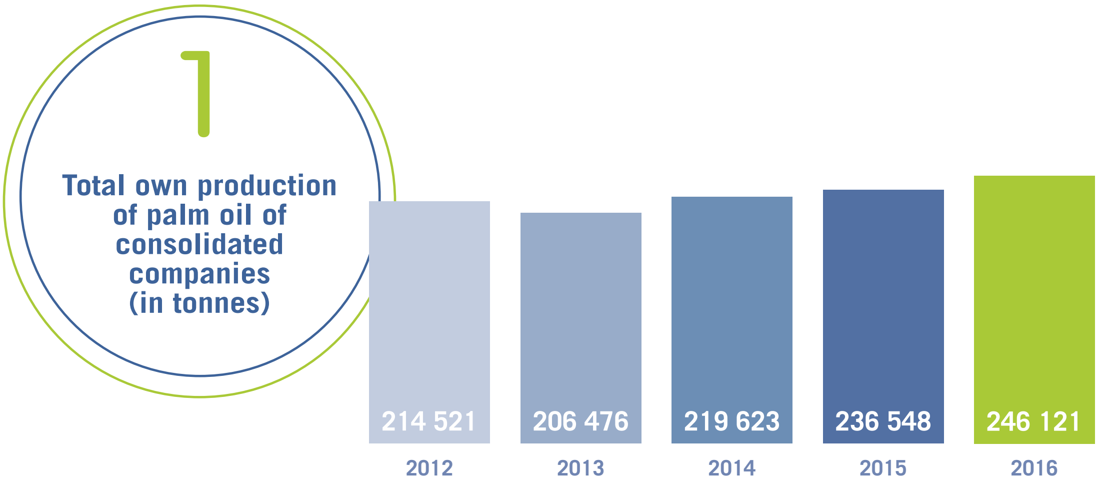
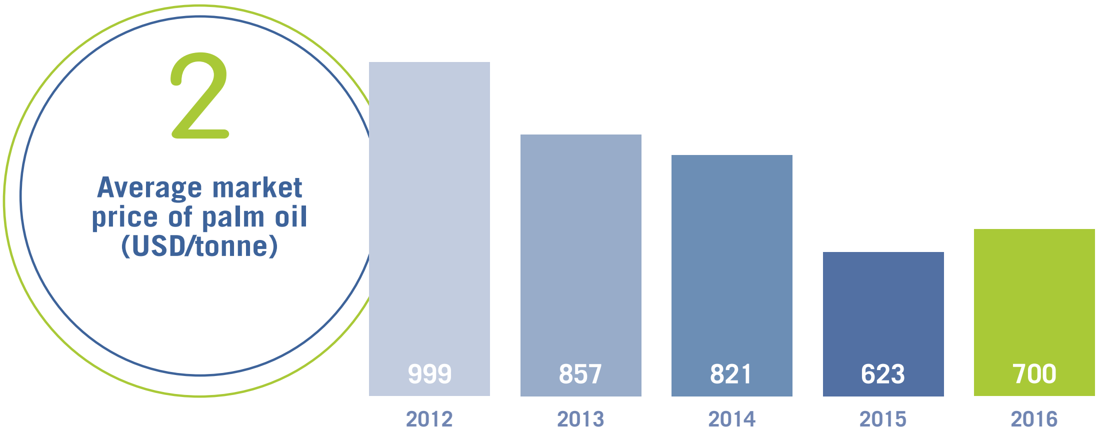
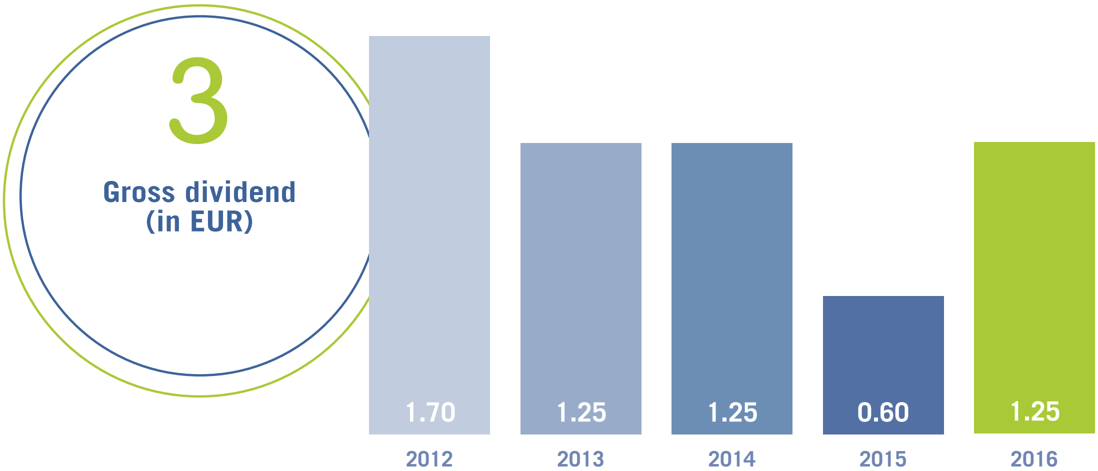
SIPEF

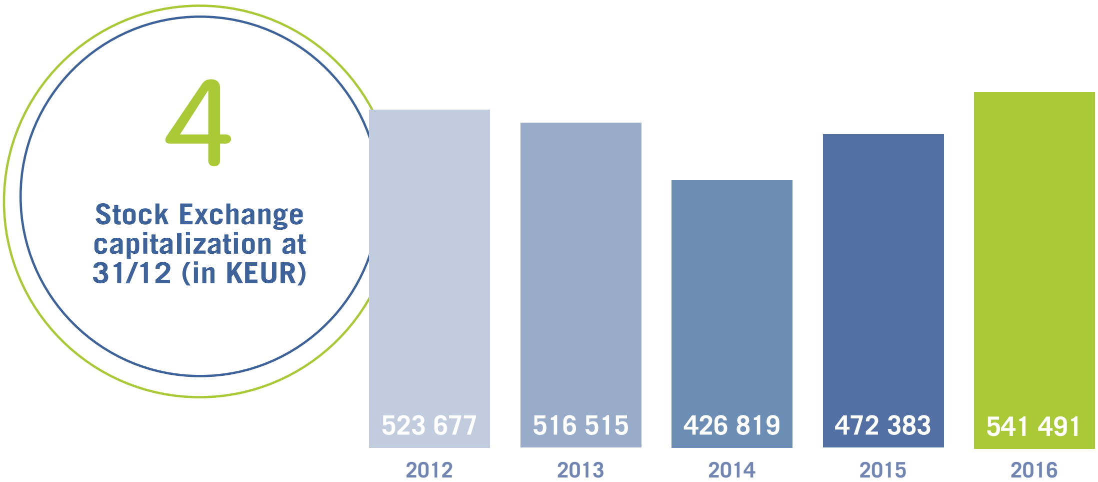
THE CONNECTION TO THE WORLD OF SUSTAINABLE TROPICAL AGRICULTURE

ANNUAL REPORT 2016


1
Total own production of palm oil of consolidated companies (in tonnes)
214 521
206 476
219 623
236 548
246 121
2012
2013
2014
2015
2016


2
Average market price of palm oil (USD/tonne)
999
857
821
623
700
2012
2013
2014
2015
2016


3
Gross dividend (in EUR)
1.70
1.25
1.25
0.60
1.25
2012
2013
2014
2015
2016


4
Stock Exchange capitalization at 31/12 (in KEUR)
523 677
516 515
426 819
472 383
541 491
2012
2013
2014
2015
2016

Key figures

Activity		2016	2015R	2014R	2013	2012
Total own production of consolidated companies (in tonnes)	palm oil	246 121	238 548	219 623	206 476	214 521
	rubber	9 017	9 622	9 675	9 773	9 757
	tea	2 940	2 726	2 816	2 850	2 869
	bananas	24 991	24 286	23 595	22 325	23 916
Average market price (USD/tonne)	palm oil	700	623	821	857	999
	rubber	1 605	1 559	1 958	2 795	3 377
	tea *	2 298	2 742	2 045	2 399	2 881
	bananas	905	903	1 043	1 022	1 100

Stock exchange share price *(in EUR)*	2016	2015R	2014R	2013	2012
Maximum	60.49	53.90	64.00	65.30	71.89
Minimum	45.95	40.01	45.10	49.52	54.51
Closing 31/12	60.49	52.77	47.68	57.70	58.50
Stock Exchange capitalization at 31/12 (in KEUR)	541 491	472 383	426 819	516 515	523 677

Results *(in KUSD)*	2016	2015R	2014R	2013
Turnover	266 962	225 935	285 899	286 057
Gross profit	73 792	43 650	78 903	79 014
Operating result	47 479	21 447	60 819	53 888
Share of the group in the result	39 874	18 708	48 967	46 625
Cash flow from operating activities after taxes	51 218	31 357	73 737	54 978
Free cash flow	13 328	- 9 948	27 264	- 25 439

Balance sheet *(in KUSD)*	2016	2015R	2014R	2013
Operating fixed assets (1)	363 492	357 313	343 199	322 126
Shareholders' equity	448 063	415 429	413 031	378 805
Net financial assets (+)/obligations (-)	- 45 061	- 50 521	- 24 617	- 35 077
Investments in intangible and operating fixed assets (1)	41 095	49 002	58 380	88 203

Data per share *(in USD)*	2016	2015R	2014R	2013
Number of shares	8 951 740	8 951 740	8 951 740	8 951 740
Own shares	110 000	100 000	62 000	62 000
Equity	50.68	46.93	46.46	42.61
Basic earnings per share	4.50	2.11	5.51	5.24
Cash flow from operating activities after taxes (2)	5.79	3.53	8.29	6.18
Free cash flow (2)	1.51	-1.12	3.07	-2.86

(1) Operating fixed assets = biological assets, property, plant & equipment and investment property
(2) Denominator 2016 = weighted average number of shares issued (8 851 266 shares).

R We refer to note 36 for additional information relating to the restatement of the 2015 comparative figures

* Mombasa auction

FINANCIAL YEAR 2016

SIPEF

NAAMLOZE VENNOOTSCHAP

Report of the board of directors and of the statutory auditor
to be submitted at the 98th ordinary general meeting to be held on 14 June 2017

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 20th April 2017;
- the half-year results on 17th August 2017;
- the interim report for the first 9 months on 19th October 2017;
- the results of the financial year in February 2018, 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 13 June 2018 at 3:00 pm at Kasteel Calesberg, Calesbergdreef 5, 2900 Schoten.

Useful adresses

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 2016

February 2016

The signing of a sale of shares agreement for completion of the sale of the rubber activity *Galley Reach Holdings Ltd* in Papua New Guinea for the amount of KUSD 6 600.

April 2016

Rainforest Alliance certification of our tea and banana activities respectively in Indonesia and Ivory Coast.

June 2016

Final transfer of *Galley Reach Holdings Ltd* to the buyers.

July 2016

Distribution of a gross dividend of EUR 0.60 per share.

August 2016

First harvest of fresh fruits (Fresh Fruit Bunches - FFB) in the expansion zone of Musi Rawas in Indonesia.

December 2016

The signing of the sale of shares agreement for the purchase of a stake of 10.87% of PT Austindo Nusantara Jaya in *PT Agro Muko* for the amount of KUSD 44 311.

The signing of the sale of shares agreement for the acquisition of the entire interest (36.84%) of M.P. Evans Group Plc in *PT Agro Muko* for the amount of KUSD 99 769.

Inauguration and startup of a new compost plant in North Sumatra.

The signing of the sale of shares agreement for the sale of the remaining stake of 32% in the oil palm plantation SIPEF-CI SA in Ivory Coast for KEUR 11 500.

January - December 2016

1 908 hectares additionally compensated and 3 026 hectares of new plantings or prepared for new plantings in the expansion zone of Musi Rawas in Indonesia.

Expansion of the banana plantation in Ivory Coast by 60 hectares or 8.9%.

Palm oil production in Southeast Asia was affected negatively by the delayed El Niño effect.

Increase in our “own” palm oil production by 3.2% after a strong fourth quarter (+ 11.4%).

Higher selling prices for palm oil and palm kernel oil and lower costs resulted in an increase of KUSD 30 142 or 69.1% the gross profit.

The net result, share of the group, amounted to KUSD 39 874, an increase of 113.1% compared to 2015.

The positive free cash flow of KUSD 13 328 allows us to continue the steady expansion of the plantation operations in Indonesia.

Dividend proposal of EUR 1.25 gross per share, in line with the payout 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 both tropical and sub-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 real estate sector in Belgium and in the United States, but these activities were later phased out completely.

Our traditional activities in commodities and their shipping led us to also get involved in the insurance sector where we now offer a wide range of services.

In the last decade, *SIPEF* has concentrated its efforts in the agro-industrial sector solely on the 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. *SIPEF* also provides management and marketing services to third parties.

By the end of 2016 the plantations extend over a planted surface area of 69 438 hectares compared to 70 359 hectares by the end of 2015. Despite our expansion in Musi Rawas, there was a decrease due to the sale of *Galley Reach Holdings Ltd*, where we had 3 341 planted hectares at the end of 2015.

Principal activities

SIPEF is a Belgian agro-industrial company listed on Euronext Brussels.

The company mainly holds majority stakes in tropical businesses, which it manages and operates.

The group is geographically diversified, and produces a number of different commodities, principally palm oil.

Its investments are largely long-term ventures in developing countries.

Company strategy

Management

SIPEF plays a decisive role in the management of companies in which it holds a majority stake or that it controls together with other partners. This role includes active participation in the boards of directors of these subsidiaries as well as monitoring of the management and operation of these companies. *SIPEF* strives to transmit its agronomic experience and management techniques to the local management.

Customers

Every effort is made to meet the needs of our customers and to provide them with high-quality goods and services in a timely manner.

Employees

In order to optimise the management of the plantations, we attach great importance to the training of our local employees, both in agricultural and management techniques.

The group's policy concerning agricultural, technical, environmental and general aspects is detailed in manuals containing practical guidelines to achieve these goals. Training sessions support proper implementation of these policies. We see to it that all employees are able to work in a healthy and safe environment.

Environment

The group recognises that, in addition to its statutory and commercial obligations, it bears responsibility towards the communities and environment in which it operates.

In order to preserve the environment, the group applies ecologically-responsible agricultural policies that comply with the principles and criteria of the 'Roundtable on Sustainable Palm Oil' (RSPO). This covers a broad series of environmental and social topics such as transparency, compliance with legal standards, good agricultural policy, sustainable development of the land and continued efforts to achieve perfection.

A separate chapter in the annual report is devoted to sustainable agriculture and our efforts to implement those policies.

Growth

SIPEF intends to continue to grow towards a first milestone of 100 000 planted hectares, the group's share, while focusing on sustainable development in its existing palm oil, rubber, banana and tea operations in Indonesia, Papua New Guinea and Ivory Coast.

The company will be concentrating on the expansion of existing activities, mainly through the buyout of minority shareholders and the acquisition of new investments. The expansion will be realised with limited leverage.

Directors, auditors and management

Board of directors

Baron Luc BERTRAND	chairman (as from 8th June 2016)
Baron BRACHT (till 8th June 2016)	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
Antoine de SPOELBERCH (as from 8th June 2016)	director

Statutory auditor

DELOITTE Bedrijfsrevisoren BV o.v.v.e. CVBA represented by Dirk CLEYMANS	auditors

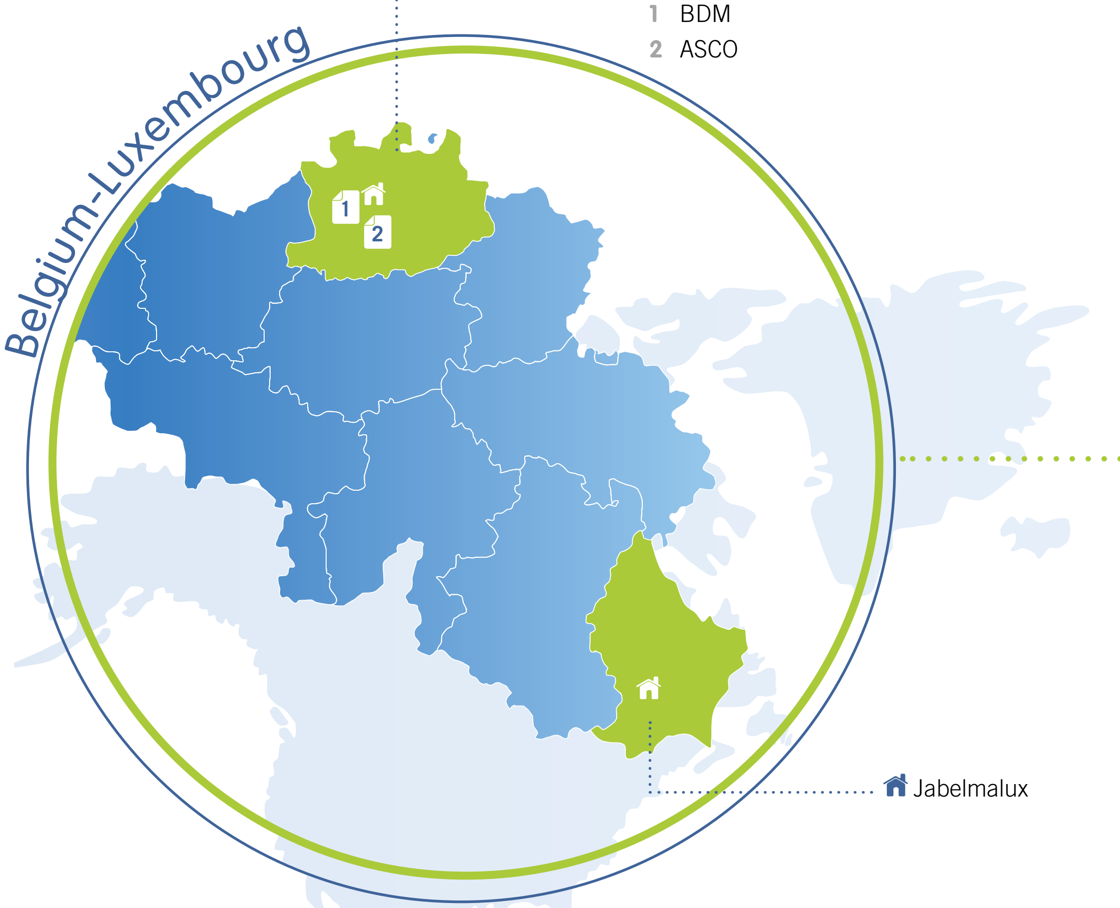
Executive committee

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

Activities

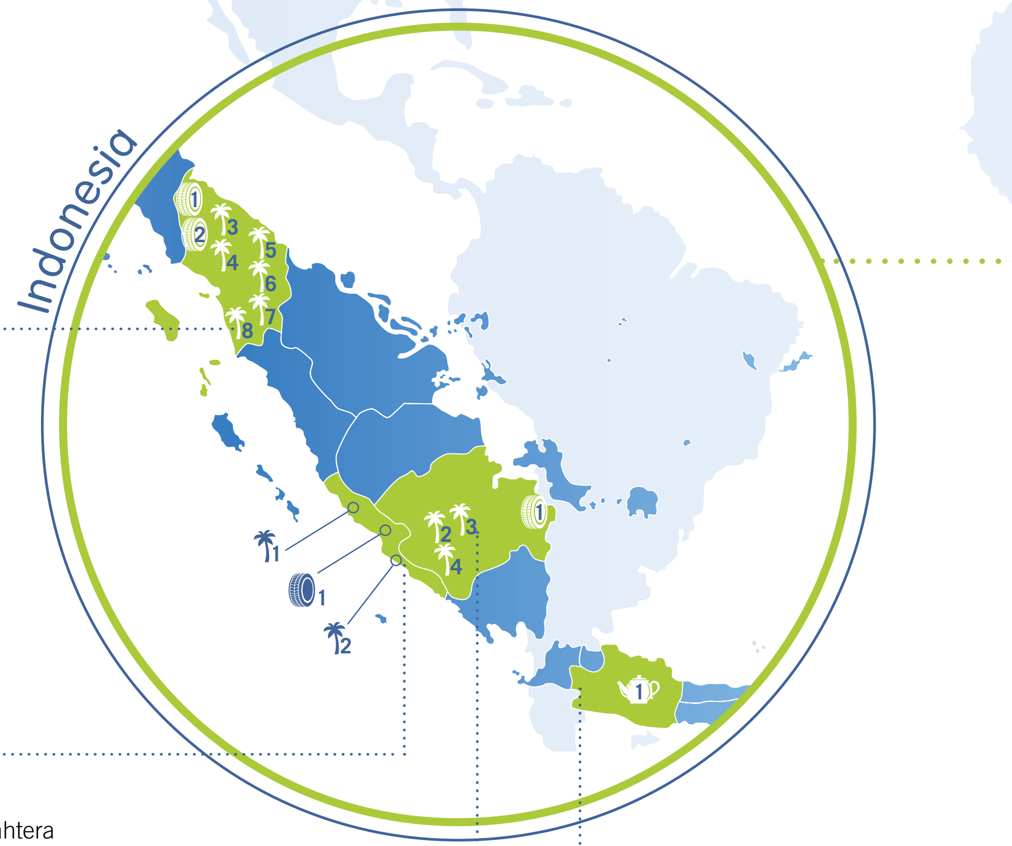
Legend

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



SIPEF
1 BDM
2 ASCO

Jabelmalux



Province of North Sumatra

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

Province of Bengkulu

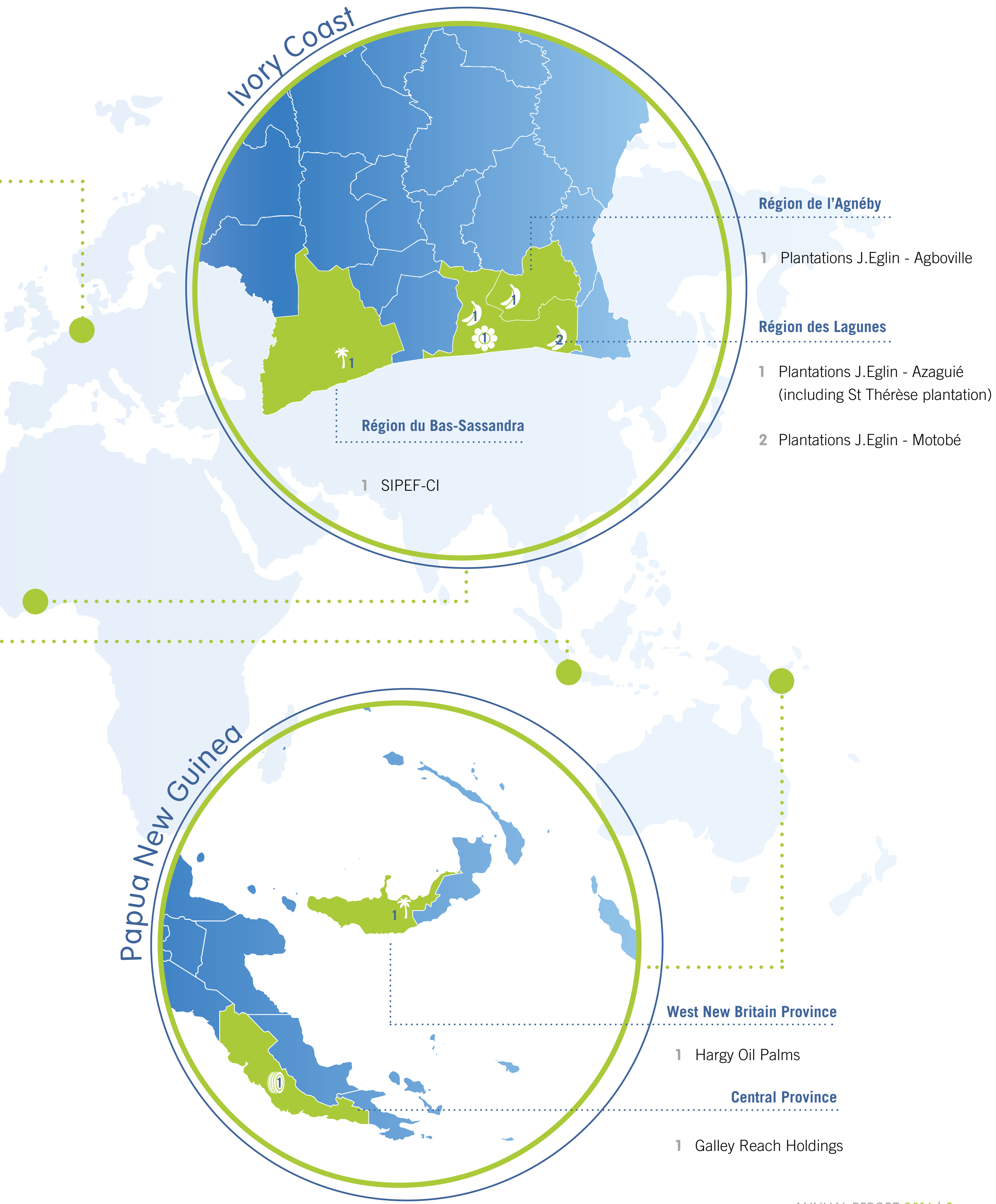
1 Agro Muko
2 Mukomuko Agro Sejahtera

Province of South Sumatra

1 Melania
2 Agro Rawas Ulu
3 Agro Muara Rupit
4 Agro Kati Lama

Province of West Java

1 Cibuni


Ivory Coast
Région de l'Agnéby
1 Plantations J.Eglin - Agboville
Région des Lagunes
1 Plantations J.Eglin - Azaguié
(including St Thérèse plantation)
2 Plantations J.Eglin - Motobé
Région du Bas-Sassandra
1 SIPEF-CI
Papua New Guinea
West New Britain Province
1 Hargy Oil Palms
Central Province
1 Galley Reach Holdings

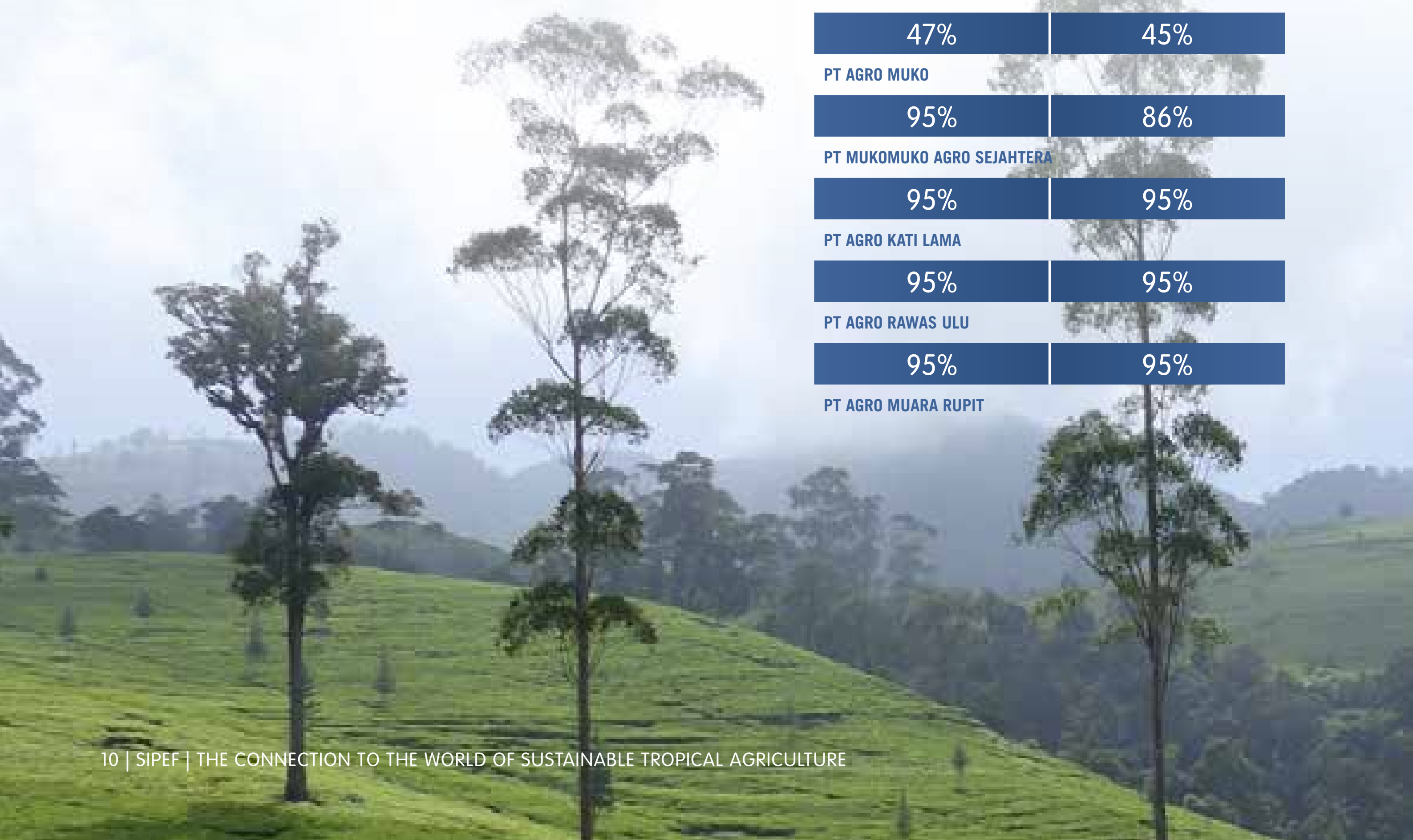
Organogram

INSURANCE

	percentage of control	percentage of interest
ASCO NV	50%	50%
BDM NV	50%	50%

INDONESIA

	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	47%	45%
PT MUKOMUKO AGRO SEJAHTERA	95%	86%
PT AGRO KATI LAMA	95%	95%
PT AGRO RAWAS ULU	95%	95%
PT AGRO MUARA RUPIT	95%	95%



AFRICA

percentage of control	percentage of interest
100%	100%

PLANTATIONS J. EGLIN SA

PACIFIC OCEAN

percentage of control	percentage of interest
100%	100%

HARGY OIL PALMS LTD

EUROPE

percentage of control	percentage of interest
99.40%	99.40%

JABELMALUX SA

SINGAPORE

percentage of control	percentage of interest
38%	38%

VERDANT BIOSCIENCE PTE LTD

SIPEF

Message from the chairman and managing director

Dear ladies and gentlemen,

We are pleased to present our annual report, as well as the consolidated accounts for the group and public limited company. They will be submitted to the 98th annual general meeting, which will be held on 14 June 2017.

2016 saw significantly lower levels of palm oil production during the second and third quarters due to the delayed impact of the El Niño drought effect in 2015, followed by a significant increase in production in the last quarter, so that at group level the production volumes of the previous year were still exceeded by 2.3% as per year-end. It was obvious that the more mature plantations suffered most from the drought, as plantations with immature planting continued to record positive growth figures. Other crops, i.e. rubber and tea in Indonesia, did not suffer a delayed impact, resulting in both activities reaching their expected volumes. The banana crop in Ivory Coast was affected by quality problems in the spring and the limited volume growth did not match the expansion in production areas.

During the second year of his term of office, the new Indonesian president, Joko Widodo, was better able to implement his policies, which are focused on the elimination of inequality between rich and poor, the gradual reduction in dependence on natural resources, diversification of exports, investment in infrastructure and production as well as research and development. Major infrastructure projects are underway throughout Indonesia, which should improve the country's accessibility via roads and sea within a relatively short time. Meanwhile, the approach to foreign investors in our sector has become clearer, so that legal certainty in this area has been reinstated. Contrary to previous years, the exchange rate of the local currency against the USD did not continue to slide, which confirms the confidence that the international community now has in the country.

Declining energy prices and weak raw material markets meant that the government of Papua New Guinea was under continued budgetary pressure in 2016. The run-up to the June/July 2017 general elections, inhibited efficient government administration. The local currency consequently continued to weaken against the US dollar, and limits on currency trading had an adverse effect on normal payment transactions. Astute responses within the agricultural sector ensured that the minister for agriculture was unable to implement his plans for reform.

Following the re-election of the current president, Alassane Ouattara, in October 2015 for another five-year term, and barring a few minor irregularities in changes to ministerial portfolios, the political and social climate in Ivory Coast remained very stable. The international community generally considers the coming years as a transition period to a new leader in the country. The currency remains linked to other West African currencies and the Euro, which introduces greater stability in our banana export from this country.

Overall, the long-term expectations for palm oil remain favourable and this vegetable oil is gaining an increasingly large market share in the food industry and biofuel sector worldwide, not least because of the efficient industrial processing methods and its low cost price compared to other liquid oils. More than 31% of today's global volumes are already related to palm oil. Short-term price developments remain subject to the combined supply with soy and rapeseed oil quantities and the demand for biofuels, which in turn is linked to crude oil prices and the readiness of some countries to subsidise mandatory blending. As a result of the fall in crude oil prices, voluntary production of biodiesel is no longer profitable and pricing is again linked to the supply and demand balance for applications in the food and cosmetics sectors, even more than previously.

The Indonesian fixed export levy of USD 50 per tonne, which was introduced in July 2015, has continued to support the local consumption of palm oil for the energy sector. However, it was

Message from the chairman and managing director

mainly the larger than expected reduction in combined palm oil production of more than 6 million tonnes in Malaysia and Indonesia that resulted in improved palm oil prices in the second half of the year, despite reports of large soya harvests in North America. Exceptionally low stocks worldwide meant that mainly short positions came under price pressure and prices up to USD 765 per tonne were recorded in December 2016.

This trend of rising prices intensified in the run-up to 2017, and palm oil shortages and low stocks are expected to continue throughout the first quarter, following this, the anticipated good soybean harvests in South America are expected to keep prices down in the second half of the year. Our marketing policy for this year will be focused on this.

We recorded a limited increase of 2.3% in palm oil volumes produced compared to 2015. This increase is solely the result of the successful performance of our immature palm oil areas in the expansion projects at *PT Umbul Mas Wisesa (PT UMW)* and *PT Toton Usaha Mandiri (PT TUM)* in North Sumatra, which have now been finalised, and the maturing of the palms in *Hargy Oil Palms Ltd* in Papua New Guinea, where the northern expansion areas are gradually reaching full production. The new palm oil extraction mills in both companies process fruits sustainably into RSPO certified palm oil.

The expansion at *Hargy Oil Palms Ltd* in Papua New Guinea continued steadily, but because of the limited availability of sustainable agricultural land adjacent to our plantations the current expanse of 13 621 hectares will only be extended to 15 000 hectares, which equates to full capacity exploitation of our three mills there, taking into account the fact that the neighbouring farmers also provide 45% of the processed fruit volumes. Abundant precipitation in the first quarter of the year is always a challenge for the company, but agronomically, this zone continues to guarantee the highest yields per hectare for the group. Due to the highly appreciated efforts of the local and expat management the cost price has also resulted in a reduction of almost 10% in 2016 and we expect further optimisation in 2017.

We would also like to highlight the exceptional efforts of the new management team in the Musi Rawas region in South Sumatra. With support from the expat management team at the Medan Office, the development of the three concessions truly gained momentum. Following the separation of each of the original plantations, six independent teams are now working on the compensation of additional land, the preparation and planting of oil palm fields, as well as infrastructure development and the maintenance of the immature areas to production level. This meant that at the end of the financial year, 11 354 hectares were available for development, of which 2 662 hectares had been compensated in the previous financial year. The increase in land to be developed by smallholders to 1 649 hectares, included in the above, is also encouraging. 6 097 hectares have already been prepared and/or planted. This is more than double the 2 626 hectares that were planted by the end of 2015. The planted hectare ratio amounts to 54% of the total amount of land available, a significant rise in the 43% ratio at the end of 2015. An illustration that the group is becoming an established name in the region. This region will remain the spearhead for the *SIPEF* group's expansion in Indonesia in the coming years. The agronomical qualities of this region are excellent and industrial agricultural development provides many employment opportunities for the local population.

We would be particularly pleased, to be able to announce, the probable signing of a Heads of Agreement for the purchase of an existing plantation, *PT Dendy Marker Indah Lestari*, in the same region. This potential acquisition would significantly consolidate the group's presence in the region. It would also give us access to a small processing mill and enable us to immediately start producing RSPO certified palm oil in the region. The management envisages many opportunities for improvement in the exploitation of this business and the additional planting of available land, to create an overall production unit that could potentially exceed 11 000 hectares.

Throughout the financial year, the profitability of natural rubber plantations remained under pressure worldwide because of persistently low selling prices. Even our low cost producers in Sumatra found it difficult to close the financial year with a positive margin. Growing interest from buyers in China, low stock volumes amongst the main consumers and a temporary problem on the supply side in Thailand and Vietnam meant that at the end of the year, we suddenly recorded significantly increased prices, a trend which continued in the first two months of the new year. We consequently look ahead with a high degree of confidence at this market development in natural rubber in 2017.

This did not prevent us, from no longer replanting the loss-making *Galley Reach Holdings Ltd* rubber plantations in Papua New Guinea under own management and disposing of them. Mid-2016, their exploitation was transferred to the new indus-

trial owners, who will have settled the full purchase price over the next four years. We are retaining our rubber plantations in Sumatra and will continue to invest in their future profitability.

