

## RESPONSE TO QUESTIONS FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE)

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Golden Agri-Resources Ltd (the “**Company**” or “**GAR**” and together with its subsidiaries, the “**Group**”) would like to provide its response to the questions raised by Securities Investors Association (Singapore) (“**SIAS**”) on 18 April 2022 in relation to the Company’s Annual Report for the financial year ended 31 December 2021 (“**Annual Report**”) prior to the upcoming Annual Meeting (“**AM**”) to be held by electronic means on 29 April 2022 at 2.00 pm.

**Q1.** FY2021 was noteworthy for the group as revenue for the full year crossed US\$10 billion fueled by strong CPO prices. Coupled with robust margins from the downstream business, the group’s EBITDA increased by 81% to US\$1.21 billion. Underlying profit more than doubled to US\$603 million while net profit also increased to US\$476 million.

The operations review can be found on pages 15 to 19 of the annual report.

- (i) **Fresh fruit bunches (FFB):** The FFB yield has declined from 21.5 in 2019 to 20.4 in 2020 to 19.9 tonnes per hectare in 2021. **Can management help shareholders understand the reasons for the gradual decline? How much of the decline could be attributed to unfavourable weather?**
- (ii) **Milling facilities:** The group owns 49 mills with a combined installed annual capacity of 14.42 million tonnes. **Are there plans to further increase the number of mills? What is the capital expenditure required for a new mill?**
- (iii) **Utilisation rates:** While the group achieved 99% utilisation rate for its refineries, the utilisation rate for the kernel crushing plants was lower at 86% in FY2021. **What are the reasons for the difference in utilisation rates?**
- (iv) **B30 mandate:** **What are the key features of the Indonesian B30 programme? How favourable are the prices obtained from the group’s participation and allocation? Is the group looking to further increase its 774,000 kilo liters of B30 allocation?**
- (v) **Consumer food:** **For the benefit of shareholders, what are the key consumer brands and products in the group’s consumer food segment? Do the group’s branded products have market leadership in their respective categories?**

### Company’s response to Question 1 (i)

FFB yield is very dependent on weather condition. Excessive rainfall or extensive period of dry weather will lead to a decrease on the overall yield.

In 2019, there was an El Niño condition which resulted in a drought in Indonesia. The water deficit usually impacts the trees for two consecutive years. The first year has higher impact than the second year. Our FFB yield reduced by 5% from 21.5 tonnes to 20.4 tonnes in 2020. For the following year, the FFB yield declined by 2% to 19.9 tonnes in 2021. This is primarily impacted by the El Niño condition in 2019.

### Company’s response to Question 1 (ii)

Currently, we do not have any plans to further increase the number of mills as our mill capacity is adequate to cover all of our FFB harvested from our estates even during peak production season. For a typical 60-tonnes-per-hour mill, the capital expenditure is approximately US\$15-20 million depending on the location and facilities.

### Company's response to Question 1 (iii)

We run our processing facilities based on estate production and customers' demand, using raw materials sourced from our estates and third-party purchases. Accordingly, both facilities do not necessarily have to operate at the same utilisation rate.

### Company's response to Question 1 (iv)

The Indonesian B30 programme is a biodiesel mixture which contains 30% Fatty Acid Methyl Ester (FAME - from palm oil) and 70% diesel fuel. This programme was launched to reduce dependency on imported fuel and encourage the usage of renewable energy in Indonesia. Especially with the country being the largest palm oil producer in the world. Biodiesel price is set by the Government with a formula of CPO price plus margin (currently at US\$85 per tonne) and transport cost, hence it is a fixed margin. The difference between biodiesel price and diesel fuel price is subsidised by the CPO Export Levy Fund. As you may know any exported palm products from Indonesia is subject to export levy, of which the rates differ depending on the type of palm products.

The Indonesian Government decides the volume allocation after considering the capacity, location and logistic from all participated biodiesel processing facilities in Indonesia. GAR is expanding its biodiesel capacity from 2,000 tonnes per day to 3,500 tonnes per day, hence we expect to receive higher allocation in 2023.

### Company's response to Question 1 (v)

Our key consumer brands and products are cooking oil and margarine in Indonesia, notably Filma and Kunci Mas. In India, we are the market leaders in the sunflower oil category with our 'Freedom' brand, in the states of Telangana, Andhra Pradesh, and Odisha, and hold the third largest market share in the state of Karnataka.

**Q2.** The board has proposed a final dividend of 1.077 Singapore cents per share. Along with the interim dividend of 0.528 Singapore cents per share distributed in November 2021, the total dividend for the year will be 1.605 Singapore cents per share or US\$151 million in total.

