2015
Press release
Regulated information September

SIPEF

Interim statement of the *SIPEF* group

- **Production figures for palm oil were exceptionally good (+16.0%) in the third quarter.**
- **Palm oil prices suffer from the large supply of other vegetable oils and weaker petroleum markets, but have recently begun to recover due to the anticipated effects of El Niño.**
- **Rubber markets remain fragile without an immediate prospect of better prices.**
- **Low selling prices are the main reason for a substantially lower profit outlook for 2015.**
- **A reduced investment budget still gives room for further expansion of acreages in Indonesia and Papua New Guinea, without going into structural debt financing.**

Interim management report per 30 September 2015

Group production

	Third Quarter				Year To Date			
2015 (In tonnes)	**Own**	**Third parties**	**Q3/15**	**YoY %**	**Own**	**Third parties**	**YTD Q3/15**	**YoY %**
Palm oil	66 491	11 922	78 413	15.99%	175 165	38 433	213 598	7.33%
Rubber	2 028	160	2 188	-8.68%	7 543	311	7 854	-1.12%
Tea	495	0	495	-24.89%	2 019	0	2 019	-0.44%
Bananas	5 830	0	5 830	23.13%	18 680	0	18 680	0.22%
2014 (In tonnes)	**Own**	**Third parties**	**Q3/14**		**Own**	**Third parties**	**YTD Q3/14**	
Palm oil	57 240	10 361	67 601		163 648	35 368	199 016	
Rubber	2 270	126	2 396		7 446	497	7 943	
Tea	659	0	659		2 028	0	2 028	
Bananas	4 735	0	4 735		18 639	0	18 639	

Palm oil production levels were exceptionally good in the third quarter. This entirely compensated the production decrease that was recorded at the beginning of the year as a result of the delayed effect of the drought in 2014. At the end of September, we recorded an overall 16.0% production increase over the previous three months and a cumulative annual volume that is 7.3% higher than in the same period last year. Bunches ripened smoothly, particularly in the mature plantations in North Sumatra (+17.7%) and Bengkulu (+13.3%). This effect was also discernible in the young plantations of UMW/TUM in North Sumatra, yet due to the gradual restart of the new biogas capture system, we temporarily sold bunches to a neighbouring palm oil mill for an equivalent of 2 455 tonnes of palm oil.

With the steady expansion of the mature acreages at Hargy Oil Palms in Papua New Guinea, we recorded a cumulative 14.9% production increase compared to last year at that site too. Lower market prices for palm oil gave smallholders considerably less incentive to harvest regularly, however an increase (+11.5%) in volumes was noted during the third quarter. The overall annual volume, is still growing thanks to the efforts of a coaching team that has been set up for the more than 3 200 smallholders who supply our three processing mills.

Although total Indonesian rubber production increased by 6.3% over the past nine months, this year was marked by unusual wintering; as a result, substantial quarterly variations have been observed compared to last year in the different regions of North Sumatra, Bengkulu and South Sumatra. In Papua New Guinea, there has been a decrease in both own production and volumes sourced from third parties. Due to the persistently low market prices for natural rubber, we reduced the areas in tapping on our own plantations by 11% in order to meet the requisite yield thresholds. Those low prices also had an impact on the motivation of smallholders to harvest regularly.

Decreasing tea production underwent the immediate impact of the drought of the last two months, which was the first effect of El Niño on the island of Java. As a result, the cumulative 11.3% production increase of the first six months was neutralized.

After a climatically difficult start to the year, banana production in Ivory Coast was markedly better (+23.1%) in the third quarter, thereby more or less equalling the cumulative volume of the last season.

Markets

Average market prices

In USD/tonne*		YTD Q3/15	YTD Q3/14	YTD Q4/14
Palm oil	CIF Rotterdam	640	857	821
Rubber	RSS3 FOB Singapore	1 660	2 070	1 958
Tea	FOB origin	2 686	2 094	2 045
Bananas	FOT Europe	912	1 062	1 043

* World Bank Commodity Price Data

The palm oil market experienced a 'perfect storm' of negative news during the third quarter, which led palm oil prices to lows that we have not experienced since the crisis in 2008. The uncertainty of the implementation of the biodiesel mandate in Indonesia, in combination with the collection of the export levy, did a lot of harm to the industry. This was enforced by the economic unrest in China, resulting in a sell-off of stocks and commodities, a weaker macro environment as well as dramatic depreciation of the Malaysian Ringgit. The market dropped below USD 500/tonne CIF Rotterdam at the end of August. The recovery during September was probably even more impressive, although partially offset by a continuous weakening of the South-East Asian currencies. The low prices had triggered a buying wave, led by India, and further confirmation of a strong El Niño created a recovering rally, to currently reach the price range between USD 580/tonne and USD 600/tonne CIF Rotterdam.

The price of palm kernel oil was very volatile, trading in an average USD 250 range overshooting to the downside, hovering between USD 870/tonne and USD 650/tonne and eventuelly back to USD 910/tonne CIF Rotterdam.

