



R.E.A. HOLDINGS PLC - HALF YEARLY REPORT  
**2012**



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# Summary of results

for the six months ended 30 June 2012

	6 months to 30 June 2012 \$'000	6 months to 30 June 2011 \$'000	Change %
Sales revenue	69,115	75,464	- 8
Earnings before interest, tax, depreciation, amortisation and biological gain	25,792	39,874	- 35
Profit before tax	22,850	36,870	- 38
Profit for the period	16,049	27,447	- 42
Profit attributable to ordinary shareholders	12,951	25,247	- 49
Cash generated by operations (note 13)	14,415	22,864	- 37
<hr/>			
Earnings per ordinary share (basic)	38.8 cents	75.6 cents	- 49

# Chairman's statement

## Results

The group profit before tax for the six months to 30 June 2012 was \$22.9 million as compared with the profit before tax for the corresponding period of 2011 of \$36.9 million. Most components of cost of sales are determined by the mature area under cultivation and do not vary much with the volume of crop harvested. The principal reasons for the reduction were therefore a lower crop and the reduced net prices realised for the group's crude palm oil ("CPO") and crude palm kernel oil ("CPKO") as illustrated by the following table:

	\$'m
Value impact of reduced crop	(5.8)
Value impact of reduced prices	(8.8)
	<hr style="border-top: 1px solid black;"/> <u>(14.6)</u>

The net loss arising from changes in the fair value of agricultural inventory of \$4.3 million (2011: \$0.5 million) reflected destocking during the six months to 30 June 2012. This also resulted in a negative stock movement within cost of sales of \$2.4 million (2011: positive movement of \$2.4 million).

Excluding movements on agricultural inventory, cost of sales attributable to the agricultural operations amounted to \$27.9 million. Notwithstanding continuing cost inflation, this was substantially in line with budget and showed only a small increase on the equivalent figure for the corresponding period of 2011 of \$26.3 million. The increase includes the costs attributable to an additional 1,234 hectares that were reclassified from immature to mature with effect from 1 January 2012. Costs in the second half of 2012 will benefit from almost a full six months of diesel savings from the new methane capture plants.

Administrative expenses for the period amounted to \$7.4 million. This is lower than the administrative expenses for the second half of 2011 of \$11.0 million but higher than

the \$6.0 million reported for the six months to 30 June 2011. Administrative expenses continue, as with cost of sales, to be subject to cost pressures (particularly in relation to management transition) but the movements over the three six month periods to 30 June 2012 do in part reflect changes in the percentage of administrative expenses capitalised as costs of extension planting. Administrative expenses for the six months to 30 June 2012 include \$0.4 million for additional funding of the group's UK pension scheme.

The net gain on valuation of the group's biological assets included in operating profit for the six months to 30 June 2012 amounted to \$3.8 million (2011: \$3.1 million). The discount rates applied in the valuation 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") (2011: respectively 16 per cent and 17.5 per cent) and 18 per cent for all other estates owned by the group. The reduction in discount rates is designed to reflect appropriately the improved credit rating now accorded to Indonesian sovereign exposures as well as a perceived reduction in the risks of achieving projected margins from the future harvest of fresh fruit bunches ("FFB") on the SYB estates in view of the imminent completion of the group's third oil mill which is owned by SYB.

The results for the period include an operating loss from the coal operations of \$1.5 million (2011: profit of \$0.2 million). The loss reflects the adverse developments in the now suspended coal trading operations as described under "Coal and quarry operations" below.

The group's appeal against an assessment of tax on the 2006 profits of REA Kaltim has now been decided by the Indonesian Tax Court. The Court found in REA Kaltim's favour on certain of the items appealed but against on the majority of items. The Indonesian tax authorities and

# Chairman's statement continued

REA Kaltim have separately appealed the Tax Court decisions against them. No judgement has yet been received in relation to the disputed Indonesian assessment of tax on the profits of REA Kaltim for 2008. All disputed amounts have been previously paid in full pending decision by the Indonesian Tax Court but \$0.3 million, representing an amount of 2006 tax that the Tax Court has ruled was over-assessed, has now been refunded. The substantial provisions previously made against the tax assessments in question have been retained.

## Ordinary dividend

As shareholders will be aware, the group's planned extension planting programme, and the requirement for investment in estate buildings and other estate plant and equipment that follows any expansion of the group's planted hectareage, will involve the group in substantial capital expenditure for several years to come. In addition, during 2012, completion of the construction of the group's third oil mill and its two new methane capture plants, together with housing and associated infrastructure, is projected to involve expenditure of some \$30 million. The need to fund this expenditure will constrain the rates at which the directors feel that they can prudently declare or recommend the payment of dividends in respect of 2012.

Nevertheless, the directors hope that the modestly progressive dividend policy of recent years can be continued and that dividends in respect of 2012 can be paid at a higher level than those in respect of 2011. In the absence of unforeseen circumstances, the directors intend that an interim dividend in respect of 2012 should be paid in January 2013 at the rate of 3.5p per ordinary share (interim dividend in respect of 2011: 3p).

The directors continue to believe that capitalisation issues of new preference shares, such as were made in 2011 and on several previous occasions, provide a useful

mechanism for augmenting returns to ordinary shareholders in periods in which demands on cash resources limit the scope for payment of ordinary dividends.

When the company's 2011 annual report was published, it was indicated that any capitalisation issue of new preference shares to ordinary shareholders that the directors might otherwise consider it appropriate to propose during 2012, might be deferred and included as part of proposals submitted to shareholders for a public offering of REA Kaltim shares and connected changes to the company's issued share capital. It now appears likely that the reorganisation of the shareholdings in the Indonesian plantation companies that will be required to create a new Indonesian sub-group with REA Kaltim as its parent company, a necessary prelude to a public offering of REA Kaltim shares, will take longer to complete than originally envisaged. The directors therefore think it appropriate to proceed at this time with a capitalisation issue of new preference shares.

