

# Trading Statement

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R.E.A.Hldgs PLC  
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R.E.A. Holdings plc - Trading Statement for 2013

## **Agricultural operations**

The crop of oil palm fresh fruit bunches ("FFB") harvested for the year to 31 December 2013 amounted to 578,785 tonnes, compared with 597,722 tonnes for the year to 31 December 2012. External purchases of FFB from smallholders and other third parties totalled 99,348 tonnes for the year (2012: 64,014 tonnes). Rainfall across the estates averaged 3,385 mm in 2013, similar to the level of 3,241 mm for the previous year.

Processing of the group's own FFB production and the externally purchased FFB, together totalling 678,133 tonnes (2012: 661,736 tonnes) produced 147,649 tonnes of crude palm oil ("CPO") (2012: 151,516 tonnes), 30,741 tonnes of palm kernels (2012: 30,734 tonnes) and 11,393 tonnes (2012: 11,549 tonnes) of crude palm kernel oil ("CPKO"). These production figures reflect extraction rates of, respectively, 21.8 per cent for CPO (2012: 22.9 per cent), 4.5 per cent for palm kernels (2012: 4.7 per cent) and 36.8 per cent for CPKO (2012: 37.7 per cent).

After the local village difficulties of 2012 and the first half of 2013 with their significant negative impact on operations and results, the second half of 2013 saw good progress in restoring production and profitability to more normal levels. 2014 should see further progress as the improved relations with the local communities permit previous operational standards to be fully recovered.

Further increases in throughput of third party FFB from smallholders in the vicinity of the group's estates are continuing to augment what had already become a valuable additional revenue stream, albeit with a slight negative impact

on the rates of extraction, which were also depressed by the village disruptions during the first half of 2013. The group is continuing to implement efficiencies on the estates and in the mills. Together with increased production, these should have a discernible impact on unit production costs during the current year.

Sales of International Sustainability and Carbon Certification ("ISCC") certified CPO during 2013 totalled 82,700 tonnes (2012: 34,013 tonnes). The group also sold Greenpalm certificates during 2013 in respect of 17,500 tonnes of Roundtable on Sustainable Palm Oil ("RSPO") certified CPO (2012: 75,222 tonnes) and 8,000 tonnes of RSPO certified CPKO (2012: 9,250 tonnes).

CPO prices were relatively steady for most of 2013, trading in a range of between \$800 and \$900 per tonne CIF Rotterdam and finishing the year on a firm note, reflecting reported crop shortfalls in Malaysia and Indonesia. January 2014 has seen some decline in the price to a current level of around \$850 per tonne but, with increases in the government mandated bio-diesel component of transport fuel in Indonesia, Malaysia and Argentina, it may reasonably be expected that any further decline will be limited. Indeed, the price may well recover, although much will depend on the level of 2014 soybean crops.

Preparations for the supply of biogas generated electricity to the Indonesian state electricity company ("PLN") are progressing but await the reticulation needed to connect the group's generating stations to the adjacent villages that PLN intends to supply. It had been hoped that the reticulation would have been installed during 2013 but budgetary constraints caused PLN to re-tender for the reticulation works and the re-tender is currently in progress. The installation of the additional three 1 megawatt biogas generators required to supply PLN has been completed.

Development of new land areas made good progress in the second half of 2013. Some 4,500 hectares at PT Kutai Mitra Sejahtera ("KMS") were fully planted by the end of 2013. Work on the construction of infrastructure, establishment of a nursery to develop seedlings and land clearing on a first portion of the plantable area of PT Putra Bongan Jaya ("PBJ") (estimated to be around 8,000 hectares) commenced in the final months of 2013 and development will continue to push towards 4,000 hectares during 2014. Development of further land areas for both the group's own plantings and for smallholders at PT Cipta Davia Mandiri ("CDM") should progress further through the year.

There are indications that the group may be close to reaching a satisfactory conclusion to the ongoing discussions in respect of the phased arrangements to achieve the agreed swap of land currently held by PT Sasana Yudha Bhakti ("SYB") (but the subject of overlapping coal rights) for land held by PT Praesetia Utama ("PU").

Allocations of land areas for smallholders are gaining momentum with smallholder developments totalling some 6,000 hectares by the end of 2013. Further significant expansion of smallholder areas on the land areas already purchased for this purpose is expected during 2014 and 2015. These land areas include an area of some 2,000 hectares close to KMS purchased during 2013 to satisfy smallholder obligations to villages adjacent to KMS.

### **Stone and coal operations**

Work is continuing on the establishment of a quarry at the group's stone concession to provide crushed stone for building and maintenance of infrastructure in the group's agricultural operations and for sale to other users in the surrounding area. Ownership of the stone concession has been reorganised so as to bring it under the direct control of the plantation sub-group so that in due course, following receipt of the necessary local regulatory approvals, the quarry will be integrated with the group's agricultural operations.

Towards the end of 2013, project agreements were signed with third parties relating to the development and operation of two of the group's three coal concessions. The cooperation arrangements agreed will provide an income stream to the group calculated by reference to coal prices prevailing from time to time (subject to an agreed floor) and will minimise further coal related costs to the group. The group expects to recover the carrying value of these concessions with some upside in the event that coal prices continue to recover.

### **Financing**

During 2013, the group negotiated a \$15 million increase in its working capital facilities and arranged a new medium term bank facility of \$70 million. In addition, some \$6.8 million was raised by a placing of new ordinary shares. The group expects shortly to complete negotiations for a second medium term bank facility of about \$40 million. This will leave the group comfortably funded to meet its ongoing development programme and shorter dated debt repayments although the latter have been reduced by the group's repurchase during 2013 of \$9.7 million nominal of dollar notes 2012/14. Liquidity will be further increased if, as is still intended, the group proceeds with the planned sale of a minority interest in, and listing on the Indonesia Stock Exchange in Jakarta of, PT

REA Kaltim Plantations, the sub-holding company of the group's plantation operations.

### **Outlook**

The FFB crop for the second half of 2013 was 314,000 tonnes against 265,000 tonnes in the first half and the material discounts on sales of sub-standard CPO that were suffered in the first half did not recur in the second half. Results for the second half will have benefited accordingly and will have been helped further by the favourable impact on costs of a weaker rupiah to dollar exchange rate.

Crops for 2013 were impacted not only by village issues but also by what appears to have been a downturn in crops throughout Malaysia and Indonesia. The trend of monthly crops suggests that cropping levels were recovering over the last few months of 2013. The directors are therefore hopeful that 2014 will see crop levels more in line with past production experience with a concomitant benefit to 2014 results.

### **Publication of results**

In line with the timetable adopted in previous years, it is expected that the final results for 2013 will be announced, and the annual report in respect of 2013 published, in the second half of April 2014.

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