Final Results

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R.E.A.Hldgs PLC
27 April 2010

R.E.A. HOLDINGS PLC (the "company")

ANNUAL FINANCIAL REPORT

The company's annual report for the year ended 31 December 2009 (including notice of the annual general meeting to be held on 8 June 2010) (the "annual report") is now available for downloading from the company's web site at www.rea.co.uk.

Upon completion of bulk printing, copies of the annual report will be despatched to persons entitled thereto and will be submitted to the UK Listing Authority to be made available for inspection at the UK Listing Authority's Document Viewing Facility, which is situated at:

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The sections below entitled "Chairman's statement", "Risks and uncertainties" and "Directors' confirmation of responsibility" have been extracted without material adjustment from the annual report. The basis of presentation of the financial information set out below is detailed in note 1 of the notes to the financial statements below.

HIGHLIGHTS

- Crop of fresh fruit bunches of 490,178 tonnes (2008: 450,906 tonnes), an increase of 8.6 per cent
- Revenue of $78,885,000 (2008: $79,630,000), only marginally reduced despite lower selling prices
- Profit before tax of $41,717,000 (2008: $36,309,000) after gain on revaluation of biological assets of $9,765,000 (2008: loss $2,660,000)

- 30,990 hectares planted or under development at 31 December 2009, an increase of 2,690 hectares during the year

- Planting of a further 8,000 hectares in total planned over the two year period to 31 December 2011

- Coal production from the newly acquired Kota Bangun concession expected during 2010

CHAIRMAN'S STATEMENT

Results

The group continues to report in accordance with International Financial Reporting Standards ("IFRS") and to present its consolidated financial statements in US dollars.

With increased sales volumes and despite lower selling prices, revenue for 2009 at $78.9 million was only marginally below that of 2008 ($79.6 million). The increased volumes coupled with inflation did, however, mean, that cost of sales for 2009 at $34.0 million was higher than the comparable figure for 2008 of $27.7 million. Other significant movements in the components of operating profit between 2008 and 2009 comprised a positive swing in the aggregate IFRS fair value adjustments of $18.2 million (reflecting gains of $11.3 million in 2009 against losses of $6.9 million in 2008) and an increase in administrative expenses ($7.2 million in 2009 against $3.5 million in 2008).

The 2009 gains on IFRS fair value adjustments comprised a gain of $1.5 million on the revaluation of agricultural produce inventory and a gain of $9.8 million on the revaluation of biological assets (2008: losses of, respectively, $4.2 million and $2.7 million). The gain on revaluation of agricultural produce inventory reflected a higher crude palm oil ("CPO") price at 31 December 2009 than at 31 December 2008 partly offset by a reduction in inventory volumes, while the gain on revaluation of biological assets resulted mainly from the reinstatement of the group's extension planting programme and the resultant increase in planted hectarage during 2009.

An apparently marked increase in administrative expenses from $3.5 million in 2008 to $7.2 million in 2009 was almost entirely accounted for by a reduction from 2008 to 2009 in net exchange gains of $2.1 million, a swing of $1.0 million on movements on accruals in respect of the company's prospective liability for employer national insurance contributions on exercise of a director's option (which reflected movements in the market price of the company's ordinary shares) and a swing of $0.8 million on movements in the accrued liability for pension funding which was adjusted during 2009 to reflect the latest triennial actuarial valuation of the group's pension scheme.

At the after tax level, profit for the year for 2009 was $29.9 million against $25.8 million in 2008 while profit attributable to ordinary shareholders was $27.1 million against $23.8 million. Fully diluted earnings per share amounted to US 81.4 cents (2008 - US 71.5 cents).

Agricultural operations

Operational matters

The crop out-turn for 2009 amounted to 490,178 tonnes of oil palm fresh fruit bunches ("FFB"). This was slightly ahead of the budgeted crop of 486,000 tonnes and an increase of 8.6 per cent on the FFB crop for 2008 of 450,906 tonnes. External purchases of FFB from smallholders in 2009 totalled 13,248 tonnes (2008: 6,460 tonnes).

Rainfall across the group's estates averaged 3,123 mm for 2009, compared with 3,504 mm for the previous year. During 2009, there was an extended drier period between August and October, probably reflecting the reported El Nino effect. Although this was of some concern to the group, an analysis of the rainfall received during this drier period suggests that the rainfall was just sufficient to avoid deficits in the moisture required by the group's palms for optimal development. If correct, this would mean that the reduced levels of rainfall between August and October should not have a negative impact on cropping in 2010.

Processing of the group's own FFB production and the externally purchased FFB, together totalling 503,426 tonnes (2008: 457,366 tonnes), produced 118,357 tonnes of CPO (2008: 105,957 tonnes) and 23,740 tonnes of palm kernels (2008: 20,846 tonnes) reflecting extraction rates of 23.51 per cent for CPO (2008: 23.17 per cent) and 4.72 per cent for kernels (2008: 4.56 per cent). Production of crude palm kernel oil ("CPKO") amounted to 9,636 tonnes (2008: 8,190 tonnes) representing an extraction rate of 40.04 per cent (2008: 40.11 per cent).

Some problems were experienced during 2009 with the group's older oil mill. Deterioration in one of the two boilers reduced available power and this, combined with inefficiencies in other ageing mill machinery, made it difficult to operate the mill at the intended capacity of 80 tonnes per hour over any extended period. Steps have been taken to address this problem. The deteriorating boiler will be replaced as soon as possible and the mill processing lines will be upgraded to provide greater resilience. The planned expansion of the group' second newer mill from a capacity 60 tonnes per hour to a capacity of 80 tonnes per hour is currently in hand.

The upgrading of the older mill and the expansion of the newer mill should provide the group with sufficient capacity to meet the expected FFB processing requirements of 2010 and 2011. By 2012 the group will require a third mill. Work is already in hand on the planning of this third mill and it is expected that construction of the mill will start during 2010.

Steps were taken during 2009 to extend the group's use of natural fertilisers by the use of composted empty fruit bunches and oil mill effluent, both being residues of the CPO production process. The group has always recycled empty fruit bunches and oil mill effluent but, prior to the introduction of composting, these residues were distributed in the oil palm areas without processing (apart from treatment of effluent in effluent ponds to reduce its biological and chemical oxygen demand). Under the new composting process, the residues (in the case of effluent, again after treatment in effluent ponds) are delivered to a composting contractor at sites adjacent to the group's oil mills. The contractor takes title to the residues, manages the composting process (which takes 45 days and involves seeding the residues with an accelerant of micro-organisms (which the contractor supplies), mixing the residues and macerating the mix to encourage biodegradation) and then sells back the resultant compost to the group at an agreed price with a guaranteed nutrient content. The composted residues provide greater substitution for inorganic fertilisers than did the previous recycling of uncomposted residues and the financial effect is a reduction in cost.

