The connection to the world of sustainable tropical agriculture

Interim statement of the SIPEF group

as per 30 September 2021 (9m/21)

HEADING FOR RECORD RESULTS FOR 2021

- Total group production of palm oil increased by 18.1% compared to the first nine months of last year, due to higher yields in favourable agronomic conditions.
- The Group expects a decline in growth rates in the fourth quarter. Nevertheless, the predicted growth in annual production of more than 10% will be largely exceeded, barring exceptional weather effects.
- In the first nine months, the palm oil market experienced a very stable environment with high prices, which are currently reaching peaks unprecedented in the last decade.
- SIPEF is convinced that the strong prices in the palm oil markets will continue in the last quarter of 2021. This trend may continue into early 2022.
- The easing of the system of government levies on palm oil exports in July 2021 increased the net profitability of Indonesia's palm oil operations.
- The annual results of the Group should be around USD 80 million, as more than 88% of the expected palm oil production has already been sold. This figure needs to be increased by the capital gain of USD 11 million on the sale of PT Melania (Indonesian tea estates and half of the rubber operations).
- The net financial debt position would be halved by year-end, due to the exceptionally favourable results and the sale of assets.
- The expansion in South Sumatra continues steadily. Today, 14 748 hectares have already been cultivated in Musi Rawas and 7 114 hectares have been replanted in Dendymarker.
- Since early September, SIPEF has been offering all employees and their families a free covid-19 vaccination in line with its ESG guidelines.
- SIPEF is starting a collaboration with the Zoological Society of London to advance the monitoring and the resilience of its biodiversity program in Indonesia (12 656 hectares of protected forest) and to contribute to the realization of the Sustainable Development Goal (SDG) 15, ‘Life on Land’

1. Group production

Group production

2021 *(in tonnes)*	**Own**	**Third parties**	**Q3/21**	**YoY%**	**Own**	**Third parties**	**YTD Q3/21**	**YoY%**
Palm oil	84 139	15 877	**100 017**	*18.14%*	241 673	49 995	**291 668**	*18.07%*
Rubber*	513	219	**732**	*-46.26%*	2 749	438	**3 187**	*-27.70%*
Tea*	0	0	**0**	*-100.00 %*	829	136	**965**	*-51.68%*
Bananas	7 403	0	**7 403**	*-3.05%*	24 056	0	**24 056**	*1.05%*

2020 *(in tonnes)*	**Own**	**Third parties**	**Q3/20**	**Own**	**Third parties**	**YTD Q3/20**
Palm oil	72 011	12 648	84 659	202 905	44 122	247 027
Rubber	1 170	192	1 362	3 957	451	4 408
Tea	500	19	519	1 978	19	1 997
Bananas	7 636	0	7 636	23 805	0	23 805

**PT Melania tea and rubber productions have only been included for 4 months due to sale of PT Melania per 30/04.*

The Group's total palm oil production grew by 18.1%, against both the third quarter 2020 and the first nine months of last year. This increase remains in line with that of the first semester. It is the result of generally very favourable weather conditions, that were conducive to palm growth and fruit development of all oil palm operations in Indonesia and Papua New Guinea. These conditions also led to higher oil extraction ratios, which averaged 23.9% for the Group, which is 0.5% higher than at the end of September last year.

The most significant increases over last year were recorded for mature plantings of the UMW/TUM plantations with organic soils (+12.8%). There, the even rainfall allowed the adjusted fertilisation programs to reach their full potential. Also in Bengkulu province, own palm oil production exceeded that of the first nine months of last year by 11.6%. This growth, in addition to the weather conditions, is due to an increasing number of hectares that came into production after replanting in the second generation, with palms that produce higher yields per hectare.

In South Sumatra, there are currently 9 916 hectares with young-mature plantings being harvested. These are spread over the new plantations in Musi Rawas and over the replantings in Dendymarker. All fruits are processed in the Dendymarker palm oil mill, which has produced 44.3% more palm oil over the past nine months than over the same period last year.

In August and September, Indonesian production entities had to cope with unexpectedly high rainfall for the season. As a result, there were problems with harvesting and transporting the fruits, but without any immediate consequence for oil production in the mills. Nevertheless, in September there were already the first signs of an announced decrease in available fruits for most of the Group's Indonesian plantations. However, this phenomenon will have an impact mainly in the last quarter.

