The connection to the world of sustainable tropical agriculture

Interim statement of the SIPEF group

as per 31 March 2022 (3m/22)

Heading for record results

- The first quarter in the palm oil market can be characterised as a volatile environment with unseen steep prices reaching as high as USD 1 800 CIF Rotterdam per tonne in March. Even though in Indonesia, these recent price increases were to a large extent offset by export taxes and levies, net sales prices remained higher than those of the last quarter 2021;
- Total Group production of palm oil temporarily decreased by 7.0% compared with the first quarter of last year due to weather effects;
- In March 2022, the SIPEF group acquired full control of PT Agro Muko by purchasing the remaining 5% interest for an amount of KUSD 5 500;
- The expansion in South Sumatra continued steadily: already 15 248 hectares have been cultivated and the replanting of the Dendymarker plantations acquired in 2017 is largely completed;
- The Group's net cash flow was positive at the end of the first quarter;
- Despite a current production decline of 7%, the SIPEF group still assumes to reach the projected annual production growth of more than 4% for 2022;
- The war situation in the Black Sea region and the current imbalance in supply and demand for vegetable oils reinforce confidence in continued strong prices for palm oil in 2022;
- Recurring annual results, despite high taxes on palm oil production in Indonesia, are expected to be higher than those of the financial year 2021;
- Financial debt would be further reduced in 2022;
- In the first quarter of 2022, SIPEF continued to act as a socially responsible employer and provided at its own cost covid-19 vaccinations and boosters to all employees and their dependents in Indonesia, Papua New Guinea and Ivory Coast. In Indonesia a booster rate of 80% was achieved by the beginning of April.
- SIPEF continues to act in an environmentally responsible way and to conform with RSPO standards. In recent months, RSPO recertification was achieved by Hargy Oil Palms Ltd in Papua New Guinea and by PT Dendymarker Indah Lestari in Indonesia, and Rainforest Alliance recertification was achieved by Plantations J. Eglin in Ivory Coast.

Interim management report

1. Group production

Group production

2022 *(in tonnes)*	Own	Third parties	Q1/22	YoY%	Own	Third parties	YTD Q1/22	YoY%
Palm oil	69 027	16 199	85 226	*-6.99%*	69 027	16 199	85 226	*-6.99%*
Rubber	321	159	480	*-34.96%*	321	159	480	*-34.96%*
Bananas	7 515	0	7 515	*-20.47%*	7 515	0	7 515	*-20.47%*

2021 *(in tonnes)*	Own	Third parties	Q1/21	Own	Third parties	YTD Q1/21
Palm oil	75 222	16 411	91 633	75 222	16 411	91 633
Rubber	586	152	738	586	152	738
Bananas	9 449	0	9 449	9 449	0	9 449

The palm fruit production in the mature plantations of North Sumatra in Indonesia benefited from a rather steady rainfall pattern, which was above the long-term averages in number of rainy days and volume. Nevertheless, both the plantations on mineral soil and those on organic soil recorded a decrease of respectively 7.0% and 11.3% compared with the first quarter of last year. This reduction in the number of harvestable fruits is still a late consequence of the 2019 drought and is therefore a temporary phenomenon.

In contrast, in the oil palm plantations in Bengkulu province, weather conditions were downright ’dry’ with precipitation rates 20-60% lower than long-term averages. The fruits present were lighter in weight and ripening was somewhat delayed. As a result, production at the end of March was 12.2% lower than that of the first quarter of 2021.

In South Sumatra, the fruit harvest of own plantations increased by 33.9% and that of smallholders (plasma) by 92.2% compared with the first quarter of 2021. Production from new plantings in Musi Rawas increased by 41.9%, thanks to a 20.6% increase in harvested hectares and an increase in average fruit weight in most young plantations. Weather conditions were also favorable for palm growth and fruit development. In addition, young palms are proving more resilient to the last delayed stress effect of the 2019 drought.
Dendymarker plantations experienced a limited increase in production (0.9%) in the first quarter, due to a 16% increase in newly planted hectares that are just coming into production.

The average oil extraction ratios (OER) of Indonesia's palm oil mills were generally better than last year, hovering between 22.6% and 23.7%. The Dendymarker mill in South Sumatra recorded the largest average year-on-year quarterly increase from 21.4% to 23.1%. This was due to the better quality of the young planted palms versus the old palms that have now been almost completely replaced.