Land allocations and development

The group made good progress with its land titling during 2009 and increased its overall area of fully titled agricultural land to 52,029 hectares. Land allocations still subject to titling comprise some 43,000 hectares. In addition, the group continues to seek title to a 20,000 hectare land area as respects which the original allocation has expired.

The process of titling land allocations may be expected to result in exclusion of areas the subject of conflicting land claims and having special environmental value. For some allocations the areas to be excluded may be quite substantial. Moreover, not all of the areas in respect of which full titles are issued can be planted with oil palms. Some fully titled land may be unsuitable for planting or subject to zoning or similar restrictions (such as areas potentially available for mining), a proportion has to be set aside for conservation and a further proportion is required for roads, buildings and other infrastructural facilities. This means that the prospective maximum area that the group could plant with oil palms on the land areas currently held or earmarked by it must be expected to be considerably less than the gross hectarage that those areas comprise.

Following the onset of the international financial crisis and the sharp falls in commodity prices that accompanied it, the directors decided in October 2008 to suspend all new plantation development until the world financial outlook became clearer. With the recovery in CPO prices seen in the early months of 2009 and a seeming improvement in the world economic outlook, it was decided in April 2009 to resume development. As a result of this decision, an area of 2,690 hectares was cleared and planted out or prepared for planting out during 2009.

Reserve land held by the group only becomes available for development when the titling process has proceeded to a point at which the group has been granted necessary development and land clearing licences and compensation agreements have been reached with local villagers who have claims in respect of their previous use of the land. In the past, delays in making available land areas for development have been a serious impediment to achievement of target extension planting programmes. The group therefore sought during the period that the development programme was temporarily suspended to take maximum advantage of the opportunity that this afforded to improve the pipeline of land areas immediately available for planting.

In consequence, the group is now well placed to proceed with its plans for planting in total a further 8,000 hectares of oil palms over the two year period to the end of 2011. Nevertheless, it does remain the case that achievement of this planting target is critically dependent upon land becoming available for development as needed. New regulations recently announced by the Ministry of Forestry mean that planting of the planned further 8,000 hectares will require permits additional to those that have already been obtained. The directors have no reason to believe that such permits will not be forthcoming within the time frame in which they will be needed.

Social responsibility

2009 saw the establishment by the group of its first smallholder oil palm cooperative. Out of an initial gross area of 1,500 hectares provided by a cooperative of three local villages, 1,300 hectares were cleared and a total of 770 hectares had been planted by year end. The balance of the 1,300 hectares cleared area will be planted during 2010. Financing for the scheme has been agreed with a local development bank in the form of a fifteen year loan secured on the land and assets of the scheme and guaranteed by the group. It is expected that the loan will finance most of the initial development costs of the scheme but will be supplemented to the extent necessary by funds to be advanced by the group. The group plans to initiate further cooperative schemes during 2010 on land areas totalling 4,500 hectares provided by cooperatives formed by a number of other villages. It is intended that these schemes will be organised on a basis similar to that adopted for the initial scheme.

Camera trapping and walking surveys within the group's conservation reserves and adjacent estate areas have detected a number of orang-utans (estimated at between 11 and 15). At least two baby orang-utans are known to have been born on the conservation reserves during 2009. The group's conservation department is monitoring the health of this promising orang-utan population and will consider enrichment planting in the conservation reserves if it appears that the naturally available food resources need to be enhanced.

The group has now obtained ISO 14001 certification in respect of both of its oil mills, its kernel crushing plant and two of its estate units. It is hoped that certification of the balance of the established estate units will be completed during 2010. The group has applied for Roundtable on Sustainable Palm Oil ("RSPO") accreditation audits (conducted by RSPO approved independent certifiers) to be initiated during 2010 with a view to obtaining final certification during 2011.

Coal operations

Following its acquisition of interests in the Liburdinding and Muser coal mining concessions located near Tanah Grogot in the southern part of East Kalimantan in the second half of 2008, the group further extended its coal operations in December 2009 with the acquisition of an interest in a third coal mining concession located near Kota Bangun in the central part of East Kalimantan which was purchased for a cash consideration of $4,500,000.

Pending clarification of a new Indonesian mining law that should permit foreign direct ownership of Indonesian companies holding mining concessions (which has not in recent years been allowed), the group has entered into arrangements with a local investor and members of his family (together the group's "local partners") whereby the Liburdinding and Muser concessions are currently held by two companies which are wholly owned by the group's local partners and which in turn own the company holding the Kota Bangun concession. A fourth company, incorporated under the Indonesian foreign investment law and owned 95 per cent by KCC Resources Limited ("KCC") (a wholly owned subsidiary of the company incorporated in England and Wales that acts as a co-ordinating company for the group's coal operations) and 5 per cent by the local partners, has been established by KCC to spearhead the group's coal operations. The three coal mining concession holding companies are being financed by loan funding from the group. KCC will have the right to acquire the concession holding companies at original cost as soon as Indonesian law allows this on a basis that will give the group (through KCC) 95 per cent ownership with the balance of 5 per cent remaining owned by the local partners.

During 2009, the group's development focus was on bringing the Liburdinding concession into production. A mining plan had been completed, and the necessary infrastructural facilities (principally a port facility and a 38 kilometre road to the port) were substantially complete, by June 2009. However, the group withdrew from its original plan to establish, as rapidly as possible, a production level of 30,000 tonnes per month when it became clear that the sulphur content of the Liburdinding coal was such that, in what had then become a buyer's market for export coal, it would be necessary either to blend the coal mined with purchased coal having a lower sulphur content or to accept a significant price penalty.

The group concluded that it was important to be able to market Liburdinding coal within Indonesia and steps were taken to establish a coal depot at Semarang in Central Java to facilitate deliveries to industrial users of coal in that area (a large coal consuming district) and to permit blending with other coal to meet specific buyer requirements. The Semarang depot is now in operation and sales of Liburdinding coal are being made through it. Additionally, with the recovery in coal prices of recent months, export demand has improved and some export shipments of Liburdinding coal are in prospect. The group is budgeting for total output from Liburdinding of 150,000 tonnes in 2010.

The group also intends that the newly acquired Kota Bangun concession should be brought into production during 2010 with a view to achieving, by December 2010, an output of 16,000 tonnes per month. The Kota Bangun concession is well located, being approximately 5 kilometres from the Mahakam river, and the high calorific value coal that the concession contains is very suitable for export.

The group aims to augment the basic mining revenues from the Liburdinding and Kota Bangun concessions in two respects during 2010. First, it intends to make available the port facility established for the Liburdinding concession for use by third parties for an appropriate charge. Secondly, the group intends to take advantage of the acceptance of one of the concession holding companies as one of a limited number of approved suppliers to the Indonesian state electricity company ("PLN") to establish a limited coal trading activity in which the group will source coal from third parties, either by outright purchase or by mining third party concessions against payment of an agreed royalty, and will then sell the coal so sourced to PLN and others. As both of these proposed additions to the coal operations will be new, there can be no certainty as to how fast and in what volumes they can be added. However, the directors consider it reasonable to aim over time to achieve levels of 20,000 tonnes per month of third party throughput through the Liburdinding port and of 50,000 tonnes per month of traded coal sales (sourced by a combination of outright purchases and mining of third party concessions under royalty arrangements).