Contrary to the first half of 2015, it rained a lot in Kenya in 2016, and the supply of black tea from this origin was more than sufficient for the market, enough to cause a price reduction. We had to wait until the fourth quarter before a limited La Niña effect changed this. The selling prices of Cibuni tea, which the *SIPEF* group produces in Java, Indonesia, mirrored this trend, which put pressure on profitability, bearing in mind the labour intensive nature of this business and the increase in workers' wages throughout the country.

In the first quarter, our banana and flower export activities from *Plantations J. Eglin SA* in Ivory Coast started with some difficulty, with lower production volumes affected by the Harmattan winds. Recovery, not least because of management changes, took a lot longer than hoped for and had an impact on the normal stable profit contribution we are accustomed to from these activities. Even at the beginning of 2017, we still recorded lower than expected volumes, but we are looking forward to good growth percentages for the rest of the year from additional planting on the Azaguié site.

The insurance activities, which we share with Ackermans & van Haaren, focus on general risk insurance, whereby the reorganisation in the more volatile branches of maritime insurance was completed. Commercial efforts were directed more at major regional brokers and the link between both sectors was strengthened, which had a favourable impact on technical insurance results in 2016.

Increasing profit margins, driven by the higher palm oil price and the resulting cash flow, provided *SIPEF* with the opportunity once again to invest in the expansion of the planted areas in regions remote from cities, where the agricultural sector is the main employer. These expansions coincide with investment in infrastructure, housing and facilities that could strengthen the ties that bind workers to the company in the long term. Despite the continuation of these expansions in the Musi Rawas region, we still managed to lower our limited debt exposure, because our strategy remains focused on self-financing the development of new land within the group, taking into account the annual shareholder remuneration, which we again want to keep at 30% this year.

Following the finalisation of the assimilation of financial and operational reporting systems for our activities in Indonesia and Papua New Guinea, we continued working steadily on the further integration with information processing services at the *SIPEF* headquarters in Belgium, which will lead to better analysis of the various cost ratios within the group.

SIPEF continues its efforts to be seen as a benchmark in sustainability. Being a stock market quoted European company, we want to give our investors a guarantee in terms of respect for

Message from the chairman and managing director

humanity and the natural environment, by providing top-class certification for all our activities and products based on sustainable ecological and social standards for tropical industrial agriculture. Following the publication of a sustainability report in 2015, we recently acquired 'Rainforest Alliance' certification for the tea and banana plantations and we are also working on a new overall ISO 9001 certificate for all our Indonesian companies in 2017.

We continue to be actively involved in organisations that promote the reputation of palm oil throughout Europe and the rest of the world, and aim to encourage the use of sustainable palm oil by the food industry and end consumers. We project a balanced view of the nutritional properties of palm oil, clarify the ecological and social criteria that are upheld by sustainable producers and emphasise the significant added value created by our sector in production countries, as a result of the labour intensive nature of our activities.

We consequently continue to invest in the reduction of biogas emissions. Five of the eight processing mills are equipped with methane recovery systems in order to comply with European green energy certification standards. A state-of-the-art composting installation was delivered to North Sumatra and will be able to process all the Empty Fruit Bunches (EFB) and the mill's liquid effluents, improve the soil structure of our oldest palm oil plantations and reduce the use of chemical fertilisers. Moreover, an installation for electricity production from methane gas was delivered to Bengkulu so that once the Indonesian government is ready to proceed, *SIPEF* and the local authorities will be able to supply the public network with their highly significant first delivery.

Through our own Indonesian foundation we have been making long-term contributions to nature conservation in this country for several years, by means of the utilisation of a small venture that protects two beaches on the south coast of Sumatra where endangered sea turtles lay their eggs and, more importantly, through active protection for more than 12 000 hectares of endangered forests alongside the Kerinci Seblat National Park. Here we operate in close cooperation with the local population to stop poachers and illegal deforestation, and we also intend to replant forests as part of a 60-year agreement with the government.

The partnership agreement signed in 2013 with New Britain Palm Oil Ltd (NBPOL), a plantation company with a renowned research centre for palm seed production in Papua New Guinea, which is now part of the Sime Darby Group, and Biosing (a scientific association) continued. With their active, agronomical support and the development of high-yield palms that should increase the industry's productivity, we expect a significant improvement in the future profitability of the company's palm oil plantations over the medium term.

At the beginning of December, we were pleased to sign an agreement with our two remaining partners, PT Austindo Nusantara Jaya TBK and M.P. Evans Group PLC, for an additional acquisition 47.71% in *PT Agro Muko* in Bengkulu.

This strategic acquisition gives us a 95% ownership share in the company, which was already being managed by *SIPEF*, we can now confidently start the second generation planting and develop greater synergy within the *SIPEF* group.

By the year end, we also managed to sell 32% of the SIPEF-CI shares, a non-strategic interest in a palm oil plantation in Ivory Coast, to the majority shareholders, for a total amount of EUR 11.5 million, which will be paid off over the next five years and for which the added value is expressed over the same time period, with an initial effect of KUSD 1 819 in 2016.

Mainly because of the higher palm oil prices and successful production in the fourth quarter, the group's consolidated results more than doubled compared to the 2015 financial year. We closed the 2016 financial year with an IFRS result of KUSD 39 874, as opposed to KUSD 18 708 (after restatement) in the previous year. The new consolidated equity amounts to KUSD 448 063.

The free cash flow after net investment amounts to KUSD 13 328 and will be used to lower non-structural debt exposure. A proposal will be submitted to the annual general meeting to retain the 30% payout ratio and to approve a dividend of EUR 1.25 per share, as opposed to EUR 0.60 per share last year, for payment on 5 July 2017.

Upon closure of the financial year, the payment of the above-mentioned additional strategic acquisition of 47.71% in *PT Agro Muko* and the possible acquisition of 95% of *PT Dendy Marker Indah Lestari*, would result in a bridging loan of almost USD 200 million, which could be converted during the first six months of the year into a long-term bank loan and a maximum capital increase of USD 97.2 million, with retention of the existing shareholders' pre-emptive rights. An extraordinary general meeting could be convened on 4 April 2017 to approve this capital increase.

We would like to take this opportunity to express our gratitude to all employees of the *SIPEF* group, whose individual input at all levels has contributed to the realisation of these results and the acquisition of these additional strategic assets. In the context of financing our expansion, it is important to control the costs and to manage the plantations and mills in the most efficient way. We hope, therefore, that everyone will continue to contribute to this within their own individual work roles.

Schoten, 14 February 2017

François Van Hoydonck
managing director

Baron Luc Bertrand
chairman

Board of directors

1. François Van Hoydonck
2. Baron Luc Bertrand
3. Regnier Haegelsteen
4. Priscilla Bracht
5. Antoine Friling
6. Baron Jacques Delen
7. Sophie Lammerant-Velge
8. Bryan Dyer
9. Antoine de Spoelberch
   (Unable to be present that day).

Annual report of the board of directors

To the ordinary general meeting of 14 June 2017.

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 2016, 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 Belgian Corporate Governance Code.

The report also includes an abbreviated version of the statutory annual financial statements (page 147), drawn up in accordance with article 105 of the Belgian Corporate Governance Code, and the integral version of the consolidated annual financial statements (page 90). The complete individual annual financial statements are deposited at the National Bank of Belgium, in accordance with articles 98 and 100 of the Belgian Corporate Governance 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

During the past financial year, there were no changes in the company's capital. The endorsed capital is USD 37 851 639.41 and is represented by 8 951 740 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, 20 000 new options were assigned in 2016. The options that were assigned as of 31 December 2016 and options not yet exercised collectively provide the right to the acquisition of 118 000 *SIPEF* shares (1.32%).

1.2 Activities

For an overview of the main activities of the *SIPEF* group during the financial year 2016, we refer to the 'Chairman and managing director's message' (page 12).

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.

1.3.2 Financial position as at 31 December 2016

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 2016 amounts to KUSD 364 866 compared to KUSD 336 430 the previous year.

The 'Financial fixed assets – investments in associated companies' decreased by KUSD 3 787, primarily due to the sale of the investment in *Galley Reach Holdings Ltd*.

The 'Financial fixed assets – receivables from associated companies' decreased by KUSD 7 305; this movement breaks down as follows:

	KUSD
Increase due to financing of further expansion in Indonesia	12 374
Decrease as a result of the repayment of the financing by *Hargy Oil Palms Ltd*	-5 069
Net movement	7 305

SIPEF's equity before profit distribution is KUSD 152 109, which corresponds with USD 16.99 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 2016 amounts to KUSD 23 132 compared to a loss of KUSD -3 716 (KEUR -3 413) 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	63 255
Profit from the financial year	23 132
Total to be allocated	86 387
Transfers to other reserves	-408
Payment to the shareholders*	-11 772
Profit to be carried over	74 207

**EUR 1.25 per share x 8 951 740 shares / 0.9505 (EUR/USD at 31/12/2016)*

The board of directors proposes to pay a dividend of EUR 1.25 gross per share. After deduction of the withholding tax (30%), the net dividend is EUR 0.875 per share.

If the ordinary general meeting approves this proposal, the dividend will be payable from 5 July 2017.

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

SIPEF is likely to sign a Heads of Agreement with PT Agro Investama Gemilang (AIG) relating to the acquisition of 95% of the shares of *PT Dendy Marker Indah Lestari* (*DMIL*) for a consideration of KUSD 53 105.

DMIL, incorporated under the laws of Indonesia and located in Musi Rawas Utara, South Sumatra in Indonesia, has a permanent licence (HGU) since 1998 and is the owner of 6 562 cleared/planted hectares of oil palm, with a potential to expand to a total of 9 000 planted hectares, next to the current 2 780 hectares of smallholders cultivation (plasma). The fruit is processed in a palm oil extraction mill with a capacity up to 25 tonnes/hour and the operations are RSPO certified.

Annual report of the board of directors

Regarding the potential acquisition of an additional interest of 47.71% in *PT Agro Muko*, announced in December 2016, *SIPEF* expects to receive clearance from the “Capital Investment Coordinating Board” (Badam Koordinasi Penanaman Modal or BKPM) for the acquisition of the stakes from PT Austindo Nusantara Jaya TBK and M.P. Evans Group Plc. The closing of this transaction will then be completed with the final payment up to a total of KUSD 144 080.

The board of directors of *SIPEF* will propose to the shareholders to refinance the investment in *PT Agro Muko* and in *DMIL*, as soon as successfully closed, by combining a capital increase with preferential subscription rights for the current shareholders for an amount up to KUSD 97 200 and a long-term bank loan for the remaining amount. An extraordinary general meeting could be convened on April 4, 2017 to approve such a capital increase.

Since the close of the financial year 2016, no significant events have occurred that could noticeably affect the development of the company.

1.5.2 Additional compensation to the auditor

In accordance with article 134, § 2 and 4, of the Belgian Corporate Governance Code, we also inform you that no additional payment was made to the auditor aside from the normal payment (as approved by the general meeting). We paid KUSD 21 (KEUR 19) to related companies of the auditor for legal, accounting and fiscal consultations.

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 2016 financial year, *SIPEF* acquired 10 000 additional own shares. These shares were acquired to cover the company’s obligations under the stock option plan and as a temporary investment of the liquidity excesses.

The situation as per 31 December 2016 is as follows:

Number of treasury shares	110 000 (1.23%)
Average price per share (USD 56.40)	53.61 EUR
Total investment value (KUSD 6 204)	5 897 KEUR
Total carrying amount (KUSD 6 204)	5 897 KEUR

1.5.5 Changes in the Articles of Association

On June 8, 2016, the extraordinary general meeting of *SIPEF* approved a change in the Articles of Association concerning the renewal of the authorised capital.

1.5.6 Announcement based on the Legislation of 1 April 2007 relating to public take-over bids.

Ackermans & van Haaren NV (AvH), acting in consultation with CABRA NV, GEDEI NV and Baron Bracht and children, have announced by letter dated 19 October 2015, that together they own 40.449% of the total voting rights of *SIPEF*.

1.5.7 Protection measures

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.

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 10 CIF Rotterdam per tonne has an impact of about USD 2.3 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 2016 this export tax/levy amounted on average to USD 51/tonne against USD 28/tonne in 2015, USD 68/tonne in 2014, USD 75/tonne in 2013.

2.2 Explanatory notes to the consolidated annual financial statements

The consolidated annual financial statements for the financial year 2016 are drawn up in accordance with the "International Financial Reporting Standards" (IFRS).

Due to the amended valuation method of the growing biological produce of palm fruits, the financial statements of prior periods were restated. The impact of the restatement is shown in note 36.

Balance sheet:

The consolidated balance sheet total as at 31 December 2016 is KUSD 615 332, an increase of 6.27% compared to the balance total of KUSD 579 032 at the end of 2015.

The continued expansion of plantations in Indonesia and Papua New Guinea has led to a further increase in intangible assets (land compensations) and biological assets.

In December 2016, our 32% stake in SIPEF-CI SA was sold to the current majority shareholder, as a result of which the other financial assets decreased by KUSD 3 804.

The receivables after more than one year comprise the discounted value of the receivables from the sale of *Galley Reach Holdings Ltd* (KUSD 3 535) and SIPEF-CI (KUSD 4 788).

A new heading, 'Biological assets', was added to the chart of accounts under current assets. After extensive internal and external consultation, we revised the earlier assumption that a measurement of the fair value of unharvested oil palm fruit bunches is not reliable (see also note 36). The increase from KUSD 1 896 in 2015 to KUSD 4 133 in 2016 reflects the increased volumes and higher market prices of palm and palm kernel oil.

As a reminder, the 'net assets held for sale' in 2015 concerned the net assets of *Galley Reach Holdings Ltd*. On 15 February

Annual report of the board of directors

2016, a purchase/sale agreement was signed to finalise the sale of *Galley Reach Holdings Ltd*.

The increase in net current assets, net of cash, related primarily to the temporarily increased working capital of KUSD 18 804 (see also comment on consolidated cash flow, note 16).

The consolidated equity of the *SIPEF* group, group share prior to allocation of profit, has increased to KUSD 448 063. This corresponds to KUSD 50.68 per share (excluding own shares).

Result:

Total revenue increased by 18.2% to USD 267 million.

Revenue for palm oil was up 22.9%. The increased volumes were sold at higher unit selling prices. The second half of 2016 in particular saw a substantial increase in production volumes and in palm oil prices compared to the second half of 2015.

Rubber revenue declined by 8.8% due primarily to the disappearance of *Galley Reach Holdings Ltd* from the *SIPEF* group as of the beginning of June 2016.

Due to lower selling prices, our higher tea production volumes could not be translated in higher revenue (-3.6%), while revenue from bananas and flowers remained virtually stable (+1.0%).

The gross profit rose from KUSD 43 650 in December 2015 to KUSD 73 792, an increase by KUSD 30 142 or 69.1%.

The gross profit of the palm oil segment increased spectacularly (+ KUSD 30 216), mainly as a result of a sharp increase in palm and palm kernel oil prices since August 2016. The gross margin in 2016 was encumbered throughout the year by the minimum export tax of USD 50 per tonne that was introduced in July 2015 on Indonesian palm oil sales. The weighted average ex-works cost for the group was about 4% lower than in 2015 as a result of permanent efforts to keep those costs under control, increased volumes and a favourable trend of the USD against the Kina in Papua New Guinea with a 12.7% devaluation of the average exchange rate. After 10 years of investment, the *UMW* group can now be regarded as a full-grown entity that will make a steadily growing positive contribution to the operating result.

The gross profit for rubber recovered during the last two months of the year as a result of an unexpectedly sharp rise in world market prices, enough to close 2016 with a positive gross margin.

The tea, banana and flower segments experienced a difficult year. Our tea operations suffered as a result of lower selling prices, while our banana production volumes fell short of expectations.

Selling, general and administrative expenses increased sharply (+19.0%), owing primarily to a higher bonus provision resulting from the increased profit, higher IT costs, the further development of a regional office in the Musi Rawas area, and one-off expenses for lawyers and consultants in connection with the acquisition of *PT Agro Muko* in December 2016.

Other operating income/charges consist of a capital gain on the sale of our 32% stake in SIPEF-CI in Ivory Coast (KUSD 1 819) and some one-off write-downs and provisions.

The operating result amounted to KUSD 47 479 compared to KUSD 21 447 last year.

The financial result consists of the interest on our short-term debt. The negative exchange result is primarily due to the hedging of the expected EUR dividend and the hedging cost to USD of short-term EUR financing.

The profit before tax amounted to KUSD 46 026 compared to KUSD 20 770 in 2015, an increase of 121.6%.

At 26.9%, the effective tax rate was in line with the theoretical tax rate.

The share in the results of associated companies and joint ventures (KUSD 9 059) included the substantially increased results of *PT Agro Muko* (KUSD 9 323) and our insurance segment (KUSD 659), as well as the start-up losses of *PT Timbang Deli* (KUSD -428) and *Verdant Bioscience Singapore Pte Ltd* (KUSD -495).

The profit for the period amounted to KUSD 42 701 compared to KUSD 20 540 the previous year, an increase of 107.9%.

The net result, share of the group, amounted to KUSD 39 874, 113.1% up on 2015.

Cash flow:

In line with the increased operating profit, the cash flow from operating activities was significantly higher in 2016 (KUSD 74 391) than in 2015 (KUSD 49 890).

The increase in working capital by KUSD 18 804 is primarily attributable to higher production volumes in the fourth quarter and a temporary increase in outstanding (not yet due) trade receivables. By the end of January 2017, these trade receivables had already decreased by approximately USD 15 million.

In Indonesia, we always pay corporation tax with a delay of one year. Consequently, the decrease in income taxes paid from KUSD 10 471 in 2015 to KUSD 4 369 in 2016 reflects the fall in profitability between the financial years 2014 and 2015.

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

In 2016, a further payment of KUSD 1 800 was made as part of our original commitment to set aside KUSD 5 000 cash for *Verdant Bioscience Singapore Pte Ltd* for the construction of a research centre. That leaves a balance of KUSD 1 450 to be paid in 2017. An advance was also paid on the potential acquisition of the additional shares in *PT Agro Muko* (KUSD 1 250).

The dividends received from associated companies and joint ventures were the dividend the group received from *PT Agro Muko* in 2016. Since October 2016, no further dividend has been paid in view of the acquisition negotiations with the joint venture partners in connection with the sale of their stake to *SIPEF* (see also prospects).

In 2016, a first instalment of KUSD 1 500 was received from the sale of the stake in *Galley Reach Holdings Ltd* (the total price was KUSD 6 600). The balance will be received over the next four years.

2016 was characterised by a positive free cash flow of KUSD 13 328 which, in combination with the redemption of shares (KUSD 608) and the dividend payment in July 2016 (KUSD 6 043), essentially resulted in an improvement in the net financial position by KUSD 5 459.

2.3 Significant events after the close of the financial year

SIPEF is likely to sign a Heads of Agreement with PT Agro Investama Gemilang (AIG) relating to the acquisition of 95% of the shares of *PT Dendy Marker Indah Lestari* (*DMIL*) for a consideration of KUSD 53 105.

DMIL, incorporated under the laws of Indonesia and located in Musi Rawas Utara, South Sumatra in Indonesia, has a permanent licence (HGU) since 1998 and is the owner of 6 562 cleared/planted hectares of oil palm, with a potential to expand to a total of 9 000 planted hectares, next to the current 2 780 hectares of smallholders cultivation (plasma). The fruit is processed in a palm oil extraction mill with a capacity up to 25 tonnes/hour and the operations are RSPO certified.

Regarding the potential acquisition of an additional interest of 47.71% in *PT Agro Muko*, announced in December 2016, *SIPEF* expects to receive clearance from the “Capital Investment Coordinating Board” (Badam Koordinasi Penanaman Modal or BKPM) for the acquisition of the stakes from PT Austindo Nusantara Jaya TBK and M.P. Evans Group Plc. The closing of this transaction will then be completed with the final payment up to a total of KUSD 144 080.

The board of directors of *SIPEF* will propose to the shareholders to refinance the investment in *PT Agro Muko* and in *DMIL*, as soon as successfully closed, by combining a capital increase with preferential subscription rights for the current shareholders for an amount up to KUSD 97 200 and a long-term bank loan for the remaining amount. An extraordinary general meeting could be convened on April 4, 2017 to approve such a capital increase.

Annual report of the board of directors

Since the close of the financial year 2016, 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*.

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 2017

Productions

The effects of the El Niño drought have finally receded, with the *SIPEF* group once again reporting growing palm oil production volumes in the first month of the year. This positive production trend is generally expected to persist throughout the entire first quarter. Growth is again to be found at the plantations with young plantings, in *UMW* and in *Hargy Oil Palms Ltd*, as well as in the mature plantations of North Sumatra.

As always, wintering at the rubber plantations at this time of year offers a varied picture of rubber volumes over the next few months, whereas for the time being banana production volumes still fall short of expectations, but are expected to recover towards the end of the first quarter.

Markets

The palm oil market is currently in its low production cycle and it is expected that somewhere during the second semester of 2017 we will see a very strong production recovery with high yields. The forward prices are already reflecting a massive discount. But, for the time being, the market is battling with very low stocks in the origin and the destination, and customers are forced to buy for their immediate needs. We expect that there will only be a significant stock increase after the middle of the year, so that prices remain well supported and trade in continued 'backwardation'. Temporarily, palm oil could trade at a premium over liquid oils as South America is likely to harvest another record crop.

The strong rally in the rubber market continued during the first weeks of 2017 as the floods in Thailand and Vietnam only worsened. The supply and demand picture has become quite a bit tighter due to production hiccups. It is expected that we will keep steady prices in the coming months.

The dry conditions in Kenya at the end of 2016 continued in early 2017, and are expected to have a considerable impact on tea output during the first quarter of 2017. Therefore, we expect firm tea markets for the months to come.

Results

In these improved palm oil markets we have so far sold 41% of the projected palm oil production for 2017 at an average price of USD 788 per tonne CIF Rotterdam equivalent, premiums included, compared to 27% of the volumes sold at USD 649 per tonne at the same time last year. We want to keep taking advantage of current market trends and continue to steadily put our volumes on the market. In addition, 29% of our projected rubber volumes have been sold at an average price of USD 2 236 per tonne, while roughly 40% of our tea volumes have been sold at the current slightly higher market prices. In 2017 we will also continue our marketing strategy of selling bananas at fixed prices for the whole year, primarily through deliveries in England and France.

The final recurrent result will to a large extent depend on the projected production volumes being attained, the level of market prices for the rest of the year, the maintenance of current export tax levies on palm oil in Indonesia, and the evolution of costs, which despite compulsory increases in workers' wages are still favourably influenced by the persistently weak currencies of Indonesia and Papua New Guinea against the reporting currency USD.

Cash flow and expansion

In 2017, our investment programmes, apart from the usual replacement capital expenditure and the replanting of existing areas, will continue to focus on the expansion of our activities in Musi Rawas in South Sumatra. Over the next two years we also want to carry out a limited expansion (1 500 hectares) of the planted areas at *Hargy Oil Palms Ltd* in order to maximise capacity utilisation of the three palm oil extraction mills and to arrive at a total planted area of 15 000 hectares.

In Musi Rawas, compensation of local landowners will be continued on three concessions, and we remain to be interested in acquiring more good land in the area. At the end of the year, approximately 9 700 hectares had already been compensated and 1 649 hectares acquired for planting for neighbouring farmers. Of those 11 350 hectares, 54% or 6 100 hectares have since been planted and/or fully prepared for planting. In August, the first fruit bunches began to be harvested and were sold to a nearby palm oil extraction mill. Meanwhile, construction of the infrastructure with workers' houses and functional buildings has also begun.

Five palm oil extraction mills in our group are already equipped with a system to recover methane gas from wastewater. The gas from one mill will be used to generate electricity, which will be supplied to the public grid in Bengkulu from mid-February. A new organic composting plant in North Sumatra has started production, and the compost will fundamentally improve the soil structure and help to reduce the use of chemical fertilisers.

In December 2016, *SIPEF* has reached an agreement with PT Austindo Nusantara Jaya TBK (PT ANJ) on the sale of a stake of 10.87% in *PT Agro Muko* for an amount of KUSD 44 311. Also in the month of December 2016, it was agreed with M.P. Evans Group Plc (MPE) to transfer its entire stake in *PT Agro Muko* (36.84%) to *SIPEF* for an amount of KUSD 99 769. As a result of these transactions, the *SIPEF* group will acquire exclusive control over *PT Agro Muko* through a 95% stake. The board of directors has decided to structurally finance this investment, as soon as it is successfully closed, by a combination of a long-term bank loan and a capital increase with pre-emptive right for the existing shareholders. An extraordinary general meeting will be convened to this end in due time.

Meanwhile, on 8 February 2017, we received clearance from the "Capital Investment Coordinating Board" (Badam Koordinasi Penanaman Modal or BKPM) for the acquisition of part of PT ANJ, thereby fully completing this transaction. We are also expecting approval for the acquisition of MPE shortly.

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 2016 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 2016 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, 16 February 2017.

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

Annual report of the board of directors

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 ('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 as from 8 June 2016)	2020
Baron Bracht, chairman (till 8 June 2016)	2016
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
Antoine de Spoelberch, director (as from 8 June 2016)	2020

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 19 October 2015, that they possess together 40.449% of the shares in *SIPEF.*

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

Baron Luc Bertrand:
Ackermans & van Haaren, Atenor Group, CFE, Groupe Flo (FR);

Baron Jacques Delen:
Ackermans & van Haaren.

3.2.3 Independent directors

Antoine Friling
Sophie Lammerant-Velge
Bryan Dyer

Executive committee

Charles De Wulf

Thomas Hildenbrand

François Van Hoydonck

Robbert Kessels

Johan Nelis

Annual report of the board of directors

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

3.2.4 Activity report

The board of directors of *SIPEF* met six times in the course of 2016. The average attendance rate was 98%. Individual attendance records were as follows:

Baron Luc Bertrand, (chairman as from 8 June 2016)	6/6
Baron Bracht, chairman (till 8 June 2016)	2/2
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	5/6
Sophie Lammerant-Velge	6/6
Antoine de Spoelberch (as from 8 June 2016)	4/4

During 2016, 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 2016, 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 28 September 2016, 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 also 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 Code). There was no need to apply this policy during the financial year.

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.

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 FB-

Net International and director of Bekaert Stichting Administratie Kantoor.

3.3.2 Activity report

The audit committee met on four occasions in 2016. The attendance rate (or representation by proxy) was 83%. 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.

In November, the reports of the internal audit committee from Indonesia, *Hargy Oil Palms Ltd* and the insurance activities, were also analysed and discussed by the committee.

The audit committee was regularly attended by the auditor and also attended by a representative of Ackermans & van Haaren.

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

3.4.2 Activity report

The remuneration committee met twice in 2016, on 16 February and on 22 November. The average attendance rate (or representation by proxy) was 83%.

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.

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

Baron Bracht (chairman of the board of directors till 8 June 2016) and Priscilla Bracht (non-executive director) periodically attended the meetings of the executive committee as observers.

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 sub-

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mits 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, in 2016 exceptionally at the beginning of December;
- 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.

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 2016 in the form of payments for 2016, were:

	In KEUR
Baron Luc Bertrand (chairman as from 8 June 2016)	43
Baron Bracht, chairman (till 8 June 2016)	20
François Van Hoydonck, managing director	25
Priscilla Bracht	25
Baron Jacques Delen	25
Bryan Dyer	25
Antoine Friling	33
Regnier Haegelsteen	35
Sophie Lammerant-Velge	33
Antoine de Spoelberch (as from 8 June 2016)	13

3.6.4 Remuneration of members of the executive committee

The fixed and variable remuneration elements, and other benefits awarded and paid to members of the executive committee in 2016, 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	314	869	1 183	55.46%
Variable payment	138	245	383	17.96%
Group insurance	259	202	461	21.61%
Share options 2015	34	45	79	3.70%
Benefits in kind (company car)	5	22	27	1.27%
	750	1 383	2 133	100.00%

The options that have been offered in 2016 are only awarded finally in 2017 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 2016

The following options were offered to the members of the executive committee in 2016.

Due Date	31 December 2026
Exercise price	EUR 53.09

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, 6 000 options were awarded to some of the managing directors of the foreign subsidiaries.

In 2016, no options were exercised. 4 000 options have expired in 2016.

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 Code.

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 2016.

3.6.8 Remuneration policy for the next two financial years (2017-2018)

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 Dirk Cleymans.

Annual report of the board of directors

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 Dirk Cleymans, was prolonged in June 2014, for a period of three years, until the closing of the ordinary general meeting of the year 2017.

The board of directors will propose to the ordinary general meeting to renew the mandate of Deloitte Bedrijfsrevisoren BV o.v.v.e. CVBA, represented by Kathleen De Brabander, for a period of three years.

The annual payment to the auditor for the audit of the summarised and consolidated annual financial statements of *SIPEF* amounts to KUSD 84 (KEUR 76). An additional sum of KUSD 21 (KEUR 19) is also paid to the company to which the auditor is affiliated, for legal, accountancy and fiscal work. These payments are approved by the audit committee, which received a summary of these honoraria at each meeting.

The total cost for the external audit of the *SIPEF* group was KUSD 483 and the amount paid to the same auditor and his affiliated businesses for advice was KUSD 154.

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, two shareholders have announced a holding in excess of 5% in our company. 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 the common declaration of 12 February 2007, which is also included in explanatory note 17.

On that date, 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, which was concluded for a period of fifteen years, includes voting arrangements in connection with the appointment of directors and arrangements in connection with the transfer of shares.

The relevant information concerning this transparency report can be found on the company's website (www.sipef.com).

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 33% 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.

The board of directors of *SIPEF* is composed of seven men and two women with varying yet complementary knowledge bases and fields of experience.

The board of directors has taken note of the recent legislative initiatives with regard to representation of women on the boards of directors of listed companies and will make every effort to conform its composition to the actual legislation before 31 December 2017.

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, the 'Ethical Tea Partnership' (ETP), 'Rainforest Alliance' and 'GLOBALG.A.P.' (GGAP).

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
  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
- 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, chairman of the board of directors and 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, the chairman of the board of directors 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.

Jan Suykens
CEO
Ackermans & van Haaren

The partnership around SIPEF is a perfect example of what the Ackermans & van Haaren baseline really means: 'Partners for sustainable growth'.

Together with the Bracht family and the executive committee we want to generate sustainable long-term profitable growth.

'Sustainability to us not only means that we want to be a supplier of sustainable and traceable palm oil as per our RSPO culture, but also that we want to be open, transparent and long-term oriented in our dealings with all our stakeholders and society at large'.

Activity report by product

Ernesto Zamudio
Sourcing and Trading Director
AAK SG PTE. LTD.

AAK's cooperation with SIPEF throughout the years has resulted in a round success in multiple directions. AAK and SIPEF share similar ideology and values towards sustainability.

SIPEF has supported us in our goals on responsible sourcing. I'm sure our future development will continue strong as we help each other achieving commitments.

Palm oil

In the first quarter of 2016 the fundamental underlying values of the palm oil market were completely ignored. The negative macro environment, with stock markets dropping heavily, led by China, and petroleum prices falling to levels below USD 30 per barrel, outweighed a friendly palm oil outlook. The significant drop in production had already started in November 2015 where the yields were dramatically impacted by the dry weather earlier that year. The delayed impact from El Niño resulted in stronger prices at the end of the first quarter as stocks in the origin reduced to below 2 million tonnes in Malaysia.

This price rally was short-lived as palm oil lost its competitiveness versus liquid oils, right in the middle of harvesting a record soybean crop in South America and the forecast of another in the US in the summer. These bumper crops in both soybean belts have been hovering like a dark cloud above the palm oil market. On top of that, sunflower seed production in the Ukraine and Russia was looking at record crops as well. The end consumers globally were hardly covering their needs on the back of these big liquid oil crops. Months of continuous disappointing palm oil production translated into lower stocks, even though the export demand was low. There was an ongoing process of destocking globally, in the origin as well as the destination countries. If China had not released big volumes of rapeseed oil from its Federal Reserve stocks, vegoil prices would have soared much higher.

It took, however, until the third quarter for the industry to realise the full impact of the production reduction of around 6 million tonnes between Indonesia and Malaysia for the full year. It was even unprecedented to have a reduction in itself, but this magnitude showed the true impact of El Niño. The price rallied and the low stocks, as well as a desperate need for oil from the end consumer, drove the market into a steep inverse. We closed the year more or less at the high of USD 765 per tonne CIF Rotterdam.

The average price for Crude Palm Oil (CPO) CIF Rotterdam in 2016 was USD 680 per tonne ('spot +2') against an average of USD 620 per tonne in 2015, an increase of almost 10%.

Both Indonesia and Malaysia are trying to find ways to increase their domestic biodiesel consumption. Mandates are not always watertight but rather show an intention. In order to support the domestic biofuel intake, Indonesia created the Estates Crop Fund where planters are paying USD 50 per tonne of CPO, and this money will be used to subsidise the biodiesel since it is more expensive than fossil diesel. It is an expensive tool for larger plantations and smallholders, but there is a sound market mechanism built in: the higher the price of palm oil, the lesser volume of biodiesel will be subsidised and vice versa. In 2016, roughly 3 million tonnes of palm oil were used for domestic biodiesel, compared to 1.2 million tonnes in 2015 when the Fund was initiated.

In 2016, *SIPEF* sold about 95% of its palm oil, palm kernel oil and kernels in certified physical schemes following the standards of the Roundtable on Sustainable Palm Oil (RSPO) and International Sustainability and Carbon Certification (ISCC). The impact of a suspension and a withdrawal from the RSPO of two major Malaysian plantation groups showed the limited availability and vulnerability of fully certified supply chains. It has reinforced our relationships with our long-standing customers. We are convinced that more emphasis on physical sustainable supply chains will continue, as pressure on global companies to use sustainable products around the world increases. *SIPEF* will strive to achieve 100% uptake in entirely traceable and certified processes of all its products.

Palm kernel oil

The lauric oil market, the generic term for Palm Kernel Oil (PKO) and coconut oil, traded at a steep premium over palm oil in 2016. The production decrease of the Fresh Fruit Bunches (FFB) of the palm tree were strongly felt at the palm kernel crush, but contrary to palm oil there were little stocks of palm kernels or PKO that could be consumed, and there was no bearish picture from a substitutable oil like the palm oil industry experienced with record crops of soybeans and sunflower seeds. The only alternative, coconut oil, was still suffering from very low production and was more expensive. The market rallied strongly and there are certain similarities to the years 2010/2011 for the lauric oil world. We closed the year more or less at the high of USD 1 535 per tonne CIF Rotterdam.

The average price of PKO CIF Rotterdam in 2016 was USD 1 225 per tonne against an average in 2015 of USD 885 per tonne, an increase of 38%. The price of PKO was on average at a USD 545 premium over palm oil.

Rubber

The natural rubber market finally turned around in 2016, ending a four-year drop in prices. The year started off at a low of USD 1 235 per tonne of Ribbed Smoked Sheets (RSS3) on the Singapore Commodity Exchange (SICOM) future exchange, which is below the cost of production. There was a short-lived revival of prices at the start of the second quarter, as there was a prolonged wintering in Thailand and Vietnam, as well as the introduction of the export quota by the Tripartite (the governments of Thailand, Indonesia and Malaysia). This price rally faded quite rapidly again and the market hovered just above the cost of production for most of the time till October.

In the fourth quarter a few elements came together, triggering a steep rally. First of all, the impact of El Niño on production was stronger than expected and it was followed by very wet conditions in Thailand and Vietnam in the second half of the year. All in all, production was reduced by almost 1 million tonnes. Secondly, stocks were reducing in the destinations, China in particular dropping to the lowest level in years, and this was supported by the export quota initiative from the Tripartite. Thirdly, petroleum prices were trading above USD 50 per barrel, nearly double compared to February 2016, providing support to synthetic rubber prices. And lastly, the macro environment in general supported after the US elections, and specifically the outlook of strong infrastructural investment plans in the United States of America for the years to come, were very supportive for the rubber industry.

The natural rubber market closed the year of 2016 at USD 2 295 per tonne of RSS3 on the SICOM future exchange, nearly double the price of early January 2016.

The average price for natural rubber RSS3 was USD 1 590 per tonne against USD 1 586 per tonne in 2015, more or less unchanged. However, the strong peak of pricing at the back end of the year will have a positive impact in 2017.

The global demand for natural rubber grew by 3% in 2016 according to the International Rubber Study Group (IRSG), compared to a decline of 0.3% in 2015. The actual demand could probably be even stronger as the stocks declined rapidly in the destination, particularly in China. The IRSG is forecasting a demand growth of 2.9% for 2017 under normal economic circumstances, based on International Monetary Fund (IMF) figures. The supply of natural rubber increased by 1.4% in 2016 due to the adverse weather, following a small increase in 2015 of 1.2%. The newly planted areas of 2004 until 2009 are coming into maturity going forward. The IRSG expects a supply growth of 3.8% for 2017 under normal circumstances.

