SIPEF

100 YEARS

/// ANNUAL REPORT 2018 ///

Our mission

WHAT WE DO?

We produce sustainable certified tropical agricultural commodities, primarily crude palm oil and palm products.

WHY WE DO IT?

We are convinced that palm oil, as the most productive and efficient vegetable oil, is an essential part of a balanced diet for an increasingly large and rich global population. Our goal is to be a reliable partner for our customers, suppliers, employees and other stakeholders in the production and sale of sustainable palm products, so that they, in turn, can be successful.

HOW WE CREATE VALUE?

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

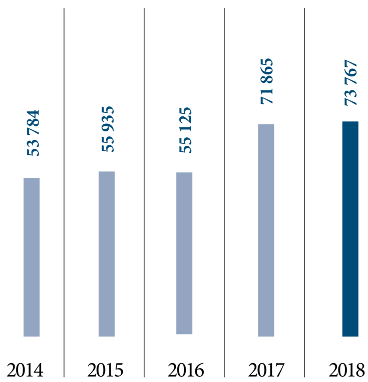
Key figures 2018

351 757 TONNES
Produced palm oil

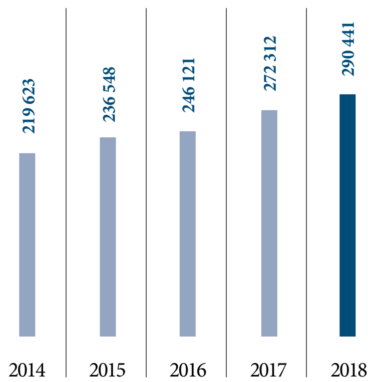
USD 598/TONNE (CIF)
Average world market price of palm oil

KUSD 72 096
Gross profit

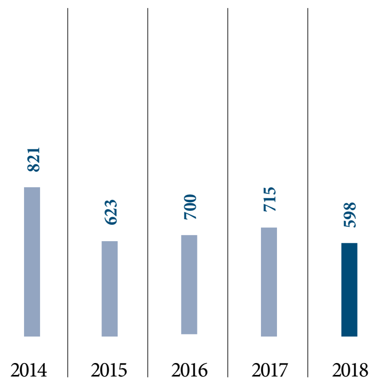
Total planted hectares – share of the Group



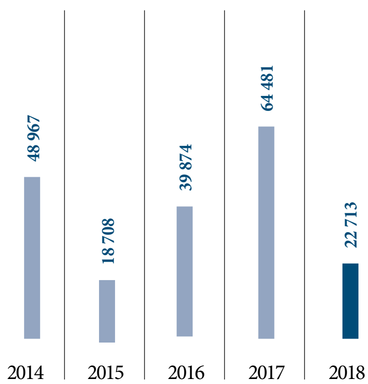
Total own production of palm oil of consolidated companies (in tonnes)



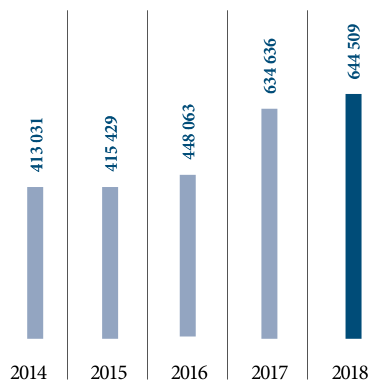
Average world market price of palm oil (USD per tonne)



Recurring net profit - share of the Group (in KUSD)



Shareholders' equity (in KUSD)



Tea - 2%

SIPEF produces high quality Melania teas on a unique estate which still harvests using skilled hand plucking

Bananas - 1%

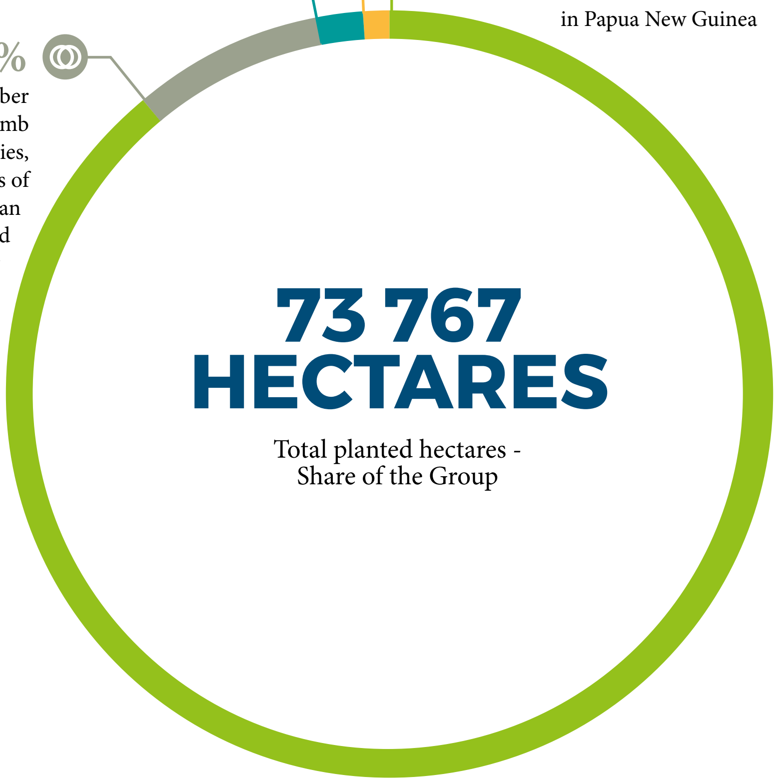
SIPEF owns 3 banana plantations along with 4 packing stations in Ivory Coast, mainly exporting to the European market

Oil palms - 90%

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

Rubber - 7%

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

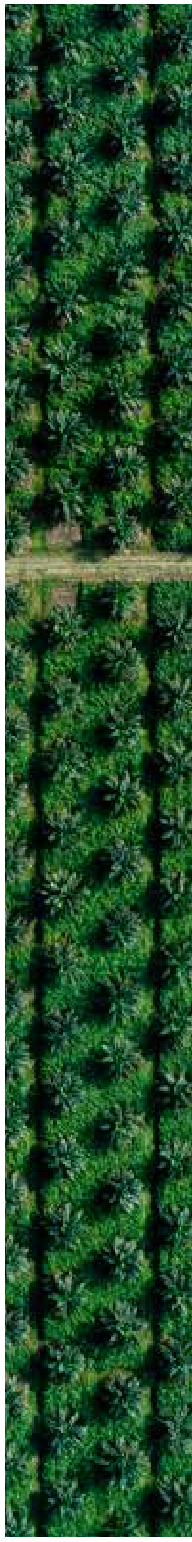


The connection to the world of sustainable tropical agriculture

100%
RSPO-compliant with regard to oil palm activities

21 619
employees working on our plantations and related processing facilities

5 OF 9
palm oil mills are equipped to produce zero methane



Content

SIPEF at a glance

79 787 HA
Planted area of the Group

351 757 TONNES
Palm oil represents 87% of the revenue of the SIPEF group

7 982 TONNES
Rubber represents 5% of the revenue of the SIPEF group

21 619
Employees in the Group

27 788 TONNES
Bananas represent 6% of the revenue of the SIPEF group

2 422 TONNES
Tea represents 2% of the revenue of the SIPEF group

Palm oil

SIPEF has in total nine palm oil mills, all RSPO certified. In Indonesia we have six mills, also partly ISCC and ISPO certified, where we produce crude palm oil and palm kernels. The three palm oil mills in Papua New Guinea produce crude palm oil and crude palm kernel oil. We intend to offer our customers 100% certified physical segregated traceable supply chains.

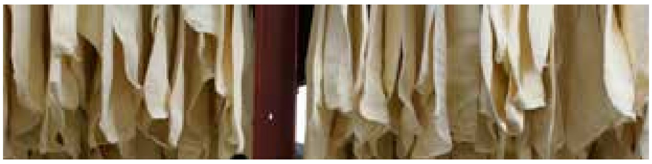
Sustainability certification
- RSPO
- ISPO
- ISCC

Main operations
- Indonesia (60% of CPO)
- Papua New Guinea (40% of CPO)

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

Average world market price 2018 (vs 2017 in %)
CPO USD 598 per tonne (-16%)
PKO USD 921 per tonne (-28%)

Hectares planted
71 500



Rubber

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

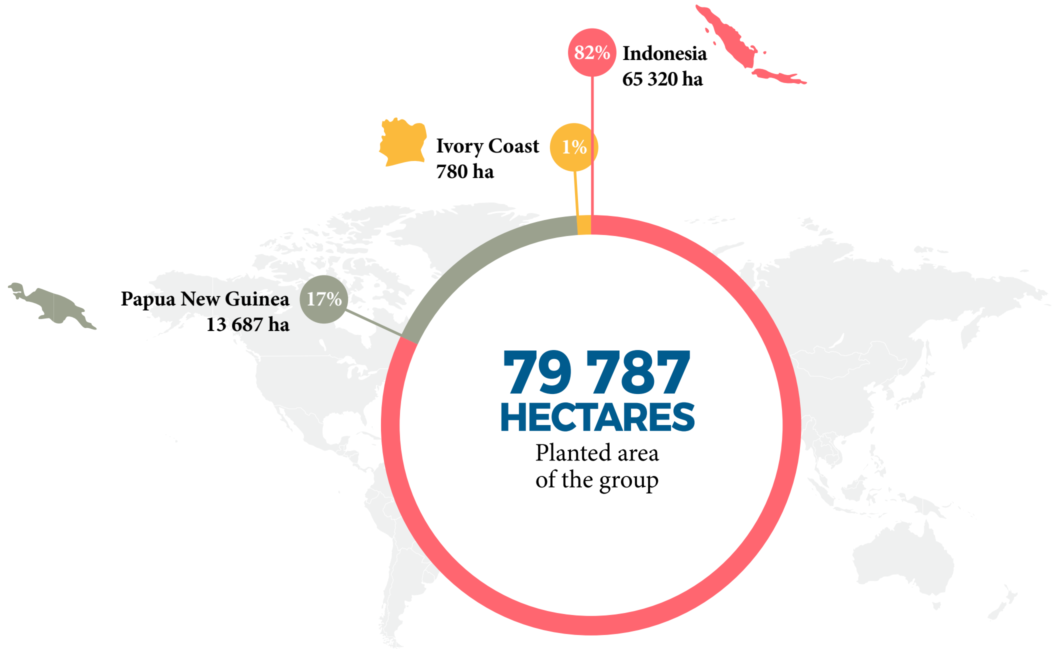
Sustainability certification
- Rainforest Alliance

Main operations
- Indonesia

Main markets
Our natural rubber is mostly sold at a FOB Indonesian port, but given its location as well as our production grades, the majority of our rubber is shipped to the United States.

Average world market price 2018 (vs 2017 in %)
RSS3 USD 1 565 per tonne (-22%)

Hectares planted
5 744



Tea

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

Sustainability certification

- Rainforest Alliance

Main operations

- Indonesia

Main markets

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

Average world market price 2018 (vs 2017 in %)

Combined grades USD 2 579 per tonne (-13%)

Hectares planted

1 763

Bananas

SIPEF has three production sites in Ivory Coast, West Africa, where we grow, pack and export green bananas according to international standards. Our plantations, located on the periphery of Abidjan, are GLOBALG.A.P. and Rainforest Alliance certified and we thus ensure a strict control of the entire quality chain, food security and logistics. The variety cultivated is Cavendish and it is packaged in standard cardboard boxes with our own brand, or as ordered and prepacked with the customer's brand.

Sustainability certification

- Rainforest Alliance
- GLOBALG.A.P.

Main operations

- Ivory Coast

Main markets

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

Average world market price 2018 (vs 2017 in %)

EUR 647 per tonne (-5%)

Hectares planted

749

SIPEF on the stock market

Stock market listing

The SIPEF shares have been listed on the Brussels stock market since the establishment of SIPEF in 1919.

Currently, the shares are listed on the spot market of Euronext Brussels (share code: SIP, ISIN code: BE0003898187).

Evolution of the SIPEF share compared to the crude palm oil price

The graph below shows that the value of SIPEF shares in EUR follows the same trend as the crude palm oil price (restated in EUR). The change in trend in 2017 is probably due to the expansions at the end of 2016 and the beginning of 2017, and the corresponding capital increase in May 2017. Since these transactions in the first semester of 2017, the relationship between SIPEF shares and the crude palm oil price has been restored.

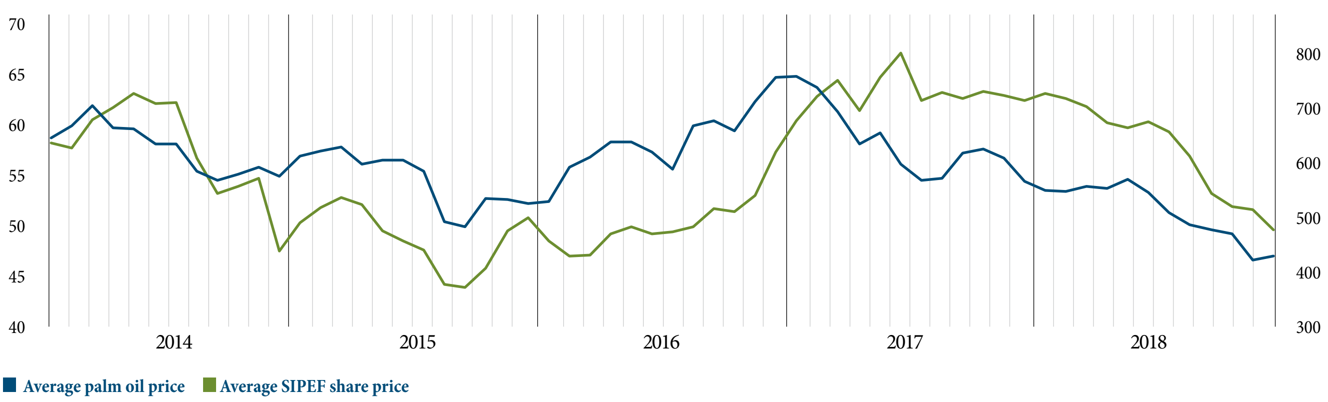
EUR 48.8

SIPEF share price
on 31/12/2018

KEUR 516 271

Market capitalisation
on 31/12/2018

Evolution SIPEF share (in EUR) vs crude palm oil price (in USD)



Stock market data on the SIPEF share

Evolution stock market data of the SIPEF share (in EUR)

	2018	2017	2016	2015	2014
Highest stock price of the year	65.0	70.0	60.8	53.9	64.0
Lowest stock price of the year	46.5	57.0	45.5	40.0	45.1
Closing stock price per 31/12	48.8	62.8	60.5	52.8	47.7
Market capitalisation per 31/12 (KEUR)	516 271	664 382	541 491	472 383	426 819
Number of shares per 31/12	10 579 328	10 579 328	8 951 740	8 951 740	8 951 740
Average number of shares traded per trading day	4 967	5 014	3 042	4 799	3 704
Average turnover per trading day (KEUR)	287	318	155	230	206

Financial calendar

The periodical and occasional information relating to the Company and to the Group will be published before opening hours of the stock exchange as follows:

Thursday 18 april 2019	Interim results for the first three months
Wednesday 14 August 2019	Half-year results
Thursday 17 October 2019	Interim report for the first nine months
February 2020	Results of the financial year, accompanied with comments on the activities of the Group
10 June 2020	Next ordinary general meeting will be held at 3:00 pm at Kasteel Calesberg, Calesbergdreef 5, 2900 Schoten

In accordance with the legal regulations all important data that could influence in one way or another the results of the Company and of the Group will be subject to a separate press release.

Financial service

The main paying agent is Bank Degroof Petercam.

Corporate website

The website (www.sipef.com) plays an increasingly important role in the SIPEF financial communication. Therefore, a substantial part of the corporate website is reserved for investor relations.

As from the launch of the renewed SIPEF website in October 2018 reference is made to the daily stock price and the daily crude palm oil price (www.sipef.com/hq/investors/daily-share-price-cpo-price/).

/// One of our most recent crude palm oil (CPO) storage tanks ///

Significant events in 2018

04

April 2018

Rainforest Alliance certification was obtained for the rubber activities, meaning, where possible, all activities of the SIPEF group are now certified for sustainable production of agricultural products.

06

June 2018

The sale of BDM-ASCO was finalised with a net sale price of KUSD 20 463. This resulted in a gain of KUSD 7 376.

07

July 2018

ISO 9001:2015 certification for quality management systems was obtained for the Indonesian activities of SIPEF.

08

August 2018

A conditional sale contract was signed for the transfer to the SIPEF group of the land use rights (HGU) for 1 770 hectares of oil palm land in the Bengkulu province of Indonesia.

10

October 2018

Acquisition by SIPEF of the land use rights (HGU) for Mukomuko Agro Sejahtera (MMAS) for a term of 35 years. In recent years, SIPEF has developed MMAS into an oil palm company of 1 973 planted hectares under its own management and 387 hectares for the smallholders (plasma).

12

December 2018

SIPEF won the Family Business Award of Excellence® 2018.

/// Freshly harvested palm fruits (Fresh Fruit Bunches, FFB)///

/// Plucked tea leaves withering in the tea factory in West Java ///

01-12

January-December 2018

The original four concessions in Musi Rawas were expanded with the addition of three adjacent concessions, the total area increasing to 8 595 hectares. As a result, in the long run an estimated 22 805 hectares will be converted to sustainably developed oil palm plantations.

For the first time, SIPEF group's total annual production exceeded 1,5 million tonnes for palm fruit and 350 000 for crude palm oil.

On its 40th anniversary, Hargy Oil Palms Ltd in Papua New Guinea posted record production of 152 410 tonnes of palm products.

The area planted by the Group was enlarged to 79 787 hectares, mainly due to additional planting in South Sumatra.

The Dendymarker Indah Lestari (DIL) oil palm plantation acquired in 2017 was rehabilitated and 956 hectares were replanted in 2018. The palm oil mill was upgraded and since July all harvested fruit from the South Sumatra plantations has been processed on site.

Low palm oil prices, particularly in the second half of the year, led to a disappointing net result of KUSD 22 713 (share of the Group) excluding the one-off gains (64.8% lower than in 2017).

/// Young banana plants in the nursery ///

Sticking to our strategy

// François Van Hoydonck //
// Baron Luc Bertrand //

2019 is an important year for the Belgian agro-industrial group SIPEF. Not least because the Company is holding its 100th ordinary general meeting on 12 June. But particularly because it is very beneficial for shareholders to hear SIPEF's vision for the future after a century of doing business. We join managing director François Van Hoydonck and chairman of the board of directors Baron Luc Bertrand to look back on a fascinating 2018 through their eyes. They also make a well-founded assessment of what's in store for the industry and the Group.

We'll begin with palm oil production. Was 2018 good or very good for SIPEF?

FRANÇOIS VAN HOYDONCK: "In the first three quarters of 2018 palm oil production was substantially higher than the previous year, with an 8.6% increase in our own plantations. You know that 2017 was itself a very strong production year after the deferred consequences of the effects of El Niño in 2015. In the fourth quarter of 2018, however, the excessive rainfall in Sumatra was the main reason for the lower than expected harvests, so 2018 closed with a 6.3% increase compared with 2017."

31%

of the world volume
of vegetable oil is related
to palm oil

"The short-term palm oil price trend continues to be subject to the combined supply with the available quantities of soya and rapeseed oil, and the demand for biofuels."

// François Van Hoydonck //

"Our annual palm oil production surpassed 350 000 tonnes for the first time, a volume that will grow strongly over the next few years due to the steady enlargement of planted hectares. In 2023 we expect annual production to be 500 000 tonnes."

// François Van Hoydonck //

What does that mean in concrete terms?

FRANÇOIS VAN HOYDONCK: "Our annual production surpassed 350 000 tonnes for the first time, a volume that will grow strongly over the next few years due to the steady enlargement of planted hectares. In 2023 we expect annual production to be 500 000 tonnes."

Were the other cultures also so successful?

FRANÇOIS VAN HOYDONCK: "Unfortunately not. A temporary leaf mould caused a fall in production at the rubber plantations in North Sumatra and South Sumatra. Happily, that setback was largely offset by the growth in production in the young rubber Agro Muko plantings in Bengkulu. Production at the tea plantations in Cibuni, Java also stagnated due to unfavourable weather. There was also a 6.7% volume reduction at the banana plantations in Ivory Coast. That was due to quality problems with regard to premium export bananas."

Isn't there more going on in Indonesia?

LUC BERTRAND: "The country did indeed experience a tough year compared with the three preceding years. In spite of strong economic growth of 5.2% and a relatively limited inflation of 3%, the Indonesian currency fell substantially against the US dollar in 2018, due to the general reduction in invested capital across Southeast Asia. In the third quarter we saw 15 000 rupiah for one US dollar, a level we have not seen since the financial crisis at the end of the 1990s."

"As a tropical agricultural company, we remain focused on the sale of palm oil, palm kernel oil and palm kernels. We continue to do that within the framework of certified goods flows covered by the Roundtable on Sustainable Palm Oil (RSPO) and the International Sustainability and Carbon Certification (ISCC), for use in the food industry and green energy production."

// Luc Bertrand //

Do the presidential elections of April 2019 have anything to do with that?

LUC BERTRAND: "Possibly. In spite of the government's good work, everyone is looking forward to the elections and the possible consequences of any change in power. We certainly hope that the focus on economic growth and the stability of the country will return after the elections."

How are things going in Papua New Guinea?

FRANÇOIS VAN HOYDONCK: "The country experienced a tough political year back in 2017. That was compounded in 2018 by a lack of foreign currency due to the lower raw materials prices. That slowed down economic activity. The growth in the gross domestic product (GDP) was therefore very limited, at 0.5%. The rising population meant the GDP per capita actually fell by 1.3%, combined with inflation of 5%. Alongside mining, the plantation industry, with the production of palm oil, cacao and coffee, remains a strong aspect of the local economy."

There was growth in Ivory Coast. But aren't elections coming up there?

FRANÇOIS VAN HOYDONCK: "Last year, in spite of lower cacao prices, Ivory Coast experienced economic growth of almost 8%, with limited inflation of 1% and a stable currency that continues to be linked to the euro. The government of the current president, Alassane Ouattara, is concentrating on its policy of attracting foreign investments in industrial products, as well as modernising the road network and expanding the port structure. That is obviously good news for our banana exports from the port of Abidjan. It's right that preparations for the 2020 presidential elections are already in full swing."

You do not think palm oil should be targeted by governments?

FRANÇOIS VAN HOYDONCK: "The European Parliament unjustly targets palm oil production for its share in worldwide deforestation. Various studies show that extensive livestock farming in particular, but also cacao and coffee cultivation, forestry and the growth of soya and rapeseed areas contribute significantly to the deforestation of wooded areas. The establishment of the Roundtable on Sustainable Palm Oil (RSPO) and other certifications has made palm oil one of the most regulated agricultural activities in recent years. With the consumption of certified, sustainable palm oil the sustainable origin of the product is guaranteed and the consumers contribute to the realisation of at least 12 of the 17 Sustainable Development Goals of the United Nations."

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

LUC BERTRAND: "The long-term expectations for palm oil remain generally favourable. That's based on the fact that the global population is growing, especially in countries south of the equator, where the population sees the rising consumption of palm oil as a basic ingredient in their food as self-evident. This vegetable oil is capturing a larger and larger share of the food and biofuel market worldwide - though admittedly not in Europe. That is due among other things to its efficient industrial processing and its low cost price compared with other liquid oils. More than 31% of the global volume of vegetable oil is currently palm oil-related. Bearing in mind the area for farming is growing scarcer, this palm oil share will only increase."

And in the short term?

FRANÇOIS VAN HOYDONCK: "The short-term price trend continues to be subject to the combined supply with the available quantities of soya and rapeseed oil, and the demand for biofuels. That demand is in turn linked to the prices for crude oil and the willingness of some countries to subsidise compulsory blending."

How do you explain the fall in palm oil prices?

LUC BERTRAND: "Since April 2018 we have seen a downward trend in palm oil prices. It began with the introduction of import taxes on palm oil in India. Then came the first signs of a trade war between the United States and China. And then there were the large harvests of soya beans and rapeseed. All those things drove down demand for palm oil. Steps to buoy prices, such as the compulsory 20% blending of palm oil in biodiesel in Indonesia and the price advantage of biodiesel compared with the higher prices of crude oil, were not taken into account by the market. The higher than expected production of palm oil meant that supply exceeded demand in Europe and Southeast Asia, resulting in prices falling on the spot market to levels we had not seen in a decade."

Will that continue in 2019?

FRANÇOIS VAN HOYDONCK: "At the beginning of 2019 we continue to see spot palm oil prices suffering from the high stock volumes. But for the positions for deliveries starting in the second quarter we see better price levels and they are expected to rise further as demand surpasses production. And the outlook for palm oil prices continues to be favourable in the medium- to long-term. We expect demand to rise constantly, while the supply may be penalised by a lack of sustainable agricultural land and, in Southeast Asia, a number of obsolete sites that have not been replanted in time."

"In the future we will continue to endeavour to deliver all our products in those certified physical goods flows with full raw material traceability."

// Luc Bertrand //

So the focus continues to be on palm oil?

LUC BERTRAND: "As a tropical agricultural company, we remain focused on the sale of palm oil, palm kernel oil and palm kernels. We continue to do that within the framework of certified goods flows covered by the RSPO and the International Sustainability and Carbon Certification (ISCC), for use in the food industry and green energy production respectively. Those checks also go for our other products, tea, rubber and bananas, incidentally. In the future we will continue to endeavour to deliver all our products in those certified physical goods flows with full raw material traceability."

Can you rely on the support of consumers for that?

LUC BERTRAND: "Unfortunately, we cannot always rely on a similar effort from palm oil consumers, although the use of certified and traceable palm oil can positively answer all questions about environmental harm and/or social aspects. We hope to drive a change in mindset with a number of campaigns conducted through our industrial organisations."

Now the 'expansion' aspect. Is that necessary?

FRANÇOIS VAN HOYDONCK: "First this: the 6.7% rise in the palm oil annual production volumes on SIPEF group sites in 2018 was due to the good performance of the mature - you could say old - plantations in North Sumatra (+5.9%) and the plantations of Agro Muko, Bengkulu that are being replanted (+5.4%). We also see a steady growth (+4.9%) for the yields of our young palm oil areas in the expansion projects in PT Umbul Mas Wisesa and PT Toton Usaha Mandiri in North Sumatra, which have been fully completed. The first oil volumes in South Sumatra, after the acquisition of Dendymarker and the processing of the fruits of the Musi Rawas project at the Indonesian Dendymarker mill are a welcome addition. So, yes, expansion is necessary."

"There is a permanent demand from the local population, in close association with the smallholders, for the continued expansion of our activities."

// François Van Hoydonck //

But that expansion sometimes faces setbacks?

FRANÇOIS VAN HOYDONCK: "In the first quarter of 2018 we were once again hit by excessive rain on the Hargy Oil Palms Ltd plantations in Papua New Guinea, where the northern expansion areas are coming into full production. However, production recovered promptly on our own plantations with a rise in annual production of 4.1%. It was much tougher for the smallholders to achieve the expected level (+0.2%), though, which meant that the total palm oil production for the Group rose by 6.3%, compared with a strong production year in 2017."

Do smallholders support your expansion strategy?

FRANÇOIS VAN HOYDONCK: "Yes, there is a permanent demand from the local population, in close association with the smallholders, for the continued expansion of our activities and accelerated economic development of these remote communities. Because of the rules in place, the New Planting Procedures (NPP) for RSPO certification, it is getting increasingly harder to continue the expansions in Hargy Oil Palms Ltd. The high vegetation is problematical for us there. But we hope to convince the working groups in the RSPO organisation after all to give priority to the economic development of the local population in Papua New Guinea, balanced against the sustainable management of the forested areas to be protected. In the meantime, we are restricting the area already planted to 13 687 hectares, with a possible limited growth up to 15 000 hectares. This scale will at that time correspond to the full capacity utilisation of the three mills in Papua New Guinea, with due consideration for the production of the 3 700 or so smallholders, who account for 40% of the oil production."

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

LUC BERTRAND: "We are, indeed, continuing to focus on developing our activities in South Sumatra province. Since 2011, we have acquired four concessions through three local companies. In 2018 we were able to acquire three additional concessions, all of them directly bordering on land already acquired. During the financial year 2018, 2 257 hectares of additional activities were compensated and an additional 2 090 hectares planted, resulting in a total of 10 653 hectares of cultivated land. That is 68.5% of the total of 15 540 compensated hectares, of which 2 266 hectares were acquired for planting for smallholders and 13 283 for internal development."

40%

Share of smallholders' production in Papua New Guinea

21%

Share of South Sumatra in the total planted oil palm area of SIPEF

And what is the resulting capacity?

FRANÇOIS VAN HOYDONCK: “In addition to the expansion of our concessions in Musi Rawas, the acquisition of 95% of the PT Dendymarker Indah Lestari oil palm plantation in August 2017 was a major step in strengthening our presence in South Sumatra. During the financial year 2018 we replanted 956 hectares and the other planted areas were subjected to a thorough maintenance round to facilitate harvesting until they are replanted over the next four years. From June all fruits from the projects in South Sumatra were exclusively processed in our own extraction mill, which is now working at full capacity of which a doubling of processing capacity will be needed for the first time in 2020. Due to these acquisitions and the further expansion of the recently acquired concessions, we expect to be able to expand the business unit in South Sumatra to more than 33 000 planted hectares of oil palms over the next few years.”

“Rubber, tea and banana plantations remained part of our tropical agricultural activities in 2018, albeit with varying success with regard to their contribution to our results.”

// François Van Hoydonck //

“In August we acquired the existing Asri Rimba Wirabhakti plantation, with permanent land rights over 1 770 hectares, located in the vicinity of PT Agro Muko in Bengkulu. It will be developed and the fruits delivered to the local palm oil mill. This acquisition is part of the optimisation of the production capacity of our palm oil activities in this region, where we are also preparing the renewal of the permanent land rights.”

After palm oil, could you say a little more about the other SIPEF products?

FRANÇOIS VAN HOYDONCK: “Rubber, tea and banana plantations remained part of our tropical agricultural activities in 2018, albeit with varying success with regard to their contribution to our results. The rubber markets continue to have to contend with an oversupply of natural rubber, particularly due to additional volumes from Vietnam and Africa. That makes it hard to realise the expected profit margins for our Indonesian rubber activities.”

“The tea plantations in Java supply high-grade hand-picked tea, especially to the Middle East, but in 2018, the weather made it even more difficult to harvest the volumes needed to offset the impact of the increasing wages in Indonesia.”

“The banana and flower plantations in Ivory Coast also had quality issues, in spite of rising volumes in new planted areas in Azaguié. That hampered the profitable export to Europe.”

“For these three industries, management is concentrating on improving returns and lowering costs with the focus on labour costs, as these cultures are more labour-intensive than the more profitable palm oil activities.”

What do these plans mean for SIPEF’s finances?

LUC BERTRAND: “After an exceptionally active 2017, with investments surpassing 257 million US dollars (USD); with structural financing from operational cashflow of USD 110 million; long-term bank financing of USD 50 million; and a highly successful capital increase of USD 97 million, in spite of the low palm oil prices in 2018, we were set on carrying through the scheduled investments in full, and continuing to prioritise full capacity utilisation of the expansion in South Sumatra. As a consequence, we ended the financial year with a net financial debt of USD 121 443. It is our intention to find the right balance between the scheduled investments over the next few months and, in spite of a higher debt position in the short term, financing the development of additional areas in the Group continues to be our strategy, with due consideration for an annual remuneration for shareholders, which we wish to maintain at 30% this year.”

"In spite of a higher debt position in the short term, financing the development of additional areas in the Group with own means continues to be our strategy, with due consideration for an annual remuneration for shareholders, which we wish to maintain at 30% of the recurring profit this year."

// Luc Bertrand //

And for the dividend?

LUC BERTRAND: "So we will propose to the general meeting that the pay-out ratio of 30% of the recurring profit be maintained and a dividend of EUR 0.55 per share be approved for payment on 3 July 2019. You know that the dividend was EUR 1.60 per share last year."

Were there any divestments?

FRANÇOIS VAN HOYDONCK: "Yes. On 18 December 2017 we announced that SIPEF and Ackermans & van Haaren, each 50% shareholders of the Belgian insurance group BDM-ASCO, have reached agreement with the NASDAQ-listed US insurer The Navigators Group Inc, on the sale of 100% of the share capital of BDM-ASCO. The transaction was finalised as expected in 2018, given that this divestment is completely in line with the concentration of our activities in the tropical agricultural industry, with the stress on palm oil in Indonesia. The sales price of KUSD 20 783 covered at the time of signing contributed in the financial year to the financing of the investment budget, as well as resulting in a nonrecurring gain of KUSD 7 380 for the Group."

Could you summarise the results of the Group?

FRANÇOIS VAN HOYDONCK: "In spite of the rising production volumes and the efficient cost control of our oil palm activities, due to the low market prices for palm oil and the limited contribution of the other products, the consolidated recurring results of the Group decreased by 64.8% compared with the financial year 2017, to KUSD 22 713. The nonrecurring one-off gain on the sale of our insurance business BDM-ASCO means we close the financial year 2018 with an IFRS result of KUSD 30 089. The new consolidated shareholders' equity is KUSD 644 509."

Does sustainability remain a key priority of the Group?

LUC BERTRAND: "Absolutely! SIPEF is determined to continue to be a role model in terms of sustainability. As a listed European company, we have to be able to guarantee our investors that people and the planet are respected, by means of the renowned certification of all our activities and all our products, that takes account of ecological and socially responsible standards for tropical industrial agriculture. After the publication of the first sustainability report in 2015, an update is now available on our website, reflecting the constant advancements we make in that field. After obtaining full Rainforest Alliance certification for all tea, rubber and banana plantations, in 2018 we obtained new integrated ISO 9001 certification for all our Indonesian companies, which will guide the structured management of our activities there."

And what about the palm oil industry?

FRANÇOIS VAN HOYDONCK: "We remain very actively involved in the organisations that look after the reputation of palm oil in Europe and the rest of the world, and have set themselves the goal of encouraging the use of sustainable palm oil in the food industry and among consumers. We promote a balanced image of the nutritional properties of palm oil; clarify the ecological and social criteria used by sustainable producers; and stress the high value creation of our industry in the production countries, the consequence of the highly labour-intensive nature of our activities. That has led us to issue our own Responsible Plantations Policy, which is updated annually and encourages us to apply the most innovative standards, which typically go further than what the aggregated certifications impose today."

“In spite of the rising production volumes and the efficient cost control of our oil palm activities, due to the low market prices for palm oil and the limited contribution of the other products, the consolidated recurring results of the Group decreased by 64.8% compared with the financial year 2017.”

// François Van Hoydonck //

In the mills too?

FRANÇOIS VAN HOYDONCK: “SIPEF continues to invest in driving down the greenhouse gas emissions. Five of the nine processing mills in the palm oil industry are equipped with methane capture systems, ensuring they fulfil the certification standards for green energy purposes in Europe. In North Sumatra, an ultra-modern compost system was delivered that takes the empty fruit bunches (EFB) and palm oil effluent from the mill (POME), is able to improve the land structure of our oldest oil palm plantations and will drive down the use of chemical fertilisers. A system for producing electricity from methane was delivered in Bengkulu. Electricity was supplied to the local public grid in the fourth quarter of 2017. That launched a new era for the SIPEF group and for the first time we have become a direct supplier of green energy to the public sector.”

Nature conservation is also part of sustainability. What does SIPEF do there?

FRANÇOIS VAN HOYDONCK: “Through an Indonesian foundation we helped set up, SIPEF has been making a long-term contribution to nature conservation in that country for a few years now. We do so by protecting two beaches along the south coast of Sumatra, where endangered turtles lay their eggs. We are also engaged in the active protection of 12 656 hectares of endangered forest bordering the Kerinci Seblat National Park. We have set up a tight partnership there with the local population to stop poachers and illegal felling. Within the framework of a 60-year agreement with the government, we have also started planting forests there.”

And in the research field?

FRANÇOIS VAN HOYDONCK: “We remain active there too. The partnership agreement signed in 2013 with Biosing, an organisation of scientists, and New Britain Palm Oil Ltd (NBPOL), a plantation company with a renowned palm oil seeds production research centre in Papua New Guinea, remains in force. NBPOL is now part of the Sime Darby Plantations group. With their active agronomic supervision and through the development of high-yield palms, which are expected to take the industry to the next level, in the medium- to long-term we expect major support for the future profitability of the palm oil plantations in the company.”

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

LUC BERTRAND: “The tenures of five of our directors will be due to end in 2019. At the general meeting the board of directors proposes the renewal of the directorships of Antoine Friling, Sophie Lammerant-Velge and François Van Hoydonck for a four-year term until the general meeting of 2023, while for Regnier Haegelsteen’s tenure the renewal for one year until the general meeting of 2020 is proposed. By then he will have reached the age limit of 70 years. For that reason we will also say farewell to Bryan Dyer at the next meeting and we thank him for his much appreciated contribution, his dedication and his interest in the development of our company.”

Who will replace him?

LUC BERTRAND: "We propose appointing Nicholas Mark Thompson to replace Bryan Dyer with a seat as an independent director for a four-year term until the general meeting of 2023. Mr Thompson has life-long experience in the plantation industry. He headed the listed plantation company New Britain Palm Oil in Papua New Guinea for many years."

Do you have any final thoughts, Mr Chairman?

LUC BERTRAND: "Yes, I have a sense of pride. We were very proud to have received the Family Business Award of Excellence for 2018. It is recognition of the value we place in the family shareholding structure above SIPEF, where the Next Generation has already made its entrance. Due to the unbridled support we have received from the families, since the formation a hundred years ago, we have been able to build a company that is ready to start on the next century in a sustainable way."

And the managing director?

FRANÇOIS VAN HOYDONCK: "Certainly. We would like to express our gratitude to all SIPEF group employees, who have contributed, each at their own level and in their own activity, to achieving these results and acquiring the additional strategic assets. Within the framework of our expansion financing it is important to control costs and manage the plantations and mills in the most efficient way. We hope that everyone will continue to work towards that in their own work situation."

"We were very proud to have received the Family Business Award of Excellence for 2018, recognition of the value we place on the family shareholding structure above SIPEF, where the Next Generation has already made its entrance. Due to the support from the families, since the formation a hundred years ago, we have been able to build a company that is ready to start on the next century in a sustainable way."

// Luc Bertrand //

100 YEARS

SIPEF

1919-1939

// The trailblazing years //

The formation of the Société Internationale de Plantations et de Finance (SIPEF), with its stated objective of promoting and managing plantation companies in tropical overseas areas, was announced in the "Belgisch Staatsblad", the official journal of the Kingdom of Belgium, on 9 July 1919. The key figure was Edouard Bunge, an entrepreneur from Antwerp, who a decade earlier had been one of the founders of a similar company, the Société Financière des Caoutchoucs (Socfin). But when it became clear that the French Rivaud group had gained control of a majority of the shares by devious means during the war, Bunge decided to join with a few of his Belgian compatriots and leave Socfin. The plantation companies were separate firms and Rivaud had no influence over them, so Bunge and his team were able to win over some of them and form SIPEF. For practical reasons the decision was made to establish the head office in the building next to Maison Bunge at Graanmarkt 2 in Antwerp. But the two sites in Kuala Lumpur (Malaysia) and Medan (Indonesia) were much more important, as the young company could start trading immediately. The acquisition of three plantations in Indonesia - Tolan Satoe, Tolan Dua and Tolan Tiga - soon followed.


SOCIÉTÉ INTERNATIONALE
DE PLANTATIONS ET DE FINANCE
SOCIÉTÉ ANONYME

2, MARCHÉ AUX GRAINS
ANVERS.

ASSEMBLÉE GÉNÉRALE DU 8 JUIN 1921

RAPPORTS
DU
CONSEIL D'ADMINISTRATION
ET DU COLLÈGE DES COMMISSAIRES

Based on the figures published in the first annual report, however, there was little reason for enthusiasm. The devaluation of the Belgian franc, the postwar depression and the rock-bottom rubber prices on the international market had a negative impact on the balance sheet. In response, an extraordinary meeting of the board of directors in November 1926 voted for a capital increase. It was to be the last meeting chaired by Edouard Bunge. He passed away a year later and was succeeded by his son-in-law, Victor Bracht. Under his chairmanship the first palm oil presses were installed at Tolan Tiga. There was a simple reason for that. In a last-ditch effort to push up prices, production was suspended and global export quotas were introduced. The only way to keep plantations profitable was to convert them to palm oil.

1939-1969

// Turbulent times //

The management committee lost all contact with the overseas sites after the Germans entered Antwerp. The business was reduced to filing and refiling the archives. On the other side of the world, life came to a standstill on the plantations. Those who did not flee in time were taken prisoner. Some directors in Antwerp, including Grisar, Friling and Bracht, formed a crisis committee to get to grips with the German occupation. When the weapons were silenced four years later, the board of directors met for the first time to assess the losses. During the war the Japanese occupiers had seized some of the plantations. The others had been reclaimed by the jungle, which was able to grow unrestrained for four years. The recovery would be costly and time-consuming, but it was not the only challenge facing SIPEF. The invention of synthetic latex caused the market price of rubber to tumble to a historically low point. To spread the risk, the decision was taken to replant, primarily with palm trees. Unfortunately, the rebuilding was hampered by the unstable political situation in the former colonies. While the British in Malaysia managed to complete the transfer of power fairly satisfactorily, Indonesia increasingly found itself in the grip of Islamic and communist rebel forces. There was anarchy in Java and Sumatra. The situation forced the plantation management to take draconian security measures that made work in the fields difficult. At state level, everything was at the discretion of the new people responsible for policy. For instance, all Dutch plantations in Indonesia were nationalised in 1957.

SIPEF escaped that fate due to its Belgian flag, but President Sukarno's administration did not inspire much trust. The directors felt it was wise to spread the risk by investing in the Congo, a Belgian colony that seemed to be a beacon of stability. The range was enlarged with new products, including coffee, cacao, tea and medicinal plants. But the Congo, too, soon experienced political unrest and violence perpetrated by independence fighters. Ironically, the repercussions were felt as far away as Indonesia. Sukarno took advantage of the murder of the Congolese Prime minister, Patrice Lumumba, in 1961 to sequestrate all Belgian property under the military, including SIPEF's plantations. Lawlessness continued until Suharto grabbed power in 1965 and little by little 'sold' the possessions back to the foreign investors. In the meantime, rebel forces in the Congo had kidnapped the staff of various plantations. The people at SIPEF head office waited anxiously for signs of life, but after the occupied regions were liberated in 1966 it became clear that no one had survived the bloodbath. As well as the human suffering, the uncertainty and turbulence in the colonies had a negative effect on SIPEF shares. Bunge's descendants decided to cash out, selling their portfolio to Charles Bracht, who had succeeded his father as chairman and moved the offices to Lange Nieuwstraat in Antwerp. It was the beginning of a new chapter in the history of SIPEF.

1969-1989

// Diversification //

Under the leadership of Charles Bracht, later assisted by his son Theo, SIPEF quickly expanded geographically, opening sites on every continent. From Asia (Indonesia and Malaysia) to Oceania (Papua New Guinea and the Solomon Islands) and from Africa (Ivory Coast, South Africa, Guinea, Zaire and Liberia) to South America (Brazil and Venezuela). As well as managing plantations and growing traditional crops like rubber, palm oil and tea, sales were also generated by trading coffee, cacao, hearts of palm, grapes, pineapples, spices and even ornamental plants. To spread the risk, investments were also made in 'safe' real estate projects. This created a property portfolio in Belgium and the United States, supplemented by stakes in banks and insurance companies. Learning their lessons from the past, the shareholders wanted to build a financial buffer in case political instability struck again in overseas areas. And that was indeed how it turned out. Bracht and his peers had to deal with civil wars in Africa and chronic inflation in South America. The SIPEF annals read like a history book. On the other hand, it is also the story of people who act in response to the challenges of their era. For instance, during a tour of Australia Charles Bracht bought two cattle stations (Torradup and Munglinup), using one as grazing ground for cattle and the other as farmland for crops.

The idea was to have a safe haven to go to if the arms race between West and East had gotten out of hand. It never did, but if one thing is clear it is that Bracht senior was a visionary. The kidnap and murder of Charles Bracht in 1978 was one of the blackest pages in SIPEF's hundred-year existence. The void he left seemed virtually impossible to fill. So, when Theo Bracht took the helm of the company, he was determined to scrupulously continue his father's strategy.

1989-2009

// Focus and transformation //

Spreading the risk over different countries and products looked perfectly sound on paper, but by the end of the 1980s the diversification across various continents had left a big pit of debt. The appointment of Guy Diercxsens and later Bernard de Gerlache, succeeded by Michael St Clair-George, led to a change of course. Twenty years of unbridled expansion were followed by a tough period of rationalisation. Activities were ceased and assets were sold to realise another transformation into an efficient company. However, things did not go smoothly and in 1994 SIPEF was floated on the stock exchange to raise capital. The result was an influx of new shareholders. At the request of these shareholders, including Ackermans & van Haaren, the company was restructured to safeguard the independence of its management. The introduction of consolidated financial statements brought transparency, which opened the way to further professionalisation. Even so, downsizing and a capital injection were needed in 2004 to turn the tide and usher in a period of exponential growth.

However, efficiency and yield were not the only concerns. Sustainability was another important factor for the company. With that in mind, SIPEF helped form the RSPO. The sector was skeptical about this, because sustainability takes time and requires investment. And in the worst case it can even slow down growth. But the original family shareholders had never been out to make quick profits and, partly thanks to the influence of Ackermans & van Haaren, space was created for a strategic future vision with roots in the past, because long-term thinking is in SIPEF's DNA. For the simple reason that both palm trees and rubber plants are always cultivated for at least 20 years. SIPEF has always had an obligation to put down local roots. Back in the trailblazing years, the enlargement of plantations led to the building of roads and the provision of housing, schools and medical care for the employees and their families. SIPEF has always played a pioneering role and it is no surprise that it was one of the first palm oil producers worldwide to be granted RSPO certification.

> "SIPEF has always played a pioneering role and it is no surprise that it was one of the first palm oil producers worldwide to be granted RSPO certification."

// 2009 //

Ongoing: Yesterday is the present for tomorrow

““The pursuit of sustainability has driven SIPEF to invest more in recycling and research, including our stake in the research lab Verdant Bioscience. Sometimes I'm asked why on earth Ackermans & van Haaren invested in a dinosaur like SIPEF. Well, this example shows the perception is wrong. SIPEF may be a century old, but that doesn't stop us anticipating a changing world. It was actually Jacques Delen who brought SIPEF to the attention of Ackermans & van Haaren. Tropical agriculture was familiar to him. He had invested hefty sums in colonial assets through his old brokerage firm, so he had visited Indonesia several times. For me personally a new world opened up. I remember most vividly something from my first tour with Theo Bracht. He took me to the Cibuni tea plantation, located in rolling countryside extending all the way to the horizon. Among the green tea bushes there were ladies in colourful dress like characters from days long past. Pure poetry and still the most magical place I have ever visited. You must have a certain emotional involvement in everything you do, like the founding families who have invested their heart and soul in the company, generation after generation. For me, Theo Bracht is a true born entrepreneur. And his daughters, who are now following in his footsteps on the board of directors, are cut from the same cloth. So, I am happy to describe it as a successful marriage between Ackermans & van Haaren and the Bracht family. Together we are ready to write a new chapter. A hundred years is not an end, but a beginning.” **LUC BERTRAND**

> “SIPEF may be a century old, but that doesn't stop us anticipating a changing world.”
>
> // Luc Bertrand //

"The future of commodities depends on improving performance. As the global population increases, the available farmland decreases. At the same time, due to climate change, we will be confronted with more and more extreme weather. And the demand for vegetable fats will only increase, which means that palm oil will represent the lion's share of tropical agriculture. Only by developing stronger, more productive palm species can we rise to this challenge. So, we are investing in research today to ensure that we can follow the growth spurt in our sector and strengthen SIPEF's position as a producer of exclusively sustainable palm oil. It is our ambition to double our volume in the future. In concrete terms, SIPEF could account for one percent of global palm production, rather than half a percent. There is still a lot of room for growth. This is why we continue to focus on enlarging our plantations, but always within the framework of the principles and criteria for the production of sustainable palm oil. Our door is wide open for independent farmers who wish to sell their plots. SIPEF also pursues an active acquisition policy. More and more holdings that were tempted by the 2006 stock market boom realise that they have gotten into a venture without having any in-house expertise, and so they come to us. As a result, last year we had an opportunity to buy a 10 000-hectare plantation. The existing shareholders came with us, following in the footsteps of the entrepreneurs who founded SIPEF one hundred years ago. The commodities sector has always been volatile, but the families on our board of directors have thought long-term from the very beginning. Their role cannot be underestimated. Thanks to the foundations the families laid in the past, we look to the future full of confidence." **FRANÇOIS VAN HOYDONCK**

"We are investing in research today to ensure that we can follow the growth spurt in our sector and strengthen SIPEF's position as a producer of exclusively sustainable palm oil."

// François Van Hoydonck //

Business model and value creation

/// Aerial view of a plantation with young palms in the foreground and mature palms in the background ///

21 619

Number of people working within the Group

100 000

Since 2005 SIPEF has been engaged in a growth project, mainly in palm oil in Indonesia and Papua New Guinea, with the target of reaching 100 000 hectares planted (share of the Group) in 2020

Business model

PLANTED AREA

SIPEF is a Belgian agro-industry Group listed on Euronext Brussels and specialised in the – as sustainable certified – production of tropical agricultural commodities, primarily crude palm oil and palm products. These labour-intensive activities are consolidated in Indonesia, Papua New Guinea and Ivory Coast and are characterised by broad stakeholder involvement, which sustainably supports the long-term investments.

Overview of the company's planted hectares per product (31/12/2018)

	Palm	Rubber	Tea	Bananas	Other	Total	%	Group share
Indonesia	57 813	5 744	1 763	0	0	65 320	82%	59 300
PNG	13 687	0	0	0	0	13 687	17%	13 687
Ivory coast	0	0	0	749	31	780	1%	780
Total	**71 500**	**5 744**	**1 763**	**749**	**31**	**79 787**	**100%**	**73 767**
%	90%	7%	2%	1%	0%	100%		
Group share	**66 211**	**5 185**	**1 591**	**749**	**31**	**73 767**		

GROWTH

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

LABOUR-INTENSIVE INDUSTRY

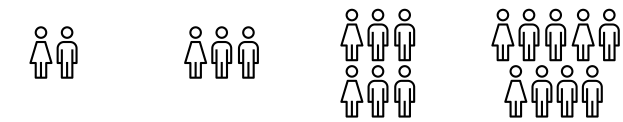
The production of palm products, rubber, tea and bananas is very labour-intensive and the following employee ratios apply: palm 14, rubber 25, tea 90 and bananas 161 per 100 hectares of crop. In total, the Group currently employs over 21 619 employees. In order to optimise the management of the plantations great importance is attached to the training of our employees, both in agricultural and management techniques and knowledge. The Group's policy concerning agricultural, technical, environmental and general aspects is detailed in Standard Operating Procedures (SOP) manuals containing practical guidelines and all the best management practices to achieve these goals. Training sessions support proper implementation of these policies. The management sees to it that all employees are able to work in a healthy and safe environment.

RESPONSIBLE PLANTATIONS POLICY

The SIPEF 'Responsible Plantations Policy' (www.sipef.com/hq/sustainability/policies/responsible-plantations-policy/), applicable to all its plantation operations, is revised annually to match evolving legal, social and environmental requirements. The latest update was endorsed by the board of directors at the board meeting on 19 November 2018.

NUMBER OF WORKERS PER 100 HECTARES OF CROP

14	25	90	161
Oil palms	Rubber	Tea	Bananas



CERTIFICATIONS

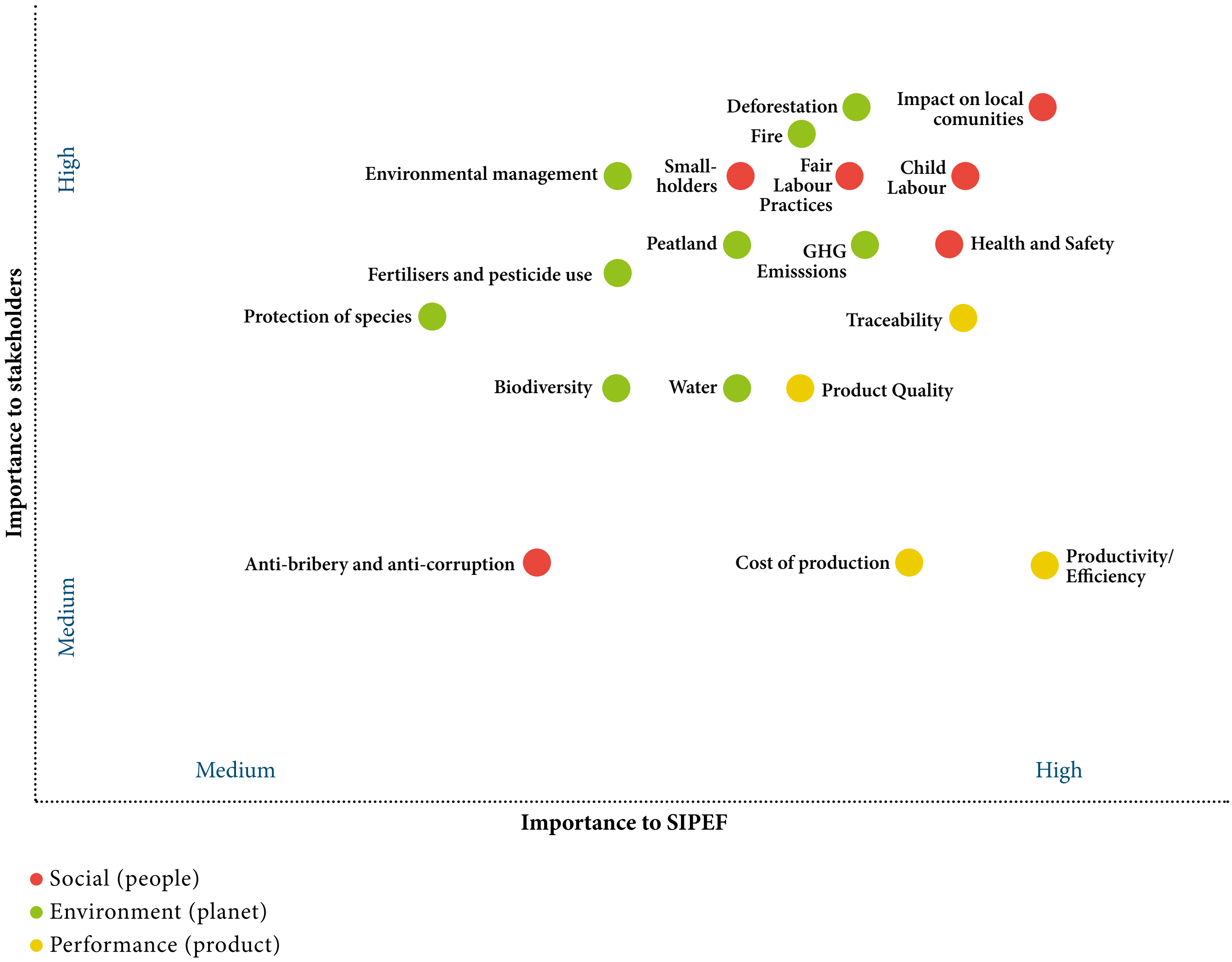
To accompany and support its growth, SIPEF continues to fulfil its sustainable development obligations based on responsible practices and complete traceability, and sanctioned by certifications and recognised standards: ISO 9001 and ISO 14001, the Roundtable on Sustainable Palm Oil (RSPO), International Sustainability and Carbon Certification (ISCC), Indonesian Sustainable Palm Oil standard (ISPO), GLOBALG.A.P., Rainforest Alliance and the United Nations Clean Development Mechanism (CDM), (see statement of non-financial information page 98).

