



KENCANA AGRI LIMITED

(Registration No: 200717793E)

**RESPONSE TO QUESTIONS FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) IN RELATION TO
THE GROUP'S ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2022**

The board of directors (the "Board") of Kencana Agri Limited (the "Company", and together with its subsidiaries, the "Group") refer to the questions raised by Securities Investors Association (Singapore) ("SIAS") in relation to the Group's annual report for the year ended 31 December 2022.

The Group's response to the questions are set out below :

Question 1

In FY2022, the company experienced a 19.0% increase in revenue, primarily attributed to higher sales volume and selling prices of Crude Palm Oil (CPO) and Palm Kernel (PK). Specifically, the sales volume of CPO and PK increased by 9% and 8%, respectively. Additionally, the average selling price (ASP) of CPO in FY2022 increased by 8% to US\$761/MT, while the ASP of PK rose by 17% to US\$502/MT.

However, the group's profit after tax, however, decreased by 84% to US\$2.6 million in FY2022. The decrease was mainly attributed to:

- (i) higher CPO production costs incurred;**
- (ii) fair value loss recorded in biological assets of US\$5.8 million because of 30% decrease in fresh fruit bunch (FFB) price from US\$213/MT in FY2021 to US\$150/ MT in FY2022; and**
- (iii) foreign exchange loss of US\$9.9 million following further depreciation of IDR against USD.**

The cost of production for nucleus CPO by other producers was significantly lower, with some reporting costs as low as approximately US\$275 per tonne.

- (i) What is the group's cost of production for CPO from nucleus FFB and third party/plasma FFB?**

Company's Response :

The Group's cost of production for CPO from nucleus FFB and third party/plasma FFB are US\$432/MT and US\$732/MT, respectively.

- (ii) Can management quantify the increase in CPO production cost as a result of general inflationary pressure, higher energy costs and supply chain disruptions?**

Company's Response :

Indonesian inflation rate has increased from 1.87% in FY 2021 to 5.51% in FY 2022 while our key consumables such as fuel and compound fertilizer costs have increased approximately 76% and 10% respectively as compared to those in FY 2021.

- (iii) What is management's strategy to better manage these costs, and have the supply chain disruptions eased?**

Company's Response :

Pricing for supplies is largely influenced by the demand and supply in the market. To manage the costs pressure, management is diversifying the sources of supplies, undertakes more rigorous planning and monitoring of usage of resources including but not limited to improving efficiency in the production process. While disruptions may have moderated, the risk remains.

- (iv) Did the additional purchases of third party FFB to better utilise the capacity of its mill generate positive downstream/processing margins?**

Company's Response :

Yes. Higher utilisation of the production capacity will lower the unit production costs as a whole and therefore improves the processing margins.

Question 2

The average FFB yield, profile of the group’s oil palm trees and the FFB production trend can be found on pages 10 and 9 of the annual report (reproduced below):

Financial and Operational Review (Cont’d)

OPERATIONAL HIGHLIGHTS

	2022	2021	2020
AVERAGE FFB YIELD (MT/HA)			
Nucleus	12.3	12.2	11.9
Plasma	10.8	9.7	9.7

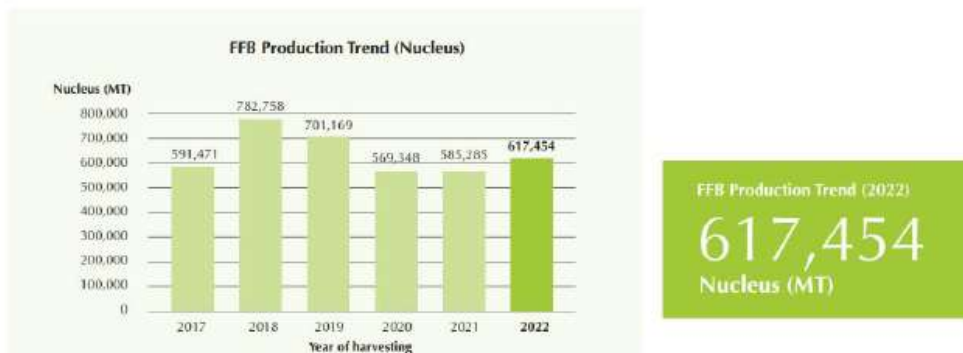
REVIEW OF OPERATIONAL PERFORMANCE

Snapshot of our plantation profile

Age Profile	Immature	%	Young Mature	%	Prime Mature	%	Old Mature	%	Total	%
Nucleus	1,291	2%	13,778	27%	29,258	57%	7,356	14%	51,683	100%
Plasma	2,540	15%	2,154	13%	9,852	60%	1,923	12%	16,469	100%
Total	3,831	6%	15,932	23%	39,110	57%	9,279	14%	68,152	100%

INCREASE IN THE PRODUCTION VOLUME RESULTING FROM HIGHER YIELDS

The Group’s production of Nucleus FFB increased by 32,169MT from 585,285MT in FY2021 to 617,454MT in FY2022 due to higher average FFB yields as some of our immature plantations has entered into young mature stage.



