

R.E.A. Holdings plc (RE.)
R.E.A. Holdings plc: Trading update

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R.E.A. Holdings plc ("REA" or the "company") - Trading update

REA, whose principal business is the cultivation of oil palms in the province of East Kalimantan in Indonesia and in the production and sale of crude palm oil ("CPO") and crude palm kernel oil ("CPKO"), is pleased to announce a trading update for the year ended 31 December 2021.

David Blackett, chairman of REA, commented:

Significantly higher CPO prices, production maintained at good levels and finances restored to a firmer footing meant that 2021 was a transformative year for the company. Supported by the continuing strength of CPO prices and the anticipated commencement of repayment of loans made by REA to local Indonesian stone and coal companies, REA expects to be able build on this stronger financial position through 2022.

Agricultural operations

Key agricultural statistics for the year to 31 December 2021 (with comparative figures for 2020) were as follows:

	2021	2020
Fresh Fruit Bunch ("FFB") crops (tonnes):		
Group harvested	738,024	765,821
Third party harvested	210,978	205,544
Total	949,002	971,365
Production (tonnes):		
Total FFB processed	933,120	948,260
CPO	209,006	213,536
Palm kernels	44,735	47,186
CPKO	17,361	16,164
Extraction rates (percentage):		
CPO	22.4	22.5
Palm kernel	4.8	5.0
CPKO**	39.5	39.5
Rainfall (mm):		
Average across the estates	3,650	3,061

*Group harvested FFB for both years excludes crops (18,736 tonnes in 2021; 20,029 tonnes in 2020) from areas that previously constituted group areas but are now reallocated to plasma (third parties)

**Based on kernels processed

The group's FFB outturn for 2021 fell short of that achieved in 2020. Harvesting and evacuation of crop were negatively affected by above average rainfall and number of rain days and some crop was lost due to harvesting delays caused by the previously reported mid-year fire in one of the two Perdana boilers. Although crops were higher in the second half of the year than in the first, the degree of weighting to the second half was lower than normal because there was no peak in the last quarter of the year. This is in line with reports of lower crop levels throughout East Kalimantan in the second half of 2021 reflecting delayed ripening, most likely as a result of reduced sunlight hours consequent upon the number of rain days.

High levels of rainfall not only inhibit evacuation of FFB but also delay road upkeep programmes thereby exacerbating evacuation problems. With the planned opening of the andesite quarry (referred to under stone and coal below), the group is initiating a long term programme progressively to build a stone base to all the group's roads so as to convert these into all-weather roads.

Near completion of the expansion of Satria oil mill ("SOM") and maintenance works at Cakra oil mill ("COM") should prove effective in ensuring that the group has sufficient capacity to process its FFB crops pending completion of works to reinstate the fire damaged boiler at Perdana oil mill ("POM"). The reinstatement works should be completed in the final quarter of 2022.

Each year the group participates in the Sustainable Palm Oil Transparency Toolkit ("SPOTT") assessment by the Zoological Society of London ("ZSL") which assesses palm oil producers, processors and traders on their disclosures regarding their organisation, policies and practices with respect to environmental, social and governance ("ESG") matters. In the 2021 assessment published in November, the company's score increased from 79.8 per cent to 84.4 per cent, compared with an average score of 42.8 per cent ranking the group eighth out of 100 palm oil companies assessed.

Low production due to the absence of foreign labour in Malaysia and a lack of growth in Indonesian production kept CPO prices firm throughout 2021. The CPO price, CIF Rotterdam, opened the year at \$1,050 per tonne, and closed at \$1,275, after attaining a high of \$1,425 at the end of October. Partially offsetting the benefit of these higher prices were the high levels of export duty and levy imposed by the Indonesian government, although there was some easing of the tariffs with effect from July 2021.

The average selling price for the group's CPO for 2021, including premia for certified oil but net of export levy and duty, adjusted to FOB Samarinda, was \$777 per tonne (2020: \$566 per tonne). The average selling price for the group's CPKO, on the same basis, was \$1,157 per tonne (2020: \$615 per tonne). The benefit of the improved prices as compared with 2020 will more than compensate for the reduction in FFB crop.

Whilst Covid continues to present a range of challenges, its impact on the group has remained limited. The group's vaccination programme accelerated through the year, with over 12,000 doses administered to employees and their families during 2021. The programme will continue through 2022.