MULTI-STAKEHOLDER ENGAGEMENT

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

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

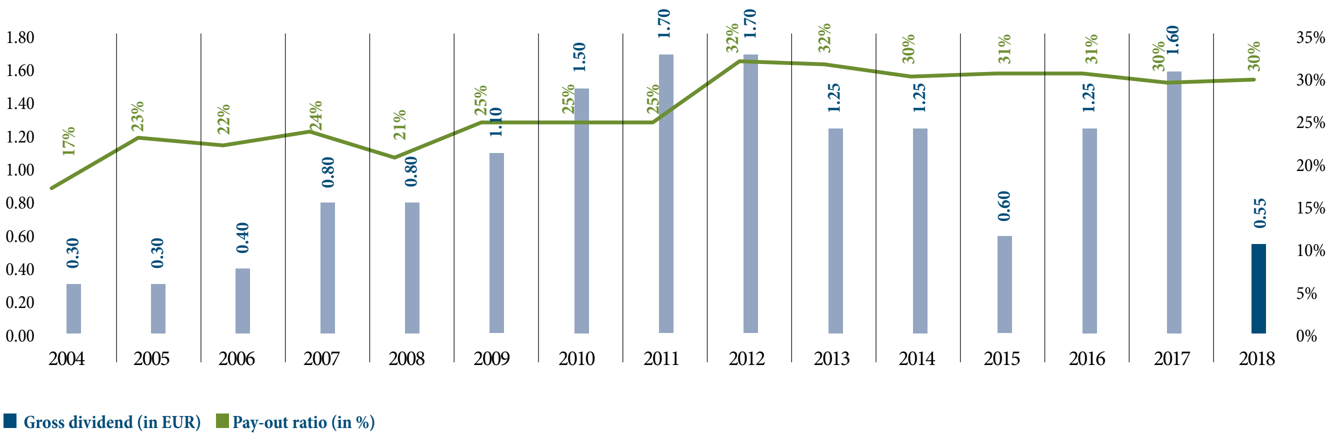
SIPEF materiality matrix



DIVIDEND POLICY

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

Evolution of the dividend and pay-out ratio



Creating value

In implementing its business model, the Group works hard to improve its productivity and stimulate its growth as efficiently as possible, based on sustainable practices and full transparency with regard to the traceability of its products.

SIPEF CREATES VALUE FOR THE COMPANY

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

The development of the activities in South Sumatra are at the forefront of the Group's expansion. This region has very good agronomic qualities and there are many opportunities for the employment of local people in industrial agriculture developments. Since 2011, SIPEF has acquired seven concessions in South Sumatra through three local companies. Supported by the expatriate management of Medan Office, the expansion has gained momentum and a new business unit is currently being developed for the SIPEF group. During the financial year, an additional 2 257 hectares were compensated and 1 248 hectares prepared for planting or planted, bringing the total to 10 653 cultivated hectares, which is 68.5% of the total of 15 540 compensated hectares, of which 2 266 hectares were provisionally acquired for planting for smallholders and 13 283 hectares for internal development.

After the acquisition of 95% of the oil palm plantation, from 1 August 2017 PT Dendymarker Indah Lestari (DIL) is an integral part of the SIPEF group land. Optimising the currently loss-making plantation activities and gradually replanting the old palms, which are around 20 years old, are priorities in the SIPEF investment programme over the next few years. A start was also made on the enlargement of currently fallow land within the permanent operating licence (HGU), always within the framework of the RSPO New Planting Procedure. By the end of 2018, 956 hectares had been replanted and 373 hectares prepared for expansion of the planted area.

In Papua New Guinea continued expansion proved difficult due to the New Planting Procedures rules. That means that only limited growth is possible in coming years with regard to bringing the 13 687 planted hectares up to 15 000 hectares, thanks to some acquisitions of land already used for farming. This scale corresponds to the full

/// Tea estate, where our tea is plucked by hand ///

capacity utilisation of our three mills in Papua New Guinea, with due consideration for the additional production of the 3 700 smallholders, who account for 40% of oil production. In spite of the limited expansion, growth remains important as this area generates the Group's highest agricultural yields and the cost price has fallen by almost 14% over the past three years, due to the increasing scale and the efforts of the local and expatriate management.

All of these transactions bring the number of planted oil palm hectares at the end of the financial year to 71 500 and the total planted hectares, share of the Group, to 73 767, compared with 32 784 hectares in 2005. The compounded annual growth percentage between 2005 and 2018 was therefore 6.4%.

Slowly but surely, the goal of 100 000 planted hectares is being achieved. SIPEF continues to actively look for investment opportunities for the expansion of the planted areas in remotely situated areas where most people are employed in the agricultural industry.

Lastly, the partnership agreement with Verdant Bioscience Pte Ltd signed in 2013 with New Britain Palm Oil Ltd, a plantation company with a renowned palm oil production research centre in Papua New Guinea and which is part of the Sime Darby Group and Biosing, remained in force. Under this agreement, the Group benefits from active agronomic guidance and will be able to benefit from the development of high-yield palms. SIPEF therefore expects to raise the productivity of the oil plantations in the medium- to long-term and significantly support and improve their future profitability by applying these scientific developments.

SIPEF CREATES VALUE FOR THE ENVIRONMENT

A. Valuable waste

The SIPEF group owns and operates six palm oil mills in Indonesia and three palm oil mills in Papua New Guinea, which all told processed 1 506 043 tonnes of fresh fruit bunches in 2018. That activity generated an estimated 1 205 000 M³ in wastewater and 331 000 tonnes of empty fruit bunches.

In the past, wastewater and empty fruit bunches were considered as palm oil production process waste without any value for the Company and were treated in secondary processes that generated extra costs.

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

/// Methane gas scrubber in the foreground and reactor tank in the background ///

In recent years, SIPEF has taken steps to reduce the emission of greenhouse gases. One of the greatest efforts by the SIPEF group to drive down the emission of methane and generate sustainable revenues for its shareholders is the building of **methane capture systems** at the palm oil mills of Mukomuko, Bukit Maradja, Perlabian, Umbul Mas Wisesa and Barema. All of these investments have been registered as projects under the Clean Development Mechanism in the United Nations Climate Treaty. The methane capture systems at these sites are able to flare the methane, or even better burn it in the mill boilers or in a gas engine, generating electricity.

The Mukomuko palm oil extraction mill processes wastewater to produce **biogas** with a significant methane content, which is captured in a closed reactor tank, replacing the anaerobic basins in the methane capture system. However, the biogas produced in the reactor tank is not ready for use, as it contains a lot of moisture and hydrogen sulphide. Primarily, it must undergo a necessary treatment to remove sulphur and moisture before it can power a gas engine in order to produce electricity.

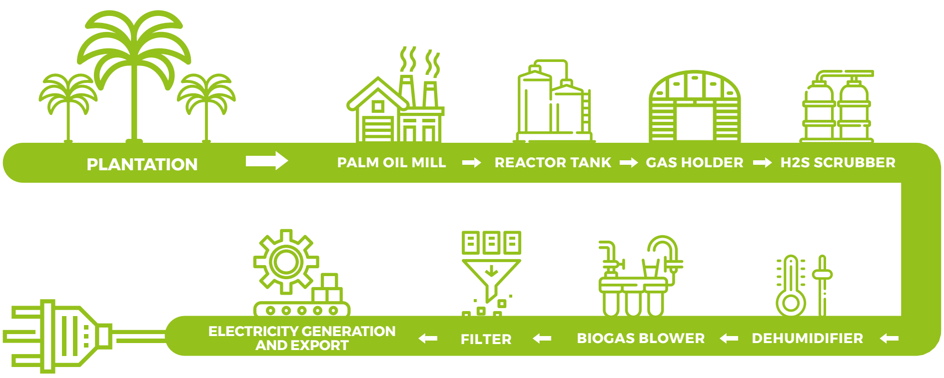
Unprocessed empty fruit bunches are very moist and so unsuitable as boiler fuel. In addition, their size does not allow efficient combustion in a biomass boiler. They can be used as mulch in the plantation or, in recent years, be recycled into compost.

At the end of 2016 the first composting system was put into operation: it processes wastewater and empty fruit bunches into compost, after the addition of other secondary products, i.e. deposits from the decanting systems and boiler ash. This compost is used in the plantations as **soil improver instead of artificial fertiliser**.

The **composting system** comprises eight ventilated bunkers and processes 100% of the empty fruit bunches and the wastewater into organic fertiliser with a high nutrient content. The system maintains the aerobic conditions at a constant level to ensure that no methane is produced during the composting process. That is achieved by ventilating the soil and the successive transfer of the compost from one bunker to the next. The oxygen content and the temperature are constantly monitored and registered. The

Waste water management process

POME treatment system with methane capture and electricity generation



12 477 MWh

Electricity generated in 2018 via steam turbines and biogas engine of Mukomuko

Traditional POME treatment system

56 098 M^3

Waste water recycled in 2018 by the Bukit Maradja palm oil mill

-1 300 000 LITER

Less diesel used in 2018 in Indonesia representing USD 750 000 savings for the Group

system, which fulfils the standards of the International Sustainability and Carbon Certification (ISCC), recycled 28 650 tonnes of empty fruit bunches and 56 098 m^3 of wastewater from the Bukit Maradja palm oil extraction mill in 2018. The system also processes deposits from the decanting systems and boiler ash.

To ensure the compost is always suitable for the intended use, its nutrient content is checked every month.

Composting waste is a good way of recycling raw materials and protecting the environment. SIPEF's goal is to replace more than **60% of the artificial fertiliser in the Bukit Maradja plantation with compost**.

B. Generating electricity from biomass

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

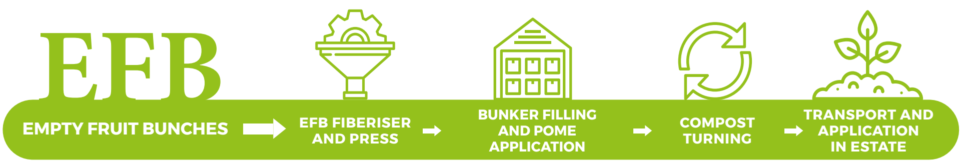
Palm kernel shells and mesocarp fibre are currently used in the palm oil mills as fuel in biomass boilers that produce steam. That steam is used to generate electricity in **steam turbines**. The steam emitted is used elsewhere in the mill.

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

The electricity generated by the steam turbines is used in the mills, which **reduces the dependence on fossil fuels like diesel**. The efficient use of these raw materials in 2018 resulted in diesel consumption in Indonesia falling by more than 1 300 000 litres compared with 2014. This corresponds to an estimated saving for the Group of more than USD 750 000.

Composting process

New aerated bunker composting system



Previous System

28 650 TONNES

Empty fruit bunches recycled in 2018 by the palm oil mill of Bukit Maradja

This power generated by the steam turbines and **biogas engine** at the Mukomuko palm oil mill will be used to operate the mill and for other company activities, such as the central transport workshop, the management offices and housing. The Mukomuko palm oil mill is the only place where this is done. In 2018 the Mukomuko steam turbines and biogas engine generated 12 477 452 kWh of electricity in total, 8 145 249 kWh of which was consumed by other activities. The surplus, mainly produced by the gas engine, is injected into the public grid of Perusahaan Listrik Negara (PLN) in Bengkulu province.

SIPEF CREATES VALUE FOR SOCIETY

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

- The production of palm oil products, rubber, tea and bananas is very **labour-intensive**. For every 100 hectares 14 employees are needed for palm oil products, 25 employees for rubber, 90 for tea and 161 for bananas. In 2018 the Group employed more than 21 619 people.
- To optimise the management of the plantations, a lot of attention is given to **training** the employees in agricultural and management methods and general aspects.
- SIPEF **works closely with smallholders**, who are able to expand their activities together with the Group.
- Expansion in remote areas is always linked to investments in **infrastructure, housing and facilities** that help the Company create a long-term relationship with its workers.
- SIPEF **actively consults with public and private stakeholders**. It believes that, by working with customers, social and environmental NGOs, governments and industry bodies, civil society, producers, researchers and other willing stakeholders, it can maintain its social and legal support, and so bring about and promote the introduction of safe, sound and sustainable standards and practices.

A few examples of value creation are briefly described. For more detailed insight into how the Group creates value at various levels, see the "Non-financial information" section of this annual report from page 98.

Global trends in the palm oil market

What is CPO?

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

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

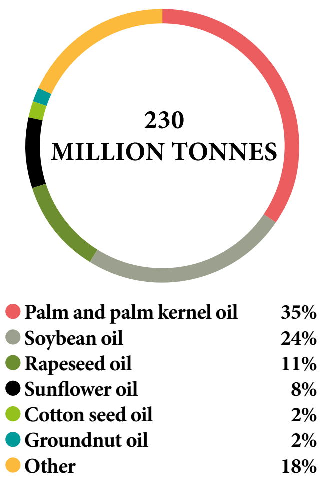
Palm oil is one of a group of 17 major oils and fats (from sesame oil to palm oil). The total vegetable oil market represents some 230 million tonnes.

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

Competitive framework

Palm oil (and palm kernel oil) and soybean oil dominate the world market for edible vegetable oils with a share of respectively 35% and 24% of the production.

SHARE OF OIL PRODUCTION (2018)

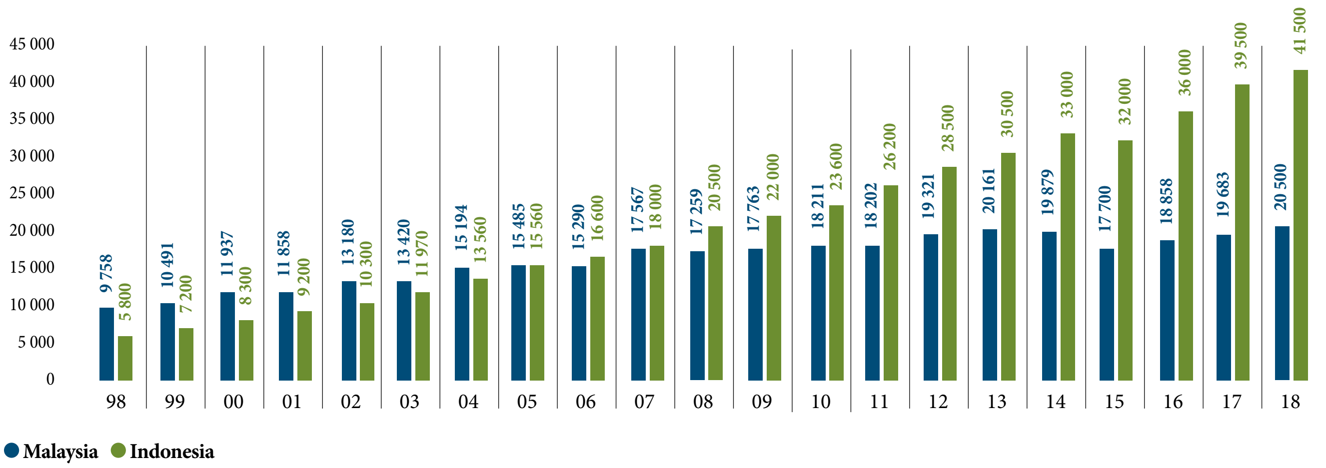


Source: Oil World

Palm oil trees' ideal growing conditions entail that plantations are concentrated close to the equator, mainly in Malaysia and Indonesia (84% of CPO world production combined), and some parts of West Africa, whilst Indonesia increased its relative share of the world CPO production over the years. Soybean production is concentrated in the US and Argentina/Brazil (the three combined account for 81% of annual production).

/// Freshly harvested fruit bunches ready for transport to the palm oil mill ///

Malaysia vs Indonesia CPO production

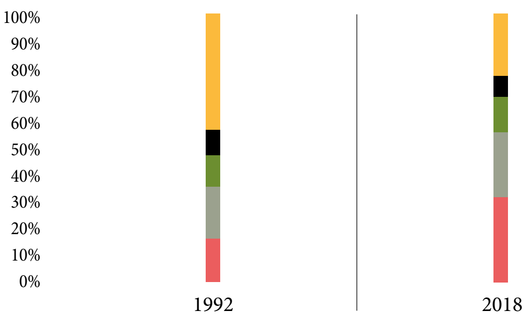


Source: USDA

Large plantation companies dominate, although oil palm cultivation itself is more fragmented, with government entities and smallholders having a significant role in both Malaysia and Indonesia.

Palm oil has grown and taken share from competitor oils over the last 25 years.

Palmoil vs other oils market share (1992-2018)



	1992	2018
Palm and palm kernel oil	16%	35%
Soybean oil	20%	24%
Rapeseed oil	11%	11%
Sunflower oil	10%	8%
Other	43%	22%

Source: Oil World

Whilst palm oil and palm kernel oil represents roughly 35% of the world's edible oil production, the planted area accounts for only 7% of the total planted area.

SHARE OF PLANTED AREA (2018)

Oil palm	7%
Soybean	44%
Rapeseed	11%
Sunflower	10%
Cotton	11%
Groundnut	9%
Other	8%

Source: Oil World

35% vs 7%

Despite palm oil and palm kernel oil having a 35% share of the world's edible oil production, they represent only 7% of the global planted acreage

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

While Malaysia and Indonesia dominate supply, a significant amount of their output is exported. The largest export markets are China, India and the EU, which account for around one-third of global demand. Growth in global demand has been resilient at a 4% compound annual growth rate in the past decade. There are multiple drivers, but rising consumer income in emerging markets as well as biodiesel demand are certainly key. In addition, demand can be heavily influenced by the price relationship between competing oils, given many are interchangeable in their core use as cooking oil.

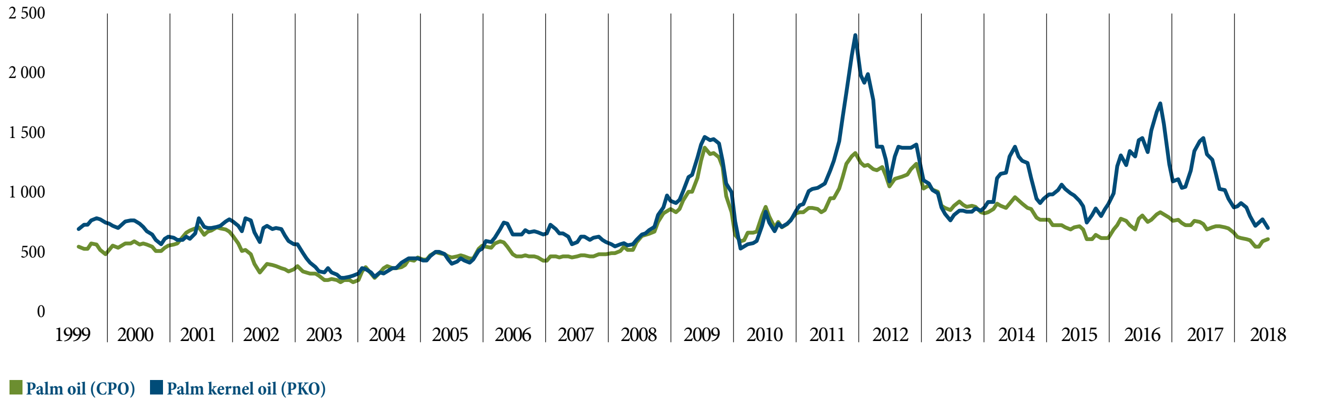
Fundamental balance: industry stock

As with most commodities, data on industry stock or inventory is the best proxy for determining supply/demand balance in the industry. Long-term trends, while incorporating volatility, show a clear correlation between stock levels and price direction. There are storage constraints for palm oil, which starts to deteriorate after three to six months. There is also fundamental tightness in the market due to the non-availability of land, as well as lead time from planting to maturity.

Relationship with soybean oil

Palm oil is closely linked to the performance of its main rival, soybean oil. It traditionally trades at a 10-20% discount (average over last five years) to soybean oil, primarily reflecting its greater supply. Yet, the oils are interchangeable in

Evolution of world market price CPO and PKO



Source: World Bank commodities prices

5 TO 10x
HIGHER YIELD

The output of palm oil is with 4 tonnes per hectare five to ten times higher than competing oils. One hectare of oil palms generates annually an average 4 tonnes, compared with 0.4 tonnes for one hectare of soja, 0.6 tonne for sunflowers and 0.75 tonne for rapeseed

+4%

Annual worldwide growth in demand during the last 10 years

1/3

The biggest export markets China, India and the EU represent one third of the worldwide demand

/// Crop transporter with scissor-lift used to collect fruits from inside the field ///

their main uses (cooking and fuel) so the Company would not expect a sustained period of disconnection. The relationship means that demand and especially supply shocks (such as weather events) in either oil can have a significant impact on the other.

Demand trends in key markets

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

Since the biodiesel mandate kicked in in Indonesia, the local demand has grown significantly over and above the big local demand for the food industry. While the current B20 mandate is not even entirely fulfilled, the government is already talking about B30 as an objective for 2020. The Palm Oil Support Fund is funded by the export levy on palm oil that is leaving the country and is used to subsidise the biodiesel producers. Once B30 would be successfully implemented there will be millions of additional tonnes consumed domestically.

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

China has heavily invested in soybean crushing, but still needs additional palm oil as it has done over the years.

The peak years of China GDP growth were exceptionally strong for palm oil imports and palm oil price performance. If economic growth continues and per capita incomes grow, demand should be well supported.

Wider commodities complex

The correlation with the wider commodities markets is also very close. This is a function of the importance of emerging markets as consumers of commodities, economic growth trends and the links between different agricultural products.

Important long-term factors

REGULATION AND COMPLIANCE

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

On the other hand, industry oversight is not new: significant internal and third-party efforts to regulate and monitor the palm oil industry have been around for more than a decade. The Roundtable on Sustainable Palm Oil (RSPO) emerged in 2001 and was formally established in 2004. It is a not-for-profit body with some 4 107 members working to promote traceability, oppose sensitive land clearance and promote its trademarked certified (CSPO) products. While CSPO is the benchmark, there are other voluntary and mandatory standards, such as ISPO (Indonesian Sustainable Palm Oil) and MSPO (Malaysian Sustainable Palm Oil), and numerous third parties and NGOs monitoring compliance.

General trend palm planting

Source: USDA

DEMAND INCREASE

Palm oil is a major source of employment and revenue for Indonesia and Malaysia (84% of the world's supply). In late 2015 Malaysia and Indonesia formed the Council of Palm Oil Producer Countries (CPOPC) to address common challenges faced in the palm oil industry, remove undercutting tactics and ensure the long-term sustainability of CPO prices.

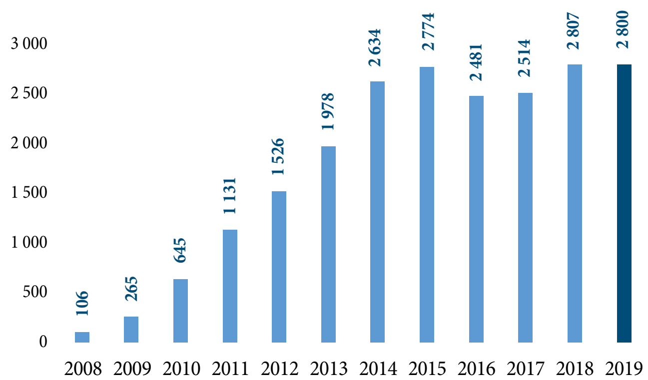
Palm oil accounts for 35% of global vegetable oil supply and has a vastly superior yield to competing oils. It also has a large emerging market customer base (especially in Indonesia, India and China). Given these considerations, the Company does not believe it is the intention of anyone in the mainstream to regulate CPO out of existence. Steady palm oil growth and global share gains, even as the importance of sustainability has become more apparent, support this.

LIMITED AREA SUPPLY AND SUSTAINABILITY

Also, regulation tightens supply. Probably the most relevant impact of this increased oversight has been the gradual reduction in available land. Planted area growth has reduced significantly in Malaysia, and also in Indonesia. Production growth has been sustained as a result of the improvements in yields, as well as the development of estates in new countries in Southeast Asia and West Africa and South America.

The Company views this fundamental tightening of supply as inherently positive for the CPO price and sees no sign of it abating. Indonesia imposed a prolonged moratorium effective 1 May 2016 on new oil palm plantations and mining permits to protect the environment. Palm oil plantations already account for 70% of agricultural land in Malaysia, and industry participants expect little further growth. Additional measures like the High Carbon Stock (HSC) study are also putting downward pressure on near-term area growth.

RSPO certified hectares (in Kha)



Source: RSPO

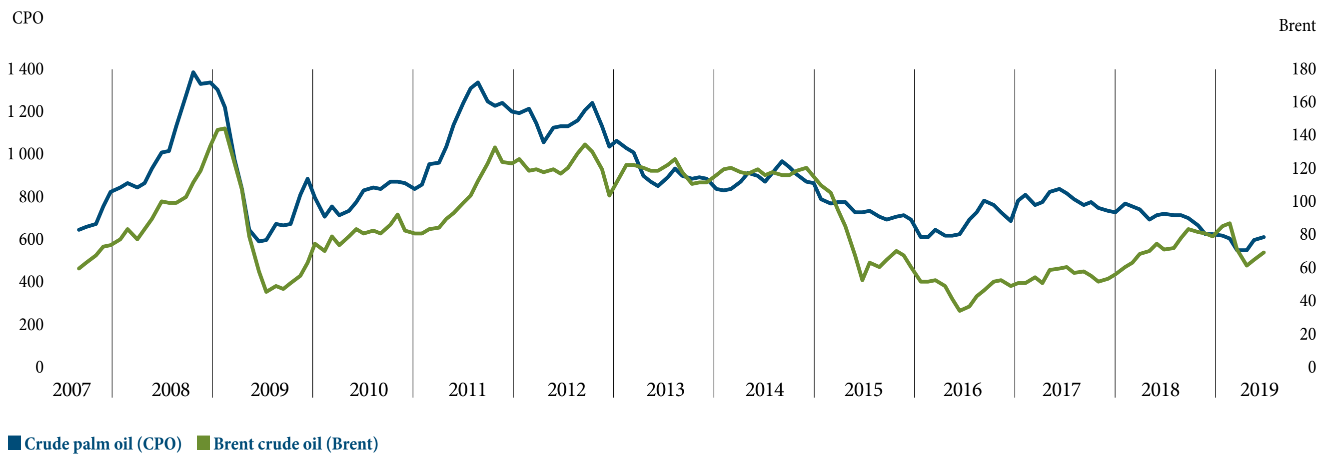
Biodiesel

Vegetable oils like palm oil are a major component of biodiesel, with corn, sugar and wheat the feedstock for the main alternative, bioethanol. Growth of the biodiesel industry has been another significant influence on the CPO price. Biodiesel has consistently taken share from the vegetable oil market over the past decade as environmental awareness steadily increases and governments introduce minimum levels of mandated biofuel consumption. Palm oil represents around one-third of biodiesel feedstock, with Indonesia a large producer (about 10% of global biodiesel). This in turn has driven an increasing correlation between the CPO price and the crude oil price.

Biodiesel use of major commodities (in million tonnes)

Source: Oil World

Crude palm oil in USD/tonne vs Brent crude oil in USD/barrel



Source: World Bank commodity prices - updated database

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

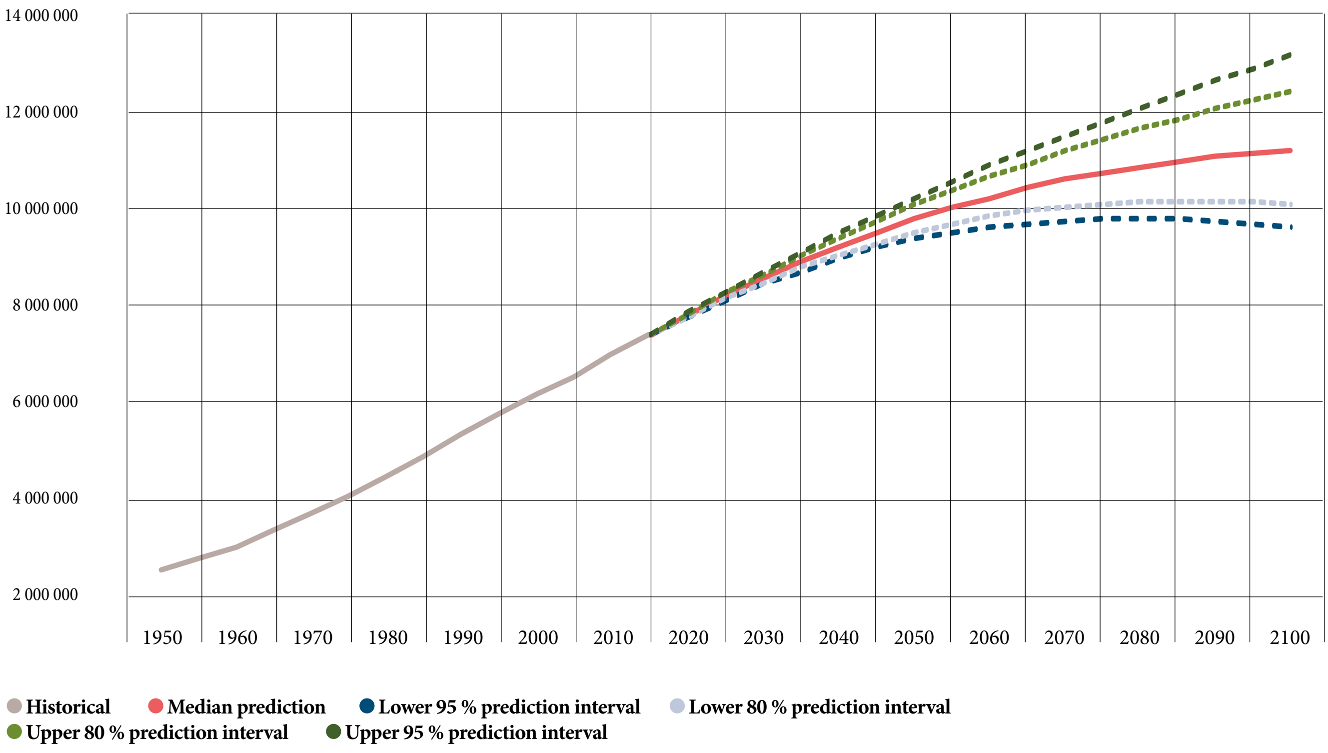
Palm oil in the future

Over the last decades, the total consumption of oils and fats (foods, bioenergy, cosmetics, etc.) has grown steadily. In the period 2005 to 2018 in accordance with 'Oil World', statistics indicate that consumption increased from roughly 137 million tonnes in 2005 to 230 million tonnes in 2018. All over the world, the consumption of oils and fats tends to favour locally produced oils and fats. Therefore, in North America, Europe and Russia, annual seed crops (soybean oil, rapeseed oil and sunflower oil) are the main sources of oil. In tropical countries, palm oil, coconut oil and groundnut oil are mainly produced and consumed.

The world average oils and fat consumption per capita (including bioenergy) increased from 21 kg in 2005 to 27.8 kg in 2015. In general, the consumption of oils and fats increases in correlation to disposable income. Over the past few years, consumption has grown even faster than expected as a consequence of incremental demand from the biofuels market.

Population growth will have a huge impact on future food demands. World population continues to climb, which will result in an increased demand for meat, fat and processed foods and an increased demand for biofuel. New land is needed, or yields need to improve in order for supply to meet demand. Historically, increased production has gone hand in hand with deforestation. Amid mounting protest, and with the creation of the Roundtable on Sustainable Palm Oil (RSPO) (accounting for 19% of the global palm oil production), the Company believes wild expansion will become increasingly more difficult.

Projected world population growth



Source: United Nations, Department of Economic and Social Affairs, Population division (2017)

“Growth of the world population will generate higher demand for processed food and biofuels.”

> "As a fully compliant producer of certified sustainable palm oil, SIPEF is well-aligned to profit from these future trends."

Demographic trends in emerging regions (mainly Asia Pacific) have already contributed to more than a doubling of global palm oil demand in the last 15 years as consumption per capita is closely related to income.

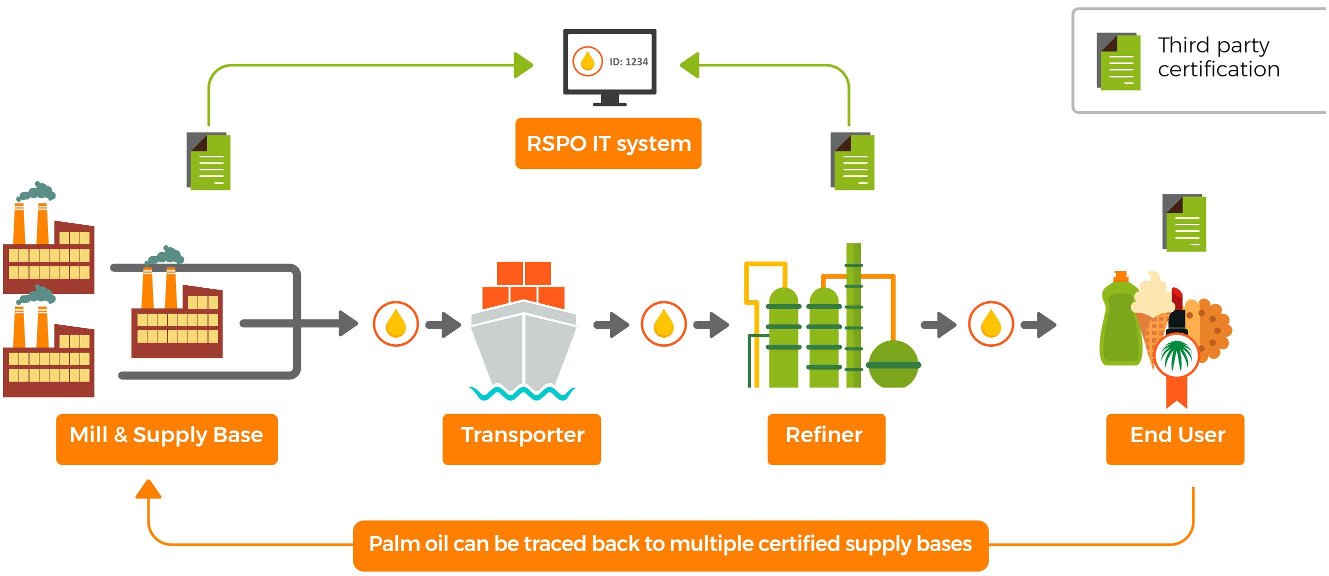
As consumption is correlated to income, the Company believes that the biggest increase in consumption will take place in the countries with rising income per capita, combined with high population growth. Therefore, the Company expects the biggest increase in palm oil consumption to occur in the developing countries where palm oil is already embedded in the consumption pattern.

Despite the steady growth of production of palm oil in Southeast Asia and Africa over the last decade, it is expected that in the future the supply of palm oil will continue to meet constraints from a reduced availability of arable land suitable for tropical agriculture. Environmental compliance pressures and sustainability requirements will refrain new development of plantations in sensitive forested areas. Increased supply will therefore also have to come from higher yields achieved on existing planted hectares from industrial ventures, government owned plantations and smallholders, as a result of better seed sources, enhanced pest and disease treatments, water management and increased fertiliser efficiency.

Therefore, demand growth will most likely outpace production growth in the future.

This view is supported by most of the trading houses who monitor the long-term perspectives of vegetable oils and palm oil in particular. As a fully compliant producer of certified sustainable palm oil, SIPEF is ideally placed to benefit from these future trends.

Sustainable palm oil from different certified sources is kept separate from ordinary palm oil throughout the supply chain



SIPEF membership:
RSPO 1-0021-05-000-00

Our product markets

Palm oil

The 2018 palm oil market can be characterised by a few events that had a tremendous effect on prices, namely very strong production growth, political decisions impacting demand, and the start of the US-China trade war.

MALAYSIA LOWERS EXPORT TAX AND INDIA INCREASES IMPORT TAX

The year started with moderate stock levels in both Malaysia and Indonesia, and Malaysia in particular showed a strong yield performance in the first quarter, after which the production tapered off. The Malaysian government surprised the market in January by cutting the 5% export tax to improve its export competitiveness and assure a better return for the growers ahead of the elections. However, most of the positive effect was completely evaporated by a USD 100 per tonne import duty hike only for palm oil by the Indian government early March. Since India left the liquid oil duties unchanged, it switched massively to sunflower oil and soy bean oil which suited Brazil and Argentina, but even more so Russia and Ukraine which had just harvested a record crop of sunflowers. It was only in the third quarter that India also increased the import duty for the liquid oils, but the damage was already done for the palm oil industry.

USD 598/TONNE

Average CIF price of crude palm oil in 2018

/// Fruit bunches in a palm tree ///

TRUMP STARTS TRADE WAR WITH CHINA

In the second quarter of the year President Trump initiated the trade war between the US and China, which triggered the retaliatory implementation by the Chinese government of a 25% import duty for US soybeans to China, amongst others. The US soybean market suffered significantly throughout the year where it had just harvested a record crop, as they saw the soybean prices collapse. It has certainly changed the price structure between the South American soybean producing countries and the US, and where the Brazilian and Argentinian farmers will plant more soybeans, the US farmer will switch more to corn and wheat, given their projected profitability. The uncertainty that the trade war has created certainly had a negative impact on the entire agro commodity market, and palm oil was no exception, so there was a strong outflow of fund money during the year.

BIODIESEL

The strong price rally in petroleum had a positive effect on palm oil as biodiesel margins were very attractive. The palm oil – gas oil (POGO) spread increased to over USD 200 per tonne and export of palm biodiesel increased to China, Europe and Africa, where discretionary blending was economically attractive. However, the strong sell-off of the petroleum market during the fourth quarter eliminated further discretionary blending. At the same time Indonesia showed a stronger commitment for 20% biodiesel blending, whereby the government of President Jokowi insisted on using more biodiesel produced domestically instead of importing petro-based, USD denominated diesel, partially to support the Indonesian rupiah ahead of the elections in 2019. This commitment, where the government has even expressed a target of 30% blending in 2019, gave the Indonesian biodiesel industry good support, and currently the production capacity limits shall be tested.

SLUMP IN PRICES

It was the strong production growth in Indonesia throughout the year that weighed heavily on prices, where production grew by nearly 4 million tonnes. The refining industry suffered many logistical hiccups and stocks were very high, which hampered the supply chains and spot discounts were growing. During the fourth quarter the palm market traded at a 10-year low of USD 450 per tonne CIF Rotterdam, but it had slowly recovered a little by the end of the year. The Indonesian government changed the export levy system from a fixed USD 50 per tonne, to a progressive levy based on the price. During December it was reduced to zero, which was welcome for the plantation industry that was suffering from the low prices.

The average price for Crude Palm Oil (CPO) CIF Rotterdam in 2018 was USD 598 per tonne against an average of USD 715 per tonne in 2017, a decrease of more than 16%.

Palm kernel oil

VOLATILE PRICES

The lauric oil market, the generic term for palm kernel oil (PKO) and coconut oil, dropped significantly during the year 2018. The production of PKO grew in line with the strong palm growth, and on top of that, the production of coconut oil finally recovered after a few years of low production due to the destructive typhoon back in 2014. Over the last few years lauric global demand has decreased due to the high prices, and this year the lauric prices dropped greatly during the year to regain demand. The price spread between the peak of USD 1 270 per tonne and the lowest point of USD 640 per tonne for PKO was massive in 2018, showing its volatility. The average price of PKO CIF Rotterdam in 2018 was USD 921 per tonne against an average in 2017 of USD 1 279 per tonne. The price of PKO was on average at a USD 323 per tonne premium over palm oil, but again this spread was nearly USD 564 per tonne at the beginning of the year and it diminished to USD 250 per tonne by the end of the year, still slightly above the historical average.

/// Detail of the palm fruits, on which can clearly be seen the mesocarp and the palm kernel ///

USD 450/TONNE

Minimum CIF price of crude palm oil in 4th quarter 2018, the lowest in 10 years

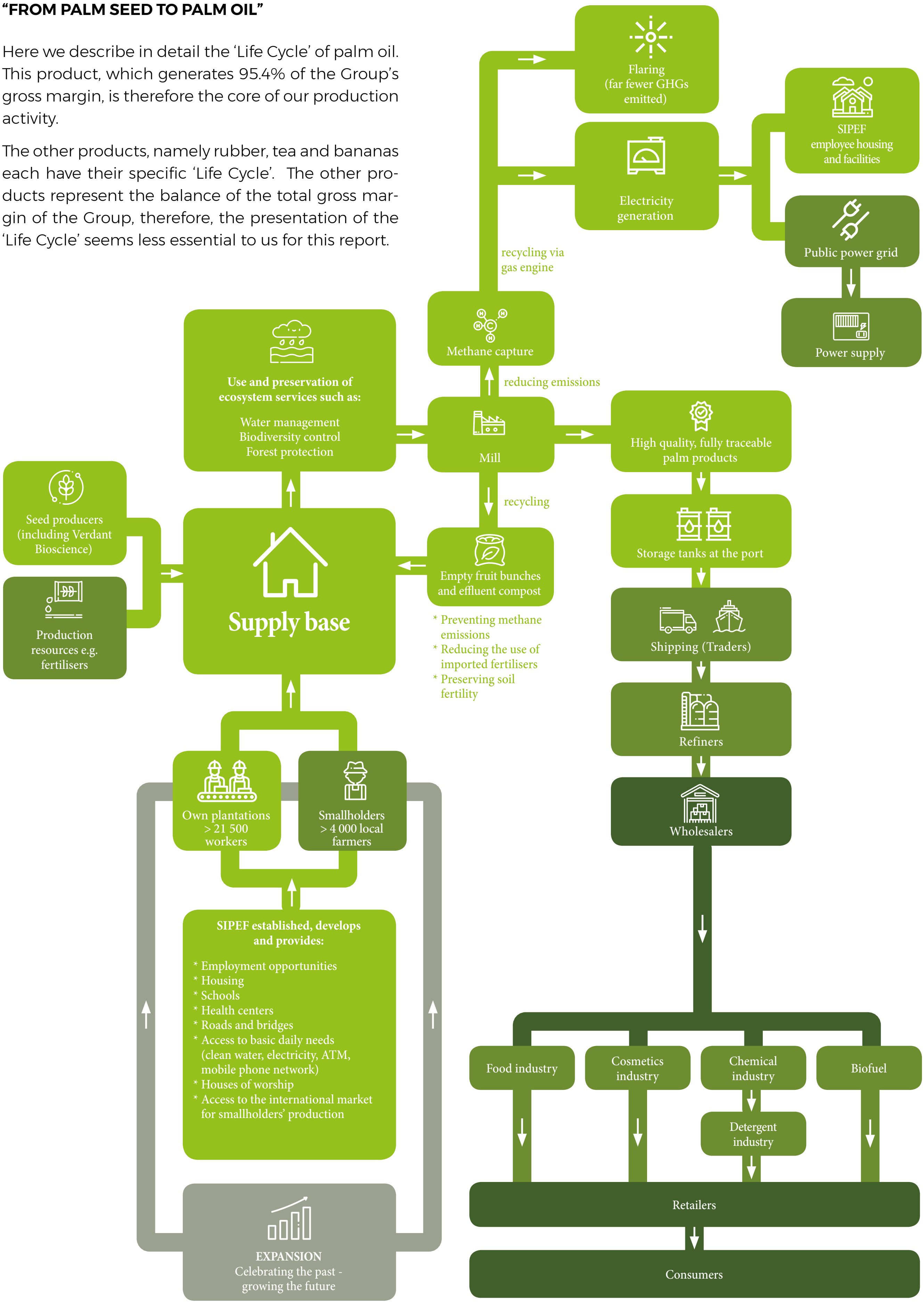
USD 921/TONNE

Average CIF price of palm kernel oil in 2018

ANALYSIS OF THE LIFE CYCLE: "FROM PALM SEED TO PALM OIL"

Here we describe in detail the 'Life Cycle' of palm oil. This product, which generates 95.4% of the Group's gross margin, is therefore the core of our production activity.

The other products, namely rubber, tea and bananas each have their specific 'Life Cycle'. The other products represent the balance of the total gross margin of the Group, therefore, the presentation of the 'Life Cycle' seems less essential to us for this report.







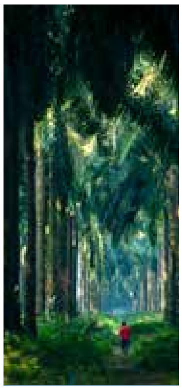










Rubber

DIFFICULT RUBBER MARKET

The natural rubber market in 2018 has probably been showing the least volatility in the last 10 years. The production of and demand for natural rubber were rather in balance, but there was still a significant stock position in the consuming and producing countries, carried over from 2017. Even though the global macro-economic picture looked healthy, a record number of cars were sold and the heavy-vehicle industry seemed to thrive on new investments, it could not inspire the rubber market. The softening of the purchasing managers' index (PMI) in China in the second semester had a significant negative effect. The trade tensions between the US and China, as well as the strong US dollar also weighed on the market.

PRICE FALL

The market remained range-bound for most of the year, with a tendency to drop slightly on negative macro news such as the drop in petroleum prices in the fourth quarter. The rally of petroleum from February till early October was mostly ignored. That is probably representative for the 2018 rubber market. At the lower end of the range there was resistance from the sellers, as prices were touching or even below full cost. Certainly, in some parts of the world smallholders were refusing to harvest at such low prices.

The natural rubber market closed the year of 2018 at USD 1 500 per tonne of RSS3 on the SICOM future exchange, a 15% drop from USD 1 770 per tonne at the beginning of the year. The average price for natural rubber RSS3 was USD 1 565 per tonne in 2018 against USD 1 995 per tonne in 2017, a decrease of 22%.

-22%

Decrease of average natural rubber price 2018 vs 2017

2019 EXPECTATIONS

The global demand for natural rubber grew in 2018 at 4.9% according to the International Rubber Study Group (IRSG), compared to an increase of 4.3% in 2017. The IRSG is forecasting a demand growth of 2.6% and 2.3% for 2019 and 2020 respectively under normal economic circumstances based on International Monetary Fund (IMF) figures. The supply of natural rubber grew by 2.5% in 2018, following a steep growth in 2017 of 7.6%. The newly planted areas entered their maturity; new areas in Vietnam and Ivory Coast in particular came up strongly in 2017 but this trend seems to be flattening out. The IRSG expects a supply growth of 2.6% for 2019 and 2.3% for 2020 under normal circumstances. Based on these rough indications, we can argue that the supply and demand situation is almost in balance in 2018 as well as for the near future. However, there is still an overhang of stocks that keeps the market depressed.

/// Young rubber plants in the nursery ///

Tea

RECORD CROPS RESULT IN LOWER PRICES

Our Cibuni tea quality is compared to Kenyan quality; hence the best reference for our prices is the Mombasa auction. Kenya is also the biggest exporter of black Cut, Tear and Curl (CTC) tea. Throughout the year prices had declined gradually on the back of good production since the last quarter of 2017 which continued during 2018. Prices moved in a narrow range during the first quarter as that is the lowest production quarter of the year, but slipped mainly during the second quarter as a result of good production and reduced demand during the Ramadan period. The gradual decline continued during the second half of 2018 as production has been at a record high each individual month from April 2018 till the end of the year. At the end of 2018 prices were 13% lower compared to the start of the year. On top of that Pakistan, which imported nearly 40% of Kenyan tea in 2018, saw its currency devaluing on several occasions during 2018 pending a bailout package from the IMF. Despite the above negative factors, export demand kept pace with the increased production limiting a further drop of tea prices in the Mombasa auction.

“CTC tea is black tea, made in a ‘Cut, Tear and Curl’ production process in which the leaves are passed through a series of cylindrical rollers with hundreds of sharp teeth that ‘crush, tear, and curl’ the tea into small particles.”

“Tea-export kept pace with increased production which decelerated the tea price decline.”

13%

At the end of 2018, tea prices stood 13% lower than at the beginning of the year

/// Workshop for the maintenance of the cylinders of the CTC machines (‘Cut, Tear and Curl’) ///

Bananas

INCREASING PRODUCTION

Dessert bananas continue to be the most consumed fruit in the world and the export market is still growing. Some 18 million tonnes of bananas, grown across around 500 000 hectares, 70% of which are located in Central and South America, are imported and consumed worldwide. Asia (the Philippines) accounts for 17% of the surface area; the African, Caribbean and Pacific Group of States (ACP) for 9% (Africa 4%, Caribbean 5%); and Europe for 4% (the Canary Islands, Madeira and the French Antilles).

STRONG COMPETITION

Global supply is growing on a structural basis due to the combination of the already established production potential, especially in Central and South America, and the very minor effect of the weather over the past two years. Bananas are a fragile crop and extreme weather, such as cyclones, tornadoes, droughts, excess rainfall and temperature variations, have immediate effects on yields. There has been very little damage in the main production areas these past two years and, on the whole, the markets are well-supplied.

Asia and the Middle East import from South America and the Philippines; the United States imports from Central and South America; and Europe sources from Central and South America, Europe and also from Africa and the Caribbean (ACP).

Main markets and their origins

Markets and origins (per 000 tonnes)	Central and South America	ACP	EU	Total
EU (2018)	4 916	1 040	536	6 492
United States and Canada (2018)	4 770	3		4 773
Russia (2018)	1 557			1 557
Japan (2018)	1 003			1 003
China (2018)	1 545			1 545
Other European countries (2017)				632
Other Asian countries and Oceania (2017)	758			758
Mediterranean zone (2017)				802
Middle East (2017)				813
Central and South America (2017)	958			958
TOTAL				19 333

Source: CIRAD-FRUITROP

Given this global growth in supply, there are two distinct consumer market profiles. On the one hand, there are well-organised markets like the United States; on the other, there are much more open, demand-driven markets like Europe, the leading global import market, with an annual volume of 6.5 million tonnes in 2018.

The growth in 2018 (+2%) remained generally lower than the African average over the past five years, which is 4.5%.

Supplies to the European Union (EU) are mainly dominated by 'dollar bananas', which currently have 76% market share versus 16% for ACP bananas and just 8% for European bananas.

EU customs duties for incoming 'dollar bananas' will continue to fall in 2019 towards EUR 83 or even EUR 82 per tonne, depending on the country of origin. This is the last stage before the bottom price of EUR 75 per tonne in 2020 set by the EU for imports of 'dollar bananas'. It is vital to maintain a customs barrier for the ACP-states, which include Ivory Coast, and therefore have free access to the EU to protect origin-based competitiveness.

In spite of this lowering of European import tariffs for Central and South American bananas, European consumers continue to prefer ACP bananas, especially those from Ivory Coast. However, the decline in the yield in Cameroon was not offset by the growth of Ghana and Ivory Coast.

ACP-banana import in EU (in tonnes)	2017	2018
ACP countries of which:	1 099 611	1 039 600
Ivory Coast	315 855	315 727
Dominican Republic	305 366	300 643
Cameroon	270 208	211 921
Belize	84 635	82 071
Ghana	70 372	75 406
Suriname	44 265	40 004
Saint Lucia and Dominica	8 291	9 879
Angola, Mozambique and other	619	3 949

Source: Eurostat

16%

The EU imports 16% of its bananas from ACP-countries of which Ivory Coast is a part

4.8%

import by the EU market from Ivory Coast

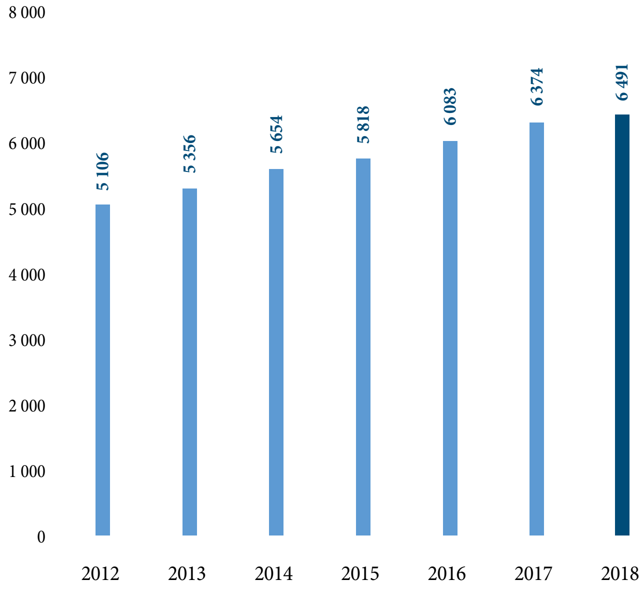
Europe continues to be the primary market for fruit from Ivory Coast. The regional and national markets are gradually growing, particularly in the capitals, where marketing methods and consumption patterns are similar to the European model, with the increasing establishment of retail. In 2018, of a total export volume of 358 000 tonnes, some 315 727 tonnes went to Europe.

The average banana price FOB Europe achieved by Plantations J. Eglin at the close of 2018 was EUR 483 per tonne, a rise of 2% compared with the previous year. Regional sales revenue was EUR 395 per tonne FOB, around 4% up on 2017.

EUR 483/TONNE

FOB-price for bananas from Ivory Coast at the end of 2018 (+2% vs 2017)

Evolution of supply of bananas in the EU-28 between 2012 and 2018



Source: CIRAD-FRUITROP

/// Employee of Plantations J. Eglin in Ivory Coast packing bananas ///

Indonesia

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

61%
Indonesia contributed 61% to the SIPEF gross profit in 2018 (62% in 2017)

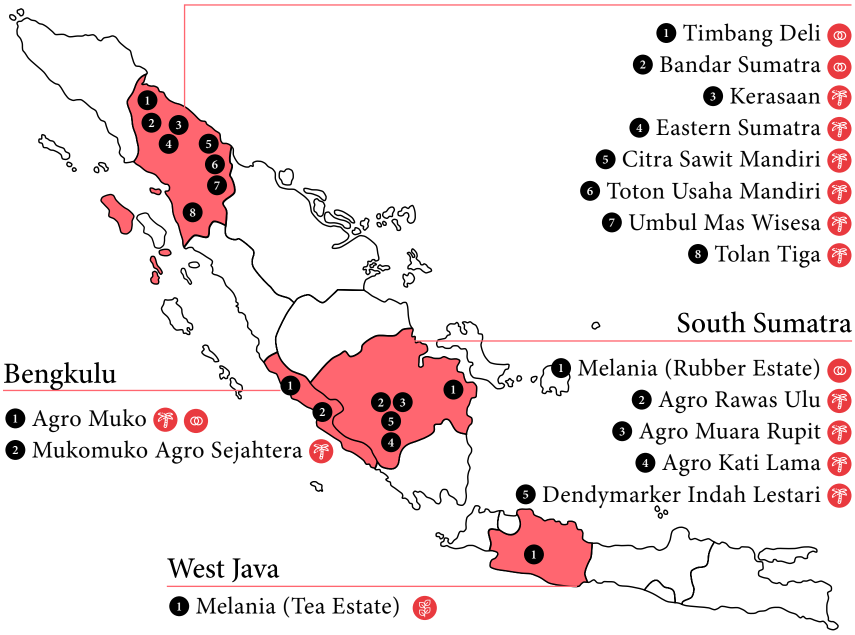
+9%
Growth of palm oil and palm kernel production volumes from 2017 to 2018 in Indonesia

-2%
Decrease in rubber production volumes from 2017 to 2018 in Indonesia

+1%
Growth of tea production volumes in 2018

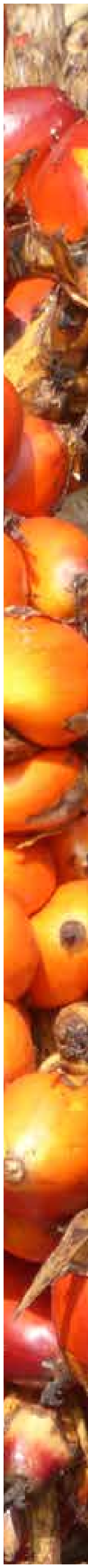
PLANTED AREAS (IN HA)

Palm oil		88%
Rubber		9%
Tea		3%



THE INDONESIAN OPERATIONS ARE ARRANGED ACROSS FOUR PROVINCES, WITH THE OIL PALM AND RUBBER ESTATES ALL LOCATED ON THE ISLAND OF SUMATRA AND THE TEA ESTATE LOCATED ON WEST JAVA. EACH REGION (NORTH SUMATRA, BENGKULU, SOUTH SUMATRA AND JAVA) HAS LARGELY AUTONOMOUS RESPONSIBILITY FOR THE PLANNING, ORGANISING AND MANAGEMENT OF THE DAILY OPERATIONS, BUT ALL HAVE DIRECT LINES OF REPORTING TO THE HEAD OFFICE STRUCTURE IN MEDAN, WHICH COMPRISES THE TOLAN TIGA BOARD OF DIRECTORS AND SUPPORTING SERVICE DEPARTMENTS.

Palm oil	Rubber	Tea
Own: 950 239 tonnes FFB	Own: 6 914 tonnes	Own: 2 422 tonnes
Outgrowers: 17 262 tonnes FFB	Timbang Deli: 1 068 tonnes	Outgrowers: none
29 oil palm estates	3 rubber estates	1 tea estate
6 palm oil mills	3 rubber factories	1 tea factory



/// Immature rubber trees growing on terraces on an estate in Indonesia ///

Indonesia: the basics

Spread across a chain of 17 000 islands between Asia and Australia, Indonesia has the world's largest Muslim population and Southeast Asia's biggest economy.