Activity report by product

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. Kenyan tea-growing areas continued to receive rainfall at the end of 2015 and the beginning of 2016. This had a positive effect on tea production during the first four months of 2016, in particular February (+81%) and March (+189%) showing massive increases compared to the same months in 2015. There was a distinct difference in rainfall during the usual dry seasons in 2015 and 2016, where 2015 suffered a huge dry spell and a corresponding low crop, 2016 was wetter than usual resulting in a much better crop. Output in Kenya for 2016 was higher by 18.5% compared to 2015 and the highest ever on record. Prices started dropping from the first auction of 2016 onwards and reached their bottom by mid-April when they closed 31% lower compared to the last auction of 2015. From May onwards Kenyan production was in line with 2015 production and the market stabilised with prices moving in a narrow range till the end of October. During November and December La Niña brought hot and dry weather to the Kenyan tea producing areas and production was affected by the dry conditions experienced at the end of the year, hence an end of the year price rally was justified. It is too early to tell if similar circumstances as in 2015 will reoccur.

Bananas

Contrary to our expectations, the total volume of bananas we imported and distributed in 2016 did not evolve significantly, with just a 3% increase, or a total of 24 991 tonnes, of which 20 231 tonnes were distributed on the European markets and 4 760 tonnes on the regional African markets.

The European banana market, the number one market in the world, performed well once again with a fair coexistence of the different producing regions: imports from the dollar zones of Central America, imports from ACP countries (Africa, Caribbean and Pacific), to which we belong, and European production. Consumption is again on the increase, primarily as a result of the favourable buying dynamic in the Eastern European countries that have joined the European Union (EU). Nevertheless, there is a very strong disparity between countries, with for example an average of 16 kg per person per year in Sweden against an average of 6 kg in the Eastern European countries. Consumption in Europe topped 6 million tonnes (or + 900 000 tonnes in less than four years), compared to 4 million tonnes in the United States, 1.2 million tonnes in Russia, and 1 million tonnes in the Middle East and Japan. China, a market in constant development, currently imports 0.5 million tonnes per year.

Thus the balance between supply and demand is satisfactory, and fortunately the effect of the reduction in customs duties on Central American imports is barely noticeable. Customs duties in 2016 on bananas from the dollar zone varied, from one country to another, between EUR 127 per tonne for Ecuador and EUR 96 per tonne for the other countries such as Costa Rica and Colombia. It should be pointed out that, at the year-end, Ecuador, the number one banana producer and exporter in the world, signed bilateral agreements with the EU for the application of the same rate base as the other countries of the dollar zone. This means a sure gain in competitive strength for this important origin, which fortunately is counterbalanced by a euro/dollar exchange rate that is favourable for the producers from the euro zone (as well as those from the CFA zone) and by recurrent unpredictable weather conditions in the different banana production zones.

Our trade in Europe remains primarily centred on Britain, France and Spain, with annual commercial contracts as usual. Up to year-end 2016, the Brexit has had no direct impact on our trade and our short-term business strategy. Nevertheless, we are closely watching the development of new rules that will be put in place by the British government so that we can adapt our commercial policy accordingly.

In West Africa, Senegal and Mauritania, in particular, as far as we are concerned consumption is growing and prices remain stable. Those regional markets, even though their selling prices and margins are lower than those we still get in Europe, are in constant development. The recent ratification of the ACP/EU 'Economic Partnership Agreements' (EPAs) will undoubtedly improve interregional trade in Africa.

Thanks to *Plantations J. Eglin SA* obtaining the 'Rainforest Alliance' certification to complement our existing GLOBALG.A.P. standard, we can secure our access to the markets and new distribution channels. The 'Rainforest Alliance' is now the standard for bananas with regard to the social and environmental dimension of our activity.

Horticulture

Horticultural activity remains generally stable. With trade centred on Northern Europe, in particular Belgium and the Netherlands, our pineapple flowers, decorative foliage and lotus benefit from competitive and dynamic aerial transport from Ivory Coast.

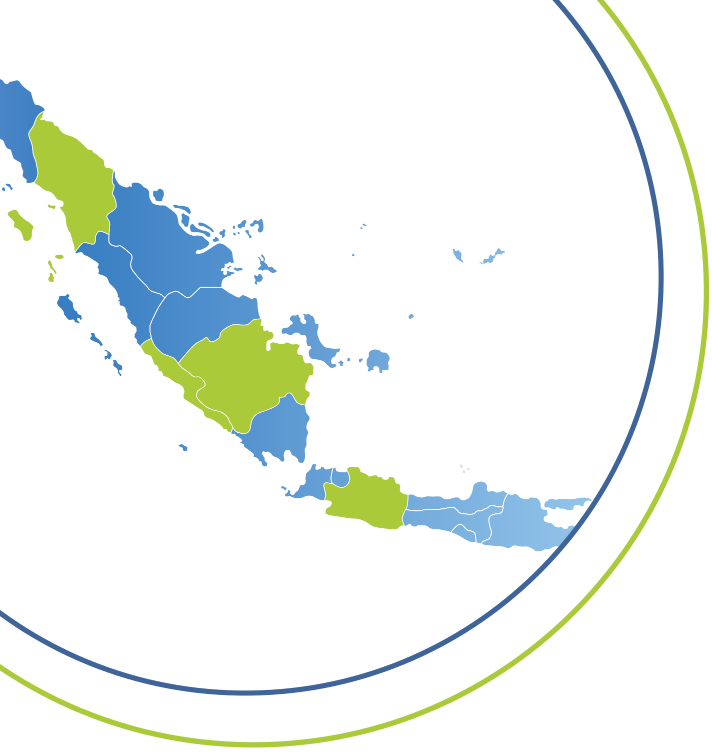
We have sold 569 000 pineapple flowers (+13%), 1 484 000 stems of decorative foliage (+4%), and 196 000 lotus (+5%).

The pineapple flower and lotus activities decidedly lack major growth potential, as these products remain fairly unknown in the market.

This does not apply to decorative foliage, where the potential in terms of volume and variety could be improved in the future. We began marketing new varieties of *Dracaena Snow Queen* and *Dracaena Cappuccino* during the course of the financial year. Competing producers of those products are Vietnam, Sri Lanka and also Colombia. In Ivory Coast, we are therefore ideally positioned geographically, agronomically and logistically to compete with those producers.

David McCann
chairman
Fyffes plc

Fyffes has been working with SIPEF bananas for many years. Over the time we have seen many changes to the market and to the markets requirements for sustainable bananas. SIPEF has risen to these challenges and SIPEF's commitment to the 'Responsible Plantations Policy' and to 'Rainforest Alliance' is a great support, as we work towards better environmental, social and economic sustainability within our entire supply chain. The sort of transparency which underlines the SIPEF approach is the foundation of our new 'Discover More' consumer programme. There are a number of significant synergies.



Activity report by country

INDONESIA

GENERAL

Two years ago, Joko Widodo, known as 'Jokowi', was elected Indonesia's President, becoming the first leader elected outside of the country's narrow political and military elite. The kindly Jakarta governor, with his pronounced Javanese accent and reputation for consulting with the poor before making policy decisions, became a vessel for progressive Indonesian hopes of building a prosperous and tolerant country. But Jokowi came into office at a difficult time: Indonesia's economy was struggling to overcome weak demand for its natural resources, the rise of the Islamic State (ISIS) inspired radical Sunni Muslims worldwide and annual forest fires demonstrated the challenge of forest protection. Two years since he was elected, Jokowi now presides over a vast political coalition. According to the most reliable polling he is a popular figure in Indonesia. Jokowi has also released 12 economic reform packages aimed at easing investment into the country and doing away with troublesome and redundant regulations, but analysts are increasingly questioning whether his piecemeal stabs at reform will be sufficient, especially at a time when unemployment is rising and the economy continues to grow below expectations.

On the economy, according to the International Monetary Fund (IMF), Gross Domestic Product (GDP) was expected to expand by 5.0% in 2016, just short of the 5.3% targeted in the budget and up from 4.8% the previous year. Inflation, meanwhile, remained within the target range of 3-5% for the second year running, according to the Fund, which forecast an increase of 3.3% in 2016 and just over 4.0% this year. While the value of both exports and imports fell by 4.0% and 4.9% respectively last year, higher commodity prices for many of Indonesia's exports, such as coal and palm oil, saw the current account deficit narrow to USD 17 billion, or around 1.8% of GDP. This was down from USD 17.8 billion or 2.1% of GDP in 2015, according to central bank data.

Relatively stable global financial markets and a balance of payments surplus helped stabilise the rupiah against the USD. The rupiah regained some of the ground lost in the earlier part of the year and has since appreciated. We saw an IDR/USD exchange rate of 13 795 at the beginning of the year and at year end it was 13 447.

The new wage regulation continues to authorise governors to set minimum wages for their provinces, whether utilising the national inflation rate method or its permissible substitute, the KHL-index ("Kebutuhan Hidup Layak"- Decent Living Standard). Governors using the first method raised wages by 11.5%, while those making adjustments using the KHL measurements were mostly higher. In the end, most governors increased wages within the range of 7-15%.

A series of economic reforms enacted since late 2015 should drive further investment growth in the near term as the current administration continues to lift barriers to private investment and improve the business environment, but economic performance during 2016 fell short of the 7% growth rates predicted by Jokowi during his presidential campaign. The culprit was weak demand for Indonesian commodities caused primarily by the slowdown of the Chinese economy. But there were other factors: Jokowi's pledged major push to develop infrastructure was unrolled slowly, reducing government spending in his first year in office. Moreover, Jokowi, who famously promised an audience of foreign investors that Indonesia was open for business, has not seen foreign investment rise substantially. Foreign direct investment has only increased modestly, at 4.5% (in dollar terms) during his two years in office. His proposal of a one-stop shop for foreign investment, meant to ensure that foreign investors did not have to collect dozens of permits from different national and local agencies in order to, say, build a textile factory, has been promising.

Broadening the tax base and improving collection has also been a key aim of the government. Low commodity prices and tax revenues had a knock-on effect on spending, which fell by one percentage point to 16.6% of GDP in 2016, according to IMF estimates. To that end, the government launched in July a tax amnesty program to repatriate assets held offshore. Under the program, Indonesians pay a tax rate starting at 4% on repatriated assets, with the tariff increasing in phases to 10% as the program draws to a close in March of this year. According to government figures, between July and September the Ministry of Finance collected IDR 97.2 trillion (USD 7.2 billion), or 59% of the targeted IDR 165 trillion (USD 12.3 billion). While this represents a short-term windfall for the Indonesian Government, it is still not proven that the tax amnesty will indeed succeed in repatriating significant assets to Indonesia or in paving the way for more effective tax collection, as is intended by the program.

Tackling a long-standing infrastructure deficit, which has driven transportation and logistics costs to some 27% of GDP, according to the World Bank, is another critical priority. According to the estimations of the bank, bringing these costs down to 16% of GDP, would allow Indonesia to save USD 80 billion annually. To this end, IDR 313.5 trillion (USD 24.6 billion) was earmarked for infrastructure development in the 2016 budget – the highest outlay ever allocated for the sector – and local press reported in March that construction would begin on more than 1 000 km of toll roads by 2020.

Power projects will be a major focus of the infrastructure drive, with plans to expand generation capacity through a mix of traditional and alternative sources. This should go some way towards satisfying domestic demand for electricity, which is on track to rise from 206.5 TWh in 2013 to 442.5 TWh by 2022, according to a report by market intelligence firm Transparency Market Research. To help fulfill this demand, the government has set an ambitious goal of adding 35 GW of installed capacity by 2019 and increasing the share of the population with access to electricity from 85% to 98% by 2022.

Adam James
president director
PT Tolan Tiga Indonesia

In Indonesia, SIPEF represents a resilient plantation company with a long and proud history. Today the company stands as an example amongst many other plantation companies and it is viewed as a leader on numerous issues including business, finance, agronomy and sustainability. All the communities surrounding the companies' estates benefit from its presence in terms of employment and the significant contributions made to local economies. In a wider sense, Indonesia as a whole enjoys the fact that SIPEF continues to invest in its business with both expansion of its land area, as well as improvements to its existing assets.

The oil palm business might be unpopular for various reasons, including its potential environmental impact and the perceived health issues of the oil. In this difficult climate SIPEF must stand tall and, far from being intimidated, must remain proud of its estate operations and achievements. SIPEF's consistent and continued desire to operate with integrity is enshrined in the principles and criteria of RSPO of which SIPEF is a leading member. Every aspect of the SIPEF Indonesia business is certified against recognised international standards.

The implementation of sustainable policies is made easier if the business itself remains healthy in terms of profitability. In order to drive profits the management needs to keep focused on cost control, improving efficiencies and increasing production. It is satisfying to note that SIPEF's Indonesian business goes from strength to strength. Returns on investment in the plantation business generally take time and therefore require a stable environment in which to operate. The SIPEF management recognises the need for a long term conservative approach and works hard to build a stable business that will endure and continue to give returns long into the future.

In October 2015, one year after Jokowi was inaugurated, huge swaths of his country went up in flames. Slash-and-burn forest-clearing techniques, compounded by an El Niño dry season, burned more than 2.6 million hectares of forest. Most devastating for the environment was the burning of peatlands containing ancient carbon stores. Erik Meijaard, a forest scientist with environmental group Borneo Futures, called the fires the "biggest man-made environmental disaster of the 21st century". Over 500 000 Indonesians reported respiratory illnesses, as haze blanketed much of Southeast Asia. The government's newly implemented forestry policies are impressive and will hopefully be sufficient to ensure that this dry season is not a repeat of the last one.

Indonesia entered 2016 with a 15% biodiesel blending mandate which is due to rise to 30% by 2020. In the current period of low crude petroleum oil prices, it is being questioned whether Indonesia and other countries like Malaysia and Colombia, with ambitious blending mandates, can maintain fidelity to their objectives. These concerns have heightened as the palm oil price has climbed above USD 700 per tonne while crude oil continues to trade around USD 50 per barrel. The existing blend mandate in Indonesia is supported by a levy on palm oil exports. The levy is paid into a fund (BPDPKS) set up by the Government to subsidise biodiesel "at the pumps" in an environment of low crude petroleum oil prices. The levy was imposed in July 2015. Shippers pay a levy of USD 50 per tonne for crude palm oil and USD 30 per tonne for processed products. In addition to the levy, producers also have to pay an export tax on crude palm oil once the price exceeds USD 750 per tonne. For example, when the palm oil price is between USD 750-800 per tonne the export tax is set at USD 3 per tonne, but when the palm oil price is between USD 800-850 per tonne the export tax is set at USD 18 per tonne.

Looking forward to 2017, economic growth is projected to rise modestly to 5.1%, supported by robust private consumption. Inflation is expected to remain within the official target band, albeit slightly higher in 2017 due to lower electricity subsidies, and the current account deficit would remain contained. The risks to the outlook have risen and are mainly external. External risks include uncertainties about the policies of the incoming United States administration, tighter global financial conditions, spillovers from a significant China slowdown, and lower commodity prices, which could intensify macro-financial vulnerabilities related to banks and corporates.

NORTH SUMATRA

The rainfall pattern across North Sumatra in 2016 was generally better than that experienced in 2015 and more in line with long-term averages, giving support to crop production and helping the recovery from the effects of the El Niño drought in 2014. Monthly rainfall was well-distributed and, whilst the occasional month was below 100 mm of rain, there were no consecutive periods of low rainfall. In our young estates of *PT Umbul Mas Wisesa* (*UMW*) and *PT Toton Usaha Mandiri* (*TUM*) the rainfall was well in excess of the 2015 levels; however, the program of drain desilting, combined with the construction of new drains and clearing of the main drainage outlets, meant that flooding was averted and the harvesting of Fresh Fruit Bunches (FFB) and transport of Crude Palm Oil (CPO) and palm kernels could continue uninterrupted during the wet season. The local government commenced work on raising in sections the main access road

between Perlabian estate and the *PT Umbul Mas Wisesa* (*UMW*) complex, and this has had a positive impact on maintaining all-weather access to and from the estates. This work is scheduled to continue in 2017.

Perlabian and Tolan estates form part of *PT Tolan Tiga Indonesia*. These are both well-established estates within the group, which are currently entering their third oil palm cycle. In 2016, the estates comprised 8 020 hectares of which 7 229 hectares were mature and 791 hectares immature. Crop production for these estates surpassed budget expectations by 3% although overall production fell by 11 923 tonnes FFB compared to 2015, due to the impact of replanting 164 hectares and the lower initial yields of immature areas becoming mature during the year. Despite these impacts, the estates finished the year at a very respectable yield of 24.82 tonnes FFB per hectare.

The generally good weather also had other knock-on benefits: the activities of the pollinating weevils were able to progress unhindered and we saw good bunch setting resulting in fully formed bunches, particularly in the younger mature plantings. The estate management teams were also able to achieve or exceed the optimum number of harvesting intervals for the year, ensuring that crop losses were kept to an absolute minimum. Agronomically, pests and diseases were well-controlled coupled with the full and timely completion of fertilizer application programs. An important part of an estate's profitability is reducing its period of immaturity, and tight control of upkeep programs during the immature period has seen this time becoming increasingly shorter, from previous periods in excess of 30 months now down to 24-26 months, depending on the planting material.

Bukit Maradja and Kerasaan estates are also part of the *PT Tolan Tiga Indonesia* group for a long time and entering their third cycle of oil palms. In 2016, the estates comprised 5 207 hectares, of which 4 304 hectares were mature and 903 hectares immature. Crop production for these estates fell by 8 649 tonnes FFB compared to 2015 due to the timing of felling productive palms for the replanting of 164 hectares and the lower initial yields of immature areas becoming mature during the year. Despite these impacts, the estates finished the year at a satisfactory yield of 22.59 tonnes FFB per hectare. These estates were also compromised by pest and disease issues; at Kerasaan an area of approximately 300 hectares was affected by an endemic population of leaf eating 'Nettle Caterpillars'. Working in conjunction with our research partners, *Verdant Bioscience Singapore Pte Ltd*, considerable work has been carried out on appropriate census activity and targeted treatment aimed at specific stages of the pests' lifecycle. Part of the corrective action has also been the building of an integrated pest management program building up populations of beneficial insects which are natural predators of the 'Nettle Caterpillars'. At this stage we are seeing reduced pest activity and much lower usage of pesticides but this is an issue, which will require constant vigilance. Bukit Maradja and Kerasaan are also affected by the disease basal stem rot caused by the *Ganoderma* fungus. This is another core area of collaboration with *Verdant Bioscience Singapore Pte Ltd*, and multiple mitigation strategies are currently being employed. These include full and intensive land preparation techniques at replant aimed at removing as much organic debris as possible from the old stand of palms; the use of a fallow period of one year to break the life cycle of the fungus; the use of *Ganoderma* tolerant planting material, which we have used for our 2014-2016 field plantings over both estates; and the use of antagonistic fungi at the time of palm planting to attack and nullify the *Ganoderma*.

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 reduces to the point where yields fall beneath 18 tonnes FFB per hectare. In the North Sumatra estates, a replanting program of 328 hectares was completed during 2016 consisting of 164 hectares at Perlabian, 143 hectares at Bukit Maradja and 21 hectares at Kerasaan. This was in line with the program but lower than the 2015 program of 678 hectares.

Another key input into generating profitable yields is the application of fertiliser. Our fertiliser recommendations are calculated by *Verdant Bioscience Singapore Pte Ltd* following on from extensive leaf sampling. Leaf nutrient levels are compared to optimal targets for each soil type and palm age before appropriate dosages are recommended for each nutrient type. We saw total fertiliser volume used on these four estates reduce to 12 164 tonnes in 2016 from 12 561 tonnes in 2015. The company policy is to apply the appropriate volume and balance of nutrients to maximise economic returns. In 2016, fertiliser application programs were completed before the end of the year due to the timely ordering and delivery of fertiliser to the estates, adequate storage capacity on the estates and ample workers to carry out the programs. Where the terrain allows and the stand is more than 100 palms per hectare, fertiliser is applied mechanically using tractors and fertiliser spreaders. In the younger plantings, palms on terraces and those areas with less than 100 palms per hectare, manual application is carried out. Organic by-products from the palm oil mills, namely Empty Fruit Bunches (EFB) and Palm Oil Mill Effluent (POME) are also applied back to the land. As the single most costly input for the estates, fertiliser prices form a major part of an estate's upkeep costs. During 2016, prices for the three main nutrients - nitrogen, phosphorus and potassium - fell on world markets on the back of generally lower commodity prices; excess supply and falling demand; new supply sources being created; high stocks; continuing global economic uncertainty; competition amongst fertiliser producers; and lower input prices (natural gas and coal). As a result, the overall saving to the Indonesian estates for the year was 15% of the budgeted fertiliser costs.

Our area of most recent expansion for North Sumatra, the *Jabelmalux* group of estates, consists of *UMW* and *TUM*. In 2016, these estates comprised 8 184 hectares, all mature and remained fully certified to the Principles and Criteria of the Roundtable on Sustainable Palm Oil (RSPO), having achieved the certification in 2015. Crop production for these estates rose by 25 987 tonnes FFB compared to 2015 due to good agricultural practices; the ongoing recovery of unproductive palms aided by the application of the soil conditioner Rhizoplex which promotes root health and the palms' ability to take up nutrients; effective water management throughout the estates; as well as the timely and full application of fertiliser. We have seen an increase, both in terms of the average number of bunches per palm as well as the average weight of those bunches. As the age profile increases, we have seen the average yield of FFB per hectare improve over the last three years from 11.97 tonnes in 2014 to 15.75 tonnes in 2015 and to 18.99 tonnes in 2016.

We saw the total fertiliser volume used on these three estates in 2016 reduce to 7 073 tonnes from 7 726 tonnes in 2015. The additional application of the slow-release micronutrients, zinc and copper, at 50 grams per palm was carried out across all three estates to improve growth and vigour after minor deficiency symptoms were observed in the field. In areas identified as suffering from acid sulphate soils, the application of bunch ash (an alkaline by-product from palm oil mill boilers) was carried out to reduce the acidity and improve the growing conditions for those palms. This will be an ongoing process, monitored by regular soil sampling.

In terms of pests and diseases, we did not see a repeat of the major 'Nettle caterpillar' outbreak that we had experienced in 2015; however, with weather conditions in the last quarter of 2016 conducive to pest propagation, there was a rapid increase in the populations, which impacted approximately 25% of the estate. Quick action by the estate teams, supported by advice from the *Verdant Bioscience Singapore Pte Ltd* entomologists, saw a speedy response involving the targeted trunk injection of pesticide combined with the spraying of a bio-insecticide (Bacillus thuringiensis or BT), bringing the threat under control. More work will need to be done with our research partners to better understand the catalysts for increasing pest populations so that we can predict and prevent further outbreaks.

Palms infected by basal stem rot caused by the fungus *Ganoderma* have also been detected and this is going to become an increasing threat for the future in these organic soils. The number of infected palms at present is extremely low and once identified, they are totally removed from the field including all root material.

The management of water levels and maintaining a fully functional, all-weather road network are key elements to the success of the *Jabelmalux* estates. The estates have a full-time executive whose role is the recording and monitoring of water levels using data gathered from measuring sticks located in the field drains, as well as using strategically located piezometers. This data is used to support the decisions on whether to retain water in the fields (usually during the drier times of the year) or to release water from the fields (usually during the wetter times of the year). This is managed by a system of adjustable water gates. The internal road network is now nearing finalisation with the final surfacing to be completed in 2017. Work on the surrounding ring road for use by smallholders was carried out during the year. It will have the dual benefits of improving access for smallholders to market us their fruit as well as to protect our assets from unauthorised access.

Activity report by country

During 2016, work was completed on the composting plant and which was commissioned in December. The aerated bunker composting system combines and converts the mill by-products of empty bunches and palm oil mill effluent into a nutrient-rich, organic compost in a continuous cycle of 14-28 days depending on the season. This compost is transported to the field and applied as mulch at a rate of 10 tonnes per hectare. It is planned that the compost will be able to replace inorganic fertiliser for Bukit Maradja estate. Furthermore, due to the soil enriching qualities of the compost, we expect to see subsequent yield improvement by as much as 2 tonnes FFB per hectare. With the addition of the compost plant, which breaks down mill effluent aerobically and does not release methane, the Bukit Maradja mill remains certified to the International Sustainability and Carbon Certification (ISCC) standard. The existing certifications to the standards of the RSPO and International Organisation for Standardisation (ISO) also remain.

In terms of engineering, the three palm oil mills located in North Sumatra had varying levels of performance in 2016:

Bukit Maradja mill is rated at a throughput of 30 tonnes FFB per hour and achieved an average throughput for 2016 of 31.01 tonnes. The mill processed 97 202 tonnes FFB in 2016 compared to 105 883 tonnes in 2015, a drop of 8%. This mill receives FFB from the estates of Bukit Maradja and Kerasaan whose production was affected by the replant program. The Palm Product Extraction Rates (PPER) for the mill in 2016 improved over those in 2015 with an average Oil Extraction Rate (OER) of 23.62% and Kernel Extraction Rate (KER) of 5.60% giving a total PPER of 29.22%. The results in 2015 were an OER of 23.63% and a KER of 5.47% giving a PPER of 29.10%.

At Perlabian mill, which is rated at a throughput of 55 tonnes FFB per hour, the average figure in 2016 was 49.60 tonnes FFB per hour, which is a slight reduction from the 2015 achievement of 50.54 tonnes. This mill is supplied with fruit from the estates of Perlabian and Tolan. In 2016 a total of 184 057 tonnes FFB were processed compared to 194 140 in 2015, a reduction of 5%. Again, the reduction in fruit volume was affected by the replant program for Perlabian and the significant proportion of young mature palms, which have not yet reached peak yields. The PPER for the mill in 2016 declined over those in 2015. The average OER in 2016 was 21.72% and the KER was 5.70%, giving a total PPER of 27.42%. The results in 2015 were an OER of 22.78% and a KER of 5.59%, giving a PPER of 28.37%. Whilst the planting age profile, particularly of Perlabian estate, has contributed to the lower PPERs with significant proportions of both young mature and old mature palms as the estate works through the replant phase, the main contributing factor to the lower extraction rates has been an inability to maintain adequate steam pressure for sterilisation from ageing boilers and turbines. During 2016 a major rehabilitation program has been in progress on the two boilers, turbines and other mechanical equipment aimed at restoring the performance to optimal levels. This work is expected to be completed by the end of the first quarter, 2017. Another major capital project at the mill in 2016 has been the completion and commissioning of the bioreactor methane capture system which will enable us to use the methane as a fuel for a biogas engine to generate electricity for our own use and for export to the local grid.

The most recent mill at *UMW*, which was commissioned in 2014, is rated at a throughput of 40 tonnes FFB per hectare. During 2016, an average throughput of 42.19 tonnes FFB per hectare was achieved which is an improvement on the results of 2015 which were 39.71 tonnes. The mill is supplied by the estates of Umbul Mas Wisesa North (UMWN), Umbul Mas Wisesa South (UMWS) and Toton Usaha Mandiri (TUM). The young estates supplying the mill continue to mature, enjoying an increasing yield profile, and as a result, the mill processed 152 803 tonnes FFB in 2016 against a total of 119 251 tonnes FFB in 2015, an increase of 28%. The PPER for the mill in 2016 improved over that experienced in 2015. The average OER in 2016 was 23.95% and the KER was 3.89%, giving a total PPER of 27.84%. The results in 2015 were an OER of 23.39% and a KER of 3.44%, giving a PPER of 26.83%. Whilst the bioreactor methane capture system performed well during the year in terms of volumes and quality of methane captured, the increased fruit throughput placed additional strain on the system, and discharge parameters for the mill effluent became increasingly difficult to control. As a mitigation strategy, a project to establish a network of shallow effluent ponds was carried out during the year and these were in full operation by the last quarter of 2016, ensuring that our effluent discharges remain fully compliant with 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. This has meant that our palm oil and palm kernels have been declared as mass balance, as the smallholder supply base is yet to be certified to RSPO standards. In 2016, the management team devised an alternative strategy whereby the company purchases fruit from the smallholders and then sells it on to a third-party mill. This has now meant that all fruit processed by the UMW mill is estate fruit. The palm products can therefore be declared as identity preserved, attracting the premiums enjoyed by the other mills in the group. We will still continue to obtain RSPO certification for the smallholders to give us maximum flexibility and to provide ongoing support and extension services to our surrounding communities.

In the search for improved efficiencies, the engineering department has introduced the recording, monitoring and control of three key performance indicators: diesel consumption, worker productivity by measuring kilograms of product per manday and water consumption. This increased focus on these areas has led to savings in the use of diesel and water, and has allowed the mills to reduce the number of workers employed.

This year was a challenging one for commodity prices; however, palm oil prices rallied during the second half of the year giving cause for cautious optimism. The management teams were focused on pushing production and controlling costs. For the North Sumatra estates we saw field costs of production averaging USD 44.24 per tonne FFB, and these costs compared favourably to the figures of 2015 (USD 44.98 per tonne FFB). The impact of increasing wages in 2016 was to a large extent cancelled out by cheaper fertiliser and diesel costs. The effect of exchange rate was essentially neutral in 2016 with the IDR/USD exchange rate averaging out at around the budgeted rate of 13 500 for the year. For the North Sumatra mills, processing costs for 2016 were USD 23.74 per tonne, a considerable improvement on the 2015 costs of USD 25.02 per tonne.

The rubber estates of *PT Bandar Pinang* (*BPE*) and *PT Timbang Deli* (*TDE*) comprised 1 878 hectares of which 1 646 hectares are mature and 232 hectares immature. Crop production for these estates surpassed budget expectations by 7%, although overall production fell by 116 tonnes rubber compared to 2015, due to the impact of replanting 107 hectares during the year. The strong performance in 2016 was supported by favourable weather conditions minimising the number of lost tapping days due to rainfall, as well as additional crop from slaughter tapping areas ahead of felling the trees for replanting. We also saw the young trees coming into maturity at *BPE* producing latex volumes ahead of budget predictions. As a result, the estates finished the year at a very respectable yield of 1 890 kilograms rubber per hectare, which was an improvement on the 2015 achievements of 1 853 kilograms rubber per hectare. The replanting activities at *BPE* (40 hectares) were rubber-to-rubber replants as part of the normal cycle to replace old trees that have

Activity report by country

no remaining bark reserves. At *TDE*, the replant activities (67 hectares) are part of the conversion program from rubber to oil palm at *Verdant Bioscience Singapore Pte Ltd*'s research center.

The Bandar Pinang rubber factory, which processes the latex and second grade rubber from both *BPE* and *TDE*, had a solid year in 2016. Placed under pressure by the continuing low commodity prices of rubber, the management team made considerable cost savings, finishing the year at a cost of USD 155.91 per tonne rubber. The savings in 2016 were achieved by measuring productivity and identifying areas where multi-tasking could be applied, as well as temporarily shedding excess permanent workers to the estate during times of low production. On the estates, the focus on costs enabled USD 907.35 per tonne rubber to be achieved, although due to higher security expenses, these costs were 17% higher than 2015.

Our management of security cover has evolved in the last two years; following the successful implementation of contract security guards at *BPE* and our Musi Rawas projects during 2015. The planned rollout across the rest of the North Sumatra estates took place in 2016. The transition to a highly trained, mobile and effective security force has not been an easy one but management believes that it is the best way to maintain full protection of the company assets. It is planned to complete the rollout across the Bengkulu estates by the end of 2017.

SOUTH SUMATRA

The rubber estate of *PT Melania* (*MAS*) located in South Sumatra near Palembang, comprises 2 726 hectares of which 1 833 hectares are mature and 893 hectares are immature. This is *SIPEF*'s largest rubber estate, making up 43% of the total rubber area managed in Indonesia. Crop production for the estate of 3 377 tonnes rubber achieved in 2016 was also favourable when compared to the 2015 production of 3 012 tonnes rubber, an increase of 12%. Traditionally, this area of South Sumatra suffers a prolonged dry spell from June to September where long-term average rainfall is less than 100 mm per month for the four-month period; however, in 2016 there was a much more even rainfall distribution with no months below 100 mm. Total rainfall in 2016 was 2 770 mm against the long term average of 2 407 mm (+15%). This meant that the wintering period was reduced and that, combined with strong yield performances from the young mature trees, supported the strong cropping performance. As a result, the estates finished the year with an impressive yield of 1 842 kilograms rubber per hectare which was an improvement on the 2015 achievements of 1 830 kilograms rubber per hectare. The replanting activities of 217 hectares were rubber-to-rubber replants as part of the normal cycle to replace old trees that have no remaining bark reserves.

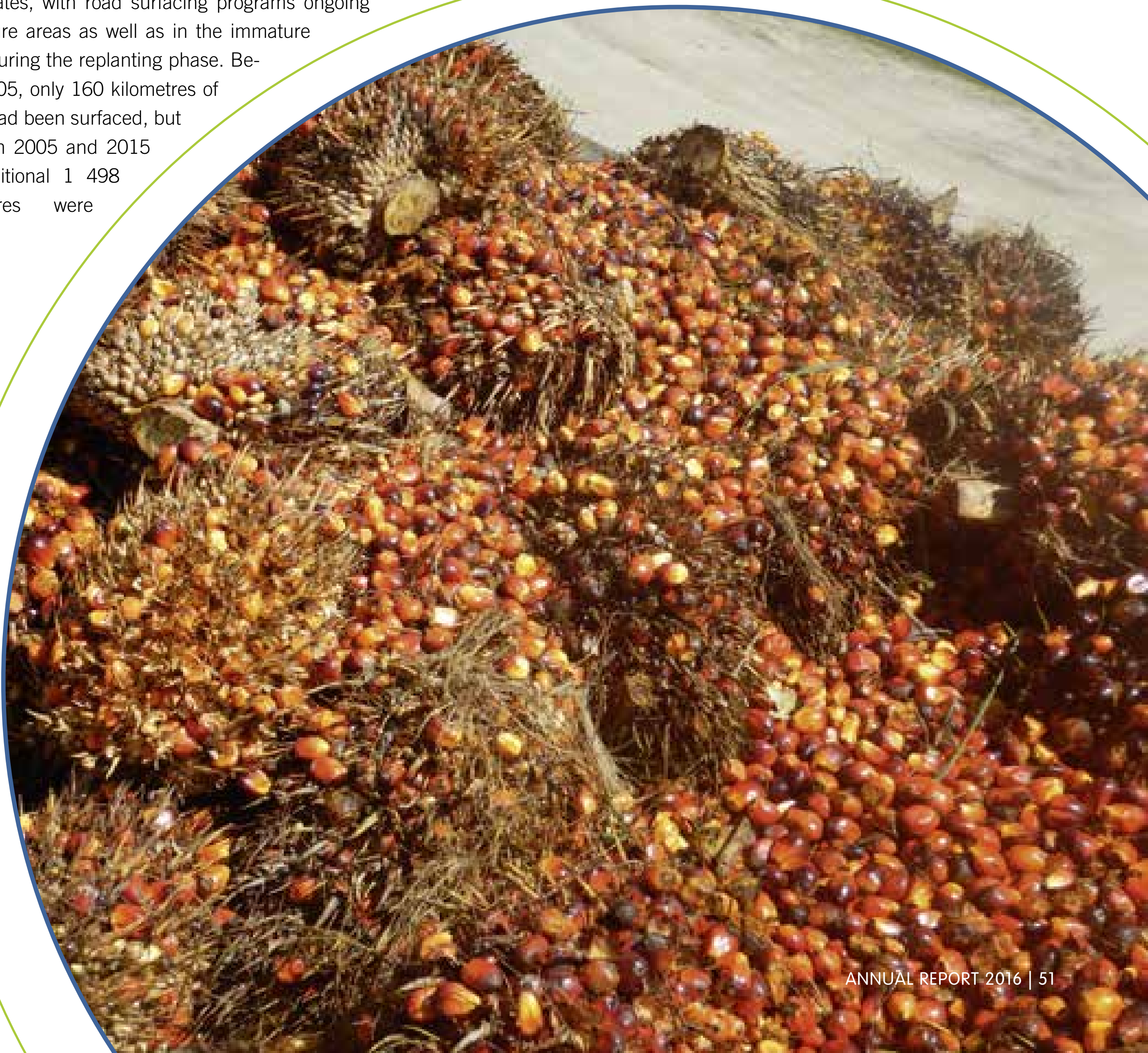
The MAS rubber factory, which processes the latex from the estate, performed well in 2016 and coped with the increased production. The second grade rubber is transported to the crumb rubber factory at Mukomuko for processing. As with the other rubber estates, the focus for 2016 was on cost reduction in line with the lower rubber commodity prices. The MAS rubber factory achieved good cost savings against budget for 2016, finishing the year at a cost of USD 164.68 per tonne rubber, and compared with the 2015 costs of USD 178.97 per tonne, a reduction of 3%. On the estate, the focus on efficiency and higher yields enabled costs of USD 847.75 per tonne rubber to be achieved and this was in contrast to the 2015 costs of USD 943.07 per tonne, a reduction of 10%.

During a normal year, the risk of fire is very high during the dry spell and whilst the estate remained vigilant in 2016, the favourable weather conditions meant that the risk was much lower and the estate did not suffer from any fire activity. The estate continues to engage with local communities and government departments in training and field day activities to promote fire awareness, and to maintain the resources and skills needed for quick and effective responses to any outbreaks.