(Source: company annual report)

(i) Can the board/management help shareholders better understand its efforts at improving the average FFB yield? Are the group’s FFB yields on par with the industry? Reported figures from other plantations were as high as 18 MT/ha.

Company’s Response :

Management continually directing its efforts to improve the production yield through following efforts :

- a. Intensifying the routine upkeep and manuring
Upkeep activity such as weeding will increase the efficiency of FFB harvesting process resulting in more FFB that can be collected on daily basis. Intensive application of fertiliser will increase the quality, quantity, ripeness and oil content of FFB.
- b. Improve the plantation infrastructure, especially access road and worker’s housing
Improvement of bridges and access roads for harvesting will shorten the transport time of FFB from plantation to mill to ensure FFBs are transported on time. As the result, the overall harvesting efficiency and frequency will increase followed by less delay in the delivery of FFB to palm oil mill.

Improved housing and living condition in plantation area will reduce the worker’s turnover rate which helps the Group to adopt long-term production policy with less disruption.

- c. Continuous training for harvesters and equip them with proper know-how to increase the yield per harvester.
- d. Holistic approach to harvesting management, combined with rigorous census and agronomy, to identify and forecast the ripening time of FFB. By doing this, resources can be planned and allocated in advance, maximising the FFBs harvested timely.

Furthermore, FFB yield is also influenced by other factors such as weather, soil conditions, and land terrain. Our yield has improved since FY 2020 through better plantation management but there are room for improvements and will continue striving to do better.

(ii) How is the group managing the impact of La Niña/El Niño weather changes on the group's operations?

Company's Response :

El Nino is associated with drought, water scarcity, shortage of rainfall which lead to water deficiency and wildfire. In contrast, La Nina is cooling period typically associated to prolonged rainy season, storm, excess rainfall lead to flood. Both phenomenon negatively impact the FFB yield.

Severe weather patterns are beyond the control of the management. Through better plantation management process such as improving plantation water management to prevent severe flooding and draught, this may minimize the impacts and disruptions brought about by these weather conditions

(iii) What is the group's approach to its planting and replanting, including the key factors that determine the schedule?

Company's Response :

Currently, the Group focuses mainly on replanting. In determining the schedule of replanting, the Group focuses on following key factors :

- a. Age Profile, Yield, Harvesting Cost, and Revenue
Typically, palm oil trees have economic lifespan of 25-30 years with its peak at 9-18 years. Beyond the peak age, the FFB yield of palm tree will keep decreasing. Furthermore, old mature palm oil tree can grow more than 20 metres causing the harvesting process extremely difficult, time-consuming and increase the overall harvesting cost. Old palm oil trees with low yield, and high harvesting cost when compared to the selling price will be prioritized for replanting.
- b. Availability of Germinated Seeds
Given the long lifespan of palm oil tree, sourcing of good quality germinated seeds is important to avoid growth stunting or disease vulnerability on the palms that the effort for recovery will be costly. It is important to ensure the procurement of high quality germinated seeds and replanting process can be conducted in continuity with no significant pause.

(iv) In management's view, how significant is the B35 biodiesel blending mandate, and what positive impact on the industry can be expected from it?

Company's Response :

The palm oil consumption in Indonesia at end of 2022 is 20.97 million tonnes. The implementation of B35 from B30 biodiesel blending mandate will cause the consumption of CPO to increase by 2 million tonnes and this in turn may impact positively to the CPO price.

(source : palm oil consumption - www.reuters.com/article/indonesia-palmoil-idUSKBN2U40AG)
(source : Impact of B35 biodiesel mandate - jakartaglobe.id/business/b35-to-spur-2-million-ton-increase-in-domestic-palm-oil-demand#:~:text=The%20B35%20policy%20%2D%20which,an%20industry%20executive%20has%20said.)

Question 3

A major detractor of the group's financial performance is the foreign exchange loss of US\$9.9 million following further depreciation of IDR against USD. As shown in Note 33G (Foreign currency risks), the group has exposure to USD via its borrowings to the tune of US\$86.9 million.

33G. Foreign currency risks

Foreign exchange risk arises on financial instruments that are denominated in a foreign currency that is a currency other than the functional currency in which they are measured. Currency risk does not arise from financial instruments that are non-monetary items or from financial instruments denominated in the functional currency as defined in the financial reporting standard on financial instruments: disclosures.

