Final Results

,

RNS Number : 2905D
R.E.A.Hldgs PLC
25 April 2013

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

ANNUAL FINANCIAL REPORT

The company's annual report for the year ended 31 December 2012 (including notice of the annual general meeting to be held on 11 June 2013) (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 National Storage Mechanism to be made available for inspection at www.hemscott.com/nsm.do.

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 597,722 tonnes (2011: 607,335 tonnes)

· Profit before tax of $30.6 million (2011: $64.2 million), after gain on revaluation of biological assets of $6.0 million (2011: $7.4 million)

· Profit before tax negatively affected by items, expected to be non-recurring, amounting to $19.4 million, comprising village disruptions ($12.3 million) and coal losses ($7.1 million) from suspension of trading and provision against concessions

· Cash generated by operations amounted to $55.1 million (2011: $59.9 million)

· Settlement agreements now reached or under discussion with all major villages and level of disruption subsiding

· Negotiations with villages in next planned development area substantially complete and clearing in this area expected to commence shortly

· Completion and successful commissioning of third oil mill and second kernel crushing plant ensuring sufficient processing capacity for some time

- Successful commissioning of two methane capture plants, replacing diesel in the generation of the group's electricity requirements and reducing greenhouse gas emissions

- Outline agreement with the Indonesian state electricity company ("PLN") for installation of 3 MW of biogas fuelled generating capacity to generate power for sale to PLN with a further 3 MW in prospect International Sustainability and Carbon Certification obtained, allowing crude palm oil production to be used to produce biofuel that meets the European Union Renewable Energy Directive

- First carbon footprint report published to facilitate monitoring and further reductions of greenhouse gas emissions

CHAIRMAN'S STATEMENT

Results

Group profit before tax for 2012 at $30.6 million was some 52 per cent lower than the $64.2 million reported for 2011.

The significant fall in profits as compared with 2012 reflected the weather impact on crops in the first half and the effect of lower CPO and CPKO prices during the year, combined with what will hopefully prove to be non-recurring losses arising from the decisions taken in relation to the coal operations and from the village issues described under "Community relations" below. The following table provides estimates of the effect on profit before taxation as respects each of the items concerned:

	$'m
Agricultural operations	
Trading items:	
Value impact of lower prices on crop harvested	(12.6)
Value impact of reduced crop due to weather	(5.6)
Village disruptions:	
Value impact of reduced crop	(5.7)
Value impact of reduced prices due to high FFA oil	(6.6)
Coal operations	
Losses	(4.1)
Provision against concessions	(3.0)
	(37.6)

Revenue for 2012 at $124.6 million was less than in 2011 ($147.8 million) with the reduction reflecting lower revenue from both the agricultural operations ($122.1 million against $129.5 million) and the coal operations ($2.5 million against $18.2 million). In the agricultural operations, this was the result of the trading factors referred to above while, in the coal operations, it was the direct consequence of the suspension of the coal trading activities.

Excluding movements on agricultural inventory, cost of sales attributable to the agricultural operations amounted to $59.5 million against $51.3 million. The increase reflected continuing cost inflation and cropping on a larger area. Under normal circumstances, it could have been expected that the increased cost of sales would have been offset by increased crop volumes but the combination of weather factors and village issues resulted in the 2012 crop falling significantly short of budget and, with most components of cost of sales being fixed costs, there was no commensurate reduction in cost of sales. In the coal operation, cost of sales reduced from the prior year $16.7 million to $4.0 million in line with the reduction in trading activity.

IFRS fair value adjustments, aggregating $0.3 million in 2012, were significantly below the aggregate adjustments of $11.4 million reported in the preceding year. The net gain from changes in the fair value of biological assets ($6.0 million against $7.4 million in 2011) reflected the further development of the group's plantations while the loss arising from changes in the fair value of agricultural produce inventory ($5.7 million against a profit of $4.0 million in 2011) was the product of a small reduction in inventory volume over 2012 and the fall in CPO and CPKO prices during the year exacerbated by the need to allow for a discount on the closing inventory to reflect the high FFA content of that inventory.

Administrative expenses for 2012 amounted to $18.9 million against $17.0 million in 2011. The increase was in part the result of inflation, but also reflected costs of management transition, costs incurred in connection with the resolution of village issues and a further provision of $1.0 million for additional funding of the group's UK pension scheme following a recent triennial actuarial valuation of the scheme.

Losses on the coal trading operations reflected provisions made against outstanding trading items following the decision to suspend trading. In addition, a provision of $3 million has been made against the coal concessions.

At the after tax level, profit fell to $17.7 million (2011: $45.6 million) while profit attributable to ordinary shareholders was $11.3 million against $40.5 million. Earnings per share amounted to US 33.9 cents (2011: US 121.0 cents).

Adjustments for the non-cash components of operating profit and for movements in working capital meant that cash generated by operations for 2012 amounted to $55.1 million, as compared with $59.9 million reported for 2011. The positive overall movement on working capital was principally attributable to an increase in payables, a significant proportion of which represented deferred payments due in respect of the group's development programme. Tax and interest payments remained at much the same levels as in the preceding year with the result that net cash from operating activities for 2012 amounted to $32.5 million against $33.8 million for 2011.

Agricultural operations

Operational matters

The crop out-turn for 2012 amounted to 597,722 tonnes of oil palm fresh fruit bunches. This was a little below the FFB crop of 607,335 tonnes for the corresponding period in 2011 but some 12 per cent below the budgeted crop for the year of 682,000 tonnes. The group purchased 64,014 tonnes of FFB from smallholders and other third parties (2011: 34,146 tonnes).

Rainfall across the estates averaged 3,241 mm for 2012, similar to the level of 3,414 mm for the previous year. A widely predicted El Nino weather phenomenon did not materialise.

Processing of the group's own FFB production and the externally purchased FFB, together totalling 661,736 tonnes (2011: 641,481 tonnes) produced 151,516 tonnes of CPO (2011: 147,455 tonnes), 30,734 tonnes of palm kernels (2011: 28,822 tonnes) and 11,549 tonnes (2011: 10,815 tonnes) of CPKO reflecting extraction rates of, respectively, 22.9 per cent for CPO (2011: 23.0 per cent), 4.6 per cent for kernels (2011: 4.5 per cent) and 37.7 per cent for CPKO (2011: 38.4 per cent).

Most of the crop shortfall against budget arose in the first half of 2012 and was attributable to a combination of delayed ripening of crops in the early part of the year (reflecting the particular weather patterns of the latter months of 2011) and crop losses resulting from harvesting disruptions generated by disputes with certain surrounding villages. It had been hoped that the second half of the year would see at least a partial recovery of the crop shortfall of the first half but further disruptions by villages meant that this recovery did not materialise. Further information regarding disputes with villages is provided under "Community relations" below.

