SIPEF

Ordinary General Meeting of June 12, 2024

Message from the President and Chief Executive Officer

Dear Ladies and Gentlemen,

It is our pleasure to welcome you to this 105th Ordinary General Meeting of SIPEF. We are pleased to meet again at our registered office, where shareholders have the opportunity to attend in person and meet the directors, members of the executive committee and Christoph Oris, representative of our auditor EY.

In this meeting, we will look back on 2023 and the main events of the first four months of 2024.

2023 was another challenging but successful year for SIPEF.

During the past year, the Group's commercial focus was on further developing its activities in South Sumatra and Côte d'Ivoire as well as on high quality products. In South Sumatra, specifically in Musi Rawas, the areas cultivated with palm increased by 2 337 hectares to 18 760 hectares, in accordance with the RSPO guidelines. Moreover, in addition to the growth of our land bank in South Sumatra, there was the replanting of the Dendymarker plantations so that the Group now has 28 362 hectares of new planted oil palm areas in this region. In Côte d'Ivoire, banana activities were expanded by 421 hectares through two new production sites. This allowed us to excel at the end of 2023 with banana export volumes that had increased by no less than 27.0% compared to the 2022 export volumes.

The milestone of 100 000 hectares of supply base was also surpassed in 2023. A total of 82 171 hectares within SIPEF's concessions have been planted with oil palm. Adding the plantations of smallholders, the total supply base of the SIPEF group exceeds 100 000 hectares. This is an important milestone in our growth.

Just to add that over the past ten years, the compound annual growth rate in hectares of the Group's sustainable oil palm plantations has been 4%.

In 2023, the palm oil market experienced a period of relative stability. Palm oil prices mainly followed the trends of other vegetable oil markets and gas oil prices. Although they were lower than in 2022, average price levels for 2023 remained historically high. During the year, prices fluctuated between USD 900 and USD 980 CIF Rotterdam. The market peaked in the second half of November and finally closed around USD 930 at year-end.

Throughout the year, palm kernel oil (PKO) traded at the same price as palm oil, or even at a USD 50 discount to palm oil. Coconut oil had a premium of about USD 100 over PKO. The average price of PKO CIF Rotterdam in 2023 was USD 950 compared with an average of USD 1 500 in 2022. Because PKO was relatively cheap, it slowly regained some market share. However, that was not enough to find its own course, leaving PKO in the shadow of its significant 'big sister'-product, palm oil, until the end of the year.

Palm oil production appeared to stagnate during the year, with Malaysian production largely flat compared to 2022 and Indonesian production showing only minor growth. A continued reduction in stocks was noted in Indonesia, as blending of domestic biodiesel to B35 was fully implemented, consuming more than 10 million tons of palm oil per year in domestic biodiesel production. Despite geopolitical turmoil in the Middle East, the petroleum market performed weakly. However, the impact on the freight market was significant. Increased risks in transit through the Suez Canal and Red Sea led to higher freight costs to Europe, which affected the logistics of SIPEF deliveries.

After a cyclical drop in production in the first half in Indonesia, plantations in Papua New Guinea recorded significantly fewer bunches in the second half of the year. This resulted in a 3.1% decrease in SIPEF group's total annual palm oil production compared to last year.

In North Sumatra, the harvest figures decreased by 6.9% compared to the previous year. Organic plantations experienced problems due to excessive rainfall in December, resulting in flooding and difficulties in harvesting and transportation. An 8.5% decline in harvested crops was recorded there.

Bengkulu experienced extremely dry weather conditions during the year, especially in September and October. Annual rainfall was between 17% and 48% lower than the 10-year average. Nevertheless, its own crop figures recovered toward the end of the year, with a 7.7% increase in the fourth quarter compared to the year before and a small overall increase of 0.4% over the previous year.

In South Sumatra, good rainfall levels at the end of the year boosted production after plantations suffered from drought in the third quarter. Harvest volumes were up an impressive 41.1% from 2022, and palm oil production from this region represented 23.5% of SIPEF's total annual production in Indonesia.

In Papua New Guinea, the cyclical downturn in harvest was particularly pronounced in the third quarter. The impressive performance of the past two years could not be continued. Despite a strong start to the year, the harvest pattern matched the previously known production decline in the second and third quarters. This decline was exacerbated by the November 20 volcanic eruption, which affected 46% of the planted palms from the company's own plantations. As a result, the total crop figures in Papua New Guinea at the end of December were 8.8% lower than in the previous year, and there was a 12.1% decline in the palm oil production.

