Interim Management Statement

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R.E.A. Holdings plc - interim management statement

Agricultural operations

The crop of oil palm fresh fruit bunches ("FFB") harvested during the four month period to the end of April 2012 amounted to 183,762 tonnes. This was below the budgeted crop of 213,334 tonnes and slightly below the crop for the corresponding period in 2011 of 191,530 tonnes. Purchases of FFB totalled 14,346 tonnes, ahead of the budgeted 10,270 tonnes and the corresponding figure for 2011 of 9,160 tonnes. Rainfall to the end of April averaged 1,168 mm across the group's operations, compared with 1,584 mm during the same period in the previous year.

The budget shortfall in the group's own production reflects the delayed ripening of crops as reported previously and is attributed to a particular weather pattern experienced during the preceding 6 month period. The directors do not believe that any conclusions as to the likelihood of the group achieving its budgeted crop for 2012 of 682,000 tonnes should be drawn from the production levels during the first months of the year as variations from year to year in the monthly phasing of each year's crop are normal.

The crude palm oil ("CPO") extraction rate for the four month period to end April 2012 was 23.3 per cent against a rate of 22.3 per cent for the corresponding period in 2011. The palm kernel extraction rate for the period was 4.7 per cent against 4.4 per cent for the same period in 2011. The crude palm kernel oil ("CPKO") extraction rate for the period was 38.0 per cent against 39.9 per cent for the same period in 2011. The target extraction rates for 2012 are 23.5 per cent for CPO, 4.75 per cent for palm kernels and 39.0 per cent for CPKO.

The CPO price, CIF Rotterdam, currently stands at $1,140 per tonne. The average price for the period 1 January to 30 April 2012 was $1,122 as compared with an average for the corresponding period in 2011 of

$1,220. It remains the case that the progressive nature of the duty imposed on exports from Indonesia means that the Indonesian state takes a large part of the benefit of increasing prices at CIF Rotterdam levels of between $900 and $1,250 per tonne.

The current historically high prices of CPO and other vegetable oils (which have appreciated commensurately) may be attributed to a number of factors: the demand drivers of population growth and developing world economic growth, increasing petroleum oil prices and, notwithstanding the prices, continuing growth in consumption. World stock levels of oilseeds are not at high levels and there are current concerns that hot dry weather in North and South America will limit soybean crops in the first semester of 2012 and that this will prevent rebuilding of stocks to more normal levels. On this basis, CPO prices could reasonably be expected to remain firm for a while longer, particularly if petroleum oil prices are maintained at or near current levels.

Expansion of capacity and upgrading of the group's two existing oil mills is near completion and these are coping well with the demands of the current crop levels. Construction of the group's third oil mill, which commenced during 2011, remains on target for completion in the second half of 2012 in readiness for the expected peak cropping months later in the year.

The first of the group's two methane conversion plants, which are intended to reduce the group's greenhouse gas emissions and increase its energy efficiency, was commissioned in the first quarter of 2012 and the second plant is expected to be commissioned during the second quarter.

As a further step in the process of RSPO accreditation of its operations, the group has now obtained certification of its milling and storage facilities under the Supply Chain Certification System.

The group is aiming to plant or prepare for planting a total of 4,000 hectares during the current year and progress to date is in line with expectations.

Coal operations

In the coal operations, the group is continuing to review its options for the Kota Bangun concession. Further exploration drilling is being carried out to determine the full extent of the coal resource within the concession as well as the potential of an adjacent concession over which the group has secured a period of exclusivity in which to complete due diligence. Production is expected to recommence once an optimised mine plan has been completed.

Good progress is now also being made with the further investigation of the Liburdinding concession where the original mining plan had to be abandoned in 2010 when it became clear that the relatively high sulphur content of the coal was making it difficult to sell. The group is looking at blending Liburdinding coal with low sulphur coal mined from a lower seam or purchased from third parties although an alternative option is simply to sell the Liburdinding production without blending and to accept a discount for the sulphur content. Additional mapping has now been completed and a drilling programme to delineate more precisely the available resource is currently in hand. This will be followed by revision of the existing mine plan with an evaluation of the most economic alternatives for selling coal from this concession, after which it is expected that production will be resumed.

Prospects for trading coal still appear positive and the group hopes to build up volumes during 2012 to an average monthly sales level of 100,000 tonnes. Coal for traded sales is currently sourced by outright purchase from third party suppliers. The option remains to develop long term arrangements for meeting a proportion of the traded coal requirement by mining third party owned concessions against payment of royalties.

Financial position

Group borrowings and related engagementscurrently stand at $140.3 million (as respects the latter, on the basis of exchange and interest swap rates prevailing at 31 December 2011) ($126.6 million at 31 December 2011 as disclosed in the company's recently published 2011 annual report). Against this, the group currently holds cash and cash equivalents totaling $21.1 million ($30.6 million at 31 December 2011). The increase in borrowings net of cash and cash equivalents amounting to $23.2 million principally reflects continued investment in development of the group's estate operations and coal operations, construction of the third oil mill and the second methane conversion plant as well as the payment in January 2012 of the first interim dividend.

During 2012, the group has arranged an additional working capital line for the plantations group of the equivalent of $15 million.

The two further facilities for the group supported plasma schemes which were agreed during 2011 with a local development bank are expected to be signed shortly. These facilities are in the form of fifteen year loans secured on the land and assets of the schemes and guaranteed by the group. They are designed to finance most of the initial development costs of the schemes but will be supplemented to the extent necessary by funds advanced by the group.

Strategic direction and succession

As already announced, the directors are aiming to amalgamate all of the group's Indonesian plantation subsidiaries into a single sub-group, headed by the group's principal plantation subsidiary, PT REA Kaltim Plantations ("REA Kaltim"), to sell, to the investing public in Indonesia, a minority shareholding in REA Kaltim (probably 20 per cent) and to list REA Kaltim on the Jakarta Stock Exchange. Active discussions are now under way with prospective advisers in Jakarta and the directors hope to be in a position to submit a formal proposal to shareholders within a few months.

Outlook

While CPO and CPKO remain at current levels, the group will continue to enjoy excellent cash flows. With good progress being made in resolving land issues, these flows should permit the group to maintain its planned extension planting programme. Moreover, if the planned Jakarta listing of REA Kaltim can be successfully concluded, it is intended to accelerate this programme. The directors also hope that the investment in the coal operations will soon begin to show a return. The directors therefore believe that the group is well set for further growth.

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