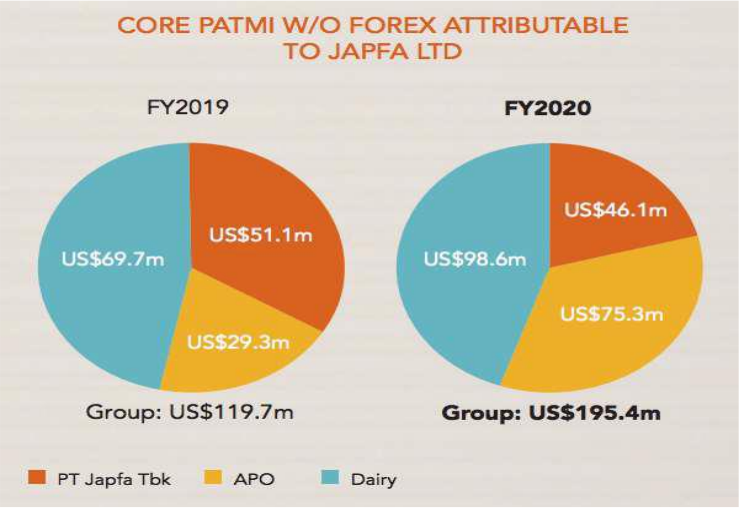
Answers to questions received from Securities Investors Association (Singapore) (SIAS).

For ease of convenience, we post our replies together with the questions received from SIAS.

Q1. The group celebrated its golden jubilee in 2020. Over the five decades, the group has grown from a single poultry feed mill in Indonesia into a leading, pan-Asian, industrialised agri-food company dedicated to feeding emerging Asia with essential proteins.

The group has been successful in its diversification strategy across proteins and markets and has built up three main pillars, namely poultry in Indonesia, dairy in China, and swine in Vietnam. The group's core PATMI is shown on page 24 and reproduced below:



(Source: company annual report)

In the message to shareholders, the chairman has said that the group is still looking to establish more pillars in the future, such as aquaculture. Based on the prospects for protein consumption in middle- and lower-income consumer groups in Asia, the group remains confident in its long-term outlook.

Would the board/management help shareholders understand the significance of the corporate actions during the year? Specifically:

(i) **Dairy – China: Following the sale of 25% of the dairy business in China to Meiji, will the group be accelerating its growth plans for the China dairy business?** With the Meiji partnership, the group will supply quality raw milk to support Meiji's downstream operations. **How will this affect the relationships the group has with its other downstream customers who are themselves leading dairy companies in China? Will the partnership potentially slow down the growth of the group's downstream dairy business under its own brand 澳亚牧场 (AustAsia)?**

Japfa
The Meiji transaction should not have an acceleration impact on our growth plans in China, rather will support growth of our Dairy-China business into one of the largest independent raw milk producers in China.

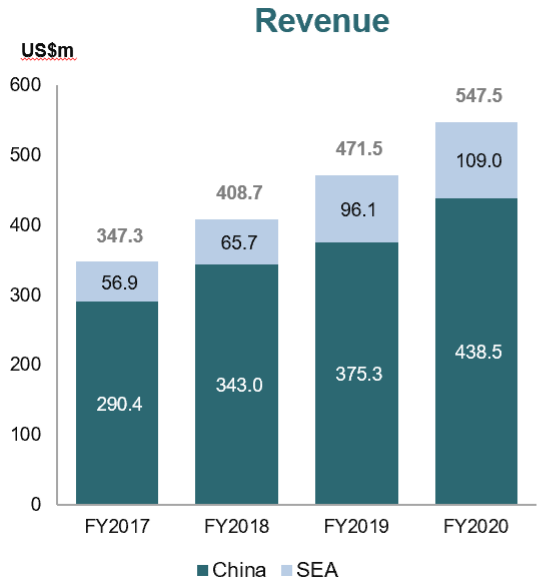
To explain the Meiji transaction, we need to go back to 2017 when Japfa acquired the remaining interests in our dairy segment from its joint venture partner, Proterra a private equity financial