The rubber market has been very sluggish and was still suffering from an oversupply situation. The economic turmoil in China, as the biggest consumer, had a negative effect on the rubber prices and we are back to the lows of the market for Technically Specified Rubber (TSR). The (Singapore) Sicom RSS3 market lost part of its premium, trading at new lows around USD 1 400/tonne.

Tea buyers responded to the strong impact of the dry spell in Kenya in June and pursued their buying into the third quarter. Black CTC tea production will not recover the losses it had during February and April, but we reached record prices, exceeding USD 3 800/tonne FOB for our Cibuni top grades.

Prospects

Production

For now we note in our mature plantations in Indonesia a slight slump in the production volumes of palm oil, which was already apparent in September. The growth poles of UMW/TUM and Hargy Oil Palms continue their positive trend and we expect them to maintain their progress in the months to come, so that we can expect overall better volumes for the year.

If the drought effects of El Niño persist, tea and rubber production levels will be lower than expected, particularly in the fourth quarter. By contrast, banana production volumes at Plantations J. Eglin in Ivory Coast will experience little effect from the weather.

Markets

The current outlook for palm oil in itself is friendly, with low prices triggering forward buying from the consumers in the food and energy markets. However, production could be affected both by the haze, which could impact the photosynthesis, as well as the expected drought due to El Niño. The scale of the impact on production will decide future prices. The Indonesian government is finally showing its intent to act upon their biodiesel mandate, financed by the collection of the export levy since mid-July. In the coming months we will see how much they will actually absorb. Both the production slowdown and Indonesian biodiesel consumption will be the major factors to watch. This could become a bullish story and we will see how the abundant availability of liquid oils, like soybean, sunflower and rapeseed oil, dampens this potential price rally. We are reasonably confident of reaching higher prices going forward, but without going to the levels experienced in the past few years.

The best way to describe the rubber market currently is bland. The overhang of supply is not being absorbed as long as the developing countries are in economic bad weather. China's appetite for natural rubber in particular needs to be reactivated to achieve prices moving upwards from the currently steady price floor.

The outlook for black CTC tea remains very positive due to the shortfall in Kenya. Other countries in Africa, as well as the major producer India, are experiencing lower crops as well. With winter demand kicking in there is still a friendly price environment for our Cibuni teas.

Results

The trend in palm oil prices over the last three months has given us cause for restraint, and we continued to sell on a spot market that is gradually picking up, but has not yet reached a level that we would wish to proactively stimulate forward sales contracts. So far, 93.8% of the projected annual production was sold at an average price of USD 689/tonne, including premiums, which is about USD 255 or 27.0% down on the average prices of sales realized over the same period last year.

As a result of the downturn in the natural rubber markets, the average prices (USD 1 581/tonne FOB) of our sales are 21.2% down on the same period last year, and with 89.1% of our volumes contracted, the projected contribution of rubber on an annual basis will be small.

The average prices of our Cibuni tea remain significantly better (13.6%) than the same time last year, and we expect a persistent positive price impact on the low production volumes towards year-end.

Since most parameters for our banana results are set before the start of the financial year, and production volumes are in line with expectations, we are counting on an equivalent Euro contribution from our banana operations. In this segment, planted acreages were extended by 12.7% in 2015, and from the beginning of next year we will start exporting the first additional bunches.

Local currencies in Indonesia and Papua New Guinea remain weak against the USD and, along with stable fertilizer prices and low fuel costs, help to stabilize the production costs of our main products: palm oil, rubber and tea.

Taking the above into account, and with the extra USD 50/tonne levy on all palm oil produced in Indonesia being introduced in mid-July, we may conclude that the annual results will be substantially lower than in 2014.

Cash flow and expansion

The projected free cash flow will enable us to complete the investment programme for this year, which in the meantime has been adjusted, without having to go into structural debt financing. Although we expect that the ongoing negotiations for the sale of our rubber operations in Papua New Guinea can also help to lighten our debt level, the market conditions of recent months (low rubber prices and weak currencies in Southeast Asia) do not make those talks any easier.
We continue to work steadily on the expansion of Hargy Oil Palms until full capacity utilization of the three existing palm oil mills is reached; nevertheless, for this year we have planted no more than 452 hectares of new oil palms.

Although in anticipation of local general elections towards year-end the work environment of our management in Musi Rawas has become slightly disrupted, we continue to compensate and prepare land for planting in the rainy season. So far, a total of 7 407 hectares has been compensated, including 1 345 hectares this year, while 2 439 hectares have now been planted or prepared for planting, including 1 405 hectares in 2015. Despite local pressure from low palm fruit and rubber prices, we expect to be able to keep steadily expanding on three concessions. The development of those plantations remains our priority in the group's expansion in Indonesia.

Schoten, October 22, 2015.

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SIPEF is a Belgian agro-industrial company listed on Euronext Brussels. The company mainly holds majority stakes in tropical businesses, which it manages and operates. The group is geographically diversified, and produces a number of different commodities, principally palm oil. Its investments are largely ventures in developing countries.