Republic of Indonesia	
Capital	Jakarta
Population	268 million
Area	1.9 million km² – 15th largest country in the world
Major Languages	Indonesian, 300 regional languages
Major Religion	Islam (90%)
Life Expectancy	67 years (men) 71 years (women)
Currency	Rupiah

Sustained by a diverse landscape, Indonesia's agriculture sector, which occupies 30% of the country's land area and employs 49 million people (41% of the workforce), has long been an important source of income for local households and has contributed much needed export revenue. The other main economic drivers for the country are oil and mining; manufacturing including the automotive industry, food, textiles, construction, fertiliser, cement and consumer goods; as well as the finance sector and increasing tourism revenue.

Economic and financial performance

Indonesia posted another solid year of expansion in 2018, supported by strong growth in domestic demand, with further policy initiatives set to continue this momentum moving forward. The economy expanded by 5.2% year-over-year (YoY) in the first three quarters of 2018, according to official figures from Statistics Indonesia, slightly above the full-year 2017 growth of 5.1%.

The result was driven by gains in major industries; construction (6.3%), vehicle and retail trade (5.1%), processing (4.2%) and agriculture (3.9%), while strong performances were also seen in information and communications (7.8%), and transport and storage (7.6%).

These sectors benefited from improved domestic demand, which, according to a statement released by Bank Indonesia (BI), the central bank, in November, was projected to increase by 5.5% in 2018, driven by strong investment in government infrastructure projects.

The Gross Domestic Product (GDP) figures align with year-end growth projections of 5.1% from both the International Monetary Fund (IMF) and the Ministry of Finance (MoF); however, the rate is slightly down on earlier predictions of 5.4% by the MoF.

2018 also saw BI make a move on interest rates as part of an effort to stabilise the rupiah.

The central bank raised its benchmark rate six times between May and November, from 4.25% to 6% – the first time the rates had been increased since November 2014.

"Indonesia posted another solid year of expansion, supported by strong growth in domestic demand."

These efforts were designed to stem a drop in value of the rupiah and a subsequent reduction in foreign currency reserves. The currency lost around 12% against the US dollar from January to October, falling on the back of higher US interest rates and higher oil prices, which placed pressure on Indonesia's current account deficit.

BI's measures were met with some success by year-end, with the currency regaining some lost ground, closing end 2018 around 9% down on its opening rates.

Meanwhile, inflation closed at a steady 3.13% in December 2018, with BI confident the annual rate would remain within its target range of 3.5%, plus or minus 1%, for both 2018 and 2019.

Moving forward, the government has increased efforts to drive growth and boost foreign direct investment with the launch of a new economic stimulus package in November. The new package, the 16th released since September 2015, offers continued tax holidays to many industries operating in special economic zones, while also extending the scope of activities covered by earlier versions of the scheme, encompassing agro-processing and the digital economy.

/// Recently rolled rubber sheet before it enters the smokehouse ///

North Sumatra

42%

With management responsibility for 8 oil palm estates, 3 palm oil mills, 2 rubber estates and 2 rubber factories, North Sumatra represents over half of the production of the total Indonesian operations. The 10 estates of North Sumatra cover 27 435 hectares or 42% of the total planted land area, employing 174 staff and 5 176 workers.

Bengkulu

32%

With management responsibility for 11 oil palm estates, 2 palm oil mills, 1 rubber estate and 1 rubber factory, Bengkulu represents over a third of the production of the total Indonesian operations. The 12 estates of Bengkulu cover 21 071 hectares or 32% of the total planted land area, employing 132 staff and 4 782 workers.

South Sumatra

23%

With management responsibility for 10 oil palm estates and 1 palm oil mill, the new development and rehabilitation projects of South Sumatra currently represents a small percentage of the production of the total Indonesian operations. The 10 estates of South Sumatra cover 15 051 hectares or 23% of the total planted land area employing 125 staff and 3 067 workers.

West Java

3%

With management responsibility for 1 tea estate and 1 tea factory, the activities in Java currently represent a very small percentage of the production of the total Indonesian operations. The tea estate in Java covers 1 763 hectares or 3% of the total planted land area employing 16 staff and 1 794 workers.

The announcement also outlined plans to further reform the country's Negative Investment List, which defines the series of restrictions and barriers to foreign ownership across the economy. Analysis conducted by PricewaterhouseCoopers (PwC) predicted that the proposed changes, expected sometime throughout 2019, would see 54 sectors removed from the list and therefore opened up to the possibility of 100% foreign ownership, while a series of others would have their foreign ownership threshold raised. The Government noted that the most recent changes to the list, made in late 2016, had resulted in a 108.6% and an 82.5% increase in foreign and domestic direct investment, respectively. The incentives are expected to help support economic growth in 2019, which BI forecasts will expand by between 5.0% and 5.4%, supported by continued increases in domestic demand and improved exports.

While the economy is forecast to continue its solid rate of expansion, there are some factors that pose a risk to growth. Indonesia could be affected by the ongoing trade dispute between China and the US, with the possible expansion of tariffs holding the potential to cool the Chinese economy, one of Indonesia's main export markets.

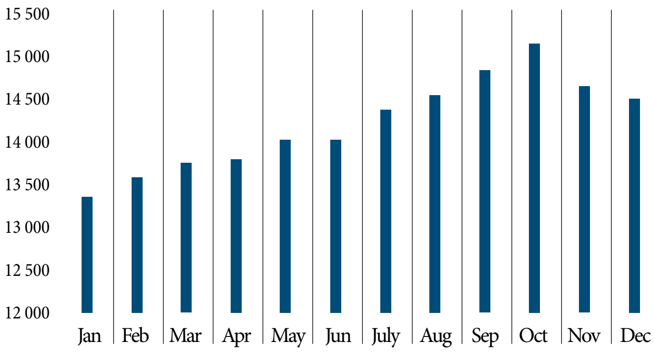
Political influences

Another factor that will impact the economy in the coming year is the presidential election. Though the lead-up to the poll may see increased state spending, resulting in a growth spurt for GDP, the focus of political attention on campaigning may have slown down the pace of economic reforms until after the election outcome is settled.

On 17 April 2019, for the first time in the country's history, over 190 million eligible voters got the opportunity to elect the president, the vice president and members of the People's Consultative Assembly (MPR) on the same occasion. As far as the presidential elections are concerned, based on the several results of the surveys, Joko Widodo, who ends his first mandate as president, seemed to keep an advantage on his chief contender, the retired Lieutenant General Prabowo Subianto.

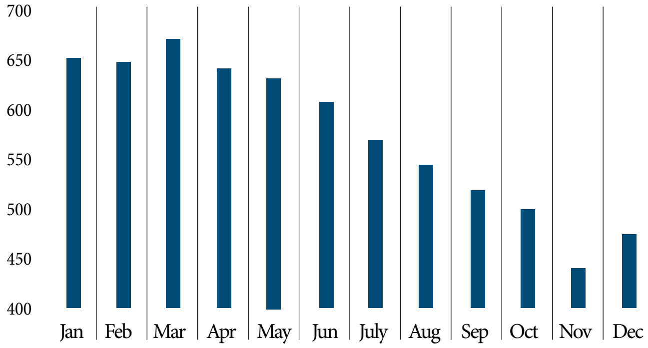
Whatever the outcome of these elections will be, SIPEF is looking forward to continue its operations in Indonesia within the new constellation.

Exchange rate Indonesian rupiah /USD in 2018



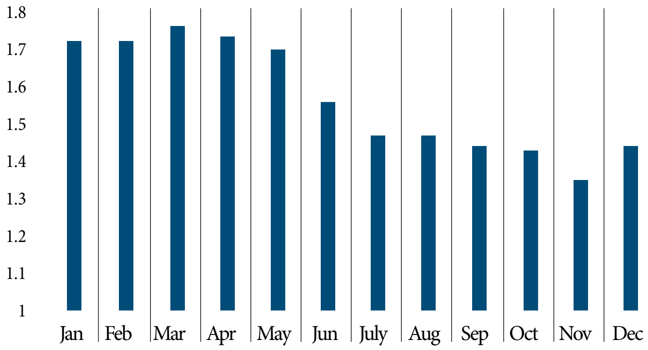
/// Rubber sheets drying in the smokehouse to be processed into "Ribbed Smoked Sheets (RSS) ///

Average world market palm oil price in 2018 (in USD/tonne)



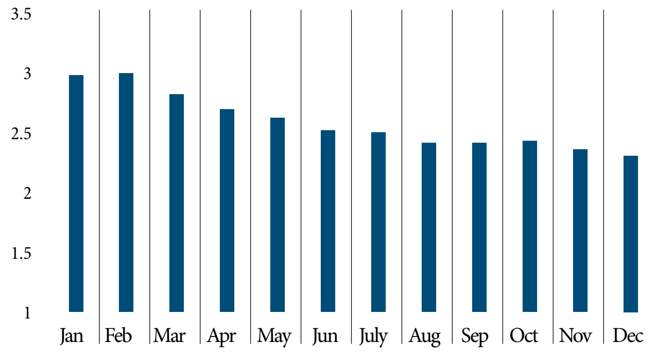
Source: World Bank commodity price data - updated database

Average world market rubber price in 2018 (in USD/kg)



Source: World Bank commodity price data - updated database

Average world market tea price in 2018 (in USD/kg)



Source: World Bank commodity price data - updated database

Commodity production in Indonesia

PALM OIL

Global palm oil production is dominated by Indonesia and Malaysia. These two countries together account for 57% and 27%, respectively, of total global palm oil production, with Indonesia being the largest producer and exporter of palm oil worldwide. Over the long term, global palm oil demand shows an increasing trend as an expanding global population gives rise to increasing consumption of food and cosmetic products that contain derivatives of palm oil. Meanwhile, various governments across the globe are encouraging the use of biofuel, of which palm oil plays an important part. Indonesia produced 36 million tonnes of palm oil in 2017 with the Indonesian Palm Oil Association (GAPKI) predictions for 2018 at 42 million tonnes. The total area of oil palm estates in Indonesia is currently estimated at 11.9 million hectares and almost 70% of Indonesia's oil palm estates are located on Sumatra where the industry was started during the Dutch colonial days. The remaining 30% of estates are largely found on the island of Kalimantan. In terms of palm oil prices, following the highs of USD 770 per tonne Crude Palm Oil (CPO) in 2017, the unfolding story of declining prices in 2018 placed additional pressure on our operations. Downward influences included the high supply of and lower demand for CPO, stocks and prices of competing vegetable oils, the import policies of India, the widely fluctuating price of mineral oil and political uncertainty regarding the USA/China relationship.

RUBBER

The world rubber market is made up of two products, Natural Rubber (NR) which is produced from latex derived from rubber trees and Synthetic Rubber (SR) which is produced from polymers as a by-product of the petroleum refining process. Rubber has a large stretch ratio, is highly waterproof, and has a high resilience, making it a very useful material that can be used for a wide variety of applications, either alone or in combination with other materials. Approximately 60% of the worldwide consumption of rubber is attributable to the global tire manufacturing industry, while the remaining rubber consumption is used to manufacture a wide variety of products such as rubber boots, rubber mulch, rubber elastic bands, condoms, surgical gloves and more. Global production of rubber grew at an average annual growth rate of 2.7% to 28.4 million tonnes in 2017 from 25.3 million tonnes in 2011. NR accounted for 53% of world rubber production in 2017 with 15.0 million tonnes and SR made up 47% with 13.4 million tonnes. The major rubber producing countries are Thailand, Indonesia, Vietnam, China, Malaysia, Ivory Coast, Myanmar, Brazil and Cambodia. Indonesia is the second largest rubber producer behind Thailand with 3.63 million tonnes produced in 2017. Approximately 80% of the rubber produced in Indonesia is from smallholder farmers. The current supply/demand fundamentals for NR are applying downward pressure on prices, and although NR prices rallied slightly on the speculation of substitution of petroleum-derived synthetic rubber with NR when oil prices rise, this was negated by the abnormally high inventory stocks.

TEA

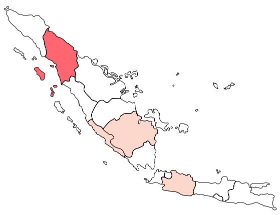
Global tea production and consumption will continue to increase over the next decade, driven by rising demand in developing and emerging countries especially India and China which have seen accelerated growth, according to a May report by the Food and Agriculture Organisation (FAO) of the United Nations. Indonesia currently ranks seventh on the list of the world's largest tea producers. However, due to the lucrative business prospects of palm oil the country's tea output has declined in recent years, as some tea estates were transformed into palm oil estates, while other tea estates have been given up for the production of vegetables or other crops considered more profitable. Despite the resulting decrease in land acreage, tea production has remained relatively stable. This indicates that the remaining tea estates have become more productive. The main export partners in relation to tea at least, are Russia, Pakistan and Great Britain.

One major problem that tea cultivators in this country face is maximising their output and, although labour costs are still relatively low in Indonesia, minimum wages have been growing rapidly over the past few years. Being a labour-intensive industry (plucking is done by hand), labour costs account for most of tea growers' operational costs. As such, rapidly rising minimum wages are a concern. Keeping all this aside, most of the tea produced in the country is black tea, while only a proportion of it constitutes green tea. The bulk of the production is carried out in Java, specifically West Java. Indonesia produced 139 362 tonnes of tea in 2017 out of a global production of 5.5 million tonnes. In terms of prices, we saw a gradual decline during the year, which was somewhat at odds with the background of falling production as a result of poor weather in many growing areas.

SIPEF-production in Indonesia

SIPEF was incorporated in 1919 with the principal aims of promoting and managing plantation companies in tropical areas. At that time, the company had two 'agencies': one operating in Kuala Lumpur in Malaysia, and another in Medan in Indonesia. The Indonesian operations are still managed from Medan today but from spacious, well equipped and modern offices located on Jalan Imam Bonjol in the city's Central Business District.

/// Skilled tea pluckers at work, Cibuni tea estate in West Java ///



NORTH SUMATRA

ESTATES

Overall Fresh Fruit Bunch (FFB) production rose by 3% compared to last year from 514 728 to 530 884 tonnes, and we saw excellent yields from our young plantings across the region. But this was balanced by a year of consolidation across our high organic soil estates, where palms were seen to be in a resting phase after steep gains in yield from 2013 to 2017. We also saw the negative impacts of localised flooding across our high organic soil estates during the last quarter of the year, which impacted on our ability to harvest and recover crop. The normal replanting cycle taking place in our older estates also has the impact of reducing crop production as the old palms are felled. However, palms coming into maturity are quickly achieving and exceeding the yields of the palms that they replace. Sufficient worker numbers, good attention to managing harvesting intervals and efficient crop recovery and transport all helped towards achieving the increased production.

Overall rubber production of Bandar Pinang and MAS Palembang fell by 8% compared to last year, from 4 754 to 4 374 tonnes dry rubber. There have been three main contributing factors to the fall in production and they are:

- the reducing supply base for rubber as Timbang Deli estate, owned and managed by our research partners Verdant Bioscience Pte Ltd (VBS), is gradually replanted with oil palm;
- a dry month in February stimulated a double wintering at Bandar Pinang estate (BPE) during the year;
- the appearance and spread of leaf blight was caused by the fungus Fusicoccum during the year.

With low rubber prices experienced throughout the year, the management teams have been proactive in focusing on worker numbers and making reductions, by increasing productivity and task sizes as well as curtailing non-essential functions on the estates.

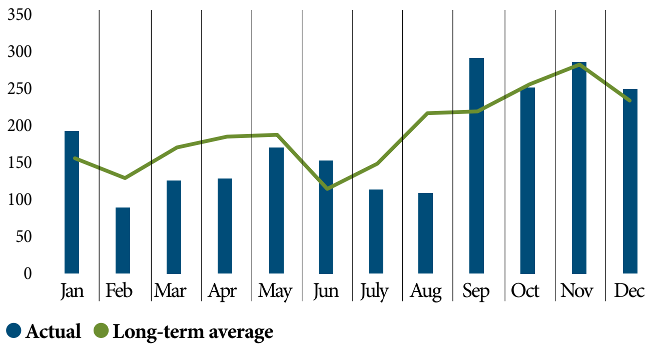
The rainfall versus the long-term average for all estates across North Sumatra averaged out at 2 150 mm versus 2 298 mm for the year, a deficit of 6%. In general, the rainfall pattern was supportive of crop production during the year, but Perlabian estate (PLE) in particular experienced four very dry months with rainfall below 100 mm and the estate suffered from a soil moisture deficit, which will negatively impact yields in the next two years. This was countered by generally wet conditions in the last four months of the year with the high organic soil estates in particular experiencing repeated localised flooding.

27 435
hectares

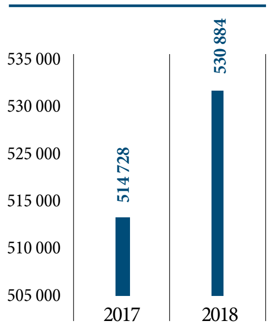
174
staff

5 176
workers

Average rainfall (in mm)



Fresh fruit bunches production (in tonnes)



Rubber production (in tonnes)

North Sumatra palm oil mill performance

Mill	Mill throughput (tonnes FFB per hour)		Tonnes FFB processed			Oil extraction rate (%)			Kernel extraction rate (%)		
	Rated	Actual	2017	2018	Variance	2017	2018	Variance	2017	2018	Variance
BMPOM	30	29	109 751	109 237	-0.44%	23.29	23.68	0.39	5.53	5.51	-0.02
PLPOM	55	51	202 913	213 596	5.26%	22.07	21.83	-0.24	5.54	5.62	0.08
UMWPOM	40	40	168 307	173 207	4.85%	23.47	24.03	0.57	3.82	3.92	0.10
TOTAL	**125**	**120**	**477 864**	**496 050**	**3.79%**	**22.83**	**23.01**	**0.18**	**4.94**	**5.00**	**0.06**

TECHNICAL RESULTS

In terms of the 3 palm oil mills and the 2 rubber factories within North Sumatra, the following results were achieved compared to last year.

Bukit Maradja palm oil mill (BMPOM):

This mill receives the fruit from Bukit Maradja estate (BME) and Kerasaan estate (KRE) and in 2018, we saw a 0.44% decrease in FFB processed compared to 2017, but an overall gain in oil extraction rate of 0.39% and a decrease in kernel extraction rate of 0.02%. Whilst capital replacement and maintenance programs continued as scheduled during the year, the mill saw the operation of the aerated bunker composting system achieve 100% palm oil mill effluent (POME) usage. A total of 17 787 tonnes of compost was produced in 2018 compared to 12 362 tonnes in 2017, covering an application area of 1 776 hectares in 2018 compared to 1 249 hectares in 2017, at an application rate of 10 tonnes compost per hectare. 2018 has very much been a year of learning and adjusting the systems and practices at the site in close co-ordination with the site's technology providers, Compost Advice & Analysis (CAA), which has resulted in 100% utilisation of POME at the compost plant. The plan remains to replace the majority of the inorganic fertiliser requirements for areas of BME that have received compost and based on the results of the leaf analysis work carried out by VBS, we will start to reduce the inorganic fertiliser in 2019. We expect that an additional benefit of the compost application will be an enriching of the soil quality, and we are hopeful of achieving a subsequent yield improvement of up to 2 tonnes FFB per hectare.

/// Coagulated rubber ///

Perlabian palm oil mill (PLPOM):

This mill receives the fruit from Perlabian and Tolan estates and in 2018, we saw a 5.26% increase in FFB processed compared to 2017, a decrease in oil extraction rate of 0.24% but an increase in kernel extraction rate of 0.08%. The engineering department continued to improve the operations of the ageing boilers and turbines. Fruit from the old Marihat 'Dumpy' plantings with an oil extraction rate (OER) of around 18% are still affecting the OER at Perlabian mill (PLPOM), whereas the fruit from the other planting materials was achieving and exceeding OERs of 23%, as expected. As the 'Dumpy' material consisted of approximately 17.5% of the supply base in 2018, it is still causing issues with lower OERs, but we are still planning to replace the 'Dumpy' planting material as a priority. The bio-reactor methane capture system has operated well during the year with the methane currently either being used in our boiler or flared. An investigation was conducted into possible opportunities with the Government power provider, PLN, to invest in a biogas engine to generate electricity, which could be exported to the local grid. The result of the investigation was found to be non-viable due to the current reduction in the feed tariff by PLN.

Umbul Mas Wisesa palm oil mill (UMWPOM):

This mill receives the fruit from Umbul Mas Wisesa South (UMWS), Umbul Mas Wisesa North (UMWN) and Toton Usaha Mandiri (TUM) estates and Roundtable on Sustainable Palm Oil (RSPO) certified smallholders. In 2018, we saw a 4.85% increase in FFB processed compared to 2017, an overall gain in the oil extraction rate of 0.57% and in the kernel extraction rate of 0.10%. This increase in performance was very much related to the change in harvesting criteria from one loose fruit to five loose fruits for chisel harvesting and the age profile of the palms. As these palms get taller and move from chisel harvesting to sickle harvesting, the recovery of loose fruit will be increasingly important to maintain OERs. The bio-reactor methane capture plant operated well during the year, but a series of pond aerators were added to pond no. 14 to improve the discharge parameters of the waste water, to ensure continued compliance within the limits set by local laws and regulations. One of the key compliance issues of the Hak Guna Usaha (HGU) or cultivation licence for Umbul Mas Wisesa (UMW) is the Company's commitment to buy smallholder fruit. We have continued to work with our smallholder supply base during 2018, where we managed to achieve RSPO certification for part of our smallholder supply base in early 2018. This has given us the opportunity to add their fruit to the certified estate supply base as well as provide ongoing support, training and extension services to our surrounding communities. This has meant that all fruit processed by the UMW mill is RSPO certified and the palm products have been declared as identity preserved, attracting the premiums enjoyed by the other mills in the Group. As part of the 2018 capital projects, a second boiler was commissioned in August 2018 and PLN power was connected to the mill, to reduce the dependence on fossil fuels, add further reliability and improved efficiencies to the mill.

As part of the search for improved efficiencies, the engineering department has continued work in 2018 recording, monitoring and controlling diesel consumption, worker productivity and water consumption, and each mill is now able to set realistic and achievable targets.

Bandar Pinang rubber factory (BPRF):
This factory, which still processes the latex and second grade rubber from both Bandar Pinang estate (BPE) and Timbang Deli estate (TDE), performed below management expectations in 2018 with production of rubber at 2 435 tonnes compared to 2 883 tonnes in 2017. Rubber production is lower than management expectations due to the combination of a slight increase in latex production at Timbang Deli from 3 805 tonnes in 2017 to 3 844 tonnes in 2018 and a decrease at Bandar Pinang estate from 6 379 tonnes in 2017 to 5 797 tonnes in 2018.

MAS rubber factory (MASRF):
This factory, which processes the latex from the Mas Palembang estate (MASE), performed below management expectations in 2018 with the production of rubber at 2 976 tonnes compared to 3 132 tonnes in 2017. Rubber production is lower than management expectations due to the leaf blight affecting the region, which played a major role in the lower than expected production in 2018.

“In order to improve efficiency in palm products, yet again, diesel and water consumption are recorded, monitored and controlled in 2018.”

/// Inspection of the smoked rubber sheets (Ribbed Smoked Sheets, RSS) ///

GENERAL ISSUES IN NORTH SUMATRA

Workers
The labour situation remained stable in the North Sumatra region with no significant industrial relations problems faced by the estates. In 2018, the regional minimum wage increased by 8% putting upward pressure on our costs and driving the increased focus on efficiency and reducing labour numbers. Labour availability across the oil palm and rubber estates remains good. Relationships between the Company and the Workers’ Union remain constructive and amicable; salary and other remuneration negotiations were successfully carried out in the first quarter of the year. Every estate operates a successful Workers’ Co-operative where the co-ops manage and operate supermarket-style shops as well as source and provide contract or seasonal labour (known locally as free labour or FL). Profits from the co-op are distributed as a dividend to the members who are comprised of our workers. As part of the Company drive towards increased discipline and efficiency in the management of our FLs, the North Sumatra region has rolled out the use of finger printing technology to record attendance of all FLs. This has proven extremely successful in preventing fraudulent activities and work is now ongoing by our IT department to enable the software to automatically upload data straight from the finger print machines into the payroll module. In line with Company policies, one-third of all workers’ houses received full repairs and maintenance during the year and this was further supported by maintenance to schools, mosques, churches, community halls and other ancillary buildings to ensure that our workers and their families enjoy safe, comfortable and secure housing and facilities.

Fertiliser

The manuring program for all estates was completed by year end in line with recommendations. Availability of adequate manpower and storage capacity improved field access, and timely delivery of fertilisers enabled the estates to complete on time. A total of 20 909 tonnes of various fertilisers was applied compared to 21 868 tonnes last year. The fertiliser recommendations for all areas are provided by VBS based on the nutrient analysis of leaf and rachis samples as well as soil properties and nutrient status to provide the optimum economic response to applications of fertiliser, which is the single most expensive input in estate upkeep costs.

With the introduction of the compost plant in Bukit Maradja Palm Oil Mill (BMPOM) effective 2017, approximately 1 776 hectares in BME received compost in 2018. The plan is to progressively reduce the requirement for inorganic fertilisers in these fields by applying compost at a rate of 10 tonnes per hectare. Full withdrawal of inorganic fertilisers will only be carried out once the compost meets the palms' nutrient requirements.

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

In our high organic soil estates, UMWS in particular has embarked on the mechanical application of fertiliser in accessible fields in order to reduce on labour utilisation and costs. The machine is known as the Superbull Spreader and is a small 4WD vehicle with a 500 kg hopper and spreader, all mounted on low ground pressure tyres for use in organic soils. Due to its effectiveness, the estate intends expanding the fleet next year for the machines to be used where ground conditions are appropriate for the machine to function efficiently. Due to the more complex properties of high organic soil, these estates continue to apply a soil improvement product, at a rate of 110 grams per palm for efficient nutrient uptake by palms where the block yields are still below 25 tonnes per hectare. The yields have substantially improved over the years with this additional input for palms planted in high organic soil.

Pests and diseases

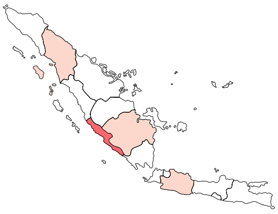
The main risks of pest attacks to our palms in North Sumatra come from leaf eating insects (nettle caterpillars and bagworms), boring insects (rhinoceros beetle and termites), rats and monkeys. The year of 2018 remained relatively free of pest attack across the region with the exception of minor outbreaks of bagworm and rats on BME and nettle caterpillars on the UMW estates, which were managed in line with the Company's integrated pest management (IPM) policies. The biggest pest challenge remains at KRE, which is host to an endemic area of nettle caterpillar infestation covering 300 hectares. Intense management focus has been applied to increase resources of manpower, equipment and insecticide for the timely targeted truck injection of affected palms as well as the additional planting of beneficial flowers, which act as hosts for predators to the pests, combined with the mass rearing and release of predator insects. It is hoped that this two-pronged approach targeted at the pests' specific lifecycle will allow the estates to regain control of this area.

In terms of diseases, the biggest potential risk to our older estates remains that of basal stem rot (BSR) caused by the fungus Ganoderma boninense. In recent years, intensive land preparation techniques have been undertaken and 'Gano tolerant' planting material was planted in the most susceptible estates 2014-2016 to ascertain the effectiveness of claims by the plant breeders. The use of antagonistic and beneficial fungi such as Trichoderma and the soil improver Rhizoplex is also part of the armoury against this virulent fungus, which is only affecting less than 5% of our Group's planted areas.

In our rubber estates, the presence of white root disease remained under control due to an efficient treatment and could this be restricted to only 1% across Bandar Pinang and MAS estates. It is also being closely monitored. No other major outbreaks have manifested during 2018.

Replanting

As part of the Company's ongoing replanting program to replace old and poorer performing palms with new, high-yielding planting material, a total of 345 hectares were replanted in 2018, consisting of 203 hectares at PLE and 142 hectares at BME. In addition to the replanting, felling of palms also took place across 313 hectares to allow for the one-year fallow period and this was undertaken at PLE over 196 hectares and BME over 117 hectares. Replanting was also carried out in our rubber estates with 42 hectares completed at BPE and 95 hectares completed at MASE, a total of 137 hectares.



BENGKULU

ESTATES

Overall FFB production rose by 6% compared to last year from 349 946 to 371 099 tonnes FFB. Several of the Bengkulu estates have been working through replanting programs over the last few years and, as the newly planted areas come into maturity, we are seeing vastly improved yields as a result of good quality planting material, excellent nursery management standards and a high degree of focus on immature upkeep practices. During 2018, large areas of Mukomuko estate (MME) planted in 2012 and 2013 yielded between 31 to 38 tonnes FFB per hectare. Results from the older tall palms were less impressive but, as this current cycle of palms approaches replanting across Bengkulu, we are looking forward to see the significant yield improvement continue despite the challenges of the predominantly undulating terrain and high rainfall in the region.

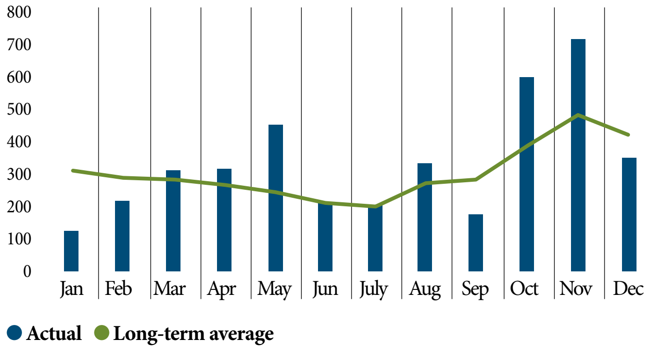
The acquisition of PT Asri Rimba Wirabakhti (Asri Rimba) which consists of 1 770 hectares HGU with effect from 1st September, 2018 has increased the existing land bank of the Bengkulu estates. Thereafter, the newly acquired property was renamed Sungai Teramang Estate (STGE). The estate is located 3 km from Bunga Tanjung estate (BTE) or 25 km from the general manager's office.

21 071
hectares

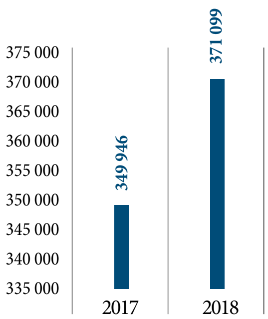
132
staff

4 782
workers

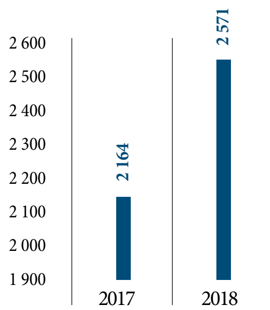
Average rainfall (in mm)



Fresh fruit bunches production (in tonnes)



Rubber production (in tonnes)



/// Collecting loose palm fruits ///

Bengkulu palm oil mill performance

Mill	Mill throughput (tonnes FFB per hour)		Tonnes FFB processed			Oil extraction rate (%)			Kernel extraction rate (%)		
	Rated	Actual	2017	2018	Variance	2017	2018	Variance	2017	2018	Variance
MMPOM	60	59	233 150	247 135	6.00%	22.81	23.07	0.27	5.11	4.90	-0.20
BTPOM	60	30	130 623	137 461	5.23%	22.65	22.76	0.11	5.40	5.11	-0.29
TOTAL	**120**	**89**	**363 773**	**384 596**	**5.69%**	**22.75**	**22.96**	**0.21**	**5.21**	**4.98**	**-0.23**

The land title comprises 370 hectares of mature oil palm and the remaining 1 400 hectares with the potential to plant with oil palm under the smallholder (Plasma) scheme. This will contribute to optimising the processing capacity of the existing oil palm mills.

Overall rubber production rose by 19% compared to last year, from 2 164 to 2 571 tonnes Dry Rubber. This performance is mainly due to the increase in the mature area by 12% (157 hectares), as immature areas from the replant become mature and higher production than budgeted from the more recent plantings. As with the rubber estates in North Sumatra, the estate management team was faced with the challenges of becoming more efficient and productive against the backdrop of low commodity prices. A (program of driving higher productivity by the tappers and reducing non-essential workers saw the estate labour force reduced by 11% (87 people) during the year with further reductions targeted for 2019.

“Given low commodity prices, becoming more efficient and more productive has been a serious challenge.”

The rainfall versus the long term average for all estates across Bengkulu averaged out at 4 008 mm versus 3 645 mm for the year, a surplus of 10%. This part of Sumatra on the south-western coast is prone to much higher rainfall than in North Sumatra and, whilst that gives support to good crop yields, the combination of undulating and hilly terrain and high rainfall give considerable challenges to field and transport operations. As can be seen on the adjacent table, the fourth quarter of the year was much wetter than normal, which caused massive damage to culverts, roads and bridges as well as causing extended harvesting intervals and delayed fertiliser applications.

TECHNICAL RESULTS

In terms of the 2 palm oil mills and 1 rubber factory within Bengkulu, the following results were achieved compared to last year.

Mukomuko palm oil mill (MMPOM):

This mill receives the fruit from Mukomuko (MME), Sei Betung (SBE), Tanah Rekah (TRE), Talang Petai (TPE) and Sei Kiang (SKGE) estates, and in 2018, we saw a 6% increase in FFB processed compared to 2017 and an overall gain in the oil extraction rate of 0.27%, but a decrease in the kernel extraction rate of 0.20%.

Improvement in fruit quality played a major role in the increase in OER in 2018, with more focus by management to address field-related issues.

Capital and maintenance programs were well managed and completed as per schedule.

The biogas plant continued to function well during the year with methane being used as a fuel source in the rubber dryers at Mukomuko Crumb Rubber Factory (MMCRF) and also in the biogas generator to supply electricity to PLN and as required for internal use. During 2018 the biogas generator exported 3 894 902 kilowatt hours of electricity to PLN and consumed 2 614 403 kilowatt hours for internal use, which reduced the reliance on fossil fuels.

3 895 MWh

The biogas generator of Mukomuko produced 3 895 MWh electricity to the Indonesian power grid PLN and 2 614 MWh for own use

Bunga Tanjung palm oil mill (BTPOM):

This mill receives the fruit from Bunga Tanjung (BTE), Air Bikuk (ABKE) and Air Buluh (ABE) estates and in 2018, we saw a 5.23% increase in FFB received compared to 2017, an overall gain in the oil extraction rate of 0.11% and a decrease in the kernel extraction rate of 0.29%. The mill is rated at a throughput of 60 tonnes FFB per hour but is operating at half of the capacity, achieving 30 tonnes FFB per hour in 2018 which is in line with the throughput of 2017. This is a historical issue where at the time of construction. The Company was obliged to build a mill of this size to theoretically cater for smallholder fruit, a requirement which dissolved with the advent of a number of independent mills in the area.

This mill received FFB from the southern estates, but did not see the same increase in OER as MMPOM, due to lower than expected fruit quality. FFB quality at BTPOM still remains an issue and is being addressed by management as this is having a direct impact on OER. Mill processing performance was well controlled during the year with oil losses well within acceptable parameters and repair and maintenance programs followed in line with the schedule. This mill does not currently have a methane capture plant as the reduced fruit throughput does not support the investment in the necessary infrastructure, but it is a possibility for the future once we are able to secure additional fruit through the mill.

Mukomuko crumb rubber factory (MMCRF):

This factory, which processes the latex and second grade rubber from Sei Jerinjing estate (SJE) as well as the second-grade rubber from the MAS estate in Palembang had another sound year in 2018. The CRF produced a total of 2 571 tonnes rubber against 2 164 tonnes in 2017. The increased throughput during the year also supported efforts to control unit costs and the CRF costs for 2018. In 2018 the rubber dryers were converted from operating on 100% diesel to operate on a combination of both biogas and diesel, which has resulted in a reduction of the operating costs and reduced the reliance on fossil fuels.

GENERAL ISSUES IN BENGKULU

Workers

Worker availability in Bengkulu tends to be more challenging than in North Sumatra, due to the more remote and challenging terrain and the significant areas of taller palms, which are physically and technically more difficult to harvest. Despite these challenges, the falling commodity prices during 2018 acted as a catalyst for the management teams to review labour usage across all of the oil palm estates and the following steps have been initiated:

- The target for the overall labour ratio has been set at 1 worker per 5.5 hectares.
- Each work category will have their target ratio set as guidance for managers.
- Our internal reporting on labour statements will be improved to reflect on actual numbers against targets for each category and overall for each estate.

Relationships with the Workers' Union remain good in Bengkulu and, during the year, the methodology for paying oil palm harvesting premiums was reviewed in conjunction with standard targets set for each planting year with full union consultation and involvement. This has enabled our harvesters to become more productive and increase their daily take-home pay, but has had minimal impact on our production costs.

The concept of the workers' co-operatives providing supermarket shops and FLs for short term contract and seasonal work was also rolled out across Bengkulu. This year's dividend pay-out to 3 280 co-op members has increased by 36% compared to the dividend paid last year, underlining the success of the scheme.

Another major change to operational arrangements was the roll-out of contracted security services across the Bengkulu estates, mills and factory. This is part of the planned Company-wide program of out-sourcing security, which gives us highly trained guards who are easily able to be transferred from one operation to another in response to any issues. By sharing the recent experiences from North Sumatra, the transition was carried out with no disruptions to operations.

Fertiliser

The manuring program for all estates was completed by year end in line with recommendations. Availability of adequate manpower and storage capacity, improved field access, and timely delivery of fertilisers enabled the estates to complete on time, despite the pressures of increased rainfall during the fourth quarter. A total of 15 012 tonnes of various fertilisers was applied compared to 16 272 tonnes last year. The fertiliser recommendations for all areas are provided by VBS, based on the nutrient analysis of leaf and rachis samples as well as soil properties and nutrient status to provide the optimum economic response to applications of fertiliser, which is the single most expensive input in estate upkeep costs.

Pests and diseases

Unlike North Sumatra, there is very little impact to the Bengkulu estates from pests or diseases, although vigilance must be maintained as periodic attacks from the rhinoceros beetle in some of the replants are experienced. The Company IPM program is also followed here, whereby beneficial plants are planted in all replant areas to act as hosts for the predators to our known pests.

Replanting

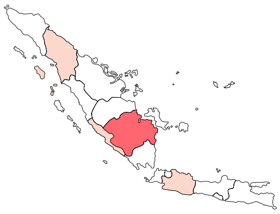
As part of the Company's ongoing replanting program to replace old and poorer performing palms with new, high-yielding planting material, a total of 1 066 hectares were replanted in 2018, consisting of:

- /// 431 hectares at Mukomuko estate
- /// 263 hectares at Tanah Reka estate
- /// 198 hectares at Talang Petai estate
- /// 174 hectares at Air Bikuk estate

All the estates successfully completed their replanting program during the year. This was mainly due to the early start of the replanting program supported by favourable weather conditions during the first quarter. Opportunity was taken during the replanting exercise to improve the field accessibility and realignment and the repositioning of the drainage system to enhance operational efficiencies and future mechanisation initiatives. Replanting was also carried out in our rubber estate with 53 hectares completed at SJE.

/// The controlled distribution of fertiliser in an oil palm plantation ///

“During the replanting operations, the draining system has been fine-tuned in order to improve operational efficiency.”



SOUTH SUMATRA

ESTATES

Our new development expansion in the Musi Rawas region of South Sumatra, near the town of Lubuk Linggau progressed very well during 2018. As we head towards our management target of 33 000 planted hectares, there remain many challenges involved with the establishment and management of our 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. The South Sumatran operations are essentially split into two parts:

- New Development: This encompasses land compensation, clearing and planting work within the Izin Lokasis at Agro Kati Lama (AKL), Agro Rawas Ulu (ARU) and Agro Muara Rupit (AMR).
- Rehabilitation: This is associated with the rehabilitation and replanting work on the recently acquired mature estates of Dendymarker Indah Lestari (DIL).

Overall FFB production rose by 233% compared to last year from 14 565 to 48 436 tonnes FFB. The three main contributing factors to the large increase were:

- the increase in mature areas across the Musi Rawas estates by 1 240 hectares (137%), as immature palms became mature;
- increasing yield profile of the young mature palms;
- full year results from DIL for 2018, whereas the 2017 results were only for five months following acquisition in August, 2017.

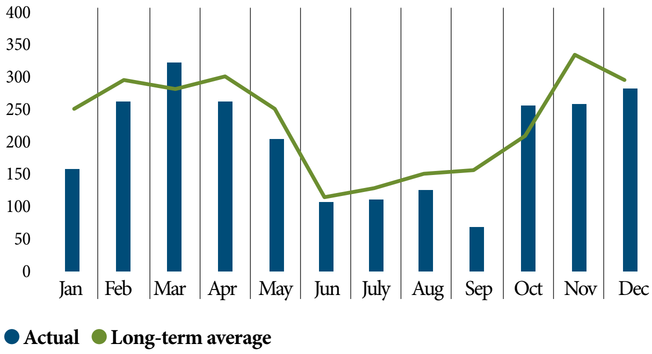
Despite the significant increases in crop across the Musi Rawas estates, recent yields have fallen short of management expectations. This is partially a result of the fractured planting areas following the land compensation process, but also due to the lower than normal populations of the oil palm pollinating weevil elaidobius kamerunicus (This region is known as a rubber growing area and as such, oil palm estates are still relatively few and far between). To help mitigate these low weevil populations the estates have been using a technique called 'Hatch and Carry' whereby large numbers of weevils are reared under managed conditions by importing male flowers from surrounding oil palm areas. These weevils are then coated with pollen and released in a systematic manner across the young mature plantings. It has been gratifying to see gradually increasing bunch weights as a result, and this will contribute to improved bunch formation and yields.

15 051
hectares

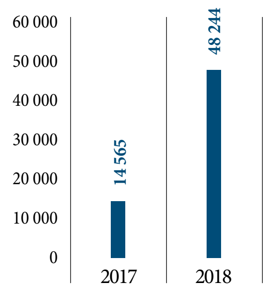
125
staff

3 067
workers

Average rainfall (in mm)



Fresh fruit bunches production (in tonnes)



South Sumatra palm oil mill performance

Mill	Mill throughput (tonnes FFB per hour)		Tonnes FFB processed			Oil extraction rate (%)			Kernel extraction rate (%)		
	Rated	Actual	2017	2018	Variance	2017	2018	Variance	2017	2018	Variance
DMPOM	20	20	25 939	47 934	84.80%	15.54	18.02	2.48	3.74	4.05	0.31
TOTAL	**20**	**20**	**25 939**	**47 934**	**84.80%**	**15.54**	**18.02**	**2.48**	**3.74**	**4.05**	**0.31**

The rainfall versus the long-term average for all estates across South Sumatra averaged out at 2 415 mm versus 2 759 mm for the year, a deficit of 12%. Whilst it was a drier year than average across this region, monthly rainfall essentially followed the normal trend, with only one month below the important threshold for palms of 100 mm. This allowed land clearing, planting, upkeep and harvesting operations to continue as programmed during the year.

TECHNICAL RESULTS

In terms of the only palm oil mill within South Sumatra, the following results were achieved compared to last year.

Dendymarker palm oil mill (DMPOM):

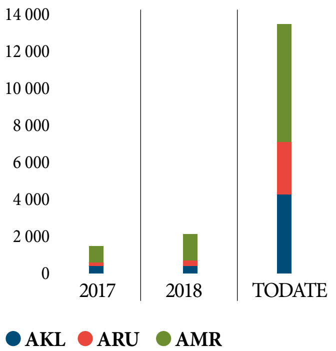
For the first five months of the year, this mill only received the fruit from the DIL estates. Following the conclusion of a feasibility exercise carried out during the first semester, it was decided to process all of the fruit from the Musi Rawas estates together with the fruit from the DIL estates, with the resulting palm oil and kernels sold as mass balance and this began with effect the beginning of June, 2018. As a result of the increased supply base, we saw an increase of 84.80% in FFB processed compared to 2017, an overall increase in the oil extraction rate of 2.48% and an increase in the kernel extraction rate of 0.31%. It should be noted that the majority of DIL is planted up with planting material containing high levels of Dura contamination from the late 1990s (Dura palms produce reasonable FFB yields but have very low oil extraction rates). The engineering department worked hard during the year to complete capital works aimed at improving the throughput and efficiency of the mill along with the installation of a new water treatment plant, to ensure good quality water for the boiler, process and new housing.

NEW DEVELOPMENT

Land compensation

Land compensation activities started at Agro Kati Lama (AKL) in October 2011 and, since those small beginnings, the projects have grown substantially. In 2017, compensation across the three projects totalled 1 425 hectares and in 2018, levels of compensation increased to 2 101 hectares (+47%) as larger areas of Agro Muara Rupit (AMR) were accessed.

Land compensation: Musi Rawas projects (in ha)



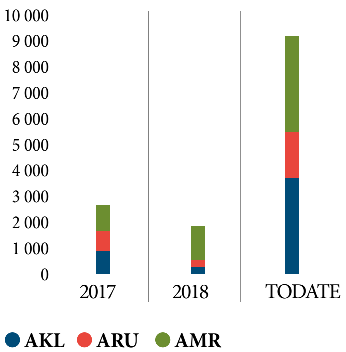
In the two older projects of AKL and Agro Rawas Ulu (ARU), compensation slowed in 2018, as landowners in remaining areas of predominantly young rubber plantings were reluctant to sell. The projects were given a further boost during the year with the acquisition of another three Izin Lokasis (location licences) adjacent to our existing areas totalling 8 595 hectares. Work is under way using independent consultants with the necessary studies and surveys as part of the RSPO New Planting Procedure (NPP) to ensure that access to this land fully complies with all legal, environmental and social regulations and requirements. As at the end of December, a total of 13 276 hectares had been compensated.

In addition to the land compensated for our own (Inti) estates, Government regulations require the development of 20% smallholder (Plasma) and as at the end of December, a further 2 266 hectares had been acquired for our plasma commitments.

Planting

Planting work started at AKL in May 2013 following the establishment of the oil palm nurseries and access to the projects. In 2017, a total of 2 663 hectares were planted to Inti across the three projects and in 2018, a total of 1 806 hectares were planted (-32%) with bigger areas planted on AMR but smaller areas than expected planted on AKL and ARU, as engagement with local communities continued to negotiate and resolve legacy issues with land ownership disputes. Owing to timing issues with the availability of seedlings from our own nurseries, it was necessary during the year to purchase 'ready to plant' seedlings from recognised and licensed seedling suppliers, and this also had the impact of slowing our rate of planting. Despite these temporary delays, the projects passed the noteworthy milestone of 10 000 hectares planted in October and, by the year-end, a total of 10 272 hectares had been planted comprising 9 102 hectares of Inti and 1 170 hectares of Plasma. The pressures on land clearing and planting are considerable, and at any one time during 2018 there were up to 70 pieces of heavy plant (excavators and bulldozers) working across the Musi Rawas projects and DIL, underlining the massive commitment undertaken to develop this area, provide jobs and stimulate the rural economy.

Planting:
Musi Rawas-projects (in ha)



The majority of the seed ordered by the Company in 2018 was allocated to the two large nurseries at ARU and AKL, with one million out of the total order of 1.29 million planted out there. This also includes 160 000 imported Dami Super Family seeds from the New Britain Palm Oil Ltd (NBPOL) operations in West New Britain, Papua New Guinea.

Infrastructure

As the projects make the transition from new developments into more settled, productive estates there is the requirement to invest in and provide the necessary infrastructure to support our staff and workers in carrying out their daily activities and ensuring that fruit can be effectively harvested from the field and transported to the mill. Associated with this requirement, considerable work was completed during the year with the following results achieved:

- **AKL**: Excellent progress with the estate emplacement, which saw the completion by year-end of 16 staff houses, 50 labour houses, a workshop, 2 fertiliser stores, an office complex and associated sundry buildings. In the field, road stoning of 185 km has been completed. Another part of the growing infrastructure of the Musi Rawas projects is the development of the regional main office complex, which has been started at the northern end of AKL due to its proximity to the town of Lubuk Linggau and central location in relation to the other projects and DIL. By year-end, work had been completed on 12 staff houses, seven labour houses, a central office complex, power and water reticulation. Good progress is being made to establish a nine-hole golf course in and around the central office area.
- **ARU**: The challenge of this long, thin estate has been where to site the emplacement. After much deliberation, the site at the north-eastern point of the estate has been chosen. It is a location with easy access to the main sealed provincial road, suitable for access by PLN and with close access to the future palm oil mill, which will be built on the adjacent AMR project. By year-end, compensation of the emplacement site had been completed and plans were being drawn up to start housing construction in 2019. A total of 67 km of roads have been surfaced and, testament to the commitment of the management team on the ground, the establishment of an internal road which now runs the full length of the project was completed during the year. This achievement means that we are no longer at risk of road blocks on the Government village road, which up until now was the only way to access different parts of the project.
- **AMR**: This is the project with the most potential, both in terms of size and yield (owing to the better soils and reasonably flat terrain). The site for the first emplacement was identified in 2017, and during 2018 the final land compensation was completed along with site preparation and levelling. Building works started during the second semester with five labourer houses completed by the end of the year, together with a fertiliser store. There are plans for significant activity here in 2019 as we set up the structures for the management and further expansion of the project. A total of 62 km of road stoning has been completed.

The status of progress with the Musi Rawas new development projects as at the end of December, 2018 is as follows:

Development status of Musi Rawas projects: December 2018

Description (hectares)	Original projects				New projects			GRAND TOTAL
	AKL	ARU	AMR	Sub total	AMR3	AMRS	AKLE	
Izin Lokasi	10 500	9 000	12 309	**31 809**	1 303	4 201	3 173	**40 486**
Izin Lokasi revised	6 590	5 712	12 305	**24 607**	1 303	4 201	3 091	**33 202**
OWN								
Compensated area	4 077	2 861	6 226	**13 164**	23	39	50	**13 276**
Identified area for development	419	359	1 481	**2 259**	499	1 642	1 187	**5 587**
Potential area for development	**4 496**	**3 220**	**7 707**	**15 423**	**522**	**1 681**	**1 237**	**18 863**
PLASMA								
Incorporated area	577	472	1 217	**2 266**	0	0	0	**2 266**
Identified area for development	322	172	324	**818**	130	420	309	**1 677**
Potential area for development	**899**	**644**	**1 541**	**3 084**	**130**	**420**	**309**	**3 943**
TOTAL POTENTIAL AREA	**5 395**	**3 864**	**9 248**	**18 507**	**652**	**2 101**	**1 546**	**22 806**
Total acquired area	4 654	3 333	7 443	**15 430**	23	39	50	**15 542**
TOTAL PLANTED/CLEARED								
Own planted	3 646	1 816	3 640	**9 102**	0	0	0	**9 102**
Plasma planted	527	356	287	**1 170**	0	0	0	**1 170**
Land cleared - not planted	68	35	278	**381**	0	0	0	**381**
TOTAL AREA SECURED	**4 241**	**2 207**	**4 205**	**10 653**	**0**	**0**	**0**	**10 653**
% Secured area/acquired	91%	66%	56%	**69%**	0%	0%	0%	**69%**
% Secured area/potential	79%	57%	45%	**58%**	0%	0%	0%	**47%**
Employees								
Estate staff and office staff (managerial)	48	19	31	**98**	0	6	5	**109**
Estate workers and office workers	1 130	486	737	**2 353**	2	0	0	**2 355**
Total employees	**1 178**	**505**	**768**	**2 451**	**2**	**6**	**5**	**2 464**

“The rehabilitation of the DIL estates included operational improvements, the construction of a new site for staff and workers and intensive replanting in order to maximise the future potential.”

REHABILITATION

Following on from the acquisition of DIL in August 2017, the year of 2018 was very much one of ongoing rehabilitation across much of the existing estates. The DIL acquisition comprises two Inti estates, Sei Mandang (SMGE) and Sei Liam (SLME) (6 097 hectares planted) as well as a Plasma estate, Sei Rupit (SRE) (2 781 hectares planted). These estates located centrally between our existing Musi Rawas developments, provided the opportunity for a strategic investment; however, previous owners had allowed conditions on the estates and at the mill to deteriorate considerably. The focus of our management teams on the ground, however, is very much on the future and to maximise the considerable potential of these estates.

During the year, the management team and workforce targeted in-field access, road and bridge maintenance, drainage and water management, field upkeep, fertiliser application, palm pruning and harvesting standards in the existing palms to both secure and boost the availability and quality of crop. These high organic soil estates have specific Government compliance requirements regarding the recording and reporting of the water table and a series of automated data loggers have been installed to provide continuous data for our managers and external reporting purposes.

Another commitment to the rehabilitation of the DIL estates is the construction of a new staff and worker's emplacement, and 2018 saw work progress with the building of 11 staff houses, 30 labour houses, a new office complex, the foundations of a fertiliser shed as well as a new power and water reticulation network. Power will be supplied to the emplacement utilising the Government (PLN) supply.

There are 27 staff and 712 workers across the DIL estates and mill.

/// Renovation of the staff housing at the Dendymarker Indah Lestari (DIL) mill, photos before and after ///

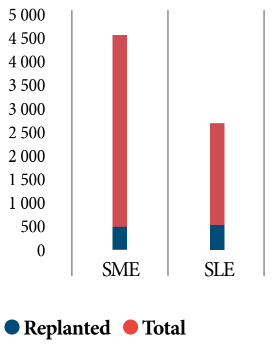
Replanting

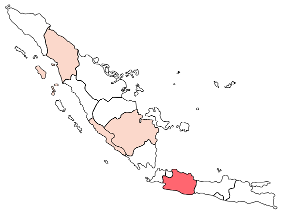
A major part of the rehabilitation exercise across DIL is to progressively replant the old palms, especially on Sei Mandang Estate (SME), the majority of which consist of Dura palms with very low oil extraction rates. Due to the ongoing consultation and engagement with the Indonesian Departments of Agriculture, Forestry and Environment, the start of our replanting activities was delayed until the second semester. Between July and the end of the year, we completed replanting of 451 hectares on SME and 506 hectares on Sei Liam Estate (SLE) using best management practices for land preparation, drainage and the planting of high-quality planting material from our own nurseries.

In addition to the replanting activities that will be ongoing, there is also the opportunity to access up to 2 000 hectares to the northeast of SLE, which forms part of the HGU but has been historically encroached upon by local villages, with land used for subsistence farming. A version of land compensation known locally as 'Tali Asih' will be carried out in this area to access the land, and once the final sustainability survey reports have been received and community consultation completed, it is hoped that we will be able to access and plant up to 1 600 hectares.

The final element of the rehabilitation is the restructuring and replanting of our Plasma on Sei Rupit Estate (SRE). This is a complex issue involving hundreds of individuals from the nine surrounding villages representing the 2 781 planted hectares. A time-consuming but vital process of community engagement has been ongoing during the year to ensure that full Free, Prior and Informed Consent (FPIC) is achieved. Research and verification of land ownership, drafting of memorandums of understanding (MOUs) and the roles and responsibilities of both the Company and Plasma members have been formulated during the year and it is expected that inauguration of the Plasma scheme and the first replanting will take place on SRE in 2019.

Replanting: DIL estates (in ha)





WEST JAVA

1 763 hectares

1 794 workers

16 staff

ESTATE

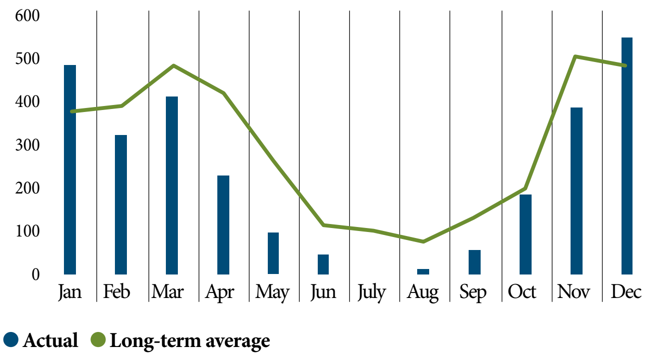
Unique to our operations in Indonesia, our tea estate, Cibuni (CIE), is located two hours' drive south of Bandung in Western Java, nestled in the Ciwidey Valley at an altitude between 900 m and 2 000 m above sea level. The estate comprises 1 763 hectares of which 1 716 are mature and 47 immature.