Despite a relatively wet January, average rainfall in Papua New Guinea's oil palm plantations in the first quarter was again more than 43% lower than the five-year average and even 2% lower than last year. Consequently, production was not significantly affected by weather conditions. Navo plantations were able to continue recovering from the impact of volcanic eruptions in the second half of 2019. The volumes of harvested palm fruits on the own estates experienced an overall increase of 3.3% compared with the same period last year. In recent years the surrounding farmers have not been sufficiently using the fertilizers offered to them. The replanting of their acreage also lagged behind schedule. As a result, the fruit volumes delivered by them fell by 5.1%. Thanks to continuing good extraction rates (average OER of 25.3% against 25.4% last year), the total production of raw palm oil remained almost constant compared with the first quarter of 2021.

The total Group production of palm oil decreased temporarily by 7.0% compared with the first quarter of last year.

Due to the commencement of the conversion of the rubber acreage to oil palm in the Bandar Pinang plantation in North Sumatra and in the Sei Jeringing plantation in Agro Muko in Bengkulu, the SIPEF group's produced rubber volume again decreased by 35.0% compared with last year.

The unproductive old rubber trees have already been removed in preparation for the planting of young palms from 2023, one year earlier than initially planned. The RSPO approval granted for the conversion, as well as the persistently low rubber prices, have led to an acceleration of the replacement of the rubber plantings with young palms.

In contrast to the first quarter of last year, this year Ivory Coast was strongly affected by Harmatan winds. Consequently, in the absence of sufficient sunlight, the harvested bunches were smaller with relatively ’skinny’ bananas. As a result, the export weight of Plantations J. Eglin decreased by 20.5% compared with the same period last year. A similar trend was observed among the other banana producers in Ivory Coast and Ghana, causing total African banana imports to Europe to decline by an average of 11% in the first quarter of 2022.

2. Markets

Average market prices

In USD/tonne		YTD Q1/22	YTD Q1/21	YTD Q4/21
Palm oil	CIF Rotterdam*	1 564	1 081	1 195
Rubber	RSS3 FOB Singapore**	2 069	2 337	2 071
Bananas	FOT Europe***	756	659	616

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

The palm oil market ended last year on a record price level following a very low stocks situation and a further deteriorating South American soybean crop due to the drought caused by La Niña.
The Indonesian government had many concerns about the high-priced local cooking oil and was looking at solutions to keep these local prices under control. Initially they introduced a Domestic Market Obligation

(DMO) and a Domestic Price Obligation (DPO), where it was mandatory to sell 20% of the refiners' volume domestically at the reduced price. When the DMO proved to be not very successful, it was dropped, and an increased export levy was introduced by late March to subsidize the local cooking oil prices. It is basically a continuation of the previous model whereby the government collects USD 20 for every USD 50 price increase, only the maximum prices were increased to match the unprecedented higher price levels. The net selling prices for the plantations were, however, still higher than in the last quarter of 2021.

The only veg oil that could have filled the gap in this very tight global veg oil complex, was the Ukrainian and Russian sunflower oil. However, due to the Russian invasion of Ukraine, all ports have stopped operating in the Black Sea. The prices of many commodities rose strongly due to the war, as these two countries are called the breadbasket of the world but could not deliver to the end consumer. Wheat, corn, and sunflower were leading the price hikes. Also, the entire petroleum complex rose strongly, and huge volatility was experienced in all commodity markets, including the palm oil market.

The price of palm oil traded from USD 1 300 to USD 1 800 by early March while the spot price was significantly higher than the forward positions.

The palm kernel oil (PKO) market was rallying on its own tight fundamentals, pricing itself at a huge premium not only over palm oil but also over coconut oil late last year. Though, lately there has been a surge for coconut oil and both lauric oils came in an even money price balance. The PKO prices rallied from USD 2 000 to almost USD 2 300 during the first quarter, but then started to ease off slightly.

The natural rubber market has been one of the few markets that has seemed rather untouched by the war in Ukraine. It was expected that it would rally along with the petroleum market, but it appeared there was more emphasis on the potential demand impact of the new semi-lockdowns in China. Prices of Sicom RSS3 traded from USD 1 850 to USD 2 100 per tonne, but physical demand remained subdued.

Declining banana exports to Russia and Ukraine have particularly affected Ecuadorian exporters. The price in the European banana market has been little affected by the war for the time being. In a stable supply and demand-situation, market prices in the first quarter 2022 remained about 13% above the average of the same period last year.