Upgrading and expansion of the group's oil mills is now substantially complete and has ensured that the group has, for the immediate future, sufficient processing capacity to handle all crop from its own estates and from the growing number of maturing smallholder plantings in the vicinity. The third, newest mill, which commenced operation in September 2012 and incorporates a second kernel crushing plant, has been designed to permit the installation of a second processing line so as to double its capacity and thereby provide the ability to cope with further processing demands in the future.

In February 2013 the company published its first carbon footprint report providing an assessment of the greenhouse gas emissions associated with the group's agricultural operations in 2011. The report identifies and quantifies greenhouse gas emissions in the production of CPO and CPKO at the group's palm oil mills and related estate supply base and, going forward, will facilitate the design and implementation of effective strategies for reducing the group's greenhouse gas emissions as well as providing a baseline against which progress in achieving such reductions can be monitored and reported. The report is available for downloading from the company's website at www.rea.co.uk. Following on from the carbon footprint report, the company is currently in the process of compiling its first standalone sustainability report which is due to be published later in 2013.

The group's two new methane capture plants were commissioned in April and October 2012 respectively with methane from each plant currently driving two generators (each of one megawatt capacity). The electricity generated from the captured methane now supplies electricity to a significant proportion of the group's mills, offices and housing, thereby having a substantial impact on the group's consumption of diesel oil for power generation with material consequential savings in energy costs and in greenhouse gas emissions.

Current methane production has exceeded expectations and is averaging about four times that needed to drive the installed generators and this offers opportunities for generating additional returns from the investment made in the plants. In furtherance of such returns, the group has recently reached an outline agreement with the Indonesian state electricity company ("PLN") under which the group will install an additional three megawatts of generating capacity, which it will dedicate to PLN and which PLN will use to supply power to the villages surrounding the group's estates by way of a local grid to be constructed by PLN. Payment for the power so utilised will be made by PLN at a fixed rate determined by Indonesian state regulations. This equates to about $1 million per megawatt year but it is not yet known what utilisation PLN will make of the available capacity. PLN will also consider linking the national grid to the new local grid and may in that event be able to increase its power capacity requirement to six megawatts.

There have recently been substantial increases in government directed minimum wage levels. A reasonable proportion of the group's employees are paid at a level above the minimum wage but the need to maintain differentials makes it inevitable that the new minimum wage levels will result in a significant increase in the group's employment costs. In 2012, these represented about one third of the cost of sales attributable to the group's agricultural operations. Cost saving efforts in 2013 will therefore have a particular focus on labour efficiency and, specifically, on reducing overtime working.

Land allocations and development

The overall area of the group's fully titled agricultural land remained at 70,584 hectares with further land allocations subject to the completion of titling totalling some 35,000 hectares. Of the land not yet titled, some 15,000 hectares are conditional not only upon satisfaction of the normal titling requirements but also upon completion of a necessary rezoning of the area concerned.

Work is continuing to complete a conditional agreement between a group subsidiary and an Indonesian third party company relating to overlapping mineral rights on certain land areas held by the group subsidiary. This would increase the fully titled agricultural land held by the group to 76,124 hectares. The delay in completing this agreement has been caused by the need to obtain confirmation of the continuing validity of the land titles held by the company to be acquired pursuant to the agreement.

The directors believe that, of the prospective 76,124 hectares of fully titled land, between 50,000 and 55,000 hectares will ultimately be plantable with oil palms. The remaining land allocations may in due course provide a further 10,000 plantable hectares.

Areas planted and in the course of development as at 31 December 2012 amounted in total to some 37,000 hectares. Of this total, mature plantings comprised 26,688 hectares having a weighted average age of 10 years. A further 621 hectares planted in 2009 was scheduled to come to maturity at the start of 2013. The total of 37,000 hectares includes 2,164 hectares (of which 272 hectares were planted in 2008) to be relinquished upon completion of the land settlement arrangement described above.

Negotiations with villages in the next planned development area of the subsidiary company PT Putra Bongan Jaya are substantially complete and clearing of a substantial component of the 11,602 plantable hectares is expected to commence shortly.

Community relations and smallholder schemes

The group has always seen the maintenance of harmonious relations with, and the encouragement of development within, the local communities in its areas of operation as an essential component of its agricultural business. Inevitably in the period of over twenty years since the group's East Kalimantan operations were first established, there have been occasional disagreements between the group and the local communities but, until recently, such disagreements have been minor, rapidly resolved and without significant impact on the group. That situation changed during 2012 with disputes concentrated into two waves, the first in the second quarter of the year running into early July and the second in the final weeks of the year and continuing into 2013. These disputes were more serious than those previously experienced because of actions by villagers to enforce their position by stopping harvesting access to certain areas of the group's estates and blockading group oil mills to prevent processing of FFB.

The 2012 village dissatisfaction with the group covered a number of issues and different villages had different claims. However, a common theme was a demand that the group procure the land necessary to establish additional cooperative smallholder oil palm plantings in each village. The acquisition of PT Persada Bangun Jaya in July 2012 provided the group with sufficient land to satisfy, appropriately and in aggregate, outstanding village demands for oil palm cooperative developments but did not, of itself, immediately resolve such demands and other village claims. That was because resolution was complicated, as respects land allocations for cooperatives, by the need for complete and accurate government mapping of all village boundaries to provide a consistent basis for allocation between villages and, as respects other claims, by past fraud by certain third party intermediaries who were legally appointed by villagers and entrusted with distributing land compensation to individual villagers.

Substantial progress has been made since the beginning of 2013 and settlement agreements in respect of most material issues were reached in late January or early February with all of the larger villages that had land rights historically overlapping REA Kaltim and SYB land. Settlement discussions are continuing in respect of outstanding disputes. To date, agreements concluded with villages have been adhered to but there have been some subsequent disruptions by individual villagers. One such disruption caused a harvesting blockage in one area of the REA Kaltim estates for a period of nearly four weeks during March and April 2013 but otherwise these later disruptions have been limited as to duration and scale. All three mills have been operating normally since early February.

The current improved position has been reached at a significant cost but that cost should not be without benefit given that the funds committed to procuring additional cooperative oil palm developments will, in due course, provide a return to the group from further increases in group revenues from processing cooperative FFB. Moreover, the stronger relationships forged with the East Kalimantan authorities during the period of the disruptions and the better mutual understanding achieved between the group and its local communities should enhance the group's ability to continue the development of its East Kalimantan operations.

Plans for further expansion of the smallholder plasma schemes during 2012 were held up by the delays in identifying and agreeing allocations of additional land areas suitable for smallholder development. The plasma scheme areas planted at 31 December 2012 amounted to some 2,900 hectares. With the further allocations of land now substantially agreed, the group expects a useful increase in the plasma areas during 2013.

