The connection to the world of sustainable tropical agriculture

Interim statement of the SIPEF group

as per 30 September 2022 (9m/22)

Toward a record year for the SIPEF group

- Due to rising palm oil production in the third quarter (+11.7% against the same period last year), production grew by 3.7% over the first nine months of the year.
- The Group realised net sales prices more than 50% above the level of the first nine months of 2021.
- Despite the sharp decline in vegetable oil prices on international markets, palm oil prices remain historically high with quotations again around USD 1 000 CIF Rotterdam per tonne. Price expectations for 2023 also remain positive for the palm oil market.
- Palm oil production over 2022 could reach the projected growth of over 4%, barring exceptional weather conditions.
- With 88% of expected palm oil production sold and the prospect of continued favourable market prices, the Group's recurring annual results could exceed the record USD 100 million, barring unfavourable changes in export taxes and levies imposed by the Indonesian government.
- The Company is moving toward a positive net financial position, despite continuing the planned expansion in South Sumatra.
- The SIPEF Biodiversity Indonesia (SBI) team successfully completed a four-day training course focused on camera trapping to monitor the Sumatran tiger population, conducted by the Zoological Society of London (ZSL).
- Over 3 600 smallholders working with Hargy Oil Palms Ltd (HOPL) in Papua New Guinea have successfully been recertified to the Roundtable on Sustainable Palm Oil (RSPO) standards, following audits by an independent certification body in August 2022.

1. Group production

Group production

2022 *(in tonnes)*	Own	Third parties	Q3/22	YoY%	Own	Third parties	YTD Q3/22	YoY%
Palm oil	92 471	19 210	**111 681**	*11.66%*	248 634	53 688	**302 322**	*3.65%*
Rubber	436	158	**594**	*-18.85%*	1 029	381	**1 410**	*-29.54%*
Bananas	7 749	0	**7 749**	*4.68%*	24 280	0	**24 280**	*0.93%*

2021 *(in tonnes)*	Own	Third parties	Q3/21	Own	Third parties	YTD Q3/21
Palm oil	84 139	15 877	**100 017**	241 673	49 995	**291 668**
Rubber*	513	219	**732**	1 563	438	**2 001**
Bananas	7 403	0	**7 403**	24 056	0	**24 056**

**PT Melania rubber production has only been included for 4 months due to the sale of PT Melania per 30/04.*

For the third quarter, the Group's palm oil production grew by 11.7% against last year's third quarter. This fully absorbed the production decline of the first three months of this year (-7.0%) and turned it into a 3.7% growth over the first nine months of the year.

At the end of September, in North Sumatra, Indonesia, palm fruit production in mature plantations on organic land remained in line with last year (-0.2%). However, the nine-month production of the mature plantations on mineral land again experienced a slight growth (1.8%) due to the production increase of 5.1% in the third quarter.

Good rainfall figures in August and September allowed the Agro Muko plantations in the Bengkulu region to be closer to the production figures of the rest of the Group in the third quarter (-3.2%, compared with the third quarter 2021). Nevertheless, the accumulated volumes for the first nine months still remained 10.1% below those of the same period last year.

In South Sumatra, the fruit harvest continued to rise, with 73.4% growth for the third quarter versus the same period last year, and a cumulative increase of 51.5% for the first nine months. These rates of increase were also largely reflected in smallholders' purchases (Plasma). The increasing contributions from both the Musi Rawas plantations and those of Dendymarker are the direct result of an increased number of harvestable hectares and increasing returns per mature hectare.

The exceptionally good contribution of the oil palm plantations in Papua New Guinea continued in the third quarter, both for the fruit production of the own plantations (+17.9%) and that of the smallholders (+24.6%). Weather conditions were very favourable for the development and ripening of palm fruits, and the recovery from the impact of the volcanic eruptions in the second half of 2019 continued steadily. For the first nine months, growth rates of 11.4% and 6.2%, respectively, were recorded for our own plantations and those of smallholders.

Due to the overall strong improvement in the Group's fruit production in the third quarter, by 11.5% compared with the third quarter last year, the total nine-month fruit harvest was 5.0% higher than that as on 30 September 2021.

The newly completed palm oil mill at Dendymarker was able to record consistently increasing oil extraction rates in the third quarter (up to 23.6%). However, there was a slight decline in the average oil extraction rate in the Group’s mills in the third quarter (23.6% compared with 23.8% in the third quarter of last year). This was the direct result of generally higher rainfall, which increases the moisture content in the fruit. Over the first nine months, though, an average oil extraction rate of 23.9% was recorded, in line with that of last year.