3. Prospects

3.1. Production

Despite a relatively difficult start to the year in Indonesia, especially in Agro Muko's mature plantations in Bengkulu, the outlook for the second quarter is all the more favorable. The decline of the first quarter will, however, not be fully compensated by the end of June. In Papua New Guinea, the expectations for the production of the own plantations remain in line with the very strong performance of last year. The production of the surrounding farmers is more difficult to predict. For the SIPEF group as a whole, production volumes of palm oil should decline slightly in the first half of the year. Although planning more than three months ahead is not usual and despite a current decline in production of 7%, the Group still assumes to reach the forecast annual production increase of over 4% in 2022, barring exceptional weather effects.

For the rubber business within the SIPEF group, the priority will be to accelerate conversion to oil palm plantations. Consequently, expected rubber production is likely to decrease. Banana volumes produced are expected to gradually come in line with those of 2021. Towards the year end, they would continue to grow, when the first 28 hectares of new plantings from the Lumen plantation acquired in 2021 will bear their first fruits in the fourth quarter.

3.2. Markets

The entire vegetable oil complex is looking at ways to replace the sunflower oil that is stuck in Ukraine and Russia. The already super tight market only got tighter, and consumers are running out of stocks. There will be little relief until there is a cease fire and Ukrainian ports can operate again. As for palm oil, it is coming out of the low production cycle, but end stocks will remain low for the coming months. The biggest question is to what extent these high prices are killing demand in the low-income countries.

Food inflation is garnering a lot of attention, but so far there is little incentive for countries with a big biodiesel mandate such as Indonesia to reduce their mandated volume as the alternative of high- priced diesel is not very attractive. In Europe however, there is more public pressure to reduce the blending though it would challenge every country’s emissions output.

The longevity of the war situation in the Black Sea region will determine much of the upcoming price direction of palm oil. A potential opening of ports, and the release of sunflower oil, could certainly lead to a short-term price reduction. The first signals of new plantings in Ukraine are not very hopeful, but again it depends on when the war ends. In general, there will be total focus on the spring planting across the Northern Hemisphere, as big crops are a must to bring any relief. What will be planted will depend on the evolution of the war, weather, and input costs such as fertilizer.

All in all, the palm oil market is at unprecedented price levels and is experiencing huge volatility. The market is expected to remain at a higher-priced level for the foreseeable future, but some big price swings on the back of geopolitical events and weather-related growing conditions could be seen. Palm oil is currently well priced versus its competition. With higher cost prices following the energy and fertiliser price increases, SIPEF believes a new price floor has been created in the entire agricultural complex.

The rubber market seems to be untouched by the current global turmoil, but a current low stocks scenario amidst the wintering in Vietnam and Thailand could spark the market, particularly once China returns as a buyer. Therefore, SIPEF is cautiously but positively looking forward to better prices.

The commodity-linked price increases that have been announced for all food products have also been cautiously reflected in the current price levels on the European banana market. As a result, average market prices for the next few quarters may significantly exceed those of last year. The annual fixed-price contracts concluded with customers already took this food inflation into account to a large extent.

3.3. Results

In a persistently strong palm oil market, which continues to expand at previously unprecedented levels, SIPEF was able to sell 44% of its palm oil volumes at an average price of USD 1 378 per tonne CIF Rotterdam equivalent, premiums for sustainability and origin included. At the same time last year, when the market had to pick up even more, SIPEF had traded 47% of the volumes at USD 899.

In Papua New Guinea, the exceptionally high palm oil prices fully benefited the palm activities. But in Indonesia, gross sales prices were significantly reduced by a combined export tax and export levy, which amounted to USD 375 per tonne for the first quarter. These levies were increased again as of 18 March 2022 to a maximum of USD 575 per tonne, mainly to ensure the availability of palm oil to local consumers at a reasonable price. Given the uncertainty of the determination of the reference price for palm oil, which is the basis for the monthly tax and levy, the available palm oil volumes in Indonesia are placed in the market on a monthly basis. However, in Papua New Guinea, the expected volumes from the own plantations can be hedged over time.

The unit cost of production of palm oil is subject to increases in fertiliser and diesel prices, increased transport costs and the usual increase in remuneration of the Group's employees. This would increase the Group's overall cost in USD by up to 15% over last year's average price. This increase will not be neutralised for the time being by a weakening of local currencies against the USD.