Overall tea production rose by 1% compared to last year from 2 402 to 2 422 tonnes. Following on from the abnormally low sunshine hours experienced in 2017, which negatively impacted our crop production, 2018 was beset by lower than normal rainfall, which also had a negative impact on crop production, despite more normal sunshine hours. As with most forms of agriculture, production is optimised with the correct combination of rainfall and sunshine, and in the specific case of tea, the additional climatic influences of humidity and temperature. We also saw the late recovery of 120 hectares of tea bushes pruned in September 2017 impacting yields. Management inputs such as worker numbers, plucking intervals, pruning programs, upkeep and fertiliser applications as well as pest and disease management, were all well managed during the year. Another initiative taken during 2018 to stimulate additional yields was to gradually increase the height of the plucking tables to boost the amount of maintenance leaf and promote the generation of young leaves. It is hoped that this will augment tea yields in 2019.

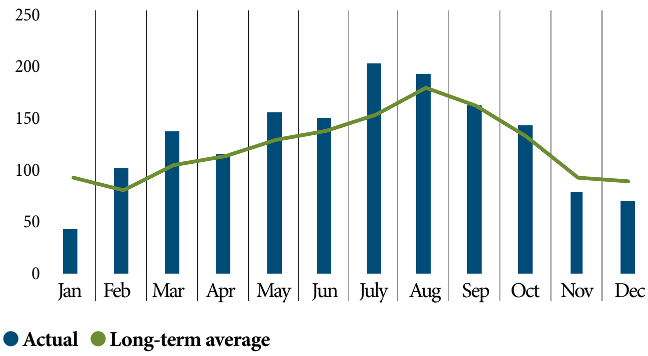
The rainfall versus the long term average for Cibuni was 2 763 mm versus 3 528 mm for the year, a deficit of 22%. It is normal at Cibuni to have a dry season in the middle of the year sandwiched between two wetter periods at either end of the year, but as we can see, the mid-year dry spell was much more severe than normal, exacerbated also by a drier first semester. It was only during the last quarter of the year that the monthly rainfall achieved a more normal pattern at which time we saw somewhat of a recovery of crop production from the field.

Especially in relation to tea production, the even distribution of sunshine hours is another vital function for healthy plant growth and the production of tea leaves. It is generally considered that five hours of sunshine per day is the minimum required for efficient tea production. Apart from January, the amount and distribution of sunshine during the year was better than average and total sunshine hours at 1 531 hours versus 1 446 hours (+6%) should have been supportive of good yields, if not for the constraint of low rainfall. Temperatures were generally satisfactory,

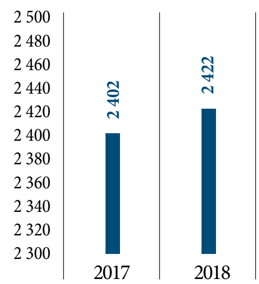
Average rainfall (in mm)



Average hours sunshine



Tea production (in tonnes)



maintained between the normal range of 12˚C - 23˚C, although, unusually, a small part of the estate at a higher altitude was impacted by frost during the year.

TECHNICAL RESULTS

Cibuni tea factory

11 288 tonnes of green leaf were processed to produce 2 422 tonnes of made tea in 2018, which compares with 11 644 tonnes of green leaf to produce 2 402 tonnes of made tea in 2017. Although production of made tea was lower than management expectations, the factory managed to keep the processing costs well under control. In late December 2018 the factory prepared for food safety certification FSSC 22000, which it achieved in early January 2019. The connection of the tea factory and main emplacement to PLN in late 2017 was made as a backup supply to the hydro turbines and to reduce the reliance on fossil fuels used in the diesel generators. In 2018, some 76% of the total power generated was supplied by the hydro turbines, < 24% from PLN and < 1% from the diesel generators.

To underline the impact of this machine: in 2016 diesel consumption was 28.15 litres per metric tonne of made tea against 0.41 litres of diesel per metric tonne of made tea in 2018.

/// Melania tea, ready for export ///

GENERAL ISSUES IN WEST JAVA

Workers

With the preservation of Cibuni's tea quality, reputation and long history, the estate maintains hand plucking to harvest tea. This results in a high usage of labour, much more intensive than oil palm or rubber, where labour usage ratios per 100 hectares of estate are typically:

- /// Oil palm: 14 workers
- /// Rubber: 25 workers
- /// Tea: 90 workers

In Cibuni, 80% of the field workers are involved with plucking activities and in 2018, 1 871 workers were employed, down from 1 937 in 2017. This reduction was made by improving plucker productivity (more focus on training, tighter selection of new recruits and increased in-field supervision) and cutting non-essential positions. With fairly flat commodity prices and escalating labour costs, the economics of tea production in Indonesia remain quite fragile. The year-on-year increase in provincial minimum wages over the last three years has averaged out at just over 9%, and expectations for 2019 are an increase of 10%, which is awaiting ratification by the provincial authorities.

Relationships with the workers' union remain cordial and constructive and the collective agreement between the Company and the union has been extended from December 2018 to December 2020.

The Cibuni Workers' Co-operative has been operating since January 2016. The shop supplies the main consumable requirements for the workers and the co-op profit for 2018 was 36% above last year's performance.

> "Efficient use of the hydroturbines lowered the diesel consumption from 28.15 liter per tonne made tea in 2016 to 0.41 liter diesel per tonne made tea in 2018."

“The tea on the Cibuni plantation is still plucked by hand and is with 90 workers per 100 hectare very labour-intensive.”

-26%

Putting a focused IPM-strategy into practice on the tea plantations, lowered the use of chemical substances in 2018 with 26% down from 18 141 liter to 13 371 liter in 2016

Pests and diseases

Cibuni continues to engage the services of Dr Suzanne Neave, a visiting consultant from The Centre for Agriculture and Bioscience International (CABI) managed through our research partners VBS. Her work is proving an invaluable resource to help the estate teams develop an IPM program from the wide and varied pests and diseases that attack and infect the tea crop each year.

The fundamentals of the IPM strategy are combining cultural, physical, biological and chemical controls together in a targeted way that is applied with a greater understanding of each pest's and disease's life-cycle. By following these principles, we have seen an overall reduction in chemical usage from 18 141 litres in 2016 to 13 371 litres in 2018, a reduction of 26%.

Replanting

The economic lifespan of tea is much longer than oil palm or rubber with replanting taking place 80 years or more after planting. As a result, the hectares per year being replanted are much smaller than with the other commodities and, in 2018, some 12.5 hectares was replanted and another 6.5 hectares underwent land preparation for the fallow period.

Additional Comments

VERDANT BIOSCIENCE PTE LTD (VBS)

The relationship with our research partner, VBS, continues to grow. We continue to utilise VBS for our fertiliser recommendations across all three commodities in all regions, and a network of field trials has been established within North Sumatra and Bengkulu to investigate a range of challenges from Ganoderma and optimum fertiliser regimes to breeding potentials for the F1 hybrids and pest and disease threats. As part of the Company's journey of continuous improvement, we have been able to work with VBS to import premium oil palm seed from the renowned Dami Oil Palm Research Station located in West New Britain Province, Papua New Guinea. In 2018, some 216 000 Dami Super Family Seeds were imported out of a total requirement of 1.29 million and after following detailed quarantine protocols, these seeds will be field planted in 2019.

In addition to the importing of high-quality seed from Papua New Guinea, there has been admirable progress in the development of VBS oil palm seed gardens at Timbang Deli Estate, North Sumatra with the first crosses of the Dami genetics made in Indonesia being available for field planting in 2019. The development of VBS infrastructure at their headquarters means that there are now modern and sophisticated laboratories, which we are using for a range of testing from leaf and rachis samples to soil and compost samples as well as oil content analyses from palms across all of our regions, all of which provide accurate data and interpretations to allow our management teams to make informed decisions about operation efficiencies.

CITRA SAWIT MANDIRI (CSM)

Our oil palm estate, Citra Sawit Mandiri (CSM) is located two hours' drive to the north of the UMW complex and comprises 1 747 hectares, of which 1 521 hectares are mature and 226 hectares immature. Due to the legacy issues linked to the development and planting dates as well as the ongoing process of attaining the HGU, CSM is not currently certified to the standards of RSPO. It has always been the intention of SIPEF to sell this asset once the HGU process has been completed. However, further development in the area, whereby a new permanent road and bridge which will link CSM to the UMW complex is being considered by local government, has thrown new light on the business plan for CSM and has made it potentially a much more profitable proposition. This is a productive estate which has seen yields improve significantly over recent years to the point where it achieved a yield of 23.09 tonnes FFB per hectare in 2018.

A further challenge for attaining the HGU is related to Government regulations, whereby a 20% Plasma component is required of all oil palm developments. Much time and management effort was spent in 2018 engaging with the surrounding communities to secure the commitment of the 350 hectares required, and this was successfully achieved at the end of the year, meaning that the processing of the HGU can continue during 2019. Every effort will

be made to obtain RSPO certification for this asset, but if that is not possible within the current regulatory framework then the Company will pursue the option to sell the asset once the HGU process is complete.

HEAD OFFICE MANAGEMENT AND SERVICE DEPARTMENTS

During 2018, the executive team in Indonesia continued to be led by the president director, Mr Adam James who has occupied the position since 2011. He is supported by the senior executive management team consisting of directors and heads of department, collectively known as the executive committee. The executive committee meets monthly to review progress across a range of performance indicators and to guide Company strategy in response to social, environmental, business and legal influences and challenges. The executive committee meeting also forms the basis of communications across the large geographical spread of the Indonesian operations and the varying number of departments and disciplines.

The year of 2018 started with a much-anticipated office move from the Bank Sumut Building which had housed Tolan Tiga's Head Office for the previous 12 years to the modern, spacious and more technologically advanced office facilities on the 10th floor of the Forum Nine Building, farther up the same road, Jalan Imam Bonjol.

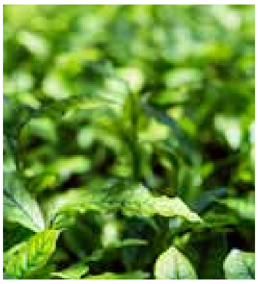
The executive team comprised 570 people by the end of December 2018, an increase of 11% over the 2017 figure of 513 as the Company continued to grow and expand during the year. Motivation, Company spirit and team building remain important pillars of SIPEF's business in Indonesia, and there are several activities during the year aimed at bringing our diverse and geographically spread teams together. These events include an annual managers' meeting which in 2018 was held in Thailand, a family day and shared picnic, 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', which was held in 2018 at BME over two days. Each of the regions also arranges monthly social gatherings, known locally as 'Arisans' where staff and their families share food, entertainment and stories of their work, lives and experiences. In a further development to staff facilities, the Company continued work on the establishment of 2 additional golf courses, to add to the existing course at Agromuko. The course at PLE was opened during 2018 and an inaugural inter-departmental golf tournament was held in November. It is planned to combine the tennis and golf tournaments, and management is working on the format for these tournaments to be announced next year. The third golf course at Musi Rawas is still in the development phase, but coming together nicely, and it is planned to have the course commissioned for play during 2019.

The rolling **two-year cadet training program** continues to be successful, ensuring that we have an ongoing succession plan in place. The scope of the cadet scheme continues to include engineering and office administration positions. Between 2011 and 2018 we recruited 250 cadets. To date, 188 are still working with the Company, a success rate of 75%. There are 84 cadets working their way through the two-year program, either as utility assistants (28) or on three-month rotations (56). The balance of 104 executives is confirmed in their positions across our estates and mills.

The provision of appropriate **medical care** remains a key concern and, at the end of December 2018, some 33 774 people (our workers and their dependents) were registered as participants in the national health and insurance scheme, known locally as BPJS. Our medical clinics have been registered as part of the BPJS framework and this consists of a network of 25 polyclinics, 8 visiting doctors and 50 paramedics (26 midwives and 24 nurses). The Company doctor, who operates out of an office and small clinic within the new Head Office, also advises the executive committee regarding statistics on reportable diseases, sick pay and lost time injury data to support the Company's Occupational Health and Safety (OHS) programs. However, with the employment of a full-time safety officer the OHS reporting will be handled by the new department from January 2019 onwards. During 2018, the medical department performed annual medical checks for 2 306 workers categorised in the high risk category (those working with pesticides, herbicides, exposed to dust, noise etc.) and routine medical check-ups for 6 232 workers in the non-high risk category.

“The benefits across the organisation for following the simple maxim ‘write what we do and do what we write’ will continue to yield a level of standardisation and introspection, which will drive continuous improvement.”

The **Quality Department** (QTD), which was established in 2016, has been tasked with the implementation of a new Quality Management System using the ISO 9001 framework. The department had a busy year in 2018, leading and guiding the process towards the ISO 9001:2015 Quality Management System certification which was achieved in July, 2018. The basis and justification for attaining this certification has always been more than just getting a certificate on the wall. The benefits across the organisation for following the simple maxim of ‘write what we do and do what we write’ will continue to yield a level of standardisation and introspection, which will drive continuous improvement.



/// Quality control of the plucked tea leaves ///

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 in recent years has been headed up by a general manager (GM), supported by seven auditors and an administrative assistant. With the retirement of the GM during the year, a new manager was recruited and this gave the Company the opportunity to review and re-organise the department. As the Company has grown and devolved more authority and responsibility for the day-to-day management to the regions, it was decided to establish permanent teams of internal auditors at the regions where they can give full-time, regular and targeted attention to checks and audits on the sites and it is the target to establish three teams of five auditors across the regions in 2019 led by a team of three staff at Medan Head Office. The head 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 a senior executive level in Indonesia, known as the audit committee on a quarterly basis. The recommendations by management following the audit findings are documented, resulting in corrective or punitive action, retraining or in the case of criminal activity, the involvement of local law enforcement officials. The results of the audit committee meetings are also shared with the Company's Head Office in Belgium.

With the increasing importance of **Information Technology (IT)** in business and the need to stay connected across different countries and time zones, the IT team in Medan maintains regular contact and communications with the Head Office IT team in Antwerp. Advances in software, hardware, data security and back-up provision have been made during the year and there are numerous ongoing projects across the fields of business intelligence, revitalising the Company website, human resource management and workshop/mill maintenance software packages as well as improvements to our business software program, Lintramax.

> “Workers categorised in the high risk category (those working with pesticides, herbicides, exposed to dust, noise etc.) have thorough annual medical checkups.”


HARGY

Papua New Guinea

17%

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

34%

Papua New Guinea generated 34% of SIPEF's gross profit in 2018 (equally as in 2017)

+2%

Growth of palm oil and palm kernel oil production volumes from 2017 to 2018 in Papua New Guinea

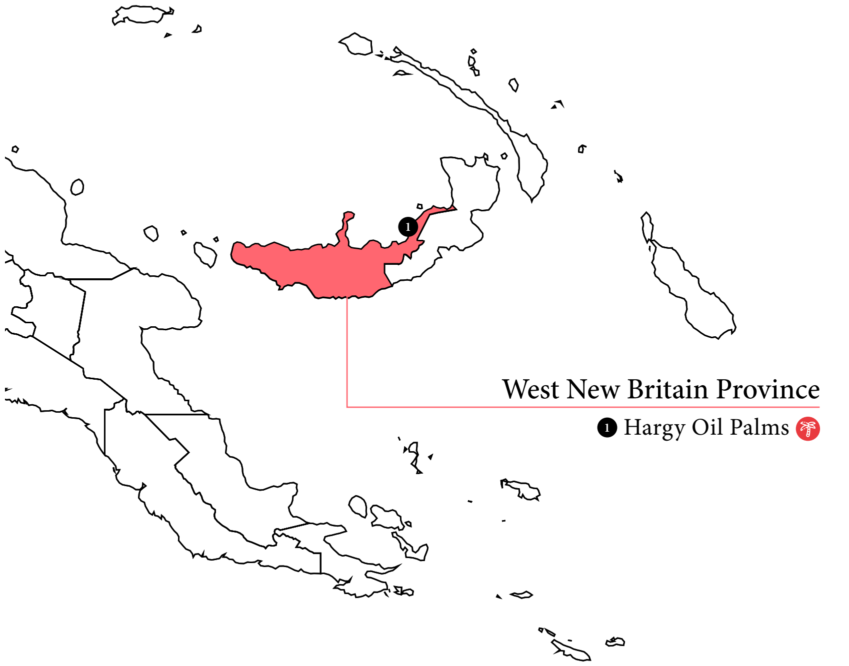
21%

Hargy Oil Palms Ltd production represents around 21% of Papua New Guinea's total production

100%

RSPO certified

PRODUCTION AREA
MATURE OIL PALMS

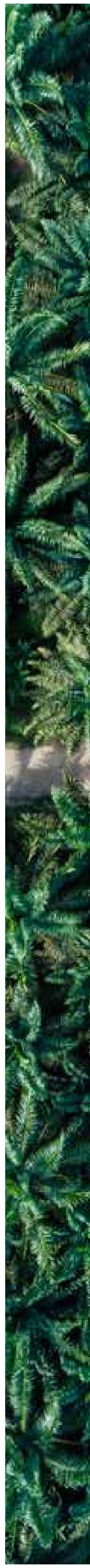


PAPUA NEW GUINEA (PNG) CURRENTLY RANKS AS THE SEVENTH LARGEST PRODUCING COUNTRY OF PALM OIL GLOBALLY. PLANTATIONS ARE LOCATED IN SEVEN PROVINCES OF PNG, WITH THE ISLAND OF NEW BRITAIN BEING THE MAIN PRODUCTION AREA. IT IS DOMINATED BY TWO COMPANIES, HARGY OIL PALMS LTD (HOPL) BEING THE SECOND MAJOR PALM OIL COMPANY IN THE COUNTRY.
DESPITE HIGH OPERATING COSTS, THE PALM OIL INDUSTRY IS THE BEST PERFORMING AGRICULTURAL INDUSTRY IN PNG AND ACCOUNTS FOR MORE THAN HALF OF ALL AGRICULTURAL EXPORTS.

28 017 ha
3 estates (13 687 ha)
3 640 smallholders (14 330 ha)

577 516 tonnes FFB
3 mills
24.38% OER
2.03% PKOER

100% RSPO certified palm products
140 687 tonnes palm oil
11 723 tonnes palm kernel oil



Papua New Guinea: the basics

Papua New Guinea	
Capital	Port Moresby
Population	8.3 million
Area	452 860 km^2
Religion	Christian (95%)
Official languages	English, Tok Pisin
Currency	Kina (PGK)
Inflation rate	5%*
GDP growth 2018	0.3%*
GDP	USD 21 billion
Current account balance (% of GDP)	15.9%*
Agriculture sector	USD 2.9 billion

* Asian Development Bank (ADB) website

Economic and financial performance

Papua New Guinea has the largest economy in the Pacific and has a fast-growing population. Over 80% of the population relies largely on subsistence farming for their livelihood. Although the gross domestic product (GDP) per capita reportedly grew from USD 2 861 in 2017 to USD 3 123 in 2018, this growth was largely on the back of petroleum and mineral exports, and was not felt by the majority of the rural population. According to the International Monetary Fund (IMF) country report, the Papua New Guinea economy has grown sluggishly in recent years, reflecting a combination of domestic and external factors.

The GDP growth rate in 2018 of close to zero, has been affected by low commodity prices and the effects of a 7.5-magnitude earthquake, that have disrupted production and exports by the gas, oil and mining industries. Activity in the rest of the economy has been supported by expenditure related to Papua New Guinea's hosting of Asia-Pacific Economic Cooperation (APEC) 2018; good agricultural harvests; and some improvement in the supply of foreign currency to the non-resource sector. Domestic factors have included a difficult fiscal consolidation and a shortage of foreign exchange, sustained by an overvalued exchange rate, leading to import compression and weak investment in the non-resource sector.

A survey of businesses in Papua New Guinea highlighted the impact of the shortage of foreign exchange on business growth in 2018. Many analysts state that the exchange rate (USD:PGK 0.2970) remains higher than desirable. However, the central bank, the Bank of Papua New Guinea, is controlling the exchange rate at this level to ensure domestic inflation remains low. In September the bank successfully raised USD 500 million in a 10-year sovereign bond issue, which helped alleviate the shortage of foreign currency. Whilst this did not directly impact Hargy Oil Palms Ltd (HOPL), the shortage of foreign currency did impact many of our local suppliers.

Papua New Guinea needs a diversified economy and an enabling business environment to support long-term growth. Growth across the subregion is expected to accelerate to 3.1% in 2019, including Papua New Guinea with 3.9%. The Government has focused on five priority areas: transport, energy, health, water and other urban infrastructure and services, and public sector management. The country is politically stable but the O'Neill-led government has faced a rapidly changing external environment, as it struggles to manage a significant domestic economic downturn and unprecedented pressures on the national budget.

> "In order to realise long-term growth, Papua New Guinea should diversify its economy and improve its entrepreneurial environment."

Poor maintenance of transport infrastructure is a major impediment to business growth, with low investment in the maintenance of roads and bridges over many years. Only 30% of the population of Papua New Guinea has access to electricity. It was recently announced that Australia, Japan and the USA are providing assistance to PNG Power Limited to rehabilitate and extend the power grid, so that 70% of the population will have access to electricity by 2030. Similarly, Australia is financing the installation of a new submarine fibre communications cable to connect Papua New Guinea to broadband internet. There will also be a rollout of submarine cables to connect the provinces to broadband internet. This is expected to greatly improve internet accessibility, but there is some doubt as to the impact on cost.

16 TO 17%

Agriculture contributes 16 to 17% of the GDP and secures the livelihoods of 80% of the population

Commodity production in Papua New Guinea

Most people in Papua New Guinea rely heavily on agriculture for subsistence food production and cash income generation. The sector has contributed between 16 to 17% of GDP in recent years, supporting the livelihood of more than 80% of the population. Unfortunately, the development of a large-scale commercial farming industry is very limited and lacks the foreign investment needed to develop the sector. On the other hand, the Papua New Guinea agriculture export market is dominated by four main commodities: palm oil, coffee, cocoa and copra, which account for approximately 90% of all agricultural exports. Small volumes of tea, rubber and vanilla are also exported.

The Papua New Guinea oil palm industry is dominated by New Britain Palm Oil Ltd (a Sime Darby subsidiary), with 79% of the export volume and HOPL (SIPEF). The established plantations and smallholder projects cover 150 000 hectares. In recent years, new oil palm plantations have been established in East New Britain (40 000 hectares) and in West Sepik (20 000 hectares). None of these new plantations is certified sustainable. These companies have constructed mills and are exporting what are as yet small volumes, but it has not been possible to obtain any production or export data.

Hargy estates

27%

The Hargy estates represent 27% of the (mature) planted area and 30% of the crops in 2018 (34% in 2017). The lower harvest is linked to the intense replanting programme.

Navo estates

49%

The Navo estates are with 49% of (mature) planted area the biggest plantations and account for 51% of all crops (47% in 2017).

Pandi estates

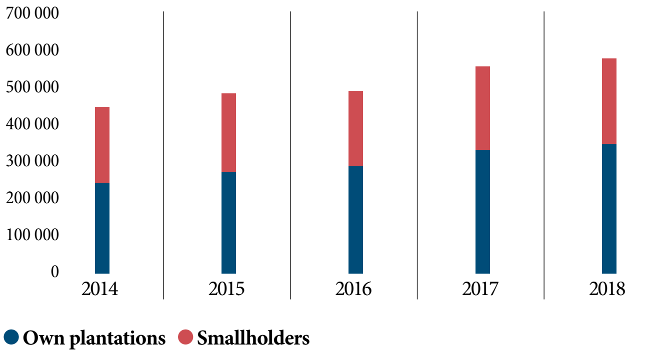
24%

The Pandi estates represent 24% of the (mature) planted area and contribute 19% to the 2018 harvest (19% in 2017).

40 YEARS

Hargy Oil Palms Ltd

Oil palm fresh fruit bunch production (in tonnes) - 2014-2018



Political influences

Local level government elections are scheduled to be held in 2019 and this could cause some disruption to operations during the campaigning and voting period. The referendum to determine the political future for Bougainville was set for June 2019 under the Bougainville Peace Agreement 2001. However, it is likely that this will be deferred until year end. Funding and other constitutional requirements must be in place before the referendum can be held.

SIPEF production in Papua New Guinea

HARGY OIL PALMS LTD (HOPL)

This year Hargy Oil Palms Ltd (HOPL) celebrated the 40th anniversary of the establishment of the Company in Bialla, West New Britain. A celebratory dinner was held in April and a book commemorating the event has been published. Articles have also been published in the national newspapers as well as on national television. Cultural and sporting events were held for all plantation employees and their families on Independence Day. Prior to Independence Day in September, schools were invited to participate in an essay competition and prizes were awarded to the winners. Smallholder communities also participated in the anniversary celebrations, with events held in five locations so that as many smallholders as possible could be recognised for their contribution to the development of the business. These celebrations were all very well received by both our local communities and the wider national community. HOPL is now recognised as a leader in agriculture in Papua New Guinea.

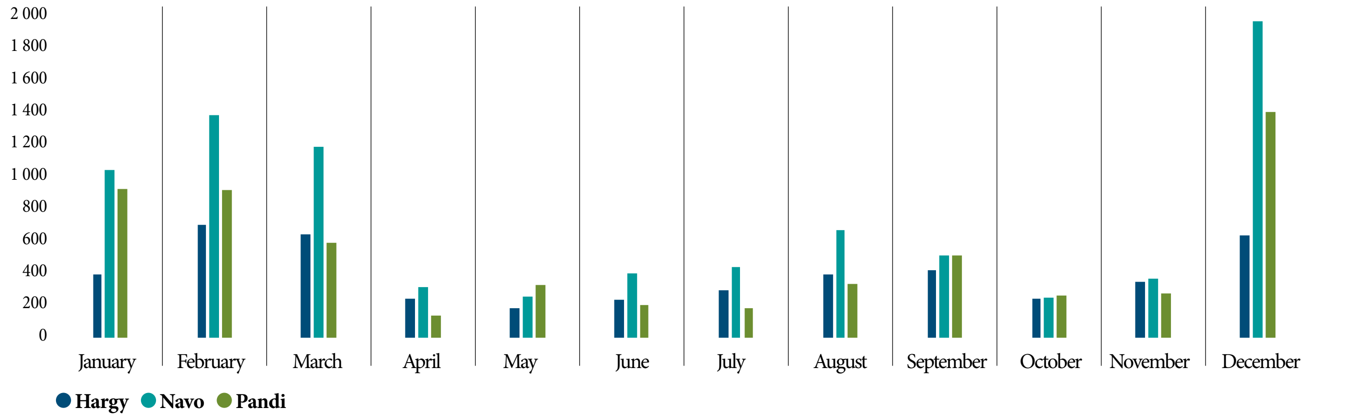
In 2018 HOPL produced a total of 577 517 tonnes of Fresh Fruit Bunches (FFB) with plantations at 348 382 tonnes and 229 135 tonnes for smallholder growers, which is an increase of 3.7% compared to 2017. This was an all-time record level of production for the Company.

Our estate land bank has remained largely unchanged with a total of 13 687 hectares planted, of which 1 353 hectares are immature. The replanting program on Hargy plantation continued from 2017, and a total of 439 hectares were replanted in 2018. The smallholder planted area has remained the same, with 13 392 hectares planted. The main reason for the increase in production was higher yields per hectare from the mature palms. The average yield from mature plantations in 2018 was 28.2 tonnes per hectare (27.6 tonnes per hectare in 2017). These yields are comparable with international best yields but are still below the potential yield of 35 tonnes per hectare. Estate harvesting operations have struggled with the large number of rain days (255) in 2018. Immature palms are being brought into production at 24 months after field planting. The impact of the 2015 El Niño was still felt in our older palms and resulted in an extensive male flowering phase on our palms in the first quarter of 2018. Fortunately, there are no further ramifications of the El Niño expected for 2019.

RAINFALL AND ROAD CONDITIONS

The 2018 wet season commenced in December as usual and continued to the end of March, but there was no dry season from July to September. There was a higher number of rain days than usual. This has impacted harvesting and as a result FFB quality declined. Navo estate recorded 8 453 mm of rain in 2018, which is an all-time record with rain recorded on 255 days.

Monthly rainfall on the plantations - 2018



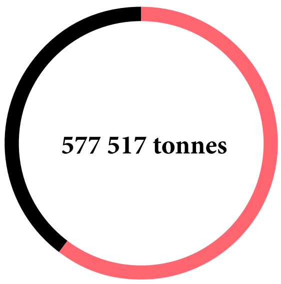
However, there were no road closures or flood damage to bridge infrastructure during the year. A bridge on the New Britain Highway was inspected in May and found to be close to failure. A temporary crossing was constructed and the bridge closed to all traffic while waiting for the Department of Works to replace the bridge.

HOPL continues to maintain the main highway that connects the three estates and mills. There was only very limited funding allocated to the Department of Works for road maintenance in 2018.

ESTATES

FFB production from estates rose by 4.9% compared to last year, from 332 174 tonnes to 348 382 tonnes FFB. The average plantation yield in 2018 was 28.2 tonnes per hectare. The yield of palm products, Crude Palm Oil (CPO) and Palm Kernel Oil (PKO), was 7.8 tonnes per hectare.

PRODUCTION (IN TONNES)
(FFB)



Harvest rounds were largely under control as at the end of October, but in the previous months round control was not to expectations. High rainfall and the large number of rain days have impacted harvesting operations. Control of Free Fatty Acids (FFA) was very difficult and the FFA in both the February and October CPO shipments was above 5%. The critical link in the supply chain from the palm to the mill remains the collection of loose fruit. Separate loose fruit collectors are engaged by the plantations. These teams of women are often unable to keep up with the harvesters and collection can lag behind by 2-3 days. This has serious impacts on extraction rates and FFA. Plantation management has been instructed to enforce the Standard Operating Procedure (SOP) to make collection of loose fruit more efficient and ensure that it is collected and delivered to the mills at the same time as the bunches.

Hargy estate

The Hargy estate is divided into two plantations: Hargy and Barema. Production of FFB at Hargy plantation declined in 2018 due to the continuing replanting program. The immature area at year end was 44% of the total. Hargy plantation was first planted in 1973-1974 and replanted for the first time in 1985-1986. The palms are now too tall to harvest efficiently. The replanting program commenced in 2015 and will be completed in 2020. All new plantings are 'Super Family' Dami and are planted at 120 palms per hectare. The first seedlings were planted in September 2015 and came into production in September 2017. All subsequent plantings are also 'Super Family' Dami. Our aim is to bring them into production at 24 months, and achieve a yield of 18 tonnes of FFB per hectare in the first full year of production. In the already mature Barema plantation, productions were in line with last year.

All of the necessary upkeep tasks to ensure 100% access were largely completed prior to the wet season. Only the area planned for replanting in 2018 was not pruned prior to the wet season. Pruning, paths and circles, and road maintenance did not prevent harvesting during the wet season. Labour numbers were managed to match the available crop in young mature areas and harvest rounds were reasonably well-controlled. Tall palm harvesters are in short supply, but the replant is continuing and these skilled harvesters will no longer be required. Transport management was satisfactory and all crop was delivered to the mills in a reasonable time. Loose fruit collection has improved with better supervision and management but there are still delays in delivery of loose fruit to the mill.

Own estates

	Mature ha	Immature ha	Production 2018 FFB (tonne)	Production 2017 FFB (tonne)	Yield 2018 FFB/ha (tonne)
Own estates Total	12 334	1 354	348 381	332 177	28.2

Hargy estate

	Mature ha	Immature ha	Production 2018 FFB (tonne)	Production 2017 FFB (tonne)	Yield 2018 FFB/ha (tonne)
Hargy plantation	1 424	1 124	42 305	55 012	29.7
Barema plantation	1 900	-	63 654	63 072	33.5
Total	3 323	1 124	105 959	118 084	31.9

Navo estate

	Mature ha	Immature ha	Production 2018 FFB (tonne)	Production 2017 FFB (tonne)	Yield 2018 FFB/ha (tonne)
Ibana plantation	2 792	-	79 482	60 002	28.5
Atata plantation	1 275	-	38 129	32 882	29.9
Kiba plantation	1 972	-	58 690	56 619	29.8
Total	6 039	-	176 301	149 503	29.2

Pandi estate

	Mature ha	Immature ha	Production 2018 FFB (tonne)	Production 2017 FFB (tonne)	Yield 2018 FFB/ha (tonne)
Bakada plantation	2 484	108	62 682	50 577	25.2
Yanaswali plantation	487	122	3 439	14 013	7.1
Total	2 971	230	66 121	64 590	22.3

Smallholders delivering to

	Mature ha	Immature ha	Production 2018 FFB (tonne)	Production 2017 FFB (tonne)	Yield 2018 FFB/ha (tonne)
Hargy mill	5 540	284	99 909	108 549	18.0
Barema mill	4 686	579	88 695	75 124	18.9
Navo mill	2 984	257	40 531	41 167	13.6
Total	13 211	1 120	229 135	224 840	17.3

Own estates and smallholders

	Mature ha	Immature ha	Production 2018 FFB (tonne)	Production 2017 FFB (tonne)	Yield 2018 FFB/ha (tonne)
HOPL TOTAL	25 544	2 474	577 516	557 018	22.6

Navo estate

Located 55 km away from Bialla, Navo estate is fully mature, with an area of 6 039 hectares divided into three plantations: Kiba, Atata and Ibana. The new plantings at Sena and Vamukuma (805 hectares) have been included under the management of Navo estate. The replanting program at Navo estate commenced in 2010 and was completed in 2014. All of the new plantings and the replant areas are now mature and yields are increasing towards the maximum.

The mill at Navo is at maximum capacity and 90% of the FFB from Kiba plantation has to be transported to Barema mill. At times, road conditions and transport capacity were not optimal and there were delays in evacuating FFB. New trucks were ordered in 2018 for delivery in the first quarter 2019 to help alleviate this problem.

The Company seedling nursery is located at Navo estate. The two-stage nursery system is working well and seedlings are ready for planting at ten months of age. All of the planting uses 'Super Family' Dami hybrids. The current stock of seedlings will be used for plantation and smallholder replanting in 2019.

Pandi estate

Situated over 100 km from Bialla is the Pandi estate with a total area of 3 201 hectares, of which 230 hectares are immature. The estate is made up of a number of lease-lease back areas, where the local landowners have acquired the land title and have subleased the land to HOPL. The sublease agreement is for 25 years. Yields have increased in line with the increasing age of the palms.

All of this crop has to be transported to Navo Palm Oil Mill (NPOM). Additional transport equipment arrived on site late in 2018 and this is being used to ensure the growing volume of FFB can be transported efficiently to NPOM.

SMALLHOLDERS

The smallholder crop was 1.9% higher than in 2017. Overall, smallholder production has increased by 13% since 2014, and improved significantly in both 2017 and 2018.

Approved by the Oil Palm Industry Corporation (OPIC) Board in January 2015, our Smallholder Agricultural Advisory Section (SAAS) one of the operating units working in our Community Affairs Department, has the full support of the majority of the smallholders, and works in close cooperation with the HOPL Smallholder Department, the Bialla Oil Palm Growers Association and the Oil Palm Industry Corporation.

/// Oil palm nursery ///

/// Wives of the smallholders affiliated with the 'Mama Lus Frut' program in Papua New Guinea ///

The main factor limiting smallholder yield is the frequency of harvesting. Smallholders should harvest every 14 days. Smallholder trucks managed by the smallholder department have a fixed 14-day schedule of collection. The trucks are equipped with weighing scales and each smallholder receives a print-out showing the tonnes of FFB purchased. The weight data is downloaded at the weighbridge and entered into the payroll software automatically. The smallholder then receives payment the week following collection, less any debt recovery for seedlings, tools and fertiliser supplied by the Company. Harvest frequency is closely monitored by the SAAS team (12 officers) and smallholder blocks that are not harvesting receive visits from the officers to encourage regular harvesting. The section has been working closely with the smallholder representatives to deliver extension messages targeted at better harvesting standards. This program has been very well received by the growers. The section is also responsible for pest and disease, replanting, fertiliser and financial literacy training, and field days.

"The Mama Lus Frut (MLF) program was established in 1997 to increase the productivity of smallholder palm oil plantations in Papua New Guinea."

Village oil palm growers are less reliant on oil palm for their livelihoods and only harvest monthly on average. Land settlement scheme growers, on the other hand, have been encouraged to harvest every fortnight. This not only assists them to increase yield from their block but also assists the processing mills to increase extraction rates and improve CPO quality. The depreciation of the kina against the US dollar, as well as the improving extraction rates, have helped maintain the farmgate price at a higher level in kina terms. The CIF Rotterdam price was steadily declining in 2018 and this trend is expected to bottom out in the first quarter of 2019.

Acceptance of fertiliser by smallholders was poor due to the low price they were receiving for their FFB in 2018. This was especially so in the second half of 2018, when world market price for CPO fell and the farmgate price for smallholder FFB fell to as low as PGK 164 in December 2018. The SAAS team has responded by offering financial literacy training to smallholders to assist them in managing their businesses better, and to give them a better understanding of the benefits of applying fertiliser every year.

Processing capacity and production figures of the mills

Palm Oil mills	HARGY		NAVO		BAREMA		HOPL TOTAL	
Capacity (tonnes per hour)	45		45		45		135	
	2018	2017	2018	2017	2018	2017	2018	2017
FFB processed (tonnes)	145 052	171 839	239 392	218 043	192 562	167 050	577 005	556 932
CPO (tonnes)	34 540	42 346	58 277	53 155	47 870	41 736	140 687	137 237
PK (tonnes)	9 568	12 948	11 008	10 904	9 834	8 600	30 409	28 587
PKO (tonnes)	3 249	3 910	-	-	8 456	8 097	11 705	12 007
OER (%)	23.81	24.64	24.34	24.38	24.86	24.98	24.38	24.64
KER (%)	6.60	7.53	4.60	5.00	5.11	5.15	5.27	5.13
PKOER (%)	2.24	2.28	0.00	0.00	1.96	2.10	2.03	2.16
Tonnes per hour	41.8	42.4	43.7	41.1	42.4	41.9	42.8	41.9

INNOVATION 2018: MAMA LUS FRUT (MLF) PROGRAM

The Mama Lus Frut (MLF) scheme was established in 1997 to increase the productivity of smallholder palm oil plantations in Papua New Guinea. The main goal of the MLF program is to get 100% of loose fruit (LF) recovery from smallholders. In 2018, HOPL created a team of female agricultural advisors to encourage smallholder women to improve harvesting standards around loose fruit collection. The team consists of five officers and one coordinator. They also organise meetings and training focused on women. The first step to involve women in the MLF scheme is to help them open a bank account and register them in the HOPL smallholder system in order to pick up fortnightly harvesting nets with loose fruits. Most women do not have access to an income. The revenue generated by the collection of loose fruit improves the living conditions for the blocks and the communities.

In 2018, new bank accounts were created for 589 women. To date, 2 570 women have joined the MLF scheme, representing 70% of the smallholder blocks. In 2018, production from the MLF scheme represented 23.8% of the smallholder production of FFB (54 555 tonnes).

TECHNICAL RESULTS

The three palm oil mills have also broken a record for production, with processed FFB 3.6% higher than in 2017. 134 782 tonnes Certified Sustainable Palm Oil (CSPO) and 11 067 tonnes Certified Sustainable Palm Kernel Oil (CSPKO) were exported in 12 shipments. 100% of oil shipped was certified as sustainable. The main challenges that mills had to face were minimising oil losses in the process to maximise extraction rates and monitoring of FFA levels.

At the end of December 2018, a total of 577 005 tonnes of FFB was processed, which was 3.6% more than the same period in 2017. 140 687 tonnes of CPO were produced to December 2018, which is 2.5% more than 2017. Similarly, 11 705 tonnes of PKO were processed this year, 2.5% less than last year. HOPL has three palm oil mills with a total milling capacity of 135 tonnes of FFB per day. Two of the three mills also have kernel crushing plants with the capacity to process 180 tonnes per day.

Hargy palm oil mill (HPOM):

Hargy palm oil mill (HPOM) was first commissioned in 1980. The performance of HPOM deteriorated in both OER and PKOER in 2018. Mill throughput was 41.78 tonnes per hour; OER was 23.81% (2017 - 24.64%); and PKOER was 2.24% (2017 - 2.28%).

The main constraint on extraction rates has been the low volume of crop processed due to the replanting of Hargy plantation. 69% of the FFB received by the mill is from smallholders. Other constraints, the variable steam pressure and subsequent poor sterilisation of FFB, and repairs to the continuous settling tanks (CST), contributed to the low oil extraction rate (OER). 100% of steriliser condensate was used for recycling, even though FFA was very high.

The OER was affected when commissioning and putting into operation a new multi-stage steam turbine no. 3 in January this year to reduce diesel consumption for power generation. Turbine no. 2 was put back in operation in February. However, steam pressure available for sterilisation was only 1.5 bars instead of 3 bars. The boiler feed water modulating valves have been replaced.

Process and storage tanks were scheduled for annual cleaning and repairs in March, resulting in the zeroing of dead stock which is mostly dirt. A heavy steam leak led to insufficient sterilisation and CST 2 was out of operation for repairs. All of these factors contributed to lower than expected OER.

"New plantation labour housing was constructed to replace houses built prior to 1985."

Crude Palm Kernel (CPK) was affected by high dirt and moisture content due to poor process steaming, as well as short milling hours and the annual cleaning of kernel silos.

All the above maintenance issues have been corrected. Turbine no. 2 is back in operation with constant monitoring of boiler and Back Pressure Receiver (BPR) pressure to improve OER. The new BPR has been installed and this has resulted in much improved sterilisation and extraction rates. The heating system for the kernel silos has been modified and repaired, and cracking efficiency increased to over 95% to improve PKOER. The mill was shut down in late October for replacement of the main distribution switchboard, BPR and piping, as well as the thresher drums. HPOM throughput will be temporarily downgraded to 35 tonnes per hour in 2019 to ensure better steaming and to control the cost of the diesel generator, by allowing longer processing hours without incurring additional worker overtime hours.

Navo palm oil mill (NPOM):
Navo palm oil mill (NPOM) was commissioned in 2002. Mill throughput was 43.7 tph, OER 24.34% (2017 - 24.38%) and KER 4.60% (2017 - 5.00%). 11 008 tonnes palm kernels was transferred to BPOM for crushing.

Smallholder FFB was 17% of total FFB in 2018. High losses of oil in effluent improved after the installation of a new desander and the modification of piping and tanks to ensure consistent feeding to the centrifuge. Kernel losses are within target limits, however, immature FFB delivery (scout harvesting) with fewer fruitlets per bunch has contributed to lower KER. OER could have been higher if 100% of steriliser condensate were recycled. The main constraint to production was cage derailments. Rail tracks and cage bogeys have been repaired to reduce derailments. A new cage repair station is on hold, pending a feasibility study into the upgrade of the mill to 60 tonnes per hour.

A new Empty Fruit Bunch (EFB) pad has been constructed and the EFB conveyor is being changed so that EFB can be loaded from a concrete pad within the mill yard. This will make the loading of EFB into trucks, for back loading to the plantations, much more efficient.

The sludge oil in the ponds at NPOM has been removed by a contractor and the ponds have been rearranged to a more conventional system with underflow between the ponds. The composting system is still in operation at a reduced capacity to produce just enough compost material for the nursery, with an excavator being used to turn the compost. The land application trenches are the responsibility of the plantation and are being maintained in good order.

Barema palm oil mill (BPOM):
At Barema palm oil mill (BPOM) throughput was 42.4 tonnes per hour, OER 24.86% (2017 - 24.98%) and PKOER 1.96% (2017 - 2.10%). Smallholder FFB accounted for 46% of the FFB processed by the mill.

BPOM was commissioned and began processing in late 2014. It is rated at 45 tonnes per hour for FFB processing and has a kernel crushing plant rated at 120 tonnes per day. The effluent treatment plant was under designed so additional ponds were constructed in 2017 and completed in 2018. The ponds are now in operation and the mill is now able to process in excess of 900 tonnes per day. On one occasion, a total of 1 400 tonnes of FFB was processed in 24 hours.

314

The number of internally provided training courses rose sharply in 2018 to 314, with a focus on initiation courses, safety and leadership

OER and PKOER were below the rates achieved in 2017. The main reason for the lower level of performance was that high rainfall resulted in FFB with much higher moisture content. 100% of the production is pressed to reduce oil losses in EFB and improve OER. Since May 2017, with the installation of a new EFB press at BPOM, OER has improved, because 100% EFB volume can now be pressed. At the moment all the losses are within range and closely monitored. A further impact to the losses was due to CPO storage tank cleaning and CST cleaning.

Kernel losses continue to be higher than anticipated from both the Sawipac and Hydrocyclone systems. Both systems are not performing according to design. HPOM and NPOM have conventional winnowing type systems, which are giving better results. If the existing separation systems cannot be improved, it is proposed that a traditional dry winnowing system be installed.

A team of three maintenance technicians was sent to Malaysia for training on the maintenance and repair of the Muar Ban Lee kernel crushing presses. Machines were purchased so that the technicians can rebuild the screws from the presses rather than replace them with new components. This has resulted in a much longer life of the components and reduced costs.

The boiler house roof was extended so that surplus fibre could be stored. With the addition of a fuel recycle conveyor from the fibre store to the boiler, operating hours for the boiler and turbine can continue after the milling of FFB has been completed. This will assist in reducing diesel consumption for power generation.

GENERAL ISSUES IN PAPUA NEW GUINEA

Workers

During 2018, the management team in Papua New Guinea continued to be led by the general manager, Mr Graham King, who has occupied the position since 2008. The senior management team meets on a monthly basis to review performance against a range of performance indicators and to ensure communications with the wider workforce are standardised. The internal audit committee meets quarterly to discuss internal audit reports and recommendations. The internal audit committee meeting minutes and final reports are then forwarded to the SIPEF audit committee.

There were no significant industrial relations problems in 2018. HOPL closed the year with a headcount of 4 972 employees, 3 760 men and 1 212 women. This was an increase of 40 employees from the reported 2017 headcount. In relation with the Consumer Price Index (CPI), a 3.5% increase in salaries and wages was implemented as from 1 April 2018 and the minimum wage is PGK 2.65 (USD 0.787) per hour.

The community affairs department works closely with the human resources department and plantation managers to ensure that Company policies with regard to housing are properly implemented.

New plantation labour housing is being constructed to replace houses built prior to 1985. The new housing is of a higher standard and will be low maintenance, as it uses steel and fibre-cement panels.

There has been a significant increase in the level of internal training in 2018, with 314 courses delivered. Training programs were delivered according to the monthly training calendar, with a heavy influence on induction, safety and leadership programs. This, along with internal department training, ensured a broad coverage of training to fill a large number of skill gaps. In addition to the programs delivered internally, HOPL also provided opportunities for employees to attend training programs delivered by external providers, including local universities, offshore training providers and e-learning. This will not only ensure that a high standard and content of training are delivered, but it will also aid in the recruitment and retention of quality employees.

/// Empty fruit bunches in the staging area before being spread on the estate ///

Each year we recruit recent university graduates of agriculture and engineering for our cadet training program. This is a two-year program designed to ensure we have well-trained candidates for our succession plan.

The Company medical clinics throughout the Company recorded 101 774 visits to their clinics. The most commonly treated ailments were skin diseases. A new X-ray machine and an ultrasound machine were acquired in 2018, to assist the medical team in performing accurate diagnoses. Several training courses were conducted for the health staff in order to treat new health issues arising, such as lifestyle diseases and tuberculosis amongst workers.

An outbreak of polio was reported on mainland Papua New Guinea in 2018. As a result, and with the assistance of the Provincial Health Authority, HOPL engaged in a vaccine regime within our boundaries, effectively vaccinating over 5 000 children within the region. This was the highest number of children vaccinated within the area. Two more vaccination rounds/phases will take place in 2019 in order to reach an adequate immunity level.

The Company-managed school, Bialla International Primary School, ended 2018 with 176 students enrolled. The school provides a high standard of education from preschool to grade 8 for children of executive employees.

Fertilisers

The estate fertiliser program was completed for all plantations at the end of the year. The fertiliser program is based on recommendations provided by our independent fertiliser consultant. Each year, leaf samples are taken from all mature plantings and analysed for nutrient content. Individual block recommendations are tailored to ensure the nutrient status is maintained and yields are optimised. EFB and other mill waste products are distributed to the plantations and spread as organic fertiliser.

The Company imported 1 800 tonnes of urea fertiliser specifically for the smallholder growers. However, due to the low prices for FFB many smallholder farmers refused to accept their allocated fertiliser. Approximately 200 tonnes of urea was diverted to the plantations and applied as a supplementary round to improve nitrogen status in those blocks.

In total, HOPL imported 8 473 tonnes of fertiliser in 2018, which was an increase of 21% from 2017. This increase was due to the increasing age of the palms and the higher yields being achieved. Higher rates of nutrients are required to continue to maintain and improve FFB yields.

101 774

visits to the 11
local SIPEF medical facilities

Pests and diseases

The main insect pests present in West New Britain are two species of long-horned grasshopper, also known as Sexava (Segestes decoratus and Segestes defoliaria) and a species of stick insect (Eurycantha calcarata). These leaf eating insect pests can completely defoliate a plantation, if not controlled. The Company has an integrated pest management (IPM) system in place to control these pests. Biocontrol agents are released whenever an outbreak is detected. However, if damage levels exceed thresholds, entomologists from the PNG Oil Palm Research Association (PNGOPRA) may recommend control through targeted trunk injection with an approved insecticide.

HOPL is fortunate that Ganoderma is not prevalent in our plantations to any large extent. At replanting, extensive surveys are conducted prior to replant to identify suspect or diseased palms. The plantation team will fell a diseased palm and chip the palm and root base into small pieces to prevent the disease transferring to newly planted seedlings.

Sustainability

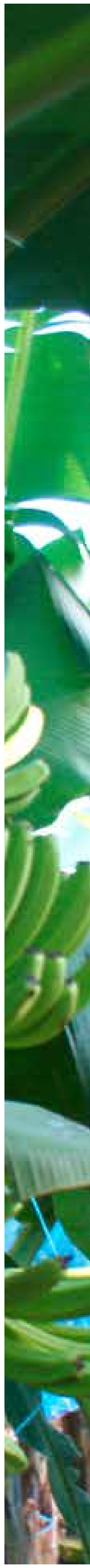
The environment and sustainability department continues to function as a support department in the implementation, maintenance and continuous improvement of the Roundtable on Sustainable Palm Oil (RSPO) and the Environment Management System (EMS) (ISO 14001:2015) standards.

The 2018 annual external EMS surveillance audit was conducted 1-5 May 2018 and did not result in any non-conformances or observations.

The external annual surveillance RSPO Principles and Criteria and RSPO Supply Chain Certification Systems (RSPO SCCS) audits were conducted from the 1-10 August 2018.

All major non-conformances for both standards have been responded to by HOPL, with evidence of closeout of the non-conformances, and the final report and certificate have been received by HOPL.

Ivory Coast



60%

Ivory Coast, depending on farming for 60% of its economy, is an importatnt exporter of palm oil, rubber, cotton and bananas

BANANAS

Dessert bananas are still the most eaten fruits in the world and the export market is still growing

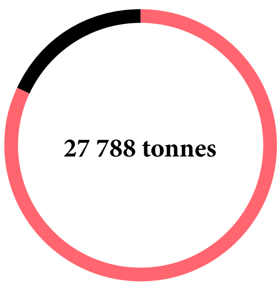
5.4%

The ACP-countries of which Ivory Coast is a member, represent 5.4% of the worldwide market of bananas

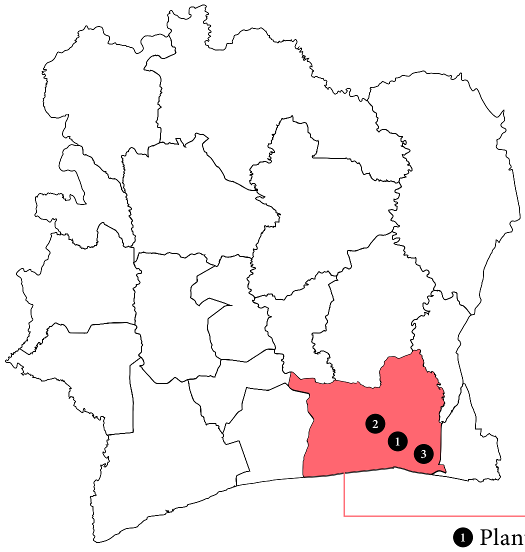
82%

of the SIPEF banana production goes to the EU

SIPEF
BANANA PRODUCTION IN IVORY COAST (IN TONNES)



Export to EU	82%
Other countries	18%



Région des Lagunes

1. Plantages J.Eglin - Azaguié
2. Plantages J.Eglin - Agboville
3. Plantages J.Eglin - Motobé

IVORY COAST IS A MAJOR EXPORTER OF CACAO, PALM OIL, RUBBER AND BANANAS. 5% OF THE EUROPEAN BANANAS COME FROM IVORY COAST. SOME 7 300 HECTARES IN TOTAL ARE PLANTED ACROSS THE COUNTRY WITH BANANAS, OF WHICH SIPEF HAS A 10% SHARE.

749 ha
3 production areas
4 packaging stations
1 296 employees

31 ha
horticulture

Political situation and economic performance

Since the improvement in the political situation, which was unstable between 1999 and 2011, Ivory Coast has returned to continuous economic growth, with average annual growth of 9% since 2012, due in part to new industrial projects.

Large-scale structural measures, as well as strategic developments supervised by the Government, have opened the way to the direct creation of more value added in the country. This has been especially true for the agricultural sector, which constitutes 60% of the Ivory Coast export economy. A second national agricultural investment programme for 2018-2025 has increased the transformation rate and process, first and foremost, for cacao and cashew nuts, the country's two biggest natural resources by exported volume.

The growth projection for the gross national product for 2019 is 7% - 7.5%, which makes Ivory Coast Africa's fastest-growing economy and a major West African economic power.

After the municipal and regional elections, which were held without incident in October 2018, the next national vote will be the presidential election of 2020, which should consolidate the civil and political peace, while perpetuating economic growth.

Ivory Coast remains the world's biggest cacao producer and two years ago became the number one producer of cashew nuts, overhauling the long undisputed leader, India, and Vietnam, the latter being the main export market for cashew nuts from Ivory Coast.

Dependent on agriculture, the country is also a major player in palm oil, rubber, cotton and bananas, in terms of export crops.

Bananas in particular are mostly grown in areas offering soil, water and power of the required quality and in adequate quantities. Some 7 300 hectares in total are planted across the country. Fast and convenient access to the port of Abidjan is essential if the fruit is to be transported in the right conditions, with the right transit time, to consumer markets.

/// Employee sorting out banana bunches in the packing station in Ivory Coast ///

SIPEF-production in Ivory Coast

PLANTATIONS J. EGLIN

Bananas

Banana operations are concentrated in three production areas: Azaguié, Agboville and Motobé, with four packaging units, comprising a total planted area of 749 hectares. The Company has a total workforce of 1 296 people.

The total export volume fell 7% compared with the previous year, from 29 772 to 27 788 tonnes. Volumes bound for Europe, which continues to be the most lucrative destination, accounted for 22 792 tonnes, a drop of 2 262 tonnes or 9% compared with 2017. As a general rule, our export productivity has decreased, due to various factors:

/// The first factor is the yield in the field. In spite of a considerable increase in planted surface area in 2018, the gross banana volume was lower than in the previous year. This is due to a shortage of bunches, together with a gross fruit weight below our expectations. The volume in the fields was 5% down on last year's figure. Changes in weather or agronomical factors have an immediate impact on the fruit. We suffered a decline in gross yields in the middle of the year in particular, but can confirm that the agronomic potential has returned to a very acceptable level.

	Dessert bananas	Palm oil	Rubber	Cacao beans	Cashew nuts	Cotton
Ranking	1st ACP-supplier of the EU (5% of the supply to the European market)	2nd African producer (500 000 tonnes) (11th globally)	1st African producer 720 000 tonnes) (7th globally)	1st global producer (2 million farmers)	1st global exporter (2nd global producer 730 000 tonnes)	16th globally (412 000 tonnes)
2018 to EU-28	315 727 tonnes	10 063 tonnes	246 172 tonnes	1 031 318 tonnes	1 202 tonnes	5 094 tonnes
Targets Ivory Coast	2020: 350 000 tonnes export EU	2020: 600 000 tonnes	2023: 2 million tonnes	2020: 2 million tonnes	2020: 1 million tonnes	2020: 600 000 tonnes

Source: Oxford Business Group, World Bank, EU and FAO

/// The second factor is export quality and yield. With the market under pressure most of the year, the quality standards stated in the export specifications have become much more complex. In a market where supply outstripped demand for many weeks in 2018, customer requirements have been much higher. With a view to retaining our quality label, the percentage of rejected fruit at the packaging station was ultimately higher than expected. In other words, compared with 2017 our gross weight loss at the station was up 5% and our waste up 7%.

