Press release 2016

Regulated information | March 2016

SIPEF

Interim statement of the SIPEF group

Interim management report per 31 March 2016

1. Group production

	First Quarter				Year To Date			
2016 (In tonnes)	Own	Third parties	Q1/16	YoY %	Own	Third parties	Q1/16	YoY %
Palm oil	53 276	13 171	66 447	9.76%	53 276	13 171	66 447	9.76%
Rubber	2 526	62	2 588	-8.89%	2 526	62	2 588	-8.89%
Tea	793	0	793	7.16%	793	0	793	7.16%
Bananas	6 771	0	6 771	-4.16%	6 771	0	6 771	-4.16%

2015 (In tonnes)	Own	Third parties	Q1/15	Own	Third parties	Q1/15
Palm oil	48 622	11 919	60 541	48 622	11 919	60 541
Rubber	2 800	40	2 840	2 800	40	2 840
Tea	740	0	740	740	0	740
Bananas	7 065	0	7 065	7 065	0	7 065

In the first quarter of 2016, palm oil production suffered from the effects of El Niño, particularly in the mature plantations in North Sumatra. This drought phenomenon was in fact observed across Indonesia and Malaysia. As a result, we recorded a 3.3% decrease in production volumes in the Tolan Tiga group compared with the production volumes in the first quarter of 2015, which were already very low. In the mature plantations in Bengkulu, however, we noted a slight increase (+2.8%) compared with the same period last year, while the young plantations of the UMW/TUM project in North Sumatra continue their steady growth (+53.7%) as a result of a greater maturity of the young oil palms and very good extraction rates in the new mill.

Palm oil production in Papua New Guinea was again disrupted at the beginning of the year by heavy rainfall, causing limited availability for several weeks of the road infrastructure for the collection of fruit bunches from our own plantations and from smallholders. Nevertheless, precipitation was lower than in the two previous years, and recovery was achieved sooner by good transport facilities and sufficient production capacity at the three extraction mills; as a result, at the end of the first quarter we reported an increase in own production and in volumes sourced from third parties by 12.8% and 8.9% respectively, compared with the same period last year.

Rubber production showed a varied picture, with increasing volumes again in Agro Muko (+9.9%), where the young acreages gave a better yield, but still with lower volumes in North Sumatra (-2.0%) and South Sumatra (-20.7%), where wintering started somewhat earlier than usual. Rubber production in Papua New Guinea was down on last year (-17.7%), and was naturally affected by the final acquisition procedures that will be completed in the second quarter.

Black tea production was off to a good start in Cibuni, Java, in the first two months, whereas in March leaf growth slowed down due to heavier rainfall and constant overcast conditions. Nevertheless, the total production volume was 7.2% up on the same period last year.

A fairly strong Harmattan wind in January led to cool temperatures in Ivory Coast, resulting in generally lower-than-expected banana production volumes. Despite the additional first harvest from the new Sainte-Thérèse acreages of Plantations J. Eglin, total production was -4.2% lower than in 1Q2015.

2. Markets

		Average market prices		
		YTD Q1/16	YTD Q1/15	YTD Q4/15
in USD/ton*				
Palm oil	CIF Rotterdam	631	683	623
Rubber	RSS3 FOB Singapore	1 308	1 733	1 559
Tea	Mombasa	2 385	2 310	2 742
Bananas	FOT Europe	908	918	903

* *World Commodity Price Data*

The macro environment in the first quarter of 2016 started off very weak, with stock markets dropping heavily, led by China, and petroleum prices falling to levels below USD 30 per barrel. Despite a more positive outlook for palm oil, it could not escape the negative market sentiment. Though the slowdown in production was gradually gaining the upper hand, El Niño had done significant damage to the yields. By the middle of February when the January 'Malaysian Palm Oil Board' (MPOB) numbers were released the market finally seemed to be pricing the lower production. This coincided with the time that petroleum prices turned around as well. Following the 'Price Outlook Conference' in March the market further rallied, supported by solid demand. As a result, the market increased from USD 560/tonne in January to USD 725/tonne CIF Rotterdam by the end of March.

The price of palm kernel oil was very volatile and the reduced production was strongly felt amongst the kernel traders. A real buying hausse triggered a steep rally alongside its substitute, coconut oil. The price of palm kernel oil traded from USD 900/tonne to USD 1 300/tonne CIF Rotterdam.