Accordingly, the directors propose that the company should make a capitalisation issue of new preference shares to ordinary shareholders, on this occasion on the basis of three new 9 per cent cumulative preference shares for every 50 ordinary shares held on 27 September 2012. A circular setting out details of the proposed capitalisation issue is being issued to shareholders together with this interim report.

## Agricultural operations

FFB harvested during the six months to 30 June 2012 totalled 271,773 tonnes. This was below the crop budgeted for the period of 345,396 tonnes and also below the crop harvested in the corresponding period in 2011 of 299,634 tonnes. A significant component of the shortfall on budget reflected the delayed ripening of crops that has been previously reported and is attributed to the particular weather pattern experienced in 2011. In

addition, some crop was delayed in the last two weeks of the period as a result of disruptions to harvesting generated by disputes with certain surrounding villages (as referred to under "Environmental and social responsibility" below). It is expected that the remaining months of 2012 will see FFB production at above budget levels. Nevertheless, it must be expected that the full budget for the year may not be attained.

Rainfall for the first half of 2012 at 1,791 millimetres was a little below the 2,011 millimetres in the first half of 2011 but adequate for oil palm cultivation. July rainfall was at normal levels for the time of year but August to-date has been relatively dry. It is too early to assess whether this is just a normal weather fluctuation or the first sign of an El Nino weather phenomenon, the early onset of which is currently being predicted by several commentators.

External purchases of FFB for the six months to 30 June 2012 totalled 23,025 tonnes (2011: 14,844 tonnes). Processing of the externally purchased FFB and the group's own production, together totalling 294,798 tonnes (2011: 314,479 tonnes), produced 68,451 tonnes of CPO (2011: 71,334 tonnes), 13,683 tonnes of palm kernels (2011: 13,972 tonnes) and 5,386 tonnes of CPKO (2011: 5,330 tonnes). These production figures reflect extraction rates of 23.25 per cent for CPO (2011: 22.68 per cent), 4.65 per cent for palm kernels (2011: 4.44 per cent) and 38.10 per cent for CPKO (2011: 39.31 per cent).

During 2012, the CPO price has remained consistently above a level close to \$1,000 per tonne, CIF Rotterdam, with a high in April of just under \$1,200 per tonne. The price currently stands at \$1,017 per tonne. The average price for the six months to 30 June 2012 was \$1,095 as compared with an average for the corresponding period in 2011 of \$1,196.

The pattern of sales of recent years has continued into 2012 with a significant proportion of the group's CPO and

CPKO production being sold to refineries in East Malaysia with the balance going predominantly to the local Indonesian market. The average selling price for the group's CPO for the six months to 30 June 2012 on an FOB basis at the port of Samarinda, net of export duty, was \$830 per tonne (2011: \$916 per tonne). The average selling price for the group's CPKO on the same basis was \$958 per tonne (2011: \$1,515 per tonne). The group has no outstanding forward sales at fixed prices.

Construction of the third oil mill (which incorporates the group's second kernel crushing plant) is on schedule and nearing completion. Processing of FFB on this site will commence in the next few weeks. Works to expand capacity and upgrade the two existing mills are also almost complete and, together, the three mills provide sufficient capacity for processing the group's projected crops for some time to come.

The first methane capture plant was commissioned at the beginning of April 2012 and has passed the requirements to qualify as a small scale Clean Development Mechanism Project under the United Nations Framework on Climate Change, with carbon credits accruing from the beginning of June. The second methane capture plant is now being commissioned and will reduce further the level of greenhouse gases emitted to the atmosphere during the treatment of liquid effluent from the group's mills. The methane produced is captured and is used to generate electricity, hugely reducing the use of diesel generated power in the mills, estate operations and employee housing with material consequential savings in the group's energy costs.

Captured methane that is not required for power generation is flared and only a proportion of mill effluent is currently being processed through the methane capture plants. It is therefore already clear that the two existing plants are capable of producing methane in volumes significantly in excess of those required to meet

# Chairman's statement continued

the group's electrical power needs and the available methane could be further increased by investment in a third methane capture plant to process effluent from the group's third oil mill. The directors are exploring various alternatives for productive use of the group's surplus methane. Such alternatives include the compression of methane as a fuel for use in the group's vehicles.

## Agricultural land allocations and development

Development during the six months to 30 June 2012 concentrated on the planting out of some 5,000 hectares already classified as under development at 31 December 2011 and held by the company's subsidiary, PT Kutai Mitra Sejahtera ("KMS"). Land preparation over most of the area is substantially complete, but progress in planting out has been restricted by logistical difficulties in moving seedlings to KMS from a nursery on REA Kaltim. Whilst the distance between REA Kaltim and KMS is not great, the route crosses a river (the Senyur) and seedlings are for the moment having to be moved across this river in a small ferry. This limits the rate at which seedlings can be transferred. A bridge across the Senyur River is being constructed by the group. This should be completed during the last quarter of 2012 after which transfer of seedlings can be accelerated and planting out of KMS completed fairly rapidly.

Since 30 June 2012, development has started on a gross area of some 4,000 hectares held by the company's subsidiaries, PT Putra Bongan Jaya ("PBJ") and PT Cipta Davia Mandiri. The Indonesian regulatory regime applicable to plantation development continues to extend the permits needed for land clearing and planting but at this juncture the group holds the necessary permits for its immediate development plans and appears well placed to have land available with the required permissions as such land becomes needed for the planned expansion programme of 4,000 hectares per year.