Azaguié site

43%

Azaguié is our biggest banana production area with 136 planted hectares (18%) on Azaguié 1 and 191 planted hectares (25%) on Azaguié 2. We gradually want to expand Azaguié 1 to 160 hectares. On Azaguié 2 we rotate cultivation with pineapple flowers.

Agboville site

30%

Agboville, further north, takes up 221 hectares (30%). The site is a good example of sustainable agriculture with banana plots following good fallow periods.

Motobé site

27%

Motobé has a planted area of 201 hectares (27%) of the Williams banana. Motobé is fully equipped with a cableway, an overhead cable system that is used to harvest the bunches in the field and transport them to the packaging station.

/// Bunch of bananas ready for harvesting in Ivory Coast ///

/// Field of pineapple flowers ///

Horticulture

Sales of horticultural produce dropped by 18% compared with 2017, but the sector's contribution remains positive and in line with the previous year's figure. Our pineapple flower, ornamental plant and lotus production strategy remains unchanged. All this produce is exported to Northern Europe by air on passenger flights and the market remains buoyant with continuing demand for this type of high-quality product. This activity is completely complementary to the banana activity in Azaguié and continues to have attractive potential.

PLANTATIONS

Azaguié site

The Azaguié site, which is the closest one to Abidjan, is home to the Company's central offices. Azaguié is also our biggest banana production area, with 136 hectares planted at Azaguié 1 and 191 hectares planted at Azaguié 2. Agboville, farther north, retains 221 hectares, while Motobé reduced its planted area slightly to 201 hectares, taking advantage of a better fallow cycle.

Our banana plantations are generally replanted with in vitro type vegetation after five to eight years of cultivation, initially in very humid greenhouses before being moved to a nursery in ambient humidity. This enables us to plant healthy stock in healthy soil that has had a fallow period of at least one year. We thus limit the use of phytosanitary products to maintain moderate cultivation practices. Good replanting schedules also enable us to steer production cycles, and therefore export cycles, so we can supply the markets in the spring, the optimal period for tropical fruit in the Northern hemisphere.

At Azaguié 1 we are gradually developing waste land that has not been cultivated for many years. We are taking things step by step to ensure the availability of water, which is needed for irrigation in the dry season. We hope to be able to develop this into a 160-hectare site producing 6 400 tonnes for export without significant investment. Most of the infrastructure is already in place at Azaguié 1.

Production at Azaguié 2 is now being optimised, with almost 200 hectares planted, which was the plan when development got underway in 2015. We will not do any more major planting on the site for two to three years, as we rotate cultivation with pineapple flowers for the horticulture sector. Everything is currently going to plan to ensure we get the best yields. The weather conditions at Azaguié are generally normal.

Agboville site

Agboville functions with normal areas and cycles. The main limiting factor is water, so we take care to always have a sufficient stock of water in our reservoirs at the beginning of the dry season. This site is a good example of sustainability, with banana plots following good fallow periods. Bananas have been grown at Agboville for close to thirty years, and current yields and quality show that the production conditions are optimal.

Motobé site

Motobé is certainly the most complex area to manage if there is too much water, as the clayey soils are compact and hard to drain. In 2018 the rise in the level of the Comoé River, which flows by the plantation, led to some production losses with 10 hectares inundated for two weeks. Fortunately, such rises are very rare and the main problem is the access road for vehicles. The most recent inundation of this type was more than 10 years ago. Due to the specific nature of the soil at Motobe, we plant a hardier, less fragile banana cultivar, the Williams, unlike the other Group sites, which grow the Grande Naine variety. Motobé is also fully equipped with a cableway, an overhead cable system that is used to harvest the bunches in the field and transport them to the packaging station.

PACKAGING STATIONS

Fruit is harvested, packaged and shipped virtually continuously, with the packaging stations operating five to six days a week. Green bananas ripen within 30 days, so the maturity stage and harvesting must be managed properly and they must be in cold storage within 20 hours of being cut. The harvesting, packaging and shipping process goes quickly, as our packaging stations are able to handle up to 50 tonnes a day for export in standard market conditions. The most recently built station at Azaguié 2 is 100% operational and is optimised in terms of scale and ergonomics to maximise productivity. Boxes are loaded onto pallets and shipped in refrigerated containers through the port of Abidjan, where they are loaded onto container ships, which run weekly to other parts of Africa and Europe.

> “With the ‘Fairtrade’ certification on the Motobé site, we meet the social standards demanded by the market. The premium goes to social projects that benefit local people.”

GENERAL ISSUES IN IVORY COAST

Workers

During the past year we replaced our managing director with one of our former employees who used to manage our activities in Ivory Coast and Asia. He is assisted by a consultant with experience in export quality, who secures and increases our yields through better fruit management at the packaging stations. We also finalised a large-scale project to standardise the duties and pay of staff across all sites, while also introducing financial incentives linked to yield and quality. This was not easy to implement but we observe that the new measures are efficient for all staff.

Banana Accompanying Measures – BAM, social and environmental

Like other ACP producers, Plantations J. Eglin receives support from the European Union (EU) to improve the social and environmental conditions for our workers, their families and the communities neighbouring our plantations. A 36-month EUR 1.4 million programme to improve living conditions, which is 59% financed by the EU, is now under development and will be finalised in 2020. The following work is planned:

- /// new accommodation for our workers and managers, as well as the improvement and enlargement of existing accommodation;
- /// new improved cooking stoves to significantly reduce the amount of wood used to prepare meals;
- /// new canteens and equipment cooperatives for the villages.

We continue to reforest certain areas and have initiated the first breaks in the planting of Gmelina wood, which is used in the kitchens of our employees. This contributes to the healthy management of the forest.

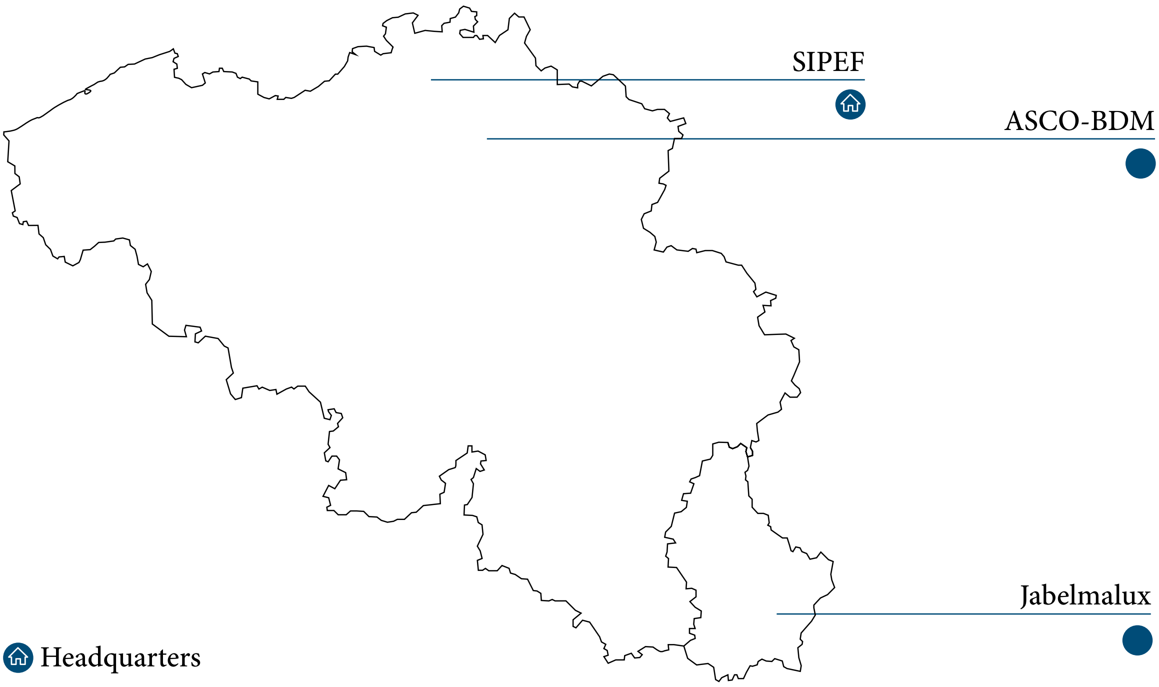
Fairtrade process

We are starting the ‘Fairtrade’ certification process for the Motobé production site. This certification will be relatively easy to obtain as our general management method has a great deal in common with the general ‘Fairtrade’ regulations. This process is necessary and important to enable us to meet the social standards demanded by the market. It is important to note that ‘Fairtrade’-labelled products are sold at a premium. Most of the additional money goes to the community, which means it can be used for social projects that benefit local people. The decision was made to start the process in Motobé. If the results are positive, we can extend it to other production sites at Azaguié and Agboville.

Visit by the members of the SIPEF board of directors

In September 2018 the members of the SIPEF board of directors honoured us with a visit to Ivory Coast. As well as the plantations, they also inspected the living and working areas, as well as the national infrastructure, which they most certainly appreciated. Among the main conclusions from this visit, we note that major opportunities remain in the banana business in a country that is very close to areas of consumption, provided certain aspects, such as yield, quality, logistics and market access (customs duties to be maintained for competitor origins and exchange rate effect), are maintained and remain under control.

Europe



SIPEF

Historically, the Group is managed in strategic, financial and commercial terms by SIPEF in Belgium. In recent years, a broader framework for IT and legal affairs has been added. As a result, the staff in Belgium (currently around 23 employees) has been expanded with a core IT team of three people and a legal profile.

Jabelmalux SA

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

After the successful public purchase bid that was issued in 2011, the company disappeared from the Luxembourg stock exchange. The initial offer was then continued. At the end of 2018 the SIPEF group controlled 99.8% of the company. SIPEF aims, in the future, to also acquire the remaining shares that are still in public hands.

ASCO NV – BDM NV

As announced on 18th December 2017, Ackermans & van Haaren and SIPEF, both 50% shareholders of the insurance group ASCO-BDM, have sold their entire interest to The Navigators Group, Inc. for a total consideration of EUR 35 million. This transaction was, subject to the approval of the relevant regulators, completed in June 2018, resulting for SIPEF in a gross revenue of KUSD 20 463 and a consolidated capital gain, share of the Group, of KUSD 7 376.

This transaction fits in with the move to concentrate on the core business of tropical agro-industry in Southeast Asia and we would like to thank the management of the ASCO-BDM company for years of successful cooperation with their shareholders.

Operational key figures

Group production (in tonnes)

TOTAL PRODUCTION OF CONSOLIDATED COMPANIES

Products	Own	Outgrowers	2018	Own	Outgrowers	2017
Palm oil	**290 441**	**61 316**	**351 757**	**272 312**	**58 646**	**330 958**
Indonesia	205 426	5 644	211 070	190 623	3 098	193 721
Tolan Tiga group	72 492	0	72 492	69 477	0	69 477
Umbul Mas Wisesa group	41 568	63	41 631	39 640	0	39 640
Agro Muko group	85 219	3 091	88 310	79 827	2 929	82 756
South Sumatra group	6 147	2 490	8 637	1 679	169	1 848
Papua New Guinea	85 015	55 672	140 687	81 689	55 548	137 237
Palm kernels	**44 715**	**1 178**	**45 893**	**42 429**	**659**	**43 088**
Indonesia						
Tolan Tiga group	18 026	0	18 026	17 084	0	17 084
Umbul Mas Wisesa group	6 774	10	6 784	6 535	0	6 535
Agro Muko group	18 513	631	19 144	18 352	613	18 965
South Sumatra group	1 402	537	1 939	458	46	504
Palm kernel oil	**6 961**	**4 762**	**11 723**	**7 090**	**4 917**	**12 007**
Papua New Guinea	6 961	4 762	11 723	7 090	4 917	12 007
Rubber	**7 982**	**0**	**7 982**	**8 179**	**0**	**8 179**
Indonesia	7 982	0	7 982	8 179	0	8 179
Tolan Tiga group	5 411	0	5 411	6 015	0	6 015
Agro Muko group	2 571	0	2 571	2 164	0	2 164
Papua New Guinea	0	0	0	0	0	0
Tea	**2 422**	0	**2 422**	**2 402**	0	**2 402**
Indonesia	2 422	0	2 422	2 402	0	2 402
Pineapple flowers ('000 units)	**465**	0	**465**	**621**	0	**621**
Ivory Coast	465	0	465	621	0	621
Bananas	**27 788**	0	**27 788**	**29 772**	0	**29 772**
Ivory Coast	27 788	0	27 788	29 772	0	29 772

Planted areas (in hectares) *

TOTAL PLANTED AREAS OF CONSOLIDATED COMPANIES - EXCLUDING PT TIMBANG DELI

Plantages	Mature 2018	Immature 2018	Planted 2018	Mature 2017	Immature 2017	Planted 2017
Oil palms	**58 463**	**13 037**	**71 500**	**56 928**	**12 350**	**69 278**
Indonesia	46 129	11 684	57 813	44 718	10 939	55 657
Tolan Tiga Group	12 473	1 029	13 502	11 896	1 159	13 055
Umbul Mas Wisesa group	9 705	226	9 931	9 618	307	9 925
Agro Muko group	16 815	2 514	19 329	16 353	2 571	18 924
South Sumatra group	7 136	7 915	15 051	6 851	6 902	13 753
Papua New Guinea	12 334	1 353	13 687	12 210	1 411	13 621
Rubber	**4 329**	**1 415**	**5 744**	**4 189**	**1 496**	**5 685**
Indonesia	4 329	1 415	5 744	4 189	1 496	5 685
Tolan Tiga group	2 874	1 128	4 002	2 891	1 057	3 948
Agro Muko group	1 455	287	1 742	1 298	439	1 737
Tea	**1 716**	**47**	**1 763**	**1 708**	**44**	**1 752**
Indonesia	1 716	47	1 763	1 708	44	1 752
Pineapple flowers	**31**	**0**	**31**	**23**	**19**	**42**
Ivory Coast	31	0	31	23	19	42
Bananas	**749**	**0**	**749**	**630**	**60**	**690**
Ivory Coast	749	0	749	630	60	690
Total	**65 288**	**14 499**	**79 787**	**63 478**	**13 969**	**77 447**

* = effective planted areas

Age profile (in hectares)

	Oil palms						Rubber trees		
	Tolan Tiga group	Umbul Mas Wisesa group	Agro Muko group	South Sumatra group	Hargy Oil Palms	Total	Tolan Tiga group	Agro Muko group	Total
2018	303	6	1 080	2 760	513	4 662	139	52	191
2017	399	49	1 047	2 663	609	4 768	193	40	233
2016	328	171	434	2 492	231	3 655	257	62	319
2015	679	86	1 085	1 240	743	3 833	237	58	295
2014	709	0	988	714	1 369	3 780	151	75	225
2013	434	0	1 250	752	1 092	3 527	202	205	407
2012	746	182	1 410	123	1 446	3 906	154	195	349
2011	754	755	26	0	876	2 411	139	100	239
2010	625	1 517	291	0	618	3 051	140	150	289
2009	103	1 658	504	0	253	2 517	43	57	100
2008	395	1 960	167	0	197	2 718	108	117	224
2007	319	2 152	101	0	1 737	4 308	196	173	368
2006	619	367	672	0	853	2 511	143	188	331
2005	652	1 004	413	0	173	2 242	217	0	217
2004	133	0	781	0	160	1 074	172	0	172
2003	1 163	0	131	0	148	1 442	218	0	218
2002	470	0	102	0	331	903	152	0	152
2001	481	0	578	0	901	1 960	92	0	92
2000	334	0	1 116	512	392	2 354	197	78	275
1999	596	0	1 922	360	608	3 487	116	83	199
1998	467	0	2 426	2 553	315	5 762	206	0	206
1997	756	0	320	622	121	1 820	181	110	292
1996	923	0	313	260	0	1 496	131	0	131
1995	331	25	38	0	0	393	101	0	101
1994	498	0	346	0	0	844	54	0	54
Before 1994	288	0	1 787	0	0	2 075	62	0	62
	13 502	9 931	19 329	15 051	13 687	71 500	4 002	1 742	5 744
Average age	**12.72**	**9.60**	**12.63**	**6.95**	**8.94**	**10.32**	**11.40**	**9.11**	**10.70**

Non-financial information statement

Business model

SIPEF is a plantation company established in 1919 and entirely devoted to agro-industrial activities in tropical and subtropical areas. Over the past decade the Company has focused exclusively on the production of palm oil, rubber and tea in Indonesia and Papua New Guinea, and bananas in Ivory Coast, with the emphasis on the cultivation of palm oil products, which account for 87% of total turnover.

Sustainability has always been an essential aspect of the Group's business model, from the formation of the Company a century ago right up to today. That is because running plantations is inextricably bound up with considerations for the planet and people. With that in mind, the Group adopts working methods that have a positive long-term impact on the natural and social environment, and constantly works to improve them (for more details see page 24).

Policy

SIPEF undertakes to build and manage plantations in a safe, sound and sustainable manner. SIPEF has always adapted to changing social, economic and ecological circumstances and its policy has been oriented to best practices throughout this time.

Moreover, SIPEF is aware of the importance of broad stakeholder engagement in the exercise of its activities. We are convinced that, by working with the customers, social and environmental NGOs, producers, researchers and other willing stakeholders in both the public and private sector, this can bring about and promote the introduction of safe, sound and sustainable standards and practices. The analysis of the various stakeholders and the interaction with them thus forms an essential part of its policy.

Reporting and reference frameworks

After the first report in 2015, SIPEF wrote a detailed sustainability report in 2017 structured along Global Reporting Initiative (GRI) guidelines. This biannual publication relating to the financial years 2016 and 2017 can be read on the Company's website. The next report will be published at the end of 2019.

The statement of non-financial information is published annually as part of the annual report and is inspired by the principles and criteria of the Roundtable on Sustainable Palm Oil (RSPO).

To fulfil its sustainable development obligations and ensure sound practices are followed, including the full traceability of all its products, as well as RSPO, the Company applies many other generally recognised standards, specifically: ISO 9001 and ISO 14001, International Sustainability and Carbon Certification (ISCC), the Indonesian Sustainable Palm Oil (ISPO) standard and the Clean Development Mechanism (CDM) of the United Nations. Lastly, the Company aligns its policies for rubber, banana and tea cultivation primarily to the Sustainable Agriculture Standard (SAS) of the Sustainable Agriculture Network (SAN), which has led to Rainforest Alliance certification and GLOBALG.A.P. certification for bananas.

However, in the palm sector RSPO is the primary and most demanding global standard. Given that palm production is the main activity of SIPEF, this standard is used as the reference framework for the statement of non-financial information.

87%

Focus is put on the production of palm products which represent 87% of total turnover

"The SIPEF 'Responsible Plantations Policy' includes the commitment to no deforestation."

PRINCIPLES AND CRITERIA

The RSPO certification for sustainable palm oil production is based on seven principles:

- /// Behave ethically and transparently
- /// Operate legally and respect rights
- /// Optimise productivity, efficiency, positive impacts and resilience
- /// Respect community and human rights, and deliver benefits
- /// Support smallholder inclusion
- /// Respect workers' rights and conditions
- /// Protect, conserve and enhance ecosystems and the environment

Each of these principles is linked to a number of detailed criteria, which help SIPEF to mitigate the primary sustainability risks. These criteria also contain standard guidelines relating to the environment, social and staffing matters, respect for human rights and fighting corruption. SIPEF aligns its practices relating to each of these topics fully with the RSPO principles and criteria.

More information about the RSPO and RSPO certification is available on the RSPO website (https://rspo.org). The current RSPO principles and criteria were adopted by the general assembly of the RSPO in November 2018.

1. ENVIRONMENTAL MANAGEMENT

Policy

In November 2014, SIPEF developed its own Responsible Plantations Policy (RPP), which sets out the main ways in which the Company wishes to guide and constantly improve the ecological and social impact of new developments, and the management of existing plantations and factories. It is updated and approved by the board of directors annually.

The four pillars of the SIPEF RPP are:

- /// Sound social practices
- /// Sound plantation and processing management
- /// Sound development of new activities
- /// Full traceability

The RPP applies to both the running of the plantations directly managed by SIPEF and the companies in which SIPEF has a controlling interest. Furthermore, the scope of application has been enlarged to include the activities of small-scale producers and smallholders that supply products to the SIPEF factories.

Risks

The Company is aware that setting up and running plantations has both positive and negative consequences for the environment, and that not all consequences can be predicted.

For example, palm oil production has been the subject of criticism for many years, because the expansion of plantations is often linked to deforestation and the loss of ecological values.

Another risk connected with plantations is the emission of methane gas by the liquid effluent from palm oil extraction mills.

Policy measures

Deforestation

In response to this, SIPEF has included in its RPP, that is updated yearly in November, the commitment to no deforestation.

Specifically, SIPEF bases itself on the High Conservation Value (HCV) approach, which RSPO also uses as a criterion. That means that all areas with a certain ecological and social value are conserved and cannot be converted into plantations, whereas scrubland - areas of degraded forest - and open areas may be.

Furthermore, we saw the introduction of the High Carbon Stock Approach (HCSA) toolkit, which enables the implementation of 'no deforestation' by identifying 'livable natural woodland' and community lands (land belonging to local communities).

/// Aerial view of plantations with staff housing in the background ///

In practice, the two approaches are complementing one another, and have now been combined into a single process to determine where palm oil areas can be developed and where they cannot.

SIPEF applies this combined approach. At this stage, it remains very challenging to implement this approach in high forest cover landscapes (HFCL), such as Papua New Guinea. SIPEF is involved in the adaptation of the HCSA toolkit for such areas. This is important for the potential expansion of the Company, but above all for the small-scale producers in these areas, who are completely dependent on the income from their oil palm plantations.

SIPEF works hard to optimise the yields of its plantings. To that end, SIPEF set up a partnership with Verdant Bioscience Pte Ltd (VBS), a joint venture with which it undertakes all its research and development activities with the aim of increasing its yield per hectare. SIPEF believes that VBS will develop oil palm varieties that could double the current yield per hectare. That will allow it to respond to the constantly rising demand for palm oil without threatening the global environment.

In that context, in April 2017 SIPEF formally transferred the management of the Timbang Deli rubber plantation from Tolan Tiga to VBS. In North Sumatra and Bengkulu, a network of test fields was built to develop optimal fertilisation plans and realise the cultivation potential of the F1 hybrids, to develop treatments against plagues and diseases and to study various problems related to Ganoderma, a major disease of oil palms. SIPEF also calls on VBS for advice on fertilising the three crops (palm oil, rubber and tea) in all regions of Indonesia.

Emission of methane gas

The RPP also provides for a lower emission of greenhouse gases. One of the greatest efforts by the SIPEF group to drive down the emission of greenhouse gases is the building of methane capture systems in the palm oil mills of Mukomuko, Bukit Maradja, Perlabian, Umbul Mas Wisesa and Barema, which are all registered as projects under the Clean Development Mechanism (CDM) in the United Nations climate treaty. It is the intention of the SIPEF group to equip all palm oil mills with methane capture/prevention systems in the future, as technology becomes available and affordable.

As of 2018, five of the nine palm oil mills were already equipped with methane capture systems. In the recent past, three important projects were realised to remedy and limit the emission of methane gas as much as possible.

/// Close-up of a gas engine ///

> "The Mukomuko palm oil mill became the first to be equipped with a bioreactor with methane capture, the methane being used as fuel for a gas engine."

- The Mukomuko palm oil mill became the first to be equipped with a bioreactor with methane capture, the methane was initially used as fuel for one of the boilers.
- The installation of a biogas-powered generator was then begun for the production of electricity. This power is used to operate the mill and for other company activities, such as drying the rubber blocks produced in the nearby crumb rubber factory. The generator also produces the electricity for the central workshop, the management offices and the Company housing. Furthermore, since October 2017 SIPEF has supplied electricity to the public electricity grid. However, a major reduction in the price means that continuing these supplies is no longer a viable option. SIPEF has therefore developed a sceptical attitude to additional investments in new biogas generators.
- The Perlabian palm oil mill was then upgraded from using a covered lagoon to using a bioreactor to further improve methane capture and containment of the process.
- Lastly, the Bukit Maradja composting system that came online at the end of 2017 produced high-quality compost throughout the year, thanks to the aerated bunkers. Using this approach, the empty fruit bunches (EFB) and wastewater are stored in dedicated bunkers, so there is no leakage. The whole process takes place in aerobic conditions, so no methane is produced. The composting system also processes deposits from the decanting systems and boiler ash. So this is a good way of recycling waste materials.

Compost is used as soil improver in the plantations to drive down the use of mineral fertiliser. The compost is expected to replace in excess of 60% of the mineral fertiliser in the Bukit Maradja plantation.

So these projects contribute greatly to achieving the Group's goals to reduce the emission of methane gas in a more environmentally friendly way, produce energy and protect the environment.

2. SOCIAL AND STAFF MATTERS

Policy

The express object of SIPEF's Responsible Plantations Policy, the RPP, is the social impact of new developments and the running of the existing plantations. To optimise the management of the plantations, a lot of attention is given to good collaboration with the local communities, the technical training of the employees and ensuring a safe and healthy working environment. The development of the plantations, and where relevant the support to surrounding smallholders, contributes considerably to the social and economic development of the national communities and plays a major role in the fight against poverty. The plantations grow with and for people.

Risks

The production of palm oil products, rubber, tea and bananas in tropical and subtropical areas is very labour-intensive. For every 100 hectares, 14 employees are needed for palm oil products, 25 employees for rubber, 90 for tea and 161 for bananas. At the end or 2018 the Group had 21 619 members of staff. The permanent employees were being trained in order to be able to complete essential technical tasks. Most workers come from the local population and are housed on the plantations with their families. Only a small number of workers and temporary employees come from other regions. In the Indonesian activities, temporary employees are used for more seasonal or less technically demanding tasks. The workforce remained relatively stable compared with 2017.

The activities of the Group involve a large labor force and their families, as most live on the plantations. The development and maintainance of the skills required, the provision of fair wages, of a safe and attractive workplace and harmonious relations inside and outside the plantations are a critical part of managing the operations of the Group.

"Plantations grow with and for the people."

Policy measures

Initiatives regarding human resources and relationships with local communities

The Corporate Social Responsibility (CSR) of SIPEF is part of the Group's RPP. The current measures respond to the needs of the communities. CSR budgets are drawn up for each operational unit. The plantation managers have open and constructive talks with local stakeholders and decide on the optimal use of these budgets in the local context.

For oil palm operations a social survey of the communities and the Company's stakeholders is held once per year. The surveys record the perception of the communities and stakeholders of the activities of the Company, including positive and negative impacts.

Safe, comfortable housing with properly working utilities continues to be provided by the Group to employees and their families living on SIPEF sites. SIPEF also promotes the opening of local stores by the employees' cooperatives. The Company subsidises the transport of goods or provides the capital needed for worker cooperatives, where required, to ensure prices remain stable and affordable. In Indonesia, the employee cooperatives have set up successful mini-markets on most plantations. In Papua New Guinea the Group often works with local operators who receive medium to long-term operating concessions. In such cases, the Company monitors prices applied by the local operators to maintain the affordability of basic goods.

Free transport to state schools is arranged for the children of all Group employees, where relevant. In isolated areas where there are no state schools, SIPEF provides education itself. For example, primary schools have been built for the children of employees on the Umbul Mas Wisesa (UMW) plantation in Indonesia and on the Eglin plantations in Ivory Coast. The UMW school was recently opened up to all children in the surrounding communities. In Bialla, Papua New Guinea, an existing international school set up by Hargy Oil Palms Ltd has now been enlarged with new classrooms to include secondary education. In a joint project with the PNG Incentive Fund, Hargy Oil Palms Ltd has also built a school complex in one of the most remote areas of West New Britain, where more than 200 primary school children are now receiving education. In Indonesia, SIPEF has granted land to the local authorities on several occasions so that schools can be enlarged and has subsidised the teachers' salaries.

To optimise the management of the plantations, a lot of attention is given to training the employees in agricultural and management methods, and general knowledge. The practical guidelines and management practices with regard to agricultural methods, environment and general aspects are summarised in manuals with standard procedures. Training is held to ensure these procedures are applied correctly. In recent years, the Company has introduced a two-year training programme for talented fresh graduates. Recently, the programme was enlarged to include technical and administrative functions. There are currently 28 students in the second year and 56 in the first year. The programme continues to be a big success, and lays strong foundations for the future of the operations of the Group.

Between 2011 and 2018, 250 university graduates were recruted. Of these, 188 continue to work at SIPEF today, including 46 women. 22 of these women were hired in 2018, 9 in 2017 and 8 in 2015. These figures show that SIPEF continues to work to implement its gender diversity policy in the higher positions in the Group.

Health and safety in the workplace

The provision of appropriate medical care demands special attention throughout the Group. In Indonesia at the end of December 2018, 33 948 people (employees and their dependents) were registered with the national health insurer. The Group also has 25 polyclinics, 8 visiting doctors and 50 permanent paramedics, including 26 midwives and 24 nurses. All these medical facilities were officially recognised by the national health insurer, which covers the costs of treatment there. In Ivory Coast and Papua New Guinea, the medical care package is paid in full by the Company which works with its own doctors and nurses at local clinics and care centres set up by SIPEF on the plantations.

SIPEF has a zero-accident objective. To achieve this, all risks are analysed and assessed, the workplaces adapted, protective equipment provided where needed and training held at various levels. Workplace inspections are conducted regularly. Any occupational accidents are investigated to prevent them from being repeated.

There has been a noticeable drop in the number of fatalities in recent years. In fact, no accidents were recorded in Indonesia in 2016 and 2017. Unfortunately, a small number of accidents were recorded in Indonesia and Papua New Guinea in the financial year under review, primarily connected with the harvesting and transport of fruits to the mill. We also note many minor accidents in Ivory Coast, because various sharp tools are used there in the fields.

Particular attention is given to workers who handle chemicals, such as pesticides. They are given special training, supervision and Personal Protective Equipment (PPE). Pregnant and breastfeeding women are not permitted to come into contact with chemicals. They are given different duties during pregnancy and when they are breastfeeding. All employees are given annual medical examinations, while workers who handle chemicals are examined more thoroughly and frequently.

In 2018, 2 306 high-risk workers (because they work with pesticides or herbicides or are exposed to dust, noise or other harmful factors) were given an annual medical examination and 6 232 workers were given routine medical checkups. Based on these checkups, the Company physician provides figures on illness, sickness benefits and occupational accidents as part of the health and safety at work programmes. In recent years, there have been no recorded accidents due to handling chemicals.

/// Watering the young plants in an oil palm nursery ///

Lastly, it is important to state that all plantations have their own ambulances to evacuate the victims of serious accidents.

Every operational unit also has its own health, safety and environment committee, which meets on a monthly basis. Both employee representatives and representatives of the people living in the homes provided by SIPEF have a seat on this committee. At the monthly meetings, participants can put forward comments and complaints with regard to health, safety and environmental issues.

Smoking and consuming alcohol or drugs is banned in the work place.

3. RESPECT FOR HUMAN RIGHTS

Policy

SIPEF recognises that human rights are universal, and supports full implementation of the International Bill of Human Rights. SIPEF also supports the implementation of the International Labour Organisation Declaration on Fundamental Principles and Rights at Work, as transcribed in the laws and regulations of the countries where we operate.

The Company has adopted group-level policies, which are implemented locally by procedures set down in the local Company handbooks. They cover topics such as minimum age of employment, forbidding forced labour and discrimination, promoting gender equality and the importance of a safe workplace, ensuring freedom of association and balanced industrial relations. The Group gives assurances that it will treat its employees fairly in all areas. Employment contracts are clear and, as a minimum, in compliance with local laws.

Risks

Ensuring that both local communities and employees are treated fairly and in compliance with recognised social standards is essential to SIPEF for its reputation and its long-term growth.

No new projects can be launched before the local population has been consulted and has expressed its approval.

Policy measures

Respect for the rights of local communities

Before launching a new project, the Company ensures that the free, prior and informed consent (FPIC) of communities is obtained. Plans for new developments are presented to the communities so the members may express their opinions. Such a process can last for months or years. This creates the right conditions for an honest, long-lasting working relationship.

Respect for the rights of employees

The Group policy with regard to human rights is built on the following guidelines:

- Child labour on the plantations is not tolerated, be it direct employment by the Company or by its contractors.

  The minimum working age on the plantations is 18. Clear and simple rules have been promulgated to ensure this. Employees are encouraged to report any form of child labour, even by third parties that work with SIPEF.
- The Group does not use or condone any form of forced labour or human trafficking.
- SIPEF gives everyone equal opportunities and does not tolerate discrimination.

  Traditionally, most workers on the plantations have been men. Over the past few years, SIPEF has encouraged equal rights to work for men and women. Most of the plantations offer free childcare to give women equal opportunities in the workplace. This service was offered at all SIPEF plantations by the end of 2017.

  Both men and women can sign up for the training offered by the Group. Their is an increasement in participation of women in the field estate training programmes.
- SIPEF does not tolerate sexual intimidation in the work place.

4. FIGHT AGAINST FRAUD AND CORRUPTION

Policy

SIPEF has introduced a code of conduct in most of the countries where it is active. Furthermore, in 2017 the Group officially drew up a Group ethics policy, which sets out the zero-tolerance stance against bribery and corruption. The text of this policy is available on the SIPEF website.

Risks

Corruption is a major impediment to economic and social development.

In spite of all efforts to prevent fraud, cases of varying gravity are uncovered by our internal audit teams.

Policy measures

The management implements a zero-tolerance stance with regard to fraud. Internal sanctions, up to dismissal, are issued for breaching Company regulations. The worst cases are reported to the relevant authorities and the Company cooperates in full in cases of prosecution.

In 2017 and 2018 the Group launched Group ethics training for selected members of staff. The goal is for employees at all levels in the Company to fully understand the relevance and importance of this policy.

Key performance indicator (KPI)

SIPEF's policy with regard to the environment, social and staffing matters, respect for human rights and fighting corruption is in line with the RSPO principles and criteria and the Group targets RSPO certification for 100% of its palm oil products. The policy guidelines have been set out for the other activities in connection with the Rainforest Alliance certification.

100% certification for the existing palm oil mills, rubber and tea factories, banana packing stations and their supply bases (Group and small-scale growers) is the Group's main non-financial KPI.

Results

The graph below shows how the Group is gradually realising its KPI. Over the years more and more operational units have been certified, whereby the same mill can receive different certifications.

In 2006, the first certificate, GLOBALG.A.P., was awarded to the entire banana activity of Plantations J. Eglin in Ivory Coast. In 2009, two RSPO certifications followed in Papua New Guinea. That was an especially big step for Hargy Oil Palms Ltd, because as much as half of the fruit bunches processed in the mills come from 3 700 certified smallholders. They received their certification at the same time in 2009 and remain committed to its preservation. In 2010, two Indonesian palm oil mills obtained RSPO certification and both mills received ISCC certification on top of that. In the following two years, the total number of certifications granted remained unchanged until 2013, when two ISCC certifications were also awarded to two additional palm oil mills.

In 2014, the number of RSPO certifications increased to seven and in 2015 one new palm oil mill in Indonesia and two palm kernel mills in Papua New Guinea were RSPO certified. Following the acquisition of the existing palm oil extraction mill in PT Dendymarker Indah Lestari (DIL) in 2017, the renewal of RSPO certification for the mill and plantations in 2018 is the most recent major achievement for the Group. In this way, SIPEF lives up to its promise to have all its palm oil mills certified according to the RSPO standard.

In 2016, a new certification was issued, the Rainforest Alliance, which was awarded to the tea production of Cibuni in Indonesia and to the banana activity of Plantations J. Eglin in Ivory Coast. In 2017, this certification was granted to the Group's first rubber factory and in 2018 two additional rubber plants were certified by Rainforest Alliance. This certification was also granted to the Group's first rubber factory in 2017 and two additional rubber plants in 2018.

On the basis of 5 recognised standards, today the Group holds 27 certifications, which were granted to the operational units of the Group (9 palm oil mills, 2 palm kernel mills, 3 rubber factories, 1 tea plantation and the banana activity). 6 certification applications are currently still under consideration.

Number of certified production and/or operational units - 2006-2018

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
RSPO: Roundtable on Sustainable Palm Oil				2	4	6	6	6	7	10	10	11	11
ISCC: International Sustainability and Carbon Certification					2	2	2	4	4	5	5	5	5
ISPO: Indonesian Sustainable Palm Oil										2	4	5	5
Rainforest Alliance											2	3	5
GLOBALG.A.P.	1	1	1	1	1	1	1	1	1	1	1	1	1
	1	**1**	**1**	**3**	**7**	**9**	**9**	**11**	**12**	**18**	**22**	**25**	**27**

In addition to these specific certifications for products, the Group also received certificates for processes. For example, in 2004 the environmental management system that the Group uses in Papua New Guinea was ISO 14001 certified and in 2018 the quality management system in Indonesia received ISO 9001 certification.

SIPEF continues to actively contribute to RSPO's operations and has a seat on the Board of Governors on behalf of the 'Rest of the World' growers, which includes Papua New Guinea and the Solomon Islands. Furthermore, SIPEF co-chairs the Standing Committee for Standards, has a seat in the Standing Committee - Trade and Traceability (SC-T&T), and the Biodiversity and High Conservation Values (BHCV) working group. SIPEF has participated in the two reviews of the RSPO Principles and Criteria, in 2015 and 2018, and is a member of the RSPO National Interpretation forum in Papua New Guinea.

92% of SIPEF group palm products produced in 2018 were sold through RSPO- or ISCC-certified traceable physical supply chains, compared to 99% last year. This reduction is the consequence of the diminishing demand for fully segregated palm oil in 2018.

SIPEF Foundation

Yayasan SIPEF Indonesia is a foundation SIPEF helped to set up in 2009 to improve the protection of important ecological areas in Indonesia. It currently manages two projects in Mukomuko in Bengkulu province, southwestern Sumatra.

/// The turtle project launched in 2010 is one of very few protection projects in Sumatra to be implemented by the local population. Two villages work together to watch over a stretch of beach around 5 km long, checking whether turtles have laid eggs there. The eggs are collected to safeguard them from scavenging lizards and are hatched in controlled conditions. Changing ocean currents have washed pebbles up on the beach in recent years. This has reduced the area available to the turtles, but there was an upswing in brood numbers in 2018. Just 1 013 eggs were collected in 2017, but the number rose again to 2 935 in 2018, primarily eggs of the olive ridley turtles (Lepidochelys olivacea). SIPEF continues to support the local authorities and villagers who work on the project to ensure everything is ready when the conditions on the beach improve and the turtles come ashore in great numbers again. The leatherback sea turtle (Dermochelys coriacea) laid eggs in 2018 for the first time in seven years. Turtles have excellent memories and always return to the beach where they were born.

/// The SIPEF Biodiversity Indonesia (SBI) project is the foundation's biggest project. SBI manages a 12 656-hectare forest that functions as a buffer for the Kerinci Seblat National Park, and provides ecosystem services to the populations downstream of the watershed. It is home to the threatened Sumatran tiger (Panthera tigris sumatrae). It is one of just 16 projects in Indonesia that has been given an ecosystem restoration permit by the Indonesian forestry ministry for a term of 60 years. The SIPEF group has reserved an annual budget of KUSD 200 for the project. Forty people work at SBI's local office in Mukomuko, from experienced rangers to young graduates, who mostly come from the surrounding villages.

The first patrols and camera traps were operational in 2015. The purpose of the patrols is to fight illegal felling of trees, illegal planting of oil palms and poaching. So patrolling is an important activity for SBI. In 2015 the SBI team racked up 1 083 person days in patrols, compared with 1 147 in 2018. These figures show that illegal felling clearly remains an ongoing threat and the close partnership with the Forestry Service and the security services to control it must be continued.

In 2016 groups from the community began reforestation work in the project area for the first time. In the meantime, several groups of forest growers have been formed and the project has almost reached full capacity. Forest growers are an essential part of the project and are just as important to its long-term success as the patrols. Their close relationship with SBI ensures that the surrounding communities understand and to a great extent support the goals of the project. Supervised by SBI, forest grower groups manage part of the most affected areas which

> "The SIPEF Biodiversity Indonesia (SBI) project is the foundation's biggest project managing a 12 656-hectare forest."

are registered with the Forestry Service. Only tree crops are planted on the lots, with a mix of more than twenty types of fruit tree, rubber and timber species. Eight nursery gardens were actively managed at the end of 2018, five of them by the foundation and three by the villagers. The planting of affected forest areas is continuing steadily, with 94 hectares replanted in 2018. The SBI project is managing the second largest reforested areas of all 16 ecosystem restoration projects.

Oil palms growing illegally in the project area continue to be felled. In 2017, 1 438 palms were felled in the project area, and 62 palms in 2018 , showing not a slowing down of the felling, but an improvement of the overall situation. Felling is done with the consent of the growers, who understand the situation with regard to land rights and nature conservation. Most of these growers have joined the project groups.

SBI has three base camps, each with a fire watchtower: two in the northern and one in the southern part of the area. The project team is now building a fourth camp to be able to reach the central part of the concession. Each base camp has three main functions: a permanent presence at known project access points, an assembly point for patrols and biodiversity monitoring, and nursery locations for future planting activities.

The project's most rewarding activities are the camera traps and the biodiversity monitoring. That is shown by the rich megafauna that has been sighted in the area: tigers, clouded leopards, sun bears, tapirs, muntjacs and great argus. Two rare species were recently spotted: a fairly big Asian golden cat and a few dhole dogs.

These positive trends encourage the SIPEF foundation to continue its activities.

Risks and uncertainties

In November 2018 the audit committee reanalysed the various risks which the Group is facing. In this process the committee identified and classified 71 risks ('general, product, operational, workforce, financial, commercial, legal and political'). All of these risks were then assessed on the basis of the likelihood that they would occur and their impact on the Company and mapped.

Only 11 specific risks that, based on the analysis, are certain or virtually certain to occur in the SIPEF group and that could have a significant or moderate negative impact on the financial situation, the operating results or the liquidity of the Group, and lead to impairments of assets, are stated below.

Description of the specific risks

Following **specific risks** were identified:

RISK MATRIX

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

Impact

Possibility

1. RISKS CONNECTED WITH THE SPREAD OF THE ACTIVITIES OVER A LIMITED NUMBER OF COUNTRIES AND WITH THE LIMITED PRODUCT DIVERSIFICATION

DThe Group produces palm products, natural rubber, tea and bananas in Indonesia, Papua New Guinea and Ivory Coast. The centre of gravity of its activities is in palm product cultivation in Indonesia, which constitutes 87% of total turnover. So, if problems of any nature occur in Indonesia, and to a lesser degree in Papua New Guinea or Ivory Coast, to obstruct the cultivation or production of these products, this could have a significant negative impact on the results and the financial situation of the Group.

2. RISKS CONNECTED WITH EXPANSION

Limited availability of sites

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

Acquisitions, divestments, strategic alliances and joint ventures

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

3. RISKS OF THE DEPENDENCE ON A LIMITED NUMBER OF LARGE CUSTOMERS

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

4. RISKS CONNECTED WITH LAND PROPERTY RIGHTS AND RIGHTS OF USE

The retention of the property rights and concession rights is essential for the Group to safeguard and develop the production in the various countries.

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

5. RISKS OF NATURAL DISASTERS (PLANTATIONS – MILLS)

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

6. RISK OF RISING RAW MATERIAL-RELATED INPUT PRICES

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

7. RISKS OF NOT FINDING SUFFICIENT STAFF IN REMOTE AREAS

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

8. RISK OF WAGE RISES

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

9. CLIMATE RISKS

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

The potential physical consequences of climate change are uncertain, and may differ depending on the region and the product.

10. RISK OF AN UNEXPECTED FALL IN FUTURE SHORT-TERM MARGINS

The turnover and margins generated depend to a great degree on fluctuations in market prices, primarily of palm oil and palm kernel oil. Economic factors the Group has no control over affect the supply and demand of these products, as well as their prices. There is a risk that such fluctuations will have an adverse impact on the Group's profitability. Based on the 2019 budget, a change in the palm oil price of USD 100 CIF Rotterdam per tonne would impact the post-tax result by approximately USD 26 million per year, not including the impact of export duties.

11. RISK CONNECTED WITH THE CONCERN IN EUROPE FOR SUSTAINABILITY AND THE INCREASED RSPO RESTRICTIONS

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

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

Although this levy does not apply to domestic sales, it nevertheless affects transactions with local customers who are only willing to pay the sales price less an amount equal to the export tax. Therefore, these taxes have a major impact on all palm oil produced by SIPEF in Indonesia. In 2018, on average this tax was USD 42 per tonne, compared with USD 53 per tonne in 2017, USD 51 per tonne in 2016, USD 28 per tonne in 2015 and USD 68 per tonne in 2014.

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

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

Description of the general risks

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

- currency, interest rates, credit and liquidity (see Note 27 of this annual report);
- social actions;
- computer systems;
- regulations;
- court cases;
- internal control;
- tax audits;
- environmental liability.

Corporate governance statement

1. In general

SIPEF has always formulated the Company's policy to be in line with the best practices of good governance. In 2005 the board of directors of SIPEF adopted the original version of the Corporate Governance Charter ("Charter"), which was drawn up in accordance with the Belgian Corporate Governance Code 2004. The Charter has been regularly updated since then, in line with changes to applicable regulations and the best practices of good governance. It was adapted to the 2009 Belgian Corporate Governance Code, which SIPEF has adopted as a reference code (www.corporategovernancecommittee.be). It was most recently amended in November 2018 and can be accessed on the website (www.sipef.com/hq/investors/shareholders-information/corporate-governance/).

The Charter groups the rules of conduct that must be followed by the members of the board of directors and the various committees of the Company and sets out the guidelines for the composition and way of working of these bodies. It also contains the rules of conduct that apply to the persons discharging managerial responsibilities and the staff of the Company if they conduct transactions relating to SIPEF's financial instruments.

The 'Corporate Governance Statement' gives special attention to factual information with regard to corporate governance. This chapter describes any changes that were made to policy and the relevant events regarding corporate governance during the past financial year and the financial year closing period until the meeting of the board of directors of 12 February 2019. Furthermore, any deviations from the recommendations of the Code over the same period are explained in accordance with the 'comply or explain' principle. Lastly, the statement contains the diversity policy that SIPEF applies for the composition of the board of directors and executive management, as laid down by the law of 3 September 2017 about the announcement of non-financial information and information regarding diversity by certain large companies and groups.

/// François Van Hoydonck, Tom Bamelis, Luc Bertrand, Petra Meekers, Priscilla Bracht, Regnier Haegelsteen, Jacques Delen, Antoine Friling, Sophie Lammerant-Velge, Bryan Dyer ///

2. Board of directors

2.1. COMPOSITION AT 31 DECEMBER 2018

The board of directors consisted of 10 members on 31 December 2018.

	Term
Baron Luc Bertrand, chairman	2016-2020
François Van Hoydonck, managing director	2015-2019
Tom Bamelis	2018-2022
Priscilla Bracht	2018-2022
Baron Jacques Delen	2016-2020
Bryan Dyer	2015-2019
Antoine Friling	2015-2019
Regnier Haegelsteen	2015-2019
Sophie Lammerant-Velge	2015-2019
Petra Meekers	2018-2022

At least half of the members of the board, that is nine of the ten, are non-executive directors.

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

Furthermore, at 31 December 2018 the following independent directors sat on the board of directors:

/// Bryan Dyer

/// Antoine Friling

/// Sophie Lammerant-Velge

/// Petra Meekers

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

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

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

2.2. MEMBERS OF THE BOARD OF DIRECTORS

Luc Bertrand

Born: 14 February 1951

Nationality: Belgian

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

François Van Hoydonck

Born: 29 August 1959

Nationality: Belgian

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

Tom Bamelis

Born: 20 June 1966

Nationality: Belgian

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

Priscilla Bracht

Born: 18 May 1977

Nationality: Belgian

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

Jacques Delen
Born: 17 October 1949
Nationality: Belgian

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

Bryan Dyer
Born: 4 January 1949
Nationality: British

Bryan Dyer has an honours degree in agricultural science (tropical crop science) from the University of Reading (UK). He followed the Senior Executive Programme at the London Business School and the Strategic Industrial Marketing Programme at Insead Business School, Fontainebleau. Since starting his career at Booker Sugar Estates Ltd in Guyana he has been active as manager, managing director and CEO in large agro-industry groups in Kenya, Papua New Guinea, Somalia, Madagascar, Indonesia, the UK and elsewhere. He took partial retirement in 2012. He has been a director of SIPEF since 2015.

Antoine Friling
Born: 29 January 1958
Nationality: Belgian

Antoine Friling is a bachelor of business administration, finance & marketing and a master of business administration - international management. He has been active in the banking industry for several years and a director of family, industrial and financial companies in Europe and South America for many years. He has been a director of SIPEF since 2007.

Regnier Haegelsteen
Born: 10 July 1950
Nationality: Belgian

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

Sophie Lammerant-Velge
Born: 9 July 1956
Nationality: Belgian

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

Petra Meekers
Born: 1 December 1973
Nationality: Dutch

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

2.3. DIVERSITY POLICY

Policy

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

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

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

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

SIPEF does not tolerate any form of discrimination.

Application

The background and professional experience of the members are very diversified within the board. They extend over the agricultural, financial, manufacturing and marketing industries.

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

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

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

2.4. CHANGES TO THE COMPOSITION OF THE BOARD OF DIRECTORS

Ending and renewal of directorships

The directorships of Bryan Dyer, Antoine Friling, Regnier Haegelsteen, Sophie Lammerant-Velge and François Van Hoydonck expire at the end of the ordinary general meeting of 12 June 2019.

The directorship of Bryan Dyer will not be renewed, as he passes the age limit of 70 years in 2019.

The other directors put themselves forward for the position of director again: Antoine Friling, Sophie Lammerant-Velge and François Van Hoydonck for a period of four years and Regnier Haegelsteen for one year, as he passes the age limit of 70 years in 2020.

If Antoine Friling is reappointed by the ordinary general meeting of 12 June 2019, he will hold the position of director for more than 12 years. That would mean he could no longer be considered to be an independent director under the criteria of article 526ter of the Companies Code and the articles of association of the Company.

On the other hand, Sophie Lammerant-Velge does fulfil the aforementioned independence criteria, as she has confirmed in a letter of 12 February 2019 to the board of directors. Therefore, the renewal of her independent directorship shall be submitted for approval at the ordinary general meeting of 12 June 2019.

Appointment of a new director

The appointment of Nicholas Mark Thompson as a new director for a period of four years will be proposed at the general meeting of 12 June 2019. This means his directorship will expire at the end of the general meeting of June 2023, which pronounces itself on the accounts of the financial year 2022. Nicholas Mark Thompson fulfils all independence criteria as laid down by article 526ter of the Companies Code. In his letter of 22 February 2019, he confirms his independent nature on the basis of these criteria. So the ordinary general meeting of 12 June 2019 will be invited to acknowledge the independent nature of Nicholas Mark Thompson.

2.5. DIRECTORSHIPS AT LISTED COMPANIES

The 2009 Belgian Corporate Governance Code limits to five the number of directorships that a director is permitted to hold in listed companies.

The following directors hold a directorship in other listed companies:

Baron Luc Bertrand:	Ackermans & van Haaren CFE SIPEF
Baron Jacques Delen:	Ackermans & van Haaren SIPEF

2.6. MEETINGS OF THE BOARD IN 2018 AND ATTENDANCE RECORD

The SIPEF board of directors met six times in 2018. The weighted average attendance was 93%. The individual attendance record was as follows:

	Attendance
Baron Luc Bertrand, chairman	6/6
François Van Hoydonck, managing director	6/6
Tom Bamelis (from 13 June 2018)*	4/4
Priscilla Bracht	6/6
Baron Jacques Delen	6/6
Bryan Dyer	6/6
Antoine Friling	3/6
Regnier Haegelsteen	5/6
Sophie Lammerant-Velge	6/6
Petra Meekers	6/6

* attendance calculated from the ordinary general meeting of 13 June 2018 and based on the meetings during his directorship

The boards of directors of February and August established the annual and semi-annual financial statements. The meetings of June and September established the quarterly results of the Group. These meetings also approved the press releases with regard to these accounts and results.

As a rule, the development of the activities of the various subsidiaries was checked at each meeting, based on a report drawn up by the executive committee. The directors were also regularly informed about the further settlement of the sale of BDM/ASCO, which was signed in 2017 but completed in 2018.

Furthermore, the board of directors of 13 February gave its opinion, in the absence of the managing director, on the interaction between the board and the executive management. The same meeting deliberated on the renewal of the directorship of two directors and the appointment of Tom Bamelis as a new member of the board of directors.

On 13 June the directors adopted the presentations to be made to the ordinary general meeting, as well as the agenda of the extraordinary general meeting

On 18 September an extraordinary meeting was convened with regard to the questionnaire on the functioning of the board and the composition of the board.

The ten-year business plan was updated and the future marketing strategy and the sustainability course to be followed were established at the meeting of 20 September. The succession plan for management and staff of the foreign subsidiaries and the management of the Belgian parent was also on the agenda.

On 19 November the board set the 2019 Group budgets and made certain decisions with regard to credit facilities. The board also approved the 'General Privacy Policy' and the 'Privacy Policy for Staff', as well as the updates of the 'Responsible Plantations Policy' and 'the Corporate Governance Charter'.

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

2.7. ASSESSMENT OF THE BOARD OF DIRECTORS

The directors regularly assess the scale, composition and functioning of the board of directors and the committees of the Company. Originally, the Charter provided for such an assessment every four years. In November, this period was reduced to three years, which is in line with the stipulations of the 2009 Belgian Corporate Governance Code.

Furthermore, the non-executive directors assess the relationship between the board of directors and the executive committee once a year in the absence of the managing director (article 2.7 of the Charter).

The annual assessment of the interaction between the board of directors and the executive committee was held in February 2018 in the absence of the managing director. The directors in question were of the opinion that there is a sufficient degree of transparency and a good working relationship between the two bodies.

On 18 September an extraordinary meeting of the board of directors was entirely devoted to assessing the scale, composition and functioning of the board of directors and the committees. Special attention has been paid to the current composition of the board. It was found to be appropriate in terms of scale, and the essential qualifications were judged to be present to an adequate degree.

The board also made a small number of proposals with regard to how the meetings were organised.

3. Executive committee

3.1. COMPOSITION AT 31 DECEMBER 2018

François Van Hoydonck, chairman	managing director
Charles De Wulf	estates department manager
Thomas Hildenbrand	fruit department manager
Robbert Kessels	chief commercial officer
Johan Nelis	chief financial officer

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

At 31 December 2018 executive management comprised five people, to whom the board of directors has delegated day-to-day management and who act together as the executive committee. The committee is chaired by François Van Hoydonck, who is also a director of the Company.

The board appoints the members of the executive committee for an indefinite period of time, with the exception of the members who are directors. Then, the term of the delegation of day-to-day management is determined by the term of the directorship. This explains why the board of directors of 12 February 2019 renewed the delegation of day-to-day management to François Van Hoydonck, provided his directorship is renewed by the ordinary general meeting of 12 June 2019. This ensures continuity in the functioning of the executive committee.

The Company does not intend to change the composition of this committee in 2019.

3.2. MEMBERS OF THE EXECUTIVE COMITTEE

François Van Hoydonck

Born: 29 August 1959

Nationality: Belgian

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

Charles De Wulf

Born: 22 August 1964

Nationality: Belgian

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

Thomas Hildenbrand

Born: 29 December 1962

Nationality: French

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

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

Robbert Kessels

Born: 21 March 1975

Nationality: Dutch

Robbert Kessels earned a master's degree in international business at Maastricht University. He began his career at Cargill Rotterdam as commercial trainee at the trading desk. He went on to fill various positions in Cargill's trading department in Indonesia and Singapore over a seven-year period. In 2012 he joined SIPEF as chief commercial officer and is a member of the executive committee.

Johan Nelis

Born: 20 October 1968

Nationality: Belgian

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

3.3. DIVERSITY POLICY

Policy

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

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

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

No form of discrimination is tolerated.

Application

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

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

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

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

3.4. MEETINGS IN 2018

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

The committee is responsible for the daily management of the Group, including all actions that are needed to conduct and properly guide the current activities of the Company and the other companies of the Group. It has the appropriate operational freedom and resources to duly perform its work.

In practice, the committee prepares all decisions of the board and ensures all decisions taken are implemented. In 2018, among other things, the committee prepared the individual and consolidated accounts and the quarterly figures of the Group, and established the short-term and long-term budgets, which were submitted to the board for approval. It made proposals for the board on the operational and financial developments of the Group and reported on the organisation of the internal audit in the operational companies of the Group. It formulated proposals concerning the strategy to be followed.

