Annual Financial Report

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

ANNUAL FINANCIAL REPORT

The company's annual report for the year ended 31 December 2008 (including notice of the annual general meeting to be held on 4 June 2009) (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 members and others 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 processed of 457,366 tonnes (2007: 395,984 tonnes), an increase of 15.5 per cent
- Revenue of $79,630,000 (2007: $57,600,000), an increase of 38.2 per cent
- Cash generated by operations of $50,896,000 (2007: $34,831,000), an increase of 46.1 per cent
- Profit before tax of $36,309,000 (2007: $47,010,000) after negative swing in IFRS fair value adjustments between 2007 and 2008 of $20.5 million on revaluations of biological assets and agricultural produce inventory
- Following the recent improvements in crude palm oil price, extension planting to be resumed

- Production from the group's new coal interests expected to start in the near future

CHAIRMAN'S STATEMENT

Presentation of annual report

The group continues to report in accordance with International Financial Reporting Standards ("IFRS") and to present its consolidated financial statements in US dollars. The company's individual financial statements are presented separately from the consolidated financial statements in sterling and in accordance with UK Generally Accepted Accounting Practice.

Results

Profit before tax for 2008, as shown in the accompanying consolidated income statement, amounted to $36.3 million against $47.0 million in 2007. The result reflected a negative swing in IFRS fair value adjustments between 2007 and 2008 of $20.5 million with net losses on revaluation of biological assets and agricultural produce inventory of, respectively, $2.7 million and $4.2 million against net gains of $8.0 million and $5.6 million in the prior year. Cash generated from operations in 2008 at $50.9 million was significantly ahead of the $34.8 million generated in 2007.

The loss on revaluation of biological assets was largely the result of the decision taken in October 2008, as referred to under "Land allocations and development" below, to suspend extension planting. This meant that the hectarage developed or in course of development at 31 December 2008 was lower than it would otherwise have been and the fair value of the biological assets at that date was correspondingly reduced. There was little change in the volume of the group's agricultural produce inventory over 2008 but the IFRS requirement to value this inventory at fair market value meant that the movement between opening and closing valuations showed a loss reflecting the fall in CPO prices over 2008.

Deliveries made during 2008 against forward sales contracted in 2006 and, more materially, the sliding scale of duty on exports of crude palm oil ("CPO") from Indonesia applicable during most of 2008 meant that the average US dollar price per tonne realised by the group in respect of 2008 sales of CPO, adjusted to FOB, Samarinda, was $664, not a great deal higher than the average price of the preceding year of $624. 2008 revenues did benefit from the higher production achieved during the year, but this was significantly offset by a higher cost of sales reflecting inflationary increases in many operating input costs. Specifically, prices for diesel and fertiliser moved to new highs while labour costs rose in line with increases in the general cost of living in Indonesia. The costs of upkeeping an additional 3,189 hectares of plantings that were classified as mature from the start of 2008 also contributed to the higher cost of sales.

During 2008, reductions were announced in future rates of Indonesian corporation tax. This has permitted a reduction in the provision for deferred tax at 31 December 2008 with a consequential credit to income account. Offsetting this, the amount previously provided for tax has been increased to provide in full for an Indonesian assessment of tax on a group company's 2006 profits at a higher level than was originally expected although significant elements of the assessment are disputed and a material recovery of the amounts paid on account is expected. The net result is still a reduced rate of tax charge in 2008 as compared with 2007.

At the after tax level, profit for the year for 2008 was $25.8 million against $32.0 million in 2007 while profit attributable to ordinary shareholders was $23.8 million against $29.5 million. Fully diluted earnings per share amounted to US 71.5 cents (2007: US 89.6 cents).

Accounting reference date

It was noted in the company's 2007 annual report that the directors were contemplating a change in the company's accounting reference date from 31 December to 28 February. A pre-requisite of such a change was the consent of the holders of the 9.5 per cent guaranteed sterling notes 2015/17 issued by REA Finance B.V. ("sterling notes") and this was duly obtained in August 2008. Subsequent discussions with the group's Indonesian professional advisers have indicated that negative Indonesian fiscal consequences would be likely if the company's Indonesian subsidiaries were to change their reporting periods so that these remained co-terminous with those of the company following a change in the latter's accounting reference date. Accordingly, the directors have decided that the company should retain its existing accounting reference date of 31 December.