Banana production in Côte d'Ivoire grew 43.8% in the fourth quarter of 2023, increasing 27.0% for the year compared to 2022. The newly developed Lumen and Akoudié sites, performed better than in their first crop year. However, the production of the historical sites remained below that of the previous year, as all three suffered from very unfavorable agronomic conditions at different times of the year. Despite the challenges, SIPEF made significant progress.

Thus, we can conclude that in 2023 operational performance was very stable despite global economic uncertainties and weather conditions. Consequently, we were able to close the 2023 fiscal year with a profit, Group share, of KUSD 72 735, which is within the upper limit of the originally anticipated range of USD 65-75 million. As a result of the continued expansion accompanied by investments amounting to KUSD 106 985, the Net Financial Position (NFP) came to KUSD -31 418 at the end of 2023.

In the first quarter of 2024, the supply and demand position of palm oil remained stable, with prices at the high levels of 2023. Although palm oil production stagnated, stocks decreased remarkably. The price of palm oil remained higher than competing oils, but consumers expected a short-lived trend due to the anticipated South American soybean crop, which, however, was hampered by poor weather conditions.

Palm oil stocks remain tight. They depend on normal northern hemisphere summer harvests and stable soybean production from Brazil and Argentina. Demand for palm oil remains strong, with destination markets likely to purchase the cheapest oil based on immediate need. The price of U.S. soybean oil remains low due to imports of used cooking oil (UCO) for the biofuel industry.

Indonesia's biodiesel mandate, which may reach 40% blending by the end of 2024, reduces the availability of palm oil for export. The current Rotterdam market price is around USD 1 000. We expect palm oil to continue trading at this high level driven by competitive prices and stronger export demand. Price movements will depend on liquid oil production forecasts and macroeconomic events.

Bananas did not follow the upward price trend of previous years in the first quarter of 2024. Indeed, rather large import volumes in the first weeks of the year made the European market vulnerable and unstable. From the end of February, however, extreme weather conditions combined with logistical turmoil (reduced Panama Canal capacity and storms in the Atlantic Ocean) completely reversed the trend. A lower supply of dollar bananas, combined with good global and especially European consumption, helped improve demand and European sales prices.

To date, 49% of CPO volumes have been sold at an average net selling price of USD 848 per ton. The average ex-mill gate price for Indonesia is USD 756 per ton and for PNG USD 956 per ton. In Indonesia, the net sales price is still affected by taxes and levies, which are set monthly and amounted to USD 93 per ton in June. Until the end of May, 36% was sold at an average ex-mill gate price of USD 756 per tonne. For palm oil from Papua New Guinea, which is not subject to export taxes and levies, we used forward positions to sell 80% of expected production at an average ex-mill gate price of USD 919 per ton.

On the agronomic front, the start of the year 2024 was slightly better compared to the production of fresh fruit bunches (FFB) of 2023. The Group recorded a slight increase of 1.3% in FFB production for the first 4 months of the year compared to the previous year's volumes.

In Indonesia, the Group was able to record a 15.5% increase in production for the first four months compared to the same period last year. This increase was mainly attributable to the young plantations in South Sumatra, where own production grew by 28.8% compared to the end of April 2023. This increase is mainly due to the higher maturity of the oil palms and the larger number of hectares coming into production. About 21 370 hectares of our new plantings are already being harvested, but South Sumatra's increasing contribution will drive the growth of SIPEF group's productions in the coming years.

In Papua New Guinea, the Group experienced a severe “wet season” effect for most of the quarter, with rainfall exceeding last year’s figures by more than 50%. The persistent rain hampered harvest rounds, hindered loose fruit collection and disrupted the transport of “Fresh Fruit Bunches” to the palm oil extraction mills. This was exacerbated by the remoteness of the Group's plantations, which rely on overseas supplies. Following the ash rains from last November's volcanic eruption, recovery work progressed well in the affected areas, which amount to about 25% of the planted area, and could be fully completed. However, most impacted areas will not produce the usual number of bunches until they are fully recovered. This may take more than a year, depending on the damage sustained. All these effects combined led to an overall 16.4% decline in FFB production volumes, both on their own plantations and among surrounding smallholders. Lower quality bunches also affected OER at the three palm oil extraction mills, resulting in a 23.3% drop in palm oil production at the end of April 2024 compared to the same period the year before. Consequently, although it is difficult to predict how production will recover, annual production in Papua New Guinea is expected to be 20% lower than last year.

