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

Trading update

Agricultural operations

Key agricultural statistics for the year to 31 December 2019 (with comparative figures for 2018) were as follows:

	2019	2018
FFB crops (tonnes)*:		
Group harvested	800,666	800,050
Third party harvested	198,737	191,228
Total	999,403	991,278
Production (tonnes)*:		
Total FFB processed	979,411	969,356
CPO	224,856	217,721
Palm kernels	46,326	45,425
CPKO	15,305	16,095
Extraction rates (percentage):		
CPO	23.0	22.5
Palm kernel	4.7	4.7
CPKO**	40.7	40.2
Rainfall (mm):		
Average across the estates	3,057	2,934

* 2018 crops and production include PBJ (FFB crop 5,782 tonnes), which was disposed of on 31 August 2018.
** Based on kernels processed.

An industry wide decline in FFB production as palms entered a resting phase following very high levels of cropping in 2018 meant that crops in 2019 fell short of the targeted 900,000 tonnes, albeit still at a record level for the group.

Upgrading and repair works in the mills helped to boost extraction rates which should improve further as the continuing works are completed during the course of 2020. Delays with contractors and in supplies of materials postponed completion of the full planned expansion of Satria oil mill until the current year, but current mill capacity remains sufficient to process all of the group's FFB production as well as current levels of fruit purchases from third parties. The full planned expansion is expected to be completed well in advance of the group's peak crop requirements.

Agreement has recently been reached with a coal company operating in an area adjacent to the group's Satria estate on the construction of a road through the group's estates (and then, via a major new bridge over the Belayan River, further to the Mahakam River). This will result in the loss of approximately 100 hectares of oil palms but will provide the group with a valuable alternative route for evacuating its produce at times when river levels restrict barge access to the estates. It is expected that the stone for construction of the new road will be sourced at least in part from the group's andesite stone concession interest. Following construction of the new road, the neighbouring coal company will, subject to payment of compensation, have the right to explore and potentially mine for coal in certain areas of the Satria estate that are subject to overlapping mining rights. This right is not expected to materially affect the group.

Agreement has also been reached on completion of the transfer of 750 hectares of 2013 oil palm plantings at KMS to a plasma cooperative. This area has always been earmarked for cooperative ownership, but constitution of the cooperative to take over ownership was held up by a now resolved dispute between two neighbouring villages as to which would be entitled to the plasma area.

CPO and CPKO prices

Opening 2019 at $517 per tonne, CIF Rotterdam, CPO prices drifted to a low of $481 per tonne in July, before recovering steadily over the final four months of the year to $860 per tonne at the end of December. The recovery has consolidated in the first weeks of 2020 with the CPO price currently at $795 per tonne.

With a slowdown in production, CPKO prices tracked the movement in CPO prices, opening at $770 per tonne, CIF Rotterdam, declining to $529 in June and ending the year at $1,080 per tonne. CPKO has re-established its premium over CPO to approximately 25 per cent, although the premium remains significantly lower than the historic average of around 40 per cent.

The long awaited rally in CPO prices, which followed a prolonged period of price weakness, reflected continuing growth in demand for vegetable oils with a fall off in the rate of growth in supply. CPO stock levels are expected to fall to a four year low in 2019/20 and this is likely at least to support current price levels. The impact of reduced fertiliser applications by some producers in response to the CPO price weakness has yet to be felt. Also, many oil palm producers are reporting rainfall deficits in the second half of 2019 which may impact 2020 production.

The benefit of the higher CPO and CPKO prices currently prevailing will be partially offset by the re-imposition since the beginning of 2020 of an Indonesian export levy of $50 per tonne. In addition, when the Indonesian reference price for CPO export sales exceeds $750 per tonne, export tax is payable on a sliding scale at rates increasing from an initial $3 per tonne, at reference prices of between $751 and $800 per tonne, to $200 per tonne at reference prices above $1,250 per tonne. No export tax was payable in respect of January 2020 deliveries but export tax of $18 per tonne will be levied on February deliveries (based on the current Indonesian reference price which reflects CPO prices prevailing during January 2020). Whilst the group's production is sold predominantly in Indonesia, arbitrage between local and export markets results in local prices being reduced as compared with export prices by an amount broadly equivalent to the combined export levy and tax.

2019 Results

The group's sales are for the most part priced approximately four weeks ahead of delivery. This limited the revenue benefit in 2019 from the increased CPO and CPKO prices at the end of the year. CPO sales reported for 2019 as a whole are expected to show an average net selling price, FOB Port of Samarinda, net of export levy and duty of $454 per tonne against $430 for the first six months of 2019 (2018: $549).

