The connection to the world of sustainable tropical agriculture

Interim statement of the SIPEF group

as per 31 March 2023 (3m/23)

SIPEF looks forward to satisfactory recurring results

- Total Group production of palm oil increased by 2.8% compared with the first quarter of previous year.
- The palm oil market showed a stable pricing pattern throughout the first quarter at prices above USD 1 000 per tonne CIF Rotterdam, however, but lower than last year.
- The Group's Net Financial Position (NFP) remained positive at the end of March 2023.
- The Group confirms looking forward to satisfactory recurring results for 2023 with 39% of expected palm oil production sold and the prospect of continued favourable market prices in the remainder of the year, without, however, matching the record level of 2022.
- Generated cash flows are expected to cover for an extensive investment plan and working capital requirements, including dividends. At year end, the NFP should be close to zero.
- SIPEF will publish this month its first integrated annual report, covering the 2022 financial year, an important step in the Group's preparations for the upcoming European Corporate Sustainability Reporting Directive (CSRD).
- SIPEF further updated its GHG emission reduction plan this quarter by setting its target of GHG emission reductions (Scope 1 and 2) per ton of Crude Palm Oil (CPO) at a very significant level of 28%.
- In March 2023, once again all the Group's banana production sites, including the new Akoudié and Lumen sites, were certified as 100% Rainforest Alliance and received the Rainforest Alliance Transition Certificate.

Interim management report

1. Group production

Group production

2023 *(in tonnes)*	**Own**	**Third parties**	**Q1/23**	**YoY%**	**Own**	**Third parties**	**YTD Q1/23**	**YoY%**
Palm oil	68 996	18 643	87 639	*2.83%*	68 996	18 643	87 639	*2.83%*
Rubber	297	125	422	*-12.08%*	297	125	422	*-12.08%*
Bananas	10 183	0	10 183	*29.86%*	10 183	0	10 183	*29.86%*

2022 *(in tonnes)*	**Own**	**Third parties**	**Q1/22**	**Own**	**Third parties**	**YTD Q1/22**
Palm oil	69 027	16 199	85 226	69 027	16 199	85 226
Rubber	321	159	480	321	159	480
Bananas	7 842	0	7 842	7 842	0	7 842

Because of the excellent Group's production in Papua New Guinea in the first quarter 2023, making up for the declining volumes of this trimester in Indonesia, the Group's FFB production figures were still in line with the crop volume at the end of the first quarter 2022. The average OER was only 0.1% lower than last year, while the Group's palm oil production increased by 2.8% on the first quarter of 2022.

In Indonesia, in Sumatra, the Group experienced a general decline in production of Fresh Fruit Bunches (FFB) compared to the first quarter of last year. This is the second consecutive year that the production in the first quarter shows a downward trend, not related to the current weather circumstances.

In North Sumatra, both on mineral and organic soils, the weather was generally supportive for palm growth, with rainfall exceeding the long-term averages by between 16% and 46%. Nevertheless, the estates experienced a decline in harvestable bunches on the palms. The mineral soil estates recorded a FFB production drop of 10.7% against the first quarter of 2022, which was already a low-crop trimester compared with the year before. In the organic soil estates, the lower bunch numbers were also combined with a lower bunch weight. The production in these estates was therefore 33.3% lower than in the same period of last year.

In contrast, but comparable to last year, in the oil palm plantations in Bengkulu province, weather conditions were downright 'dry' with precipitation rates up to 43% lower than long-term averages. The lower number of FFB ready for harvesting was also lighter in weight. As a result, production at the end of March was 10.2% lower than in the first quarter of 2022, which already showed a production decline compared with the year before.

In South Sumatra, FFB production continued to rise, with 26.6% growth for the first quarter compared with the same period last year. This growth rate was also reflected in the increase of 23.8% in smallholders' purchases (plasma). The rising contributions from both the Musi Rawas plantations and those of Dendymarker were the direct result of an enlarged number of harvestable hectares and increasing bunch weight and bunch numbers on maturing estates. However, here also, the recorded crop did not meet the Group's growth expectations and the same bunch reduction phenomenon was noticed.

Due to the lower numbers of harvestable bunches in the palms, the harvesting rounds were well on time, resulting in less loose fruits collected and, consequently, in a generally lower Oil Extraction Rate (OER) for the Indonesian palm oil mills. The average OER was 22.8% against 23.1% for the first quarter last year.

As a result of the combination of lower crop figures and declining extraction rates, the increasing production in South Sumatra could not make up for the lower palm oil volumes produced in the other regions in Sumatra. The Indonesian operations showed a decline of 5.1% against the first quarter 2022.

