Trading statement and possible debt issue

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Trading statement and proposed issue of additional dollar notes

Agricultural operations

The crop of oil palm fresh fruit bunches ("FFB") for the year to 31 December 2009 amounted to 490,000 tonnes, slightly ahead of the budgeted crop of 486,000 tonnes and an increase of 8.6 per cent on the FFB crop for 2008 of 451,000 tonnes. In addition, the group purchased 13,000 tonnes of FFB from smallholders (2008 - 6,000 tonnes).

Processing of the group's own FFB production and the externally purchased FFB, together totalling 503,000 tonnes (2008 - 457,000 tonnes), produced 118,000 tonnes of crude palm oil ("CPO") (2008 - 106,000 tonnes) and 24,000 tonnes of palm kernels (2008 - 21,000 tonnes) reflecting extraction rates of 23.51 per cent for CPO (2008 - 23.17 per cent) and 4.72 per cent for kernels (2008 - 4.56 per cent). Production of crude palm kernel oil amounted to 10,000 tonnes (2008 - 8,000 tonnes) with an extraction rate of 40.04 per cent (2008 - 40.11 per cent).

Rainfall across the group's estates averaged 3,123 mm for 2009, compared with 3,504 mm for the previous year. Rainfall of in excess of 3,000 mm per annum is more than sufficient for oil palm cultivation provided that the rainfall is distributed reasonably evenly over the year as oil palm estate soil has limited capacity to retain water. During 2009, there was an extended drier period between August and October, probably reflecting the reported El Nino effect. Although this was of some concern to the group, an analysis of the rainfall received during this drier period suggests that the rainfall was just sufficient to avoid deficits in the moisture required by the group's palms for optimal development. If correct, this would mean that the reduced levels of rainfall between August and October should not have a negative impact on cropping in 2010. On that basis, the group is budgeting an FFB crop of 561,000 tonnes for 2010.

After the collapse in the CPO price seen in 2008, when the price fell from a high in early March of just under $1,400 per tonne, CIF Rotterdam, to a low of $435 in October, the price recovered to reach $830 per tonne in May 2009. It then fell back to a level of just over $600 in July 2009 since when it has been relatively steady to firm trading for the most part in the range $650 to $800 per tonne and closing at the end of 2009 at just over $800 per tonne. Although stocks in CPO producing countries are currently quite high, offtake has been good and the recovery in crude petroleum oil prices is likely to encourage an increase in the volume of vegetable oil converted to bio-diesel. The directors believe that prices may well stay at around current levels at least until mid 2010 after which much will depend on the extent of 2010 soybean plantings, weather factors influencing the annual oilseed crops and continuing recovery in the levels of world economic activity.

The group made good progress with land titling during 2009 and increased its fully titled area of plantation land to a total of 52,029 hectares. Settlement of land compensation issues advanced sufficiently to permit the group to develop (that is to clear and plant out or prepare for planting out) a further 2,690 hectares of oil palm land during 2009 increasing the area planted or under development at 31 December 2009 to 30,990 hectares (of which 22,069 hectares were classified as mature from 1 January 2010). The group plans to develop a further 8,000 hectares during 2010 and 2011. Clearing of the plantable element of the first larger scale village cooperative scheme supported by the group (having a gross area of 1,500 hectares) was completed during 2009 and planting out is proceeding according to plan.

Coal operations

Following its acquisition of rights in respect of the Liburdinding and Muser coal mining concessions located near Tanah Grogot in the southern part of East Kalimantan in the second half of 2008, the group further extended its coal operations in December 2009 with the acquisition of rights in respect of a third coal mining concession located near Kota Bangun in the central part of East Kalimantan which was purchased for a cash consideration of $4,500,000.

Until recently, Indonesian law restricted the direct ownership of Indonesian coal mining concessions by foreign companies but a new Indonesian mining law enacted in December 2008 will permit such ownership (subject to a provision that foreign controlled mining companies must be owned locally to the extent of not less than 20 per cent within a prescribed period after such companies commence commercial mining operations). The new mining law will become effective after publication by the Government of Indonesia of regulations implementing the law.

Pending implementation of the new Indonesian mining law, the group has entered into arrangements with a local investor and members of his family (together the group's "local partners") whereby the Liburdinding and Muser concessions are currently held by two companies which are wholly owned by the group's local partners and the recently acquired Kota Bangun concession is held by a 95 per cent subsidiary of one of these companies with the balance of 5 per cent being owned by the local partners. A fourth company, PT KCC Mining Services Indonesia, incorporated under the Indonesian foreign investment law and owned 95 per cent by KCC Resources Limited ("KCC") (a wholly owned subsidiary of the company incorporated in England and Wales that acts as a sub-holding company for the group's coal operations) and 5 per cent by the local partners, has been established by KCC to spearhead the group's coal operations. The three coal mining concession holding companies are being financed by loan funding from the group (through KCC) upon terms that KCC will have the right to acquire the concession holding companies at original cost as soon as Indonesian law allows this, on a basis that will give the group (through

KCC) 95 per cent ownership with the balance of 5 per cent remaining owned by the local partners. In the interim, the group will receive appropriate remuneration for the funding and services that it provides to the concession holding companies and no dividends or other distributions or payments may be paid or made by the concession holding companies to the local partners without the prior agreement of KCC.