Since the early 1990's, Indonesian law has required that developers of new oil palm plantations assist in the establishment of smallholder oil palm schemes for surrounding communities. The rules for implementation of this basic requirement have changed considerably in recent years to the extent that developers can no longer rely on the local communities to provide land for such schemes but must themselves be prepared to procure the necessary land. In view of this, considerable efforts have been made by the group during 2012 to source additional land in the vicinity of its fully titled areas to meet the aspirations of the local communities for smallholder oil palm schemes without reducing the group's prospective plantable hectareage.

To this end, the group has recently agreed to acquire a 95 per cent interest in PT Persada Bangun Jaya ("PBJ2") bringing with it land allocations over some 5,000 hectares close to its existing properties, some 4,000 hectares of which will be suitable for oil palm development and will mostly be utilised for the development of smallholder schemes. The group hopes that it will be able to retain approaching 1,000 hectares for its own use. The effective cost to the group of the land held by PBJ2 has still to be finalised but is likely to be in the order of \$7 million. Further land will still be needed for smallholder development in the area of KMS if the whole of the existing KMS area is to be retained for the group's own use.

Planting up of existing smallholder areas is continuing and it is anticipated that substantial further areas will be planted during 2013 when the formalities in relation to the acquisition of PBJ2 have been completed.

The overall area of fully titled agricultural land held by the group has remained unchanged since 27 April 2012 when the group's 2011 annual report was published. Such area currently stands at 70,584 hectares. Subject to completion of the swap arrangements with respect to land held by the subsidiary company, SYB, that were



agreed conditionally at the end of 2011, the fully titled land areas would increase to 76,124 hectares. The SYB areas to be swapped include 2,174 hectares that were classified as under development or immature at 31 December 2011. In view of the expected relinquishment of these areas, they are not being developed further.

Of the land allocations held by PBJ2, some 3,000 hectares have been excised from a conditional land allocation held by another Indonesian subsidiary of the company. As a result, land allocations still subject to titling now total some 24,000 hectares (including some 12,000 hectares of which the allocation is conditional on rezoning). The group continues actively to pursue the titling of these allocations and to explore opportunities to acquire additional land areas in the vicinity of its existing operations.

### Coal and quarry operations

Coal prices, as measured by the Newcastle globalCOAL index, have fallen significantly since the beginning of 2011 and, from a high of over \$140 in January 2011, touched a low of \$84 in June 2012. Recent weeks have seen a limited recovery to a current level a little above \$90. No doubt demand for coal is in some measure correlated with levels of industrial activity and, with the current economic difficulties in many parts of the world, the recovery in prices may be limited in the short term.

In the coal trading activities, the group has not been immune to the impact of contractual disputes that are reported to have been common in relation to coal deliveries to some Asian buyers during 2012. In the group's case, the buyer for the group's first significant shipment of the year repudiated its contractual obligations obliging the group to sell the shipment elsewhere at a loss. The group is pursuing recovery of this loss but has provided against it to the extent of \$0.8 million in the results to 30 June 2012. Pending satisfactory resolution of this contractual dispute, the coal

trading activities, which were anyway proving difficult in the face of reduced Asian demand in a falling market, have been suspended.

Drilling programmes to delineate more precisely the available resources at the Kota Bangun and Liburdinding coal mining concessions are nearing completion. Once complete drilling data is available, the group will review its mining plans in the light of prevailing coal prices.

Coal and oil palm are core components of the East Kalimantan economy, have many operational features in common and frequently compete for land. For these reasons, the directors decided, in 2008, to investigate the possibility of developing a commercial coal operation in East Kalimantan. The events of the past two years have demonstrated that coal activities have specific complexities that are not shared with oil palm operations. The directors have therefore decided that, for the time being, further capital committed to the coal operations should be limited and concentrated on maximising returns from the concessions in which the group has already invested.

The group balance sheet item captioned "Indonesian coal and quarry interests" includes the group's investment in a stone deposit located close to the group's agricultural operations. Studies on the feasibility of quarrying this deposit are progressing well and preliminary work indicates that the deposit will prove a valuable asset not only as a source of stone for the plantations (which have considerable demand for stone to improve estate roads and for other construction projects) but also as a supplier of stone to third parties on a profitable basis.

### Environmental and social responsibility

During the period to 30 June 2012, the palm oil milling and storage facilities currently in use by the group were certified to be in compliance with the Roundtable on Sustainable Palm Oil ("RSPO") Supply Chain Certification

# Chairman's statement continued

System ("SCCS"). This accreditation provides buyers of CPO and CPKO with an assurance that the oil that they are buying has come from RSPO certified sources and means that the group is now permitted to sell most of its oil production as certified sustainable oil under the RSPO "mass balance" model. This is one of three models established by RSPO for the marketing of oil from RSPO certified sources, the other two being the "segregated" and "book and claim" models. The three available models differ in the extent to which buyers of CPO and CPKO obtain delivery of identifiable sustainable oil. Under the segregated model, oil delivered is fully identified as sustainable. Under the mass balance model, certified and uncertified oil can be mixed and the proportion of the mix representing certified oil can be delivered as sustainable oil. With the book and claim model, RSPO certified producers do not deliver sustainable oil to buyers but "book" the volume of their CPO and CPKO production and are awarded "Greenpalm certificates" in exchange. These can then be sold to end users of CPO and CPKO who wish to support RSPO but do not wish to complicate their supply chains by sourcing oil only from RSPO certified producers.

Existing logistics make it difficult for the group to sell its output under the RSPO segregated model and only limited premia can currently be obtained for CPO and CPKO sold under the mass balance model and for Greenpalm certificates. Nevertheless, during the six months to 30 June 2012, the group realised \$125,000 from the sale of Greenpalm certificates.