Following the success of the partnership between the workers' Cooperative and a grocery retailer to manage the shop at *MAS*, a further innovation has been tried during 2016, whereby the workers' rice ration is supplied through the shop. This ensures a good quality product at a competitive price for our workers and additional profit made by the shop can then be returned to the Cooperative members as a dividend. The initial feedback from the trial is positive and, if successful, it is planned to roll out this principle to the other outlets across the company.

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 west coast of Sumatra. The oil palm estates comprise 17 377 hectares, of which 15 851 are mature and 1 526 are immature. Conditions here are quite different from those experienced in North Sumatra, with the terrain considerably more hilly 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. In recent years, considerable effort and resources have been directed towards improving the access across the estates, with road surfacing programs ongoing in mature areas as well as in the immature areas during the replanting phase. Before 2005, only 160 kilometres of roads had been surfaced, but between 2005 and 2015 an additional 1 498 kilometres were surfaced and in 2016 a program of 132 kilometres was completed. The budget for 2017 includes an ambitious program of 200 kilometres. This will leave approximately 385 kilometres to be completed to bring the road network up to the required standard to fully support all-weather collection and transport of crop. This program is already having a beneficial impact on the ability of the estates to collect and transport crop to the mills in a timely fashion. Crop production for the estates in 2016 totaled 341 921 tonnes FFB and remained relatively stable compared to the previous year's volume of 340 492 tonnes. In terms of yields per hectare, the results fell slightly from 21.80 tonnes FFB per hectare in 2015 to 21.57 tonnes in 2016 (-1%). Firstly, the crop production across the Bengkulu estates were positively influenced by several factors, a total of 1 387 hectares of



young areas coming into maturity; these areas will take 3-4 years before they reach their peak potential. Secondly, the new generations of planting material have the potential to become much higher yielding than the palms they are replacing. Thirdly, continuing infrastructural improvements in roads, housing and other facilities for our workers continue to maintain a stable and motivated workforce, underpinning good productivity. The main negative influences on the crop production in 2016 were firstly, the poorer production of the tall palms where we saw yields drop between 0.7 tonnes FFB to 1.9 tonnes FFB per hectare when compared to the budget. These are the palms that are being progressively targeted through the replant program to rejuvenate the estates. Secondly, there was high rainfall in the last quarter of the year with 1 266 mm over 60 days, much of this rain during the day compromising harvesting, crop recovery and transport efficiency.

Throughout the Bengkulu region, there is a network of 56 small village plots known locally as Kebun Masyarakat Desa (KMD). These plots are managed by our estate teams and form an important part of the economic life of our surrounding communities. The KMDs comprise 669 hectares, of which 620 are mature and 49 immature. These KMDs, like our estates, are certified to RSPO standards and form part of the sustainable supply base generating Identity Preserved (IP) palm products. In 2016, the KMDs produced 8 317 tonnes FFB, which was a slight drop on the 2015 production of 8 683 tonnes. 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 the RSPO so that our sustainability credentials are not compromised.

Despite the estates only being spread across approximately 85 kilometers as the crow flies, the variation in rainfall is quite marked. The average across the estates for 2016 was 3 699 mm of rain falling in 181 rainy days and this is in comparison to 3 106 mm falling in 147 rainy days in 2015 (+19%). The highest rainfall was at Talang Petai estate to the north with 4 740 mm and the lowest was at Air Buluh estate to the south with 2 554 mm. Despite the high precipitation in the last quarter, rainfall for the rest of the year was well distributed on a monthly basis with no prolonged dry spell giving further support to crop production.

Significant areas of the original plantings across the Bengkulu region are now entering the replant phase. There has been a concerted effort to push these programs over the last five years, averaging 735 hectares per year of replanting or 4% of the total area. At the end of 2016, our average palm age for the Bengkulu estates was 14 years old and this is an age we are aiming to reduce to 11-12 years old in the coming years.

As with North Sumatra, the fertiliser recommendations for the Bengkulu estates are compiled by our research partners, *Verdant Bioscience Singapore Pte Ltd*. 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 most 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 in the year. Despite the challenges, the Bengkulu estates completed their programs before the end of the year. A total of 12 160 tonnes of fertiliser was applied during the year and this is in comparison to 14 202 tonnes in 2015. The fertiliser recommendations have been compiled based on applying the best balance of nutrients at the optimum dosages to enhance yield. Palm growth and vigour of the palms across the Bengkulu estates remains good but we continue to see evidence of deficiencies in boron and magnesium. These areas receive supplementary corrective applications. In some of the low-lying areas of the region where replanting has taken place, a phenomenon known as “white-stripe” has occurred. This is an imbalance between the nutrients nitrogen and potassium. In these areas, the soil conditioner “Rhizoplex” has been applied to the palms and initial results are encouraging, with newly emerging palm fronds appearing normal. The empty fruit bunches (EFB) from the mills are also sent back to the field to be used as mulch, the priority areas of application being in the newly planted replants as well as the sandy soil areas of Tanah Reka estate adjacent to the coastline. In this region, the Mukomuko palm oil mill also uses shredded EFB as a fuel source for the boiler.

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 rhinoceros beetle (Oryctes rhinoceros) in our newly planted palms, particularly where the establishment and spread of the legume cover crop Mucuna has been delayed. In the young estates of the Bengkulu region, basal stem rot 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.

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 Sejahtera* (*MMAS*). 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 at Air Manjunto Estate (AME). The two *MMAS* estates now comprise 1 493 hectares, of which 821 are mature and 672 are immature. Crop production for MMAS in 2016 totaled 9 100 tonnes FFB, a sharp increase from the 2015 production of 2 737 tonnes, as the area of mature palms increased in conjunction with the increasing age profile. The fruit from the *MMAS* estates has been certified to RSPO standards as part of the Agromuko supply base since November 2014. The process for obtaining the cultivation licence (HGU) though the formal Indonesian Government channels continued during 2016 in line with the time-bound plan. In addition to these areas, there are another 388 hectares of plasma plantings, which has been a legal compliance issue since 2007. 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 license.

In terms of engineering, the two palm oil mills located in Bengkulu had lacklustre levels of performance in 2016 affected by suboptimal fruit quality sent in from the field and higher than average rainfall.

Mukomuko mill is rated at a throughput of 60 tonnes FFB per hour and achieved an average throughput for 2016 at 60.06 tonnes per hour. In terms of FFB, the mill processed 222 916 tonnes in 2016 compared to 212 182 tonnes in 2015, an increase of 5%. This mill receives FFB from the northern and central estates. The Palm Product Extraction Rates (PPER) for the mill in 2016 deteriorated compared to those in 2015. The average Oil Extraction Rate (OER) was 22.12% and the Kernel Extraction Rate (KER) was 5.12%, giving a total PPER of 27.24%. In 2015 the OER was 22.51% and the KER was 5.21%, giving a PPER of 27.72%. This downturn in performance has challenged our management teams to focus on the core aspects of harvesting performance, crop collection and transport efficiency. A detailed training curriculum was drafted in 2016 and implemented for harvesters, supervisors and executive staff. A program of harvesting gang amalgamation was also carried out in 2016, whereby 74 separate gangs were amalgamated to form 34 gangs. This has improved the efficiency of crop pick up and transport to the mill, and also allowed for improved supervision in the field. The levels of ground crop (crop harvested not transported to the mill until the next day) have been significantly reduced during the year, dropping from 40% in 2015 to 29% in 2016. The initial target is for a maximum of 20%. This has partly been the result of the gang amalgamation exercise but also that of estates supplementing the haulage of crop using our own trucks with contractor trucks. The ripeness standards in the field for the taller palms were reviewed and changed in the last quarter of the year, ensuring that more loose fruit detach before the bunches are cut. Finally, management of harvester numbers and productivity levels was tightened in 2016 aimed at completing a minimum of three harvesting rounds in each field per month. These initiatives started to show a positive impact during the second half of the year, with improved extraction rate results seen from July to December. This will be an ongoing target for the teams in 2017 to aim for an OER of 23.00% and a KER of 5.10%. The bioreactor methane capture system continued to function well, with the methane being used as a fuel source in one of the mill boilers. As methane is not the most efficient fuel source for the mill boiler, it was recognised that better combustion in the boiler could be gained using biomass (shredded EFB), freeing up the methane to be used much more efficiently in a biogas engine to generate electricity. After a feasibility study, it became apparent that by installing a biogas engine powered by the methane, we could generate enough electricity for our own facilities during peak hours and non-processing days, and also be able to sell excess power into the local grid at a time when the Mukomuko Regency is acutely short of power generating capacity. Work started during the year on the civil works and installation of the engine, with commissioning and linking into the local power grid scheduled for the end of the first quarter of 2017.

Bunga Tanjung mill is also rated at a throughput of 60 tonnes FFB per hectare but is operating at half of the capacity, achieving 30.69 tonnes in 2016 compared to 30.32 tonnes in 2015. This is a historical issue. The company was obliged to build a mill of

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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 140 559 tonnes in 2016 compared to 140 969 tonnes in 2015, a stable performance. This mill receives FFB from the southern estates. The PPER for the mill in 2016 also deteriorated compared to those in 2015 with an average OER in 2016 of 22.32% and KER of 5.25%, giving a total PPER of 27.57%. The results in 2015 were an OER of 23.07% and a KER of 5.50%, giving a PPER of 28.57%. The same improvement plan carried out for Mukomuko palm oil mill was rolled out for the estates supplying Bunga Tanjung palm oil mill. Better oil extraction rates were achieved in the second half of the year compared to the first half. It is incumbent on the staff to maintain the pressure and achieve the 2017 targets of an OER of 23.00% and a KER of 5.10%. There were no new capital projects during the year at this mill.

For the *PT Agro Muko* estates we saw field costs of production averaging USD 46.99 per tonne FFB and these compared favourably to the 2015 field costs of USD 48.58. As with the estates in North Sumatra, the impact of increasing wages in 2016 was to a large extent cancelled out by cheaper fertiliser and diesel costs than budgeted. For the young mature areas of *MMAS*, field costs of production averaged USD 98.54 per tonne FFB and were much lower than in 2015, which averaged USD 178.06. This improvement is as a result of increasing FFB yields in the maturing palms.

For the Bengkulu mills, processing costs for 2016 were USD 21.11 per tonne; this is a significant improvement on the 2015 costs of USD 21.95 per tonne.

The rubber estate of Sungei Jerinjing (SJE) located in the central area of our Bengkulu properties consists of 1 721 hectares, of which 1 127 are mature and 594 are immature. All of the rubber activities for the Bengkulu region are located on this single estate. Production for the estate surpassed budget by 5%, with crops of 1 851 tonnes rubber. This was a notable improvement when compared to the 2015 production of 1 652 tonnes rubber, an increase of 12%. The reasons for the increase in production are higher than estimated yields from the younger plantings and increasing areas of rubber coming into production as the young trees become mature. Traditionally, this area of Bengkulu experiences moderately high rainfall with approximately 200 mm per month, increasing to 400 mm per month for November and December. Total rainfall in 2016 was 3 696 mm against the long term average of 2 838 mm (+30%), with 1 410 mm falling in the last quarter causing numerous days of late tapping or no tapping. This had a negative impact on production towards the end of the year. Despite this constraint, the estates finished the year with a substantial yield of 1 643 kilograms rubber per hectare, an improvement on the 2015 achievements of 1 547 kilograms. The replanting activities of 62 hectares were rubber-to-rubber replants as part of the normal cycle to replace old trees that have no remaining bark reserves.

The Mukomuko crumb rubber factory, which processes the latex and second grade rubber from SJE as well as the second grade rubber from MASE, performed well in 2016. As with the other rubber estates, the focus for 2016 was on cost reduction in line with the lower rubber commodity prices. The crumb rubber factory processed a total of 2 445 tonnes dry rubber compared to 2 370 tonnes in 2015, a small increase of 3%. The rubber factory also achieved good cost savings against budget for 2016, finishing the year at a cost of USD 140.04 per tonne rubber. Compared well with the 2015 costs of USD 169.28 per tonne, a reduction of 17%. On the estate, the focus on efficiency and higher yields enabled costs of USD 789.49 per tonne rubber to be achieved and this was in contrast to the 2015 costs of USD 816.03 per tonne, a reduction of 3%.

CIBUNI, JAVA

Our tea estate Cibuni 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 1 704 hectares mature and 39 hectares immature. Total crop production from Cibuni in 2016 was 2 940 tonnes made tea against a budget of 3 000 tonnes. This was a shortfall of 2% but a good improvement over the 2015 crop production of 2 726 tonnes made tea, an increase of 8%. This equated to a yield of 1 726 kilograms per hectare compared to 1 584 kilograms in 2015. The production of leaf tea is very sensitive to rainfall, sunshine hours and temperature, and at the Cibuni estate it is normal to experience a long dry spell from June to September, with less than 100 mm per month falling over that period. In 2016, the normal dry spell did not materialise and the estate received 4 410 mm of rain against the long term average of 3 383 mm (+30%). The monthly rainfall distribution was much more even than normal, with no months below 100 mm in 2016. Whilst this additional rainfall had a positive impact on crop production, the extra cloud cover associated with the rainfall meant that overall sunshine hours were less than average. Cibuni experienced 1 209 sunshine during the year against a long-term average of 1 542 (-22%). Temperatures remained steady in 2016 with maximum and minimum daily temperatures in line with long-term averages.

The fertiliser recommendations for the Cibuni estate are compiled by our 'visiting agent', in conjunction with the team from *Verdant Bioscience Singapore Pte Ltd*. The 2016 recommendations were for a total of 1 042 tonnes fertiliser compared to 2015 at 1 092 tonnes. During 2016, the program was not completed with 989 tonnes applied (95%). The shortfall being due to the high rainfall towards the end of the year and the resulting delayed bush recovery following pruning.

Pests and diseases can have a serious negative impact on tea production with the crop potentially being affected by a range of insect and fungal attacks. The management team has invested considerable effort in training and resources to improve on the census, recognition and timely response to the presence of these assailants. To support this process, our research partners, *Verdant Bioscience Singapore Pte Ltd*, were tasked with sourcing an international tea consultant to work on formulating an integrated pest management (IPM) strategy. As a result, a crop protection specialist from the Centre for Agriculture and Bioscience International (CABI) visited our Cibuni estate in December to lay the foundation for the IPM program.

The high quality of Cibuni'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. There have been several initiatives in both the field and the tea factory to streamline practices and improve productivity and efficiency.

Dr Stephen Nelson, PhD
managing director
Verdant Bioscience Singapore Pte Ltd

Verdant Bioscience Singapore PTE Ltd (Verdant) was incorporated in September 2013 to develop high-yielding F1 hybrid oil palms along with other supporting technologies that underpin significant yield and productivity enhancements for the palm oil industry world-wide, and agriculture in general.

SIPEF, a significant Verdant shareholder, worked with the Verdant management team from the very start when there was nothing more than eternal optimism, a strategy to greatly increase perennial crop yields without genetic modification and a PowerPoint presentation explaining the value proposition. SIPEF remained steadfast in its support as we explored various options to raise the necessary finance to launch Verdant. This robust unwavering support, combined with direct interrogation as to whether value has been generated, has continued beyond the embryogenic development stages.

In addition to their loyal support and pragmatic assistance, SIPEF also demonstrated their commitment by being Verdant's first customer, with Verdant providing seed, services and solutions to SIPEF's Indonesian subsidiary companies' estates. SIPEF's Indonesian management team have shown both courage and trust in Verdant to allow us to objectively test new, and refine existing, oil palm nutrition and crop protection practices in trials and pilot projects across SIPEF's Indonesian plantations.

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The tea factory processed 14 631 tonnes of green leaf to produce 2 940 tonnes of made tea in 2016; this compares to 13 185 tonnes of green leaf to produce 2 726 tonnes of made tea in 2015. The rearrangement of the processing lines during the year allowed the factory management to reduce the number of workers involved and boost productivity.

The field costs for Cibuni in 2016 were USD 1 172 per tonne made tea and this compared favourably to the 2015 field costs which were USD 1 230 per tonne, a reduction of 5%. We also saw good savings in the factory. In 2016 the costs amounted to USD 302.61 per tonne made tea against the 2015 costs of USD 392.44 per tonne, a reduction of 23%. Savings in the factory were helped by the additional rainfall during the year, meaning that the power generating turbines operated by hydroelectric power could operate for more hours, saving on diesel costs. In another cost-saving initiative, funds were approved in 2016 to connect the local state-provided power supply (PLN) to the factory and housing site. This will allow the Cibuni estate 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.

MANAGEMENT

During 2016, the executive team in Indonesia continued to be headed up 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. 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.

At the *PT Tolan Tiga* directors' level, following the changes in 2015, the management team stabilised and settled down to the task of achieving *SIPEF*'s various objectives. Near the end of 2016, the company was able to recruit a new engineering director, replacing the unexpected departure of his predecessor. It is expected that the engineering team will greatly benefit from this new leadership. The new director brings with him a wealth of experience not only to palm oil processing, but more importantly to methane capture and electricity production.

The executive team comprised 459 people by the end of December 2016, with 62 staff leaving during the year and 43 new staff joining the company. In addition, 160 members of staff were transferred during the year, as part of *SIPEF*'s policy of placing the best candidates in each available position and to promote rotation and training to widen job experience. Motivation, company spirit and team building remain important pillars of *SIPEF*'s business in Indonesia. We organise several activities during the year aimed at bringing our diverse and geographically spread teams together. These events include an annual managers' meeting, 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 inter-company tennis tournament known as the *SIPEF* Cup. Each of the regions also arranges monthly social gatherings where staff and their families share food, entertainment and stories of their experiences.

The 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 has now been widened to include engineering and office administration positions. Between 2011 and 2016 we have recruited 148 cadets. To date, 115 are still with us, a success rate of 78% with 59 allocated throughout the company as full assistants. Of the balance, 32 are working through their second year and 24 are working through their first training year.

Tropical agriculture remains a labour intensive operation and at the end of 2016, *SIPEF* employed 15 213 workers comprised of 9 601 permanent workers, who are trained and skilled at performing the essential and more technically demanding jobs, and 5 612 temporary contract workers known as free labour (FL), who are utilised to perform the more seasonal or technically less demanding jobs. This is reasonably stable from the 2015 total worker numbers of 15 516 (-2%). This year saw the conclusion of our program to reduce external FL contractors and now, all of the FLs across North Sumatra and Bengkulu are sourced through the estate cooperatives, providing additional benefits to our workers. The exception is in the new development areas where the project status of the estates without established cooperatives still requires assistance from external contractors.

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. At the end of December 2016 some 30 150 people (our workers and their dependents) were registered as participants in the newly launched national health and insurance scheme, known locally as BPJS, which is a public agency established to implement the social security program. 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 47 paramedics (26 midwives and 21 nurses). The *SIPEF* 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 2016, the medical department performed annual medical checks for 1 400 workers categorised as at high risk because they work with pesticides and herbicides or are exposed to dust and noise, and routine medical check-ups for 7 400 workers in the low risk category.

In early 2016, the management established a new quality department charged with the implementation of a new quality management system using the ISO 9001 framework. The new department completed the revision of all the existing standard operating procedures and has developed new procedures for each of the various departments within *PT Tolan Tiga Indonesia*. In early 2018, once the new system has been successfully implemented, it is expected that *SIPEF* will achieve the prestigious ISO 9001 certification.

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 eight auditors and an administrative assistant. Whilst the staff members are based in the Head Office in Medan, operationally they are given assignments to Bengkulu and North Sumatra on three-month rotations. It is planned to add the Musi Rawas projects as the third region in 2017 and we are in the process of recruiting three more auditors. The GM of the audit department reports directly to the president director, and results of routine audits as well as whistleblower 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 and result 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 Headquarters in Belgium.

The use of the Lintramax software package to manage *SIPEF*'s information technology (IT) requirements continued in 2016 after implementation during 2015. Staff members in all departments have become more familiar with its use and the core modules have now all been tried and tested. There is ongoing work in progress, with additional modules to give increased visibility in the areas of finance, purchasing and marketing. The next evolution will be to combine business intelligence software with the massive Lintramax database, to enable the generation of reports tailored to user requirements to support the decision-making process of the management team. During the year, work on the contract worker (CW) module was completed which enables all operational units to manage their FL workers through the Lintramax system. This is a huge step forward in moving away from cash payments (by being able to pay FLs directly into their bank account) as well as allowing the management teams to more effectively plan and organise their labour requirements. The IT department also implemented the Lintramax module for the newly established independent laboratory network, which ensures that the data is recorded and kept separate from the mills and factories.

NEW BUSINESS

Musi Rawas Projects

Our new development expansion in the Musi Rawas region of South Sumatra, near the town of Lubuk Linggau, progressed well during 2016. We saw a 'changing of the guard' at the end of 2015 when the previous general manager, who had led the first four years of the development, retired. One of our most experi-

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enced senior managers with 28 years of experience with *SIPEF*, was promoted to take over. 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 starting to see the fruits of our efforts. A major development in the evolution of these projects into settled estates has been the splitting of each project into two estates during 2016. Staffing and administrative resources have been increased accordingly and this has enabled the estates to establish field boundaries for divisions and to have divisional assistants responsible for a set area. This will improve competition, agronomic standards and management focus as we move from the development and immature phases into the mature phase.

At the end of December 2015, in the previous four years across the three projects we had compensated 7 797 hectares of land, planted 2 626 hectares with an area of 766 hectares cleared but not planted, and had commitments to the plasma scheme for 895 hectares and 296 members. In 2016, we saw a leap forward in progress, compensating another 1 908 hectares of land; planting a further 2 993 hectares; clearing a further 478 hectares ready for planting; and finally, adding the commitment for another 754 hectares of land for the plasma scheme, adding another 340 members. This brings the total achievements for the three projects to the end of December 2016 to a compensated area of 9 705 hectares, plus commitments to plasma of 1 649 hectares and 636 members, a total of 11 354 hectares. We have now planted 5 619 hectares and, together with the 478 hectares cleared but not planted, have secured a total of 6 097 hectares or 54% of the land acquired. The target for the management teams on the ground is to increase the percentage of land secured against that acquired during 2017. With the ongoing renewal of the Izin Lokasi (location permits), the original concession area of 31 809 hectares has become 24 607 hectares, as areas unlikely to be compensated were excised from the permits. The current eventual target is for us to plant 18 507 hectares comprising 15 423 hectares of nucleus estate and 3 084 hectares of plasma, but the budgeted targets for 2017 are to compensate another 1 650 hectares and plant another 3 380 hectares. The main achievements 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 3 420 hectares have been compensated and 535 hectares acquired for plasma, a total of 3 955 hectares. Of that, 3 226 hectares have been planted or cleared ready for planting, meaning 82% of the compensated land has been secured. Land compensation has been successful in the southern and northwestern parts of the project with the focus now moving to the central and northeastern parts. Some important milestones were passed during 2016. Firstly, the project started harvesting in August with the fruit sold to a local third party mill. Production for the five months from the relatively small area of 164 hectares was only 100 tonnes FFB, but the positive psychological impact on the staff was far in excess of the fruit produced. In 2017, another 601 hectares will become mature and

start harvesting during the year. This is a tangible sign that we are here to stay and, based on 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* between 2021 and 2022. Secondly, the fledgling emplacement, consisting of 25 workers houses, six staff houses and other infrastructure, was connected to the local state power grid and occupied at the end of October. Thirdly, planting progress ran ahead of estimates during 2016, which resulted in the need to buy in quality planting material from outside sources. We were able to do this by sourcing a total of 61 000 seedlings from PT Sampoerna Agro as well as from our nursery in Agromuko.

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, which often results in roadblocks. Despite these challenges, significant progress is being made and there have been four main areas of focus established 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 2 438 hectares have been compensated and 219 hectares acquired for plasma, a total of 2 657 hectares. Of that, 1 256 hectares have been planted or cleared ready for planting, meaning 47% of the compensated land has been secured. *ARU* also started harvesting in August, beginning the transition from project to estate; however, the location for the emplacement has not yet been confirmed, as the team continues to assess progress with development in the four focus areas. A total of 29 tonnes FFB was harvested from 59 hectares and the fruit sold to a third party mill, but in 2017 another 181 hectares will become mature and start harvesting during the year. 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. There is most potential at the eastern end and central parts of the project and during 2016 the nursery from the adjacent project *AMR* was relocated to the northern tip of the project, due to the presence of a deep and permanent water supply as well as proximity to the sealed government road for ease of seedling transport. The team will also be focusing on opening up an internal road corridor through the estate that will remain under our control to drastically reduce the possibilities of road closures and impeded access.

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 difficulty in cultivating, the progress for land compensation and development has been good for *SIPEF*. There are also four main areas of focus on *AMR* with most activity in 2016 being on the eastern side of the project. Good inroads are now being made in the western portion. The location permit is for 12 305 hectares, of which 3 847 hectares have been compensated and 896 hectares acquired for plasma, a total of 4 743 hectares. Of that, 1 615 hectares have been planted or cleared ready for planting, meaning 34% of the compensated land has been secured. As with *ARU*, the location for the emplacement has not yet been confirmed as the

Activity report by country

team on the ground chart progress with the land compensation and planting. Work is also in progress securing a road corridor from the sealed government road in the south onto the project, which will give additional security for our asset and ensure permanent and unfettered access. Development on *AMR* started after that on *AKL* and *ARU* and, as such, the estate remains in the immature phase. The first 17 hectares planted at the end of 2014 will come into harvesting during 2017.

CSM

Our estate, *PT Citra Sawit Mandiri* (*CSM*), is located two hours' drive to the north of the *UMW* complex and comprises 1 692 hectares, of which 1 434 hectares are mature and 258 hectares immature. Due to legacy issues on this peat estate, *CSM* is not certified to the standards of RSPO, and it has always been the intention of *SIPEF* to sell this asset once the cultivation licence (HGU) process has been completed. Part of the delay in progressing with this file has 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 the year. A further development in the area, whereby a new permanent road and bridge to link *CSM* to the *UMW* complex is being considered by local government, has thrown new light on the business plan for *CSM*. *SIPEF* is now in discussion with the RSPO on what is required to enable *CSM* to become certified and, on the estate side, all of the resources and infrastructure needed to gain RSPO certification have been established. This is a productive and potentially profitable estate, which has seen yields improve significantly over the last three years from 6.51 tonnes FFB per hectare in 2014, to 16.62 tonnes in 2015 and then 19.99 tonnes in 2016. Every effort will be made to obtain RSPO certification for this asset, but if that is not possible within the current regulatory framework, then we will pursue the option to sell the asset once the HGU process is complete.

Verdant Bioscience Singapore Pte Ltd

Since 2013, *SIPEF* has entered into a joint venture agreement with New Britain Palm Oil Ltd (NBPOL) and Biosing to establish *Verdant Bioscience Singapore Pte Ltd*, for the development of high-yielding oil palms and the ultimate commercialisation of their seeds in the Indonesian market. In 2015, NBPOL was taken over by the Sime Darby Group, which continues to be the majority shareholder in the venture.

Early 2014, *SIPEF* entered the plantation company *PT Timbang Deli* into the venture and made an investment commitment of USD 5 million to erect buildings for the research center of this plantation, in return for acquiring 38% of the shares. Since then, the necessary licences have been obtained in Indonesia to transform *PT Timbang Deli* from a rubber plantation to a research centre and a business allowed to import, cultivate and sell seeds in Indonesia.

During the financial year, the first phase of buildings at Timbang Deli Estate has been completed. The *Verdant Bioscience Singapore Pte Ltd* team is now located on site. In addition to the full service of fertiliser recommendations across all of our estates, we have engaged *Verdant Bioscience Singapore Pte Ltd* to source and provide superior oil palm planting material from Dami, Papua New Guinea, as well as conduct trials across a range of agronomic and pest and disease control issues, which will lead to a better understanding and improved performance.

Additional acquisition PT Agro Muko – Indonesia

On 6 December 2016, *SIPEF* reached an agreement with its joint venture partners, PT Austindo Nusantara Jaya TBK (ANJ) and M.P. Evans Group PLC (MP Evans), on the sale of an interest of 10.87% and 36.84% respectively in *PT Agro Muko*. Through its subsidiary *PT Tolan Tiga Indonesia*, *SIPEF* already holds an interest of 47.29%.

The agreements with ANJ and MP Evans were subject to the fulfillment of certain suspensive conditions. The sale of the 36.84% interest by M.P. Evans was subject to the approval of their shareholders. Furthermore, both transactions were likewise subject to approval by the Capital Investment Coordinating Board (Badam Koordinasi Penanaman Modal or BKPM) in Indonesia.

We are able to confirm that all suspensive conditions will be fulfilled during the first quarter of 2017.

As a result of this transaction, the *SIPEF* group will, with an interest of 95%, acquire exclusive control over *PT Agro Muko*. ANJ has undertaken to remain as a 5.00% minority shareholder, allowing *PT Agro Muko* to continue to comply with the legal requirement on local shareholding.

SIPEF pays a total amount of KUSD 144 080 or an equivalent of USD 14 594 per planted hectare, plus an adjustment for available working capital as per 31 October 2016.

The *SIPEF* group assures itself by this transaction of an increase of 9 336 'beneficial' hectares, a substantial additional result and cash flow, and of the continuing marketing of volumes produced by *PT Agro Muko*.

Potential acquisition PT Dendy Marker Indah Lestari (DMIL)

SIPEF is also likely to sign a heads of agreement with PT Agro Investama Gemilang (AIG), relating to the acquisition of 95% of the shares of *PT Dendy Marker Indah Lestari* (*DMIL*), for a consideration of KUSD 53 105.

DMIL, incorporated under the laws of Indonesia and located in Musi Rawas Utara, South Sumatra in Indonesia, has had an HGU since 1998 and is the owner of 6 562 cleared/planted hectares of oil palm, with a potential to expand to a total of 9 000 planted hectares, next to the current 2 780 hectares of smallholder cultivation (plasma). The fruit is processed in a palm oil extraction mill with a capacity of up to 25 tonnes per hour and the operations are RSPO certified.

AIG, which is part of the Lippo group, a real estate development company listed on the Indonesian Stock Exchange, is expected to declare its willingness to retain a 5% shareholding in *DMIL*. Subject to the completion of a customary due diligence on *DMIL*, the signing of the heads of agreement is expected to be followed within 70 days by the signing of a definitive share purchase agreement and the handover of the management of the plantations to *SIPEF*.

The potential acquisition of *DMIL* is expected to contribute to the successful expansion of *SIPEF* in the Musi Rawas area in South Sumatra, where, as per end of 2016, more than 11 000 hectares had already been compensated or secured and more than 6 000 hectares had been cleared or planted. The central location of the *DMIL* site should enable *SIPEF* to optimise the management and the development of the three concessions acquired earlier.

The board of directors of *SIPEF* will propose to the shareholders to refinance the investment in *PT Agro Muko* and in *DMIL*, as soon as the deal is successfully closed, by a combination of a capital increase with preferential subscription rights for the current shareholders for an amount up to KUSD 97 200 and a long-term bank loan for the remaining amount. An extraordinary general meeting will probably be convened on 4 April 2017 to approve such a capital increase.

Activity report by country

PAPUA NEW GUINEA

GENERAL

Papua New Guinea consists of a group of hundreds of islands located between the Coral Sea and the South Pacific Ocean. The country is ahead of our headquarters' time zone by 8 hours in winter or 9 hours in summer. It is fascinating to note that Papua New Guinea, the eastern section of the island of New Guinea, is actually part of Oceania, while the western section is the eastern part of Indonesia, thus being the most easterly portion of Asia. Papua New Guinea totals 462 840 km2, with about 7 million inhabitants and a population growth rate of 1.75%.

Despite being known as extraordinarily diverse, in some areas inhospitable but also as one of the last and most pristine of the world's paradises, Papua New Guinea was in 2016 still confronted by economic, social and political difficulties. This situation was intensified by the transition of the economy's main driver, Liquefied Natural Gas (LNG), from the investment phase to the output phase, at the time of a worldwide decline in commodity prices.

After an almost continuous drop in 2015, the Brent Crude prices were fairly flat in 2016 and, despite attempts to rise again, they stayed below USD 50 the whole year. Global commodity export statistics for Papua New Guinea, having followed the same trend, are showing depressed figures for 2016. The insufficient utilisation of its huge reserve of natural resources, not only LNG but also mineral deposits, does not give the country sufficient export earnings. Talking specifically of the palm oil business, the low commodities prices on the world market have also impacted the national revenue, which has had a direct effect on the Government's ability to provide adequate services to the population, particularly to the rural communities and remote communities.

Regarding the agriculture sector, various plans have been devised to reinforce production but due to a lack of coordination with private players, and even the questioning of foreign investment, the plans have been unable to achieve success.

Prime Minister Peter O'Neill, in office since 2011 and criticised in 2015, again had to face numerous challenges this year in order to regain investor confidence, restore integrity to state institutions, promote economic efficiency and improve the governance of the rural sector. As a reminder, the local informal economy, the youthful population, and the high level of unemployment combined with massive urban migration, are important factors to be taken into account by the politicians and their administrations.

In the case of the palm oil industry, great efforts had to be made to save the previous moribund Oil Palm Industry Corporation (OPIC). The OPIC board has actually not been appointed since the end of 2015. In the meantime, the business has had to be taken care of by the private sector.

In July 2016 student protests and a wave of strikes took place, mainly in Port Moresby, while Parliament was suspended, then reconvened to hear a motion of no confidence in the Prime Minister, who was again destabilised as in 2015.

A national election, to elect 111 members of the National Parliament, and local government elections, for which the slogan is "Your Choice, Protect the Democracy", are due in June-July 2017. We are looking forward to seeing some structural reforms coming out of this process, to reboot economic activity and stabilise the social discontent.

HARGY OIL PALMS Ltd

Agriculture remains the economic backbone of West New Britain (WNB) Province, where only two international operators are employing people in the palm industry: our neighbour New Britain Palm Oil Ltd (NBPOL) and our subsidiary *Hargy Oil Palms Ltd (HOPL).* Almost 50% of the regional population depends on their production. Besides providing work and income for our employees and families, our activity also provides income to the smallholders and their families living in the area.

HOPL was established in 1972, as a result of a decision by the administration to diversify the country's agricultural export base by introducing oil palm.

Hargy Oil Palms Ltd, 50% of the shares of which *SIPEF* invested in forty years ago, has grown from a few hectares planted in 1973, now up to an organisation in three groups of estates, all located north of Bialla Town, on the western coast of the island of New Britain. The company, which has been 100% owned by *SIPEF* since 2004, holds long-term leases with the Papua New Guinea Government over designated agricultural land.

Besides Hargy, Navo and Pandi Estates, *HOPL* is also collecting and processing the production of 3 700 neighbouring farmers, whose plantations are located north and south of Bialla up to the Ala River, which constitutes the southern border with our neighbouring plantation company. Each block is about six hectares in area, and is generally split into two hectares with palm, two hectares of subsistence crop and two hectares left fallow.

Despite the heavy rains in all locations having been above the long-term average in 2016, the main bridges on the New Britain Highway remained intact. Some abutments of log bridges were damaged but they did not collapse. The highway was closed for one or two days only. A smaller Bailey bridge on the highway on the boundary of Navo Estate collapsed. A temporary wet crossing has been established while waiting for the National Department of Works to repair it. A second Bailey bridge, close to Barema, also collapsed. This bridge is being replaced with the aid of the Asian Development Bank replacement program.

A few accesses to smallholders' blocks were cut off for one or two days on three occasions.

Compared to 2015, a year which was badly hit by a strong El Niño, 2016 has not seen an extended dry season.

The long-term average annual rainfall at Hargy plantation is 4 489 mm, with 5 088 mm for the northern plantations. This year the total was 5 177 mm for Hargy and 5 716 mm for the northern plantations, well above the 10-year average, but still below the levels of 2015.

Graham King
general manager
Hargy Oil Palms Ltd

In the remote north east corner of New Britain Island in Papua New Guinea, where SIPEF and its PNG subsidiary, Hargy Oil Palms Limited, work, sustainable palm oil is king.

Bialla local government area, 150 km up the New Britain Highway from the provincial capital of Kimbe, is totally dependent for its economic and social well-being on the oil palm crop. The activities of Hargy Oil Palms dominate the town of Bialla and the narrow coastal strip along the coast.

Hargy Oil Palms Limited employs 4 300 people of whom just 20 are expatriates. The majority of company workers are housed in 'Company housing' with modern facilities. Training and development of our employees is ongoing and we have developed a highly competent team to manage the operations.

Hargy Oil Palms is quite unique in its relationships with local landowners. Half of our cultivated land area (13 621 hectares) is company run plantation, whilst the other half (13 800 hectares) is owned and managed by company supported smallholders. There are approximately 3 500 smallholdings that contribute just over 40% of our total harvest of Fresh Fruit Bunches. The value of the fruit purchased in 2016 was USD 19.6 million. Smallholders are fully supported by company agricultural advisors. Interest free loans are available to smallholders for the provision of seedlings, tools and fertiliser.

Hargy maintains roads, supports education and health facilities, and uses its expertise to gain grant funding for socially important infrastructural projects such as schools.