Looking ahead, we see that, based on the latest fruit counts, the number of available fruits has declined somewhat, partly due to a delayed effect of drought over the passing years. This delayed effect is especially noticed in the production of plantations with organic soil (UMW group). We can also speak of a cyclical decline in the Bengkulu region, where despite the good rainfall patterns during the first quarter compared to the long-term averages, the impact of the drought in August to November last year is now more affecting the available fruit in the trees. The Group, therefore, does not immediately expect rapid growth in volumes in the next 3 months. Consequently, achieving 5% growth at year-end will not be evident. Even if better volumes are achieved in the second half of the year, when cyclicality should be absorbed.

However, we do see improvement in oil extraction figures that were 5.2% lower until the end of April relative to oil extraction for the Group in that period in 2023. This decrease led to a produced palm oil volume that was 4.3% lower than at the end of April 2023. The reduction in OER was due to various efficiency improvement works in the palm oil extraction mills. In addition, the wet weather also affected the oil content in the harvested bunches, except in the plantations with mineral soil in North Sumatra. When the half-year results are released in August 2024, we should be able to paint a better picture of this. These temporary decreases in production volumes of FFB and OER in the first 4 months of 2024 have no long-term effects and SIPEF is still on track with its long-term forecast to produce about 600 000 tonnes of crude palm oil by 2030.

As for our banana production in Côte d'Ivoire, we achieved a 28.6% growth at the end of April 2024 compared to the same period last year, thanks to new plantings and improved agronomic techniques. The European market remains strong, and annual term contracts with reputable customers ensure that this activity makes a stable contribution to our operating results.

Work is also continuing steadily on phasing out rubber and tea, which are no longer part of the Group's core business. This is being achieved, on the one hand, through the conversion of rubber trees to oil palms, which is well under way and will lead to 2 951 hectares of newly planted oil palms.

Also, the sale of PT Melania, which owns the third rubber plantation and all of the Group's tea activities, will be completed in the second half of 2024. The final part of this sale is the renewal of the permanent exploitation rights, known as HGUs, for a new 25-year period. This process has taken longer than expected due to elections in Indonesia, which prevented government departments from immediately approving applications. The final steps are currently being finalized to obtain the HGU this year and allow the final transfer to take place. The extension of the original application deadline for the HGU will potentially have a limited negative impact on the capital gain already recorded in 2021 on this transaction.

The expansion of Plantations J. Eglin's banana plantations will be completed in 2024. This will bring the total planted area to 1 338 hectares by the end of 2024 and gradually increase production to 60 000 tons by 2025.

The financing of this extensive and diversified investment budget of more than USD 100 million for the SIPEF group should fit within the operating cash flow generated for the year, and will leave sufficient room for the usual dividend payment. As a result, the Net Financial Debt position at the end of 2024 is expected to closely match the well-managed debt position at the end of 2023.

Most inputs, related to the unit production cost of palm oil, such as fertilizers, fuel prices and transportation costs, have increased slightly in 2024 due to the current geopolitical environment. The continued devaluation of local currencies against the USD has fully absorbed inflation-induced wage increases for the Group's employees. This resulted in currently stable production costs. In the future, unit production costs will continue to decline as the mature plantings in South Sumatra progress. This decrease will eventually be accompanied by increasing harvest volumes and a reduction in the average unit production cost for the SIPEF group.

In 2024, the Group will continue to focus primarily on efficiency improvements, investment programs in South Sumatra as well as strategic value creation by producing high quality, traceable and sustainable palm oil and quality bananas.

In South Sumatra, investment programs relate to the further expansion of planted areas and new infrastructure in Musi Rawas. In that context, in accordance with the RSPO 'New Planting Procedures', the Group plans to plant more than 2 000 more hectares of oil palms, which could bring the total cultivated area to nearly 35 000 hectares. In Dendymarker, the investments provide for the improvement of the existing infrastructure now that the replanting of 10 197 hectares has been fully completed.

At the end of April 2024, the total renewed and cultivated area in South Sumatra already reached 28 971 hectares, of which 21 370 hectares are young mature and already harvested. The completion and start of operations of the 10th palm oil extraction mill within the SIPEF group, located on one of the Musi Rawas plantations, is scheduled for June 2024. This plant will further increase processing capacity and ensure efficient processing of the entire crop, both from its own plantations and those of smallholders. In addition to the expansion in South Sumatra, the Group will invest in 2024 in the renewal of materials and palm oil extraction mills, as well as in the usual replanting programs of 12 090 hectares of older plantations in Sumatra, Papua New Guinea and Côte d'Ivoire.

