SIPEF

PRESS RELEASE

REGULATED INFORMATION

2014

September

INTERIM STATEMENT OF THE SIPEF GROUP

- The increase in palm oil production is sustained in the third trimester.
- Current palm oil prices suffer from the large offer of vegetable oils and weaker petroleum markets.
- Rubber markets remain fragile but no longer touch bottom.
- Favourable sales prices during the first half of the year and lower cost prices allow SIPEF to forecast a better result for 2014.
- Positive cash flows, after dividend payments, guarantee continued expansion and a reduction of the limited debt.

Interim management report per 30 September 2014

1. Group productions

	Third Quarter				Year To Date			
2014 *(In tons)*	Own	Third parties	Total	YoY %	Own	Third parties	Total	YoY %
Palm oil	57 240	10 361	67 601	9.34%	163 648	35 368	199 016	9.09%
Rubber	2 270	126	2 396	-1.48%	7 446	497	7 943	3.05%
Tea	659		659	0.61%	2 028		2 028	-1.31%
Bananas	4 735		4 735	3.27%	18 639		18 639	13.60%

2013 *(In tons)*	Own	Third parties	Total	Own	Third parties	Total
Palm oil	52 279	9 545	61 824	147 734	34 706	182 440
Rubber	2 271	161	2 432	7 271	437	7 708
Tea	655		655	2 055		2 055
Bananas	4 585		4 585	16 408		16 408

Palm oil production in the mature plantations in Indonesia for the third trimester remained in line with the previous year, and the volume growth of the first semester was as good as maintained, but not further strengthened. Only the young estates of UMW/TUM in North Sumatra continued to sustain their rising production trend in the third trimester and we note already at the end of September a total production beyond 69.5% over that of the same period last year.
After the two traditionally weak production months of July and August, the strong increase in volumes in September mainly triggered a growth of 9.0% in the production volumes of Hargy Oil Palms in Papua New Guinea for the third trimester. Therefore, this year this company has again exceeded by 4.3% the cumulative production volumes to September 2013 and the effects of the exceptional rainy season in the first four months of the year were levelled off.
Due to the growth pools of UMW/TUM and Hargy Oil Palms the group's palm oil production by the end of September exceeded by 9.1% that of the same period last year.

Furthermore, in the third quarter the positive production trend in rubber activities was sustained, except on the Melania plantation where the early and pronounced wintering in the second quarter was still having an impact at the beginning of the third trimester. As of September we noted here again a rise in production over the previous year. The volumes bought from neighbouring farmers in Papua New Guinea suffered from low prices (-21.7%), but the group's total production still remained 3.0% above last year, mainly due to strong production growth in the Agro Muko plantation in Bengkulu.

We have noted a slight recovery in tea volumes produced over the last three months, however, on an annual basis they still remain 1.3% below last year's production. Banana production also increased by 3.3% in the third quarter mainly by recovering volumes in the Motobé plantation, which had to cope with social and agronomic problems last year.

2. Markets

Average market prices				
in USD/ton*		YTD Q3/14	YTD Q3/13	YTD Q4/13
Palm oil	CIF Rotterdam	857	843	857
Rubber	RSS3 FOB Singapore	2 070	2 884	2 795
Tea	Mombasa	2 094	2 485	2 399
Bananas	FOT Europa	1 062	1 050	1 022

* World Bank Commodities Price Data

The third quarter started off on a quiet note, with very low stocks of palm oil and the expectation of a big US soybean crop. The August USDA report, however, indicated an even bigger crop than the market had expected, and, in combination with a very strong growth in palm oil production during the month of August, this USDA report kick-started a selling wave. Palm oil production in Malaysia grew almost 22% in August versus the previous month. This unusually strong growth was partly due to the impact of increased harvesting after the Muslim Hari Raya holidays. The market dropped almost 100 USD/ton in a 3-week period, with strong speculative short selling as the main culprit.

Commencing in September, Malaysia initiated a zero export tax regulation, which stimulated exports, and the first signs of a slowdown in production during September triggered a short covering rally in early September, taking half of the drop back in less than a week. The September production decreased almost 7% in comparison to August, which is unusual because September and October are normally the peak production months. Clearly the dry spell of February and March earlier this year had an impact. The only positive element of the price decline was that the Indonesian export tax decreased from 9% to 0% for the October shipment. The palm oil market dropped from 850 USD/ton CIF Rotterdam down to 680 USD/ton in early September, then came back to 735 USD/ton.

The price of palm kernel oil was strongly impacted by the decline in palm oil prices. The price premium of coconut oil could no longer be followed by that of palm kernel oil, due to the strong production and lack of demand. The palm kernel oil market dropped from 1 170 USD/ton to 800 USD/ton CIF Rotterdam, but it climbed back up to 935 USD/ton, still a 200 USD/ton premium versus palm oil.