Operations

The crop out-turn for 2008 amounted to 450,906 tonnes of oil palm fresh fruit bunches ("FFB"), 7.1 per cent ahead of the budgeted crop of 421,000 tonnes and an increase of 14.7 per cent on the FFB crop for 2007 of 393,217 tonnes. Yield per hectare for 2008 was 27.3 tonnes compared with 29.6 tonnes in 2007. The reduction reflected the fact that the 3,189 hectares of previously immature areas that were brought into harvesting in 2008 initially yielded 17.6 tonnes per hectare as compared with the average yield for fully mature areas of 28.9 tonnes per hectare.

Rainfall for 2008 averaged 3,504 mm across the group's operations, down on the 4,413 mm of the previous year but nevertheless wholly satisfactory for oil palm cultivation, particularly as the rainfall was well distributed.

During 2008, the capacity of the group's second oil mill (which was brought into production in 2006 with an initial capacity of 40 tonnes per hour) was expanded to 60 tonnes per hour. Further expansion to 80 tonnes per hour is planned for 2010.

External purchases of FFB from smallholders in 2008 totalled 6,460 tonnes (2007: 2,767 tonnes). Based on the combination of the group's own FFB production and externally purchased FFB, the CPO and palm kernel extraction rates for the year amounted to, respectively, 23.1 per cent and 4.6 per cent (2007: 23.5 per cent and 4.0 per cent). The decline in the CPO extraction rate is attributed by the directors to a combination of overcast conditions during part of the year (reducing the photosynthesis upon which oil formation partly depends) and pressure on harvesting standards. The group is implementing measures designed to reduce harvester turnover and make it easier to recruit additional harvesters. The improvement in the palm kernel extraction rate reflected successful modification of the palm kernel extraction process to improve nut cracking efficiency.

The capacity of the kernel crushing plant was increased during 2008 from 100 to 150 tonnes per day to cater for projected crop increases from existing plantings in 2009 and subsequent years. Crude palm kernel oil ("CPKO") production for 2008 (again based on the combination of the group's own FFB production and externally purchased FFB) amounted to 8,190 tonnes (2007: 6,414 tonnes). This reflected a CPKO extraction rate for the year of 39.3 per cent (2007: 41.0 per cent).

Land allocations and development

Continuing efforts to ensure the availability of land for expansion resulted in the addition to the group during 2008 of two further Indonesian companies, PT Kutai Mitra Sejahtera ("KMS") and PT Putra Bongan Jaya ("PBJ"), each holding a substantial land allocation in the vicinity of the group's existing estates. Each of these further Indonesian companies is, or on completion of necessary legal formalities will be, owned as to 95 per cent by group companies and 5 per cent by Indonesian local investors. Following these acquisitions and a recent agreement by the Indonesian authorities to issue a land title certificate in respect of 11,625 hectares held by PBJ, the fully titled land areas now held by the group amount to 46,841 hectares. In addition, the group holds land allocations over areas totalling 68,000 hectares that are not yet fully titled (including, for this purpose, an allocation of 20,000 hectares that is in course of renewal following expiry of the original letter of allocation).

The not yet fully titled land allocations are at different stages of titling and the titling process may be expected to result in exclusion of areas the subject of conflicting land claims that cannot be resolved and those areas having special environmental value. Moreover, of the allocated areas in respect of which full titles are eventually issued, a proportion will have to be set aside for conservation and a further proportion will be required for roads, buildings and other infrastructural facilities. Accordingly, it must be expected that of the not yet fully titled land allocations, the area that eventually becomes available for planting with oil palms will be significantly less than 68,000 hectares.

The group had hoped that it would be able to develop land during 2008 and 2009 at a rate sufficient to enable it to reach a target of 45,000 developed hectares by the end of 2009. With the onset of the international financial crisis and the accompanying sharp fall in commodity prices, the directors concluded in October 2008 that prudence dictated that the 45,000 hectare target be abandoned and that, until the world financial outlook became clearer, no material new funds should be committed to extension planting. The combination of this decision and a continuation into the first half of 2008 of the delays experienced in 2007 in making allocated land actually available for development meant that the area developed in 2008 amounted only to 1,892 hectares against the original target of 6,500 hectares.

Following the improvement in CPO prices over 2009 to date and the development of a seemingly better tone to the CPO market, the directors have recently decided that extension planting should be resumed. Given all the economic uncertainties, a target has not yet been set for 2009 development but, when it is, the directors will wish to see this at a level such that the prospective costs of development can reasonably be expected to leave the group with an appropriate cash reserve against further weakness in CPO prices.

The group currently holds substantial stocks of seedlings in its nurseries. These were grown from seed in anticipation of the planting programmes that were previously planned and have now been cancelled. Seedlings not utilised for the group's 2009 development programme or for smallholder cooperative plantings will be pruned and retained for future use.

