

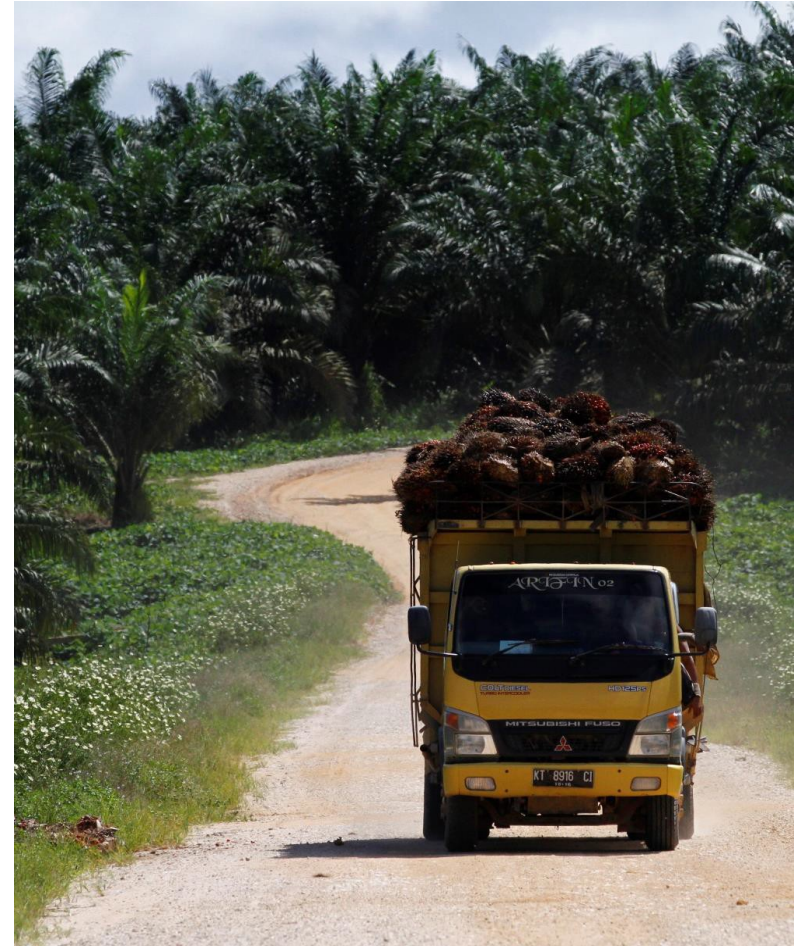
A tropical landscape featuring a dense field of palm trees in the foreground and middle ground. The sky is bright blue with scattered white clouds. The palm fronds are dark green and silhouetted against the sky. The overall scene is bright and sunny.

REA Holdings Investor Presentation

February 2018
www.rea.co.uk

Who are we and what do we do?

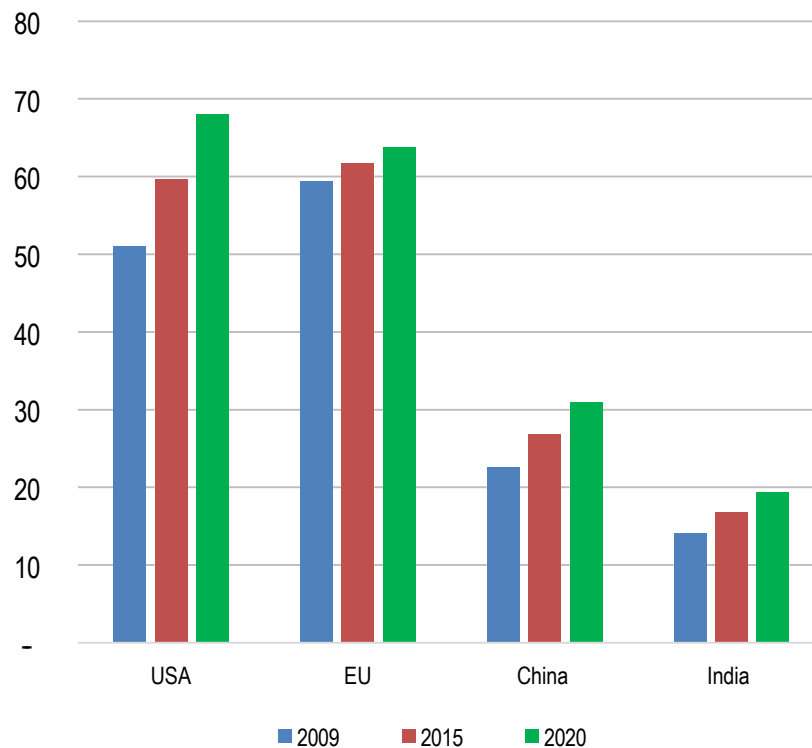
- UK, Main Market listed company
- Our principal business is the production of crude palm oil (CPO) and crude palm kernel oil (CPKO)
- Located in East Kalimantan, Indonesia
- Ancillary activities
 - Biogas generation of electricity
 - Stone quarrying
 - Coal mining