RSPO and ISO 14001 surveillance audits of the REA Kaltim and SYB estates and the REA Kaltim mills were conducted during the first semester of 2012 and accreditation has been retained. A further audit of the REA Kaltim estates and mills was conducted in July 2012 with a view to obtaining International Sustainability and Carbon Certification ("ISCC") for the REA Kaltim operations. This accreditation would permit CPO from the

REA Kaltim estates to be used to manufacture bio-diesel that meets the requirements of the European Union Renewable Energy Directive. As part of its application for ISCC certification, the group prepared carbon emission calculations for REA Kaltim. The group is now in the final stages of calculating the carbon footprint of its entire oil palm operations in accordance with the methodology developed by the RSPO Greenhouse Gas Working Party and intends to publish the results later this year. The group will therefore be well placed to comply with the recently announced future legal requirement for UK listed companies to report their greenhouse gas emissions.

The group continues to invest in its various community development and conservation programmes. It is therefore disappointing that, during 2012, there have been a number of disputes with local villages and that, in some cases, those disputes resulted in villagers disrupting the group's operations. As noted earlier, a particular consequence was that harvesting on some estates in the last two weeks of June was delayed. Complaints from villagers have centred around the speed of plasma development and land compensation payments. The group is devoting considerable resource in meeting these villagers' concerns.

## Financing

The group continues to be financed by a combination of debt and equity (comprising ordinary and preference share capital). Total equity including non-controlling interests at 30 June 2012 amounted to \$312.3 million against \$302.9 million at 31 December 2011.

Continuing capital expenditure during the six months to 30 June 2012 was financed principally from a combination of internal cash flow, utilisation of the group's existing cash balances and further drawings of Rp 105 billion (\$11.4 million) against an Indonesian rupiah amortising loan facility with PT Bank DBS.

As a result, group indebtedness and related engagements at 30 June 2012 totalled \$144.2 million against \$126.6 million at 31 December 2011. The total at 30 June 2012 comprised \$35 million nominal of 7.5 per cent dollar notes 2012/14 (carrying value: \$34.2 million), £34.5 million of 9.5 per cent guaranteed sterling notes 2015/17 (carrying value: \$52.0 million), \$10.0 million in respect of the hedge of the principal amount of the sterling notes, term loans from Indonesian banks totalling \$36.9 million and other indebtedness, principally comprising drawings under working capital lines, of \$11.0 million. Against this indebtedness, the group held cash and cash equivalents of \$12.4 million (31 December 2011: \$30.6 million).

The level of drawings under working capital facilities at 30 June 2012 reflected the purchase in June 2012, pursuant to a supplemental rights agreement dated 23 January 2006, of \$9 million nominal of dollar notes at a price of \$100 plus accrued interest. These notes, together with a further \$1 million nominal of dollar notes already held by the group, were resold in early July to institutional investors, at a price of \$99.70 plus accrued interest per \$100 nominal of notes. The proceeds of resale, which were received on 3 July 2012, are included in trade and other receivables at 30 June 2012 and account for most of the increase in trade and other receivables from \$34.2 million at 31 December 2011 to \$48.0 million at 30 June 2012.

A consequence of the above mentioned resale of dollar notes being concluded on 3 July rather than ahead of 30 June 2012 is that net cash from operating activities for the six months to 30 June 2012 was \$10.0 million less than would otherwise have been the case.

The directors believe that the continuing accretion of shareholder funds from retained earnings means that the group can comfortably support modest additions to its loan and preference capital and the refinancing of

existing indebtedness as this falls due for repayment. On this basis, the directors plan during the remaining months of 2012 to increase the funding available to the group in three respects.

First, the directors intend that the group should issue, by way of a placing for cash, 3,926,575 new 9 per cent cumulative preference shares ranking *pari passu* in all respects with the existing issued preference shares to raise around £4 million (\$6.4 million) net of expenses. Secondly, following informal preliminary discussions with the major holders of the dollar notes, the directors aim to agree arrangements for the reorganisation of the dollar notes so as to extend repayment of the notes until 30 June 2017 against payment of a modification fee (or, for those holders who so elect, the grant of a right to put their existing holdings of notes on the company on the dates on which they would, without the reorganisation, have expected that their notes would be redeemed). Thirdly, and following such reorganisation, the directors propose that the company will issue a further tranche of up to \$15 million nominal of dollar notes with the modified repayment date of 30 June 2017.

The object of these financing measures will be to ensure the availability of a sufficient cash cushion to meet committed extension planting costs in the event of a downturn in CPO prices or a postponement of the planned listing and public offering of REA Kaltim shares in Jakarta as described below.

#### Proposed listing in Jakarta

The directors are proceeding with their plans for the amalgamation of all of the group's Indonesian plantation subsidiaries into a single sub-group headed by REA Kaltim and for a public offering of a minority shareholding in REA Kaltim (probably 20 per cent) combined with a listing of the shares of REA Kaltim on the Indonesia Stock Exchange in Jakarta.

# Chairman's statement continued

An advisory team has now been appointed and the group is preparing applications to the regulatory authorities in Jakarta for permission to proceed with the proposed amalgamation. Such amalgamation will need to be completed before any application can be made for regulatory approvals of the proposed public offering and listing. This means that the earliest time at which it is likely to be practicable to proceed with the proposed public offering and listing will be in the second quarter of 2013.

The directors continue to envisage that the net cash proceeds from the proposed public offering of REA Kaltim shares will be retained within the group and will be utilised to fund an acceleration of the group's planned extension planting programme. They also envisage that, concurrently with the public offering, the company would invite ordinary shareholders to approve a further substantial capitalisation issue of new preference shares to ordinary shareholders to offset, in effect, part of the dilution of such shareholders' effective interest in REA Kaltim.