Results for the second half of 2019 will benefit from the weighting of crops to the second half of the year with group FFB harvested of 465,000 tonnes against 335,000 tonnes in the first half. Although the previously announced measures to reduce costs had some impact in the second half of 2019, the savings achieved were limited by one off implementation costs. Accordingly, with a larger crop harvested, estate operating costs reported for the second six months of 2019 are expected to be slightly above those of the first half.

The strengthening of the Indonesian rupiah that occurred over 2019 is projected to result in net group foreign exchange losses for the year of $8.5 million against $5 million booked in the six months to 30 June 2019.

Following a review of the group's land reserves, the group has decided not to renew a land allocation of 1,964 hectares held by KMS. Retention of untitled land areas is becoming increasingly costly and the directors believe that the group should concentrate its resources on those areas that it is most likely to be able to plant in the foreseeable future. The KMS land in question is zoned as available for agricultural development but such availability is dependent upon it being declassified as forest. The directors feel that pursing such declassification would be inconsistent with the group's sustainability policies. Relinquishment of the 1,964 hectare allocation will result in a write off estimated at $5 million.

Coal and stone operations

The contractor appointed to mine the Kota Bangun coal concession held by IPA, the company owned by the group's local partners in the coal and stone operations, has recently completed some further drilling to confirm the existing data and is currently developing a mine plan. As noted previously, the contractor will fund all expenditure required on infrastructure, land compensation and mobilisation in exchange for a participation in the profits of the mine.

Following the recent agreement with a neighbouring coal company referred to under "Agricultural operations" above, the group is discussing with that company arrangements for the opening and quarrying of the group's andesite stone concession interest on a basis similar to that agreed for the Kota Bangun coal concession. It is intended that stone offtake for the new road planned to be built by the coal company will underpin these arrangements.

As previously reported, certain arbitration claims have been made against IPA by two claimants (connected with each other) with whom IPA previously had conditional agreements relating to the development and operation of the IPA coal concession. The arbitration is scheduled to be heard in late June. The arbitrators have joined the company as a party to the arbitration on a prima facie basis and without prejudice to any final determination of jurisdiction. The company, which was never a party to any of the agreements between IPA and the claimants, has declined to accept jurisdiction or participate in the arbitration. Further related claims have subsequently been made or threatened in respect of, inter alia, alleged tortious conduct by the company, its subsidiary, R.E.A. Services Limited, and its managing director. None of the claims is considered to have any merit.

Financing

Following rollover of the group's working capital facility in November 2019, the group has resumed discussions with its Indonesian bankers regarding the provision of an additional loan to refinance recent capital expenditure on the group's mills. Discussions are also continuing regarding conversion of a proportion of the group's existing bank loans from Indonesian rupiahs to dollars to reduce interest costs and foreign exchange exposure.

Arrangements with the group's customers for the provision of funding in exchange for forward commitments of CPO and CPKO, on the basis that pricing is fixed at the time of delivery by reference to prevailing prices, have been extended as buyers seek to secure supplies of oil.

Outlook

Notwithstanding financial constraints, the group maintained its fertiliser applications at what it believes to have been optimal levels throughout 2019. Moreover, the group, by comparison with other oil palm growers, enjoyed an acceptable annual average rainfall of 3,000 millimetres across its estates. There were, however, some limited drier periods in the second half of 2019 and rainfall was unusually localised with not all areas receiving the same levels of rainfall. The effect of this on 2020 crops is difficult to predict but crop levels and yields are expected at least to be maintained at current levels, with extraction rates gradually improving as the mill works are completed.

With the combined benefit of a range of cost saving initiatives implemented in 2019 and further cost saving steps being taken in 2020, as well as the recent strengthening of the CPO price, the directors expect that the group can look forward to higher revenues and tightly controlled costs in 2020. Because crops and cash flow are normally weighted to the second half of the year, the benefits of these improvements are unlikely to be fully apparent in the results for the first half of 2020.

The group is now working on arrangements regarding refinancing of the £30.9 million nominal of 8.75 per cent sterling notes 2020 that fall due for repayment in August 2020.

Provided that substantially all the sterling notes are successfully refinanced, crops continue to achieve budgeted levels and the CPO price is at least maintained around current levels, the directors intend to resume payment of cash dividends on the group's preference shares in 2020. The directors also plan progressively to catch up the arrears of dividend on the preference shares, commencing in 2020 with a payment of 1 per cent per share at the end of March 2020.

Publication of results

In line with the timetable adopted in previous years, it is expected that the final results for 2019 will be announced, and the annual report in respect of 2019 published, in the second half of April 2020.

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