Stone and coal interests

Plans to commence quarrying of the andesite stone concession held by PT Aragon Tambang Pratama ("ATP") are progressing steadily. ATP has recently signed an in principle agreement with a nearby coal mining company that is building a road from its coal concession area through the company's estates and on to the Mahakam River. The coal company intends to purchase 1 million metric tonnes of andesite stone from ATP over a period of 24 months. ATP will also supply stone to

REA group companies for infrastructure projects. Negotiations for the appointment of a contractor to operate the quarry are at an advanced stage.

Further to the company's announcement in November 2021 regarding the recommencement of mining operations at the coal concession held by PT Indo Pancadasa Agrotama ("IPA"), a first sale of coal has now been contracted by IPA. The sale comprises 30,000 tonnes at a price of a little over \$200 per tonne, delivered FOB vessel, with the shipment expected to be completed within the next few weeks.

The first coal sale had been expected to take place before the end of 2021 but was delayed by the Indonesian government's introduction in December of a temporary restriction on exports designed to ensure sufficient domestic availability of coal to satisfy internal requirements for power generation. Since the beginning of 2022, the restriction has been clarified and should not apply to IPA. IPA can therefore proceed with coal sales.

Current IPA production is from a pit in the southern part of the IPA concession and IPA expects to continue mining this pit at a rate of 30,000 tonnes per month going forward. Economically mineable coal in this pit has not been evaluated in accordance with JORC standards but, based on available drilling data, is estimated at 400,000 tonnes. Exploratory drilling to develop a mining plan for reopening the pit that was previously mined in the northern part of the IPA concession is currently in progress.

Based on current costs and the expected average stripping ratio for the southern pit, IPA is budgeting an average direct mining and barging cost for coal in this pit of less than \$110 per tonne. Because IPA has only been mining the southern pit for a few weeks, it has limited operating experience with which to validate this budgeted cost and this will be reviewed as mining progresses. The profit contribution from the southern pit (representing the excess of the net proceeds of coal sales over the direct costs) will be shared between IPA and its contractor in the proportion 70:30. The group has advanced substantial loans to IPA and surplus cash accruing to IPA from its mining operations will, for the foreseeable future, be applied in the repayment of those loans.

It remains the directors' intention that the group should withdraw from its coal interests as soon as practicable. The rapid extraction of coal at IPA is consistent with this intention.

Funding

Following the conclusion, announced in November 2021, of the group's discussions with its Indonesian bankers, PT Bank Mandiri (Persero) Tbk ("Mandiri"), regarding facilities provided by Mandiri to REA's subsidiaries, PT Sasana Yudha Bhakti ("SYB") and PT Kutai Mitra Sejahtera ("KMS"), Mandiri has advanced an additional short term unsecured facility to an additional group company, PT Cipta Davia Mandiri ("CDM"), pending drawing of the outstanding balance of the loan facilities extended to SYB (which will become available only after the SOM extension has been commissioned). The loans to each of REA Kaltim and KMS are both fully drawn.

The group has also now reached understandings with its principal customers on the continued availability of pre-sale advances at levels that the group regards as satisfactory.

With the group's finances now on a firmer footing, REA expects shortly to seek the approval of holders of its 7.5 per cent dollar notes 2022 to extend the maturity date of the notes by four years, but on terms that the group will repurchase, on the existing maturity date of 30 June 2022, notes held by those holders who do not wish to retain their notes for the extended period. It would then be the group's intention, over time, to sell to investors any notes so repurchased.

Outlook

The group's financial position is stronger than it has been for some years and should continue to be supported by CPO and CPKO prices that are expected to remain at levels which should generate healthy margins and by the commencement of loan repayments from the stone and coal concession holding companies as they gear up their activities.

The group will aim to enhance returns from the agricultural operations by the resumption of extension planting and increased operational efficiency. The latter will be driven by rigorous monitoring of fruit quality to optimise extraction rates, enhancements to the group's road network and vehicle fleet to facilitate timely deliveries to the mills, and completion of works to improve performance across the group's three mills with repair and maintenance work reverting to normal routines.

Publication of results

In line with the timetable adopted in previous years, the final results for 2021 are due to be announced, and the annual report in respect of 2021 published, at the end of April 2022.

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