## Succession

Planned changes to the group's senior executive management and to the board of the company are being progressively implemented. Mark Parry, the group's regional director, assumed the role of President Director of REA Kaltim at the end of June and he will be appointed a director of the company later in 2012 when four of the long-serving non-executive directors will retire. At that time, it is also intended to appoint a new independent non-executive director. Good progress has been made in identifying a suitable candidate.

The board wishes to record its appreciation of the contribution made to the group by George Kapitan, Mr Parry's predecessor as President Director of REA Kaltim.

The board is delighted that Mr Kapitan has agreed to continue his involvement with the group as President Commissioner of REA Kaltim.

## Prospects

The group is fortunate, in the current economic environment, that its core business is the production of what is essentially a food commodity. Even for food commodities, demand is subject to price elasticity but to-date demand for vegetable oils has held up well even at current prices which remain at elevated levels against historic norms. Moreover, this situation looks set to continue. Indeed, with the well reported drought problems in North America, there is every likelihood that soybean production for 2012 will fall short of expectations and that this will continue to provide support for vegetable oil prices.

Against this background, the group can expect its internal cash flows to continue at good levels. The group's estates are in excellent agricultural condition and, whilst crops will from time to time deviate from predicted levels, production should continue to build as the estates mature. The resultant increasing volumes and the now proven methane capture plants should help to contain inflationary pressures on unit costs. Moreover, the group is making good progress in consolidating its land bank and delivering its planned expansion. The directors therefore retain confidence in the group's capacity for significant further growth.

## **RICHARD M ROBINOW**

Chairman

24 August 2012

# 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 2011 annual report were set out in that report, under the heading "Principal risks and uncertainties", on pages 49 to 55 of the report (a copy of which may be downloaded from the company's website at [www.rea.co.uk](http://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;
- 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;
- risks stemming from the group's operations in a region that elsewhere includes substantial areas of 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 2012 continue to be those set out in the company's 2011 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 Services 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 Services 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 pages 56 and 57 of the company's 2011 annual report.

Approved by the board on 24 August 2012

**RICHARD M ROBINOW**

Chairman

# Consolidated income statement

for the six months ended 30 June 2012

	Note	6 months to 30 June 2012 \$'000	6 months to 30 June 2011 \$'000	Year to 31 December 2011 \$'000
<b>Revenue</b>	2	69,115	75,464	147,758
Net (loss) / gain arising from changes in fair value of agricultural inventory	3	(4,326)	(473)	4,011
Cost of sales		(33,563)	(30,854)	(68,056)
<b>Gross profit</b>		31,226	44,137	83,713
Net gain arising from changes in fair value of biological assets	10	3,770	3,076	7,375
Other operating income	2	3	143	339
Distribution costs		(801)	(857)	(1,719)
Administrative expenses	5	(7,445)	(5,970)	(16,959)
<b>Operating profit</b>		26,753	40,529	72,749
Investment revenues	2	904	1,256	2,889
Finance costs	6	(4,807)	(4,915)	(11,465)
<b>Profit before tax</b>		22,850	36,870	64,173
Tax	7	(6,801)	(9,423)	(18,559)
<b>Profit for the period</b>		16,049	27,447	45,614
Attributable to:				
Ordinary shareholders		12,951	25,247	40,453
Preference shareholders		3,084	1,949	5,006
Non-controlling interests		14	251	155
		16,049	27,447	45,614
<b>Earnings per 25p ordinary share</b>	8			
Basic		38.8 cents	75.6 cents	121.0 cents

All operations in all periods are continuing

# Consolidated balance sheet

as at 30 June 2012

	Note	30 June 2012 \$'000	30 June 2011 \$'000	31 December 2011 \$'000
<b>Non-current assets</b>				
Goodwill		12,578	12,578	12,578
Biological assets	10	256,058	232,585	244,433
Property, plant and equipment	11	122,025	88,982	102,185
Prepaid operating lease rentals		23,273	17,882	23,497
Indonesian coal and quarry interests		31,630	19,635	28,580
Investments		1,438	–	1,430
Deferred tax assets		4,230	5,861	4,689
Non-current receivables		5,211	1,761	1,835
<b>Total non-current assets</b>		<b>456,443</b>	<b>379,284</b>	<b>419,227</b>
<b>Current assets</b>				
Inventories		17,599	17,127	25,559
Investments		–	–	963
Trade and other receivables		48,000	41,565	34,162
Cash and cash equivalents		12,358	37,530	30,601
<b>Total current assets</b>		<b>77,957</b>	<b>96,222</b>	<b>91,285</b>
<b>Total assets</b>		<b>534,400</b>	<b>475,506</b>	<b>510,512</b>
<b>Current liabilities</b>				
Trade and other payables		(16,489)	(10,576)	(19,895)
Current tax liabilities		(5,054)	(8,814)	(8,349)
Bank loans		(9,518)	(4,900)	(2,000)
US dollar notes		(4,632)	–	(4,527)
Ordinary dividend payable		(1,814)	(1,609)	–
Other loans and payables		(1,330)	(629)	(1,353)
<b>Total current liabilities</b>		<b>(38,837)</b>	<b>(26,528)</b>	<b>(36,124)</b>
<b>Non-current liabilities</b>				
Bank loans		(36,920)	(25,043)	(27,018)
Sterling notes		(52,011)	(56,882)	(51,332)
US dollar notes	12	(29,608)	(43,603)	(29,414)
Preference shares issued by a subsidiary	12	(1,500)	(108)	(1,500)
Hedging instruments		(14,467)	(13,453)	(16,216)
Deferred tax liabilities		(43,010)	(44,014)	(40,283)
Other loans and payables		(5,740)	(5,778)	(5,680)
<b>Total non-current liabilities</b>		<b>(183,256)</b>	<b>(188,881)</b>	<b>(171,443)</b>
<b>Total liabilities</b>		<b>(222,093)</b>	<b>(215,409)</b>	<b>(207,567)</b>
<b>Net assets</b>		<b>312,307</b>	<b>260,097</b>	<b>302,945</b>
<b>Equity</b>				
Share capital		87,939	60,548	87,939
Share premium account		21,771	24,901	21,771
Translation reserve		(12,245)	(16,223)	(11,762)
Retained earnings		212,337	188,542	202,763
		309,802	257,758	300,711
Non-controlling interests		2,505	2,339	2,234
<b>Total equity</b>		<b>312,307</b>	<b>260,097</b>	<b>302,945</b>