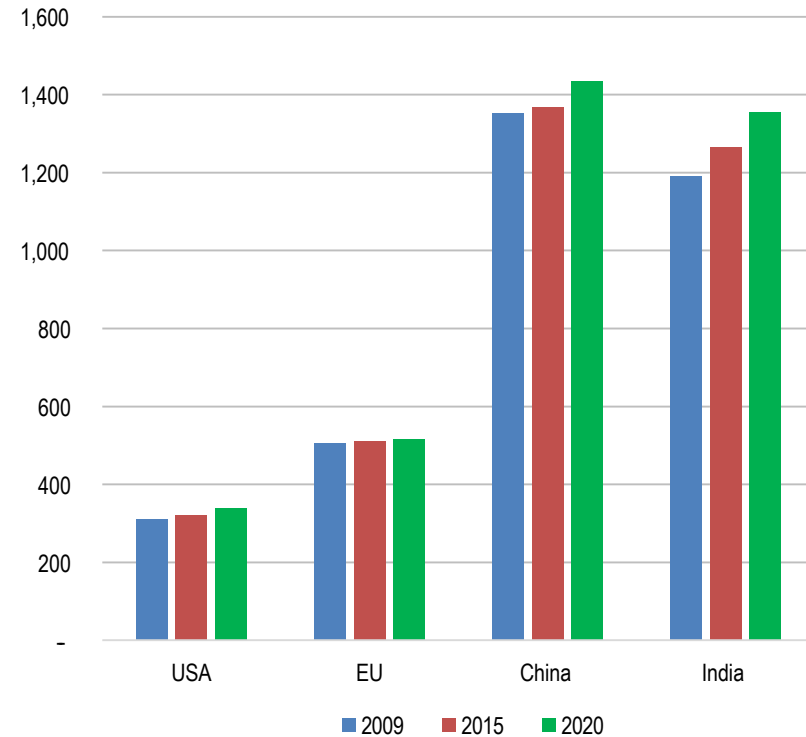
Demand drivers for vegetable oils

- Population growth
 - Particularly China, India and SE Asia (45% of global population)
- Per capita income growth