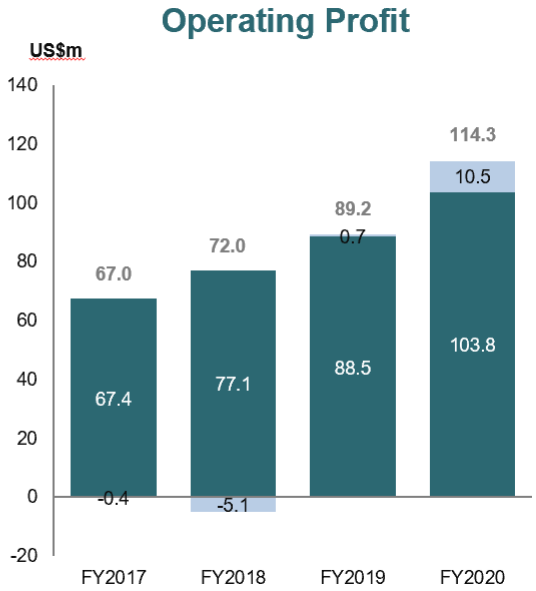
investor. This acquisition in Dec 2017 was funded by a US$280m 3-year syndication loan taken out by Japfa Ltd (Acquisition Loan). The Acquisition Loan was structured so that it could be prepaid or cancelled without penalty, as it was our intention to eventually replace this Acquisition Loan with equity or long-term debt funding. The divestment of the 25% stake to Meiji basically achieved this objective. In addition, we found in Meiji, one of our growing dairy customers, a strategic partner that will support growth of our Dairy-China business into one of the largest independent raw milk producers in China.

We do not expect the 25% Meiji stake to affect our relationships with our other downstream customers. Our milk supply offtake contracts with our major customers have not been affected to-date. Our two largest customers, Mengniu and Yili, have themselves been acquiring stakes in dairy farm operations in the last few years. Meiji is one of the many dairy downstream producers in China that need to source raw milk for their downstream products and as such we believe that this creates an opportunity for an independent raw milk producer like Japfa to supply milk into this growing market.

In Dairy-China, we mainly sell raw milk. The Dairy-SEA we only sell branded downstream daily products.

As seen from the diagrams below, the primary profit driver for our dairy segment comes from Dairy-China. In FY2020, the revenue from China downstream business represented less than 3% of total revenue of Dairy-China. The continuing key focus of the Dairy-China is to supply raw milk. The downstream business in China targets a niche segment and is likely to remain a small part of Dairy-China in the near term. Currently, the downstream business is B-to-B (business-to-business e.g. coffee chains) and it would take a while before we consider moving into the branded B-to-C (business-to-consumer) sector.





(ii) **Dairy – SEA:** The group also divested a 80% stake in its vertically integrated branded dairy business in SEA to TPG and Northstar. With this strategic tie-up, the group continues to benefit from future upside as TPG and Northstar bring both funding and management expertise. **Can management help shareholders understand the level of influence and control it retains in the business after the sale?**

Japfa

The Group's dairy segment operates in two distinctly separate geographies, namely (i) the China dairy business, which comprises mainly dairy farming (Dairy-China) selling raw milk and (ii) the South East Asia dairy business, which is a vertically integrated branded dairy product business supported by milk

from its own dairy farms (Dairy-SEA). The Group's dairy business has grown considerably in recent years and there is potential for further growth in both geographies. To accelerate the next phase of development in Dairy-SEA, we entered into a strategic partnership with TPG and Northstar, both reputable and active investors, to bring both funding and senior management expertise.

By effectively retaining a 20% stake in the joint venture, Japfa will continue to benefit from the upside potential of the Dairy-SEA. We will not have any strong level of influence and control over the Dairy-SEA business going forward. This will allow our dairy management team to focus on growth of the Dairy-China business.

(iii) **Dairy: Can the board help shareholders understand the reasons to allocate capital away from Dairy to the group's other businesses?**

Japfa
Based on Dairy-China and Dairy-SEA transactions mentioned above, the combined implied equity value of the dairy businesses across China and SEA is over US$1.3bn. This demonstrates Japfa's ability to build scalable market leading businesses.

We now have concentrated our focus on expansion in Dairy China. We are currently building a new 10,000-head farm in Inner Mongolia, which is approximately US$90m project. This will be our 8th dairy farm in China. The full attention of our Dairy management and operational team will now be on raw milk production in China, as that has been the bulk of profit generation in the past, and there are opportunities for growth.

