Issue of Debt

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R.E.A. Holdings plc ("**REAH**" or the "**company**"**)**
REA Finance B.V. ("REA Finance")

Proposed issue by REA Finance of £5 million nominal of 8.75 per cent sterling notes 2020 and trading update

Introduction

The company announces that REA Finance proposes to issue a further £5 million nominal of 8.75 per cent sterling notes 2020 by way of a placing for cash at a price of £0.97 per £1.00 nominal of such notes (the "**new sterling notes**"). REA Finance has today published a prospectus (the "**prospectus**") in respect of the proposed issue.

The new sterling notes will be irrevocably and unconditionally guaranteed by the company and R.E.A. Services Limited (**"REA Services"**). On 1 January 2016, the issued new 8.75 per cent sterling notes 2020 will be consolidated and form a single series with the £26,552,000 8.75 per cent sterling notes 2020 of REA Finance issued on 3 September 2015 and the £300,000 8.75 per cent sterling notes 2020 of REA Finance issued on 10 September 2015.

Interest on the new sterling notes will be payable semi-annually in arrear on 30 June and 31 December in each year, commencing on 31 December 2015 (the "**First Interest Payment Date**"). There will be a short first Interest Period (as defined under the Terms and Conditions of the Sterling Notes) in respect of the period from (but excluding) the issue date of the new sterling notes to (and including) the First Interest Payment Date.

Background

As stated in August 2015 at the time of the offer by REAH on behalf of REA Finance to acquire all of the then outstanding 9.5 per cent sterling notes 2015/17 in exchange for 8.75 per cent sterling notes 2020, to the extent that the full £40,000,000 nominal of 8.75 per cent sterling notes 2020 created at that time were not issued pursuant to the exchange offer and concurrent placing, the balance would remain available for issue in the future, subject always to compliance with all relevant formalities and the covenants included in the terms and conditions attaching to the sterling notes, including in particular the covenants as regards borrowing limits and security coverage for the sterling notes.

The exchange offer and concurrent placing resulted in the issue of a total of £26,852,000 nominal of 8.75 per cent sterling notes 2020. £8,324,000 nominal of 9.5 per cent sterling notes 2015/17 remain in issue. Following the issue of the new sterling notes, the aggregate nominal amount of 8.75 per cent sterling notes 2020 in issue will amount to £31,852,000.

Placing

Guy Butler Limited ("**Guy Butler**") has undertaken to use its reasonable endeavours to place all of the £5 million nominal of new sterling notes the subject of the proposed placing. As at the close of business on 16 December 2015, Guy Butler had placed firm £3.5 million nominal of new sterling notes. The subscription monies payable for the new sterling notes are payable in full on allotment.

REA Finance has agreed to pay Guy Butler a commission of one per cent of the gross proceeds of the new sterling notes issued pursuant to the placing (plus VAT) and to bear all expenses of and incidental to the placing.

Guy Butler, REA Finance, REAH and REA Services have agreed that REA Services will subscribe for the balance of the new sterling notes for which Guy Butler does not immediately procure placees (the "**balance notes**") with the intention that REA Services will, over time, on-sell the balance notes as purchasers can be found. Accordingly, on the basis of the nominal amount of notes that have been placed firm, REA Services will be subscribing a total of £1.5 million nominal balance notes. The subscription by REA Services is to be funded by way of an interest free loan from REAH to REA Services to be repaid as and when REA Services sells the new sterling notes subscribed by it and in any event by 30 June 2020.

Guy Butler has agreed that it will not be paid a commission in relation to the balance notes subscribed by REA Services.

Use of proceeds

All cash proceeds of the issue of the new sterling notes will be applied by the issuer solely in meeting the expenses of the issue of 8.75 per cent sterling notes 2020 and otherwise in making loans to REAH, such loans to be applied by REAH solely in making loans to REA Services. REA Services will apply the loans made to it by REAH solely in making loans to subsidiaries of REAH incorporated in Indonesia and engaged in the cultivation of oil palms and/or the processing of oil palm fruit subject to REA Services and each such subsidiary having first entered into a loan agreement in respect of such loan on the terms prescribed by the trust deed constituting the 8.75 per cent sterling notes 2020. Pending the making by the issuer of any such loans, the issuer will retain the cash proceeds of issue of the new sterling notes (net of any expenses of the issue of the same) on deposit in a bank account charged as security for its obligations in respect of the sterling notes.

The net cash proceeds of the issue of the new sterling notes on-lent to subsidiaries will be used by those subsidiaries for the purposes of their respective businesses.

Conditions

Application will be made to the Financial Conduct Authority under Part VI of the Financial Services and Markets Act 2000 for the new sterling notes to be admitted to the Official List of the UK Listing Authority and to the London Stock Exchange plc for such notes to be admitted to trading on the Regulated Market of the London Stock Exchange plc. The Regulated Market of the London Stock Exchange plc is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments.

