Trading Statement

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RNS Number : 4637N
R.E.A.Hldgs PLC
17 February 2009

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The crop of oil palm fresh fruit bunches ("FFB") for the year to 31 December 2008 amounted to 450,906 tonnes, 7.1 per cent ahead of the budgeted crop of 421,000 tonnes and an increase of 14.7 per cent on the FFB crop for 2007 of 393,217 tonnes. Rainfall for 2008 averaged 3,504 mm across the group's operations, down on the 4,413 mm of the previous year but nevertheless wholly satisfactory for oil palm cultivation, particularly as the rainfall was well distributed.

External purchases of FFB from smallholders totalled 6,460 tonnes (2007: 2,767 tonnes). The crude palm oil ("CPO") and palm kernel extraction rates (based on the combination of the group's own FFB production and externally purchased FFB) amounted to, respectively, 23.17 per cent and 4.56 per cent (2007: 24.00 per cent and 4.09 per cent). As previously reported, the decline in CPO extraction rate is attributed by the directors to a combination of overcast conditions during part of the year and pressure on harvesting standards. The group is implementing measures designed to reduce harvester turnover and make it easier to recruit additional harvesters. The improved palm kernel extraction rate reflects successful modification of the palm kernel extraction process to improve nut cracking efficiency.

Following the deterioration in the world economic conditions and, in particular, a sharp decline in the price of CPO, the directors decided in October 2008 that the group should be cautious and that, until the outlook became clearer, no material new funds should be committed to further oil palm expansion. As a result, the area developed for oil palm in 2008 amounted to under 2,000 hectares, considerably less than had originally been planned. An accounting consequence of this will be that the IAS 41 valuation of the group's biological assets as at 31 December 2008 will be less than would otherwise have been expected.

Whilst commodity markets remain volatile, recent weeks have seen some recovery in the price of CPO which now stands at $585 per tonne, CIF Rotterdam, against a low in October 2008 of $435 per tonne. Whist it is too early to predict that the CPO market has reached an equilibrium level, the directors are encouraged that offtake continues at good levels and that stocks in Malaysia and Indonesia are declining. In the short term, much may depend upon whether, in the important markets of India and China, reduced consumer spending power is offset by the lower price of CPO feeding through into cheaper cooking oil.

The group is budgeting for an FFB crop in 2009 of 486,000 tonnes. This is a little below the level that would result if palms of equivalent age achieved similar yields per hectare in 2009 to those of 2008 but the directors believe that it is appropriate to leave an element of contingency in budgeting crops as past experience has shown that contingencies are often needed.

Recent months have seen reductions in the prices of diesel oil and fertiliser, both of which are material components of the group's operating costs. In addition, a weak Indonesian rupiah (currently standing at Rp 11,800 = $1 against Rp 9,419 = $1 at 1 January 2008) is helping to offset the cost in US dollar terms of Indonesian wage increases. As a result, at current CPO prices, the group is achieving margins which, although below the very high margins of 2008, are still satisfactorily remunerative.

If CPO prices remain at around current levels or better, the directors intend to consider the resumption of extension planting. However, the directors expect that any such resumption would be kept to a level such that the capital costs entailed would leave the group with an appropriate cash reserve against further weakness in CPO prices.

Work continues in relation to the two small coal concessions acquired by the group during 2008 and it is hoped that coal production can start during the first half of 2009 with early prospects of cash generation.

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