During 2009, the group's operational focus in relation to its coal activities was on bringing the Liburdinding concession into production. The necessary infrastructural facilities (principally a port facility and road access to the port) were substantially complete by June 2009. However, the group withdrew from its original plan to establish, as rapidly as possible, a production level of 30,000 tonnes per month when it became clear that the sulphur content of the Liburdinding coal was such that, in what had become by then a buyer's market for export coal , it would be necessary either to blend the coal mined with purchased coal having a lower sulphur content or to accept a significant price penalty. The group concluded that the Liburdinding coal was best sold within Indonesia and steps were taken to establish a coal depot at Semarang in Central Java to facilitate deliveries to industrial users of coal in that area (a large coal consuming district) and to permit blending with other coal to meet specific buyer requirements. This is now in operation and the first sales of Liburdinding coal are currently being made. For 2010, the group is budgeting for output from Liburdinding of 150,000 tonnes.

The group also intends that the newly acquired Kota Bangun concession should be brought into production during 2010 with a view to achieving, by December 2010, an output of 16,000 tonnes per month. Geological surveys commissioned by the group have not yet assessed the whole of the Kota Bangun concession but indicate that the part of the concession that has been assessed is likely to contain in the region of 2 million tonnes of coking coal with calorific values generally in the range 8,500 to 9,500 kcal/kg ADB (air dried basis). The calorific value of the Kota Bangun coal is significantly higher than the calorific value of the Liburdinding coal (assessed at 5,800 to 6,200 kcal/kg ADB) and should ensure a ready export market for the Kota Bangun production. The Kota Bangun concession is well located, being approximately 5 kilometres from the Mahakam river. Nevertheless mining costs for coal from the Kota Bangun concession are expected to be greater than for coal from the Liburdinding concession because the former will have a higher stripping ratio (being the amount of earth and rock ("overburden") required to be removed to gain access to the coal, expressed as the number of cubic metres of overburden in situ to be removed to extract one tonne of coal) and will require blasting of the overburden. Actual unit production costs in both cases will be sensitive to stripping ratios and diesel prices but the group is budgeting for production costs per tonne in the range $64 to $78 per tonne for Kota Bangun coal and $23 to $29 per tonne for Liburdinding coal.

The group aims to augment the basic mining revenues from the Liburdinding and Kota Bangun concessions in two respects during 2010. First, it intends to make available the port facility established for the Liburdinding concession for use by third parties for an appropriate charge. Secondly, one of the concession holding companies has recently been accepted as one of a limited number of approved suppliers to the Indonesian state electricity company ("PLN"). The group intends to take advantage of this approval not only to underpin the market for Liburdinding coal but also to sell coal to PLN that has been sourced from third parties either by outright purchase or by mining third party concessions against payment of an agreed royalty. As both of these proposed additions to the coal activities will be new, there can be no certainty as to how fast and in what volumes they can be added. However, the directors consider targets of 20,000 tonnes per month of third party throughput through the Liburdinding port and of 50,000 tonnes per month of sales to PLN (sourced by a combination of outright purchases and mining of third party concessions under royalty arrangements) to be reasonable.

The group is budgeting the overheads of its coal operations for 2010 (excluding head office costs in the UK, interest, depreciation and amortisation) at $100,000 per month. Net contribution from third party coal throughput in the Liburdinding port is projected at $2.50 per tonne and the contribution margins achievable on sales to PLN at between $5 and $10 per tonne (depending on the mix of coal sourced by outright purchase and coal sourced by mining third party concessions). The overall results of the coal operations will be critically dependent upon sales volumes and prevailing coal prices. The directors believe that the published Newcastle globalCOAL index (which currently stands at $100 per tonne up from just under $70 per tonne in September 2009), when adjusted for differences in calorific values (the index being based on coal of net calorific value 6,000 kcal/kg), has over time provided a reasonable indicator of prevailing East Kalimantan coal prices.

Although the group's geological assessment of the Muser concession indicates that this concession contains coal generally in the range 6,000 to 7,000 kcal/kg ADB, the stripping ratio at Muser will be materially higher than at Liburdinding which is likely to mean that the Muser coal, although still profitable to mine, will have a relatively high cost of production. Moreover, the Muser coal has a higher sulphur content than the Liburdinding coal. The group therefore intends to continue geological exploration during 2010 to delineate the coal reserves at Muser but to defer bringing the concession into production until commercial levels of output are being obtained from Liburdinding and Kota Bangun.

