CEO'S STATEMENT

DEAR SHAREHOLDERS,

The global economy remained soft in 2015. Prices of the Group's three main commodities – palm oil, sugar and rubber – had succumbed to the pressure of weak market sentiments, with supply growth exceeding demand growth for both rubber and sugar. Although the US Federal Reserve finally raised its interest rate in late 2015 for the first time in nearly a decade, the market response had been tentative in light of China's stock market crash, the devaluation of the Renminbi and the creeping recovery of Europe.

Crude oil demand had stayed suppressed with prices dithering at an average of USD50 a barrel throughout the year. The repercussion was felt in the biofuel market, as the low crude oil price has eliminated virtually all the discretionary biodiesel demand. The resulting surplus in biofuel crops has put both palm oil and sugar under further price pressure.

The full potential of lower fossil fuel prices has also not transmitted through to the Indonesian economy as domestic markets endured the weak Rupiah and a slow start of the economic reform programmes promised by the newly elected government. In view of the tight market conditions, the Group decided to rein in both capital and discretionary expenditure, slow down new development projects and plantings during the year, and focus its strategies on cost control initiatives.

In 2015, the Group registered positive growth with the production of 3,414,000 tonnes of FFB nucleus and one million tonnes of CPO, up 5% from the previous year. Despite the higher production, our 2015 results were affected negatively by soft commodity prices and a weakened Rupiah. Our consolidated revenue in 2015 dropped by 8% to Rp13.8 trillion due to contracted sales value and volume of edible oils. This, coupled with foreign currency losses, has led to a 78% decline in net profit after tax. Our core profit, excluding the effects of foreign exchange losses and biological asset valuation, was Rp555 billion, a decline of 60% from 2014.

Strengthening core operations

We took the opportunity of the slow year to improve internal operations, innovation and production capacities. The production facilities in Kalimantan were augmented with the completion of a new 45 tonnes per hour FFB mill and the expansion of another mill from 60 to 80 tonnes per hour. Two new mills – one in South Sumatra and another in Kalimantan – were commissioned and targeted for completion in 2016. A 200 tonnes per day margarine plant at Tanjung Priok was completed in 2015. The capacity of the Surabaya refinery will be increased by 1,000 tonnes per day and will be ready in 2017.

The Group achieved higher FFB and CPO outputs this year with the maturing of 5,722 hectares of young palms mainly from South Sumatra. The continued use of precision agronomy, GPS and data analysis has enabled us to optimise land use, yield and manpower, and improve our operational productivity overall.

SumBio, our R&D centre in North Sumatra, successfully cultivated two new variants of oil palm seed material with high-yield and disease tolerant strains. These will be used in our own new plantings initially, and sold commercially in future.

We successfully implemented the mechanisation programme in our sugar plantation in Indonesia this year. Mechanised cane harvesting was increased from 25% to 50% of the estate, while 80% of the cane was planted mechanically as compared with just 20% the year before. By following a pre-set grid optimised for planting and movement of the GPS-guided planters and harvesters, we are able to increase the effective areas for plantings by 10%. The autonomous machines are also able to operate around the clock to make up for any disruption in planting or harvesting during the raining seasons.

Growing market share

In the Edible Oils & Fats (EOF) business, we have stepped up on product innovation. The EOF Division introduced a new garlic-flavoured margarine in 2015, the first of several new flavoured products that would differentiate and expand our share of the mass consumer EOF market segment. Other initiatives were ongoing to produce premium cooking oils for patisseries and the F&B sector.

As part of our commitment to customer service improvement, we embarked on a review of our supply chain to improve leadtime for orders. By expanding our distribution network and improving our service level, we have gained new customers in retail stores and hyper-marts who prefer to hold less inventory.

We have enhanced the presence of our EOF brands with promotional activities organised throughout the year, enabling the Bimoli brand to gain further traction across Indonesia.

Growing sustainable agribusinesses
The commitment to deliver safe, traceable and high-quality food products remains at the core of our sustainability endeavours. As at end-2015, the Group was recognised for an additional 45,000 and 135,000 tonnes of certified CPO production under RSPO and ISPO requirements, respectively. This brings our total RSPO and ISPO-certified outputs to 377,000 tonnes and 180,000 tonnes, respectively.

It is our goal is to achieve 100% sustainable palm oil sourcing by 2020. To this end, we have organised training programmes, conducted independent audits, and issued the Palm Oil Sourcing Policy and Responsible Supplier Guidelines to help all our plasma smallholders and third-party CPO suppliers attain RSPO certification by 2019. 80% of supply to our refineries is from CPO suppliers who have been pre-audited against the IndoAgri Palm Oil Sourcing Policy. The first batch of 159 smallholders started their RSPO Certification audit in 2015.

As employers and landowners, we contribute significantly to the livelihoods of the farmers and suppliers who work on our estates. Each year, we continue to give back to our local communities by providing support in areas such as infrastructure development, health services, living and recreational amenities, education opportunities and empowerment programmes.

In 2015, we have achieved higher palm production output, improved internal processes, expanded our production capacities and distribution network, as well as enhanced our customer service level.

We have an ongoing partnership with doctors to provide free on-site operations to all the locals living on and around our Kalimantan and South Sumatra estates who are suffering from cataract. To date, 571 local residents have benefitted from this programme.

Once again, the haze situation has continued to put the Indonesian palm oil companies under scrutiny in 2015. Plantation estates will always be vulnerable to fires in the dry season. Under our dual-ringed fire monitoring mechanism, we have an established procedure for working with the local authorities to report and put out any fires occurring within or near our plantation borders. To combat the haze, we actively patrol our perimeters, conduct daily site inspections at fire-prone areas, and disseminate information on hot spots around our plantations based on satellite feeds published by the Singapore Government. This has enabled our estate teams to expediently alert and render assistance to the local authorities in the joint effort to prevent or put out any fires.

Outlook in 2016
Palm oil is the most economical vegetable oil to produce in the world due to its high yield. Coupled with the strong demographic and economic fundamentals of Indonesia, and Asia the palm oil market is expected to turnaround once the global economy regains its traction and demand picks up.

We are expecting the current biodiesel-blending mandate of 20% that was announced by the Indonesian government to boost domestic demand of palm oil, but adoption will be gradual. Erratic weather conditions have taken a toll on crop production with intermittent droughts and floods affecting supply, which will affect future commodity prices.

Our outlook for the agribusiness remains optimistic but we are cautiously calibrating our activities to both global and local developments to mitigate risks and exposures. Our priority ahead is to stabilise operations and to ready the organisation when the economy rebounds.

Appreciation
It is often said that challenges present the opportunity to grow, learn and perform. With that in mind, I wish to thank all IndoAgri employees for staying united in their dedication and hard work this year. I also wish to thank the Board of Directors for their exemplary leadership, and most importantly, our customers and business partners for their unwavering confidence and support.

Mark Julian Wakeford
Chief Executive Officer and Executive Director