



R.E.A. HOLDINGS PLC - HALF YEARLY REPORT
2013



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Contents

Summary of results	2
Chairman's statement	3
Risks and uncertainties	11
Directors' responsibilities	12
Consolidated income statement for the six months ended 30 June 2013	13
Consolidated balance sheet as at 30 June 2013	14
Consolidated statement of comprehensive income for the six months ended 30 June 2013	15
Consolidated statement of changes in equity for the six months ended 30 June 2013	15
Consolidated cash flow statement for the six months ended 30 June 2013	16
Notes to the consolidated financial statements	17
Maps	23

Summary of results

for the six months ended 30 June 2013

	6 months to 30 June 2013 \$'000	6 months to 30 June 2012 (restated) \$'000	Change %
Sales revenue	46,296	69,115	- 33
Earnings before interest, tax, depreciation, amortisation and biological gain	6,789	25,786	- 74
(Loss) / profit before tax	(2,539)	24,004	-
(Loss) / profit for the period	(2,885)	16,914	-
(Loss) / profit attributable to ordinary shareholders	(6,177)	13,810	-
Cash (utilised) / generated by operations (note 14)	(4,244)	14,415	-
(Loss) / earnings per ordinary share	(18.2) cents	41.3 cents	-

Chairman's statement

Results

The group made a loss before tax for the six months to 30 June 2013 of \$2.5 million. This compares with a profit before tax for the corresponding period of 2012 of \$24.0 million. An industry wide temporary slowdown in fresh fruit bunch ("FFB") formation and ripening, coupled with lower prices for crude palm oil ("CPO") and crude palm kernel oil ("CPKO") would always have meant that the group would have had to expect a lower level of profit than in the corresponding period, but the conversion of what would still have been a profit into a loss was the consequence of the previously reported village disruptions during the first quarter. These negatively impacted crop yields, oil extraction and oil quality as detailed under "Agricultural operations" below and resulted in a significant loss of revenue. Because a large component of the group's costs does not vary in the short term, a significant proportion of such loss of revenue resulted in an almost equal loss of profit.

The following table provides estimates of the net reduction in revenue stemming from each of the items concerned:

	\$'m
Lower prices against corresponding period	10.9
Crop reduction due to village disruptions	4.3
Reduced extraction rates due to village disruptions	4.0
Lower quality oil due to village disruptions	4.2
Balance of crop shortfall against budget	4.2
	<u>27.6</u>

Components of the results

Cost of sales for the period was wholly attributable to the agricultural operations. This is in contrast with 2012 for which the cost of sales of \$33.6 million included \$3.3 million in respect of the now suspended coal trading operations. Accordingly, the reported figure of \$34.4 million for the period compares with a figure of \$30.3

million for 2012. Of the increase of \$4.1 million, some \$1.2 million represented an increase in the cost of purchases of external FFB which amounted to \$4.5 million against \$3.3 million in 2012 (the combined effect of the increased volume of external FFB purchased and a lower average purchase price). The balance of the increase in cost of sales principally reflected the impact of a significant rise in labour costs (a consequence of a provincial government dictated increase in the local minimum wage of slightly over 50 per cent) and an increase of 621 hectares in the area classified as mature.

The negative impact of the increased labour costs was mitigated, to an extent, by savings on fuel and inorganic fertiliser. The former resulted from the switch from diesel to biogas for electricity generation (as referred to under "Agricultural operations" below) and the latter from the beneficial effects of regular compost applications. These savings will continue and further savings are expected to be achieved from reductions in overtime working. A weaker Indonesian rupiah was also a positive factor in the six months to 30 June 2013 and, if the further weakness in the rupiah experienced in recent weeks is maintained, may have a larger positive impact on costs for the second half of 2013.

The net gain on valuation of the group's biological assets included in operating profit for the six months to 30 June 2013 amounted to \$1.0 million (2012: \$3.8 million). The discount rates applied, which were the same as in 2012, were 15 per cent for the estates owned by the company's two principal Indonesian operating subsidiaries, PT REA Kaltim Plantations ("REA Kaltim") and PT Sasana Yudha Bhakti ("SYB") and 18 per cent for all other estates owned by the group. The gain reflects the formulaic nature of the valuation methodology and the continuing extension planting programme.

Administrative expenses for the period amounted to \$8.0 million (2012: \$7.2 million). Comparison with 2012 is complicated by movements in exchange gains and losses

Chairman's statement continued

and in the proportion of the expenses charged as additions to biological assets. Also the 2012 expenses were weighted disproportionately to the second half of the year (a timing difference that is not expected to recur in 2013). Annualising the administrative expenses attributable to Indonesian operations and the UK head office for the six months to 30 June 2013 shows that the figures are much in line with the expenses reported for the 2012 year. Inflationary cost pressures remain but increased salary and wage costs and greater expenditure on liaison with local villages were offset by savings in other administrative costs (and, in particular, administrative costs of the coal operations).

Finance costs at \$5.6 million (2012: \$3.9 million) reflected increased utilisation of borrowing facilities. As with administrative expenses, comparison with 2012 is complicated by certain items. In the case of finance costs, these are exchange gains and losses, mark to market movements on the group's hedging instruments and movements in the proportion of finance costs charged as additions to biological assets. Annualising actual interest payable shows a year on year increase of approximately \$1.0 million, consistent with the increase in the average level of borrowings.

Notwithstanding the loss before taxation, the results reported include a tax charge for the six months to 30 June 2013 of \$0.3 million (2012: \$7.1 million). This reflects the negative impact of Indonesian withholding taxes incurred on intra-group interest payments and the write off of deferred tax credits on prior year Indonesian tax losses that are becoming time expired.