Social responsibility

The group continues to place importance on the discharge of its social obligations. Internally, employee welfare and the training and development of employees remain a priority. Externally, smallholder plantings and community development projects supported by the group and the work of the group's conservation department are being extended. The group is considering the conversion of the conservation department into a charitable foundation with a view to providing access to funding from third parties to augment the funding provided by the group so as to permit expansion of conservation activities beyond the immediate areas of the group's activities into the wider Belayan river basin.

The company's principal operating subsidiary has recently been awarded ISO 14001 certification in respect of the group's two oil mills and kernel crushing plant and hopes to receive certification for six estate units in the second half of 2009. The group expects to be in a position to seek accreditation from the Roundtable for Sustainable Palm Oil in 2010 after the ISO 14001 certification process has been completed.

New initiative

Following a decision in late 2007 that the group should explore opportunities in coal mining in East Kalimantan, in the second half of 2008, the group acquired rights in respect of two adjoining coal concessions, the first, Liburdinding, covering an area of some 1,000 hectares and the second, Muser, some 2,000 hectares. The concessions are located in the southern part of East Kalimantan, close to a major established coal mining operation and within easy reach of existing port facilities through which coal can be shipped.

Geological surveys conducted to date suggest that the concessions contain commercial deposits of coal having typical gross calorific values per tonne of between 5,800 and 6,200 kcal/kg in the case of Liburdinding and between 7,000 and 7,200 kcal/kg in the case of Muser. A preliminary survey by an independent firm of geologists in Jakarta indicated coal reserves of 14.7 million tonnes for Liburdinding and 17.6 million tonnes for Muser. The group is commissioning a further assessment of reserves in the two concessions in compliance with the rules of the Australasian Joint Ore Reserves Committee.

After a combination of geoelectric surveys and drilling to delineate and assess the characteristics of the proven deposits on both concessions, detailed mining designs have been completed for Liburdinding and are being prepared for Muser. The exploration licence held in respect of Liburdinding has been converted to an exploitation licence and the conversion of the exploration licence in respect of Muser is at an advanced stage. Necessary work on upgrading roads from the concession areas to the port facility has taken longer than originally hoped because of heavy rains but has now been completed. Contractors appointed to commence mining operations on Liburdinding are now on site and it is hoped that production from this concession will start in the near future. Production from the Muser concession should follow within a few months. A small team of experienced managers has been recruited to oversee the mining operations.

Pending validation of theoretical plans by actual operating experience, the directors remain cautious as to the returns achievable from the group's new coal interests, particularly given that coal prices have fallen significantly over the past six months. Nevertheless, the group's internal projections continue to indicate that margins achievable even at current coal prices will justify the investment made which amounted at 31 December 2008 to $5.4 million.

Finance

During 2008, a further £28,000,000 nominal of sterling notes were created of which £15,000,000 nominal were issued for cash at a subscription price of 99.8682 per cent of par. The effect of this issue was to increase the nominal amount of sterling notes in issue to £37,000,000 and the prospective total size of the eventual sterling note issue to £50,000,000 although under current market conditions an early issue of the unissued balance of £13,000,000 nominal of sterling notes appears unlikely.

Following this latest issue of sterling notes, group indebtedness at 31 December 2008 amounted to $108.3 million, made up of US dollar denominated bank indebtedness under an Indonesian consortium loan facility of $12.9 million, £37 million nominal of sterling notes (carrying value: $50.2 million), $15.4 million in respect of the hedge of the principal amount of sterling notes referred to below, $30 million nominal of 7.5 per cent dollar notes 2012/14 ("dollar notes") (carrying value: $29.6 million) and other short term indebtedness (including obligations under finance leases) of $0.2 million. Against this indebtedness, at 31 December 2008 the group held cash and cash equivalents of $30.3 million. The group has entered into long term sterling US dollar debt swaps 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).

Following recent discussions with the banks providing the Indonesian consortium loan facility, it has been agreed that the terms of the facility will be reconstituted so as to provide the group going forward with an $11.75 million term loan repayable over five years and a revolving working capital facility, renewable annually, of $4.75 million.

At current CPO prices and with the agreement to reconstitute the Indonesian consortium loan facility, the group can expect that, excluding expenditure on new extension planting, cash flows from operations for 2009 will comfortably exceed the amounts required to fund planned capital and development expenditure and debt service. As indicated under "Land allocations and development" above, the directors have recently decided that extension planting should be resumed but on the basis that such resumption will be at a level such that the prospective costs of development can reasonably be expected to leave the group with an appropriate cash reserve against further weakness in CPO prices.