SIPEF through Hargy Oil Palms Limited makes a major contribution to the economic and social wellbeing of this large community of over 50 000 people who are dependent on the production of sustainable and environmentally sound palm oil production. We are a leading example of the best poverty alleviation programme in Papua New Guinea today.

Activity report by country

January rainfall was lower than average, but February rainfall was double the long-term average and March rainfall was equivalent to the long-term average. As previously mentioned, production was impacted by the weather in the beginning of the year, but good harvest management prevented high losses, compared to what happened last year. This is reflected in good control of Free Fatty Acids (FFA) for which we were successful in staying below 5% for all the 2016 shipments, and Oil Extraction Rates (OER) being higher than the previous year.

By the end of 2016, on our own plantations a total of 13 621 hectares was planted with oil palms, of which 2 343 hectares or 17.2% are still immature.

The 2016 wet season, during which we lost only five days of harvesting due to heavy rain, did not have the same impact on production, as the 2015 wet season characterised by the El Niño. This phenomenon, on the other hand, eventually impacted 2016. This was a consequence of the driest months experienced in August, September and October 2015, leading to a drastic drop in production in the months of June to September 2016.

A very high crop was actually achieved in April and May but then in the second half of June the crop began to decline.

HOPL realised, however, four record months in 2016: April, and three in a row: October, November (the highest month ever with 55 435 tonnes processed) and December.

Our own crop average annual growth rate for the last 10 years has been 6.7%, and 2016 is the highest crop ever: being 5.3% better than in 2015.

In contrast to the record high production months, we experienced very depressed months in June, July, August and September.

The yearly trend of Fresh Fruit Bunches (FFB) spread almost corresponded to the ones recorded in the last five years, but increased on average only by 1.4% on the total yearly crop versus last year, and by 5.3% for our own crops. The months of June to September incurred a real drop, particularly compared to last year. This is quite unusual but typical of the delayed effect of the 2015 El Niño, which drastically impacted the total 2016 production.

Globally, the first half of the year showed a 0.2% increase in volumes compared to 2015, where the volumes were 10.4% compared to 2014. The second semester of 2016 had a 2.7% increase versus 6.1% for 2015. The actual values for 2016 remain the best ever.

Over the last three months, we have also seen the local farmers' volumes picking up, showing the same trend related to the 2015 weather impact. This is also because of the more attractive prices and, of course, our efforts in extension services seem to be having long-term results. The investments started in 2015 and continued in 2016, by amplifying the extension team; distributing tools, wheelbarrows, nets and fertilisers; and ensuring truck logistics for regular collection of fruit bunches. This resulted in November and December 2016 being the two highest months ever. However, total production was 3.7% below the previous year, due to the low production months from June to October.

The production of Crude Palm Oil (CPO) and Crude Palm Kernel Oil (CPKO) was better than in 2015, at 3.5% and 13.9% higher respectively.

Following the investments of 2015, the FFB transport fleet, enlarged in 2016, has been able to deliver all the bunches. New Volvo trucks have been acquired and new John Deere tractors have been received to replace the old fleet. It is also important to note that drivers receive training programs prior to being assigned their trucks or tractors.

Our fertiliser consultant, who made the usual two visits in 2016 to review our fertiliser requirements and application, contributed well by putting better organisation in place. This is giving lower container demurrage costs, better monitoring of the use of fertilisers improved deliveries and applications to the smallholders and enhanced nutrition status.

Our visiting agent performed his last contractual visit in the first semester of 2016. A new assignment is programmed for 2017 onwards, as we find it essential to maintain an external view on our plantation management.

The Hargy plantation, part of the Hargy Estates, first planted in the 1970s, has recently started to be replanted with the third generation of palms. Taking this into consideration, replanting operations are closely reviewed and adapted with improved practices, particularly in hilly and steep situations. This is to ensure the mitigation of erosion linked with water run-off, to keep the topsoil available for the good nutrition of the palm trees, and to get the right stand per hectare.

The three Hargy divisions put together cover 2 582 hectares, of which nearly 90% are mature. The average age of the palms is 14.6 years. Crop this year was 3.4% lower compared to last year.

By the end of the year, 101 hectares had been completed, using the 'contour replanting' layout, for the above mentioned reason, but also to make the harvesting process of taller palms easier, thanks to platform and path designs.

In order to add to those good management practices, the seedlings were all from the promising 'Super Family' seeds, originating from the local supplier, Dami. With the objective of reaching higher yields, the stand per hectare is now lower, in order to allow the palms to grow more easily in a larger space and receive better nutrition.

Continuing north for about 10 kilometres along the coast, we find Barema, considered as the other part of Hargy Estates, and as the third oldest plantation. Divided into two divisions, which cover a total of 1 900 hectares fully mature, it is the lowest lying area of *HOPL*. It has some challenging blocks that are subject to flooding during the heavy rain period, being either beside rivers or close to the sea.

The average age of the palms is 8.9 years.

Barema is the only estate to have performed better than last year in the four to five depressed months: +10.5%! This is probably partly linked to uneven flowering in the area, but it also surely demonstrates that drainage is the most important task for those low-lying areas, producing higher volumes when almost dried out.

Crop increased again starting in September.

Delivery of fruit bunches has largely been to Barema mill, but some volumes have also been sent to the two other mills, Navo and Hargy, depending on the performance of the Barema mill, which was still experiencing some interruptions this year.

The Navo Estate is located another twenty kilometres north, also along the coast, and consists of two plantations: Karla, separated into three divisions, and Ibana split into two divisions. They cover a total planted surface of 3 246 and 1 987 hectares respectively, of which only 758 hectares remain immature. The average age of both plantations is 8.4 and 11.5 years.

Regarding crop production, Navo, after the record month of April, suffered the greatest impact during all the lesser months: -25% in the period May to September (down 50% versus July 2015!).

Between 30 to 40 kilometres to the north, the newest areas planted are called Pandi Estates, where expansion started in 2010. The estates are composed of a set of eleven divisions spread out and grouped into two plantations called Bakada and Yanaswali, located north and south of the Ulawun volcano. They cover respectively 2 492 and 1 414 hectares, of which 1 310 hectares are still immature. In this area there are approximately 1 500 additional hectares still available for planting.

As maturity for plants comes more quickly in those fertile soils, it constitutes a very promising area, also planted with Dami 'Super Family' seeds since 2015.

Bakada and Yanaswali are still too young to be compared with last year, as reasonable crop production only started respectively in 2013 and 2015.

Taking into account the ongoing expansion areas on our own plantations and the status quo of the smallholders' areas, the pro rata share of the local producers in the total production of *HOPL* has declined by almost 1% per year in the last five years, and almost by 10% since 2003 (from 51.0% to 41.4% of total *HOPL* production).

2016 smallholders' production is -3.7% compared to the previous year, but still 14.3% higher than the average for the last 10 years, thanks to better management and follow-up in their fer-

Activity report by country

tiliser and maintenance practices, as well as the regularity and frequency of the harvesting rounds in their blocks.

We also observed the same very depressed months, which were for the local producers May, June, July, August and September, for the equivalent of -23.0% produced.

The month of April, just like for our own crop, was however a record. At the end of 2016, November and December were also record months.

The smallholders' average annual growth rate over the last 10 years has shown a 4.3% increase. However, when considering only the last five years the trend has been negative with an average of -0.2%.

Being a significant part of our production, we have analysed local farmers' data to see what impact our farm advisory service is having on their production. Unfortunately, we still do not have accurate hectares or year of planting data for each block, and the accurate location identification and mapping of all blocks is still ongoing. All we can show conclusively is that we have had a positive impact on the frequency of harvesting, particularly on the Land Settlement Scheme (LSS) blocks, and it is highly likely that without the intervention of our team and extension officers with the local producers, the total production would have been significantly less.

The 'Smallholder Extension' team, established in June 2014, now has a total of 25 employees, some of whom are former Oil Palm Industry Corporation (OPIC) officers. A program of field days and individual block visits is being implemented. The response from block holders is that they are very supportive of this initiative. They better understand, for example, the benefit of appropriate fertiliser application and over 2 000 tonnes of ammonium chloride were distributed to smallholders in 2016.

The Minister for the Department of Agriculture and Livestock (DAL) is still trying to pass a decree of law for the creation of a new inter-professional organisation for the oil palm business through the 'Oil Palm Industry Board Act'. The Palm Oil Producers Association has commenced legal action in the National Court to prevent this.

The Roundtable on Sustainable Palm Oil (RSPO) bonus payment to the smallholders for 2015 was PGK 1.6 million. It is agreed that the bonus payment will continue as a flat rate for the 2016 year, being paid in 2017.

The smallholder debt was at PGK 3.135 million as per December 31st versus an opening balance of PGK 3.641 million on January 1st 2016. With high prices and high crops the amount should reduce significantly before the next issue of fertiliser in 2017.

At the time of the RSPO Audit, conducted in February, a major nonconformity was identified in relation to the smallholders' land titles. The auditors questioned the legality and per se the validity of the LSS titles. These independent local producers were expected to prove their ownership, whereas it was the Government itself which had established these LSS in the 60s and 70s.

The RSPO advised that the PNG National Interpretation could be revised to provide guidance on resolving this problem. Management worked very hard to ensure that these non-conformances were closed out in August. However, the poor administration of land by the relevant government departments and agencies is a serious ongoing threat.

The ISO audit was conducted in February, at the same time as the RSPO audit for the whole of the *HOPL* activities. It was carried out by the usual audit team from British Standards Institution Indonesia (BSI Indonesia), which was supervised by the company, Accreditation Services International (ASI), causing a few more concerns during the assessment. The smallholders' non-conformance was eventually cleared by August, without having had to suffer an interruption in our certifications, until the next visit due in August 2017.

The three mills each have a theoretical throughput capacity of 45 tonnes per hour. Milling performance has been balanced, being well above 40 tonnes, with Navo reaching 43.19 tonnes, but only 40.41 tonnes for Hargy and just below 40 tonnes for Barema at 39.98 tonnes per hour.

None of the mills has been really stretched in volume, particularly during all the low crop period we had, from May to September.

On the other hand, the Oil Extraction Rates (OER) over-performed, compared to last year, reaching respectively 23.81%, 23.85% and 24.21% for Hargy, Navo and Barema.

A new methodology for the fruit quality assessment was put in place at the end of the year. The procedure still has to be fine-tuned to be better used as a tool, for both the mills and the estates, in order to improve the quality from the field up to the oil.

The new 'Chief Engineer', who started in December 2015, made effective improvements in the mill management standards throughout the year, and he is also reducing the source of oil losses in the mills. The 'Engineering team' is constantly fine-tuning this process to further reduce possible oil losses.

We eventually switched managers between Navo and Hargy mill and this is bringing about improvement on both sides. Barema has remained under the same manager since the starting date.

Shipping went smoothly with the new relationship being built with the signing of a freight contract with New Britain Palm Oil Ltd (NBPOL), which is now a Sime Darby subsidiary, and the new shipping line Stena Weco, which is offering a fleet of recent model tankers.

We did not get any Free Fatty Acids (FFA) penalties this year and there was only a small demurrage on a ship due to there not being enough oil to load. Unlike last year, the FFA were actually kept below 5% for all the shipments.

Twelve shipments were carried out in 2016, one less than in 2015, for a total of 108 607 tonnes of Crude Palm Oil (CPO), the loads comprising between 7 000 and 12 000 tonnes, with FFA ranging between 3.74% and 4.77% at loading.

The *HOPL* tank farm saw an eighth CPO tank built and commissioned by November, giving an additional capacity of 5 000 tonnes. This will allow *HOPL* to store more oil on shore, in order to be prepared for larger shipments, permitting better sea freight rates in the future and avoiding penalties on dead freight.

The old Empty Fruit Bunches (EFB) hopper has been removed to make space for the new tank and a new EFB loading bay has been built.

The use of this extra storage facility should allow *HOPL* to further reduce the number of shipments in the coming years, possibly to 11 shipments.

The total storage capacity on Hargy Mill site is now 16 450 tonnes for CPO and 3 200 tonnes for PKO.

During the second semester, the opportunity of the low cropping period was taken to do the deep storage tank cleaning work on the five tanks.

Hargy mill achieved a 23.81% average oil extraction rate and a 2.30% PKO extraction rate. It has been a long time since we have seen such a figure for Palm Kernel Oil (PKO) extraction. It is well above last year, which was already a record at 2.14%.

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The mill throughput was 40.41 tonnes per hour, being 1.08% lower than last year.

After having replaced steriliser 2 in 2015, steriliser 1 was replaced during 2016 from July to November. The back pressure vessel was also replaced, to further improve the conformance of the steam pressure at a higher and appropriate level. The team also took the opportunity to implement some modifications to ensure 100% use of the condensate. Annual throughput was, of course, affected by those downtimes.

Other works were done to improve oil recovery in the sludge pit, and the desander was put back in operation.

The new 1.5 megawatt multi-stage turbine alternator was installed in Hargy mill to increase the power supply and reduce diesel consumption. In terms of labour, an initiative was taken by the management to reduce overtime by 20% to 30%, depending on the monthly mill load.

Navo mill had a 23.85% oil extraction rate, showing a rising trend since 2015. Mill throughput was 43.19 tonnes per hour, better than last year's 42.01 tonnes. As from the end of 2015, no more kernel crushing is done in Navo mill. A roofed area extension was built in order to store more kernels sheltered from rain in truck bins before their transfer to the Barema kernel crushing station.

All major works planned for 2016 were related to modifications ensuring 100% use of the condensate: putting in place steriliser automation, resizing the steam coil and enlarging the sludge feeding pipe line. These tasks were completed by yearend and are giving satisfactory performance.

Special initiatives were also taken in 2016, to increase the performances, for example, reduce the use of the generator to 50% during the turbine operation period, reduce the overtime hours by 20% to 30%, and improve the life span of the chains and presses' parts.

For Navo the main weak point remains the fruit cage conditions and the maintenance of the rail tracks, so it was decided to organise a more convenient area for repairing the cages in 2017.

The composting system has been re-started on a small scale and the compost is being turned by an excavator.

EFB spreaders are also being loaded in the backyard of the mill to proceed to field application in blocks located close to the mill.

Barema mill operations were stopped for 14 days in 2016, in order to proceed with the maintenance and upgrade of the Reverse Osmosis water treatment plant.

A project schedule put in place in 2015 for the modification of the Barema mill was pursued in 2016, but the effluent treatment still did not give full satisfaction. Given the expected crop increases in the coming months, we await the quick implementation of expansion works to bring the processing back to 700 to 750 tonnes per day very soon. On a short time basis we expect the mill to run at full capacity of 900 tonnes per day (45 tonnes per hour x 20 hours per day). However, such a capacity means that the effluent volume will not be able to be handled by the current methane capture tank. An additional simple ponding system might be considered. We will have the new 'Director of Engineering' in Indonesia doing the studies and the calculations related to this investment.

In the meantime, the sterilisers have seen their bases reinforced on the supplier's account, getting all three running since March. We are now still awaiting final re-alignment to be fully operational. For this reason, the throughput of the mill is still not more than 500 to 600 tonnes per day.

Despite this, the Barema mill had a throughput of 39.98 tonnes per hour. The oil extraction rate has been 24.21%.

All palm kernels from Navo mill were transferred to Barema mill for crushing. There were even more Navo kernels than Barema's own kernels, due to the low mill throughput this year. The total PKO extraction rate, as at the end of December 2016, was 1.99%.

In April, the minimum wage rate increased in general by 3%. Benefiting from the exemption for agricultural companies, the minimum wage increased for our activities to PGK 2.47 per hour, as expected and previously announced. Every year, *HOPL* has to apply for this exemption, presenting the valuable argument that we are providing housing, water, power supply and medical care for our employees.

Promotions and pay increases higher than 3% had to be within an overall increase in salaries and wages of 5%. A new appraisal system has been developed and this will be rolled out in 2017.

Harvesting bunch rates and other upkeep piece rates were also increased by 3% in April. In relation to this particular point, the management is still working on the improvement in the wages being standardised by job category and grade, and to be the same in all our plantations.

Worker attendance in plantations and mills remains a chronic issue, and the peak season is the second issue when extra harvesters have to be employed for a few weeks. This also means that we constantly have to organise training sessions and keep our labour up to standard.

Twice a month, on a Friday and a Monday, payday attendance remains very poor. The employees are still paid through direct bank deposit, which is a great security gain. We managed to get an agreement with the banks to notify the payment by individual Short Message Service (SMS) to the employees.

In light of our expansion activities and to ensure that *HOPL* is providing quality healthcare services to our more remote employees, we proceeded with the engagement of a second company doctor, to have the northern part of our development independent in terms of medical care. The doctor will be based in Navo at our Atata Clinic, with three of our other clinics in this area coming under his responsibility.

There have been continued improvements to company medical equipment. International SOS (Niugini) Ltd (ISOS), which is specialised in emergency and remote healthcare, visited us this year to review our medical facilities. A report has been received and the recommendations are being implemented to improve the capacity, quality and delivery of health services in *HOPL*.

It is worth noting that, as in all Papua New Guinea territories, we experienced a high rate of tuberculosis this year.

A company lawyer has been engaged and is working very well to resolve outstanding court cases. Our new recruit is also due to be appointed as company secretary and will be responsible for ensuring the company records are kept up to date in terms of administrative files, court cases, etc.

For special needs related to important cases or cases needing to be dealt with in the capital, we will continue to use the services of Gadens Lawyers, since December merged with Dentons Lawyers, and still based in Port Moresby.

The internal audit manager has a full team of four people now, and is working well. Regular contact with the Indonesian team is made to ensure continuous improvement and standardisation of the procedures. The team reports directly to the general manager and gives reports to the audit committee, which met in April and October this year.

Good progress was made with the 2016 audit program, all the audit reports being sent to *SIPEF*, also including minor issues on inventory, payroll and employee payments.

Some processes, such as the employee database update and tracking employee productivity, are ongoing. They are checked regularly by managers so that they are accurate and up-to-date to mitigate the risk of fraud or error.

The information technology (IT) department was taken over by the former IT assistant, who is now in charge of a team of nine. Contacts with the new chief information officer (CIO) in Belgium are good and the general status of IT in *HOPL* is satisfactory.

Various subjects were handled by the team, including software maintenance, renewal of licences, checkpoint firewalls, ERP Lintramax linked with WinHR and staff training.

The communication network supporting Lintramax is working well and access to the internet and television has improved, although we remain dependent on the reliability of external providers.

The environment and sustainability manager now has a team of three assistants and one driver. The team faced serious challenges this year, as the usual certification body British Standards Institution (BSI) had an audit applied on their audit procedures during the *HOPL* recertification in April this year. The non-conformances on the estates were easily cleared up. The main prob-

Activity report by country

lem remained with the certification of the smallholders, where a large number of people were not able to show their land titles, a situation that has been unchanged for years.

We eventually received full certification of our local producers again, but will have to monitor the situation closely in the future. For next year, we have been able to postpone the audit until August, away from the wet season in the first quarter, which will make it all much easier to deal with.

The team is still supported by an Australian consultant, who has been assisting *HOPL* with audits since the beginning of the certification, and by the sustainability team of Medan Office.

The operational management is further put under the authority of the experienced Graham King, who works and resides in Papua New Guinea for many years. After a number of retirements and changes in expatriate positions in 2015, with three departures and two recruitments, staffing for 2016 stabilised at 20 individuals. During those two years, the average age was slightly reduced and we hope to continue to employ all of these personnel for longer than before. The current average length of stay with *HOPL* has also been improved to reach four to five years. The remote location certainly remains a constraint on keeping our staff longer, but we are continuously improving the telecommunications technology and providing more local entertainment facilities. Another positive sign is that more and more spouses are choosing to stay on site, with their children, and a small expat community is really building up smoothly.

These people contribute directly or indirectly to the operations and are required to maintain our international standards, especially as we are expecting to increase our production in the coming years.

We are becoming experienced with dealing with the lengthy procedures to obtain a work permit, allowing us to speed up the process when required.

The human resources (HR) manager, with us now for two years, with his past good experience in HR management in Australia, has brought new ideas and a lot of improvements in people management.

The personnel database has been built into the WinHR database and allows us to better control employee turnover. All worker changes are followed up and a project is in place to be able to link the database with Lintramax by next year.

During 2016, a consultant was hired to deliver a course to 20 of our selected senior staff, with the aim of changing their management style from purely operational to being more in a leadership mode. This Emerging Leadership Training Program is a step forward in boosting *HOPL*'s performance.

Maritime Security Awareness Training has been given to 48 security guards, by two trainers from the Papua New Guinea Port Authority.

A four-day session of First Aid Training has been delivered to 60 employees from the various departments, with the participation of the Red Cross Society.

The community affairs manager, recruited in 2014, is leading the newest department at *HOPL*. It was created in 2015 with the first objective of enhancing the connection and communication with all the smallholders, as well as the landowners in our area. It is actually made up of a mixture of service and production sections.

The agricultural advisory services constitute the main staff team of 25 people, who visit the producers to deliver extension services and follow up on the third party fruit production. They are looking after the Land Settlement Scheme (LSS), the Village Oil Palm (VOP) and the independent producers with on-site visits and block inspections. They are almost replacing the past Oil Palm Industry Corporation (OPIC) services. One of the main focuses of the team has been to encourage local producers to harvest every ripe bunch each fortnight. Over 400 blocks that were unharvested in 2014 have been now brought into production.

Land title ownership is also a matter of importance to be checked over the long term, in view of our RSPO certification. Another important task has been the fertiliser deliveries and the demurrage cost control, with more than 270 containers to be unloaded and distributed in time.

Security is also the responsibility of this department, organised with 4 executive staff, 12 junior staff and more than 250 security guards.

The Geographic Information System (GIS) and mapping work, is another important topic, linked with land ownership of the communities. The system used is MapInfo, and experiences have been shared with the GIS Indonesian team, in order to standardise the method of working with and producing maps such as replanting maps and yield maps of our own activities, as well as for local producers.

A major achievement this year was to obtain funding through Australian Government aid, for the construction in 2017 of a primary school in our extreme northern development area Sabalbala, to avoid having to send children in the future to the Navo School located around 30 km south. From a corporate perspective, this is another improvement for maintaining our worker stability, when based in remote areas. In the same vein, we have started to set up a chain of small trade stores, built in movable sea containers, to prevent people wasting time by travelling unnecessarily to town.

Community affairs took over the road fleet, a section that was previously looked after by the plantation department. This was a natural choice, as roads are our own concern, but they are also very important for the local farmers and the local communities surrounding our estates. This centralised coordination of harvesting vehicles, as well as the road maintenance fleet, has led to the generation of some reasonable savings.

The head of plantations was confirmed in his new position in early 2016. Under his supervision, all the plantation cadets, expatriate and national employees, are completing their training modules to a high standard. One of his office tasks is to produce a new Best Management Practices booklet, by compiling former useful paperwork, such as internal memorandums and field circulars.

The two Belgian agronomist cadets are performing well and have been promoted to more responsible positions, bringing continuous improvement to the plantation management. One, as divisional manager, is also in charge of special projects. The other, as company agronomist, is contributing to the improvement of the field performance, particularly with more efficient fertiliser application, in cooperation with the fertiliser consultant, who has been working for us since 2011 and visits *HOPL* twice a year.

Improvements have been made on various levels: a new Standard Operation Procedure (SOP) on fertiliser storage and application, as well as an Empty Fruit Bunches (EFB) and Palm Kernel Expeller (PKE) application have been put in place; and sampling was organised for a fruit quality analysis on reception at the mill. Plans for future improvements include: focussing on the awareness of the rate and application method for fertiliser, especially with the local farmers; and computerised follow-up of the applications on a block basis is being developed.

Pest and disease management is also this company agronomist's responsibility, as well as engaging in teamwork with internal services, such as the environment and sustainability department, and external services like the Oil Palm Research Association (OPRA), and following up on agronomic trials.

The chief engineer started in December 2015, and we have rapidly noted excellent performances of the mills, achieving good Oil Extraction Rate (OER) and also better Palm Kernel Oil Extraction Rate (PKOER) figures.

The young manager is ready to question all that was done before and he will bring progress to the team, as he is constantly fine-tuning the process to reduce oil losses.

The improvement work done by the team is fully appreciated, and we hope it will continue next year, with more fruit to process.

The global oil quality result is obviously a combination of the efforts of estates and neighbouring farmers and mills, but the FFB quality is rated while passing the weighbridge to make sure the origin of the Free Fatty Acids (FFA) figure is identified.

Fortunately, shipping went well due to the new contractual relationship with NBPOL/Sime Darby and the new shipping line Stena Waco. We did not incur any FFA penalties this year and were charged only a small demurrage on a ship not having enough oil to load.

The manager of all the vehicle workshops (VWS) took over from his retired predecessor, in the last quarter of 2015. We managed to organise a safe handover, since this is indeed a key position, which takes responsibility for an important fleet of Volvo trucks, which are essential in the peak harvest period, on top of the other nearly 500 road and field vehicles and/or equipment.

We recruited a new Caterpillar superintendent in December 2016, in order to complete the team going forward in consideration of the vehicle fleet growth.

Global Positioning System (GPS) tracking has been introduced to ensure the correct use of 25 company vehicles. Further development with GPS and automation of the weighing scales on fruit trucks remains a priority for automated data recording, to be developed in 2017.

The new 'stores and procurement manager' took over from his predecessor in the last quarter of 2015, leaving his previous IT manager position, which was handed over to his former assistant. The stores management has really improved in the last two years, and he has continued the job in the same line, mainly focusing on reducing the slow moving stock and getting better prices but only with better quality.

In those remote conditions, low prices do indeed not always translate into lower operating costs. The objective for 2017 onwards, with the agreement of the other departments, is to get competitive pricing on spare parts and consumables that does not compromise quality.

Collaborative work has been undertaken in the VWS and staff have fully reviewed stock levels and supply agreements. Procurement processes have been improved. A procurement specialist was temporarily engaged to review VWS stocks and provide advice on stock holdings and suppliers. The recommendations have started to be implemented, with already significant cost savings.

There is still a need to review the engineering procurement from Malaysian suppliers, in cooperation with our chief engineer, but this will be further discussed in 2017 with the new engineering director engaged for the group, and based in Indonesia.

We confirm continuous improvement and better performance in the finance department, since the Belgian manager arrived in June 2016. After the 2015 new implementations, particularly related to the new ERP Lintramax modules, for payroll, smallholders' purchasing, estates and mills, general ledger, fixed assets and the budget setup for 2016, done by the late Dutch manager, the team continued in 2016 to improve the standard of financial reporting, with the support of *SIPEF* Headquarter's finance team in Belgium.

The purchasing system has been strengthened by requiring all payments to contractors and service providers to have purchase requests and purchase orders as well as contracts in place for each and every payment.

The next project, related to three departments, will be the introduction of a computerised maintenance management system (CMMS) for both the VWS and mills.

The construction manager has been with us for one and a half years and has proven to be able to introduce the latest techniques in house construction, reviewing designs and materials.

The planned move to steel framed housing has been done satisfactorily, and was completed in time for 2016. All new housing construction is now in steel frame with light concrete panels sourced in Indonesia. The system seems to be well-accepted by the workers, since the comfort in terms of insulation and cleanliness is far better than before.

A new sewerage kit has been installed and is adequately operational at Ibana compound. It will gradually replace the old septic systems, which were prone to flooding during the rainy season.

Housing maintenance has been well controlled centrally by the department.

Solar lighting is being trialled for new labour housing.

The Bialla International Primary School (BIPS) is doing well, despite the absence for three months of its Australian principal who was being treated for tuberculosis.

From 126 children enrolled last year, we currently have 146 students, and this number is expected to increase further, with new young staff members establishing their families on site.

The older children (approximately 13 years old) go to boarding facilities in Kimbe and that works well for our local staff.

Activity report by country

GALLEY REACH HOLDINGS LTD

As previously mentioned, considering the limited strategic importance for *SIPEF* of the rubber activities in Papua New Guinea, consisting exclusively of the rubber plantations of *Galley Reach Holdings Ltd* (*GRH*), it was decided in September 2014 to proceed with the sale of the company.

36 concessions of land, the oldest one dating from 1906, were held in the name of the three local subsidiaries of *GRH* (British New Guinea Development Ltd, Kanosia Estates Pty Ltd and Veimauri Plantations Pty Ltd). The total surface of 15 257 hectares were bought by *SIPEF* in the 1980s and was effectively sold in 2016.

While the sale was in process, *GRH* operations continued as usual. After a long negotiation process, having signed a 'Heads of Agreement' on 11th February 2015, *SIPEF* eventually signed a 'Sale of Shares Agreement' with a Malaysian buyer on 15th February 2016, whereby 100% equity Interest in *GRH* changed hands.

To the best of our knowledge, the new investor intends to continue the rubber activities, but also to diversify into coconut oil production. At his request, at the time of handover, *SIPEF* managed to have most of the local staff and employees retained, therefore avoiding social issues for the remote region.

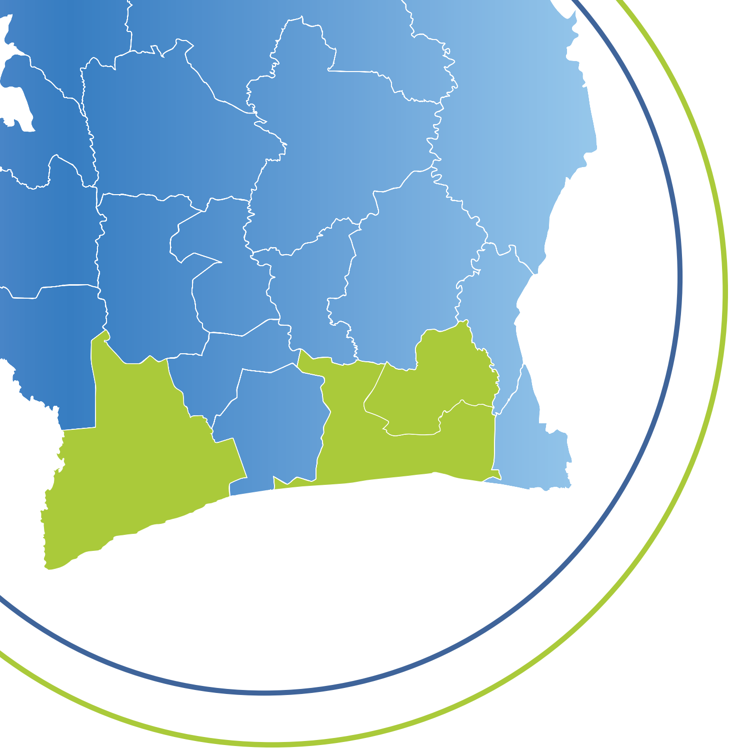
From February on, we had to ensure that the conditions precedent continued to be met. The transaction became effective on 1st June 2016, when, with the completion of the sale, the purchaser took over 100% of the daily management. Financial corporate filings were still done by *SIPEF* during the second semester, in order to gain the approval of the Government authorities on the change of foreign ownership.

After having received a first instalment at completion, the purchase price is to be paid by deferred payment scheduled over four years. It is secured by a corporate guarantee from the buyer in favour of *SIPEF* and by a mortgage over two strategic land titles.

At handover, only 2 520 hectares were still being tapped, on a total of 3 465 planted hectares.

SIPEF continued to export containers up to 31st May 2016, thereby recovering most of the additional expenses since February. Thanks to this, until the end of May *GRH* contributed 1 007 tonnes to the rubber production of the group, sourced from our own plantations and including the smallholders' purchases. Compared to 883 tonnes produced in the same period last year, this 1 007 tonnes represented an increase in production of 14.04%.

Activity report by country



IVORY COAST

The country has kept up a decent growth rate of 8%, and ambitious investment programmes are still in progress with funding from the International Monetary Fund or the World Bank. Large-scale infrastructure projects such as roads, ports, electrification, improvement of water supply networks and telecommunications are still in progress, but are often delayed.

The political and social situation has remained stable but fragile, with many demands resurfacing and provoking protest movements in certain trades and professions.

Agricultural production suffered a serious impact from adverse weather conditions, causing shrinking production volumes in the main activities, particularly cocoa. As prices of agricultural commodities showed no improvement, they were unable to offset the impact of the downturn in the country's production.

Nevertheless, the context remains very favourable for investors, with many new businesses being set up in the retail, service, farming and construction industries.

SIPEF-CI SA

Since the end of 1996, *SIPEF* has invested in a palm oil operation in Ivory Coast, which was acquired from the privatisation of the State interests in that sector. In 2004, the majority interest was sold to one of the customers that buy palm oil in Ivory Coast, the firm United Oil Company (UOC), which also took on the management of the business as of 2008. *SIPEF* remained a minority shareholder with a 32% stake.

Since *SIPEF* was no longer involved in the daily management of the company and had no further commercial interest in the production of palm oil in Ivory Coast, negotiations were conducted with majority shareholder UOC to sell this 32% stake to them.

Those negotiations were finalised at the end of December 2016 with the signing of a notarial agreement to hand over the 32% interest in SIPEF-CI with immediate effect, for a contractual price of KEUR 11 500 (USD 12 098), representing a capital gain of KEUR 8 525.

As a result of the deferred payment, which will be staggered until 2021, and the discounting of the future receivables, a capital gain of KUSD 1 819 is recognised in the financial statements of 2016, and the further realisation of the capital gain will coincide with the receipt of the deferred payments. Selling this non-core activity will allow *SIPEF* to commit its efforts and financial resources entirely to its palm oil activities in the Far East.

PLANTATIONS J. EGLIN SA

2016 was a complex year for *Plantations J. Eglin SA*. As far as bananas are concerned, we started the year under difficult weather conditions due to a persistent and harsh Harmattan, a dry cold wind originating in the Sahara. At the same time of the financial year, we went through major changes in our agronomic management staffing, which was seriously disrupted by a series of both expected and unexpected departures. The whole routine and professionalism with which we were used to operating were destabilised, and the effects made themselves felt immediately in the sector of fresh fruit. We fell short of our targets, and for several weeks the quality of our fruit did not come up to the standard which our customers are used to.

In May, as had been planned the previous financial year, a new production manager joined the team, and by the end of 2016 the management team of the plantation had become properly organised.

During the second half of the year, we witnessed a significant improvement in the quality of our products, which once more attained a perfect standard, although unfortunately we were unable to make good the deficit in terms of volume that had accumulated over the first six months.

Ultimately we closed the financial year with 24 991 exported tonnes of bananas, which is slightly up on the previous financial year (+3%) but still 15% short of the budgetary target which we had set. The impact was felt primarily at the Motobé plantation.

The expansion at Azaguié continued as planned, with just 60 hectares remaining to be planted in 2017 of the 200 hectares of expansion that were planned at that site. The new packing station, of which the structure and equipment were imported entirely from Europe and Colombia, became operational in February 2016. The last major investments at that site will be completed in the first half of 2017 with the creation of a water reservoir and the construction of accommodation for our workers.

In theory, and if we maintain the targets that have been set, the next stage will be to continue our development plan at Motobé with an expansion of 150 hectares in addition to the 220 hectares already being cultivated. However, it is above all important to secure our agronomic and human potential at that site.

At the Agboville site, where the landholdings have been optimised, we maintain the original areas.

At the end of 2016, *Plantations J. Eglin SA* had an area of 694 hectares planted with bananas, and this is expected to reach 920 hectares by 2020.

We finalised the "Rainforest Alliance" certification process for our banana operations to complement our existing GLOBALG.A.P. standard. Thus we have an ethical, commercial, food safety and environmental standard that perfectly measures up to market requirements and the values of the *SIPEF* group.

New applications for European Union subsidies under the 'Banana Accompanying Measures' (BAM) were submitted and approved, and the targeted activities are the improvement of the living conditions of workers. With internal co-financing, projects for the refurbishment and construction of new housing are in progress, primarily in Azaguié (new buildings) and to a lesser extent in Agboville and Motobé (refurbishment). Health, hygiene, education or, in other words, the 'living conditions', remain important factors in the fruit sector. It should be pointed out that our banana business still represents the best source of income and social benefits for the agricultural workforce in Ivory Coast.