For the reason given in note 4 to the financial statements, no segmental analysis has been provided. With limited activity during the period in the stone quarry and coal operations, the impact of those operations on the reported figures was not significant.

Ordinary dividend

Taking account of the now more stable situation on the group's estates, the directors consider that the dividends in respect of 2013 can be maintained at the same level as those in respect of 2012. Accordingly, in the absence of unforeseen circumstances, the directors intend that a first interim dividend in respect of 2013 should be paid in January 2014 at the rate of 3½p per ordinary share (first interim dividend in respect of 2012: 3½p).

It has been the policy of the directors for some years to propose capitalisation issues of new preference shares as a method of augmenting returns to ordinary shareholders in periods in which good profits are achieved but demands on cash resources for expansion limit the scope for payment of ordinary dividends. The performance of the group in the six months to 30 June 2013 would not usually be regarded by the directors as sufficient to support such an augmentation of returns to ordinary shareholders. However, assuming that the negative impact of the village disruptions can be regarded as "one-off" and considering that the outlook for the group is now positive, the directors have concluded that they should, notwithstanding the loss being reported, recommend repeating the capitalisation issue made in 2012.

Accordingly, the directors propose that the company should make a capitalisation issue of new preference shares to ordinary shareholders, on the basis of 3 new 9 per cent cumulative preference shares for every 50 ordinary shares held. A circular setting out details of the proposed capitalisation issue will be issued to shareholders in due course.

Agricultural operations

The crop of FFB harvested during the six months to 30 June 2013 totalled 265,215 tonnes, compared with 271,773 tonnes for the corresponding period in 2012.

External purchases of FFB for the six months to 30 June 2013 totalled 42,371 tonnes (2012: 23,025 tonnes). Rainfall for the first half of 2013 averaged 2,087 millimetres across the group's operations and was over 15 per cent higher than the 1,791 millimetres received in the first half of 2012.

During the six months to 30 June 2013, processing of the group's own production and externally purchased FFB, together totalling 307,586 tonnes (2012: 294,798 tonnes), produced 65,953 tonnes of crude palm oil (2012: 68,451 tonnes), 13,977 tonnes of palm kernels (2012: 13,683 tonnes) and 5,002 tonnes of crude palm kernel oil (2012: 5,386 tonnes). These production figures reflect extraction rates of 21.5 per cent for CPO (2012: 23.3 per cent), 4.6 per cent for palm kernels (2012: 4.7 per cent) and 36.1 per cent for CPKO (2012: 38.1 per cent).

As previously reported, crops during January and early February were adversely affected by continuing village issues; some limited harvesting blockages had a further, but less material, negative impact on crops in March and early April. Whilst regular harvesting operations were resumed in mid-April, it took time to reduce the harvesting intervals across the business to normal levels so that the delays in harvesting adversely affected oil extraction rates and oil quality throughout most of the six month period to 30 June 2013. Oil extraction rates were also negatively affected by poor quality FFB deliveries from smallholders which, against the background of the village disruptions, the group elected not to reject.

As noted earlier, there have been industry wide reports from oil palm growers in Malaysia and Indonesia of a slowdown in bunch formation and ripening during 2013. This has clearly been the result of biological and climatic factors and the group has been affected in the same way as other oil palm growers. Crops for July and continuing into the first part of August were again below budgeted

levels (although in the case of August this was partly attributable to labour holidays during the festivities at the end of the Ramadan religious period). However, in recent days cropping has increased to a higher level and, with local management now reporting good bunch formation and evidence of an acceleration in ripening, the group can expect significantly improved cropping in the closing months of the year.

Village settlements reached in January and February continue to be respected, outstanding matters are progressively being resolved and relationships with local communities are much improved. In addition, the group is now enforcing quality controls on FFB purchases from smallholders. As a result, oil extraction rates and oil quality have returned to satisfactory levels.

The CPO price remained steady throughout the first half of 2013 and currently stands at \$880 per tonne, CIF Rotterdam. The average price for the six months to 30 June 2013 was \$846 as compared with an average for the corresponding period in 2012 of \$1,095. As already noted, CPO production levels in both Malaysia and Indonesia (the main producing areas) have been below expectation and this has led to a reduction in stock levels. It appears that market concerns at the prospect of a very large Northern Hemisphere soya bean crop have been inhibiting any material upward movement in CPO prices but recent reports by the US Department of Agriculture suggest that the forthcoming North American crops will be lower than previously projected (although still at record levels). Concerns remain that large plantings of soya bean in South America will result in a further very large soya bean crop in the first half of 2014 but, offsetting this, it may reasonably be expected that the current lower CPO price will promote increased CPO consumption in the key markets of India and China. Moreover, there are reports of increased biodiesel consumption in South East Asia.

Chairman's statement continued

The average selling price for the group's CPO for the six months to 30 June 2013 on an FOB basis at the port of Samarinda, net of export duty, was \$625 per tonne (2012: \$830 per tonne). The average selling price for the group's CPKO on the same basis was \$583 per tonne (2012: \$958 per tonne). The group has no outstanding forward sales at fixed prices. The selling prices achieved reflect not only the lower level of the CPO and CPKO markets as compared with 2012 but also discounts of on average \$60 per tonne for the poorer quality oil produced during the period.

With the recent commissioning of the third oil mill and the upgrading and expansion of the two older oil mills now completed, 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 group, in consultation with the mill workforce, is introducing three shift working with effect from August 2013. This will result in some overall reduction in costs brought about by savings in overtime.