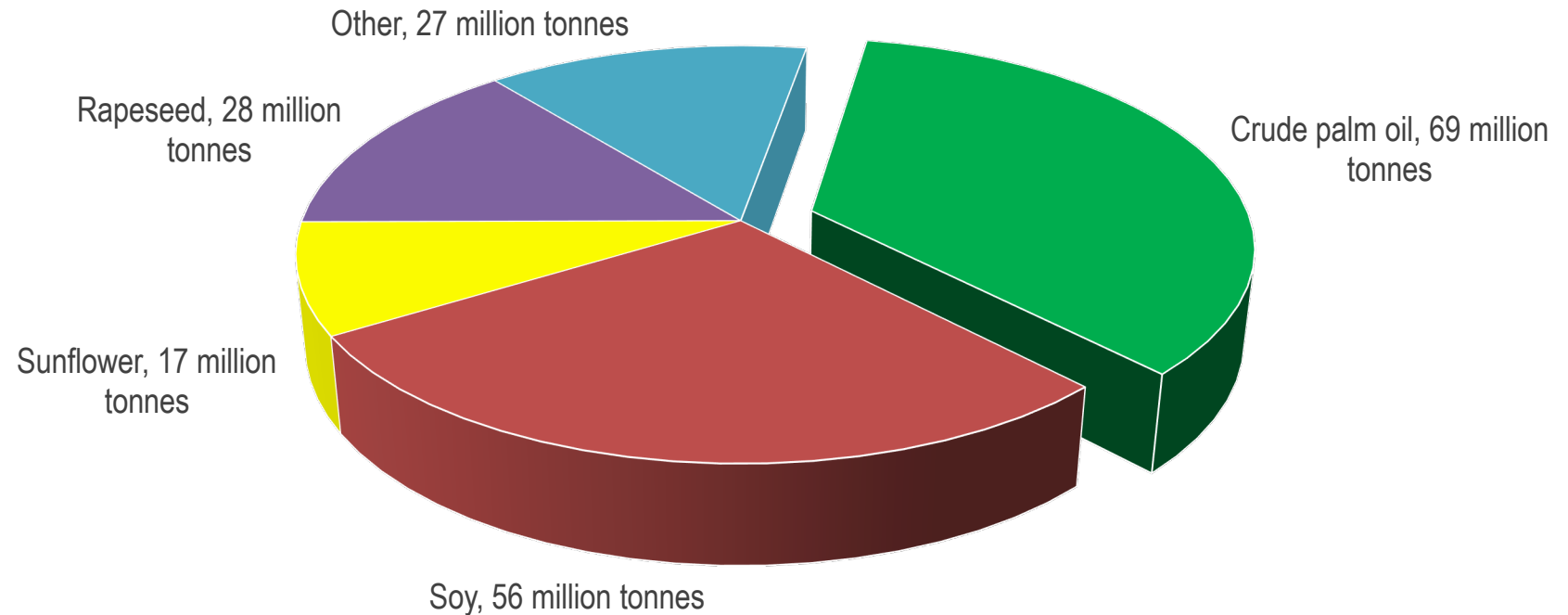
Global per capita consumption (kgs)



Forecast world population (m)