In Papua New Guinea the growth of the palm oil volumes from own plantations for the first nine months of the year reached 47.6%. This spectacular growth is mainly due to the unexpectedly rapid recovery of production in Navo's own plantations, which were the most affected by the ash rains from the 2019 volcanic eruptions. In addition, it is also the result of the favourable agronomic effect of moderate rainfall. The acreages of smallholders, on the other hand, were less affected by ash rains and the overall increase of 10.4% is therefore more related to rainfall conducive to growth. Also here, the exceptionally good oil extraction ratios averaging 25.6%, compared to 24.4% for the same nine months of last year, should be noted.

Declining rubber production in the Group is mainly due to the gradual conversion of rubber plantations to oil palm plantations. Added to this is the sale of PT Melania to Shamrock Group, in May of this year. As a result of the transfer of these rubber and tea plantations, their respective productions for 2021 are only included in the comparative figures for four months.

Exported banana volumes from Ivory Coast decreased slightly in the third quarter (-3.1%). This is due to the variation in the production cycles of the four banana plantations. The accumulated production at the end of September, for similar production areas, was 1.1% higher than a year ago.

2. Markets

Average market prices

In USD/tonne		YTD Q3/21	YTD Q3/20	YTD Q4/20
Palm oil	CIF Rotterdam*	1 143	666	715
Rubber	RSS3 FOB Singapore**	2 126	1 547	1 728
Bananas	CFR Europe***	618	643	628

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

During July several bullish inputs hit the palm market. It started off with the export levy adjustment being capped at USD 175 (previously set at USD 255) in favour of the growers. Less favourable weather in Russia and Ukraine suggested slightly lower sunflower seed crops; the impact of the earlier drought in Canada became more visible; and the local rapeseed/canola crop was greatly diminished.

Moreover, global palm oil production has been simply disappointing, and the marketplace is making almost constant adjustments to the reality. Malaysia is predominantly blaming the lack of foreign labour to address the low yields, but it cannot be underestimated that other factors are playing a significant role in the low production. Several years of low prices in the palm oil world, leading to restrained cash flows, have led to lower fertiliser application and a lack of replanting. As a result, there is an increase of the average age of the trees, getting fewer nutrients, causing low yields. Another factor that is now being felt, in particular in the second half of 2021, is the delayed effect of the dry spell in 2019, leading to a poorer yield.

Demand has been good in the latter part of the third quarter. Initially, most consumers were waiting for a price drop, with the expected increasing production of the summer crops and palm oil going into the peak production cycle. However, the selling pressure did not occur and the strong buying wave from the importing countries took the palm oil prices to new highs. India lowered its import tax system, which triggered another buying wave. As a result, stocks in origin are tight and most storage tanks in the destination still need to be replenished, as currently, due to the strong inverted markets, consumers are only buying hand-to-mouth.

The price of palm oil traded from USD 1 000 in July to above USD 1 200 by the end of September, and the spot premiums grew again to very unusual heights, which are an indication of the tightness.

Palm kernel oil (PKO) followed the palm market, albeit in a surprisingly slow manner. The PKO prices hovered between USD 1 200 and USD 1 300 during the third quarter.

The natural rubber market remains stuck by end customers that are not able to find container freight, and little physical business is being traded. The prices of Sicom RSS3 traded gradually lower from USD 2 000 per tonne to USD 1 850 per tonne, with physical deliveries at a slight premium.

3. Prospects

3.1 Production

The Group's agronomists, based on representative counts in the field, expect relatively more limited growth rates for palm oil production in the fourth quarter. After a period of exceptional growth, there would be a slowdown in the development of the number of unripe fruits of the palms of most of the Group's plantations. As a result, the exceptional production increase of more than 18% at the end of September will probably drop to around 15% at the end of the year.
The banana volumes produced in the Ivory Coast will, with similarly planted hectares, approach those of last year. The production forecast for 2021 does not yet take into account the additional plantings from the recently acquired Wanita project. The harvests from these new plantations will only start in the second half of 2022.