In Papua New Guinea the crop production was not significantly affected by weather conditions, despite a relatively wetter first quarter than a year ago, but with a rainfall average still 26% below the 5-year average. Most estates recorded increasing crop figures, exceeding last year's first quarter volumes by 12.0%. The production volumes of the surrounding smallholders showed the same pattern, with a 17.1% increase in the purchased volumes, on last year.

The higher volumes also put pressure on the length of the harvesting rounds, meaning that the crop received in the mills was recording an impressive OER's average of 25.1%, very much in line with the 25.3% from previous year's first quarter.

Banana production for the first quarter of 2023 increased by 23% compared with that of the previous year for the same period. The climatic conditions were normal for the season and the irrigation compensated well for the water deficit that is usual at the beginning of the year.

The increasing production was mainly due to the ramp-up in production of the newly acquired zones, where yields were much better than anticipated.

The production on the historic sites remained 3% below last year. The Harmattan - cold and dry wind from the Sahara in January - shifted the production cycles slightly by a few weeks, with an insignificant impact for the future production.

2. Markets

Average market prices

In USD/tonne		YTD Q1/23	YTD Q1/22	YTD Q4/22
Palm oil	CIF Rotterdam*	1 017	1 564	1 345
Rubber	RSS3 FOB Singapore**	1 609	2 069	1 810
Bananas	FOT Europe***	924	757	762

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

The palm oil market has been showing a rather stable pricing pattern throughout the first quarter of 2023. The balanced, but tight stock situation in the origin triggered few incentives for abrupt price movements. The lower production trend started in the last quarter of 2022 continued in the first quarter of 2023. Most price movements were initiated by the liquid vegetable oils and macro environment. The soybean market was torn between a record Brazilian crop and a devastating crop in Argentina, as a result of very dry and hot weather related to La Niña. At the same time, the rapeseed oil and sunflower oil markets had abundant stocks, and were aggressively looking for demand, and in March rapeseed oil was the cheapest vegetable oil on the planet. This could only last a short while, as this premium oil was well-absorbed in various markets.

The fragile macro environment was further shaken by a mini banking crisis in March, hurting most agricultural and energy commodities. Palm oil remained rather untouched, given the low stocks, and even further export restrictions and a slower temporary biodiesel offtake to support sufficient local food supply ahead of the Ramadan festivities did not hurt the market, particularly not in the origin. The price of palm oil hovered between USD 1 000 and USD 1 050 per tonne CIF Rotterdam during the quarter, whereby the forward months were slightly discounted.

The palm kernel oil (PKO) market mostly followed palm oil, as the market cannot find a spark yet. The PKO prices traded around similar levels as palm oil for the first quarter.

The good general trend of the European banana market has been confirmed and maintained at the start of the year and all the selling prices on the import markets have been revised upwards. This increase was necessary to keep pace with general inflation on all of the Group’s production and marketing costs.
Consumption remains dynamic, with a supply which nevertheless remains lower than in previous years due to rather difficult climatic conditions in the large production areas of Central America.

3. Prospects

3.1. Production

Despite a difficult start to the year in Indonesia, especially in the mature plantations in Sumatra, the outlook for the second quarter production is somewhat better. However, the ameliorated production of the second quarter will not compensate for the decline of the first quarter by the end of June. In Papua New Guinea, the outstanding production level of the first quarter will not be continued. The volumes for the second quarter will show a slight decline on last year in the own estates. 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 predicting productions more than 3 months in advance is not obvious, the Group still assumes that the forecasted annual production increase of 5% in 2023 will be reached, barring exceptional weather effects.

The banana production forecast for the first half-year promises to be much higher than those of last year. This is mainly due to the additional production from the newly planted sites, where the second area, Akoudié, is now entering in production. The production of the historic sites of the Group is expected to be equivalent to those of last year.

3.2. Markets

On the supply side, the tight stock situation and slower production growth were confirmed during the Price Outlook Conference in Kuala Lumpur early March. There is little price pressure to be expected in the second quarter, as production remains in the low cycle. Currently, there is growing concern about the development of El Niño in the second half of the year, which is associated with hot and dry weather in Southeast Asia. The temporary downward pressure on the global vegetable oil market of old stocks of rapeseed and sunflower oil will carry the market into the new crop season, but good summer crops of oilseeds will be essential to balance the global vegetable oil stocks.

Strong demand from the food and biofuel industries has not been kicking in yet, and the turbulent macro environment has certainly not been helping change that sentiment. Though, if there is an improved buying behaviour in the near future, tight fundamentals of supply and demand will be evident. Therefore, as a group, SIPEF is looking forward to a healthy price environment for palm oil throughout the remainder of 2023, and beyond.

After a particularly difficult start to the year for the world supply of bananas, arrivals from most sources are regaining vigour and are tending to approach the averages of the previous year. Despite this, the banana market will, as usual, maintain a good trend, which should continue until the beginning of summer.