# Consolidated statement of comprehensive income

for the six months ended 30 June 2012

	6 months to 30 June 2012 \$'000	6 months to 30 June 2011 \$'000	Year to 31 December 2011 \$'000
<b>Profit for the period</b>	16,049	27,447	45,614
<b>Other comprehensive income</b>			
Changes in fair value of cash flow hedges:			
Gains arising during the period	1,651	4,272	1,700
Adjustments for losses included in the consolidated income statement	–	–	894
	1,651	4,272	2,594
Changes in fair value of hedged instrument	(497)	(1,472)	(303)
Adjustments for gains included in the consolidated income statement	–	–	(611)
Exchange differences on translation of foreign operations	(1,305)	1,232	4,102
Tax relating to components of other comprehensive income	(290)	(2,020)	(329)
	(441)	2,012	5,453
<b>Total comprehensive income for the period</b>	15,608	29,459	51,067
Attributable to:			
Ordinary shareholders	12,467	27,211	45,867
Preference shareholders	3,084	1,949	5,006
Non-controlling interests	57	299	194
	15,608	29,459	51,067

## Consolidated statement of changes in equity

for the six months ended 30 June 2012

	Share capital \$'000	Share premium \$'000	Translation reserve \$'000	Retained earnings \$'000	Sub total \$'000	Non- controlling interests \$'000	Total equity \$'000
<b>2012</b>							
At 1 January 2012	87,939	21,771	(11,762)	202,763	300,711	2,234	302,945
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	(12,245)	212,337	309,802	2,505	312,307
<b>2011</b>							
At 1 January 2011	60,548	24,901	(18,197)	166,228	233,480	2,040	235,520
Total comprehensive income	–	–	1,964	27,196	29,160	299	29,459
Dividends to preference shareholders	–	–	–	(1,949)	(1,949)	–	(1,949)
Dividends to ordinary shareholders	–	–	–	(2,933)	(2,933)	–	(2,933)
At 30 June 2011	60,548	24,901	(16,233)	188,542	257,758	2,339	260,097

# Consolidated cash flow statement

for the six months ended 30 June 2012

		6 months to 30 June 2012 \$'000	6 months to 30 June 2011 \$'000	Year to 31 December 2011 \$'000
<b>Net cash from operating activities</b>				
Net cash from operating activities	Note 13	1,117	9,134	33,776
<b>Investing activities</b>				
Interest received		904	1,256	2,889
Proceeds on disposal of property, plant and equipment		3	-	11
Purchases of property, plant and equipment		(19,016)	(4,866)	(19,487)
Expenditure on biological assets		(9,883)	(9,057)	(18,001)
Expenditure on prepaid operating lease rentals		(99)	(813)	(6,729)
Investment in Indonesian coal and quarry interests		(3,300)	(670)	(9,717)
Net cash used in investing activities		(31,391)	(14,150)	(51,034)
<b>Financing activities</b>				
Preference dividends paid		(3,084)	(1,949)	(5,006)
Ordinary dividends paid		(3,376)	(1,324)	(2,897)
Repayment of borrowings		-	(5,800)	(13,469)
Proceeds of issue of preference shares		-	-	24,260
Redemption of US dollar notes		-	-	(10,000)
Redemption of sterling notes		-	-	(3,949)
Purchase of preference shares issued by a subsidiary		-	(1,392)	-
New bank borrowings drawn		18,870	15,881	22,649
Changes in non-controlling interests in subsidiaries		214	-	-
Net cash from financing activities		12,624	5,416	11,588
<b>Cash and cash equivalents</b>				
Net (decrease) / increase in cash and cash equivalents	Note 14	(17,650)	400	(5,670)
Cash and cash equivalents at beginning of period		30,601	36,710	36,710
Effect of exchange rate changes		(593)	420	(439)
Cash and cash equivalents at end of period		12,358	37,530	30,601

# Notes to the consolidated financial statements

## 1. Basis of accounting

The condensed consolidated financial statements for the six months ended 30 June 2012 comprise the unaudited financial statements for the six months ended 30 June 2012 and 30 June 2011, neither of which has been reviewed by the company's auditors, together with audited financial statements for the year ended 31 December 2011.

The information shown for the year ended 31 December 2011 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 2012 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 2011 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 2012 are the same as those set out in the group's annual report for 2011.

The condensed consolidated financial statements for the six months ended 30 June 2012 were approved by the Board of Directors on 24 August 2012.

## 2. Revenue

	6 months to 30 June 2012 \$'000	6 months to 30 June 2011 \$'000	Year to 31 December 2011 \$'000
Sales of goods	68,784	75,407	147,523
Revenue from services	331	57	235
	<hr/>	<hr/>	<hr/>
	69,115	75,464	147,758
Other operating income	3	143	339
Investment revenue	904	1,256	2,889
Total revenue	<hr/>	<hr/>	<hr/>
	70,022	76,863	150,986

## 3. Agricultural produce inventory movement

The net 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

The group operates in two segments, the cultivation of oil palms and coal trading, mining and stone quarrying in Indonesia. These two segments, together with the results of the head office, comprise the group's reportable segments.