Conservation and accreditation

The group continues to manage a network of conservation reserves within its titled land areas with the aim of conserving the natural biodiversity and ecosystem functions of the landscapes in which the group operates. To date, over 20,000 hectares have been set aside as conservation reserves.

Camera trapping and other biodiversity surveys continue to record the presence of orang-utans within the conservation reserves. Sighting of a baby orang-utan and a camera trap photograph of a baby sun-bear, as well as the first record of an orang-utan in one of the northern estates, are encouraging signs of the ability of the group's conservation reserves to support healthy populations of these species.

A member of the Roundtable on Sustainable Palm Oil ("RSPO"), the group has now achieved accreditation under RSPO of its two older oil mills, and most of the group's mature estates, as well as some of the smallholder oil palm plantings. It is planned to obtain accreditation of the newly constructed oil mill by 2015. As a further step in the process of RSPO accreditation, the group achieved certification of its supply chain under the RSPO Supply Chain Certification System ("SCCS") during 2012. This accreditation provides buyers of CPO and CPKO with the ability to identify oil purchased as coming from RSPO certified sources. Separately in 2012, the group also obtained International Sustainability and Carbon Certification ("ISCC"), which allows the CPO produced from the estates of the group's mature estates and mills to be used to produce biofuel that meets the requirements of the European Union Renewable Energy Directive.

Coal and stone operations

The directors took the decision in mid 2012 that, for the time being, coal trading activities should be suspended and further capital committed to the coal operations should be limited and concentrated on maximising returns from the concessions in which the group had already invested.

The group is in discussions with two third parties that have coal mining interests adjacent to one of the coal concessions. A successful outcome to these discussions would result in one of the parties mining the concession on a basis that would limit the group's downside and provide a return to the group that, at current coal prices (which have risen to an extent from their lows of June 2012), could reasonably be expected to recover the group's investment and, if coal prices improve further, could yield a reasonable profit. A similar arrangement may be possible in relation to the other two coal concessions and this could provide a better outcome than an outright sale of these concessions. On the coal trading side, steps are being taken to close out contractual commitments made prior to the suspension of trading and no new trades have been initiated.

The group remains confident of the economic viability of its stone concession and work is continuing on plans to quarry the concession to provide stone for building and maintenance of infrastructure in the group's agricultural operations and for sale to users of stone in the area of those operations.

In view of the uncertainties affecting the coal concessions, the group has made a provision of $3.0 million against its investment in the concessions at 31 December 2012.

Finance

In September 2012, 3.9 million new preference shares were issued for cash at a price of 105p per share by way of a placing to raise £4.0 million net of expenses. The proceeds of the placing of new preference shares were retained within the group to fund continuing development of the agricultural operations. This issue was followed in September 2012 by the issue of a further 2,004,872 new preference shares by way of capitalisation of share premium account pursuant to the capitalisation issue to ordinary shareholders referred to under "Dividends" below.

In November 2012, $34.0 million of 7.5 per cent dollar notes 2017 ("2017 dollar notes") were issued as to some $19 million by way of an exchange offer to holders of existing 7.5 per cent dollar notes 2012/14 ("2012/14 dollar notes") and as to the balance by way of a placing.

Following these transactions, group indebtedness and related engagements at 31 December 2012 amounted to $163.5 million, made up of $15.9 million nominal of 2012/14 dollar notes (carrying value: $15.5 million), $34.0 million nominal of 2017 dollar notes (carrying value: $33.2 million), £34.5 million nominal of 9.5 per cent guaranteed sterling notes 2015/17 ("sterling notes") (carrying value: $54.3 million), $8.4 million in respect of the hedge of the principal amount of the sterling notes, a term loan from an Indonesian bank of $36.1 million and other indebtedness comprising drawings under working capital lines of $16.0 million. Against this indebtedness, at 31 December 2012 the group held cash and cash equivalents of $26.4 million.

Recent years have seen substantial investment by the group in FFB milling capacity. Final payments will fall due in 2013 for the newly completed third oil mill but current crop projections suggest that, apart from expanding the capacity of this third mill from 40 to 80 tonnes of FFB per hour, no further expenditure on milling capacity will be required until work commences on the construction of a fourth mill to be brought into production in 2017 at the earliest.

Significant expenditure was also incurred during 2012 on the provision of land to meet the cooperative smallholder development aspirations of the group's local communities (as discussed under "Community relations" above). The directors do not believe that there will be a recurring requirement for material expenditure on the provision of cooperative land (although there may be a requirement for the group to make short term advances to meet cooperative planting expenditure pending the refinancing of such expenditure by the banks funding the cooperative developments).

As a result, group capital expenditure can, for the immediate future, be concentrated on extension planting and on the provision of the additional estate buildings and general plant and equipment that become needed following any expansion of the group's planted hectarage. This will involve the group in continuing capital expenditure for several years to come but the directors will set the extension planting programme at a level that they reasonably expect that the cash resources available to the group can support.

The directors intend that further cash advances to the coal and quarry operations should be limited and concentrated on realising value from the three existing coal concessions and on bringing the stone quarry into economic production.

Dividends

The fixed semi-annual dividends on the 9 per cent cumulative preference shares that fell due on 30 June and 31 December 2012 were duly paid. An interim dividend in respect of 2012 of 3½p per ordinary share was paid in January 2013 and the directors recommend the payment of a final dividend in respect of 2012 of 3½p per ordinary share to be paid on 26 July 2013 to ordinary shareholders on the register of members on 28 June 2013. The total dividend payable per ordinary share during 2013 in respect of 2012 will thus amount to 7p. This compares with the total paid during 2012 in respect of 2011 of 6½p.

In addition, the company made a capitalisation issue of 2,004,872 new preference shares to ordinary shareholders on 28 September 2012 on the basis of 3 new preference shares for every 50 ordinary shares held (2011: 2,004,872 new preference shares on the basis of 3 new preference share for every 50 ordinary shares held). The directors will consider a further such issue during 2013 if they feel that this is merited by the group's performance.

Strategic direction

Early in 2012, the directors concluded that, given the significant enlargement of the group's operations over the past decade, the continuing growth of the Indonesian economy and the progressive maturing of South East Asian capital markets, there would be significant advantages to the company and its shareholders in increasing local Indonesian participation in the ownership of the group's agricultural operations. Accordingly, the directors have been proceeding with their previously announced plans for the amalgamation of all of the company's Indonesian plantation subsidiaries into a single sub-group headed by the company's principal operating subsidiary, PT REA Kaltim Plantations ("REA Kaltim"), with the aim that this be followed in due course by a public offering of a minority shareholding in REA Kaltim (probably 20 per cent) combined with a listing of REA Kaltim's shares on the Indonesia Stock Exchange in Jakarta.