The proposed issue is conditional upon the admission of the new sterling notes to the Official List and to trading on the Regulated Market of the London Stock Exchange and such admissions becoming effective on or before 8.00 a.m. (GMT) on 31 December 2015 (or such later time and/or date as REA Finance may decide, being not later than 5.00 p.m. (GMT) on 31 January 2016).

It is expected that dealings in the fully paid new sterling notes, for normal settlement, will commence on or about 22 December 2015.

General

The new sterling notes will be issued in registered form in denominations of £100,000 and integral multiples of £1,000 in excess thereof. The new sterling notes may be held in certificated or uncertificated form.

Guy Butler currently maintains an over-the-counter market in the issued sterling notes and has indicated, without commitment, that it will endeavour also to do so in respect of the new sterling notes.

Current trading

Operations

Rainfall for the 11 months to 30 November 2015 averaged 1,967 millimetres across the group's operations, compared with 2,233 millimetres for the corresponding period in 2014. The entire shortfall was attributable to the period July to October with only 200 millimetres of rain during this period against 678 millimetres in 2014. This shortfall has been widely attributed to an El Nino weather phenomenon which, on the basis of the more normal rains received in November, now appears to have weakened.

The unusually dry period from July to October 2015, combined with a knock-on effect from the climatic conditions in 2014, has resulted in generally lower oil palm production throughout East Kalimantan and East Malaysia during 2015. The crop of oil palm FFB harvested by

the group during the eleven months to 30 November 2015 amounted to 547,000 tonnes, compared with 579,000 tonnes for the corresponding period in 2014.
However, notwithstanding the dry period, substantially the whole of the shortfall was attributable to the first six months of 2015 and, with a strong recovery in crop in November 2015 (68,000 tonnes against 59,000 tonnes in November 2014), crops for the second half of 2015 should be comfortably ahead of those for the first half.

For the 11 months to 30 November 2015, external purchases of FFB totalled 127,000 tonnes, compared with 136,000 tonnes for the corresponding period in 2014. FFB processed, palm products produced and relative extraction rates, together with the comparative figures for the corresponding period in 2014 were as follows:

	11 month period ended 30 November 2015:	**11 month period ended 30 November 2014:**
FFB processed (tonnes)	665,000	706,000
CPO produced (tonnes)	146,000	155,000
Palm kernels produced (tonnes)	31,000	32,000
CPKO produced (tonnes)	11,000	12,000
CPO extraction rate (%)	22.0	21.9
Palm kernel extraction rate (%)	4.7	4.6
CPKO extraction rate (%)	34.8	38.1

Major refurbishment works in the mills are substantially complete. This includes refurbishment of three out of the four boilers at the group's two older mills, with refurbishment of the fourth boiler expected to be completed during 2016. With a continuing programme of repair work and maintenance to ensure optimum throughput now established, and greater attention being paid to grading of all third party fruit purchased by the group, extraction rates are steadily improving. Whilst the average extraction rate for the 11 month period to 30 November 2015 was, as indicated above, 22.0 per cent, the extraction rate achieved for the five months from July to November 2015 was 22.6 per cent against the rate of 21.5 per cent for the first six months of 2015.

Works are continuing on the installation of a second boiler in the group's newest oil mill so as to ensure greater resilience in the operation of the mill and provide the steam capacity required to double the capacity of the mill. However, following a careful review of overall mill capacity and likely utilisation during 2016, it has been decided to postpone until 2017 installation of the other additional equipment that is needed to double the capacity of the mill.

The dry weather from July to October 2015 reduced water levels in the Belayan river (down which the group's CPO is normally evacuated) to an extent that the upper reaches of the river became unnavigable by barge and the group was obliged, instead, to transport its CPO production by road to its downstream loading point at Pendamaran (where the river is tidal and therefore navigable all year). Although this created pressure on transport logistics and a temporary increase in estate CPO stocks, production continued normally. The November rains restored river levels to an extent that has permitted renewed barge access to the upper reaches of the Belayan and estate CPO stocks have returned to normal levels.

Construction is now nearing completion of a new road between Tabang (a town to the north of the REA Kaltim estates) and Kota Bangun. This road passes through the REA Kaltim estates and connects with an existing road from Kota Bangun to Samarinda (the capital of East Kalimantan). When completed, the new road will provide, for the first time since the inception of the REA Kaltim business, road access to the estates from Samarinda. This should provide additional alternatives in the event of future dry weather affecting river access to the estates.