Because the expansion of the Dendymarker mill, to 60 tonnes of processed fruits per hour, could not be finished on time, due to covid-19 restrictions, palm fruits were sold outside the Group in South Sumatra during the first half of the year. As a result, over the first nine months, the Group's growth in palm oil (+3.65%) was just slightly lower than the growth in palm fruits (+5.0%).

Agro Muko's rubber plantations saw a slightly improved supply of latex in the third quarter. This increase was the result of the intensive tapping before the removal of the old trees. Nevertheless, the Group's rubber production as of 30 September remained 29.5% lower than that of last year. This decrease is the direct result of the conversion from rubber to palm activities in the SIPEF group.

Over the first nine months, the volumes of exported bananas remained in line (+0.9%) with those of last year. The additional production from the new production sites in the third quarter offset the generally declining volumes from the historical sites, where adverse weather conditions, with low temperatures and lack of sunshine in August and September, slowed production.

2. Markets

Average market prices

In USD/tonne		YTD Q3/22	YTD Q3/21	YTD Q4/21
Palm oil	CIF Rotterdam*	1 441	1 143	1 195
Rubber	RSS3 FOB Singapore**	1 918	2 126	2 071
Bananas	CFR Europe***	745	618	616

** Oil World Price Data*
***World Bank Commodity Price Data (updated database)*
**** CIRAD Price Data (in EUR)*

After a volatile first half of 2022, the palm oil market was still being impacted by the amended export policy in Indonesia. While stocks were at their highest in July and exports were moving slowly, due to the export restrictions linked to the Domestic Market Obligation (DMO). Mid-July the Indonesian government decided to temporarily waive the export levy, which is used to finance the domestic biodiesel program, to support exports. Initially, the export tax was reduced, due to lower market prices, and followed by a decision to amend it twice a month to match the actual prices. Although these new regulations were set with the right intentions, they triggered a lot of questions about what the export tax would be in the coming months, as well as when the export levy would be back. The uncertainty kept a lid on local prices in Indonesia, whereas the refiners were enjoying better refining margins.

While palm oil fundamentals were challenging, the entire agricultural commodity market was struggling with several factors: 1) food inflation hurting demand, 2) recession fears and a bleak economic outlook and 3) a very strong US dollar. During the month of September, these factors pressed all commodity markets to their lowest levels for nearly a year. Petroleum markets were leading the downtrend and taking the agricultural sector along the way, confirming the strong link between petroleum and the production of biofuel.

Initially, due to the higher volumes of palm oil, it was the weakest of the vegetable oils, but in September, this changed. The Argentinian government had introduced a temporary fixed exchange rate to stimulate the export of soybean products, which affected positively that country's soybean oil sector. However, the discount versus the Chicago Board of Trade had a great negative impact on the global soybean sector. Unfortunately, it has been confirmed once again that government interventions have massive consequences for commodities, as was already being experienced with the amended export policy in Indonesia.

The price of palm oil traded from USD 1 200 per tonne CIF Rotterdam to USD 950 by late September, but is slowly recovering.

The palm kernel oil (PKO) market stabilised after the turbulent first half of 2022. The price has settled at a small premium over palm oil and roughly USD 100 below coconut oil, though the fear of a recession is certainly impacting the oleochemical demand. PKO prices hovered mostly between USD 1 050 and USD 1 150 during the third quarter.

The natural rubber market remained very depressed. The combination of a lack of buying interest from China, due to the lockdowns, and the continuously slow, new car sales, are outweighing the lower production. Prices of Sicom RSS3 traded from USD 1 900 to USD 1 500 per tonne, and the physical demand was subdued.

European market prices for bananas held up very well, with overall supply remaining below the seasonal average. From mid-July, prices began to rise steadily to reach very high levels by the end of the quarter. All production areas were affected not only by difficult weather conditions, but also, above all, by an inflationary effect on prices of basic commodities and logistics, and as a result of a USD/EUR exchange rate that disrupted the general supply of bananas on the international and European markets.

3. Prospects

3.1. Production

Based on representative field counts, the Group's agronomists expect continued strong production volumes for palm oil in the fourth quarter. These growth figures need mainly to be related to the anticipated sharp increase in production in South Sumatra and the further continuation of the exceptionally good performance in Papua New Guinea. The expectations for production in the mature plantations in North Sumatra and Bengkulu are rather in line with those of last year. Accordingly, the Group confirms the forecast annual production increase of more than 4%, barring exceptional weather effects.