3.2. Markets

With the peak production of palm oil almost over, and the stocks situation in origin and destination still very tight, there will not be much change in the current market situation. In fact, the Group foresees an even tighter scenario into the middle of 2022. Current production numbers are again below expectations, and the extent of the yield drop will determine the near to middle term price direction. Stocks of other vegoils are still rather tight. As a result, these vegoils are priced at a significant premium over palm oil; both rapeseed oil and sunflower oil are not providing a lot of relief.

The only bearish input seen in vegoil demand is the reduction of the biodiesel mandate in Brazil from 13% to 10%. Also, the US government has given indications of reducing the mandate, although no clear orders have been given. This is still a potential flag to the downside. Otherwise, SIPEF believes that all food demand is still poorly covered due to massive inverses, and decent volumes will have to be bought sooner rather than later.

The palm kernel market finally seems to be pricing in the poor production and choosing its own course instead of just following palm oil. Recently, the premium grew from USD 200 to USD 400. The Group foresees that the lauric market will continue to trade at a significant premium over palm oil.

All in all, a tight vegoil scenario in general, and in palm oil in particular, continues to be seen. Unless an external macro negative input emerges, SIPEF believes trade will continue at high price levels for the foreseeable future.

The rubber market is in a fine balance with low production and end consumers running a very tight pipeline. These consumers have consistently been taking less rubber then usual since the beginning of this year. It is expected that they have to make a move sooner rather than later.

3.3. Results

In a continuing strong palm oil market, SIPEF was able to sell its volumes at prices unprecedented in recent years. To date, 88% of the expected palm oil volumes have been sold at an average price of USD 1 057 CIF

Rotterdam equivalent, including premiums for sustainability and origin. This is 50.4% higher than the average price of USD 703 per tonne at the same time last year, when 94% of the volumes had been sold.

In Papua New Guinea the exceptionally high palm oil prices fully benefited the palm activities. However, in Indonesia, sales prices were significantly skimmed by a combined export levy and tax. These taxes financed the local biodiesel program strongly encouraged by the Indonesian government. Due to the continued rise in crude oil prices during the first half of the year, the export levy mechanism was relaxed as from 2 July 2021. The levy and tax are calculated by the government on a monthly basis according to the prevailing palm oil prices on the international markets. Given the uncertainty of determining the local reference price for palm oil, available palm oil volumes in Indonesia are placed in the market on a monthly basis. However, in Papua New Guinea, the expected volumes from own plantations can be sold forward.

Meanwhile, due to the higher prices during the first year-half, about 80% of the expected remaining rubber production was sold at an average price of USD 2 053 per tonne FOB. This represents a price increase of 30.8% compared to the volumes sold at USD 1 570 per tonne at the same time last year. As the export of bananas from Ivory Coast is mainly done at fixed annual sales prices, the Group expects a stable contribution of this business to the operating results of the year.

Unit production cost prices, with the exception of those for rubber activities, have remained well under control for the time being, due to rising production volumes. However, the rising energy prices, which are also affecting fertiliser prices in the countries where SIPEF is operational, should have a cost increasing impact for the Group in the coming months.

Combining strongly growing production volumes with unprecedentedly high palm oil prices, the recurring results, share of the Group, would be significantly better than the annual result of the fiscal year 2020 (KUSD 14 122). They would most likely be around USD 80 million at the end of the year, despite the high taxes on palm oil production in Indonesia. This figure will then be increased by the capital gain, share of the Group, of KUSD 11 003 on the conditional sale of the Indonesian company PT Melania, comprising the tea plantations and half of the rubber activities of the Group.

The still unsold balance (12%) of the expected production should also benefit from these earlier mentioned price effects of the palm oil markets. In addition, the final recurring result will be determined to a large extent by the achievement of the expected production growth, the evolution of the relaxed policy on export levies and taxes in Indonesia and the further development of cost prices.

3.4. Cash flow and expansion

Meanwhile, in Musi Rawas, in South Sumatra, the Group received a positive response from the "Roundtable on Sustainable Palm Oil" (RSPO) in May and August for the development of three additional concessions, under the conditions of the "New Planting Procedures" (NPP). These concessions of 8 594 hectares acquired in 2018 will allow the Group to carry out additional plantings, which will be in line with the AKL and AMR projects of 11 630 hectares already developed, thus optimizing future profitability. Land compensation and preparation for the planting of oil palms was started immediately. The final size of these new developments will depend on the material and financial feasibility of the land compensations and plantings. Indeed, this must take into account the integral conservation of protected natural areas - designated by external studies.

