

AGM Statement - replacement

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

Correction of CPO and CPKO average selling prices

Operations

The crop of oil palm fresh fruit bunches ("FFB") harvested during the five month period to the end of May 2015 amounted to 230,000 tonnes, compared with 258,000 tonnes for the corresponding period in 2014. External purchases of FFB totalled 58,000 tonnes, compared with 57,000 tonnes for the corresponding period in 2014.

The early months of 2015 saw generally lower palm oil production throughout East Kalimantan and East Malaysia, reflecting the combination of unusually high rainfall in February following on from an extended dry period in September and October 2014. Rainfall to the end of May 2015 averaged 1,323 millimetres across the group's operations, closer to recent historical averages for the period and compared with only 1,106 millimetres during the corresponding period in 2014.

It is encouraging to note that cropping rates since April have been improving to normal monthly levels whilst crop from smallholder estates continues to make a steady contribution to throughput and revenue.

For the same period to the end of May, FFB processed, palm products produced and relative extraction rates were as follows:

	2015	2014
FFB processed (tonnes)	288,000	315,000

Crude palm oil ("CPO") produced (tonnes)	61,000	68,000
Palm kernels produced (tonnes)	13,000	14,000
Crude palm kernel oil ("CPKO") produced (tonnes)	4,000	5,000
CPO extraction rate (%)	21.4	21.6
Palm kernel extraction rate (%)	4.6	4.4
CPKO extraction rate (%)	34.0	38.4

In the group's two older mills, refurbishment of three out of the four boilers has now been completed. Refurbishment of the remaining fourth boiler is under way. Other major refurbishment works in the mills are now substantially complete although there is a continuing programme of repair work and maintenance to ensure optimum throughput.

Improving mill operation and capacity is being reflected in improving extraction rates. Completion of a new second loading ramp at the group's oldest mill means that it is now possible to grade all third party fruit being purchased by the group and this should, in due course, ensure that the negative impact of poorer quality third party fruit on extraction rates is reduced.

Works have been initiated to extend the group's newest oil mill so as to double its capacity in 2016 and thereby, for the foreseeable future, ensure sufficient processing capacity for all crop from the group's estates and from the growing number of maturing smallholder plantings in the vicinity.

During 2015 to date, the CPO price, CIF Rotterdam, has for the most part traded within the range \$650 to \$700 per tonne but with some occasional dips towards the \$600 level. Latterly the price has had a firmer tone, no doubt reflecting increasing indications of an El Niño weather event in 2015 coupled with a recent announcement that the US will mandate increased use of biofuels with effect from 2016. The previously announced new Indonesian levy on exports of CPO has not yet been implemented and the amount of the levy is still under discussion with suggestions that this may be reduced from the level of \$50 per tonne initially proposed. The planned use of levy proceeds to support increased mandatory blending of biodiesel in fuel sold within Indonesia is likely to improve biodiesel offtake and may well result in further firming in the CPO price.

The average selling price for the group's CPO for the five months to the end of May 2015, on an FOB basis at the port of Samarinda and after payment of export duty, was \$549 per tonne (2014: \$721 per tonne). The average selling price for the group's CPKO on the same basis was \$873 per tonne (2014: \$1,059 per tonne). In addition, during May the group has realised some \$339,000 from the sale of green palm

certificates with the price for green palm certificates in respect of CPKO currently at \$50 per tonne (2014: \$60 per tonne).

Good progress is being made with development of the group's new land areas, held by PT Putra Bongan Jaya ("PBJ") and PT Cipta Davia Mandiri ("CDM"). Construction of the perimeter bunding required to control flooding in the lower lying areas of PBJ is now 80 per cent complete (16 kilometres out of a total of 20 kilometres). To date in 2015, some 1,000 hectares of higher ground at PBJ have been cleared for planting. With expansion now possible into lower lying areas, clearing should accelerate rapidly from now on within the further 6,000 hectares that are immediately available to be cleared. At CDM, clearing has started on an initial 1,000 hectares.

The group is also working towards completing the long announced swap of land held by PT Sasana Yudha Bhakti for shares in PT Praselia Utama in the second half of 2015.

The group's pioneering collaboration with the Indonesian national electricity company ("PLN") came to fruition in April 2015 when the methane capture plants started to supply renewable electricity to local villages. Initially 14 villages have been connected. PLN is now working on completing connections to a further 7 villages as well as installing prepay meters in village houses. 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 (RSPO). The scheme is designed so that farmers, upon completion of training, will be in a position to train other smallholders within the same cooperative.

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

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. The group's coal mining activities remain suspended.

Finance

As stated in the group's annual report for 2014, the directors intend that, when market conditions permit, existing shorter dated debt should be repaid and replaced with preference share capital or debt of a longer maturity to meet the group's financing objectives. In line with this intention, the directors plan two measures during the coming weeks:

First, the directors are currently seeking to issue, by way of a placing for cash, new 9 per cent cumulative preference shares up to an amount not exceeding some 5.9 million new preference shares, being approximately 10 per cent of the preference shares currently in issue. Such new preference shares would rank pari passu in all respects with the existing issued preference shares.

Secondly, following informal preliminary discussions with major holders of the group's sterling notes, the directors hope to improve the maturity profile of the group's indebtedness by replacing a substantial proportion of the existing sterling notes 2015-2017 with new sterling notes redeemable in one instalment on 31 December 2020. This replacement would be effected by way of an exchange offer of new sterling notes for existing sterling notes on a £1 for £1 basis. Concurrently with the exchange offer the group aims to place a limited number of new sterling notes for cash.

The directors are also working towards implementing their previously announced intention of effecting a public offering of a minority shareholding in the company's principal operating subsidiary, PT REA Kaltim Plantations ("REA Kaltim"), combined with a listing of REA Kaltim shares on the Indonesia Stock Exchange in Jakarta. The possibility of a placing of REA Kaltim shares in advance of such a listing is also being explored.

Outlook

With CPO prices at depressed levels, the group is making great efforts to reduce costs and improve operating efficiencies. In this, it is making good progress and is being helped by the continuing weakness of the Indonesian rupiah. With extension planting gathering momentum, 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 (of which the first signs may now be visible) flows through directly into profit.

Finally, and as recorded in the annual report for 2014, I note with some sadness that this will be my last AGM as chairman of REA and my colleague, John Oakley's last AGM as managing director of the group. We will both be stepping down from our respective roles at the end of 2015. Both John and I intend to remain on the board as non-executive directors and will continue to undertake responsibilities overseeing completion of certain projects. My family's significant shareholding in REA will continue to support development of the group. I would like to take this opportunity to thank my colleagues for their support over a very long period and to pay tribute to the huge contribution that John has made to the group over the last 32 years.

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