3.5. ASSESSMENT

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

The non-executive directors also give their opinion on the interaction between the board of directors and the executive committee annually, in the absence of the managing director. Their opinion on 13 February 2018 was that the board has a good working relationship with the executive committee and is sufficiently transparent.

Furthermore, the contribution of every member of the executive committee to the development of the activities and the results of the Group is assessed annually by the remuneration committee, together with the managing director. The chairman of the committee does not take part in the assessment of his own performance. These assessments were made during the meeting of the remuneration committee of 19 November 2018.

4. Committees of the board of directors

4.1. AUDIT COMMITTEE

Composition at 31 December 2018

At 31 December 2018 the audit committee had three members, all non-executive directors. Two members are independent directors. The committee is chaired by Regnier Haegelsteen.

The term of office of the committee members coincides with the term of their directorship.

	Term	Attendance
Regnier Haegelsteen, chairman	2015-2019	2/4
Antoine Friling	2015-2019	3/4
Sophie Lammerant-Velge	2015-2019	4/4

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

Meetings in 2018 and attendance record

The audit committee met four times in 2018. The average attendance grade was 75%.

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

The following were also explained and discussed during the numerous meetings:

/// the update of the existing risks and their classification;

/// the impact of the refined assessment procedure for IAS 41/ IAS2 applicable as from December 2018;

/// the amendments to IFRS 15, 9 and 16;

/// the pending disputes before the courts regarding recoverable VAT in Indonesia and their impact on the accounts;

/// the accounting treatment of the acquisition of PT Dendymarker and the assessment of certain intangible assets of this company;

/// the entry of the purchase price for the Asri Rimba activities and entry of the hedge accounting;

/// the reports of the internal audit committees of the operating units in Indonesia and Hargy Oil Palms Ltd in Papua New Guinea;

/// the limits of the non-audit services of the auditor in 2018, for which prior approval of the audit committee is not required.

The auditor attended the meetings of the committee on two occasions in 2018.

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

A representative of Ackermans & van Haaren was present at one meeting of the committee, as a non-member.

4.2. REMUNERATION COMMITTEE

Composition at 31 December 2018

At 31 December 2018 the remuneration committee had three members, all non-executive directors. The majority of the committee, two of the three members, are independent directors. The committee is chaired by Regnier Haegelsteen.

The term of office of the committee members coincides with the term of their directorship.

	Term	Attendance
Regnier Haegelsteen, chairman	2015-2019	1/2
Antoine Friling	2015-2019	2/2
Sophie Lammerant-Velge	2015-2019	2/2

The committee has the required expertise in remuneration policy.

Meetings in 2018 and attendance record

The remuneration committee met twice in 2018. Average attendance was 83.33%.

The managing director also attended the remuneration committee.

On 13 February the remuneration committee analysed the Group expatriate remuneration trend over recent years and, based on its findings, made recommendations concerning their variable remuneration. The committee then made recommendations concerning the 2018 bonus calculation for the head office. Specifically, it assessed the members of the executive committee individually and, based on its findings, proposed individual variable remuneration. The remuneration committee also prepared the remuneration report to the ordinary general meeting of 13 June 2018.

The committee analysed the emoluments of the directors and the members of the various committees of the board of directors and the members of the executive committee at the meeting of 19 November 2018. The committee then compared all of these remunerations with those of similar operational listed companies. Lastly, the committee proposed the 2018 share option plan for the executive committee and the foreign management of the Group.

4.3. NOMINATION COMMITTEE

Composition at 31 December 2018

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

The change to the composition of the nomination committee is identical to the change to the composition of the board of directors (see point 2.4.).

Meetings in 2018 and attendance record

The board met twice in 2018 in its capacity of nomination committee, on 13 February and 19 November. The average weighted attendance was 95%.

	Attendance
Baron Luc Bertrand, chairman	2/2
François Van Hoydonck, managing director	2/2
Tom Bamelis (from 13 June 2018)*	1/1
Priscilla Bracht	2/2
Baron Jacques Delen	2/2
Bryan Dyer	2/2
Antoine Friling	2/2
Regnier Haegelsteen	1/2
Sophie Lammerant-Velge	2/2
Petra Meekers	2/2

* attendance calculated from the ordinary general meeting of 13 June 2018 and based on the meetings during his directorship.

On 13 February the committee discussed the functioning and composition of the board of directors in general. The same meeting deliberated on the renewal of the directorship of Priscilla Bracht and Petra Meekers, and the appointment of Tom Bamelis as a new director.

On 19 November the committee acquainted itself with the future composition of the board of directors and proposed the extension of the directorship of Antoine Friling, Sophie Lammerant-Velge and François Van Hoydonck for four years. It invited the members to nominate new directors at the next meeting of February 2019.

4.4. ASSESSMENT OF THE COMMITTEES OF THE BOARD OF DIRECTORS

The board of directors regularly assesses its composition and functioning, as well as the composition and functioning of its committees. On 19 November 2018 the decision was made to conduct this periodical assessment every three years rather than every four years.

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

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

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

5. Remuneration report

5.1. PROCEDURE FOR DEVELOPING THE REMUNERATION POLICY AND SETTING THE REMUNERATION LEVEL

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

Non-executive directors

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

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

Managing director and the other members of the executive committee

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

The remuneration of the members of the executive committee, including the managing director, are the subject of external benchmarking every year. This comparative study is conducted by the Company itself, based on salary studies and remuneration data published in the annual reports of similar operational listed companies with a comparable market capitalisation. The market median is used as reference for the remuneration of the members of the executive committee. This comparative study, which is normally conducted in November and December, primarily concerns the fixed remuneration of the members of the executive committee and to a lesser degree examines the variable remuneration.

The general meeting of 8 June 2011 agreed, contrary to article 520 of the Companies Code, that the entire variable remuneration of the members of the executive committee is based on performance criteria established in advance and objectively measurable over a period of one year. The variable remuneration can therefore be paid at once, rather than spread over three years as provided for by law. The Company's articles of association have been amended in that sense (article 26bis).

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

5.2. REMUNERATION POLICY

Non-executive directors

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

In 2018 the non-executive directors received the following remuneration:

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

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

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

Executive management

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

a. Fixed remuneration

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

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

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

b. Variable remuneration

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

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

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

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

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

c. Profit-sharing plan

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

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

5.3. APPLICATION OF THE REMUNERATION POLICY IN 2018

Remuneration of the directors in 2018

(in EUR)	Member of the board of directors	Member of the audit committee	Member of the remuneration committee	Total
Baron Luc Bertrand, chairman	60 000			60 000
François Van Hoydonck	29 000			29 000
Tom Bamelis *	14 500			14 500
Priscilla Bracht	29 000			29 000
Baron Jacques Delen	29 000			29 000
Bryan Dyer	29 000			29 000
Antoine Friling	29 000	7 500	4 000	40 500
Regnier Haegelsteen**	29 000	9 750	5 200	43 950
Sophie Lammerant-Velge	29 000	7 500	4 000	40 500
Petra Meekers	29 000			29 000
Total	**306 500**	**24 750**	**13 200**	**344 450**

* remuneration prorated over the term of the directorship in 2018

** chairman of the audit committee and the remuneration committee

The fixed and variable remunerations, just like the other benefits granted and paid to the members of the executive committee directly or indirectly by SIPEF and by its subsidiaries, in 2018 can be summarised as follows (total cost for the Company):

Remuneration of the members of the executive committee in 2018

(in KEUR)	Managing director	Other members	Total	Relative share
Fixed remuneration	386	1 022	1 408	44.43%
Variable remuneration	515	653	1 168	36.86%
Group insurance	262	203	465	14.67%
2017 share options*	43	58	101	3.19%
Benefits in kind (company car)	4	23	27	0.85%
Total	**1 210**	**1 959**	**3 169**	**100.00%**

* the value of the benefit in kind on which the beneficiaries paid tax in 2018

No shares were granted to the members of the executive committee in 2018.

Options granted to the members of the executive committee in 2018

On 20 November 2018, 14 000 options were granted by SIPEF to the members of the executive committee. These were split among the beneficiaries as follows:

Number of options	
François Van Hoydonck	6 000
Charles De Wulf	2 000
Thomas Hildenbrand	2 000
Robbert Kessels	2 000
Johan Nelis	2 000
Total	14 000

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

The options granted in 2018 have the following characteristics:

Characteristics of options	
Exercise price:	EUR 51.58
Expiry date:	19 November 2028
Exercise period:	from 1 January 2022 up to and including 19 November 2028

In 2018 the members of the executive committee exercised no options and no options expired.

5.4. MOST IMPORTANT CLAUSES OF THE AGREEMENTS OF EXECUTIVE MANAGEMENT

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

The managing director may unilaterally end his agreement subject to 6 months' notice. The notice term to be respected by the company varies from 18 to 24 months, depending on when the agreement is ended. The notice term shall be extended by 12 months if the agreement is ended pursuant to a change of control in the Company, by which more than half of the directors is replaced, and if serious restrictions of the essential powers of the managing director are imposed unilaterally by the Company. The extraordinary general meeting of 27 December 2007 approved this clause in accordance with article 556 of the Companies Code.

The notice term for the other members of the executive committee in the event of ending by the Company is one month for each year in employment, with a minimum notice term of three months and a maximum notice term of 18 months. The notice term if the employment is ended by the member of the executive committee is 1.5 months for each 5 years in employment or 6 months, whichever is lower.

5.5. CHANGES TO REMUNERATION POLICY

The remuneration policy was not changed in 2018.

5.6. REMUNERATION POLICY FOR THE FINANCIAL YEARS 2019 AND 2020

The board of directors has no intention of making far-reaching changes to the remuneration policy in 2019 and 2020.

6. External and internal audit

6.1. EXTERNAL AUDIT

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

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

The annual remuneration of the statutory auditor for the financial year 2018 regarding the statutory audit of the accounts and consolidated financial statements of SIPEF amounts to KUSD 90 (KEUR 78).

The remuneration for the non-audit services in 2018 came to KUSD 46 (KEUR 40). These fees were related to the work performed in the context of accounting advice on goodwill impairment testing, the certification of ratios for long-term debts and tax advice. All these non-audit services were approved by the audit committee, which receives a summary of these fees at each meeting.

The total cost of external control of the SIPEF group paid to the Deloitte network amounted to KUSD 474. The fees paid for advice from the same statutory auditor and related companies came to KUSD 35. All details regarding the fees paid to Deloitte can be found in Note 37.

6.2. INTERNAL AUDIT

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

The internal audit function at the head office in Belgium and in the other subsidiaries is exercised by the responsible manager, together with the managing director and the chief financial officer of SIPEF. Given the limited size of these companies, the SIPEF audit committee is of the opinion that no separate internal audit department needs to be set up at this time.

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

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

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

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

7.1. CONTROL ENVIRONMENT

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

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

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

To facilitate and encourage further growth in the day-to-day management of its activities, SIPEF pursues clear sustainable regulations that are stricter than the legal requirements of the countries in which the Company does business. That undertaking is documented by certificates and generally accepted standards: ISO 9001, ISO 14001, the Roundtable on Sustainable Palm Oil (RSPO), Indonesian Sustainable Palm Oil (ISPO), International Sustainability and Carbon Certification (ISCC), the Clean Development Mechanism (CDM) of the United Nations, the Ethical Tea Partnership (ETP), the Rainforest Alliance and GLOBALG.A.P..

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

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

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

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

7.2. RISK ANALYSIS AND CONTROL ACTIVITIES

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

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

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

7.3. INFORMATION AND COMMUNICATION

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

7.4. SUPERVISION AND MONITORING

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

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

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

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

7.5. INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS RELATED TO FINANCIAL REPORTING

The process for drawing up financial reports is as follows:

- /// The process is led by the corporate finance department, which is under the direct supervision of the chief financial officer of SIPEF.
- /// A schedule is drawn up based on the imposed internal and external deadlines. This is given to every reporting entity and the external auditor at the start of the year. The external deadlines are also published on the Company's website.
- /// The following reporting entities can be identified:
  - a. The companies in Indonesia, including PT Timbang Deli, taken as a whole
  - b. Hargy Oil Palms Ltd in Papua New Guinea
  - c. Plantations J. Eglin SA in Ivory Coast
  - d. Jabelmalux SA in Luxembourg
  - e. SIPEF in Belgium
  - f. Verdant Bioscience Pte Ltd in Singapore
- /// The financial department of each entity is headed by a certified accountant.
- /// The first step in the annual reporting cycle is drawing up a budget for the following year. This is done in the period September to November and is submitted to the board of directors for approval in November. The strategic options in this budget also fit in with the long-term plan strategy that is updated and approved by the board of directors annually.
- /// Sensitivity analyses for the strategic plan and the annual budget are drawn up to be able to make the right risk profile for the decisions to be made.
- /// The production figures and the net financial position of the previous month are received and consolidated by the corporate finance department in the first week of every month, before being submitted to the managing director and the executive committee.
- /// The intergroup transactions are also reconciled in this first week before the accounts are closed.

/// The monthly financial reporting comprises an analysis of the volumes of initial stock, production, sales and end stock; the operational result and a summary of the other items on the income statement, i.e. financial result and tax, a balance sheet and cash flow analysis.

/// The accounting policies used for the monthly reporting are identical to those used for the legal consolidation under IFRS.

/// The monthly figures are compared with the budget and the same period a year earlier for each reporting entity, and significant differences are investigated.

/// The corporate finance department converts these summary operational and financial figures on a monthly basis to the functional currency (mostly USD), consolidated in the reporting currency (USD), and checks once again that they are consistent with the budget or the previous period.

/// The consolidated monthly reporting is submitted to the managing director and the executive committee.

/// The board of directors receives this report on a periodic basis, i.e. 3, 6, 9 and 12 months, as preparation for the board meeting. This report is accompanied by a memorandum with a detailed description of the operational and financial trends of the preceding quarter.

/// In the event of exceptional events, the board of directors is also notified immediately.

/// An external audit controls the individual financial statements and the technical consolidation by the end of June and the end of December, but only in December for the smaller entities. The consolidated IFRS figures are then submitted to the audit committee.

/// Based on the advice of the audit committee, the board of directors gives its opinion on the correctness of the consolidated figures before publishing the financial statements on the market.

/// An interim management report is published twice a year, after the first and after the third quarter, stating the trends in production volumes, global market prices and any changes in the pipeline.

/// The corporate finance department is responsible for monitoring any amendments to IFRS reporting standards and implementing these amendments in the Group.

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

8. Rules of conduct concerning conflicts of interest

Articles 2.9 and 4.6 of the Charter describe the policy with regard to transactions between the Company, or one of its affiliated companies, and a member of the board of directors or a member of the executive committee, that could entail a conflict of interest, within the meaning of the Companies Code or otherwise. It also states the legal procedures that are laid down in articles 523 and 524 of the Companies Code.

In 2018 one transaction giving rise to a conflict of interests within the meaning of article 523 of the Companies Code was reported to the board of directors of 19 November. The legal procedures provided by this article were applied to the related decision of the board. The Company's auditor was notified in advance and the excerpt of the minutes relating to that transaction is provided in full below:

EXCERPT OF THE MINUTES OF 19 NOVEMBER 2018

"Antoine Friling, the Chairman of the remuneration committee, summarised the proposals of the committee for the directors as follows:

Because the following point concerns his remuneration, François Van Hoydonck, Managing Director, stated that he had a conflict of interest. Article 523 of the Companies Code therefore applied and the Auditor of the company was made aware of this situation. He temporarily left the meeting.

The Chairman of the remuneration committee explained that the annual option plan, initiated in 2011, would be continued in 2018, with the options having the same characteristics as those granted the previous year, being an annual share option plan on existing SIPEF shares and in accordance with Belgian tax law. The committee proposed the granting of a total of 20 000 share options to the Managing Director, the executive committee and the three managers that are responsible for SIPEF's activities in Indonesia, PNG and Ivory Coast.

One option would give the beneficiary the right to buy one SIPEF share, 20 000 options corresponding to an amount of around one million euros (based on a share price of 51 euros per share), of which 6 000 options (306 000 euros) would be granted to François Van Hoydonck.

After deliberation, the Board of Directors approved the proposal as formulated by the committee. François Van Hoydonck entered the meeting room."

A conflict of interest concerning Bryan Dyer was also reported in the same meeting. However, article 523 of the Companies Code was not applicable in that case. In spite of this, the director in question did not participate in the discussions and the decision.

There were no other conflicts of interest in 2018.

9. Policy concerning financial transactions

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

10. Shareholder structure

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

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

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

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

11. Agreement with the Belgian Corporate Governance Code – comply or explain

SIPEF’s corporate governance deviates from a limited number of recommendations of the Belgian Corporate Governance Code.

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

   The plans are included in the remuneration report and are therefore indirectly submitted to the shareholders for approval in this report.

   Furthermore, the options are granted to the beneficiaries at the end of November. So it is impossible in practice to submit the share option plan to the ordinary general meeting held in June. And lastly, the options are just a small part of the total remuneration package of the managers in question.

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

   These duties are fulfilled jointly by the managing director and chief financial officer, assisted by the Company’s internal legal councel.

3. *The Charter does not set out any special procedure for assessing the composition, functioning and performance of executive management.*

   The board of directors has not drawn up any special assessment procedure for this because it is able to assess the executive management throughout the year on the basis of the work done by the executive committee and its preparations for the board.

4. *The SIPEF nomination committee is composed of all members of the board of directors and is only made up of 40% independent directors, and no more than 50% as required by the Belgian Corporate Governance Code.*

   SIPEF is of the opinion that the full board is better able to prepare and organise its composition and the succession plans. Furthermore, the relatively limited size of the board - ten members - does not hamper efficient deliberation and decision-making.

Comments on the consolidated financial statements

The consolidated financial statements for the financial year 2018 are drawn up in accordance with the International Financial Reporting Standards (IFRS).

Balance sheet

The consolidated balance sheet total as at 31 December 2018 is KUSD 938 368, an increase of 3.46% compared to the balance total of KUSD 907 008 at the end of 2017.

The biological assets and other fixed assets increased due to the continuing expansion.

As a consequence of the permanent inclusion of Dendymarker Indah Lestari (DIL) in the consolidation, the goodwill was adjusted somewhat compared with the provisional inclusion on 31 July 2017 (+KUSD 1 774).

The finalised sale of BDM-ASCO means there are no longer any net assets held for sale on the balance sheet (previous year: KUSD 12 010).

The net current assets, net of cash, rose considerably, due to the increased working capital and a strongly increased (KUSD 20 080) current tax receivable.

Due to the negative recurring free cash flow (-KUSD 33 375), the dividend paid (-KUSD 20 289) and the cash received from the sale of BDM-ASCO (KUSD 20 463), the net cash position decreased from KUSD -83 697 to KUSD -121 443.

Result

Total turnover fell to USD 275 million (-14.4%).

Palm oil turnover fell by 13.7%. The increased volumes were sold at a substantially lower price, last year the average price for palm oil on the world market being USD 117 per tonne CIF Rotterdam lower than in the previous year.

Rubber turnover fell by 27.0%, due to a combination of lower production and the lower price for natural rubber on the world market.

As for tea activity, turnover fell by 27.3%. However, turnover last year was driven up strongly by a big sale of stock. This fall, therefore, had no impact on the gross margin of the tea activities.

Turnover followed the lower volumes in the banana and flower activities.

The average ex works unit cost price for the mature palm plantations was virtually unchanged compared with 2017. That is because the general rise in costs, e.g. fuel, fertiliser and local wages, was largely offset by higher production and the devaluation of the rupiah in Indonesia (6.5%) and the kina in Papua New Guinea (3.3%).

The adjustment in fair value is due to the impact on the measurement of the hanging fruit at their fair value (IAS 41R).

Gross profit fell from KUSD 120 474 in December 2017 to KUSD 72 096 (-40.2%) in December 2018.

The gross profit in the palm segment fell by 37.9% compared with 2017, due to the lower palm oil prices.

The contribution of the rubber activities to the gross margin was negative, due to the low sales prices (-KUSD 1 065). While the gross margin for tea in June was virtually identical to the previous year, by the end of the year it had decreased greatly due to the lower sale price in the second half of the year. The gross margin for bananas and flower activities fell substantially due to the lower production volumes.

The general and administrative expenses remained virtually stable (+1.9%). On the one hand, there were higher costs for the further development of a regional office in the Musi Rawas region and additional information technology (IT) and travel costs. On the other hand, the USD equivalent of the euro costs of the head office in Belgium fell and there was a lower bonus provision, due to the much lower result in 2018 compared with 2017.

The other operating income/charges of KUSD 9 728 included a partial reversal of the provision for a long-drawn-out value-added tax (VAT) dispute in Indonesia (KUSD 1 223), which is gradually moving towards a favourable conclusion. In addition, the announced sale of the insurance branch (BDM-ASCO) was completed in the first half of 2018. A gain of KUSD 7 376 was generated on this sale.

The operating result, excluding the one-off gains, was KUSD 42 689, compared with KUSD 90 261 the year before (-52.7%).

Financial income primarily comprises the positive time effect of the discount of the receivable from the sale of the stake in the SIPEF-CI SA oil palm plantation in Ivory Coast at the end of 2016 (KUSD 2 031). This receivable will be settled over the next four years.

The financial charges mainly comprise the interest on our long-term and short-term financing at LIBOR-related rates.

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

Profit before tax, excluding one-off gains, was KUSD 39 598, compared with KUSD 89 942 in 2017, a decrease of 56.0%.

At 35.7%, the effective tax expense was substantially higher than the theoretical tax expense of 26.8%. A number of deferred tax assets, relating to fiscal losses recoverable in 2018, were reversed due to the downward adjustment of the profit expectation for 2018.

Profit for the period, excluding the one-off gains, was KUSD 25 443, compared with KUSD 65 897 the previous year, a fall of 61.4%.

Since the sale of BDM-ASCO at the start of 2018 and the full consolidation of PT Agro Muko from 1 March 2017, the share of the result of 'associated companies and joint ventures' (-KUSD 854) comprises only the research activities that are centralised at PT Timbang Deli and Verdant Bioscience Pte Ltd.

Net earnings, share of the Group, excluding one-off gains, was KUSD 22 713, which is 64.8% lower than in 2017.

Net earnings, share of the Group, was KUSD 30 089.

Cash flow

The cash flow from operating activities before change in net working capital fell by KUSD 42 943, which is in line with the lower operating result.

The increased use of working capital (-KUSD 13 680) is primarily due to the higher stocks, additional advances that were granted to smallholders in Musi Rawas region for the development of their land within the framework of the plasma law and a temporary delay in the reimbursement of recoverable VAT in Indonesia and Papua New Guinea.

In Indonesia and in Papua New Guinea, the Group continues to make advance payments of taxes based on the last year's results. The higher taxes paid (-KUSD 34 537) are a reflection of the higher profit in 2017 compared with profit in 2018. The excess advance payments made in previous years were also sorted out in 2017.

The total capital expenditure for the Group amounted to KUSD 69 428, an increase with 16.4% on last year's KUSD 59 625. The main investments were the payment of additional land compensation and the planning of oil palms in the new project in South Sumatra (KUSD 30 389), alongside the usual replacement investments and the maintenance of immature plantations.

The recurring cash flow in 2018 was -KUSD 33 375, compared with KUSD 61 524 in the previous year. The recurring cash flow can be compounded as follows:

Recurrent free cash flow	2018	2017
Free cash flow	-12 912	-16 512
Acquisition of PT Agro Muko from MP Evans		+78 036
Sale of BDM-ASCO	-20 463	
Recurring free cash flow	-33 375	61 524

The net price received for the sale of BDM-ASCO was KUSD 20 463.

The 'other financing activities' (KUSD 6 327) include the share buyback (-KUSD 1 115), last year's dividend paid (-KUSD 20 289), a partial repayment of the long-term financial borrowings (-KUSD 10 000), interests paid (-KUSD 3 430) and an increase in short-term financial borrowings (KUSD 41 161).

Financial review

Consolidated balance sheet

In KUSD	Note	2018	2017
Non-current assets		**780 310**	**747 529**
Intangible assets	8	441	306
Goodwill	8	104 782	103 008
Biological assets - bearer plants	9	283 712	268 086
Other property, plant & equipment	10	356 723	346 265
Investment property	0	0	0
Investments in associates and joint ventures	25	7 239	8 116
Financial assets	0	77	78
Other financial assets		77	78
Receivables > 1 year		11 112	6 643
Other receivables	11	11 112	6 643
Deferred tax assets	24	16 224	15 027
Current assets		**158 058**	**159 479**
Inventories	12	36 274	28 879
Biological assets	13	4 870	7 018
Trade and other receivables		76 025	72 562
Trade receivables	27	35 001	36 465
Other receivables	14	41 024	36 097
Current tax receivables	24	9 280	1 610
Investments		0	0
Other investments and deposits		0	0
Derivatives	27	0	579
Cash and cash equivalents	19	29 595	36 180
Other current assets		2 014	641
Assets held for sale	20	0	12 010
Total assets		**938 368**	**907 008**

In KUSD	Note	2018	2017
Total equity		**678 759**	**667 776**
Shareholders' equity	15	644 509	634 636
Issued capital		44 734	44 734
Share premium		107 970	107 970
Treasury shares (-)		-9 423	-8 308
Reserves		512 914	502 732
Translation differences		-11 686	-12 492
Non-controlling interests	16	34 250	33 140
Non-current liabilities		**102 041**	**113 382**
Provisions > 1 year	0	1 550	2 898
Provisions	17	1 550	2 898
Deferred tax liabilities	24	50 936	51 326
Trade and other liabilities > 1 year		0	0
Financial liabilities > 1 year (incl. derivatives)	19	30 000	40 000
Pension liabilities	18	19 555	19 158
Current liabilities		**157 568**	**125 850**
Trade and other liabilities < 1 year		29 623	39 931
Trade payables	27	19 647	18 243
Advances received	27	450	678
Other payables	14	9 455	8 530
Income taxes	24	71	12 480
Financial liabilities < 1 year		121 038	79 877
Current portion of amounts payable after one year	19	10 000	10 000
Financial liabilities	19	111 038	69 877
Derivatives	27	771	0
Other current liabilities		6 136	6 042
Liabilities associated with assets held for sale	0	0	0
Total equity and liabilities		**938 368**	**907 008**

Consolidated income statement

In KUSD	Note	2018	2017
Revenue	7	275 270	321 641
Cost of sales	7	-201 040	-200 432
Changes in fair value*	7	-2 134	- 735
Gross profit		**72 096**	**120 474**
General and administrative expenses	7	-31 759	-31 175
Other operating income/(charges)	21	9 728	80 287
Operating result		**50 065**	**169 586**
Financial income		2 308	1 644
Financial charges		-3 733	-3 212
Exchange differences		-1 666	1 248
Financial result	22	**-3 091**	**- 320**
Profit before tax		46 974	169 266
Tax expense	24	-14 155	-24 045
Profit after tax		**32 819**	**145 221**
Share of results of associated companies and joint ventures	25	**- 854**	**3 137**
Result from continuing operations		**31 965**	**148 358**
Result from discontinued operations		0	0
Profit for the period		**31 965**	**148 358**
Attributable to:			
- Non-controlling interests	16	1 876	8 695
- Equity holders of the parent		30 089	139 663
Earnings per share (in USD)			
From continuing and discontinued operations			
Basic earnings per share	34	2.88	14.21
Diluted earnings per share	34	2.88	14.19
From continuing operations			
Basic earnings per share	34	2.88	14.21
Diluted earnings per share	34	2.88	14.19

** A total of- 707 KUSD was reclassified from changes in the fair value of the biological assets to cost of sales in the comparative figures of 2017*

Statement of consolidated comprehensive income

In KUSD	Note	2018	2017
Profit for the period		**31 965**	**148 358**
Other comprehensive income:			
Items that may be reclassified to profit and loss in subsequent periods			
- Exchange differences on translating foreign operations	15	805	5 600
- Cash flow hedges - fair value result for the period	27	503	107
- Income tax effect (cash flow hedges)		- 146	- 31
Items that will not be reclassified to profit and loss in subsequent periods			
- Defined Benefit Plans - IAS 19R	18	-1 073	- 356
- Income tax effect		268	58
- Revaluation assets held for sale		0	0
Total other comprehensive income for the year		**357**	**5 378**
Other comprehensive income attributable to:			
- Non-controlling interests		- 67	- 13
- Equity holders of the parent		423	5 391
Total comprehensive income for the year		**32 322**	**153 736**
Total comprehensive income attributable to:			
- Non-controlling interests		1 810	8 682
- Equity holders of the parent		30 512	145 054

Consolidated cash flow statement

In KUSD	Note	2018	2017
Operating activities			
Profit before tax		**46 974**	**169 266**
Adjusted for:			
Depreciation	8,9,10	38 745	35 308
Movement in provisions	17	-1 967	1 713
Stock options		157	160
Unrealized exchange result		113	- 878
Changes in fair value of biological assets		2 134	528
Other non-cash results		-1 693	-2 985
Hedge reserves and financial derivatives	27	1 707	-1 679
Financial income and charges		3 391	2 360
Capital loss on receivables		80	0
Capital loss/(gain) on sale of investments	33	-7 376	0
Result on disposal of property, plant and equipment		- 366	372
Result on disposal of financial assets		0	-79 323
Cash flow from operating activities before change in net working capital		81 899	124 842
Change in net working capital	26	-13 680	8 622
Cash flow from operating activities after change in net working capital		68 219	133 464
Income taxes paid	24	-34 537	-13 611
Cash flow from operating activities	**26**	**33 682**	**119 853**
Investing activities			
Acquisition intangible assets	8	- 261	- 241
Acquisition biological assets	9	-27 496	-22 280
Acquisition property, plant & equipment	10	-41 671	-37 150
Acquisition investment property		0	46
Acquisition subsidiaries		- 300	-78 686
Dividends received from associated companies and joint ventures		0	0
Proceeds from sale of property, plant & equipment		1 171	446
Proceeds from sale of financial assets	11,33	21 963	1 500
Cash flow from investing activities		-46 594	-136 365
Free cash flow		**-12 912**	**-16 512**
Financing activities			
Capital increase	15	0	95 095
Equity transactions with non-controlling parties (investment MP Evans)		0	-99 769
Decrease/(increase) of treasury shares	23	-1 115	- 883
Increase/(decrease) in long-term financial borrowings	19	-10 000	50 000
Increase short-term financial borrowings	19	41 161	150 442
Decrease short-term financial borrowings	19	0	-142 830
Last year's dividend paid during this bookyear		-19 682	-12 408
Dividends paid by subsidiaries to minorities	16	- 607	-1 730
Interest received - paid		-3 430	-2 434
Cash flow from financing activities		**6 327**	**35 483**
Net increase in investments, cash and cash equivalents	**19**	**-6 585**	**18 971**
Investments and cash and cash equivalents (opening balance)	19	36 180	17 204
Effect of exchange rate fluctuations on cash and cash equivalents	19	0	5
Investments and cash and cash equivalents (closing balance)	19	29 595	36 180

Statement of changes in consolidated equity

In KUSD	Issued capital SIPEF	Share premium SIPEF	Treasury shares	Defined benefit plans IAS19R	Reserves	Translation differences	Share-holder equity	Non-controlling interests	Total equity
January 1, 2018	**44 734**	**107 970**	**-8 308**	**-2 652**	**505 384**	**-12 491**	**634 637**	**33 140**	**667 777**
Result for the period					30 089		**30 089**	1 876	**31 965**
Other comprehensive income				- 739	357	805	**423**	- 67	**356**
Total comprehensive income				**- 739**	**30 446**	**805**	**30 512**	**1 809**	**32 321**
Last year's dividend paid					-19 682		**-19 682**	- 606	**-20 288**
Equity transactions with non-controlling parties									
Other (note 15)			-1 116		157		**- 959**	- 93	**-1 052**
December 31, 2018	**44 734**	**107 970**	**-9 424**	**-3 391**	**516 305**	**-11 686**	**644 510**	**34 250**	**678 759**
January 1, 2017	**37 852**	**17 730**	**-7 425**	**-2 398**	**420 395**	**-18 091**	**448 063**	**25 063**	**473 126**
Result for the period					139 663		**139 663**	8 695	**148 358**
Other comprehensive income				- 254	76	5 600	**5 422**	- 13	**5 409**
Total comprehensive income				**- 254**	**139 739**	**5 600**	**145 085**	**8 682**	**153 767**
Last year's dividend paid					-12 409		**-12 409**	-1 730	**-14 139**
Equity transactions with non-controlling parties					- 424		**- 424**	424	
ANJ acquisition PT Agro Muko								59 917	**59 917**
MP Evans acquisition PT Agro Muko					-44 494		**-44 494**	-55 275	**-99 769**
Transfer PT Agro Muko to PT Tolan Tiga					3 618		**3 618**	-3 618	
Capital increase (note 15)	6 882	90 240			-1 338		**95 784**		**95 784**
Other (note 15)			- 883		296		**- 587**	- 323	**- 910**
December 31, 2017	**44 734**	**107 970**	**-8 308**	**-2 652**	**505 383**	**-12 491**	**634 636**	**33 140**	**667 776**

Notes

1. IDENTIFICATION

SIPEF (the 'company') is a limited liability company ('naamloze vennootschap' / 'société anonyme') incorporated in Belgium and registered at 2900 Schoten, Calesbergdreef 5. The consolidated financial statements for the year ended 31 December 2018 comprise SIPEF and its subsidiaries (together referred to as 'SIPEF group' or 'the Group'). Comparative figures are for the financial year 2017.
The consolidated financial statements were authorized for issue by the directors at the board meeting of 12 February 2019 and shall be approved by the shareholders at the annual general meeting of 12 June 2019. 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 2018.

The following standards or interpretations are applicable for the annual period beginning on 1 January 2018:

- Amendments to IAS 40 Transfers of Investment Property
- Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions
- Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
- Annual improvements to IFRS Standards 2014-2016 Cycle: Amendments to IFRS 1, IFRS 12 and IAS 28
- IFRIC 22 Foreign Currency Transactions and Advance Consideration
- IFRS 9 Financial Instruments and subsequent amendments
- IFRS 15 Revenue from Contracts with Customers

These changes did not have a significant impact on the equity or net result of the Group.

The Group did not elect for early application of the following new standards and interpretations which were issued at the date of approval of these financial statements but were not yet effective on the balance sheet date:

- Amendments to IAS 1 and IAS 8 Definition of Material (applicable for annual periods beginning on or after 1 January 2020, but not yet endorsed in the EU)
- Amendments to IAS 19 Plan Amendment, Curtailment or Settlement (applicable for annual periods beginning on or after 1 January 2019, but not yet endorsed in the EU)
- Amendments to IAS 28 Long term interests in Associates and Joint Ventures (applicable for annual periods beginning on or after 1 January 2019)
- Amendments to IFRS 3 Business Combinations (applicable for annual periods beginning on or after 1 January 2020, but not yet endorsed in the EU)
- Amendments to IFRS 9 Prepayment Features with Negative Compensation (applicable for annual periods beginning on or after 1 January 2019)
- 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 references to the Conceptual Framework in IFRS standards (applicable for annual periods beginning on or after 1 January 2020, but not yet endorsed in the EU)
- Annual improvements to IFRS Standards 2015-2017 Cycle (applicable for annual periods beginning on or after 1 January 2019, but not yet endorsed in the EU)
- IFRIC 23 Uncertainty over Income Tax Treatments (applicable for annual periods beginning on or after 1 January 2019)
- IFRS 14 Regulatory Deferral Accounts (applicable for annual periods beginning on or after 1 January 2016, but not yet endorsed in the EU)
- IFRS 16 Leases (applicable for annual periods beginning on or after 1 January 2019)
- IFRS 17 Insurance Contracts (applicable for annual periods beginning on or after 1 January 2021, but not yet endorsed in the EU)

At this stage the Group does not expect first adoption of these standards and interpretations to have any material impact on the financial statements of the Group.

IFRS 16 Leases

IFRS 16 replaces IAS 17 'Leases' and related interpretations. For lessees, IFRS 16 requires most leases to be recognized on-balance (under a single model), eliminating the distinction between operating and finance leases. In accordance with the new standard, the lessee will recognize assets and liabilities for the rights and obligations created by leases. The new standard will increase interest-bearing liabilities and property, plant and equipment in the consolidated financial statements of the SIPEF group. The new standard is effective for annual periods beginning on or after 1 January 2019. The Group decided against early adoption of the standard and will apply the cumulative catch-up approach whereby the assets are measured at an amount equal to the liabilities at 1 January 2019.

Lessee accounting

Due to the nature of our business whereby our operations are primarily taking place in relatively remote areas, the Group owns most of the assets used. Therefore we have only a limited amount of leases which qualify for lease accounting. The three main categories consist of:

Office rental

Office rentals are currently accounted for as operational leases. Analysis shows that these meet the definition of a lease and as such a right-of-use asset and corresponding lease liability will need to be accounted for under the new standard. Considering that most of the office rentals are long-term leases, the main areas management actions are required:

- Determining the lease term;
- Calculating the incremental borrowing rate.

Company cars
Company cars in Belgium meet the definition of a lease and therefore the same approach as office rentals will be applied.

Papua-New-Guinea land rights
In our subsidiary Hargy Oil Palms Ltd in Papua-New-Guinea, a part of the land rights include a fixed annual rental payment for the usufruct of the land, as well as a variable royalty depending on the production levels of the year measured in tons FFB. The annual fixed rental payment meets the definition of a lease, whereby the lease term of asset has been determined as the average lifespan of an oil palm (25 years).

Lessor accounting
The Group has no contracts that could lead to lessor accounting.

We refer to note 28 for the expected impact of IFRS 16.

IFR 9 Financial instruments
In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted.

The Group has adopted the new standard on the required effective date. There has not been a major impact on the classification and valuation of the financial instruments. All hedge relations are continuing and are not redesignated.

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group has applied the simplified approach and records lifetime expected losses on all trade receivables. The application of the expected credit loss did not have a significant impact on equity. The Group also assessed whether the historic pattern would change materially in the future and expects no significant impact. We refer to note 27 – financial instruments for the transition notes.

3. ACCOUNTING POLICIES

Basis of preparation
Starting in 2007 the consolidated financial statements are presented in US dollar (until 2006 this was done in euro), rounded off to the nearest thousand (KUSD). This modification is the result of the changed policy with regard to the liquidity and debt management since the end of 2006, whereby the functional currency of the majority of the subsidiaries has been changed from the local currency to the US dollar.

The consolidated financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: investments classified as available-for-sale, financial derivative instruments and biological produce.

The accounting policies have been consistently applied throughout the Group and are consistent with those used in the previous year.

Business combinations
Business combinations are accounted for using the purchase method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of acquisition. Any costs directly attributable to the acquisition are recognized in profit or loss. The purchase consideration to acquire a business, including contingent payments, is recorded at fair value at the acquisition date, while subsequent adjustments to the contingent payments resulting from events after the acquisition date are recognized in profit or loss. The ‘full goodwill’ option, which can be elected on a case by case basis, allows SIPEF to measure the non-controlling interest either at fair value or at its proportionate share of the acquiree’s net assets. All acquisition-related costs, such as consulting fees, are expensed.

If the initial accounting for a business combination is incomplete by the end of the financial year in which the combination occurs, SIPEF group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see paragraph below), and/or additional assets and/or liabilities are recognised to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the acquisition date to the date SIPEF group obtains complete information about facts and circumstances that existed as of the acquisition date. The measurement period shall not exceed one year from the acquisition date

Step acquisitions
Changes in the Group’s interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group’s interest and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the company.

Where a business combination is achieved in stages, the group’s previously held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

Consolidation principles
Subsidiaries:
Subsidiaries are those enterprises controlled by the company. An investor controls an investee if and only if the investor has all of the following elements, in accordance with IFRS 10:
- Power over the investee, i.e. the investor has existing rights that give it the ability to direct the relevant activities;

- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect the amount of the investor's returns.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases (or a date nearby).

Associates:
Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognized gains and losses of associates on an equity accounting basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases (or a date nearby). When the Group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

Joint ventures:
Joint ventures are those enterprises over whose activities the Group has joint control, established by contractual agreement. The consolidated financial statements include the Group's share of the total recognized gains and losses of joint ventures on an equity accounting basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases (or a date nearby).
When the Group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the group has incurred obligations in respect of the joint ventures.

Transactions eliminated on consolidation:
All intra-group balances and transactions, and any unrealized gains arising on intra-group transactions, are eliminated for companies included using the full consolidation method in preparing the consolidated financial statements.

Unrealized losses are eliminated in the same way as unrealized gains except that they are only eliminated to the extent that there is no evidence of impairment.

Foreign currency

Foreign currency transactions
In the individual Group companies, transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate ruling at the balance sheet date. Foreign exchange differences arising on translation are recognized in the income statement. Non-monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction.

Financial statements of foreign operations
Functional currency: items included in financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity (the functional currency). Starting from 2007 the consolidated financial statements are presented in USD, this is the functional currency of the majority of the Group companies.
To consolidate the Group and each of its subsidiaries, the financial statements of the individual entities are translated as follows:

- Assets and liabilities at the closing rate;
- Income statements at the average exchange rate for the year;
- The components of shareholders' equity at the historical exchange rate.

Exchange differences arising from the translation of the net investment in foreign subsidiaries, joint ventures and associated entities at the year-end exchange rate are recorded as part of the shareholders' equity under "translation differences". When a foreign entity is sold, such exchange differences are recognized in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as local currency assets and liabilities of the foreign entity and are translated at the closing rate.

Biological assets

SIPEF group only recognizes a biological asset or growing agricultural produce ("agricultural produce") when it controls the asset as a result of past events, when it is probable that future economic benefits associated with the asset will flow to SIPEF group and when the fair value or cost of the asset can be measured reliably.

In accordance with the amendments to IAS 16 and IAS 41, bearer plants are stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is calculated using the straight-line method based on the estimated useful life (20 to 25 years).

The growing agricultural produce of palm oil is defined as the oil contained in the palm fruit, so that the fair value of this distinct asset can be estimated reliably.

The growing biological produce of tea is defined as the leaves that are ready to be plucked and processed, even if not yet fully grown, so that the fair value of this distinct asset can be estimated reliably.

SIPEF group has opted to measure growing biological produce of rubber at fair value at the point of harvest in accordance with IAS 41.32 and not to measure it at fair value as it grows less costs to sell in accordance with IAS 41.10c as we are of the opinion that all parameters used in any alternative fair value measurement (future productions, determination of the start of the life cycle, cost allocation,…) are clearly unreliable. As a consequence all alternative fair value measurements are also considered clearly unreliable.

The growing biological produce of bananas is measured at fair value as it grows less costs to sell, taking into account that all the parameters for the fair value calculation are available and reliable.

A gain or loss arising on initial recognition of a biological asset at fair value less estimated point of sale costs and from the change in fair value less estimated point of sale costs of a biological asset is included in net profit or loss in the period in which it arises.

Goodwill

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

Negative goodwill represents the excess of the group's interest in the fair value of the net identifiable assets acquired over the cost of acquisition. Negative goodwill is immediately recognized in the income statement.

Intangible assets

Intangible assets include computer software and various licenses. Intangible assets are capitalized and amortized using the straight-line method over their useful life.

Property, plant and equipment

Property, plant and equipment, including investment property, are stated at cost less accumulated depreciation and any accumulated impairment losses. Borrowing costs attributable to the construction or production of qualifying assets are capitalized. Expenses for the repair of property, plant and equipment are usually charged against income when incurred. Property held for sale, if any, is stated at the lower of amortized cost and fair value less selling charges.
Depreciation is calculated using the straight-line method based on the estimated useful lives of the related assets:

Buildings	5 to 30 years
Infrastructure	5 to 25 years
Installations and machinery	5 to 30 years
Vehicles	3 to 20 years
Office equipment and furniture	5 to 10 years
Other property, plant and equipment	2 to 20 years

Land is not amortized.

The Group presents the cost of land rights as a part of property, plant & equipment, consistently with practices in the industry and with relevant guidance in that respect. In addition, The Group closely monitors the situation of each land title in terms of renewal and only depreciates its land rights if there is an indication that the land title might not be renewed.

Impairment of assets

Property, plant and equipment, 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

Classification and measurement of financial instruments
Financial assets and financial liabilities are recognised when a Group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The financial assets include the investments in equity instruments designated at fair value through other comprehensive income, loans to related parties, receivables including trade receivables and other receivables, derivative financial instruments, financial assets at fair value through profit or loss, cash and cash equivalents. The acquisitions and sales of financial assets are recognised at the transaction date.

Financial assets – debt instruments
All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets. Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments include:

- Receivables that are measured at amortised cost
- Trade receivables measured at amortised cost
- Cash and cash equivalents

Financial assets – investments in equity instruments
On initial recognition, the Group made an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investments revaluation reserve. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, instead, they will be transferred to retained earnings.
Because of the lack of sufficient recent information available to measure fair value, management has assessed that cost is an appropriate estimate of fair value for those unquoted equity investments.

Amortised cost and effective interest method
The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial instruments other than purchased or originated credit-impaired financial assets, the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. On the other hand, the gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

1. Derivatives
The Group uses financial derivative instruments primarily to manage its exposure to interest rate and foreign currency risks arising from operational, financing and investment activities. The Group applies hedge accounting under IFRS 9 – "Financial Instruments".

Derivative instruments are initially valued at cost. Subsequently, these instruments are recorded in the balance sheet at their fair value; the changes in fair value are reported in the income statement unless these instruments are part of hedging transactions, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as hedging instruments in respect interest rate risk in cash flow hedges. Derivatives related to the foreign currency risk are not documented in a hedging relationship.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all the following hedge effectiveness requirements:

- There is an economic relationship between the hedged item and the hedging instrument;
- The effect of credit risk does not dominate the value changes that result from that economic relationship; and
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i. e. rebalances the hedge) so that it meets the qualifying criteria again.

The value fluctuations of a derivative financial instrument that complies with the strict conditions for recognition as a cash flow hedge are recorded in other comprehensive income for the effective part. The ineffective part is recorded directly in the profit and loss account. The hedging results are recorded out of other comprehensive income into the profit and loss account at the moment the hedged transaction influences the result.

A derivative with a positive fair value is recorded as a financial asset, while a derivative with a negative fair value is recorded as a financial liability. A derivate is presented as current or non-current depending on the expected expiration date of the financial instrument.

2. Impairment of financial assets
In relation to the impairment of financial assets an expected credit loss model is applied. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. Specifically, the following assets are included in the scope for impairment assessment for the Group: 1) trade receivables; 2) non-current receivables and loans to related parties; 3) cash and cash equivalents.

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group has applied the simplified approach and records lifetime expected losses on all trade receivables. The application of the expected credit loss did not have a significant impact on equity. The Group also assessed whether the historic pattern would change materially in the future and expects no significant impact.

IFRS 9 requires the Group to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition. On the other hand, if the credit risk on a financial instrument has not increased significantly since initial recognition, the Group is required to measure the loss allowance for that financial instrument at an amount equal to 12month expected credit losses. For long term receivables IFRS 9 provides a choice to measure expected credit losses applying lifetime or 12month expected credit losses model. The Group selected 12month ECL. All bank balances are assessed for expected credit losses as well.

3. Derecognition of financial assets
The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between a) the asset's carrying amount and b) the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss.

4. Financial liabilities

All financial liabilities of the Group are subsequently measured at amortised cost using the effective interest method.
The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

5. Receivables and payables

Amounts receivable and payable are measured at amortised cost price. Amounts receivable and payable are measured at their nominal value, 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.

6. Cash and cash equivalents

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

7. Interest-bearing borrowings

Interest-bearing borrowings are measured at amortised cost price. Borrowings are initially recognized as proceeds received, net of transaction costs. Any difference between cost and redemption value is recognized in the income statement using the effective interest method.

Inventories

Inventories are valued at the lower of cost or net realizable value.

The stock finished products including biological assets are valued by adding production cost to the fair value of the biological asset concerned.

Inventories are written down on a case-by-case basis if the estimated net realizable value declines below the carrying amount of the inventories. Net realizable value is the estimated selling price less the estimated costs necessary to make the sale. When the reason for a write-down of the inventories has ceased to exist, the write-down is reversed.

Shareholders' equity

Dividends of the parent company payable on ordinary shares are only recognized as a liability in the period in which they are declared.

Costs incurred with respect to the issuance of equity instruments are recorded as a deduction in equity.

Non-controlling interest

Non-controlling interests include a proportion of the fair value of identifiable assets and liabilities recognized upon acquisition of a subsidiary, together with the appropriate proportion of subsequent profits and losses.
In the income statement the minority share in the company's profit or loss is separated from the consolidated result of the Group.

Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation and when a reliable estimate of the amount can be made.

Pensions and other post-employment benefits

Group companies have various pension schemes in accordance with the local conditions and practices in the countries they operate in.

1. Defined benefit plans

The defined benefit plans are generally un-funded but fully provisioned for using the 'projected unit credit'- method. This provision represents the present value of the defined benefit obligation. The actuarial gains and losses are recognized in the Other Comprehensive Income.

2. Defined contribution plans

The Group pays contributions to publicly or privately administered insurance plans. Since the Group is obliged to make additional payments if the average return on the employer's contribution and on the employees' contributions is not attained, those plans should be treated as "defined benefit plans" in accordance with IAS 19.

Revenue recognition

IFRS 15 was published in May 2014 and replaces IAS 18 *Revenue* and IAS 11 *Construction Contracts*. This standard introduces a new model consisting of five steps for the recognition of revenue from contracts with customers, except for revenue from leases, financial instruments and insurance contracts. The core principle of this standard is that an entity recognizes revenue to the extent it represents the transfer of promised goods or services to customers for a consideration that is the reflection of the remuneration to which the entity expects to be entitled in exchange for those goods or services. The timing of the revenue recognition can take place over time or at a point in time, depending on the transfer of ownership.

The standard also introduces new guidance on costs of fulfilling and obtaining a contract, specifying the circumstances in which such costs should be capitalized or expensed when incurred. Furthermore, the new disclosures included in IFRS 15 are more detailed than those applicable under IAS 18.

The SIPEF group's core activity is the sale of goods. SIPEF group recognises revenue at the moment the control over the asset is transferred to the customer. The goods sold are transported by ship and recognized as revenue as soon as the goods are loaded onto the ship. Revenue recognition occurs at the moment when the goods are loaded onto the ship. Revenue is recorded at this point in time for all contracts within the SIPEF group. The payment terms depend on the delivery terms of the contract and can vary between prepayment, cash against documents and 45 days after handover of the bill of lading. Deliveries are at a fixed price. For each contract there is only one performance obligation which needs to be fulfilled: the delivery of the goods.

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

The Group has adopted the new standard on the required effective date. We can conclude that the IFRS 15 does not have an impact on the financial statements of the SIPEF group. The Group will continue to sell its products at defined incoterms.

Cost of sales

Cost of sales includes all costs associated with harvest, transformation and transport. Purchases are recognized net of cash discounts and other supplier discounts and allowances.

General and administrative expenses

General and administrative expenses include expenses of the marketing and financial department and general management expenses.

Income taxes

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly to equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax liabilities and assets are recognized for temporary differences between the carrying amount in the balance sheet and the tax bases of assets and liabilities and are subsequently adjusted to reflect changes in tax rates expected to be in effect when the temporary differences reverse. Deferred tax assets are included in the consolidated accounts only to the extent that their realization is probable in the foreseeable future.

4. USE OF ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the consolidated financial statements in conformity with IFRS requires the Group to use accounting estimates and judgements and make assumptions that may affect the reported amounts of assets and liabilities at the date of the balance sheets and reported amounts of revenue and expense during the reporting periods. Actual results could differ from those estimates.

The main areas in which judgements are used are:

- Judging over the control of an entity
- Judging that growing biological produce of rubber cannot be reliably measured at fair value
- Judgement of the functional currency of an entity
- Judgement of the inclusion of deferred tax assets
- Judging that land rights will not be amortized unless there is an indication that the land title might not be renewed.

The main areas in which estimates are used are:

- Post-employment benefits (note 19)
- Deferred tax assets (note 25)
- Provisions (note 18)
- Impairment of assets (see note 8)

5. GROUP COMPANIES / CONSOLIDATION SCOPE

The ultimate parent of the Group, SIPEF, Schoten/Belgium, is the parent company of the following significant subsidiaries:

	Location	% of control	% of interest
Consolidated companies (full			
PT Tolan Tiga Indonesia	Medan / Indonesia	95.00	95.00
PT Eastern Sumatra Indonesia	Medan / Indonesia	95.00	90.25
PT Kerasaan Indonesia	Medan / Indonesia	57.00	54.15
PT Bandar Sumatra Indonesia	Medan / Indonesia	95.00	90.25
PT Melania Indonesia	Jakarta / Indonesia	95.00	90.25
PT Mukomuko Agro Sejahtera	Medan / Indonesia	95.00	85.74
PT Umbul Mas Wisesa	Medan / Indonesia	95.00	94.90
PT Citra Sawit Mandiri	Medan / Indonesia	95.00	94.90
PT Toton Usaha Mandiri	Medan / Indonesia	95.00	94.90
PT Agro Rawas Ulu	Medan / Indonesia	95.00	95.00
PT Agro Kati Lama	Medan / Indonesia	95.00	95.00
PT Agro Muara Rupit	Medan / Indonesia	95.00	94.90
Hargy Oil Palms Ltd	Bialla / Papua N.G.	100.00	100.00
Plantations J. Eglin SA	Azaguié / Ivory Coast	100.00	100.00
Jabelmalux SA	Luxembourg / G.D.	99.89	99.89
PT Agro Muko	Jakarta / Indonesia	95.00	90.25
PT Dendymarker Indah Lestari	Medan / Indonesia	95.00	90.25
Associates and joint ventures (equity method)			
Verdant Bioscience Pte Ltd	Singapore / Republic	38.00	38.00
PT Timbang Deli Indonesia	Medan / Indonesia	38.00	36.10
BDM NV	Antwerp / Belgium	0.00	0.00
ASCO NV	Antwerp / Belgium	0.00	0.00
Companies not included			
Horikiki Development Cy Ltd	Honiara / Solomon	90.80	90.80

In spite 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).

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 subsidiaries have however a different functional currency:

Plantations J. Eglin SA	EUR
*BDM NV**	EUR
*ASCO NV**	EUR

**BDM-ASCO was sold in June 2018*

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		
	2018	2017	2016	2018	2017	2016
EUR	0.8738	0.8348	0.9505	0.8487	0.8792	0.9059

7. OPERATIONAL RESULT AND SEGMENT INFORMATION

SIPEF's activities can be classified into segments based on the type of product. SIPEF has the following segments:

- Palm: Includes all palm products, including palm kernels and palm kernel oil, both in Indonesia and Papua New Guinea.
- Rubber: Includes all different types of rubber produced and sold by the SIPEF group, both in Indonesia and Papua New Guinea:
  - Ribbed Smoked Sheets (RSS)
  - Standard Indonesia Rubber (SIR)
  - Scraps and Lumps
- Tea: Includes the “cut, tear, curl” (CTC) tea produced by SIPEF in Indonesia.
- Bananas and flowers: Includes all sales of bananas and flowers originating from Ivory Coast.
- 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 intercompany eliminations.
- Instead of revenue the gross margin per segment is used as the starting point.

In KUSD	2018	2017
Gross margin per product		
Palm	62 731	108 941
Rubber	-1 277	2 879
Tea	584	1 043
Bananas and flowers	2 669	3 653
Other	11 253	5 692
Total gross margin	**75 960**	**122 208**
Selling, general and administrative expenses	-39 696	-34 581
Other operating income/(charges)	2 417	1 133
Financial income/(charges)	-3 182	-3 102
Discounting Sipef-CI	2 031	1 636
Exchange differences	-1 670	1 258
Profit before tax	**35 860**	**88 552**
Tax expense	-13 147	-23 865
Effective tax rate	-36.7%	-27.0%
Insurances	0	1 723
Profit after tax	**22 713**	**66 409**
Correction PT AM @ 44.9273% in Jan-Feb	0	-1 928
Correction PT AM fair value of assets	0	75 182
Gain on sale BDM-ASCO	7 376	0
Profit for the period	**30 089**	**139 663**

Below we present the segment information per product and per geographical region in accordance with the IFRS profit and loss accounts. The segment result is revenue minus expense that is directly attributable to the segment and the relevant portion of income and expense that can be allocated on a reasonable basis to the segment.