This represents the highest dividend distributed by the company and a 234 percent increase compared to the previous year. This is also slightly higher than the dividend policy of declaring up to 30% of the group's underlying profit.

The group's net debt to equity ratio has improved to 0.2 times, the lowest level in the past 6 years.

(i) **What is the optimal capital structure to support the group's growth objectives? What is the target/optimal net debt to equity ratio?**

(ii) The current dividend policy has a (soft) limit of 30% of the group's underlying profit. **Is the group in a position to review the dividend policy?**

The company has also initiated a share buyback programme with an allocated amount of up to US\$100 million for the year 2022 to further reward our shareholders.

(iii) **What were the deliberations by the board on the initiation of a share buyback programme? Are there tax advantages in carrying out a share buyback programme compared to the declaration of dividends?**

(iv) **In addition, with a market capitalisation of over S\$4.17 billion, how did the board determine the allocation of US\$100 million for its share buyback programme?**

(v) **Who is overseeing the share buyback programme? What factors (including price, and timing) are being considered for the share buyback programme?**

#### Company's response to Question 2 (i)

Management is comfortable with a leverage level (adjusted net debt to equity ratio) of not exceeding 1.50x. With the current global pandemic, we continue with our deleveraging initiative, resulting in net debt to equity ratio gradually declining to 0.20x as of 31 December 2021 from previous 0.25x. While we closely monitor the global macro-economic and geopolitical conditions, we will carry on with our endeavours to have healthy financial ratios and a strong balance sheet.

#### Company's response to Question 2 (ii)

We would like to clarify that the proposed final dividend for FY2021 (including interim dividend) is 1.605 Singapore cents per share or US\$151 million in total. Our underlying profit for FY2021 was US\$603 million, hence total proposed final dividend represents 25% of our underlying profit. This is in line with our dividend policy of distributing up to 30% of underlying profit.

GAR currently does not have any plans to change its dividend policy. Kindly note that the dividend declaration, amount and payment will depend on many factors, including results of operations; cash flow and financial condition; expansion and working capital requirements; cash dividend received from subsidiaries; future prospects; and other factors deemed relevant by the Board and our shareholders.

#### **Company's response to Question 2 (iii)**

This is not the first time for GAR to conduct a share buyback. GAR Board has annually sought/obtained shareholders' approval on renewal of Share Purchase Mandate. Share buyback programme provides opportunity that (a) allow the Directors greater flexibility over the Company's share capital structure with a view to enhancing the earnings and/or the value of the Company; and (b) provide the Company with a mechanism to facilitate the return of surplus cash over and above its ordinary capital requirements, in an expedient and cost-efficient manner.

We are not aware of any tax advantage in carrying out a share buyback programme compared to the declaration of dividends.

#### **Company's response to Question 2 (iv)**

The allocation was determined after carefully taking into consideration the need to retain sufficient cash for capital expenditures, working capital and other operational requirements, as well as maintaining a healthy financial position.

#### **Company's response to Question 2 (v)**

The Board will oversee the share buyback programme execution. Share purchases will only be effected if circumstances permit, and if it is beneficial to the Company and shareholders. The Board shall not offer or agree to purchase shares unless the consideration is fair and reasonable, and does not exceed the Maximum Price. Further details of the authority and limits of the share buyback are elaborated on pages 2-4 of the Appendix 1 to the Notice of Annual Meeting of the Company dated 8 April 2022.

**Q3.** The group has established a GAR Social and Environmental Policy (GSEP) which is the roadmap which details the group's commitments on the most material ESG issues and the group's overall approach to responsible management and it applies to the group's suppliers and investments.

In addition, in November 2021, Ms. Anita Neville was appointed Chief Sustainability and Communications Officer (CSCO) for GAR.

The full Sustainability Report will be published by the company in June 2022. The group reports using the Global Reporting Initiative Standards – Core option and relevant disclosures recommended by the Standard for the Agricultural Production sector as defined by the Sustainability Accounting Standards Board.

The material sustainability topics, including the priority ESG topics, can be found on page 73 of the annual report. The key targets and progress can be seen on pages 74 & 75.

- (i) **How does the board ensure that the group's policies are effective on the ground and result in the desired outcomes?** For instance, the group has in place a Zero Burning Policy.
- (ii) **Has the group committed to a “No Deforestation, No Peatland and No Exploitation” policy?**
- (iii) **Can the board/management also help shareholders better understand the main features of Traceability to the Plantation (TTP)? With over 350 third- party supplier mills, what is the level of confidence/level of assurance in the data collected?**

As the group sources from smallholders, it has in set up a Ksatria Sawit programme which focuses traceability of the supplier mills that buy from smallholders. Around 118,000 farmers have been registered under the programme.