The group is budgeting the overheads of its coal operations for 2010 (excluding head office costs in the UK, interest, depreciation and amortisation) at $100,000 per month. Once commercial levels of production are being achieved, production costs per tonne are projected in the ranges $64 to $78 per tonne for Kota Bangun coal and $23 to $29 per tonne for Liburdinding coal. Net contribution from third party coal throughput in the Liburdinding port is projected at $2.50 per tonne and the contribution margins achievable on traded coal sales at between $5 and $10 per tonne (depending on the mix of coal sourced by outright purchase and coal sourced by mining third party concessions). The overall results of the coal operations will be critically dependent upon sales volumes and prevailing coal prices.

Finance

No new debt securities were issued by the group during 2009 but, in November 2009, the company issued 1,490,000 new 9 per cent cumulative preference shares for cash by way of a placing at a price of 103.18p per share (3.18p being an amount equal to the accrued dividend attaching to each such share at the date of allotment). The net proceeds of the placing were utilised to increase the cash available to the group as a cushion against possible additional cash requirements for the group's development programmes.

Group indebtedness and related engagements at 31 December 2009 amounted to $82.5 million, made up of US dollar denominated bank indebtedness under an Indonesian consortium loan facility of $10.2 million, £37 million nominal of 9.5 per cent guaranteed sterling notes 2015/17 ("sterling notes") (carrying value: $57.0 million), $7.7 million in respect of the hedge of the principal amount of the sterling notes as described below and $30 million nominal of 7.5 per cent dollar notes 2012/14 ("dollar notes") (carrying value: $29.7 million). Against these obligations, at 31 December 2009 the group held cash and cash equivalents of $22.1 million. The group has entered into a long term sterling US dollar debt swap to hedge against US dollars the sterling liability for principal and interest payable in respect of the entire issue of the sterling notes (but in the case of interest only as respects interest payments falling due up to 31 December 2015).

In February 2010, the company issued an additional $15 million nominal of dollar notes at $90 per $100 nominal of notes in conjunction with an issue by KCC of 150,000 redeemable participating preference shares of $10 each at par. The monies raised, totalling $15 million before issue expenses, have been deployed in the group's coal operations save to the extent of $4.5 million which has been applied in repaying short term advances of an equivalent amount that had previously been made to the coal operations from elsewhere in the group.

The KCC participating preference shares will provide a limited interest in the group's coal operations such that if those operations achieve an average annual level of earnings before interest, tax, depreciation and amortisation of $8 million over the four and a half year period from 1 January 2010 to 30 June 2014 (equivalent to $36 million for the full period), the combined return to persons who subscribed the additional dollar notes and KCC participating preference shares and who retain their notes and shares until redeemed will be 15 per cent per annum.

The planned planting of a further 8,000 hectares of oil palm during 2010 and 2011 and the concomitant requirement for continuing investment in estate buildings, oil palm processing facilities and other estate plant and equipment will involve the group in continuing major capital expenditure over the next two years. Given the group's existing cash resources and provided that the CPO price remains at reasonable levels, the directors expect that such capital expenditure can be funded from internally generated cash flow. Because of the volatility of commodity markets, the directors cannot rely on this expectation and, whilst the expansion programme can, in extremity, be rapidly scaled back to align with available cash resources, once areas have been planted with oil palms, some or all of the benefits of investment thereby made will be lost if the areas are not maintained and the milling capacity needed to process the resultant FFB is not installed. Accordingly, the directors believe that it is essential that the group holds some cash cushion to meet possible calls for additional cash to fund the oil palm expansion programme. To this end, the group is currently seeking to arrange further fixed term bank facilities in Indonesia.

During 2010, capital will also be required to fund the coal operations in developing the Kota Bangun concession and meeting the working capital requirements that will arise if the coal operations develop as envisaged. It is expected that the funds provided to the coal operations from the recent issue of additional dollar notes and KCC participating preference shares will be sufficient for these purposes. In addition, the coal operations should shortly have available to them an undrawn working capital line of $3 million that is subject to annual renewal.

The directors have no immediate plans for the group to issue further listed debt securities but they are aware that the Indonesian tax authorities have recently announced revisions to the rates of withholding tax to be applied to payments of interest from Indonesia to the Netherlands as well as changes to the basis upon which such authorities will accept that a foreign company is eligible for the concessionary tax treatment provided for in any double tax agreement between the applicable company's country of domicile and Indonesia. This development appears likely to result in the rate of withholding tax applicable to payments of interest (the aggregate gross amount of which in 2009 was $8.9 million) on loans to Indonesian subsidiaries of the company from REA Finance increasing from 10 per cent to 20 per cent. The directors are investigating the possibility of reorganising the sterling notes to mitigate this adverse fiscal development.

Dividends

The fixed semi-annual dividends on the 9 per cent cumulative preference shares that fell due on 30 June and 31 December 2009 were duly paid. Dividends totalling 4p per ordinary share have been paid in respect of 2009 (2008 - 3p per ordinary share). These comprised a first interim dividend of 2p per ordinary share paid on 4 September 2009 and a second interim dividend in lieu of final of 2p per ordinary share paid on 29 January 2010.

The directors continue to believe that capitalisation issues of new preference shares to ordinary shareholders, such as were made on several previous occasions, provide a useful mechanism for augmenting returns to ordinary shareholders in periods in which good profits are achieved but demands on cash resources limit the scope for payment of cash dividends. Because of the then state of markets for fixed return securities of smaller listed companies, the directors did not propose any such capitalisation issue during 2009 but they hope that the current indications of economic recovery may make possible a further capitalisation issue of new preference shares during 2010.

Staff

The directors extend their thanks to all of the group's staff for their continued loyalty and hard work.

Succession

The group has decided to work towards opening a small regional office in Singapore. The immediate function of the new office will be to provide greater capacity to handle the increasing workload falling on existing senior management but the group plans that new staff put in place for this purpose should ultimately provide options for succession to existing top management. The group plans during 2010 to recruit an experienced and committed manager to head the new office. It is envisaged that the individual recruited would spend an initial induction period in the group's London office and would then operate from Singapore where it is intended that the new office should be fully functional by the end of 2011.

The directors recognise the need for succession planning in relation not only to executive management but also to non executive directors. The board intends to continue as currently constituted pending full implementation of their plans for the establishment of the new Singapore office but has agreed that thereafter the composition of the board should be reconstituted.