The group may seek further debt funding to permit the group to proceed with a higher level of extension planting than the group could otherwise afford. However, the directors will require that any such additional debt funding is provided predominantly by way of medium term loans and will limit additional borrowings to levels that the directors are confident that the group's equity base can comfortably sustain.

Dividends

The fixed semi-annual dividends on the 9 per cent cumulative preference shares that fell due on 30 June and 31 December 2008 were duly paid. Dividends totalling 3p per ordinary share have been paid in respect of 2008 (2007: 2p per ordinary share). These comprised a first interim dividend of 1.5p per ordinary share paid on 26 September 2008 and a second interim dividend in lieu of final of 1.5p per ordinary share paid on 30 January 2009. In addition, the company made a capitalisation issue to ordinary shareholders of 1,302,954 new preference shares on the basis of one new preference share for every 25 ordinary shares held on 24 September 2008.

The group retains ambitious plans for continued extension planting of oil palms. This will require substantial investment. Moreover, the uncertainties of the current world economic situation and the possibility that CPO prices may fall back from current levels dictate that the group should be careful to husband its cash resources. While this remains the case, the directors will inevitably feel constrained as to the rate at which they can prudently declare, or recommend the payment of, future ordinary dividends.

The directors do appreciate that many shareholders invest not only for capital growth but also for income and that the payment of dividends is important. The directors have previously stated their intention that any new level of ordinary dividend set in respect of any given year should be sustainable in subsequent years and they expect that this will prove the case with the level of total ordinary dividend set in respect of 2008. Under normal circumstances, the directors would hope that the prospective crop increases of coming years will permit a progressive ordinary dividend policy albeit that the rate of progression is likely to be steady rather than dramatic.

Whilst the directors continue to believe that capitalisation issues of new preference shares to ordinary shareholders, such as were made in both 2007 and 2008, 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, the current state of markets for fixed return securities of smaller listed companies may make it impractical to make another such issue in 2009.

Staff

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

Future direction

The directors commented in the company's 2007 annual report that if, as they hoped would be the case, the group was able in future to rely, to a greater extent than hitherto, on internally generated equity, and if the markets for listed securities in Indonesian and other Eastern financial markets continued to mature, it might be that a reconstitution of the group as an entirely South East Asian based entity would better serve investors in the group than continuation of the present group structure. Given the worldwide economic problems that have subsequently surfaced, the directors do not believe that new corporate initiatives are currently appropriate. They have therefore deferred any further consideration of possible changes to the corporate structure of the group until the financial environment becomes more stable.

Prospects

The FFB crop for 2009 has been budgeted at 486,000 tonnes with a normal budgetary assumption of average rainfall (both as to quantum and distribution). This crop is a little below the level that would result if palms of an equivalent age achieved similar yields per hectare in 2009 to those of 2008. Crops to end March 2009 were in line with budget.

During 2008, the CPO price, spot CIF Rotterdam, rose from an opening level of some $950 per tonne to a high in early March of just under $1,400. It then declined steadily to $705 per tonne at the end of September, fell sharply during October to a low of $435 per tonne and then recovered slightly to a closing level at the end of the year of $525 per tonne. The average price for the year was $939 per tonne (2007: $780 per tonne). The early months of

2009 have seen the recovery in prices continue and the CPO price, CIF Rotterdam, currently stands at $780 per tonne.

For the moment, vegetable oil prices appear to have decoupled from the price of petroleum oil and the improving price trend is being driven by good demand for conventional uses of vegetable oil assisted by restocking in the major consuming countries which had reduced stocks in the immediate aftermath of the international financial crisis. Industry forecasters are predicting some slowdown in the rate of growth in CPO supply in 2009 in part reflecting increased replanting of older areas which are becoming uneconomic to harvest at current CPO prices and for which the Malaysian government is currently providing financial incentives. Although reports indicate that US soybean plantings for the current season will be at a higher level than for the 2008 season, the increase is projected to be slight. It is likely to be offset fully by the effects of drought on South American soybean crops which are expected to show a decline.

In short, the supply demand balance going forward is moderately encouraging, particularly as slower growth in meat demand may adversely impact the economics of future soybean plantings given that revenues from soybean cultivation depend as much on sales of soya meal to the animal feed market as they do on sales of the oil component of the soybeans harvested. Within the CPO component of the vegetable oil complex, less readily available credit and reduced revenues are likely to lead to some slowdown in extension planting and, particularly as respects less efficient growers, reduction in fertiliser applications. This should result in some scaling back in the rate of future growth in CPO supply.