Of the previously approved concessions, which have been in development since 2013, 524 additional hectares were compensated in the first nine months. 734 additional hectares were prepared for planting or planted, to reach a total of 14 748 cultivated hectares. This represents 82.2% of the total 17 948 hectares compensated. 2 309 hectares of these were provisionally acquired for planting for local farmers and 15 639 hectares for own development. Currently, 8 748 hectares are in production. Virtually all of the harvested fruit is processed in Dendymarker's own extraction plant.

The extension works of this mill, to increase its processing capacity from 20 to 60 tonnes of palm fruits per hour, is progressing well despite the restrictions imposed by local corona measures. By the end of the first quarter of 2022, the full expanded production capacity should be available.

Replanting of the Dendymarker plantations, acquired in 2017, is also progressing steadily. Meanwhile, 7 114 hectares have been replanted, while 1 012 hectares were prepared for replanting. Also here, 1 168 hectares of the new plantings are already in production.

The acquisition of the assets of the insolvent Wanita banana plantation in Ivory Coast, announced in June, has been successfully completed. Plantations J. Eglin has now started the rehabilitation and new planting of a first lot of 70 hectares with completion foreseen by the end of 2021. Through the spread investment of USD 8 million, the banana business in Ivory Coast will expand with 550 hectares of new plantings. This will increase production by almost 80% over a three-year period, from 32 000 to 57 000 tonnes of export bananas.

The Group could halve its net financial debt position, which still exceeded USD 151 million at the end of 2020, within one year. This reduction would be possible thanks to the strongly increasing cash flow from operations and the proceeds from the sale of PT Melania. In addition, part of the comprehensive investment budget for achieving the expansion will be carried forward to 2022.

4. Sustainability

4.1 Covid-19

In 2021, the covid-19 pandemic continued to rewrite the rules of countries and industries. SIPEF continued to adapt and to manage covid-19 related impacts, including through the Group's significant efforts to vaccinate its local staff and their families. In Indonesia, SIPEF has to date provided 23 023 vaccines. With those, about 65% of the target group in Indonesia were double vaccinated. In the Ivory Coast, despite limited vaccine availability, 54% of the staff at SIPEF's banana operations, Plantations J. Eglin, have been double vaccinated. The Group's efforts will continue until all staff and family members who opt to receive a vaccine have had their second dose.
In Papua New Guinea, hesitancy towards vaccination has played a key role in the progress of double vaccination rate which is currently 4%. In addition to vaccine provision, the Hargy Oil Palms team has placed a significant focus on informing its staff and local communities in the local language and in a more visual format. It has further received support from local health authorities and "Australian Doctors International" to spread awareness of the vaccination program. It is the management team's primary concern to protect all of its employees and their families from infection. The Company will therefore continue this proactive approach, in addition to all other health and safety precautionary measures that are being implemented.

4.2 SIPEF Biodiversity Indonesia (SBI)

While the 'lockdown' has imposed severe limitations on travel, the SIPEF 'Biodiversity and Conservation Project' team in Indonesia has been able to continue its work locally in the context of the SBI program. This project concerns 12 656 hectares of protected forest area bordering the Kerinci Seblat National Park.

Through its SBI program, SIPEF is contributing to the realisation of the Sustainability Development Goal 15 – 'Life on Land'. This program aims to conserve and protect the ecosystem and biodiversity in the area, including through the promotion and development of sustainable land and forest management. It seeks to enhance collaboration with local communities in restoring and protecting the forest.

SIPEF is currently looking at engaging with partners from the scientific community, in order to further enhance the resilience and success of the program. SIPEF is working on a Memorandum of Understanding with the Zoological Society of London. Through this cooperation, the Group aims to advance its monitoring systems and management approach to protecting tigers and other endangered species within its conservation areas and to look at the wider landscape and habitat connectivity. SIPEF further plans to scale up its efforts and aims to expand its biodiversity and ecosystem conservation programs in the future.

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, 21 October 2021

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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.