Analysis of significant amounts denominated in non-functional currencies:

Group	SGD dollars US\$'000	USD dollars US\$'000	Total US\$'000
2022			
Financial assets:			
Cash and cash equivalents	513	110	631
Total financial assets	513	110	631
Financial liabilities:			
Borrowings	(639)	(86,922)	(87,561)
Total financial liabilities	(639)	(86,922)	(87,561)
Net financial liabilities at the end of the year	(126)	(86,804)	(86,930)

(Source: company annual report)

(i) Can the board provide further details regarding the nature of its USD-denominated liabilities, and explain the steps taken to manage foreign currency risks? Are there alternative sources of funding available to the group that would not result in significant currency mismatch risks?

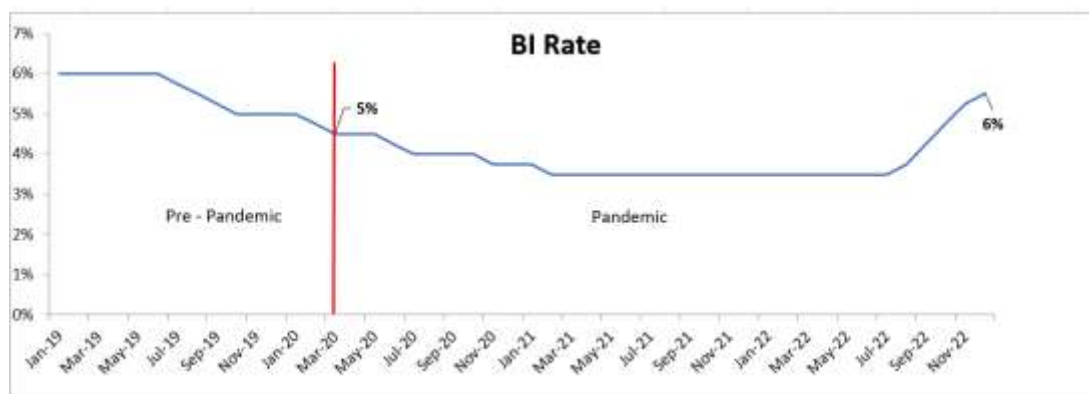
Company's Response :

In (US\$ '000)	2018	2019	2020	2021	2022
IDR Denominated Loan	88,277	95,029	92,659	120,287	106,325
	33%	37%	37%	52%	55%
USD Denominated Loan	182,944	163,426	155,866	110,645	86,922
	67%	63%	63%	48%	45%
Total	271,221	258,455	248,525	230,932	193,247
	100%	100%	100%	100%	100%

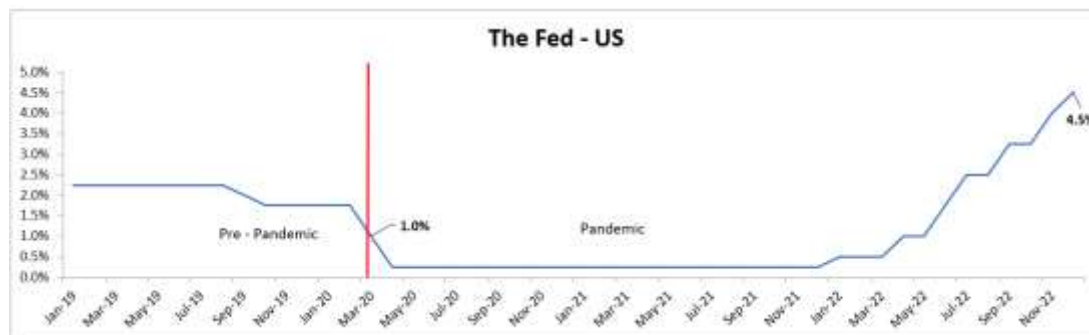
Our USD denominated liabilities are mainly USD bank borrowings. Over the years, to minimize the foreign currency risks, the group has progressively switched the portfolio of bank borrowings from USD borrowings to Indonesian Rupiah (IDR) borrowings. As at 31 December 2022, our bank borrowings portfolio ratio is 55% denominated in IDR and 45% in USD

(ii) In addition, can the board also provide more information on the hedging strategies employed by the group to better manage interest rate risks?

Company's Response :



(Source : Bank Central Indonesia)



(Source : The FED US)

Despite inflationary pressure, the interest rates in Indonesia remain stable at pre-pandemic level. However, the interest rates for USD have increased more than double, surpassed the pre-pandemic level. To mitigate the interest rate risks, the Group is progressively switching the USD bank borrowings to IDR bank borrowings.

BY ORDER OF THE BOARD OF KENCANA AGRI LIMITED

Ratna Maknawi
Vice Chairman and Executive Director
28 April 2023