Prospects

The group is budgeting for an FFB crop of 561,000 tonnes for 2010. The FFB crop to end March 2010 was some 16,000 tonnes short of budget. The shortfall is attributed by the directors to a combination of the particular weather pattern experienced during the first quarter of 2010 and to some oil palms entering a cyclical depression or rest phase during this quarter. Variations from year to year in the monthly phasing of each year's crops are normal and the directors do not believe that any conclusions should be drawn as to the likelihood of the group achieving its budgeted crop for 2010.

The modest recovery in CPO prices seen in the last two months of 2008 continued into 2009 with the price rising from an opening level of $525 per tonne, spot CIF Rotterdam, to a high of $830 per tonne in May 2009. The price then fell back to consolidate at a little over $600 per tonne in July 2009 but gradually recovered to close 2009 at just above $800 per tonne, a level at which it has broadly remained during the early months of 2010.

Although stocks in CPO producing countries reached quite high levels in January 2010, subsequent offtake has been good and stock levels have moderated. Moreover, the recovery in crude petroleum oil prices has meant that the floor for vegetable and animal oil and fat prices that crude petroleum oil prices provide has been rising. Whilst professional forecasters have generally been in agreement that CPO prices would probably stay at around current levels at least until mid 2010, there had been concerns that, after that, the harvests from the latest soybean plantings in Brazil and Argentina (which are reported to have been at record levels) might lead to some fallback in prices. This may still prove to be the case but heavy rains in some key soybean growing areas and fungus problems with the Brazilian crop, coupled with some indications that the negative impact on current CPO production of the recent El Nino weather phenomenon is proving greater than forecast, may mean that the supply demand balance in the second half of 2010 will be tighter than had been predicted and that CPO prices may remain at good levels.

With the prospects of healthy margins, increasing crops and further extension of the areas under oil palm, the agricultural operations can look forward to continued growth. The development of the coal operations is still at an early stage but the directors are optimistic that those operations have the potential to make a worthwhile contribution to the future profits of the group. Overall, the directors regard the outlook for the group with confidence.

RISKS AND UNCERTAINTIES

The group's business involves risks and uncertainties. Those risks and uncertainties that the directors currently consider to be material are described below. There are or may be other risks and uncertainties faced by the group that the directors currently deem immaterial, or of which they are unaware, that may have a material adverse impact on the group.

Agricultural operations

Climatic factors

Although the group's agricultural operations are located in an area of high rainfall with sunlight hours well suited to the cultivation of oil palm, climatic conditions vary from year to year and setbacks are possible.

Unusually high levels of rainfall can disrupt estate operations and result in harvesting delays with loss of oil palm fruit or deterioration in fruit quality. Unusually low levels of rainfall that lead to a water availability below the minimum required for the normal development of the oil palm may lead to a reduction in subsequent crop levels. Such reduction is likely to be broadly proportional to the size of the cumulative water deficit. Over a long period, crop levels should be reasonably predictable but there can be material variations from the norm in individual years.

Low levels of rainfall can also disrupt and, in an extreme situation (not to date experienced by the group), could bring to a standstill the river transport upon which the group is critically dependent for estate supplies and the evacuation of CPO and CPKO.

Cultivation risks

As in any agricultural business, there are risks that crops from the group's estate operations may be affected by pests and diseases. Agricultural best practice can to some extent mitigate these risks but they cannot be entirely eliminated.

Other operational factors

The group's agricultural productivity is dependent upon necessary inputs, including, in particular, fertiliser and fuel. Whilst the directors have no reason to anticipate shortages in the availability of such inputs, should such shortages occur over any extended period, the group's operations could be materially disrupted. Equally, increases in input costs are likely to reduce profit margins.

After harvesting, FFB crops become rotten if not processed within a short period. Any hiatus in FFB collection or processing may therefore lead to a loss of crop. The group endeavours to maintain resilience in its palm oil mills with two mills operating separately and some ability within each factory to switch from steam based to diesel based electricity generation. Such resilience is however limited and would be inadequate to compensate for any material loss of processing capacity for anything other than a short time period.

The group has bulk storage facilities within its main area of agricultural operations and at its transhipment terminal downstream of the port of Samarinda. Such facilities and the further storage facilities afforded by the group's fleet of barges have hitherto always proved adequate to meet the group's requirements for CPO and CPKO storage. Nevertheless, disruptions to river transport between the main areas of operations and the port of Samarinda, or delays in collection of CPO and CPKO from the transhipment terminal, could result in a group requirement for CPO and CPKO storage exceeding the available capacity. This would be likely to force a temporary cessation in FFB processing with a resultant loss of crop.

The group maintains insurance for the agricultural operations to cover those risks against which the directors consider that it is economic to insure. Certain risks (including the risk of fire in planted areas on the group's estates), for which insurance cover is either not available or would, in the opinion of the directors, be disproportionately expensive, are not insured. Occurrence of an adverse uninsured event could result in the group sustaining material losses.

Produce prices

The profitability and cash flow of the agricultural operations depend both upon world prices of CPO and CPKO and upon the group's ability to sell its produce at price levels comparable with such world prices.

CPO and CPKO are primary commodities and as such are affected by levels of world economic activity and factors affecting the world economy, including levels of inflation and interest rates. This may lead to significant price swings although, as noted under "Revenues and markets" in "Agricultural operations" above, the directors believe that such swings should be moderated by the fact that the annual oilseed crops account for the major proportion of world vegetable oil production and producers of such crops can reduce or increase their production within a relatively short time frame.

In the past, in times of very high CPO prices, the Indonesian authorities have for short periods imposed either restrictions on the export of CPO and CPKO or very high duties on export sales of such oil. The directors believe that when such measures materially reduce the profitability of oil palm cultivation, they are damaging not only to large plantation groups but also to the large number of smallholder farmers growing oil palm in Indonesia and to the Indonesian economy as a whole (because CPO is an important component of Indonesia's US dollar earning exports). The directors are thus hopeful that future measures affecting sales of CPO and CPKO will not seriously diminish profit margins.

The directors were encouraged that the significant rise in CPO and CPKO prices during 2007 and the early months of 2008 did not lead to a re-imposition of export restrictions. Instead, the Indonesian government continued to allow the free export of CPO and CPKO but introduced a sliding scale of duties on CPO and CPKO exports. Furthermore, the starting point for this sliding scale was set at a level such that when CPO and CPKO prices fell back in the last quarter of 2008, the rate of export duty payable was reduced to nil. Against this, the directors note that there have been recent reports in the Indonesian press that the Indonesian government may again take steps to encourage domestic downstream processing of CPO and CPKO and may impose domestic sale obligations on oil palm growers from 2015.