In the very short term, CPO must expect to lose some market share to soya oil as a recent reduction in Indian import duties applicable to soya oil is likely to encourage some substitution of soya oil for CPO in the Indian market. Looking further forward, while it appears likely that bio-fuels will prove a less significant component of future vegetable oil consumption than was at one time expected, the fundamentals underlying demand for vegetable oils for conventional uses have not changed. World population continues to grow and, in the key markets of India and China, lower prices are likely to stimulate demand which will also continue to increase with economic growth.

With the recent decision to resume extension planting, the group will continue to expand its planted hectarage. Moreover the new plantings that have been established in recent years mean that the group can anyway look forward to steadily increasing crops for several years to come. As inflationary pressures on costs subside, margins may reasonably be expected to remain at satisfactory levels. The directors therefore retain their previously expressed confidence in the group's future.

RISKS AND UNCERTAINTIES

Because the group's new coal mining initiative is still at an embryonic stage, the risks and uncertainties of that initiative are considered by the directors to be material to the group only as respects the risk that the initiative may fail in which event, in a worst case, the capital so far invested in the initiative of some $5 million may be lost. All other risks and uncertainties relating to the group's activities that the directors' consider are, or may be, material relate to the group's established East Kalimantan agricultural operations. These are as follows:

Climatic factors

Although the group's estate 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. 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.

Agricultural factors

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.

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 but such resilience 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.

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 expect 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 would be likely to reduce profit margins.

Many of the group's operational and financial controls rely, in part, on the group's management systems. These include computerised systems. Any damage or failure of such computerised systems could have a deleterious effect on the group.

The group maintains insurance 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 estate), 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 group 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 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 such measures 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 such measures will not be repeated and 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 such restrictions or imposts. 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.

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 land allocations obtained by 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 debt funding. Should, however, land or cash availability fall short of expectations and the group be unable to secure alternative land or funding (as was the case in 2007 as respects land), 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.

Currency

CPO and CPKO are essentially US dollar based commodities. Accordingly, the group's revenues and the underlying value of the group's oil palm 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 a sterling US dollar debt swap to hedge the sterling notes. A substantial component of the group's costs (including fertiliser and machinery inputs) is 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 rupiah 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.

Environmental practices

The group's existing East Kalimantan 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.

The group is committed to sustainable oil palm development and takes great care to follow best practice on environmental issues. An environmental master plan was constructed at the start of the project using independent environmental experts 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 extensions 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 supports the principles and criteria established by RSPO and is working towards obtaining RSPO accreditation.

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, 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.

Land in East Kalimantan held by the group is held subject to the satisfaction by the group of various continuing conditions, including conditions requiring the group to promote smallholder developments of oil palm.

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. During 2008 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 the East Kalimantan operations, 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 granted to the group, impose exchange controls or otherwise seek to restrict the group's freedom to manage its operations.

Local relations

The 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 its area of operations in East Kalimantan.

Whilst the group does have employees in Indonesia from outside East Kalimantan, care has always been taken to give priority to applications for employment from members of the local population. Moreover, local contractors used by the group provide employment opportunities for residents of surrounding villages and such residents also act as suppliers to the group and its employees. The directors believe that, as a result, the group's operations have been a source of increased prosperity to the surrounding villages and that the group has reasonable relations with those villages. The group has made progress in recent years in assisting the surrounding villages in establishing their own smallholdings of oil palm and it is hoped that this, together with the other initiatives described under "Community development" in "Sustainability" in the "Review of the group" section of the annual report, will assist in developing the group's relationships with the local population.

The group's operations are established in a relatively remote and sparsely populated area. The operational areas were acquired with the knowledge and support of the local authorities and development has been kept wholly within the areas in respect of which the group has obtained the required development permits. These areas are comprised of government owned land which was for the most part unoccupied prior to the group's arrival. However, some small areas of land were previously used by local villagers for the cultivation of crops and, accordingly, when taking over such areas, the group negotiates with, and pays compensation to, the affected parties.

The negotiation of compensation payments can involve a considerable number of local individuals with differing views and this can cause difficulties in reaching agreement with all affected parties. There is also a risk that, after an agreement has been completed, a party to the agreement may become disaffected with the terms agreed and may seek to repudiate the agreement. Such difficulties and risk have in the past caused, and are likely to continue periodically to cause, delays to the extension planting programme and other disruption. The group has to-date been successful in managing such periodic delays and disruption so that they have not, in overall terms, materially disrupted the group's extension planting programme or operations generally but there is a continuing risk that they could do so.