(iv) **Aquaculture: Can the board elaborate further on the growth plans for the aquaculture business for the next 3-5 years?**

Japfa
Despite the Covid-19 outbreak, the Aquaculture performance was generally positive. In terms of marketing, we implemented the Total Solution Company vision, which involves mobilising all of our internal components to support consumer success.

In 2020, we launched a range of value-added seafood retail products under the brand Seafood Lovers, which was distributed through our retail outlets in Indonesia. This strategy was taken in response to the growing retail sector in Indonesia and growing demand for frozen food. With the implementation of this strategy, the Aquaculture segment recorded a revenue of approximately US$237m in 2020.

In 2020, PT Japfa Tbk, our Indonesian subsidiary, took a number of strategic initiatives to improve the performance of its aquaculture business. For example, we are building a central laboratory and research centre for Aquaculture Technology and Development in collaboration with Vaksindo (our vaccine and R&D unit) to develop supplements to improve aquaculture performance and improve the quality of aquaculture feed.

In 2020, we entered into joint venture with Hendrix Genetics Aquaculture BV (a leading supplier of genetically enhanced pathogen-free broodstock) to establish a shrimp Broodstock Breeding Center in Indonesia. This is in line with Indonesia's vision to grow its domestic shrimp production. This cooperation will further strengthen our position in the aquaculture industry, which has recorded strong growth in recent years.

(v) **PT Japfa Tbk:** The group carried out an intragroup reorganisation to reorganise its consumer food operations in Indonesia by fully integrating the downstream branded business with the upstream (poultry feed and breeding) and midstream (commercial poultry farming) businesses. In the past 3-4 years, results from the different segments in PT Japfa Tbk have been mixed.

Can management help shareholders understand its strategy to improve the performance of PT Japfa Tbk? Specifically, how responsive is the group to market forces (such as broiler and DOC prices) and how much pricing power does it have (apart from the feed business where it has been strong)?

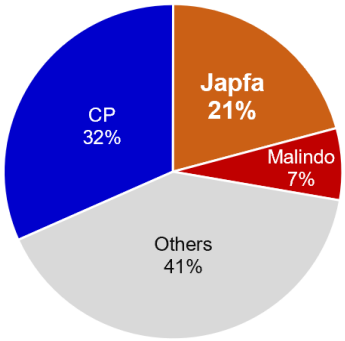
Japfa

The performance of PT Japfa Tbk is driven by sales volumes which in turn are dependent on the potential increase in consumer consumption in emerging markets. Given the low consumption of poultry meat in Indonesia (7.9kg per person per year vs Malaysia 46.8kg), the GDP per capita is a key driver of growth, with a huge potential for increase. As such, PT Japfa Tbk's role is to prepare itself to seize this growth opportunity as it progressively rolls out.

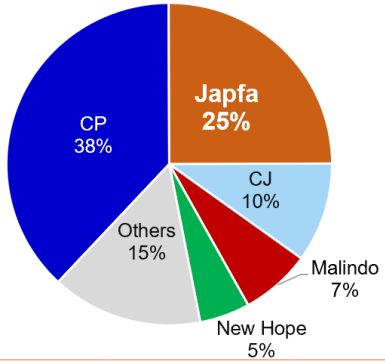
PT Japfa Tbk is the 2nd largest Indonesian poultry feed and DOC producer.

2nd largest Indonesian poultry feed and DOC producer[2]