World markets for CPO and CPKO may be distorted by the imposition of import controls or taxes in consuming countries. The directors believe that the imposition of such controls or taxes on CPO or CPKO will normally result in greater consumption of alternative vegetable oils within the area in which the controls or taxes have been imposed and the substitution outside that area of CPO and CPKO for other vegetable oils. Should such arbitrage fail to occur or prove insufficient to compensate for the market distortion created by the applicable import controls or taxes, selling prices for the group's CPO and CPKO could be depressed.

Expansion

The group is planning further extension planting of oil palm. The directors hope that unplanted land held by or allocated to the group will become available for planting ahead of the land becoming needed for development and that the development programme can be funded from available group cash resources and future operational cash flows, appropriately supplemented with further prior charge funding. Should, however, land or cash availability fall short of expectations and the group be unable to secure alternative land or funding, the extension planting programme, upon which the group's continued growth will in part depend, may be delayed or curtailed.

Any shortfall in achieving planned extensions of the group's planted areas would be likely to impact negatively the annual revaluation of the group's biological assets, the movements upon which are taken to the group's income statement. Whilst this would not affect the group's underlying cash flow, it could adversely affect market perceptions as to the value of the company's securities.

Environmental, social and governance practices

The group recognises that the agricultural operations are both a large employer and have significant economic importance for local communities in the areas of the group's operations. This imposes environmental, social and governance obligations which bring with them risks that any failure by the group to meet the standards expected of it may result in reputational and financial damage. The group seeks to mitigate such risks by establishing standard procedures to ensure that it meets its obligations, to monitor performance against those standards and to investigate thoroughly and take action to prevent recurrence in respect of any failures identified. In addition, the group commissions independent consultants to undertake periodic reviews of its management performance in relation to various matters and this review pays particular attention to the manner in which the group has discharged its corporate social responsibilities.

The group's existing agricultural operations and the planned expansion of those operations are based on land areas that have been previously logged and zoned by the Indonesian authorities as appropriate for agricultural development on the basis that, regrettable as it may be from an environmental viewpoint, the logging has been so extensive that primary forest is unlikely to regenerate. Such land areas fall within a region that elsewhere includes substantial areas of unspoilt primary rain forest inhabited by diverse flora and fauna. As such, the group, in common with other oil palm growers in Kalimantan, must expect scrutiny from conservation groups and could suffer adverse consequences if its environmental policies were to be singled out for criticism by such groups.

An environmental impact assessment and master plan was constructed using independent environmental experts when the group first commenced agricultural operations in East Kalimantan and this plan is updated regularly with further advice from independent experts to reflect modern practice and to take account of changes in circumstances (including planned additions to the areas to be developed by the group). Substantial conservation reserves have been established in areas already developed by the group and further reserves will be added as new areas are developed. The group actively manages these reserves and endeavours to use them to conserve landscape level biodiversity as detailed under "Conservation" in "Agricultural operations" in the "Review of the group" section of the annual report.

The group is committed to sustainable oil palm development and adopts the measures described under "Sustainable practices" in "Agricultural operations" in the "Review of the group" section of the annual report to mitigate the risk of its operations causing damage to the environment or to its neighbours. The group supports and aims to comply with the principles and criteria established by RSPO and is seeking RSPO accreditation.

Local relations

The agricultural operations of the group could be seriously disrupted if there were to be a material breakdown in relations between the group and the host population in the area of its agricultural operations. The group endeavours to mitigate this risk by liaising regularly with representatives of surrounding villages and by seeking to improve local living standards through mutually beneficial economic and social interaction between the local villages and the agricultural operations. In particular, the group, when possible, gives priority to applications for employment from members of the local population and supports specific initiatives (as described under "Community development" and "Smallholders" in "Agricultural operations" in the "Review of the group" section of the annual report) to encourage local farmers and tradesmen to act as suppliers to the group, its employees and their dependents and to promote smallholder development of oil palm plantings.

Coal operations

Development of the group's coal operations is still at an early stage. The gross assets of the operations at 31 December 2009 represented only some 3 per cent of the group's gross assets and the operations did not contribute to group revenues during 2009. The directors therefore believe that the most material risk attaching to the coal operations is the risk that the directors, with no prior experience of mining, may have misjudged the potential of the operations and that the operations do not become commercially viable. In that event some or all of the group capital invested in the operations may be lost (although the directors believe that the group could recover monies from a resale of the concession rights so far acquired so that a total loss of invested capital is unlikely).

If the coal operations do become commercially viable, the material risks specific to coal that the directors currently foresee are as described below.

Operational risks

Delivery volumes will be dependent upon efficiency of production and of transport of extracted coal from mines to points of sale. Both production and transport can be disrupted by heavy rains, such as are common in East Kalimantan, and heavy seas can cause delays to the barging of coal to its point of sale. Failure to load export shipments to an agreed schedule may result in demurrage claims which may be material.

Although mining plans are based on geological assessments, such assessments are extrapolations based on statistical sampling and may prove inaccurate to an extent. Unforeseen extraction complications can occur and may cause cost overruns and delays.

Although the group maintains insurance for the coal operations to cover those risks against which the directors consider that it is economic to insure, not all risks are insured. Under some circumstances spontaneous combustion may occur in stored coal and this could cause material loss to the group if it were held to have been negligent in its measures to prevent such spontaneous combustion.

Price risk

The profitability and cash flow of the coal operations will depend both upon world prices of coal and upon the group's ability to sell its coal at price levels comparable with such world prices. Coal is a primary commodity and as such is affected by levels of world economic activity and factors affecting the world economy, including levels of inflation and interest rates. This may lead to significant price swings.

Coal is sold on the basis of its calorific value and other aspects of its chemical composition. Supply and demand for specific grades of coal and consequent pricing may not necessarily reflect overall coal market trends and the group may be adversely affected if it is unable to supply coal within the specifications that are at any particular time in demand.

The Indonesian government has stated that it intends to impose obligations on coal concession holders to sell domestically a proportion of the coal that they mine. If domestic sales of coal have to be made at prices that are below world market prices (and it is not yet known whether this will be the case) the group's prospective revenues from coal sales will be reduced.

Environmental practices

Open cast coal mining, such as will be conducted on the coal concessions in which the group has invested, involves the removal of substantial volumes of overburden to obtain access to the coal deposits. The prospective areas to be mined by the group do not, however, cover a large area and the group is committed to international standards of best environmental practice and, in particular, to proper management of waste water and reinstatement of mined areas on completion of mining operations. Nevertheless, the group could be adversely affected by environmental criticisms of the coal mining industry as a whole.

General

Currency

CPO, CPKO and coal are essentially US dollar based commodities. Accordingly, the group's revenues and the underlying value of the group's operations are effectively US dollar denominated. All of the group's borrowings other than the sterling notes are also US dollar denominated and the group has entered into sterling US dollar debt swaps to hedge the sterling notes. A substantial component of the group's costs are US dollar denominated or linked. Accordingly, the principal currency risk faced by the group is that those components of group costs that arise in Indonesian rupiahs and sterling may, if such currencies strengthen against the US dollar, negatively impact margins in US dollar terms. The directors consider that this risk is inherent in the group's business and capital structure and the group does not therefore normally hedge against such risk.