Electricity generated from the two methane capture plants commissioned in 2012 now supplies a significant proportion of the group's mills, offices and housing, thereby substantially reducing the group's consumption of diesel oil for power generation, with material consequential and on-going savings in energy costs as well as in greenhouse gas emissions.

Arrangements for the supply of biogas generated electricity to the Indonesian state electricity company ("PLN") are reaching an advanced stage. The group has ordered three additional gas engine generators to provide the 3 MW of capacity that is initially required by PLN. Concurrently, PLN has issued a public invitation to tender 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

installation of the additional generators and the provision of the necessary electrical reticulation can be completed, and that the group can obtain the licences that it requires to generate and sell electricity, by the end of 2013.

Agricultural land allocations and development

Planting out of the 5,000 hectares being developed by the subsidiary, PT Kutai Mitra Sejahtera ("KMS") is continuing while development has now started on a first 2,000 hectare portion of the land areas held by the subsidiary, PT Putra Bongan Jaya ("PBJ"). Planting operations at KMS were affected by the heavy rains and flooding experienced in East Kalimantan in the second quarter but the planting rate has since increased and the directors remain confident that the full 5,000 hectares to be planted at KMS will be completed by the end of 2013. As previously explained, a minor proportion of the KMS area (approximately 800 hectares) has been earmarked for transfer to village cooperatives.

Compensation payable to local villages has now been agreed in respect of a further area of over 2,000 hectares within PBJ and compensation discussions in respect of land areas held by the subsidiary, PT Cipta Davia Mandiri ("CDM"), are making good progress. This will leave the group well positioned to achieve its immediate target of 44,000 hectares under oil palm on its existing titled areas (after exclusion of the 800 hectares at KMS earmarked for reallocation to cooperatives and of the areas to be relinquished pursuant to the prospective SYB swap arrangements referred to below). Of the 44,000 hectares, it is expected that between 34,000 and 36,000 hectares will have been planted by year end (the precise amount will depend upon the speed of planting out achieved at PBJ) and that preparation work will have been initiated on a part of the area scheduled for planting in 2014.

The overall area of fully titled agricultural land held by the group remains unchanged at 70,584 hectares as stated in the group's 2012 annual report published in April 2013. Agreement in principle has now been reached on a basis for implementation of the agreed swap arrangements for land held by the subsidiary company, 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 (by way of acquisition of the shares of that company). Subject to completion of these arrangements, the fully titled land areas would increase to 76,124 hectares. The SYB areas to be surrendered pursuant to the swap arrangements include some areas that are already planted or prepared for planting. In view of the expected relinquishment of these areas, they are not being developed further for the time being.

The group continues actively to pursue the titling of the untitled land allocations that it currently holds and to explore opportunities to acquire additional land areas suitable for development in the vicinity of its existing operations. The directors hope that existing untitled land allocations, coupled with the titled land areas to be acquired pursuant to the SYB swap arrangements, will provide sufficient land suitable for oil palm planting for the group's own use to permit further expansion of the group's total planted area from the immediate target of 44,000 hectares to approximately 60,000 hectares.

Stone and coal operations

Work is continuing on the establishment of a quarry at the stone 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 surrounding area. It is planned to reorganise the ownership of the stone concession so as to bring it under the direct control of REA Kaltim; the quarry will then be integrated with the group's agricultural operations.

An outline agreement has been signed relating to the coal concession in the southern part of East Kalimantan and it is expected that an agreement relating to the coal concession near Kota Bangun will be concluded in the near future. Both agreements provide for the relative concessions to be operated in cooperation with third parties on a basis that will provide an income stream to the group calculated by reference to coal prices prevailing from time to time. This will minimise further coal related costs to the group and will hopefully permit recovery of the carrying value of the concessions with some upside in the event of a recovery in coal prices.

Environmental and social responsibility

In support of its on-going commitment to producing palm oil in a responsible manner, the group is putting in place measures better to monitor and manage the environmental and social impacts of its activities. Following publication of its first carbon footprint report in February 2013, the group published its first sustainability report in July 2013. The carbon footprint and the sustainability reports are both available for download from the group's website at: www.rea.co.uk/rea/en/sustainability/reports

The group's inaugural carbon footprint report identifies and quantifies the greenhouse gas ("GHG") emissions associated with the production of CPO and CPKO at the group's oil mills in 2011. This will facilitate the design and implementation of effective strategies for reducing the group's GHG emissions and will provide a baseline against which progress in achieving GHG reductions can be monitored and reported.

The group's first sustainability report relates to the calendar year 2012 and has been produced in accordance with the requirements of the Global Reporting Initiative. The report outlines the measures being taken to manage the aspects of sustainability that

Chairman's statement continued

are considered to be of greatest relevance to the group's business and of most interest to the group's stakeholders. It also includes a number of key performance indicators which provide a baseline against which the group's economic, environmental and social performance can be monitored. It is the intention that a sustainability report will be published biennially.

In targeting 44,000 hectares of oil palm plantings on its existing titled areas and further expansion of some 16,000 hectares on other areas, the group has paid due regard to its obligations to procure smallholder development. At 31 December 2012, smallholder areas already planted amounted to some 5,300 hectares. These should be increased during 2013 by the planned reallocation of 800 hectares at KMS and planting of a further 250 hectares elsewhere, taking the total by year end to some 6,350 hectares. Pursuant to the settlement agreements signed with REA Kaltim and SYB villages in January and February, the group will allocate part of the land areas held by the subsidiary, PT Persada Bangun Jaya ("PBJ2"), to develop 2,450 hectares of oil palm for cooperative schemes for the benefit of these villages. Work on completing this allocation is proceeding well with good cooperation from the villages. It is expected that land preparation in the areas concerned will start within the next few months and planting up will then follow as rapidly as possible. In addition, the group has made allowance in planning its own extension planting programme for the provision, within the areas prospectively available to the group, of land sufficient for a further 7,500 hectares of smallholder oil palm plantings.