# Notes to the consolidated financial statements continued

## 4. Segment information - continued

Six months to 30 June 2012	Plantations \$'000	Coal \$'000	Head office \$'000	Total \$'000
Revenue	66,611	2,504	–	69,115
Gross profit / (loss)	32,012	(786)	–	31,226
Net gain from changes in fair value of biological assets	3,770	–	–	3,770
Other operating income	3	–	–	3
Distribution costs	(801)	–	–	(801)
Administrative expenses	(3,957)	(702)	(2,786)	(7,445)
Operating profit / (loss)	31,027	(1,488)	(2,786)	26,753
Investment revenues				904
Finance costs				(4,807)
Profit before taxation				22,850
Taxation				(6,801)
Profit for the period				16,049
Consolidated total assets	475,179	42,307	16,914	534,400
Consolidated total liabilities	123,888	3,130	95,075	222,093
Depreciation charged to consolidated income statement	2,771	7	31	2,809
Additions to non-current assets	38,300	3,902	9	42,211
<b>Six months to 30 June 2011</b>	<b>Plantations \$'000</b>	<b>Coal \$'000</b>	<b>Head office \$'000</b>	<b>Total \$'000</b>
Revenue	67,871	7,593	–	75,464
Gross profit	43,618	519	–	44,137
Net gain from changes in fair value of biological assets	3,076	–	–	3,076
Other operating income	–	143	–	143
Distribution costs	(857)	–	–	(857)
Administrative expenses	(3,514)	(423)	(2,033)	(5,970)
Operating profit	42,323	239	(2,033)	40,529
Investment revenues				1,256
Finance costs				(4,915)
Profit before taxation				36,870
Taxation				(9,423)
Profit for the period				27,447
Consolidated total assets	430,117	36,124	9,265	475,506
Consolidated total liabilities	107,706	3,100	104,603	215,409
Depreciation charged to consolidated income statement	2,417	4	19	2,440
Additions to non-current assets	16,854	772	74	17,700

#### 4. Segment information - continued

Year to 31 December 2011	Plantations \$'000	Coal \$'000	Head Office \$'000	Total \$'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	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	91,487	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

	6 months to 30 June 2012 \$'000	6 months to 30 June 2011 \$'000	Year to 31 December 2011 \$'000
Net foreign exchange losses	62	8	519
UK pension scheme	394	(124)	(253)
(Profit) / loss on disposal of fixed assets	(3)	–	408
Indonesian operations	5,964	6,468	14,071
Head office	2,472	2,149	4,840
Administrative expenses before capitalisation	8,889	8,501	19,585
Capitalisation	(1,444)	(2,531)	(2,626)
	7,445	5,970	16,959

# Notes to the consolidated financial statements continued

6. Finance costs	6 months to 30 June 2012 \$'000	6 months to 30 June 2011 \$'000	Year to 31 December 2011 \$'000
Interest on bank loans and overdrafts	1,508	1,095	2,510
Interest on US dollar notes	1,631	1,971	3,671
Interest on sterling notes	2,764	2,966	5,679
Reclassification from translation reserve in equity	–	–	283
Other finance charges	657	820	1,942
	6,560	6,852	14,085
Amount included as additions to biological assets	(1,753)	(1,937)	(2,620)
	4,807	4,915	11,465

7. Tax	6 months to 30 June 2012 \$'000	6 months to 30 June 2011 \$'000	Year to 31 December 2011 \$'000
Current tax:			
UK corporation tax	–	–	–
Foreign tax	5,166	7,489	14,634
Total current tax	5,166	7,489	14,634
Deferred tax:			
Current year	1,635	1,934	3,925
Total tax	6,801	9,423	18,559

Tax for the period is charged at 30% (2011: 26%) representing the best estimate of the average annual effective rate expected for the full year, applied to profit before tax for the six month period. If the income mix in the second half of 2011 differs from that of the first half, the overall effective rate of tax for the full year may vary from that used for the first six months.

8. Earnings per share	6 months to 30 June 2012 \$'000	6 months to 30 June 2011 \$'000	Year to 31 December 2011 \$'000
Earnings for the purpose of earnings per share*	12,951	25,247	40,453
	'000	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	33,415	33,415	33,415

\* being net profit attributable to ordinary shareholders

## 9. Dividends

	6 months to 30 June 2012 \$'000	6 months to 30 June 2011 \$'000	Year to 31 December 2011 \$'000
Amounts paid or payable and recognised as distributions to equity holders:			
Preference dividends of 9p per share per annum	3,084	1,949	5,006
Ordinary dividends:			
Interim re 2010 (2.5p per share paid 28 January 2011)	–	1,324	1,324
Final re 2010 (3.0p per share paid 30 September 2011)	–	1,609	1,573
Interim re 2011 (3.0p per share paid 27 January 2012)	1,562	–	–
Final re 2011 (3.5p per share paid 27 July 2012)	1,814	–	–
	<u>6,460</u>	<u>4,882</u>	<u>7,903</u>

## 10. Biological assets

	6 months to 30 June 2012 \$'000	6 months to 30 June 2011 \$'000	Year to 31 December 2011 \$'000
Beginning of period	244,433	221,883	221,883
Additions to planted area and costs to maturity including finance costs	7,311	7,830	15,502
Transfers from / (to) property, plant and equipment	579	–	(76)
Transfers to non-current receivables	(35)	(3)	(3)
Transfers to current receivables	–	(201)	(248)
Net biological gain	<u>3,770</u>	<u>3,076</u>	<u>7,375</u>
End of period	256,058	232,585	244,433
Net biological gain comprises:			
Fair value of crops harvested during the period	–	–	(90,906)
Gain arising from movement in fair value attributable to other physical changes	(762)	3,076	87,186
Gain arising from movement in fair value attributable to price changes	4,532	–	11,095
	<u>3,770</u>	<u>3,076</u>	<u>7,375</u>

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

In the period, there were additions to property, plant and equipment of \$19.0 million (2011: \$4.9 million).