It had been hoped to complete the planned restructuring in Indonesia by 31 December 2012 but this did not prove possible because of delays in obtaining the necessary regulatory approvals from the Indonesian Investment Coordinating Board. Such approvals were required for the intra-group transfer of ownership to REA Kaltim of five other existing subsidiaries of the company and, whilst consents for three of these five transfers had been obtained by 31 December 2012, consents for the remaining two were only received after that date. With all required consents now obtained, it should be possible to complete the restructuring in the near future.

With the restructuring completed, there should be no further technical hurdles to proceeding with the planned public offering and listing of shares in REA Kaltim other than compliance with normal regulatory formalities and, in particular, provision of audited financial statements for the restructured REA Kaltim sub-group as of a date not more than six months earlier than the date of the public offering. However, the recent village issues detailed under "Community relations" in "Agricultural operations" above have unfortunately had a negative impact on the crops and profits of 2012 and the early months of 2013 (with the impact on 2013 greater in the local Indonesian accounts of REA Kaltim than in the consolidated accounts of the group because the different accounting standards applied mean that the group has recognised in 2012 the effect that the sale of high FFA oil held in inventory at 31 December 2012 will have on 2013 sales proceeds whereas REA

Kaltim has not). This may affect the pricing of an early public offering of shares in REA Kaltim.

The directors do not believe that factors that should exist only in the short term and have now been largely resolved should be allowed materially to compromise shareholder value. They remain of the view that it remains desirable for the group to list REA Kaltim on the Indonesia stock exchange and are now reviewing their options for pursuing this strategy, given the probable need to postpone its implementation until sufficient time has elapsed for the proposed REA Kaltim group to have reported figures that reflect normal cropping levels.

The directors are aware that the market in the company's ordinary shares is at times limited, that purchases and sales of small numbers of shares can have a disproportionate effect on the ordinary share price and that the spread between the bid and offer prices of the ordinary shares is often large. The directors believe that there is potential demand for the company's ordinary shares but that this demand comes mainly from investors who wish to have holdings of a certain size and are generally not prepared to spend time accumulating such holdings from the trickle of small offerings that are normally available. Should the Indonesian listing of REA Kaltim proceed, the directors hope that better analyst coverage of the company following the listing will improve the marketability of the ordinary shares but, as mentioned above, the directors are currently reviewing their strategic plans including in respect of the listing. Therefore, in an effort to address in the short term what they see as a mismatch between demand for and availability of ordinary shares, the directors are considering seeking shareholder approval for the company itself to buy back into treasury limited numbers of ordinary shares with the intention that, whenever a holding of a reasonable size has been accumulated, such holding be placed with one or more new investors.

Board changes

Mark Parry, the group's regional director based in Singapore and Indonesia with overall local responsibility for the Indonesian operations, was appointed president director of REA Kaltim during 2012 and a director of the company on 1 January 2013.

As previously announced, the four long serving independent non-executive directors, Messrs Green-Armytage, Keatley, Letts and Lim, retired from the board of the company at the end of 2012, and Ms Irene Chia was appointed as a new non-executive director in conjunction with Mr Parry's appointment as executive director. This has reduced the number of board members from eight to six. Along with my remaining fellow directors, I would like to record my appreciation of the significant contribution made to the group by the four retiring directors and for their invaluable support over a number of years.

Corporate governance

At the performance evaluation conducted in 2012, the board as then constituted concluded that it was for the time being continuing to perform effectively but that, having decided to restructure the group's Indonesian plantation subsidiaries into a single sub-group headed by REA Kaltim and to move towards a listing REA Kaltim on the Indonesia stock exchange, it would be appropriate, in due course, to make certain changes to the board. Those changes were implemented at the end of 2012 as described above and the directors consider that the new composition of the board is appropriate and effective for the current strategic direction of the company.

Prospects

Against the background of the continuing village issues in January and early February and the subsequent more limited harvesting blockages, the FFB crop to the end of March 2013 amounted to 137,576 tonnes, against 136,702 tonnes for the same period in 2012. The limited harvesting blockages will also have some impact on the crops reported for April but, thereafter, if as is hoped the agreements now reached in relation to village issues continue to be respected, the directors expect the group's own FFB crops to return to more normal levels. The effect of the disruptions to harvesting in 2012 is likely to have affected the normal fruiting cycle so that it must be expected that monthly cropping levels may be below average for the next few months and above average for the closing months of 2013.

A significant feature of 2012 was the increasing throughput of third party FFB. This provides the group with a valuable additional revenue stream, the benefit of which more than outweighs a slight negative impact on extraction rates. With the continuing expansion of smallholder plantings in the vicinity of the group's estates, further increases in third party FFB throughput can be expected going forward

The CPO price currently stands at $830 per tonne. At this level, the price is at an unusually large discount to the soya oil price but, with reports of large current season plantings of soybean in both the United States and South America (spurred no doubt by the high soybean prices of 2012), there is a concern that the discount will narrow as a result of reducing soya oil prices rather than rising CPO prices. Against this, there is now evidence of falling stocks and past experience suggests that lower price levels will lead to increased Indian and Chinese consumption.

East Kalimantan is a recently democratised and rapidly developing society and this has added a social dimension to the challenges of infrastructure and remote location that the group has always faced. Nevertheless, East Kalimantan does offer excellent conditions for the cultivation of oil palm and provides opportunity for further expansion of established oil palm estates. The directors believe that the challenges are being surmounted, that the group will be successful in taking advantage of the expansion opportunities and that there will be further scope for enhancing returns through the now proven methane capture initiatives. This should ensure that the group will continue to accrue value from its oil palm operations which already represent a high quality large scale agricultural business.

ANNUAL GENERAL MEETING

The company's fifty-third annual general meeting will be held at the London office of Ashurst LLP at Broadwalk House, 5 Appold Street, London EC2A 2HA on 11 June 2013 at 10.00 am.

A resolution will be proposed at the annual general meeting to increase the authorised share capital of the company (being the maximum amount of shares in the capital of the company that the company may allot) from £60,250,000 to £75,250,000 by the creation of 15,000,000 9 per cent cumulative preference shares of £1 each ranking pari passu in all respects with the existing preference shares of the company and representing 30 per cent of the existing authorised preference share capital of the company.

PRINCIPAL 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.

Where risks are reasonably capable of mitigation, the group seeks to mitigate them. Beyond that, the directors endeavour to manage the group's finances on a basis that leaves the group with some capacity to withstand adverse impacts from identified areas of risk but such management cannot provide insurance against every possible eventuality.