3.3. Results

In a sustained buoyant palm oil market with, from a historical perspective, continuing high price levels, SIPEF was able to sell 39% of its palm oil volumes at an average ex-mill gate price of USD 966 per tonne, premiums for sustainability and origin included. At the same time last year, SIPEF had traded 44% of the volumes at an average ex-mill gate price of USD 1 113 per tonne.

These sales correspond to 67% of the projected volumes of Papua New Guinea, at an average ex-mill gate price of USD 1 094 per tonne, while 24% of the volumes of Indonesian operations were sold at an average ex-mill gate price of USD 776 per tonne. In Indonesia, local sales prices remain impacted by a combined export tax and export levy, which currently hovers around USD 224 per tonne and are fixed on a two-weekly basis by the Indonesian Government. Given the uncertainty of the determination of the reference price for palm oil, which is the basis for the imposed tax and levy, the available palm oil volumes in Indonesia are placed in the market on a monthly basis.

Contrary to last year, the unit production cost of palm oil is no longer impacted by increasing inputs. Fertiliser and diesel prices and high transport costs, all tend to further decline in the course of 2023. The remuneration of the Group's employees, that was adjusted for inflation, is currently the only increasing cost factor, as the local currencies remain also reasonably steady towards the USD.

The prospect of increasing annual production volumes, combined with sustained strong palm oil markets, allows SIPEF to confirm looking forward to satisfactory recurring results. Nevertheless, it is expected that profits will not meet the record level of 2022. Besides the possible price effects of the palm oil markets mentioned earlier, the final recurring result will largely depend on the achievement of the expected production growth, the maintaining of 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 2023, 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. The construction of the first oil extraction plant in Musi Rawas, the 10th mill for the SIPEF group continues, and will be completed by June 2024. This mill will initially be able to process 45 tonnes of fruit per hour. From 2025 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 mills.

The replanting of Dendymarker and the compensation and planting of new hectares in Musi Rawas continued steadily in the first quarter of 2023. In the Musi Rawas plantations, the figure of 17 000 cultivated hectares was achieved early April. This corresponds to 81.8% of the already compensated area of 20 610 hectares, of which 2 301 hectares were provisionally acquired for 'plasma' and 18 309 hectares for own development.

In a timespan of just over four years, a total of 9 646 hectares was replanted and/or redeveloped in Dendymarker, of which 5 207 hectares are already young-mature and starting to contribute to the expanding SIPEF group FFB-production.

With the successful development of Musi Rawas and the replanting of Dendymarker, the SIPEF group currently has 26 626 young, cultivated hectares in South Sumatra. This new business development should gradually bring the volume of additional palm oil coming from South Sumatra to almost 200 000 tonnes in about 6 to 7 years from now.

The development of new banana plantations at Plantations J. Eglin was also continued with 86 hectares of additional planting in the first quarter of the year, bringing the total planted area to 1 140 hectares. To focus entirely on expanding banana operations, it was decided to wind down the small horticulture business over the next 18 months. The concerned areas will be made available for additional, more remunerative, banana development.

Despite the approved extensive investment plan, the currently generated operational cash flows ensured that the Group's NFP remained positive as per end of March. With tax payments, dividend distributions and the execution of the investment plan ahead, it is likely that during the year the NFP will become negative. However, the generated cash flows will make that at year end the position should be close to zero.

4. Sustainability

4.1. Release of SIPEF's 2022 integrated annual report

In April 2023, SIPEF will release its integrated annual report, covering the 2022 financial year. The report was produced taking into account the Global Reporting Initiative (GRI) standards and the international framework on integrated reporting (IR framework). It used an integrated lens to reflect on the Group's strategic objectives, sustainability approach, and governance and business model. It is the first time that SIPEF reports its financial and non-financial information based on the integrated reporting framework, an important step in the Group's preparations for the upcoming Corporate Sustainability Reporting Directive (CSRD).

4.2. Setting of SIPEF's GHG emissions reduction target

Greenhouse gas (GHG) emissions reduction is a key priority in SIPEF's efforts to address the risks and impacts of climate change. The Group continues to make headway in the development of its GHG reduction plan, having recently set its target to reduce GHG emission intensity (Scope 1 and 2) per tonne of CPO against its 2021 baseline at a very significant 28%.

4.3. Issue of Rainforest Alliance Transition Certificate for all banana production sites

In March 2023, SIPEF's banana production sites, including its new sites in Akoudié and Lumen, were issued their Transition Certificate for compliance with the latest Rainforest Alliance Sustainable Agricultural Standard, first released in 2020. SIPEF's banana production has been fully Rainforest Alliance certified since 2016. The issuance of the Transition Certificate re-confirms the status of SIPEF's banana operations as 100% Rainforest Alliance certified.

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.