The connection to the world of sustainable tropical agriculture

Interim statement of the SIPEF group

as per 31 March 2020 (3m/20)

- Favourable weather conditions led to an increase in total palm oil production of 6.6% in the first quarter;
- Palm oil production volumes for the first half are expected to continue to increase compared to the same period last year;
- The strong palm oil market at the start of the year suffered from declining demand from February onwards due to the effects of covid-19 and the accompanying low prices for gas oil;
- So far, covid-19 had no material direct negative financial impact on the operating activities of the SIPEF group;
- Up to now 41% of estimated palm oil production for the year 2020 was sold at USD 718 per tonne CIF Rotterdam, premiums included;
- Management is reasonably confident that the fundamentals of the palm oil markets will continue to be strong, but remains cautious given the unpredictable effects of covid-19 on the global economy;
- Taking into account the already realized sales of palm oil and based on the recent market prices, the group expects a turnaround into a profit position for 2020;
- Till now the cultivated hectares rose to 12 617 in Musi Rawas in South Sumatra in Indonesia, where expansion continued steadily.

Interim management report

1. Group production

Group production

2020 *(in tonnes)*	Own	Third parties	Q1/20	YoY%	Own	Third parties	YTD Q1/20	YoY%
Palm oil	63 142	15 391	78 533	*6.57%*	63 142	15 391	78 533	*6.57%*
Rubber*	1 417	204	1 621	*-20.89%*	1 417	204	1 621	*-20.89%*
Tea	810	0	810	*9.76%*	810	0	810	*9.76%*
Bananas	9 019	0	9 019	*3.05%*	9 019	0	9 019	*3.05%*

2019 *(in tonnes)*	Own	Third parties	Q1/19	Own	Third parties	YTD Q1/19
Palm oil	62 210	11 482	73 692	62 210	11 482	73 692
Rubber*	1 822	227	2 049	1 822	227	2 049
Tea	738	0	738	738	0	738
Bananas	8 752	0	8 752	8 752	0	8 752

*Tolan Tiga group rubber production has been split into own and outgrower production. The outgrower production consists of PT Timbang Deli. The figures of prior year have been restated.

Palm fruit production in mature plantations in North Sumatra in Indonesia experienced a relatively difficult start at the beginning of the first quarter of 2020. After last year's abnormally dry conditions, this first quarter was also much drier than expected, with deviations up to nearly 50% from the ten-year average rainfall figures. This mainly slowed ripening in the older plantations, but total production for the quarter remained in line with last year (-0.5%).

In the plantations of the Umbul Mas Wisesa group, the lower rainfall volumes also resulted in a slowdown of ripening. In addition, incomplete fertilisation programs reduced the weight of the harvested fruits, resulting in 8.8% lower fruit production for this first quarter than last year.

In Agro Muko in Bengkulu Province, on the other hand, production volumes recovered very well from the long drought between August and November last year. In addition, good rainfall volumes for the quarter resulted in 14.0% more fruit harvesting than in the first quarter of last year.

Production in the new plantings in Musi Rawas in South Sumatra experienced steady growth (+ 70.0%) due to the increasing maturity of the planted hectares and the very favorable rainfall volumes also experienced in Bengkulu. Only the older plantings on the Dendymarker plantations that were purchased in 2017 continue to suffer from declining production volumes (-5.4%) for the time being, pending replanting with higher yielding palm seeds.

Except for the Umbul Mas Wisesa group, average oil extraction rates (OER) for all Indonesian mills were better than during the first quarter of last year. Agro Muko's palm oil mills in Bengkulu once again peaked at 23.8%

and the Dendymarker facility, which processes all the fruits of South Sumatra, was already reaching an OER of 22.5%, compared to 19.8% for the first quarter of last year.

Due to these higher ratios, the already increased fruit production (+ 5.1%) of the Indonesian plantations was converted into an increase in palm oil volumes by 5.6% compared to the same period last year.

In contrast to the long and intense rainy season in Papua New Guinea in the first quarter of last year, the activities of Hargy Oil Palms were relatively unaffected by the high rainfall in January and February. The 4 400 mm of rain recorded last year in most northern plantations of West New Britain Province approached the 10-year average of 2 800 mm for the first quarter of this year. All areas, except those affected by the volcanic eruptions, therefore recorded sharply increasing production per hectare. Nevertheless, the total own fruit volume was 12.4% lower than that of the same period last year due to the missed contribution of approximately 20% of non-productive mature hectares that are in temporary recovery from the ashfall.