Gross profit by product

Total turnover fell to USD 275 million (-14.4%). Palm oil turnover fell by 13.7%. The increased volumes were sold at a substantially lower price (last year the average price for palm oil on the world market being USD 117 per ton CIF Rotterdam lower than in the previous year). There are no contract balances per year-end.
Rubber turnover fell by 27.0%, due to a combination of lower production and the lower price for natural rubber on the world market.
As for tea activity, turnover fell by 27.3%. However, turnover last year was driven up strongly by a big sale of stock. This fall, therefore, had no impact on the gross margin of the tea activities.
Turnover followed the lower volumes in the banana and flower activities.

The average ex works unit cost price for the mature palm plantations was virtually unchanged compared with 2017. That is because the general rise in costs, e.g. fuel, fertilizer and local wages, was largely offset by higher production and the devaluation of the rupiah in Indonesia (6.5%) and the kina in Papua New Guinea (3.3%).

2018 - KUSD	Revenue	Cost of sales	Changes in the fair value	Gross profit	% of total
Palm	240 057	-169 088	-2 169	68 800	95.4
Rubber	11 699	-12 764	0	-1 065	-1.5
Tea	5 454	-4 862	35	627	0.9
Bananas and plants	17 119	-14 326	0	2 793	3.9
Corporate	941	0	0	941	1.3
Others	0	0	0	0	0.0
Total	**275 270**	**-201 040**	**-2 134**	**72 096**	**100.0**

2017 - KUSD	Revenue	Cost of sales	Changes in the fair value	Gross profit	% of total
Palm	278 272	-166 774	- 735	110 763	91.9
Rubber	16 032	-12 708	0	3 324	2.8
Tea	7 507	-6 391	0	1 116	0.9
Bananas and plants	18 386	-14 559	0	3 827	3.2
Corporate	1 444	0	0	1 444	1.2
Others	0	0	0	0	0.0
Total	**321 641**	**-200 432**	**- 735**	**120 474**	**100.0**

The adjustment in fair value is due to the impact on the measurement of the hanging fruit at their fair value (IAS 41R). Gross profit fell from KUSD 120 474 in December 2017 to KUSD 72 096 (-40.2%) in December 2018. The gross profit in the palm segment fell by 37.9% compared with 2017, due to the lower palm oil prices. The contribution of the rubber activities to the gross margin was negative, due to the low sales prices (-KUSD 1 065). While the gross margin for tea in June was virtually identical to the previous year, by the end of the year it had decreased greatly due to the lower sale price in the second half of the year. The gross margin for bananas and flower activities fell substantially due to the lower production volumes.

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

2018 - KUSD	Revenue	Cost of sales	Other income	Changes in the fair value	Gross profit	% of total
Indonesia	163 653	-118 738	381	-1 477	43 819	60.8
Papua New Guinea	93 232	-67 976	0	- 657	24 599	34.1
Ivory Coast	17 120	-14 326	0	0	2 794	3.9
Europe	884	0	0	0	884	1.2
Others	0	0	0	0	0	0.0
Total	**274 889**	**-201 040**	**381**	**-2 134**	**72 096**	**100.0**

2017 - KUSD	Revenue	Cost of sales	Other income	Changes in the fair value	Gross profit	% of total
Indonesia	186 626	-112 440	522	- 261	74 447	61.8
Papua New Guinea	115 184	-73 433	0	- 474	41 277	34.2
Ivory Coast	18 386	-14 559	0	0	3 827	3.2
Europe	923	0	0	0	923	0.8
Others	0	0	0	0	0	0.0
Total	**321 119**	**-200 432**	**522**	**- 735**	**120 474**	**100.0**

Total cost of sales can be split up in the following categories:

1. Estate charges - includes all charges relating to the field work to produce the base agricultural products (i.e. fresh fruit bunches, latex, tea leaves, bananas, horticulture);
2. Processing charges - includes all charges relating to the processing of the base agricultural products to the finished agricultural commodities (i.e. palm oil, rubber, tea, ...);
3. FFB/CPO/Latex purchases - includes all purchases from third parties (smallholders) or associates and joint ventures. In 2017, this included 2 months of purchases from PT Agro Muko;
4. Stock movement - includes the variance in stock and changes in fair value;
5. Sales charges - includes all direct costs attributable to the sales of the year (i.e. Transport charges, palm oil export tax, ...);
6. General and administrative expenses – includes all general and administrative charges (i.e. rent, maintenance, etc.).

In KUSD	2018	2017
Estate charges	129 769	113 061
Processing charges	32 263	29 703
FFB/CPO/latex purchases	23 105	39 873
Stock movement	-3 235	1 496
Sales charges	19 138	16 299
Cost of sales (including changes in fair value)	**201 040**	**200 432**
General and administrative expenses	31 759	31 175
Total cost of sales and general and administrative expenses	**232 799**	**231 607**

The increase in estate charges is primarily caused by:
- a general increase in costs due to inflation;
- the full year inclusion of PT Dendymarker and PT Agro Muko, which were only included for 5 months and 10 months respectively in 2017;
- the additional mature hectares in the Musi Rawas region, whereby estate and general field charges are now increasing annually;
- additional costs that have occurred in PT Dendymarker in order to enhance the productivity of the already existing areas.

The increase in processing charges is linked to the increase in palm oil production, as well a general increase in prices due to inflation.

The decrease in FFB / CPO / Latex purchases is primarily (MUSD 12.1) due to purchases in January and February 2017, when PT Agro Muko was still accounted for as an equity method company. The remaining difference is primarily due to the decrease in FFB purchase prices from our smallholders, following the decrease in palm oil price.

The increase in sales charges is due to an increase in export charges, primarily in PT UMW (approximately 1.8 MUSD), who's production was sold less locally and more exported to Europe.

The average ex-works unit cost price for the palm segment (92% of the total gross margin) increased by around 3.8% compared with 2017. Total depreciation in the estate and processing charges amounts to KUSD 35 108. A total of KUSD 3 290 of depreciation charges is recorded in the "General and administrative" expenses and 347 KUSD in "other operating income/charges"

The general and administrative expenses remained virtually stable (+1.9%). On the one hand, there were higher costs for the further development of a regional office in the Musi Rawas region and additional information technology (IT) and travel costs. On the other hand, the USD equivalent of the euro costs of the head office in Belgium fell and there was a lower bonus provision, due to the much lower result in 2018 compared with 2017.

Revenue by location of the debtors

In KUSD	2018	2017
The Netherlands	118 640	93 312
Switzerland	87 602	71 047
Indonesia	29 641	57 365
Ireland	8 442	10 744
Singapore	7 073	8 003
France	6 114	4 086
Belgium	5 806	5 932
United States	3 024	3 395
Senegal	2 321	1 947
Pakistan	1 675	3 496
Afghanistan	1 442	1 577
Germany	1 161	1 237
United Kingdom	1 067	57 856
Spain	612	784
Ivory Coast	493	557
Others	156	303
Papua New Guinea	0	0
Total	**275 270**	**321 641**

Segment information – geographical

	2018					
In KUSD	**Indonesia**	**PNG**	**Ivory Coast**	**Europe**	**Others**	**Total**
Intangible assets	0	0	0	441	0	441
Goodwill	104 782	0	0	0	0	104 782
Biological assets	195 561	87 871	280	0	0	283 712
Other property, plant & equipment	241 860	109 894	4 440	530	0	356 724
Investment property	0	0	0	0	0	0
Investments in associates and joint ventures	1 043	0	0	0	6 196	7 239
Other financial assets	46	0	16	15	0	77
Receivables > 1 year	7 212	0	0	3 900	0	11 112
Deferred tax assets	13 537	0	387	2 300	0	16 224
Total non-current assets	**564 040**	**197 765**	**5 123**	**7 186**	**6 196**	**780 310**
% of total	72.28%	25.34%	0.66%	0.92%	0.79%	100.00%

	2017					
In KUSD	**Indonesia**	**PNG**	**Ivory Coast**	**Europe**	**Others**	**Total**
Intangible assets	0	0	82	224	0	306
Goodwill	103 008	0	0	0	0	103 008
Biological assets	181 196	86 591	299	0	0	268 086
Other property, plant & equipment	228 090	112 843	4 746	586	0	346 265
Investment property	0	0	0	0	0	0
Investments in associates and joint ventures	1 522	0	0	0	6 594	8 116
Other financial assets	46	0	17	15	0	78
Receivables > 1 year	0	0	0	6 643	0	6 643
Deferred tax assets	12 193	0	309	2 525	0	15 027
Total non-current assets	**526 055**	**199 434**	**5 453**	**9 993**	**6 594**	**747 529**
% of total	70.37%	26.68%	0.73%	1.34%	0.88%	100.00%

8. GOODWILL AND OTHER INTANGIBLE ASSETS

	2018		2017	
In KUSD	Goodwill	Intangible assets	Goodwill	Intangible assets
Gross carrying amount at January 1	**103 008**	**843**	**1 348**	**595**
Acquisitions	0	262	101 660	241
Sales and disposals	0	0	0	0
Transfers	0	- 187	0	0
Final PPA PT Dendymarker	1 774	0	0	- 12
Translation differences	0	0	0	19
Gross carrying amount at December 31	**104 782**	**918**	**103 008**	**843**
Accumulated amortization and impairment losses at January 1	**0**	**- 537**	**0**	**- 459**
Depreciations	0	- 45	0	- 38
Sales and disposals	0	0	0	0
Transfers	0	105	0	- 30
Remeasurement	0	0	0	- 10
Accumulated amortization and impairment losses at December 31	**0**	**- 477**	**0**	**- 537**
Net carrying amount January 1	**103 008**	**306**	**1 348**	**136**
Net carrying amount December 31	**104 782**	**441**	**103 008**	**306**

Goodwill impairment analysis

Goodwill is the positive difference between the acquisition price of a subsidiary, associated company or joint venture and the share of the Group in the fair value of the identifiable assets and liabilities of the acquired entity on the acquisition date. Under standard IFRS 3 – Business Combinations, goodwill is not amortized, but rather tested for impairment.

Goodwill and intangible fixed assets are tested annually by management to see whether they have been exposed to impairment in accordance with the accounting policies in note 2 (regardless of whether there are indications of impairment).

To be able to assess the necessity of an impairment, the goodwill is allocated to a cash-generating unit (CGU). A cash-generating unit is the smallest identifiable group that generates cash that is to a large degree independent of the inflow of cash from other assets or groups of assets. This cash-generating unit is analysed on each balance sheet date to determine whether the carrying value of the goodwill can be fully recovered. If the realizable value of the cash-generating unit is lower in the long term than the carrying value, an impairment is recognized on the income statement in the amount of this difference.

In the SIPEF model, the cash-generating unit is compared with the total underlying asset related to the palm oil segment as of 31 December 2018. This consists of the following items:

Assets (in KUSD)*	2018
Biological assets – bearer plants	268 169
Other fixed assets	347 172
Goodwill	104 782
Current assets – current liabilities	31 463
Total	**751 586**

** Assets include only the entities with palm oil activities*

The SIPEF group has defined the “cash-generating unit” as the operational palm oil segment. It consists of all cash flows from the palm oil activities of all plantations in Indonesia and Papua New Guinea. The cash flows from the sale of rubber, tea and bananas are not included here, as the goodwill has been allocated exclusively to the palm oil segment. This concerns the following entities:

Entities
SIPEF NV
PT Tolan Tiga
PT Eastern Sumatra
PT Kerasaan
PT Mukomuko Agro Sejahtera
PT Umbul Mas Wisesa
PT Citra Sawit Mandiri
PT Toton Usaha Mandiri
PT Agro Rawas Ulu
PT Agro Muara Rupit
PT Agro Kati Lama
PT Agro Muko*
Hargy Oil Palms LTD
PT Dendymarker Indah Lestari

** For PT AM a division is made between the cash flows from palm oil and the cash flows from rubber.*

The recoverable value of the cash-generating units to which goodwill is allocated was determined by means of a calculation using a discounted cash flow model (DCF model). The starting point is the operational plans of the Group, which look a decade ahead (to 2028) and have been approved by the Board of Directors. In this model, the macro-economic parameters, such as palm oil price and inflation, are deemed constant for each year. The constant palm oil price used in the model (USD 691/ton) is management's best estimate of the long-term palm oil price expressed as CIF Rotterdam.

In the model, the growth of sales is the same as the normal improvement of the production volumes due to the maturity of the palm trees of the various subsidiaries. Any improvement in the future EBITDA margins in the model is a normal consequence of the same improvement in production volumes.

The current model was established with a weighted average cost of capital (after tax) of 11.25% and an average tax rate of 25%-30%. The terminal value in the discounted cash flow model is based on perpetual growth of 2% in accordance with the Gordon growth model. In the model we use a sensitivity analysis for various palm oil prices and various weighted average costs of capital (WACC):

Palm oil price (CIF Rotterdam)	
Scenario 1	USD 641/ton CIF Rotterdam
Scenario 2 (base case)	USD 691/ton CIF Rotterdam
Scenario 3	USD 741/ton CIF Rotterdam

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

For the sensitivity analysis, the price was increased and decreased by USD 50/ton. The WACC was increased and decreased with one percent. A sensitivity matrix is shown below for the total discounted cash flow for various palm oil prices and various weighted average costs of capital (WACC).

Sensitivity matrix

WACC/PO price (in KUSD)	10.25%	11.25%	12.25%
USD 641/ton CIF Rotterdam	712 845	618 620	543 462
USD 691/ton CIF Rotterdam	959 390	838 545	741 984
USD 741/ton CIF Rotterdam	1 206 056	1 058 591	940 626
Value of underlying assets*	751 586	751 586	751 586

** Concerns the underlying asset related to the palm oil segment*

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

Headroom (in KUSD)	10.25%	11.25%	12.25%
USD 641/ton CIF Rotterdam	-38 741	-132 966	-208 124
USD 691/ton CIF Rotterdam	207 804	86 959	-9 602
USD 741/ton CIF Rotterdam	454 470	307 005	189 040

Green = base scenario

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

Breakeven price	10.25%	11.25%	12.25%
USD/ton	649 $/ton	671 $/ton	693 $/ton

Management is of the opinion that the assumptions used in the calculation of the value in use as described above give the best estimates of future development. The sensitivity analysis shows that goodwill is in most of the cases fully recoverable. As a result, management is of the opinion that there is no indication of any impairment. Future sales prices continue to be difficult to predict over a long period of time, and will be continuously monitored in the future.

Goodwill is currently allocated as follows:

Changes to goodwill (in KUSD)	2018
Goodwill opening balance	**103 008**
Final allocation goodwill PT Dendymarker	1 774
Goodwill closing balance	**104 782**

9. BIOLOGICAL ASSETS – BEARER PLANTS

Movement schedule biological assets - bearer plants

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

In KUSD	2018	2017
Gross carrying amount at January 1	**362 042**	**226 858**
Change in consolidation scope	0	111 928
Acquisitions	27 496	22 281
Sales and disposals	- 2 944	- 2 251
Transfers	3 229	2 699
Other	- 13 431	0
Translation differences	- 61	528
Gross carrying amount at December 31	**376 331**	**362 042**
Accumulated depreciation and impairment losses at January 1	**- 93 956**	**- 48 512**
Change in consolidation scope	0	- 35 872
Depreciation	- 12 877	- 11 623
Sales and disposals	3 054	2 750
Transfers	79	- 495
Other	11 033	0
Translation differences	48	- 204
Accumulated depreciation and impairment losses at December 31	**- 92 619**	**- 93 956**
Net carrying amount January 1	**268 086**	**178 346**
Net carrying amount December 31	**283 712**	**268 086**

The movement in “other” concerns a correction on the assets of PT Dendymarker due to the finalization of the purchase price allocation.

10. OTHER PROPERTY, PLANT AND EQUIPMENT

In KUSD	2018 Land, buildings and infrastructure	Installations and machinery	Vehicles	Office equipment , furniture and others	In progress	Landrights	Total	2017 Total
Gross carrying amount at January 1	**163 485**	**190 467**	**64 541**	**19 838**	**10 875**	**114 848**	**564 053**	**380 816**
Change in consolidation scope	0	0	0	0	0	0	0	155 955
Acquisitions	8 485	6 825	6 553	2 833	8 145	8 831	41 672	37 150
Sales and disposals	- 402	- 1 015	- 2 872	- 210	- 1 726	0	- 6 225	- 6 413
Transfers	- 869	- 7 222	- 2 278	9 110	- 2 176	187	- 3 248	- 5 400
Other	- 2 223	2 635	198	- 101	8 525	- 8 826	208	0
Translation differences	- 460	- 150	- 90	- 21	- 26	- 10	- 757	1 945
Gross carrying amount at December 31	**168 016**	**191 540**	**66 052**	**31 449**	**23 617**	**115 030**	**595 703**	**564 053**
Accumulated depreciation and impairment losses at January 1	**- 59 414**	**- 97 640**	**- 47 286**	**- 10 797**	**0**	**- 2 651**	**- 217 788**	**- 144 174**
Change in consolidation scope	0	0	0	0	0	0	0	- 54 481
Depreciation	- 6 893	- 10 377	- 5 590	- 2 916	0	- 55	- 25 831	- 23 648
Sales and disposals	181	961	2 853	201	0	0	4 196	5 096
Transfers	22	2 399	- 15	- 2 278	0	- 104	24	809
Other	- 282	195	- 80	110	0	- 60	- 117	0
Translation differences	316	116	67	33	0	5	537	- 1 390
Accumulated depreciation and impairment losses at December 31	**- 66 070**	**- 104 346**	**- 50 051**	**- 15 647**	**0**	**- 2 865**	**- 238 979**	**- 217 788**
Net carrying amount January 1	**104 071**	**92 827**	**17 255**	**9 041**	**10 875**	**112 197**	**346 266**	**236 643**
Net carrying amount December 31	**101 946**	**87 194**	**16 001**	**15 802**	**23 617**	**112 165**	**356 724**	**346 265**

The acquisitions included, in addition to the standard replacement capital expenditure, investments for the improvement of the logistics and infrastructure of the plantations and the palm oil extraction mills.

Below is a table with the proprietary rights on which the plantations of the SIPEF group are established:

	Hectares	Type	Maturity	Crop
PT Tolan Tiga Indonesia	6 042	Concession	2023	Oil palm
PT Tolan Tiga Indonesia	2 437	Concession	2024	Oil palm
PT Eastern Sumatra Indonesia	3 178	Concession	2023	Oil palm
PT Kerasaan Indonesia	2 362	Concession	2023	Oil palm
PT Bandar Sumatra Indonesia	1 412	Concession	2024	Rubber
PT Timbang Deli Indonesia	972	Concession	2023	Rubber and Oil palm
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	Oil palm
PT Agro Muko	2 500	Concession	2020	Oil palm
PT Agro Muko	315	Concession	2031	Oil palm
PT Agro Muko	1 410	Concession	2028	Oil palm
PT Agro Muko	2 903	Concession	2022	Oil palm
PT Agro Muko	7 730	Concession	2019	Oil palm
PT Agro Muko	2 185	Concession	2022	Oil palm
PT Agro Muko	1 515	Concession	2022	Rubber
PT Agro Muko	2 100	Concession	2022	Oil palm
PT Umbul Mas Wisesa	4 397	Concession	2048	Oil palm
PT Umbul Mas Wisesa	2 071	Concession	2048	Oil palm
PT Umbul Mas Wisesa	679	Concession	2049	Oil palm
PT Umbul Mas Wisesa	462	Concession	2049	Oil palm
PT Umbul Mas Wisesa	155	Concession	2049	Oil palm
PT Dendymarker Indah Lestari	13 705	Concession	2028	Oil palm
PT Mukomuko Agro Sejahtera	1 705	Concession	2053	Oil palm
Hargy Oil Palms Ltd	2 967	Concession	2076	Oil palm
Hargy Oil Palms Ltd	128	Concession	2075	Oil palm
Hargy Oil Palms Ltd	322	Concession	2106	Oil palm
Hargy Oil Palms Ltd	279	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
Hargy Oil Palms Ltd	2 633	Concession	2117	Oil palm
Hargy Oil Palms Ltd	1 133	Concession	2107	Oil palm
Plantations J. Eglin SA	1 485	Freehold	n/a	Bananas and pineapple flowers
Plantations J. Eglin SA	322	Provisional concession	n/a	Bananas and pineapple flowers
Total	**87 678**			
PT Citra Sawit Mandiri	1 814	In negotiation	-	Oil palm
PT Agro Rawas Ulu	5 712	In negotiation	-	Oil palm
PT Agro Kati Lama	6 590	In negotiation	-	Oil palm
PT Agro Kati Lama	3 091	In negotiation	-	Oil palm
PT Agro Muara Rupit	4 811	In negotiation	-	Oil palm
PT Agro Muara Rupit	7 494	In negotiation	-	Oil palm
PT Agro Muara Rupit	1 303	In negotiation	-	Oil palm
PT Agro Muara Rupit	4 201	In negotiation	-	Oil palm
PT Mukomuko Agro Sejahtera	1 077	In negotiation	-	Oil palm
Total	**36 093**			

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

11. RECEIVABLES > 1 YEAR

In KUSD	2018	2017
Receivables > 1 year	**11 112**	6 643

The receivables > 1 year as per 31 December 2018 mainly consist out of two different long term receivables which have been discounted and the plasma receivables.

In KUSD	2018	2017
Sale of Sipef-CI SA	3 272	4 571
Sale of Galley Reach Holdings Ltd	594	2 072
Plasma receivable	7 211	0
Other	35	0
Total	**11 112**	**6 643**

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

The total sales price of Sipef-CI SA amounts to KEUR 11 500 of which KEUR 10 925 remains to be received at the end of the year. Converted at the closing rate of the year this amounts to KUSD 12 503. The total sales price of Galley Reach Holdings Ltd amounts to KUSD 6 600, of which KEUR 2 100 remains to be received at the end of the year.

The plasma receivables were recorded as a current receivable in 2017. However, we have reclassified this in 2018 to a long-term receivable as we expect the repayment of this receivable to be more than one year. This receivable will be gradually repaid from the moment the plasma holders become a going concern plantation whereby proceeds of the FFB sales will be partly used to repay the loan.
The Group has calculated the expected credit loss in accordance with IFRS 9 and determined it to be immaterial.
Below we present an overview of the remaining contractually determined cash flows related to these receivables:

In KUSD	2019 - short term	2020	2021	> 2021	Total
Sale of Sipef-CI SA	6 251	3 126	3 126	0	12 503
Sale of Galley Reach Holdings Ltd	1 500	600	0	0	2 100
Plasma receivable	0	0	0	7 211	7 211
Total	**7 751**	**3 726**	**3 126**	**7 211**	**21 814**

12. INVENTORIES

Analysis of inventories:

In KUSD	2018	2017
Raw materials and supplies	20 132	15 626
Finished goods	16 142	13 253
Total	**36 274**	**28 879**

The increase in finished goods is caused by a large increase in CPO/PK stock per year-end.

The remaining stock of raw materials and supplies has increased with KUSD 4 506 in comparison to prior year. This is mainly due to timing differences in purchases.

13. BIOLOGICAL ASSETS

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

In KUSD	2018	2017
Biological assets	4 870	7 018

The growing agricultural produce of palm oil is defined as the oil contained in the palm fruit. When the palm fruit contains oil, then this distinct asset is recognized and the fair value is estimated based on:

- The estimated quantity of oil that is available in the palm fruit;
- The estimated sales price of palm oil at the time of closing;
- The estimated cost to harvest and process the palm fruit;
- The estimated sales charges (transport, export tax, …).

Different scientific studies have shown that the oil in the palm oil fruit develops exponentially in approximately 4 weeks. The estimated quantity of oil in the palm oil fruit is therefore determined based on the harvest of the 4 weeks after the time of closing. In the calculation of the estimated quantity of available oil, the weighted importance of the harvest decreases step-by-step per week, in order to approximate the quantity of oil at the time of closing as well as possible. The fair value of the biological assets calculated at the closing value on the 31st of December 2018 is based on level 2 data input.

Per 31 December 2018 the total biological assets of palm oil amounted to KUSD 2 640 compared to KUSD 4 809 per December 2017.

Impact of the estimated quantity of available oil	-10%	Carrying amount	+10%
Carrying value of the biological assets - palm oil	2 376	2 640	2 904
Gross Impact income statement (before tax)	- 264		264

The estimated sales price and the estimated costs and charges are the actual sales prices and costs at the time of closing. The results from the change of the fair value of the palm fruit are included in “changes in fair value”.

The biological assets at the end of December also contain the growing biological produce of bananas of our subsidiary Plantations J. Eglin SA. The balance of 2018 amounted to KUSD 2 195 and has remained stable compared to last year. In addition, it also contains the growing biological produce of Tea for a total of KUSD 35.

Impact of the estimated quantity of available bananas	-10%	Carrying amount	+10%
Carrying value of the biological assets - bananas	1 976	2 195	2 415
Gross Impact income statement (before tax)	- 220		220

14. OTHER CURRENT RECEIVABLES AND OTHER CURRENT PAYABLES

The ‘other receivables’ have increased from KUSD 36 097 in 2017 to KUSD 41 024 in 2018. The other receivables mainly consist of VAT receivables in the various entities, a current account with Verdant Bioscience PTE Ltd (KUSD 5 244) and the plasma receivables in Hargy Oil Palms Ltd.

This post also contains a receivable of KUSD 5 530 (discounted value) following the sale of Sipef-CI. It concerns a transfer from the long term receivables to the short-term receivables. For further information relating to the long-term receivables we refer to note 12.

The increase in ‘other receivables’ (KUSD 4 927) is explained by an increase in the GST receivable (VAT receivable) in Hargy Oil Palms Ltd. (+ KUSD 2 237) as well as in our Indonesian subsidiaries (+KUSD 1 930), an increase in the short term receivable from the sale of SIPEF-CI (+ KUSD 3 013) and an increase in advances paid (+ KUSD 2 000). The total increase is offset by a reclassification of KUSD 5 374 from short term to long term receivables relating to our Indonesian plasma loans. The remaining increase consist of various smaller items in our different subsidiaries.

The Group has calculated the expected credit loss in accordance with IFRS 9 and determined it to be immaterial.

The ‘other payables’ (KUSD 9 455) mainly concern social obligations (salaries to be paid, provisions for holiday pay and bonus) and have increased slightly in comparison to prior year.

15. SHAREHOLDERS’ EQUITY

Capital stock and share premium

The issued capital of the company as at December 31, 2018 amounts to KUSD 44 734, represented by 10 579 328 fully paid ordinary shares without nominal value.

	2018	2017	Difference
Number of shares	10 579 328	10 579 328	0

In KUSD	2018	2017	Difference
Capital	44 734	44 734	0
Share premium	107 970	107 970	0
Total	**152 704**	**152 704**	**0**

On 24 May 2017 a capital increase of KUSD 97 122 was successfully completed through the issue of 1 627 588 new shares. This brought the total number of outstanding shares to 10 579 328.

	2018	2017	2018	2017
	KUSD	KUSD	KEUR	KEUR
Treasury shares - opening balance	**8 308**	**7 425**	**6 628**	**5 897**
Acquisition treasury shares	1 115	883	986	731
Treasury shares - ending balance	**9 423**	**8 308**	**7 614**	**6 628**

Since the start of the share buy-back program on 22 September 2011, SIPEF has bought back 143 300 shares for a total amount of KEUR 7 614, corresponding to 1.3545% of the total shares outstanding, as cover for a share option plan for the management.

Authorized capital
The extraordinary general meeting of shareholders on June 8, 2016 authorized the board of directors to increase the capital in one or more operations by an amount of KUSD 37 852 over a period of 5 years after the publication of the renewal.

Shareholder structure
The company has received following shareholders declarations:

Acting in concert	Number of shares	Date of notifying	Denominator	%
Ackermans & Van Haaren NV	3 233 236	26/10/2018	10 579 328	30.562%
Cabra NV (Baron Bracht and children)	1 301 032	26/10/2018	10 579 328	12.298%
Total votes acting in concert	**4 534 268**			**42.860%**

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 -271) and the reversal of the historical translation differences due to the sale of BDM-ASCO (KUSD 1 077).

In KUSD	2018	2017
Opening balance at January 1	**-12 492**	**-18 092**
Movement, full consolidation	- 271	750
Movement, equity method	1 077	1 334
Change in consolidation scope (reclassification to income statement after acquisition of control PT AM)	0	3 516
Ending balance at December 31	**-11 686**	**-12 492**

Dividends
On February 12, 2019 a dividend of KEUR 5 819 (EUR 0.55 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, 2018.

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 Luxembourg law;
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

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

16. NON CONTROLLING INTERESTS

According to Indonesian law, no foreign investor is allowed to own more than 95% of the shares of a plantation company. Therefore, all Indonesian subsidiaries have at least a 5% non-controlling interest. The non-controlling interests of our Indonesian subsidiaries mainly consist of one Indonesian pension fund.

The table below presents the non-controlling interests per company, as well as their share of the equity and the profit of the year.

	2018			2017		
In KUSD	**% Non-controlling interests**	**Share of the equity**	**Share of the profit of the year**	**% Non-controlling interests**	**Share of the equity**	**Share of the profit of the year**
PT Tolan Tiga Indonesia	5.00	16 942	610	5.00	16 144	4 719
PT Eastern Sumatra Indonesia	9.75	5 267	338	9.75	5 266	464
PT Kerasaan Indonesia	45.85	4 000	983	45.85	3 479	1 492
PT Bandar Sumatra Indonesia	9.75	1 481	- 49	9.75	1 536	58
PT Melania Indonesia	9.75	3 153	- 85	9.75	3 250	104
PT Mukomuko Agro Sejahtera	14.26	- 275	- 69	14.26	- 208	63
PT Umbul Mas Wisesa	5.10	- 615	26	5.10	- 640	350
PT Citra Sawit Mandiri	5.10	- 211	- 38	5.10	- 171	64
PT Toton Usaha Mandiri	5.10	16	13	5.10	2	61
PT Agro Rawas Ulu	5.00	- 6	- 41	5.00	35	- 22
PT Agro Kati Lama	5.00	- 100	- 102	5.00	2	- 33
PT Agro Muara Rupit	5.10	125	- 38	5.10	165	- 19
PT Agro Muko	9.75	5 453	748	9.75	4 744	1 572
PT Dendymarker Indah Lestari	9.75	- 920	- 420	9.75	- 404	- 178
Jabelmalux SA	0.11	- 60	0	0.11	- 60	0
Total		**34 250**	**1 876**		**33 140**	**8 695**

The non-controlling interest's share of the property, plant and equipment (including biological assets - bearer plants) amounts to KUSD 35 463 in 2018 (2017: KUSD 33 722).

The movements of the year can be summarized as follows:

In KUSD	2018	2017
At the end of the preceding period	33 140	25 063
Profit for the period attributable to non-controlling interests	1 876	8 695
Defined Benefit Plans - IAS19R	- 67	- 13
Distributed dividends	- 606	-1 730
Equity transactions with non-controlling parties	0	424
ANJ acquisition PT Agro Muko	0	59 917
MP Evans acquisition PT Agro Muko	0	-55 275
Transfer PT Agro Muko to PT Tolan Tiga	0	-3 618
Other	- 93	- 323
At the end of the period	**34 250**	**33 140**

The distributed dividends to non-controlling interests consist of:

In KUSD	2018	2017
PT Agro Muko	0	1 300
PT Kerasaan Indonesia	430	430
PT Eastern Sumatra Indonesia	176	0
Total	**606**	**1 730**

There are no limitations to the transfer of funds. The non-controlling interests have no rights to use the assets of the Group or to repay the liabilities of the subsidiaries. The non-controlling interests do not have significant protective rights.

17. PROVISIONS

In KUSD	2018	2017
Provision	1 550	2 898

The provisions are entirely related to a VAT dispute in Indonesia (KUSD 1 550). The decrease in comparison to prior year (KUSD – 1 348) is due to the settlement of certain court cases in favour of SIPEF (1 125 KUSD). It is difficult to make an estimate of the settlement time of the dispute.

18. PENSION LIABILITIES

Defined benefit plans

Pension liabilities mainly represent defined benefit plans in Indonesia. These pension plans, set up in order to pay a lump sum amount at the time of retirement, are not financed with a third party. The total number of employees affected by the pension plan amounts to 8 969. 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 27 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 2017 and 2018:

In KUSD	2017	Pension cost	Payment	Exchange	Translation difference	Change consolidation scope	Other	2018
Indonesia	18 300	4 414	-2 696	-1 149	0	0	12	18 881
Ivory Coast	818	112	- 16	0	- 36	0	- 231	647
Others	40	0	- 14	0	0	0	0	26
Total	**19 158**	**4 526**	**-2 726**	**-1 149**	**- 36**	**0**	**- 219**	**19 554**

Following assumptions are used in the pension calculation of Indonesia:

	2018	2017
Discount rate	8.50%	7.50%
Future salary increase	6.00%	5.00%
Assumed retirement age	55 years or 30 years of seniority	55 years or 30 years of seniority

Pension liabilities in Indonesia have changed as follows:

In KUSD	2018	2017
Opening	18 300	11 329
Change consolidation scope	0	0
Service cost	1 709	1 652
Interest cost	1 664	1 496
Benefits paid	-2 696	-1 605
Actuarial gains and losses	1 041	275
Exchange differences	-1 149	- 108
Change consolidation scope	0	5 261
Other	12	0
Closing	**18 881**	**18 300**

Actuarial gains and losses consist of the following components:

In KUSD	2018	2017
Experience adjustments	1 082	232
Changes in assumptions used	- 41	43
Total actuarial gains and losses	**1 041**	**275**

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 -1 073). The remaining difference (KUSD -32) consists of the actuarial gains and losses of the equity consolidated companies (PT Timbang Deli).

The amounts recognised in the balance sheet are as follows:

In KUSD	2018	2017
Pension liabilities	18 881	18 300

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

In KUSD	2018	2017
Service cost	1 709	1 652
Interest cost	1 664	1 496
Pension cost	**3 373**	**3 148**
Actuarial gains and losses recorded in Other Comprehensive Income	1 041	275
Total pension cost	**4 414**	**3 423**

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

Estimated benefit payments in 2019 are KUSD 623.

Sensitivity of the variation of the discount rate and of the future salary increase

Values as appearing in the balance sheet are sensitive to changes in the actual discount rate compared to the discount rate used. The same applies to changes in the actual future salary increase compared to the future salary increase used in the calculation. For our Indonesian entities, simulations were made to calculate the impact of a 1% increase or decrease of both parameters on the pension provision, resulting in the following effects:

Impact of the change in discount rate:

In KUSD	+1%	Carrying amount	-1%
Pension liability of the Indonesian subsidiaries	17 428	19 047	20 913
Gross impact on the comprehensive income	1 619		-1 866

Impact of the change in future salary increase:

In KUSD	+1%	Carrying amount	-1%
Pension liability of the Indonesian subsidiaries	20 860	19 047	17 458
Gross impact on the comprehensive income	-1 813		1 589

The pension liability in Indonesia consists of KUSD 18 881 from fully consolidated subsidiaries and of KUSD 166 from equity consolidated companies (PT Timbang Deli).

Defined contribution plans

The Group pays contributions to publicly or privately administered insurance plans. Since the Group is obliged to make additional payments if the average return on the employer’s contribution and on the employees’ contributions is not attained, those plans should be treated as “defined benefit plans” in accordance with IAS 19. The liability is based on an analysis of the plans and the limited difference between the legally guaranteed minimum returns and the interest guaranteed by the insurance company, the Group has concluded that the application of the PUC method would have an immaterial impact. A provision has been recognized for the sum of the positive differences per plan participant between the minimum guaranteed reserves (KUSD 1 532) and the accumulated reserves (KUSD 1 513) as of 31 December 2018 for a total amount of KUSD 19. The impact in P&L is a past service cost recognized in personnel expenses. The total accumulated reserves amount to KUSD 3 011 by the end of December 2018 (2017: KUSD 3 024) compared to the total minimum guaranteed reserves of KUSD 2 738 at 31 December 2018 (2017: KUSD 2 774).

Contributions paid regarding the defined contribution plans amount to KUSD 597 (KUSD 576 in 2017). SIPEF NV is not responsible for the minimum guaranteed return on the contributions paid for the members of the executive committee (KUSD 549).

19. NET FINANCIAL ASSETS/(LIABILITIES)

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

In KUSD	2018	2017
Short-term obligations - credit institutions	-111 038	-69 877
Financial liabilities > 1 year (incl. derivatives)	-30 000	-40 000
Current portion of amounts payable after one year	-10 000	-10 000
Investments and deposits	0	0
Cash and cash equivalents	29 595	36 180
Net financial assets/(liabilities)	-121 443	-83 697

Analysis of net financial assets/(liabilities) 2018 per currency:

In KUSD	EUR	USD	Others	Total
Short-term financial obligations	-22 488	-98 550	0	-121 038
Investments and deposits	0	0	0	0
Cash and cash equivalents	954	27 100	1 541	29 595
Financial liabilities > 1 year (incl. derivatives)	0	-30 000	0	-30 000
Total 2018	**-21 534**	**-101 450**	**1 541**	**-121 443**
Total 2017	**-20 807**	**-65 127**	**2 237**	**-83 697**

The short-term financial obligations relate to the commercial papers for a total amount of KUSD 22 488. This financial obligation has been completely hedged at an average rate of 1 EUR = 1.1756 USD.

The financial liabilities include a 50 million USD loan used for the acquisition of PT Agro Muko and PT Dendymarker of which 10 million USD has already been repaid in 2018. It concerns a long-term loan that was taken out with a small number of banking groups with a first-class rating for creditworthiness. It concerns an unsecured loan with a term of 5 years. The interest rate is composed as the USD LIBOR 6M + a margin of 1.35%. The variable LIBOR was hedged at a fixed interest rate of 1.96% through an "Interest Rate Swap". There is one financial requirement to the loan covenant which states that the net financial debt may not exceeds two times the EBITDA of the year. Due to the significant volatility of the palm oil prices on the result and EBITDA of the Group, this covenant is continuously monitored with the banking groups. The Group does not breach borrowing limits or covenants (where applicable) on its borrowing facilities.

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

In KUSD	2018	2017
Net financial position at the beginning of the period	-83 697	-45 061
Increase/(decrease) in long-term borrowings	10 000	-50 000
Increase in short-term financial obligations	-41 161	-150 442
Decrease in short-term financial obligations	0	142 830
Net movement in cash and cash equivalents	-6 585	18 971
Effect of exchange rate fluctuations on cash and cash equivalents	0	5
Net financial assets/(liabilities) at the end of the period	**-121 443**	**-83 697**

20. ASSEST / LIABILITIES HELD FOR SALE

There are no “net assets held for sale” as per December 31, 2018. During 2017, the ‘net assets held for sale’ referred to the net assets of BDM-ASCO.

21. OTHER OPERATING INCOME/(CHARGES)

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

	2018			2017		
In KUSD	**Equity holders of the parent**	**Non-controlling interests**	**Total**	**Equity holders of the parent**	**Non-controlling interests**	**Total**
VAT claim Indonesia	1 112	116	1 228	899	121	1 020
Remeasurement gain acquisition PT Agro Muko	0	0	0	75 182	4 142	79 324
Gain on sale BDM-ASCO	7 376	0	7 376	0	0	0
Other income/(charges)	1 159	- 35	1 124	103	- 160	- 57
Other operating income/(charges)	**9 647**	**81**	**9 728**	**76 184**	**4 103**	**80 287**

The other income/charges mainly consist out of stock adjustments for obsolete stock and warehouse sales.

22. FINANCIAL RESULT

The financial income concerns the interests received on current accounts with non-consolidated companies and on temporary excess cash, as well as the income resulting from the discounting of the receivables > 1 year. The financial charges concern the interests on long term and short-term borrowings as well as bank charges and other financial costs.

In KUSD	2018	2017
Interests received	277	171
Discounting of receivables > 1 year	2 031	1 473
Financial charges	-3 733	-3 212
Exchange result	187	- 400
Financial result derivatives	-1 852	1 648
Financial result	**-3 091**	**- 320**

23. SHARE BASED PAYMENT

Grant date	Number options granted	Number options exercised	Number options expired	Balance	Exercise price	Exercise period
2011	22 000		-6 000	16 000	56.99	1/1/2015 - 23/11/2021
2012	20 000		-6 000	14 000	59.14	1/1/2016 - 21/11/2022
2013	20 000		-4 000	16 000	55.50	1/1/2017 - 20/11/2023
2014	20 000	- 700		19 300	54.71	1/1/2018 - 18/11/2024
2015	20 000			20 000	49.15	1/1/2019 - 28/11/2025
2016	20 000			20 000	53.09	1/1/2020 - 07/12/2026
2017	18 000			18 000	62.87	1/1/2021 - 23/11/2027
2018	20 000			20 000	51.85	1/1/2022 - 20/11/2028
Balance	**160 000**	**- 700**	**-16 000**	**143 300**		

SIPEF's stock option plan, which was approved in November 2011, is intended to provide long term motivation for the members of the executive committee and general directors of the foreign subsidiaries whose activities are essential to the success of the Group. The options give them the right to acquire a corresponding number of SIPEF shares.

The remuneration committee is responsible for monitoring this plan and selecting the beneficiaries. The options are provided free of charge and their exercise period is 10 years.

IFRS 2 has been applied to the stocks. The total value of the outstanding options 2011 - 2018 (valued at the fair value at the moment of granting), amounts to KUSD 1 588 and is calculated on the basis of an adjusted Black & Scholes model of which the main characteristics are as follows:

Grant date	Share price (in EUR)	Dividend yield	Volatility	Interest rate	Estimated expected lifetime	Black & Scholes Value (in EUR)
2011	58.00	2.50%	38.29	3.59%	5.00	18.37
2012	58.50	2.50%	37.55	0.90%	5.00	15.07
2013	57.70	2.50%	29.69	1.36%	5.00	12.72
2014	47.68	2.50%	24.83	0.15%	5.00	5.34
2015	52.77	2.50%	22.29	0.07%	5.00	8.03
2016	60.49	3.00%	19.40	-0.37%	5.00	8.38
2017	62.80	3.00%	18.88	-0.12%	5.00	5.57
2018	48.80	3.00%	18.60	-0.03%	5.00	3.54

In 2018, 20 000 new stock options were granted with an exercise price of EUR 51.85 per share. The fair value when granted was fixed at KUSD 81 and is recorded in the profit and loss accounts over the vesting period of 3 years (2019-2021). The total cost of the stock options included in the income statement is KUSD 157 in 2018 (2017: KUSD 160).

To cover the outstanding option obligation, SIPEF has a total of 143 300 treasury shares in portfolio.

	Number of shares	Average purchase price (in EUR)	Total purchase price (in KEUR)	Total purchase price (in KUSD)
Opening balance 31/12/2017	124 000	53.45	6 628	8 308
Acquisition of treasury shares	20 000	51.30	1 023	1 162
Disposal of treasury shares	- 700	53.45	- 37	- 47
Ending balance 31/12/2018	**143 300**	**53.13**	**7 614**	**9 423**

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.

24. INCOME TAXES

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

In KUSD	2018	2017
Profit before tax	46 973	169 266
Tax at the applicable local rates	-12 738	-43 865
Average applicable tax rate	27.12%	25.91%
Permanent differences	-2 320	- 522
(Impairment)/reversal of impairment on the fiscal losses	- 794	511
Corrections prior year	- 442	0
Theoretical tax on capital gain BDM/ASCO	2 139	0
Theoretical tax on revaluation gain PT Agro Muko	0	19 831
Tax expense	**-14 155**	**-24 045**
Average effective tax rate	30.13%	14.21%

We received from the Indonesian tax authorities the formal approval, that starting from financial year 2014 our Indonesian affiliates are allowed to lodge their tax declaration in USD. From the tax authorities in Papua New Guinea the SIPEF group got permission to prepare the tax declaration based on USD accounts from 2015 onwards. For SIPEF NV and Jabelmalux SA a similar authorisation has been obtained with effect from the financial year 2016.

Deferred tax liabilities and assets are offset per taxable entity which leads to the following split between deferred tax assets and deferred tax liabilities:

In KUSD	2018	2017
Deferred tax assets	16 224	15 027
Deferred tax liabilities	-50 936	-51 326
Net deferred taxes	**-34 712**	**-36 299**

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

In KUSD	2018	2017
Opening balance	-36 299	-15 777
Variation (- expense) / (+ income) through income statement	623	- 818
Tax impact of IAS 19R through comprehensive income	244	71
Tax impact hedge accounting	- 146	0
Change in consolidation scope	0	- 310
"Purchase price allocation" PT Agro Muko & PT Dendymarker	885	-19 540
Other	- 19	75
Closing balance	**-34 712**	**-36 299**

Deferred taxes in the income statement are the result of:

In KUSD	2018	2017
Addition/(utilization) of tax losses brought forward	865	-2 371
Origin or reversal of temporary differences - IAS 41 revaluation	1 154	443
Origin or reversal of temporary differences - fixed assets	- 579	212
Origin or reversal of temporary differences - pension provision	- 118	360
Origin or reversal of temporary differences - other	- 699	539
Total	**623**	**- 818**

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

	2018		
In KUSD	Total	Not recorded	Recorded
Biological Assets	- 942	0	- 942
Non-current assets	-48 079	0	-48 079
Inventories	-3 120	0	-3 120
Pension provision	4 460	0	4 460
Tax losses	11 608	2 478	9 130
Others	3 839	0	3 839
Total	**-32 234**	**2 478**	**-34 712**

The majority of the unrecognized deferred tax assets at the end of 2018 are located at the companies of the South Sumatra group (KUSD 754) and Jabelmalux SA (KUSD 1 637). The set-up of and the adjustments to the deferred tax assets are based on the most recently available long-term business plans.

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

	2018		
In KUSD	Total	Not recorded	Recorded
1 year	3 742	390	3 352
2 years	5 532	0	5 532
3 years	6 176	1 674	4 502
4 years	5 917	951	4 966
5 years	9 752	348	9 404
Unlimited	13 100	5 603	7 497
Total	**44 220**	**8 965**	**35 254**

The net taxes to be paid relate mainly to the taxes to be paid in Indonesia. In 2018 it involves primarily taxes to receive due to an overpayment in advances which are calculated on the result of previous year. Considering that the results of previous year were higher than those of current year, the Sipef Group has a net tax receivable.

In KUSD	2018	2017
Taxes to receive	9 280	1 610
Taxes to pay	- 71	-12 480
Net taxes to pay	**9 209**	**-10 870**

In KUSD	2018	2017
Net taxes to pay at the beginning of the period	-10 870	-1 567
Change consolidation scope	0	- 329
Transfer	320	- 47
Taxes to pay	-14 778	-22 538
Paid taxes	34 537	13 611
Net taxes to pay at the end of the period	**9 209**	**-10 870**

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

In KUSD	2018	2017
Tax expense	-14 155	-24 045
Deferred tax	- 623	1 507
Current taxes	**-14 778**	**-22 538**
Variation prepaid taxes	-7 350	6 197
Variation payable taxes	-12 409	2 730
Paid taxes	**-34 537**	**-13 611**

25. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The SIPEF group has the following percentage of control and percentage of interest in the associates and joint ventures:

Entity	Location	% of control	% of interest
Verdant Bioscience Pte Ltd	Singapore / Republic of Singapore	38.00	38.00
PT Timbang Deli Indonesia	Medan / Indonesia	38.00	36.10
BDM NV	Antwerp / Belgium	0.00	0.00
ASCO NV	Antwerp / Belgium	0.00	0.00

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

1. Tropical agriculture - PT Timbang Deli and Verdant Bioscience Pte Ltd;
2. The insurance sector - BDM NV and ASCO NV (sold in 2018)

Verdant Bioscience Pte Ltd (VBS) is a company located in Singapore. As of 1 January 2014, the Group holds a 38% interest in VBS. The company is a cooperation between Ultra Oleom Pte Ltd (52%), SIPEF NV (38%) and Biosing Pte (10%) with the objective of conducting research into and developing high-yielding seeds with a view to commercializing them.

The Group holds a 36.10% participation in PT Timbang Deli, a company located on the island of Sumatra in Indonesia. PT Timbang Deli is active in growing rubber. Following the Share Swap agreement with Verdant Bioscience Pte Ltd the SIPEF group contributed 95% of the total number of shares of PT Timbang Deli to Verdant Bioscience Pte Ltd.

The Group held 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 was held by the Ackermans & Van Haaren group. On 18 December 2017 it was announced that SIPEF and Ackermans & van Haaren had reached agreement with the Nasdaq-listed US insurer The Navigators Group, Inc. on the sale of 100% of the share capital of BDM-ASCO. The selling price for 100% of the shares of BDM-ASCO was set at EUR 35 million. The sale of the insurance activity BDM-ASCO was finalized in June 2018 with a one-off gain of KUSD 7 376.

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

In KUSD	2018	2017
Verdant Bioscience Pte Ltd	6 196	6 594
PT Timbang Deli Indonesia	1 043	1 522
Insurances (BDM NV and ASCO NV)**	0	0
Total	**7 239**	**8 116**

The total post "Share of results of associated companies and joint ventures" can be summarized as follows:

In KUSD	2018	2017
PT Agro Muko*	0	2 011
Verdant Bioscience Pte Ltd	- 398	- 262
PT Timbang Deli Indonesia	- 456	- 335
Insurances (BDM NV and ASCO NV)**	0	1 723
Total result	**- 854**	**3 137**

** two months result PT AM in prior year before full inclusion of PT AM in the consolidated financial statements*
*** BDM-ASCO was sold in June 2018*

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: the associated companies PT Timbang Deli and Verdant Bioscience Pte Ltd.

Below we present the condensed statements of financial position of the associated companies and joint ventures. These are prepared in accordance with IFRS and are before intercompany eliminations and excluding goodwill.

	Verdant Bioscience Pte Ltd		PT Timbang Deli	
In KUSD	2018	2017	2018	2017
Biological assets	0	0	4 509	4 420
Other non-current assets	23 617	23 622	7 264	6 567
Current assets	10 676	9 207	716	540
Cash and cash equivalents	141	49	209	268
Total assets	**34 434**	**32 878**	**12 698**	**11 795**
Non-current liabilities	0	0	1 066	1 100
Long term financial debts	0	0	0	0
Current liabilities	12 058	9 454	10 978	8 715
Short term financial debts	0	0	0	0
Equity	22 376	23 424	654	1 980
Total liabilities	**34 434**	**32 878**	**12 698**	**11 795**

Below we present the condensed income statements of the associated companies and joint ventures. These are prepared in accordance with IFRS and are before intercompany eliminations and excluding goodwill.

	Verdant Bioscience Pte Ltd		PT Timbang Deli	
In KUSD	2018	2017	2018	2017
Inclusion in the consolidation:	38.00%	38.00%	36.10%	36.10%
Revenue	0	0	1 654	1 951
Depreciation	9	6	604	300
Interest income	54	47	1	4
Interest charges	0	0	55	15
Net result	-1 048	- 689	-1 261	- 929
Share in the consolidation	**- 398**	**- 262**	**- 456**	**- 335**
Total share of the group	- 398	- 262	- 456	- 335
Total share minorities	0	0	0	0
Total	**- 398**	**- 262**	**- 456**	**- 335**

Reconciliation of the associated companies and joint ventures

The below tables are prepared in accordance based on the IFRS financial statements as included in the consolidation, in accordance with the accounting policies of the SIPEF group, before goodwill allocation.

Reconciliation tropical agriculture

	Verdant Bioscience Pte Ltd		PT Timbang Deli	
In KUSD	**2018**	**2017**	**2018**	**2017**
Equity without goodwill	22 376	23 424	654	1 980
Share of the group	8 503	8 901	236	715
Goodwill	0	0	807	807
Equity elimination PT Timbang Deli	-2 307	-2 307	0	0
Total	**6 196**	**6 594**	**1 043**	**1 522**

Reconciliation insurances

	Insurances	
In KUSD	**2018**	**2017**
Equity without goodwill	0	24 019
Total Share of the group*	**0**	**12 010**

** BDM-ASCO was sold in June 2018*

Dividends received from associated companies and joint ventures

During the year no dividends were received from associated companies and joint ventures.

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

26. CHANGE IN NET WORKING CAPITAL

In line with the decreased operating profit, the cash flow from operating activities was significantly lower in 2018 (KUSD 33 682) than in 2017 (KUSD 119 853).

The increased use of working capital (KUSD -13 680) is primarily due to the higher stocks, additional advances that were granted to smallholders in Musi Rawas region for the development of their land within the framework of the plasma law and a temporary delay in the reimbursement of recoverable VAT in Indonesia and Papua New Guinea.

In Indonesia and in Papua New Guinea, the Group continues to make advance payments of taxes based on the last year’s results. The higher taxes paid (KUSD -34 537) are a reflection of the higher profit in 2017 compared with profit in 2018. The excess advance payments made in previous years were also sorted out in 2017.

27. 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 2 820 (without considering the impact of the current export tax in Indonesia) on result after tax. This risk is assumed to be a business risk.

Transactional risk

The Group faces transactional price risks on products sold. The transactional risk is the risk that the price of products purchased from third parties fluctuates between the time the price is fixed with a customer and the time the transaction is settled. This risk is assumed to be a business risk.

Currency risk

Most of the subsidiaries are using the US dollar as functional currency. The Group’s currency risk can be split into three distinct categories: structural, transactional and translational:

Structural risk
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	17 315	19 047	21 163
Gross impact income statement	1 732		-2 116

The pension liability in Indonesia consists of KUSD 18 881 from fully consolidated subsidiaries and of KUSD 166 from equity consolidated companies (PT Timbang Deli).

On February 12th, 2019 the board of directors has also proposed the payment of KEUR 5 819 (EUR 0.55 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 three forward exchange contracts for the sale of KUSD 9 793 for KEUR 7 940 (average exchange rate of 0.8108).
- KUSD 9 793 (KEUR 7 940) before year end
- KUSD 0 (KEUR 0) after year end

Sensitivity analysis
With regard to the cover of the dividend for the end of the year a devaluation or revaluation of 10% of the EUR versus the USD has the following effect on the profit and loss account:

In KUSD	EUR Dev 10%	Closing rate	EUR Rev 10%
Dividend	8 261	9 087	10 096
Gross Impact income statement	- 826	0	1 010

Translational risk
The SIPEF group is an international company and has operations which do not use the USD as their reporting currency. When such results are consolidated into the Group's accounts the translated amount is exposed to variations in the value of such local results are consolidated into the group's accounts the translated amount is exposed to variations in the value of such local currencies against the USD. SIPEF group does not hedge against such risk (see accounting policies).

As from 1st of January 2007 onwards the functional currency of most of our activities is the same as the presentation currency, this risk has been largely restricted.

Interest rate risk
The Group's exposure to changes in interest rates relates to the Group's financial debt obligations. At the end of December 2018, the Group's net financial assets/(liabilities) amounted to KUSD -121 443 (2017: KUSD -83 697), of which KUSD 121 038 short term financial liabilities (2017: KUSD 79 877) and KUSD 29 595 net short-term cash and cash equivalents (2017: KUSD 36 180).

The financial liabilities > 1-year (incl. derivatives) amount to KUSD 30 000 (2017: KUSD 40 000).

Considering that all short-term debts are of a current nature with variable interest rates, we believe a 0.5% change in interest rate will not have a material impact.

Considering that the long-term financial debt is primarily based on a variable interest rate, the risk exists that with an increase of the interest rate, the financing cost will increase. This interest risk is hedged by the use of an interest rate swap (IRS). The goal of this interest rate swap is to decrease the volatility (and with it the interest rate risk) as much as possible

Available funds are invested in short term deposits.

Credit risk
Credit risk is the risk that one party will fail to discharge an obligation and cause the other party to incur a loss. This credit risk can be split into a commercial and a financial credit risk. With regard to the commercial credit risk management has established a credit policy and the exposure to this credit risk is monitored on a continuous basis.

In practice a difference is made between:

In KUSD	2018	2017
Receivables from the sale of palm oil/rubber/tea	34 139	34 939
Receivables from the sale of bananas and plants	862	1 526
Total	**35 001**	**36 465**

The credit risk for the first category is rather limited as these sales are for the most part immediately paid against presentation of documents. Moreover, it concerns a relatively small number of first-class buyers: per product about 90% of the turnover is realized with a maximum of 10 clients. For palm oil there are 2 clients who each represent over 30% of the total sales. For tea there are 3 clients which represents over 55% of total sales and for rubber there is one client which represent over 60% of total revenues. Contrary to the first category the credit risk for the receivables from the sales of bananas and plants is higher.

For both categories there is a weekly monitoring of the open balances due and a proactive system of reminders. 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	2018	2017
Not yet due	619	877
Due < 30 days	101	319
Due between 30 and 60 days	142	96
Due between 60 and 90 days	-17	82
Due > 90 days	17	152
Total	**862**	**1 526**

During 2018, one receivable was recorded as doubtful wherefore a total amount of KUSD 78 was provisioned. It concerns a receivable from the sales of bananas and plants. However, when we look at the history of defaults within the SIPEF group, defaults are highly exceptional.