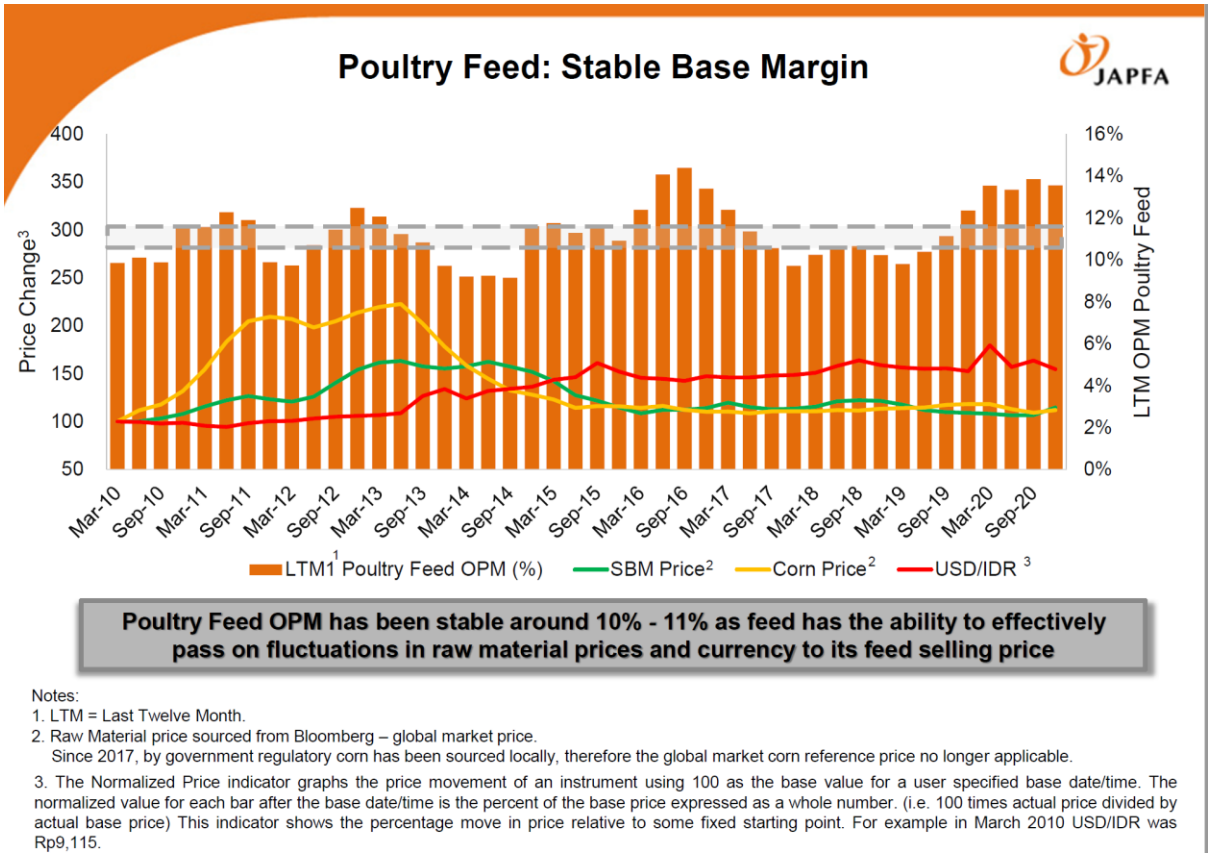
Poultry feed production capacity market share (%)



DOC production capacity share (%)



Feed is the stable pillar of profitability for our animal protein business in PT Japfa Tbk. In feed, we have the ability to pass on any fluctuations arising from raw material costs and foreign exchange into the feed selling price. The graph shows our ability to maintain Feed Operating Margin around ~10 – 11% over the last 10 years. This graph is available on PT Japfa Tbk's quarterly investor presentations, which can be found on their website.



Notes:
1. LTM = Last Twelve Month.
2. Raw Material price sourced from Bloomberg – global market price.
Since 2017, by government regulatory corn has been sourced locally, therefore the global market corn reference price no longer applicable.
3. The Normalized Price indicator graphs the price movement of an instrument using 100 as the base value for a user specified base date/time. The normalized value for each bar after the base date/time is the percent of the base price expressed as a whole number. (i.e. 100 times actual price divided by actual base price) This indicator shows the percentage move in price relative to some fixed starting point. For example in March 2010 USD/IDR was Rp9,115.

The pass-on is effective as feed selling prices are based on a cost-plus methodology. As shown above, the "plus" or operating margins for feed are not excessive but stable as all producers have the same cost structure. Our economies of scale probably achieve a larger margin compared to our smaller competitors.

Broiler and DOC prices are based on market supply demand dynamics. The local government has been proactive to introduce initiatives to control DOC supply imbalances in the poultry industry. As a result of strict enforcement of these initiatives, poultry prices stabilised in 4Q2020.

Covid-19 has lowered GDP per capita of the mid/lower income band in Indonesia, reducing demand for consumer staples including poultry. This has resulted in drop in sales volumes and lower poultry prices in 2020.

At the same time, movement restrictions linked to the pandemic are changing consumer patterns towards processed foods, which targets the middle-upper consumer segment. Sales volumes in frozen products under the So Good brand have increased more than 10% in FY2020 compared to year before.