In addition to the steps being taken to ensure satisfaction of the smallholder planting commitments agreed as part of the January and February settlements with villages, the group is enhancing its village liaison staffing with a view to facilitating early discussion of any village concerns that may arise in future. The group will continue to support appropriate community development projects within the villages.

Continuing accreditation of the group's palm oil milling and storage facilities in compliance with the Roundtable on Sustainable Palm Oil ("RSPO") Supply Chain Certification System ("SCCS") allows the group to sell its CPO and CPKO as certified sustainable oil. Sales of Greenpalm certificates under the RSPO book and claim model during the first half of 2013 were made in respect of some 17,500 tonnes of CPO and 8,000 tonnes of CPKO. In addition, the group made sales of 32,500 tonnes of International Sustainability and Carbon Certification ("ISCC") CPO during the first half of 2013. ISCC accreditation permits CPO to be used to manufacture biodiesel that meets the requirements of the European Union Renewable Energy Directive. Overall, premia derived from the group's sustainability credentials provided some \$0.7 million of incremental revenue.

RSPO surveillance audits of the group's two older mills, the estates of REA Kaltim and the established estates of SYB were conducted during the first quarter of 2013 and accreditation has been retained for a further year.

The group has been accruing credits for Carbon Emission Reduction ("CER") in respect of the two methane capture plants since their commissioning in April and October 2012 respectively. Credits have been issued during July and August 2013 for a total of 37,893 CERs achieved during the plants' respective periods of operation from commissioning until 31 December 2012. All such CERs have been sold forward at prices agreed at the outset of the methane capture project and together should realise some \$0.5 million. This CER revenue has not been recognised in the group's accounts to date and will be taken up when received.

Financing

The group continues to be financed by a combination of debt and equity (comprising ordinary and preference share capital). Following a placing in May 2013 of 1.67 million ordinary shares at 425p per share, total equity

including non-controlling interests amounted to \$312.7 million at 30 June 2013 against \$315.0 million at 31 December 2012.

Capital expenditure and a net absorption of cash in operating activities during the six months to 30 June 2013 were financed from a combination of the group's existing cash balances, the net proceeds of the May placing of ordinary shares and further drawings of some \$10 million against a working capital facility with PT Bank DBS. The net absorption of cash in operating activities was principally accounted for by tax prepayments (which were made at rates based on 2012 profits and will be refundable to the extent not required to meet 2013 tax liabilities), prepayments against capital projects and a reduction in payables.

As a result, group indebtedness and related engagements at 30 June 2013 totalled \$172.8 million against \$163.5 million at 31 December 2012. The total at 30 June 2013 comprised \$15.9 million nominal of 7.5 per cent dollar notes 2012/14 (carrying value: \$15.7 million), \$34 million nominal of 7.5 per cent dollar notes 2017 (carrying value: \$33.3 million), £34.5 million of 9.5 per cent guaranteed sterling notes 2015/17 (carrying value: \$50.7 million), \$11.9 million in respect of the hedge of the principal amount of the sterling notes, term loans from Indonesian banks totalling \$36.2 million and other indebtedness, principally comprising drawings under working capital lines, of \$25 million. Against this indebtedness, the group held cash and cash equivalents of \$15.1 million (31 December 2012: \$26.4 million).

For the reasons already detailed, the group recorded a loss for the six months to 30 June 2013 and this, coupled with the negative impact of the village disruptions on the 2012 results, has meant that internal cash generation over the past eighteen months has been lower than the directors had originally expected. It has always been the group's policy to carry reserve liquidity sufficient to provide some protection in the event of an unexpected

downturn and this policy has meant that the group has been able to maintain its development programme notwithstanding the lower than expected cash generation. However, an inevitable consequence has been some depletion in the liquidity reserve. The May placing of ordinary shares was made to restore the reserve to a more comfortable level and to keep the group's debt equity ratio at a level that the directors regard as satisfactory.

Whilst the group will tailor its rate of extension planting to the funds available, the directors hope that the group's expansion can continue at a good pace given that only limited expenditure on further milling capacity should be needed over the next four years.

The group is currently considering offers of medium term loans from regional banks in South East Asia with a view to refinancing repayments due over the next two and a half years on the group's outstanding sterling and dollar notes and to ensuring access to further funds should the need arise.

Strategic direction

The planned restructuring of the Indonesian plantation subsidiaries into a single sub-group headed by the principal operating subsidiary, REA Kaltim, was completed in May 2013. 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 2014 at the earliest and until sufficient time has elapsed for the REA Kaltim sub-group to have reported figures that reflect normal cropping levels.

On 11 June 2013, an extraordinary general meeting of shareholders provided the authorisations necessary to permit the company to acquire, within certain limits, its

Chairman's statement continued

own ordinary shares and then later to resell the shares so acquired. This is with the intention that the company will, from time to time, purchase smaller holdings of ordinary shares, retain the shares purchased until a holding of a reasonable size has been accumulated and then arrange to place that holding with substantial investors.

