.

<table>
<tr><th>Key audit matters</th><th>How our audit adressed the key audit matters?</th></tr>
<tr><td>

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).

</td><td>

- 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.

</td></tr>
</table>

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

DELOITTE Bedrijfsrevisoren / Réviseurs d'Entreprises
BV o.v.v.e. CVBA / SC s.f.d. 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 2017 and of its results for the year then ended, in accordance with the financial reporting framework applicable in Belgium.

We refer to the explanatory notes to the statutory annual financial statements on page 20 for additional information relating to the parent company summarised statutory accounts.

Condensed balance sheet

(after appropriation)

In KUSD	2017	2016
Assets		
Fixed assets	**306 449**	**294 792**
Formation expenses		
Intangible assets	224	60
Tangible assets	587	473
Financial assets	305 638	294 259
Current assets	**108 842**	**70 074**
Amounts receivable after more than one year	6 643	8 323
Stocks and contracts in progress	702	584
Amounts receivable within one year	91 702	49 380
Investments	7 939	6 204
Cash at bank and in hand	1 790	5 514
Other current assets	66	69
Total assets	**415 291**	**364 866**
Liabilities		
Equity	**219 260**	**140 337**
Capital	44 734	37 852
Share premium account	107 970	17 730
Reserves	12 387	10 548
Profit/ (loss) carried forward	54 169	74 207
Provisions and deferred taxation	**39**	**44**
Provisions for liabilities and charges	39	44
Creditors	**195 992**	**224 485**
Amounts payable after more than one year	40 000	103 484
Amounts payable within one year	155 567	120 922
Accrued charges and deferred income	425	79
Total liabilities	**415 291**	**364 866**

Condensed income statement

In KUSD	2017	2016
Operating income	285 514	240 429
Operating charges	- 282 504	- 237 632
Operating result	**3 010**	**2 797**
Financial income	3 639	46 590
Financial charges	- 4 601	- 24 647
Financial result	**- 962**	**21 943**
Result for the period before taxes	**2 048**	**24 740**
Income taxes	30	- 1 608
Result for the period	**2 078**	**23 132**

Appropriation account

In KUSD	2017	2016
Profit/ (loss) to be appropriated	**76 285**	**86 387**
Profit/ (loss) for the period available for appropriation	2 078	23 132
Profit/ (loss) brought forward	74 207	63 255
Appropriation account	**76 285**	**86 387**
Transfers to legal reserve	104	
Transfers to other reserves	1 735	408
Result to be carried forward	54 169	74 207
Dividends	20 277	11 772
Remuneration to directors	0	0

Notes

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