AGM Statement

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R.E.A.Hldgs PLC
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R.E.A. Holdings plc

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Agricultural operations

FFB harvested during the five month period to the end May 2011 amounted to 244,202 tonnes. This exceeded the budgeted crop of 239,403 tonnes and was comfortably ahead of the crop for the corresponding period in 2010 of 207,481 tonnes. External purchases of FFB totalled 11,974 tonnes, ahead of the budgeted 10,310 tonnes and well up on the corresponding figure for 2010 of 7,315 tonnes.

For the same period, processing of the group's own FFB production and the externally purchased FFB, together totalling 256,176 tonnes (2010: 214,796 tonnes), produced 57,726 tonnes of CPO (2010: 52,250 tonnes) and 11,397 tonnes of palm kernels (2010: 9,786 tonnes) reflecting extraction rates of 22.5 per cent for CPO (2010: 24.3 per cent) and 4.45 per cent for kernels (2010: 4.56 per cent). Production of CPKO amounted to 4,367 tonnes (2010: 3,910 tonnes).

Rainfall for the five month period to end May 2011 averaged 1,815 millimetres across the group's operations. Although this was slightly below the rainfall of 2,015 millimetres received during the corresponding period of 2010, the rains of 2011 were distributed over a greater number of days than those of 2010. The directors believe that the overcast conditions and fewer sunshine hours were the principal reasons for the lower oil extraction rates in 2011 to-date than in 2010.

During 2011, the CPO price has remained at levels comfortably in excess of $1,000 per tonne, CIF Rotterdam, and at times has traded at above $1,300 per tonne. It currently stands at $1,140 per tonne. The average price for the period 1 January to 31 May 2011 was $1,207 as compared with an average for the corresponding period in 2010 of $810. At these higher prices, the progressive nature of Indonesian duty levied on exports of CPO does however mean that the major proportion of any price in excess of $900 per tonne accrues to the Indonesian state rather than to CPO producers.

Whilst recent weeks have seen some reductions in the general level of commodity prices, within the vegetable oil complex prices have remained firm. Reports of good Indian oilseed crops and the possibility of measures to reduce inflation in China could have a negative effect on markets but weather conditions in a number of oilseed growing areas have been sub-optimal and bio-diesel usage remains buoyant. With CPO stocks still relatively low, CPO prices may reasonably be expected to remain at good levels throughout 2011 unless geo-political factors, such as the current unrest in the Middle East, materially disrupt the world economy.

The average selling price for the group's CPO for the five months to the end May 2011, on an FOB basis at the port of Samarinda and after payment of export duty, was $891 per tonne (2010: $706 per tonne). The average selling price for the group's CPKO on the same basis was $1,522 per tonne (2010: $845 per tonne).

The overhaul of the group's older oil mill, and the construction of the new third oil mill and the two new methane conversion plants are proceeding as scheduled.

Land areas and agricultural development

The requirement to obtain a timber cutting licence ("IPK") has recently been relaxed for land areas in respect of which HGU certificates have already been obtained (on the basis that HGU titles can only be issued in respect of land that has already been zoned for agricultural use). For such areas, the company has been advised that Ministry of Forestry regulations can now be met by obtaining a timber utilisation permit ("SKSKB") the issue of which involves a shorter process than the issue of an IPK.

The overall area of fully titled agricultural land held by the group remains unchanged since 20 April 2011 when the group's 2010 annual report was published. Such area currently stands at 70,584 hectares (31 December 2010: 63,263).

All necessary permits have now been received to start the development of a gross area of 7,321 hectares held by the company's subsidiary, PT Kutai Mitra Sejahtera. Notice of the new development has been posted on the RSPO website and it is anticipated that land clearing will commence in early July.

Progress has also been made on the permits for development at the company's subsidiary, PT Putra Bonga Jaya, which hold a further gross area of 11,737 hectares. It is hoped to start land clearing in this area in the third quarter of 2011.

Coal operations

In the coal mining operations, production levels at the Kota Bangun concession are being expanded towards the intended level of 16,000 tonnes per month. Discussions with possible purchasers of the lower quality coal from the Liburdinding concession have started and, if brought to a successful conclusion, will permit resumption of Liburdinding production.

Sales of traded coal to-date have amounted to 168,939 tonnes. The group remains on target to reach an average monthly level of traded coal sales of 100,000 tonnes during 2011. Coal for traded sales is currently being sourced by outright purchase from third party suppliers but the group is in talks that may result in long term arrangements for meeting a proportion of the traded coal requirement by mining third party owned concessions against payment of royalties.

Environmental and social responsibility

The group is maintaining its community development, smallholder and conservation programmes. In particular, the group remains on target to increase the planted plasma scheme areas by 1,000 hectares during 2011.

Proposed placing of preference shares

The directors recorded in the group's 2010 annual report that they considered that it would be prudent, when markets permitted, to retire existing shorter dated debt and to replace it with preference share capital or new debt of a longer tenor. A resolution is to be proposed at the annual general meeting to increase the company's preference share capital by the creation of 17.5 million additional preference shares with a view to such shares being available for issue for such purpose. The company is now seeking to place up to 15 million of these shares for cash at a subscription price of 103p per share and hopes to be able to proceed with such placing in the near future.

Possible emigration to South East Asia

In the group's 2010 annual report, the directors also noted that they were considering whether the current ownership of the group's Indonesian businesses through a UK listed company continued to be the appropriate long term structure for the group or whether the group would be better restructured with a parent company listed in South East Asia ("REA SEAsia").

The directors are now investigating the technical feasibility of such a restructuring ("emigration") and seeking the views of the company's major ordinary shareholders as to whether they would support such a move. No decision to proceed with emigration has yet been taken but, if it is felt desirable to proceed, the directors believe that a decision to do so should be taken expeditiously. The directors therefore intend to reach a decision on this matter within 2011. If the decision is to proceed, the directors would expect that the emigration would become effective in or about either June 2012 or June 2013 (depending upon the speed with which the necessary restructuring can be arranged and upon whether the new South East Asian listing for REA SEAsia is based upon the audited accounts of the company for 2011 or for 2012).

In event of emigration, the directors expect that the company would maintain the London listing of the preference shares until at least 90 per cent of preference shares have been exchanged for listed preference shares in REA SEAsia or, if earlier, all outstanding listed debt securities of the group have been redeemed (under normal circumstances, 31 December 2017). The directors would also expect to secure undertakings from REA SEAsia to provide appropriate protection of the rights of preference shareholders.

Outlook

The directors are cautiously optimistic as to the extent and speed to and at which the planned continued expansion of the group's oil palm hectarage can be delivered and remain reluctant to assume the success of the group's new venture in coal before this has been proved by results. Nevertheless, they are encouraged that, in recent months, outstanding land issues have become more tractable and can see that, if successful, the new coal operations could represent a useful diversification for the group. With CPO and CPKO looking set to remain at highly remunerative levels for a while longer, the directors believe that 2011 should be another good year for the group.

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