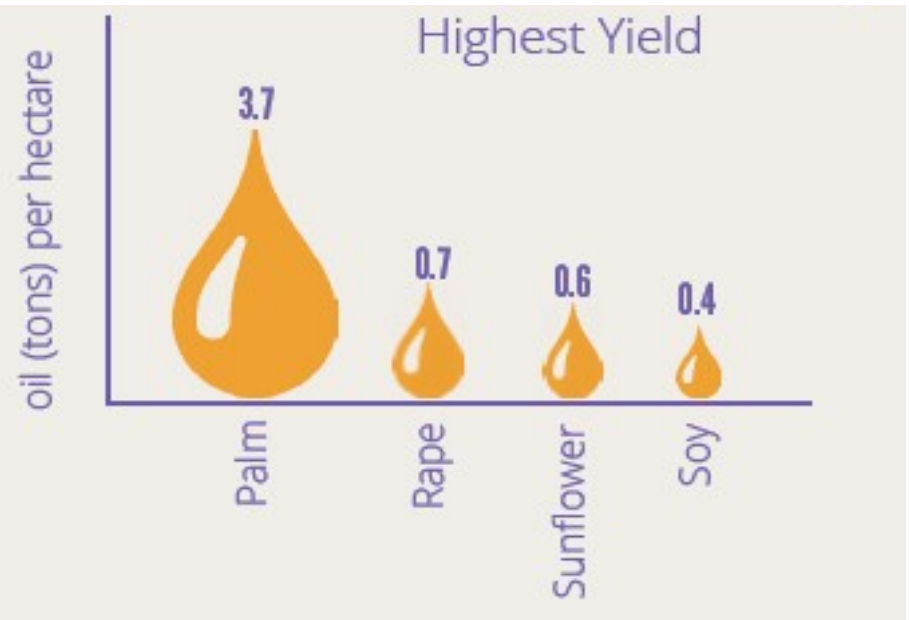


2017/18 forecast vegetable oil production



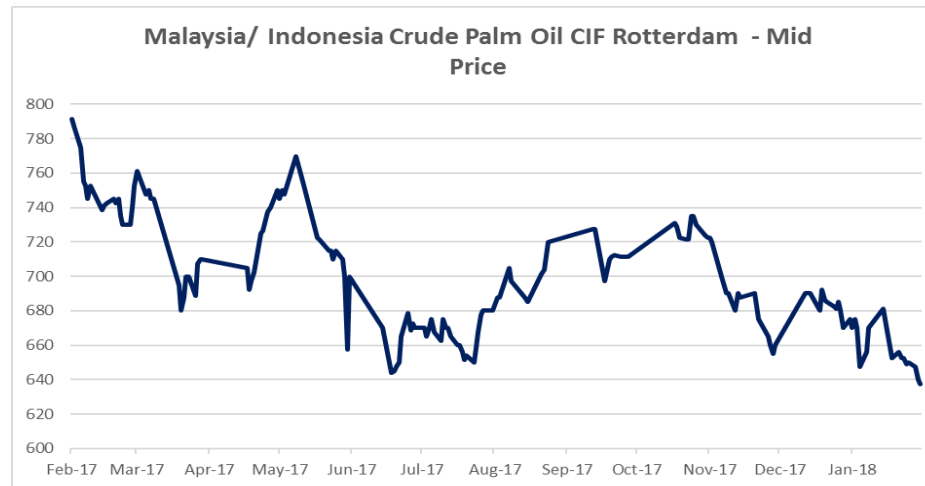
Palm versus other edible vegetable oils

- Perennial crop (25 year lifecycle)
 - The other principal oil seeds have annual crops
- Highest yielding
 - On average just under 4 tonnes per hectare, with the most efficient plantations yielding up to 7 tonnes
- Palm oil is the most used vegetable oil representing 34% of the total market



Palm oil prices

- Over last ten years: high \$1,355 per tonne, low \$435 and average \$848. Recent trading in range \$600 - \$800
- Price has steadily declined over the last 12 months on large soya crops
 - Recent factors: Temporary removal of Malaysian export duty and projections of lower soya crop
 - Currently trading at around \$660
- Offtake from India and China good so price likely to remain stable. Firmness in the mineral oil price would probably lead to higher prices
- New development is tailing off because of sustainability issues. Should lead to a tightening of the market
- CPKO maintaining high premia over CPO
 - Price sustained by shortage of coconut oil (new demand for coconut water etc.)



Where does palm oil come from?

- The Oil Palm (*Elaeis guineensis*), native to West Africa, introduced to Indonesia in 1848
- The world's largest producers are Indonesia (56%) and Malaysia (29%)
- Other areas:
 - Papua New Guinea
 - West Africa
 - South America (Colombia and Ecuador)
 - Rainfall in most of these areas sub-optimal



How are oil palms grown?

- **Large land area needed**
 - REA has over 44,000 hectares planted equivalent to 170 sq. miles
- **Grown from seed**
 - One year in nursery
 - Planted out at 143 palms per hectare
- **Life cycle of 25 years**
 - First production in year four (where planting year is year 1)
 - Increasing production until year 8
 - Remaining at peak production until year 19
 - Replanting after year 25



Harvesting and processing

- **Harvesting**

- Fruitlets grow in bunches known as fresh fruit bunches (FFB)
- Each area harvested every 10 days
- FFB cut with a chisel or an extensible pole with a knife

- **Milling**

- FFB collected and transferred to mill where sterilised to stop fermentation
- Fruitlets shaken off bunches and pressed to extract kernels and crude palm oil (CPO)
- Kernels further processed to extract crude palm kernel oil (CPKO)