Agricultural operations

Certain of the risks identified below in relation to the agricultural operations are described as risks affecting crop. Any loss of crop or reduction in the quality of harvest will reduce revenues and thus negatively impact cash flow and profitability.

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. In that event, harvesting may have to be suspended and crop may be lost.

Cultivation risks

As in any agricultural business, there is a risk that the group's estate operations may be affected by pests and diseases with a consequential negative impact on crop. Agricultural best practice can to some extent mitigate this risk but it 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. Processing of over-ripe FFB usually results in the production of CPO that has an above average free fatty acid content and is saleable only at a discount to normal market prices. Any hiatus in FFB collection or processing may therefore lead to a loss of crop and/or a reduction in the quality and value of the resultant CPO. The group endeavours to maintain resilience in its palm oil mills with each of the mills operating separately and some ability within each mill to switch from steam based to biogas or 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 area of operations and the port of Samarinda (such as occurred in 2011 when a bridge over the Mahakam river at Tenggarong collapsed), 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. However, no assurance can be given that such insurance is in fact adequate, will continue to be available or that it will be available at economically reasonable premia. Certain risks (including the risk of crop loss through fire and other perils potentially affecting the 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. These risks are mitigated to the extent reasonably feasible by management practices but an occurrence of an adverse uninsured event could result in the group sustaining material losses with a consequential negative impact on cash flows and profitability.

Produce prices

The profitability and cash flow of the agricultural operations depend upon world prices of CPO and CPKO and upon the group's ability to sell these products 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 "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 result in uneconomic profit margins.

Above average CPO and CPKO prices during 2007 and the early months of 2008 and again more recently from 2010 to 2012 did not lead to a re-imposition of export restrictions. Instead, the Indonesian government continues to allow the free export of CPO and CPKO but has introduced a sliding scale of duties on exports.

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 debt funding or capital raised from further issues of preference shares and the planned issue of shares in REA Kaltim to local Indonesian investors. 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 continued growth of the group's agricultural operations 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 arising from which are dealt with in 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, monitoring performance against those standards and investigating thoroughly and taking action to prevent recurrence in respect of any failures identified.

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 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" above.

The group is committed to sustainable development of oil palm and adopts the measures described under "Responsible agricultural practice" in "Agricultural operations" above to mitigate the risk of its operations causing damage to the environment or to its neighbours. The group supports the principles and criteria established by RSPO and has obtained RSPO certification for most of its current operations.

Community relations

The agricultural operations of the group can be seriously disrupted by any material breakdown in relations between the group and the host population in the area of the 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 to encourage local farmers and tradesmen to act as suppliers to the group, its employees and their dependents and (as described under "Smallholder schemes" in "Agricultural operations" above) to promote smallholder development of oil palm plantings.

The group's agricultural operations are established in a relatively remote and sparsely populated area, which was for the most part unoccupied prior to the establishment of the group's first operations. However, some areas of land were previously used by local villagers for the cultivation of crops. Accordingly, when acquiring such areas, the group negotiates with, and pays compensation to, the affected parties and, as respects developments initiated since 2007 (in compliance with Indonesian legislation enacted in that year) procures land for the establishment of cooperative smallholder schemes for such 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 or the manner in which the agreement has been implemented and may seek to repudiate the agreement.

As explained under "Community relations" in "Agricultural operations" above, prior to 2012 such difficulties and risk periodically caused disruptions but the group had been successful in managing such periodic disruptions so as to limit their negative impact. This situation changed during 2012 and the disruptions sustained during 2012 and January 2013 had a material negative impact on the group. Negotiations concluded in January and early February 2013 should have resolved the material known issues but only the passage of time will confirm this. Should there be a recurrence of disruptions at the level and of the intensity sustained during 2012, the group could again suffer material negative impacts.

Coal and stone operations

Following the directors' decision to suspend the group's coal trading activities, to limit, for the time being, further capital committed to the coal mining operations and to maximise returns from the concessions in which the group has already invested, the directors believe that the most material risk attaching to the group's coal and stone operations is the risk that those operations prove not to be fully viable and that a proportion of the capital invested in the operations is lost. To the extent that the operations continue and the concessions are brought, or brought back, into production, the more material risks specific to such operations that the directors currently foresee are as described below.

Operational risks

Delivery volumes from the group's concessions will be dependent upon efficiency of production and this can be disrupted by external factors outside the group's control such as the heavy rains that are common in East Kalimantan. Heavy seas can cause delays to the barging of coal and stone to point of sale. Failure to achieve budgeted delivery volumes increases unit costs and may result in operations becoming unprofitable. Whilst weather related impacts cannot be avoided, the group will seek to mitigate such risks by using experienced contractors, supervising them closely and taking care to ensure that they have equipment of capacity appropriate for the planned delivery volumes.

Traded coal delivery volumes are dependent upon supplier and customer performance of contract obligations. The group endeavours to ensure such performance by exercising care in the selection of suppliers and customers and direct supervision of deliveries but such efforts may not always be sufficient to avoid material contractual disputes such as has occurred in relation to one shipment made in 2012.

Mining plans are based on geological assessments and the group seeks to ensure the accuracy of those assessments by drilling ahead of any implementation of the plans. Nevertheless, geological assessments are extrapolations based on statistical sampling and may prove inaccurate to an extent. In that event, unforeseen extraction complications can occur and may cause cost overruns and delays.

Price risk

The profitability and cash flow of any future coal production is likely to depend upon world prices of coal and 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.

Environmental, social and governance practices

The areas that the group proposes to mine or quarry are not large and the group is committed to international standards of best environmental and social practice and, in particular, to proper management of waste water and reinstatement of mined areas on completion of mining operations. Nevertheless, the group could sustain reputational damage as a result of environmental criticisms of the mining industry in Indonesia as a whole.

General

Currency

Currency

CPO and CPKO are essentially dollar based commodities. As a result, the group's revenues and the underlying value of the group's operations are principally US dollar denominated. Moreover, substantial proportions of the group's borrowings and costs are US dollar denominated or hedged against or linked to the US dollar.

Accordingly, the principal currency risk faced by the group is that those components of group costs and funding that arise in, or are denominated in, in Indonesian rupiah and sterling and, as respects group funding, are not hedged against the US dollar, may, if such currencies strengthen against the US dollar, negatively impact the group's financial position in US dollar terms.

As respects costs and share capital, the directors consider that this risk is inherent in the group's business and structure and the group does not therefore normally hedge against such risk. As respects borrowings, hedging may itself give rise to risks given the contention of the Indonesian tax authorities (as referred to under "Group results" in "Finances" above) that mark to market losses in Indonesia on hedging derivatives may not be deducted from chargeable profits for Indonesian tax purposes. The directors believe that, pending clarification of this issue, it is better for the group to accept some currency risks in respect of borrowings than to constrain the group either to borrow only in US dollars (which may limit the group's ability to borrow or require it to borrow on terms that are in the directors' opinion sub-optimal as respects tenor, covenants or cost) or to hedge all non US dollar borrowings against the US dollar.