So, expanding the processed food range within PT Japfa Tbk's vertically integrated operations helped improve its bottom line. Overall, the vertically integrated operations of PT Japfa Tbk were able to

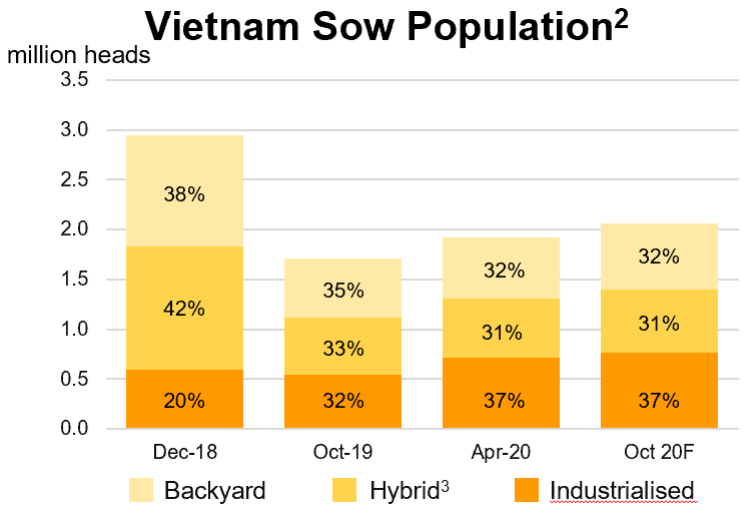
deliver a healthy EBITDA of approximately US$257m for FY2020 amid a challenging Covid-19 environment.

Q2. The group has managed the 2019 African Swine Fever ("ASF") epidemic in Vietnam exceptionally well and has recovered faster than its competitors. As noted in the operating and financial review, it was noted that APO-Vietnam was able to maintain its swine fattening sale volumes amid a general swine population decline in Vietnam, and capitalise on the rebound in swine fattening ASP since 4Q2019, thus recording strong profits in FY2020.

(i) **What is the group's market share in Vietnam for swine?**

Japfa
Based on a USDA report in 2017, Vietnam is one of the world's top pork consumption countries and stands second in Asia, only after China. Yet the Vietnam swine industry is very fragmented.

The following information, extracted from IPSOS reports on the Vietnam swine market landscape in Apr 2019 and May 2020, shows the shift to industrialised farmers from backyard and hybrid farmers. Industrialised farmers, like Japfa, can achieve better productivity (breed more piglets) and produce better quality piglets, with a lower production cost.



There are no reliable sources as to Japfa's market share.

(ii) **Can management help shareholders understand the key features of its biosecurity protocols that have been so successful at preventing the spread of ASF? How long more before competitors can duplicate the group's industrialised business model and biosecurity efforts and catch up with the group?**

Japfa
Japfa's industrialised business model is to build a swine breeding pyramid, starting from Great Grand Parent (GGP) farms and down to Grand Parent, Parent Stock and fattening farms. This takes approximately 4 to 5 years to put in place. This is consistent with Rabobank Nov 2019 report that says it will likely take around 5 years of restocking for the whole (swine) farming sector to recover (post ASF) in China.

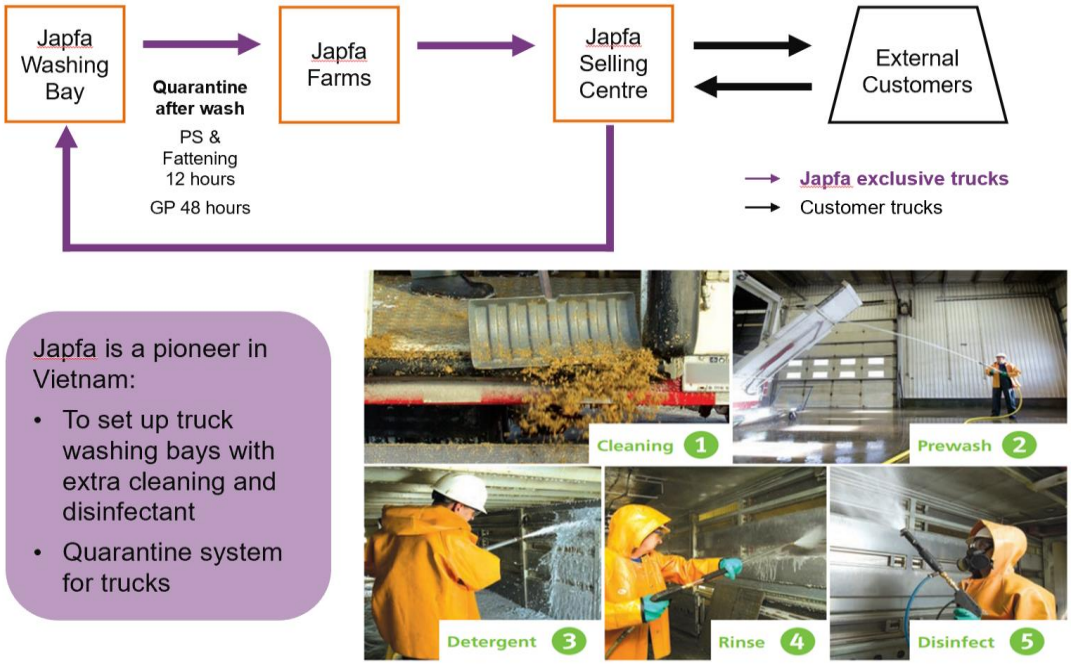
Accordingly, to replicate Japfa's industrialised model from scratch it should take approximately 5 years.