- **Process energy**

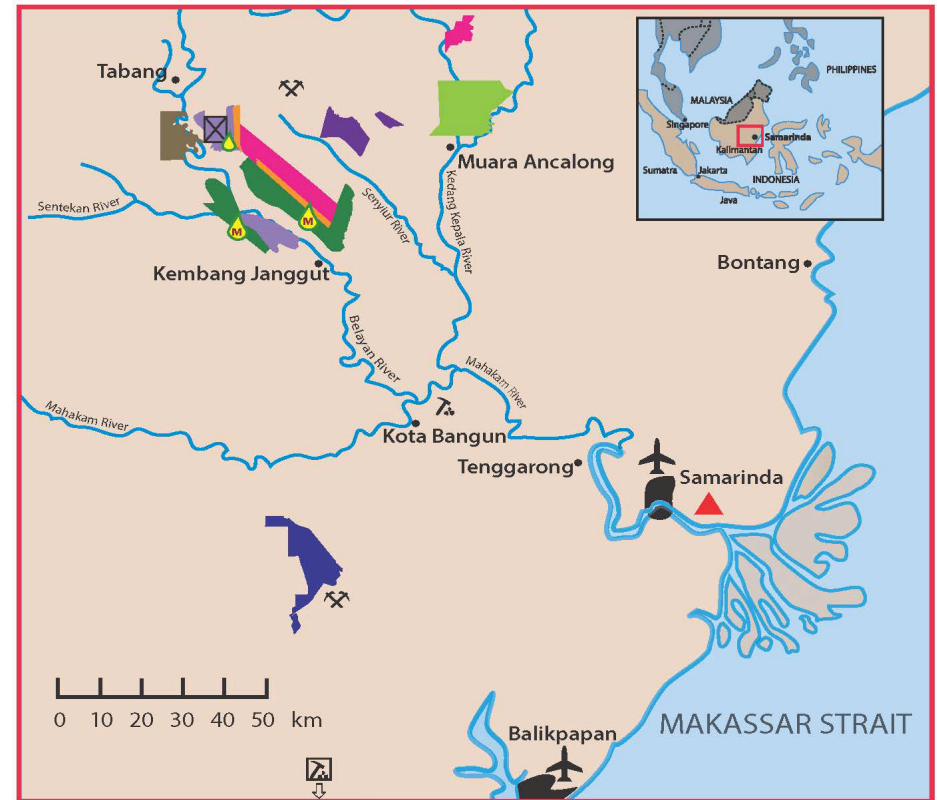
- Mills run on electricity generated from steam turbines powered by boilers burning kernel shell and pressed fibre



REA's area of operations



- 76,000 hectares of fully titled land of which 44,000 planted
 - Additional land allocations of 23,000 being titled
- Three oil mills and two kernel crushing plants
- Current potential to expand to 60,000 hectares planted but planned divestment may reduce this to 50,000



The smaller map shows the location of the group's operations within the context of South East Asia. The larger map provides a plan of the operational areas and of the river system by which access is obtained to the main areas.

Key

- M** Methane capture plant
- Oil mill
- Stone source
- Coal concession
- Tank storage

Companies

- CDM** PT Cipta Davia Mandiri
- KKS** PT Kartanegara Kumalasakti
- KMS** PT Kutai Mitra Sejahtera
- PBJ** PT Putra Bongan Jaya
- PBJ2** PT Persada Bangun Jaya
- REAK** PT REA Kaltim Plantations
- SYB** PT Sasana Yudha Bhakti
- PU** PT Prasetia Utama
- SYB** SYB land transfer

Strategic REA palm objectives

- **Maintain competitiveness by being a low cost producer**
 - Operate efficiently
 - Increase volumes
- **Efficiency**
 - Good topography and climate
 - Substantially single site operation (and planned divestment will further concentrate operations in one area)
 - Best quality planting materials
 - River location facilitates efficient delivery of outputs
- **Expansion of planted areas**
 - Planted area has increased by 53% over the past five years
 - Of total plantings of 44,000 hectares, 9,900 are immature
 - Plan to plant balance of plantable land over the next three to four years

Ancillary activities

- **Biogas plants producing renewable electricity**
 - Saving 2.5 million litres p.a. of diesel (\$3 million)
 - Supplying electricity to 24 villages (\$1.8 million potential revenue p.a.)
- **Open cast coal mining**
 - Kota Bangun concession with 2 million tonnes of near metallurgical coal
 - Mining suspended in 2014 but now being resumed
- **Stone quarrying**
 - Stone needed for own plantations with good demand from neighbouring coal and plantation companies
 - Limestone quarry adjacent to PBJ started operation in May 2017
 - Early discussions of joint venture to develop large andesite deposit 14 km to the north of SYB



Sustainability

- **Compliance with sustainability standards**
 - Roundtable on Sustainable Palm Oil (RSPO)
 - International Sustainability and Carbon Certification (ISCC)
 - ISO14001
- **Biannual sustainability reports**
 - In accordance with the Global Reporting Initiative (GRI) standard
- **Estate facilities**
 - Housing (with potable water and electricity), schools and medical facilities
- **Conservation**
 - Dedicated department managing 22,000 hectares conservation reserves
- **Social practices**
 - Plasma (cooperative) oil palm schemes increasing revenues to local communities
 - Community development projects (clean water, bio-gas electricity etc.)