The mature areas of the surrounding farmers, much less affected by the volcanic eruptions, produced 23.2% more fruits. Due to normalised transport and optimal operation of the palm oil mills, whose OERs rose to an average of 23.8% (compared to 22.2% in the first quarter last year), the total palm oil production of Hargy Oil Palms increased by 8.3% compared to the same period last year.

The Group's total palm oil production grew by 6.6% compared to the first quarter of last year.

Despite increasing rainfall volumes, rubber production for Indonesian plantations decreased by 20.9% compared to the first quarter of 2019. The Pestalotiopsis fungus, which is present in all plantations of the SIPEF group this year, resulted in a long and intense wintering in most rubber producing countries. No cure has yet been found to control this fungal disease.

Uniform rainfall 15% above the 10-year average resulted in healthy leaf growth, increasing production volume for the Cibuni tea plantation in West Java by 9.8% compared to the same period last year.

After normalisation of the banana business in Ivory Coast last year, production was 3.1% higher than that of the first quarter of 2019. The volumes per site, which depend on the planting production cycles, were very different compared to the reference period of last year.

2. Markets

Average market prices

In USD/tonne		**YTD Q1/20**	**YTD Q1/19**	**YTD Q4/19**
Palm oil	CIF Rotterdam*	731	540	566
Rubber	RSS3 FOB Singapore**	1 598	1 656	1 640
Tea	Mombasa**	2 131	2 187	2 226
Bananas	FOT Europe***	702	686	662

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

The palm market entered the year 2020 coming from a significant rally in the fourth quarter of 2019. Despite a small setback in the middle of January, there were bright prospects in terms of prices. The poor palm oil production and strong food and biodiesel demand would provide sufficient justification for a strong market. The Group was expecting prices above USD 800 per tonne CIF Rotterdam for most of the year. It was the common belief that China not buying its usual share of vegoil in January would be caught up later in the quarter.

However, in the middle of February the world realised that the covid-19 outbreak had become a global pandemic. The panic that hit the stock markets also raged in the commodities, and markets were aggressively sold.

On top of that, Saudi Arabia initiated a petroleum war with Russia (and the United States) early March, after a disagreement on a reduction in the daily production of barrels. The petroleum markets lost over 50% of its value during the first quarter. Its related gasoil price also collapsed which had a negative impact on the vegoil markets as it became much too expensive as a biodiesel feedstock. Many purchases for nearby biodiesel production were sold off, mostly in Europe but it was also noticed that Indonesia was not reaching its B30 blending target.

By the end of March, there was also a significant supply hiccup as the Malaysian province of Sabah closed most of its palm plantations after several covid-19 infections were detected. Sabah is responsible for about 25% of the Malaysian production.

The uncertainly that the covid-19 outbreak has caused, as well as lower demand and supply, took its toll on the market and the price of palm oil dropped from USD 830 at the beginning of the year to USD 610 per tonne CIF Rotterdam.

The palm kernel oil (PKO) market was suffering from the covid-19 uncertainty as well and it dropped from above USD 1 000 to USD 710 per tonne CIF Rotterdam by the end of March.

Rubber prices had been in a continuous recovery stage since the third quarter of 2019, albeit slow, until the covid-19 pandemic hit the automobile industry very hard. Many car manufacturers even closed factories and, therefore, the demand for natural rubber was massively down. The prolonged wintering and impact of the leaf diseases were outnumbered by the loss of demand. Prices dropped to new lows for SICOM RSS3, from USD 1 684 per tonne early January to USD 1 318 per tonne by the end of March.

Kenyan tea production has been record-high so far this year and this resulted in lower auction prices during the first quarter of 2020. Demand from Pakistan in particular was also slow as the quarantine measures impacted the transfer of teas to neighboring countries. Prices at the end of the first quarter were 16% lower compared to the start of the year.

In the international banana market, in the first quarter of 2020 the surplus production volumes of Central America, in particular those of Ecuador and Colombia, which generally found good sales opportunities in the Asian market, were now also exported to Europe. Partly due to a slowdown in logistics flows, which supply European distribution networks, prices were lower than those for the same period in previous years.