Counterparty risk

Export sales of CPO and CPKO are made either against letters of credit or on the basis of cash against documents. However, domestic sales of CPO and CPKO may require the group to provide some credit to buyers. The position as respects future sales of coal will be similar. Purchase contracts for coal concluded prior to suspension of the coal trading activities have required the group to part pay ahead of delivery. The group seeks to limit the counterparty risk that credit to buyers and prepayments entail 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. The directors are not currently aware of any specific changes that would adversely affect the group to a material extent.

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. Agricultural land and mining rights and interests held by the group are subject to the satisfaction of various continuing conditions, including conditions requiring utilisation of the rights and, 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 as respects which it does not have all necessary permits.

The UK Bribery Act 2010, which applies worldwide to interests of UK companies, has created an offence of failure by a commercial organisation to prevent a bribe being paid on its behalf. Such failure may be defended if the organisation has "adequate procedures" in place to combat bribery and the group has established appropriate procedures. The group has traditionally had strong controls in this area because the group operates predominantly in Indonesia, which has been classified as relatively high risk by the International Transparency Corruption Perceptions Index.

Country exposure

All of the group's operations are located in Indonesia. 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 and there have been subsequent occasional instances of civil unrest, often attributed to ethnic tensions, in certain parts of Indonesia. In the recent past, Indonesia has been stable and the Indonesian economy has continued to grow.

Freedom to operate in a stable and secure environment is critical to the group and the existence of security risks in Indonesia should never be ignored. However, the group has always sought to mitigate those risks and has never, since the inception of its East Kalimantan operations in 1989, been adversely affected by regional security problems.

Although there can be no certainty as to such matters, the directors are not aware of any circumstances that would lead them to believe that, under current political conditions, any government authority would impose exchange controls or otherwise seek to restrict the group's freedom to manage its operations. The Indonesian government has recently introduced a "use it or lose it" policy in respect of registered titles to undeveloped land. This could result in registered titles to the group's undeveloped land areas being revoked although the directors do not believe that this will happen if development of such areas proceeds as planned.

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" above.

Relationships with shareholders in Indonesian group companies are also important to the group. 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. Should such efforts fail and a breakdown in relations result, the group would be obliged to fall back on enforcing, in the Indonesian courts, the agreements governing its arrangements with its local partners with the uncertainties that any juridical process involves. Failure to enforce the agreements relating to the mining concessions in which the group holds interests could have a material negative impact on the value of the coal and stone operations because the concessions are at the moment legally owned by the group's local partners and, if the arrangements with those partners were successfully to be repudiated (an eventuality that the directors consider highly unlikely), the group could lose its entire interest in the concessions.

Eurozone

The directors are conscious of the possibly heightened financial risks currently prevailing in relation to the Eurozone and to banks. The group has no direct exposures to the Eurozone but would clearly be affected by any consequential impact on demand for CPO and CPKO that could follow a financial collapse in the Eurozone or other major economic area. The group is careful in its commitments and is ready to scale these back rapidly should the need arise. With regard to banks, the board endeavours to ensure that the group's liquid funds are deposited in a manner likely to minimise the risk of loss. A significant proportion of the group's deposits are placed with banks that are majority owned by sovereign governments.

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, prepared in accordance with the relevant financial reporting framework, 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 2012

	2012	2011

	$'000	$'000
Revenue	124,600	147,758
Net (loss)/gain arising from changes in fair value of agricultural produce inventory	(5,677)	4,011
Cost of sales	(63,566)	(68,056)
Gross profit	55,357	83,713
Net gain arising from changes in fair value of biological assets	5,979	7,375
Other operating income	12	339
Distribution costs	(1,601)	(1,719)
Administrative expenses	(18,899)	(16,959)
Impairment loss	(3,000)	-
Operating profit	37,848	72,749
Investment revenues	411	2,889
Finance costs	(7,701)	(11,465)
Profit before tax	30,558	64,173
Tax	(12,855)	(18,559)
Profit for the year	17,703	45,614
Attributable to:		
Ordinary shareholders	11,342	40,453
Preference shareholders	6,713	5,006
Non-controlling interests	(352)	155
	17,703	45,614
Earnings per 25p ordinary share		
Basic	33.9 cents	121.0 cents
Diluted	33.9 cents	121.0 cents

All operations for both years are continuing

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2012

	2012 $'000	2011 $'000
Non-current assets		
Goodwill	12,578	12,578
Biological assets	265,663	244,433
Property, plant and equipment	145,610	102,185
Prepaid operating lease rentals	26,630	23,497
Indonesian coal and stone interests	29,480	28,580
Investments	-	1,430
Deferred tax assets	6,063	4,689
Non-current receivables	2,470	1,835
Total non-current assets	488,494	419,227

Current assets		
Inventories	20,712	25,559
Investments	1,256	963
Trade and other receivables	32,155	34,162
Cash and cash equivalents	26,393	30,601
Total current assets	80,516	91,285
Total assets	569,010	510,512
Current liabilities		
Trade and other payables	(30,051)	(19,895)
Current tax liabilities	(4,348)	(8,349)
Bank loans	(1,000)	(2,000)
US dollar notes	(691)	(4,527)
Other loans and payables	(1,105)	(1,353)
Total current liabilities	(37,195)	(36,124)
Non-current liabilities		
Bank loans	(51,194)	(27,018)
Sterling notes	(54,279)	(51,332)
US dollar notes	(48,007)	(29,414)
Preference shares issued by a subsidiary	(54)	(1,500)
Derivative financial instruments	(11,622)	(16,216)
Deferred tax liabilities	(44,372)	(40,283)
Other loans and payables	(7,257)	(5,680)
Total non-current liabilities	(216,785)	(171,443)
Total liabilities	(253,980)	(207,567)
Net assets	315,030	302,945
Equity		
Share capital	97,565	87,939
Share premium account	18,680	21,771
Translation reserve	(4,854)	(11,762)
Retained earnings	201,630	202,763
	313,021	300,711
Non-controlling interests	2,009	2,234
Total equity	315,030	302,945

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012

	2012	2011

	$'000	$'000
Profit for the year	17,703	45,614
Other comprehensive income		
Changes in fair value of cash flow hedges:		
Gains/(losses) arising during the year	-	1,700
Reclassification adjustments for losses included in the consolidated income statement	-	894
	-	2,594
Changes in fair value of hedged instrument	-	(303)
Reclassification adjustments for gains included in the consolidated income statement	-	(611)
Exchange differences on translation of foreign operations	(2,064)	4,102
Tax relating to components of other comprehensive income	-	(329)
	(2,064)	5,453
Total comprehensive income for the year	15,639	51,067
Attributable to:		
Ordinary shareholders	9,151	45,867
Preference shareholders	6,713	5,006
Minority interests	(225)	194
	15,639	51,067