Recovery from recent challenges

- **Fertiliser regime**

- Crop fall off from 2013 after reduction in fertiliser levels
- Fertiliser levels restored to previous levels from 2016 and new agronomic advisers appointed

- **Harvesters**

- Harvesters reduced in mid 2016 in attempt to reduce costs during a very low cropping period
- Harvester recruitment stepped up from April 2017 and harvester numbers now returning to full strength (2,200 against low of 1,200)

- **Field and road upkeep**

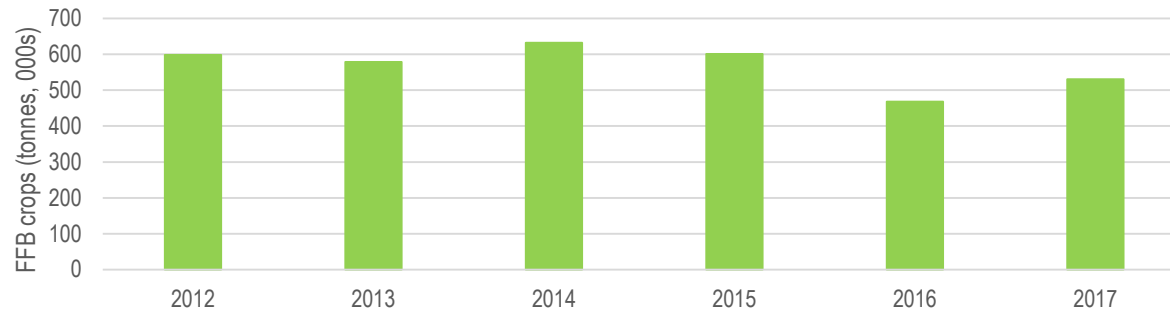
- Field upkeep negatively affected by reduction in harvester numbers (weeders normally drawn from families of harvesters). Major programme to restore field upkeep standards now nearing completion
- Concurrent major effort to resolve road problems (partly caused by inadequate maintenance in drier years and partly by exceptionally heavy rains in late 2016), more stone being applied to ensure access to all areas and facilitate evacuation of FFB

New management improving production

- **New management team**

- Carol Gysin appointed managing director in February 2017
- New team on estates including two newly recruited expatriate estate controllers and new head of estates
- New expatriate head of mills

- **Crops improving**



- **CPO extraction rate improving**

- CPO extraction rates represent the percentage of CPO extracted from FFB processed
- CPO extraction rate consistently running at above 23% since July 2017 against average rates below 23% throughout preceding five years

Finances

- **Operating performance of recent years has negatively impacted financial performance**

- Revenues have been lower than they should have been
- Shortfalls in cash flow have forced higher borrowing with high finance costs
- Profit before tax also impacted by change in accounting principles eliminating mark to market gains from new development from profit and loss account
- Results for the last two and a half years:

	2015	2016	2017
			(6 months)
	\$'m	\$'m	\$'m
EBITDA	15.1	15.9	8.4
Loss before tax	(20.9)	(17.8)	(15.7)

- **Capital structure**

- Group has \$205 million of bank debt in a combination of listed notes and Indonesian bank debt, together with £72 million of irredeemable preference share capital
- A further \$30 million is owed to the group's local partners PT Dharma Nusantara Satya

- **Action being taken**

- Planned divestment of peripheral planted areas to reduce debt significantly (and reduce future capex requirements)
- Conversion of substantial part of remaining debt from Indonesian rupiah to US dollars to reduce interest charge (by approximately half)

Outlook

- **Turning round after difficult period**
 - New management
 - Recovery in rate of cropping
 - Action to improve capital structure
- **Inbuilt growth from immature areas and land bank**
 - As immature areas come to maturity they will add to crops with little further increase in overheads
 - Further new planting over the next three or four years
- **Increasing cash flows from ancillary activities should help drive further debt reduction**
 - Additional biogas revenues as village household penetration increases
 - Potential significant cash recovery from Kota Bangun coal concession over the next three years and prospects of long term cash flow from the stone concessions
- **Excellent medium term prospects**
 - Sustainability concerns are increasingly restricting the availability of land for expansion. This is likely to underpin the market and drive land values higher

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