Prospects

Although the results being reported are a disappointment, they relate to a period that is over. Relations with local villages have improved, agricultural operations have returned to normal and operating costs remain under good control with the methane capture and composting initiatives of recent years continuing to prove their worth and with the negative effect of the recent provincial authority mandated increase in wages mitigated by a weaker Indonesian rupiah. The extension planting programme is going well, progress has been made in converting the group's coal assets into cash and continuing work on the group's land bank is providing a realistic prospect of increasing the group's planted hectarage to 60,000 hectares without further material land acquisitions.

The directors believe that the group is now recovering from a difficult period and that, as the recovery continues, shareholders can look forward to significant growth in the group's business from successful implementation of the development programme now in hand.

RICHARD M ROBINOW

Chairman

27 August 2013

Risks and uncertainties

The principal risks and uncertainties affecting the business activities of the group as at the date of publication of the company's 2012 annual report were set out in that report, under the heading "Principal risks and uncertainties", on pages 51 to 58 of the report (a copy of which may be downloaded from the company's website at www.rea.co.uk). In summary, such risks and uncertainties comprised:

- the exposure of the group's agricultural operations to adverse climatic conditions, pests, diseases and potential damage from logistical disruptions;
- the financial dependence of the agricultural operations upon crude palm oil ("CPO") and crude palm kernel oil ("CPKO") prices and, as respects the planned level of the extension planting programme, the group's ability to make land available for planting and to finance expansion at the rate that the programme will require;
- risks associated with a breakdown in relations with the local communities;
- currency risks inherent in the fact that CPO, CPKO and coal are essentially dollar based commodities and that operational costs are incurred partly in other currencies;
- environmental and social risks arising from the need to develop in a sustainable manner while operating in a region that elsewhere includes substantial unspoilt rain forest; and
- regulatory, country and locality risks that arise from the fact that substantially all of the group's agricultural assets are located in the East Kalimantan province of Indonesia.

The directors consider that the principal risks and uncertainties for the second six months of 2013 continue to be those set out in the company's 2012 annual report as summarised above.

Directors' responsibilities

The directors are responsible for the preparation of this half yearly financial report.

The directors confirm that the accompanying condensed set of financial statements has been prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the European Union and that:

- the "Chairman's statement" and "Risks and uncertainties" sections of this half yearly report include a fair review of the information required by rule 4.2.7 of the Disclosure and Transparency Rules of the Financial Conduct Authority, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the year; and
- note 15 in the notes to the consolidated financial statements includes a fair review of the information required by rule 4.2.8 of the Disclosure and Transparency Rules of the Financial Conduct Authority, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the group during that period, and any changes in the related party transactions described in the last annual report that could do so.

The current directors of the company are as listed on page 59 of the company's 2012 annual report.

Approved by the board on 27 August 2013

RICHARD M ROBINOW

Chairman

Consolidated income statement

for the six months ended 30 June 2013

	Note	6 months to 30 June 2013 \$'000	6 months to 30 June 2012 (restated) \$'000	Year to 31 December 2012 \$'000
Revenue	2	46,296	69,115	124,600
Net loss arising from changes in fair value of agricultural inventory	3	(1,277)	(4,326)	(5,677)
Cost of sales		(34,408)	(33,563)	(63,566)
Gross profit		10,611	31,226	55,357
Net gain arising from changes in fair value of biological assets	10	1,043	3,770	5,979
Other operating income	2	12	3	12
Distribution costs		(674)	(801)	(1,601)
Administrative expenses	5	(8,029)	(7,248)	(18,899)
Impairment loss		-	-	(3,000)
Operating profit		2,963	26,950	37,848
Investment revenues	2	56	904	411
Finance costs	6	(5,558)	(3,850)	(7,701)
(Loss) / profit before tax		(2,539)	24,004	30,558
Tax	7	(346)	(7,090)	(12,855)
(Loss) / profit for the period		(2,885)	16,914	17,703
Attributable to:				
Ordinary shareholders		(6,177)	13,810	11,342
Preference shareholders		3,451	3,084	6,713
Non-controlling interests		(159)	20	(352)
		(2,885)	16,914	17,703
(Loss) / earnings per 25p ordinary share	8	(18.2) cents	41.3 cents	33.9 cents

All operations in all periods are continuing

Consolidated balance sheet

as at 30 June 2013

	Note	30 June 2013 \$'000	30 June 2012 (restated) \$'000	31 December 2012 \$'000
Non-current assets				
Goodwill		12,578	12,578	12,578
Biological assets	10	273,531	256,058	265,663
Property, plant and equipment	11	147,726	122,025	145,610
Prepaid operating lease rentals		25,123	23,273	26,630
Indonesian stone and coal interests		29,656	31,630	29,480
Investments		–	1,438	–
Deferred tax assets		7,786	4,230	6,063
Non-current receivables		5,688	5,211	2,470
Total non-current assets		502,088	456,443	488,494
Current assets				
Inventories		19,268	17,599	20,712
Investments		3	–	1,256
Trade and other receivables		34,469	48,000	32,155
Cash and cash equivalents		15,141	12,358	26,393
Total current assets		68,881	77,957	80,516
Total assets		570,969	534,400	569,010
Current liabilities				
Trade and other payables		(19,967)	(16,489)	(30,051)
Current tax liabilities		(5,204)	(5,054)	(4,348)
Bank loans		(25,000)	(9,518)	(1,000)
US dollar notes		(670)	(4,632)	(691)
Ordinary dividend payable		(1,862)	(1,814)	–
Other loans and payables		(2,856)	(1,330)	(1,105)
Total current liabilities		(55,559)	(38,837)	(37,195)
Non-current liabilities				
Bank loans		(36,250)	(36,920)	(51,194)
Sterling notes		(50,687)	(52,011)	(54,279)
US dollar notes		(48,304)	(29,608)	(48,007)
Preference shares issued by a subsidiary	12	(39)	(1,500)	(54)
Hedging instruments		(15,876)	(14,467)	(11,622)
Deferred tax liabilities		(44,481)	(43,010)	(44,372)
Other loans and payables		(7,120)	(5,740)	(7,257)
Total non-current liabilities		(202,757)	(183,256)	(216,785)
Total liabilities		(258,316)	(222,093)	(253,980)
Net assets		312,653	312,307	315,030
Equity				
Share capital		98,206	87,939	97,565
Share premium account		28,557	21,771	18,680
Translation reserve		(7,634)	(4,011)	(4,854)
Retained earnings		191,734	204,103	201,630
		310,863	309,802	313,021
Non-controlling interests		1,790	2,505	2,009
Total equity		312,653	312,307	315,030