The combination of increasing annual production volumes and an expected sustained strong palm oil market with unprecedented selling prices, allows SIPEF to look forward to very satisfactory recurring results. In all likelihood, profits will exceed those of 2021. Except for the possible price effects of the palm oil markets mentioned earlier, the final recurring result will largely depend on achieving the expected production growth, maintaining the current export tax and levy policy in Indonesia and the evolution of cost prices.

3.4. Cash flow and expansion

In the first quarter of 2022, the Group focused mainly on the investment programs in South Sumatra. These concern the further expansion of planted areas and infrastructure in Musi Rawas and of replanting and infrastructure improvements in Dendymarker. In the Dendymarker plant, the expansion of the processing capacity from 20 to 60 tonnes per hour, delayed by the pandemic, is now being tested in stages. Nevertheless, it will take until the end of May for the plant to operate at full capacity. Moreover, the preparatory works for the construction of a first oil extraction plant in Musi Rawas have started. This factory will initially be able to process 45 tonnes of fruit per hour. From 2024 onwards, this processing capacity will be increased even further, so that all the fruit produced in South Sumatra can continue to be processed in SIPEF's own factories.

The replanting of Dendymarker and the compensation and planting of new hectares in Musi Rawas continued steadily in the first quarter of 2022. In the Musi Rawas plantations, the figure of 15 000 cultivated hectares was exceeded for the first time. This corresponds to 83.1% of the total compensated hectares, of which 2 307 hectares were provisionally acquired for 'plasma' and 16 051 hectares for own development.

Due to this constant expansion and the replanting of Dendymarker, there are now 23 525 hectares of immature and young-mature palms in South Sumatra. This expansion plan should gradually bring the volume of additional palm oil coming from South Sumatra to almost 200 000 tons.

The plant for the manufacture of high-quality bio pellets from palm fibers, which is located next to the UMW plant in North Sumatra, is now also nearing completion. The first production will be offered for quality control to potential buyers in Indonesia during the month of April.

Due to a change in the law in Indonesia it has recently become possible for a foreign investor to own 100% of the shares in a company that is active in the exploitation of palm oil plantations in Indonesia. This change in the law resulted in the SIPEF group purchasing the remaining 5% interest in PT Agro Muko in March 2022 for an amount of KUSD 5 500. This allowed SIPEF to acquire full control over this subsidiary.

Despite this extensive investment plan, the current high sales prices ensured that the Group's net cash flow remained positive. Moreover, it will be possible to further reduce debt during 2022, even after paying a dividend based on a 30% payout.

4. Sustainability

4.1. Covid-19 update

As the covid-19 situation begins to ease, SIPEF has seen case numbers and hospitalisations decline steadily in all countries of operation. Thanks to the collective efforts of its teams, SIPEF has made good progress in its comprehensive vaccination programme for its employees and their dependents.

In Indonesia, the booster programme has been extended and more than 15 000 people, being 80% of targeted employees and dependents have received their boosters by April 2022. It is expected this will increase further after the holy month of Ramadan.

In Ivory Coast, 59% of employees had been double-vaccinated and 16% had received a single dose by April 2022. While the covid-19 situation in the country eases, SIPEF continues to focus on expanding its programme further with a specific focus on vaccinating its employees in the new development areas of Lumen/Akoudié. The booster is being made available to all those who have already been double-vaccinated.

In Papua New Guinea the peak of the omicron wave has passed and cases have decreased significantly over the last month. Free vaccination is provided to all interested employees and their dependents. Vaccine confidence remains low, so SIPEF continues to focus on providing clear information on the benefits of vaccination as well as implementing a regular testing regime and all necessary health protocols.

4.2. Sustainability certification

Certification is a crucial part of SIPEF's approach to sustainability. It helps the Group to demonstrate that it meets high standards of verified performance, accountability, and transparency on factors from social performance to supply chain practices and environmental impact management.

SIPEF is proud to continue with its certification programme for the whole Group. Covid-19 travel restrictions complicated physical audits in many cases, but recertification has been achieved for all of SIPEF's operations. Undergoing the verification process every year reinforces the Group's commitment to continuous improvement.

SIPEF works with certification programmes that are holistic, covering both social and environmental issues and involving stakeholders in grievance mechanisms and proceedings. The process of achieving and maintaining certification is rigorous and depends on the engagement of teams and departments across the Company. Verification involves providing information about the operations, structure, and various work processes in place within SIPEF. This year's successful recertification in Indonesia, Papua New Guinea and Ivory Coast confirms that these standards continue to be met.

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.

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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.