Capital commitments contracted, but not provided for by the group, amounted to \$19.3 million (31 December 2011: \$37.8 million).

# Notes to the consolidated financial statements continued

## 12. Issuance, repurchase and resale of securities

There were no issues of securities during the first half of 2012 but after the period the group repurchased 1,500 of the redeemable participating preference shares of KCC Resources Limited for a consideration of \$7,800.

In June 2012 the company exercised its rights pursuant to a supplemental rights agreement dated 23 January 2006 and made between Mr M E Zukerman, Mr ME Zukerman in his capacity as sole trustee of the Zukerman Family Trust (together the "Zukerman family holders") and the company to require the Zukerman family holders to sell to R.E.A. Services Limited ("REAS"), a wholly owned subsidiary of the company, \$9 million nominal of dollar notes held by the Zukerman family holders (being all of the dollar notes held by those holders) at a price of \$100 plus accrued interest per \$100 nominal of dollar notes.

Concurrently, REAS agreed to resell to institutional investors the \$9 million nominal of dollar notes to be acquired from the Zukerman family holders, together with a further \$1 million nominal of dollar notes held by REAS, in both cases at a price of \$99.70 plus accrued interest per \$100 nominal of notes.

Completion of the purchase of the notes from the Zukerman family holders took place on 2 July 2012 and of the resale of these notes and of the additional \$1 million nominal of dollar notes already held shortly thereafter. The funds to purchase the notes from the Zukerman family holders were sent on 29 June 2012 and so are included within "Trade and other receivables" at the balance sheet date.

## 13. Reconciliation of operating profit to operating cash flows

	6 months to 30 June 2012	6 months to 30 June 2011	Year to 31 December 2011
	\$'000	\$'000	\$'000
Operating profit	26,753	40,529	72,749
Depreciation of property, plant and equipment	2,606	2,601	5,292
Decrease / (increase) in fair value of agricultural produce inventory	3,634	473	(4,011)
Amortisation of prepaid operating lease rentals	323	208	152
Amortisation of sterling and US dollar note issue expenses	105	450	1,012
Biological gain	(3,770)	(3,076)	(7,375)
(Profit) / loss on disposal of property, plant and equipment	(3)	-	419
Operating cash flows before movements in working capital	29,648	41,185	68,238
Decrease / (increase) in inventories (excluding fair value movements)	4,326	(3,203)	(7,661)
Reclassification of investments	1,705	-	-
Increase in receivables	(18,652)	(11,427)	(9,028)
(Decrease) / increase in payables	(2,594)	(2,522)	8,490
Exchange translation differences	(18)	(1,169)	(185)
Cash generated by operations	14,415	22,864	59,854
Taxes paid	(8,491)	(8,815)	(15,176)
Interest paid	(4,807)	(4,915)	(10,902)
Net cash from operating activities	1,117	9,134	33,776



#### 14. Movements in net borrowings

	6 months to 30 June 2012 \$'000	6 months to 30 June 2011 \$'000	Year to 31 December 2011 \$'000
Change in net borrowings resulting from cash flows: (Decrease) / increase in cash and cash equivalents	(17,650)	400	(5,670)
Net increase in borrowings	(18,373)	(10,081)	(9,180)
	(36,023)	(9,681)	(14,850)
Amortisation of US dollar notes expenses	(323)	(386)	–
Redemption of US dollar notes, net of amortisation of issue expenses	–	–	9,328
Redemption of sterling notes, net of amortisation of issue expenses	–	–	3,609
Amortisation of sterling notes issue expenses	(630)	(165)	–
Purchase of preference shares issued by a subsidiary	–	1,392	–
	(36,976)	(8,840)	(1,913)
Currency translation differences	335	(388)	501
Net borrowings at beginning of period	(85,190)	(83,778)	(83,778)
Net borrowings at end of period	(121,831)	(93,006)	(85,190)

#### 15. Related parties

During the first six months of 2012 no new related party transactions have taken place, and there have been no changes to the related party transactions which were disclosed in the company's 2011 annual report, having in either case a material effect on the financial position or performance of the group during that period.

#### 16. Events after the reporting period

A final dividend of 3.5p per ordinary share in respect of the year ended 31 December 2011 was paid on 27 July 2012.

On 20 July 2012 the group repurchased 1,500 of the redeemable participating preference shares of KCC Resources Limited for a consideration of \$7,800.

#### 17. Pensions

Since the issue of the annual report for 2011, the actuarial valuation as at 31 December 2011 of the R.E.A. Pension Scheme (the "Scheme"), as referred to in note 38 of the annual report, has been completed and a revised scheme funding plan agreed. Investment outperformance since the 2008 valuation and a change in the basis of pension increases from RPI to CPI were outweighed by lower discount rates and other changes in financial assumptions. On this basis the overall shortfall in assets (deficit), when measured against the Scheme's technical provisions has increased.

Recovery contributions will continue to be made over the previously agreed funding period to 31 December 2018 but, in view of the increase in the deficit, the amount of the group's recovery contributions to the Scheme will increase with effect from 1 January 2013. As a result the provision for recovery contributions attributable to the group has been increased with a resultant charge of \$0.4 million to the group's consolidated income statement for the six months ended 30 June 2012.

# Notes to the consolidated financial statements continued

18. Rates of exchange	30 June 2012		30 June 2011		31 December 2011	
	Closing	Average	Closing	Average	Closing	Average
Indonesia rupiah to US dollar	9,480	9,250	8,597	8,716	9,046	8,790
US dollar to pound sterling	1,5685	1,58	1,605	1,62	1,554	1,61

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