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012

	Share capital	Share premium	Translation reserve	Retained earnings	Sub total	Non-controlling interests	Total Equity
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At 1 January 2011	60,548	24,901	(18,197)	166,228	233,480	2,040	235,520
Prior year reclassification	-	-	1,021	(1,021)	-	-	-
Total comprehensive income	-	-	5,414	45,459	50,873	194	51,067
Issue of new preference shares (cash)	24,248	13	-	-	24,261	-	24,261
Issue of new preference shares (scrip)	3,143	(3,143)	-	-	-	-	-
Dividends to preference shareholders	-	-	-	(5,006)	(5,006)	-	(5,006)
Dividends to ordinary shareholders	-	-	-	(2,897)	(2,897)	-	(2,897)
At 31 December 2011	87,939	21,771	(11,762)	202,763	300,711	2,234	302,945

Correction of previous year accounting error	-	-	9,099	(9,099)	-	-	-
Total comprehensive income	-	-	(2,191)	18,055	15,864	(225)	15,639
Issue of new preference shares (cash)	6,389	146	-	-	6,535	-	6,535
Issue of new preference shares (scrip)	3,237	(3,237)	-	-	-	-	-
Dividends to preference shareholders	-	-	-	(6,713)	(6,713)	-	(6,713)
Dividends to ordinary shareholders	-	-	-	(3,376)	(3,376)	-	(3,376)
At 31 December 2012	97,565	18,680	(4,854)	201,630	313,021	2,009	315,030

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2012

	2012	2011
	$'000	$'000
Net cash from operating activities	32,470	33,776
Investing activities		
Interest received	411	2,889
Proceeds on disposal of property, plant and equipment	4	11
Purchases of property, plant and equipment	(42,753)	(19,487)
Expenditure on biological assets	(22,544)	(18,001)
Expenditure on prepaid operating lease rentals	(2,241)	(6,729)
Acquisition of subsidiary company	(1,616)	-
Investment in Indonesian coal interests	(3,900)	(9,717)
Net cash used in investing activities	(72,639)	(51,034)
Financing activities		
Preference dividends paid	(6,713)	(5,006)
Ordinary dividends paid	(3,376)	(2,897)
Repayment of borrowings	(10,603)	(13,469)
Proceeds of issue of preference shares	6,535	24,260
Issue of US dollar notes, net of expenses	33,593	-
Redemption of US dollar notes	(19,000)	(10,000)
Redemption of sterling notes	-	(3,949)
Net sale and repurchase of US dollar notes	(259)	-
New bank borrowings drawn	36,027	22,649
Net cash from financing activities	36,204	11,588
Cash and cash equivalents		
Net decrease in cash and cash equivalents	(3,965)	(5,670)

Cash and cash equivalents at beginning of year	30,601	36,710
Effect of exchange rate changes	(243)	(439)
Cash and cash equivalents at end of year	26,393	30,601

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 2012 (the "2012 statutory accounts"). The auditor has reported on those accounts; the reports were unqualified and did not contain statements under sections 498(2) or (3) of the Companies Act 2006. Copies of the 2012 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 2012 statutory accounts have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted 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 2012 statutory accounts and the accompanying financial information were approved by the board of directors on 25 April 2013.

2. Revenue

	2012	2011
	$'000	$'000
Sale of goods	122,621	147,523
Revenue from services	1,979	235
	124,600	147,758
Other operating income	12	339
Investment income	411	2,889
Total revenue	125,023	150,986

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

In the table below, the group's sales of goods are analysed by geographical destination and the carrying amount of net assets is analysed by geographical area of asset location.

	2012	2011
	$'m	$'m
Sales by geographical location:		
Indonesia	73.4	53.2

Rest of Asia	51.2	94.3
	124.6	147.5

Carrying amount of segment net assets by geographical area of asset location:

UK, Continental Europe and Singapore	51.5	44.6
Indonesia	263.5	258.3
	315.0	302.9

The group has three reportable segments under IFRS 8. These comprise two operating segments, cultivation of oil palms, coal and stone operations, and a head office segment comprising the activities of the parent company and its UK, European and Singaporean subsidiaries. Segment profit is the operating profit or loss earned by each segment before investment revenues, finance costs and taxation. This is the measure by which the group's chief executive assesses segment performance.

Year to 31 December 2012	Plantations $'000	Coal and stone	Head Office $'000	Total $'000
Revenue	122,134	2,466	-	124,600
Gross profit	56,870	(1,513)	-	55,357
Net gain from changes in fair value of biological assets	5,979	-	-	5,979
Other operating income	2	-	10	12
Distribution costs	(1,601)	-	-	(1,602)
Administrative expenses	(10,239)	(2,268)	(6,392)	(18,899)
Impairment loss	-	(3,000)	-	(3,000)
Operating profit/(loss)	51,011	(6,781)	(6,382)	37,848
Investment revenues				411
Finance costs				(7,701)
Profit before taxation				30,558
Taxation				(12,855)
Profit for the year				17,703
Consolidated total assets	523,276	34,137	11,597	569,010
Consolidated total liabilities	141,639	439	111,902	253,980
Depreciation charged to consolidated income statement	6,125	10	79	6,214
Additions to non-current assets	75,258	903	3	76,164

Year to 31 December 2011	Plantations	Coal	Head Office	Total
	$'000		$'000	$'000
Revenue	129,542	18,216	-	147,758
Gross profit	82,218	1,495	-	83,713
Net gain from changes in fair value of biological assets	7,375	-	-	7,375
Other operating income	339	-	-	339
Distribution costs	(1,719)	-	-	(1,719)
Administrative expenses	(10,756)	(1,158)	(5,045)	(16,959)
Operating profit/(loss)	77,457	337	(5,045)	72,749
Investment revenues				2,889
Finance costs				(11,465)
Profit before taxation				64,173
Taxation				(18,559)
Profit for the year				45,614
Consolidated total assets	453,384	36,403	20,725	510,512
Consolidated total liabilities	113,379	2,341	91,847	207,567
Depreciation charged to consolidated income statement	5,385	7	52	5,444
Additions to non-current assets	51,686	9,721	1,630	63,037

5. Administrative expenses

	2012	2011
	$'000	$'000
Net foreign exchange (gains)/losses	(845)	519
Increase/(release) of provision for UK pension	1,072	(253)
Loss on disposal of fixed assets	39	408
Indonesian operations	13,871	11,445
Head office	4,762	4,840
	18,899	16,959

6. Finance costs

	2012	2011
	$'000	$'000
Interest on bank loans and overdrafts	4,145	2,510
Interest on US dollar notes	3,433	3,671
Interest on sterling notes	5,598	5,679
Change in value of sterling notes arising from exchange fluctuations	1,029	-
Change in fair value of derivative financial instruments	(2,108)	-

Reclassification from translation reserve in equity	-	283
Other finance charges	372	1,942
	12,469	14,085
Amount included as additions to biological assets	(4,768)	(2,620)
	7,701	11,465

The reclassification from equity arose from the early repurchase for redemption of £2.46 million of 9.5 per cent guaranteed sterling notes 2015/17 which was hedged by a cross currency interest swap. Deferred tax previously provided in respect of this amount has also been reclassified to income.

