AGM Statement

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R.E.A.Hldgs PLC
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R.E.A. Holdings plc ("REA" or the **"Company")**
AGM Statement

Operations

Crops and extraction rates for the five month period to the end of May 2016 (with comparative figures for the five months period to end of May 2015) were as follows:

	2016	**2015**
FFB crops - group (tonnes)	192,000	233,000
FFB crops - external purchases (tonnes)	43,000	57,000
FFB processed (tonnes)	233,000	288,000
Crude palm oil (CPO) produced (tonnes)	56,000	62,000
Palm kernels produced (tonnes)	11,000	13,000
Crude palm kernel oil (CPKO) produced (tonnes)	4,000	4,000
CPO extraction rate (%)	23.9	21.5
Palm kernel extraction rate (%)	4.7	4.6
CPKO extraction rate (%)	31.2	33.9

As widely acknowledged, 2015's El Nino weather phenomenon has adversely impacted CPO production in South East Asia and the group's production in the first five months of the year was no exception. The directors understand, however, that the downturn in the group's production was somewhat less than that experienced by other CPO producers in East Kalimantan.

As noted in our 2015 annual report, based on data now available from the group's new information systems, the group has decided to increase fertiliser dosages (particularly in areas with weaker soils or subject to greater run-off) and is confident that, over a period, this will result in higher crop levels. Application of the first annual rotation of fertiliser will be completed shortly; the additional, special application will commence in June immediately upon delivery with the second annual rotation following thereafter, during the last quarter of 2016. Fertiliser dosages for 2017 will be adjusted accordingly.

Recent refurbishment and a regular programme of maintenance in the mills, combined with the drive to improve the quality of third party FFB from smallholders and other estates in the vicinity of the group's estates, is contributing to a steady improvement in extraction rates, with the CPO extraction rate running consistently at around 24 per cent during the first five months of 2016.

Installation of the second boiler in the group's newest mill at Satria, for which the order was placed at the beginning of 2015, has now commenced with commissioning expected by the end of 2016. Availability of a second boiler ensures greater resilience in the mill operations. Installation of the other additional equipment needed to double the capacity of the SOM mill from 40 to 80 tonnes per hour is now scheduled for 2017.

The recovery in the CPO price in the last quarter of 2015 has continued into 2016. During 2016 to date, the CPO price, CIF Rotterdam, has for the most part traded steadily upwards from $567 to reach $745 per tonne in April and currently stands at around $702.5 per tonne. This firmer tone appears to reflect the knock on effects on production of the El Niño weather event in 2015 and of some growers, including many smallholders, reducing fertiliser applications in response to reduced revenues.

The Indonesian levy on exports of CPO of $50 per tonne is supporting increased mandatory blending of biodiesel with the biodiesel content in Indonesian transport diesel increasing from 15 per cent to 20 per cent. This is improving local demand for CPO and may well result in further firming in the CPO price. The US has also mandated increased use of biofuels with effect from 2016 and this is likely to improve oil demand within the wider vegetable oil complex.

The average selling price for the group's CPO for the five months to the end of May 2016, on an FOB basis at the port of Samarinda and after payment of the levy and export duty, was $518 per tonne (2015: $549 per tonne), with prices still recovering from the weakness in the second half of 2015 and reflecting greater than usual regional price differentials. By contrast, the recovery in CPKO prices started earlier than for CPO and the average selling price for the group's CPKO on the same basis was $941 per tonne (2015: $873 per tonne). In addition, with the revival in the market for ISCC certified CPO since the beginning of the year, the group was able to realise a premium of $5.90 per tonne on 37,600 tonnes of CPO sold as ISCC certified.

Development of the group's newer land areas in PT Putra Bongan Jaya ("**PBJ**") and PT Cipta Davia Mandiri ("**CDM**") areas has continued in the first months of 2016, though only to the extent of existing contractual commitments, with planting out following steadily behind the clearing programme. A total of 1,700 hectares were cleared in the first five months to the end of May and some 3,000 hectares were planted bringing the total planted area for the group to in excess of 40,000 hectares.

The agreement finalised late in 2015 to swap land held by PT Sasana Yudha Bhakti ("**SYB**") for land held by PT Prasetia Utama ("**PU**") remains subject to satisfaction by the parties of certain conditions. It is intended that development of the nursery and initial land clearing in PU will commence by the end of 2016.

Sales of renewable energy to PLN, the Indonesian national electricity company, for distribution to local villages amounted to over $228,000 in the five month period to the end of May. 21 out of the total of 24 villages and sub-villages (comprising some 13,000 family groups) are now connected to the local grid, with household take-up growing each month. The remaining 3 villages should be connected by PLN in the second half of 2016.

Although discussions have been continuing with a potential third party for a stone offtake agreement, progress was inhibited while the group was also talking to potential strategic investors in its plantations by the need to avoid an arrangement that could conflict with any requirements that such investors might have had in relation to the stone concession. With the arrangements with a strategic investor agreed as described below, the stone offtake discussions can now move forward. The group's coal mining activities remain suspended.

Finance

The company announced on 16 May that it had reached a conditional agreement with an Indonesian listed natural resources company, PT Dharma Satya Nusantara Tbk ("**DSN**"), for DSN to acquire, through its wholly owned subsidiary, PT Swakarsa Sinarsentosa ("**SWA**"), a 15 per cent investment in the company's principal operating subsidiary in Indonesia, PT REA Kaltim Plantations ("**REA Kaltim**"). The proposals will result in SWA holding in total 15 per cent of the enlarged issued share capital of REA Kaltim and 15 per cent of the enlarged aggregate principal amount of shareholder loans to REA Kaltim and its subsidiaries.

DSN is engaged in the business of oil palm plantations and wood products and has plantation estates based in East, Central and West Kalimantan. The directors believe that this agreement will bring significant mutual benefits in terms of opportunities for more efficient sourcing of supplies, for marketing and through exchanges of information on agronomic practices. The proposal is also in line with the directors' long-held intention to increase Indonesian participation in the ownership of the group's agricultural operations.

Furthermore, the agreement will bring the group new equity and loan capital of approaching $50 million in aggregate. With this capital, the group intends to continue the existing extension planting programme as rapidly as logistics permit.

Constructive discussions are continuing with the group's Indonesian bankers with a view to reorganising the group's local bank facilities onto a basis that is better aligned with the profile of the group's projected free cash flow going forward, given the further extension planting now planned.

As part of the continuous drive to increase operating efficiencies, it has been decided to relocate the group's Indonesian head office to Balikpapan, in East Kalimantan, closer to the group's operations. The intention is to complete this move as soon as practicable. This will entail in due course the closure of the existing head office in Jakarta and the finance and administration office in Samarinda.

Directors

David Killick retires today as a director of the company. He has been on the board for nine years but has been associated with REA Kaltim for much longer as he was, in earlier years, a director of Makassar Investments Limited ("**Makassar**"), the immediate holding company of REA Kaltim. I would like to take this opportunity to thank David for his help and support throughout the period in which he has been associated with REA Kaltim and, in particular, throughout the difficult period between 2001 and 2006 when the company was the object of litigation in New York, brought by its former co-investor in Makassar, and David, as the only independent director of Makassar, was placed in a very testing position. We shall all miss his meticulous attention to detail and wise advice.

The board intends to appoint a new independent director to replace David and is currently assembling a short list of potential candidates.

Outlook

With the recent agreement with DSN and discussions with the group's Indonesian bankers proceeding, the directors believe that the group is well on the way to satisfying its medium-term funding requirements. The recovery in CPO prices, continued improvement in operations and the progressive delivery of the group's extension planting programme augur well for the future value of the group.

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