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## Trading Update 2016 Year

On 21<sup>st</sup> February, REA issued a Trading Update for the 2016 year ending 31<sup>st</sup> December. The details are set out in the table below and compared with Hardman's forecasts for the period. As previously reported, the severe dry periods experienced in both 2014 and 2015 had a significant negative impact on the group's crop production in 2016, alongside that of other oil palm plantations in East Kalimantan and a number of other areas of South East Asia. Readers will note that with very strong rainfall during November and December in particular, the average rainfall across the estates is up 61%, 2016 on 2015.

The effects of the extremely dry conditions for East Kalimantan can be seen in a 22% reduction in group harvests and more than a 29% reduction in 3<sup>rd</sup> Party supplied FFB. In sum, the outcome for total FFB was only 1.5% below our expectations. Extraction rates whilst up on last year at 22.8%, were below our expectation of 23.8%, and this was likely due to the unusually heavy rainfall experienced in November and December 2016 which disrupted collection. These weather conditions towards the end of the year also explain the shortfall of group FFB production against our forecast. This weather pattern was truly unhelpful since cropping rates had started to recover from September onwards. However, the heavy rains meant that not all the crop could be harvested.

Operational Update					
Year To 31st December	2016	2015*	Change (%)	Hardman 2016 Forecast	2016 Actual Variance From Forecast (%)
<b>FFB crops (tonnes):</b>					
Group harvested	468,371	600,741	-22.03%	475,000	-1.40%
Third party harvested	98,052	138,657	-29.28%	100,000	-1.95%
<b>Total</b>	<b>566,423</b>	<b>739,398</b>	<b>-23.39%</b>	<b>575,000</b>	<b>-1.49%</b>
<b>Production (tonnes):</b>					
Total FFB processed	560,957	728,871	-23.04%		
CPO	127,697	161,844	-21.10%	136,850	-6.69%
Palm kernels	26,371	33,877	-22.16%	25,875	1.92%
CPKO	9,840	12,557	-21.64%	9,315	5.64%
<b>Extraction rates (percentage):</b>					
CPO	22.8%	22.2%	2.70%	23.8%	
Palm kernel	4.7%	4.7%	0.00%		
CPKO	34.7%	35.0%	-0.86%		
<b>Rainfall (mm):</b>					
Average across the estates	3,449	2,141	61.09%		

Source: REA Trading Statement 21<sup>st</sup> February 2017/ Hardman Agribusiness

Landbank Development					
Development Progress	2016	2015	Change (%)	Hardman 2016 Forecast	2016 Actual Variance from Forecast (%)
Cleared, not yet planted at 1 January 2016 (ha)	2,700				
Cleared during the period (ha)	4,600				
Cleared, not yet planted at end December, 2016 (ha)	1,600				
Planted during the period (ha)	5,700	2,251	153.22%	6,000	-5.0%

Source: REA Trading Statement 21<sup>st</sup> February 2017/ Hardman Agribusiness

As detailed above, development of the landbank progressed at an impressive rate during 2016, with 5,700 ha planted, up 153% on the previous year's achievement and another 1,600 ha cleared and ready for planting at the start of January. This means that REA Kaltim will have gone into the 2017 year with some 42,800ha planted. We had anticipated the year-end new planted area at 6,000 ha, but the weather conditions during the latter half of the year, may have crimped the opportunity to achieve this higher figure.

## Palm Oil Operations Outlook 2017

The trading update confirmed that bunch formation across the plantations was 'promising'. The company reports that it appointed a new agronomy consultant at the beginning of 2017 and that work is now underway to strengthen the road infrastructure servicing the estates. With these measures in hand and bunch formation indications promising, the company indicates that it is "optimistic that monthly production will start to accelerate". The company is hoping that the benefit of improvements to operational infrastructure and efficiencies, will contribute to a good performance in 2017, all of which will be helped if CPO prices remain relatively stable.

The company is also anticipating that palm oil commodity prices will remain around current levels for the first half of 2017. The CIF Rotterdam CPO price closed at circa \$801/mt at end 2016, having started the year at circa \$570/mt. Tighter stocks, due to the sharp reduction in output due to the weather conditions referred to above, has seen the CPO price trade in a range between \$770 and \$860 per tonne since the beginning of 2017.

The company states that the plantation expansion programme is expected to make further progress in 2017.

## Stone & Coal Operations

The company noted that arrangements for the resumption of coal mining at the group's PT Indo Pancadasa Agrotama ('IPA') concession near Kota Bangun, are well advanced and that a new contractor will be selected from a short list in the near future. Following a limited period for rehabilitation of the mine, it is intended that coal production will resume. REA confirms that the agreement already in place will

provide for a steady cash inflow to the group based upon prevailing coal prices but with an agreed floor.

## Publication of Results

In line with the timetable adopted in previous years, REA expects that the final results for 2016 will be announced, and the annual report in respect of 2016 published, at the end of April 2017.

## Management Changes

The announcement that REA had accepted the resignation of Mark Parry as managing director of the company, and as president director of PT REA Kaltim Plantations ('REAK'), REA's principal operating subsidiary in Indonesia, with immediate effect, has come as unwelcome news. Mark Parry has been seen to drive the development of the landbank and to tighten operating efficiencies across the palm oil business, so investors will be watching to see that the progress achieved by Mr Parry is maintained following his departure.

It would appear, from the company's statement, that Mr Parry decided to offer his resignation after apparently breaching strict Indonesian regulations around certain employment issues.

REA has appointed Carol Gysin as managing director of REA, based in London. Carol has worked for REA for the last eight years as group company secretary and is a Fellow of the Institute of Chartered Secretaries and Administrators. In addition, the shareholders of REAK intend to appoint George Kapitan as president director of REAK. George, who is an Indonesian citizen, is currently chairman of the board of commissioners of REAK but will relinquish that position on his appointment as president director of REAK. It is intended that David Blackett, chairman of REA, be appointed as chairman of REAK's board of commissioners in his place.

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