Counterparty risk

Export sales of CPO and CPKO are made either against letters of credit or on the basis of cash against documents. Export sales of coal are likely to be made on a similar basis. Credit risks for the group on such sales are therefore limited. However, domestic sales of CPO, CPKO and coal generally require (or will require) the group to provide some credit to buyers. The group seeks to limit the counterparty risk that this entails by effective credit controls. Such controls include regular reviews of buyer creditworthiness and limits on the term and amount of credit that may be extended to any one buyer and in total.

Regulatory exposure

Changes in existing, and adoption of new, laws and regulations affecting the group (including, in particular, laws and regulations relating to land tenure and mining concessions, work permits for expatriate staff and taxation) could have a negative impact on the group's activities.

Many of the licences, permits and approvals held by the group are subject to periodic renewal. Renewals are often subject to delays and there is always a risk that a renewal may be refused or made subject to new conditions. Moreover, agricultural land and mining rights held by the group are subject to the satisfaction by the group of various continuing conditions, including, as respects agricultural land, conditions requiring the group to promote smallholder developments of oil palm.

Although the group endeavours to ensure that its activities are conducted only on the land areas, and within the terms of the licences, that it holds, licensing rules change frequently and boundaries of large land areas are not always clearly demarcated. There is therefore always a risk that the group may inadvertently, and to a limited extent, conduct operations for which it does not hold all necessary licences or operate on land for the use of which it does not have all necessary permits.

Country exposure

All of the group's operations are located in Indonesia and the group is therefore significantly dependent on economic and political conditions in Indonesia. In the late 1990's, in common with other parts of South East Asia, Indonesia experienced severe economic turbulence. In recent years, there have been occasional instances of civil unrest, often attributed to ethnic tensions, in certain parts of Indonesia. However, as noted under "The Indonesian context" in "Overview" in the "Review of the group" section of the annual report, during 2009 Indonesia remained stable and the Indonesian economy continued to grow.

Whilst freedom to operate in a stable and secure environment is critical to the group and the existence of security risks should never be underestimated, the group has always sought to mitigate those risks and has never, since the inception of its current operations in East Kalimantan, been adversely affected by security problems.

Although there can never be certainty as to such matters, under current political conditions, the directors have no reason to believe that any government authority would revoke the registered land titles or mining rights in which the group has invested or that any such authority would impose exchange controls or otherwise seek to restrict the group's freedom to manage its operations.

Miscellaneous relationships

The group is materially dependent upon its staff and employees and endeavours to manage this dependence as detailed under "Employees" in "Agricultural operations" and under "Sustainable practices" in "Coal operations" in the "Review of the Group" section of the annual report. Relationships with shareholders in Indonesian group companies are also important to the group and especially so as respects the mining concessions in which the group holds interests which are at the moment legally owned by the group's local partners. The group endeavours to maintain cordial relations with its local investors by seeking their support for decisions affecting their interests and responding constructively to any concerns that they may have.

DIRECTORS' CONFIRMATION OF RESPONSIBILITY

The directors are responsible for the preparation of the annual report.

To the best of the knowledge of each of the directors:

- the financial statements set out in the annual report and prepared in accordance with the applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the "Directors' report" section of the annual report including the "Chairman's statement" and "Review of the group" sections of the annual report which the Directors' report incorporates by reference provides a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole together with a description of the principal risks and uncertainties that they face.

The current directors of the company and their respective functions are set out in the "Directors" section of the annual report.

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2009

	2009	2008
	$'000	$'000
Revenue	78,885	79,630

Net gain/(loss) arising from changes in fair value of agricultural produce inventory	1,556	(4,214)
Cost of sales	(33,951)	(27,682)
Gross profit	46,490	47,734
Net gain/(loss) arising from changes in fair value of biological assets	9,765	(2,660)
Other operating income	-	4
Distribution costs	(1,303)	(1,049)
Administrative expenses	(7,234)	(3,466)
Operating profit	47,718	40,563
Investment revenues	827	1,185
Finance costs	(6,828)	(5,439)
Profit before tax	41,707	36,309
Tax	(11,861)	(10,536)
Profit for the year	29,856	25,773
Attributable to:		
Ordinary shareholders	27,119	23,833
Preference shareholders	2,219	2,360
Minority interests	518	(420)
	29,856	25,773
Earnings per 25p ordinary share		
Basic	83.3 cents	73.2 cents
Diluted	81.4 cents	71.5 cents

All operations in both years are continuing

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2009

	2009 $'000	2008 $'000
Non-current assets		
Goodwill	12,578	12,578
Biological assets	204,087	179,745
Property, plant and equipment	72,258	63,069
Prepaid operating lease rentals	14,117	13,088
Indonesian coal interests	12,859	5,386
Deferred tax assets	5,037	2,444
Non-current receivables	1,276	1,917
Total non-current assets	322,212	278,227
Current assets		
Inventories	13,376	12,795

Trade and other receivables	14,340	8,872
Cash and cash equivalents	22,050	30,316
Total current assets	49,766	51,983
Total assets	371,978	330,210
Current liabilities		
Trade and other payables	(13,169)	(12,113)
Current tax liabilities	(9,016)	(904)
Obligations under finance leases	(64)	(53)
Bank loans	(1,500)	(10,750)
Other loans and payables	(412)	(380)
Total current liabilities	(24,161)	(24,200)
Non-current liabilities		
Bank loans	(8,719)	(2,167)
Sterling notes	(56,965)	(50,234)
US dollar notes	(29,677)	(29,632)
Hedging instruments	(13,609)	(26,517)
Deferred tax liabilities	(39,478)	(31,478)
Obligations under finance leases	-	(61)
Other loans and payables	(4,701)	(3,310)
Total non-current liabilities	(153,149)	(143,399)
Total liabilities	(177,310)	(167,599)
Net assets	194,668	162,611
Equity		
Share capital	43,188	40,714
Share premium account	27,297	27,322
Translation reserve	(13,630)	(16,388)
Retained earnings	136,499	110,383
	193,354	162,031
Minority interests	1,314	580
Total equity	194,668	162,611

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2009

	2009	2008
	$'000	$'000
Profit for the year	29,856	25,773

Other comprehensive income

Exchange differences on translation of foreign operations	(6,615)	14,428
Changes in fair value of cash flow hedges	12,981	(26,676)
Tax relating to components of other comprehensive income	(3,567)	5,633
Share based payment - deferred tax credit/(charge)	743	(1,444)
	3,542	(8,059)
Total comprehensive income for the year	33,398	17,714
Attributable to:		
Ordinary shareholders	30,620	15,823
Preference shareholders	2,219	2,360
Minority interests	559	(469)
	33,398	17,714