Other relationships

The group is materially dependent upon its staff and employees and endeavours to manage this dependence as detailed under "Employees" in "Operations" in the "Review of the group" section of the annual report. Relationships with minority shareholders in Indonesian group companies are also important to the group. The group endeavours to maintain cordial relations with the persons concerned 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 "Review of the group" section 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 2008

	2008	200
	$'000	$'00
Revenue	79,630	57,60
Net (loss)/gain arising from changes in fair value of agricultural produce inventory	(4,214)	5,57
Cost of sales	(27,682)	(14,875
Gross profit	47,734	48,30
Net (loss)/gain arising from changes in fair value of biological assets	(2,660)	8,03
Other operating income	4	
Distribution costs	(1,049)	(1,028
Administrative expenses	(3,466)	(5,925
Operating profit	40,563	49,38
Investment revenues	1,185	1,64
Finance costs	(5,439)	(4,017
Profit before tax	36,309	47,01
Tax	(10,536)	(15,013
Profit for the year	25,773	31,99

Attributable to:		
Ordinary shareholders	23,833	29,45
Preference shareholders	2,360	2,26
Minority interests	(420)	27
	25,773	31,99
Earnings per 25p ordinary share		
Basic	73.2 cents	91.9 cent
Diluted	71.5 cents	89.6 cent

All operations in both years are continuing

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2008

	2008 $'000	200 $'00
Non-current assets		
Goodwill	12,578	12,57
Biological assets	179,745	166,34
Property, plant and equipment	63,069	41,77
Prepaid operating lease rentals	13,088	8,82
Indonesian coal rights	5,386	
Deferred tax assets	2,444	5,81
Non-current receivables	1,917	1,37
Total non-current assets	278,227	236,71
Current assets		
Inventories	12,795	13,04
Trade and other receivables	8,872	3,30
Cash and cash equivalents	30,316	34,21
Total current assets	51,983	50,55
Total assets	330,210	287,27
Current liabilities		
Trade and other payables	(12,113)	(7,070
Current tax liabilities	(904)	(2,935
Obligations under finance leases	(53)	(111
Bank loans	(10,750)	(3,000
Other loans and payables	(380)	(449
Total current liabilities	(24,200)	(13,565
Non-current liabilities		
Bank loans	(2,167)	(12,917
Sterling notes	(50,234)	(41,604

US dollar notes	(29,632)	(29,389
Hedging instruments	(26,517)	16
Deferred tax liabilities	(31,478)	(37,166
Obligations under finance leases	(61)	(127
Other loans and payables	(3,310)	(4,037
Total non-current liabilities	(143,399)	(125,072
Total liabilities	(167,599)	(138,637
Net assets	162,611	148,63
Equity		
Share capital	40,714	38,29
Share premium account	27,322	29,78
Translation reserve	(16,388)	(9,822
Retained earnings	110,383	89,49
	162,031	147,75
Minority interests	580	87
Total equity	162,611	148,63

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE FOR THE YEAR ENDED 31 DECEMBER 2008

	2008	200
	$'000	$'00
Exchange translation differences and loss on fair valuation of hedging instruments	(14,638)	(1,460
Tax on items taken directly to equity	8,023	52
Net loss recognised directly in equity	(6,615)	(932
Profit for the period	25,773	31,99
Share based payment - deferred tax (charge)/credit	(1,444)	38
Total recognised income and expense for the year	17,714	31,45
Attributable to:		
Ordinary shareholders	15,823	28,90
Preference shareholders	2,360	2,26
Minority interests	(469)	27
	17,714	31,45

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2008

	2008	200
	$'000	$'00
Total recognised income and expense for the year	17,714	31,45
Issue of new ordinary shares by way of placings and open offer (net of costs)	-	13,02
Issue of new preference shares by way of placings (net of costs)	-	2,18
Costs re scrip issue of preference shares	(50)	
Dividends to preference shareholders	(2,360)	(2,266
Dividends to ordinary shareholders	(1,498)	(1,279
Minority interest in a subsidiary acquired	172	
	13,978	43,11
Equity at beginning of year	148,633	105,52
Equity at end of year	162,611	148,63