The strategic investments in “value creation” are closely linked to innovation, early application (“early adoption”) of new techniques and operational improvements, with a specific focus on the production of high-quality oil with low pollution content. SIPEF aims to become the preferred supplier of high-quality premium palm oil products, occupying a unique position in the market.

The Group established comprehensive quality assurance protocols in 2023 and conducts regular inspections and tests to ensure that its palm oil and bananas meet the strictest standards within the industry. A key focus here was the successful transition to using H1 food safe lubricants, a program that began in Papua New Guinea in 2022 and was completed there in 2023. SIPEF also successfully completed the pilot project for the CPO wash plant at the Mukomuko palm oil extraction mill in Indonesia. The wash plant is designed to reduce chloride levels in CPO production, as it is one of the main precursors for causing a higher risk of 3-MCPD, a contaminant that is not present in the feedstock but can be generated by the refining process. After promising initial results, the wash plant will be further tested and monitored in 2024 before facilities are installed at additional sites.

Our sustainable initiatives remain a priority. SIPEF strives to produce 100% sustainable palm oil and imposes strict standards on itself that often go beyond certification standards. SIPEF's “Global Sustainability Team” remains a forerunner in the application of international sustainability rules and has produced an 2023 integrated annual report that complies with the new “Corporate Sustainability Reporting Directive” (CSRD). SIPEF now ranks 4th out of 350 companies in Forest 500, with a 10% increase from the previous assessment. To support its transition planning, SIPEF completed its biodiversity and climate risk and opportunity assessments in the first quarter of 2024. It will also incorporate the outcome of these assessments in its plans for the coming years to reduce the Group's emissions and comply with European directives.

Efficiency improvements also remain crucial for our palm oil operations. Our investment in Verdant Bioscience reflects our commitment to supporting innovative and sustainable solutions that transform the industry. By investing in companies like Verdant Bioscience, we are contributing to a future of efficient palm oil production with yield improvement through new seed materials.

SIPEF can look forward to another strong performance year, despite a fruit production in Indonesia that is temporarily slightly lower than expected, but with supportive palm oil markets. As the November 2023 volcanic eruption will still have an impact on production volumes in Papua New Guinea, the final recurrent result for 2024 could be slightly lower than the result achieved in 2023. However, taking into account the already realized sales of palm oil and based on recent market prices, the Group expects satisfactory recurrent net annual results for 2024. The final recurring result will largely be determined by the perpetuation of the expected production growth and the level of market prices for the remainder of the year. Through continued satisfactory recurring results, the Group will also generate positive cash flow.

As announced in our February 2024 press release and 2023 integrated annual report, the Board of Directors proposes to pay a gross dividend of EUR 2.00 for fiscal year 2023 on July 3, in line with the 30% payout ratio of previous years. This reflects our confidence in the future and our commitment to delivering value to our shareholders.

Today we request you to renew the mandate of director of Gaëtan Hannecart, which expires at the end of the current Meeting, for a new period of 4 years until the end of the General Meeting of 2028. We also invite you to renew the mandate of auditor of EY for a period of 3 years until the end of the General Meeting of 2027. If you agree, EY will be represented in the performance of this mandate by Christoph Oris. Finally, we invite you to also designate the auditor as the independent accountant to provide assurance on the sustainability information in the annual report. More specifically, this is a mandate provided by the CSRD, which was created to assess the reliability of relevant sustainability data of a company as of the fiscal year 2024. Currently, this directive has not yet been transposed into Belgian law. Hence, the appointment of EY to perform the assurance is subject to the transposition of this directive into Belgian law. This will avoid the need to convene a second general meeting for this appointment and assignment of EY.

Further the Board proposes to appoint Petra Meekers as a new Director for a period of four years, until after the end of the General Assembly in 2028. If you approve this proposal, this mandate will be extended to the position of Managing Director from September 1, 2024. Petra is already well known to us. She was an independent director at SIPEF from 2017 to 2021 after which she joined the ranks of the Executive Committee as Chief Operating Officer Asian Pacific (COO APAC). First from Singapore and more recently from our headquarters in Schoten, Petra has already sensitively contributed to the latest developments within the SIPEF group, drawing on her many years of experience from the palm oil sector and then also from the food producers sector. Petra is therefore the perfect successor to realize, in addition to SIPEF's operational performance, the value creation through the movement towards quality products in the next decade.

Finally, we would like to thank all SIPEF group employees for their dedication and perseverance over the past year. Thanks to their hard work and dedication, we were able to overcome the challenges of 2023 and stand strong for the future.

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