The group is investigating the possibility of one of the coal mining concession holding companies obtaining a licence to quarry stone from an area near to the group's agricultural estates with a view to selling crushed stone to the group's agricultural operations and to third parties operating in the vicinity of those operations. Initial studies indicate that this would benefit the group both in terms of the direct returns that may be achievable from the quarrying operations and from cost savings in road upkeep by the agricultural operations.

In developing the coal mining concessions and the possible stone quarry activity, the group remains committed to observing international standards of best environmental practice.

Financing

The group's indebtedness currently comprises £37 million nominal of sterling notes, which have been hedged against dollars at an average rate of $1.854 = £1, $30 million nominal of dollar notes and bank borrowings and leasing commitments in Indonesia which totalled $10.9 million at 31 December 2009. Against this, the group had cash balances at 31 December 2009 totalling $20.8 million.

The planned planting of a further 8,000 hectares of oil palm during 2010 and 2011 and the concomitant requirement for continuing investment in estate buildings, oil palm processing facilities and other estate plant and equipment will involve the group in continuing major capital expenditure over the next two years. Given the group's existing cash resources and provided that the CPO price remains at reasonable levels, the directors expect that such capital expenditure can be funded from internally generated cash flow. Given the volatility of commodity markets, the directors cannot rely on this expectation and whilst the expansion programme can, in extremity, be rapidly scaled back to align with available cash resources, once areas have been planted with oil palms, some or all of the investment thereby made will be lost if the areas are not maintained and the milling capacity needed to process the resultant FFB is not installed. Accordingly, the directors believe that it is essential that the group holds some cash cushion against the possibility of additional cash being required to fund the oil palm expansion programme. To this end, the group is currently seeking to arrange further fixed term bank facilities in Indonesia.

At 31 December 2009, the group had invested some $14 million in its coal operations. The development of the Kota Bangun concession will require further investment and cash resources will also be required to meet the working capital requirements that will arise if the coal operations develop as envisaged. To avoid withdrawing needed capital from the agricultural operations, the directors believe that going forward the coal operations should be funded from their own internally generated cash flow supplemented by external borrowings at a level that the coal operations can reasonably be expected to support. The coal operations have been offered some local bank facilities. While the directors consider that it is sensible to have bank facilities available, given recent events in the banking market and the general conditions applicable to the bank debt available, they believe that the coal operations should not become reliant on bank finance. Accordingly, the group is currently working on proposals to raise some $15 million for deployment in the coal operations by way of an issue of $15 million nominal of further 7.5 per cent dollar notes 2012/14 ("additional dollar notes") and 150,000 redeemable participating preference shares of $10 each in the capital of KCC ("KCC participating preference shares") with such additional dollar notes and shares to be subscribed in the ratio of $100 nominal of additional dollar notes to one KCC participating preference share.

The KCC participating preference shares would provide a limited interest in the group's coal operations such that if those operations achieve an average annual level of earnings before interest, tax, depreciation and amortisation of $8 million over the four and a half year period from 1 January 2010 to 30 June 2014 (equivalent to $36 million for the full period), the combined return to a subscriber of additional dollar notes and KCC participating preference shares would be 15 per cent per annum. If the required level of earnings was not achieved, then, except in certain limited circumstances such as divestment of all or a significant part of the operations or a change of control of R.E.A. Holdings plc, no dividends or other distributions would be paid or made on the KCC participating preference shares and after 31 December 2014 the shares would be converted into valueless deferred shares. Under that circumstance, the combined return to a subscriber of additional dollar notes and KCC participating preference shares would be 7.5 per cent per annum.

Beyond the proposed issue of additional dollar notes, the directors have no immediate plans for the group to issue further listed debt securities. The directors are, however, aware that the Indonesian tax authorities have recently announced revisions to the rates of withholding tax to be applied to payments of interest from Indonesia to the Netherlands as well as changes to the basis upon which such authorities will accept that a foreign company is eligible for the concessionary tax treatment provided for in any double tax agreement between the applicable company's country of domicile and Indonesia. This development appears likely to result in the rate of withholding tax applicable to payments of interest (the aggregate gross amount of which in 2009 was $8.9 million) on loans to Indonesian subsidiaries of the company from REA Finance increasing from 10 per cent to 20 per cent. Should this prove the case, the directors may wish to effect some reorganisation of the sterling notes to mitigate this adverse fiscal development.

The directors have previously stated that, whilst they believe that it is important that the group retains flexibility as to the extent to which the group should fund itself with borrowed monies, as a general borrowing policy they consider that it is appropriate to the group at its present stage of development that net debt (that is, borrowings and other indebtedness of the group (other than intra-group indebtedness), less cash, bank deposits and similar balances) remains below 100 per cent of total equity. The directors expect that net debt, which amounted to 49 per cent of total equity at 30 June 2009 (31 December 2008 - 48 per cent), will remain significantly below the 100 per cent level during 2010.

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