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

	2008	200
	$'000	$'00
Net cash from operating activities	32,300	28,17
Investing activities		
Interest received	1,185	1,64
Proceeds on disposal of property, plant and equipment	103	20
Purchases of property, plant and equipment	(24,665)	(15,010
Expenditure on biological assets	(15,126)	(14,820
Expenditure on prepaid operating lease rentals	(1,205)	(3,787
Acquisition of subsidiary company	(3,158)	
Investment in Indonesian coal rights	(5,386)	
Net cash used in investing activities	(48,252)	(31,776
Financing activities		
Preference dividends paid	(2,360)	(2,266
Ordinary dividends paid	(1,498)	(1,279
Repayment of borrowings	(3,000)	(25,833
Repayment of obligations under finance leases	(90)	(268
Proceeds of issue of preference share capital less expenses	(50)	2,18
Proceeds of issue of ordinary share capital less expenses	-	13,02
Issue of sterling notes, net of expenses	26,880	13,43
New bank borrowings drawn	-	1,00
Net cash from financing activities	19,882	(1

Cash and cash equivalents		
Net increase/(decrease) in cash and cash equivalents	3,930	(3,601
Cash and cash equivalents at beginning of year	34,216	37,26
Effect of exchange rate changes	(7,830)	55
Cash and cash equivalents at end of year	30,316	34,21

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation

The accompanying financial statements and notes 1 to 15 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 2008 (the "2008 statutory accounts"). The auditors have reported on those accounts; their reports were unqualified and did not contain statements under sections 237(2) or (3) of the Companies Act 1985. Copies of the 2008 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 240 of the Companies Act 1985 of the company.

Whilst the 2008 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.

Save as respects the valuation of the group's biological assets as described in note 9 below, the accounting policies and methods adopted in the preparation of the 2008 statutory accounts were the same as those set out in the group's 2007 annual report.

The comparative consolidated balance sheet and related notes contain some reclassifications of headings and amounts so as to align the prior year presentation with that at 31 December 2008. Such reclassifications principally concern the presentation of amounts relating to derivative financial instruments and do not affect the prior year consolidated income statement and consolidated cash flow statement.
The 2008 statutory accounts and the accompanying financial information were approved by the board of directors on 27 April 2009.

2. Revenue

	2008	200
	$'000	$'00
Sale of goods	79,107	57,58
Revenue from services	523	1
	79,630	57,60
Other operating income	4	
Investment income	1,185	1,64
Total revenue	80,819	59,24

3. Agricultural produce inventory movement

The net (loss)/gain 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

No analyses are provided by business segment as the group had only one operating business segment in 2008.

5. Finance costs

	2008	200
	$'000	$'00
Interest on bank loans and overdrafts	886	1,91
Interest on US dollar notes	2,564	2,36
Interest on sterling notes	5,349	4,44
Interest on obligations under finance leases	16	2
Other finance charges	1,149	43
	9,964	9,18
Amount included as additions to biological assets	(4,525)	(5,164
	5,439	4,01

Amount included as additions to biological assets arose on the general pool of borrowings applicable to the Indonesian operations and reflected a capitalisation rate of 35.5 per cent (2007: 43.7 per cent); there is no directly related tax relief.

6. Tax

	2008	200
	$'000	$'00
Current tax:		
UK corporation tax	28	
Foreign tax (includes prior years $3,065,000) (2007: $nil)	13,478	5,31
Total current tax	13,506	5,31
Deferred tax:		
Current year (includes prior years $1,588,000) (2007: $nil)	2,825	9,46
Attributable to a decrease in the rate of tax	(5,795)	22
Total deferred tax	(2,970)	9,69
Total tax	10,536	15,01

Taxation is provided at the rates prevailing for the relevant jurisdiction. For Indonesia, the current taxation provision is based on a tax rate of 30 per cent (2007: 30 per cent) and the deferred tax provision reflects the proposed reduction in the corporate taxation rate from 30 per cent to 25 per cent. 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 of $3,065,000 in respect of foreign tax and $1,588,000 in respect of deferred tax arise 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

	2008	200
	$'000	$'00
Earnings for the purpose of earnings per share*	23,833	29,45

* being net profit attributable to ordinary shareholders

	'000	'00
Weighted average number of ordinary shares for the purposes of basic earnings per share	32,574	32,04
Effect of dilutive potential ordinary shares	761	83
Weighted average number of ordinary shares for the purposes of diluted earnings per share	33,335	32,88

8. Dividends

	2008	200
	$'000	$'00
Amounts paid and recognised as distributions to equity holders:		
Preference dividends of 9p per ordinary share	2,360	2,26
Ordinary dividends	1,498	1,27
Total current tax	3,858	3,54

9. Biological assets

	2008	200
	$'000	$'00
Beginning of year	166,347	143,49
Additions to planted area and costs to maturity	15,763	14,82
Transfers from property, plant and equipment	339	
Transfer to non-current receivables	(44)	
Net biological (loss)/gain	(2,660)	8,03
End of year	179,745	166,34