The rubber market slowly but steadily climbed out of the doldrums. This price increase is also linked to the recovery of the petroleum price in the middle of February. However, fundamentally there were some elements at play. The Tripartite, the governments of Thailand, Malaysia and Indonesia, initiated an export quota with the intention of exporting 15% less than in 2015, and the El Niño had also had its effect on the wintering, particularly in Thailand and Vietnam. Both these factors triggered a further positive price signal. The Sicom RSS3 market traded from the lows of around USD 1 200/tonne at the beginning of the year to USD 1 500/tonne by the end of March.

Where the El Niño weather phenomenon caused a lot of production stress in the Far East due to drought, it triggered a lot of rain in Northeast Africa. Kenya's black 'Cut, Tear and Curl' (CTC) tea production was therefore significantly higher than usual, as this normally is the start of the dry season. Due to this high production most buyers took a wait-and-see approach as the market prices dropped. The average price was around USD 2 500/tonne FOB for our Cibuni tea.

3. Prospects

Production.
The outlook for palm oil production in the *SIPEF* group is generally positive for the coming months. We can see the effects of El Niño levelling off, and fruit bunch formation suggests gradually increasing production volumes in the second and third quarters, particularly in the mature plantations in North Sumatra. In Papua New Guinea we hope to perpetuate the achieved growth during the rest of the year. Lower rainfall levels led to higher oil extraction rates at most of our mills.

Indonesian production volumes for rubber and tea will tend to be in line with last year, and we expect a recovery in exported banana volumes as the delaying effects of the cold weather in January have been neutralized.

Markets.
Palm oil production is expected to continue to suffer until the middle of the summer on the back of El Niño. Whether or not a La Niña will follow later in 2016 is too early to call. It is anticipated that stocks in Indonesia and Malaysia will drop further in the second quarter and this will continue to support prices. However, given the competitiveness with liquid oils we do expect some switching to take place, and it is unlikely that palm oil will rally on its own. Therefore, we expect a steady trading range in the coming months.

The recovering rally in rubber prices from the first quarter has initiated a lot of short covering and prices have surged further. We expect a steady market for the coming months.

The black CTC tea market will probably remain stable with good production in Kenya during their traditional dry season and steady demand at these prices.

Results.
Despite the low prices in January/February, the improved price levels for palm oil from March onwards enabled us to put sufficient volumes on the market; as a result, we have so far sold 39% of our projected production at an average price of USD 681/tonne CIF Rotterdam equivalent, including premiums, which is USD 92/tonne lower than the sales realized at the same time last year. We expect to steadily maintain our sales policy in the coming weeks and months, and so keep on increasing our averages.

The rubber markets, too, remained at a low level and only recently began to show some improvement. We took that opportunity to put 49% of the projected rubber volumes available for sale on the market at an average price of USD 1 267/tonne FOB, which is still 19.6% lower than the average selling prices at the same time last year. In a declining market, we sold 42% of our tea volumes at an average price of USD 2 760/tonne, which is 24.9% higher than the average price of USD 2 210 recorded last year.

The local currencies remain relatively weak against the US dollar; in Papua New Guinea in particular the trend is fairly negative due to the high balance of payments deficit and the shortage of foreign currencies. Despite the customary pay rises in Indonesia, our costs in USD terms remain in line with expectations, due in part to low energy and fertilizer prices.

In light of the more favourable production projections and recovering prices for palm oil and rubber, our profit outlook is more positive now. Depending on how prices evolve in the coming months, the profit for 2016 may equal or even slightly exceed that of 2015.

Cash flow and expansion.
Despite the modest profit expectations, our investment policy is primarily focused on the normal replanting of the mature plantations and the expansion of our palm oil operations in Papua New Guinea and Sumatra in Indonesia. We continue to focus on the expansion of Musi Rawas in South Sumatra, where the compensation of farmland continues on three concessions. In the past three months, an additional 588 hectares were compensated and another 488 hectares planted or prepared for planting, thereby attaining a total of 3 879 cultivated hectares, or 46.3% of the total 8 385 available compensated hectares.

Schoten, 21st April, 2016.

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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 long-term ventures in developing countries.