In terms of biosecurity, it is a matter of cost, effort and commitment to implement an industrialised bio-security system, similar to Japfa's.

Japfa implements extensive biosecurity measures based on three major components: isolation, traffic control and sanitation.

When the ASF broke out in China in August 2018, Japfa Vietnam has pre-emptively heightened its already stringent bio-security protocols to minimise any direct impact of ASF to our farms:

- trucks go through additional sanitization before entering our farm premises
- extra shower and sanitized clothes/footwear when entering farms
- surveillance camera to monitor adherence to biosecurity protocols
- wider usage of disinfectant in and around the farms
- tighter pest control measures



Q3. The group's vision of "Growing Towards Mutual Prosperity" encapsulates its recognition of the importance of preserving natural resources and ecosystems. It has developed three Sustainability Pillars, namely Efficient production system; Developing our People and Improving Nutrition.

In view of how the COVID-19 pandemic has ravaged economies, industries and livelihoods, the theme of the 2020 Sustainability Report is "Resilient".

(i) **Can the company confirm that the 2020 Sustainability Report will be published by the end of May 2021, if not earlier?**

Japfa
Yes, our target is to release the 2020 Sustainability Report by the end of May.

The 2019 Sustainability report covered the group's poultry operations in Indonesia, Vietnam, Myanmar and India, and the aquaculture operations in Indonesia.

(ii) **Will the dairy and swine operations be included in the 2020 Sustainability Report? If not, when will the group be covering these major operations in the SR?**

Japfa

FY2020	Revenue US$ m	
PT Japfa Tbk	2,522	Poultry represents 87% of PT Japfa Tbk's business
APO	796	Poultry and swine
Dairy	548	
Total	3,866	

The key focus of our sustainability efforts is on poultry due to its significance within the group in economic, environmental and social aspects. The next protein is likely to be aquaculture. The scope of our annual Sustainability Report will be expanded progressively to cover other animal proteins and other geographies over time.

The group's business model focuses on five proteins, namely Poultry, Beef, Aquaculture, Swine and Dairy. The pandemic has also increased the awareness of animal welfare and highlighted alternatives food sources such as plant-based proteins.

(iii) **What is the level of oversight and ownership by the board on the group's animal welfare practices?**

Japfa

When the Company was founded almost 50 years ago, sustainability thinking was already ingrained into our day-to-day business. Over the years, Japfa has continuously enhanced its sustainability processes. In 2017, we started to monitor and report our sustainability practices. In 2018, a Sustainability Committee and Sustainability Pillars were established to align Japfa's practices across the Group. Backed by the commitment of the top management, Japfa has embraced sustainability more fully across the organisation. We have gradually developed, introduced and implemented systems aimed at monitoring and managing sustainability activities first in Indonesia then also in Vietnam, India and Myanmar.