Christophe Péré
general manager
Plantations J. Eglin SA

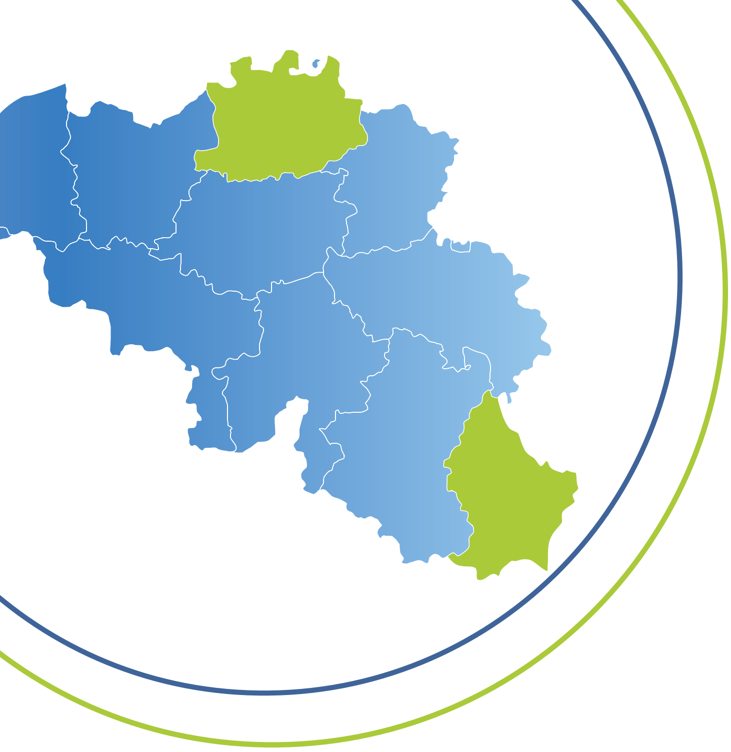
In April 2012, I joined the SIPEF group at the head of its Plantations J. Eglin SA branch based in Ivory Coast. My aim was to establish the conditions that would facilitate and boost the company's development. We launched a programme to expand our banana plantations by an additional 40% of planted acreages in five years, coupled with an extension of our product range of ornamental flowers through the development of three new foliage varieties. Our commitment centres on the three pillars of sustainable development, which are environment, society and economy, in line with the vision of the SIPEF group. Obtaining the GLOBALG.A.P. and the "Rainforest Alliance" certifications vindicates us in our wish to practise a sustainable agriculture. The values of the SIPEF group in the areas of human rights, working conditions, environmental impact and the fight against corruption are fundamental values, which we embrace and enforce by promoting them. The future is being prepared today and we are aware of our responsibility to future generations. Quality is our priority.

Activity report by country

The "door-to-door" export logistics for our fruits remained highly professional with two weekly sailings from Abidjan and correct transit times to the ports of Senegal, France, Belgium and Britain from where we supply to the different ripening facilities. Pooling our volumes together with other producers that have the same organisational structures as ours allows us not only to optimise the quality of the services and products we use, but also our overall productivity. Surely we have to maintain a reasonable production cost in a European market where all producers are constantly competing with each other. The African subregion, with its growing consumption and imports, allows us to enhance our various specifications.

The average selling price of bananas, FOB Europe, closed at EUR 457 per tonne, or 4% down on the previous year due to the quality effect at the beginning of the year. Regional sales in Africa remained at the same level of revenue, or FOB EUR 412 per tonne.

Horticultural activity in 2016 remained stable compared to the previous financial year, and we reported a general growth in production and export volumes in our three activities, which are pineapple flowers, decorative foliage and lotus. There is potential, and we can and must optimise that potential by improving productivity. Our horticultural activity with few planted areas, does not require much investment, but a highly intensive technology to monitor production. With the organisational structure and the measures taken, the margin should improve. Logically, the contribution of this activity should thus be far greater than to cover the general expenses of the company.



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 2016 the *SIPEF* group controlled 99.4% of the company. *SIPEF* aims, in the future, to also acquire the remaining shares that are still in public hands.

ASCO NV – BDM NV

Insurance group *ASCO-BDM* mainly targets maritime and industrial insurance through brokers. *BDM NV* (*BDM*) is an underwriting agent offering risk covers in niche markets on behalf of insurer *ASCO NV* (*ASCO*) and a number of major international insurers. The sustained collaboration of *BDM* and *ASCO* within the same group creates considerable benefits; it assures *BDM* substantial underwriting capacity and provides *ASCO* with a powerful commercial instrument.

Thanks to recruiting a "Chief Commercial Officer", along with some technical specialists, in 2016 *BDM* was able to focus further on marketing "Property & Casualty" niche products through medium-sized insurance brokers. In "Marine", commercial campaigns further increased our market share in "Yachts & Pleasure Craft".

The "Property & Casualty" portfolio grew by 3% in 2016. A strong growth in our niche insurance branches, such as "Engineering" (+13%), became somewhat tempered by a deliberate reduction of our share in more volatile business.

The "Marine" portfolio again saw a decline, albeit far less pronounced than in 2015, mainly resulting from the reorganisations of previous years, but also because of the fall in raw material prices and the soft market in "Cargo" and "Hull". In late 2016, we were noting a cautious recovery in premium volume.

The overall premium volume fell from EUR 54 million in 2015 to EUR 53 million in 2016. The net result of EUR 0.1 million remains at the same level as in late 2015.

ASCO gross premiums rose by 4% in "Property & Casualty", but fell by 37% in "Marine". The latter is the consequence of past reorganisational actions over the years, but simultaneously unprecedented good technical results were seen in this segment. Despite a disappointing technical result in "Auto" and even after setting off the *ASCO* share in the 'terrorism pool' (cf. the terrorist attacks of 22.03.2016), in late 2016 *ASCO* recorded its best technical result in years.

Very good investment results and well-controlled overheads contributed towards a net profit of EUR 1.1 million, compared to a net profit of EUR 0.2 million in 2015.

In 2017 in "Property & Casualty" we intend to continue developing our commercial network with small and medium-sized insurance brokers. More than ever, thanks to direct contact with our product specialists, we want to profile ourselves as partners to insurance brokers in those domains where we are able to offer specific expertise.

Group production (in tonnes)

Total production of consolidated companies (is not equal to the share of the group)

	2016			2015		
Product	**Own**	**Outgrowers**	**Total**	**Own**	**Outgrowers**	**Total**
Palm oil	**246 121**	**51 584**	**297 705**	**238 548**	**52 359**	**290 907**
Indonesia	177 261	2 959	180 220	174 726	2 681	177 407
Tolan Tiga group	63 955	903	64 858	69 297	280	69 577
Umbul Mas Wisesa group	37 221	344	37 565	27 789	658	28 447
Agro Muko group	76 085	1 712	77 797	77 640	1 743	79 383
Papua New Guinea	68 860	48 625	117 485	63 822	49 678	113 500
Palm kernels	**40 067**	**612**	**40 679**	**38 996**	**570**	**39 566**
Indonesia	40 067	612	40 679	38 996	570	39 566
Tolan Tiga group	16 160	209	16 369	16 664	65	16 729
Umbul Mas Wisesa group	6 108	70	6 178	4 069	158	4 227
Agro Muko group	17 799	333	18 132	18 263	347	18 610
Palm kernel oil	**5 942**	**4 365**	**10 307**	**5 145**	**3 901**	**9 046**
Papua New Guinea	5 942	4 365	10 307	5 145	3 901	9 046
Rubber	**9 017**	**175**	**9 192**	**9 622**	**447**	**10 069**
Indonesia	8 185	0	8 185	7 946	0	7 946
Tolan Tiga group	6 339	0	6 339	6 283	0	6 283
Agro Muko group	1 846	0	1 846	1 663	0	1 663
Papua New Guinea	832	175	1 007	1 676	447	2 123
Tea	**2 940**	**0**	**2 940**	**2 726**	**0**	**2 726**
Indonesia	2 940	0	2 940	2 726	0	2 726
Pineapple flowers ('000 units)	**569**	**0**	**569**	**497**	**0**	**497**
Ivory Coast	569	0	569	497	0	497
Bananas	**24 991**	**0**	**24 991**	**24 286**	**0**	**24 286**
Ivory Coast	24 991	0	24 991	24 286	0	24 286

Group planted area (in hectares)*

Total planted area of consolidated companies (is not equal to the share of the group)

	2016			2015		
Product	**Mature**	**Immature**	**Planted**	**Mature**	**Immature**	**Planted**
Oil palms	**49 324**	**11 312**	**60 636**	**47 471**	**10 849**	**58 320**
Indonesia	38 046	8 969	47 015	37 144	7 618	44 762
Tolan Tiga group	12 354	2 393	14 747	12 020	2 754	14 774
Umbul Mas Wisesa group	9 618	87	9 705	9 502	144	9 646
Agro Muko group	15 851	1 526	17 377	15 622	2 197	17 819
Musi Rawas group	223	4 963	5 186	0	2 523	2 523
Papua New Guinea	11 278	2 343	13 621	10 327	3 231	13 558
Rubber	**4 606**	**1 720**	**6 326**	**7 680**	**1 852**	**9 532**
Indonesia	4 606	1 720	6 326	4 639	1 610	6 249
Tolan Tiga group	3 479	1 125	4 604	3 571	972	4 543
Agro Muko group	1 127	595	1 722	1 068	638	1 706
Papua New Guinea	0	0	0	3 041	242	3 283
Tea	**1 704**	**40**	**1 744**	**1 721**	**56**	**1 777**
Indonesia	1 704	40	1 744	1 721	56	1 777
Pineapple flowers	**23**	**19**	**42**	**23**	**19**	**42**
Ivory Coast	23	19	42	23	19	42
Bananas	**630**	**60**	**690**	**570**	**60**	**630**
Ivory Coast	630	60	690	570	60	630
Others	**0**	**0**	**0**	**0**	**58**	**58**
Papua New Guinea	0	0	0	0	58	58
Total	**56 287**	**13 151**	**69 438**	**57 465**	**12 894**	**70 359**

* = actual planted hectares

Group planted area (in hectares) *

Total planted area of consolidated companies (is equal to the share of the group)

	2016		
	Planted	**% of interest**	**Group's share**
Oil palms	**60 636**	**79.64%**	**48 292**
Indonesia	**47 015**	**73.74%**	**34 671**
Tolan Tiga group	14 747	86.66%	12 780
PT Tolan Tiga	8 021	95.00%	7 620
PT Eastern Sumatra	2 911	90.25%	2 627
PT Kerasaan	2 295	54.15%	1 243
PT Mukomuko Agro Sejahtera	1 493	85.74%	1 280
PT Timbang Deli	27	36.10%	10
Umbul Mas Wisesa group	9 705	94.43%	9 164
PT Umbul Mas Wisesa	7 048	94.43%	6 655
PT Toton Usaha Mandiri	1 135	94.43%	1 072
PT Citra Sawit Mandiri	1 522	94.43%	1 437
Agro Muko group	17 377	44.93%	7 807
PT Agro Muko	17 377	44.93%	7 807
Musi Rawas group	5 186	94.84%	4 919
PT Agro Kati Lama	2 912	95.00%	2 767
PT Agro Muara Rupit	1 425	94.43%	1 346
PT Agro Rawas Ulu	849	95.00%	807
Papua New Guinea	**13 621**	**100.00%**	**13 621**
Hargy Oil Palms Ltd	13 621	100.00%	13 621
Rubber	**6 326**	**71.57%**	**4 528**
Indonesia	**6 326**	**71.57%**	**4 528**
Tolan Tiga group	4 604	81.54%	3 754
PT Bandar Sumatra	1 139	90.25%	1 028
PT Timbang Deli	739	36.10%	266
PT Melania	2 726	90.25%	2 460
Agro Muko group	1 722	44.93%	774
PT Agro Muko	1 722	44.93%	774
Tea	**1 744**	**90.25%**	**1 574**
Tolan Tiga group	1 744	90.25%	1 574
PT Melania	1 744	90.25%	1 574
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	**69 438**	**79.39%**	**55 125**

* = actual planted hectares

Age profile (in hectares)

	Oil palms						Rubber		
Plant year	Tolan Tiga group	Umbul Mas Wisesa group	Agro Muko group	Musi Rawas group	Hargy Oil Palms	Total	Tolan Tiga group	Agro Muko group	Total
2016	321	0	419	2 756	231	3 727	257	62	319
2015	1 050	87	725	1 407	744	4 013	234	58	292
2014	942	32	779	800	1 369	3 922	156	75	231
2013	655	21	1 018	223	1 092	3 009	208	205	413
2012	1 429	201	719	0	1 446	3 795	187	195	382
2011	754	756	26	0	876	2 412	169	141	310
2010	546	1 405	304	0	618	2 873	141	108	249
2009	221	1 698	492	0	253	2 664	55	57	112
2008	375	1 961	216	0	197	2 749	95	117	212
2007	302	2 165	301	0	1 735	4 503	249	173	422
2006	619	361	745	0	853	2 578	180	188	368
2005	649	1 004	445	0	173	2 271	292	0	292
2004	133	0	688	0	160	981	219	0	219
2003	1 161	0	102	0	148	1 411	265	0	265
2002	470	0	63	0	331	864	190	0	190
2001	561	0	544	0	901	2 006	92	0	92
2000	448	0	1 071	0	392	1 911	339	78	417
1999	568	0	1 818	0	608	2 994	149	83	232
1998	467	0	2 325	0	627	3 419	256	31	287
1997	792	0	936	0	130	1 858	213	151	364
1996	911	0	462	0	270	1 643	181	0	181
1995	312	14	155	0	328	809	177	0	177
1994	482	0	684	0	139	1 305	97	0	97
1993	332	0	209	0	0	541	112	0	112
1992	242	0	106	0	0	348	0	0	0
Before 1992	5	0	2 025	0	0	2 030	91	0	91
	14 747	**9 705**	**17 377**	**5 186**	**13 621**	**60 636**	**4 604**	**1 722**	**6 326**
Average age	**10.79**	**7.75**	**14.11**	**0.71**	**8.64**	**9.91**	**11.55**	**8.03**	**10.59**

SIPEF: Responsible and Active

SIPEF is approaching its centenary in 2019, and is looking confidently into the next century. This exceptional longevity is due to its strong values as a responsible economic actor, its active pursuit of operational excellence and its maximisation of positive impacts for all stakeholders. The wealth of experience accumulated by *SIPEF* is further enriched by an open attitude to change.

Over the years, *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 operations and management to achieve excellence.

In 2014, the board of directors of *SIPEF* endorsed the *SIPEF* "Responsible Plantations Policy" (RPP). This top level group policy combines in a single document the key commitments and guidelines for *SIPEF* to maintain its position as a responsible actor in the landscapes where it operates.

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. It can be revised to reflect the deepening of existing commitments, the changes in standards and practices, and to ensure that the *SIPEF* RPP principles and goals can be met by all operations.

At the end of 2016, the *SIPEF* board included the following three significant changes in the RPP:

- The scope of the policy is more detailed, covering the operations managed by *SIPEF* or in which *SIPEF* has a controlling stake, as well as scheme smallholders and associated smallholders delivering to *SIPEF*.
- An explicit no deforestation commitment has been introduced, made possible by the convergence of the High Carbon Stock (HCS) Approach and the HCS Study. The new guidelines and procedures give plantation companies the opportunity to use a commonly accepted methodology effectuating no deforestation pledges. A precautionary approach will be used while the HCS convergence working group is developing its reference documents.
- The herbicide paraquat has been fully phased out of our operations, as per plans made in 2015, and will no longer be used in any operation controlled by *SIPEF*.

Progress continues to be made on pledges included in the *SIPEF* RPP.

The reduction of the greenhouse gas footprint of our palm oil mills is a constant focus.

Five of our mills were equiped with methane capture mechanisms prior to 2016. During the year, various major projects were implemented and are close to completion at the end of the year.

In our Perlabian mill the construction of the latest generation methane capture mechanism is complete, and ready for commissioning in the first weeks of 2017. Similar to the Umbul Mas Wisesa, Mukomuko and Barema mills, the effluent treatment reactor replaces a covered lagoon.

Mukomuko palm oil mill has started the construction of the first biogas electricity generator installed in a *SIPEF* mill. Commissioning will take place in January 2017. This generator will supply electricity to the national grid, contributing to power self-sufficiency in the Mukomuko area.

Going further than methane capture, in Bukit Maradja a composting plant was commissioned at the end of 2016, and the first batch of compost is expected at the beginning of 2017. This aerated bunker composting plant is designed to reach zero discharge, processing the palm oil mill effluent together with the Empty Fruit Bunches (EFB) into nutrient-rich compost, which replaces part of the inorganic fertiliser used on the estates. The specificity of this system is that it does not produce methane, as it maintains aerobic conditions throughout the composting process.

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. In Papua New Guinea, *Hargy Oil Palms Ltd* supported a new scientific expedition in Lake Hargy, a caldera lake with still undiscovered biodiversity in the Nakanai range. The 2016 expedition recorded new species of rodent, frog and tarantula, and also collected freshwater jellyfish.

The *SIPEF* RPP confirms our commitment to two recognised standards to demonstrate our efforts and achievements, as well as to help us address shortcomings and identify opportunities for improvement. The Roundtable on Sustainable Palm Oil (RSPO) guides our oil palm operations, and the Sustainable Agriculture Standard, certified by the Rainforest Alliance is our standard for tea, bananas and rubber.

SIPEF has steadily made progress in preparing its operations for the strict third-party audits, which guarantee the integrity of certification standards.

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 2016, all eight *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, fully traceable to the field.

The oil palm projects still in development will be certified as soon as their mills are commissioned, or as the palmtrees reach maturity if we cannot build our own mills.

Our banana plantations in Ivory Coast, *Plantations J. Eglin SA*, and our Cibuni tea estate in Indonesia, were certified by the Rainforest Alliance in 2016. This is a major achievement for both operations, testament to the commitment of their management and their entire workforce.

The year 2017 will be a very important one for *SIPEF*, as the rubber operations in Indonesia are preparing themselves for Rainforest Alliance certification. MAS Palembang will be the first to be audited, followed by Bandar Pinang and Sei Jerinjing.

SIPEF: Responsible and Active

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 standard (ISCC). We continue to participate in the Sustainable Natural Rubber Initiative (SNR-i), and will use its standard as soon as it is ready for implementation.

SIPEF is involved in 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&TSC), in the Working Group for Biodiversity and High Conservation Values (HCV), on Compensation panels, and in various task forces.

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.

Started in 2010, the sea turtle project is one of very few such community-based conservation projects in Sumatra. A strip of beach of about five kilometers is watched by two cooperating villages for egg-laying by sea turtles. 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 2016 returned to the 2011/2012 levels, with slightly below 2 000 eggs of olive Ridley turtles, (Lepidochelis olivacea) being collected. We are planning to maintain a reduced watch and hatching capacity in 2017, to be ready when the beach conditions have improved and turtles once again land in great numbers.

The large *SIPEF* Biodiversity Indonesia (SBI) project is fully operational, and has had a busy year. SBI manages a 12 755 hectare area of forest, acting as a buffer for 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. In its Mukomuko field office, SBI employs 31 people, from seasoned rangers to younger graduates, hired mostly from the surrounding villages.

After the initial patrols and camera trapping in 2015, 2016 has seen the first community groups start reforestation work within the project area. 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 fruit varieties, rubber and timber. Nine groups are operating as at the end of 2016, and have rehabilitated 366 hectares of degraded land. With the 70 hectares of SBI, a total of 436 hectares has been planted with 51 036 trees. SBI is operating five nurseries inside the project area and in the villages.

The forest farmer 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. A first result has been the felling of 397 oil palms grown illegally in the project area. The felling was carried out with the consent of the farmers, who understood both the land rights and the conservation situation. Some of these farmers have joined the project groups.

SBI has completed the construction of its first base camp and fire watch tower. One base camp per year will be built to reach the target of four. 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 nurseries sites for coming planting activities.

As in 2015, patrolling has been an important activity of SBI. In 2016, the SBI team logged 833 man-days of patrolling. Close cooperation with the Forestry Services and the security forces has resulted in significant seizures of illegal timber originating from the project area but also likely to have come from the national park. During the second half of the year, illegal logging was clearly suppressed, but the risk remains high.

The camera trapping and biodiversity monitoring continue to yield fascinating records of the rich megafauna present in our area. Numerous tigers have been sighted, as well as clouded leopards, Malayan sun bears, tapirs, barking deers and argus pheasants.

A sobering sight has been that of a tiger with a missing front paw. This particular animal had been trapped in a tiger snare possibly four years ago, but has survived until now. Its regular recording by our automatic cameras is testament both to its extraordinary endurance and to the risk posed by poaching. The SBI team is fully committed to protecting biodiversity, with the support of local communities and of *SIPEF*, for the years to come.

Darrel Webber

CEO of the RSPO

The Roundtable on Sustainable Palm Oil (RSPO) is a multi-stakeholder organisation, with a membership of over three thousand. The RSPO relies on all these members to volunteer their time, share their knowledge, and find consensus to constantly improve our global standard and transform the palm oil market. Consensus is not always easy to find. It takes a deep sense of shared purpose for it to emerge.

The growers are a very important membership category in the RSPO. For growers, putting into practice the RSPO Principles and Criteria translates into very practical change. Their participation to our working groups is all the more important.

SIPEF is very much engaged in the RSPO. They are a welcome presence in numerous platforms within the RSPO and a keen RSPO advocate externally. Always there to share the point of view of the growers big and small, keen to craft and reach consensus on practical, meaningful measures to advance the cause of the sustainable palm oil.

1. HISTORY

The story of tea began in China. The most common legend is that tea was accidentally discovered in 2737 BC when Emperor Shen Nung was sitting under a tree drinking boiled water and some leaves from an overhanging tree fell into his cauldron of boiling water. Shen Nung, also an herbalist, tried the infusion and was pleasantly surprised by the flavor. The overhanging tree was found to be a Camellia sinensis.

Camellia sinensis, 'sinensis' meaning 'from China', is an evergreen plant of the genus Camellia, the leaves of which are used to produce tea. There are two main varieties: Camellia sinensis from China and Camellia sinensis assamica from India's northeastern province of Assam. Camellia sinensis cambodiensis is a third variety but is generally not used for commercial tea production.

The Chinese variety flourishes in cool temperatures on steep mountain slopes and its leaves will grow roughly 5 to 15 cm in length. A plant can produce tea for more than a hundred years. Some bushes in Darjeeling (India) even date back to the 1850s. The Indian variety is mostly used on lowlands where humidity and rainfall are high. A tea plant is actually a tree and if left unattended will grow up to 18 metres. Camellia sinensis assamica produces much bigger leaves (15-35 cm) than the Chinese variety and bushes in Assam remain in commercial production for more than 50 years.

Records of the first tea being brought into Europe date back to the early 1600s. It was the Dutch East India Company that pioneered tea shipments to Europe, while the British East India Company at that time controlled most of the British trade in India and the Far East. Interest in tea started to really build in the 1630s when it became a popular drink among the upper class, and this trend lasted until the middle of the 17th century. From that time on, coffee started its expansion at the expense of tea.

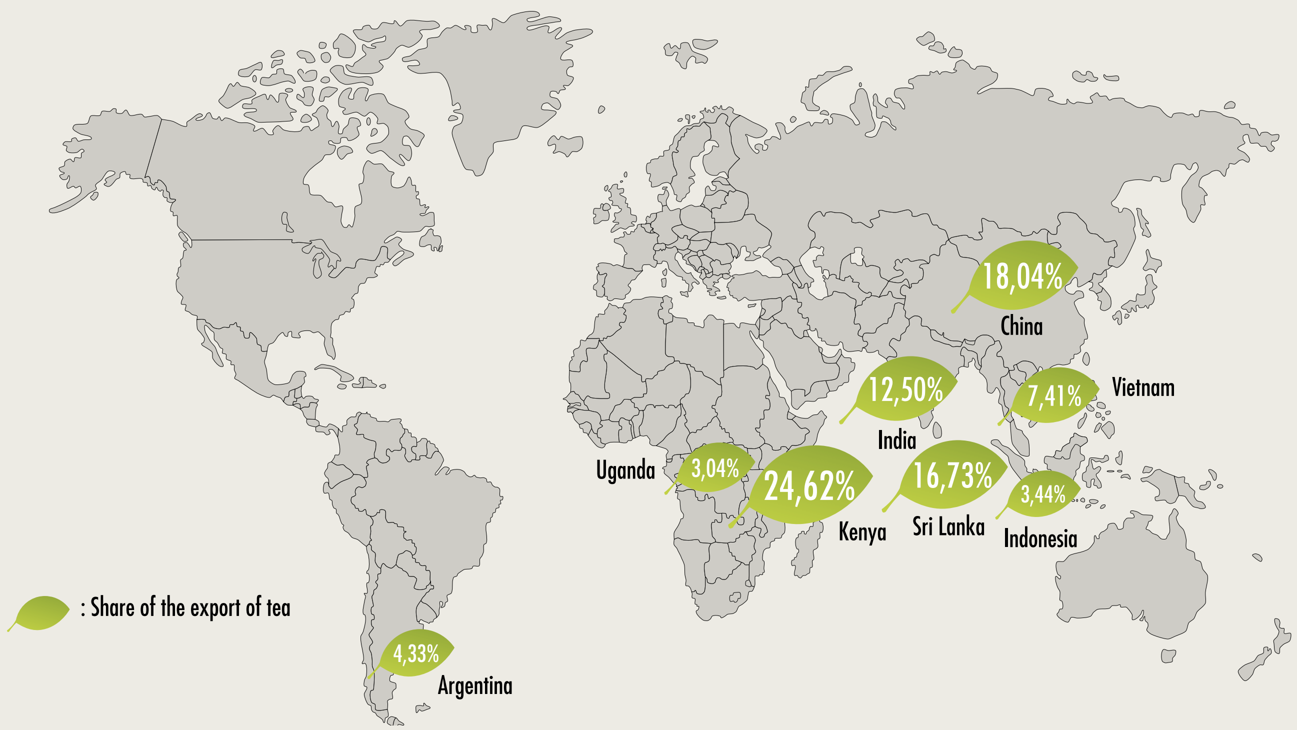
HOW TEA IS TRADED

Historically, tea has been traded mostly through an auction system with London being the center in the early years of the trade. The first auction dates back to 1679. This tradition lasted for more than 300 years but came to a stop in 1998, as producing countries had successfully started their own auction centers. But almost 200 years after the first London auction, India held its first auction in Calcutta in 1861 and added more auctions in various locations closer to the producing areas. Similarly, other main producing countries, like Sri Lanka (1883) and Kenya (1956), started auctions to sell their tea. The auction system offers a sampling facility for traders and buyers to assess quality standards in line with auction prices. Besides selling through the auction system, producers have the option of selling direct as is done by *SIPEF*.

TEA IN INDONESIA

Tea has been cultivated in Indonesia for over 200 years with varying degrees of success. The first planting was from seeds imported from China, but they did not grow well and had to be replaced by the Assam variety, although this happened only much later, in 1878. Prior to World War II Indonesia played an important role in the tea industry being the fourth largest producer and Indonesian tea was particularly popular in the United Kingdom. But the war had negative effects on the tea industry, not only during the conflict, but also many years afterwards. The industry was revived only in the 1980s when the 'Tea Board of Indonesia' introduced a rehabilitation program. Currently, the area planted with tea is 118 000 hectares. Today Indonesia is the 7th largest producer of tea in the world.

Most Indonesian tea, like Cibuni tea, grows on volcanic soil where the tropical climate allows harvesting throughout the year. Indonesia is still predominantly an orthodox producer but some estates, like the Cibuni estate, have moved to CTC production.



2. PRODUCTION OF TEA

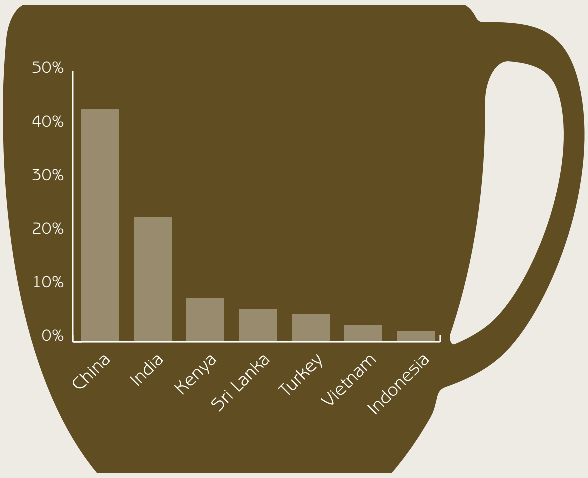


Fig.1: World production of tea

Tea is produced in over 30 countries worldwide but the production is mainly focused in Asia (85% of world production) and Africa (13% of world production), with China accounting for 41% and India for 23% of total production. So China and India produce nearly two-thirds of global availability. Kenya, Sri Lanka and Turkey make up the top five with a combined 83% share in world production.

China and India are not only the biggest producers but they are also the biggest consumers, with China consuming 32% and India 20% of world production. Turkey, Russia, the United States of America (Iced tea) and Pakistan are the other main consumers of tea.

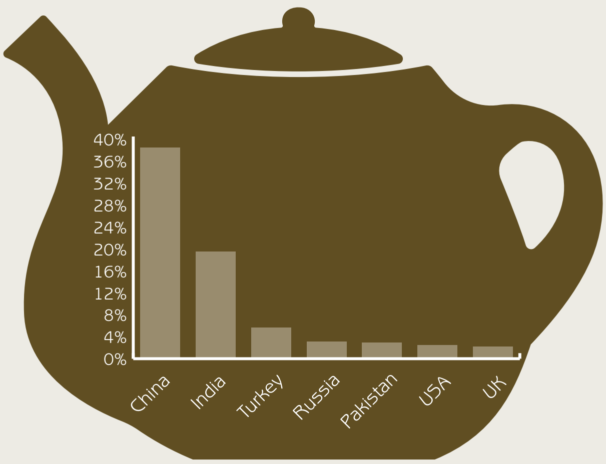


Fig.2: Consumption of tea

Although China and India are by far the biggest consumers of tea, looking purely at the total consumption, there is a distinction in the consumption of tea per person. In that respect, Turkey leads by a mile, while Afghanistan and Libya come second and third. China only shows up in 11th place, while India only comes in 23rd position.

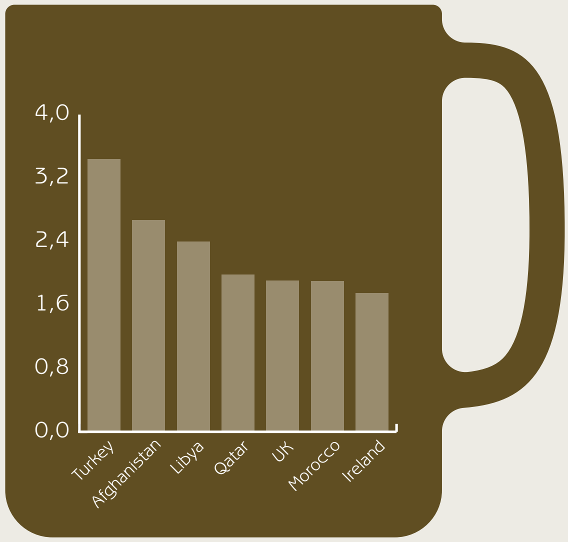


Fig.3: Cups per day, consumption per person

In terms of export, China and India are not ranked number one and two since they have a big internal demand. Kenya tops the export list with a total share of 27.34% followed by Sri Lanka (17.40%), and only in third position is China (16.50%) followed by India (11.20%). Vietnam is fifth with a share of 7.23%.

3. TYPES OF TEA

A variety of tea can always be found on the shelves of grocery shops. One thing to remember, however, is that all tea varieties come from the leaves of the Camellia sinensis. Although the names generally refer to the color of the dry leaf, it is actually the process which determines the type of tea. The most common are black tea and green tea, together accounting for more than 90% of tea production. The rest comprises white tea, yellow tea, Oolong tea and dark tea or Pu'erh tea. The variations are created by the level of oxidation, a natural chemical reaction in the leaves after plucking.

Black tea:

Black tea is oxidised the most. There are four main steps in the processing after the leaves have been delivered from the field: withering, rolling, oxidising and drying.

Yellow tea:

Yellow tea is a rare and expensive tea and the way of processing is similar to green tea, except for an extra step where the leaf is exposed to heat and allowed to ferment very lightly.

Green tea:

After being brought into the factory for processing, the green tea leaf is steamed, thereby stopping the oxidation process. The process in the factory is limited to withering and rolling.

Oolong tea:

Oolong tea, "oolong" meaning "black dragon" in Chinese, follows the same process as black tea, except that the tea is only partially oxidised. However, the oxidation process is a complex one and has many variations.

White tea:

In essence, white tea is unprocessed tea from only young unopened or recently opened leaf buds, which have to be plucked very carefully to avoid any damage. The name originates from the silvery-white hairs covering the bud.

Dark tea / Pu'erh tea:

Pu'erh tea is not only oxidised, but also fermented and is solely produced in Yunnan Province in Southern China. This tea sometimes ages up to 50 or even 100 years. It is the only variety of tea to be called Pu'erh and is named after the local Chinese city, once the main trading centre for this type of teas.

4. METHODS OF MANUFACTURE

There are two methods of manufacture: orthodox and Cut, Tear, Curl (CTC), and the following processes are adopted.

Orthodox:

Withering:
The withering process involves physical and chemical changes. During the physical withering the leaf loses moisture, which makes it flaccid or rubbery. This can be achieved in 3 to 4 hours, but due to chemical withering the process is extended. Chemical withering starts immediately after the leaf is detached from the plant and is independent of the physical withering. In the chemical withering some bio-chemical changes take place, which give the tea various characteristics. The best results are obtained after 12 to 16 hours.

Rolling:
The process of rolling is where rollers are used to press the withered leaf, which breaks the leaf cells and allows the oxidation process to begin.

Oxidation:
During the oxidation process the enzymes in the leaf interact with the air, thereby changing the composition of the leaf. This step is mainly important for the taste and color of the tea liquor.

Drying:
Drying is done to stop the oxidation process and to bring the moisture content in the leaf down to 2-3%.

CTC (Cut, Tear, Curl):

During the CTC process the leaf is not rolled, instead it goes through a CTC (Cut, Tear, Curl) machine. The other steps are the same, however, the CTC method is a faster process and results in quite a different tea than the orthodox one. The main differences are the appearance and the liquor of the finished product. The CTC process produces smaller particles compared to orthodox leaf grades. The leaf particles are more uniform and are used in tea bags. CTC grades infuse more quickly and make stronger cups of tea, whereas orthodox tea infusion is slower resulting in lighter liquors.

The tea nursery with young plants at our Cibuni Tea Estate. Young plants remain in the nursery for a minimum of one year, after which the best are selected to be planted in the field.

5. TEA CULTIVATION

Young plants are raised by vegetative propagation from cuttings taken from the 'mother' bush, which is selected on the basis of its quality, potential in yield, resistance to drought, pests and diseases. A lot of research goes into creating high yielding plants of good quality. The cuttings remain in the nursery for 9-16 months, depending on the climatic conditions of the area, and these shoots grow into young plants. They are then put out in the field at a suitable spacing, which can vary from estate to estate. Cibuni plants at a distance of 0.7 m x 1.2 m with a density of 11 900 bushes per hectare as a result. These bushes are considered immature for the first three years after planting, during which their lateral growth is promoted. This will form a 'plucking table' to facilitate plucking in the future.

Young plants are carefully looked after and the upkeep of young tea areas involves the control of weeds, pests and diseases. Fertilizer applications during this period are essential for proper growth and, where necessary, shade trees are planted to avoid too much direct sunlight on the young plants.

Once young tea bushes come into maturity, manual harvesting of the green leaves starts based on plucking rounds of seven to eight days for hand plucking. The round can be extended when leaf growth is slow due to adverse weather conditions. (In the case of machine plucking, harvesting rounds are extended up to 30 to 40 days but the harvested leaf is of a poorer quality.)

In order to maintain the plucking table, bushes are regularly pruned. Bush hygiene is followed after pruning to remove dead wood, thin branches, moss and lichens. Again, climatic conditions will determine the interval of the pruning cycle. Cibuni has adopted a three-year pruning regime, so every year one-third of the estate is pruned to sustain productivity and quality.

6. TEA TASTING

Tea tasting is essential to assess quality variations and consumer preferences. Tea brokers taste the quality in order to determine the price setting for the auction, while tea buyers taste teas to see whether they suit their blends. The procedure for tea tasting is a standardized method, as per ISO 3103, and gives recommendations in terms of the types of pots to be used, how many grams per 100 ml of boiling water have to be used, how long it has to brew and so on.

Tea tasters examine the dry leaf, a wet leaf infusion and the liquor. To assess the liquor a taster slurps it quickly, swirling it around the mouth to ensure all the taste receptors get an even taste. The liquid is then spat out into a spittoon after which the process is repeated on the next cup. Notes are made based on the taster's findings. A wide variety of terms is used to describe the quality of the dry leaf, infused leaf and liquor.

MILK IN TEA

Little information is available as to where people started putting milk in their tea. Some say it was the Dutch, while others claim this habit originates from Asia, more specifically from Taiwan. What we do know is, that putting milk in tea is mostly linked to the type of tea consumed and it is mainly added to black tea. As already explained, CTC teas are generally stronger in taste and drunk with milk and/or sugar.

In Europe most people drink tea from tea bags, pure or sweetened and add sometimes milk, sometimes lemon. Similarly in India, Pakistan and Afghanistan tea is drunk with milk and lots of sugar, but is mostly brewed from loose tea.

Orthodox teas are usually drunk without milk. The main consumers of orthodox teas are Middle Eastern countries, Russia and the other members of the Commonwealth of Independent States (CIS).

7. TEA PACKING

For tea to maintain its quality, it should be kept away from air, light and humidity after being processed. The above also has to be kept in mind when transporting tea. During its history the packing of tea has seen a real transformation. In the old days tea was compressed in bamboo and banana leaves to maintain its quality and flavor. When demand for loose tea increased new packaging material had to be invented and thus came the tea chest. These were used for hundreds of years but nowadays are mainly used for shipping high-priced teas which are often obtained from large leaf orthodox manufactured teas. Most teas are now packed in multi-wall paper sacks weighing less than 1 kg but they can accommodate 50 to 70 kg of CTC grades.