The lack of buying interest, particularly from China, and the high stocks remained a burden for the rubber market. The Thai government did not help the prices either by announcing that they were forced to sell part of their stocks, which had been built due to the farmer support program during 2013. The price of SICOM RSS3 dropped further from 1 925 USD/ton to a low of 1 561 USD/ton.

The weather in Kenya was abnormal during the third quarter with continued rain instead of the usual dry period. Therefore, wintering was mild and tea production remained good, and it is forecast to be slightly above the big 2013 crop. Despite a small increase in tea prices in July, the unexpected good weather reversed the upticks.

3. Prospects

Production

For now we note in our mature plantations in Indonesia a slight slump in the production volumes of palm oil and rubber, which could already be noted in September. The growth pools of UMW/TUM and Hargy Oil Palms continue their positive trend and we expect them to maintain their growth in the months to come, so that we can expect overall better volumes for the year.

Due to relatively cold weather over the last two months, we expect reduced banana production in Plantations Eglin in Ivory Coast in the fourth quarter, whereby part of the production increase over the first three quarters will be lost.

Markets

The disappointing September production numbers in Malaysia and Indonesia certainly triggered the market to closely follow the October production numbers. So far the signals are showing a further reduction of yields during this month, whereas the normal seasonal trend should be showing peak production during September/October. This could certainly imply that the peak was very early this year, coming in August, and a new down cycle has started. Stocks are likely to remain stable till the end of the year, but certainly drop significantly during the first quarter of 2015. The growing conditions for soy in South America are far from optimal, with a dry spell in Brazil.

The recent drop in gasoil prices will reduce the discretionary blending of biodiesel, although most demand is mandated. It is expected that the Indonesian government will do its best to enforce the 10% biodiesel blending mandate, and hence stimulate prices, because at current levels they will miss out on the export tax income. We are confident that we saw the lows in the markets in early September and expect prices to gradually increase into 2015.

Due to the low rubber prices there are many smallholders in the producing regions that have stopped tapping in recent months; this impact should be felt in the short term. The national rubber associations, driven by the Indonesian Gapkindo, have called upon their members to stop selling below 1500 USD/ton because that is below the cost of production. Also the Chinese stocks have gradually dropped to acceptable levels, and car sales globally have been good. The current low prices are stimulating a lot of forward covering. Therefore, we expect that prices will appreciate in the coming months.

Following the big Kenyan crop most consumers are waiting comfortably to buy their winter demand. Prices are back to their lows and there is little upside expected, unless there is a significant impact on the Kenyan production.

Results

Anticipating expected price pressure on palm oil markets as of August, we sold forward more than three quarters of our palm oil volumes. In the last two months we then gradually put the remaining volumes into the market so that to date we have sold 89% of expected volumes at an average equivalent of 944 USD/ton CIF Rotterdam, which is 34 USD/ton higher than average sales prices obtained at the time the Q3 figures of last year were published.
In addition, 94% of rubber volumes were sold on average for 2 006 USD/ton FOB, i.e. 800 USD/ton less (- 28.5%) than sales prices over the same period last year, a drop (-27.9%) which we also note for our tea sales in 2014.
Despite reluctant palm oil markets, mainly influenced in recent days by lower crude oil prices and outright sluggish markets for rubber and tea, we expect, due to higher production volumes and favourable cost-price effects of the strong USD on local currencies in Indonesia and Papua, a consolidated result for the SIPEF group, which will be higher for 2014 than the one recorded for 2013.

The final recurring result will depend on:
- the production volumes for the fourth quarter;
- the market prices of palm oil and rubber for the unsold quantities;
- the expected reintroduction of export taxes in Indonesia;
- the evolution of cost prices, depending on the strength of the USD against local currencies.

Cash flow and expansion

The expected available cash flow shall enable us to finalise our smaller investment programs for this year and even reduce the non-structural debt burden.

We continue to work steadily on the expansion of Hargy Oil Palms where we will plant another 600 hectares of oil palms in the second half of the year.

After a somewhat turbulent first semester following the elections peace has been restored to our new activities in South Sumatra, where we now have compensated for more than 5 500 hectares and have planted on 664 hectares in two locations. As soon as the rainy season starts we will also plant in a third location and expect to exceed a total area of 1 000 hectares of young oil palms by the end of the year.

During the next few years we shall focus our expansion in both countries, which should continue the oil palm growth of the SIPEF group.

Schoten, 23rd of October 2014.

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SIPEF is a Belgian agro-industrial company listed on the NYSE 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 ventures in developing countries.