

# Statement re third party investment in REA Kaltim

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**R.E.A. Holdings plc (REA, or the "company")**

## **Third party investment in PT REA Kaltim Plantations**

REA is pleased to announce that it has reached a conditional agreement with PT Dharma Satya Nusantara Tbk ("**DSN**") pursuant to which it is proposed that PT Swakarsa Sinarsentosa, ("**SWA**"), a wholly owned subsidiary of DSN, will acquire a 15 per cent investment in the company's principal operating subsidiary in Indonesia, PT REA Kaltim Plantations ("**REA Kaltim**").

DSN is an Indonesian natural resources company listed on the Indonesia Stock Exchange in Jakarta and engaged in the business of oil palm plantations and wood products. DSN's plantation estates are based in East, Central and West Kalimantan, with the majority of the oil palm estates in East Kalimantan located close to REA Kaltim's estates.

REA stated in its 2015 annual report, published on 25 April 2016, that it was in active discussions with a limited short list of interested parties primarily directed at securing a strategic third party investment in REA Kaltim. The directors believe that the proposed investment by, and joint venture with, SWA 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. Further, the proposal is in line with the directors' long-held intention to increase Indonesian participation in the ownership of the group's agricultural operations and will also serve to secure more permanent capital in the local operations of the REA group.

Under the terms of the conditional agreement (the "**Master Agreement**"), it is proposed that SWA will:

1. acquire 650 outstanding class B shares in the capital of REA Kaltim, representing 5 per cent of the current issued share capital, and subscribe a further 1,530 class B shares in the capital of REA Kaltim, so as to bring its total shareholding in REA Kaltim to 2,180 shares, representing 15 per cent of the enlarged issued share capital of REA Kaltim; and
2. provide loans to REA Kaltim and its subsidiaries in amounts equal to 15/85ths of the aggregate principal amounts borrowed by REA Kaltim and its subsidiaries from REA and its wholly owned subsidiary, R.E.A. Services Limited ("REAS").

The effect of these 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. The proceeds of the transaction will be utilised, inter alia, for the repayment of debt, advancing to subsidiaries and working capital.

The consideration for the shares to be purchased, and the subscription price per share, will depend on the aggregate number of hectares planted by REA Kaltim and its subsidiaries, as well as on REA Kaltim's net current assets and total borrowings from REA and REAS, as at the close of business on 30 June 2016 and is expected to amount to some US\$16.8 million. The aggregate amount to be lent by SWA to REA Kaltim and its subsidiaries is expected to amount to the equivalent of some US\$33.0 million.

Subject to satisfactory operational, financial and legal due diligence, to the agreement and execution of the necessary formal documentation and to the receipt of all necessary corporate and regulatory approvals, it is intended that the above arrangements will complete on or before 31 October 2016. Meanwhile, it is proposed that SWA will advance some 90 per cent of the aggregate purchase and subscription consideration to REA Kaltim on 31 August 2016 (as respects the purchase consideration, upon terms that REA Kaltim will account for the consideration to the subsidiary of the company selling the shares to be acquired by SWA).

In addition, DSN has agreed unconditionally that it will, on or before 10 June 2016, lend to REA Kaltim the sum of US\$10 million by way of a pre completion advance. The pre completion advance will be repayable on completion of the proposed investment (in which event it will be set off against the monies otherwise due to be lent by SWA), or otherwise in

the event that the Master Agreement fails to become unconditional.

REA Kaltim currently has in issue a total of 13,000 shares, comprising 12,350 class A shares and 650 class B shares. Gross assets of REA Kaltim and its subsidiaries, as included in the consolidated REA group financial statements as at 31 December 2015, amounted to US\$853.5 million and the profit before tax attributable to REA Kaltim and its subsidiaries, as included in those financial statements for the year ended 31 December 2015, amounted to US\$4.2 million.

The parties have acknowledged the intention of DSN to increase its participation in REA Kaltim to an eventual level of 49 per cent by gradual stages over a period of five years, but on the basis that each increase will be subject to agreement of the price and other terms at the time of that increase and to the receipt of all necessary consents and approvals, including the approval of REA shareholders to the extent required.

REA will provide an update on progress regarding the proposal in due course.

Rothschild is acting as financial adviser to REA.

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