Interim Management Statement

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Agricultural operations

The crop of oil palm fresh fruit bunches ("FFB") harvested to the end of October 2013 amounted to 463,052 tonnes. This compares with a crop for the corresponding period in 2012 of 488,410. External purchases of FFB during the ten months to 31 October 2013 totalled 76,792 tonnes (2012: 48,992 tonnes). Rainfall to the end of October averaged 2,742 millimetres across the group's operations (2012: 2,536 millimetres).

As previously reported, issues with villages had a negative impact on cropping during the first half of 2013. In addition, crops generally in Indonesia are reported to have been significantly below expectations. Bunch censuses for the September to December period have been encouraging but ripening has been much slower than expected. However, production rates have been rising and averaged some 54,000 tonnes during September and October compared with some 44,000 tonnes per month on average during the first half of the year. Current daily cropping figures suggest that the rising trend will continue during the final weeks of 2013.

In the ten months to 31 October 2013, processing of externally purchased FFB and the group's own production, together totalling 539,844 tonnes (2012: 537,403 tonnes), produced 117,670 tonnes of crude palm oil ("CPO") (2012: 123,403 tonnes), 24,735 tonnes of palm kernels (2012: 24,978 tonnes) and 9,064 tonnes of crude palm kernel oil ("CPKO") (2012: 9,474 tonnes). These production figures reflect extraction rates of 21.8 per cent for CPO (2012: 23.0 per cent), 4.6 per cent for palm kernels (2012: 4.6 per cent) and 36.2 per cent for CPKO (2012: 37.8 per cent). The reduction in the extraction rate in part reflects the increasing volume of externally purchased FFB.

Having remained steady through the first half of 2013, CPO prices have firmed in recent weeks in response to lower CPO stocks, no doubt a consequence of the reported shortfall on expected levels of Malaysian and Indonesian CPO production. The CPO price currently stands at $905 per tonne, CIF Rotterdam. Indonesia has recently introduced regulations to mandate an increased bio-diesel component in all diesel usage and this appears to be helping sentiment.

Efforts to achieve production cost efficiencies continue of which the latest is the introduction of additional shifts in the group's oil mills. These should lead to savings in overtime working. Production costs, measured in US dollars, are also being assisted by the weakness of the Indonesian rupiah, which currently stands at Rp11,418 = US$ 1 against an opening rate at 1 January 2013 of Rp9,670 = US$ 1.

Development of the new land areas of PT Kutai Mitra Sejahtera ("KMS"), PT Putra Bongan Jaya ("PBJ") and PT Cipta Davia Mandiri ("CDM") is making good progress. KMS is expected to be fully planted by the end of 2013. At PBJ, a central arterial road through the property is currently under construction and land clearing on a first portion of the plantable area (estimated to be around 8,000 hectares) will commence shortly. Compensation arrangements have been concluded at CDM and work is now beginning on a significant expansion of the existing planted area of 1,200 hectares.

Discussions are continuing in respect of the agreed swap arrangements for land held by the subsidiary company PT Sasana Yudha Bhakti ("SYB") under which land currently held by SYB but the subject of overlapping coal rights held by a third party is to be swapped for land held by PT Praesetia Utama ("PU") (by way of acquisition of the shares of PU). Agreement in principle has now been reached on a stepped arrangement under which SYB land to be swapped will be made available for mining in stages as agreed targets for the clearing and development of the PU land are met.

Allocations of land areas for smallholders are proceeding and the group remains on target to achieve total smallholder plantings of some 6,300 hectares by the end of 2013, with arrangements in place for a significant expansion of smallholder areas during 2014 on the land areas purchased for this purpose. The group hopes to acquire an additional area of some 2,000 hectares close to KMS and to utilise this area to satisfy its smallholder obligations to villages adjacent to KMS. This would obviate the previously perceived need to reallocate to smallholders part of the plantings on the existing KMS area.

A formal agreement has now been concluded with the Indonesian state electricity company ("PLN") for the supply of biogas generated electricity. The group has obtained the licences required to generate and sell electricity and is installing three additional gas engine generators to provide the 3 MW of capacity that is initially required by PLN. PLN has awarded a contract for the provision of the electrical reticulation needed to connect the group's generating stations to the adjacent villages that PLN plans to supply. It is hoped that the necessary reticulation works will be completed early in 2014.

Stone and coal operations

Work is continuing on the establishment of a quarry at the group's stone concession to provide crushed stone for building and maintenance of infrastructure in the group's agricultural operations and for sale to other users in the surrounding area. Sample drilling and testing has been completed, confirming the suitability of the stone for road building and as a concrete aggregate. Ownership of the stone concession is being reorganised so as to bring it under the direct control of the plantation sub-group. In due course, the quarry will be integrated with the group's agricultural operations.

Project agreements have recently been signed with third parties relating to the development and operation of two of the group's three coal concessions. The cooperation arrangements agreed will provide an income stream to the group calculated by reference to coal prices prevailing from time to time (subject to an agreed floor) and will minimise further coal related costs to the group. The group expects to recover the carrying value of the concessions with some upside in the event that coal prices recover from their presently depressed levels.

Financial position

Group indebtedness and related engagements now total (as respects the latter, on the basis of exchange and interest swap rates prevailing at 30 June 2013) $211.8 million. Against this, the group currently holds cash and cash equivalents totalling $47.9 million. These figures take into account the closing out at the end of September 2013 of one of the group's three cross currency interest rate swaps (for a principal amount of £8 million).

As anticipated in the half yearly report to 30 June 2013, on 25 October 2013 the company issued 2,105,116 new 9 per cent cumulative preference shares, credited as fully paid up at par value of £1, by way of a capitalisation issue to ordinary shareholders.

The group has recently agreed a US$70 million equivalent medium-term loan facility with a regional bank in Indonesia for the plantation sub-group. A second medium term facility with another regional bank is under negotiation. These facilities are intended to ensure the group's ability to fund its planned extension planting programme and progressively to refinance the group's shorter term indebtedness.

Strategic plans

Reorganisation of the group's plantation subsidiaries has been completed so that the plantation sub-group is now headed by the group's principal Indonesian plantation subsidiary, PT REA Kaltim Plantations ("REA Kaltim"). It remains the intention in due course to make 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. As previously announced, such listing is now unlikely to take place until sufficient time has elapsed for the REA Kaltim sub-group to have reported figures that reflect normal cropping levels.

Outlook

The group continues to recover after a difficult period. Relations with local villages are much improved and remain steady, with the local authorities in support of the group's strategies. Agricultural operations have returned to normal and changes to the group's management structure are being successfully implemented. Operating costs remain under good control with recent efficiency initiatives (including methane capture, composting and overtime reduction) proving their worth. Further initiatives, such as the agreement to supply biogas generated electricity to PLN, should maintain the momentum in containing costs. The extension planting programme and smallholder developments are going well, and there has been further progress in generating returns from the group's coal assets. Continuing work on the group's land bank is making the planned increase in the group's planted hectarage to 60,000 hectares without further material land acquisitions a realistic prospect.

With successful implementation of the development programme now in hand, shareholders can look forward to significant growth in the group's business.

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