3. Prospects

a. Covid-19 impact

To date, there are no consequences of covid-19 that have had a material direct negative financial impact on the operating activities of the SIPEF group.

All production units have remained operational until now, without loss of volumes or yield per hectare. Of course, in all countries where SIPEF operates, usually in close consultation with governments and often on their own initiative, a whole range of measures have been taken to protect workers, management and their families from infection by the virus and to ensure that any future contamination can be treated effectively. These measures are continuously evaluated and adapted to the ever-changing local environment and the stage of infection in which the affected area is located.

To date, the Group notes the following negative effects (with an estimate of the impact on results and cash flow):

- A significant drop in palm oil prices since mid-February. The persistent effect of such a price decrease can be calculated using the sensitivity also stated in the annual report, and at the result level equals to KUSD 2 600 per 10 USD per tonne price difference.
- A lack of interest in the smallest export bananas (quality P14), which are mainly consumed by school-going youth in England and the European mainland. However, a continuing effect on the results will not exceed KUSD 200 on an annual basis.
- A lack of interest in the exotic flowers (pineapple flowers, ornamental leaves and lotus) from Ivory Coast. The annual result effect will not exceed KUSD 100.
- Due to the lack of availability of foreign consultants and the international and local travel bans, several industrial investment projects may be delayed. They include the expansion of the Dendymarker palm oil mill in South Sumatra; the establishment of a bio coal factory for palm fibre pellets in North Sumatra; and the further optimisation of industrial processes in the factories of the SIPEF-group.

On the other hand, there is also a measure from the Indonesian government that will have a positive effect (on the result and on the cash flow):

- The decrease in corporate income tax from 25% to 22% for the income years 2020/2021 and to 20% as from the income year 2022. This decrease will influence the taxes to be paid and the deferred taxes included in the balance sheet of the Company.

Further discussion of the prospects will therefore not consider other possible measures taken by the authorities to limit the spread of the covid-19 virus, but which are not known today.

b. Productions

The outlook for palm oil production for the second quarter remains moderately positive, with the trends previously noted in the various production centers in North Sumatra, Bengkulu and South Sumatra appearing to be maintained. Due to the annual leave period of the Muslim celebration of Idul Fitri in the month of May, the production cycles will be slightly disrupted in the second quarter, without, however, having a lasting impact on the activities for the rest of the year. Production expectations for South Sumatra remain good, with increasing volumes for all 4 461 young mature hectares in the Musi Rawas development.

The rainy season is now over for Hargy Oil Palms in Papua New Guinea, with normalised production activities in the second trimester, and with hitherto slightly declining volumes in their own plantations, which are being offset by higher than expected harvest volumes from the surrounding farmers. By including the increasing

efficiency of the palm oil mill in terms of higher OER, it is expected that oil palm production will again increase slightly compared to the first quarter of this year.
Considering the foregoing, palm oil production volumes for the first half are expected to continue to increase compared to the same period last year. The outlook for the second half also remains positive, of course, against palm oil production affected by the volcanic eruptions last year. However, it is still too early at this stage to confirm whether the Group will be able to effectively reach the previously announced production volume of 350 000 tonnes of crude palm oil (+ 10% compared to 2019).

Furthermore, it is expected that the Pestalotiopsis fungus will also negatively affect rubber production in the rest of the year, but tea production will be able to continue its growth achieved earlier in the year, if favorable weather conditions are maintained. Banana production also remains positive compared to last year and will continue to increase in the second quarter, in line with the annually recurring growing European demand.

c. Markets

The near-term market is very difficult to predict for palm oil as it all has to do with the impact and development of the covid-19 pandemic. Supply and demand are massively impacted, and daily changes can be seen happening all over the globe. Whether these are quarantine measures limiting imports, export bans to protect the local economy or closing off plantations, most are subject to governmental decisions and are therefore difficult to predict. It also needs to be seen how governments treat mandates, such as the B30 blending in Indonesia.

If there were a quick solution to the virus outbreak, demand would be expected to come back fiercely, as stocks are depleting in many destinations. However, if covid-19 lingers, there will be more harsh impacts both on the supply and the demand sides, and it is impossible to foresee now how it will impact Company prices. That is why the Group stays nimble with sales and focuses on the good execution of the logistics.