Good progress has been made during 2015 with the development of the new land areas held by PT Putra Bongan Jaya ("**PBJ**") and PT Cipta Davia Mandiri ("**CDM**"). The first phase of construction of the perimeter bunding required to control flooding in the lower lying areas of PBJ was completed on target in the middle of the year and the second phase to shape and compact the bund will be completed by the year end together with construction of three water gates. By the end of 2015, it is expected that in excess of 4,300 hectares will have been cleared across PBJ and CDM and that over 2,200 hectares of this will have been planted. Whilst clearing will continue into 2016 only to the extent that the group is able to raise additional equity finance to fund this, if such funding were to be immediately available the group would be well placed to clear a further 4,000 hectares during 2016 with planting out of all cleared areas following steadily behind the clearing programme.

Agreement has been finalised for the swap of land held by PT Sasana Yudha Bhakti ("**SYB**") for shares in PT Prasetia Utama ("**PU**") and completion is now expected to occur during 2016. Pursuant to the agreement, the group will surrender some 3,500 hectares of titled land and some 2,200 hectares of untitled land allocation held by SYB; in exchange, the group will acquire, through the acquisition of PU, an additional 9,000 hectares of fully titled land.

The group's pioneering collaboration with the Indonesian state electricity company, which came to fruition in April 2015 when the group's two methane capture plants started to supply renewable electricity to local villages, is generating an additional source of revenue for the group. 18 out of the 21 agreed villages have now been connected and the Indonesian state electricity company is working on completing connections to the remaining three agreed villages together with an additional three small villages in the vicinity, as well as installing prepay meters in village houses. The rate of uptake is growing at a moderate pace but, as further villages are connected and the installed number of prepay meters increases, power offtake from the group is projected to increase.

The group is working with an international development NGO, SNV, to improve the agricultural practices of smallholders within the group's supply chain who manage their own land so as to optimise their yields and fruit quality in a way that complies with the standards of the Roundtable on Sustainable Palm Oil. The scheme is designed so that smallholder farmers, upon completion of training, will be in a position to train other smallholders.

In support of the group's continuing commitment to produce palm oil in a responsible manner, the group published its second sustainability report in June 2015, produced in accordance with the Global Reporting Initiative. The purpose of this report is to provide stakeholders with information about the group's performance on all material environmental and socio-economic issues that is more detailed than the information provided in the 2014 annual report. The report is available to download from the group's website: www.rea.co.uk.

In early November 2015, the group was ranked seventh out of 50 companies on the Zoological Society of London's Sustainable Palm Oil Transparency Toolkit (SPOTT) scorecard, which assesses oil palm growers on the sustainability of their operations according to a range of environmental criteria.

The group is continuing to seek a "cornerstone" third party stone offtake agreement to underpin the investment needed to upgrade the access road to the group's stone concession which will be a necessary preliminary to commencing extraction operations at the concession. Discussions with one potentially interested party are under way.
The group's coal mining activities remain suspended.

Corporate transactions

As stated in the 2014 annual report, the directors intend that, when market conditions permit, existing shorter dated debt should be repaid and replaced with equity (including preference share capital) or debt of a longer maturity. In line with this intention:

(a) on 1 July 2015, REAH issued 4,221,000 new preference shares for cash at 120p per share;

(b) on 3 September 2015, REA Finance issued, by way of an exchange offer and cash placing at par, £26,552,000 nominal of 8.75 per cent sterling notes 2020 and concurrently acquired and subsequently cancelled £26,216,000 nominal of 9.5 per cent sterling notes 2015/2017;

(c) on 10 September 2015, REA Finance issued, by way of a cash placing at par, a further £300,000 nominal of 8.75 per cent sterling notes 2020; and

(d) on 15 October 2015, REAH issued 1,754,260 new ordinary shares for cash at a price of 260p per share.

Results, cash flow and dividends

In recent months, the normal differential between the spot CPO price, CIF Rotterdam, and the spot CPO price, FOB Malaysian and Indonesian ports, has been eroded to an extent that movements in the former price have ceased to be indicative of the trend in prices realisable by the group. Such prices have, however, continued to reflect movements in the spot CPO price on the Malaysian Derivatives Exchange ("**MDEX**") (being prices for delivery landed West Malaysian port).

During the first half of the year the spot CPO MDEX price for the most part traded within the range $600 to $650 per tonne but then weakened sharply to fall to a low of $438 in late August. Since then it has slowly recovered to its current level of some $560 per tonne. According to Oil World, biofuel production in the year to 30 September 2014 accounted for some 15 per cent of global vegetable oil consumption and there is a widespread view that the prices of vegetable oils tend to track the price of petroleum oil. Certainly, the downturn in CPO prices has broadly followed the recent fall in petroleum oil prices and, with the price of biofuels directly linked to the petroleum oil price, biofuel production remains economic at lower petroleum oil prices only if the cost of biofuel's vegetable oil feedstock reduces. The recent weakness in CPO prices can also be attributed to the plentiful supplies of soya oil that are currently available while the very sharp fall in CPO prices at end August coincided with a period of heightened concern over the Chinese economy.