8. CIBUNI TEA ESTATE

Cibuni ('the hidden river') tea estate was founded in 1902 by the De Decker family. In 1961 it came into the *SIPEF* group. Since its foundation Cibuni has always been in Belgian ownership.

Cibuni is the largest private single tea estate in Indonesia, with the special feature that they only pluck manually. The plantation covers over 2 000 hectares of land and employs about 2 500 people. It is located on the island of Java, about 2.5 hours drive southwest of the city of Bandung. The Cibuni plantation has volcanic black soil and is situated near the equator, which helps with production throughout the year. The elevation of the estate varies from 1 000 to 2 000 metres. Around 3 000 tonnes of tea are produced annually.

9. RAINFOREST ALLIANCE CERTIFICATION

Rainforest Alliance certification is a scheme widely accepted by the major players in the tea industry. Being Rainforest Alliance Certified™ means that the 'Cibuni Tea Estate' meets the criteria set by the Sustainable Agriculture Network (SAN) standard, the three pillars of which are social sustainability, economic sustainability and environmental sustainability. SAN focuses on biodiversity conservation; improved livelihoods and human wellbeing; natural resource conservation; and effective planning and farm management systems. An annual audit is performed to verify that Cibuni is still complying with the standard set out by the SAN.

10. COMPOSITION AND HEALTH BENEFITS OF TEA

Tea contains caffeine, vitamins, minerals, L-theanine and polyphenols, better known as antioxidants. Caffeine levels in tea depend very much on the oxidation process as well as on brewing (quantity, water temperature, brewing time). On average, a cup of tea contains about half to one-third of the caffeine in a cup of coffee. Tea also contains a number of B vitamins, such as B1, B2, B6 and B12, but also others like folate (B9) and niacin (B3). Among other minerals, tea contains calcium and zinc. L-theanine is an amino acid thought to reduce stress and promote relaxation. Most common polyphenols (antioxidants) are flavonoids, catechins, tannins and theaflavins.

With its antioxidant properties, tea is perceived to be good for health. Green tea in particular is credited with having helped in the prevention of cancer. However, there is no scientific research to prove this conclusively. Tea certainly helps in overcoming stress and provides relaxation. Doctors recommend hot tea during common cold and flu attacks.

Source:
International Tea Committee
Annual Bulletin of Statistics 2016

Content

Consolidated balance sheet

In KUSD	Note	2016	2015*	01/01/15*
Non-current assets		**501 560**	**482 490**	**465 920**
Intangible assets	8	51 633	46 910	43 453
Goodwill	8	1 348	1 348	1 348
Biological assets - bearer plants	9	178 346	163 505	149 459
Other property, plant & equipment	10	185 146	193 805	193 737
Investment property	11	0	3	3
Investments in associates and joint ventures	27	60 937	56 875	59 266
Financial assets	12	22	3 822	3 822
Other financial assets		22	3 822	3 822
Receivables > 1 year		8 323	0	0
Other receivables	13	8 323	0	0
Deferred tax assets	24	15 805	16 222	14 832
Current assets		**113 772**	**96 542**	**108 335**
Inventories	14	23 757	21 301	26 498
Biological assets	15	4 133	1 896	2 441
Trade and other receivables		62 681	39 194	35 197
Trade receivables	29	40 401	22 801	23 795
Other receivables	16	22 280	16 393	11 402
Current tax receivables	26	4 084	5 224	6 751
Investments		0	0	80
Other investments and deposits	19	0	0	80
Derivatives	29	0	0	0
Cash and cash equivalents	21	17 204	19 128	27 579
Other current assets		1 913	2 377	1 839
Assets held for sale	22	0	7 422	7 950
Total assets		**615 332**	**579 032**	**574 255**

* We refer to note 36 for additional information relating to the restatement of the 2015 comparative figures

In KUSD	Note	2016	2015*	01/01/15*
Total equity		**473 126**	**438 829**	**435 626**
Shareholders' equity	17	448 063	415 429	413 031
Issued capital		37 852	45 819	45 819
Share premium		17 730	21 502	21 502
Treasury shares (-)		-7 425	-6 817	-4 776
Reserves		417 997	372 430	366 428
Translation differences		-18 091	-17 505	-15 942
Non-controlling interests	18	25 063	23 400	22 595
Non-current liabilities		**45 146**	**42 398**	**42 112**
Provisions > 1 year	19	1 702	1 257	1 479
Provisions		1 702	1 257	1 479
Deferred tax liabilities	26	31 582	30 632	30 221
Trade and other liabilities > 1 year		0	0	0
Financial liabilities > 1 year (incl. derivatives)	21	0	0	0
Pension liabilities	20	11 862	10 509	10 412
Current liabilities		**97 060**	**97 805**	**96 517**
Trade and other liabilities < 1 year		30 515	25 401	40 188
Trade payables	29	16 630	11 675	20 274
Advances received	29	11	285	219
Other payables	26	8 223	13 212	14 505
Income taxes	26	5 651	229	5 190
Financial liabilities < 1 year		62 265	69 649	52 276
Current portion of amounts payable after one year	21	0	0	0
Financial liabilities	21	62 265	69 649	52 276
Derivatives	29	1 176	837	1 756
Other current liabilities		3 104	1 439	1 869
Liabilities associated with assets held for sale	22	0	479	428
Total equity and liabilities		**615 332**	**579 032**	**574 255**

* We refer to note 36 for additional information relating to the restatement of the 2015 comparative figures

Consolidated income statement

In KUSD	Note	2016	2015*
Revenue	7	266 962	225 935
Cost of sales	7	-193 170	-182 285
Gross profit	7	**73 792**	**43 650**
Selling, general and administrative expenses		-26 960	-22 660
Other operating income/(charges)	23	647	457
Operating result		**47 479**	**21 447**
Financial income		120	81
Financial charges		- 879	- 820
Exchange differences		- 694	62
Financial result	24	**-1 453**	**- 677**
Profit before tax		**46 026**	**20 770**
Tax expense	26	-12 384	-6 185
Profit after tax		**33 642**	**14 585**
Share of results of associated companies and joint ventures	27	**9 059**	**5 955**
Result from continuing operations		**42 701**	**20 540**
Result from discontinued operations		**0**	**0**
Profit for the period		**42 701**	**20 540**
Attributable to:			
- Non-controlling interests	18	2 827	1 832
- Equity holders of the parent		39 874	18 708

Earnings per share (in USD)			
From continuing and discontinued operations			
Basic earnings per share	35	4.50	2.11
Diluted earnings per share	35	4.50	2.11
From continuing operations			
Basic earnings per share	35	4.50	2.11
Diluted earnings per share	35	4.50	2.11

* We refer to note 36 for additional information relating to the restatement of the 2015 comparative figures

Statement of consolidated comprehensive income

In KUSD	Note	2016	2015*
Profit for the period		**42 701**	**20 540**
Other comprehensive income:			
Items that may be reclassified to profit and loss in subsequent periods			
- Exchange differences on translating foreign operations	17	- 587	-1 563
Items that will not be reclassified to profit and loss in subsequent periods			
- Defined Benefit Plans - IAS 19R	20	- 309	- 624
- Income tax effect		77	150
- Revaluation assets held for sale	12	- 227	0
Total other comprehensive income for the year, net of tax:		**-1 046**	**-2 037**
Other comprehensive income attributable to:			
- Non-controlling interests		- 20	- 44
- Equity holders of the parent		-1 026	-1 993
Total comprehensive income for the year		**41 655**	**18 503**
Total comprehensive income attributable to:			
- Non-controlling interests		2 807	1 788
- Equity holders of the parent		38 848	16 715

* We refer to note 36 for additional information relating to the restatement of the 2015 comparative figures

Consolidated cash flow statement

In KUSD	Note	2016	2015*
Operating activities			
Profit before tax		46 026	20 770
Adjusted for:			
Depreciation	8,9,10	28 789	28 126
Movement in provisions	19	1 297	- 659
Stock options		218	293
Changes in fair value of biological assets		-2 236	545
Other non-cash results		- 19	- 320
Hedge reserves and financial derivatives	29	339	- 919
Financial income and charges		702	445
Capital loss on receivables		18	657
Capital loss on sale of investments		39	0
Result on disposal of property, plant and equipment		1 034	952
Result on disposal of financial assets		-1 816	0
Cash flow from operating activities before change in net working capital		74 391	49 890
Change in net working capital	28	-18 804	-8 062
Cash flow from operating activities after change in net working capital		55 587	41 828
Income taxes paid	26	-4 369	-10 471
Cash flow from operating activities		51 218	31 357
Investing activities			
Acquisition intangible assets	8	-5 408	-4 138
Acquisition biological assets	9	-17 160	-19 566
Acquisition property, plant & equipment	10	-18 530	-25 298
Acquisition investment property		3	0
Acquisition financial assets	16	-3 050	-1 750
Dividends received from associated companies and joint ventures	27	4 729	7 315
Proceeds from sale of property, plant & equipment		114	2 132
Proceeds from sale of financial assets	34	1 412	0
Cash flow from investing activities		-37 890	-41 305
Free cash flow		**13 328**	**-9 948**
Financing activities			
Equity transactions with non-controlling parties		- 16	- 3
Decrease/(increase) of treasury shares	17	- 608	-2 040
Repayment in long-term financial borrowings	21	0	0
Increase/(decrease) short-term financial borrowings	21	-7 383	17 372
Last year's dividend paid during this bookyear		-6 043	-12 554
Dividends paid by subsidiaries to minorities	18	- 910	- 995
Interest received - paid		- 702	- 429
Cash flow from financing activities		**-15 662**	**1 351**
Net increase in investments, cash and cash equivalents	**21**	**-2 334**	**-8 597**
Investments and cash and cash equivalents (opening balance)	21	19 537	28 126
Effect of exchange rate fluctuations on cash and cash equivalents	21	1	8
Investments and cash and cash equivalents (closing balance)	21	17 204	19 537

* We refer to note 36 for additional information relating to the restatement of the 2015 comparative figures

Statement of changes in consolidated equity

In KUSD	Issued capital SIPEF	Share premium SIPEF	Treasury shares	Defined benefit plans IAS 19R	Reserves	Translation differences	Share-holders' equity	Non-controlling interests	Total equity
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*** (note 17)	-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**
January 1, 2015	**45 819**	**21 502**	**-4 776**	**-1 756**	**366 099**	**-15 942**	**410 946**	**22 474**	**433 420**
Impact of the IAS 41 restatement					2 085		**2 085**	121	**2 206**
January 1, 2015 restated	**45 819**	**21 502**	**-4 776**	**-1 756**	**368 184**	**-15 942**	**413 031**	**22 595**	**435 626**
Result for the period					18 708		**18 708**	1 832	**20 540**
Other comprehensive income				- 430		-1 563	**-1 993**	- 44	**-2 037**
Total comprehensive income	**0**	**0**	**0**	**- 430**	**18 708**	**-1 563**	**16 715**	**1 788**	**18 503**
Last year's dividend paid					-12 554		**-12 554**	- 995	**-13 549**
Equity transactions with non-controlling parties					- 15		**- 15**	12	**- 3**
Other (note 17)			-2 041		293		**-1 748**		**-1 748**
December 31, 2015*	**45 819**	**21 502**	**-6 817**	**-2 186**	**374 616**	**-17 505**	**415 429**	**23 400**	**438 829**

* We refer to note 36 for additional information relating to the restatement of the 2015 comparative figures

** The equity transactions with non-controlling parties comprise the decrease of 70 shares of *Jabelmalux SA*, so that the group now owns 99.4% of the shares. This transaction was recorded directly in the group's reserves (KUSD 217) and in the non-controlling interests (KUSD -233).

*** We refer to note 17 for additional information relating to the transfers within the caption of equity

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 2016 comprise *SIPEF* and its subsidiaries (together referred to as '*SIPEF* group' or 'the group'). Comparative figures are for the financial year 2015.

The consolidated financial statements were authorized for issue by the directors at the board meeting of 14 February 2017 and shall be approved by the shareholders at the annual general meeting of 14 June 2017. 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 2016.

The following standards or interpretations are applicable for the accounting year commencing on the 1st of January 2016:

- Improvements to IFRS (2010-2012) (applicable for annual periods beginning on or after 1 February 2015)
- Improvements to IFRS (2012-2014) (applicable for annual periods beginning on or after 1 January 2016)
- Amendments to IFRS 10, IFRS 12 and IAS 28 *Investment Entities: Applying the Consolidation Exception* (applicable for annual periods beginning on or after 1 January 2016)
- Amendments to IFRS 11 *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations* (applicable for annual periods beginning on or after 1 January 2016)
- Amendments to IAS 1 *Presentation of Financial Statements – Disclosure Initiative* (applicable for annual periods beginning on or after 1 January 2016)
- Amendments to IAS 16 and IAS 38 *Property, Plant and Equipment and Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortisation* (applicable for annual periods beginning on or after 1 January 2016)
- Amendments to IAS 19 *Employee Benefits – Employee Contributions* (applicable for annual periods beginning on or after 1 February 2015)
- Amendments to IAS 27 *Separate Financial Statements – Equity Method* (applicable for annual periods beginning on or after 1 January 2016)

These amendments have no 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 on which the financial statements were authorized for issue but were not yet effective on the balance sheet date:

- 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, but not yet endorsed in the EU)
- Improvements to IFRS (2014-2016) (applicable for annual periods beginning on or after 1 January 2017 or 2018, 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, but not yet endorsed in the EU)
- Amendments to IFRS 4 *Insurance Contracts - Applying IFRS 9 Financial Instruments with IFRS 4* (applicable for annual periods beginning on or after 1 January 2018, 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 7 *Statement of Cash Flows – Disclosure Initiative* (applicable for annual periods beginning on or after 1 January 2017, but not yet endorsed in the EU)
- 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, 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)

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

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 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.

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.

Goodwill

Goodwill represents the excess of the cost of the business combination over the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired in a business combination. Goodwill is not amortized but reviewed for impairment at least annually. For the purpose of testing goodwill for impairment, goodwill is allocated to operating companies which is the lowest level at which the goodwill is monitored for internal management purposes (i.e. cash 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.

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:

- The investor has power over the investee;
- The investor has exposure, or rights, to variable returns from its involvement with the investee;
- The investor has 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).

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.

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 as 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 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.

As a result of the amendments to IAS 16 and IAS 41 issued in June 2014, bearer plants are excluded from the scope of IAS 41 and measured at cost less accumulated depreciation and any accumulated impairment losses in accordance with IAS 16.

With respect to the portion of biological assets that conceptually remains in the scope of IAS 41, generally designated as the 'growing agricultural produce', *SIPEF* group defines it for oil palms as the oil contained in the palm fruit, so that the fair value of this distinct asset can be estimated reliably.

The growing biological produce of rubber and tea is measured at fair value at the point of harvest.

The growing biological produce of bananas is measured at fair value as it grows less costs to sell.

A gain or loss arising 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.

Intangible assets

Intangible assets include computer software, various licenses, concessions and land compensations. Intangible assets are capitalized and amortized using the straight-line method over their useful life. Amortization of concessions and compensations will begin upon obtaining regulatory approval from the relevant authorities. For the land rights in Indonesia the group considers this to be upon receipt of the “Hak Guna Usaha”. For concessions the useful life is determined by their duration.

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
Bearer plants	20 to 25 years

Land is not depreciated.

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 does not apply special hedge accounting under IAS 39 – *Financial Instruments: Recognition and Measurement*. Derivatives are stated at fair value. Any gains or losses arising from changes in fair value are charged directly to net profit or loss for the period.

2. Receivables and payables

Amounts receivable and payable are measured at amortized 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 amortized 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 does not reach the minimum return required by law, those plans are 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.

Selling, general and administrative expenses

Selling, 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 an asset distinct from the oil palm is recognized as growing agricultural produce only when the oil is developing in the oil palm fruit
- Judgement of the functional currency of an entity
- Judgement of the inclusion of deferred tax assets

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

Notes

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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	94.43
PT Citra Sawit Mandiri	Medan / Indonesia	95.00	94.43
PT Toton Usaha Mandiri	Medan / Indonesia	95.00	94.43
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	94.43
Hargy Oil Palms Ltd	Bialla / Papua N.G.	100.00	100.00
Galley Reach Holdings Ltd	Port Moresby / Papua N.G.	0.00	0.00
Plantations J. Eglin SA	Azaguié / Ivory Coast	100.00	100.00
Jabelmalux SA	Luxembourg / G.D. Luxemburg	99.40	99.40
Associates and joint ventures (equity method)	**Location**	**% of control**	**% of interest**
PT Agro Muko	Jakarta / Indonesia	47.29	44.93
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

On 15 February 2016, a sale of shares agreement was signed to finalize the sale of *Galley Reach Holdings Ltd*. Following this agreement, the company *Galley Reach Holdings Ltd*, which was already classified as an asset held for sale, was deconsolidated. The deconsolidation was done as per end of February 2016. The results of *Galley Reach Holdings Ltd* until then were included in the consolidated financial statements using the full consolidation method. We refer to note 34 for additional information relating to the sale of *Galley Reach Holdings Ltd*.

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.

Following subsidaries have however another 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		
	2016	2015	2014	2016	2015	2014
EUR	0.9505	0.9185	0.8236	0.9059	0.9059	0.7567

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.

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In KUSD	2016	2015
Gross margin per product		
Palm	75 973	43 084
Rubber	- 9	-1 186
Tea	786	1 577
Bananas and flowers	3 377	4 033
Other	5 579	5 567
Total gross margin	**85 706**	**53 075**
Selling, general and administrative expenses	-30 842	-26 520
Other operating income/(charges)	437	888
Financial income/(charges)	- 741	- 709
Exchange differences	- 787	102
Profit before tax	**53 773**	**26 836**
Tax expense	-14 558	-7 786
Effective tax rate	-27.1%	-29.0%
Insurances	659	176
Profit after tax	**39 874**	**19 226**
Effect of the IAS 41 restatement	0	- 518
Profit after tax after IAS 41 restatement	**39 874**	**18 708**

On the next page 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

2016 - KUSD	Revenue	Cost of sales	Gross profit	% of total
Palm	228 509	-160 917	67 592	91.6
Rubber	14 367	-14 319	48	0.1
Tea	7 081	-6 239	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**	**-193 170**	**73 792**	**100.0**

2015 - KUSD*	Revenue	Cost of sales	Gross profit	% of total
Palm	186 001	-148 625	37 376	85.7
Rubber	15 758	-17 108	-1 350	-3.1
Tea	7 345	-5 630	1 715	3.9
Bananas and plants	15 062	-10 920	4 142	9.5
Corporate	1 767		1 767	4.0
Others	2	- 2	0	0.0
Total	**225 935**	**-182 285**	**43 650**	**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

2016 - KUSD	Revenue	Cost of sales	Other income	Gross profit	% of total
Indonesia	161 859	-119 546	748	43 061	58.4
Papua New Guinea	84 784	-58 625		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**	**-193 170**	**748**	**73 792**	**100.0**

2015 - KUSD*	Revenue	Cost of sales	Other income	Gross profit	% of total
Indonesia	124 759	-97 307	584	28 036	64.2
Papua New Guinea	84 344	-74 055		10 289	23.6
Ivory Coast	15 063	-10 921		4 142	9.5
Europe	1 183			1 183	2.7
Others	2	- 2		0	0.0
Total	**225 351**	**-182 285**	**584**	**43 650**	**100.0**

* We refer to note 36 for additional information relating to the restatement of the 2015 comparative figures

Revenue by location of the debtors

In KUSD	2016	2015
The Netherlands	87 429	50 003
United Kingdom	61 334	52 318
Switserland	43 109	50 150
Indonesia	41 806	34 051
Singapore	6 875	11 915
Ireland	6 057	12 467
Belgium	4 252	4 679
France	3 014	706
Spain	3 001	407
United States	2 586	1 904
Ivory Coast	2 186	1 601
Pakistan	1 652	2 774
Papua New Guinea	1 650	1 558
Afghanistan	1 147	519
Germany	679	693
Others	185	190
Total	**266 962**	**225 935**

Segment information - geographical

	2016					
In KUSD	Indonesia	PNG	Ivory Coast	Europe	Others	Total
Intangible assets	51 497		76	60		51 633
Goodwill	1 348					1 348
Biological assets	88 987	87 021	2 338			178 346
Other property, plant & equipment	68 140	112 537	3 996	473		185 146
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	53.45%	39.79%	1.32%	4.07%	1.37%	100.00%

	2015					
In KUSD	Indonesia	PNG	Ivory Coast	Europe	Others	Total
Intangible assets	46 797		55	58		46 910
Goodwill	1 348					1 348
Biological assets	74 510	86 852	2 143			163 505
Other property, plant & equipment	68 069	120 784	4 429	523		193 805
Investment property				3		3
Investments in associates and joint ventures	40 928			8 596	7 351	56 875
Other financial assets			3 822			3 822
Receivables > 1 year						0
Deferred tax assets	13 802		162	2 258		16 222
Total non-current assets	**245 454**	**207 636**	**10 611**	**11 438**	**7 351**	**482 490**
% of total	50.88%	43.03%	2.20%	2.37%	1.52%	100.00%

8. GOODWILL AND OTHER INTANGIBLE ASSETS

	2016		2015	
In KUSD	**Goodwill**	**Intangible assets**	**Goodwill**	**Intangible assets**
Gross carrying amount at January 1	**1 348**	**49 505**	**1 348**	**46 209**
Acquisitions		5 408		4 138
Sales and disposals				- 833
Transfers				
Remeasurement		- 109		
Other				
Translation differences		- 5		- 9
Gross carrying amount at December 31	**1 348**	**54 799**	**1 348**	**49 505**
Accumulated amortization and impairment losses at Januari 1		**-2 595**		**-2 756**
Depreciations		- 665		- 664
Sales and disposals				821
Transfers				
Remeasurement		92		
Other				
Translation differences		2		4
Accumulated amortization and impairment losses at December 31	**0**	**-3 166**	**0**	**-2 595**
Net carrying amount January 1	**1 348**	**46 910**	**1 348**	**43 453**
Net carrying amount December 31	**1 348**	**51 633**	**1 348**	**46 910**

The acquisitions of intangible assets refer mainly to the additionnal payments made for obtaining the landtitles of *PT Citra Sawit Mandiri*, *PT Agro Rawas Ulu*, *PT Agro Kati Lama*, *PT Agro Muara Rupit* and *PT Mukomuko Agro Sejahtera*.

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
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	**68 530**			
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	12 305	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**			

9. BIOLOGICAL ASSETS - BEARER PLANTS

In November 2015 the amendments to IAS 16 and IAS 41 Agriculture: bearer plants were endorsed in the EU for periods beginning on or after the 1st of January 2016. Due to these amendments 'bearer plants' are again accounted for at historical cost rather than fair value.

SIPEF has opted for early adoption of these standards as of 1 January 2015.

Movement schedule biological assets - bearer plants

The balance sheet movements in biological assets can be summarized as follows:

In KUSD	2016	2015
Gross carrying amount at January 1	**207 448**	**187 540**
Change in consolidation scope	0	0
Acquisitions	17 160	19 566
Sales and disposals	- 2 405	- 666
Transfers	4 761	1 550
Other	0	- 82
Translation differences	- 106	- 460
Gross carrying amount at December 31	**226 858**	**207 448**
Accumulated depreciation and impairment losses at January 1	**- 43 943**	**- 38 081**
Change in consolidation scope	0	0
Depreciation	- 6 592	- 6 563
Sales and disposals	1 980	574
Transfers	0	- 186
Other	0	85
Translation differences	43	228
Accumulated depreciation and impairment losses at December 31	**- 48 512**	**- 43 943**
Net carrying amount January 1	**163 505**	**149 459**
Net carrying amount December 31	**178 346**	**163 505**

10. OTHER PROPERTY, PLANT & EQUIPMENT

	2016						2015
In KUSD	Land, buildings and infrastructure	Installations and machinery	Vehicles	Office equipment, furniture and others	In progress	Total	Total
Gross carrying amount at January 1	**111 836**	**133 907**	**49 120**	**14 464**	**11 098**	**320 425**	**306 771**
Change in consolidation scope						0	0
Acquisitions	3 062	6 707	3 068	1 189	4 504	18 530	25 298
Sales and disposals	- 2 873	- 1 047	- 2 135	- 741	- 896	- 7 692	- 7 656
Transfers	714	3 275	86	- 1	- 8 213	- 4 139	- 1 832
Other				- 85		- 85	- 294
Translation differences	- 266	- 106	- 51	6	- 9	- 426	- 1 862
Gross carrying amount at December 31	**112 473**	**142 736**	**50 088**	**14 832**	**6 484**	**326 613**	**320 425**
Accumulated depreciation and impairment losses at January 1	**- 31 888**	**- 57 230**	**- 31 126**	**- 6 376**	**0**	**- 126 620**	**- 113 034**
Change in consolidation scope						0	0
Depreciation	- 4 736	- 8 269	- 7 124	- 1 403		- 21 532	- 20 899
Sales and disposals	2 822	775	2 055	694		6 346	4 675
Transfers						0	345
Other				31		31	826
Translation differences	195	101	16	- 4		308	1 467
Accumulated depreciation and impairment losses at December 31	**- 33 607**	**- 64 623**	**- 36 179**	**- 7 058**	**0**	**- 141 467**	**- 126 620**
Net carrying amount January 1	**79 948**	**76 677**	**17 994**	**8 088**	**11 098**	**193 805**	**193 737**
Net carrying amount December 31	**78 866**	**78 113**	**13 909**	**7 774**	**6 484**	**185 146**	**193 805**

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.

11. INVESTMENT PROPERTY

In KUSD	2016	2015
Gross carrying amount at January 1	**9**	**43**
Acquisitions	0	0
Sales and disposals	- 9	- 34
Gross carrying amount at December 31	**0**	**9**
Accumulated depreciation and impairment losses at January 1	**- 6**	**- 40**
Depreciation	0	34
Sales and disposals	6	0
Accumulated depreciation and impairment losses at December 31	**0**	**- 6**
Net carrying amount January 1	**3**	**3**
Net carrying amount December 31	**0**	**3**

12. OTHER FINANCIAL ASSETS

	2016				2015
In KUSD	Other companies		Other receivables	Total	Total
	Participations	Receivables			
Gross carrying amount at January 1	**5 482**	**3 184**	**0**	**8 666**	**8 666**
Acquisitions	4			4	0
Sales and disposals	- 4 580			- 4 580	0
Translation differences				0	0
Gross carrying amount at December 31	**906**	**3 184**	**0**	**4 090**	**8 666**
Accumulated impairment losses at January 1	**- 1 660**	**- 3 184**	**0**	**- 4 844**	**- 4 844**
Sales and disposals	776			776	0
Translation differences	0			0	0
Accumulated impairment losses at December 31	**- 884**	**- 3 184**	**0**	**- 4 068**	**- 4 844**
Net carrying amount January 1	**3 822**	**0**	**0**	**3 822**	**3 822**
Net carrying amount December 31	**22**	**0**	**0**	**22**	**3 822**

The sales and disposals consist of the sale of a 32% participation in *Sipef-CI SA* in Ivory Coast. The net book value of the shares sold amounts to KUSD 3 804. Included in this net book value is a revaluation dating from 2010 for an amount of KUSD 227, which has been reversed in the other comprehensive income.

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

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

On 31 December 2016 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	2016	2015
Receivables > 1 year	**8 323**	0

The receivables > 1 year as per 31 December 2016 consist of 2 different long term receivables which have been discounted.

In KUSD	2016	2015
Sale of Sipef-CI SA	4 788	0
Sale of Galley Reach Holdings Ltd	3 535	0
Total	**8 323**	**0**

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. Converted at the closing rate of the year this amounts to KUSD 12 099. The total sales price of *Galley Reach Holdings Ltd* amounts to KUSD 6 600.

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

In KUSD	2016 - received	2017 - short term	2018	2019	2020	2021	Total
Sale of Sipef-CI SA		605	2 873	2 874	2 873	2 874	**12 099**
Sale of Galley Reach Holdings Ltd	1 500	1 500	1 500	1 500	600		**6 600**
Total	**1 500**	**2 105**	**4 373**	**4 374**	**3 473**	**2 874**	**18 699**

14. INVENTORIES

Analysis of inventories

In KUSD	2016	2015
Raw materials and supplies	11 580	12 072
Finished goods	12 177	9 229
Total	**23 757**	**21 301**

The increase in inventories of finished products is due to an increase in the total tonnage of unshipped palm oil at year end compared to 2015, as a consequence of the higher productions in 2016.

The stock of raw materials and supplies has remained stable compared to 2015.

15. BIOLOGICAL ASSETS

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

In KUSD	2016	2015
Biological assets	4 133	1 896

The growing agricultural produce 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.

Impact of the estimated quantity of available oil	-10%	Book value	+10%
Book value of the biological assets	3 720	4 133	4 546
Gross Impact income statement (before tax)	-413		413

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 increase of the biological assets compared to 2015 is explained by the very strong productions at the end of the fourth quarter, as well as the higher market price by the end of December 2016 compared to December 2015.

16. OTHER CURRENT RECEIVABLES AND OTHER CURRENT PAYABLES

The 'other receivables' (KUSD 16 393) mainly include VAT receivables in the various affiliates, but also contain an impairment for a VAT dispute in Indonesia for an amount of KUSD 1 510, receivables towards our smallholders for an amount of KUSD 3 105 and receivables towards our associates and joint ventures for a total of KUSD 3 316.

This post contains as of 2016 a receivable of KUSD 1 500 due to the payment of the sale of *Galley Reach Holdings Ltd* in annual tranches, as well as a receivable of KUSD 605 due to the sale of *Sipef-CI SA*. The remaining part of this receivable is included in the long term receivables. For further information relating to the long term receivables we refer to note 13.

Finally this post includes a deposit of KUSD 1 250 which was paid to ANJ with regards to the acquisition of the shares of *PT Agro Muko*.

The 'other payables' (KUSD 8 223) mainly concern social obligations (salaries to be paid, provisions for holiday pay and bonus), and a current account with the newly founded company *Verdant Bioscience Singapore Pte Ltd* for a total of KUSD 1 450.

The net current assets, net of cash, increased mainly due to an increase in issued loans to our smallholders, an increase of the VAT receivables and the payment of KUSD 1 800 of the current account in favor of *Verdant Bioscience Singapore Pte Ltd*.

17. SHAREHOLDERS' EQUITY

Capital stock and share premium

The issued capital of the company as at December 31, 2016 amounts to KUSD 37 852, represented by 8 951 740 fully paid ordinary shares without nominal value.

	2016	2015
Number of shares	8 951 740	8 951 740

In KUSD	2016	2015
Capital	37 852	45 819
Share premium	17 730	21 502
Total	**55 582**	**67 321**

Compared to our publication of 16 February 2017, there has been a transfer within the caption of equity, resulting in a decrease of capital and share premium and in return an increase of the reserves. This transfer was done in order to align the consolidated capital and the consolidated share premium with the statutory accounts of *Sipef NV*.

Per 31 December 2015, *Sipef NV* had a share capital of KEUR 34 768 and a share premium of KEUR 16 285. In the consolidated financial statements, *Sipef NV* was already included in functional currency USD as of 2006. In 2006, all balance sheet items had been converted at the exchange rate at that time. This led to USD balance sheet posts of respectively KUSD 45 819 and KUSD 21 502. These historical USD values were included in the consolidated financial statements of the years that followed in accordance with IFRS.

Per 1 January 2016, the statutory accounting of *Sipef NV* was also changed to functional currency USD. The conversion of EUR to USD was done at an exchange rate that was not identical to the historical exchange rates of the consolidated financial statements. In the consolidated financial statements we have kept the historical USD functional currency amounts as they have been included in the consolidated financial statements of the previous years.

It has now been decided to adopt the statutory USD amounts of *Sipef NV* relating to the capital and the share premium in the consolidated financial statements of the *SIPEF* group. The difference between the historical USD amounts and the new USD amounts (respectively KUSD 7 967 and KUSD 3 772) has been transferred to the consolidated reserves.

This is a one-time transfer within the caption of equity whereby the total equity remains unchanged.

	2016	2015	2016	2015
	KUSD	KUSD	KEUR	KEUR
Treasury shares - opening balance	6 817	4 776	5 324	3 494
Acquisition treasury shares	608	2 041	573	1 830
Treasury shares - ending balance	**7 425**	**6 817**	**5 897**	**5 324**

Since the start of the share buy-back program on 22 September 2011, *SIPEF* has bought back 110 000 shares for a total amount of KEUR 5 897, corresponding to 1,2288% 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	2 475 404	7/10/15	8 951 740	27.653
Cabra NV	652 379	7/10/15	8 951 740	7.288
Gedei NV	493 117	7/10/15	8 951 740	5.509
Baron Bracht	0	7/10/15	8 951 740	0.000
Total Baron Bracht and children	**1 145 496**			**12.797**
Total votes acting in concert	**3 620 900**			**40.450**
Fortis Investment Management NV*	0	19/01/17	8 951 740	0.000
Alcatel Pensioenfonds VZW	469 600	1/09/08	8 951 740	5.246

* On January 19, 2017, *Sipef NV* received a transparancy declaration concerning the downward crossing of the lowest treshold of 5% by BNP Parisbas Investment Partners SA. The date on which the threshold was crossed is February 25, 2011

Notes

to the consolidated financial statements

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 - 511)

In KUSD	2016	2015
Opening balance at January 1	-17 505	-15 942
Movement, full consolidation	- 189	- 573
Movement, equity method	- 322	- 990
Change in consolidation scope (sale of Galley Reach Holdings Ltd)	- 76	0
Ending balance at December	**-18 092**	**-17 505**

Dividends

On February 14, 2017 a dividend of KEUR 11 190 (EUR 1,25 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, 2016.

Capital management

The capital structure of the group is based on the financial strategy as defined by the board of directors. Summarized, this strategy consists of an expansion policy while respecting a very limited debt ratio. The management puts forward yearly the plan for approval by the board of directors.

Chain of control

1. Chain of control on Ackermans & van Haaren NV

I. Ackermans & van Haaren NV is directly controlled by Scaldis Invest NV, a company incorporated under Belgian law.
II. Scaldis Invest NV is directly controlled by Belfimas NV, a company incorporated under Belgian law.
III. Belfimas NV is directly controlled by Celfloor 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.

	2016			2015*		
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	14 309	515	5.00	13 459	445
PT Eastern Sumatra Indonesia	9.75	4 813	434	9.75	4 478	444
PT Kerasaan Indonesia	45.85	2 443	1 215	45.85	2 149	843
PT Bandar Sumatra Indonesia	9.75	1 476	- 22	9.75	1 502	- 4
PT Melania Indonesia	9.75	3 146	- 48	9.75	3 196	93
PT Mukomuko Agro Sejahtera	14.26	- 270	14	14.26	- 284	- 93
PT Umbul Mas Wisesa	5.57	-1 100	222	5.34	-1 254	- 177
PT Citra Sawit Mandiri	5.57	- 262	49	5.34	- 294	- 6
PT Toton Usaha Mandiri	5.57	- 68	34	5.34	- 95	- 14
PT Agro Rawas Ulu	5.00	57	- 13	5.00	70	- 8
PT Agro Kati Lama	5.00	36	- 9	5.00	67	- 4
PT Agro Muara Rupit	5.57	181	- 31	5.34	192	- 6
PT Agro Muko	2.36	639	466	2.36	408	318
Jabelmalux SA**	0.60	- 337	1	0.36	- 194	1
Total		**25 063**	**2 827**		**23 400**	**1 832**

The movements of the year can be summarized as follows:

In KUSD	2016	2015*
At the end of the preceding period	23 400	22 595
Profit for the period attributable to non-controlling interests	2 827	1 832
Defined Benefit Plans - IAS19R	- 20	- 44
Distributed dividends	- 911	- 995
Equity transactions with non-controlling parties**	- 233	12
At the end of the period	**25 063**	**23 400**

The distributed dividends to non-controlling interests consist of:

In KUSD	2016	2015*
PT Kerasaan Indonesia	861	645
PT Eastern Sumatra Indonesia	50	300
PT Melania	0	50
Total	**911**	**995**

There are no limitations to the transfer of funds.

* We refer to note 36 for additional information relating to the restatement of the 2015 comparative figures

** The equity transactions with non-controlling parties comprise the decrease of 70 shares of *Jabelmalux SA*, so that the group now owns 99.4% of the shares.

19. PROVISIONS

The provisions entirely relate to a VAT dispute in Indonesia (KUSD 1 702). 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 9 065. 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 2015 and 2016:

In KUSD	2015	Pension cost	Payment	Exchange	Translation difference	Change consolidation scope	Other	2016
Indonesia	10 020	2 284	-1 243	268				11 329
Ivory Coast	432	76			- 18			490
Others	57		- 14					43
Total	**10 509**	**2 360**	**-1 257**	**268**	**- 18**	**0**	**0**	**11 862**

Following assumptions are used in the pension calculation of Indonesia:

	2016	2015
Discount rate	8.50%	9.00%
Future salary increase	6.00%	6.50%
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	2016	2015
Opening	10 020	9 868
Service cost	897	767
Interest cost	1 006	822
Benefits paid	-1 243	-1 067
Actuarial gains and losses	381	577
Exchange differences	268	- 947
Other	0	0
Closing	**11 329**	**10 020**

Actuarial gains and losses consist of:

In KUSD	2016	2015
Experience adjustments	374	584
Changes in assumptions used	7	- 7
Total actuarial gains and losses	**381**	**577**

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 - 309). The remaining difference (KUSD - 72) consists of the actuarial gains and losses of the equity consolidated companies (*PT Agro Muko*, *PT Timbang Deli*, *BDM* and *ASCO* insurances).