The poor weather conditions in the third quarter will undoubtedly continue to affect banana production in the fourth quarter of 2022. Indeed, the counted, harvestable fruits for the following months are up to 20% lower than those for the same period last year. This shortfall will only be offset to a limited extent by the additional production from the new banana plantation expansions.

3.2. Markets

The palm oil market, along with other agricultural markets and the petroleum market, has taken back some of the September losses. The palm oil stocks have already been reduced and the situation is not burdensome anymore. Exports are good and stocks are expected to be at normal levels by the end of the year, given the current discount on palm oil compared to liquid oils. The supply and demand fundamentals of the palm oil market are looking solid for 2023. The global vegetable oil supply side needs a great soybean crop in South America, to balance the stock as well as fulfil the growing biofuel demand, particularly in the United States. La Niña conditions are expected to remain active over the winter months. This weather phenomenon usually brings dry conditions in Argentina and Brazil, which could be a negative growth factor, whereas it would bring wetter conditions in Southeast Asia, which could uplift palm oil volumes.

The macro environment is still uncertain with the inflation and recession fears, the Chinese lockdowns and the current intensification of the Ukraine-Russia war. The last could have a significant impact on the trade corridor of agricultural products. The strong dollar and the petroleum markets could further provide price direction.

Although there was a big correction from the record levels earlier this year, historically the palm oil market is still at very high price levels. With the higher input costs, from fertiliser to labour, the Group believes a new price floor has been set for the future and is therefore looking forward positively to elevated palm oil price levels in 2023.

The current trend of high selling prices for bananas is bound to continue as supplies from all major exporting countries remain scarce. The rise in selling prices also continues to parallel strong inflation rates. Despite everything, the Cavendish banana remains an easily accessible product for consumers and rising prices will have little impact on consumption, which is rising sharply in Europe.

3.3. Results

The Indonesian export ban on palm oil caused an oversupply in the local market from April this year and disrupted the direct price link with the international palm oil market. In the second quarter, the Group decided to stock part of the palm oil produced. Starting in the third quarter, stocks were gradually offered to buyers, according to their willingness to purchase the palm oil, subject to payment of sustainability premiums, and effectively take it away.

Due to the accompanying measures taken by the government the local oversupply of palm oil gradually disappeared. Moreover, prices regularised themselves according to a simultaneously lower world market price. SIPEF reduced its palm oil stocks in parallel with this evolution and will further normalise them during the fourth quarter.

To date, the SIPEF group in Indonesia has sold 74% of the expected palm oil volumes for 2022, at an average price of USD 848 per tonne ex-mill gate equivalent, premiums for sustainability and origin included. At the same time last year, SIPEF had traded 85% of volumes at USD 667. In Indonesia, available palm oil volumes are placed in the market on a monthly basis, because of the unpredictable palm oil reference price, which is the basis for monthly export taxes and export levies.

In Papua New Guinea, the exceptionally high palm oil prices fully benefited the oil palm activities. To date, almost all of the expected palm oil production has been sold at an average price of USD 1 234 per tonne ex-mill gate equivalent, premiums for sustainability and origin included. At the same time last year, SIPEF had traded 100% of the volumes at USD 931.

In total, the SIPEF group has sold 88% of budgeted palm oil production to date, at an average price of USD 1 035 per tonne ex-mill gate equivalent, premiums for sustainability and origin included. This is 33% higher than the average price of USD 778, at the same time last year.

Unit costs for production of palm oil in the second half continue to be subject to significant increases in fertiliser prices, increased transport costs and the anticipated increases in remuneration for the Group's employees. The real increase in unit cost of production is somewhat mitigated by volume increases, and by the strength of the USD against most of the local currencies in the producing countries.

SIPEF can look forward to very satisfactory recurring annual results. In all likelihood, these will exceed the historic mark of USD 100 million, despite the recent drop in world palm oil prices. This positive evolution is the result of the combination of increasing annual production volumes, already realised sales and an expected continuing, relatively strong palm oil market. The final recurring result will largely be determined by the achievement of the expected production growth and the evolution of cost prices, but mainly by the effects of the current policy of the Indonesian government for export taxes and export levies.