Looking forward, there are some reasons to expect an improvement in CPO prices. Not all conversion of vegetable oils to biofuels is dependent upon market factors because an increasing element of biofuel use reflects government mandates requiring that a certain percentage of all fuel be made from biofuel. In the US and several other countries, that percentage will increase in 2016. In Indonesia, in particular, a new levy on exports of CPO of $50 per tonne, is being used to subsidise biodiesel production and is projected to increase biodiesel consumption in Indonesia by between two and three million tonnes. Moreover, the after effect of the El Nino weather phenomenon is expected to scale back CPO production in Indonesia and Malaysia in 2016 and a further scaling back may also be expected as some growers reduce fertiliser applications in response to reduced revenues. On the demand side, lower vegetable oil prices are likely to stimulate demand from the food sector of the vegetable oil market.

The group's own revenues have been adversely impacted both by the disappointing level of 2015 crops and by the lower prices realisable for the group's CPO production (exacerbated by the new export levy of $50 per tonne which has been payable since mid-July 2015 and is effectively deducted on sales for local delivery as local and export sales are well arbitraged). This impact, which will be reflected in the results reported for 2015, has had a consequential detrimental effect on the group's cash flow.

In response to this impact, the group has been taking steps both to reduce costs and to arrange necessary funding. During the course of 2015, the group's field workforce (including regular temporary workers) has been reduced by over 10 per cent and, as previously announced the group will not for the immediate future undertake new development unless the major part of the development can be funded with equity or specific debt finance that is already in place. Immediate measures to address funding are listed at "Corporate transactions" above. In addition, the group has been successful in renewing all existing bank facilities that fell due for renewal during 2015 and has arranged additional facilities totalling the equivalent of some $23 million. The first of these facilities, for $5 million, is an addition to an existing working capital facility revolving annually while the second, for the balance equivalent to some $18 million, is a term loan repayable by instalments over a seven year period with two years of grace.

The group has approximately $9 million falling due for payment on maturity of a cross currency interest rate swap on 27 December 2015 and repayment instalments totalling $18 million in respect of existing Indonesian term loans falling due in 2016. In addition, the group has revolving working capital lines that are subject to annual renewal totalling $36 million. The group has no reason to expect that the revolving credit working capital lines will not be renewed and expects to be able to reschedule a proportion of the other liabilities falling due (although it has not yet done so). The issue of the new sterling notes is designed to augment the cash already available to the group to place the group in a position to meet that proportion of the liabilities that it anticipates may not be rescheduled or refinanced.

Whilst the foregoing measures should meet the group's current cash requirements, the group recognises that it needs to improve its debt service coverage and that this may be best achieved by raising additional equity through REA Kaltim. The group continues to work towards placing itself in a position in which it is ready to implement its previously announced intention of effecting a public offering of a minority shareholding in the group's principal operating subsidiary, REA Kaltim, combined with a listing of REA Kaltim shares on the Indonesia Stock Exchange in Jakarta. However, current interest in new issues on the Indonesian Stock Exchange is such that it is unlikely that this can be a short term source of material new equity. Accordingly the group is actively exploring the possibility of a transaction with a strategic investor. Ideally, such a transaction will comprise a subscription of new shares in REA Kaltim with a view to such investment preceding the planned public offering. The group is currently in active discussions with several interested parties.

In view of the difficult conditions facing the group, the directors have concluded that they should not declare or recommend the payment of any dividend on the ordinary shares in respect of 2015. The dividends on the preference shares in respect of 2015 have been or will be paid.

Outlook

With CPO prices still at depressed levels, further cost efficiencies are proposed for 2016 with the introduction of improved technologies in the administrative functions. Continuing weakness of the Indonesian rupiah is also having a positive impact on costs. The new technologies will support the drive towards greater efficiency and tighter disciplines in all aspects of the group's operations.

With substantial immature areas scheduled to come to maturity over the next few years, the group should remain a low cost producer of CPO and, as such, well placed to weather the current low period in the CPO price cycle and to ensure that any upturn in prices flows through directly into profit.

Further information

Copies of the prospectus will shortly be submitted to the National Storage Mechanism and will be available for inspection at www.hemscott.com/nsm.do. Copies of the prospectus may also be obtained free of charge from the company at its registered office, First Floor, 32-36 Great Portland Street, London W1W 8QX and are also available to download from the company's website at www.rea.co.uk.

Click on, or paste the following link into your web browser, to view the associated pdf document:

http://www.rns-pdf.londonstockexchange.com/rns/4324J_-2015-12-17.pdf

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