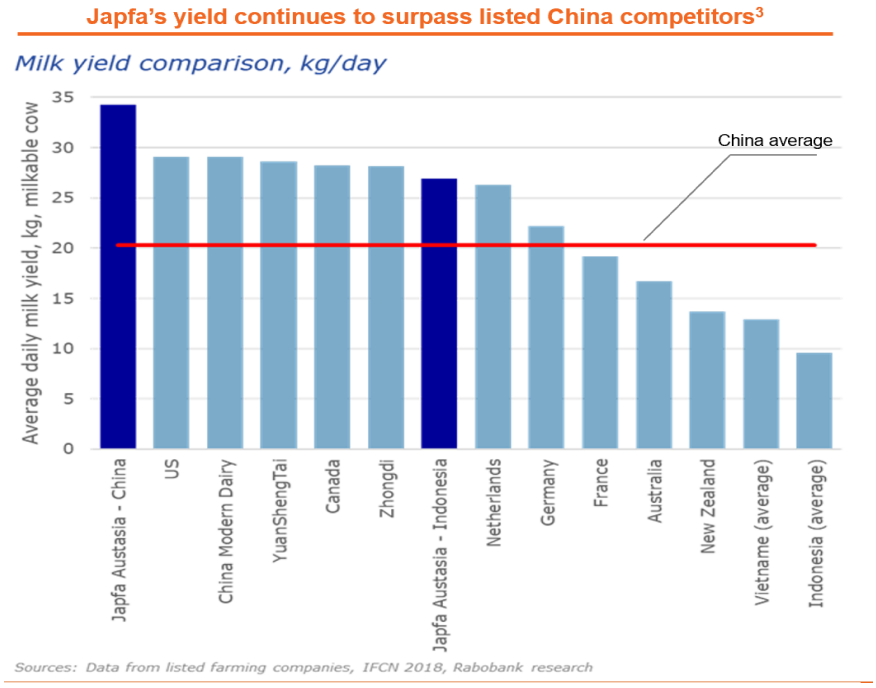
At Japfa, we always strive to ensure that our animals are healthy and happy, according to the principles of five freedoms of animal welfare. We focus on stringent biosecurity measures and a healthy and controlled atmosphere for our livestock. Throughout our operations, we prevent diseases by implementing biosecurity measures; conducting appropriate veterinary care; providing shelter, management and nutrition, and a stimulating and safe environment; and performing humane handling and humane slaughtering. We are also building more closed house poultry farms in Indonesia to mitigate risks to our animals due to climatic impact such as heat stress, unfavourable temperatures and disease contamination.

In certain countries, such as Germany, there are proposed legislation to ban the mass culling of day-old male chicks.

(iv) **How does the group balance operational efficiency/profit and animal welfare in a sustainable manner that allows the group to achieve its strategic growth plans?**

Japfa

We believe that happy animals are healthy animals. The success of our business goes hand in hand with animal well-being. Industrialised farming looks to animal health and comfort as happy, healthy animals put on weight and are more productive. In Dairy-China, we are able to benchmark our operations against other industrialised dairy farmers through the average daily milk yields. Cattle that are healthy, well fed, happy in their living environment will produce more milk. - We are the No. 1 in terms of milk yields compared to other listed industrialised producers in China. Please refer to the graph below from Rabobank:



If the cost of looking after a dairy cow is the same amongst competition, then achieving a higher milk yield translates directly to higher profits.

For poultry and swine, no such industry comparatives are available. However, the principle of proper caring of our animals remains, as that will improve productivity which is aligned with the company's profit objectives.

The Board has oversight over the operations as the CEO monitors farm management and operations through the company's performance measurement and analysis of yields and other operational KPIs. In our farms, should there be any infringement of the 5 freedoms of animal welfare, these will be reflected in the yields and other operational KPIs, which will be highlighted and addressed accordingly.

(v) **Has the board evaluated plant-based proteins both as a threat and as an opportunity?**

Japfa

We always keep a close eye to new trends in the food industry and the so-called imitation meat or alternative meat products are no exception. We do believe in the importance of a balanced diet that includes proteins which are both nutritious and affordable.

We do not see imitation meat as a threat to staple animal proteins in Emerging Asia in the near future. At Japfa, we focus on emerging Asian markets where malnutrition is still an issue and the low GDP per capita makes it difficult for many consumers in these markets to access staple proteins.

Cost is a critical factor, along with consumer taste preferences. The lack of chilled/frozen distribution channels across Indonesia will keep chicken as the most convenient animal protein that can be delivered fresh without refrigeration to wet markets located in remote areas throughout the country.

While looking at any new trends with interest, we continue to focus on producing affordable essential proteins in a sustainable manner to the 3 billion people living in our target markets.