Interim Management Statement

,

RNS Number : 5901P
R.E.A.Hldgs PLC
05 October 2011

R.E.A. Holdings plc
Interim Management Statement
Agricultural operations

The crop of oil palm fresh fruit bunches ("FFB") harvested to end September 2011 amounted to 454,996 tonnes, ahead of the budgeted crop of 428,811 tonnes and well ahead of the crop for the corresponding period in 2010 of 368,149 tonnes. If monthly cropping continues at present levels, with only some three months left in 2011, the group can reasonably expect to exceed the budgeted FFB crop for the year of 611,000 tonnes.

External purchases of FFB totalled 23,727 tonnes in the nine month period, against the budgeted 19,180 tonnes and the corresponding figure for 2010 of 13,333 tonnes.

Extraction rates for the nine months to 30 September 2011 were 22.95 per cent for crude palm oil ("CPO"), 4.46 per cent for palm kernels and 38.89 per cent for crude palm kernel oil.

Rainfall to the end of September averaged 2,457 millimetres across the group's operations (2010: 3,142 millimetres). The third quarter has been relatively dry and, whilst this is not expected to affect the 2011 crop, it is possible that there may be some negative impact on 2012 crops.

CPO prices have remained at good levels since 30 June 2011 although the price, CIF Rotterdam, recently dipped below $1,000 per tonne and is currently trading at $975 per tonne. There is considerable statistical evidence that movements in vegetable oil prices correlate with movements in petroleum oil prices. Any reduction in world industrial activity as a result of current economic uncertainties could therefore negatively impact the CPO price, although for the time being at least offtake remains at good levels.

Following works to overhaul and expand the overall capacity of the group's two existing oil mills, both mills are working well and are coping satisfactorily with the high level of cropping now being experienced. Construction of the group's new third oil mill is currently scheduled for completion in September 2012 but efforts are being made to bring forward this date so that test running can be completed comfortably ahead of the final quarter of 2012 when peak cropping is likely. The first of the two new methane conversion plants is expected to be brought into production during November 2011 and the second of these plants not long after.

Agricultural land allocations and development

Development work is now in hand on the land held by the company's subsidiary, PT Kutai Mitra Sejahtera ("KMS"). It is hoped that some 5,000 hectares of this land (out of a gross area of 7,321 hectares) will be suitable for planting and that this entire area can be prepared for planting before the end of 2011.

The group retains its target of a further 7,000 hectares of oil palm development during 2011. It is expected that the development of KMS land will meet 5,000 hectares of this target and that the balance of 2,000 hectares will come from planting land held by the company's subsidiaries, PT Sasana Yudha Bhakti ("SYB") and PT Putra Bongan Jaya ("PBJ"). The overall extent of such planting, and its split between the two subsidiaries, does however remain dependent on two factors: first, the outcome of negotiations currently in hand between SYB and the holder of mineral rights to areas overlapping part of SYB's unplanted areas and, secondly, the receipt by PBJ of a land clearing licence. The directors do not currently believe that these factors will preclude achievement of the targeted development for 2011 or, indeed, planned development of a further 5,000 hectares in 2012 but past experience has shown that timing in relation to Indonesian negotiations and permits is difficult to predict.

Coal operations

Sales of traded coal to the end of September 2011 amounted to some 228,000 tonnes against some 118,000 tonnes sold in the six months to the end of June 2011. Prospects for trading still appear positive and the group remains on target to reach an average monthly level of traded coal sales of 100,000 tonnes by the end of 2011. Coal for traded sales continues to be sourced by outright purchase from third party suppliers but continuing discussions may result in long term arrangements for meeting a proportion of the traded coal requirement by mining third party owned concessions against payment of royalties.

As previously reported, mining operations at the Kota Bangun concession produced some 20,000 tonnes of coal in the six months to end June 2011 but operations were temporarily halted in July 2011 due to cancellation of the contract with the principal mining contractor who had run into financial difficulties. The group is continuing to review the options for the Kota Bangun concession. In addition to the previously mooted alternatives of contract and in-house mining, these options now include the possibility of some form of co-operation arrangement with a holder of an adjacent coal concession.

The position as respects the Liburdinding concession is progressing. An additional mapping and drilling programme is currently under way and this will provide a more precise delineation of the available resource in accordance with industry standards. Revision of existing mine planning and the production of a project feasibility study will follow with a resumption of production envisaged in the first quarter of 2012.

Financial position

Group borrowings and related engagements now total (on the basis as respects of exchange and interest swap rates prevailing at 30 June 2011) $121.9 million. Against this, the group currently holds cash and cash equivalents totalling $40.7 million after payment on 30 September 2011 of the final dividend of 3p per ordinary share.

On 19 July 2011, the company issued 15,000,000 new 9 per cent cumulative preference shares for cash by way of a placing at 103p per share. This was followed on 29 September 2011 by the issue of 2,004,872 new 9 per cent cumulative preference shares of £1 each, credited as fully paid, pursuant to a capitalisation issue to ordinary shareholders.

The net proceeds of the July issue are being applied in reducing group indebtedness. To this end, the group has, since completion of the issue, repurchased $11,000,000 nominal of 7.5 per cent US dollar notes 2012/14 for an aggregate consideration of $10,962,500 and has cancelled $10 million nominal of the $11,000,000 so purchased. The group is also reducing bank indebtedness and will shortly complete early repayment of the Indonesian syndicated bank loan to PT REA Kaltim Plantations, the outstanding balance of which is currently $7.1 million.

The group is continuing to repurchase redeemable participating preference shares of $10 each in its wholly owned subsidiary, KCC Resources Limited. A further 2,800 such shares were acquired on 4 July 2011 at a price of $11 per share taking the total number of such shares repurchased by the group to 143,050 out of a total issue of 150,000 shares.

Possible emigration to South East Asia

Given current uncertainties in most stock markets worldwide, no decisions have yet been taken as respects the future corporate structure of the group. The two possible alternatives of reorganising the group under the ownership of a South East Asian listed parent company or selling a minority shareholding in the company's principal Indonesian oil palm subsidiary and listing that subsidiary on the Jakarta stock exchange remain under consideration.

Outlook

Notwithstanding the prevailing economic situation, the directors still regard the outlook for the group as positive.

Enquiries:
R.E.A Holdings plc
Tel: 020 7436 7877

END

IMSFSFSAIFFSESS