Consolidated statement of comprehensive income

for the six months ended 30 June 2013

	6 months to 30 June 2013	6 months to 30 June 2012 (restated)	Year to 31 December 2012
	\$'000	\$'000	\$'000
(Loss) / profit for the period	(2,885)	16,914	17,703
Other comprehensive deficit			
Exchange differences on translation of foreign operations	(2,838)	(1,306)	(2,064)
Total comprehensive (deficit) / income for the period	(5,723)	15,608	15,639
Attributable to:			
Ordinary shareholders	(8,955)	12,467	9,151
Preference shareholders	3,451	3,084	6,713
Non-controlling interests	(219)	57	(225)
	(5,723)	15,608	15,639

Consolidated statement of changes in equity

for the six months ended 30 June 2013

	Share capital \$'000	Share premium \$'000	Translation reserve \$'000	Retained earnings \$'000	Sub total \$'000	Non- controlling interests \$'000	Total equity \$'000
2013							
At 1 January 2013	97,565	18,680	(4,854)	201,630	313,021	2,009	315,030
Total comprehensive income	–	–	(2,780)	(2,724)	(5,504)	(219)	(5,723)
Issue of new ordinary shares	641	9,877	–	–	10,518	–	10,518
Dividends to preference shareholders	–	–	–	(3,451)	(3,451)	–	(3,451)
Dividends to ordinary shareholders	–	–	–	(3,721)	(3,721)	–	(3,721)
At 30 June 2013	98,206	28,557	(7,634)	191,734	310,863	1,790	312,653
2012 (restated)							
At 1 January 2012	87,939	21,771	(11,762)	202,763	300,711	2,234	302,945
Correction of previous accounting error: as at 31 December 2011 *	–	–	9,099	(9,099)	–	–	–
Correction of previous accounting error: six months to 30 June 2012 *	–	–	(865)	865	–	–	–
Total comprehensive income	–	–	(483)	16,034	15,551	57	15,608
Dividends to preference shareholders	–	–	–	(3,084)	(3,084)	–	(3,084)
Dividends to ordinary shareholders	–	–	–	(3,376)	(3,376)	–	(3,376)
Changes in non-controlling interests	–	–	–	–	–	214	214
At 30 June 2012	87,939	21,771	(4,011)	204,103	309,802	2,505	312,307

* See note 1

Consolidated cash flow statement

for the six months ended 30 June 2013

		6 months to 30 June 2013 \$'000	6 months to 30 June 2012 \$'000	Year to 31 December 2012 \$'000
Net cash (to) / from operating activities				
Net cash (to) / from operating activities	Note 14	(13,296)	1,117	32,470
Investing activities				
Interest received		56	904	411
Proceeds on disposal of property, plant and equipment		–	3	4
Purchases of property, plant and equipment		(6,590)	(19,016)	(50,264)
Expenditure on biological assets		(5,503)	(9,883)	(15,033)
Expenditure on prepaid operating lease rentals		(1,828)	(99)	(2,241)
Acquisition of subsidiary company		–	–	(1,616)
Investment in Indonesian stone and coal interests		(176)	(3,300)	(3,900)
Net cash used in investing activities		(14,041)	(31,391)	(72,639)
Financing activities				
Preference dividends paid		(3,451)	(3,084)	(6,713)
Ordinary dividends paid		(1,852)	(3,376)	(3,376)
Repayment of borrowings		–	–	(10,603)
Proceeds of issue of preference shares		–	–	6,535
Issue of US dollar notes, net of expenses		–	–	33,593
Redemption of US dollar notes		–	–	(19,000)
Proceeds of issue of new ordinary shares		10,518	–	–
Net sale and repurchase of US dollar notes		1,238	–	(259)
New bank borrowings drawn		10,000	18,870	36,027
Changes in non-controlling interests in subsidiaries		–	214	–
Net cash from financing activities		16,453	12,624	36,204
Cash and cash equivalents				
Net decrease in cash and cash equivalents	Note 15	(10,884)	(17,650)	(3,965)
Cash and cash equivalents at beginning of period		26,393	30,601	30,601
Effect of exchange rate changes		(368)	(593)	(243)
Cash and cash equivalents at end of period		15,141	12,358	26,393

Notes to the consolidated financial statements

1. Basis of accounting

The condensed consolidated financial statements for the six months ended 30 June 2013 comprise the unaudited financial statements for the six months ended 30 June 2013 and 30 June 2012, neither of which has been reviewed by the company's auditors, together with audited financial statements for the year ended 31 December 2012.