- (iv) **What is the estimate of the total number of smallholders/farmers? How will the group be reaching out to the remaining farmers?**

### Company's response to Question 3 (i)

The Board and senior management are fully committed and support GAR's sustainability commitments under the GAR Social and Environmental Policy (GSEP). The GSEP is our NDPE (No Deforestation, No Peat, No Exploitation) policy. It contains our sustainability commitments across four key pillars: Environmental Management (which includes policies like our Zero Burning Policy); Social and Community Engagement; Work Environment and Industrial Relations; as well as Marketplace and Supply Chain.

A Sustainability Committee (SC) oversees all matters related to responsible business. The SC comprises the senior leadership team from the upstream, downstream and corporate business units as well as the CSCO and other staff members of the Sustainability and Communications Division. The SC reports directly to the Chairman and CEO and the Board, and meets regularly every quarter to oversee the development, implementation and monitoring of the GSEP and our performance across all our business operations.

Over the years we have continued to invest additional resources with the aim of embedding responsible palm practices in our day-to-day operations. We have a sustainability team of over 250 staff in Jakarta and in the field working to implement our sustainability measures.

We employ specialists to oversee and handle key areas such as conflict resolution, High Carbon Stock/High Conservation Value management, fire prevention, community consent (FPIC), grievance management and health and safety. The Sustainability and Communication Division also works with colleagues in Human Resources in ensuring employee well-being, and fair labour practices are in line with the GSEP.

Our staff receive ongoing training in sustainability-related matters including implementation of the GSEP.

Through our ongoing issues monitoring, stakeholder engagement and regular materiality assessments we also keep abreast of the latest ESG concerns and trends and consider such emerging issues where relevant.

#### **Company's response to Question 3 (ii)**

Yes, GAR began adopting NDPE principles in 2011 when it adopted the Forest Conservation Policy, the first in the palm sector. Our NDPE policies and commitments were eventually incorporated under one document, the GSEP in 2015 – please see no. 3 (i) above. The policy can be viewed on [our website](#).

#### **Company's response to Question 3 (iii)**

Being able to trace back to the plantation means that we are able to map and know the source of our raw materials such as Fresh Fruit Bunches (FFB). We do this by working with our suppliers starting at the mill.

A mill achieves TTP when they meet the following criteria:

a. Can identify all sources of FFB

They must know which plantations the fruit they receive and process come from. This includes having relevant information such as exact location (maps or coordinates for estate and at least the name of village for independent smallholders) and details of ownership.

b. Have standard operating procedures to document the movement of FFB

They must have processes in place to document movement of the fruit from plantation to their mill. This includes chain of custody documents when the FFB ownership changes hands from farmers to any intermediaries before entering the mill's weighbridge.

GAR also launched the Ksatria Sawit (Palm Oil Warrior) programme in 2019 to help accelerate the traceability process in its final stretch. The programme covers Aceh, North/South Sumatra and Riau where many of our supplier mills are buying from smallholders and agents. Currently there are around 118,000 smallholders registered under this programme.

Our traceability programme is backed up by documentation from the suppliers and is updated every quarter. We also conduct regular engagement including site visits and annual assessments of our suppliers.

We have particularly high confidence (100%) in data collected from our own mills which supply 45% of the volume of CPO and from RSPO-certified supplying mills as well as the mills which are under our Ksatria Sawit programme. With the mills that are not under these categories, we receive TTP declarations from them which are in varying degrees of detail. We will be working further with these mills to improve the level of detail over time.

We therefore have a fairly high level of confidence in the data. In the future we will also be seeking external verification of the data.

#### **Company's response to Question 3 (iv)**

We know that 145,000 smallholders are involved in the supply of 71% of GAR procured volume from 184 mills. (This 71% comes from GAR's own mills (45%); mills which obtain 100% of their FFB from their own and plasma plantations; and third-party suppliers under the Ksatria Sawit programme.)

We estimate that between 500,000 to 750,000 smallholders are involved in supplying the remaining 29% of volume from 218 mills.

This year we are continuing to map independent smallholders in GAR's supply chain at 28 third-party mills and we will also be continuing outreach through the Ksatria Sawit programme.

By Order of the Board  
**GOLDEN AGRI-RESOURCES LTD**

Rafael Buhay Concepcion, Jr.  
Director  
22 April 2022