In 2017, no capital loss on receivables in the income statement was recorded.

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted.

The Group applied the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables based on historical losses. The Group analysed the impact of IFRS 9 and concluded there is no material impact on the bad debt reserve booked. The Group also assessed whether the historic pattern would change materially in the future and expects no significant impact.

Liquidity risk

A material and structural shortage in our cash flow would damage both our creditworthiness as well as the trust of investors and would restrict the capacity of the Group to attract fresh capital. The operational cash flow provides the means to finance the financial obligations and to increase shareholder value. The Group manages the liquidity risk by evaluating the short term and long-term cash flows. The SIPEF group maintains an access to the capital market through short- and long-term debt programs.
The following table gives the contractually determined (not-discounted) cash flows resulting from liabilities at balance sheet date:

2018 - In KUSD	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	2-3 years	3-4 years	More than 5 years
Financial obligations > 1 year (incl. derivatives)	30 000	-31 454	- 559	-10 498	-10 298	-10 099	0
Trade & other liabilities < 1 year							
Trade payables	19 647	-19 647	-19 647				
Advances received	450	- 450	- 450				
Financial liabilities < 1 year							
Current portion of amounts payable after one year	10 000	-10 331	-10 331				
Financial liabilities	111 038	-111 161	-111 161				
Derivatives	771	- 771	- 771				
Other current liabilities	0	0	0				
Current liabilities	**171 906**	**-173 814**	**-142 919**	**-10 498**	**-10 298**	**-10 099**	**0**

2017 - In KUSD	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	2-3 years	3-4 years	More than 5 years
Financial obligations > 1 year (incl. derivatives)	40 000	-42 154	- 559	-10 700	-10 498	-10 298	-10 099
Trade & other liabilities < 1 year							
Trade payables	18 243	-18 243	-18 243				
Advances received	678	- 678	- 678				
Financial liabilities < 1 year							
Current portion of amounts payable after one year	10 000	-10 331	-10 331				
Financial liabilities	69 877	-69 972	-69 972				
Derivatives	0	0	0				
Other current liabilities	0	0	0				
Current liabilities	**138 798**	**-141 378**	**-99 783**	**-10 700**	**-10 498**	**-10 298**	**-10 099**

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 2018, same as in previous years, there were no infringements on the conditions stated in the credit agreements nor were there any shortcomings in repayments.

Financial instruments measured at fair value in the statement of financial position

Companies within the Group may use financial instruments for risk management purposes. Specifically, these are instruments principally intended to manage the risks associated with fluctuating interest and exchange rates. The counterparties in the related transactions are exclusively first-ranked banks.

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

Fair values of derivatives are:

In KUSD	2018	2017
Forward exchange transactions	-1 382	759
Interest rate swaps	611	- 180
Fair value (+ = asset; - = liability)	**- 771**	**579**

In accordance with IFRS 13 financial instruments are grouped into 3 levels based on the degree to which the fair value is observable:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly or indirectly;
- Level 3 inputs are unobservable inputs for the asset or liability.

The fair value of the forward exchange contracts and interest rate swaps calculated at the closing value on the 31st of December 2018 were also incorporated in level 2. The notional amount from the forward exchange contracts amounts to KUSD 32 893.

The forward exchange contracts are not documented in a hedging relationship and accordingly, all changes in fair value are recorded in the financial result. The Group has documented the interest rate swaps (IRS) in a hedging relationship. The terms of the IRS and the hedged debt match 100%. Therefore no effectiveness test based on a ratio of changes in fair value of the hedging instrument against that of the hedged debt is required. An IRS with matching contractual terms would have limited inefficiency.

The IRS has a notional amount of KUSD 40 000. The carrying amount is recorded on the derivatives (liabilities) for an amount of KUSD 611, the deferred tax assets for an amount of KUSD 177 and the other comprehensive income in the equity for an amount of KUSD 434. The increase compared to previous year amounted to KUSD 324 (before tax) and is recorded in OCI. The difference between the total cash flow hedges in OCI (KUSD 503 before tax) and the IRS increase (KUSD 324) amounts to KUSD 179 (before tax) and relates to the cash flow hedge on the sale of BDM/ASCO which was realised in 2018.

Financial instruments per category

The next table gives the financial instruments per category as per end 2018 and end 2017:

2018 - In KUSD	Carrying amount	IFRS 9 category	Fair value	Fair value hierarchy
Financial assets				
Other investments	77	AC	77	Level 2
Receivables > 1 year				
Other receivables	11 112	AC	11 112	Level 2
Total non-current financial assets	**11 189**		**11 189**	
Trade and other receivables				
Trade receivables	35 001	AC	35 001	Level 2
Investments				
Other investments and deposits				
Cash and cash equivalents	29 595	AC	29 595	Level 2
Derivatives		FVTPL		Level 2
Derivatives		Hedging		Level 2
Total current financial assets	**64 596**		**64 596**	
Trade and other obligations > 1 year				
Financial obligations > 1 year (incl. derivatives)	30 000	AC	30 000	Level 2
Total non-current financial liabilities	**30 000**		**30 000**	
Trade & other obligations < 1 year				
Trade payables	19 647	AC	19 647	Level 2
Advances received	450	AC	450	Level 2
Financial obligations < 1 year				
Current portion of amounts payable after one year	10 000	AC	10 000	Level 2
Financial obligations	111 038	AC	111 038	Level 2
Derivatives	1 382	FVTPL	1 382	Level 2
Derivatives	- 611	Hedging	- 611	Level 2
Total current financial liabilities	**141 906**		**141 906**	

2017 - In KUSD	Carrying amount	IFRS 9 category	Fair value	Fair value hierarchy
Financial assets				
Other investments	78	AC	78	Level 2
Receivables > 1 year				
Other receivables	6 643	AC	6 643	Level 2
Total non-current financial assets	**6 721**		**6 721**	
Trade and other receivables				
Trade receivables	36 465	AC	36 465	Level 2
Investments				
Other investments and deposits				
Cash and cash equivalents	36 180	AC	36 180	Level 2
Derivatives	472	FVTPL	472	Level 2
Derivatives	107	Hedging	107	Level 2
Total current financial assets	**73 224**		**72 645**	
Trade and other obligations > 1 year				
Financial obligations > 1 year (incl. derivatives)	40 000	AC	40 000	Level 2
Total non-current financial liabilities	**40 000**		**40 000**	
Trade & other obligations < 1 year				
Trade payables	18 243	AC	18 243	Level 2
Advances received	678	AC	678	Level 2
Financial obligations < 1 year				
Current portion of amounts payable after one year	10 000	AC	10 000	Level 2
Financial obligations	69 877	AC	69 877	Level 2
Derivatives		FVTPL		Level 2
Derivatives		Hedging		Level 2
Total current financial liabilities	**98 798**		**98 798**	

Impact of application of IFRS 9 Financial instruments

In the current year, the Group has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRSs in advance of their effective dates. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities; 2) impairment for financial assets and 3) general hedge accounting. Details of these new requirements as well as their impact on the Group's consolidated financial statements are described below.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9.

The date of initial application (i. e. the date on which the Group has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is 1 January 2018. Accordingly, the Group has applied the requirements of IFRS 9 to instruments that have not been derecognised as at 1 January 2018 and has not applied the requirements of IFRS 9 to instruments that have already been derecognised as at 1 January 2018. Comparative amounts in relation to instruments that have not been derecognised as at 1 January 2018 have not been restated.

The management of the Group reviewed and assessed the Group's existing financial assets and liabilities as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has the following impact on the Group's financial assets as regards their classification and measurement:

- The financial assets classified in the category "Loans and receivables" under IAS 39 such as non-current receivables, trade receivables, cash and cash equivalents are classified and measured at amortised cost under IFRS 9;
- The financial assets (unquoted equity investments) classified in the category "Available-for-sale investments" such as other financial assets (shares) under IAS 39, are designated as at fair value through other comprehensive income.

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The scope of financial instruments subject to impairment was changed by IFRS 9 – in particular, the Group assesses impairment on guarantees issued in accordance with expected credit loss model (instead of "most likely outcome" under IAS 37). The impact of expected credit losses was immaterial Classification and measurement of financial liabilities of the Group has not been modified by the requirements of IFRS 9.

In accordance with IFRS 9's transition provisions for hedge accounting, the Group has applied the IFRS 9 hedge accounting requirements prospectively from the date of initial application on 1 January 2018. The Group's qualifying hedging relationships in place as at 1 January 2018 also qualify for hedge accounting in accordance with IFRS 9 and were therefore regarded as continuing hedging relationships. No rebalancing of any of the hedging relationships was necessary on 1 January 2018. As the critical terms of the hedging instruments match those of their corresponding hedged items, all hedging relationships continue to be effective under IFRS 9's effectiveness assessment requirements. The Group has also not designated any hedging relationships under IFRS 9 that would not have met the qualifying hedge accounting criteria under IAS 39.
The application of the IFRS 9 hedge accounting requirements has no impact on the Group's financial position or total comprehensive income at the date of initial applicable of IFRS 9.

28. OPERATIONAL LEASES

The Group leases office space, land rights and vehicles under a number of operating lease agreements with a lease term of one year or more. Future lease payments under these non-cancellable operating leases are due as follows:

In KUSD	2018			2017		
	Landrights	Office rent	Car rent	Landrights	Office rent	Car rent
1 year	98	271	108	98	0	92
2 year	98	271	106	98	0	75
3 year	98	271	92	98	0	73
4 year	98	271	75	98	0	59
5 year	98	271	13	98	0	25
5 - 10 years	488	1 384	0	488	0	0
11 - 15 years	487	0	0	487	0	0
16 - 20 years	464	0	0	486	0	0
21 - 25 years	159	0	0	234	0	0
Total	**2 086**	**2 741**	**393**	**2 184**	**0**	**324**

Rental expenses have increased in 2018 due to rent of the new office building in Medan/Indonesia.

As of 1 January 2019, the Group will adopt IFRS 16 for the first time. IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases. Under the new IFRS standard, an entity is required to assess whether the contract is, or contains, a lease. A contract contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The asset that is the subject of a lease must be specifically identified. The new standard also states that the lessee must have the right to obtain all economic benefits from the use of this asset and the right to direct the use of an identified asset throughout the period. This means that the lessee has the right to direct how and for what purpose the asset is used or to decide about how and for what purpose the asset is used.

During 2018, the Group has performed a detailed impact assessment of IFRS 16.

The following contracts have been identified as a 'lease' and will be accounted for under IFRS 16 as of January 1, 2019:
- Land rights of Hargy Oil Palms in Papua-New-Guinea
- Rent of office buildings (as of 2018 for office rental in Indonesia)
- Car leases

In the case of Hargy Oil Palms, the subject of the lease concerns the usufruct of certain land wherefore a fixed annual rental amount is paid. The remaining land rights in PNG have a duration of 99 years for which no rental amount is paid. These 'assets' will be depreciated over a period of 25 years in line with the lifespan of an oil palm.

The rent of the office buildings concerns the yearly rental payments for the offices in Indonesia.

There are two exceptions to the definition of lease: lease terms less than 12 months and assets below a threshold of USD 5 000. The Group will elect to use the exemptions proposed by the standard.

IFRS 16 presents three transition options:

- Option 1: Retrospective → this option restates comparatives as if IFRS 16 always applied
- Option 2A: Cumulative catch-up → this option measures the asset as if IFRS 16 had been applied from lease commencement (but using incremental borrowing rate at date of transition)
- Option 2B: Cumulative catch-up → this option measures the asset at amount equal to liability (adjusted for accruals and prepayments)

The Group has opted to apply option 2B: Cumulative catch-up**.** The Group expects to recognize a right-of-use asset and lease liability of approximately 3 million USD on 1January 2019.

As we have opted for option 2B, total assets will equal total liabilities with no impact on equity. There is no impact on the profit and loss statement as per December 31, 2018.

29. FINANCE LEASES

In 2010 in the light of further restructuring of the Groups' financing the current financial leasing contracts have been terminated.

30. RIGHTS AND COMMITMENTS NOT REFLECTED IN THE BALANCE SHEET

Guarantees

No guarantees have been issued by third parties as security for the company's account and for the account of subsidiaries during 2018.

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.

31. 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	2018	2017
Directors' fees		
Fixed fees	406	359
Short-term employee benefits	2 995	2 273
Share based payments	119	97
Post-employment benefits	547	524
Benefits in kind (Company car + cell phone)	38	30
Total	**4 105**	**3 283**

The amounts are paid in EUR. The amount paid in 2018 amounts to KEUR 3 484 (2017: KEUR 2 886). The increase of KEUR 598 is a consequence of a higher variable fee paid in 2018 compared to 2017.

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 201 (KEUR 169) and KUSD 81 (KEUR 69) is invoiced for SIPEF's share of maintenance of the buildings, parking space and park area.

SIPEF's relations with board members and management committee members are covered in detail in the "Corporate Governance statement" section.

Other related party transactions

Transactions with related companies are mainly trade transactions and are priced at arms' length. The revenue and expenses related to these transactions are immaterial to the consolidated financial statements as a whole.

Transactions with group companies

Balances and transactions between the Group and its subsidiaries which are related parties of the Group have been eliminated in the consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

The following table represents the total of the transactions that have occurred during the financial year between the Group and the joint venture PT Timbang Deli and Verdant Bioscience Pte Ltd at 100%:

In KUSD	PT Timbang Deli	Verdant Bioscience Pte Ltd
Total sales during the financial year	0	0
Total purchases during the financial year	1 261	0
Total receivables as per 31 December 2018	38	5 096
Total payables as per 31 December 2018	189	700

32. PT Dendymarker Indah Lestari impact of the acquisition

PT Dendymarker Indah Lestari ("PT DIL") is an RSPO certified oil palm company, at acquisition consisting of 6 562 planted hectares of oil palms, 2 780 hectares of smallholders and a palm oil extraction mill with a processing capacity of 25 tons of bunches per hour, all located in Musi Rawas Ultara, South Sumatra.

A. Consideration transferred

The SIPEF group has acquired 95% of the outstanding shares of PT DIL for a total purchase price of KUSD 52 833. As a result of this purchase, PT DIL has been included in the consolidated financial statements of the SIPEF group as of 1 August 2017.

No conditional remuneration or equity instrument was used in this transaction.

In KUSD	
Purchase price of the shares	15 129
Acquisition of financial liabilities < 1 year	37 704
Cash in PT DIL	- 5
Total consideration paid	**52 828**

B. Acquisition related cost

Direct acquisition related costs in respect of the purchase of the shares of PT Dendymarker are considered as insignificant and are neither reflected.

C. Identifiable assets acquired and liabilities assumed

The following table summarizes the recognized amounts of assets acquired and liabilities assumed at the date of acquisition:

In KUSD	01/08/2017 preliminary	01/08/2017 final	Difference
Biological assets - bearer plants	8 597	8 739	142
Other property, plant & equipment	23 383	20 088	-3 295
Deferred tax assets	1 324	2 645	1 321
Inventories	268	244	- 24
Trade and other receivables	50	40	- 10
Cash and cash equivalents	5	5	0
Total assets	**33 627**	**31 761**	**-1 866**
Equity	-4 499	-6 368	-1 869
Financial liabilities < 1 year	37 704	37 705	1
Trade and other liabilities < 1 year	422	424	2
Total liabilities	**33 627**	**31 761**	**-1 866**

There are no contingent liabilities recognized as part of the net assets.

The valuation techniques used for measuring the fair value of material assets acquired were as follows:

Assets acquired	
Property plant and equipment - land rights	Market comparison technique: The valuation model considers current prices for similar land rights acquired
Property, plant and equipment - Biological assets - bearer plants & other property, plant and equipment	Discounted cash flow technique and cost technique: the valuation model considers depreciated replacements costs as well as discounted cash flows when appropriate. Depreciated replacement costs reflect adjustments for physical deterioration as well as functional and economical obsolescence.

The main changes of the acquired identified assets and liabilities in comparison to the provisional purchase price allocation per 31 December 2017 are:

1. Other property, plant and equipment – land rights KUSD – 2 477
2. Other property, plant and equipment - palm oil mill KUSD – 818
3. Deferred tax assets KUSD + 1 321

The decrease in value attributed to the land rights relates to the possible reduction of plantable surface in the expansion zones as these lands may not be eligible for efficient planting. For the sake of safety, we haven't assigned a fundamental value to these land rights.

The decrease in value attributable to the mill of PT Dendymarker concerns an adjustment in the fair value of this plant as a result of a final estimation report.

The increase of the deferred tax assets concerns on the one hand the additional tax receivable due to the changes in the final purchase price allocation (KUSD + 761), as well as an additional deferred tax asset on the recoverable fiscal losses, which were not included in the provisional PPA (KUSD + 560).

D. Goodwill acquired

In KUSD	1/08/2017 preliminary	01/08/2017 final	Difference	
Biological assets - bearer plants	8 597	8 739	142	
Other property, plant & equipment	23 383	20 088	-3 295	
Deferred tax assets	1 324	2 645	1 321	
Inventories	268	244	- 24	
Trade and other receivables	50	40	- 10	
Total assets (excl. cash and cash equivalents)	**33 622**	**31 756**	**-1 866**	**A**
Non-controlling interests	- 225	- 318	- 93	*
Trade and other liabilities < 1 year	422	424	2	
Total liabilities	**197**	**106**	**- 91**	**B**
Amount paid	52 833	52 833	0	
Cash in PT DIL	- 5	- 5	0	
Total consideration paid	**52 828**	**52 828**	**0**	**C**
Total Goodwill (C-A+B)	**19 403**	**21 178**	**1 775**	

* - 6 368 * 5% = -318

The goodwill is attributable mainly to the palm oil segment relating to additional synergies and economies of scale within the Group. None of the goodwill recognized is expected to be deductible for tax purposes.

33. Business combinations, acquisitions and divestitures

On 18 December 2017 it was announced that SIPEF and Ackermans & van Haaren, which are each 50% shareholder of the Belgian insurance group BDM-ASCO, had reached agreement with the Nasdaq-listed US insurer The Navigators Group, Inc. on the sale of 100% of the share capital of BDM-ASCO. The acquisition price for 100% of the shares of BDM-ASCO was set at EUR 35 million.

Following this agreement, the companies BDM-ASCO, which were already classified as an asset held for sale, were deconsolidated. On 7 June 2018 the company was fully transferred to the new owners. The deconsolidation was carried out on 1 January 2018 as the result up to 7 June 2018 was of negligible importance.

The total selling price was hedged against a fixed selling price of KUSD 20 804. It concerns an economic hedge and cannot be classified as a hedge in the sense of IFRS 9. The total consideration received can be structured as follow:

In KUSD	Total
Hedged sales price	20 804
Selling costs	- 337
Total net selling price	**20 467**

The transaction was completed on 7 June 2018. The total consolidated capital gain amounts to KUSD 7 376.

In KUSD	Total
Total net selling price	20 467
Assets held for sale	-12 010
Translation differences	-1 081
Total consolidated capital gain	**7 376**

34. EARNINGS PER SHARE (BASIC AND DILUTED)

From continuing and discontinued operations	2018	2017
Basic earnings per share		
Basic earnings per share - calculation (USD)	2.88	14.21
Basic earnings per share is calculated as follows:		
Numerator: net result for the period attributable to ordinary shareholders (KUSD)	30 089	139 663
Denominator: the weighted average number of ordinary shares outstanding	10 454 309	9 826 091
The weighted average number of ordinary shares outstanding is calculated as follows:		
Number of ordinary shares outstanding at January 1	10 455 328	8 841 740
Effect of shares issued / share buyback programs	- 1 019	- 1 120
Effect of the capital increase	0	985 471
The weighted average number of ordinary shares outstanding at December 31	10 454 309	9 826 091
Diluted earnings per share		
Diluted earnings per share - calculation (USD)	2.88	14.19
The diluted earnings per share is calculated as follows:		
Numerator: net result for the period attributable to ordinary shareholders (KUSD)	30 089	139 663
Denominator: the weighted average number of dilutive ordinary shares outstanding	10 462 071	9 843 302
The weighted average number of dilutive ordinary shares outstanding is calculated as follows:		
The weighted average number of ordinary shares outstanding at December 31	10 454 309	9 826 091
Effect of stock options on issue	7 762	17 211
The weighted average number of dilutive ordinary shares outstanding at December 31	10 462 071	9 843 302

From continuing operations	2018	2017
Basic earnings per share		
Basic earnings per share - calculation (USD)	2.88	14.21
Basic earnings per share is calculated as follows:		
Numerator: net result for the period attributable to ordinary shareholders (KUSD)	30 089	139 663
Denominator: the weighted average number of ordinary shares outstanding	10 462 071	9 826 091
The weighted average number of ordinary shares outstanding is calculated as follows:		
Number of ordinary shares outstanding at January 1	10 455 328	8 841 740
Effect of shares issued / share buyback programs	- 1 019	- 1 120
Effect of the capital increase	0	985 471
The weighted average number of ordinary shares outstanding at December 31	10 454 309	9 826 091
Diluted earnings per share		
Diluted earnings per share - calculation (USD)	2.88	14.19
The diluted earnings per share is calculated as follows:		
Numerator: net result for the period attributable to ordinary shareholders (KUSD)	30 089	139 663
Denominator: the weighted average number of dilutive ordinary shares outstanding	10 462 071	9 843 302
The weighted average number of dilutive ordinary shares outstanding is calculated as follows:		
The weighted average number of ordinary shares outstanding at December 31	10 454 309	9 826 091
Effect of stock options on issue	7 762	17 211
The weighted average number of dilutive ordinary shares outstanding at December 31	10 462 071	9 843 302

35. EVENTS AFTER THE BALANCE SHEET DATE

There have been no significant events after the balance sheet date that could have an impact on the consolidated financial statements of the SIPEF group.

36. 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 0.55 per share payable on July 3, 2019. This corresponds to a payout of 30.19% on the profit, share of the Group, and in line with the payout ratio of previous years.

37. SERVICES PROVIDED BY THE AUDITOR AND RELATED FEES

The statutory auditor of the SIPEF group is Deloitte Bedrijfsrevisoren CVBA represented by Kathleen de Brabander.
The fees for the annual report of SIPEF were approved by the general meeting after review and approval of the audit committee and by the board of directors. These fees correspond to an amount of KUSD 93 (against KUSD 89 last year). For the Group, Deloitte has provided services for KUSD 474 in 2018 (against KUSD 661 the year before), of which KUSD 35 (2016: KUSD 232) are for non-audit services (legal KUSD 2, accounting KUSD 0 and fiscal KUSD 33).

Statutory auditor's report on the consolidated financial statements

In the context of the statutory audit of the consolidated financial statements of Sipef NV ("the company") and its subsidiaries (jointly "the group"), we hereby submit our statutory audit report. This report includes our report on the consolidated financial statements and the other legal and regulatory requirements. These parts should be considered as integral to the report.

We were appointed in our capacity as statutory auditor by the shareholders' meeting of 14 June 2017, in accordance with the proposal of the board of directors. Our mandate will expire on the date of the shareholders' meeting deliberating on the financial statements for the year ending 31 December 2019. We have performed the statutory audit of the consolidated financial statements of Sipef NV for at least 30 consecutive periods.

Report on the consolidated financial statements

Unqualified opinion

We have audited the consolidated financial statements of the group, which comprise the consolidated balance sheet as at 31 December 2018, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, as well as the summary of significant accounting policies and other explanatory notes. The consolidated statement of financial position shows total assets of 938 368 (000) USD and the consolidated statement of comprehensive income shows a profit for the year then ended of 31 965 (000) USD.

In our opinion, the consolidated financial statements give a true and fair view of the group's net equity and financial position as of 31 December 2018 and of its consolidated results and its consolidated cash flow for the year then ended, in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium.

Basis for the unqualified opinion

We conducted our audit in accordance with International Standards on Auditing (ISA), as applicable in Belgium. In addition, we have applied the International Standards on Auditing approved by the IAASB applicable to the current financial year, but not yet approved at national level. Our responsibilities under those standards are further described in the "Responsibilities of the statutory auditor for the audit of the consolidated financial statements" section of our report. We have complied with all ethical requirements relevant to the statutory audit of consolidated financial statements in Belgium, including those regarding independence.

We have obtained from the board of directors and the company's officials the explanations and information necessary for performing our audit.

We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	How our audit addressed the key audit matters
Impairment assessment of goodwill As at 31 December 2018, the carrying amount of goodwill amounted to USD 104.782 (000). The annual goodwill impairment test is significant to our audit because the recoverable value is determined by a value-in-use calculation prepared by management using a discounted cash flow model, which is complex, highly judgmental and subjective. The palm oil segment is identified as a single cash generating unit (CGU) for impairment testing. The recoverable value of the CGU to which the goodwill is attributed, was determined by using the discounted cash flow model. The cash flow model estimates the relevant cash flows, which are expected to be generated in the future, and are discounted to the present value by using a discount rate approximating the weighted average cost of capital. The estimation of future cash flows requires the use of a number of significant operational and predictive assumptions, such as the fresh fruit bunch yield rate, the extraction rate, the projected crude palm oil price, the inflation rate, the capital expenditure level as well as assumptions in determining the terminal value after the implicit period of 10 years. We refer to the Financial statements, including notes to the Financial Statements: Goodwill and other intangible assets (note 8).	• We obtained an understanding of the internal control processes around the goodwill impairment exercise, more specifically management's review process of the discounted cash flow model, and the approval of the board of directors of the underlying business plan; • We reviewed the discounted cash flow model to assess the appropriateness of the methodology employed by management and critically evaluated management's assumptions; • We engaged the assistance of our internal valuation expert to assess the reasonableness of the key predictive assumptions such as inflation rate, projected crude palm oil price and discount rate used; • We compared the operational assumptions against historical data and trends to assess their reasonableness; • We considered the robustness of management's budgeting process by comparing the actual results versus previously forecasted figures; • We also assessed whether the future cash flows were based on the business plan approved by the board of directors; • We reviewed management's analysis of the sensitivity of the value in use amounts to changes in the respective assumptions; • We reviewed the adequacy of the note disclosures concerning those key assumptions to which the outcome of the impairment test is most sensitive. The group's disclosures about goodwill are in Note 8 to the financial statements, which explains that changes in the key assumptions used could give rise to an impairment of the goodwill balance in the future.

Recoverability of deferred tax assets

The group recognized deferred tax assets amounting to USD 9.130 (000) on unutilized tax losses. The group exercised its judgement to determine the amount of deferred tax assets that can be recognized, to the extent it is probable that future taxable profit will be available.

We refer to the Financial statements, including notes to the Financial Statements: Income taxes (note 24).

- We considered the internal controls implemented by management and we carried out testing relating to the design and implementation of controls over the recoverability of deferred tax assets;
- We challenged group and local management in respect of the recognition of deferred tax assets and tax provisions by utilizing both internal as well as external tax experts in Indonesia and Papua New Guinee in order to help understand the potential impacts of local tax regulations on the group's operations;
- We assessed, tested and challenged management's assumptions to determine the probability that deferred tax assets will be recovered through taxable income in future years, including comparing the consistency of management's forecasts of taxable income as used in the deferred tax analysis, with those included in the financial budgets as approved by the Board of Directors;
- We assessed the historical accuracy of management's assumptions and estimation process by comparing the forecasted results against actual results of operations to determine the probability that deferred tax assets will be recovered through taxable income in future years;
- Assessing the adequacy of the disclosure Note 24 in the financial statements.

Responsibilities of the board of directors for the preparation of the consolidated financial statements

The board of directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium and for such internal control as the board of directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the board of directors is responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters to be considered for going concern and using the going concern basis of accounting unless the board of directors either intends to liquidate the group or to cease operations, or has no other realistic alternative but to do so.

Responsibilities of the statutory auditor for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a statutory auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

During the performance of our audit, we comply with the legal, regulatory and normative framework as applicable to the audit of consolidated financial statements in Belgium.

As part of an audit in accordance with ISA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from an error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our statutory auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our statutory auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, amongst other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and we communicate with them about all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our report unless law or regulation precludes any public disclosure about the matter.

Other legal and regulatory requirements

Responsibilities of the board of directors

The board of directors is responsible for the preparation and the content of the directors' report on the consolidated financial statements, including the statement of non-financial information and other matters disclosed in the annual report on the consolidated financial statements.

Responsibilities of the statutory auditor

As part of our mandate and in accordance with the Belgian standard complementary (revised in 2018) to the International Standards on Auditing (ISA) as applicable in Belgium, our responsibility is to verify, in all material respects, the director's report on the consolidated financial statements including the statement of non-financial information and other matters disclosed in the annual report on the consolidated financial statements, as well as to report on these matters.

Aspects regarding the directors' report on the consolidated financial statements and other information disclosed in the annual report on the consolidated financial statements

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

In the context of our statutory audit of the consolidated financial statements we are responsible to consider, in particular based on information that we became aware of during the audit, if the directors' report on the consolidated financial statements and other information disclosed in the directors' report on the consolidated financial statements, i.e.:

- Annual report 2018 – comments on the consolidated financial statements
- Annual report 2018 – Corporate governance report
- Annual report 2018 – Other company information

is free of material misstatements, either by information that is incorrectly stated or otherwise misleading. In the context of the procedures performed, we are not aware of such a material misstatement.

The non-financial information as required by article 119, § 2 of the Companies Code, has been disclosed in the the directors' report on the consolidated financial statements (page 98). This non-financial information has been established by the company following international reporting frameworks (RSPO and GRI). In accordance with article 144, § 1 6° of the Companies Code we do not express any opinion on the question whether this non-financial information has been established in accordance with these frameworks.

Statements regarding independence

- Our audit firm and our network have not performed any prohibited services and our audit firm has remained independent from the group during the performance of our mandate.
- The fees for the additional non-audit services compatible with the statutory audit, as defined in article 134 of the Companies Code, have been properly disclosed and disaggregated in the notes to the consolidated financial statements.

Other statements

- This report is consistent with our additional report to the audit committee referred to in article 11 of Regulation (EU) No 537/2014.

Antwerp, 8 April 2019

The statutory auditor

Deloitte Bedrijfsrevisoren CVBA
Represented by Kathleen De Brabander

Deloitte.

Deloitte Bedrijfsrevisoren/Réviseurs d'Entreprises
Coöperatieve vennootschap met beperkte aansprakelijkheid/Société coopérative à responsabilité limitée
Registered Office: Gateway building, Luchthaven Brussel Nationaal 1 J, B-1930 Zaventem
VAT BE 0429.053.863 - RPR Brussel/RPM Bruxelles - IBAN BE 17 2300 0465 6121 - BIC GEBABEBB

Member of Deloitte Touche Tohmatsu Limited

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 management report and the auditor's report will be deposited with the National Bank of Belgium.

These documents may also be obtained on request from:

SIPEF, Calesbergdreef 5, B-2900 Schoten

Only the consolidated annual financial statements as set forth in the preceding pages present a true and fair view of the financial position and performance of the SIPEF-group.

The statutory auditor's report is unqualified and certifies that the annual accounts of SIPEF NV give a true and fair view of the company's net equity and financial position as of 31 December 2018 and of its results for the year then ended, in accordance with the financial reporting framework applicable in Belgium.

The balance sheet total of the company as per 31 December 2018 amounts to KUSD 439 739 compared to KUSD 415 291 in previous year.

The 'financial fixed assets – receivables from affiliated companies' increased with KUSD 32 366, mainly due to the financing of the further expansion in Indonesia.

The equity of SIPEF for profit appropriation amounts to KUSD 238 551, which corresponds to 22.55 USD per share.

The individual result of SIPEF are large determined by dividends and capital gains/losses. As SIPEF does not directly hold all of the Group's participating interest, the consolidated result of the Group is a more accurate reflection of the underlying economic development.

The financial income (KUSD 20 512) for the financial year 2018 was strongly influenced by the sale of BDM-ASCO in June 2018. A capital gain of KUSD 15 310 was realized on this sale.

The statutory profit for the year 2018 amounts to KUSD 19 291 compared to a profit of KUSD 2 078 in the previous year.

The Board of Directors proposes to allocate the result (in KUSD) as follows:

- Profit carried forward from previous year: 54 170
- Profit of the year: 19 291
- Total available for appropriation: 73 461
- Addition to the legal reserve: 0
- Additional to the other reserves: - 774
- Compensation of the capital: -6 659 (EUR 0.55 per share x 10 579 332 shares / 0.8738 (EUR / USD on 31/12/2018))
- Result to be carried forward: 66 028

The board of directors proposes to pay out a dividend of EUR 0.55 gross per share. After deduction of the withholding tax (30%), the net dividend amounts to EUR 0.385 per share. If the ordinary general meeting approves this proposal, the dividend will be payable from July 3, 2019.

Condensed balance sheet

(after appropriation)

In KUSD	2018	2017
Assets		
Fixed assets	**333 609**	**306 449**
Formation expenses	0	0
Intangible assets	441	224
Tangible assets	530	587
Financial assets	332 638	305 638
Current assets	**106 130**	**108 842**
Amounts receivable after more than one year	3 900	6 643
Stocks and contracts in progress	1 104	702
Amounts receivable within one year	91 260	91 702
Investments	8 003	7 939
Cash at bank and in hand	1 792	1 790
Other current assets	71	66
Total assets	**439 739**	**415 291**
Liabilities		
Equity	**231 892**	**219 260**
Capital	44 734	44 734
Share premium account	107 970	107 970
Reserves	13 745	12 387
Profit/ (loss) carried forward	65 443	54 169
Provisions and deferred taxation	**26**	**39**
Provisions for liabilities and charges	26	39
Creditors	**207 821**	**195 992**
Amounts payable after more than one year	30 000	40 000
Amounts payable within one year	176 582	155 567
Accrued charges and deferred income	1 239	425
Total liabilities	**439 739**	**415 291**

Condensed income statement

In KUSD	2018	2017
Operating income	267 563	285 514
Operating charges	- 264 979	- 282 504
Operating result	**2 584**	**3 010**
Financial income	20 512	3 639
Financial charges	- 2 748	- 4 601
Financial result	**17 764**	**- 962**
Result for the period before taxes	**20 348**	**2 048**
Income taxes	- 1 057	30
Result for the period	**19 291**	**2 078**

Appropriation account

In KUSD	2018	2017
Profit/ (loss) to be appropriated	73 460	76 285
Profit / (loss) for the period available for appropriation	19 291	2 078
Profit / (loss) brought forward	54 169	74 207
Appropriation account	**73 460**	**76 285**
Transfers to legal reserve	584	104
Transfers to other reserves	774	1 735
Result to be carried forward	65 443	54 169
Dividends	6 659	20 277
Remuneration to directors	0	0

Other information about the Company

Legal form, formation, legal publication

The Company was established on 14 June 1919 in the form of a limited liability company ("naamloze vennootschap"), under Belgian law, executed by deed before meester Xavier Gheysens, notary in Antwerp, and published in the Appendices to the Belgisch Staatsblad of 9 July 1919 under number 5623. The articles of association have been amended on many occasions, most recently by the deed of 13 June 2018, published in the Appendices to the Belgisch Staatsblad of 19 June 2018 under number 18100371.

Legislation applicable to the activities of SIPEF

The Company is governed by the existing and future legal and regulatory provisions applicable to the "naamloze vennootschappen" and by the articles of association.

Term

The Company exists for an indefinite term.

Corporate purpose

The purpose of the Company are:

/// Planting and cultivating, among other things rubber trees, coffee trees, tea plants, palm trees and other trees or plants. Acquiring, processing and selling all products; acquiring, selling, leasing, renting ground or property or any related concessions; and, generally, everything that can be considered part of the agricultural domain.

/// Participating, in any form, in the formation, expansion, conversion and control of all Belgian or foreign companies in trade, finance, industry or other, acquiring all titles and rights by means of participation, contribution, transfer, permanent participation or purchase option, trading and all other means. Giving the companies in which it has an interest, all assistance, loans, advances or guarantees, in other words all arrangements in general that are related directly or indirectly to its purpose or that facilitate the fulfilment or enlargement of this purpose.

/// All real estate transactions in the broadest sense, at its own expense or at the expense of third parties or in participation with third parties or in any way, in Belgium or abroad, including acquiring, selling, parcelling out, constructing, reconstructing, appropriating, converting, forestation and deforestation, leasing as lessor or lessee of all real estate, as well as all companies of public or private works.

Capital

OUTSTANDING CAPITAL

SIPEF has been granted official approval from the Federal Public Service (FPS) Economy, from 1 January 2016, to keep its accounts and draw up its financial statements in US dollars, the functional currency of SIPEF.

At 31 December 2018 the fully paid-up registered capital was USD 44 733 752.04 It is represented by 10 579 328 shares without nominal value.

All shares representing the capital have the same rights.

Each share gives the right to one vote. SIPEF has issued no other categories of share, such as shares without voting rights or preferential shares.

Pursuant to the law of 14 December 2005 abolishing bearer shares, the holders of bearer shares were obliged to convert their shares into registered shares or dematerialised shares no later than 31 December 2013. The bearer shares not converted to registered shares or dematerialised shares by 1 January 2014 were converted to dematerialised shares by law and registered on the share account in the name of SIPEF.

The exercise of the rights linked to the shares has been suspended by law since 1 January 2014.

The law also imposed an obligation on issuers to sell all unclaimed bearer shares on the stock exchange from 1 January 2015 and remit the proceeds from the sale to the "Deposito- en Consignatiekas" within fifteen days.

Since 31 December 2015, the owners of the old bearer shares have the right to request the payment of the corresponding proceeds from the "Deposito- en Consignatiekas", provided they are able to prove they are the rightful holder. The law of 14 December 2005 states that, from 1 January 2016, a fine of 10% of the proceeds from the sale of the underlying bearer shares will be payable on the reimbursement calculated per started year's delay. SIPEF accordingly no longer has a role to play in this process.

AUTHORISED CAPITAL

The extraordinary general meeting of 8 June 2016 passed a resolution to extend by five years the authorisation granted to the board of directors to increase the capital on one or more occasions:

- in the amount of USD 37 851 639.41
- in accordance with the terms established by the board of directors, such as:
  - by means of a contribution in kind within the limits permitted by the Companies Code;
  - by converting reserves and share premiums;
  - with or without issue of new shares, with or without voting rights;
  - by issuing convertible bonds, whether or not they are subordinated;
  - by issuing warrants or bonds to which warrants or other securities are attached;
  - by issuing other securities, such as shares as part of a share option plan.

Furthermore, in the interests of the Company the board of directors can limit or abolish the preferential subscription rights of the shareholders, within the limits and in accordance with the conditions set down in the Companies Code.

That authorisation is valid for a period of five years, commencing on 27 June 2016, the date of publication in the Appendices to the Belgisch Staatsblad, and ending on 26 June 2021 (including).

The same extraordinary general meeting also decided that, if the Company receives an announcement from the Financial Services and Markets Authority (FSMA) that it has been informed of a public bid to acquire the shares of the Company, in accordance with article 607, second paragraph, item 2 of the Companies Code, the board of directors can only use its authorisation with regard to the authorised capital, if this notification is made no later than three years after the date of the extraordinary general meeting that renewed the authorisation in question, being from 8 June 2016 up to and including 7 June 2019. This authorisation therefore expires after 7 June 2019. The board of directors decided to convene on 12 June 2019 an extraordinary general meeting with the only point on the agenda being the renewal of this authorisation for a period of three years, this is up to and including 11 June 2022.

At 31 December 2018 the fully authorised capital was USD 37 851 639.41

Based on this amount, no more than 8 951 739 new shares can be issued.

TREASURY SHARES

The extraordinary general meeting of 13 June 2018 renewed for a period of five years the authorisation given to the board of directors of the Company, as a result of which the board, with due consideration for the legal provisions, may acquire or dispose of, a maximum number of 2 115 865 own shares with a par value no higher than 20% of the issued capital. These shares may only be acquired at a price no lower than one euro and no higher than the average closing price of the share over the 30 calendar days preceding the transaction, plus 10%.

This authorisation also concerns the acquisition of own shares by the companies in which SIPEF, alone or by virtue of a shareholders' agreement, directly holds, exercises or controls the majority of the voting shares, or in which the Company has the right to directly appoint the majority of directors or managers.

That authorisation is valid for a period of five years, commencing on 19 June 2018, the date of publication in the Appendices to the Belgisch Staatsblad, and ending on 18 June 2023 (including).

This extraordinary general meeting also renewed the authorisation granted to the board of directors of the Company to buy or sell own shares if this purchase or sale is necessary to avoid an imminent serious disadvantage for the Company. That authorisation is valid for a period of three years, commencing on 19 June 2018, the date of publication in the Appendices to the Belgisch Staatsblad, and ending on 18 June 2021 (including).

The purchase and sale of own shares in 2018 are discussed in more detail in Note 23 of this annual report.

At 31 December 2018, SIPEF owns 143 300 treasury shares (1.35% of the total number of outstanding shares) which are reserved for the exercise of the same number of granted and not yet exercised options.

EXCHANGEABLE AND CONVERTIBLE LOANS

SIPEF has not granted any exchangeable or convertible loans.

Voting right

There are no limitations in the articles of association on the exercise of the voting right, without prejudice to the general rules on admission to the general meeting.

Documents available to the public

ACCESS TO THE INFORMATION FOR THE SHAREHOLDERS AND WEBSITE

SIPEF has a website (www.sipef.com) where the shareholders can have access to full information on the Company.

This website is regularly updated and contains the information required under the Royal Decree of 14 November 2007 on the obligations of issuers of financial instruments admitted to trading on a regulated market.

Among other things, the website contains the financial statements and annual reports, all press releases published by the Company and all useful and necessary information on the general meetings and the participation of the shareholders in these meetings, particularly the conditions provided by the articles of association for the convening of the (ordinary and extraordinary) general meetings of the shareholders.

Lastly, the results of the votes and the minutes of the general meetings are also published on the website.

PLACES WHERE DOCUMENTS ACCESSIBLE TO THE PUBLIC CAN BE CONSULTED

The coordinated articles of association of the Company can be inspected at the Registry of the Commercial Court in Antwerp, at the Company's registered office and its website (www.sipef.com/hq/investors/shareholders-information/corporate-governance/).

The annual financial statements are deposited with the National Bank of Belgium and can be consulted on the website of SIPEF.

The resolutions concerning the appointment and the removal of the members of the executive bodies of the Company are published in the Appendices to the Belgisch Staatsblad.

The financial notices of the Company are published in the financial press. The other documents available for public inspection can be consulted at the Company's registered office.

The annual report of the Company is sent every year to registered shareholders and to everyone who has expressed a wish to receive the report. It is available free of charge at the registered office.

The annual reports of the three most recent financial years and all other documents mentioned in this paragraph can be consulted on the Company's website.

Glossary

ACP The African, Caribbean and Pacific Group of States organisation was created by the Georgetown Agreement in 1975. It is composed of 79 states, which are bound to the European Union via the EU Partnership Agreement. One of the main objectives is the sustainable development of its member states and their gradual integration into the global economy.

APEC Asia-Pacific Economic Cooperation is the premier Asia-Pacific economic forum. The primary goal is to support sustainable economic growth and prosperity in the Asia-Pacific region.

CDM The Clean Development Mechanism allows a country with an emission limitation or reduction commitment under the Kyoto Protocol to implement an emission reduction project in developing countries. Such projects can earn saleable Certified Emission Reduction (CER) credits, each equivalent to one tonne of CO_2, which can be counted towards meeting Kyoto targets. It is the first global, environmental investment and credit scheme of its kind, providing a standardised emissions offset instrument, CER. CDM is managed by the UNFCCC (United Nations Framework Convention on Climate Change).

CIF Rotterdam Cost, Insurance and Freight (CIF) is the selling price to cover all costs including insurance and freight up to the port of destination which is Rotterdam in this case. The buyer will pay for the goods delivered in Rotterdam. The CIF Rotterdam price is a worldwide reference in the palm oil market.

CIRAD "Centre de Coopération Internationale en Recherche Agronomique pour le Développement" is a French organisation for international cooperation in agricultural research and development. It is working for the sustainable development of tropical and Mediterranean regions.

CPO Crude Palm Oil is an edible oil which is extracted from the pulp of the fruit of the oil palm.

CSPKO Certified Sustainable Palm Kernel Oil is palm kernel oil produced by palm oil plantations, which have been independently audited and certified against the Roundtable on Sustainable Palm Oil (RSPO) standard.

CSPO Certified Sustainable Palm Oil is palm oil produced by palm oil plantations, which have been independently audited and certified against the RSPO standard.

CTC tea During the Cut, Tear and Curl tea process, the leaf is not rolled. Instead, it goes through a CTC machine, which results in a different tea from orthodox tea. It infuses more quickly and makes stronger cups of black tea.

EFB Empty Fruit Bunches are the remains of the Fresh Fruit Bunches (FFB) after the fruit has been removed for palm oil pressing.

EMS An Environmental Management System is a set of processes and practices that enable an organisation/company to reduce its environmental impacts.

ETP The Ethical Tea Partnership is an alliance of tea packers who are working together to improve the sustainability of the tea sector. The ETP is a member of the Ethical Trading Initiative. In addition, the ETP standard includes environmental provisions.

FFA Free Fatty Acids are found in palm oil, as in all fats. The major FFA in palm oil are palmitic and oleic. Crude palm oil quality and price are dependent on the FFA content at time of shipping.

FFB Fresh Fruit Bunches are the palm fruits that grow on the oil palm in bunches, the raw material to be transported to a palm oil mill for processing. The mill process extracts the palm oil from the flesh of each individual piece of fruit on the bunch.

FOB Indonesia Free On Board: is the selling price indicating that the seller pays for the transportation of the goods to the port of shipment, in this case Indonesia, plus loading costs. The buyer pays, in addition to the goods, the cost of freight, insurance, unloading and transportation from the arrival port to the final destination.

GAPKI "Gabungan Pengusaha Kelapa Sawit Indonesia" is the Association of Indonesian Palm Oil Producers.

GHG Greenhouse gases are the emissions into the Earth's atmosphere of any of various gases, among others carbon dioxide and methane, that contribute to the greenhouse effect, leading to changes in temperature.

GLOBALG.A.P. Is a worldwide recognised farm certification program that translates consumer requirements into Good Agricultural Practices among multiple retailers and their suppliers.

HCS(A) The High Carbon Stock Approach is a methodology that distinguishes forest areas for protection from degraded lands, with low carbon and biodiversity values that may be developed. The methodology was developed with the aim of ensuring a widely accepted practical, transparent, robust and scientifically credible approach to implement commitments to halt deforestation in the tropics, while ensuring the rights and livelihoods of local peoples are respected.

HCV The High Conservation Value concept was originally developed by the Forest Stewardship Council in 1999 for use in forest management certification. In 2005 the HCV Resource Network was established and the scope was widened from 'HCV Forest' to 'HCV Area'. It is now a keystone principle of sustainability standards for palm oil, soy, sugar, biofuels and carbon, as well as being widely used for landscape mapping, conservation and natural resource planning and advocacy.

HCVA High Conservation Value Areas are designated on the basis of high HCVs which are biological, ecological, social or cultural values considered outstandingly significant at the national, regional or global level.

HGU "Hak Guna Usaha" is a cultivation licence issued by the Indonesian Government.

Inti The nucleus estate of a plantation company in Indonesia is referred to as "inti". They are stated as 'own' in the Group production figures.

IPM Integrated Pest Management is an ecosystem approach to crop production that combines different management strategies and practices to grow healthy crops and minimise the use of pesticides.

Izin Lokasi This licence issued by the Indonesian Government authorises a developer to compensate land from private owners in a specific location for a defined project.

ISCC International Sustainability and Carbon Certification is an independent certification scheme designed to demonstrate that biomass and bioenergy, and other biomass-based products used as ingredients by the feed, food and chemical industries, comply with requirements related to sustainability and GHG emissions. The scheme aims to reduce GHG emissions; ensure that biomass is not produced on land with high carbon stock or high biodiversity; ensure the application of good agricultural practices related to soil, water and air; and finally, ensure respect for human, labour and land rights.

ISPO The Indonesian Sustainable Palm Oil system is a policy adopted by the Ministry of Agriculture on behalf of the Indonesian Government. The aims are to improve the competitiveness of Indonesian palm oil in the global market; reduce GHG; draw attention to environmental issues and also lead the ISPO GHG Working Group. The ISPO Commission and the GHG Working Group have worked together to formulate the calculation guidelines for palm oil plantations in Indonesia. These guidelines will be used as a reference and be incorporated by the Government into the latest ISPO standard.

PKO Palm Kernel Oil is an edible vegetable oil derived from the kernel of the oil palm fruit.

Plasma Cooperative programs for plantation development in Indonesia oblige oil palm plantation companies by law to assist individual farmers to develop their agricultural land and manage oil palm planted areas, called 'plasma' areas. Their production is stated as 'outgrowers' in the Group production figures.

POME Palm Oil Mill Effluent is waste water generated from palm oil milling activities. With its high organic content POME is a source with great potential for biogas production and/or composting.

Rainforest Alliance The Rainforest Alliance is an international non-profit organisation working at the intersection of business, agriculture and forestry to make responsible business the new normal, and awarding certifications. It is an alliance of companies, farmers, foresters, communities and consumers committed to creating a world where people and nature thrive in harmony.

RSPO The Roundtable on Sustainable Palm Oil is a non-profit global certification scheme that unites stakeholders from the palm oil industry: oil palm producers, processors or traders, consumer goods manufacturers, retailers, banks/investors, and environmental and social non-governmental organisations (NGOs), to develop and implement global standards for sustainable palm oil. A set of environmental and social criteria has been developed, with which companies must comply in order to produce Certified Sustainable Palm Oil (CSPO). When properly applied, these criteria can help to minimise the negative impacts of palm oil cultivation on the environment and communities in palm oil producing regions. The RSPO members have committed to produce, source and/or use sustainable palm oil certified by the RSPO.

RSS Ribbed Smoked Sheets (commonly known as RSS 1 to 5), are a natural rubber which comes directly from the latex of rubber trees. The coagulated latex, rolled in sheets, is graded on the basis of certain parameters, after having been smoked, dried, and then packed in bales. The number 1 to 5 indicates the level of purity of the sheet. The RSS3 processed in Indonesia is mainly used for tires and tubes.

SAAS The Smallholder Agricultural Advisory Section is one of the operating units working within the community affairs department of Hargy Oil Palms in Papua New Guinea. It provides smallholders with the knowledge of agronomic techniques and skills to improve their productivity and livelihoods.

SICOM Singapore Commodity Exchange is a centralised and regulated market place for commodities and futures to be traded.

SIR Standard Indonesian Rubber. The different parametres are specified with numbers and letters defining the specifications content (dirt, ash, viscosity, etc.). According to SNI (Indonesian National Standard) specifications, a SIR 10 means that it is a cleaner rubber with less impurities than a SIR 20 and a SIR3CV60 presents a higher viscosity than a SIR3CV50 rubber.

IFRS terminology

Associated companies	Entities in which SIPEF has a signifanct influence and that are processed using the equity-method
Biological assets - bearer plants	The bearer plants (trees, tea bushes, banana plants, ...) on which the biological produce grows.
Biological assets - agricultural produce	The harvested product comming from biological assets - bearer plants.
CGU	Cash Generating Unit or cash flow generating unit.
Earnings per share basic	Net result for the period (Group share) / Average outstanding shares over the period.
Earnings per share diluted	Net result for the period (Group share)/ [Average number of outstanding shares over the period - own shares + (number of possible new shares that have to be issues within the framework of the existing outstanding stock options plans x dilution effect of the stock option plans)].
Joint ventures	Entities that are controlled jointly. These companies are consolidated following the equity method.
Net financial position	Interest bearing financial debts at more than one year + interest bearing financial debts within the maximum of one year - cash and cash equivalents.
Puchase Price Allocation or 'PPA'	The allocation of the purchase price of a new subsidiary to the value of various assets and liabilities acquired from the transaction.
Subsidiaries	Fully consolidated entities under SIPEF control.

Financial performance measures

EBIT	Operating results + profit/loss from equity companies.
EBITDA	EBIT + Depreciation and additional impairments/increases on assets.
Market capitalisation	Closing price x total number of outstanding share.
Working capital	Inventories + trade receivables + other receivables + recoverable taxes - trade payables - payables taxes - other payables.

Information on responsible persons

1. RESPONSIBILITY FOR THE FINANCIAL INFORMATION

François Van Hoydonck
Managing director

Johan Nelis
Chief financial officer

2. DECLARATION OF THE PERSONS RESPONSIBLE FOR THE FINANCIAL STATEMENTS AND FOR THE MANAGEMENT REPORT

Baron Luc Bertrand, chairman and François Van Hoydonck, managing director declare that, to their knowledge:

/// the consolidated financial statements for the financial year ended on 31 December 2018 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 2018 and their effects on the financial position, as well as a description of the main risks and uncertainties for the SIPEF group.

3. STATUTORY AUDITOR

Deloitte Bedrijfsrevisoren CVBA/
Réviseurs d'Entreprises SCRL

Represented by
Kathleen De Brabander
Gateway Building
Luchthaven Brussel Nationaal 1 J
1930 Zaventem
Belgium

For further information

SIPEF
Kasteel Calesberg
Calesbergdreef 5
2900 Schoten
Belgium

RPR: Antwerpen
VAT: BE 0404 491 285

Website: www.sipef.com

For more information about SIPEF:
Tel.: +32 3 641 97 00

Dit jaarverslag is ook verkrijgbaar in het Nederlands.

Translation: this annual report is available in Dutch and English. The Dutch version is the original; the other language version is a free translation. We have made every reasonable effort to avoid any discrepancies between the different language versions. However, should such discrepancies exist, the Dutch version will take precedence.

Concept and realisation: Chris Communications

Photography: portraits of the chairman, the members of the board of directors and the members of the executive committee © Jeroen Gijselinckx Photography - some images of estates and products © Jez O'Hare Photography

Copy SIPEF 100 years: Pascale Baelden, Storybox

Printed in Belgium: Albe De Coker Printing, Antwerp

Evolution of key data over five years

Activity		2018	2017	2016	2015	2014
Total own production of consolidated companies (in tonnes)	palm oil	290 441	272 312	246 121	238 548	219 623
	rubber	7 982	8 179	9 017	9 622	9 675
	tea	2 422	2 402	2 940	2 726	2 816
	bananas	27 788	29 772	24 991	24 286	23 595
Average world market price (USD/tonne)	palm oil*	598	715	700	623	821
	rubber**	1 565	1 995	1 605	1 559	1 958
	tea **	2 579	2 804	2 298	2 742	2 045
	bananas***	647	684	737	765	721
Own FFB production (in tonne/ha, 2017 excl. DIL)	Indonesia	20.60	22.36	21.34	21.23	20.46
	PNG	28.25	27.21	25.53	26.46	27.14
Palm oil extraction rate (2017 excl. DIL)	Indonesia	22.12%	22.46%	21.83%	22.15%	22.17%
	PNG	24.40%	24.59%	23.92%	23.36%	23.08%

Results (in KUSD)	2018	2017	2016	2015	2014
Turnover	275 270	321 641	266 962	225 935	285 899
Gross profit	72 096	120 474	73 792	43 650	78 903
Operating result	50 065	169 585	47 479	21 447	60 819
Share of the Group in the result	30 089	139 663	39 874	18 708	48 967
Cash flow from operating activities after taxes	33 682	119 853	51 218	31 357	73 737
Free cash flow	- 12 912	- 16 512	13 328	- 9 948	27 264

Balance sheet (in KUSD)	2018	2017	2016	2015	2014
Operating fixed assets [1]	640 435	614 351	414 989	404 166	343 199
Shareholders' equity	644 509	634 636	448 063	415 429	413 031
Net financial assets (+) / obligations (-)	- 121 443	- 83 697	- 45 061	- 50 521	- 24 617
Investments in intangible and operating fixed assets [1]	69 428	59 625	41 095	49 002	58 380

Data per share (in USD)	2018	2017	2016	2015	2014
Number of shares	10 579 328	10 579 328	8 951 740	8 951 740	8 951 740
Number of own shares	143 300	124 000	110 000	100 000	62 000
Equity	61.76	60.70	50.68	46.93	46.46
Basic earnings per share	2.88	14.21	4.50	2.11	5.51
Cash flow from operating activities after taxes [2]	3.22	12.20	5.79	3.53	8.29
Free cash flow [2]	-1.24	-1.68	1.51	-1.12	3.07

* Oil World price data
** World bank commodity price data - updated database
*** CIRAD price data (in EUR)

[1] Operating fixed assets = biological assets, property, plant & equipment and investment property.

[2] Denominator 2018 = weighted average number of shares issued (10 454 309 shares).

www.sipef.com

SIPEF