The information shown for the year ended 31 December 2012 does not constitute statutory accounts within the meaning of section 435 of the Companies Act 2006, and is an abridged version of the group's published financial statements for that year which have been filed with the Registrar of Companies. The auditors' report on those statements was unqualified and did not contain any statements under section 498(2) or (3) of the Companies Act 2006.

The condensed consolidated financial statements for the six months ended 30 June 2013 have been prepared in accordance with IAS 34, "Interim Financial Reporting" as adopted by the European Union, and should be read in conjunction with the annual financial statements for the year ended 31 December 2012 which were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The accounting policies and methods of computation adopted in the preparation of the condensed consolidated financial statements for the six months ended 30 June 2013 are the same as those set out in the group's annual report for 2012.

On page 93 of the group's Annual Report 2012, it was reported that the group had corrected an accounting error in relation to its previous treatment of certain cross-currency interest rate swaps as cash flow hedges of the group's liability in respect of the 9.5 per cent guaranteed sterling notes 2015/17 issued by REA Finance B.V.. The consequential corrections which were booked in the financial statements for the year ended 31 December 2012 have been reflected as appropriate in the restated condensed financial statements for the half year ended 30 June 2012 as presented in this half yearly report.

The condensed consolidated financial statements for the six months ended 30 June 2013 were approved by the Board of Directors on 27 August 2013.

2. Revenue

	6 months to 30 June 2013 \$'000	6 months to 30 June 2012 \$'000	Year to 31 December 2012 \$'000
Sales of goods	46,175	68,784	122,621
Revenue from services	121	331	1,979
	<hr/>	<hr/>	<hr/>
	46,296	69,115	124,600
Other operating income	12	3	12
Investment revenue	56	904	411
Total revenue	<hr/>	<hr/>	<hr/>
	46,364	70,022	125,023

3. Agricultural produce inventory movement

The net loss 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).

Notes to the consolidated financial statements continued

4. Segment information

In the year ended 31 December 2012, the group disclosed segment information for three reportable segments in accordance with IFRS 8 Operating Segments, two operating segments, being the cultivation of oil palms and the stone and coal operations, and a head office segment comprising the activities of the UK, European and Singaporean subsidiaries.

In the six months ended 30 June 2013 the relevant measures for the coal and stone operations fell below the quantitative thresholds set out in IFRS 8. Reflecting the directors' decision to discontinue the coal trading operations and to concentrate on developing the stone concession as a part of the group's agricultural activities, it is considered that the remaining coal concessions are no longer of continuing significance to the group for segment reporting purposes. Accordingly, no segment information is included in these financial statements.

5. Administrative expenses

	6 months to 30 June 2013 \$'000	6 months to 30 June 2012 \$'000 (restated)	Year to 31 December 2012 \$'000
Net foreign exchange losses / (gains)	9	62	(845)
UK pension scheme	189	394	1,072
(Profit) / loss on disposal of fixed assets	–	(3)	39
Net loss / (gain) on financial liabilities at FVTPL	291	(197)	190
Indonesian operations	7,643	5,964	15,573
Head office	2,639	2,472	4,762
Administrative expenses before capitalisation	10,771	8,692	20,791
Amount included as additions to biological assets	(2,742)	(1,444)	(1,892)
	8,029	7,248	18,899

6. Finance costs

	6 months to 30 June 2013 \$'000	6 months to 30 June 2012 \$'000 (restated)	Year to 31 December 2012 \$'000
Interest on bank loans and overdrafts	2,130	1,508	4,145
Interest on US dollar notes	2,009	1,631	3,433
Interest on sterling notes	2,959	2,764	5,598
Change in value of sterling notes arising from exchange fluctuations	(4,026)	497	1,029
Change in fair value of derivative financial instruments	4,254	(1,454)	(2,108)
Other finance charges, including exchange differences	(104)	657	372
	7,222	5,603	12,469
Amount included as additions to biological assets	(1,664)	(1,753)	(4,768)
	5,558	3,850	7,701

7. Tax	6 months to 30 June 2013 \$'000	6 months to 30 June 2012 (restated) \$'000	Year to 31 December 2012 \$'000
Current tax:			
UK corporation tax	–	–	534
Foreign tax	1,835	5,455	9,638
Prior year	–	–	557
Total current tax	1,835	5,455	10,729
Deferred tax:			
Current year	(1,489)	1,635	2,068
Prior year	–	–	58
	(1,489)	1,635	2,126
Total tax	346	7,090	12,855

The tax charge for the period of \$346,000 (2012 restated: \$7,090,000) is based on the reported results of the operations in each jurisdiction, using relevant rates of tax, adjusted for items which include non-taxable income/expense, Indonesian withholding taxes not utilisable in the UK and time expired tax losses brought forward. If the income mix in the second half of 2013 differs materially from that of the first half, it will result in a disproportionate movement in the effective rate of taxation for the full year.