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2009

	Share capital $'000	Share premium $'000	Translation reserve $'000	Retained earnings $'000	Sub total $'000	Minority interests $'000	Total equity $'000
At 1 January 2008	38,299	29,787	(9,822)	89,492	147,756	877	148,633
Total comprehensive income	-	-	(6,566)	24,749	18,183	(469)	17,714
Scrip issue of preference shares	2,415	(2,465)	-	-	(50)	-	(50)
Dividends to preference shareholders	-	-	-	(2,360)	(2,360)	-	(2,360)
Dividends to preference shareholders	-	-	-	(1,498)	(1,498)	-	(1,498)
Minority in subsidiary acquired	-	-	-	-	-	172	172
At 31 December 2008	40,714	27,322	(16,388)	110,383	162,031	580	162,611
Total comprehensive income	-	-	2,758	30,081	32,839	559	33,398
Issue of new preference shares	2,474	(25)	-	-	2,449	-	2,449
Dividends to preference shareholders	-	-	-	(2,219)	(2,219)	-	(2,219)
Dividends to preference shareholders	-	-	-	(1,746)	(1,746)	-	(1,746)
Changes in minority	-	-	-	-	-	175	175
At 31 December 2009	43,188	27,297	(13,630)	136,499	193,354	1,314	194,668

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2009

	2009	2008
	$'000	$'000
Net cash from operating activities	29,644	32,300
Investing activities		
Interest received	827	1,185
Proceeds on disposal of property, plant and equipment	-	103
Purchases of property, plant and equipment	(10,382)	(24,665)
Expenditure on biological assets	(16,626)	(15,126)
Expenditure on prepaid operating lease rentals	(1,303)	(1,205)
Acquisition of subsidiary company	-	(3,158)
Changes in minority interests in subsidiaries	175	-
Investment in Indonesian coal rights	(7,473)	(5,386)
Net cash used in investing activities	(34,782)	(48,252)
Financing activities		
Preference dividends paid	(2,219)	(2,360)
Ordinary dividends paid	(1,746)	(1,498)
Repayment of borrowings	(13,817)	(3,000)
Repayment of obligations under finance leases	(54)	(90)
Proceeds of issue of preference share capital less expenses	2,449	(50)
Issue of sterling notes, net of expenses	-	26,880
New bank borrowings drawn	11,119	-
Net cash (used in)/from financing activities	(4,268)	19,882
Cash and cash equivalents		
Net (decrease)/increase in cash and cash equivalents	(9,406)	3,930
Cash and cash equivalents at beginning of year	30,316	34,216
Effect of exchange rate changes	1,140	(7,830)
Cash and cash equivalents at end of year	22,050	30,316

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation

The accompanying financial statements and notes 1 to 14 below (together the "accompanying financial information") have been extracted without material adjustment from the statutory accounts of the company for the year ended 31 December 2009 (the "2009 statutory accounts"). The auditors have reported on those accounts; their reports were unqualified and did not contain statements under sections 498(2) or (3) of the Companies Act 2006. Copies of the 2009 statutory accounts will be filed in the near future with the Registrar of Companies. The accompanying financial information does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006 of the company.

Whilst the 2009 statutory accounts have been prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed for use by the European Union as at the date of authorisation of those accounts, the accompanying financial information does not itself contain sufficient information to comply with IFRS.

The accounting policies and methods adopted in the preparation of the 2009 statutory accounts were the same as those set out in the group's 2008 annual report.

The 2009 statutory accounts and the accompanying financial information were approved by the board of directors on 27 April 2010.

2. Revenue

	2009	2008
	$'000	$'000
Sale of goods	78,836	79,107
Revenue from services	49	523
	78,885	79,630
Other operating income	-	4
Investment income	827	1,185
Total revenue	79,712	80,819

3. Agricultural produce inventory movement

The net gain/(loss) arising from changes in fair value of agricultural produce inventory represents the movement in the fair value of that inventory less the amount of the movement in such inventory at historic cost (which is included in cost of sales).

4. Segment information

In the table below, the group's sales of goods are analysed by geographical destination and the carrying amount of segment net assets and additions to property, plant and equipment by geographical area of location. The group operates in two segments, the cultivation of oil palms and the development of coal operations. At this stage, the latter does not meet the quantitative thresholds set out in IFRS "Operating Segments" and, accordingly, no further analyses are provided by business segment. In 2008, thegroup had only one business segment.

	2009	2008
	$'m	$'m
Sales by geographical location:		
Indonesia	40.7	45.8
Rest of Asia	38.2	33.3
	78.9	79.1
Carrying amount of segment net assets by geographical area of asset location:		
UK and Continental Europe	17.3	25.3
Indonesia	177.4	137.3

	194.7	162.6

Additions or property, plant and equipment by geographical area of location:

UK and Continental Europe	-	-
Indonesia	13.7	24.7
	13.7	24.7

5. Finance costs

	2009	2008
	$'000	$'000
Interest on bank loans and overdrafts	587	886
Interest on US dollar notes	2,338	2,564
Interest on sterling notes	5,989	5,349
Interest on obligations under finance leases	6	16
Other finance charges	1,467	1,149
	10,387	9,964
Amount included as additions to biological assets	(3,559)	(4,525)
	6,828	5,439

Amount included as additions to biological assets arose on borrowings applicable to the Indonesian operations and reflected a capitalisation rate of 30.4 per cent (2008: 35.5 per cent); there is no directly related tax relief.

6. Tax

	2009	2008
	$'000	$'000
Current tax:		
UK corporation tax	-	28
Foreign tax (includes prior years $69,000) (2008:$3,065,000)	6,858	13,478
Total current tax	6,858	13,506
Deferred tax:		
Current year (includes prior years $nil) (2008: $1,588,000)	5,003	2,825
Attributable to a decrease in the rate of tax	-	(5,795)
Total deferred tax	5,003	(2,970)
Total tax	10,536	10,536

Taxation is provided at the rates prevailing for the relevant jurisdiction. For Indonesia, the current taxation provision is based on a tax rate of 28 per cent (2008: 30 per cent) and the deferred tax provision reflects the reduction in the corporate taxation rate from 30 per cent to 25 per cent, effective from 2010. For the United Kingdom, the taxation provision reflects the reduction in the corporation tax rate from 30 per cent to 28 per cent for 2008/09. Prior year adjustments in 2008 of $3,065,000 in respect of foreign tax and $1,588,000 in respect of deferred tax arose as a result of an Indonesian assessment of tax on a group company's 2006 profits at a higher level than was originally expected. Full provision has been made for this assessment although significant elements are disputed.