Net biological (loss)/gain comprises:		
Gain arising from changes in fair value attributable to physical changes	(2,660)	8,03
Gain/(loss) arising from changes in fair value attributable to price changes	-	
	(2,660)	8,03

The valuation assumed a discount rate of 16 per cent in the case of REA Kaltim and 19 per cent in the case of all other group companies (2007: 17.5 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 CPO price of $431 per tonne, net of Indonesian export duties, FOB Samarinda

(2007: twenty year average of $414 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 $9,505,000 (2007: $10,310,000) if the crops projected for the purposes of the valuation had been reduced by 5 per cent; by $8,887,000 (2007: $10,915,000) if the discount rates assumed had been increased by 1 per cent and by $18,987,000 (2007: $20,595,000) 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 for immediate delivery but on occasions, when market conditions appear favourable, the group makes forward sales. 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 sales of crude palm oil ("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 by mutual agreement with the counterparty.

At the balance sheet date, biological assets of $161,452,000 (2007: $141,571,000) had been charged as security for bank loans but there were otherwise no restrictions on titles to the biological assets (2007: none). Expenditure approved by the directors for the development of immature areas in 2009 amounts to $13,000,000 (prior year - $28,000,000).

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

During the year, there were additions to property, plant and equipment of $24,665,000 (2007: $15,180,000).

At the balance sheet date, the group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to $2,394,000 (2007: $4,093,000).

11. Issuance of debt securities and equity securities

The sterling notes comprise £37 million nominal of 9.5 per cent guaranteed sterling notes 2015/17 issued by the company's subsidiary, REA Finance B.V.. Of these, £15 million nominal were issued during 2008 for cash at a subscription price of 99.8682 per cent of par. Unless previously redeemed or purchased and cancelled by the issuer, the sterling notes are repayable in three equal instalments commencing on 31 December 2015.

Changes in share capital:

- on 6 June 2008, the authorised share capital was increased from £24,750,000 to £27,750,000 by the creation of an additional 3,000,000 9 per cent cumulative preference shares.
- on 24 September 2008, 1,302,954 9 per cent cumulative preference shares were issued, credited as fully paid, at par to ordinary shareholders by way of capitalisation of share premium account.

12. Movement in net borrowings

	2008	200
	$'000	$'00
Change in net borrowings resulting from cash flows:		
Increase/(decrease) in cash and cash equivalents	3,930	(3,601
Net decrease in borrowings	3,000	24,83

	6,930	21,23
Issue of US dollar notes less amortised expenses	(94)	(94
Issue of sterling notes less amortised expenses	(27,073)	(13,587
Lease repayments	90	26
New leases	-	(171
	(20,147)	7,64
Currency translation differences	9,607	84
Net borrowings at beginning of year	(52,041)	(60,532
Net borrowings at end of year	(62,581)	(52,041

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".

	2008	200
	$'000	$'00
Short term benefits	941	1,08
Post employment benefits	94	9
Other long term benefits	-	
Termination benefits	-	
Share based payments	-	
	1,035	1,18

14. Acquisition of subsidiary

On 11 July 2008 the group acquired 95 per cent of the issued share capital of PT Putra Bongan Jaya ("PBJ") for a cash consideration of $3,295,000. At the date of acquisition PBJ held a land permit (izin locasi) in respect of 19,837 hectares in the West Kutai district of East Kalimantan, Indonesia. The transaction has been accounted for by the purchase method of accounting. The book values of the net assets acquired were:

	$'00
Prepaid operating lease rentals	3,33
Cash and cash equivalents	13
End of year	3,46
Satisfied by:	
Cash payment by group	3,29
Subscription by Indonesian investor	17
	3,46
Net cash outflow arising on acquisition:	
Cash consideration	3,46

Cash and cash equivalents acquired	(137
	3,33

The directors consider that the fair value of the assets acquired equalled their book value. Since the date of acquisition, PBJ has not contributed any revenues to the group, and has recorded a loss before tax of approximately $15,000.

15. Events after the reporting period

An interim dividend of 1.5p per ordinary share in lieu of final in respect of the year ended 31 December 2008 was paid on 30 January 2009. In accordance with IAS10 "Events after the reporting period" this dividend has not been included in these financial statements. On 23 April 2009, PT REA Kaltim Plantations concluded a new agreement with its bankers which will increase its bank facilities to $15.5 million and significantly extend the average maturity of drawings under the facility. In addition, the interest rate formula now includes an allowance for the bankers' cost of funds.

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