8. (Loss) / earnings per share	6 months to 30 June 2013 \$'000	6 months to 30 June 2012 (restated) \$'000	Year to 31 December 2012 \$'000
(Loss) / earnings for the purpose of (loss) / earnings per share*	(6,177)	13,810	11,342
* being net (loss) / profit attributable to ordinary shareholders			
	'000	'000	'000
Weighted average number of ordinary shares for the purpose of (loss) / earnings per share	33,885	33,415	33,415

9. Dividends	6 months to 30 June 2013 \$'000	6 months to 30 June 2012 \$'000	Year to 31 December 2012 \$'000
Amounts paid or payable and recognised as distributions to equity holders:			
Preference dividends of 9p per share per annum	3,451	3,084	6,713
Ordinary dividends:			
Interim re 2011 (3.0p per share paid 27 January 2012)	–	1,562	1,562
Final re 2011 (3.5p per share paid 30 July 2012)	–	1,814	1,814
Interim re 2012 (3.5p per share paid 25 January 2013)	1,852	–	–
Final re 2012 (3.5p per share paid 26 July 2013)	1,862	–	–
	7,165	6,460	10,089

Notes to the consolidated financial statements continued

10. Biological assets	6 months to 30 June 2013 \$'000	6 months to 30 June 2012 \$'000	Year to 31 December 2012 \$'000
Beginning of period	265,663	244,433	244,433
Additions to planted area and costs to maturity including finance costs	6,904	7,311	15,369
Transfers from property, plant and equipment	55	579	–
Transfers from prepaid operating lease rentals	–	–	45
Transfers to non-current receivables	(1)	(35)	(79)
Transfers to current receivables	(133)	–	(84)
Net biological gain	1,043	3,770	5,979
End of period	273,531	256,058	265,663
Net biological gain comprises:			
Fair value of crops harvested during the period	(28,588)	(39,772)	(78,468)
Gain arising from movement in fair value attributable to other physical changes	22,990	39,010	72,226
Gain arising from movement in fair value attributable to price changes	6,641	4,532	12,221
	1,043	3,770	5,979

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

In the period, there were additions to property, plant and equipment of \$6.6 million (2012: \$19.0 million).

Capital commitments contracted, but not provided for by the group, amounted to \$4.0 million (31 December 2012: \$19.3 million).

12. Issuance, repurchase and resale of securities

On 10 May 2013 the company placed 1,670,724 ordinary shares of 25p each at 425p per share. As a result the number of ordinary shares in issue was increased to 35,085,269.

During the period the group repurchased 3,500 of the redeemable participating preference shares of KCC Resources Limited for a consideration of \$16,079.

13. Hedging instruments

Hedging instruments comprise the three outstanding contracts, cross currency interest rate swaps ("CCIRS"), as described in note 27 (page 111) of the Annual Report 2012. The fair value of the CCIRS has been derived by a discounted cash flow analysis using quoted foreign forward exchange rates and yield curves derived from quoted interest rates with maturities corresponding to the applicable cash flows. The valuation of the CCIRS at 30 June 2013 at fair value resulted in a loss of \$4,254,000. The movement in the period has been dealt with through the consolidated income statement.

14. Reconciliation of operating profit to operating cash flows	6 months to 30 June 2013 \$'000	6 months to 30 June 2012 \$'000	Year to 31 December 2012 \$'000
Operating profit	2,963	26,753	37,848
Depreciation of property, plant and equipment	4,895	2,606	6,162
Decrease in fair value of agricultural produce inventory	1,277	3,634	5,678
Amortisation of prepaid operating lease rentals	225	323	388
Amortisation of sterling and US dollar note issue expenses	552	105	645
Biological gain	(1,043)	(3,770)	(5,979)
Impairment loss	–	–	3,000
(Profit) / loss on disposal of property, plant and equipment	–	(3)	39
Operating cash flows before movements in working capital	8,869	29,648	47,781
Decrease / (increase) in inventories (excluding fair value movements)	167	4,326	(831)
Reclassification of investments	–	1,705	–
(Increase) / decrease in receivables	(4,091)	(18,652)	2,070
(Decrease) / increase in payables	(8,470)	(2,594)	6,891
Exchange translation differences	(719)	(18)	(801)
Cash (utilised) / generated by operations	(4,244)	14,415	55,110
Taxes paid	(3,494)	(8,491)	(16,200)
Tax refund received	–	–	1,261
Interest paid	(5,558)	(4,807)	(7,701)
Net cash (to) / from operating activities	(13,296)	1,117	32,470

15. Movements in net borrowings	6 months to 30 June 2013 \$'000	6 months to 30 June 2012 \$'000	Year to 31 December 2012 \$'000
Change in net borrowings resulting from cash flows:			
Decrease in cash and cash equivalents	(10,884)	(17,650)	(3,965)
Net increase in borrowings	(10,000)	(18,373)	(25,424)
	(20,884)	(36,023)	(29,389)
Issue of US dollar notes, net of amortisation issue expenses	–	(323)	(33,593)
Redemption of US dollar notes, net of amortisation of issue expenses	–	–	18,355
Investments netted off against preference shares liability	–	–	(1,430)
Net sale and repurchase of US dollar notes	–	–	259
Amortisation of sterling notes issue expenses	(416)	(630)	–
	(21,300)	(36,976)	(45,798)
Currency translation differences	4,323	335	2,156
Net borrowings at beginning of period	(128,832)	(85,190)	(85,190)
Net borrowings at end of period	(145,809)	(121,831)	(128,832)

Notes to the consolidated financial statements

continued

16. Related parties

During the first six months of 2013 no new material related party transactions have been started and only those related party transactions which were disclosed in the company's 2012 annual report have continued.

17. Events after the reporting period

A final dividend of 3.5p per ordinary share in respect of the year ended 31 December 2012 was paid on 26 July 2013.

18. Rates of exchange

	30 June 2013		30 June 2012		31 December 2012	
	Closing	Average	Closing	Average	Closing	Average
Indonesia rupiah to US dollar	9,929	9,744	9,480	9,250	9,670	9,392
US dollar to pound sterling	1.5167	1.55	1.5685	1.58	1.6255	1.59

Maps

The smaller map shows the location of the REA group's operations within the context of South East Asia. The larger map provides a plan of the operational areas and of the river system by which access is obtained to the main areas.