The amounts recognised in the balance sheet are as follows:

In KUSD	2016	2015
Pension liabilities	11 329	10 020

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

In KUSD	2016	2015
Service cost	897	767
Interest cost	1 006	822
Pension cost	**1 903**	**1 589**
Actuarial gains and losses recorded in Other Comprehensive Income	381	577
Total pension cost	**2 284**	**2 166**

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

Estimated benefit payments in 2017 are KUSD 901.

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	12 845	14 007	15 355
Gross impact on the comprehensive income	1 162		-1 348

Impact of the change in future salary increase

In KUSD	+1%	carrying amount	-1%
Pension liability of the Indonesian subsidiaries	15 318	14 007	12 891
Gross impact on the comprehensive income	-1 311		1 116

The pension liability in Indonesia consists of KUSD 11 329 from fully consolidated subsidiaries and of KUSD 2 678 from equity consolidated companies (*PT Agro Muko* and *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 1 065) and the accumulated reserves (KUSD 1 051) as of 31 December 2016 for a total amount of KUSD 14. The impact in P&L is a past service cost recognised in personnel expenses. The total accumulated reserves amount to KUSD 2 692 by the end of December 2016 (2015: KUSD 2 292) compared to the total minimum guaranteed reserves of KUSD 2 366 at 31 December 2016 (2015: KUSD 2 137)

Contributions paid regarding the defined contribution plans amount to KUSD 570 (KUSD 566 in 2015). *Sipef NV* is not responsible for the minimum guaranteed return on the contributions paid for the members of the executive committee (KUSD 509)

21. NET FINANCIAL ASSETS/(LIABILITIES)

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

In KUSD	2016	2015
Obligations initially payable after more than one year	0	0
Short-term obligations - credit institutions	-62 265	-69 649
Investments and deposits	0	0
Cash and cash equivalents	17 204	19 128
Net financial assets/(liabilities)	**-45 061**	**-50 521**

Analysis of net financial assets/(liabilities) 2016 per currency:

In KUSD	EUR	USD	Others	Total
Obligations initially payable after more than one year				0
Short-term financial obligations	-19 565	-42 700		-62 265
Investments and deposits				0
Cash and cash equivalents	786	15 301	1 117	17 204
Total 2016	**-18 779**	**-27 399**	**1 117**	**-45 061**
Total 2015	**-18 946**	**-32 231**	**656**	**-50 521**

The short term financial obligations relate to the commercial papers for a total amount of KEUR 18 597. This financial obligation has been completely hedged at an average rate of 1 EUR = 1.0962 USD.

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

In KUSD	2016	2015
Net financial position at the beginning of the period	-50 521	-24 617
Repayment of long-term borrowings	0	0
(Increase)/decrease in short-term financial obligations	7 384	-17 372
Net movement in cash and cash equivalents	-2 334	-8 597
Effect of exchange rate fluctuations on long term obligations	0	0
Effect of exchange rate fluctuations on cash and cash equivalents	1	8
Change consolidation scope	0	0
Cash and cash equivalents included in assets held for sale	409	57
Net financial assets/(liabilities) at the end of the period	**-45 061**	**-50 521**

22. ASSETS / LIABILITIES HELD FOR SALE

The "net assets held for sale" in 2015 refer to the net assets of *Galley Reach Holdings Ltd*. On 15 February 2016, a Purchase/sale agreement was signed to finalize the sale of *Galley Reach Holdings Ltd* at approximately the current net carrying value.

The most important assets and liabilities that this company contains are described hereafter:

In KUSD	2016	2015
Intangible assets	0	0
Biological assets	0	2 819
Property, plant and equipment	0	2 649
Current assets	0	1 954
Assets held for sale	**0**	**7 422**
Non-current liabilities	0	0
Trade payables	0	- 220
Other payables	0	- 259
Liabilities associated with assets held for sale	**0**	**- 479**
Net assets held for sale	**0**	**6 943**

23. NON-RECURRING RESULT

The non-recurring result is included under the headings below and can be detailed as follows:

	2016			2015*		
In KUSD	Equity holders of the parent	Non-controlling interests	Total	Equity holders of the parent	Non-controlling interests	Total
Other operating income/(charges): VAT claim Indonesia	- 412	- 43	- 455	264	27	291
Other operating income/(charges): result of the sale of Galley Reach Holdings Ltd	- 39		- 39			0
Other operating income/(charges): result of the sale of Sipef-CI SA	1 819		1 819			0
Non-recurring result	**1 368**	**- 43**	**1 325**	**264**	**27**	**291**
Tax effect on the VAT claim Indonesia	103	11	114	- 66	- 7	- 73
Non-recurring result after taxes	**1 471**	**- 32**	**1 439**	**198**	**20**	**218**

Adjusted net recurring result group share:

In KUSD	2016	2015*
Net result - part of the group	39 874	18 708
Adjustment non-recurring result	-1 471	- 198
Adjusted net recurring result	**38 403**	**18 510**

* We refer to note 36 for additional information relating to the restatement of the 2015 comparative figures

24. FINANCIAL RESULT

The financial income concerns the interests received on current accounts with non-consolidated companies and on temporary excess cash.

The financial charges concern the interests on long term and short term borrowings as well as bank charges and other financial costs.

In KUSD	2016	2015
Financial income	120	85
Financial charges	- 879	- 824
Exchange result	- 355	- 857
Financial result derivatives	- 339	919
Financial result	**-1 453**	**- 677**

25. SHARE BASED PAYMENT

Grant date	Number options granted	Number options exercised	Number options expired	Balance	Exercise price	Exercise period
2011	22 000		-2 000	20 000	56.99	1/1/2015 - 31/12/2021
2012	20 000		-2 000	18 000	59.14	1/1/2016 - 31/12/2022
2013	20 000			20 000	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
Balance	**122 000**	**0**	**-4 000**	**118 000**		

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 fair value as of 31 December 2016 of the outstanding options amounts to KUSD 1 666 and is calculated according to the Black & Scholes model, of which the main components are:

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

In 2016, 20 000 new stock options were granted with an exercise price of EUR 53.09 per share. The fair value when granted was fixed at KUSD 176 and is recorded in the profit and loss accounts over the vesting period of 3 years (2017-2019).

To cover the outstanding option obligation, *SIPEF* has a total of 110 000 treasury shares in portfolio.

	Number of shares	Average purchase price (in EUR)	Total purchase price (in KEUR)	Total purchase price (in KUSD)
Opening balance 31/12/2015	100 000	53,24	5 324	6 817
Acquisition of treasury shares	10 000	57,35	573	608
Disposal of treasury shares	0	0,00	0	0
Ending balance 31/12/2016	**110 000**	**53,61**	**5 897**	**7 425**

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	2016	2015*
Profit before tax	46 026	20 770
Tax at the applicable local rates	-12 512	-5 513
Average applicable tax rate	27.18%	26.54%
Permanent differences	- 577	1 359
Deferred tax on the carry forward losses from the past	705	-1 102
Deferred tax on non current assets resulting from exchange rate fluctuations	0	- 929
Tax expense	-12 384	-6 185
Average effective tax rate	26.91%	29.78%

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. As a consequence the deferred taxes due to changes in exchange rates strongly reduced and they only relate to *Sipef NV* and *Jabelmalux SA* in 2015. For *Sipef NV* and *Jabelmalux SA* a similar authorisation has been obtained with effect from the financial year 2016, making them disappear completely in 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	2016	2015*
Deferred tax assets	15 805	16 222
Deferred tax liabilities	-31 582	-30 632
Net deferred taxes	**-15 777**	**-14 410**

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

In KUSD	2016	2015*
Opening balance	-14 410	-15 388
Variation (- expense) / (+ income) through income statement	-1 453	850
Tax impact of IAS 19R through comprehensive income	95	144
Other	- 9	- 16
Closing balance	**-15 777**	**-14 410**

Deferred taxes in the income statement are the result of:

In KUSD	2016	2015*
Addition/(utilisation) of tax losses brought forward	-5 332	1 662
Origin or reversal of temporary differences - IAS 41 revaluation	- 614	153
Origin or reversal of temporary differences - non-current assets	-1 791	30
Origin or reversal of temporary differences - pension provision	232	- 106
Origin or reversal of temporary differences - inventories	- 223	214
Origin or reversal of temporary differences - other	6 275	-1 103
Total	**- 1 453**	**850**

The use of tax losses carried forward mainly relates to *Sipef NV*. With the conversion into USD, the statutory losses were fully used due to the conversion of long-term receivables and loans. At group level, this did not result in a profit and loss effect on deferred taxes as this has already been provided for in previous years. One can find the counterpart in ‘other’.

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

	2016		
In KUSD	**Total**	**Not recorded**	**Recorded**
Biological Assets	-1 127		-1 127
Other non-current assets	-25 009		-25 009
Inventories	-2 742		-2 742
Pension provision	2 832		2 832
Tax losses	12 924	3 817	9 107
Others	1 162		1 162
Total	**-11 960**	**3 817**	**-15 777**

The majority of the unrecognized deferred tax assets at the end of 2014 are located at the companies of the *UMW* group (KUSD 1 318), the *Musi Rawas* group (KUSD 719) and *Jabelmalux SA* (KUSD 1 516). For the *UMW* and the *Musi Rawas* group, the main cause of uncertainty is the limited transferability over time (max 5 years).The set-up of and the adjustments to the deferred tax assets are based on the most recently available long term business plans.

Due to an adjustment to the tax declaration of 2014 of *Hargy Oil Palms Ltd*, a shift took place between the deferred tax assets for carried over losses (KUSD - 12 564) and these for other non-current assets (KUSD +12 564).

The total tax losses (recognized and unrecognized) have the following maturity structure:

	2016		
In KUSD	**Total**	**Not recorded**	**Recorded**
1 year	9 696	2 733	6 963
2 years	11 440	3 721	7 719
3 years	7 077	1 763	5 314
4 years	7 564	426	7 138
5 years	824	562	262
Unlimited	12 917	5 188	7 729
Total	**49 518**	**14 393**	**35 125**

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

In KUSD	2016	2015*
Taxes to receive	4 084	5 224
Taxes to pay	-5 651	- 229
Net taxes to pay	**-1 567**	**4 995**

In KUSD	2016	2015*
Net taxes to pay at the beginning of the period	4 995	1 561
Change consolidation scope	0	0
Transfer	0	0
Reclassification to liabilities associated with assets available for sale	0	0
Taxes to pay	-10 931	-7 035
Paid taxes	4 369	10 469
Net taxes to pay at the end of the period	**-1 567**	**4 995**

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

In KUSD	2016	2015*
Tax expense	-12 384	-6 185
Deferred tax	1 453	- 850
Current taxes	**-10 931**	**-7 035**
Variation prepaid taxes	1 140	1 527
Variation payable taxes	5 422	-4 961
Paid taxes	**-4 369**	**-10 469**

* We refer to note 36 for additional information relating to the restatement of the 2015 comparative figures

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
PT Agro Muko	Jakarta / Indonesia	47.29	44.93
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 Agro Muko*, *PT Timbang Deli* and *Verdant Bioscience Singapore Pte Ltd*
2. The insurance sector: *BDM NV* and *ASCO NV*.

The group has a 44,93% participation in *PT Agro Muko*, a company located on the island of Sumatra in Indonesia. *PT Agro Muko*, active in palm oil as well as rubber, is a private company which is not quoted on the stock exchange. In accordance with the IFRS 11 standard *PT Agro Muko* is classified as a joint venture and is therefore included using the equity method.

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	2016	2015*
PT Agro Muko	43 217	38 594
Verdant Bioscience Singapore Pte Ltd	6 855	7 350
PT Timbang Deli Indonesia	1 897	2 335
Insurances (BDM NV and ASCO NV)	8 968	8 596
Total	**60 937**	**56 875**

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

In KUSD	2016	2015*
PT Agro Muko	9 323	6 366
Verdant Bioscience Singapore Pte Ltd	- 495	- 517
PT Timbang Deli Indonesia	- 428	- 70
Insurances (BDM NV and ASCO NV)	659	176
Total result	**9 059**	**5 955**

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

Tropical agriculture

The associated companies and joint-ventures included in the tropical agriculture consist of:

a) The joint venture *PT Agro Muko*

b) 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.

	PT Agro Muko		Verdant Bioscience Singapore Pte Ltd		PT Timbang Deli	
In KUSD	**2016**	**2015***	**2016**	**2015***	**2016**	**2015***
Biological assets	34 934	33 411	0	0	3 816	4 152
Other non-current assets	29 508	29 541	23 621	23 625	5 890	2 942
Current assets	17 669	16 156	6 520	5 159	651	944
Cash and cash equivalents	17 634	8 272	110	72	446	882
Total assets	**99 745**	**87 380**	**30 251**	**28 856**	**10 803**	**8 920**
Non-current liabilities	7 110	6 074	0	0	1 200	1 178
Long term financial debts	0	0	0	0	0	0
Current liabilities	7 956	6 404	6 138	3 441	6 586	3 509
Short term financial debts	0	0	0	0	0	0
Equity	84 679	74 902	24 113	25 415	3 017	4 233
Total liabilities	**99 745**	**87 380**	**30 251**	**28 856**	**10 803**	**8 920**

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.

	PT Agro Muko		Verdant Bioscience Singapore Pte Ltd		PT Timbang Deli	
In KUSD	**2016**	**2015***	**2016**	**2015***	**2016**	**2015***
Inclusion in the consolidation:	47.29%	47.29%	38.00%	38.00%	36.10%	36.10%
Revenue	60 912	50 619	0	0	2 141	2 300
Depreciation	4 597	4 350	6	3	546	165
Interest income	20	27	0	0	4	4
Interest charges	0	0	0	7	32	0
Net result	19 714	13 462	-1 303	-1 360	-1 186	- 194
Share in the consolidation	**9 323**	**6 366**	**- 495**	**- 517**	**- 428**	**- 70**
Total share of the group	8 857	6 048	- 495	- 517	- 428	- 70
Total share minorities	466	318	0	0	0	0
Total	**9 323**	**6 366**	**- 495**	**- 517**	**- 428**	**- 70**

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

	PT Agro Muko		Verdant Bioscience Singapore Pte Ltd		PT Timbang Deli	
In KUSD	**2016**	**2015***	**2016**	**2015***	**2016**	**2015***
Equity without goodwill	84 679	74 902	24 113	25 415	3 017	4 233
Share of the group	40 046	35 423	9 162	9 657	1 090	1 528
Goodwill	3 171	3 171	0	0	807	807
Equity elimination PT Timbang Deli	0	0	-2 307	-2 307	0	0
Total	**43 217**	**38 594**	**6 855**	**7 350**	**1 897**	**2 335**

Reconciliation insurances

	Insurances	
In KUSD	**2016**	**2015***
Equity without goodwill	17 936	17 192
Total Share of the group	**8 968**	**8 596**

Dividends received from associated companies and joint ventures

During the year the following dividends were received:

In KUSD	**2016**	**2015***
PT Agro Muko	4 729	7 094
BDM NV	0	221
Total	**4 729**	**7 315**

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

* We refer to note 36 for additional information relating to the restatement of the 2015 comparative figures

28. CHANGE IN NET WORKING CAPITAL

In line with the increased operating profit, the cash flow from operating activities was significantly higher in 2016 (KUSD 74 391) than in 2015 (KUSD 49 890).

The increase in working capital by KUSD 18 804 is primarily attributable to higher production volumes in the fourth quarter and a temporary increase in outstanding (not yet due) trade receivables. By the end of January 2017, these trade receivables had already decreased by approximately USD 15 million.

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 2 300 (without taking into account the impact of the 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	12 734	14 007	15 563
Gross impact income statement	1 273		-1 556

The pension liability in Indonesia consists of KUSD 11 329 from fully consolidated subsidiaries and of KUSD 2 678 from equity consolidated companies (*PT Agro Muko* and *PT Timbang Deli*)

On February 14th, 2017 the board of directors has also proposed the payment of KEUR 11 190 (EUR 1.25 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 12 287 for KEUR 11 190 (average exchange rate of 0.9135).

- KUSD 9 953 (KEUR 9 000) before the end of the year
- KUSD 2 334 (KEUR 2 190) 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%	Book value	EUR Rev 10%
Dividend	8 522	9 469	10 416
Gross Impact income statement	- 947		947

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.

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 -45 061 (2015: KUSD -50 521), of which KUSD 62 265 short term financial liabilities (2015: KUSD 69 649) and KUSD 17 204 net short term cash and cash equivalents (2015: KUSD 19 128). At the end of December 2016, there are no borrowings with an initial term of more than one year. Since all of the debt is of a current nature with variable interest rates, we believe a 0.5% change in interest rate will not have a material impact. 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	2016	2015
Receivables from the sale of palm oil/rubber/tea	39 280	22 237
Receivables from the sale of bananas and plants	1 121	564
Total	**40 401**	**22 801**

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 rubber and tea there is each time 1 client which represents over 30% of total sales. 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	2016	2015
Not yet due	749	452
Due < 30 days	352	32
Due between 30 and 60 days	20	79
Due between 60 and 90 days	0	1
Total	**1 121**	**564**

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.

The capital loss on receivables which was recorded in 2015 (KUSD 657) concerns the 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.

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
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**

2015 - In KUSD	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	2-3 years	3-4 years	More than 5 years
Trade & other liabilities < 1 year							
Trade payables	11 675	-11 675	-11 675				
Advances received	285	- 285	- 285				
Financial liabilities < 1 year							
Current portion of amounts payable after one year							
Financial liabilities	69 649	-69 673	-69 673				
Derivatives	837	- 837	- 837				
Other current liabilities							
Current liabilities	**82 446**	**-82 470**	**-82 470**	**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 2016, 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

Fair values of derivatives are:

In KUSD	2016	2015*
Forward exchange transactions	-1 176	- 837
Interest rate swaps	0	0
Fair value (+ = asset; - = liability)	**-1 176**	**- 837**

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 2016 were also incorporated in level 2.

The notional amount from the forward exchange contracts amounts to KUSD 30 338.

Financial instruments per category

The next table gives the financial instruments per category as per end 2016 and end 2015. 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.

2016 - In KUSD	Assets available for sale	Loans and receivables	Derivatives	Total carrying amount
			(1)	
Financial assets				
Other investments	22			22
Other financial assets				0
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 (2)	Total carrying amount
		(2)	
Trade and other obligations > 1 year			0
Financial obligations > 1 year (incl. derivatives)			0
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

2015 - In KUSD	Assets available for sale	Loans and receivables	Derivatives	Total carrying amount
			(1)	
Financial assets				
Other financial assets	3 822			3 822
Other investments				0
Receivables > 1 year				
Other receivables				0
Total non-current financial assets	**3 822**	**0**	**0**	**3 822**
Trade and other receivables				
Trade receivables		22 801		22 801
Trade receivables				
Other investments and deposits				0
Cash and cash equivalents		19 128		19 128
Derivatives				0
Total current financial assets	**0**	**41 929**	**0**	**41 929**
Total financial assets	**3 822**	**41 929**	**0**	**45 751**

	Derivatives	Other liabilities	Total carrying amount
		(2)	
Trade and other obligations > 1 year			0
Financial obligations > 1 year (incl. derivatives)		0	0
Total non-current financial liabilities	**0**	**0**	**0**
Trade & other obligations < 1 year			
Trade payables		11 675	11 675
Advances received		285	285
Financial obligations < 1 year			
Current portion of amounts payable after one year			0
Financial obligations		69 649	69 649
Derivatives	837		837
Total current financial liabilities	**837**	**81 609**	**82 446**
Total financial liabilities	**837**	**81 609**	**82 446**

(1) is technically considered as held for trading under IAS 39
(2) at amortized cost

The contribution to the net result of the financial insturments per category is presented as follows:

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		- 177	- 702			- 879
Derivatives held for trade purposes				- 339		- 339
Total	**0**	**- 146**	**- 613**	**- 339**	**0**	**-1 098**

2015 - 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	80			81
Financial charges		- 297	- 523			- 820
Derivatives held for trade purposes				919		919
Total	**0**	**- 296**	**- 443**	**919**	**0**	**180**

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	2016	2015
1 year	279	298
2 years	62	81
3 years	36	29
4 years	34	2
5 years	22	0
	433	**410**

During the year an amount of KUSD 322 (compared to KUSD 327 in 2015) 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 has been issued by third parties as security for the company's account and for the account of subsidiaries during 2016.

The various rights and commitments are comprised of call-options (KUSD -100) and put-options (KUSD 65) on the assets of the insurance sector.

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	2016	2015
Directors' fees		
Fixed fees	305	294
Short-term employee benefits	1 702	2 103
Share based payments	87	97
Post-employment benefits	508	507
Benefits in kind (Company car+ cell phone)	34	44
Total	**2 636**	**3 045**

The amounts are paid in EUR. The amount paid in 2016 amounts to KEUR 2 388 (2015: KEUR 2 758). The decrease of KEUR 370 is mainly a consequence of the decrease of the variable payments in 2016 compared to 2015.

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 181 (KEUR 163) and KUSD 73 (KEUR 66) 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	2 958	395	0
Total purchases during the financial year	57 224	1 673	0
Total receivables as per 31 December 2016	1 117	5 259	2 731
Total payables as per 31 December 2016	3 208	267	6 520

34. BUSINESS COMBINATIONS, ACQUISITIONS AND DIVESTITURES

On 15 February 2016, a sale of shares agreement was signed to finalize the sale of *Galley Reach Holdings Ltd* at approximately the current net carrying value.

Following this agreement, the company *Galley Reach Holdings Ltd*, which was already classified as an asset held for sale, was deconsolidated. The deconsolidation was done as per end of February 2016. The results of *Galley Reach Holdings Ltd* until then were included in the consolidated financial statements using the full consolidation method.

On the 1st of June 2016, the company was handed over to the new owners. Until that time, the *SIPEF* group has purchased and sold all remaining productions of *Galley Reach Holdings Ltd*. These transactions were treated as third party purchases.

Per 30 June 2016 an amount of KUSD 640 was already received relating to the sale. On the 1st of July another tranche of KUSD 840 was received. The remaining part will be received over the course of the next 4 years. There are no interest received on the deferred payments. The remaining cash in *Galley Reach Holdings Ltd* (KUSD 87) was already included in the "assets held for sale" and therefore leave the group after the sale of *Galley Reach Holdings Ltd*.

The sale has occurred under the condition that all land rights of *Galley Reach Holdings Ltd* which had come to expire at the time of signing, would be successfully renewed. The *SIPEF* group does not expect any issues to fulfill this condition. Should any of the land rights not be renewed by the government, then the final payment in 2020 will be reduced proportionally with a maximum of KUSD 1 350.

The above mentioned transaction had the following effects on the balance sheet, the income statement and the cash flow:

In KUSD	Total
Other receivables > 1 year	4 983
Other current assets	174
Assets held for sale	-7 334
Assets held for sale: cash and cash equivalents	- 88
Cash and cash equivalents	1 500
Total assets	**- 765**
Result until February 2016	- 310
Currency translation adjustment	- 76
Liabilities associated with assets held for sale	- 479
Provisions	139
Total liabilities	**- 726**
Result on disposal of financial assets	- 39
Total result of the sale	**- 39**
Net cash received (+) / payed (-)	1 412

35. EARNINGS PER SHARE (BASIC AND DILUTED)

From continuing and discontinued operations	2016	2015
Basic earnings per share		
Basic earnings per share - calculation (USD)	4.50	2.11
Basic earnings per share is calculated as follows:		
Numerator: net result for the period attributable to ordinary shareholders (KUSD)	39 874	18 708
Denominator: the weighted average number of ordinary shares outstanding	8 851 266	8 880 661
The weighted average number of ordinary shares outstanding is calculated as follows:		
Number of ordinary shares outstanding at January 1	8 880 661	8 889 740
Effect of shares issued / share buyback programs	- 29 395	- 9 079
The weighted average number of ordinary shares outstanding at December 31	8 851 266	8 880 661
Diluted earnings per share		
Diluted earnings per share - calculation (USD)	4.50	2.11
The diluted earnings per share is calculated as follows:		
Numerator: net result for the period attributable to ordinary shareholders (KUSD)	39 874	18 708
Denominator: the weighted average number of dilutive ordinary shares outstanding	8 851 666	8 880 661
The weighted average number of dilutive ordinary shares outstanding is calculated as follows:		
The weighted average number of ordinary shares outstanding at December 31	8 851 266	8 880 661
Effect of stock options on issue	400	0
The weighted average number of dilutive ordinary shares outstanding at December 31	8 851 666	8 880 661

From continuing operations		
Basic earnings per share		
Basic earnings per share	4.50	2.11
Basic earnings per share is calculated as follows:		
Numerator: net result for the period attributable to ordinary shareholders (KUSD)	39 874	18 708
Denominator: the weighted average number of ordinary shares outstanding	8 851 266	8 880 661
The weighted average number of ordinary shares outstanding is calculated as follows:		
Number of ordinary shares outstanding at January 1	8 880 661	8 889 740
Effect of shares issued / share buyback programs	- 29 395	- 9 079
The weighted average number of ordinary shares outstanding at December 31	8 851 266	8 880 661
Diluted earnings per share		
Diluted earnings per share - calculation (USD)	4.50	2.11
The diluted earnings per share is calculated as follows:		
Numerator: net result for the period attributable to ordinary shareholders (KUSD)	39 874	18 708
Denominator: the weighted average number of dilutive ordinary shares outstanding	8 851 666	8 880 661
The weighted average number of dilutive ordinary shares outstanding is calculated as follows:		
The weighted average number of ordinary shares outstanding at December 31	8 851 266	8 880 661
Effect of stock options on issue	400	0
The weighted average number of dilutive ordinary shares outstanding at December 31	8 851 666	8 880 661

36. RESTATEMENT IAS 41 REVISED

In November 2015 the amendments to IAS 16 and IAS 41 – *Bearer Plants* were endorsed by the EU for annual periods beginning on or after 1 January 2016 with earlier application permitted. Due to these amendments, bearer plants are now included in the scope of IAS 16 – *Property, Plant and Equipment* and measured at historical cost rather than fair value. *SIPEF* opted to early adopt the amendments in its 2015 annual financial statements.

Initially, a judgement was made that the portion of the biological asset that conceptually remains in the scope of IAS 41 – *Agriculture*, generally designated as the 'growing agricultural produce', could not be objectively distinguished from the bearer plants and could thus not be measured reliably. As a result and consistent with the internal reporting, fair value measurement was only applied at the point of harvest in the financial statements for the periods ended 31 December 2015 and 30 June 2016.

Subsequently, a benchmark approach has been developed in the palm oil sector to define the growing agricultural produce as the oil contained in the palm fruit, so that the fair value of this distinct asset can be estimated reliably. On this basis, the initial judgement was revised and the financial statements of prior periods were restated to reflect the growing agricultural produce at fair value.

The limited impact of this restatement on the income statement, balance sheet and cash flow statement is disclosed below.

Effect on the consolidated income statement

In KUSD (condensed)	2015	2015R	Difference
Gross Sales	225 935	225 935	0
Cost of Sales	- 181 740	- 182 285	- 545
Gross Margin	**44 195**	**43 650**	**- 545**
Selling, general and administrative expenses	- 22 660	- 22 660	0
Other operating income/(charges)	457	457	0
Operating Result	**21 992**	**21 447**	**- 545**
Financial Income	81	81	0
Financial costs	- 820	- 820	0
Exchange variances	62	62	0
Financial Result	**- 677**	**- 677**	**0**
Profit before tax	**21 315**	**20 770**	**- 545**
Tax	- 6 339	- 6 185	154
Profit after tax	**14 976**	**14 585**	**- 391**
Share of results of associated companies and joint ventures	6 115	5 955	- 160
Share of results of associated companies and joint ventures	**21 091**	**20 540**	**- 551**
Share of results of associated companies and joint ventures	**21 091**	**20 540**	**- 551**
- Non controlling interests	1 865	1 832	- 33
- Equity holders of the parent	19 226	18 708	- 518
Basic earnings per share / Diluted earnings per share	**2.16**	**2.11**	**-0.05**

Effect on the net assets (increase/(decrease) of the net assets)

In KUSD (condensed)	2015	2015R	Difference
Tangible and intangible assets	242 066	242 066	0
Biological assets - bearer plants	163 505	163 505	0
Investments in associates and joint ventures	56 604	56 875	271
Financial assets	3 822	3 822	0
Deferred tax assets	16 465	16 222	- 243
Total non-current assets	**482 462**	**482 490**	**28**
Inventories	21 301	21 301	0
Biological assets	0	1 896	1 896
Receivables	44 418	44 418	0
Cash and cash equivalents	19 128	19 128	0
Other current assets	2 377	2 377	0
Assets held for sale	7 422	7 422	0
Total current Assets	**94 646**	**96 542**	**1 896**
Total assets	**577 108**	**579 032**	**1 924**
Provisions	1 257	1 257	0
Deferred tax liabilities	30 363	30 632	269
Pension liabilities	10 509	10 509	0
Trade liabilities	25 401	25 401	0
Financial liabilities < 1 year	70 486	70 486	0
Other current liabilities	1 439	1 439	0
Liabilities associated with assets held for sale	479	479	0
Total liabilities	**139 934**	**140 203**	**269**
(Net impact on) equity			
Attributable to:			
- Non-controlling interests	**23 312**	**23 400**	**88**
- Equity holders of the parent	**413 862**	**415 429**	**1 567**

Effect on the cash flow

In KUSD (condensed)	2015	2015R	Difference
Profit before tax	21 315	20 770	- 545
Adjusted for:			
Depreciation	28 126	28 126	0
Movement in provisions	- 659	- 659	0
Stock options	293	293	0
Changes in fair value of biological assets	0	545	545
Other non-cash results	- 320	- 320	0
Hedge reserves and financial derivatives	- 919	- 919	0
Financial income and charges	445	445	0
Capital loss on receivables	657	657	0
Capital gain on sale of investments	0	0	0
Result on disposal of property, plant and equipment	952	952	0
Result on disposal of financial assets	0	0	0
Cash flow from operating activities before change in net working capital	49 890	49 890	0
Change in net working capital	- 8 062	- 8 062	0
Income taxes paid	- 10 471	- 10 471	0
Cash flow from operating activities after tax	**31 357**	**31 357**	**0**
Acquisitions intangible and tangible assets	- 49 002	- 49 002	0
Acquisitions financial assets	0	0	0
Operating free cash flow	**- 17 645**	**- 17 645**	**0**
Dividends received from associated companies	7 315	7 315	0
Proceeds from sale of assets	2 132	2 132	0
Free cash flow	**- 8 198**	**- 8 198**	**0**
Financial income and charges	1 351	1 351	0
Net increase in investments, cash and cash equivalents	**- 6 847**	**- 6 847**	**0**
Net free cash flow	**27 256**	**27 256**	**0**

37. EVENTS AFTER THE BALANCE SHEET DATE

SIPEF is likely to sign a Heads of Agreement with PT Agro Investama Gemilang (AIG) relating to the acquisition of 95% of the shares of *PT Dendy Marker Indah Lestari (DMIL)* for a consideration of KUSD 53 105.

DMIL, incorporated under the laws of Indonesia and located in Musi Rawas Utara, South Sumatra in Indonesia, has a permanent licence (HGU) since 1998 and is the owner of 6 562 cleared/planted hectares of oil palm, with a potential to expand to a total of 9 000 planted hectares, next to the current 2 780 hectares of smallholders cultivation (plasma). The fruit is processed in a palm oil extraction mill with a capacity up to 25 tonnes/hour and the operations are RSPO certified.

Regarding the potential acquisition of an additional interest of 47.71% in *PT Agro Muko*, announced in December 2016, *SIPEF* expects to receive clearance from the "Capital Investment Coordinating Board" (Badam Koordinasi Penanaman Modal or BKPM) for the acquisition of the stakes from PT Austindo Nusantara Jaya TBK and M.P. Evans Group Plc. The closing of this transaction will then be completed with the final payment up to a total of KUSD 144 080.

The board of directors of *SIPEF* will propose to the shareholders to refinance the investment in *PT Agro Muko* and in *DMIL*, as soon as successfully closed, by combining a capital increase with preferential subscription rights for the current shareholders for an amount up to KUSD 97 200 and a long-term bank loan for the remaining amount. An extraordinary general meeting could be convened on April 4, 2017 to approve such a capital increase.

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 1.25 per share payable on July 5, 2017. This corresponds to a payout of 30,98% 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 Dirk Cleymans. 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 105 (against KUSD 105 last year). For the group, Deloitte has provided services for KUSD 483 in 2016 (against KUSD 477 the year before), of which KUSD 154 (2015: KUSD 71) are for non audit services.

Deloitte.

Statutory auditor's report to the shareholders' meeting of Sipef NV on the consolidated financial statements for the year ended 31 December 2016

As required by law, we report to you in the context of our appointment as the company's statutory auditor. This report includes our report on the consolidated financial statements together with our report on other legal and regulatory requirements. These consolidated financial statements comprise the consolidated statement of financial position as at 31 December 2016, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, as well as the summary of significant accounting policies and other explanatory notes.

Report on the consolidated financial statements – Unqualified opinion

We have audited the consolidated financial statements of Sipef NV ("the company") and its subsidiaries (jointly "the group"), prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium. The consolidated statement of financial position shows total assets of 615 332 (000) USD and the consolidated income statement shows a consolidated profit (group share) for the year then ended of 39 874 (000) USD.

Board of directors' responsibility for the preparation of the consolidated financial statements

The board of directors is responsible for the preparation and fair presentation of 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.

Statutory auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA) as adopted in Belgium. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the statutory auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the statutory auditor considers internal control relevant to the group's preparation and fair presentation of consolidated financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the board of directors, as well as evaluating the overall presentation of the consolidated financial statements. We have obtained from the group's officials and the board of directors the explanations and information necessary for performing our audit.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Unqualified opinion

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 2016, and of its results and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium.

Report on other legal and regulatory requirements

The board of directors is responsible for the preparation and the content of the directors' report on the consolidated financial statements.

As part of our mandate and in accordance with the Belgian standard complementary to the International Standards on Auditing applicable in Belgium, our responsibility is to verify, in all material respects, compliance with certain legal and regulatory requirements. On this basis, we make the following additional statement, which does not modify the scope of our opinion on the consolidated financial statements:

- The directors' report on the consolidated financial statements includes the information required by law, is consistent with the consolidated financial statements and is free from material inconsistencies with the information that we became aware of during the performance of our mandate.

Antwerp, 10 April 2017

The statutory auditor

DELOITTE Bedrijfsrevisoren / Reviseurs d'Entreprises
BV o.v.v.e. CVBA / SC s.f.d. SCRL
Represented by Dirk Cleymans

Parent company summarized 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 annual 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 2016 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 summarized statutory accounts.

Condensed balance sheet

(after appropriation)

In KUSD	2016	2015
Assets		
Fixed assets	**294 792**	**292 865**
Formation expenses	0	0
Intangible assets	60	41
Tangible assets	473	468
Financial assets	294 259	292 356
Current assets	**70 074**	**43 565**
Amounts receivable after more than one year	8 323	0
Stocks and contracts in progress	584	497
Amounts receivable within one year	49 380	28 063
Investments	6 204	5 745
Cash at bank and in hand	5 514	9 198
Other current assets	69	62
Total assets	**364 866**	**336 430**
Liabilities		
Equity	**140 337**	**128 977**
Capital	37 852	37 852
Share premium account	17 730	17 730
Reserves	10 548	10 140
Profit/ (loss) carried forward	74 207	63 255
Provisions and deferred taxation	**44**	**57**
Provisions for liabilities and charges	44	57
Creditors	**224 485**	**207 396**
Amounts payable after more than one year	103 484	85 583
Amounts payable within one year	120 922	102 153
Accrued charges and deferred income	79	19 660
Total liabilities	**364 866**	**336 430**

Condensed income statement

In KUSD	2016	2015
Operating income	240 429	203 924
Operating charges	- 237 632	- 198 897
Operating result	**2 797**	**5 027**
Financial income	46 590	2 385
Financial charges	- 24 647	- 11 128
Financial result	**21 943**	**- 8 743**
Result for the period before taxes	**24 740**	**- 3 716**
Income taxes	- 1 608	0
Result for the period	**23 132**	**- 3 716**

Appropriation account

In KUSD	2016	2015
Profit/ (loss) to be appropriated	**86 387**	**71 095**
Profit/ (loss) for the period available for appropriation	23 132	- 3 716
Profit/ (loss) brought forward	63 255	74 811
Appropriation account	**86 387**	**71 095**
Transfers to legal reserve	0	0
Transfers to other reserves	408	1 992
Result to be carried forward	74 207	63 255
Dividends	11 772	5 848
Remuneration to directors	0	0

Notes

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