For rubber, it is a similar story to covid-19 with a strong reliance on government decisions. Though, the fact that more Chinese factories are opening again should provide some comfort and, as soon as European and American car manufacturers start operating again, sufficient demand is expected to return.

There is a lot of uncertainty in the tea industry regarding the measures taken to control covid-19. The measures will possibly affect production and disrupt logistics. Such disruptions could lead to more volatility during the second quarter and firmer prices as a result.

With logistics and distribution organization adapting to the health rules imposed by the covid-19 crisis, banana consumption should follow a positive trend until summer. After all, bananas remain an important basic product in the diet of the European consumer. Prices will thus be able to maintain a satisfactory level in the coming period.

d. Results

Thanks to sales in late 2019 (for shipment in 2020) and early 2020 in a strong palm oil market, SIPEF has until now been able to sell 41% of expected palm oil production for 2020 at an average price of USD 718 per tonne CIF Rotterdam equivalent, including premiums for sustainability and origin.

This price is USD 132 per tonne higher than the average price of USD 586 per tonne at the same time last year, when 37% of the volumes were realised.

Given the uncertainty of consumers for the coming months, SIPEF wishes to further respond to the volatility of the market trends, and the volumes will be placed gradually on the market.

Also, considering the uninspiring outlook for the rubber markets, a quarter of expected rubber volumes has been sold at an average price of USD 1 583 per tonne so far, compared to 26% at USD 1 502 per tonne at the same time last year. In a supersaturated tea market, about 37% of expected tea volumes were sold at average market prices of USD 2 000 per tonne, down 20% from USD 2 500 per tonne at the same time last year, when 50% of the expected volumes had been contracted.

The marketing strategy for the sales of bananas, with mainly fixed prices for the whole year, also continued in 2020 through deliveries in mainly England and France for the best quality and to the West African continent for the other volumes.

Taking into account the already realized sales of palm oil and based on the recent market prices, the group expects a turnaround into a profit position for 2020.

Subject to the previously cited potential effects of the covid-19 virus on Company operating activities and on the palm oil market, the ultimate recurring result will be largely determined by the achievement of expected production growth; the level of market prices for the rest of the year; the maintenance of the current policy for export tax on palm oil in Indonesia; and the evolution of cost prices. The last, despite mandatory labour wage increases, has been favorably impacted by the lower petroleum price and continued weakness in the local currencies of Indonesia and Papua New Guinea against the USD reporting currency

e. Cash flow and expansion

In Musi Rawas, the original four concessions were expanded in 2018 with three adjacent concessions. The expansion of the current seven concessions at three locations continues successfully, and the necessary assessments are being carried out to fully frame these extensions within the sustainability standards of the RSPO New Planting Procedures (NPP). In the second half of the year, SIPEF hopes to start planting the three most recently acquired adjacent concessions.

In the past quarter, an additional 273 hectares were compensated, and 415 more hectares were prepared for planting or planted, to achieve a total of 12 617 cultivated hectares. This amounts to 75.7% of the total of 16 669 compensated hectares, of which, after correction, provisionally 2 349 hectares have been acquired for planting for surrounding farmers and 14 319 hectares for own development. There are now 4 461 hectares in production and all harvested fruits are processed in our own palm oil mill in Dendymarker, which will therefore be used optimally in 2020and where work is being done to expand the processing capacity from 20 to 60 tonnes fresh fruit bunches (FFB) per hour. In addition to the expansion of the planted areas, the investment focus is on expanding the internal road network and the residential areas for workers and local management.

Finally, the acquisition of Dendymarker in 2017 and the additional concessions in Musi Rawas in 2018 have paved the way for the expansion of the SIPEF group into a company that, in a span of five years, can approach 100 000 own hectares, of which more than 80 000 hectares have already been planted, and the supply base can reach 120 000 hectares. Despite the current lower market prices for palm oil and the uncertainties that the covid-19 virus entails in the short term, the Group remains faithful to its intention to renew the old plantings of Dendymarker as soon as possible, and to develop the concessions of Musi Rawas.

To date, the SIPEF group has not yet had to take exceptional measures to support the Company's liquidity and solvency during the covid-19 crisis. Depending on the evolution of the generated cash flows in the rest of the year, the approved replanting and expansion program may be temporarily delayed, thereby avoiding a higher debt ratio.

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, 23 April 2020

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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.