Amount included as additions to biological assets and construction in progress arose on borrowings applicable to the Indonesian operations and reflected a capitalisation rate of 34.9 per cent (2011: 20.9 per cent); there is no directly related tax relief.

7. Tax

	2012 $'000	2011 $'000
Current tax:		
UK corporation tax	534	-
Foreign tax	9,638	14,634
Prior year	557	-
Total current tax	10,729	14,634
Deferred tax:		
Current year	2,068	3,925
Prior year	58	-
	2,126	3,925
Total tax	12,855	18,559

Taxation is provided at the rates prevailing for the relevant jurisdiction. For Indonesia, the current and deferred taxation provision is based on a tax rate of 25 per cent (2011: 25 per cent) and for the United Kingdom, the taxation provision reflects a corporation tax rate of 24.5 per cent (2011: 26.5 per cent) and a deferred tax rate of 23 per cent (2011: 26 per cent).

8. Earnings per share

	2012 $'000	2011 $'000
Earnings for the purpose of earnings per share*	11,342	40,453

* being net profit attributable to ordinary shareholders

	'000	'000
Weighted average number of ordinary shares for the purposes of basic earnings per share	33,415	33,415
Effect of dilutive potential ordinary shares	-	-

Weighted average number of ordinary shares for the purposes of diluted earnings per share	33,415	33,415

9. Dividends

	2012	2011
	$'000	$'000
Amounts paid and recognised as distributions to equity holders:		
Preference dividends of 9p per share	6,713	5,006
Ordinary dividends of 6.5p per share (2011: 5.5p)	3,376	2,897
	10,089	7,903

10. Biological assets

	2012	2011
	$'000	$'000
Beginning of year	244,433	221,883
Additions to planted area and costs to maturity	15,369	15,502
Transfers to property, plant and equipment	-	(76)
Transfers from prepaid operating lease rentals	45	-
Transfers to non-current receivables	(79)	(3)
Transfers to current receivables	(84)	(248)
Net biological gain	5,979	7,375
End of year	265,663	244,433

Net biological gain comprises:		
Fair value of crops harvested during the year	(78,468)	(90,906)
Gain arising from changes in fair value attributable to physical changes	72,226	87,186
Gain arising from changes in fair value attributable to price changes	12,221	11,095
	5,979	7,375

The fair value determination assumed a discount rate of 15 per cent in the case of PT REA Kaltim Plantations ("REA Kaltim"), 15 per cent in the case of PT Sasana Yudha Bhakti ("SYB") and 18 per cent in the case of all other group companies (2011: 16 per cent in the case of REA Kaltim, 17.5 per cent in the case of SYB and 19 per cent in the case of all other group companies) and a standard unit margin of $55.20 per tonne of oil palm fresh fruit bunches ("FFB") (2011: standard unit margin of $52.50 per tonne of FFB).

The fair valuation of the group's biological assets as at 31 December 2012 determined on the basis of the methodology utilised as at 31 December 2011 would have amounted to $251 million.

The valuation of the group's biological assets would have been reduced by $14,250,000 (2011: $13,600,000) if the crops projected for the purposes of the valuation had been reduced by 5 per cent; by $13,570,000 (2011: $12,890,000) if the discount rates assumed had been increased by 1 per cent and by $25,810,000 (2011: $25,880,000) if the assumed unit profit margin per tonne of oil palm FFB 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 2012, the group had no outstanding forward sale contracts at fixed prices (2011: none).

At 31 December 2012, the group had no outstanding forward sales for delivery in 2013, on terms that the sales price of each delivery be determined immediately ahead of delivery by reference to prevailing open market prices (31 December 2011: 6,000 tonnes per month for the eleven month period to 30 November 2012).

At the balance sheet date, biological assets of $67,580,000 (2011: $64,349,000) had been charged as security for bank loans (see note 23) but there were otherwise no restrictions on titles to the biological assets (2011: none). Expenditure approved by the directors for the development of immature areas in 2013 amounts to $20,000,000 (2011: $47,000,000).

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

During the year, there were additions to property, plant and equipment of $50,018,000 (2011: $22,192,000).

At the balance sheet date, the group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to $5,212,000 (2011: $37,849,000).

11. Issuance of equity securities

Changes in share capital:

- on 17 September 2012, 3,926,575 9 per cent cumulative preference shares were issued, fully paid, by way of a placing at 105p per share (total consideration £4,123,000 - $6,708,000)
- on 28 September 2012, 2,004,872 9 per cent cumulative preference shares were issued, credited as fully paid, to ordinary shareholders by way of capitalisation of share premium account.

12. Movement in net borrowings

	2012 $'000	2011 $'000
Change in net borrowings resulting from cash flows:		
(Decrease)/increase in cash and cash equivalents	(3,965)	(5,670)
Net increase in borrowings	(25,424)	(9,180)
	(29,389)	(14,850)
Issue of US dollar notes, net of amortisation issue expenses	(33,593)	-
Redemption of US dollar notes, net of amortisation issue expenses	18,355	9,328
Redemption of sterling notes, net of amortisation issue expenses	-	3,609
Investments netted off against preference shares liability	(1,430)	-
Net sale and repurchase of US dollar notes	259	-
	(45,798)	(1,913)
Currency translation differences	2,156	501

Net borrowings at beginning of year	(85,190)	(83,778)
Net borrowings at end of year	(128,832)	(85,190)

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".

	2012	2011
	$'000	$'000
Short term benefits	1,484	1,315
Post employment benefits	-	-
Other long term benefits	-	-
Termination benefits	-	-
Share based payments	-	-
	1,484	1,315

14. Events after the reporting period

An interim dividend of 3½p per ordinary share in respect of the year ended 31 December 2012 was paid on 25 January 2013. In accordance with IAS 10 "Events after the reporting period" this dividend, amounting in aggregate to $1,852,000, has not been reflected in these financial statements.

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