3.4. Cash flow and expansion

In the first nine months of the year, the Group focused mainly on the investment programs in South Sumatra. These concern the further expansion of planted hectares and infrastructure in Musi Rawas and replanting and infrastructure improvements in Dendymarker.

In the Musi Rawas project zones, an additional 1 641 hectares were acquired through compensation, of which 892 hectares were additionally cultivated. As a result, a total of 15 862 hectares have been cultivated as of the end of September 2022. This corresponds to 80.0% of the 19 828 hectares acquired through compensation.

To date, 8 809 hectares have already been planted in Dendymarker by the SIPEF group, thanks to the extra preparation and/or replanting of 973 hectares in the first three quarters of 2022. Another 130 hectares have been prepared for planting in the last quarter. As of the end of September, the total renewed and cultivated area in the South Sumatra business unit is 24 801 hectares.

Following the completion of the expansion of the processing capacity of the Dendymarker mill from 20 to 60 tonnes per hour, the construction of the first oil extraction mill in Musi Rawas has now begun. This mill should provide sufficient processing capacity in the next few years, to accommodate the exponential growth in production from oil palm activities in South Sumatra.

Plantations J. Eglin's banana plantations in Ivory Coast included 147 newly planted hectares in Lumen as of the end of September. Already, 790 tonnes of bananas have been processed at the renovated packing plant and exported.

The Group's net cash flow is likely to also remain positive in the fourth quarter of the year, due to the favourable forecasts for production and sales prices. Insofar as the local Indonesian palm oil market normalises, after payment of the dividend in July, it will also be possible to finance the extensive investment program entirely from its own resources. The Group is moving towards a positive net financial position.

4. Sustainability

4.1. Tiger monitoring at SIPEF Biodiversity Indonesia

In June-July 2022, a four-day training course on camera trapping to monitor the Sumatran tiger population was carried out by the Zoological Society of London (ZSL) at PT SIPEF Biodiversity Indonesia (SBI). SBI manages a conservation programme in relation to a 12 672-hectare area of forest, located in the Mukomuko Regency, Bengkulu Province in Indonesia. The area acts as a buffer to the Kerinci Seblat National Park, where an extremely rich range of megafauna continues to be identified through monitoring.

The training is part of a broader engagement that SIPEF initiated with ZSL in 2022, and has jump-started the work on surveying the tiger population in an area determined by SBI and based on a survey protocol prepared jointly by SBI and ZSL. One of the main objectives of the training was to increase the knowledge and skills of the team at SBI of tiger monitoring survey methods using camera traps, including a scientifically determined survey method to collect more robust data on tigers in the area. The team is now employing two camera traps at each site instead of one, to improve identification of individual tigers. The improved survey method has already started to yield good results.

4.2. Smallholder certification and training in 2022

The 3 600 smallholders working with Hargy Oil Palms Ltd (HOPL) form an integral part of SIPEF's certified supply base in Papua New Guinea. HOPL's smallholders started their certification journey in 2008, during which time a programme was set up to encourage them to be part of a sustainable supply chain and equip them with knowledge on sustainable practices in preparation for Roundtable on Sustainable Palm Oil (RSPO) compliance. Nowadays, ensuring smallholder compliance continues to be equally as important as the re-certification of HOPL's own estates. Following RSPO audits in August, these smallholders successfully achieved recertification in 2022.

Training is critical to the success of the HOPL smallholder programme, with 191 training sessions having already been held in 2022. Once or twice a year, HOPL also conducts smallholder field days, which focus on RSPO-related requirements, agronomic best practices, financial literacy and savings. To support these activities, a training package was developed in 2021, to help deliver content in a simple and easy-to-understand format that can also be used in the daily management of smallholder oil palm blocks. HOPL's training activities have had a clear positive impact, demonstrated through a better understanding of requirements and improved compliance. These positive results were also reflected in this year's external RSPO audit, where no non-conformances were found.

Translation: this press release is available in Dutch and English. The Dutch version is the original; the other language version is a free translation. We have made every reasonable effort to avoid any discrepancies between the different language versions. However, should such discrepancies exist, the Dutch version will take precedence.

Schoten, 20 October 2022

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SIPEF is a Belgian agro-industry group listed on Euronext Brussels and specialised in the – as sustainable certified - production of tropical agricultural commodities, primarily crude palm oil and palm products. These labour-intensive activities are consolidated in Indonesia, Papua New Guinea and Ivory Coast and are characterised by broad stakeholder involvement, which sustainably supports the long-term investments.