7. Earnings per share

	2009	2008
	$'000	$'000
Earnings for the purpose of earnings per share*	27,119	23,833

* being net profit attributable to ordinary shareholders

	'000	'000
Weighted average number of ordinary shares for the purposes of basic earnings per share	32,574	32,574
Effect of dilutive potential ordinary shares	736	761
Weighted average number of ordinary shares for the purposes of diluted earnings per share	33,310	33,335

8. Dividends

	2009	2008
	$'000	$'000
Amounts paid and recognised as distributions to equity holders:		
Preference dividends of 9p per ordinary share	2,219	2,360
Ordinary dividends	1,746	1,498
Total current tax	3,965	3,858

9. Biological assets

	2009	2008
	$'000	$'000
Beginning of year	179,745	166,347
Reclassification of infrastructure	773	-
Additions to planted area and costs to maturity	13,866	15,763
Transfers from property, plant and equipment	140	339
Transfer to non-current receivables	(202)	(44)
Net biological gain/(loss)	9,765	(2,660)
End of year	179,745	179,745

Net biological gain/(loss) comprises:		
Gain/(loss) arising from changes in fair value attributable to physical changes	9,765	(2,660)
Gain arising from changes in fair value attributable to price changes	-	-
	9,765	(2,660)

The valuation assumed a discount rate of 16 per cent in the case of PT REA Kaltim Plantations ("REA Kaltim") and 19 per cent in the case of all other group companies (2008: 16.0 per cent in the case of REA Kaltim and 19 per cent in the case of all other group companies) and a twenty year average crude palm oil ("CPO") price of $446 per tonne, net of Indonesian export duties, FOB Samarinda (2008: twenty year average of $431 per tonne). The effect of the accounting policy on biological assets was that there was no change in the unit profit margin assumed.

The valuation of the group's biological assets would have been reduced by $11,260,000 (2008: $9,505,000) if the crops projected for the purposes of the valuation had been reduced by 5 per cent; by $10,660,000 (2008: $8,887,000) if the discount rates assumed had been increased by 1 per cent and by $22,490,000 (2008: $18,987,000) if the assumed unit profit margin per tonne of oil palm fresh fruit bunches had been reduced by $5.

As a general rule, all palm products produced by the group are sold at prices prevailing immediately prior to delivery but on occasions, when market conditions appear favourable, the group makes forward sales at fixed prices. When making such sales, the group would not normally commit more than 60 per cent of its projected production for a forthcoming period of twelve months. At 31 December 2007, the group had outstanding forward fixed price sales of CPO at the rate of 2,000 tonnes per month for the two year period to 31 December 2009 at prices equivalent to $620 per tonne, CIF Rotterdam, for the period January to June 2008 (inclusive), $870 per tonne for the period July to December 2008 (inclusive) and $860 per tonne for the period January to December 2009 (inclusive). During 2008, the group delivered 12,000 tonnes of CPO against forward sale contracts at the equivalent of a CIF Rotterdam price of $620 per tonne; the remaining forward sales were cancelled during 2008 by mutual agreement with the counterparty.

At 31 December 2009, the group had outstanding forward sales of 6,000 tonnes of CPO per month for the five month period to May 2010, on terms that the sales price of each delivery be determined immediately ahead of delivery by reference to prevailing open market prices (31 December 2008: 3,000 tonnes per month for the five month period to 31 May 2009).

At the balance sheet date, biological assets of $165,364,000 (2008: $161,452,000) had been charged as security for bank loans but there were otherwise no restrictions on titles to the biological assets (2008: none). Expenditure approved by the directors for the development of immature areas in 2010 amounts to $37,000,000 (prior year - $13,000,000).

10. Capital expenditure on property, plant and equipment and capital commitments

During the year, there were additions to property, plant and equipment of $13,690,000 (2008: $24,665,000).

At the balance sheet date, the group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to $360,000 (2008: $2,394,000).

11. Issuance of equity securities

On 6 November 2009, 1,490,000 9 per cent cumulative preference shares were issued, credited as fully paid, by way of a placing at par plus an amount equal to the accrued but unpaid dividend entitlement of 3.18pence relating to the period before issue.

12. Movement in net borrowings

	2009	2008
	$'000	$'000
Change in net borrowings resulting from cash flows:		
(Decrease)/increase in cash and cash equivalents	(9,406)	3,930

Net decrease in borrowings	2,698	3,000
	(6,708)	6,930
Amortisation of US dollar notes issue expenses	(88)	(94)
Issue of sterling notes less amortised expenses	(256)	(27,073)
Lease repayments	54	90
	(6,998)	(20,147)
Currency translation differences	(5,296)	9,607
Net borrowings at beginning of year	(62,581)	(52,041)
Net borrowings at end of year	(74,875)	(62,581)

13. Related parties

Transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the company and its subsidiaries are dealt with in the company's individual financial statements. The remuneration of the directors, who are the key management personnel of the group, is set out below in aggregate for each of the categories specified in IAS 24 "Related party disclosures".

	2009	2008
	$'000	$'000
Short term benefits	877	941
Post employment benefits	48	94
Other long term benefits	-	-
Termination benefits	-	-
Share based payments	-	-
	925	1,035

14. Events after the reporting period

Dividends

An interim dividend of 2p per ordinary share in lieu of final in respect of the year ended 31 December 2009 was paid on 29 January 2010. In accordance with IAS10 "Events after the reporting period" this dividend, amounting in aggregate to $1,054,000, has not been reflected in these financial statements.

Financing of coal operations

On 11 February 2010 the company issued $15 million nominal of further 7.5 per cent dollar notes 2012/14 ("additional dollar notes") and KCC Resources Limited ("KCC"), its wholly owned subsidiary, issued 150,000 redeemable participating preference shares of $10 each ("KCC participating preference shares"). The additional dollar notes rank pari passu with and form a single issue with the $30,000,000 nominal of 7.5 per cent dollar notes 2012/14 that were already in issue.

The KCC participating preference shares will provide a limited interest in certain defined coal operations of the group (the "relevant coal operations") such that, if the earnings before interest, tax, depreciation and amortisation of the relevant coal operations over the four and a half year period from 1 January 2010 to 30 June 2014 amount, in aggregate, to $36 million or more, the KCC participating preference shares will be redeemable on 31 December 2014 at $44.70 per share.

If the required level of earnings is not achieved, then, except in certain limited circumstances (such as divestment of all or a significant part of the relevant coal operations or a change of control of the company), no dividends or other distributions will be paid or made on the KCC participating preference shares and after 31 December 2014 those shares will be converted into valueless deferred shares.

The $15 million gross proceeds of the issues are being applied by the group in funding its coal operations, with the coal operations bearing the costs of the issue and utilising $4.5 million of the proceeds in repaying $4.5 million that had been previously advanced to the coal operations by other group companies.

Exercise of director's share option

On 1 February 2010 a director exercised an option to subscribe 840,689 ordinary shares in the company at a price of 43.753 pence, following which the number of ordinary shares in issue amounts to 33,414,545.

Press enquiries to:
Richard Robinow
R.E.A. Holdings plc
Tel: 020 7436 7877

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